



Appendix 4E 2018

ABN 44 005 616 044

Midway

Contents

Results for announcement to the Market	3
Directors' Report (including Remuneration Report)	4
Auditor's Independence Declaration	14
Financial Statements	26
Directors' Declaration	67
Auditor's Report	68

RESULTS FOR ANNOUNCEMENT TO THE MARKET

for the financial year ended 30 June 2018

Financial year ended: 30 June 2018

Previous corresponding period: 30 June 2017

Result Summary

		%		\$'000
Consolidated Revenue from Operations	up	10.8	to	231,912
Net profit after tax from ordinary activities attributable to shareholders	up	0.3	to	17,058
Net profit after tax attributable to shareholders	up	23.6	to	18,360

The full year 2018 financial results were higher than the prior corresponding period, achieving sales revenue of \$231.9M and earnings before interest, tax, depreciation and amortisation (EBITDA) before significant items of \$28.7M.

The increase over the prior corresponding period is largely as a result of sales price rise increases due to a strengthening of the Woodfibre market and the acquisition of Plantation Management Partners, which has offset the 3 cent unfavourable AUD USD variance (\$6.4M impact).

For a further explanation of the results above, refer to the Company's ASX/Media Announcement for the year ended 30 June 2018 and the accompanying Directors' Report.

Dividends / distributions

	Amount per security	Franked amount per security at 30%
2017 interim dividend (declared and paid)	9.0 cents	Fully franked
2017 final dividend (declared and paid)	9.0 cents	Fully franked
2018 interim dividend (declared and paid)	9.0 cents	Fully franked
2018 final dividend (declared but not yet paid)	9.0 cents	Fully franked
Record date for determining entitlements to the final dividend:		7 September 2018
Date final dividend payable		8 October 2018

	Current period	Previous corresponding period
Net tangible asset backing per ordinary security	118.1 cents	119.1 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 2018.

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 2018 and the auditor's report thereon.

Directors

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

Name	Position Held	Employment status
Directors		
Gregory McCormack	Non-Executive Chairman	
Nils Gunnersen	Non-Executive Director	
Thorold Gunnersen AM	Non-Executive Director	Resigned as a Director 25/10/2017
Tom Gunnersen	Non-Executive Director	Appointed as a Director 26/02/2018
Gordon Davis	Independent Non-Executive Director	
Thomas Keene	Independent Non-Executive Director	
Anthony Bennett	Independent Non-Executive Director	
Anthony Price	Managing Director and CEO	

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

Directors Information

Gregory McCormack

Non-Executive Chairman

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

Anthony Price

Managing Director and CEO

Mr Price holds a Bachelor of Science (Forestry) and a Post Graduate Diploma in Business Management, has attended the International Executive Programme at INSEAD in France and is a graduate member of the Australian Institute of Company Directors. Before joining Midway, he has held a number of senior management positions in the hardwood plantation sector and has also run his own consultancy business. Mr Price has over 30 years' experience in the forestry sector. He is also currently a Director of Forestworks Ltd, an organisation which provides training packages to the forest industry and a Director of ADDCO Pty Ltd, a logistic business in which Midway hold a 25% interest.

Anthony Bennett

Independent Non-Executive Director

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

Directors' Report

Tom Gunnensen

Non-Executive Director

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

Gordon Davis

Independent Non-Executive Director

Mr Davis holds a Master of Business Administration, a Master of Agricultural Science, and a Bachelor of Forest Science. Mr Davis is currently a non-executive Director of Nufarm Limited, where he chairs the Health, Safety and Environment Committee and serves on the Audit and Risk, and Human Resources Committees. He is also a non-executive Director of Primary Health Care Limited, where he is the Chair of the Audit Committee. Mr Davis was Managing Director and CEO of AWB Limited from 2006 to 2011. He was also Chair of VicForests from 2011 to 2016. He is currently the Chair of Greening Australia, and was a Trustee of The Nature Conservancy from 2013 to 2018. Mr Davis is the Chairman of the Remuneration and Nomination Committee, and a member of the Audit and Risk Management and Occupational Health & Safety and Management Systems Committees.

Nils Gunnensen

Non-Executive Director

Mr Nils Gunnensen holds a Bachelor of Business (Agricultural Commerce) and is a graduate of the Australian Rural Leadership Programme. He is Executive Director of Gunnensen Pty Ltd and Chairman of the JWGottstein Trust with over 25 years' management experience in forest industries businesses across: resources, operations, finance, IT, compliance, sales and marketing within Australia and overseas. He was appointed a Director on the Board of Midway Limited in 2012 and is currently a director of Chebmont Pty Ltd. Mr Nils Gunnensen is Chairman of the Occupational Health & Safety and Management Systems Committee and has been a member of the Remuneration & Nomination Committee since 13 December 2017.

Thomas Keene

Independent Non-Executive Director

Mr Keene holds a Bachelor of Economics and is a Fellow of the Australian Institute of Company Directors. He has a strong commercial and agribusiness background, having held the position of Managing Director of GrainCorp Ltd between 1993 and 2008. In 2007, Mr Keene was awarded the NAB Agribusiness Leader of the Year. He was appointed a Director of Midway Limited in 2008. He is the former Chairman of Allied Mills Ltd and Grain Trade Australia and also a former Director of Cotton Seed Distributors Ltd. He is currently a Director of AACo Ltd. Mr Keene is Chairman of the Audit and Risk Management Committee, is a member of the Remuneration and Nomination Committee and was a member of the Occupational Health & Safety and Management Systems Committee until 13 December 2017.

Committee Membership

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

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

Directors' Report

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		OHS	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Gregory McCormack	11	11	5	5	-	-	-	-
Anthony Bennett	11	11	-	-	-	-	2	2
Gordon Davis	11	11	5	5	3	3	5	5
Nils Gunnersen	11	11	-	-	2	2	5	5
Tom Gunnersen	4	4	-	-	-	-	-	-
Thorold Gunnersen	5	1	-	-	-	-	-	-
Thomas Keene	11	10	5	5	3	3	3	3
Anthony Price	11	10	-	-	-	-	-	-

Principal Activities

The principal activities of the Group during the 2018 financial year were the production and export of wood fibre to producers of pulp, paper and associated products in Japan and China. The Group derives income from producing hardwood and softwood woodchips mostly from logs acquired from private plantation owners in Victoria, South Australia, New South Wales and Queensland. The Group also provides a marketing function whereby it arranges sales of Woodfibre on behalf of third parties.

