Investing for growth

Annual Report
2019

Midway

We are Australia's largest high-quality woodfibre processor and exporter. Founded in 1980, Midway is involved in the production and export of high-quality woodfibre. Midway's primary business is the purchasing, processing, marketing and exporting of woodfibre. Our operating environment consists of plantation and land ownership, the procurement of timber resources within Australia, processing, materials handling and exporting of woodfibre, and the international woodfibre market.

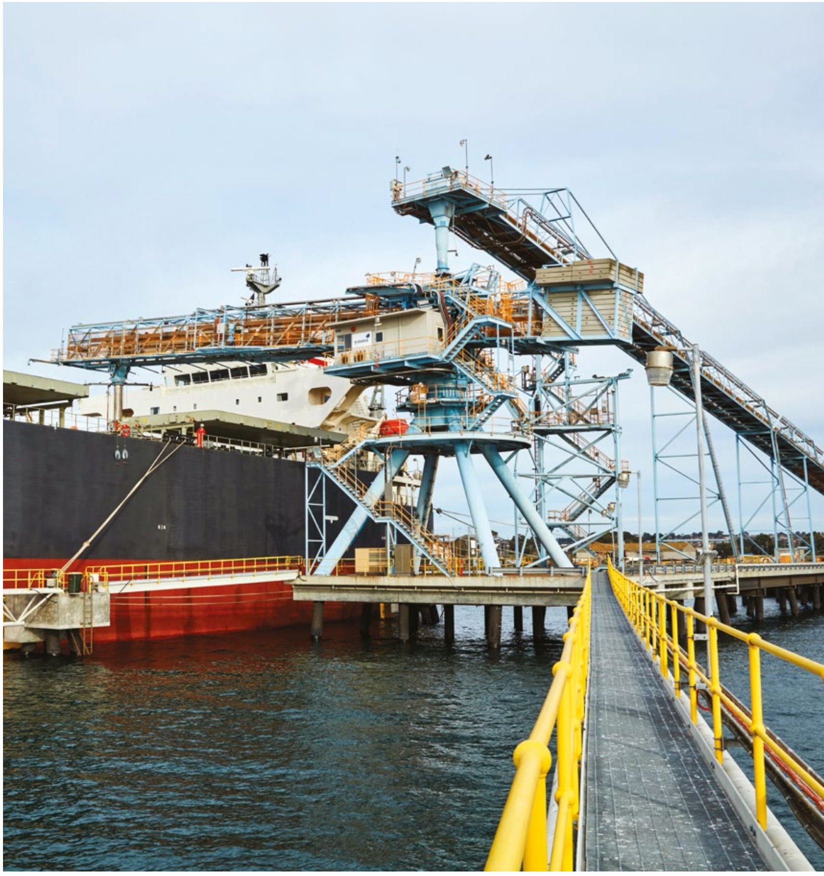
Contents

$283.6M	Revenue
$37.1M	EBITDA – S
18.0¢	Fully franked dividend per share in accordance with the prospectus guidance
17.6%	FY19 return on capital

Chairman's Report

Greg McCormack
Chairman

The last 12 months have been a year of expansion and consolidation as Midway restructured to adopt a new business model that better reflects its strategic growth plans for the business.



I am pleased to report to shareholders that in the 2019 financial year, Midway Limited produced its third consecutive year of profit growth since listing on the Australian Securities Exchange (ASX), as a result of improved operational performance and growing tightness in the supply and demand balance for woodfibre.

In the 2019 financial year, Midway generated sales revenue of $283.6 million, up 22.3 per cent on the previous year and net profit after tax before significant items of $20.5 million, up 19.9 per cent on the previous year. Net profit after tax and significant items was $26.2 million, up 42.4 per cent on the previous year.

Since listing on the ASX, Midway is pleased to provide strong dividend returns to shareholders. The Directors were therefore pleased to approve a fully franked final dividend of 9.0 cents per share, to be paid on (28 October 2019). This means that shareholders will receive a fully franked dividend for the 2019 financial year of 18.0 cents per share, including the fully franked interim dividend of 9.0 cents per share, and continues a history of strong dividends.

The last 12 months have been a year of expansion and consolidation as Midway restructured to adopt a new business model that better reflects its strategic growth plans for the business, with a growing emphasis on plantation management and forestry logistics.

On the back of a successful capital raising in September 2018, Midway acquired several new businesses, including Softwood Logging Services (SLS) (now Midway Logistics) and 40 per cent of Bio Growth Partners (BGP) in Western Australia, and further invested in the Tiwi Island operations of Plantation Management Partners (PMP).

I am pleased to report that each of these acquisitions and new investments have now been successfully integrated into the Midway business and we expect them to generate incremental earnings that will further improve shareholder returns over time.

The 2018 capital raising, supplemented by modest additional bank debt and solid internal cash flow, will be used to build on our strategic investments to meet future demand in Asia for high-quality woodfibre. The investments will also look to diversify our income flows and incrementally reduce our US dollar currency exposure.

The Board is comfortable that the Midway growth strategy, supported by a low debt to equity ratio and well-supported bank covenants, represents a very prudent approach to growing shareholder returns over time.

As part of the 2018 capital raising and further demand from institutional investors in April 2019, the two substantial private shareholders in Midway Limited, McCormack Timbers Pty Ltd and Chebmont Pty Ltd, on behalf of the Gunnersen Investment Trust, reduced their shareholding in the Company.

Chairman's Report

Both McCormack Timbers and Chebmont remain loyal long-term investors in Midway, and fully support the growth strategy of the Company. However, McCormack Timbers and Chebmont were prepared to reduce their shareholdings to support a broader shareholder base and increased trading liquidity in the Company that will benefit all shareholders.

As part of the long-term Board development plan, a new Director, Ms Leanne Heywood, was appointed as a Non-Executive Director in March 2019. Ms Heywood brings a wealth of experience in mining, the rural sector and government to the Midway Board.

Outlook

Market pulp prices have dropped significantly over the last few months, largely due to Brazilian pulp mills over-producing and carrying high inventories. These mills have announced that measures have now been put in place to curtail production.

Also, Chinese traders and buyers have run their inventories down to extremely low levels before they recommence buying, and once this happens, it is expected pulp prices will improve.

The short-term imbalance between supply and demand in the global pulp market is having a flow-on effect on the global woodfibre market.

Midway has secured export shipments to China in the last few months, but it is too early to be precise about the full impact of current market conditions on export woodfibre volumes and prices during the 2020 financial year.

Despite this issue, pulp mills in China and Japan are still operating at full production, and while there has been some deferral of vessels, woodfibre prices are largely set for the remainder of the calendar year in both Japan and China.

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When production normalises and pulp stocks return to normal levels in China, Midway is confident that positive long-term trends for woodfibre exports and pricing in the Asia Pacific region forecast by global forest industry experts will re-emerge.

On behalf of the Board, I thank our shareholders for your continued support and our management team and employees for their contribution.

Greg McCormack
Chairman

Managing Director's Report

Anthony Price
Managing Director

> All key earnings drivers moved in the right direction for Midway in the 2019 financial year.

I am pleased to report that Midway Limited produced record sales and earnings results in the 2019 financial year despite significant management challenges including integrating new acquisitions and investment in restructuring across all areas of the business.

All key earnings drivers moved in the right direction for Midway in the 2019 financial year, including overall volume growth, solid price growth in Japan and China, good dry fibre content and favourable currency movements.

As expected, export volumes from Midway Geelong have trended lower, however, overall exports volumes were higher with increased contributions from South West Fibre (SWF) in Portland, QCE in Brisbane and from Midway Tasmania.

In December 2018, Midway secured an 11 per cent price increase for woodfibre exports to China for the first half of the 2019 financial year, and in 2019 Midway has entered sales contracts with four new Japanese customers until December 2020. A fair proportion of these price gains are being passed on to our timber suppliers in higher payments to ensure sustainable investment in future timber resources.

As a result, underlying earnings before interest, tax, depreciation and amortisation (EBITDA) before significant items was $37.1 million, up 29.3 per cent on the previous year. Net profit after tax and significant items was $26.2 million, up 42.4 per cent on the previous year.

Growth strategy

During the 2019 financial year, the management team and the Board of Directors worked together closely to develop an expansion strategy that will enable Midway to tap into future growth opportunities in the woodfibre market in the Asia Pacific region including woodfibre processing, forestry logistics and plantation management.

