A large blue industrial conveyor structure, likely a chipper or sorter, is shown in the upper left. It has a complex lattice of steel beams and a walkway with railings. A vertical chute at the end of the conveyor is discharging a stream of light-colored wood chips into a large, conical pile on the ground. Another smaller pile of wood chips is visible in the lower left foreground. The background is a clear blue sky. The image is framed by a green diagonal band on the right and an orange band at the top left.

Strategic expansion.  
Diversified production.

Appendix 4E  
2020

ABN 44 005 616 044

Midway

## Contents

Results for announcement to the Market	3
Directors' Report (including Remuneration Report)	4
Auditor's Independence Declaration	15
Financial Report	25
Directors' Declaration	70
Auditor's Report	71



## RESULTS FOR ANNOUNCEMENT TO THE MARKET

for the financial year ended 30 June 2020

Financial year ended: 30 June 2020

Previous corresponding period: 30 June 2019

### Result Summary

		%		\$'000
Consolidated Revenue from Operations	down	9.1	to	257,760
Net profit after tax from ordinary activities attributable to shareholders	down	103.6	to	(716)
Net profit after tax attributable to shareholders	down	146.6	to	(12,019)

The Group has been adversely impacted by external market forces including excess production and stocks of paper pulp in Brazil and US tariffs on Chinese paper imports that has affected demand from woodfibre suppliers such as Midway. In addition, subdued global demand for goods as a result of COVID-19 has impacted the demand for woodfibre in the second half.

For a further explanation of the results above, refer to the Company's ASX/Media Announcement for the year ended 30 June 2020 and the accompanying Directors' Report.

### Dividends / distributions

	Amount per security	Franked amount per security at 30%
2019 interim dividend (declared and paid)	9.0 cents	Fully franked
2019 final dividend (declared and paid)	9.0 cents	Fully franked
2020 interim dividend (no dividend declared)	-	-
2020 final dividend (no dividend declared)	-	-
Record date for determining entitlements to the final dividend:		N/A
Date final dividend payable		N/A

	Current period	Previous corresponding period
Net tangible asset backing per ordinary security	146.7 cents	152.9 cents

### Other information required by Listing Rule 4.3A

Other information requiring disclosure to comply with Listing Rule 4.3A is contained in the accompanying Financial Report for the year ended 30 June 2020.

## Directors' Report

The Directors present their report together with the consolidated financial statements of the Group comprising of Midway Limited (the Company) and its subsidiaries for the financial year ended 30 June 2020 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
<b>Directors</b>		
Gregory McCormack	Non-Executive Chairman	
Nils Gunnersen	Non-Executive Director	
Tom Gunnersen	Non-Executive Director	
Gordon Davis	Independent Non-Executive Director	
Leanne Heywood	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.

#### Greg 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.

#### 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 was previously Executive Director and then Managing Director of Gunnersen Pty Ltd. He continues as a Trustee of the JWGottstein Trust. He has 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 the Chairman of the Work Health Safety and Sustainability Committee.

#### 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 20 years of corporate, investment and capital markets experience and is currently a Director and Principle of boutique Corporate Advisory firm KG Capital Partners. Previously, he was a Director of Equities for global investment bank Canaccord Genuity Limited where he was mostly based in Hong Kong for several years. Mr Gunnersen is also a current Director of Chebmont Pty Ltd and sits on the Remuneration and Nomination Committee at Midway.

## Directors' Report

### Gordon Davis

#### **Independent Non-Executive Director**

Mr Davis holds a Master of Business Administration, a Master of Agricultural Science, and a Bachelor of Forest Science. Mr Davis is currently a non-executive Director of Nufarm Limited (since 2011), 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 Healius Limited (since 2015), 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 was previously 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 Work Health Safety and Sustainability Committee.

### Leanne Heywood

#### **Independent Non-Executive Director**

Ms Heywood is an experienced ASX non-executive director, with broad general management experience gained through an international career in the mining, rural, government and not-for-profit sectors. She is a Non-Executive Director, Chair of the Audit Committee and member of the Nominations and Remuneration for Orocobre Limited (since 2016), an ASX listed lithium miner with operations in Argentina. She is also a Director and Chair of the Audit Committee for Quickstep Holdings Limited (since February 2019), an ASX listed manufacturing company delivering advanced composite solutions to the global aerospace, defence, automotive and other advanced manufacturing sectors, and a Director and Chair of the Nominations and Remuneration Committee for the Australian Meat Processor Corporation Ltd. Leanne is the Chair of Audit and Risk Management Committee.

### 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 Australian Agricultural Company Limited (since 2011). Mr Keene is a member of the Audit and Risk Management Committee and Remuneration and Nomination Committees'.

### 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 is a member of the Work Health Safety and Sustainability 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 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 Chairman of Forestworks Ltd, an organisation which provides training packages to the forest industry.

## Company Secretary

### Robert Bennett

Mr Bennett holds a Bachelor of Commerce and has many years company secretarial and governance experience with Coles Group Limited, AWB Limited, and Medibank Private Limited. He is a member of Chartered Accountants Australia and New Zealand, and Governance Institute of Australia.

## Directors' Report

### 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 Work Health Safety and Sustainability Committees of the Board of Directors.

Name	ARMC	WHSS <sup>1</sup>	RNC	Comments
<b>Directors</b>				
Gregory McCormack				
Nils Gunnersen		✓		Chair WHSS
Tom Gunnersen			✓	
Gordon Davis	✓	✓	✓	Chair RNC
Leanne Heywood	✓			Chair ARMC
Thomas Keene	✓		✓	
Anthony Bennett		✓		
Anthony Price				CEO

<sup>1</sup> The OHS Committee was renamed Work, Health, Safety and Sustainability Committee (WHSS) on 29 October 2019.

### 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:

Directors	Board		ARMC		RNC		WHSS	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Gregory McCormack	11	11	2	2	-	-	-	-
Nils Gunnersen	11	11	-	-	1	1	3	3
Tom Gunnersen	11	11	-	-	4	4	-	-
Gordon Davis	11	11	6	6	5	5	3	3
Leanne Heywood	11	9	4	4	-	-	-	-
Thomas Keene	11	11	6	6	5	5	-	-
Anthony Bennett	11	11	-	-	-	-	3	3
Anthony Price	11	11	-	-	-	-	-	-

### Principal Activities

The principal activities of the Group during the 2020 financial year are based on the reportable segments of the group as below:

Reportable Segments	Products / Services
<b>Woodfibre</b>	Includes primary operations whereby the Group purchases and sells both own and third party wood. SWF is also proportionally consolidated at 51% for segment reporting which reflects how management views and makes decisions of its operations.
<b>Forestry Logistics</b>	Forestry logistics provides support services to third parties engaged in growing woodfibre including harvest and haul. Forestry logistics also provides services to Biogrowth Partners (40% owned by Midway Ltd) harvesting and processing biomass woodchips for the domestic market
<b>Plantation Management</b>	Plantation management is the provision of silviculture services including on group owned trees. The segment also holds any group owned plantation land and trees.
<b>Ancillary</b>	Other aggregated costs which are not individually significant

## Directors' Report

### Operating and Finance Review

#### Financial Results

#### Full year results impacted by market forces and more recently COVID-19

- The Group achieved underlying earnings before interest, tax, depreciation and amortisation (EBITDA) before significant items of \$12.0M (2019: \$37.1M).
- Underlying Net profit / (loss) before tax was (\$1.3M) and Net profit / (loss) after tax was (\$0.4M).
- As a result of the Group being adversely impacted by external market forces no dividend will be paid in respect of full year FY20 results.

#### Segment performance

- The Woodfibre segment was impacted by reduced demand and lower pulp prices, leading to a lower USD FOB than the prior corresponding period. Given the performance, management has implemented cost cutting initiatives including a number of redundancies, however some of the benefits will not be realised until FY21.
- In the plantation management segment, as a result of lower forecast USD FOB prices, a net decrement on the treecrop was recorded of (\$4.9M)
- Forestry Logistics was impacted by COVID-19, with the structural timber and chip export markets being impacted by lower demand

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

\$'000	2020	2019	Change
<b>Revenue and other income</b>			
Sales revenue	257,760	283,645	(25,885)
Other income	6,487	5,642	845
	<b>264,247</b>	<b>289,287</b>	<b>(25,040)</b>
Less: expenses			
Changes in inventories of finished goods and work in progress	6,066	12,500	(6,434)
Raw Materials, consumables and other procurement expenses	(164,106)	(172,436)	8,330
Employee benefits expense	(26,249)	(24,556)	(1,693)
Plantation management expenses	(840)	(977)	137
Freight and shipment costs	(50,702)	(53,021)	2,319
Repairs and maintenance costs	(8,001)	(9,099)	1,098
Other operating expenses	(11,186)	(11,464)	278
Share of profit/(loss) of equity accounted investments	2,764	6,841	(4,077)
<b>EBITDA – S (underlying)</b>	<b>11,993</b>	<b>37,075</b>	<b>(25,082)</b>
Depreciation & Amortisation	(11,302)	(8,633)	(2,669)
<b>EBIT – S (underlying)</b>	<b>691</b>	<b>28,442</b>	<b>(27,751)</b>
Net finance expense	(1,963)	(1,995)	32
<b>Net profit before tax – S (underlying)</b>	<b>(1,272)</b>	<b>26,447</b>	<b>(27,719)</b>
Income tax expense	842	(5,959)	6,801
<b>Net profit after tax – S (underlying)</b>	<b>(430)</b>	<b>20,488</b>	<b>(20,918)</b>

#### Non-IFRS measures

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

Non-IFRS measure	Description
EBIT	Earnings, before interest and tax
EBITDA	Earnings, before interest, tax, depreciation and amortisation
Underlying NPAT - S	Statutory net profit after tax adjusted to remove impact of one off or non-recurring items and the net fair value gain / (loss) on biological assets
Underlying EBITDA - S	Earnings, before interest, tax, depreciation and amortisation adjusted to remove impact of one off or non-recurring items and the net fair value gain / (loss) on biological assets



## Directors' Report

### Operating and Finance Review (continued)

#### Reconciliation of underlying net profit / (loss) after tax to statutory net profit after tax (NPAT)

	2020 \$'000	2019 \$'000	Change
<b>Net profit / (loss) after tax - S</b>	<b>(430)</b>	<b>20,488</b>	<b>(20,918)</b>
Net fair value decrease on biological assets	(3,421)	7,373	(10,794)
Non-cash interest expense (AASB 15 strategy impact) <sup>1</sup>	(2,342)	(4,829)	2,487
Reversal of contingent consideration on business combinations	-	3,291	(3,291)
JobKeeper	726	-	726
Impairment loss on Non-current Assets (Plantation Management Partners Pty Ltd)	(4,266)	-	(4,266)
Impairment loss on Non-current Assets (ADDCO Fibre Pty Ltd)	(1,446)	-	(1,446)
Impact of AASB16	(97)	-	(97)
Gain on bargain purchase of SLS	-	149	(149)
Redundancies	(169)	-	(169)
Transaction costs incurred	(288)	(314)	26
<b>Net profit / (loss) after tax - Statutory</b>	<b>(11,733)</b>	<b>26,158</b>	<b>(37,891)</b>

#### Reconciliation of underlying Earnings, before interest, tax, depreciation and amortisation to statutory Earnings, before interest, tax, depreciation and amortisation (EBITDA)

	2020 \$'000	2019 \$'000	Change
<b>EBITDA -S</b>	<b>11,993</b>	<b>37,075</b>	<b>(25,082)</b>
Net fair value increment / (decrement) on biological assets	(4,887)	10,533	(15,420)
Non-cash interest expense (AASB 15 strategy impact) <sup>1</sup>	-	-	-
Reversal of contingent consideration on business combinations	-	3,291	(3,291)
JobKeeper	1,037	-	1,037
Impairment loss on Non-current Assets (Plantation Management Partners Pty Ltd)	(6,516)	-	(6,516)
Impairment loss on Non-current Assets (ADDCO Fibre Pty Ltd)	(2,066)	-	(2,066)
Impact of AASB16	1,843	-	1,843
Gain on bargain purchase of SLS	-	149	(149)
Redundancies	(240)	-	(240)
Transaction costs incurred	(412)	(379)	(33)
<b>EBITDA</b>	<b>752</b>	<b>50,669</b>	<b>(49,917)</b>

1. Non cash interest expense is incurred on the liability created on 1 July 2018 to repurchase trees under the Strategy arrangement, which was deemed a financing arrangement upon the adoption of AASB 15 Revenue from Contracts with Customers. The Strategy arrangement is a contractual obligation to repurchase hardwood trees the Group sold in February 2016.



## Directors' Report

### Operating and Finance Review (continued)

#### Performance against prior corresponding period

##### Woodfibre

	2020 \$'000	2019 \$'000	Δ
Revenue	223,013	297,293	-25%
EBITDA - S	20,942	44,894	-53%
EBITDA	16,733	46,856	-64%

The reduced EBITDA is attributable to the adverse market conditions. Key metrics as follows:

- Volume is down 35% across the segment, with 365k GMT at Geelong, the highest margin operations
- The lag effect of supply cost increases impacted the segment, with a \$10 - \$15 GMT increase in supply costs over the prior corresponding period.
- The above was partially offset by:
  - A 1% increase in Bone Dry % as a result of slower stock turn and a warmer climate
  - A stronger USD (144 cents) over the prior corresponding period.

The Group reduced contractor capacity and volumes in order to meet the reduced sales profile. Forced shutdowns also occurred on the Tiwi Islands and in Victoria, in order to manage costs in line with volumes. Restructuring activity resulted in reduced overheads and staff, with full benefits to be realised in FY22.