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

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

Operating and Finance Review

Financial Results

Full year results in line with consensus forecasts

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

Segment performance

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

Good progress against strategic objectives

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

Directors' Report

Operating and Finance Review (continued)

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

\$'000	2018	2017	Change
Revenue and other income			
Sales revenue	231,912	209,214	22,698
Other income	4,213	4,155	58
	236,125	213,369	22,756
Less: expenses			
Changes in inventories of finished goods and work in progress	(1,536)	(4,029)	2,493
Raw Materials, consumables and other procurement expenses	(134,998)	(126,488)	(8,510)
Employee benefits expense	(14,402)	(8,829)	(5,573)
Plantation management expenses	(1,061)	(841)	(220)
Freight and shipment costs	(48,207)	(37,235)	(10,972)
Repairs and maintenance costs	(3,633)	(4,097)	464
Other operating expenses	(7,400)	(6,658)	(742)
Share of profit/(loss) of equity accounted investments	3,856	2,808	1,048
EBITDA before significant items	28,744	28,000	744
Biological assets net fair value increment	2,615	-	2,615
Significant items - IPO costs	-	(3,084)	(3,084)
EBITDA	31,359	24,916	6,443
Depreciation & Amortisation	(4,459)	(3,387)	(1,072)
EBIT	26,900	21,529	5,371
Net finance expense	(2,181)	(1,588)	(593)
Net profit before tax	24,719	19,941	4,778
Income tax expense	(6,322)	(5,020)	(1,302)
Statutory net profit after tax	18,397	14,921	3,476

Directors' Report

Operating and Finance Review (continued)

Performance against prior corresponding period ¹

Midway (Geelong)

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

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

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

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

Queensland Commodity Exports Pty Ltd (QCE)

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

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

South West Fibre Pty Ltd (SWF)

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

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

Plantation Management Partners (PMP)

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

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

¹ 1: Statutory revenue by business unit, excluding wood fibre purchased and sold on behalf of third parties which would increase revenue by \$21.0M

Directors' Report

Operating and Finance Review (continued)

Financial Position

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

Highlights

- Strong cashflow for the year (operating +\$13.2M)
- Strong working capital position leading into FY 2019
- Biological asset net fair value increment of \$2.6M indicating the favourable fundamentals underpinning the treecrop valuation, as a result of improved woodfibre pricing
- Strong balance sheet to support future business growth opportunities

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

Highlights

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

Non-IFRS measures

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

Non-IFRS measure	Description
EBIT	Earnings, before interest and tax
EBITDA before significant items	Earnings, before interest, tax, depreciation, biological asset net fair value increment and significant items
Segment revenue	Statutory revenue by business unit, excluding wood fibre purchased and sold on behalf of third parties

Directors' Report

Outlook

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

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

Market

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

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

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

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

Key Risks and Business Challenges

The principal risks and business challenges for the Group are:

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

Directors' Report

Key Risks and Business Challenges (continued)

- Port of Brisbane tenure – There is a risk that QCE will be unable to renew the lease expiring in 2022 and, therefore, would need to seek access to an alternative export facility.
- Risk of fire affecting timber supply – Loss of plantation resource and therefore supply due to fire is an ever-present industry risk.
- Other risks facing the company include: Failure to comply with laws, regulations and industry standards generally (and environmental matters and industry accreditations specifically), risk of litigation, claims and disputes, bribery and corruption in foreign jurisdictions.

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

Dividends

Dividends declared in respect of the financial year 2018:

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

Corporate Governance

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

Significant Changes in the State of Affairs

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

Significant Events Subsequent to the end of the Financial Year

The Directors are not aware of any other matter or circumstance which has arisen since 30 June 2018 that has significantly affected or may significantly affect the operations of the Group in subsequent financial years, the results of those operations, or the state of affairs of the Group in future financial years.

Likely Developments and Expected Results of Operations

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

Midway will continue to pursue further growth opportunities through:

- securing additional supply to meet expected unfulfilled demand from existing and potential customers, including through strategic supply arrangements with large plantation managers and collaboration with other interested parties;
- proactively seeking new opportunities to utilise spare capacity at the 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, Midway worked closely with the Environmental Protection Agency Victoria (EPA) to mitigate wastewater overflow after storm water contamination incidents caused by unseasonably heavy rain at the Geelong facility.

Greenhouse Gas and Energy Data Reporting Requirements

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

Share Option Plan

The Company has adopted a Long Term Incentive Plan (LTIP) under which it has issued 229,000 performance rights to Key Management Personnel (KMP) and other senior managers. 82,000 of these rights vested in the 2018 financial year. Refer to the Remuneration Report for details on the rights issued to KMP.

Indemnification and Insurance of Directors and Officers

Indemnification

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

Insurance of Directors and Officers

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

Insurance of Auditor

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

Proceedings on behalf of the Company

There are no legal proceedings currently outstanding.

Directors' Report

Non-Audit Services

The Company may decide to employ the Auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company are important.

The Board of Directors has considered the position and, in accordance with the advice received from the Audit & Risk Management Committee is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the Audit & Risk Management Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards.

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

Auditor's Independence Declaration

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

Rounding off

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

Signed in accordance with a resolution of the Directors.



Greg McCormack
Chairman

Melbourne,

30 August 2018



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

To the Directors of Midway Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Midway Limited for the financial year ended 30 June 2018 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Vicky Carlson

Partner

Melbourne

30 August 2018

Remuneration Report (Audited)

Introduction

The Directors are pleased to present the FY2018 Remuneration Report, which forms part of the Midway Limited (Company) Directors' Report. It outlines the Board's remuneration philosophy and remuneration information for the Company's Non-Executive Directors, Executive Directors and other key management personnel (**KMP**) in accordance with the requirements of the Corporations Act 2001 and its regulations.

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

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

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

Key Management Personnel disclosed in this Report

Name	Position Held	Employment status
Directors		
Gregory McCormack	Non-Executive Chairman	
Anthony Bennett	Independent Non-Executive Director	
Nils Gunnersen	Non-Executive Director	
Thorold Gunnersen AM	Non-Executive Director	Resigned as a Director 25/10/2017
Tom Gunnersen	Non-Executive Director	Appointed as a Director 26/02/2018
Gordon Davis	Independent Non-Executive Director	
Thomas Keene	Independent Non-Executive Director	
Executives		
Anthony Price	Chief Executive Officer ¹	
Ashley Merrett	Chief Financial Officer	

¹ The CEO is also the Managing Director

Principles Used to Determine Nature and Amount of Remuneration

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

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

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

Remuneration Report (Audited)

Remuneration and Nomination Committee

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

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

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

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

Remuneration Framework

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

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

Use of Remuneration Consultants

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

The Remuneration and Nomination Committee engaged KPMG to provide a report to benchmark non-executive, CEO and CFO remuneration. The cost for this service was \$16,900.

Remuneration Report (Audited)

Non-Executive Director Remuneration

Objective

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

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

Framework

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

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

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

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

Current structure

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

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

The aggregate remuneration of Non-Executive Directors for the year ended 30 June 2018 was \$730,762.

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)

2018 Executive Remuneration

Total remuneration for the CEO and CFO includes a combination of fixed remuneration, short term incentives and long -term incentives in the form of issued performance rights.

