High-quality woodfibre

Annual Report
2018

Midway

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Australia's largest high-quality woodfibre processor and exporter.

Founded in 1980, Midway is involved in the production and export of high-quality woodfibre.

Midway's primary business is the purchasing, processing, marketing and exporting of woodfibre. Our operating environment consists of plantation and land ownership, the procurement of timber resources within Australia, processing, materials handling and exporting of woodfibre, and the international woodfibre market.

Our woodfibre exports focus predominately on the Chinese and Japanese pulp and paper markets.

$28.7m
EBITDA before significant items

$13.2m
Operational cash flow

$231.9m
Revenue

18.0¢
Fully franked divided per share in accordance with the prospectus guidance

OVERVIEW OF BUSINESS ACTIVITIES

Midway is an Australian forestry company based in Geelong, Victoria, with majority shareholdings in South West Fibre Pty Ltd (SWF) based in the Green Triangle (South West Victoria), Queensland Commodity Exports Pty Ltd (QCE) based in Brisbane, and Plantation Management Partners (PMP) based in the Tiwi Islands.

Midway's core business is the production and marketing of woodfibre for supply to producers of pulp, paper and associated products in the Asian region. Woodfibre is primarily produced from plantation hardwood which represents approximately 90% of the Company's export sales, with the balance comprising woodfibre produced from plantation softwood logs and hardwood timber residues generated from the harvest of sawlogs from native hardwood forests. The Company has interests in three processing and export facilities in mainland Australia.

Midway has diversified since it commenced exporting 31 years ago in terms of geographical representation, product range, supply source and customer base. Growing from one export facility, one product, one customer and one supplier in 1986, today Midway:

- has well-developed processing and export facilities in three locations;
- supplies a diverse range of products in terms of species, quality and certification levels;
- sources timber supply from numerous major timber suppliers; and
- has strong relationships with key customers in the two major importing countries of Japan and China.

Midway engages contractors to conduct mechanical harvesting of logs in plantations which are then transported to processing mills. Woodfibre is produced by both fixed chippers and mobile chippers, and is stockpiled at export facilities.

Woodfibre is used in the production of pulp which is primarily used for the production of paper products such as writing and printing paper, newsprint, cardboard and tissue. Some hardwood woodfibre is also used for the production of dissolving pulp and chemi-thermomechanical pulp. Dissolving pulp is produced by additional chemical refinement and is used in textile manufacture such as rayon. The pulp and paper industry consumes the majority of the total traded woodfibre volume, with the balance being used in the production of reconstituted boards, speciality pulps and, more recently, biomass.

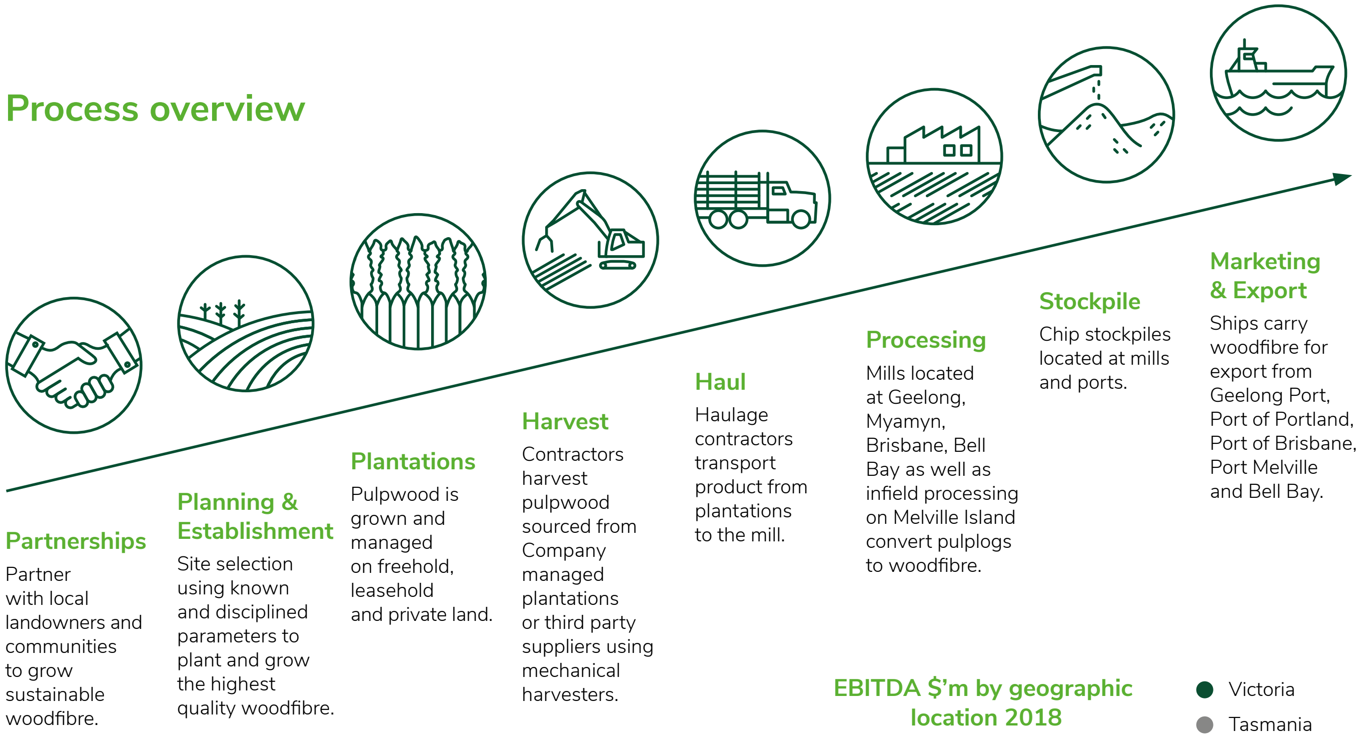
The primary use of internationally traded woodfibre is for the production of Kraft pulp. The Kraft process involves the chemical breakdown of the woodfibre into lignin (usually used as a fuel in the pulp mill) and cellulose fibre used for the production of a wide range of paper products. The uses of hardwood Kraft pulp are printing and writing papers, and in tissue products, whereas softwood Kraft pulp is mainly used in packaging but also in tissue and to add strength to other paper grades.

In 2017 Midway processed approximately 25% of all hardwood woodfibre exported and marketed directly approximately 50% of this volume. The demand for woodfibre from China is expected to grow with new pulp and paper capacity coming online in 2019, that willl grow market demand by a further 10% approximately.

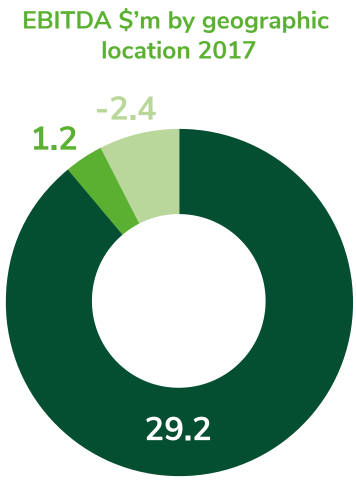
In 2018 Indonesia commenced woodchip imports. This market is expected to grow further in 2019 as well.

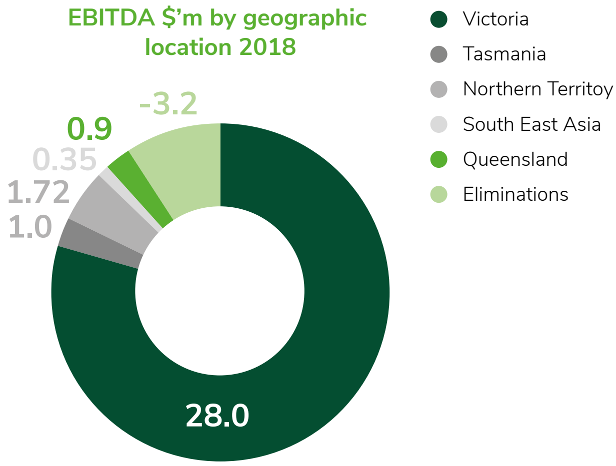
Midway aims to expand its market share of hardwood woodfibre exports through securing additional supply and seeking out new opportunities to acquire businesses in key forestry areas in Australia and overseas, such as the recent acquisition of a 25 per cent shareholding in ADDCO Fibre Group Limited in Mount Maunganui in New Zealand, and a 33 per cent shareholding in the Plantation Export Group (PEG) in North West Tasmania and North East Tasmania.

Process overview



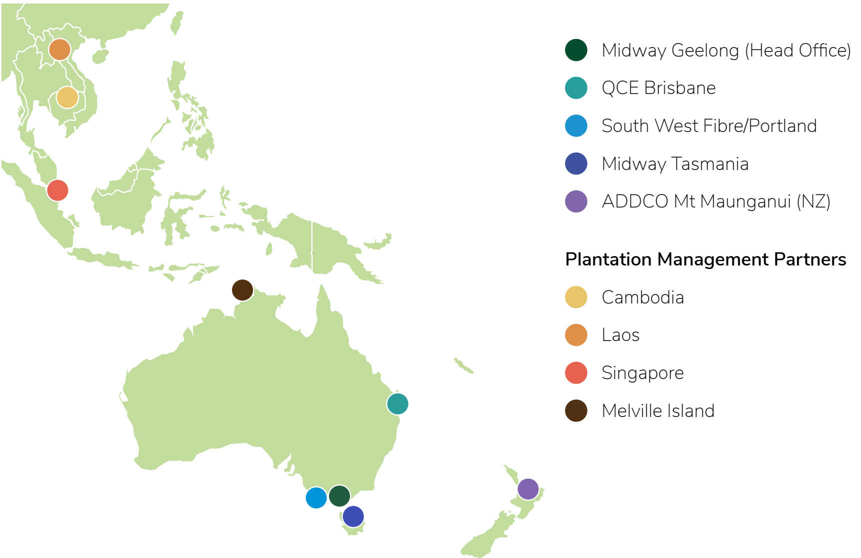
Midway manages the sustainable woodfibre supply chain from partnerships with local landowners and communities, through to markets in China and Japan.





PORT AND PROCESSING FACILITIES

The Company has geographically diversified port and processing facilities allowing the flexibility to supply customers differing species dependent on requirements. With a combined production capacity of 5.1M GMT pa across all segments, and combined stockpile capacity of 440,000 GMT, Midway is able to provide certainty of supply to its customers.



Midway Geelong

- 19 hectares of freehold land adjacent to GeelongPort.
- Two woodfibre mills (separate plantation and native processing facilities).
- Three stockpiles including three reclaimers with 200,000 green metric tonnes (GMT) total capacity.
- Capacity to process and export up to 1.8 million GMT per annum of hardwood.

QCE Brisbane

- Sole woodfibre exporter from Port of Brisbane – provides geographic and marketing diversity.
- 15 year leases on a four hectare site with the Port of Brisbane for producing, storing and loading.
- GrainCorp provides toll ship loading.
- 300,000 GMT per annum softwood export capacity.
- Hardwood exports commenced in 2016. Capacity of 300,000 GMT per annum.
- Stockpile capacity: 100,000 GMT of softwood and/or hardwood.

South West Fibre Portland

- South West Fibre is the first plantation hardwood processing and marketing operation in the Green Triangle – provides geographic and future market diversity.
- Myamyn – 1.2 million GMT per annum current site capacity plus in-field chipping and 'upstream' chip and log storage.
- 10 year x 1.2 million GMT per annum supply agreement with Australian Bluegum Plantations, signed in July 2010.
- 51 per cent owned joint venture with Mitsui.
- Portside woodfibre receival, storage and loading facilities contracted with GrainCorp.
- 80,000 GMT woodfibre stockpile capacity.
- Woodfibre receival capacity of 1.8 million GMT per annum.

Plantation Management Partners

Melville Island

- Plantation Management Partners Pty Ltd (PMP) provides exclusive forestry management services to the 35,000 hectare Tiwi Islands' forestry plantation project, and provides woodchip marketing services to the project.
- *Acacia mangium* woodchip exports commenced in November 2015 out of Port Melville.
- Stockpile capacity 60,000 tonnes.
- 400,000 GMT per annum export capacity.

Cambodia, Laos

- PMP provides plantation management services to timber investment management organisations in Cambodia and Laos.

Singapore

- Office

Midway Tasmania Pty Ltd

- Marketing and sales
- Native hardwood shipments commenced Sept 17 from a chipping, stockpiling and loading facility at Bell Bay.
- 450,000 GMT per annum export capacity

ADDCO Fibre Group Limited – Mt Maunganui NZ

- Midway holds 25 per cent shareholding in ADDCO.
- Forestry and logistics services business with bases in New Zealand and Australia.
- The main focus for the business is providing harvesting, haulage, processing and materials handling services.

CHAIRMAN'S LETTER

> "The Board is comfortable that the Midway growth strategy is the right approach to generate long-term shareholder value."
>
> **Gregory McCormack** – Chairman

I am pleased to report to shareholders that Midway Limited has delivered an improved operating and financial performance in its second year as a listed company on the back of higher global prices for woodfibre in Japan and China.

In the 2018 financial year, Midway generated sales revenue of $231.9 million, up 10.8 per cent on the previous year, EBITDA before significant items of $28.7 million, up 2.5 per cent on the previous year and Net Profit After Tax of $18.4 million, up 23.5 per cent on the previous year.