##### Forestry Logistics

	2020 \$'000	2019 \$'000	Δ
Revenue	8,264	5,637	47%
EBITDA - S	(2,635)	(2,411)	-9%
EBITDA	(4,780)	(933)	-412%

FY20 had unplanned customer shutdowns as a result of COVID 19, which resulted in a significant impact on markets (Structural timber market in Western Australia and chip exports) resulting in declined logistics support activities.

##### Plantation Management

	2020 \$'000	2019 \$'000	Δ
Revenue	6,844	15,885	- 57%
EBITDA - S	(2,563)	(793)	-223%
EBITDA	(7,039)	9,740	-172%

The reduced result is driven by the revaluation of the Group's treecrop, which resulted in a \$4.9M decrement due primarily to lower forecast USD FOB prices.

## Directors' Report

### Operating and Finance Review (continued)

#### Financial Position

	2020 \$'000	2019 \$'000
Current Assets	54,769	71,322
Non-current Assets	205,835	205,712
<b>Total assets</b>	<b>260,604</b>	<b>277,034</b>
Current Liabilities	41,375	38,844
Non-current liabilities	89,110	95,530
<b>Total liabilities</b>	<b>130,485</b>	<b>134,374</b>
<b>Net assets</b>	<b>130,119</b>	<b>142,660</b>

#### Highlights

- Strong cashflow for the year (operating +\$11.1M) – Operating conversion to EBITDA-S almost 1:1
- Strong working capital position
- \$131.2M of plantation land and trees on the balance sheet, valued at fair value underpinning a strong balance sheet

	2020 \$'000	2019 \$'000
Borrowings - Current	11,610	6,637
Borrowings – Non-current	38,868	38,357
	<b>50,478</b>	<b>44,993</b>
<i>less cash</i>		
Cash and cash equivalents	(11,049)	(15,518)
<b>Net Debt</b>	<b>39,429</b>	<b>29,476</b>

#### Highlights

- Refinancing and extension of term debt maturity to 30 September 2022
- As at 30 June 2020 the Group was within its covenant limits

## Directors' Report

### Outlook

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

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

The Directors firmly believe that the long-term outlook for woodfibre exports into Asia, especially China and Japan, remains positive. Increased investment in pulp manufacturing in China, tied to rising gross domestic product and higher middle class incomes, will drive import demand while woodfibre supply capacity in the Pacific Rim is expected to become increasingly constrained.

The COVID-19 pandemic is currently disrupting production and supply chains and reducing demand for paper used in offices but there are off-setting positive trends emerging with the increased emphasis on hygiene driving demand for paper-based tissues and personal protection equipment such as facemasks, and increased online sales increasing demand for pulp used in packaging.

These global trading issues may take some time to play out so your Directors are prudently looking at additional cost reduction initiatives and diversification strategies that may generate future revenue and earnings streams. We remain confident that there are many growth opportunities for Midway that will benefit shareholders in the longer term.

### 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.
- Risk that the COVID-19 pandemic that is currently disrupting production and supply chains continues for an extended period.
- 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 most 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 foreign 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 changes 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 are 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 the Group may not be able to attract and retain key staff, particularly in remote regions.
- 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.
- Risk of extreme weather events occurring in remote regions such as the Tiwi Islands.
- 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 strategic alliances with key suppliers. Additionally, imposing a strong control environment focusing on preventative controls, acts to further manage these business challenges.



## Directors' Report

### Dividends

There were no dividends declared during the 2020 financial year.

### 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

#### Impairment of non financial assets

The Group has been adversely affected by external market forces including excess production and stocks of paper pulp in Brazil, US tariffs on Chinese paper imports and more recently the impacts of COVID-19 that has affected woodfibre input suppliers such as Midway, resulting in reduced profitability for the 2020 financial year. The tough economic conditions also lead to the impairment of non current assets in the following entities, which was recorded in the 31 December 2019 half year financial statements:

##### *Plantation Management Partners Pty Ltd (PMP)*

Due to the market downturn, the Group has been unable to market budgeted quantities of woodfibre from Plantation Management Partners, on the Tiwi Islands. As a result the value in use discounted cash flow model did not exceed the carrying amount of the CGU at 31 December 2019 and the Group will write off the previously recognised goodwill on acquisition in PMP of \$1.0M and unamortised portion of the customer contract intangible asset for \$5.5M.

##### *Impairment of ADDCO (25% equity accounted investee)*

ADDCO entered voluntary administration during the period. The Group has taken a writedown on the full amount of its carrying value of its investment in ADDCO of \$1.7M and a further writedown of current receivables from ADDCO of \$0.3M, as no expected recovery is anticipated.

### Significant Events Subsequent to the end of the Financial Year

The Directors are not aware of any matter or circumstance which has arisen since 30 June 2020 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

Midway will continue to pursue further growth opportunities through:

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

## Directors' Report

### 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, no significant incidents occurred.

### 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 199,003 performance rights to senior executives in the current financial year. The rights vest over a performance period ending 30 June 2022, subject to satisfaction of vesting conditions.

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.

	2020	2019
<i>KPMG Australia</i>	\$	\$
Audit and assurance services		
- Statutory audit fees	242,819	233,807
Other services		
- Non- assurance services – other advisory services	8,000	9,225
- Agreed upon procedures	-	20,500

## Directors' Report

### 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 15 and forms part of this report.

### Rounding off

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

Signed in accordance with a resolution of the Directors.

### Greg McCormack

Chairman



Melbourne,

27 August 2020





# 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 2020 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.

A stylized, handwritten-style logo of the letters 'KPMG' in black ink.

KPMG

A handwritten signature in black ink, appearing to read 'Vicky Carlson'.

Vicky Carlson

*Partner*

Melbourne

27 August 2020

## Remuneration Report (Audited)

### Introduction

The Directors are pleased to present the FY2020 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 KMPs 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
<b>Directors</b>		
Gregory McCormack	Non-Executive Chairman	
Nils Gunnersen	Non-Executive Director	
Tom Gunnersen	Non-Executive Director	
Gordon Davis	Non-Executive Director	
Leanne Heywood	Non-Executive Director	
Thomas Keene	Non-Executive Director	
Anthony Bennett	Non-Executive Director	
<b>Executives</b>		
Anthony Price	Managing Director and CEO	
Ashley Merrett	Chief Financial Officer	

### Principles Used to Determine Nature and Amount of Remuneration

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

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

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

## Remuneration Report (Audited)

### Remuneration and Nomination Committee

The Board has established a Remuneration and Nomination Committee to assist the Board in reviewing and making recommendations to the Board in relation to the Company's remuneration policy, and remuneration arrangements for the Directors and executives.

The Remuneration and Nomination Committee assesses the appropriateness of the nature and amount of remuneration of executives on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of high quality, high performing Directors and executives.

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

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

### Remuneration Framework

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

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

### Use of Remuneration Consultants

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

The Remuneration and Nomination Committee did not engage any Remuneration Consultants throughout the financial year.

### 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 \$1.2M 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	120,000	
Chairman	220,000	
Chairman - Audit and Risk Management Committee		11,000
Chairman - Remuneration and Nomination Committee		11,000

The aggregate remuneration of Non-Executive Directors for the year ended 30 June 2020 was \$963,066.



## Remuneration Report (Audited)

### Executive Remuneration

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

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

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

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

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

### Fixed remuneration

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

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

### Variable remuneration

#### *Objective*

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

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

#### *Structure*

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

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

## Remuneration Report (Audited)

### 2020 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.

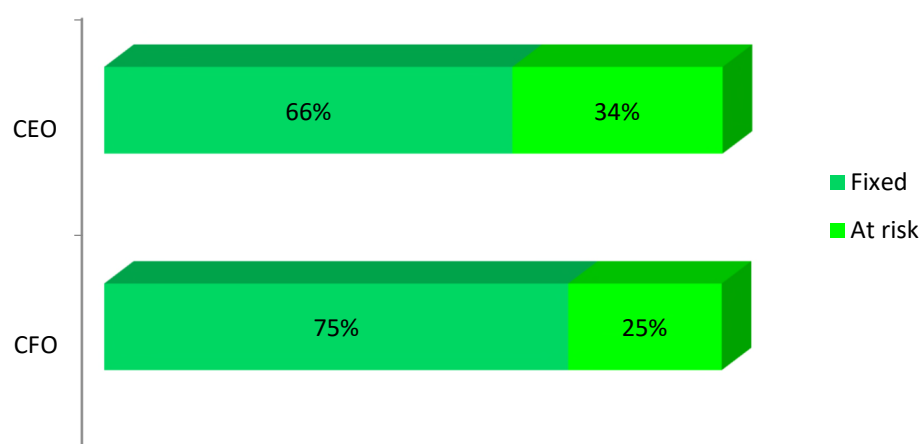
In assessing whether the KPIs for each variable component have been met, the Company measures actual results against internal targets.

A summary of contractual arrangements is provided below:

	Base salary <sup>1</sup>	Maximum STI	Eligibility LTIP	Termination Notice	Restraint of trade Provisions
	\$	\$			
Chief Executive Officer	512,192	256,096	✓	3 months	✓
Chief Financial Officer	341,453	112,680	✓	3 months	✓

1. Includes superannuation and car allowances

The remuneration mix is outlined below:



### Short Term Incentive Plan

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

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

## Remuneration Report (Audited)

### 2020 Executive Remuneration (continued)

#### FY2020 Short Term Incentives

In FY2020, 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 underlying 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.

EBITDA 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 FY2020 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 2020												
Performance measures	STI is assessed against both financial and non-financial measures with the following weighting:												
	<table><tr><th>Measure</th><th>Weighting [CEO]</th><th>Weighting [CFO]</th></tr><tr><td>EBITDA<sup>1</sup></td><td>40%</td><td>40%</td></tr><tr><td>LTIFR</td><td>20%</td><td>20%</td></tr><tr><td>Individual performance measures</td><td>40%</td><td>40%</td></tr></table>	Measure	Weighting [CEO]	Weighting [CFO]	EBITDA <sup>1</sup>	40%	40%	LTIFR	20%	20%	Individual performance measures	40%	40%
	Measure	Weighting [CEO]	Weighting [CFO]										
	EBITDA <sup>1</sup>	40%	40%										
	LTIFR	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. \$102,438]	100% <sup>1</sup>
EBITDA CFO	120% [max. \$45,072]	100% <sup>1</sup>
LTIFR CEO	200% [max. \$76,829]	100% <sup>1</sup>
LTIFR CFO	200% [max. \$33,804]	100% <sup>1</sup>

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

#### FY2020 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 2020 financial year:

KMP	Maximum STI	% of Maximum STI Achieved
CEO	256,096	0%
CFO	112,680	0%

## Remuneration Report (Audited)

### 2020 Executive Remuneration (continued)

#### Long Term Incentive Plan

##### Objective

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

In FY2020, the Group issued performance rights to the Chief Executive Officer and Senior Executive Team. In total, 199,003 rights were issued based on the conditions set out in section (a).

##### Structure

The key terms of the LTIP are summarised below.

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



## Remuneration Report (Audited)

### 2020 Executive Remuneration (continued)

### 2020 Long Term Incentives

The LTIP offered to Midway's Executive KMP and other senior executives, is summarised below:

#### (a) Performance Rights

In FY2020, the Board granted the Chief Executive Officer and members of the Senior Executive Team 199,003 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 2022.

Term	Description
Eligibility	Chief Executive Officer and members of the Senior Executive Team.
Consideration for grant	Nil
Instrument	Performance rights issued on 15 <sup>th</sup> November 2019 and 6 <sup>th</sup> March 2020 respectively
Number of rights granted	CEO 73,197; Other Senior Executives 125,806
Service conditions	Participant must maintain continuous employment over the performance period
Performance period	1 July 2019 to 30 June 2022
	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:
Performance measure	<ul style="list-style-type: none"> <li>- less than median of the comparator Company, no performance rights will vest;</li> <li>- at median of the comparator Company, 50% of the performance rights will vest;</li> <li>- 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</li> <li>- greater than 75th percentile of the comparator Company, 100% of the performance rights will vest.</li> </ul>
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	<p>Performance rights are subject to the restrictions set out in the Plan Rules. In particular the participants must not:</p> <ul style="list-style-type: none"> <li>- Dispose of any performance rights without the prior consent of the Board or otherwise in connections with the Plan Rules; or</li> <li>- Enter into any arrangement for the purpose of hedging, or otherwise affecting the participants economic exposure to the Performance Rights.</li> </ul>
Fair value at grant date	Rights issued 15th November 2019 (\$0.41 cents); Rights issued 6th March 2020 (\$0.17 cents)

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 Performances

The relationship between remuneration policy and Company performance is only assessed for the current financial year and the prior three comparative periods, as the Company was not previously a disclosing entity. The measures set out below are not necessarily consistent with the measures used in determining variable amounts of remuneration to be awarded to KMP's. As a consequence, there may not always be a direct correlation between the statutory key performance measures and the variable remuneration awarded.

Measure	FY2020 Actual \$'000	FY2019 Actual \$'000	FY2018 Actual \$'000	FY2017 Actual \$'000
Net profit/(loss) after tax	(11,733)	26,158	18,397	14,921
EBITDA	752	50,669	31,308	24,916
Underlying EBITDA <sup>1</sup>	11,993	37,075	28,693	28,367
Dividend paid (cents per share)	-	18	18	18

1 Underlying figures have not been audited

Other non financial measures such as Lost Time Injury Frequency Rate (LTIFR) Actual vs Previous Year are also taken into account when assessing the variable remuneration awarded.