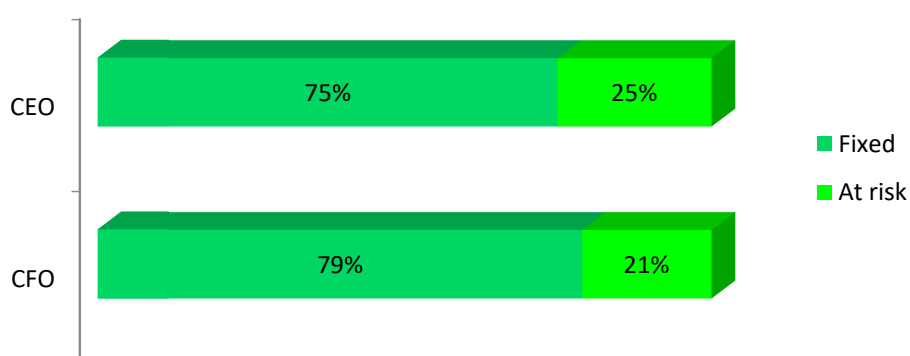
In assessing whether the KPIs for each variable component have been met, the Company measures audited results against internal targets.

A summary of contractual arrangements is provided below:

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

1. Includes superannuation and car allowances

The remuneration mix is outlined below:



Short Term Incentive Plan

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

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

Remuneration Report (Audited)

2018 Executive Remuneration (continued)

FY2018 Short Term Incentives

In FY2018, an offer to participate in the STI Plan was made to the Company's executives including Executive KMP and other senior managers. Under the offer, employees will receive a short term incentive (STI) payment calculated as a percentage of their TFR conditional on achieving performance measures including:

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

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 FY2018 STI Plan is set out as follows:

Term	Description												
Objective	To reward participants for achieving targets linked to the Company's business strategy												
Participants	All Executive key management personnel and selected senior management members												
Performance period	Financial year ended 30 June 2018												
	STI is assessed against both financial and non-financial measures with the following weighting:												
	<table border="1"> <thead> <tr> <th>Measure</th> <th>Weighting [CEO]</th> <th>Weighting [CFO]</th> </tr> </thead> <tbody> <tr> <td>EBITDA¹</td> <td>40%</td> <td>40%</td> </tr> <tr> <td>LTIFR²</td> <td>20%</td> <td>20%</td> </tr> <tr> <td>Individual performance measures</td> <td>40%</td> <td>40%</td> </tr> </tbody> </table>	Measure	Weighting [CEO]	Weighting [CFO]	EBITDA ¹	40%	40%	LTIFR ²	20%	20%	Individual performance measures	40%	40%
Measure	Weighting [CEO]	Weighting [CFO]											
EBITDA ¹	40%	40%											
LTIFR ²	20%	20%											
Individual performance measures	40%	40%											
Performance measures													
Payment	Upon final endorsement by Board												

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

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

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

FY2018 Short Term Incentive outcomes

The following is a breakdown of the short term incentive outcomes achieved by key management personnel at the end of the 2018 financial year:

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

Remuneration Report (Audited)

2018 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 FY2018, only the performance rights issued to the Chief Executive Officer have performance based conditions. The Bonus Rights issued to Executive KMP and other senior managers are not at risk, as the Rights were issued subject to the Company listing on the ASX, which was seen by the Remuneration and Nomination Committee as a significant milestone worthy of recognition. It is anticipated that all future LTIP arrangements will include elements of performance based metrics.

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: <ul style="list-style-type: none"> - 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: <ul style="list-style-type: none"> - 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)

2018 Executive Remuneration (continued)

2018 Long Term Incentives

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

(a) IPO Bonus Rights

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

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

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

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

Remuneration Report (Audited)

2018 Executive Remuneration (continued)

(b) Performance Rights

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

Term	Description
Eligibility	Chief Executive Officer
Consideration for grant	Nil
Instrument	Performance rights issued on 9th February 2017
Number of rights granted	65,000
Service conditions	Participant must maintain continuous employment over the performance period
Performance period	From the date of listing until 30 June 2019
Performance measure	<p>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:</p> <ul style="list-style-type: none"> - less than median of the comparator Company, no performance rights will vest; - at median of the comparator Company, 50% of the performance rights will vest; - between median and the 75th percentile of the comparator Company, a straight-line pro rata vesting between 50% and 100% of the performance rights will occur; and - greater than 75th percentile of the comparator Company, 100% of the performance rights will vest.
Entitlement	Each Performance Right entitles the participant, on vesting of the performance right, to receive (at the discretion of the Board, other than as provided in the Plan Rules) by issue or transfer, one fully paid ordinary share in the capital of the Company (Share).
Restrictions	<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"> - Dispose of any performance rights without the prior consent of the Board or otherwise in connections with the Plan Rules; or - Enter into any arrangement for the purpose of hedging, or otherwise affecting the participants economic exposure to the Performance Rights.
Fair value at grant date	1.49 ¹

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

Relationships between Company Remuneration Policy and Company Performance

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

Key performance indicator \$000	FY2018 Actual	FY2018 Pro-forma ²	FY2017 Actual	FY2017 Pro-forma ¹	FY 2016 Actual	FY 2016 Pro Forma ¹
	\$	\$	\$	\$	\$	\$
Revenue	236,125	236,125	213,369	213,369	213,144	203,899
EBITDA	31,359	28,744	24,916	28,367	40,758	35,607
Dividend paid	18	18	18	18	96	96

1 Pro forma figures have not been audited

2 Before biological assets net fair value increment

Dividends paid in FY2016 include special dividends of \$0.65 per share. Dividends paid out in FY2018 are consistent with the Company's Dividend policy of a target payout of between 70% and 90% of NPAT depending on whether the Company achieves its targets.

Remuneration Report (Audited)

Key Management Personnel Remuneration

The statutory remuneration disclosures for the year ended 30 June 2018 are detailed below and are prepared in accordance with Australian Accounting Standards (AASBs).

		Short term benefits			Post employment	Long Term Benefits	Share based payments	Total
		Salary and Fees	STI ¹	Non-monetary ²	Superannuation	Other ³		
Directors								
Gregory McCormack	2018	182,428	-	-	17,572	-	-	200,000
	2017	182,428	-	-	17,572	-	-	200,000
Anthony Bennett	2018	100,383	-	-	9,617	-	-	110,000
	2017	100,383	-	-	9,617	-	-	110,000
Gordon Davis	2018	109,703	-	-	10,297	-	-	120,000
	2017	109,703	-	-	10,297	-	-	120,000
Nils Gunnensen	2018	100,408	-	-	9,592	-	-	110,000
	2017	100,408	-	-	9,592	-	-	110,000
Thorold Gunnensen AM ⁴	2018	31,959	-	-	3,036	-	-	34,995
	2017	75,447	-	-	7,168	-	-	82,615
Thomas Keene	2018	104,372	-	-	15,628	-	-	120,000
	2017	97,438	-	-	22,562	-	-	120,000
Tom Gunnensen ⁵	2018	34,682	-	-	995	-	-	35,677
	2017	-	-	-	-	-	-	-
Executives								
Anthony Price	2018	408,536	105,043	52,704	24,950	(14,706)	135,346	711,873
	2017	400,150	91,189	52,704	34,646	12,350	108,007	699,046
Ashley Merrett	2018	276,499	64,642	23,000	24,940	(1,600)	58,499	445,980
	2017	276,985	54,512	23,000	25,015	28,305	52,112	459,929