Directors are therefore pleased to approve a fully franked final dividend of 9 cents per share, paid on Monday, 8 October 2018. This means that shareholders will receive fully franked dividends relating to the 2018 financial year of 18 cents per share, including the fully franked interim dividend of 9 cents per share.

The Board is comfortable that the Midway growth strategy is the right approach to generate long-term shareholder value. The strategy is reviewed annually and we are comfortable that the three key elements of the strategy remain the right approach to build the business for you, our shareholders.

The three key elements of the strategy include:

1. driving operational efficiencies across the business that improve economies of scale, reduce costs and expand margins;
2. expanding our existing businesses including hardwood and softwood exports and better utilisation of existing infrastructure; and
3. acquiring complementary forestry related businesses in Australasia.

To drive operational improvements, Midway made investments in capital equipment at Geelong and Portland. We also appointed new management and improved business processes at QCE.

Midway continues to make investments in hardwood tree plantations in Western Victoria and has commenced discussions with other commercial entities about using our Geelong site to export other commodities.

Midway also expanded our trading business of third party woodfibre and become a joint venture partner in a marketing company in Tasmania called Plantation Export Group that has a throughput agreement with a major wood processor at Bell Bay in Tasmania.

As part of our acquisitions strategy, Midway acquired Plantation Management Partners (PMP), a forestry business with rights to manage tropical timber plantations in the Tiwi Islands in the Northern Territory and South East Asia. Midway also acquired a 25 per cent holding in ADDCO, a start up forestry and logistics company based in Mount Manganui in New Zealand with opportunities to grow in both Australia and New Zealand.

The Board is comfortable that these investments meet all of our acquisition objectives: broadening the Midway geographic footprint, providing production and supply flexibility, providing access to new markets and attracting new management talent that will help run and build our business.

We are confident that the Midway growth strategy will generate increased revenue and earnings over time and represents a prudent approach to capital management. Midway retains a low debt to equity ratio and remains within well-supported banking covenants.

$231.9m
Sales revenue (up 10.8%)

25%
Holding acquired in ADDCO

As part of our growth strategy, we will continue to assess additional opportunities to acquire businesses involved in forestry related activities across growing regions in Australasia that ultimately aims to maximise long term shareholder value.

Outlook

Midway operates in volatile commodity and export markets. As such, we take nothing for granted and the executive closely manages the key value drivers that are within our control including resource costs, operating costs and customer relationships.

However, on the basis of both independent industry assessments and our own market activities, the Board of Midway expects continued strong export demand from Asia, especially China for high quality woodfibre that will underpin a positive price outlook for the business.

Gregory McCormack
Chairman

MANAGING DIRECTOR'S REVIEW

"The Midway management team has built solid long-term relationships with our major customers in Japan and China and we are confident about the market outlook for woodfibre export volume and revenue growth in these two countries."

Anthony Price – Managing Director

The last twelve months was another solid year for Midway Limited in which we started to make some strategic investments in the future growth of the Company that will underpin improved shareholder returns in the longer term.

I am particularly pleased with the efforts of the management team, all our employees and our contractors who worked very hard to ensure we met market expectations around full year earnings, despite lower than expected first half shipments and a relatively high Australian dollar.

Export sales price increases, prudent currency hedging strategies, better dry fibre content and the initial earnings from our acquisition of Plantation Management Partners (PMP) offset the impacts on earnings of a higher than anticipated dollar and slightly lower export volumes from Geelong.

We also successfully managed a tight schedule of woodfibre export shipments from Geelong in the second half of the financial year, with four ships loaded in June 2018 alone – a tribute to our log suppliers, management team and staff and strong customer relationships, especially in China and Japan.

All this hard work meant we achieved an EBITDA before significant items of $28.7 million, up 2.5 per cent on the previous year. We also recorded a $2.6 million uplift in the valuation of our forestry assets that increased EBITDA after significant items to $31.4 million, up 26.1 per cent on the previous year which included our listing costs.

After depreciation and amortisation, EBIT was $26.9 million, up 25.1 per cent on the previous year. Net profit before tax was $24.7 million, up 24.1 per cent on the previous year and Net profit after tax was $18.4 million, up 23.5 per cent on the previous year.

Market conditions

During the year, Midway hosted a site visit at our Geelong processing and export facility for institutional investors. We made several presentations about the outlook for the Company that highlighted positive forecasts for market conditions.

We used future forecasts of global demand and supply by a leading forestry analytics company, RISI, to demonstrate that demand for high quality Australian woodfibre would exceed export supply over the next five years – driving a positive price environment.

This positive price outlook was reflected in several announcements. On 1 May 2018, we announced that Midway had secured an eight per cent increase in our annual woodfibre export pricing with our major customers in Japan.

The new price with our Japanese customers resulted in a USD12.50 increase to USD164.50 per bone dry tonne for our woodfibre exports, back-dated to 1 January 2018. Japanese sales represent approximately 20 per cent of total Midway exports.

Similar price increases had already been achieved from 1 January 2018 with our major export customers in China that represent the fastest growing segment of our export sales as the burgeoning population of middle class consumers drives demand for end products including fine paper and rayon-based clothing.

I encourage shareholders to read through the presentations made to institutional investors during the site visit to our Geelong site. Copies of the presentations are available in the investor relations section of the Midway website.

Strategic investments

Given the favourable global market outlook Midway made two strategic investments to broaden our geographic footprint in Australasia, give the company access to new revenue streams and management talent. They also provide additional log supply, increased production flexibility and reduce our reliance on USD export earnings.

On 26 October 2017, Midway acquired Plantation Management Partners (PMP), a privately owned plantation management business with over 70,000 hectares of plantation currently under management in Northern Australia and Southeast Asia. It has a strong industry reputation as a high-quality plantation manager.

Midway initially paid $6.5 million, will pay a further $3.0 million in deferred consideration within the next year and subject to certain milestones being achieved pay a further $2.0 million at 30 June 2019. The purchase will be fully funded from Midway's existing cash and bank facilities.

The acquisition is value accretive, with PMP expected to generate annual revenue in excess of $11 million in a full year. There is also significant potential to generate additional revenue from expansion of PMP's plantation management business, with a number of growth projects in Northern Australia and South East Asia currently in the pipeline.

PMP manages 34,000 hectares of predominantly Acacia mangium and Pinus caribaea plantation land on Melville Island (Northern Territory) managed on behalf of the Tiwi Plantation Corporation Pty Ltd. Melville Island has the only deep water North Australian port for hardwood woodfibre and is strategically situated

I am particularly pleased with the efforts of the management team, all our employees and our contractors who worked very hard to ensure we met market expectations.

within close proximity to key marine trade corridors. Midway believes there is an opportunity to attract financing to assist the Tiwi Islanders develop a sustainable plantation business

PMP also currently manages a 11,000 hectare teak plantation estate in Cambodia for an international institutional timber investment organisation and a 25,000-hectare Eucalyptus and Acacia plantation estate in Laos for another large timber investment management organisation.

On 17 January 2018, Midway also acquired a 25 per cent shareholding in ADDCO Fibre Group Limited, a newly established forestry and logistics company in Mount Maunganui in New Zealand and Australia including haulage, processing and materials handling services.

While earnings are expected to be relatively small from this investment initially, Midway is optimistic that ADDCO will become a major logistics provider in the forestry sector and will materially contributes to Company revenue over time.

Midway has also become a 33 per cent shareholder in a joint venture marketing company in Tasmania with RMS and Pentarch, called the Plantation Export Group (PEG), which has a throughput arrangement with wood processing facilities in Burnie in North West Tasmania and Bell Bay in North East Tasmania.

Woodfibre supply

Following the PMP acquisition, Midway now owns and/or manages over 90,000 hectares of plantation estate in Australia and Asia. Its Australian plantation estate includes 17,000 hectares of freehold and leased land in the Otway Ranges, Upper Goulburn and Ballarat regions in Victoria for processing and export of high quality woodfibre from the wholly-owned Midway site at Geelong.

In addition, Midway has a 10-year, 1.2 million green metric tonnes per annum supply contract with Australian Bluegum Plantations (ABP) to supply high quality woodfibre from the Green Triangle for export through South West Fibre, a 50 per cent joint venture operation with Mitsui in Portland.

Midway also has the capacity to handle up to 300,000 green metric tonnes of plantation hardwood per annum log supply at QCE at the Port of Brisbane. Another 130,000 tonnes per annum of plantation softwood and sawmill residue is available for export under existing supply contracts with QCE.

Midway and SWF have number of supply contracts in Victoria of varying terms and most have extension clauses which can allow them to continue beyond their termination date.

Midway is also actively seeking additional timber supply contracts to meet the growing Asian demand for high quality woodfibre from all of its Australian operations and other growth options such as Midway Tasmania which has the capacity to export in excess 400,000 tonnes of woodfibre per annum via Bell Bay.

Future priorities

The Midway management team has built solid long-term relationships with our major customers in Japan and China and we are confident about the market outlook for woodfibre export volume and revenue growth in these two countries.

However, we are keen to expand our customer base and are looking at new and emerging markets including woodfibre exports to India and the potential for biomass exports to Japan and South Korea for biomass energy production.

The management team will continue to do the simple things well – and ensure we actively manage the key value drivers of the business including log supply and processing and handling costs. We are confident that we have our hands on the right levers to drive short-term revenue and profit and we will continue to actively pursue all opportunities to grow long-term shareholder value.

Anthony Price
Managing Director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OPERATIONAL REVIEW

Midway Limited is one of Australia's leading forest products producers and exporters with processing plants and export facilities on the east coast of Australia and strategic investments in New Zealand, the Tiwi Islands and across South East Asia.

Midway now owns and/or manages over 90,000 hectares of plantation estate in Australia and South East Asia. Its Australian plantation estate includes 17,000 hectares of freehold and leased land in the Otway Ranges, Upper Goulburn and Ballarat regions in Victoria valued at $72.8 million as at 30 June 2018.

Midway has strategically located processing and export facilities at a number of key sites that allow it to maximise its competitive advantage in shipping high quality woodfibre from Australasia to our key customers in Japan and China.

The increased geographic footprint of Midway and strategic diversification of production sites allows the Company to increase overall sales revenue and earnings despite lower sale volumes at some sites in particular years.

Midway Geelong

The Geelong facility is the headquarters for Midway Limited, located on 19 hectares of freehold land at Corio Bay, with two woodfibre processing lines. The site includes three woodfibre stockpiles with three ship loading reclaimers.

In the 2018 financial year, Midway generated sales revenue of $173.6 million, down 4.9 per cent on the previous year due to planned lower volumes through the Geelong site.

Management worked hard to ensure earnings were unaffected. In 2018, Net Profit After Tax at the Geelong site was $13.2 million, up 15.8 per cent on the previous year as a biological asset uplift and higher sales prices offset lower sales volumes and the negative impact of the higher Australian dollar on export sales.

As previously advised, Midway is looking at a range of options to increase available timber supply in Victoria in the medium to long term and is exploring alternative commodity export arrangements through the Geelong site to maintain capacity utilisation.

South West Fibre (SWF)

South West Fibre was established as a joint venture in 2008 with Mitsui Bussan Woodchip Oceania Pty Ltd (a wholly owned subsidiary of Mitsui & Co Ltd). Midway owns 51 per cent and manages the operation. SWF is the only high-capacity static plantation hardwood processing and marketing operation in the Green Triangle of Victoria and provides geographic diversity. The woodfibre receival, storage and loading process at Portland is contracted to GrainCorp Limited.

In the 2018 financial year, SWF recorded sales revenue of $84.2 million (Midway's share), up 8.5 per cent on the previous year on the back of higher sales prices. Midway Limited recorded Net Profit After Tax from the SWF joint venture of $3.9 million, up 39.3 per cent on the previous year. Higher than normal bone-dry levels in the woodfibre exports contributed to the earnings growth, along with increased sales prices

Queensland Commodity Exports (QCE)

Midway Limited owns 90 per cent of Queensland Commodity Exports (QCE), with GrainCorp owning the remaining 10 per cent. The QCE facility is the only woodfibre exporter from the Port of Brisbane and holds a 15-year lease, expiring in 2022, on the four-hectare site for production, storage and loading facilities. GrainCorp provides toll ship loading.

In the 2018 financial year, QCE recorded $29.2 million in sales revenue, up 9.8 per cent on the previous year. However, an unfavourable FX impact of $1.1 million NPBT and some operational issues relating to stock management resulted in Net Profit After Tax attributed to Midway of $0.4 million, down 42.9 per cent on the previous year.

Midway has implemented a number of systems and processes to rectify the operating issues and are confident of a stronger FY19 result.

Plantation Management Partners (PMP)

Midway acquired 100 per cent of Plantation Management Partners (PMP) on 26 October 2017. PMP is a plantation management business with over 70,000 hectares of plantation estate currently under management in Northern Australia and Southeast Asia. PMP has a strong industry reputation as a high-quality plantation manager. PMP is now managed from our Geelong Office.

In the eight months of the 2018 financial year under Midway ownership, PMP recorded sales revenue of $7.9 million and Net Profit After Tax of $1.4 million. This is in line with Midway expectations for the first year of operation. Management are optimistic that PMP is a strong platform for future sales and earnings growth.

Strategic investments

Midway acquired a 25 per cent holding in ADDCO Fibre Group Limited on 17 January 2018. ADDCO is a newly established forestry logistics company based in NZ and Australia. The business will provide haulage, processing and materials handling services.