As a result of the Group's performance, Directors and senior staff agreed to take a 20% pay reduction in from three months beginning 1 May 2020.

## Remuneration Report (Audited)

### Key Management Personnel Remuneration

The statutory remuneration disclosures for the year ended 30 June 2020 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	Non- monetary <sup>1</sup>	Superannuation	Other <sup>2</sup>		
Directors								
Greg McCormack	2020	195,605	-	-	19,168	-	-	214,773
	2019	201,563	-	-	18,437	-	-	220,000
Nils Gunnersen	2020	106,694	-	-	10,455	-	-	117,149
	2019	108,944	-	-	10,056	-	-	119,000
Tom Gunnersen	2020	106,694	-	-	10,455	-	-	117,149
	2019	118,983	-	-	3,017	-	-	122,000
Gordon Davis	2020	119,175	-	-	8,713	-	-	127,888
	2019	119,022	-	-	10,978	-	-	130,000
Leanne Heywood	2020	113,163	-	-	11,070	-	-	124,233
	2019	35,888	-	-	3,112	-	-	39,000
Thomas Keene	2020	110,005	-	-	10,799	-	-	120,804
	2019	119,022	-	-	10,978	-	-	130,000
Anthony Bennett	2020	106,694	-	-	10,455	-	-	117,149
	2019	108,944	-	-	10,056	-	-	119,000
Executives								
Anthony Price	2020	423,419	-	52,704	25,873	24,563	7,142	533,701
	2019	421,238	80,202	52,704	23,686	21,750	60,697	660,277
Ashley Merrett	2020	285,982	-	23,000	25,873	4,335	674	339,864
	2019	284,882	51,885	23,000	24,083	1,369	13,709	398,928

1 Relates to vehicle allowance paid by the Group

2 Includes the movement in annual leave and long service leave provisions

### Equity Instruments

KMP	Held at 1 July 2019	Shares acquired	Shares Sold	Other changes	Held at 30 June 2020
Gregory McCormack	9,504,599	100,000	-	-	9,604,599
Nils Gunnersen	-	9,829	-	-	9,829
Tom Gunnersen	-	-	-	-	-
Gordon Davis	65,000	25,000	-	-	90,000
Leanne Heywood	-	5,000	-	-	5,000
Thomas Keene	229,378	-	-	-	229,378
Anthony Bennett	2,760,356	-	-	-	2,760,356
Anthony Price	101,000	*79,329	-	-	180,329
Ashley Merrett	19,000	-	-	-	19,000

\* 65,000 of these Shares were issued upon vesting of Performance Rights issued under the Company's Long-Term Incentive Plan

## Remuneration Report (Audited)

### Key Management Personnel Remuneration (continued)

#### 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	73,197	15/11/2019	0%	-	2023
Ashley Merrett	Performance Rights	29,278	06/3/2020	0%	-	2023

#### 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

## 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	26
Consolidated Balance Sheet	27
Consolidated Statement of Changes in Equity	28
Consolidated Statement of Cashflows	29

### Notes to the Consolidated Financial Statements

#### Section 1: Our Performance

1.1	Segment Information	30
1.2	Individually Material Items	33
1.3	Income Taxes	34
1.4	Earnings Per Share	36
1.5	Dividends	36
1.6	Business Acquisitions	37
1.7	Impairment of non financial assets	38

#### Section 2: Our Asset Base

2.1	Property, Plant and Equipment	39
2.2	Biological Assets	42
2.3	Commitments	45
2.4	Leases	45
2.5	Working Capital	46
2.6	Intangible Assets	47

#### Section 3: Funding Structures

3.1	Net Debt	48
3.2	Financial Risk Management	51
3.3	Contributed Equity	56

#### Section 4: Other disclosures

4.1	Subsidiaries	58
4.2	Interest in Joint Venture [South West Fibre Pty Ltd]	59
4.3	Midway Limited – Parent Entity	60
4.4	Share Based Payments	61
4.5	Related Parties	62
4.6	Contingent Liabilities	63
4.7	Remuneration of Auditors	63
4.8	Other income	63
4.9	Deed of cross Guarantee	64
4.10	Subsequent Events	65
4.11	Basis of Preparation	65
	Director's Declaration	70
	Auditor's Report	71



## Consolidated Statement of Comprehensive Income

For the year ended 30 June

	Notes	2020 \$'000	2019 \$'000
<b>Revenue and other income</b>			
Sales revenue	1.1	257,760	283,645
Other income	4.8	7,524	9,082
		<b>265,284</b>	<b>292,727</b>
<b>Less: expenses</b>			
Changes in inventories of finished goods and work in progress		6,066	12,500
Materials, consumables and other procurement expenses		(164,106)	(172,436)
Depreciation and amortisation expense	2.1 2.6	(13,094)	(8,633)
Employee benefits expense		(26,249)	(24,556)
Biological assets net fair value increment / (decrease)		(4,887)	10,533
Plantation management expenses		(840)	(977)
Freight and shipping expense		(50,702)	(53,021)
Repairs and maintenance expense		(8,001)	(9,099)
Impairment loss on non-current assets		(8,582)	-
Other expenses		(9,995)	(11,843)
		<b>(280,390)</b>	<b>(257,532)</b>
Finance expense		(6,114)	(9,911)
Finance income		615	1,017
Net finance expense		<b>(5,499)</b>	<b>(8,894)</b>
Share of net profits from equity accounted investments	4.2	2,764	6,841
<b>Profit / (loss) before income tax expense</b>		<b>(17,841)</b>	<b>33,142</b>
Income tax expense benefit / (expense)	1.3	6,108	(6,984)
<b>Profit / (loss) for the period</b>		<b>(11,733)</b>	<b>26,158</b>
<i>Items that will not be reclassified to profit and loss</i>			
Revaluation of land fair value adjustment, net of tax	2.1	4,495	(5)
<i>Items that may be reclassified subsequently to profit and loss</i>			
Cash flow hedges - effective portion of changes in fair value, net of tax		2,350	(34)
Foreign operations – foreign currency translation differences		5	1
Equity accounted investees - share of OCI		26	7
Other comprehensive income for the period		6,876	(31)
<b>Total comprehensive income for the period</b>		<b>(4,857)</b>	<b>26,127</b>
<b>Profit / (loss) is attributable to:</b>			
- Owners of Midway Limited		(12,019)	25,787
- Non-controlling interests		286	371
		<b>(11,733)</b>	<b>26,158</b>
<b>Total comprehensive income is attributable to:</b>			
- Owners of Midway Limited		(5,155)	25,767
- Non-controlling interests		298	359
		<b>(4,857)</b>	<b>26,126</b>
<b>Earnings per share for profit attributable to equity holders:</b>			
Basic earnings per share		(\$0.14)	\$0.31
Diluted earnings per share		(\$0.14)	\$0.31

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

## Consolidated Balance Sheet

As at 30 June

	Notes	2020 \$'000	2019 \$'000
<b>Current assets</b>			
Cash and cash equivalents	3.1	11,049	15,518
Receivables	2.5	3,564	22,752
Inventories	2.5	29,210	22,689
Biological assets	2.2	1,483	2,408
Current tax receivable		451	1,907
Other assets		6,187	6,048
Derivative assets		2,825	-
<b>Total current assets</b>		<b>54,769</b>	<b>71,322</b>
<b>Non-current assets</b>			
Biological assets	2.2	48,322	50,608
Other Receivables		5,460	-
Investments accounted for using the equity method	4.2	13,816	15,294
Intangible assets		1,971	9,241
Loan receivables		3,129	3,200
Property, plant and equipment	2.1	133,137	127,369
<b>Total non-current assets</b>		<b>205,835</b>	<b>205,712</b>
<b>Total assets</b>		<b>260,604</b>	<b>277,034</b>
<b>Current liabilities</b>			
Trade and other payables	2.5	20,090	27,282
Borrowings	3.1	11,610	6,637
Strategy financial liability		5,523	434
Derivative financial liability		-	483
Provisions		4,152	4,008
<b>Total current liabilities</b>		<b>41,375</b>	<b>38,844</b>
<b>Non-current liabilities</b>			
Borrowings	3.1	38,868	38,356
Strategy financial liability		37,675	40,210
Provisions		125	129
Deferred tax liabilities	1.3	12,442	16,835
<b>Total non-current liabilities</b>		<b>89,110</b>	<b>95,530</b>
<b>Total liabilities</b>		<b>130,485</b>	<b>134,374</b>
<b>Net assets</b>		<b>130,119</b>	<b>142,660</b>
<b>Contributed Equity</b>			
Share capital	3.3	64,888	64,791
Reserves	3.3	73,793	74,710
Retained earnings		(10,405)	1,614
<b>Equity attributable to owners of Midway Limited</b>		<b>128,276</b>	<b>141,115</b>
Equity attributable to non-controlling interests		1,843	1,545
<b>Total equity</b>		<b>130,119</b>	<b>142,660</b>

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

## Consolidated Statement of Changes in Equity

\$'000	Share capital	Reserves	Retained earnings	Non-controlling interests	Total equity
<b>Balance as at 1 July 2018</b>	29,045	66,983	1,614	1,586	99,228
Adjustment on adoption of AASB 15	-	(3,319)	-	-	(3,319)
<b>Restated total equity at the beginning of the financial period</b>	29,045	63,664	1,614	1,586	95,909
Profit for the year	-	-	25,787	371	26,158
Revaluation of land, net of tax	-	(5)	-	-	(5)
Cash flow hedges - effective portion of changes in fair value, net of tax	-	(15)	-	(12)	(27)
Foreign operations – foreign currency translation differences	-	1	-	-	1
<b>Total comprehensive income for the year</b>	-	(19)	25,787	359	26,127
<b>Other Transactions:</b>					
Issuance of ordinary shares, net of transaction costs	35,534	-	-	-	35,534
Issuance of performance rights	212	(212)	-	-	-
Share based payments expense	-	86	-	-	86
Transfers to profits reserve	-	25,786	(25,786)	-	-
<b>Transactions with owners in their capacity as owners:</b>					
Dividends	-	(14,596)	-	(400)	(14,996)
<b>Total other transactions</b>	35,746	11,065	(25,786)	(400)	20,624
<b>Balance as at 30 June 2019</b>	64,791	74,710	1,614	1,545	142,660
<b>Balance as at 1 July 2019</b>	64,791	74,710	1,614	1,545	142,660
Adjustment on adoption of AASB 16 (note 4.11)	-	166	-	-	166
<b>Restated total equity at the beginning of the financial period</b>	64,791	74,876	1,614	1,545	142,826
Profit/(loss) for the year	-	-	(12,019)	286	(11,733)
Revaluation of land, net of tax	-	4,495	-	-	4,495
Cash flow hedges - effective portion of changes in fair value, net of tax	-	2,364	-	12	2,376
Foreign operations – foreign currency translation differences	-	5	-	-	5
<b>Total comprehensive income for the year</b>	-	6,864	(12,019)	298	(4,857)
<b>Other Transactions:</b>					
Issuance of ordinary shares, net of transaction costs	-	-	-	-	-
Issuance of performance rights	97	(97)	-	-	-
Share based payments expense	-	10	-	-	10
Transfers to profits reserve	-	-	-	-	-
<b>Transactions with owners in their capacity as owners:</b>					
Dividends	-	(7,860)	-	-	(7,860)
<b>Total other transactions</b>	97	(7,947)	-	-	(7,850)
<b>Balance as at 30 June 2020</b>	64,888	73,793	(10,405)	1,843	130,119

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

## Consolidated Statement of Cashflows

For the Year Ended 30 June

	Notes	2020 \$'000	2019 \$'000
<b>Cash flow from operating activities</b>			
Receipts from customers		281,589	295,444
Payments to suppliers and employees		(269,874)	(276,558)
Interest received		26	184
Interest paid		(1,914)	(1,495)
Income tax (paid) / received		578	(7,641)
JobKeeper		697	-
<b>Net cash provided by operating activities</b>	3.1	<b>11,102</b>	9,934
<b>Cash flow from investing activities</b>			
Payment for property, plant and equipment		(3,230)	(4,182)
Proceeds from sale of fixed assets		906	218
Payment for non current biological assets		(3,754)	(3,336)
Acquisition of Softwood Logging Services, net of cash		-	(322)
Acquisition of equity accounted investees		(10)	(3,697)
Dividends received from associates		2,550	8,670
Payment of deferred consideration Plantation Management Partners		(105)	(1,500)
Restructure of Plantation Management Partners		-	(8,964)
<b>Net cash used in investing activities</b>		<b>(3,643)</b>	(13,113)
<b>Cash flow from financing activities</b>			
Proceeds from share issue		-	34,996
Repayment of Strategy financial liability		(1,133)	(1,526)
Principal repayment of lease liabilities		(6,290)	(4,698)
Dividends paid		(7,860)	(14,596)
Proceeds from bank borrowings		5,500	-
Repayment of bank borrowings		(2,658)	(6,353)
Proceeds from loan receivable		513	518
<b>Net cash used in financing activities</b>		<b>(11,928)</b>	8,341
<b>Reconciliation of cash</b>			
Cash at beginning of the financial period		15,518	10,356
Net increase/(decrease) in cash held		(4,469)	5,162
<b>Cash at end of financial period (net of overdrafts)</b>		<b>11,049</b>	15,518

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



## Notes to the Consolidated Financial Statements

### Section 1: Our Performance

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

- The Group has been adversely impacted by external market forces including excess production and stocks of paper pulp in Brazil and US tariffs on Chinese paper imports that has affected demand from wood fibre suppliers such as Midway. In addition, subdued global demand for goods as a result of COVID-19 has impacted the demand for woodfibre in the second half
- The Group achieved an underlying EBITDA of \$12.0M (2019: \$37.1M)
- The Board has elected to not declare a dividend in light of the current performance

#### 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.

Reportable Segments	Products / Services
Woodfibre	Includes primary operations whereby the Group purchases and sells both own and third party wood. SWF is also proportionally consolidated at 51% for segment reporting which reflects how management views and makes decisions of its operations. In the current year income earned from marketing third party woodfibre has been reallocated to this category, as this is how the chief operating decision maker reviews the financial information.
Forestry Logistics	Forestry logistics provides support services to third parties engaged in growing woodfibre including harvest, infield chipping and haulage Forestry Logistics also provides harvesting, processing and delivery service to BioGrowth Partners (40% owned by Midway Ltd) which supplies biomass woodchips and sawdust to domestic customers in WA
Plantation Management	Plantation management is the provision of silviculture services including on group owned trees. The segment also holds any group owned plantation land and trees
Ancillary	Represents any one off, transactional and other non recurring costs

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.