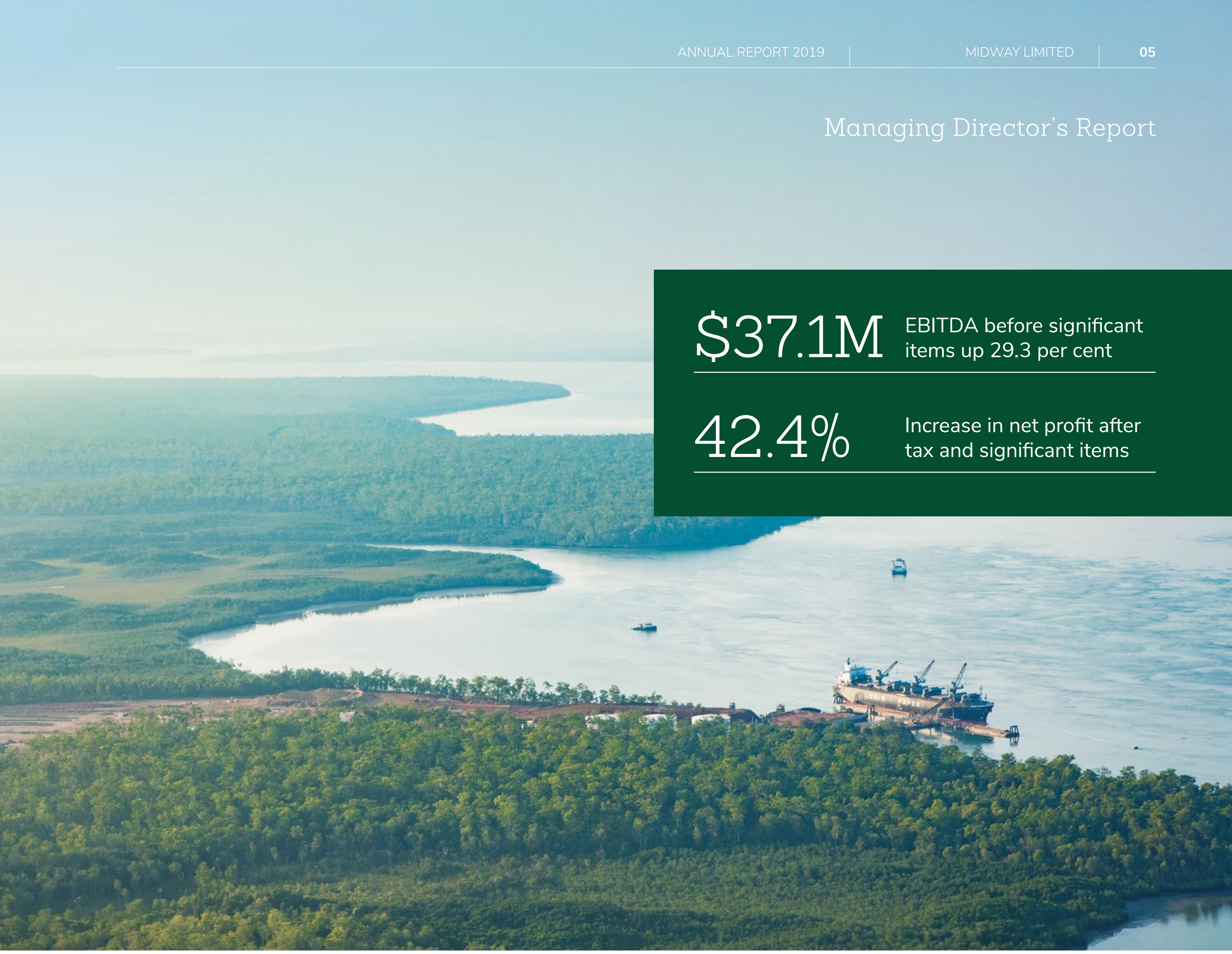
Woodfibre processing

Midway decided to consolidate woodfibre processing from all of its manufacturing operations in Geelong, Portland, Brisbane, Tasmania and the Tiwi Islands to highlight the overall volume growth in our woodfibre export business.

Midway also invested significantly in the Tiwi Island operations of Plantation Management Partners (PMP) in the 2019 financial year so that it would have the capacity to expand exports into the growing Asian woodfibre market.

We refurbished the existing machinery and invested in some additional new harvesting equipment and new port infrastructure on the Tiwi Islands. This meant we had to defer production and exports for several months during the wet season, but that work is now complete and the business has now resumed exports.

Managing Director's Report



$37.1M EBITDA before significant items up 29.3 per cent

42.4% Increase in net profit after tax and significant items

Midway also invested significantly in the Tiwi Island operations of Plantation Management Partners (PMP) in the 2019 financial year so that it would have the capacity to expand exports into the growing Asian woodfibre market.

Woodfibre exports continue to be the engine room of Midway and will remain a significant part of our business in the next few years as demand for high-quality woodfibre continues to be strong in key Asian countries, especially Japan and China.

However, Midway has invested significantly in forestry logistics and plantation management over the last 12 months because we can see new and emerging earnings opportunities in both of these business segments.

Forestry logistics

Midway acquired Softwood Logging Services (SLS) and 40 per cent of Bio Growth Partners (BGP) in October 2018. These related acquisitions provide Midway with an important footprint in both the Western Australian forestry sector and the emerging biomass energy market that is growing rapidly both domestically and in Japan and South Korea.

On the back of these acquisitions, Midway restructured the business to better reflect these emerging growth opportunities. SLS was renamed Midway Logistics, and along with BGP (which is equity accounted), we created a new logistics division, which includes the earnings from the ADDCO.

We are confident any integration issues have been resolved and we expect the Forestry Logistics division to generate incremental earnings growth in the 2020 financial year.

Managing Director's Report

Segment Reporting

Woodfibre Processing

Midway Geelong (MW)

South West Fibre (SWF) (51%)

Queensland Commodity Exports (QCE)

Plantation Management Partners (PMP) (post restructure on 2 October 2018 and excluding silviculture activities)

Midway Tasmania (except for woodfibre trading business)

Forestry Logistics

Midway Logistics (previously Softwood Logging Services (SLS))

Bio Growth Partners (BGP) (equity accounted)

ADDCO (equity accounted)

Plantation Management

Midway Plantations (MWP)

Plantation Management Partners Pte Ltd (PMP PTE)

Silviculture activities

Plantation Management Partners (PMP) (prior to restructure)

Ancillary

Capital raising costs

Marketing of third party vessels (chip trading costs)

Business acquisition costs

Plantation management

Midway owns a small plantation estate and manages over 90,000 hectares of plantation estate in Australia and Asia. Its Australian plantation estate includes 17,000 hectares of freehold and leased land in the Otway Ranges, Upper Goulburn and Ballarat regions in Victoria.

In early 2019, Midway decided to consolidate PMP and the Midway plantation operations in South West Victoria into one business to better leverage our PMP management capability. This has resulted in immediate efficiency benefits across the business and a more cohesive team to support future growth.

Future priorities

The Midway management team continues to look actively at opportunities to add to our plantation management business and to better manage our timber supply, both on and off the balance sheet, potentially in conjunction with patient capital to maximise our return on investment.

We are also looking to use our balance sheet flexibility to make further bolt-on acquisitions and undertake investments in Midway woodfibre processing and forestry logistics to take advantage of growth opportunities that offer sustainable returns to shareholders.

We have achieved much in the 2019 financial year and I am excited by the opportunity before us. I thank the dedicated people across our organisation for their sustained effort and contribution, and shareholders for their continued support.

Anthony Price
Managing Director

Overview of Business Activities

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

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

Midway has diversified since it commenced exporting 32 years ago in terms of geographical representation, product range, supply source and customer base. Growing from one export facility, one product, one customer and one supplier in 1986, today Midway:

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

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

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

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

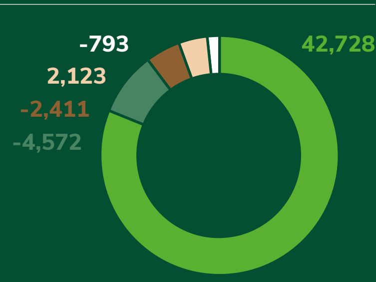
In FY2019, Midway processed approximately 29 per cent of all hardwood woodfibre exported from Australia and marketed directly approximately 55 per cent of this volume. The demand for woodfibre from China is expected to continue to grow with YTD growth in CY2019 over 8 per cent year on year. New projects continue to be announced, which should see growth continue in subsequent years. In 2019, both Indonesia and Laos quickly grew woodfibre imports. In mid 2019, both Laos and Indonesia have overtaken Taiwan, India and South Korea to become approximately 7 per cent of the total market demand, up from zero demand one year earlier. Indonesia in particular is expected to grow further again as infrastructure for handling woodfibre imports is improved in the next few years.

Midway aims to expand its market share of hardwood woodfibre exports through securing additional supply and seeking out new opportunities to acquire businesses in key forestry areas in Australia and overseas.

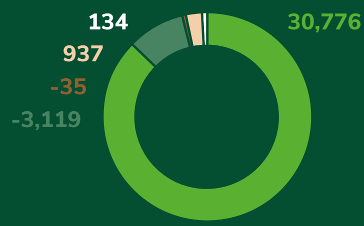
Overview of Business Activities

In FY2019 Midway processed approximately 29 per cent of all hardwood woodfibre exported from Australia and marketed directly approximately 55 per cent of this volume.

EBITDA – S 2019 ($'000)



EBITDA – S 2018 ($'000)



- Woodfibre processing
- Eliminations
- Forestry logistics
- Ancillary
- Plantation management

Partnerships
Partner with local landowners and communities to grow sustainable woodfibre.

Planning and Establishment
Site selection using known and disciplined parameters to plant and grow the highest quality woodfibre.

Plantations
Pulpwood is grown and managed on freehold, leasehold and private land.

Harvest
Contractors harvest pulpwood sourced from Company-managed plantations or third party suppliers using mechanical harvesters.