Sales and marketing

Midway has also become a 33 per cent shareholder in a joint venture marketing company in Tasmania with RMS and Pentarch, called the Plantation Export Group (PEG), which has a throughput arrangement with wood processors in Burnie in North East Tasmania and at Bell Bay in North East Tasmania. Midway has also managed third party sales from both the Tiwi Islands and Tasmania.

Midway intends to invest further in strategic growth opportunities such as this over the next few years to further broaden its geographic footprint, diversify production, gain access to new management talent and reduce US dollar export sales exposures.

Midway acquired a 25 per cent holding in ADDCO Fibre Group Limited on 17 January 2018. ADDCO is a newly established forestry logistics company based in NZ and Australia.

Product quality

Product quality is carefully managed in accordance with Midway's certification to ISO9001 'Quality Management Systems', as it can have a significant impact on the performance of our customers' pulp mills.

Hardwood pulp yield is another key variable that is closely monitored. The higher the pulp yield, the more pulp a producer will get from a given quantity of hardwood woodfibre. This can be influenced by species, growth rate and genetics. Pulp mill parameters will also affect production. As most of Midway production occurs in static mills, rather than mobile chippers, size distribution is easier to monitor and control.

Employment and safety

Midway Limited recognises the importance of developing managerial and leadership capability across the business. Retention and development of talented employees is a key initiative in the Company's strategic plan and has been identified as a means of being able to ensure that the organisation is able to effectively deliver on its outcomes through its people.

As at May 2018, some 16 leaders have completed the Integral Leadership program, and a further 20 staff are expected to complete the program in the second half of 2018. Staff also attended 22 training courses during the year, covering areas including chip quality management, CPR and first aid, emergency and fire management, certification requirements, Australian forestry standard and koala management and protection.

Midway appointed two new members to the management team in the last twelve months – Glen Samsa as General Manager, Plantations and Brad Winthrop as General Manager, Operations. Glen has over 20 years experience in the sector. He came to the business as part of the PMP acquisition. Brad has over 28 years experience in domestic and international forestry management and is an industry leader in occupational health and safety.

The total number of Midway staff increased from 95 in 2017 to 149 in 2018, mainly arising from the PMP acquisition. Despite the increase in staff numbers, Midway recorded a reduction in Lost Time Injury Frequency Rate (LTIFR) from 8.8 in FY17 to 5.7 in FY18, and a reduction in Non-LTIFR from 16.5 in FY17 to 11.4 in FY18.

Midway is committed to continuous improvement in safety of our staff and undertook a range of safety initiatives during the year including:

- A review of Risk Management was conducted to incorporate approval processes, simplification of procedures and alignment with legislation.
- A Behavioural Safety Observation Program was implemented utilising a critical behaviour inventory and checklist to improve behavioural safety.
- Drug and Alcohol testing programs were delivered across the Midway sites, including consultation and communication, monthly monitoring and handling any non-negative cases.
- Third party auditing of Midway's harvesting and haulage contractors was conducted to improve contractor's compliance and alignment with legislative and contractual obligations. Twenty-two separate contractors were audited, with 31 audits conducted including system and field audits.
- Updating the incident reporting and investigation system and incident investigation training. Changes included an improved flow of information, review mechanisms and management of high consequence incidents.

The total number of Midway staff increased from 95 in 2017 to 149 in 2018, mainly arising from the PMP acquisition.

SUSTAINABILITY

Midway takes pride in being an industry leader in the sustainable growth of forest products and working closely with the communities in which we operate to provide employment, income and growth opportunities.

Midway is particularly proud of our association with the Tiwi people. Tiwi consistently represent over 30 per cent of our labour workforce working on the Tiwi Plantation Corporation project.

Community initiatives

Midway is a significant employer in regional communities, with 149 direct employees and over 1,000 indirect contractor employees. Our policy is to support communities in the areas where we conduct our business and where our employees live. In addition to our direct economic support for employment and the local economy, we provide sponsorship to a range of community organisations in these areas.

Sponsorships include local sporting clubs, community residents groups, charity clubs and events, car truck and bike shows, business clubs, peak industry organisations, industry awards, local schools, and local festivals.

Midway is particularly proud of our association with the Tiwi people. Tiwi consistently represent over 30 per cent of our labour workforce working on the Tiwi Plantation Corporation project. We look forward to working with the Tiwi people in achieving their long held vision.

The Tiwi people have a vision of an independent and resilient Tiwi society built on the orderly and well managed utilisation of their natural and human resources through reliance upon their own management, maintenance and protection of unique cultural and natural resource values for the enjoyment and benefit of future generations of Tiwi.

Environmental performance

Midway places a priority on compliance with its environmental legislation and community obligations for a clean environment. We were pleased that there were no environmental incidents that had to be notified to the regulatory authorities in the 2018 financial year.

Environmental complaints fell from 24 in 2017 financial year to 12 in 2018. Complaints related to smoke, noise, weeds, dust, log transport, and controlled wood sourcing. Midway managed to successfully resolve 92 per cent of complaints in 2018.

Midway engages with key stakeholders in the communities in which we operate to manage our activities and mitigate adverse impacts on those communities. We also invite stakeholders to communicate concerns regarding high conservation values and other environmental and community values associated the Midway's wood supply area.

The Company's Stakeholder Engagement Plan outlines the process for recording and responding to stakeholder concerns relevant to these areas. There were 1,216 stakeholder communications during the 2018 year.

Ongoing stakeholder consultation demonstrates the concerted efforts by our staff to resolve stakeholder concerns and communicate the actions taken by Midway to address any concerns and avoid escalation of issues to 'complaint' status. Reviews of procedures take into account concerns raised by stakeholders and the effectiveness of controls that were implemented to mitigate adverse impacts.

Environmental initiatives

Air quality monitoring

Annual ambient air quality monitoring was conducted for SWF and Midway Geelong in February 2018. Insoluble solids results from all sites were compliant with the EPA Victoria air quality guideline of 4 g/m2/month as a monthly average.

Noise monitoring

Midway's Geelong site is located close to residential areas to the North and North West of the site and the Company must minimise the impact of noise on local residents. A real time noise logging station has been installed to improve the effectiveness of administrative controls, meet legislative requirements and to better investigate and address community complaints.

Fire management

Fire protection works including firebreak slashing and track spraying were completed on schedule; no fire prevention works notices were received from councils. Fuel reduction burning was undertaken post-fire season. New water point signs were installed in all regions to replace old or missing signs.

Below average rainfall and well-above average temperatures resulted in consistent High to Very High Fire Danger Ratings through the fire season. Contractors were placed on fire standby for a total of 452 hours. Midway crews attended three fires including the Cobden-Terang Rd fire which affected 528 ha of mature Bluegum plantation (Karoo) – the largest impact since Black Saturday. There were no fire related safety incidents reported.

PMP operate an annual savannah-burning program to prevent the risk of wildfires destroying plantation assets. The program is run in conjunction with the Tiwi Land Rangers program that aims to reduce carbon emissions by conducting cool, mosaic burning to minimise the occurrence of hot, late season fires.

PMP's annual program is completed by 31st July each year along with annual mapping of fire scars. PMP and the Tiwi Land Rangers work together on fire management, including sharing resources when needed or requested. PMP also participate in the annual fire planning though representation on the Tiwi Island Weeds and Fire Management Committee, which meets three times a year.

Waste management

Midway is sponsoring a research project with Melbourne's RMIT University to investigate beneficial uses for bark by-product separated from woodchip in the manufacturing process.

Soil and water

A total of 15 Internal audits, and five external audits were conducted against the Responsible Wood standard (formerly Australian Forestry Standard) and FSC Controlled wood standards. Zero major non-conformances were identified.

A $1.1 million stormwater management upgrade project at the Geelong site was completed in 2018. The project minimises the risk of stormwater runoff into Corio Bay, by storing and re-using captured water on site for irrigation of native tree plantings. Providing for a 1 in 5 year storm event, the project includes installation of increased pumping and dam storage capacity, a backup power supply, changes to the chip stockpile stormwater drainage, and an increased area of irrigated tree plantings.

Tannin water management at Port Melville is contained on site and no discharge is permitted into the Apsley Strait. Works are ongoing at the conclusion of each wet season to improve the drainage and any areas identified after heavy rainfall. Current works are underway to increase the capacity of holding Basin 4 to better manage water during peak rainfall or cyclone events. No discharge events were recorded in the 2018 wet season.

Energy and climate

The current carbon storage of plantation trees within Midway's defined forest area is estimated to be 1.720 million tonnes of CO_2 equivalents. Plantation Management Partners manages a forest estate with an estimated 6.828 million tonnes of CO_2 equivalents. Midway is actively seeking partners to develop new plantations in the Otways and Green Triangle regions which will promote carbon sequestration.

Midway also aims to minimise fossil fuel emissions in its forest operations and at its processing sites. Cartage of wood from the forest to the mill is the major contributor to greenhouse gas emissions. Calculated estimates of CO_2 emissions for wood delivered by our cartage contractors to the mills is in the order of 85,000 – 90,000 tonnes of CO_2 equivalent.

Biodiversity management

Koala management training was conducted for Midway staff and contractors, including Koala Welfare and Handling Training, Koala Behaviour, Koala Welfare Assessment, Koala Handling and Koala Transport. The training included demonstrations of how to handle koalas and practice and assessment of trainee's koala handling technique.

Tiwi Plantations Corporation (TPC) and Charles Darwin University (CDU) have entered into a partnership to support small mammal research in the Tiwi Islands. TPC will provide in kind support by providing accommodation at Yapilika Forestry Centre to two PhD candidates and their volunteers during their dry season field studies 2018 – 2020. This partnership will result in data sharing for biodiversity monitoring.

Certification

Midway certification includes:

- Sustainable Forest Management: AS 4708-2013;
- Chain of Custody for forest products AS 4707:2014;
- Occupational Health and Safety Management Systems AS/NZS 4801:2001;
- Quality Management Systems – requirements AS/NZS ISO 9001:2015;
- Chain of Custody Certification FSC-STD-40-004 V3-0;
- Requirements for Sourcing FSC® Controlled Wood FSC-STD-40-005 V3-1; and
- FSC® Controlled Wood Standard for Forest Management Enterprises FSC-STD-30-010 Version 2-0.

External certification covers Quality, Safety and Environment; and external audits of systems and operations are conducted on an annual basis.

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 2018 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 25/10/2017
Tom Gunnersen	Non-Executive Director	Appointed as a Director 26/02/2018
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 and a Director of ADDCO Pty Ltd, a logistic business in which Midway hold a 25% interest.

Anthony Bennett

Independent Non-Executive Director

Mr Bennett holds a Diploma in Civil Engineering and a Graduate Diploma in Industrial Management and is graduate of the Melbourne University School of Business. He has extensive background in production management, particularly in the manufacture of high volume/low margin products for use in civil engineering construction. His executive experience was gained in both the public company sphere as well as operating his own construction materials business for some 25 years. Mr Bennett has been a member of the Occupational Health & Safety and Management Systems Committee since 13 December 2017.

Tom Gunnersen

Non-Executive Director

Mr Tom Gunnersen holds a Bachelor of Arts from the University of Melbourne and an MBA (Finance) from Bond University. He has 15 years of corporate, investment and capital markets experience, more recently in Asia, which will significantly complement the skills of existing Board members. Mr Tom Gunnersen is currently a Director of Equities for a Global Investment Bank based in Hong Kong, and is also a director of Chebmont Pty Ltd.

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 the Chair of the Audit 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 was a Trustee of The Nature Conservancy from 2013 to 2018. 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 Chairman of the JWGottstein 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 and is currently a director of Chebmont Pty Ltd. Mr Nils Gunnersen is Chairman of the Occupational Health & Safety and Management Systems Committee and has been a member of the Remuneration & Nomination Committee since 13 December 2017.

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, is a member of the Remuneration and Nomination Committee and was a member of the Occupational Health & Safety and Management Systems Committee until 13 December 2017.

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
Tom Gunnersen				
Anthony Price				CEO

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	11	11	5	5	-	-	-	-
Anthony Bennett	11	11	-	-	-	-	2	2
Gordon Davis	11	11	5	5	3	3	5	5
Nils Gunnersen	11	11	-	-	2	2	5	5
Tom Gunnersen	4	4	-	-	-	-	-	-
Thorold Gunnersen	5	1	-	-	-	-	-	-
Thomas Keene	11	10	5	5	3	3	3	3
Anthony Price	11	10	-	-	-	-	-	-

Principal activities

The principal activities of the Group during the 2018 financial year were the production and export of woodfibre 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 also provides a marketing function whereby it arranges sales of woodfibre on behalf of third parties.

In addition the Group provides planation management services to third parties across Victoria, Northern Territory and South East Asia.

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

Full year results in line with consensus forecasts

- The full year 2018 financial results were in line with expectations, achieving earnings before interest, tax, depreciation and amortisation (EBITDA) before significant items of $28.7M (2017: $28.0M).
- Acquisition of Plantation Management Partners (PMP) contributed $2.1M EBITDA to the Group.
- Net profit before tax (NPAT) was $24.7M and NPAT was $18.4M.
- Shareholders will receive a fully franked final dividend of $0.09 per share. This means a total dividend for the year of $0.18 per share.