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

Prior period comparative information has been restated to reflect the revised structure.

## Notes to the Consolidated Financial Statements

### Section 1: Our Performance

#### 1.1 Segment Reporting (continued)

##### (b) Segment information provided to senior management

2020						
(\$'000)	Woodfibre	Forestry Logistics	Plantation Management	Ancillary	Eliminations	Total
Sales revenue	223,013	8,264	2,695	-	23,788	257,760
Inter segment sales	-	-	4,149	-	(4,149)	-
Other income	7,893	423	995	-	(1,787)	7,524
<b>Total revenue and other income</b>	<b>230,906</b>	<b>8,687</b>	<b>7,839</b>	<b>-</b>	<b>17,852</b>	<b>265,284</b>
Share of equity accounted profits	11	55	-	-	2,698	2,764
<b>EBITDA - S</b>	<b>20,942</b>	<b>(2,635)</b>	<b>(2,563)</b>	<b>(47)</b>	<b>(3,704)</b>	<b>11,993</b>
Significant items	(5,479)	(2,307)	-	(411)	-	(8,197)
AASB 16 impact	1,270	162	411	-	-	1,843
Fair value gain/(loss) on biological assets	-	-	(4,887)	-	-	(4,887)
<b>EBITDA</b>	<b>16,733</b>	<b>(4,780)</b>	<b>(7,039)</b>	<b>(458)</b>	<b>(3,704)</b>	<b>752</b>
Depreciation and amortisation	(10,955)	(2,031)	(1,724)	(714)	2,330	(13,094)
<b>EBIT</b>	<b>5,778</b>	<b>(6,811)</b>	<b>(8,763)</b>	<b>(1,172)</b>	<b>(1,374)</b>	<b>(12,342)</b>
Net finance expense	(2,185)	(80)	(3,448)	-	214	(5,499)
<b>Net profit/(loss) before tax</b>	<b>3,593</b>	<b>(6,891)</b>	<b>(12,211)</b>	<b>(1,172)</b>	<b>(1,160)</b>	<b>(17,841)</b>
Income tax benefit/(expense)	(2,141)	1,419	3,782	1,888	1,160	6,108
<b>Net profit/(loss) after tax</b>	<b>1,452</b>	<b>(5,472)</b>	<b>(8,429)</b>	<b>716</b>	<b>-</b>	<b>(11,733)</b>
<b>Segment assets</b>	<b>149,754</b>	<b>3,744</b>	<b>144,564</b>	<b>4,881</b>	<b>(42,339)</b>	<b>260,604</b>
Equity accounted investees	11,556	2,260	-	-	-	13,816
Capital expenditure	(3,537)	(524)	(1,966)	-	324	(5,703)
<b>Segment liabilities</b>	<b>(67,411)</b>	<b>(7,521)</b>	<b>(83,809)</b>	<b>(3,238)</b>	<b>31,494</b>	<b>(130,485)</b>

2019						
(\$'000)	Woodfibre	Forestry Logistics	Plantation Management	Ancillary	Eliminations	Total
Sales revenue	297,293	5,637	4,834	-	(24,119)	283,645
Inter segment sales	-	-	11,051	-	(11,051)	-
Other income	6,334	458	1,346	-	944	9,082
<b>Total revenue and other income</b>	<b>303,627</b>	<b>6,095</b>	<b>17,231</b>	<b>-</b>	<b>(34,226)</b>	<b>292,727</b>
Share of equity accounted profits	35	(639)	-	-	7,445	6,841
<b>EBITDA - S</b>	<b>44,894</b>	<b>(2,411)</b>	<b>(793)</b>	<b>(43)</b>	<b>(4,572)</b>	<b>37,075</b>
Significant items	1,962	1,478	-	(379)	-	3,061
Fair value gain on biological assets	-	-	10,533	-	-	10,533
<b>EBITDA</b>	<b>46,856</b>	<b>(933)</b>	<b>9,740</b>	<b>(422)</b>	<b>(4,572)</b>	<b>50,669</b>
Depreciation and amortisation	(6,138)	(1,282)	(912)	(1,760)	1,459	(8,633)
<b>EBIT</b>	<b>40,718</b>	<b>(2,215)</b>	<b>8,828</b>	<b>(2,182)</b>	<b>(3,113)</b>	<b>42,036</b>
Net finance expense	(2,245)	(21)	(6,920)	-	292	(8,894)
Net profit before tax	38,473	(2,236)	1,908	(2,182)	(2,821)	33,142
<b>Income tax expense</b>	<b>(11,261)</b>	<b>923</b>	<b>(364)</b>	<b>75</b>	<b>3,643</b>	<b>(6,984)</b>
Net profit after tax	27,212	(1,313)	1,544	(2,107)	822	26,158
<b>Segment assets</b>	<b>137,432</b>	<b>5,806</b>	<b>138,246</b>	<b>3,424</b>	<b>(7,874)</b>	<b>277,034</b>
Equity accounted investees	11,361	3,933	-	-	-	15,294
Capital expenditure	(18,071)	-	(3,559)	-	324	(21,306)
<b>Segment liabilities</b>	<b>(65,470)</b>	<b>(6,252)</b>	<b>(75,284)</b>	<b>(18)</b>	<b>12,650</b>	<b>(134,374)</b>

(1) EBITDA – S: Earnings before interest, tax, depreciation and amortisation, significant items and net fair value gain / (loss) on biological assets.

## Notes to the Consolidated Financial Statements

### Section 1: Our Performance

#### 1.1 Segment Reporting (continued)

##### (c) Revenue by geographic region

The presentation of geographical revenue is based on the geographical location of customers.

##### 2020

Revenue by geographic region	Woodfibre	Forestry Logistics	Plantation Management	Ancillary	Eliminations	Total
Australia	8,584	8,264	5,370	-	(4,409)	17,809
China	141,044	-	-	-	41,447	182,491
Japan	73,385	-	-	-	(17,399)	55,986
South East Asia	-	-	1,474	-	-	1,474
	<b>223,013</b>	<b>8,264</b>	<b>6,844</b>	<b>-</b>	<b>19,639</b>	<b>257,760</b>

##### 2019

Revenue by geographic region	Woodfibre	Forestry Logistics	Plantation Management	Ancillary	Eliminations	Total
Australia	2,536	5,637	14,625	-	(11,051)	11,747
China	204,164	-	-	-	9,622	213,786
Japan	90,593	-	-	-	(33,741)	56,852
South East Asia	-	-	1,260	-	-	1,260
	<b>297,293</b>	<b>5,637</b>	<b>15,885</b>	<b>-</b>	<b>(35,170)</b>	<b>283,645</b>

For the financial year ending 30 June 2020 there were three (2019: three) customers in China and Japan that individually made up 10% or above total sales for the Group.

##### Policy

##### Revenue

Sales revenue is recognised on settlement of each performance obligation. Export woodfibre sales are generally on CIF or FOB shipping terms, with revenue recognised when last goods are loaded on board at the point when the performance obligation is settled under the shipping terms. All other sales are generally recognised as revenue at the time of delivery of the goods to the customer.

The Group also arranges the insurance and freight for CIF vessels which is deemed a separate performance obligation. The performance obligation is satisfied over time until the shipment arrives at the destination port. Therefore, the component of revenue relating to freight and insurance should also be recognised over time (i.e. as performance obligation settled).

Revenue from the rendering of services is recognised over time as the performance obligations within each contract are settled.

## Notes to the Consolidated Financial Statements

### Section 1: Our Performance

#### 1.2 Individually significant items

		2020	2019
		\$'000	\$'000
<b>Individually significant items before tax</b>	<b>Notes</b>		
Impairment loss on non current assets (ADDCO Pty Ltd)	1.7	(2,066)	-
Impairment of loss on non current assets (Plantation Management Partners Pty Ltd)	1.7	(6,516)	-
JobKeeper payments <sup>1</sup>		1,037	-
Redundancies		(240)	-
Reversal of contingent consideration		-	3,291
Gain on bargain purchase of Softwood Logging Services (now Midway Logistics)		-	149
Transaction costs		(412)	(379)
<b>Impact of individually significant items</b>		<b>(8,197)</b>	<b>3,061</b>

1 The Group has elected to account for JobKeeper payments received from the Federal Government as a grant income recorded in other income once reasonable assurance has been obtained regarding eligibility to receive the subsidy.



## Notes to the Consolidated Financial Statements

### Section 1: Our Performance

#### 1.3 Income Tax

	2020	2019
	\$'000	\$'000
<b>(a) Current tax reconciliation</b>		
Current tax	(2,521)	5,198
Deferred tax	(3,744)	1,770
Over provision in prior years	157	16
	<b>(6,108)</b>	<b>6,984</b>
<b>(b) Prima facie tax payable</b>		
The prima facie tax payable on profit before income tax is reconciled to the income tax expense as follows:		
Prima facie income tax payable on profit before income tax at 30.0% (2019: 30.0%)	(5,352)	9,943
-Effect of taxes in foreign jurisdictions	(71)	(61)
Add tax effect of:		
- Other non-allowable items	295	157
	<b>(5,128)</b>	<b>10,039</b>
Less tax effect of:		
- Over provision for income tax in prior years	31	16
- Share of profits/(losses) in joint ventures	829	2,052
- Capital loss on ADDCO	81	-
- Other	39	-
- Reversal of contingent consideration on business combinations	-	987
	<b>980</b>	<b>3,055</b>
<b>Income tax expense / (benefit) attributable to profit</b>	<b>(6,108)</b>	<b>6,984</b>
<b>(c) Deferred tax</b>		
<b>Deferred tax assets</b>		
Payables	872	929
Blackhole expenditure	565	918
Capital losses carried forward	2,046	1,499
Tax losses carried forward	2,986	-
Other	-	6
	<b>6,469</b>	<b>3,352</b>
<b>Deferred tax liabilities</b>		
Biological assets	482	2,141
Property, plant and equipment	17,415	16,177
Intangible assets <sup>(1)</sup>	-	1,869
Hedge Reserve	848	-
Other	140	-
	<b>18,885</b>	<b>20,187</b>
<b>Net deferred tax liabilities</b>	<b>12,416</b>	<b>16,835</b>
(1) Related to businesses acquired		
<b>(e) Deferred income tax (revenue)/expense included in income tax expense comprises</b>		
Decrease / (increase) in deferred tax assets	416	186
(Decrease) / increase in deferred tax liabilities	(4,160)	1,586
	<b>(3,744)</b>	<b>1,772</b>
<b>(f) Deferred income tax related to items charged or credited directly to equity</b>		
Increase in deferred tax liabilities	<b>2,973</b>	<b>1,972</b>

## Notes to the Consolidated Financial Statements

### Section 1: Our Performance

#### 1.3 Income Tax (continued)

##### 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 an assessment of the recoverability of Deferred Tax Assets (DTA). The Group only recognises Deferred Tax Assets to the extent it is probable they will be realised in the foreseeable future.

## Notes to the Consolidated Financial Statements

### Section 1: Our Performance

#### 1.4 Earnings Per Share

##### (a) Earnings per share

	2020	2019
Earnings per share	(\$0.14)	\$0.31
Diluted earnings per share*	(\$0.14)	\$0.31
	2020 number	2019 number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	87,325,715	84,264,989
<i>Adjustments for calculation of diluted earnings per share:</i>		
Performance rights	199,003	65,000
	87,524,718	84,329,989

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

	2020 \$'000	2019 \$'000
<b>Fully franked at 30% (2019: 30%)</b>	<b>7,860<sup>1</sup></b>	14,596

1. Dividend was paid during the period (2019 final dividend)

The balance of the franking account at 30 June 2020 is 5,701,956 (2019: 7,673,334).

## Notes to the Consolidated Financial Statements

### Section 1: Our Performance

#### 1.6 Business Acquisitions (2019)

On 15 October 2018, the Company acquired 100% of Softwood Logging Services (SLS) (now Midway Logistics), a harvest and haul business in Western Australia. Midway Logistics provides Midway with access to equipment and management expertise for the harvesting and delivery of biomass and other forest products in south-west Western Australia.

Midway acquired Midway Logistics for a purchase price of \$1.6 million, of which \$1.0 million was contingent on the business meeting certain hurdle rates. Management was required to use estimates and judgments to fair value the contingent consideration at that point in time.

In the 2019 financial year, Midway Logistics contributed \$6.1 million revenue and an EBITDA loss of \$1.8 million from continuing operations of the Group. If the acquisition had occurred on 1 July 2018, it is estimated the revenue contribution would be \$8.1 million and EBITDA would be a loss of \$2.8 million.