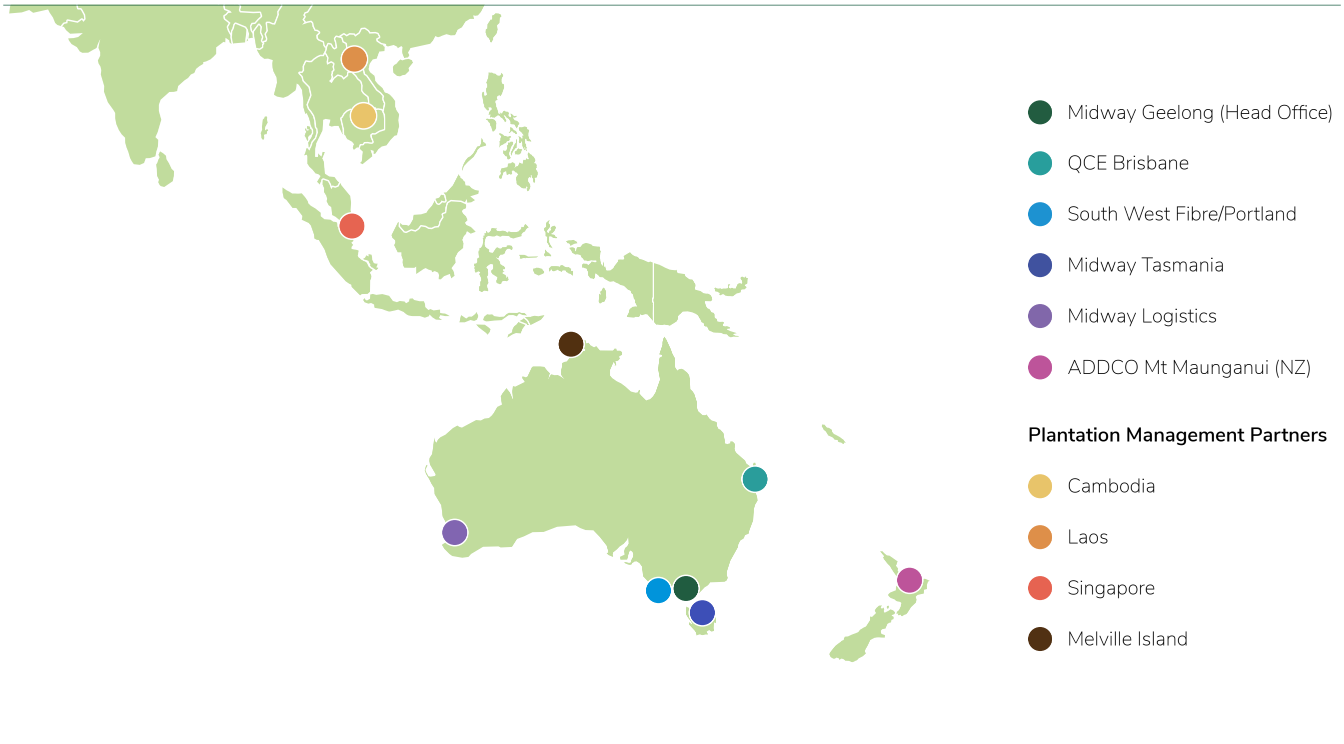
Haul
Haulage contractors transport product from plantations to the mill.

Processing
Mills located at Geelong, Myamyn, Brisbane, Bell Bay as well as infield processing on Melville Island convert pulplogs to woodfibre.

Stockpile
Chip stockpiles located at mills and ports.

Marketing and Export
Ships carry woodfibre for export from GeelongPort, Port of Portland, Port of Brisbane, Port Melville and Bell Bay.

Port and Processing Facilities



Midway Geelong

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

QCE Brisbane

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

South West Fibre Portland

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

Port and Processing Facilities

Plantation Management Partners

Melville Island

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

Cambodia, Laos

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

Singapore

- Office

Midway Tasmania Pty Ltd

- Marketing and sales.
- Native hardwood shipments commenced September 2017 from a chipping, stockpiling and loading facility at Bell Bay.
- 450,000 GMT per annum export capacity.

ADDCO Fibre Group Limited

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

Midway Logistics

- Midway Logistics was established as Softwood Logging Services Pty Ltd in 1988, after being awarded with a 30,000m^3/pa contract with the Forest Products Commission (WA). Since then, the company has grown to become one of the most diverse and dynamic forestry harvesting organisations in Australia, now producing in excess of 650,000m^3/pa.
- The head office is based in Bunbury, Western Australia, with an expansive range of operational locations all through the South West of Western Australia. The company offers a range of forestry services, including infield chipping, conventional harvesting (cut to length), roadside processing, bio-energy production, stump pulling, woodchip screening, forestry consulting, transport/haulage (forest products) and low loader hire.

Operational Review

The last 12 months have been a period of expansion and consolidation for the Midway business. The Company acquired several new businesses, expanded existing operations and restructured the way it managed and reported its business results to better reflect its future growth strategy.

Midway extended its footprint into Western Australia with the acquisition in October 2018 of Softwood Logistics Services (SLS) (now Midway Logistics) and 40 per cent of Bio Growth Partners (BGP). This has given Midway access to new forestry areas across the country and the emerging biomass energy market in Australia and overseas.

The Company also expanded the operations of Midway Tasmania to include timber sourcing and woodchip processing, on top of the third party chip trading on behalf of other businesses through the Bell Bay port.

These acquisitions and investments have extended Midway's position as one of Australia's leading forest products producers and exporters with processing plants and export facilities on the east and west coast of Australia and strategic investments in the Tiwi Islands and across South East Asia.

Midway additionally invested $19.8 million in restructuring the Plantation Management Partners (PMP) business in the Tiwi Islands in 2019. We upgraded existing equipment and purchased some additional machinery to improve production on the Tiwi Islands. This meant we had to defer production and exports for several months during the wet season, but that work is now complete and the business has now resumed exports.

Midway now owns or manages over 90,000 hectares of plantation estates in Australia and South East Asia. Its Australian plantation land estate includes 17,000 hectares of freehold and leased land in the Otway Ranges, Upper Goulburn and Ballarat regions in Victoria valued at $74.6 million as at 30 June 2019.

Midway has strategically located processing and export facilities at a number of key sites including Geelong, Portland, Brisbane and the Tiwi Islands that allow it to maximise its competitive advantage in shipping quality woodfibre from Australasia to our key customers in Japan and China.

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

New business structure

Woodfibre Processing

At the end of the financial year, total woodfibre processing assets were $137.4 million. The segment generated total revenue of $297.3 million, up 34 per cent on the previous year. EBITDA after significant items was $44.7 million, up 45 per cent on the previous year. Midway incurred $2.0 million in significant items in woodfibre processing.

In January 2019, Midway announced that it would consolidate all of its woodfibre processing facilities in one division, including Midway Geelong, the South West Fibre (SWF) joint venture in Portland, the QCE joint venture in Brisbane and its processing operations in Tasmania and the Tiwi Islands.

This highlights the expanded footprint of the Midway business and the flexibility to source woodfibre from a range of timber areas across the country. This enables Midway to increase total export volumes and vary the quality of the woodfibre mix even though some areas may be resource constrained at certain times. This makes Midway a more reliable supplier for our major customers in Japan and China.

Midway is progressing a range of options to increase available timber supply in the medium to longer term to all operations, with a particular focus in South West Victoria. We are also exploring alternative commodity export arrangements through the Geelong site to maintain capacity utilisation.

Plantation Management

At the end of the financial year, total plantation management assets were $138.2 million. The segment generated total revenue of $15.9 million, which was down 1 per cent on the previous year. Midway recorded an EBITDA of $9.7 million after the annual fair value adjustment of biological assets.

As part of the PMP restructure, Midway has consolidated the plantation management business of PMP with the Midway plantation operations in South West Victoria. The consolidation

Operational Review

In January 2019, Midway announced that it would consolidate all of its woodfibre processing facilities in one division.

of all our plantation assets in one business allows Midway to leverage our PMP management capability and experience. This has resulted in immediate efficiency benefits across the business.

As a result, Midway now owns or manages over 90,000 hectares of plantation estate in Australia and Asia, including 17,000 hectares of freehold and leased land in the Otway Ranges, Upper Goulburn and Ballarat regions in Victoria.

The Midway management team is now well positioned to actively pursue opportunities to add to our plantation management business and to better manage our timber supply, both on and off the balance sheet, potentially in conjunction with patient capital to maximise our return on investment.

Forestry Logistics

At the end of the financial year, total forestry logistics assets were $5.8 million. This segment generated total revenue was $6.1 million in its first year as part of the Midway group. The segment recorded a EBITDA loss of $2.4 million before significant items.

As part of the January 2019 restructure, Midway decided to consolidate all of its logistics operations in one business division, including SLS, BGP and the earnings from its investment in ADDCO.

The integration of SLS and BGP within the Midway business was successfully completed in the first half of the 2019 calendar year, and the new division is expected to contribute incremental profit growth in the 2020 financial year.

Operational Review

Ancillary Businesses

Marketing of third party woodfibre continues to be a valuable business opportunity for Midway. The bulk of this business to date has been utilising our marketing and shipping capacity to sell wood on behalf of third party producers. However, more recently Midway has employed a local manager who has been procuring wood in our own right direct from forest owners and utilising a throughput arrangement with a wood processor at Bell Bay in North East Tasmania.

Midway remains committed to continuous improvement in safety of our staff and contractors.