Segment performance

- Operations in Geelong performed well throughout the year and was able to offset a $5.3M NPBT impact due to an unfavourable FX movement from the prior corresponding period, by increased sales prices and a favourable bone dry impact.
- Again South West Fibre (SWF) performed strongly and had a positive result due to increased sales prices and favourable bone dry impact.
- QCE had an unfavourable FX impact of $1.1M NPBT which impacted on the profitability along with operational performance issues with plantation hardwood exports (stock management) which has now been rectified with new systems and procedures.
- Plantation Management Partners (PMP) generated income in line with management's expectations.

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.

A summary of the financials has been provided below to the previous corresponding period:

$'000	2018	2017	Change
Revenue and other income			
Sales revenue	231,912	209,214	22,698
Other income	4,213	4,155	58
	236,125	213,369	22,756

Less: expenses			
Changes in inventories of finished goods and work in progress	(1,536)	(4,029)	2,493
Raw Materials, consumables and other procurement expenses	(134,998)	(126,488)	(8,510)
Employee benefits expense	(14,402)	(8,829)	(5,573)
Plantation management expenses	(1,061)	(841)	(220)
Freight and shipment costs	(48,207)	(37,235)	(10,972)
Repairs and maintenance costs	(3,633)	(4,097)	464
Other operating expenses	(7,400)	(6,658)	(742)
Share of profit/(loss) of equity accounted investments	3,856	2,808	1,048
EBITDA before significant items	28,744	28,000	744
Biological assets net fair value increment	2,615	-	2,615
Significant items – IPO costs	-	(3,084)	(3,084)
EBITDA	31,359	24,916	6,443
Depreciation & Amortisation	(4,459)	(3,387)	(1,072)
EBIT	26,900	21,529	5,371
Net finance expense	(2,181)	(1,588)	(593)
Net profit before tax	24,719	19,941	4,778
Income tax expense	(6,322)	(5,020)	(1,302)
Statutory net profit after tax	18,397	14,921	3,476

Performance against prior corresponding period

Midway (Geelong)

Geelong	2018 Actual	Δ
Revenue	173,623[1]	- 5%
EBITDA	21,981	-9%

1. Statutory revenue by business unit, excluding woodfibre purchased and sold on behalf of third parties which would increase revenue by $21.0M.

The Geelong operation has performed strongly throughout the year given the FX impact. FX reduced MW Geelong's EBITDA from the prior corresponding period by $5.3M. The Company was able to partially offset the negative FX impact by $3.2M to only be 9% down on EBITDA from the prior corresponding period, as a result of more favourable sales prices and a favourable bone dry impact.

Sales volume was lower than the prior corresponding period, however in line with management's expectation. The Group's strategy is to diversify production across a number of ports to limit its exposure in any geographic location.

Geelong has maintained strong relationships with its key customer base in China and Japan, with strong demand for product expected to continue into FY19.

Operating and finance review continued

Financial results continued

Performance against prior corresponding period continued

Queensland Commodity Exports Pty Ltd (QCE)

QCE	2018 Actual	Δ
Revenue	29,246	+10%
EBITDA	872	-27%

Volumes increased as weather improved and better sales prices and dry fibre content resulted in stronger revenue growth however stock management issues adversely impacted EBITDA. The Company has put in place new management and improved stock systems to secure earnings turnaround.

South West Fibre Pty Ltd (SWF)

SWF	2018 Actual	Δ
Revenue	84,241	+9%
EBITDA	7,009	+ 29%

The EBITDA increase is driven largely by sales prices increases and a positive dry fibre content impact, which offset the negative volume and FX impact.

Plantation Management Partners (PMP)

PMP	2018 Actual	Δ
Revenue	7,872	-
EBITDA	2,071	-

PMP generated income in line with management's expectations. The Group is currently exploring EBITDA accretive opportunities within the business that were not factored into the original purchase.

Financial position

	2018 $'000	2017 $'000
Current Assets	52,928	35,713
Non-current Assets	135,413	119,095
Total assets	188,341	154,808
Current Liabilities	37,017	19,873
Non-current liabilities	52,096	43,890
Total liabilities	89,113	63,763
Net assets	99,228	91,045

Highlights

- Strong cash flow for the year (operating +$13.2M)
- Strong working capital position leading into FY2019
- Biological asset net fair value increment of $2.6M indicating the favourable fundamentals underpinning the treecrop valuation, as a result of improved woodfibre pricing
- Strong balance sheet to support future business growth opportunities

Net debt	2018 $'000	2017 $'000
Borrowings – Current	7,304	714
Borrowings – Non-current	35,422	30,949
	42,726	31,663
less cash		
Cash and cash equivalents	(10,356)	(15,025)
Net debt	32,370	16,638

Highlights

- Refinancing and extension of debt maturity of term debt to 31 March 2021
- Renegotiation of financial undertakings to better represent the Company in a listed environment. The capital adequacy ratio was replaced with a Gearing ratio. As at 30 June 2018 the Group was well within its covenant limits

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 before significant items	Earnings, before interest, tax, depreciation, biological asset net fair value increment and significant items
Segment revenue	Statutory revenue by business unit, excluding woodfibre purchased and sold on behalf of third parties

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.

For calendar year 2017 total imports in Asia were up only 0.3% but there were significant changes in supply sources with increases from Vietnam (up 5%), Australia (up 7%) and Chile (up 10%). All other supply sources fell with the biggest falls from Thailand and Indonesia (down 24% each).

The change in supply source away from SE Asian sources Thailand and Indonesia to Australia and Chile continues in 2018 and has contributed to a FOB price increases for Australian woodchips of over 8% in 2018.

Expansion of pulp capacity in China that will come on line in late 2018 and through 2019 is expected to further increase demand and prices.

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 when 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.
- 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 in respect of the financial year 2018:

	Cents per share	Total amount $	Date of payment
Interim Dividend (fully franked)	9.0	6,741,174	20/04/2018
Final Dividend (fully franked)	9.0	6,741,174	08/10/2018

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 26th October 2017, the Company acquired 100% of the ordinary shares of Plantation Management Partners Pty Ltd (PMP), aCompany incorporated in Australia. PMP is a plantation management business with over 70,000 hectares of plantation currently under management in Northern Australia and Southeast Asia. It has a strong industry reputation as a high-quality plantation manager.

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 2018 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.

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 four 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.

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. 82,000 of these rights vested in the 2018 financial year. 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

There are no legal proceedings currently outstanding.

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.

	2018 $	2017 $
KPMG Australia		
Audit and assurance services		
Statutory audit fees	**163,000**	160,000
Assurance services – IPO related services	-	236,752
Other services		
Non-assurance services – other advisory services	**25,400**	10,000

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.

Gregory McCormack
Chairman

Melbourne
30 August 2018

REMUNERATION REPORT (AUDITED)

Introduction

The Directors are pleased to present the FY2018 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 25/10/2017
Tom Gunnersen	Non-Executive Director	Appointed as a Director 26/02/2018
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 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 engaged KPMG to provide a report to benchmark non-executive, CEO and CFO remuneration. The cost for this service was $16,900.

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 2018 was $730,762.

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.

2018 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.

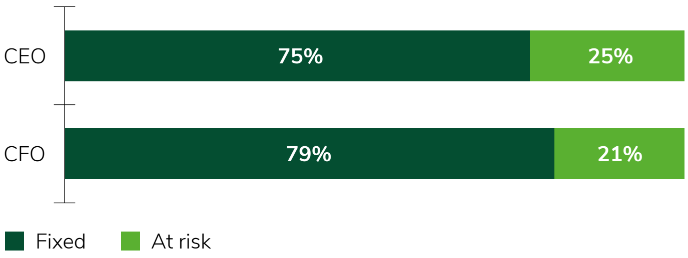
In assessing whether the KPIs for each variable component have been met, the Company measures audited results against internal targets.

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.

FY2018 short-term incentives

In FY2018, 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 FY2018 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 2018		
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%	20%
	Individual performance measures	40%	40%
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)	100%[1]
EBITDA CFO	120% (max. $40,000)	100%[1]
LTIFR CEO	200% (max. $48,750)	100%[1]
LTIFR CFO	200% (max. $40,000)	100%[1]

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

FY2018 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 2018 financial year:

KMP	Maximum STI	% of maximum STI achieved
CEO	162,500	64.6%
CFO	100,000	64.6%

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 FY2018, 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 were issued subject to the Company listing 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.

2018 Executive Remuneration continued

Long Term Incentive Plan continued

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.

2018 Long-term incentives

The LTIP offered to Midway's Executive KMP and other senior executives, is 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).

2018 Executive Remuneration continued

2018 Long-term incentives continued

(b) Performance Rights

In December 2016, following the successful completion of the IPO, the Board granted 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; • at median of the comparator Company, 50% of the 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; 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

The relationship between remuneration policy and Company performance is only assessed for the current financial year and the prior two comparative periods, as the Company was not previously a disclosing entity.

Key performance indicator $000	FY2018 actual $	FY2018 pro forma[2] $	FY2017 actual $	FY2017 pro forma[1] $	FY2016 actual $	FY2016 pro forma[1] $
Revenue	**236,125**	**236,125**	213,369	213,369	213,144	203,899
EBITDA	**31,359**	**28,744**	24,916	28,367	40,758	35,607
Dividend paid	**18**	**18**	18	18	96	96

1. Pro forma figures have not been audited.
2. Before biological assets net fair value increment.

Dividends paid in FY2016 include special dividends of $0.65 per share. Dividends paid out in FY2018 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.

Key Management Personnel remuneration

The statutory remuneration disclosures for the year ended 30 June 2018 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]	Super-annuation	Other[3]		
Directors								
Gregory McCormack	**2018**	**182,428**	-	-	**17,572**	-	-	**200,000**
	2017	182,428	-	-	17,572	-	-	200,000
Anthony Bennett	**2018**	**100,383**	-	-	**9,617**	-	-	**110,000**
	2017	100,383	-	-	9,617	-	-	110,000
Gordon Davis	**2018**	**109,703**	-	-	**10,297**	-	-	**120,000**
	2017	109,703	-	-	10,297	-	-	120,000
Nils Gunnersen	**2018**	**100,408**	-	-	**9,592**	-	-	**110,000**
	2017	100,408	-	-	9,592	-	-	110,000
Thorold Gunnersen AM[4]	**2018**	**31,959**	-	-	**3,036**	-	-	**34,995**
	2017	75,447	-	-	7,168	-	-	82,615
Thomas Keene	**2018**	**104,372**	-	-	**15,628**	-	-	**120,000**
	2017	97,438	-	-	22,562	-	-	120,000
Tom Gunnersen[5]	**2018**	**34,682**	-	-	**995**	-	-	**35,677**
	2017	-	-	-	-	-	-	
Executives								
Anthony Price	**2018**	**408,536**	**105,043**	**52,704**	**24,950**	**(14,706)**	**135,346**	**711,873**
	2017	400,150	91,189	52,704	34,646	12,350	108,007	699,046
Ashley Merrett	**2018**	**276,499**	**64,642**	**23,000**	**24,940**	**(1,600)**	**58,499**	**445,980**
	2017	276,985	54,512	23,000	25,015	28,305	52,112	459,929

1. Relates to the 2018 performance STI accrued but not paid until FY2019.
2. Relates to vehicle allowance paid by the Group.
3. Includes the movement in annual leave and long service leave provisions.
4. Resigned as a Director 25/10/2017.
5. Commenced as a Director 26/02/2018.

Key Management Personnel remuneration continued

Equity instruments

KMP	Held at 1 July 2017	Shares acquired	Shares sold	Other changes	Held at 30 June 2018
Gregory McCormack	13,038,379	-	-	-	13,038,379
Anthony Bennett	2,695,356	100,000	-	-	2,795,356
Gordon Davis	30,000	35,000	-	-	65,000
Nils Gunnersen	6,200	-	-	-	6,200
Thorold Gunnersen AM	28,525,892	-	-	-	28,525,892*
Thomas Keene	224,378	-	-	-	224,378
Tom Gunnersen	-	-	-	-	-
Anthony Price	16,000	40,000**	-	-	56,000
Ashley Merrett	-	24,000**	24,000	-	-

* As at resignation date.

** Shares issued upon vesting of Performance Rights issued under the Company's Long Term Incentive Plan.

Details of equity incentives affecting current and future remuneration

The table below outlines each KMP's unvested performance rights at the end of the reporting period. Details of vesting profiles of the performance rights held by each KMP are detailed below:

	Instrument	Number	Grant date	% Vested in year	% Forfeited in year	Financial year in which grant vests
Anthony Price	Performance Rights	40,000	09/02/2017	100%	-	2018
Anthony Price	Performance Rights	105,000	09/02/2017	0%	-	2019
Ashley Merrett	Performance Rights	24,000	09/02/2017	100%	-	2018
Ashley Merrett	Performance Rights	24,000	09/02/2017	0%	-	2019

Other transactions with KMP

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

AUDITOR'S INDEPENDENCE DECLARATION

KPMG

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 financial year ended 30 June 2018 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

Vicky Carlson

Partner

Melbourne

30 August 2018

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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 are included throughout the Financial Report with the related accounting balance or financial statement matters to allow them to be easily understood by the users of this Report.