1 Relates to the 2018 performance STI accrued but not paid until FY2019

2 Relates to vehicle allowance paid by the Group

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

4 Resigned as a Director 25/10/2017

5 Commenced as a Director 26/02/2018

Equity Instruments

KMP	Held at 1 July 2017	Shares acquired	Shares Sold	Other changes	Held at 30 June 2018
Gregory McCormack	13,038,379	0	0	-	13,038,379
Anthony Bennett	2,695,356	100,000	0	-	2,795,356
Gordon Davis	30,000	35,000	0	-	65,000
Nils Gunnensen	6,200	0	0	-	6,200
Thorold Gunnensen AM	28,525,892	0	0	-	28,525,892*
Thomas Keene	224,378	0	0	-	224,378
Tom Gunnensen	0	0	0	-	0
Anthony Price	16,000	40,000 **	0	-	56,000
Ashley Merrett	0	24,000 **	24,000	-	0

* As at resignation date

** Shares 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	40,000	09/02/2017	100%	-	2018
Anthony Price	Performance Rights	105,000	09/02/2017	0%	-	2019
Ashley Merrett	Performance Rights	24,000	09/02/2017	100%	-	2018
Ashley Merrett	Performance Rights	24,000	09/02/2017	0%	-	2019

Other Transactions with KMP

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

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	27
Consolidated Balance Sheet	28
Consolidated Statement of Changes in Equity	29
Consolidated Statement of Cashflows	30

Notes to the Consolidated Financial Statements

Section 1: Our Performance

1.1 Segment Information	31
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

Section 2: Our Asset Base

2.1 Property, Plant and Equipment	38
2.2 Biological Assets	41
2.3 Commitments	44
2.4 Working Capital	45
2.5 Intangible Assets	46

Section 3: Funding Structures

3.1 Net Debt	47
3.2 Financial Risk Management	49
3.3 Contributed Equity	53

Section 4: Other disclosures

4.1 Subsidiaries	55
4.2 Interest in Joint Venture [South West Fibre Pty Ltd]	55
4.3 Midway Limited – Parent Entity	56
4.4 Share Based Payments	57
4.5 Related Parties	58
4.6 Contingent Liabilities	58
4.7 Remuneration of Auditors	59
4.8 Other income	59
4.9 Deed of cross Guarantee	60
4.10 Subsequent Events	62
4.11 Basis of Preparation	63

Director's Declaration	67
Auditor's Report	68

Consolidated Statement of Comprehensive Income

For the year ended 30 June

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

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

Consolidated Balance Sheet

As at 30 June

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

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

Consolidated Statement of Changes in Equity

	Share capital	Reserves	Retained earnings	Non-controlling interests	Total equity
\$'000					
Balance as at 1 July 2016	28,833	58,617	1,614	1,482	90,546
Profit for the year	-	-	14,854	67	14,921
Revaluation of land, net of tax	-	(3,369)	-	-	(3,369)
Cash flow hedges - effective portion of changes in fair value, net of tax	-	(29)	-	-	(29)
Total comprehensive income for the year	-	(3,398)	14,854	67	11,523
Other Transactions:					
Share based payments expense	-	199	-	-	199
Transfers to profits reserve	-	14,854	(14,854)	-	-
Transactions with owners in their capacity as owners:					
Dividends	-	(11,223)	-	-	(11,223)
Total other transactions	-	3,830	(14,854)	-	(11,024)
Balance as at 30 June 2017	28,833	59,049	1,614	1,549	91,045
Balance as at 1 July 2017	28,833	59,049	1,614	1,549	91,045
Profit for the year	-	-	18,360	37	18,397
Revaluation of land, net of tax	-	3,618	-	-	3,618
Cash flow hedges - effective portion of changes in fair value, net of tax	-	(599)	-	-	(599)
Foreign operations – foreign currency translation differences	-	4	-	-	4
Total comprehensive income for the year	-	3,023	18,360	37	21,420
Other Transactions:					
Issuance of performance rights	212	(212)	-	-	-
Share based payments expense	-	238	-	-	238
Transfers to profits reserve	-	18,360	(18,360)	-	-
Transactions with owners in their capacity as owners:					
Dividends	-	(13,475)	-	-	(13,475)
Total other transactions	212	4,911	(18,360)	-	(13,237)
Balance as at 30 June 2018	29,045	66,983	1,614	1,586	99,228

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

Consolidated Statement of Cashflows

For the Year Ended 30 June

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

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

Notes to the Consolidated Financial Statements

Section 1: Our Performance

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

- Net profit after tax (NPAT) of \$18.4M, exceeding the prior corresponding period on both NPAT and revenue;
- Increase in statutory earnings per share (EPS) to \$0.25 per share (increase of \$0.05); and
- Fully franked dividend of \$0.18 in line with the current dividend policy.

1.1 Segment Reporting

(a) Description of segments

The Group reports segment information based on the internal reporting used by management for making decisions and assessing performance. The operating segments are reported in a manner consistent with internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, is the Chief Executive Officer.

The Group manages its business primarily on a geographic basis. Accordingly, the Group determined its reportable operating segments, which are generally based on the location of its operations, to be Midway, Queensland Commodity Exports (QCE), South West Fibre (SWF) (51%) and the newly acquired Plantation Management Partners (PMP). Each operating segment provides Woodfibre processing for sale and export, with the exception of Plantation Management Partners, which provides plantation management services to the Australasian region.

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

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

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

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

Notes to the Consolidated Financial Statements

Section 1: Our Performance

1.1 Segment Reporting (continued)

(b) Segment information provided to senior management

2018 (\$'000)	100% Midway	100% QCE	51% SWF	100% PMP	Adjustments	Total
Sales revenue	140,870	29,246	84,241	7,872	(30,317)	231,912
Other income	3,365	-	217	143	488	4,213
Total income	144,235	29,246	84,458	8,015	(29,829)	236,125
Operating and other expenses	(123,595)	(28,374)	(77,449)	(5,944)	24,125	(211,237)
Share of equity accounted investments	-	-	-	-	3,856	3,856
EBITDA before significant items	20,640	872	7,009	2,071	(1,848)	28,744
Significant items	-	-	-	-	-	-
Fair value gain on biological assets	2,615	-	-	-	-	2,615
EBITDA	23,255	872	7,009	2,071	(1,848)	31,359
Depreciation and amortisation	(3,235)	(344)	(1,481)	(124)	725	(4,459)
EBIT	20,020	528	5,528	1,947	(1,123)	26,900
Net finance expense	(1,943)	20	30	(9)	(279)	(2,181)
Net profit before tax	18,077	548	5,558	1,938	(1,402)	24,719
Income tax expense	(4,948)	(157)	(1,668)	(581)	1,032	(6,322)
Net profit after tax	13,129	391	3,890	1,357	(370)	18,397
						-
Segment assets	199,075	12,127	20,006	14,491	(57,358)	188,341
Equity accounted investees	12,948	-	-	-	-	12,948
Capital expenditure	(6,880)	(513)	(237)	-	237	(7,393)
Segment liabilities	(89,165)	(2,700)	(7,481)	(1,088)	11,321	(89,113)
						-
2017 (\$'000)	100% Midway	100% QCE	51% SWF	100% PMP	Adjustments	Total
Sales revenue	154,587	26,577	77,603	-	(49,553)	209,214
Other income	3,114	8	733	-	300	4,155
Total income	157,701	26,585	78,336	-	(49,253)	213,369
Operating and other expenses	(133,955)	(25,380)	(72,890)	-	44,048	(188,177)
Share of equity accounted investments	-	-	-	-	2,808	2,808
EBITDA before significant items	23,746	1,205	5,446	-	(2,397)	28,000
Significant items	(3,084)	-	-	-	-	(3,084)
Fair value gain on biological assets	-	-	-	-	-	-
EBITDA	20,662	1,205	5,446	-	(2,397)	24,916
Depreciation and amortisation	(3,092)	(295)	(1,460)	-	1,460	(3,387)
EBIT	17,570	910	3,986	-	(937)	21,529
Net finance expense	(1,354)	7	25	-	(266)	(1,588)
Net profit before tax	16,216	917	4,011	-	(1,203)	19,941
Income tax expense	(5,790)	(275)	(1,203)	-	2,248	(5,020)
Net profit after tax	10,426	642	2,808	-	1,045	14,921
						-
Segment assets	168,398	11,093	8,618	-	(33,300)	154,809
Equity accounted investees	13,390	-	-	-	-	13,390
Capital expenditure	(4,161)	(988)	(1,110)	-	1,110	(5,149)
Segment liabilities	(64,025)	(2,013)	(8,360)	-	10,634	(63,764)