Employment and safety

Following the acquisitions of SLS and BGP, and the expansion of the woodfibre processing and plantation management businesses in Tasmania and the Tiwi Islands, the total number of Midway management and staff increased from 149 in 2018 to 265 in 2019.

Midway recorded a Lost Time Injury Frequency Rate (LTIFR) of 8.7 in FY2019, slightly higher than the previous year due to injuries related to slips, trips and falls. A Slip and Trip prevention plan has been implemented to address this issue.

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

- updates to 'emergency response plans' and drills;
- lone work solutions for workers exposed to the risks of working alone by using satellite devices and a monitoring centre;
- improvements to contractor engagement and management;
- external audits of harvesting and haulage contractors;
- updates to the incident management system and training; and
- Midway, along with industry associations Australian Forest Products Association (AFPA) and Australian Forest Contractors Association (AFCA), has signed up to a charter of the Life Saving Commitments and essential training standards for the workforce.

In late May 2019, Midway lodged its first report with the Workplace Gender Equality Agency of the Federal Government. Despite the traditional reliance on heavy manual labour in the forestry industry, Midway is committed to employing as many women as possible in the business. Seven of the top 30 managers in the business are women, and 19 of Midway's non-managerial workforce are women.

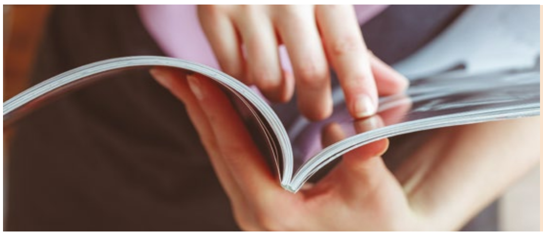
Midway also recognises the importance of developing managerial and leadership capability across the business. Retention and development of talented employees is a key initiative in the Company's strategic plan, and has been identified as a means of being able to ensure that the organisation is able to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

Our fibre is used to create:

Kraft Pulp

Printer and specialty stock

Packaging and coatings for high-quality containers including the food industry



Magazines and brochures

Smooth, strong stock for beautiful detail and colour reproduction.

Tissue and toilet paper

Hygiene uses where high strength and softness is required.

Bleached Chemi-Thermomechanical Pulp

High-end product packaging

Beautiful specialty boards for cosmetics, electronics and luxury brand products.

Dissolving Pulp

Viscose and high-grade cellulose

Perfect for clothing, personal hygiene, textiles, food industry and pharmaceuticals.

Sustainability

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

Certification

Midway's certification includes:

- Sustainable Forest Management: AS 4708-2013;
- Chain of Custody for Forest Products AS 4707:2014;
- Occupational Health and Safety Management Systems AS/NZS 4801:2001;
- Quality Management Systems – Requirements AS/NZS ISO 9001:2016;
- Chain of Custody Certification FSC-STD-40-004 V3-0;
- Requirements for Sourcing FSC® Controlled Wood FSC-STD-40-005 V3-1; and
- FSC Controlled Wood Standard for Forest Management Enterprises FSC-STD-30-010 Version 2-0.

External certification covers Quality, Safety and Environment; and external audits of systems and operations are conducted on an annual basis. PMP was included in the scope of the AS4707 and AS4708 certificates during the year.

	Safety (AS4801)	Quality (ISO9001)	Forestry (AS4708)	AFS CoC (AS4707) (PEFC)	FSC CW, CoC and FM
Midway	✓	✓	✓	✓	For plantation sources
SWF	✓	✓		✓	✓
QCE	✓	✓		✓	✓
PMP	Implementation planned 2019/20	✓	✓	✓	FSC-STD-30-010 – Tiwi Is. FSC FM – Grandis Timber and Mekong Timber
Midway Logistics	Implementation planned 2019/20	Implementation planned 2019/20			
Midway Tasmania	Implementation planned 2019/20	Implementation planned 2019/20		✓	

Sustainability

Community initiatives

The Midway group is a significant employer in regional communities, with 265 direct employees and over 1,000 indirect contractor employees. Our policy is to support communities in the areas where we conduct our business and where our employees live. In addition to our direct economic support for employment and the local economy, we provide sponsorship to a range of community organisations in these areas.

Midway freehold land and forestry activities are centred around the Geelong region of Victoria including the Otway Ranges and Heytesbury regions. Midway is a major sponsor of many community organisations including residents groups, charity clubs and events, car truck and bike shows, business clubs, peak industry organisations, industry awards, local schools, scouts groups and local festivals.

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

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

Environmental performance

Midway places a priority on compliance with its environmental legislation and community obligations for a clean environment. One tannin discharge event was recorded at Port Melville in the 2019 wet season due to an extreme weather event and flash flooding, and reported to the EPA. Apart from this incident, there were no other environmental incidents that had to be notified to the regulatory authorities in the 2019 financial year.

There were 17 environmental inquiries for the 2019 financial year. Inquiries related to noise and controlled wood sourcing. Midway managed to successfully resolve 82 per cent of inquiries in 2019.

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

The Company's Stakeholder Engagement Plan outlines the process for recording and responding to stakeholder concerns relevant to these areas. There were 1,405 stakeholder communications during the 2019 year.

The Company's certification to Responsible Wood Standard AS4708 and the FSC Controlled Wood Standard FSC-STD-40-005 provide a framework for stakeholder consultation with both interested and affected parties, systematic approaches to take into account concerns raised by stakeholders, and independent review of the process.

Environmental initiatives

Air quality monitoring

Annual ambient air quality monitoring was conducted for SWF and Midway Geelong in March 2019. Combustible matter (woodfibre) results from all Geelong and South West Fibre sites were compliant with the EPA Victoria air quality guideline of 4 g/m^2/month as a monthly average.

Noise monitoring

A noise model has been developed for Midway's Geelong site to assist with scheduling plant operation, in conjunction with use of a real-time noise logging station in order to improve the effectiveness of administrative controls, meet legislative requirements and to better investigate and address community amenity.

Fire management

Fire protection works in Victoria including firebreak slashing and track spraying were completed by Midway Plantations on schedule. No fire prevention works notices were received from councils. Fuel reduction burning was undertaken pre-fire season.

Below-average rainfall and well-above average temperatures resulted in consistent High to Very High Fire Danger Ratings through the fire season. Contractors were placed on fire standby for a total of 2,894 man-hours; however, crews were fortunate that there were no fires within managed plantations. There were no fire-related safety incidents reported for Midway Plantations.

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

Sustainability

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

Waste management

Midway sponsored a research project with Melbourne's RMIT University to investigate beneficial uses for bark by-product separated from woodchip in the manufacturing process. Following literature review and experimental work, five potential future options for use of the material were assessed as potentially feasible options. These options are high solid anaerobic digestion (Dry AD), Briquetting, Alkali or Acid pre-treatment for cellulosic ethanol, Biorefining and composting.

Soil and water

A total of 16 internal audits and five external audits were conducted against the Responsible Wood Standard and FSC Controlled Wood Standards. One major non-conformance was identified relating to road maintenance, although this was closed before the issue of the report.

Midway is an active member of the Forest Pest Management Research Consortium. This group is funded by growers and Forest and Wood Products Australia Limited (FWPA). It both sponsors and conducts forestry-specific research to control forest-invasive species in cooperation with chemical manufacturers, forest growers and other collaborators.

The potential for declining soil nutrition is the subject of research in another FWPA and grower-funded project to establish a nutrition trial network. Information from past research and the trial network will be used to develop tools that allow hardwood plantation managers to better target their fertiliser management on a site-specific basis.

The upgraded stormwater management system for the Geelong site was successfully commissioned during significant rainfall events without stormwater runoff into Corio Bay. The project stores and reuses captured water on site for irrigation of native tree plantings. Providing for a one in five-year storm event, the project includes installation of increased pumping and dam storage capacity, a back-up power supply, changes to the chip stockpile stormwater drainage, and an increased area of irrigated tree plantings.

A stockpile drainage and recirculation system was installed at the QCE site to minimise risk of stormwater runoff. Works at SWF included upgrading and maintenance to roadways, pavements and hardstands.

Tannin water management at Port Melville is contained on site and no discharge is permitted into the Apsley Strait. Works are ongoing at the conclusion of each wet season to improve the drainage and any areas identified after heavy rainfall. Current works are underway to increase the pumping capacity with the installation of a new pump, power infrastructure and the purchase of a standby pump for high flows during peak rainfall or cyclone events. One tannin discharge event was recorded in the 2019 wet season due to an extreme weather event and flash flooding.

Energy and climate

The current carbon storage of plantation trees within Midway's defined forest area is estimated to be 8.194 million tonnes of CO_2 equivalents. This includes 1.366 million tonnes managed by Midway Plantations and 6.828 million tonnes of CO_2 equivalents managed by Plantation Management Partners. Midway is actively seeking partners to develop new plantations in the Otways, Green Triangle and Tiwi regions, which will promote carbon sequestration. Of wood that is harvested,

Sustainability

most of the stored CO_2 from tree growth goes into products that are either stored (warehoused, hoarded, filed, libraried) or recycled ensuring most of the CO_2 captured during tree growth remains stored or recycled.