Transactions costs of \$0.2 million were expensed and included in other expenses.

#### Consideration transferred

	Date payable	Purchase consideration fair value \$'000
Cash and cash equivalents	Settlement	534
Contingent consideration <sup>(1)</sup>	30-Jun-19	1,023
		1,557

(1) Payable on meeting EBITDA targets and is an estimate of the fair value of the consideration at acquisition date. The maximum payout of contingent consideration is \$1.7M, payable if the EBITDA target is met at 100%. The targets were not subsequently achieved and as such no amount was paid.

#### Assets acquired and liabilities assumed

	Fair value \$'000
<b>At acquisition date</b>	
<b>Assets</b>	
Cash and cash equivalents	212
Trade and other receivables	1,610
Intangible Assets	57
Property, plant and equipment	5,443
	7,322
<b>Liabilities</b>	
Trade and other payables	4,248
Employee entitlement provisions	234
Borrowings	656
Deferred tax liability	478
	5,616
<b>Total identifiable net assets at fair value</b>	1,706
<b>Purchase consideration</b>	1,557
<b>Gain on bargain purchase recognised in profit and loss</b>	149

The acquisition resulted in a bargain purchase as the fair value of contingent consideration was valued at an amount lower than the maximum amount payable under the contract (based on meeting EBITDA targets). The fair value of contingent consideration reflected the inherent risks in the acquisition based on the entity's historical performance. The fair value of assets acquired and liabilities assumed has now been finalised.

## Notes to the Consolidated Financial Statements

### Section 1: Our Performance

#### 1.7 Impairment of non financial assets

Impairment tests for all assets are performed when there is an indicator of impairment, although goodwill is tested at least annually. If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired, and an impairment loss is charged to the income statement.

The Group has been adversely affected by external market forces including excess production and stocks of paper pulp in Brazil, US tariffs on Chinese paper imports and more recently COVID-19 that have affected wood fibre input suppliers such as Midway. In addition, the market capitalisation of the Group has fallen below its net asset value.

These items are impairment indicators and as such the recoverable amount of the assets relating to certain cash generating units (CGUs) within the Group have been assessed using a value-in-use discounted cash flow model.

The Groups' CGUs consist of individual business units at the lowest level at which cash inflows are made including:

- Midway Geelong
- Queensland Commodity Exports
- Midway Logistics
- Midway Tasmania
- Plantation Management Partners
- South West Fibre
- BioGrowth Partners

For FY2020, with the exception of Plantation Management Partners Pty Ltd, the estimated recoverable amount for all these CGUs exceeded the carrying amount and as such no impairment loss has been recognised.

#### ***Plantation Management Partners Pty Ltd (PMP)***

Due to the market downturn, the Group has been unable to market budgeted quantities of woodfibre from Plantation Management Partners, on the Tiwi Islands. As a result, the value in use discounted cash flow model at 31 December 2019 did not exceed the carrying amount of the CGU and the Group has written off the previously recognised goodwill on acquisition of PMP of \$1.0M and unamortised portion of the customer contract intangible asset for \$5.5M. The CGU was reassessed for impairment at 30 June 2020 and no further writedowns were required.

#### ***Key assumptions and estimates***

Key assumptions and estimates used in the impairment analysis consist of:

##### ***Projected cash flows***

The recoverable amount of a CGU is based on value in use calculations that are based on detailed management prepared forecasts for five years through to FY 2025, unless the timing of tree crop rotation profiles justifies a longer period. In the case of Plantation Management Partners, the timeframes were modelled out to 2056, reflecting the likely timeframes for the next two rotations.

##### ***Long-term average growth rate***

A terminal growth rate of 2.2% has been used and only applied to CGUs whereby it is likely they will exceed into perpetuity and there is a reasonable chance of sourcing woodfibre in each catchment whereby a CGU resides.

##### ***Discount rate***

The Group used a post-tax discount rate of between 8.6% and 11.7% for all CGUs.

##### ***Sensitivity analysis***

The Group believes any reasonable possible change in the key assumptions would not cause the carrying value of the CGUs to exceed their recoverable amount.

##### ***COVID-19***

The impact of COVID-19 on the expected market recovery is an area of uncertainty.

#### ***Impairment of ADDCO (25% equity accounted investee)***

As a result of the adverse external market conditions, ADDCO entered voluntary administration during the period. The Group has taken a writedown on the full amount of its carrying value of its investment in ADDCO of \$1.7M and a further writedown of current receivables from ADDCO of \$0.3M, as no expected recovery is anticipated.



## Notes to the Consolidated Financial Statements

### Section 2: Our asset base

This section provides an insight into the asset base the Group requires to operate a forestry 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 \$7.1M (before tax) in the current year due to increased prices for forestry land
- The Group holds biological assets for harvest of which \$7.5M relates to seedlings and \$42.3M is plantation hardwood
- 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
- The Group optimises its working capital position regularly and excess cash is used to grow the business or returned to shareholders
- Plantation Land (\$81.9M) and Biological Assets (\$49.8M) are held on the balance sheet at fair value. As a result, any impacts from COVID-19 have been reflected in the independent valuations performed of these assets

#### 2.1 Property, plant and equipment

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

	Plantation land <sup>1</sup>	Freehold Land	Buildings	Plant and Equipment	Roading	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Depreciation policy			2.5-27%	3-25%	5-15%	
<b>Year ended 30 June 2019</b>						
Opening net book amount	72,756	12,670	1,837	14,205	6,380	107,848
Additions	1,884	-	1,022	16,872	1,528	21,306
Business acquired note 1.6	-	-	-	5,443	-	5,443
Disposals	-	-	-	(155)	-	(155)
Depreciation	-	-	(90)	(6,196)	(782)	(7,068)
Revaluation	(5)	-	-	-	-	(5)
<b>Closing carrying amount</b>	<b>74,635</b>	<b>12,670</b>	<b>2,769</b>	<b>30,169</b>	<b>7,126</b>	<b>127,369</b>
<b>Year ended 30 June 2020</b>						
Opening net book amount	74,635	12,670	2,769	30,169	7,126	127,369
Adoption of AASB 16	-	4,807	247	-	-	5,054
Additions	886	1,329	116	3,893	810	7,034
Disposals	(645)	-	-	(402)	-	(1,047)
Depreciation	-	(1,620)	(379)	(9,296)	(1,045)	(12,340)
Revaluation	7,067	-	-	-	-	7,067
<b>Closing carrying amount</b>	<b>81,943</b>	<b>17,186</b>	<b>2,753</b>	<b>24,364</b>	<b>6,891</b>	<b>133,137</b>

Right of use assets are now included within each category of property, plant and equipment above. Refer to note 2.4 for a full breakdown of right of use assets.

## Notes to the Consolidated Financial Statements

### Section 2: Our asset base

#### 2.1 Property, plant and equipment (continued)

##### (a) Key estimates and judgements – fair value

	2020 Fair Value \$'000	Valuation Technique	Description of valuation technique
Freehold land	12,670	Market approach <sup>1</sup>	The Company's freehold land is stated at the revalued amount, being the 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 2020 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	81,943	Market Approach/ Net present value approach <sup>1</sup>	<p>The Company's plantation land is stated at revalued amounts, being the 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 2020.</p> <p>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 valuations 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.</p>

1: The same valuation technique was used in 2019

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.

The potential future impacts of COVID-19 remain uncertain and could impact the key estimates and judgments noted above.

#### 2020 plantation land measurement

The unencumbered value of the plantation land is \$99.0M (2019: \$90.7M). 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 legally owned by third parties), taking into account where appropriate reversionary costs and utilising a discounted cash flow analysis from the highest and 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 5%
Reversionary Costs	\$0-\$1,550 per hectare
Clearfall period	2020 – 2028

## Notes to the Consolidated Financial Statements

### Section 2: Our asset base

#### 2.1 Property, plant and equipment (continued)

##### (b) Sensitivity analysis

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

	2020		2019	
	Increase \$'000	Decrease \$'000	Increase \$'000	Decrease \$'000
<b>Plantation land at fair value</b>				
Discount rate +/- 1%	(3,198)	3,416	(3,043)	3,242
Growth rate +/- 1%	3,515	(3,346)	3,150	(3,013)
Reversionary costs +/- 10%	(181)	180	(179)	179

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
- Rate per hectare applied to each individual block based on individual characteristics of that block

##### Freehold land

A 1% change in assumptions to the \$ rate per ha applied will increase the value by \$0.1M (2019: \$0.1M), or decrease by \$0.1M (2019: \$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.

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

## Notes to the Consolidated Financial Statements

### Section 2: Our asset base

#### 2.2 Biological assets

	2020 \$'000	2019 \$'000
<b>Current</b>		
Plantation hardwood at fair value	1,483	2,408
<b>Non Current</b>		
Plantation hardwood at fair value	40,838	44,204
Plantation hardwood at fair value (new plantings)	7,484	6,404
	<b>49,805</b>	<b>53,016</b>

#### (a) Reconciliation of carrying amount

	Note	Biological assets \$'000
<b>at 1 July 2019</b>		53,016
Harvested timber		(2,077)
New plantings		2,631
Purchase of standing timber		1,122
Change in fair value less estimated point of sale costs - due to:		-
Change in discount rate		-
Change in volumes and prices		(4,887)
<b>Balance at 30 June 2020</b>		<b>49,805</b>

#### 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 up until this point. 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.

## Notes to the Consolidated Financial Statements

### Section 2: Our asset base

#### 2.2 Biological assets (continued)

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

Valuation Technique	Description of valuation technique	Significant Unobservable Inputs <sup>(1)</sup>	Inter-relationship between key unobservable inputs and fair value measurement
Net present value approach	<p>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:</p> <ul style="list-style-type: none"> <li>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;</li> <li>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;</li> <li>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</li> <li>Ancillary income earned from activities such as the leasing of land for grazing and other occupancy rights is added to the net harvest revenues.</li> </ul>	<ul style="list-style-type: none"> <li>Estimated future timber market prices per tonne (weighed average USD / BDMT \$192.7 2019: \$202.4)</li> <li>Estimated yields per hectare (weighed average gmt/ha 246 2019: 248)</li> <li>Estimated harvest and transportation costs (weighted average \$45.3/gmt 2019: \$44.6/gmt)</li> <li>Risk-adjusted discount rate 8% (2019: 8%)</li> </ul>	<p>The estimated fair value would increase/(decrease) if the:</p> <ul style="list-style-type: none"> <li>estimated timber prices per tonne were higher /(lower).</li> <li>estimated yield per hectare or estimated timber projections were higher/(lower).</li> <li>estimated average direct and indirect costs were lower/(higher).</li> <li>discount rate was lower/(higher).</li> </ul> <p>The potential future impacts of COVID-19 remain uncertain and could impact the key estimates and judgments noted above</p>

##### (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:

	2020		2019	
	Increase \$'000	Decrease \$'000	Increase \$'000	Decrease \$'000
<b>Biological assets</b>				
Discount rate +/- 1%	(1,838)	1,960	(2,087)	2,221
Expected future sales prices +/- 10%	12,700	(12,700)	12,320	(12,320)
Expected future costs +/- 10%	(7,500)	7,800	(6,938)	6,938
Expected future changes in volume +/- 10%	5,700	(5,700)	5,944	(5,944)



## Notes to the Consolidated Financial Statements

### Section 2: Our asset base

#### 2.2 Biological assets (continued)

##### (d) Strategy Agreement<sup>1</sup>

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.

##### Accounting impacts (AASB 15 adoption)

In relation to the sale of hardwood trees to Strategy<sup>1</sup>, 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 as Midway are contractually required to re-purchase the trees from Strategy in the future in accordance with an agreed harvest profile.

Accordingly, from 1 July 2018 the biological assets (hardwood trees) have been recognised on the balance sheet as an asset at fair value, with subsequent changes in fair value each reporting period recognized in the profit and loss. The Strategy arrangement is treated as a financing arrangement, which results 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 addition to selling the tree crop and repurchasing in accordance with the agreed harvest profile, the Group receives income from performing plantation management services on the tree crop that was sold to Strategy. 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 such 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 recognized as a financial asset.

##### 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).

<sup>1</sup> During the period, Strategy Timber Pty Ltd, sold its investment in the treecrop to another third party, Hancock Natural Resource Group (HNRG), who acquired the Strategy hardwood plantation trees in Victoria on behalf of its investment clients. The existing agreements in place concerning Midway's commitment to repurchase the hardwood treecrop has been novated as a part of the sales process and as such does not have any ramifications for the group.

## Notes to the Consolidated Financial Statements

### Section 2: Our asset base

#### 2.3 Commitments

	2020 \$'000	2019 \$'000
- not later than one year	20,045	28,633
- later than one year and not later than five years	84,662	77,480
- later than five years	66,740	89,387
	171,447	195,500

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

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.

#### 2.4 Leases

##### (a) Right of use Assets

Right of use assets by category	Leased Freehold Land \$'000	Leased Building \$'000	Leased Property, plant and equipment \$'000	Total \$'000
Balance at 1 July 2019	4,807	247	12,796	17,850
Additions	1,329	2	2,415	3,746
Disposal	-	-	(486)	(486)
Depreciation	(1,620)	(172)	(4,777)	(6,659)
<b>Closing carrying amount</b>	<b>4,516</b>	<b>77</b>	<b>9,948</b>	<b>14,541</b>

##### (b) Profit and loss impacts

	2020 \$'000
<b>2020- Leases under AASB 16</b>	
Interest on lease liabilities	625
Expenses relating to short-term leases	94
<b>2019 - Operating leases under AASB 117</b>	
Lease expense	1,843

##### (c) Amounts recognised in the Statement of Cashflows

	2020 \$'000
Total cash outflows for leases	6,675

#### Extension Options

Some property leases contain extension options exercisable by the Group up to one year before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

#### Policy

The Group recognises a right to use asset for a lease whereby there is right to control the use of an identified asset for a period of time in exchange for consideration. At the commencement date, a right to use asset is measured at cost and a corresponding lease liability is created to reflect the present value of the lease payments that are not paid at that date, discounted using the incremental borrowing rate specific to that lease.