Notes to the Consolidated Financial Statements

Section 1: Our Performance

1.1 Segment Reporting (continued)

Policy

Revenue

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

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

1.2 Individually material items

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

On 8 December 2016, the Company successfully completed its Initial Public Offering (IPO) of securities and was admitted to the Australian Securities Exchange (ASX). The IPO comprised the sell-down by pre-existing shareholders of 14,967,691 shares at \$2.50 per share. The two major shareholders will be released from escrow at the lodgement of this document (Appendix 4E).

Notes to the Consolidated Financial Statements

Section 1: Our Performance

1.3 Income Tax

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

(b) Prima facie tax payable

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

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

(c) Deferred tax

Deferred tax assets

Payables	737	636
Blackhole expenditure ⁽¹⁾	744	1,042
Capital loss ⁽²⁾	1,499	-
Other	11	260
	2,991	1,938

Deferred tax liabilities

Biological assets	1,711	731
Property, plant and equipment	15,499	14,049
Intangible assets ⁽¹⁾	2,338	-
Other	-	40
	19,548	14,820
Net deferred tax liabilities	16,557	12,882

(1) Primarily relates to IPO costs deducted over five years

(1) Related to businesses acquired

(e) Deferred income tax (benefit)/expense included in income tax expense comprises

Decrease / (increase) in deferred tax assets	447	(471)
(Decrease) / increase in deferred tax liabilities	940	498
	1,387	27

(f) Deferred income tax related to items charged or credited directly to equity

Increase in deferred tax liabilities	(1,366)	1,514
--------------------------------------	----------------	--------------

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

Notes to the Consolidated Financial Statements

Section 1: Our Performance

1.4 Earnings Per Share

(a) Earnings per share

	2018	2017
Earnings per share	\$0.25	\$0.20
Diluted earnings per share*	\$0.25	\$0.20
	2018	2017
	number	number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	74,901,933	74,819,933
<i>Adjustments for calculation of diluted earnings per share:</i>		
Performance rights	147,000	88,463
	75,048,933	74,908,396

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

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

1.5 Dividends

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

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

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

Notes to the Consolidated Financial Statements

Section 1: Our Performance

1.6 Business Acquisitions

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

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

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

Consideration transferred

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

(1) Payable on meeting the contracted EBITDA target

(2) Higher cash and trade debtors were acquired than the contracted target. It is anticipated payment will be made by 31 December 18.

Assets acquired and liabilities assumed

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

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

Fair value measurement

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

Notes to the Consolidated Financial Statements

Section 2: Our asset base

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

- The Group sources wood supply from owned and third party plantation land, which is used to grow hardwood trees;
- The Group's plantation land portfolio increased in value by \$8.7M in the current year as a result of \$3.5M of additions and a \$5.2M revaluation increment;
- The Group holds biological assets for harvest of which \$3.8M relates to seedlings and \$12.2M is plantation hardwood ready for harvest;
- The Group has low credit risk due to the nature and size of customers and use of letters of credit in the majority of cases; and
- The Group optimises its working capital position regularly and excess cash is used to grow the business or returned to shareholders .

2.1 Property, plant and equipment

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

	Plantation land \$'000	Freehold Land \$'000	Buildings \$'000	Plant and Equipment \$'000	Roading \$'000	Total \$'000
Depreciation policy			2.5-27%	3-25%	5-15%	
Year ended 30 June 2017						
Opening net book amount	68,296	12,670	1,981	13,302	5,268	101,517
Additions	565	-	-	3,853	731	5,149
Disposals	-	-	-	(148)	-	(148)
Depreciation	-	-	(73)	(2,806)	(508)	(3,387)
Revaluation	(4,813)	-	-	-	-	(4,813)
Closing carrying amount	64,048	12,670	1,908	14,201	5,491	98,318
Year ended 30 June 2018						
Opening net book amount	64,048	12,670	1,908	14,201	5,491	98,318
Additions	3,540 ⁽¹⁾	-	-	2,419	1,433	7,392
Business acquired (note 1.6)	-	-	-	821	-	821
Disposals	-	-	-	(148)	-	(148)
Depreciation	-	-	(71)	(3,088)	(544)	(3,703)
Revaluation	5,168	-	-	-	-	5,168
Closing carrying amount	72,756	12,670	1,837	14,205	6,380	107,848

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

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

	2018 Fair Value \$'000	Valuation Technique	Description of valuation technique
Freehold land	12,670	Market approach ¹	The Company's freehold land is stated at the revalued amount, being the assets fair value for its highest and best use at the date of revaluation. The fair value measurements of the Company's land as at 30 June 2018 were performed by an independent valuer. The valuation was performed using a direct market comparison approach. A change to inputs to the market approach assessment would result in differing valuation results.
Plantation land	72,756	Market Approach/ Net present value approach ¹	<p>The Company's plantation land is stated at revalued amounts, being the assets fair value for its highest and best use at the date of revaluation. The highest and best use is subjective and judgemental given potential alternate uses. It requires careful analysis and detailed knowledge of the local market conditions and recent sales trends. As a result, the Group engaged an independent valuer to provide an independent valuation on an unencumbered basis as at 30 June 2018.</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 valuation highest and best use is Lifestyle differing from actual use, Forestry. A change to inputs to the valuer's and/or the Directors assessment would result in differing valuation results.</p>

1: The same valuation technique was used in 2017

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

2018 plantation land measurement

The unencumbered value of the plantation land is \$87.4M (2017: \$78.3M). The Directors have subsequently valued the land on an encumbered basis (i.e. in recognition of the existing tree crops being grown on the land which are largely owned by third parties), taking into account reversionary costs and utilising a discounted cash flow analysis from the best use determined by the independent valuation expert.