Midway also aims to minimise fossil fuel emissions in its forest operations and at its processing sites. Cartage of wood from the forest to the mill is the major contributor to greenhouse gas emissions. Calculated estimates of CO_2 emissions for wood delivered by our cartage contractors to the mills is in the order of 18,000 t CO_2 equivalent.

Forests & Wood The Ultimate Renewable™

Midway supports **The Ultimate Renewable™** – an industry campaign to promote the sustainability and environmental advantages of Australia's forest and wood products industry.

Biodiversity management

Training was conducted in the courses Koala Welfare and Handling Training, and Koala Management and Protection, and included Midway staff, koala spotters and harvesting crews.

Midway conducts a biodiversity monitoring program on freehold land based on an estate level review in 2017 and ongoing monitoring of vegetation condition and aquatic habitat.

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

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 2019 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	
Anthony Price	Managing Director and CEO	
Anthony Bennett	Independent Non-Executive Director	
Gordon Davis	Independent Non-Executive Director	
Leanne Heywood	Independent Non-Executive Director	Appointed as a Director 01/03/2019
Nils Gunnersen	Non-Executive Director	
Thomas Keene	Independent Non-Executive Director	
Tom Gunnersen	Non-Executive Director	

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. 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 held a number of senior management positions in the hardwood plantation sector and has also run his own consultancy business. Mr Price has over 30 years' experience in the forestry sector. He is also currently a Chairman of Forestworks Ltd, an organisation that provides training packages to the forest industry, and a Director of ADDCO Pty Ltd, a logistic business in which Midway holds a 25 per cent 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 and Safety and Management Systems Committee since 13 December 2017.

Directors' Report

Gordon Davis

Independent Non-Executive Director

Mr Davis holds a Master of Business Administration, a Master of Agricultural Science, and a Bachelor of Forest Science. Mr Davis is currently a Non-Executive Director of Nufarm Limited, where he chairs the Health, Safety and Environment Committee and serves on the Audit and Risk, and Human Resources Committees. He is also a Non-Executive Director of Healius 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 and Safety and Management Systems Committees.

Leanne Heywood

Independent Non-Executive Director

Ms Heywood is an experienced ASX Non-Executive Director, Audit and Risk Committee and Nominations and Remuneration Committee Chair with broad general management experience gained through an international career in the mining, rural, government and not-for-profit sectors. She has extensive international and domestic marketing experience and brings international customer relationship management, stakeholder management (including governments and investment partners) and team leadership experience in China, Japan, Mongolia, Singapore, South America, Europe and India. Ms Heywood is an experienced leader of transformational change having lead organisational restructuring, disposals and acquisitions, including integration. She has strong skills across marketing, business analysis, contracts, procurement, logistics, accounting and business improvement along with an advanced ability to facilitate complex negotiations. Having worked extensively in high-corruption jurisdictions such as Mongolia and China, Ms Heywood has developed a strong risk and compliance focus. She is a Non-Executive Director, Chair of the Audit Committee and member of the Nominations and Remuneration for Orocobre, an ASX200 lithium miner with operations in Argentina. She is also a Director and Chair of the Audit Committee for Quickstep, an ASX manufacturing company delivering advanced composite solutions to the global aerospace, defence, automotive and other advanced manufacturing sectors, and a Director and Chair of the Nominations and Remuneration Committee for the Australian Meat Processor Corporation (AMPC). Ms Heywood is a member of the New South Wales Council for Women's Economic Opportunity and winner of the 2019 NSW Business Woman of the Year Award.

Nils Gunnersen

Non-Executive Director

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

Tom Gunnersen

Non-Executive Director

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

Directors' Report

Committee membership

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

Name	ARMC	OHS	RNC	Comments
Directors				
Gregory McCormack	✓			
Anthony Price				CEO
Anthony Bennett		✓		
Gordon Davis	✓	✓	✓	Chair RNC
Leanne Heywood				
Nils Gunnersen		✓	✓	Chair OHS
Thomas Keene	✓		✓	Chair ARMC
Tom Gunnersen				

Meetings of Directors

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

	Board		ARMC		RNC		OHS	
Directors	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Gregory McCormack	13	13	6	6	–	–	–	–
Anthony Bennett	13	13	–	–	–	–	4	4
Gordon Davis	13	13	6	6	3	3	4	4
Nils Gunnersen	13	13	–	–	3	3	4	4
Tom Gunnersen	13	13	–	–	–	–	–	–
Leanne Heywood*	3	3	–	–	–	–	–	–
Thomas Keene	13	12	6	5	3	3	–	–
Anthony Price	13	13	–	–	–	–	–	–

* Leanne Heywood was appointed to the Board on 1 March 2019.

Principal activities

The principal activities of the Group during the 2019 financial year are based on the reportable segments of the Group as below:

Reportable segments	Products/services
Woodfibre Processing	Includes primary processing facilities whereby the Group processes and sells woodfibre to third parties. SWF is also proportionally consolidated at 51 per cent for segment reporting, which reflects how management views and makes decisions of its operations.
Forestry Logistics	Forestry logistics provides support services to third parties engaged in growing woodfibre including harvest and haul.
Plantation Management	Plantation management is the provision of silviculture services including on Group-owned trees. The segment also holds any Group-owned plantation land and trees.
Ancillary	Includes income earned from the marketing of third party woodfibre and other aggregated costs that are not individually significant.

Operating and finance review

Financial results

Full year results in line with consensus forecasts

- The full year 2019 financial results were in line with expectations, achieving earnings before interest, tax, depreciation and amortisation (EBITDA) before significant items of $37.1 million (2018: $28.7 million).
- Net profit before tax (NPBT) was $33.1 million and NPAT was $26.2 million.
- 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

- Woodfibre processing performed strongly against prior period due to increased sales prices, higher bone dry percentage, and a favourable foreign exchange rate.
- Acquisition of Softwood Logging Services (now Midway Logistics) contributed $5.6 million revenue to the Forestry Logistics segment.
- The plantation management segment had a $10.5 million uplift in fair value for the standing trees on the balance sheet.
- The Ancillary segment contributed $2.1 million EBITDA – S (2018: $0.9 million), primarily due to increased volume of woodfibre trading.

Good progress against strategic objectives

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

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

$'000	2019	2018	Change
Revenue and other income			
Sales revenue	283,645	231,912	51,733
Other income	5,642	4,162	1,480
	289,287	236,074	53,213
Less: expenses			
Changes in inventories of finished goods and work in progress	12,500	(1,536)	14,036
Raw materials, consumables and other procurement expenses	(172,436)	(134,998)	(37,438)
Employee benefits expense	(24,556)	(14,402)	(10,154)
Plantation management expenses	(977)	(1,061)	84
Freight and shipment costs	(53,021)	(48,207)	(4,814)
Repairs and maintenance costs	(9,099)	(3,633)	(5,466)
Other operating expenses	(11,464)	(7,400)	(4,064)
Share of profit/(loss) of equity accounted investments	6,841	3,856	2,985
EBITDA – S (underlying)	37,075	28,693	8,382
Depreciation and amortisation	(8,633)	(4,459)	(4,174)
EBIT – S (underlying)	28,442	24,234	4,208
Net finance expense	(1,995)	(2,130)	135
Net profit before tax – S (underlying)	26,447	22,104	4,343
Income tax expense	(5,959)	(5,538)	(421)
Net profit after tax – S (underlying)	20,488	16,566	3,922

Directors' Report

Operating and finance review continued

Non-IFRS measures

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

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

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

	30-Jun-19 $'000
NPAT (underlying)	**20,488**
Net fair value increment on biological assets[2]	7,373
Non-cash interest expense (AASB 15 strategy impact)[1,2]	(4,829)
Reversal of contingent consideration on business combinations[2]	3,291
Gain on bargain purchase of Softwood Logging Services[2]	149
Transaction costs incurred[2]	(314)
Group NPAT statutory	**26,158**

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

Performance against prior corresponding period

Woodfibre processing

	2019 $'000	2018 $'000	Δ
Revenue	297,293	221,576	34%
EBITDA – S	42,728	30,776	39%
EBITDA	44,690	30,776	45%

Woodfibre processing has performed strongly throughout the year primarily due to:

- Sales prices increased by 11 per cent on average from the prior corresponding period.
- Favourable foreign exchange rate impact (on average 5 cents on a segment basis) leading to increased sales.
- Better bone dry percentage than the previous financial year (+1.4 per cent).

Midway has maintained strong relationships with its key customer base in China and Japan, with steady demand for product expected to continue into FY2020.

Offsetting the positive impacts was a negative contribution from the restructured Plantation Management Partners (-$4.8 million EBITDA). Existing equipment was upgraded and new machinery was purchased to improve production on the Tiwi Islands. This meant production and exports were deferred for several months during the wet season, but that work is now complete and the business has now resumed exports.

Forestry logistics

	2019 $'000	2018 $'000
Revenue	5,637	–
EBITDA – S	(2,411)	(35)
EBITDA	(933)	(35)

Midway Logistics was purchased in October 2018 and through the use of Midway's relationships with key resource owners in Western Australia is looking for a strong contribution in FY2020. FY2019 had unplanned customer shutdowns, meaning planned volumes were not achieved. Management has put in place processes to achieve further growth opportunities in FY2020.