Contents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2018

	Notes	2018 $'000	2017 $'000
Revenue and other income			
Sales revenue	1.1	231,912	209,214
Other income	4.8	4,213	4,155
		236,125	213,369
Less: expenses			
Changes in inventories of finished goods and work in progress		(1,536)	(4,029)
Materials, consumables and other procurement expenses		(134,998)	(126,488)
Depreciation and amortisation expense		(4,459)	(3,387)
Employee benefits expense		(14,402)	(8,829)
Finance expense	3.1	(2,181)	(1,588)
Biological assets net fair value increment		2,615	-
Plantation management expenses		(1,061)	(841)
Freight and shipping expense		(48,207)	(37,235)
Repairs and maintenance expense		(3,633)	(4,097)
Other expenses		(7,400)	(9,742)
		(215,262)	(196,236)
Share of net profits from equity accounted investments	4.2	3,856	2,808
Profit before income tax expense		24,719	19,941
Income tax expense	1.3	(6,322)	(5,020)
Profit for the period		18,397	14,921
Items that will not be reclassified to profit and loss			
Revaluation of land fair value adjustment, net of tax	2.1	3,618	(3,369)
Items that may be reclassified subsequently to profit and loss			
Cash flow hedges effective portion of changes in fair value, net of tax		(432)	(163)
Foreign operations – foreign currency translation differences		4	-
Equity accounted investees – share of OCI		(167)	134
Other comprehensive income for the period		3,023	(3,398)
Total comprehensive income for the period		21,420	11,523
Profit is attributable to:			
Owners of Midway Limited		18,360	14,854
Non-controlling interests		37	67
		18,397	14,921
Total comprehensive income is attributable to:			
Owners of Midway Limited		21,383	11,456
Non-controlling interests		37	67
		21,420	11,523
Earnings per share for profit attributable to equity holders:			
Basic earnings per share		$0.25	$0.20
Diluted earnings per share		$0.25	$0.20

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

CONSOLIDATED BALANCE SHEET
As at 30 June 2018

	Notes	2018 $'000	2017 $'000
Current assets			
Cash and cash equivalents	3.1	10,356	15,025
Receivables	2.4	19,457	7,781
Inventories	2.4	6,146	7,682
Derivative financial assets	3.2	-	135
Biological assets	2.2	12,172	-
Current tax receivable		-	3,827
Other assets		4,797	1,263
Total current assets		52,928	35,713
Non-current assets			
Biological assets	2.2	3,868	5,416
Investments accounted for using the equity method		12,948	13,390
Intangible assets		10,749	1,971
Property, plant and equipment	2.1	107,848	98,318
Total non-current assets		135,413	119,095
Total assets		188,341	154,808
Current liabilities			
Trade and other payables	2.4	24,642	17,458
Current tax payable		614	-
Borrowings	3.1	7,304	714
Derivative financial liability		484	-
Provisions		3,973	1,701
Total current liabilities		37,017	19,873
Non-current liabilities			
Borrowings	3.1	35,422	30,949
Provisions		117	59
Deferred tax liabilities	1.3	16,557	12,882
Total non-current liabilities		52,096	43,890
Total liabilities		89,113	63,763
Net assets		99,228	91,045
Contributed equity			
Share capital	3.3	29,045	28,833
Reserves	3.3	66,983	59,049
Retained earnings		1,614	1,614
Equity attributable to owners of Midway Limited		97,642	89,496
Equity attributable to non-controlling interests		1,586	1,549
Total equity		99,228	91,045

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital $'000	Reserves $'000	Retained earnings $'000	Non-controlling interests $'000	Total equity $'000
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
Balance as at 1 July 2017	**28,833**	**59,049**	**1,614**	**1,549**	**91,045**
Profit for the year	**-**	**-**	**18,360**	**37**	**18,397**
Revaluation of land, net of tax	**-**	**3,618**	**-**	**-**	**3,618**
Cash flow hedges effective portion of changes in fair value, net of tax	**-**	**(599)**	**-**	**-**	**(599)**
Foreign operations – foreign currency translation differences	**-**	**4**	**-**	**-**	**4**
Total comprehensive income for the year	**-**	**3,023**	**18,360**	**37**	**21,420**
Other transactions:					
Issuance of performance rights	**212**	**(212)**	**-**	**-**	**-**
Share-based payments expense	**-**	**238**	**-**	**-**	**238**
Transfers to profits reserve	**-**	**18,360**	**(18,360)**	**-**	**-**
Transactions with owners in their capacity as owners:					
Dividends	**-**	**(13,475)**	**-**	**-**	**(13,475)**
Total other transactions	**212**	**4,911**	**(18,360)**	**-**	**(13,237)**
Balance as at 30 June 2018	**29,045**	**66,983**	**1,614**	**1,586**	**99,228**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2018

	Notes	2018 $'000	2017 $'000
Cash flow from operating activities			
Receipts from customers		**228,296**	216,857
Payments to suppliers and employees		**(210,029)**	(192,478)
Interest received		**51**	239
Interest paid		**(1,663)**	(1,183)
Income tax paid		**(3,490)**	(7,197)
Net cash provided by operating activities	3.1	**13,165**	16,238
Cash flow from investing activities			
Proceeds from sale of property, plant and equipment		**156**	253
Payment for property, plant and equipment		**(7,025)**	(3,201)
Payment for biological assets		**(6,853)**	-
Acquisition of Planation Management Partners, net of cash		**(5,387)**	-
Acquisition of equity accounted investees		**(459)**	-
Dividends received from associates		**4,590**	2,550
Net cash provided by investing activities		**(14,978)**	(398)
Cash flow from financing activities			
Net finance lease payments		**(856)**	(772)
Dividends paid		**(13,475)**	(11,223)
Proceeds from bank borrowings		**14,000**	-
Repayment of bank borrowings		**(2,525)**	-
Net cash used in financing activities		**(2,856)**	(11,995)
Reconciliation of cash			
Cash at beginning of the financial period		**15,025**	11,180
Net increase/(decrease) in cash held		**(4,669)**	3,845
Cash at end of financial period (net of overdrafts)	3.1	**10,356**	15,025

The above Consolidated Statement of Cash Flows 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 $18.4M, exceeding the prior corresponding period on both NPAT and revenue;
- Increase in statutory earnings per share (EPS) to $0.25 per share (increase of $0.05); and
- 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), South West Fibre (SWF) (51%) and the newly acquired Plantation Management Partners (PMP). Each operating segment provides Woodfibre processing for sale and export, with the exception of Plantation Management Partners, which provides plantation management services to the Australasian region.

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.

The Group also provides a marketing function whereby it arranges sales of woodfibre on behalf of third parties. As the Group sets pricing and holds the responsibility to fulfil the order it is classified as a principal in the arrangement and as such sales are recognised on a gross basis in the income statement.

It has been classified as other income in the Segment note consistent with management reporting.

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

Section 1: Our performance continued

1.1 Segment reporting continued

(b) Segment information provided to senior management

2018	100% Midway $'000	100% QCE $'000	51% SWF $'000	100% PMP $'000	Adjustments $'000	Total $'000
Sales revenue	140,870	29,246	84,241	7,872	(30,317)	231,912
Other income	3,365	-	217	143	488	4,213
Total income	144,235	29,246	84,458	8,015	(29,829)	236,125
Operating and other expenses	(123,595)	(28,374)	(77,449)	(5,944)	24,125	(211,237)
Share of equity accounted investments	-	-	-	-	3,856	3,856
EBITDA before significant items	20,640	872	7,009	2,071	(1,848)	28,744
Significant items	-	-	-	-	-	-
Fair value gain on biological assets	2,615	-	-	-	-	2,615
EBITDA	23,255	872	7,009	2,071	(1,848)	31,359
Depreciation and amortisation	(3,235)	(344)	(1,481)	(124)	725	(4,459)
EBIT	20,020	528	5,528	1,947	(1,123)	26,900
Net finance expense	(1,943)	20	30	(9)	(279)	(2,181)
Net profit before tax	18,077	548	5,558	1,938	(1,402)	24,719
Income tax expense	(4,948)	(157)	(1,668)	(581)	1,032	(6,322)
Net profit after tax	13,129	391	3,890	1,357	(370)	18,397
Segment assets	199,075	12,127	20,006	14,491	(57,358)	188,341
Equity accounted investees	12,948	-	-	-	-	12,948
Capital expenditure	(6,880)	(513)	(237)	-	237	(7,393)
Segment liabilities	(89,165)	(2,700)	(7,481)	(1,088)	11,321	(89,113)

2017	100% Midway $'000	100% QCE $'000	51% SWF $'000	100% PMP $'000	Adjustments $'000	Total $'000
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 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)
Fair value gain on biological assets	-	-	-	-	-	-
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
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)

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

	2018 $'000	2017 $'000
Initial Public Offering transaction costs	-	3,084

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 two major shareholders will be released from escrow at the lodgement of this document (Appendix 4E).

1.3 Income tax

	2018 $'000	2017 $'000
(a) Current tax reconciliation		
Current tax	4,935	5,177
Deferred tax	1,387	27
Over provision in prior years	-	(184)
	6,322	5,020

(b) Prima facie tax payable

The prima facie tax payable on profit before income tax is reconciled to the income tax expense as follows:

	2018 $'000	2017 $'000
Prima facie income tax payable on profit before income tax at 30.0% (2017: 30.0%)	7,416	5,982
Effect of taxes in foreign jurisdictions	(80)	-
Add tax effect of:		
Other non-allowable items	153	64
	7,489	6,046
Less tax effect of:		
Over provision for income tax in prior years	-	184
Share of SWF profits accounted for using the equity method	1,167	842
	1,167	1,026
Income tax expense attributable to profit	6,322	5,020

Section 1: Our performance continued

1.3 Income tax continued

	2018 $'000	2017 $'000
(c) Deferred tax		
Deferred tax assets		
Payables	737	636
Blackhole expenditure[1]	744	1,042
Capital loss[2]	1,499	-
Other	11	260
	2,991	1,938
Deferred tax liabilities		
Biological assets	1,711	731
Property, plant and equipment	15,499	14,049
Intangible assets[1]	2,338	-
Other	-	40
	19,548	14,820
Net deferred tax liabilities	16,557	12,882

1. Primarily relates to IPO costs deducted over five years.
2. Related to businesses acquired.

	2018 $'000	2017 $'000
(e) Deferred income tax (benefit)/expense included in income tax expense comprises		
Decrease/(increase) in deferred tax assets	447	(471)
(Decrease)/increase in deferred tax liabilities	940	498
	1,387	27
(f) Deferred income tax related to items charged or credited directly to equity		
(Increase)/decrease in deferred tax liabilities	(1,366)	1,514

Policy

Current income tax expense or benefit 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.

Key estimates and judgements

From time to time the Group takes tax positions that require consideration, including as assessment of the recoverability of Deferred Tax Assets. The Group only recognises Deferred Tax Assets to the extent it is probable they will be realised in the foreseeable future.

1.4 Earnings per share

(a) Earnings per share

	2018	2017
Earnings per share	$0.25	$0.20
Diluted earnings per share*	$0.25	$0.20

	2018 number	2017 number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	74,901,933	74,819,933
Adjustments for calculation of diluted earnings per share:		
Performance rights	147,000	88,463
	75,048,933	74,908,396

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

	2018 $'000	2017 $'000
Fully franked at 30% (2017: 30%)	13,475	11,223

On 29 August 2018, a final dividend was declared for 9.0 cents per share (fully franked).

The balance of the franking account at 30 June 2018 is 3,294,795 (2017: 3,388,252).

1.6 Business acquisitions

On 26 October 2017, the Company acquired 100% of the ordinary shares of Plantation Management Partners Pty Ltd (PMP), a Company incorporated in Australia. PMP is a plantation management business with over 70,000 hectares of plantation currently under management in Northern Australia and Southeast Asia. It has a strong industry reputation as a high-quality plantation manager.

From the date of acquisition, PMP contributed $7.9M revenue and $2.1M EBITDA from continuing operations of the Group. If the acquisition had occurred on 1 July 2017, it is estimated that revenue would have been $10.5M and EBITDA would have been $2.6M.

Transactions costs of $0.1M were expensed and included in other expenses.

Section 1: Our performance continued

1.6 Business acquisitions

Consideration transferred

	Date payable	Purchase consideration fair value $'000
Cash	Settlement	6,500
Contingent consideration[1]	30-Jun-19	1,432
Deferred consideration	31-Dec-18	1,433
Balance sheet completion adjustment from target[2]		1,503
Total consideration		10,868

1. Payable on meeting the contracted EBITDA target
2. Higher cash and trade debtors were acquired than the contracted target. It is anticipated payment will be made by 31 December 18.

Assets acquired and liabilities assumed

At acquisition date	Fair value $'000
Assets	
Cash and cash equivalents	1,113
Trade and other receivables	2,267
Intangible assets	8,550
Property, plant and equipment	821
	12,751
Liabilities	
Trade and other payables	1,012
Employee entitlement provisions	484
Current tax liabilities	449
Deferred tax liability	922
	2,867
Total identifiable net assets at fair value	9,884
Purchase consideration	10,868
Goodwill created on acquisition	984

Goodwill was created due to the recognition of a deferred tax liability on the intangible assets for which no tax deduction will arise until the disposal of the business.

Fair value measurement

Intangible assets acquired by the Group were valued using the multi-period excess earnings method (MEEM). MEEM considers the present value of net cash flows expected to be generated by the customer contracts, by excluding any cash flows related to contributory assets.