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

Assumption	Variable
Discount Rate	7.25%
Growth Rate	2% to 3%
Reversionary Costs	\$0-\$1,550 per hectare
Clearfall period	2019 - 2027

Notes to the Consolidated Financial Statements

Section 2: Our asset base

2.1 Property, plant and equipment (continued)

(b) Sensitivity analysis

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

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

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

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

Freehold Land

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

(c) Policy

Freehold and plantation land

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

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

Other items of property, plant and equipment

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

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

Depreciation

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

Roadings which has been built on land owned by Midway is amortised on a straight-line basis over the period of one harvest. Roadings 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

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

(a) Reconciliation of carrying amount

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

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

Policy

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

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

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

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

New plantings

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

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

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 ⁽¹⁾	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"> • Forest valuations are based on the expected volumes of merchantable timber that will be realised from existing stands, given current management strategies and forecast timber recovery rates; • Only the current crop (standing timber) is valued. The cash flow analysis is based on the optimised timing of the harvest of existing stands, which has been developed in the context of sustained yield management; • Volume increments/decrements are determined both by periodic re-measurement of forest samples and by modelling growth from the date of the most recent measurement to date of harvest; and • Ancillary income earned from activities such as the leasing of land for grazing and other occupancy rights is added to the net harvest revenues. 	<ul style="list-style-type: none"> • Estimated future timber market prices per tonne (2018: weighted average \$166 USD / BDMT) • Estimated yields per hectare (2018: 207gmt/ha weighed average) • Estimated harvest and transportation costs (2018: \$20.1 gmt/ha - \$24.10 gmt/ha weighted average) • Risk-adjusted discount rate (2018: 8.0%) 	<p>The estimated fair value would increase/(decrease) if the:</p> <ul style="list-style-type: none"> • estimated yield per hectare or estimated timber projections were higher/(lower). • estimated average direct and indirect costs were lower/(higher). • discount rate was lower/(higher). • estimated timber prices per tonne were higher/(lower).

(c) Sensitivity analysis

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

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

No sensitivity has been performed for 2017, as the Group estimated cost approximates fair value given the proximity of the purchase of standing timber relative to balance date.

Notes to the Consolidated Financial Statements

Section 2: Our asset base

2.2 Biological assets (continued)

(d) Strategy Agreement

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

The sale resulted in a gain of \$615,713 being recognised in 2016 and trees being derognised from the balance sheet.

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

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

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

Risk management strategy in relation to biological assets

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

Notes to the Consolidated Financial Statements

Section 2: Our asset base

2.3 Commitments

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

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

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

Policy

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

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

Notes to the Consolidated Financial Statements

Section 2: Our asset base

2.4 Working Capital

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

(a) Inventories

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

Policy

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

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

Key estimates and judgements

Woodfibre is purchased in Green Metric Tonnes (GMT's), (fibre inclusive of moisture) and is sold in Bone Dry Metric Tonnes (BDMT's), (fibre exclusive of moisture). Cost is determined on an actual cost basis. Moisture content and production losses are applied to the GMT values.

Factors vary depending on the timber species and seasonal factors.

Volumetric chip stack surveys are used in determining inventory volumes at year end. Conversion from M3 to GMT ranges from 2.2 to 2.4 – the range depends upon factors such as timber species type and seasonal factors.

(b) Trade and other receivables

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

Policy

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

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

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

Notes to the Consolidated Financial Statements

Section 2: Our asset base

2.4 Working capital (continued)

(c) Trade and other payables

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

Policy

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

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

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

2.5 Intangible assets

The reconciliation of the carrying amount is set out below:

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

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

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:

- Returning the maximum amount of capital to shareholders where possible (79% of NPAT from ordinary activities in FY2018)
- Forward cover taken out against the USD in accordance with the Groups hedging policy to safeguard against volatility and maximise profits (see section 3.2).

3.1 Net Debt

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

1: Includes current and non-current balances for finance lease liabilities and accrued interest

i. Assets pledged as security

The Midway facilities are secured by the following:

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

A property mortgage over:

- The property situated at 150-190 Corio Quay Road, North Shore VIC, granted by Midway Limited;
- The property situated at 10 The Esplanade, North Shore, VIC, granted by Midway Properties Pty Ltd; and the property situated at 1A The Esplanade, North Shore VIC, granted by Midway Limited; and
- A number of plantation blocks in South West Victoria.

ii. Refinancing

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

Type	Utilised \$'000	Total \$'000	Maturity
Term debt	29,400	29,400	31-Jul-21
Working capital, asset finance	1,851	20,620	31-May-19
Acquisition debt facility - tranche 1	5,625	5,625	30-Sep-19
Acquisition debt facility - tranche 2	5,850	5,850	31-Jul-21

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

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

Policy

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

Borrowings 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 is as follows:

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

Reconciliation of cash flow from operations with profit after income tax

Profit from ordinary activities after income tax	18,397	14,921
--	--------	--------

Adjustments and non-cash items

Depreciation & amortisation	4,459	3,387
Sundry movements	544	170
Share of equity accounted investees profit	(3,856)	(2,808)
Fair value increment on revaluation of biological asses	(2,615)	-

Changes in operating assets and liabilities

(Increase) / decrease in receivables	(9,632)	1,969
(Increase) / decrease in other assets	(296)	(457)
(Increase) / decrease in inventories	1,536	4,029
Increase in biological assets (net of revaluation increment/decrement)	(1,156)	(2,461)
Increase / (decrease) in payables	189	(496)
(Increase) / decrease in deferred taxes	1,388	27
Increase / (decrease) in tax provision	1,877	(2,226)
Increase / (decrease) in provisions	2,330	183

Cash flows provided from operating activities	13,165	16,238
--	---------------	---------------

Policy

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

(b) Finance Costs

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

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:

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

(a) Market risk

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

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 2018
If transactions are denominated in currencies other than AUD. There is a risk of an unfavourable financial impact if there is an adverse movement in foreign currency.	The Group mitigates currency risk by entering into forward exchange and swap contracts to sell specified amounts of USD usually within 12 months at stipulated exchange rates in accordance with the Group's hedging policy. The objective in entering the forward exchange and swap contracts is to protect the Group against unfavourable exchange rate movements for contracted and anticipated future sales undertaken in USD.	At balance date the notional amount of outstanding forward exchange contracts was \$50.3M (2017: \$3.0M).
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 effective portion of changes in the fair value of the derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in the cash flow hedge reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. The Group does not speculate in the trading of derivative instruments.

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

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

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

Sensitivity

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

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

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

Notes to the Consolidated Financial Statements

Section 3: Funding structures

3.2 Financial Risk Management (continued)

ii. Interest rate risk

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

What is the risk?	How does Midway manage the risk?	Impact at 30 June 2018
The Group has variable interest rate debt, and therefore if interest rates increase, the amount of interest the Group is required to pay will also increase.	Monitoring of announcements from the central banking authority and other sources which may impact movements in the variable rate. Effective interest rate monitored by Audit and Risk Management Committee. No swaps are currently taken out.	If interest rates were to increase/decrease by 100 basis points from rates applicable at the reporting date, assuming all other variables that might impact on fair value remain constant, the impact on profit for the year and equity is not significant.