Plantation management

	2019 $'000	2018 $'000	Δ
Revenue	15,885	16,089	-1%
EBITDA – S	(793)	134	-692%
EBITDA	9,740	2,749	254%

The EBITDA increase is driven largely by fair value gain on biological assets, particularly due to increased sales prices.

The majority of the plantation management activity occurs in South West Victoria, Tiwi Islands, Laos and Cambodia.

Ancillary

	2019 $'000	2018 $'000	Δ
Revenue	2,166	1,007	115%
EBITDA – S	2,123	937	127%
EBITDA	1,744	937	86%

Midway markets third party woodfibre to its customers and the increase in EBITDA is due to an increased trading volume, particularly from Tasmania.

Financial position

	2019 $'000	2018 $'000
Current assets	71,322	52,928
Non-current assets	205,712	135,413
Total assets	277,034	188,341
Current liabilities	38,844	37,017
Non-current liabilities	95,530	52,096
Total liabilities	134,374	89,113
Net assets	142,660	99,228

Highlights

- Strong cash flow for the year (operating +$5.6 million).
- Strong working capital position.
- Biological asset net fair value increment of $10.5 million indicating the favourable fundamentals underpinning the treecrop valuation, as a result of improved woodfibre pricing.
- Strong balance sheet to support future business growth opportunities.

Directors' Report

Operating and finance review continued

Net debt

	2019 $'000	2018 $'000
Borrowings – current	**6,637**	7,304
Borrowings – non-current	**38,356**	35,422
	44,993	42,726
less cash		
Cash and cash equivalents	**(15,518)**	(10,356)
Net debt	**29,475**	32,370

Highlights

- Refinancing and extension of term debt maturity to 30 September 2021.
- As at 30 June 2019, the Group was well within its covenant limits.

Outlook

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

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

Market

Market pulp prices have dropped significantly over the last few months, largely due to Brazilian pulp mills over producing and carrying high inventories. These mills have announced that measures have now been put in place to curtail production.

Also, Chinese traders and buyers have run their inventories down to extremely low levels before they recommence buying. Once this happens it is expected pulp prices will improve.

The short-term imbalance between supply and demand in the global pulp market is having a flow-on effect on the global woodfibre market.

Midway has secured export shipments to China in the last few months, but it is too early to be precise about the full impact of current market conditions on export woodfibre volumes and prices during the 2020 financial year.

Despite this issue, pulp mills in China and Japan are still operating at full production and while there has been some deferral of vessels, woodfibre prices are largely set for the remainder of the calendar year in both Japan and China.

When production normalises and pulp stocks return to normal levels in China, Midway is confident that positive long-term trends for woodfibre exports and pricing in the Asia Pacific region forecast by global forest industry experts will re-emerge.

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 most sales are denominated in USD whilst costs are in AUD, any adverse exchange rate fluctuations would have an adverse effect on its future financial performance and position.
- Banking facilities – There is a risk that Midway may not be able to refinance its existing or future bank facilities as and when they fall due, or that the terms available to Midway on refinancing may not be as favourable as the terms of its existing or future bank facilities. In addition, Midway has a debt facility that is subject to various covenants. Factors such as a decline in Midway's operations and financial performance (including any decline arising from any adverse foreign exchange rate fluctuations) could lead to a breach of its banking covenants. If a breach occurs, Midway's financier may seek to exercise enforcement rights under the debt facility, including requiring immediate repayment, which may have a materially adverse effect on Midway's future financial performance and position.
- Excess system capacity – Midway is subject to a number of contracts that contain minimum annual volume commitments. Financial costs are imposed if these volume commitments are not met.
- Contamination of product – Woodfibre export contracts all contain similar contamination requirements. There is a risk of financial recourse in the event of a breach of contract.
- Costs – Midway's profitability could be materially and adversely affected by changes in costs, which are in many respects beyond its reasonable control.
- Sale of freehold plantation land – In the event freehold plantation land is sold after harvest of the current rotation of trees, there is a risk Midway may not be able to achieve sales for some or all of the estate within its optimal timeframe at or in excess of book value.
- Vessel chartering – An increasing proportion of Midway's export sales is executed on a cost, insurance and freight (CIF) basis, and there is a risk that Midway may not be able to finalise an export sale contract, rendering the vessel idle.
- Employee recruitment risk and retention – There is a risk the Group may not be able to attract and retain key staff, particularly in remote regions.
- Port of Brisbane tenure – There is a risk that QCE will be unable to renew the lease expiring in 2022 and, therefore, would need to seek access to an alternative export facility.
- Risk of fire affecting timber supply – Loss of plantation resource and therefore supply due to fire is an ever-present industry risk.
- Risk of extreme weather events occurring in remote regions such as the Tiwi Islands.
- Other risks facing the Company include: failure to comply with laws, regulations and industry standards generally (and environmental matters and industry accreditations specifically); risk of litigation, claims and disputes; and bribery and corruption in foreign jurisdictions.

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

Dividends

Dividends declared in respect of the financial year 2019:

	Cents per share	Total amount ($)	Date of payment
Interim dividend (fully franked)	9.0	7,854,410	18/04/2019
Final dividend (fully franked)	9.0	7,854,410	28/10/2019

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.

Directors' Report

Significant changes in the state of affairs

Capital raising

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

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

Some of the proceeds of the placement and SPP (collectively the capital raising) were used to partially fund the PMP restructure, fund acquisition and investment of Softwood Logging Services Pty Ltd and Bio Growth Partners Pty Ltd respectively, and will be used for future investments based on the Group's growth strategy.

Acquisition of Softwood Logging Services and interest in Bio Growth Partners

On 15 October 2018, the Company made two acquisitions in Western Australia:

- 100 per cent of Softwood Logging Services (SLS) (now Midway Logistics), a harvest and haul business in Western Australia. SLS provides Midway with access to equipment, management expertise and contracts for the harvesting and delivery of biomass and other forest products in South West Western Australia; and
- 40 per cent of Bio Growth Partners, a biomass procurement and marketing business that supplies woodfibre to the Western Australian biomass market. Bio Growth Partners is not controlled by the Group and as such is equity accounted.

Plantation Management Partners (PMP) restructure

The Group restructured the operations of Plantation Management Partners (PMP) during the period. The restructure means that the Company will control the entire woodfibre supply chain and deliver to market an additional three to five vessels per annum by renegotiating contractual arrangements between PMP and its customer Tiwi Plantations Corporation (TPC).

PMP entered into agreements to perform the harvest, haul, processing and marketing of woodfibre on behalf of the customer. This change transforms the business from a labour hire planation management business to a woodfibre marketer and processer in line with other Group entities. As at 30 June 2019, the Group invested $19.8 million for the purchase of additional property, plant and equipment and assignment of loan receivable from TPC's existing financiers.

Significant events subsequent to the end of the financial year

A final dividend of $7.9 million was declared on 27 August 2019 for 9.0 cents per share.

The Directors are not aware of any other matter or circumstance that has arisen since 30 June 2019 that has significantly affected or may significantly affect the operations of the Group in subsequent financial years, the results of those operations, or the state of affairs of the Group in future financial years.

Likely developments and expected results of operations

Midway will continue to pursue further growth opportunities through:

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

Environmental regulation

The Chief Executive Officer reports to the Board on any environmental and regulatory issues at each Directors meeting, if required. During the year, no significant incidents happened.

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 2019 financial year. Refer to the Remuneration Report for details on the rights issued to KMP.

Indemnification and insurance of Directors and Officers

Indemnification

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

Insurance of Directors and Officers

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

Insurance of auditor

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

Proceedings on behalf of the Company

There are no legal proceedings currently outstanding.

Non-audit services

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

The Board of Directors has considered the position and, in accordance with the advice received from the Audit and 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 and 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.

	2019 $	2018 $
KPMG Australia		
Audit and assurance services		
Statutory audit fees	**233,807**	163,000
Other services		
Non-assurance services – other advisory services	**9,225**	25,400
Agreed upon procedures	**20,500**	–

Directors' Report

Auditor's independence declaration

A copy of the auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* in relation to the audit for the financial year is set out on page 15 and forms part of this report.

Rounding off

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

Signed in accordance with a resolution of the Directors.

G H McCormack
Chairman

Melbourne
28 August 2019

Remuneration Report (Audited)

Introduction

The Directors are pleased to present the FY2019 Remuneration Report, which forms part of the Midway Limited (Company) Directors' Report. It outlines the Board's remuneration philosophy and remuneration information for the Company's Non-Executive Directors, Executive Directors and other Key Management Personnel (KMP) in accordance with the requirements of the *Corporations Act 2001* and its regulations.

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

Executive Remuneration represents remuneration for the Executive KMPs and other members of senior management. This report discloses remuneration as it relates to Executive KMPs; 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		
Greg McCormack	Non-Executive Chairman	
Anthony Bennett	Non-Executive Director	
Gordon Davis	Non-Executive Director	
Leanne Heywood	Non-Executive Director	Appointed 01/03/2019
Nils Gunnersen	Non-Executive Director	
Thomas Keene	Non-Executive Director	
Tom Gunnersen	Non-Executive Director	
Executives		
Anthony Price	Managing Director and CEO	
Ashley Merrett	Chief Financial Officer	

Principles used to determine nature and amount of remuneration

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

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

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

Remuneration Report (Audited)

Remuneration and Nomination Committee

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

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

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

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

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 CEO and CFO remuneration. The cost for this service was $9,225.