The Group will not recognise a right to use asset for any short term or insignificant leases.

## Notes to the Consolidated Financial Statements

### Section 2: Our asset base

#### 2.5 Working Capital

	Section	2020 \$'000	2019 \$'000
<b>Working capital</b>			
Cash and cash equivalents		11,049	15,518
Inventories	a	29,210	22,689
Trade and other receivables	b	3,564	22,752
Trade and other payables	c	(20,090)	(27,282)
Provisions		(4,277)	(4,008)
		19,456	29,669

#### (a) Inventories

	2019 \$'000	2018 \$'000
<b>At cost</b>		
Finished goods	29,210	22,359
Work in progress	-	330
	29,210	22,689

#### 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.

COVID-19 impacted USD FOB sale prices for woodfibre during the period. At each balance date, the Group measures inventory to ensure it is held at the lower of cost and net realisable value. No write-downs occurred as a result of this test, albeit lower prices than the previous corresponding period were used.

#### Key estimates and judgements

Woodfibre is purchased in Green Metric Tonnes (GMTs), (fibre inclusive of moisture) and is sold in Bone Dry Metric Tonnes (BDMTs), being 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 variations in moisture content.

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

	2020 \$'000	2019 \$'000
Trade debtors	6,818	20,728
Accrued income	808	-
GST receivable	1,398	2,024
	9,024	22,752

#### Policy

Trade and other receivables are measured at fair value and subsequently measured at amortised cost using the effective interest method.

## Notes to the Consolidated Financial Statements

### Section 2: Our asset base

#### 2.5 Working capital (continued)

##### (c) Trade and other payables

	2020 \$'000	2019 \$'000
<b>Unsecured liabilities</b>		
Trade creditors	8,556	11,080
Sundry creditors and accruals	11,534	16,202
	<b>20,090</b>	<b>27,282</b>

##### Policy

Financial liabilities include trade payables, other creditors and loans from third parties including 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.

#### 2.6 Intangible assets

The reconciliation of the carrying amount is set out below:

	Notes	Goodwill \$'000	Customer Contacts \$'000	Total \$'000
<b>Year ended 30 June 2019</b>				
Opening net book amount		2,955	7,794	10,749
Business acquired (note 1.6)		-	57	57
Amortisation		-	(1,565)	(1,565)
<b>Closing carrying amount</b>		<b>2,955</b>	<b>6,286</b>	<b>9,241</b>
<b>Year ended 30 June 2020</b>				
Opening net book amount		2,955	6,286	9,241
Impairment loss on non current assets	1.7	(984)	(5,532)	(6,516)
Amortisation		-	(754)	(754)
<b>Closing carrying amount</b>		<b>1,971</b>	<b>-</b>	<b>1,971</b>

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.

## Notes to the Consolidated Financial Statements

### Section 3: Funding structures

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

- Forward cover taken out against the USD in accordance with the Group's hedging policy to safeguard against volatility and maximise profits (see section 3.2)
- Maintaining a gearing ratio which allows flexibility in the balance sheet (<0.32)

#### 3.1 Net Debt

	2020 \$'000	2019 \$'000
Bank loans - current	7,000	2,432
Bank loans - non current	30,150	31,874
Hire purchase liabilities - current	3,006	3,990
Hire purchase liabilities - non current	5,867	6,482
Other finance arrangements	215	215
AASB 16 Lease liabilities	4,240	-
Cash and cash equivalents	(11,049)	(15,518)
	39,429	29,475

##### 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

The following amounts represent the Group's outstanding liabilities with external financiers:

Type	Utilised \$'000	Total \$'000	Maturity
Term debt	29,175	29,175	30-Sep-22
Working capital, asset finance (NAB)	7,358	28,650	31-May-21
Working capital (NAB)	-	10,000	31-Dec-20
Asset finance (ANZ)	7,017	10,000	30-Sep-20
Acquisition debt facility - tranche 2	2,475	2,525	30-Jun-22

The Group has the ability to enter into purchase arrangements under the asset finance facility until it expires on 31 May 2021 (NAB) and 30-Sep-20 (ANZ). Each outstanding finance arrangement will then be repaid within a five year period.

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



## Notes to the Consolidated Financial Statements

### Section 3: Funding structures

#### 3.1 Net Debt (continued)

##### (a) Cash and cash equivalents

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

	2020 \$'000	2019 \$'000
Cash on hand	1	1
Cash at bank	11,048	15,517
At call deposits with financial institutions	-	-
	<b>11,049</b>	<b>15,518</b>
<b>Reconciliation of cash flow from operations with profit after income tax</b>		
Profit from ordinary activities after income tax	(11,733)	26,158
<b>Adjustments and non-cash items</b>		
Depreciation & amortisation	13,094	8,633
Net (gain) / loss on disposal of property, plant and equipment	(426)	(62)
Sundry movements	13	23
Share of equity accounted investees profit	(2,764)	(6,841)
Fair value (increment)/decrement on revaluation of biological assets	4,887	(10,533)
Reversal of contingent consideration	-	(3,291)
Impairment of non current assets	8,582	-
Non-cash interest expense	3,921	7,122
<b>Changes in operating assets and liabilities</b>		
(Increase) / decrease in receivables	13,910	(847)
(Increase) / decrease in other assets	(182)	(1,232)
(Increase) / decrease in inventories	(6,521)	(13,143)
Increase in biological assets (net of revaluation increment/decrement)	1,089	5,788
Increase / (decrease) in payables	(7,192)	(1,493)
(Increase) / decrease in deferred taxes	(7,277)	1,980
Increase / (decrease) in tax provision	1,456	(2,520)
Increase / (decrease) in provisions	245	192
<b>Cash flows provided from operating activities</b>	<b>11,102</b>	<b>9,934</b>

##### 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 Expense

	2020 \$'000	2019 \$'000
Interest expenses	1,532	2,012
Strategy finance expenses	3,686	7,377
Bank charges	271	357
Interest expense on lease liabilities	625	165
	<b>6,114</b>	<b>9,911</b>

## Notes to the Consolidated Financial Statements

### Section 3: Funding structures

#### 3.1 Net Debt (continued)

##### (c) Reconciliation of liabilities arising from financing activities

	Borrowings - current	Borrowings - non current	Strategy financial liability current	Strategy financial liability - non current
	\$'000	\$'000	\$'000	\$'000
<b>Balance at 1 July 2019</b>	6,637	38,356	434	40,210
<b>Cash changes</b>				
Proceeds from borrowings	5,500	-	-	-
Repayment of borrowings	(7,223)	(1,725)	(434)	(698)
<b>Total cash flows</b>	<b>(1,723)</b>	<b>(1,725)</b>	<b>(434)</b>	<b>(698)</b>
<b>Non cash changes</b>				
AASB 16 lease liabilities 1 July	1,648	3,407	-	-
Lease Additions	3,746	-	-	-
Interest	190	-	-	3,686
Other	(58)	-	-	-
Transfer	1,170	(1,170)	5,523	(5,523)
<b>Balance at 30 June 2020</b>	<b>11,610</b>	<b>38,868</b>	<b>5,523</b>	<b>37,675</b>

## Notes to the Consolidated Financial Statements

### Section 3: Funding structures

#### 3.2 Financial Risk Management

##### Capital risk management

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

##### Risk management framework

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

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

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

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

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

- (a) Market risk
- (b) Credit risk
- (c) Liquidity risk

The Group holds the following financial instruments:

	2020 \$'000	2019 \$'000
<b>Financial assets</b>		
Cash and cash equivalents	11,049	15,518
Receivables	6,818	20,728
Other receivables	2,206	2,024
Derivatives	2,825	-
	<b>22,898</b>	<b>38,270</b>
<b>Financial liabilities</b>		
Bank and other loans	37,365	34,521
Creditors	8,556	11,080
AASB 16 lease liabilities	4,240	-
Finance lease liability	8,873	10,472
Other payables	11,534	16,202
Derivatives	-	483
	<b>70,568</b>	<b>72,758</b>

##### (a) Market risk

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

## Notes to the Consolidated Financial Statements

### Section 3: Funding structures

#### 3.2 Financial Risk Management (continued)

##### i. Currency risk

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

What is the risk?	How does Midway manage the risk?	Impact at 30 June 2020
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.	The Group mitigates currency risk by entering into forward exchange/swap contracts and FX options 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 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 \$45.3M (2019: \$75.6M), and AUD options was \$88.3M (2019: \$31.2M).
Export sales are denominated in U.S Dollars (USD), with one of the Group's bank accounts being in USD.		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 Group determines the existence of an economic relationship between the hedging instrument and hedge items based on the currency, amount of timing of their respective cashflows.

The Group designates the spot element of forward exchange contracts to hedge its currency risk and applies a hedge ratio of 1:1.

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.

In these hedge relationships the main sources of ineffectiveness are:

- The effect of the counterparties and the Groups own credit risk on the fair value of the forward exchange contracts, which is not reflected in the change in the fair value of the hedged cashflows attributable to the change in exchange rates; and
- Changes in timing of the hedged transactions.

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

	2020 USD \$'000	2019 USD \$'000
Cash	502	323
Trade receivables	91	1,987

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:

## Notes to the Consolidated Financial Statements

### Section 3: Funding structures

#### 3.2 Financial Risk Management (continued)

##### i. Currency risk (continued)

##### Sensitivity (continued)

	2020		2019	
	Increase \$'000	Decrease \$'000	Increase \$'000	Decrease \$'000
<b>USD movement impact [ +/- 10%]</b>				
Impact on profit after tax	(47)	51	(203)	237
Impact on equity	665	804	8,764	(11,605)

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

##### 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 2020
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 cashflows 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.

	Interest bearing \$'000	Non-interest bearing \$'000	Total carrying amount \$'000	Weighted average effective interest rate	
<b>2020</b>					
<i>Financial assets</i>					
Cash	11,048	1	11,049	0.00%	Floating
Trade receivables	-	6,818	6,818		
Other receivables	-	2,206	2,206		
Derivatives	-	2,825	2,825		
	11,048	11,850	22,898		
<i>Financial liabilities</i>					
Bank and other loans	37,150	215	37,365	2.51%	Floating
Creditors	-	8,556	8,556		
AASB 16 lease liability	4,240	-	4,240		
Finance lease liability	8,873	-	8,873	3.91%	Fixed
Sundry creditors and accruals	-	11,534	11,534		
	50,263	20,305	70,568		



## Notes to the Consolidated Financial Statements

### Section 3: Funding structures

#### 3.2 Financial Risk Management (continued)

##### (b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date of recognised financial assets is the carrying amount of those assets, net of any provisions for impairment of those assets, as disclosed in 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 2020
The Group has significant exposure to export customers in China, as they represent a significant portion of the Group's annual sales.	Letters of credit with reputable financial institutions are used to mitigate credit risk with all Chinese customers which comprises the majority of the Group's annual woodfibre sales.	As at 30 June 2020, all vessel proceeds have been collected.
	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.	
As a result of the Plantation Management Partners acquisition and subsequent operational restructure, the Group is exposed to credit risk on plantation management activities in addition to the sale of woodfibre to customers in China.	The Group produces and markets woodfibre on the Tiwi Islands on behalf of the wood owners. Receiving outstanding receivables is contingent on the Group performing its obligations successfully in terms of producing and marketing woodfibre. This limits the Group's credit risk on the receivables given receipt of the debt is linked to the Groups performance (within Group's control)	<p>\$4.7M is outstanding over 90 days relating to trade receivables from the wood owners, in addition to a \$2.2M non-current loan receivable.</p> <p>Given the impacts of COVID-19 and adverse market conditions, it is not expected to recover the receivables for at least 12 months and as such the trade debtor has been reclassified to non – current. The Group is expecting to be able to market woodfibre from the Tiwi islands once the market recovers and therefore no expected credit loss provision has been recorded, as the Group will be able to recover it directly from the proceeds of woodfibre sales, of which the group is responsible for marketing the wood.</p>

As at 30 June 2020, the ageing of trade and other receivables that were not impaired was as follows:

	2020 \$'000	2019 \$'000
Neither past due nor impaired	3,362	17,747
Past due 1–30 days	721	164
Past due 31–60 days	150	64
Past due 61–90 days	83	164
Over 90 days	4,708 <sup>(1)</sup>	4,613 <sup>(1)</sup>
	9,024	22,752

- (1) Relates to receivables from a key customer of Plantation Management Partners. \$5.5M in trade receivables from the customer were transferred to non-current as at 30 June 2020.