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 increased in value by $8.7M in the current year as a result of $3.5M of additions and a $5.2M revaluation increment;
- The Group holds biological assets for harvest of which $3.8M relates to seedlings and $12.2M is plantation hardwood ready for harvest;
- The Group has low credit risk due to the nature and size of customers and use of letters of credit in the majority of cases; and
- 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 policy			2.5–27%	3–25%	5–15%	
Year ended 30 June 2017						
Opening net book 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
Year ended 30 June 2018						
Opening net book amount	**64,048**	**12,670**	**1,908**	**14,201**	**5,491**	**98,318**
Additions	**3,540**[1]	**-**	**-**	**2,419**	**1,433**	**7,392**
Business acquired (Note 1.6)	**-**	**-**	**-**	**821**	**-**	**821**
Disposals	**-**	**-**	**-**	**(148)**	**-**	**(148)**
Depreciation	**-**	**-**	**(71)**	**(3,088)**	**(544)**	**(3,703)**
Revaluation	**5,168**	**-**	**-**	**-**	**-**	**5,168**
Closing carrying amount	**72,756**	**12,670**	**1,837**	**14,205**	**6,380**	**107,848**

1. The Company acquired plantation land and trees in South West Victoria during the period.

Section 2: Our asset base continued

2.1 Property, plant and equipment continued

(a) Key estimates and judgements – fair value

	2018 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 2018 were performed by an independent valuer. 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	72,756	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 2018. 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 2017.

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.

2018 plantation land measurement

The unencumbered value of the plantation land is $87.4M (2017: $78.3M). 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 independent valuation expert.

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
Clearfall period	2019–2027

(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):

	2018		2017	
Plantation land at fair value	Increase $'000	Decrease $'000	Increase $'000	Decrease $'000
Discount rate +/- 1%	(2,808)	2,996	(2,991)	3,214
Growth rate +/- 1%	3,081	(2,938)	3,384	(3,204)
Reversionary costs +/- 10%	(184)	184	(162)	148

A change in assumptions for the following variables may have a significant impact on the value of the portfolio dependant on the assumptions utilised, as there is significant judgement involved:

- Highest and best use classification of each block within the portfolio
- Clearfall period of when trees harvested

Freehold land

A 1% change in assumptions to the $ rate per ha applied will increase the value by $0.1M (2017: $0.1M), or decrease by $0.1M (2017: $0.1M). Based on current and prior valuations of the land a 1% rate change is considered 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 a 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.

2.2 Biological assets

	2018 $'000	2017 $'000
Current		
Plantation hardwood at fair value (trees ready for harvest)	**12,172**	-
Non-current		
Plantation hardwood at fair value	**-**	2,979
Plantation hardwood at fair value (new plantings)	**3,868**	2,437
	16,040	5,416

Section 2: Our asset base continued

2.2 Biological assets continued

(a) Reconciliation of carrying amount

	Biological assets $'000
Balance at 1 July 2016	2,955
Harvested timber	(2,627)
New plantings	1,628
Purchase of standing timber	3,460
Changes in fair value	-
Balance at 30 June 2017	5,416
Harvested timber	**(4,413)**
New plantings	**1,419**
Purchase of standing timber	**11,003**
Change in fair value less estimated point of sale costs – due to:	**-**
Change in discount rate	**-**
Change in volumes, prices and markets	**2,615**
Balance at 30 June 2018	**16,040**

The $12.2M of standing timber represents trees purchased in South West Victoria in 2018 and trees repurchased under the Strategy agreement referred to in section 2.2(d). Furthermore, the trees yet to be repurchased under the Strategy arrangement will come back on the Group's balance sheet as at 1 July 2018 on transition to AASB 15.

Policy

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

Biological assets are classified as current if it is anticipated they will be harvested within twelve months from balance date.

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 is considered to approximate 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.

(b) Key estimates and judgements – fair value (level three)

Valuation technique	Description of valuation technique	Significant unobservable inputs[1]	Inter-relationship between key unobservable inputs and fair value measurement
Net present value approach	An independent market valuation is performed based on a net present value calculation (NPV) calculation. NPV is calculated as the net of the future cash inflows and outflows associated with forest production activities discounted back to current values at the appropriate discount rate. Key assumptions underpinning the NPV calculation include: • Forest valuations are based on the expected volumes of merchantable timber that will be realised from existing stands, given current management strategies and forecast timber recovery rates; • Only the current crop (standing timber) is valued. The cash flow analysis is based on the optimised timing of the harvest of existing stands, which has been developed in the context of sustained yield management; • Volume increments/decrements are determined both by periodic re-measurement of forest samples and by modelling growth from the date of the most recent measurement to date of harvest; and • Ancillary income earned from activities such as the leasing of land for grazing and other occupancy rights is added to the net harvest revenues.	• Estimated future timber market prices per tonne (2018: weighted average $166 USD/BDMT) • Estimated yields per hectare (2018: 207gmt/ha weighed average) • Estimated harvest and transportation costs (2018: $20.1 gmt/ha – $24.10 gmt/ha weighted average) • Risk-adjusted discount rate (2018: 8.0%)	The estimated fair value would increase/(decrease) if the: • estimated yield per hectare or estimated timber projections were higher/(lower). • estimated average direct and indirect costs were lower/(higher). • discount rate was lower/ (higher). • estimated timber prices per tonne were higher/(lower).

(c) Sensitivity analysis

As at the balance date, the impact of a change of assumptions on the assets of the Group (all other things being equal) would have resulted in the following impacts on the fair value of Biological Assets:

	2018	
Biological assets	**Increase $'000**	**Decrease $'000**
Discount rate +/- 1%	**(100)**	**106**
Expected future sales prices +/- 10%	**2,476**	**(2,649)**
Expected future costs +/- 10%	**(1,287)**	**855**
Expected future changes in volume +/- 10%	**1,734**	**(1,907)**

No sensitivity has been performed for 2018, as the Group estimated cost approximates fair value given the proximity of the purchase of standing timber relative to balance date.

Section 2: Our asset base continued

2.2 Biological assets continued

(d) Strategy agreement

In February 2016, the majority of the Group's 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 2016 and trees being derecognised from the balance sheet.

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).

2.3 Commitments

	2018 $'000	2017 $'000
Operating lease commitments		
Non-cancellable operating leases contracted for but not capitalised in the financial statements:		
Payable		
not later than one year	1,462	1,445
later than one year and not later than five years	3,780	4,936
later than five years	388	264
	5,630	6,645
Other commitments[1]		
Payable		
not later than one year	24,721	25,079
later than one year and not later than five years	103,261	104,774
later than five years	169,281	184,617
	297,263	314,470

1. Commitments are entered into by Midway Limited, parent entity.

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.

2.4 Working capital

Working capital	Section	2018 $'000	2017 $'000
Cash and cash equivalents		10,356	15,025
Inventories	a	6,146	7,682
Trade and other receivables	b	19,457	7,781
Trade and other payables	c	(24,642)	(17,458)
Employee provisions		(3,973)	(1,701)
Employee provisions – non-current		(117)	(59)
		7,227	11,270

Section 2: Our asset base continued

2.4 Working capital continued

(a) Inventories

	2018 $'000	2017 $'000
At cost		
Finished goods	**5,097**	7,172
Work in progress	**1,049**	510
	6,146	7,682

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 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 and other receivables

	2018 $'000	2017 $'000
Trade receivables	**18,270**	6,374
GST receivable	**1,187**	1,407
	19,457	7,781

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.

(c) Trade and other payables

	2018 $'000	2017 $'000
Unsecured liabilities		
Trade payables	18,370	15,837
Deferred payment for businesses acquired	2,951	-
Sundry creditors and accruals	3,321	1,621
	24,642	17,458

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.

2.5 Intangible assets

The reconciliation of the carrying amount is set out below:

	Goodwill $'000	Customer contracts $'000	Total $'000
Year ended 30 June 2017			
Opening net book amount	1,971	-	1,971
Amortisation	-	-	-
Closing carrying amount	1,971	-	1,971
Year ended 30 June 2018			
Opening net book amount	1,971	-	1,971
Business acquired (Note 1.6)	984	8,550	9,534
Disposals	-	-	-
Amortisation	-	(756)	(756)
Revaluation	-	-	-
Closing carrying amount	2,955	7,794	10,749

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses. The customer contract intangible asset acquired is amortised over its useful life (8 years).

Section 3: Funding structures

The Group 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 (79% of NPAT from ordinary activities in FY2018)
- 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

	2018 $'000	2017 $'000
Bank loans – current	6,562	-
Bank loans – non-current	34,313	29,400
Other finance arrangements[1]	1,851	2,263
Cash and cash equivalents	(10,356)	(15,025)
	32,370	16,638

1. Includes 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; and
  - A number of plantation blocks in South West Victoria.

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-Jul-21
Working capital, asset finance	1,851	20,620	31-May-19
Acquisition debt facility – tranche 1	5,625	5,625	30-Sep-19
Acquisition debt facility – tranche 2	5,850	5,850	31-Jul-21

The Group has the ability to enter into purchase arrangements under the asset finance facility until it expires on 31 May 2019. Each outstanding finance arrangement will then be repaid within a five year period.

The Company had minor breaches on its capital adequacy ratio debt covenant during the period, which was waived by the financier. A new gearing ratio covenant has replaced the capital adequacy ratio within the revised term debt facility, which better reflects the Company's operations. For the quarter ended 30 June 2018 the Company is in compliance with the revised debt covenants.

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.

(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:

	2018 $'000	2017 $'000
Cash on hand	1	1
Cash at bank	10,355	15,024
At call deposits with financial institutions	-	-
	10,356	15,025

Reconciliation of cash flow from operations with profit after income tax		
Profit from ordinary activities after income tax	18,397	14,921
Adjustments and non-cash items		
Depreciation & amortisation	4,459	3,387
Sundry movements	544	170
Share of equity accounted investees profit	(3,856)	(2,808)
Fair value increment on revaluation of biological asses	(2,615)	-
Changes in operating assets and liabilities		
(Increase)/decrease in receivables	(9,632)	1,969
(Increase)/decrease in other assets	(296)	(457)
(Increase)/decrease in inventories	1,536	4,029
Increase in biological assets (net of revaluation increment/decrement)	(1,156)	(2,461)
Increase/(decrease) in payables	189	(496)
(Increase)/decrease in deferred taxes	1,388	27
Increase/(decrease) in tax provision	1,877	(2,226)
Increase/(decrease) in provisions	2,330	183
Cash flows provided from operating activities	13,165	16,238

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

	2018 $'000	2017 $'000
Interest expenses	1,886	1,399
Bank charges	203	104
Finance lease charges	92	85
	2,181	1,588

Section 3: Funding structures continued

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:

	2018 $'000	2017 $'000
Financial assets		
Cash and cash equivalents	10,356	15,025
Receivables	18,270	6,374
Other receivables	1,187	1,407
Derivatives	-	135
	29,813	22,941
Financial liabilities		
Bank and other loans	40,875	29,400
Creditors	18,370	15,837
Deferred payment for businesses acquired	2,951	-
Finance lease liability	1,851	2,263
Other payables	3,321	1,621
Derivatives	484	-
	67,852	49,121

(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.

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 2018
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 US 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 Group's 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 $50.3M (2017: $3.0M). 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 income or expenses for the financial year.

	2018 USD $'000	2017 USD $'000
Cash	379	1,195
Trade receivables	10,096	4,105

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:

	2018		2017	
USD movement impact (+/- 10%)	Increase $'000	Decrease $'000	Increase $'000	Decrease $'000
Impact on profit after tax	(252)	286	(265)	274
Impact on equity	2,890	(3,890)	276	(106)

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

Section 3: Funding structures continued

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 2018
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. Effective interest rate monitored by Audit and Risk Management Committee. 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 cash flows and the effective weighted average interest rates on classes of financial assets and financial liabilities is as follows:

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

2018	Interest bearing $'000	Non-interest bearing $'000	Total carrying amount $'000	Weighted average effective interest rate	
Financial assets					
Cash	10,355	1	10,356	1.00%	Floating
Trade receivables	-	18,270	18,270		
Other receivables	-	1,187	1,187		
Derivatives	-	-	-		
	10,355	19,458	29,813		
Financial liabilities					
Bank and other loans	40,875	-	40,875	3.46%	Floating
Creditors	-	18,370	18,370		
Deferred payment for businesses acquired	-	2,951	2,951		
Finance lease liability	1,851	-	1,851	4.43%	Fixed
Sundry creditors and accruals	-	3,321	3,321		
Derivatives	-	484	484		
	42,726	25,126	67,852		

(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 the Consolidated Balance Sheet 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 2018
The Group has significant exposure to export customers in China, as they represent a significant portion of the Group's annual sales. As a result of the Plantation Management Partners acquisition, the Group is exposed to credit risk on sales involving planation management activities.	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 woodfibre sales. The balance of woodfibre 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, The Group monitors cash flows regularly and monitors the economic environment for each region the Group operates in.	As at 30 June 2018 there is only a receivable for one vessel outstanding, of which the cash was subsequently collected within 10 days as expected. Based on Management's assessment of its exposure, the Group has low credit risk. As at 30 June 2018, the Group expects to receive all outstanding amounts.

As at 30 June 2018, the ageing of trade and other receivables that were not impaired was as follows:

	2018 $'000	2017 $'000
Neither past due nor impaired	16,208	7,747
Past due 1–30 days	1,087	4
Past due 31–60 days	1,081	6
Past due 61–90 days	880	9
Over 90 days	201	15
	19,457	7,781

(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.