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 that provides the Company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

Framework

Under the Company's Constitution, the Non-Executive Directors as a whole may be paid or remunerated for their services a total amount or value not exceeding $1 million 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.

Remuneration Report (Audited)

Current structure

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

	Board base fee $	Additional fee $
Non-Executive Director	120,000	
Chairman	220,000	
Chairman – Audit and Risk Management Committee		11,000
Chairman – Remuneration and Nomination Committee		11,000

The aggregate remuneration of Non-Executive Directors for the year ended 30 June 2019 was $881,000.

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 that 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, is 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 that 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 that 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.

Remuneration Report (Audited)

Executive remuneration continued

Variable remuneration continued

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 that 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.

2019 Executive remuneration

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

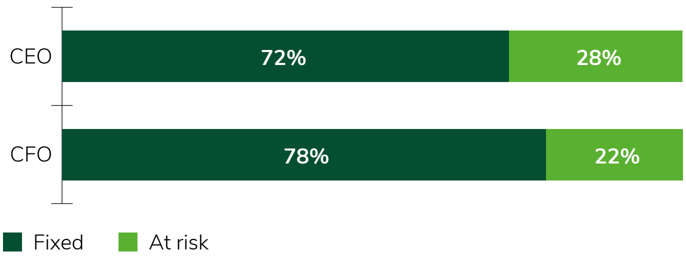
In assessing whether the KPIs for each variable component have been met, the Company measures actual results against internal targets.

A summary of contractual arrangements is provided below:

	Base salary[1] $	Maximum STI $	Eligibility LTIP	Termination notice	Restraint of trade provisions
Chief Executive Officer	499,700	162,500	✓	3 months	✓
Chief Financial Officer	333,125	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)

FY2019 short-term incentives

In FY2019, 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 FY2019 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 2019.
Performance measures	STI is assessed against both financial and non-financial measures with the following weighting:
Payment	Upon final endorsement by the Board.

Measure	Weighting CEO	Weighting CFO
EBITDA[1]	40%	40%
LTIFR	20%	20%
Individual performance measures	40%	40%

A sliding scale exists for each KPI target in relation to percentage 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 percentage of the KPI target is not met.

FY2019 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 2019 financial year:

KMP	Maximum STI	% of Maximum STI achieved
CEO	162,500	49.4%
CFO	100,000	51.9%

Remuneration Report (Audited)

2019 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 FY2019, 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. The Bonus Rights have all now vested. It is anticipated that all future LTIP arrangements will include elements of performance-based metrics.

Structure

The key terms of the LTIP are summarised below.

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

Term	Description
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.

2019 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 9 February 2017
Number of rights granted	164,000 CEO (80,000); CFO (48,000); Other (36,000)
Service conditions	Remain in employment over designated period (see vesting conditions)
Performance conditions	Nil
Fair value at grant date	2.59[1]
Vesting of Performance Rights	The Performance Rights will vest as follows: 50 per cent of the Performance Rights issued to the Participant will vest on the date that is 12 months after Completion of the IPO provided the Participant remains in continuous employment with the Company until the vesting date; and 50 per cent of the Performance Rights issued to the Participant will vest on the date that is 24 months after Completion of the IPO provided the Participant remains in continuous employment with the Company until the vesting date. If the Participant ceases to be an employee or Director of the Company or any of its subsidiaries by reason of: (a) the termination of the Participant's employment because of a breach by the Participant of the terms of the Participant's employment; or (b) resignation of the Participant as employee or Director for a reason other than death, illness or injury, those Options or Rights held by the Participant which could not have been exercised on or before the date the Participant ceased to be an employee or director shall thereupon lapse and terminate unless the Board determines otherwise.
Board discretion	Vesting Conditions may be reduced or waived in whole or in part at any time by the Board.
Entitlement	Each Performance Right entitles the participant, on vesting of the Performance Right, to receive (at the discretion of the Board, other than as provided in the Plan Rules) by issue or transfer, one fully paid ordinary share in the capital of the Company (Share).

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

Remuneration Report (Audited)

2019 Executive remuneration continued

2019 Long-term incentives continued

(b) Performance Rights

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

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

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

Relationships between Company remuneration policy and Company performances

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	FY2019 actual $	FY2019 pro forma[1] $	FY2018 actual $	FY2018 pro forma[1] $	FY2017 actual $	FY2017 pro forma[1] $
Revenue	283,645	283,645	231,912	231,912	213,369	213,369
EBITDA	50,669	37,075	31,308	28,693	24,916	28,367
Dividend paid (cents per share)	18	18	18	18	18	18

1. Pro forma figures have not been audited.

Key Management Personnel remuneration

The statutory remuneration disclosures for the year ended 30 June 2019 are detailed below and are prepared in accordance with Australian Accounting Standards (AASBs).

		Short-term benefits			Post-employment	Long-term benefits	Share-based payments	Total
		Salary and fees	STI[1]	Non-monetary[2]	Super-annuation	Other[3]		
Directors								
Greg McCormack	2019	201,563	–	–	18,437	–	–	220,000
	2018	182,428	–	–	17,572	–	–	200,000
Anthony Bennett	2019	109,944	–	–	10,056	–	–	120,000
	2018	100,383	–	–	9,617	–	–	110,000
Gordon Davis	2019	120,022	–	–	10,978	–	–	131,000
	2018	109,703	–	–	10,297	–	–	120,000
Nils Gunnersen	2019	109,944	–	–	10,056	–	–	120,000
	2018	100,408	–	–	9,592	–	–	110,000
Leanne Heywood[4]	2019	35,888	–	–	3,112	–	–	39,000
	2018	–	–	–	–	–	–	–
Thomas Keene	2019	120,022	–	–	10,978	–	–	131,000
	2018	104,372	–	–	15,628	–	–	120,000
Tom Gunnersen	2019	116,983	–	–	3,017	–	–	120,000
	2018	34,682	–	–	995	–	–	35,677
Executives								
Anthony Price	2019	421,238	80,202	52,704	23,686	21,750	60,697	660,277
	2018	408,536	105,043	52,704	24,950	(14,706)	135,346	711,873
Ashley Merrett	2019	284,882	51,885	23,000	24,082	1,369	13,709	398,927
	2018	276,499	64,642	23,000	24,940	(1,600)	58,499	445,980

1. Relates to the 2019 performance STI accrued but not paid until FY2020.
2. Relates to vehicle allowance paid by the Group.
3. Includes the movement in annual leave and long service leave provisions.
4. Commenced as a Director 1 March 2019.

Remuneration Report (Audited)

Key Management Personnel remuneration continued

Equity instruments

KMP	Held at 1 July 2018	Shares acquired	Shares sold	Other changes	Held at 30 June 2019
Gregory McCormack	13,038,379	–	3,533,779	–	9,504,600
Anthony Bennett	2,795,356	5,000	40,000	–	2,760,356
Gordon Davis	65,000	–	–	–	65,000
Nils Gunnersen	6,200	3,409	9,609	–	–
Thomas Keene	224,378	5,000	–	–	229,378
Tom Gunnersen	–	–	–	–	–
Leanne Heywood	–	–	–	–	–
Anthony Price	56,000	45,000*		–	101,000
Ashley Merrett	–	24,000**	5,000	–	19,000

* 40,000 shares issued upon vesting of Performance Rights issued under the Company's Long Term Incentive Plan.

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

Details of equity incentives affecting current and future remuneration

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

	Instrument	Number	Grant date	% Vested in year	% Forfeited in year	Financial year in which grant vests
Anthony Price	Performance Rights	65,000	09/02/2017	0%	–	2020

The 65,000 performance rights issued will vest in financial year 2020, as Midway's total shareholder return over the performance period was greater than 75 per cent of the comparator companies.

Other transactions with KMP

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

Auditor's Independence Declaration

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 2019 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

28 August 2019

Financial Report

Introduction

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

Accounting policies and critical accounting judgements applied to the preparation of the Financial Report are included throughout the Financial Report with the related accounting balance or financial statement matters to allow them to be easily understood by the users of this Report.