## Notes to the Consolidated Financial Statements

### Section 3: Funding structures

#### 3.2 Financial Risk Management (continued)

##### (c) Liquidity risk

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

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

##### Maturity analysis

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

	< 6 months	6-12 months	1-5 years	>5 years	Total contractual cash flows	Carrying amount
2020	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash and cash equivalents	11,049	-	-	-	11,049	11,049
Loan receivables	256	256	3,471	324	4,307	3,129
Receivables	3,564	-	5,460	-	9,024	9,024
Derivatives	2,825	-	-	-	2,825	2,825
Payables	(20,090)	-	-	-	(20,090)	(20,090)
Strategy financial liability	(3,005)	(3,005)	(42,095)	(37,426)	(85,531)	(43,198)
Finance Lease	(2,573)	(2,244)	(8,233)	(1,153)	(14,203)	(13,113)
Borrowings	(1,591)	(6,765)	(30,885)	-	(39,241)	(37,365)
Net maturities	(9,565)	(11,758)	(72,282)	(38,255)	(131,860)	(87,739)
2019						
Cash and cash equivalents	15,518	-	-	-	15,518	15,518
Loan receivables	265	265	3,445	366	4,341	3,200
Receivables	22,752	-	-	-	22,752	22,752
Derivatives	(483)	-	-	-	(483)	(483)
Payables	(27,282)	-	-	-	(27,282)	(27,282)
Strategy financial liability	(237)	(237)	(40,877)	(47,115)	(88,466)	(40,644)
Finance Lease	(2,757)	(1,556)	(6,773)	-	(11,086)	(10,472)
Borrowings	(2,167)	(1,023)	(32,393)	-	(35,583)	(34,521)
Net maturities	5,609	(2,551)	(76,598)	(46,749)	(120,289)	(71,932)

## Notes to the Consolidated Financial Statements

### Section 3: Funding structures

#### 3.3 Contributed Equity (a) Ordinary share capital

	Number of shares		Company	
	2020	2019	2020 \$'000	2019 \$'000
<b>Share Capital</b>				
<i>Ordinary Shares</i>				
Opening balance – 1 July	87,271,222	74,901,933	64,791	29,045
Performance rights vested	65,000	82,000	97	212
Issued during the year	-	12,287,289	-	36,862
Capital raising costs incurred net of recognised tax benefit	-	-	-	(1,328)
Closing balance 30 June 2020	87,336,222	87,271,222	64,888	64,791

Holders of ordinary shares are entitled to dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

In September 2018, the Company completed a placement to institutional investors raising \$33.7M at \$3.00 per share, resulting in an additional 11,235,289 shares on issue.

Furthermore in October 2018, the Company completed a share purchase plan (SPP) of \$3.1M at \$3.00 per share.

Proceeds of the placement and SPP (collectively the capital raising) was used to partially fund the PMP restructure, fund the acquisition and investment of Softwood Logging Services (now Midway Logistics) and fund the investment of 40% ownership in Bio Growth Partners.

## Notes to the Consolidated Financial Statements

### Section 3: Funding structures

#### 3.3 Contributed Equity (continued) (b) Reserves

	2020 \$'000	2019 \$'000
<b>Reserves</b>		
<i>Movements:</i>		
<i>Cash flow hedge reserve<sup>(1)</sup></i>		
Opening balance	(387)	(372)
Cash flow hedges - effective portion	3,377	(21)
Deferred tax	(1,013)	6
<b>Balance 30 June</b>	<b>1,977</b>	<b>(387)</b>
<i>Share based payments reserve<sup>(2)</sup></i>		
Opening balance	99	225
Share rights granted	10	86
Share rights issued / vested	(97)	(212)
<b>Balance 30 June</b>	<b>12</b>	<b>99</b>
<i>Asset revaluation reserve<sup>(3)</sup></i>		
Opening balance	32,424	32,429
Revaluation of land	7,025	(7)
Asset disposals	(604)	-
Deferred tax	(1,926)	2
<b>Balance 30 June</b>	<b>36,919</b>	<b>32,424</b>
<i>Profit reserve<sup>(4)</sup></i>		
Opening balance	42,569	34,697
Adjustment on adoption of AASB 15	-	(3,319)
Adjustment on adoption of AASB 16	166	-
Restated opening balance	42,735	31,378
Transfers of current year profits	-	25,787
Dividends Paid	(7,860)	(14,596)
<b>Balance 30 June</b>	<b>34,875</b>	<b>42,569</b>
<i>Foreign currency translation reserve</i>		
Opening balance	5	4
Foreign currency translation differences	5	1
<b>Balance 30 June</b>	<b>10</b>	<b>5</b>

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 share 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 of plantation land.

4. **Profit reserve**

The profits reserve is used to record transfers of profits that would otherwise be offset against accumulated losses. The balance of the profits reserve is available for distribution as a dividend in future periods. Movements in the current year relate to transfers to retained earnings for dividend payments and transfers in of current year profits.

## Notes to the Consolidated Financial Statements

### Section 4: Other disclosures

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

#### 4.1 Subsidiaries

	Ownership interest held by the Company		Ownership interest held by NCI	
	2020 %	2019 %	2020 %	2019 %
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	100	100	-	-
Plantation Management Partners Pty Ltd	100	100	-	-
Resource Management Partners Pty Ltd	100	100	-	-
Plantation Management Partners Pte Ltd <sup>(1)</sup>	100	100	-	-
Midway Logistics Pty Ltd <sup>(2)</sup>	100	100	-	-
Midway Logistics Unit Trust <sup>(2)</sup>	100	100	-	-

1. 50% held in Trust by an independent party, however all risks and benefits of ownership of the share are held by the Group

2. Acquired on 15th October 2018, previously known as "Softwood Logging Services Pty Ltd" and "SLS Unit Trust".

#### 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 Joint Ventures

##### (a) Carrying amount

	Nature of relationship	Ownership interest		Carrying amount	
		2020 %	2019 %	2020 \$'000	2019 \$'000
South West Fibre Pty Ltd	Ordinary shares	51	51	11,481	11,307
Biogrowth Partners (BGP)	Ordinary shares	40	40	2,260	2,206
ADDCO <sup>1</sup>	Ordinary shares	25	25	-	1,727
Plantation Export Group (PEG)	Ordinary shares	50	33	75	54
				13,816	15,294

1. ADDCO entered into liquidation during the period

#### 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.



## Notes to the Consolidated Financial Statements

### Section 4: Other disclosures

#### 4.2 Interest in Joint Ventures (continued)

##### Key estimates and judgements

##### 1. South West Fibre Pty Ltd

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 control over the entity.

##### (b) South West Fibre Pty Ltd Financial Information

	2020 \$'000	2019 \$'000
Cash and cash equivalents	10,585	17,321
Other current assets	8,245	16,035
Total current assets	18,830	33,356
Property, plant and equipment	21,515	12,476
Total non-current assets	21,515	12,476
Total current liabilities	(8,047)	(23,211)
Total non-current liabilities	(9,786)	(450)
<b>Net assets</b>	<b>22,512</b>	<b>22,171</b>
Revenue	125,636	206,077
Interest Income	24	123
Depreciation & Amortisation	(4,567)	(2,859)
Income tax expense	(2,273)	(6,259)
<b>Total Comprehensive Income</b>	<b>5,291</b>	<b>14,599</b>
<b>Reconciliation to carrying amount of interest in Joint Venture:</b>		
Opening net assets	22,171	24,559
Add: Current year profit	5,291	14,559
Less: Dividends paid	5,000	(17,000)
Hedge revaluation reserve	50	53
Closing net assets	22,512	22,171
Company's 51% share of net assets	11,481	11,307
<b>Carrying amount of investment</b>	<b>11,481</b>	<b>11,307</b>

## Notes to the Consolidated Financial Statements

### Section 4: Other disclosures

#### 4.3 Midway Limited – Parent Entity

	2020 \$'000	2019 \$'000
<b>Summarised balance sheet</b>		
<b>Assets</b>		
Current assets	85,372	84,681
Non-current assets	80,153	83,117
<b>Total assets</b>	<b>165,525</b>	<b>167,798</b>
<b>Liabilities</b>		
Current liabilities	24,527	24,940
Non-current liabilities	27,465	31,765
<b>Total liabilities</b>	<b>51,992</b>	<b>56,705</b>
<b>Net assets</b>	<b>113,533</b>	<b>111,093</b>
<b>Equity</b>		
Share capital	64,888	64,791
Retained earnings	1,614	1,614
Reserves	47,031	44,688
<b>Total equity</b>	<b>113,533</b>	<b>111,093</b>
<b>Summarised statement of profit or loss and other comprehensive income</b>		
Profit for the year after income tax	8,029	32,345
<b>Total comprehensive income</b>	<b>5,769</b>	<b>32,257</b>

## Notes to the Consolidated Financial Statements

### Section 4: Other disclosures

#### 4.4 Share Based Payments

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

- Shares;
- Options; and
- Performance rights

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

##### (a) Long Term Incentive Rights (equity settled)

In FY2020, the Board granted the Chief Executive Officer and members of the Senior Executive Team 199,003 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 2022.

The rights were issued in two tranches, the first being on 15<sup>th</sup> November 2019 (73,197 shares) and second 6<sup>th</sup> March 2020 (125,806 shares).

Inputs utilised in the assessment include:

Assumption		Vesting conditions
Tranche 1		
No. of shares	73,197	<ul style="list-style-type: none"><li>• Participant must maintain continuous employment over the performance period</li><li>• 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&amp;P/ASX 300 Index.</li></ul>
Fair value at grant date <sup>1</sup>	\$0.41	
Share price	\$1.95	
Risk free rate	0.76%	
Dividend yield	5.4%	
Volatility	35.0%	
Initial TSR	-41.5%	
Tranche 2		
No. of shares	125,806	
Fair value at grant date <sup>1</sup>	\$0.17	
Share price	\$1.41	
Risk free rate	0.38%	
Dividend yield	5.4%	
Volatility	37.0%	
Initial TSR	-57.7%	

<sup>1</sup> The fair value at grant date was derived using the Monte Carlo Simulation model which incorporates the total shareholder return (TSR) performance conditions.

The Group recorded a share based payments expense of \$0.01M in 2020 (2019: \$0.1M).

## Notes to the Consolidated Financial Statements

### Section 4: Other disclosures

#### 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

	2020	2019
	\$'000	\$'000
Short term employee benefits	1,643	1,726
Post-employment benefits	133	114
Share based payments	8	74
Other long term incentives	29	23
Total KMP remuneration expense	1,813	1,938

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 2020.

The aggregate shareholdings of KMP at 30 June 2020 are 12,898,491 (2019: 12,679,334).

##### (b) Transactions with South West Fibre Pty Ltd

	2020	2019
Nature	\$'000	\$'000
Operator fee income	1,911	3,091
Reimbursement of costs	1,302	300
Dividends received	2,550	8,670
Sale of wood products (at cost)	12,962	11,614
	18,725	23,675

The outstanding payable balance from South West Fibre Pty Ltd at 30 June 2020 is \$0.4M (2019: \$0.2M receivable).

##### (c) Transactions with ADDCO Fibre Group Limited

	2020	2019
Nature	\$'000	\$'000
Loan provided to ADDCO	-	164
Harvesting service received	2,075	3,292
Logging service received	-	2,015
	2,075	5,471

The outstanding receivable balance from ADDCO Fibre Group Ltd at 30 June 2020 is \$0k (2019: \$161k).

##### (d) Transactions with Bio Growth Partners

	2020	2019
Nature	\$'000	\$'000
Production & Cartage income	2,585	1,660
Equipment hire	200	108
	3,785	1,768

The outstanding receivable balance from Bio Growth Partners at 30 June 2020 is \$534k (2019: \$236k) and loan payable \$215k (2019: \$215k)

## Notes to the Consolidated Financial Statements

### Section 4: Other disclosures

#### 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

	2020 \$'000	2019 \$'000
<b>Consolidated group</b>		
Limit	5,200	5,200
Amount Utilised	3,321	2,248
<b>Parent entity</b>		
Limit	4,250	4,250
Amount Utilised	3,096	2,023

#### 4.7 Remuneration of Auditors

	2020 \$	2019 \$
<b>KPMG Australia</b>		
Audit and assurance services		
- Statutory audit fees	242,819	233,807
Other services		
- Non- assurance services – other advisory services	8,000	9,225
- Agreed upon procedures	-	20,500

#### 4.8 Other income

	2020 \$'000	2019 \$'000
Plantation management fees	455	487
SWF operating fee	1,911	3,091
Reversal of contingent consideration	-	3,291
Third party chip tolling	2,269	-
JobKeeper	1,037	-
Other	1,852	2,214
	<b>7,524</b>	<b>9,082</b>

##### 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

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).