Section 3: Funding structures continued

3.2 Financial risk management continued

Maturity analysis

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

2018	<6 months $'000	6–12 months $'000	1–5 years $'000	Total contractual cash flows $'000	Carrying amount $'000
Cash and cash equivalents	**10,356**	-	-	**10,356**	**10,356**
Receivables	**19,457**	-	-	**19,457**	**19,457**
Derivatives	**(484)**	-	-	**(484)**	**(484)**
Payables	**(24,642)**	-	-	**(24,642)**	**(24,642)**
Borrowings	**(4,328)**	**(3,001)**	**(35,397)**	**(42,726)**	**(42,726)**
Net maturities	**359**	**(3,001)**	**(35,397)**	**(38,039)**	**(38,039)**
2017					
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)

3.3 Contributed equity

(a) Ordinary share capital

	2018 $'000	2017 $'000
Issued and paid up capital		
74,901,933 (2017: 74,819,933) ordinary shares	**29,045**	28,333

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

(b) Reserves

Reserves	2018 $'000	2017 $'000
Movements:		
Cash flow hedge reserve[1]		
Opening balance	**227**	256
Cash flow hedges – effective portion	**(856)**	(99)
Deferred tax	**257**	70
Balance 30 June	**(372)**	227
Share-based payments reserve[2]		
Opening balance	**199**	-
Share rights granted	**238**	199
Share rights issued/vested	**(212)**	-
Balance 30 June	**225**	199
Asset revaluation reserve[3]		
Opening balance	**28,811**	32,180
Revaluation of land	**5,168**	(4,813)
Deferred tax	**(1,550)**	1,444
Balance 30 June	**32,429**	28,811
Profit reserve[4]		
Opening balance	**29,812**	26,181
Transfers of current year profits	**18,360**	14,854
Dividends Paid	**(13,475)**	(11,223)
Balance 30 June	**34,697**	29,812
Foreign currency translation reserve		
Opening balance	**-**	-
Foreign currency translation differences	**4**	-
Balance 30 June	**4**	-

1. **Cash flow hedge reserve**
   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 reserve**
   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.

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

	Ownership interest held by the Company		Ownership interest held by NCI	
	2018 %	2017 %	**2018 %**	2017 %
Subsidiaries of Midway Limited and controlled entities:				
Queensland Commodity Exports Pty Ltd	**90**	90	**10**	10
Midway Plantations Pty Ltd	**100**	100	**-**	-
Midway Properties Pty Ltd	**100**	100	**-**	-
Midway Tasmania Pty Ltd[1]	**100**	100	**-**	-
Plantation Management Partners Pty Ltd[2]	**100**	-	**-**	-
Resource Management Partners Pty Ltd[2]	**100**	-	**-**	-
Plantation Management Partners Pte Ltd[2,3]	**100**	-	**-**	-

1. Midway Tasmania Pty Ltd was incorporated on 5th September 2016.
2. Acquired on 26th October 2017.
3. 50% held in Trust by an independent party, however all risks and benefits of ownership of the share are held by the Group.

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 **2018 %**	Ownership interest 2017 %	Carrying amount **2018 $'000**	Carrying amount 2017 $'000
South West Fibre Pty Ltd	Ordinary shares	**51**	51	**12,525**	13,390

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.

(b) South West Fibre Pty Ltd Financial Information

	2018 $'000	2017 $'000
Cash and cash equivalents	11,445	11,184
Other current assets	13,059	14,404
Total current assets	24,504	25,588
Property, plant and equipment	14,723	17,172
Total non-current assets	14,723	17,172
Total current liabilities	(14,461)	(16,162)
Total non-current liabilities	(207)	(343)
Net assets	24,559	26,255
Revenue	165,180	152,162
Interest Income	93	86
Depreciation and amortisation	(2,904)	(2,862)
Income tax expense	(3,271)	(2,360)
Total comprehensive income	7,304	5,768

Reconciliation to carrying amount of interest in joint venture:		
Opening net assets	26,255	25,487
Add: Current year profit	7,304	5,768
Less: Dividends paid	9,000	5,000
Closing net assets	24,559	26,255
Company's 51% share of net assets	12,525	13,390
Carrying amount of investment	12,525	13,390

4.3 Midway Limited – parent entity

Summarised balance sheet	2018 $'000	2017 $'000
Assets		
Current assets	48,224	31,951
Non-current assets	78,591	68,936
Total assets	126,815	100,887
Liabilities		
Current liabilities	34,561	16,534
Non-current liabilities	34,617	30,072
Total liabilities	69,178	46,606
Net assets	57,637	54,281
Equity		
Share capital	29,045	28,833
Retained earnings	1,614	1,614
Reserves	23,263	19,545
Total equity	53,922	54,281

Section 4: Other disclosures continued

4.3 Midway Limited – parent entity continued

Summarised statement of profit or loss and other comprehensive income	2018 $'000	2017 $'000
Profit for the year after income tax	17,193	16,069
Total comprehensive income	16,594	16,041

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;
- 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 participants have vested during the period (12 months after Completion of the IPO), as all participants remained in continuous employment with the Company until the vesting date; and
Performance rights granted to other senior management personnel[1]	36,000	The remaining 50% of the performance rights issued to the participants 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 was $2.59 derived from the fair value of shares on 9 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 was $1.49, which was derived using a Monte Carlo Simulation model which incorporates the total shareholder return (TSR) performance conditions. Inputs utilised in the assessment include:

Assumption		Vesting conditions
Share price	$2.59	Participant must maintain continuous employment over the performance period.
Risk free rate	1.8%	
Dividend yield	7.0%	The percentage of performance rights that will vest at the end of the performance period will depend on Midway's TSR over the performance period, relative to a comparator group of companies in the S&P/ASX 300 Index.
Volatility	32.0%	
Initial TSR	10.7%	

The Group recorded a share-based payments expense of $0.2M in 2018 (2017: $0.2M).

4.5 Related parties

KMP of the Group represent the Directors, CEO and CFO in line with their ability to influence strategy and decision making.

(a) Remuneration of Key Management Personnel

	2018 $'000	2017 $'000
Short term employee benefits	1,560	1,565
Post-employment benefits	116	136
Share-based payments	194	160
Other long term incentives	(16)	41
Total KMP remuneration expense	1,854	1,902

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 2018.

The aggregate shareholdings of KMP at 30 June 2018 are 16,185,313 (2017: 44,536,204). The reduction in shareholding during the period relates to the retirement of a Director, Thorold Gunnersen AM.

(b) Transactions with South West Fibre Pty Ltd

Nature	2018 $'000	2017 $'000
Operator fee income	2,478	2,282
Reimbursement of costs	276	269
Dividends received	4,590	2,550
Sale of wood products (at cost)	6,708	6,964
Purchase of wood products (at cost)	-	(371)
	14,052	11,694

The outstanding receivable balance from South West Fibre Pty Ltd at 30 June 2018 is $0.7M (2017: $0.6M).

Section 4: Other disclosures continued

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

	2018 $'000	2017 $'000
Consolidated group		
Limit	**5,200**	5,200
Amount utilised	**1,744**	3,109
Parent entity		
Limit	**4,250**	4,250
Amount utilised	**1,519**	2,684

4.7 Remuneration of auditors

KPMG Australia	2018 $	2017 $
Audit and assurance services		
Statutory audit fees	**163,000**	160,000
Assurance services – IPO related services	**-**	236,752
Other services		
Non-assurance services – other advisory services	**25,400**	10,000

4.8 Other income

	2018 $'000	2017 $'000
Interest income	**51**	152
Plantation management fees	**974**	1,012
SWF operating fee	**2,478**	2,282
Other	**710**	709
	4,213	4,155

Policy

Dividend income

Dividend income 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 income

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

Rental income 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 income 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 income is measured net of the amount of goods and services tax (GST).

4.9 Deed of Cross Guarantee

The parent entity, Midway Limited, and certain subsidiaries (Midway Plantations Pty Ltd, Resource Management Partners Pty Ltd, Plantation Management Partners Pty Ltd, Midway Tasmania Pty Ltd and Midway Properties Pty Ltd) are subject to a Deed of Cross Guarantee (Deed) under which each company guarantees the debts of the others.

By entering into the Deed, the wholly owned subsidiaries have been relieved from the requirement to prepare a financial report and Directors' report under ASIC Corporations (Wholly-owned Companies) Instrument 2016/785.

A summarised consolidated statement of comprehensive income, retained earnings reconciliation and a consolidated balance sheet, comprising the Company and those controlled entities which are a party to the Deed of Cross Guarantee, after eliminating all transactions between parties to the Deed, at 30 June 2018 are set out below:

Summarised Consolidated Statement of Comprehensive Income

	2018 $'000	2017 $'000
Sales revenue	201,713	182,637
Other income	4,424	4,078
	206,137	186,715
Expenses	(185,927)	(170,499)
Share of net profits from equity accounted investments	3,856	2,808
Profit before income tax expense	24,066	19,024
Income tax expense	(6,167)	(4,777)
Profit for the period	17,899	14,247
Other comprehensive income for the period	3,190	(3,398)
Total comprehensive income for the period	21,089	10,849
Retained earnings at the beginning of the financial year	1,614	1,614
Profit for the year	17,899	14,247
Transfers to/(from) reserves	(17,899)	(14,247)
Retained profits at the end of the financial year	1,614	1,614

Section 4: Other disclosures continued

4.9 Deed of Cross Guarantee continued

Consolidated Balance Sheet

	2018 $'000	2017 $'000
Current assets		
Cash and cash equivalents	10,188	12,149
Receivables	19,103	7,594
Inventories	3,020	3,827
Derivative financial assets	-	135
Biological assets	12,172	-
Other assets	3,533	3,234
Current tax receivable	(210)	831
Total current assets	47,806	27,770
Non-current assets		
Biological assets	3,868	5,416
Investments	19,181	19,623
Intangible assets	8,778	-
Property, plant and equipment	104,610	95,196
Total non-current assets	136,437	120,235
Total assets	184,243	148,005
Current liabilities		
Trade and other payables	22,998	15,437
Borrowings	7,309	714
Provisions	5,268	1,628
Current tax liabilities	589	-
Other financial liabilities	484	-
Total current liabilities	36,648	17,779
Non-current liabilities		
Borrowings	35,422	30,949
Provisions	1,756	37
Deferred tax liabilities	15,705	13,013
Total non-current liabilities	52,883	43,999
Total liabilities	89,531	61,778
Net assets	94,712	86,227
Contributed equity		
Share capital	29,046	28,833
Reserves	61,735	55,780
Retained earnings	3,931	1,614
Total equity	94,712	86,227

4.10 Subsequent events

(a) Dividend

A final dividend of $6.7M was declared on 29 August 2018 for 9.0 cents per share.

There have been no other matters or circumstances, which have arisen since 30 June 2018 that has significantly affected or may significantly affect:

(a) The operations, in financial years subsequent to 30 June 2018, of the Group, or

(b) The results of those operations, or

(c) The state of affairs, in financial years subsequent to 30 June 2018 of the Group.

4.11 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 Board of 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 (AUD) which is the parent entity's functional and presentation currency.

Section 4: Other disclosures continued

4.11 Basis of preparation continued

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.

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 estimates that the new classification requirements, if applied at 30 June 2018, would not have 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 have a significant impact on the accounting for its hedging relationships, as all hedges are currently effective.

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 2018, 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. Additionally there is only $0.2M over 90 days past due (refer section 3.2).

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 will adopt AASB 9 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. Management will adopt AASB 15 on 1 July 2018.

The Group has performed an assessment of the impact of the adoption of AASB 15 on its consolidated financial statements with material differences below.

Strategy arrangement

In relation to the sale of hardwood trees to Strategy, recognised as a sale by Midway in February 2016, it has been assessed the transaction would not meet the requirements for recognition of a sale under AASB 15.

Accordingly, from 1 July 2018 the biological assets will again be recognised on the balance sheet as an asset of the Group at fair value, with subsequent changes in fair value recognised in the statement of profit or loss and other comprehensive income. The Strategy arrangement will be treated as a financing arrangement, which will 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. This liability represents the estimated net present value of amounts payable under the contract for repurchase of the trees in accordance with the contractual harvest profile.

In applying the new standard for the first time, AASB 15 provides a number of transition options, and will involve an adjustment to opening retained earnings at 1 July 2018.

An independent valuation is in the process of being performed in relation to the hardwood trees as at 30 June 2018 to recognise the opening balance sheet fair value and determine the impact to opening retained earnings on 1 July 2018 . The corresponding financial liability representing the Group's contractual liability to repurchase the trees from Strategy will then be calculated based on the Group's best estimate of contractual cash flows.

As the arrangement is treated as a financing arrangement, from FY2019 until the settlement of the repurchase obligation to buy back mature trees, the Group financial statements will reflect an unwind of non-cash interest expense which will materially affect statutory net profit before tax of the Group.

Plantation management fee income

Income received from Strategy for management of the hardwood estate cannot be recognised in the profit and loss as the trees are now on the Group's balance sheet. The sale and repurchase contracts are interlinked that Strategy cannot replace Midway as the plantation manager easily and hence they must be assessed as a whole. As such, on initial recognition of the financing arrangement, the plantation management fees that will be recognised from Strategy is recognised as a financial asset.