The Group's exposure to interest rate risk in relation to future 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	
2018					
<i>Financial assets</i>					
Cash	10,355	1	10,356	1.00%	Floating
Trade receivables	-	18,270	18,270		
Other receivables	-	1,187	1,187		
Derivatives	-	-	-		
	10,355	19,458	29,813		
<i>Financial liabilities</i>					
Bank and other loans	40,875	-	40,875	3.46%	Floating
Creditors	-	18,370	18,370		
Deferred payment for businesses acquired	-	2,951	2,951		
Finance lease liability	1,851	-	1,851	4.43%	Fixed
Sundry creditors and accruals	-	3,321	3,321		
Derivatives	-	484	484		
	42,726	25,126	67,852		

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 2018
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. 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 at 30 June 2018 there is only a receivable for one vessel outstanding, of which the cash was subsequently collected within 10 days as expected. Based on Management's assessment of its exposure, the Group has low credit risk.
As a result of the Plantation Management Partners acquisition, the Group is exposed to credit risk on sales involving plantation management activities.	The Group monitors cashflows regularly and monitors the economic environment for each region the Group operates in.	As at 30 June 2018, the Group expects to receive all outstanding amounts.

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

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

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 managements expectation for settlement of undiscounted maturities.

	< 6 months	6-12 months	1-5 years	Total contractual cash flows	Carrying amount
	\$'000	\$'000	\$'000	\$'000	\$'000
2018					
Cash and cash equivalents	10,356	-	-	10,356	10,356
Receivables	19,457	-	-	19,457	19,457
Derivatives	(484)	-	-	(484)	(484)
Payables	(24,642)	-	-	(24,642)	(24,642)
Borrowings	(4,328)	(3,001)	(35,397)	(42,726)	(42,726)
Net maturities	359	(3,001)	(35,397)	(38,039)	(38,039)
2017					
Cash and cash equivalents	15,025	-	-	15,025	15,025
Receivables	7,781	-	-	7,781	7,781
Derivatives	135	-	-	135	135
Payables	(17,458)	-	-	(17,458)	(17,458)
Borrowings	(361)	(684)	(30,618)	(31,663)	(31,663)
Net maturities	5,122	(684)	(30,618)	(26,180)	(26,180)

3.3 Contributed Equity

(a) Ordinary share capital

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

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

Notes to the Consolidated Financial Statements

Section 3: Funding structures

3.3 Contributed Equity (continued)

(b) Reserves

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

1. Cash flow hedge reserve

The hedging reserve is used to record the effective portion of gains and losses on cash flow hedges that are recognised in other comprehensive income as described in section 3.2. Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss.

2. Share based payment reserve

The shared based payment reserve is used to recognise the expense over the vesting period.

3. Asset revaluation reserve

The asset revaluation reserve is used to record increments and decrements on the revaluation of land and reclassified to retained earnings on disposal. Movements in the year relate to revaluation and sale of plantation land.

4. Profit reserve

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

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	
	2018	2017	2018	2017
	%	%	%	%
Subsidiaries of Midway Limited and controlled entities:				
Queensland Commodity Exports Pty Ltd	90	90	10	10
Midway Plantations Pty Ltd	100	100	-	-
Midway Properties Pty Ltd	100	100	-	-
Midway Tasmania Pty Ltd ⁽¹⁾	100	100	-	-
Plantation Management Partners Pty Ltd ⁽²⁾	100	-	-	-
Resource Management Partners Pty Ltd ⁽²⁾	100	-	-	-
Plantation Management Partners Pte Ltd ⁽²⁾⁽³⁾	100	-	-	-

1. Midway Tasmania Pty Ltd was incorporated on 5th September 2016

2. Acquired on 26th October 2017

3. 50% held in Trust by an independent party, however all risks and benefits of ownership of the share are held by the Group

Policy

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

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

(a) Carrying amount

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

Policy

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

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

Key estimates and judgements

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

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

Notes to the Consolidated Financial Statements

Section 4: Other disclosures

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

(b) South West Fibre Pty Ltd Financial Information

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

Reconciliation to carrying amount of interest in Joint Venture:

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

4.3 Midway Limited – Parent Entity

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

Summarised statement of profit or loss and other comprehensive income

Profit for the year after income tax	17,193	16,069
Total comprehensive income	16,594	16,041

Notes to the Consolidated Financial Statements

Section 4: Other disclosures

4.4 Share Based Payments

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

- Shares;
- Options; and
- Performance rights

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

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

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

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

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

Grant date / employees entitled	Number of instruments	Vesting Conditions
Performance rights granted to key management personnel ¹	128,000	50% of the performance rights issued to the participants have vested during the period (12 months after Completion of the IPO), as all participants remained in continuous employment with the Company until the vesting date; and
Performance rights granted to other senior management personnel ¹	36,000	The remaining 50% of the performance rights issued to the participants will vest on the date that is 24 months after Completion of the IPO provided the participant remains in continuous employment with the Company until the vesting date.

1. The fair value at grant date was \$2.59 derived from the fair value of shares on 9 February 2017.

(b) Long Term Incentive Rights (equity settled)

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

The fair value at grant date was \$1.49, which was derived using a Monte Carlo Simulation model which incorporates the total shareholder return (TSR) performance conditions. Inputs utilised in the assessment include:

Assumption		Vesting conditions
Share price	\$2.59	<ul style="list-style-type: none"> • Participant must maintain continuous employment over the performance period • The percentage of performance rights that will vest at the end of the performance period will depend on Midway's TSR over the performance period, relative to a comparator group of companies in the S&P/ASX 300 Index.
Risk free rate	1.8%	
Dividend yield	7.0%	
Volatility	32.0%	
Initial TSR	10.7%	

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

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

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

Transactions between related parties are on normal commercial terms no more favourable than those available to other parties unless otherwise stated. An accrual for Directors fees was recorded for eight days to year end to 30 June 2018.

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

(b) Transactions with South West Fibre Pty Ltd

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

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

4.6 Contingent Liabilities

(a) Outstanding matters

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

(b) Bank guarantees

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

Notes to the Consolidated Financial Statements

Section 4: Other disclosures

4.7 Remuneration of Auditors

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

4.8 Other income

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

Policy

Dividend income

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

Other income

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

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

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

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

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

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 2018 are set out below:

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

Notes to the Consolidated Financial Statements

Section 4: Other disclosures

4.9 Deed of Cross Guarantee (continued)

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

Notes to the Consolidated Financial Statements

Section 4: Other disclosures

4.10 Subsequent Events

(a) Dividend

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

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

- (a) The operations, in financial years subsequent to 30 June 2018, of the Group, or
- (b) The results of those operations, or
- (c) The state of affairs, in financial years subsequent to 30 June 2018 of the Group.

Notes to the Consolidated Financial Statements

Section 4: Other disclosures

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.