## Notes to the Consolidated Financial Statements

### Section 4: Other disclosures

#### 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 2020 are set out below:

	2020	2019
	\$'000	\$'000
<b>Summarised consolidated statement of comprehensive income</b>		
Sales revenue	208,636	243,028
Other income	7,064	12,017
	<b>215,700</b>	255,045
Expenses	(235,936)	(227,794)
Share of net profits from equity accounted investments	2,764	6,841
<b>Profit before income tax expense</b>	<b>(17,472)</b>	34,092
Income tax expense	6,183	(6,299)
<b>Profit for the period</b>	<b>(11,289)</b>	27,793
Other comprehensive income for the period	6,859	(5)
<b>Total comprehensive income for the period</b>	<b>(4,430)</b>	27,788
<b>Retained earnings at the beginning of the financial year</b>	<b>1,614</b>	1,614
Profit/(Loss) for the year	(11,289)	27,793
Transfers to /(from) reserves	-	(27,793)
<b>Retained profits at the end of the financial year</b>	<b>(9,675)</b>	1,614

## Notes to the Consolidated Financial Statements

### Section 4: Other disclosures

#### 4.9 Deed of Cross Guarantee (continued)

Consolidated balance sheet	2020 \$'000	2019 \$'000
<b>Current assets</b>		
Cash and cash equivalents	8,740	13,176
Receivables	1,949	21,224
Inventories	23,505	16,082
Biological assets	1,483	2,408
Other assets	12,009	9,899
Derivative Assets	2,825	-
Current tax receivable	940	2,141
<b>Total current assets</b>	<b>51,451</b>	<b>64,930</b>
<b>Non-current assets</b>		
Biological assets	48,322	50,608
Other Receivables	5,460	-
Investments	21,591	23,069
Intangible assets	-	7,213
Property, plant and equipment	125,621	120,201
Loan receivables – NC	3,129	3,200
<b>Total non-current assets</b>	<b>204,123</b>	<b>204,292</b>
<b>Total assets</b>	<b>255,574</b>	<b>269,221</b>
<b>Current liabilities</b>		
Trade and other payables	21,347	23,803
Borrowings	10,247	6,422
Provisions	3,793	3,724
Current tax liabilities	5,523	434
Derivative financial liability	-	368
<b>Total current liabilities</b>	<b>40,910</b>	<b>34,751</b>
<b>Non-current liabilities</b>		
Borrowings	37,749	38,357
Provisions	102	127
Deferred tax liabilities	11,460	15,339
Other financial liabilities	37,675	40,210
<b>Total non-current liabilities</b>	<b>86,986</b>	<b>94,033</b>
<b>Total liabilities</b>	<b>127,896</b>	<b>128,784</b>
<b>Net assets</b>	<b>127,678</b>	<b>140,438</b>
<b>Contributed Equity</b>		
Share capital	64,888	64,791
Reserves	72,465	74,033
Retained earnings	(9,675)	1,614
<b>Total equity</b>	<b>127,678</b>	<b>140,438</b>

## Notes to the Consolidated Financial Statements

### Section 4: Other disclosures

#### 4.10 Subsequent Events

There have been no other matters or circumstances, which have arisen since 30 June 2020 that have significantly affected or may significantly affect:

- (a) The operations, in financial years subsequent to 30 June 2020, of the Group, or
- (b) The results of those operations, or
- (c) The state of affairs, in financial years subsequent to 30 June 2020 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.

## Notes to the Consolidated Financial Statements

### Section 4: Other disclosures

#### 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 it 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.

## Notes to the Consolidated Financial Statements

### Section 4: Other disclosures

#### 4.11 Basis of Preparation (continued)

##### AASB 16: Leases

AASB 16 provides a new lease accounting model which requires a lessee to recognise a right of use asset representing its right to use the underlying asset and lease liabilities. The depreciation of the right of use asset and interest on the lease liability will be recognised in the consolidated income statement. Upon application the key balance sheet metrics such as gearing and finance ratios, and profit or loss metrics such as earnings before interest, tax, depreciation and amortisation (EBITDA) will be impacted. The consolidated cash flow statement will also be impacted as payments for the principal portion of the lease liability will be presented within financing activities.

Midway Group applied AASB 16 using the modified retrospective approach from 1 July 2019, under which the cumulative effect of initial application is recognised in retained earnings at 1 July 2019. Accordingly, the comparative information presented for previous period is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations.

The Group made the following additional choices, as permitted by IFRS 16, for existing operating leases:

- not to bring leases with 12 months or fewer remaining to run as at 1 July 2019 (including reasonably certain options to extend) on balance sheet. Costs for these items will continue to be expensed directly to the income statement.
- for contracts in place at 1 July 2019, the Group continued to apply its existing definition of leases under the previous standards, AASB 17 'Leases' and IFRIC 4 'Determining Whether an Arrangement Contains a Lease' ('grandfathering'), instead of reassessing whether existing contracts were or contained a lease at the date of application of the new standard.
- for all leases, the lease liability was measured at 1 July 2019 as the present value of any future lease payments discounted using the appropriate incremental borrowing rate. The right of use asset was measured as equal to the lease liability and adjusted for any accruals or prepayments already on the balance sheet. The Group also excluded any initial direct costs (e.g. legal fees) from the measurement of the right of use assets at transition.
- to apply the use of hindsight when reviewing the lease arrangements for determination of the measurement or term of the lease under the retrospective option; and
- in some cases, to apply a single discount rate to a portfolio of leases with reasonably similar characteristics.

Midway Group has assessed the impact of AASB 16 on the statement of financial position as at 1 July 2019 as:

- New operating lease liabilities (included in Borrowings) of \$5.1M;
- New right of use assets (included in Property, plant and equipment) of \$5.1M; and
- Opening adjustment to equity (included in Reserves) \$0.2M.

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 July 2019. The weighted average incremental borrowing rate for the Group as at 1 July 2019 was 3.95%.

Midway Group has assessed the estimated pre-tax impact of AASB 16 on the statement of comprehensive income for the year ended 30 June 2020 as:

- Increase in depreciation expense of \$0.8M;
- Increase in interest expense of \$0.1M; and
- Reduction in other operating expenses of \$0.9M.

The most significant differences between the Group's undiscounted non-cancellable operating lease commitments of \$4.6M at 30 June 2019 and lease liabilities upon transition of \$5.1M are as follows:

	\$'000
Operating lease commitments reported as at 30 June 19 under AASB 117	4,556
<b>Include/Add</b>	
Leases commencing on 1 July 2019 (undiscounted)	621
Extension options reasonably certain to be exercised	228
Finance Lease liability as at 30 June 2019 - Current	3,990
Finance Lease liability as at 30 June 2019 – Non-current	6,482
<b>Sub total</b>	<b>15,877</b>
Effect of discounting on payments included in the calculation of the lease liability (excluding finance lease balances)	(352)
<b>Lease liability opening balance reported as at 1 July 2019 under AASB 16</b>	<b>15,525</b>

The Group's activities as a lessor are not material and hence there has not been a material impact as a result of the adoption of AASB 16 on the financial statements.



## Notes to the Consolidated Financial Statements

### Section 4: Other disclosures

#### 4.11 Basis of Preparation (continued)

##### New standards not yet effective

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 25 to 69 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 4.11, the consolidated financial statements also comply with International Financial Reporting Standards; andgive a true and fair view of the financial position of the Company and the Group as at 30 June 2020 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.



Chairman: \_\_\_\_\_

G H McCormack

27 August 2020



# 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 2020 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 2020;
- *Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, and Consolidated Statement of Cash Flows* for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The **Group** consists of 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 (including Independence Standards) (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;
- Valuation of Biological assets; and
- Recoverability of PMP intangibles and non-current receivables.

**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

Refer to Note 2.1 Property, plant and equipment (\$99.1m)

#### The key audit matter

The Group's property assets are predominantly forestry plantation land which is measured at fair value. This was a key audit matter given the size of the balance (being 38% of total assets) and due to the complexity and judgment 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 assets therefore involves significant estimation and judgment, 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 amount of any reversionary costs to be incurred post-harvest in order to revert

#### How the matter was addressed in our audit

Working with our valuation specialists, our procedures included:

- vouching land purchases during the period to underlying source documentation;
- reading the independent expert's report and making inquiries of management and the independent expert in order to assess our ability to rely on the unencumbered land valuation, including an assessment of the expert's independence, objectivity, competence and scope of work;
- performing a sensitivity analysis of the key assumptions in the Group's discounted cash flow 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 used in the model such as highest and best use, growth rates, discount rates, harvest profiles and reversionary costs to those determined by the independent expert and other information used by the Group including the biological assets valuations;
- using our industry knowledge and experience to assess the reasonableness of data and assumptions in the independent valuation and management's discounted cashflow model. This included comparing a sample of data to underlying supporting information and observable market transactions;
- We considered the appropriateness of the discounted

<p>the land to its assessed highest and best use; and</p> <ul style="list-style-type: none"> <li>• Appropriate growth rates, discount rates and harvest profiles.</li> </ul> <p>We spent considerable time and effort 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.</p>	<p>cashflow methodology applied by the Group to determine the encumbered valuation and the integrity of the model, including the accuracy of the underlying calculations;</p> <ul style="list-style-type: none"> <li>• recalculating the change in fair value of the land and agreeing it to the revaluation reserve; and</li> <li>• assessing the disclosure in the financial report using our understanding of the issue obtained from our testing against the requirements of the accounting standards.</li> </ul>
--	---

Valuation of biological Assets	
Refer to Note 2.2 Biological assets (\$49.8m)	
The key audit matter	How the matter was addressed in our audit
<p>Biological assets consist of unharvested plantation trees and are recorded at their fair value.</p> <p>This was a key audit matter given the size of the balance (19.1% of total assets) and judgment required by us in considering the complexities and assumptions adopted by the Group in the valuation model for the biological assets.</p> <p>Management engaged an independent expert to perform an assessment of the fair value of the Group's biological assets.</p> <p>Determining the fair value of biological assets therefore involves significant estimation and judgment, including:</p> <ul style="list-style-type: none"> <li>• assessments of expected yields and volumes (biological advancement), and harvest periods,</li> <li>• discount rates, forecast production and harvesting costs; and</li> <li>• expectations of future market pricing for woodfibre, taking into account fluctuations in demand and supply and the impact of foreign exchange rates given sales prices are generally denominated in USD, and the discount rate applied;</li> </ul>	<p>Working with our valuation specialists, our audit procedures included:</p> <ul style="list-style-type: none"> <li>• assessing the design and implementation of key management controls over the preparation and review of inputs and outputs of the biological asset valuations;</li> <li>• reading the independent expert's report on the fair value of biological assets and making inquiries of management and the independent expert to inform our understanding. We also assessed the expert's independence, objectivity competence and scope and the appropriateness of the methodology applied by the independent expert against accounting standard requirements;</li> <li>• evaluating management's sensitivity analysis in respect of key assumptions, including the identification of areas of estimation uncertainty and reasonably possible changes in key assumptions;</li> <li>• using our industry knowledge and experience to assess the reasonableness of inputs and assumptions in the valuation; including yield tables, harvest periods, production and harvest costs, woodfibre prices and the discount rate. We compared these variables to internal source documentation, market data (where available), historical trends and performance and other information used by the Group including the land valuations;</li> </ul>



<p>We spent considerable time and effort assessing the independent expert's work and underlying valuation model inputs. We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.</p>	<ul style="list-style-type: none"> <li>• recalculating the change in fair value of biological assets and agreeing it to the net fair value increment recognised in profit and loss; and</li> <li>• assessing the disclosure in the financial report using our understanding of the issue obtained from our testing against the requirements of the accounting standards.</li> </ul>
---	---

Recoverability of PMP intangibles and non-current receivables	
<p>Note 1.7 Impairment of non financial assets (\$6.5m)</p> <p>Note 3.2(b) Financial Risk Management – credit risk (\$7.7m)</p>	
The key audit matter	How the matter was addressed in our audit
<p>We identified the recoverability of PMP intangibles and non-current receivables as a key audit matter. This was due to the complex auditor judgement and specialised skills needed to evaluate key inputs and assumptions in the Group's forecast cashflow model used for determining the recoverable amount of the PMP Cash Generating Unit (CGU) and non-current receivables.</p> <p>The cash flow forecasts use forward looking assumptions which are inherently difficult to determine with precision and require judgement to be applied by the Group. Key inputs into these forward looking estimates include:</p> <ul style="list-style-type: none"> <li>• Future woodfibre prices and volumes;</li> <li>• Discount rates;</li> <li>• Expected harvest period and the likelihood of future treecrop rotations; and</li> <li>• Future capital and operating expenditures.</li> </ul> <p>In addition, the collectability of \$7.7m non-current receivables is contingent on the</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>• Testing internal controls in the Group's impairment assessment process. This included the determination, review and approval by the Group of indicators of impairment and key impairment model inputs;</li> <li>• Considering the appropriateness of the CGU designation applied by the Group and the allocation of corporate assets to CGUs against accounting standard requirements;</li> <li>• Assessing the consistency of key assumptions used in the Group's impairment assessment with those used in the biological asset and land valuations;</li> <li>• Evaluating key inputs used in the Group's impairment model for the PMP CGU by: <ul style="list-style-type: none"> <li>• Evaluating future woodfibre prices by comparing to published commodity prices and research reports from external parties, and considering historical experience and trends experienced by the PMP CGU and elsewhere in the Group;</li> <li>• Comparing forecast sale volumes, expected harvest periods and the likelihood of future treecrop rotations, and future capital and operating expenditures to the board approved plans and long term budgets;</li> <li>• Considering the sensitivity of the model by varying key assumptions, such as future woodfibre prices and volumes, discount rates and harvest periods</li> </ul> </li> </ul>

<p>group producing and marketing woodfibre from the PMP CGU.</p> <p>The Group determined there was an impairment indicator and recognised an impairment expense of \$6.5m for PMP.</p> <p>We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.</p>	<p>and the likelihood of future tree crop rotations and future operating expenditures.</p> <ul style="list-style-type: none"> <li>• Working with our valuation specialists, we: <ul style="list-style-type: none"> <li>• Independently developed a discount rate range for the CGU considering publicly available risk free rates and data of a group of comparable entities;</li> <li>• Assessed the integrity of the value in use model, including the accuracy of the underlying calculation formulas and calculation methodology against the requirements of the accounting standards;</li> <li>• Recalculating the impairment charge for PMP against the recorded amount disclosed;</li> </ul> </li> <li>• using our understanding obtained from our testing to assess the reasonableness of management's recoverability assessment of receivables due from wood owners; and</li> <li>• assessing the appropriateness of the Group's disclosures in the financial report using our understanding obtained from our testing and against accounting standard requirements.</li> </ul>
---	--

## 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 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; and
- 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.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: [https://www.auasb.gov.au/admin/file/content102/c3/ar1\\_2020.pdf](https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.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 2020, 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 the Directors' report for the year ended 30 June 2020.

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

KPMG

Vicky Carlson

*Partner*

Melbourne

27 August 2020