As the softwood trees do not fall under the financing arrangement, income will be earned under AASB 15 when the performance obligation (i.e. management of the softwood trees) is satisfied over time, when Strategy consumes the benefits of the arrangement.

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 is deemed a separate performance obligation.

As the Group is not the primary service provider for insurance and freight a principal vs agent assessment needs to be undertaken. AASB 15 states when another party is involved in providing goods or services to a customer an entity evaluates the nature of its promise to the customer. If an entity obtains control of the good or service prior to transferring to the end customer, then it is a principal in the transaction, otherwise it is an Agent.

As the Group is contractually responsible for arranging the freight and insurance, it has the ability to control the service and reallocate it if necessary before providing it to the customer. The Group is also responsible for negotiating the price. As a result management has assessed that the Group is the principal in this arrangement.

The performance obligation is satisfied over time until the shipment arrives at the destination port. Therefore, for the component of revenue relating to freight and insurance should also be recognised over time (i.e. as performance obligation settled). This will not have a material impact on the group financial statement's as only shipments that have not arrived at the destination port by balance date will be affected.

Marketing revenue

Under AASB 15, the group has assessed whereby it arranges the sale of woodfibre on behalf of third parties, it will remain the principal in the sale and recognise revenue on a gross basis. It is a principal in the transaction as the Group has primary responsibility for setting the ultimate sales price with the end customer.

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 $5.6M, 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 27 to 66 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

   give a true and fair view of the financial position of the Company as at 30 June 2018 and its performance for the year ended on that date.
2. There are reasonable grounds to believe that the Company and the group entities identified in Note 4.9 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC Corporations (Wholly owned Companies) Instrument 2016/785.

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.

Gregory McCormack
Chairman

30 August 2018

INDEPENDENT AUDITOR'S REPORT

This is the original version of the audit report over the financial statements signed by the Directors on 30th August 2018. Page references should be read as follows to reflect the correct references now that the financial statements have been presented in the context of the Annual Report in it's entirety: the Remuneration Report is now set out on pages 25 to 34 as opposed to pages 15 to 25 below.

KPMG

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 2018 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 2018
- *Consolidated Statement Comprehensive Income, Consolidated Statement of Changes in Equity,* and *Consolidated Statement of Cashflows* for the year then ended
- Notes including a summary of significant accounting policies
- *Directors' Declaration.*

The ***Group*** consists of the Midway Limited (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

The ***Key Audit Matters*** we identified are:

- *Valuation of Land*
- *Acquisition of Plantation Management Partners Pty Ltd*

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of Land (AUD $85.4m)

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 45.4% 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	Working with our valuation specialists, our procedures included: • for a sample of new purchases, vouching the amounts to underlying transaction documents; • reading the independent expert's report and making inquiries of management and the independent expert as appropriate in order to asses our ability to rely on the unencumbered land valuation, including an assessment of the independent expert's independence, objectivity, competence and scope of work; • performing a sensitivity analysis on the key assumptions in the Group's discounted cashflow model including growth rates, discount rates, harvest profiles 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 rates, discount rates, harvest profiles and reversionary costs used in the Group's discounted cashflow model to those in the independent expert's report and other information used by the Group within the business including biological asset valuations; • using our industry knowledge and experience, assessing the reasonableness of data and assumptions in the Group's discounted cashflow model. This included comparing a sample of data to underlying supporting information;

• appropriate growth rates, discount rates and harvest profiles. We spent considerable time and effort during the audit assessing the independent expert's work and the Group's discounted cashflow model. We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.	• assessing the integrity of the Group's discounted cashflow model, including the accuracy of the underlying calculation formulas; • recalculating the change 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.

Acquisition of Plantation Management Partners Pty Ltd (PMP)	
Refer to Note 1.6 Business Acquisitions	
The key audit matter	**How the matter was addressed in our audit**
The Group undertook a Business Combination during the period when it acquired PMP in October 2017 by purchasing 100% of the shares. This was a key audit matter due to: • the financial significance of the transaction for the Group; and • the judgement and complexity involved in the acquisition accounting including determining the fair value of: – the purchase consideration paid; and – the assets and liabilities acquired for accounting and tax purposes. We spent considerable time and effort during the audit assessing the appropriateness of the acquisition accounting. We involved specialists to supplement our senior audit team members in assessing this key audit matter.	Our procedures included: • reviewing the Share Sale and Purchase Agreement, subsequent Deed of Variation and other supporting documentation related to the business combination; • reviewing, in conjunction with our valuation specialists, the Group's calculations supporting the fair value of the identified intangible asset, including assessing the discount rate adopted by comparing with accepted market valuation practices; • assessing the appropriateness of the deferred and contingent consideration amounts recorded at fair value against accounting standard requirements; • reviewing, in conjunction with our tax specialists, management's assessment of: – the tax implications of the business combination in accordance with tax law requirements; and – the deferred tax balances recognised on acquisition, including checking the supporting deferred tax calculations for compliance with accounting standard requirements; and • assessing the business combination 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 and our related assurance opinion.

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 and whether the use of the going concern basis of accounting is appropriate. 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 the Financial Report.

KPMG

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_responsibilities/ar1.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 2018, 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 25* of the Directors' report for the year ended 30 June 2018.

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

KPMG

KPMG

Vicky Carlson

Partner

Melbourne

30 August 2018

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ADDITIONAL SHAREHOLDER INFORMATION
For the year ended 30 June 2018

Additional securities exchange information

In accordance with ASX Listing Rule 4.10, the Company provides the following information to shareholders not elsewhere disclosed in this Annual Report. The information provided is current as at 16 August 2018 (**Reporting Date**).

Corporate Governance Statement

The Company's Directors and management are committed to conducting the Group's business in an ethical manner and in accordance with the highest standards of corporate governance. The Company has adopted and substantially complies with the ASX *Corporate Governance Principles and Recommendations* (Third Edition) (**Recommendations**) to the extent appropriate to the size and nature of the Group's operations.

The Company has prepared a statement which sets out the corporate governance practices that were in operation throughout the financial year for the Company, identifies any Recommendations that have not been followed, and provides reasons for not following such Recommendations (Corporate Governance Statement).

In accordance with ASX Listing Rules 4.10.3 and 4.7.4, the Corporate Governance Statement will be available for review on the Company's website (https://www.midwaylimited.com.au/investor-center/), and will be lodged together with an Appendix 4G with ASX at the same time that this Annual Report is lodged with ASX.

The Appendix 4G will particularise each Recommendation that needs to be reported against by the Company, and will provide shareholders with information as to where relevant governance disclosures can be found.

The Company's corporate governance policies and charters are all available on its website https://www.midwaylimited.com.au/investor-center/.

Substantial shareholders

The substantial holders in the Company as at the Reporting Date were:

Substantial holders	Number of shares held	% of total issued share capital
Chebmont Pty Ltd	28,525,892	38.08
E.T and E.W Murnane Pty Ltd	4,688,526	6.26
Gregory McCormack and McCormack Timbers	13,038,379	17.41

Number of holders

As at the Reporting Date, the number of holders in each class of equity securities is as follows:

Class of equity securities	No. holders
Fully Paid Ordinary Shares	74,901,933
Fully Paid Ordinary Shares restricted until lodgement of FY18 Appendix 4E	41,504,271
Performance rights	147,000

ADDITIONAL SHAREHOLDER INFORMATION CONTINUED
For the year ended 30 June 2018

Voting rights

The only class of equity securities on issue in the Company which carries voting rights is ordinary shares.

As at the Reporting Date, there were **1,166** holders of a total of **74,901,933** ordinary shares in the Company.

At a general meeting of the Company, every holder of ordinary shares present in person or by proxy, attorney or representative has one vote on a show of hands and on a poll, one vote for each ordinary share held. On a poll, every member (or his or her proxy, attorney or representative) is entitled to vote for each fully paid share held and in respect of each partly paid share, is entitled to a fraction of a vote equivalent to the proportion which the amount paid up (not credited) on that partly paid share bears to the total amounts paid and payable (excluding amounts credited) on that share. Amounts paid in advance of a call are ignored when calculating the proportion.

Distribution of holders of equity securities

The distribution of holders of equity securities on issue in the Company as at the Reporting Date is as follows:

Distribution of Ordinary Shareholders

Holdings ranges	No. holders	Total ordinary shares	%
1 to 1,000	98	61,470	0.08
1,001 to 5,000	419	1,371,805	1.83
5,001 to 10,000	283	2,284,694	3.05
10,001 to 100,000	323	8,596,104	11.48
100,001 and Over	43	62,587,860	83.56
Total	1,166	74,901,933	100

Distribution of Performance Rights Holders

Holdings ranges	No. holders (Class A)	No. holders (Class B)
100,001 and over	0	0
10,001 to 100,000	2	1
5,001 to 10,000	3	0
1,001 to 5,000	0	0
1 to 1,000	0	0
Total	5	1

Unquoted equity securities

The number of each class of unquoted equity securities on issue, and the number of their holders, are as follows:

Class of unquoted equity securities	No. of securities	No. of holders
Class A IPO Bonus Performance Rights	82,000	5
Class B CEO LTIP Performance Rights	65,000	1
Total performance shares on issue	147,000	5

As at the Reporting Date, no persons held 20% or more of the equity securities in any unquoted class that were not issued or acquired under an employee incentive scheme.

Less than marketable parcels of ordinary shares (UMP shares)

Unmarketable parcels as at 16 August 2018	Minimum parcel size	Holders	Units
Minimum $500.00 parcel at $2.9600 per unit	169	13	391

Twenty largest shareholders

The names of the twenty largest security holders of quoted equity securities (being ordinary shares) as at the Reporting Date are listed below:

Ordinary shares

Rank	Name	No. of shares	%
1.	CHEBMONT PTY LTD	28,525,892	38.08
2.	MCCORMACK TIMBERS PTY LTD	6,446,932	8.61
3.	MCCORMACK TIMBER HOLDINGS PTY LTD	5,193,036	6.93
4.	E.T AND E.W MURNANE PTY LTD	4,688,526	6.26
5.	W.H. BENNETT & SONS PTY LTD	2,555,356	3.41
6.	JR MICAH PTY LTD <JR MICAH SUPER FUND A/C>	1,796,042	2.40
7.	J&J CORRIGAN NOMINEES PTY LTD <EUREKA TIMBER A/C>	1,513,530	2.02
8.	MCCORMACK TIMBERS PTY LTD <STAFF SUPER FUND A/C>	1,338,411	1.79
9.	MS ESMA CLARA THIELE + MR MURRAY EDWARD THIELE	916,843	1.22
10.	JANAKIS PTY LTD <PETER STOLL FAMILY A/C>	650,215	0.87
11.	J&J CORRIGAN NOMINEES PTY LTD <CORRIGAN FAMILY A/C>	640,436	0.86
12.	JANAKIS PTY LTD <TIM STOLL FAMILY A/C>	620,670	0.83
13.	UBS NOMINEES PTY LTD	527,321	0.70
14.	ALEX DEMBY TIMBER CO PTY LTD	491,960	0.66
15.	HAMILTON STREET PTY LTD <SH BENNETT INVESTMENT A/C>	459,076	0.61
16.	CITICORP NOMINEES PTY LIMITED	422,226	0.56
17.	TELLUNAPA PTY LTD <TELUNAPA CAPITAL A/C>	400,000	0.53
18.	MR WILLIAM MICAH + MS RHONDA MICAH <MICAH FAMILY SUPER FUND A/C>	379,384	0.51
19.	FOREST SUPERANNUATION PTY LTD <MICAH SUPERANNUATION FUND>	373,974	0.50
20.	RUBI HOLDINGS PTY LTD <JOHN RUBINO S/F A/C>	360,000	0.48
	Total	58,299,830	77.83
	Balance of register	16,602,103	22.17
	Grand total	74,901,933	100

ADDITIONAL SHAREHOLDER INFORMATION CONTINUED

For the year ended 30 June 2018

Voluntary escrow

41,504,271 of the performance shares in the Company are subject to voluntary escrow until lodgement of the FY18 Appendix 4E. These shares are quoted on the ASX.

Stock exchange listing

The Company's ordinary shares are quoted on the Australian Securities Exchange (**ASX**) (ASX issuer code: MWY).

On-market buyback

The Company is not currently conducting an on-market buy-back.

No securities were purchased on-market during the reporting period under or for the purposes of an employee incentive scheme or to satisfy the entitlements of the holders of options or other rights to acquire securities granted under an employee incentive scheme.

Item 7 issues of securities

There are no issues of securities approved for the purposes of item 7 of section 611 of the Corporations Act which have not yet been completed.

CORPORATE DIRECTORY

Midway Limited

ABN 44 005 616 044

Registered Office & Principal Place of Business

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Website

www.midwaylimited.com.au

Board of Directors

Gregory McCormack (Chairman & Non-Executive Director)

Anthony Price (Chief Executive Officer & Executive Director)

Anthony Bennett (Non-Executive Director)

Gordon Davis (Non-Executive Director)

Nils Gunnersen (Non-Executive Director)

Tom Gunnersen (Non-Executive Director)

Thomas Keene (Non-Executive Director)

Company Secretary

Sophie Karzis

Auditor

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Melbourne Victoria 3008
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T +61 3 9288 5555

Solicitors

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Melbourne Victoria 3000
Australia

T + 61 3 9614 7000

Share Registry

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Abbotsford Victoria 3067
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Midway

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