Transactions and Balances

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

Notes to the Consolidated Financial Statements

Section 4: Other disclosures

4.11 Basis of Preparation (continued)

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

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

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

Impairment of non-financial assets

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

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

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

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

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

New standards not yet effective

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

AASB 9: Financial instruments

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

The Group estimates that the new classification requirements, if applied at 30 June 2018, would not have a material impact on its accounting for trade receivables or other assets that are managed on a fair value basis, as they are short term in nature and the Group makes use of letters of credit resulting in minimal credit risk with export customers.

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

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

Notes to the Consolidated Financial Statements

Section 4: Other disclosures

4.11 Basis of Preparation (continued)

AASB 9: Financial instruments (continued)

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under AASB 139. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under AASB 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. If the standard was applied at 30 June 2018, no material provision for ECL would be recognised on the basis the receivables are short term in nature and the Group has historically had minimal to no write downs on receivables from export customers. Additionally there is only \$0.2M over 90 days past due (refer section 3.2).

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

AASB 9 is effective for annual periods beginning on or after 1 July 2018, with early adoption permitted. Management will adopt AASB 9 on 1 July 2018.

AASB 15: Revenue from contracts with customers

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

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

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

Strategy Arrangement

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

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

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

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

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

Plantation Management Fee income

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

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

Notes to the Consolidated Financial Statements

Section 4: Other disclosures

4.11 Basis of Preparation (continued)

Sale of goods

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

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

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

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

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

Marketing revenue

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

AASB 16: Leases

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

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

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

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

The Group will apply the election consistently to all of its leases. The Group has not yet determined which transition approach to apply.

As a lessor, the Group is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

As at the reporting date, the Group has non-cancellable operating lease commitments of \$5.6M, see section 2.3. However, the group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the group's profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under AASB 16.

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

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

Directors Declaration

The directors of the Company declare that:

1. The consolidated financial statements and notes, as set out on pages 27 to 66 are in accordance with the Corporations Act 2001 including;
 - (a) comply with Accounting Standards in Australia and the Corporations Regulations 2001; and
 - (b) as stated in Section 4.10, the consolidated financial statements also comply with International Financial Reporting Standards; andgive a true and fair view of the financial position of the Company as at 30 June 2018 and its performance for the year ended on that date.
2. There are reasonable grounds to believe that the Company and the group entities identified in Note 4.9 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC Corporations (Wholly owned Companies) Instrument 2016/785.

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

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



Chairman: _____

G H McCormack

30 August 2018



Independent Auditor's Report

To the shareholders of Midway Limited

Report on the audit of the Financial Report

Opinion

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

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

- giving a true and fair view of the **Group's** financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The Financial Report comprises:

- *Consolidated Balance Sheet* as at 30 June 2018
- *Consolidated Statement Comprehensive Income, Consolidated Statement of Changes in Equity, and Consolidated Statement of Cashflows* for the year then ended
- Notes including a summary of significant accounting policies
- *Directors' Declaration*.

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

Basis for opinion

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

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with *the Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

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

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

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

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

Valuation of Land (AUD \$85.4m)

Refer to Note 2.1 Property, plant and equipment

The key audit matter	How the matter was addressed in our audit
<p>The Group's land assets are predominantly forestry plantation land which is measured at fair value. The valuation of land assets was a key audit matter for us given the size of the balance (being 45.4% of total assets) and due to the complexity and judgement involved in determining fair value.</p> <p>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.</p> <p>Determining the fair value of land asset's therefore involves significant estimation and judgement, including assessments of:</p> <ul style="list-style-type: none"> • general market conditions and expected future market volatility and fluctuation; • the highest and best use of the land; • comparability of the Group's land to available market evidence, including sales of forestry and non-forestry land; • the physical condition of the land and the amount of any reversionary costs to be incurred post-harvest in order to revert the land to its assessed highest and best use; and 	<p>Working with our valuation specialists, our procedures included:</p> <ul style="list-style-type: none"> • for a sample of new purchases, vouching the amounts to underlying transaction documents; • reading the independent expert's report and making inquiries of management and the independent expert as appropriate in order to assess our ability to rely on the unencumbered land valuation, including an assessment of the independent expert's independence, objectivity, competence and scope of work; • performing a sensitivity analysis on the key assumptions in the Group's discounted cashflow model including growth rates, discount rates, harvest profiles and reversionary costs to focus our work on the more sensitive assumptions; • checking the consistency of key assumptions such as highest and best use, growth rates, discount rates, harvest profiles and reversionary costs used in the Group's discounted cashflow model to those in the independent expert's report and other information used by the Group within the business including biological asset valuations; • using our industry knowledge and experience, assessing the reasonableness of data and assumptions in the Group's discounted cashflow model. This included comparing a sample of data to underlying supporting information;

<ul style="list-style-type: none"> • appropriate growth rates, discount rates and harvest profiles. <p>We spent considerable time and effort during the audit assessing the independent expert's work and the Group's discounted cashflow model. We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.</p>	<ul style="list-style-type: none"> • assessing the integrity of the Group's discounted cashflow model, including the accuracy of the underlying calculation formulas; • recalculating the change in fair value of the land and agreeing it to the amount recorded in the asset revaluation reserve; and • assessing the land fair value disclosures in the financial report against accounting standard requirements.
---	--

Acquisition of Plantation Management Partners Pty Ltd (PMP)

Refer to Note 1.6 Business Acquisitions

The key audit matter	How the matter was addressed in our audit
<p>The Group undertook a Business Combination during the period when it acquired PMP in October 2017 by purchasing 100% of the shares. This was a key audit matter due to:</p> <ul style="list-style-type: none"> • the financial significance of the transaction for the Group; and • the judgement and complexity involved in the acquisition accounting including determining the fair value of: <ul style="list-style-type: none"> – the purchase consideration paid; and – the assets and liabilities acquired for accounting and tax purposes. <p>We spent considerable time and effort during the audit assessing the appropriateness of the acquisition accounting. We involved specialists to supplement our senior audit team members in assessing this key audit matter.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • reviewing the Share Sale and Purchase Agreement, subsequent Deed of Variation and other supporting documentation related to the business combination; • reviewing, in conjunction with our valuation specialists, the Group's calculations supporting the fair value of the identified intangible asset, including assessing the discount rate adopted by comparing with accepted market valuation practices; • assessing the appropriateness of the deferred and contingent consideration amounts recorded at fair value against accounting standard requirements; • reviewing, in conjunction with our tax specialists, management's assessment of: <ul style="list-style-type: none"> – the tax implications of the business combination in accordance with tax law requirements; and – the deferred tax balances recognised on acquisition, including checking the supporting deferred tax calculations for compliance with accounting standard requirements; and • assessing the business combination disclosures in the financial report against accounting standard requirements.



Other Information

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

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

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

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

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

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.



A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Midway Limited for the year ended 30 June 2018, complies with *Section 300A of the Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A of the Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in *pages 15 to 25* of the Directors' report for the year ended 30 June 2018.

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

KPMG

Vicky Carlson

Partner

Melbourne

30 August 2018