Contents

Consolidated Statement of Comprehensive Income

For the Year Ended 30 June

	Notes	2019 $'000	2018 $'000
Revenue and other income			
Sales revenue	1.1	283,645	231,912
Other income	4.8	9,082	4,162
		292,727	236,074
Less: expenses			
Changes in inventories of finished goods and work in progress		12,500	(1,536)
Materials, consumables and other procurement expenses		(172,436)	(134,998)
Depreciation and amortisation expense	2.1/2.5	(8,633)	(4,459)
Employee benefits expense		(24,556)	(14,402)
Biological assets net fair value increment	2.2	10,533	2,615
Plantation management expenses		(977)	(1,061)
Freight and shipping expense		(53,021)	(48,207)
Repairs and maintenance expense		(9,099)	(3,633)
Other expenses		(11,843)	(7,400)
		(257,532)	(213,081)
Finance expense	3.1	(9,911)	(2,181)
Finance income		1,017	51
Net finance expense		(8,894)	(2,130)
Share of net profits from equity accounted investments	4.2	6,841	3,856
Profit before income tax expense		33,142	24,719
Income tax expense	1.3	(6,984)	(6,322)
Profit for the period		26,158	18,397
Items that will not be reclassified to profit and loss			
Revaluation of land fair value adjustment, net of tax	2.1	(5)	3,618
Items that may be reclassified subsequently to profit and loss			
Cash flow hedges effective portion of changes in fair value, net of tax		(34)	(432)
Foreign operations – foreign currency translation differences		1	4
Equity accounted investees – share of OCI		7	(167)
Other comprehensive income for the period		(31)	3,023
Total comprehensive income for the period		26,127	21,420
Profit is attributable to:			
Owners of Midway Limited		25,787	18,360
Non-controlling interests		371	37
		26,158	18,397
Total comprehensive income is attributable to:			
Owners of Midway Limited		25,768	21,383
Non-controlling interests		359	37
		26,127	21,420
Earnings per share for profit attributable to equity holders:			
Basic earnings per share		$0.31	$0.25
Diluted earnings per share		$0.31	$0.25

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

Consolidated Balance Sheet

As at 30 June

	Notes	2019 $'000	2018 $'000
Current assets			
Cash and cash equivalents	3.1	15,518	10,356
Receivables	2.4	22,752	19,457
Inventories	2.4	22,689	6,146
Biological assets	2.2	2,408	12,172
Current tax receivable		1,907	–
Other assets		6,048	4,797
Total current assets		71,322	52,928
Non-current assets			
Biological assets	2.2	50,608	3,868
Investments accounted for using the equity method	4.2	15,294	12,948
Intangible assets	2.5	9,241	10,749
Loan receivables		3,200	–
Property, plant and equipment	2.1	127,369	107,848
Total non-current assets		205,712	135,413
Total assets		277,034	188,341
Current liabilities			
Trade and other payables	2.4	27,282	24,642
Current tax payable		–	614
Borrowings	3.1	6,637	7,304
Strategy financial liability	2.2	434	–
Derivative financial liability	3.2	483	484
Provisions		4,008	3,973
Total current liabilities		38,844	37,017
Non-current liabilities			
Borrowings	3.1	38,356	35,422
Strategy financial liability	2.2	40,210	–
Provisions		129	117
Deferred tax liabilities	1.3	16,835	16,557
Total non-current liabilities		95,530	52,096
Total liabilities		134,374	89,113
Net assets		142,660	99,228
Contributed equity			
Share capital	3.3	64,791	29,045
Reserves	3.3	74,710	66,983
Retained earnings		1,614	1,614
Equity attributable to owners of Midway Limited		141,115	97,642
Equity attributable to non-controlling interests		1,545	1,586
Total equity		142,660	99,228

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

Consolidated Statement of Changes in Equity

$'000	Share capital	Reserves	Retained earnings	Non-controlling interests	Total equity
Balance as at 1 July 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
Balance as at 1 July 2018	**29,045**	**66,983**	**1,614**	**1,586**	**99,228**
Adjustment on adoption of AASB 15 (note 2)	**–**	**(3,319)**	**–**	**–**	**(3,319)**
Restated total equity at the beginning of the financial period	**29,045**	**63,664**	**1,614**	**1,586**	**95,909**
Profit for the year	**–**	**–**	**25,787**	**371**	**26,158**
Revaluation of land, net of tax	**–**	**(5)**	**–**	**–**	**(5)**
Cash flow hedges effective portion of changes in fair value, net of tax	**–**	**(15)**	**–**	**(12)**	**(27)**
Foreign operations – foreign currency translation differences	**–**	**1**	**–**	**–**	**1**
Total comprehensive income for the year	**–**	**(19)**	**25,787**	**359**	**26,127**
Other transactions:					
Issuance of ordinary shares, net of transaction costs	**35,534**	**–**	**–**	**–**	**35,534**
Issuance of performance rights	**212**	**(212)**	**–**	**–**	**–**
Share-based payments expense	**–**	**86**	**–**	**–**	**86**
Transfers to profits reserve	**–**	**25,787**	**(25,787)**	**–**	**–**
Transactions with owners in their capacity as owners:					
Dividends	**–**	**(14,596)**	**–**	**(400)**	**(14,996)**
Total other transactions	**35,746**	**11,065**	**(25,787)**	**(400)**	**20,624**
Balance as at 30 June 2019	**64,791**	**74,710**	**1,614**	**1,545**	**142,660**

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

Consolidated Statement of Cash Flows

For the Year Ended 30 June

	Notes	2019 $'000	2018 $'000
Cash flow from operating activities			
Receipts from customers		295,444	228,296
Payments to suppliers and employees		(280,902)	(210,029)
Interest received		184	51
Interest paid		(1,495)	(1,663)
Income tax paid		(7,641)	(3,490)
Net cash provided by operating activities	3.1	5,590	13,165
Cash flow from investing activities			
Proceeds from sale of property, plant and equipment		218	156
Payment for property, plant and equipment		(4,182)	(7,025)
Payment for non-current biological assets		–	(6,853)
Acquisition of Softwood Logging Services (now Midway Logistics), net of cash		(322)	–
Acquisition of Plantation Management Partners, net of cash		–	(5,387)
Acquisition of equity accounted investees		(3,697)	(459)
Dividends received from associates		8,670	4,590
Payment deferred consideration Plantation Management Partners		(1,500)	–
Restructure of Plantation Management Partners	1.2	(8,964)	–
Net cash provided by investing activities		(9,777)	(14,978)
Cash flow from financing activities			
Proceeds from share issue, net of costs		34,996	–
Net finance lease payments		(4,698)	(856)
Dividends paid		(14,596)	(13,475)
Proceeds from bank borrowings		–	14,000
Repayment of bank borrowings		(6,353)	(2,525)
Net cash used in financing activities		9,349	(2,856)
Reconciliation of cash			
Cash at beginning of the financial period		10,356	15,025
Net increase/(decrease) in cash held		5,162	(4,669)
Cash at end of financial period (net of overdrafts)	3.1	15,518	10,356

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

Notes to the Consolidated Financial Statements

Section 1: Our performance

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

- Net Profit After Tax (NPAT) of $26.2 million, exceeding the prior corresponding period on both NPAT and revenue;
- Increase in statutory earnings per share (EPS) to $0.31 per share (increase of $0.06); 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.

In January 2019, the Group announced changes to its reportable segments, effective 31 December 2018. The revised reporting structure reflects the manner in which the Group now manages each product/service offered.

Reportable segments	Products/services
Woodfibre Processing	Includes primary processing facilities whereby the Group processes and sells woodfibre to third parties. SWF is also proportionally consolidated at 51 per cent for segment reporting, which reflects how management views and makes decisions of its operations, as opposed to equity accounted for statutory reporting purposes.
Forestry Logistics	Forestry Logistics provides support services to third parties engaged in growing woodfibre including harvest and haul.
Plantation Management	Plantation Management is the provision of silviculture services including on Group-owned trees. The segment also holds any Group-owned plantation land and trees.
Ancillary	Includes income earned from the marketing of third party woodfibre and other aggregated costs that are not individually significant.

The Group evaluates the performance of its operating segments based on net sales (net of insurance and freight costs). Net sales for geographic segments are generally based on the location of customers. Earnings before interest, tax, depreciation and amortisation (EBITDA) for each segment includes net sales to third parties, related cost of sales and operating expenses directly attributable to the segment. EBITDA for each segment excludes other income and expense and certain expenses managed outside the operating segments.

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

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

Notes to the Consolidated Financial Statements

Section 1: Our performance continued

1.1 Segment reporting continued

(b) Segment information provided to senior management

2019 ($'000)	Woodfibre processing	Forestry logistics	Plantation management	Ancillary	Eliminations	Total
Sales revenue	297,293	5,637	4,834	–	(24,119)	283,645
Inter segment sales	–	–	11,051	–	(11,051)	–
Other income	4,168	458	1,346	2,166	944	9,082
Total revenue and other income	301,461	6,095	17,231	2,166	(34,226)	292,727
Share of equity accounted profits/(loss)	35	(639)	–	–	7,445	6,841
EBITDA – S[1]	42,728	(2,411)	(793)	2,123	(4,572)	37,075
Significant items	1,962	1,478	–	(379)	–	3,061
Fair value gain on biological assets	–	–	10,533	–	–	10,533
EBITDA	44,690	(933)	9,740	1,744	(4,572)	50,669
Depreciation and amortisation	(6,138)	(1,282)	(912)	(1,760)	1,459	(8,633)
EBIT	38,552	(2,215)	8,828	(16)	(3,113)	42,036
Net finance expense	(2,245)	(21)	(6,920)	–	292	(8,894)
Net profit before tax	36,307	(2,236)	1,908	(16)	(2,821)	33,142
Income tax expense	(11,261)	923	(364)	75	3,643	(6,984)
Net profit after tax	25,046	(1,313)	1,544	59	822	26,158
Segment assets	137,432	5,806	138,246	3,424	(7,874)	277,034
Equity accounted investees	11,361	3,933	–	–	–	15,294
Capital expenditure	(18,071)	–	(3,559)	–	324	(21,306)
Segment liabilities	(65,470)	(6,252)	(75,284)	(18)	12,650	(134,374)

2018 ($'000)	Woodfibre processing	Forestry logistics	Plantation management	Ancillary	Eliminations	Total
Sales revenue	221,576	–	8,026	–	2,310	231,912
Inter segment sales	–	–	8,063	–	(8,063)	–
Other income	2,949	–	1,430	1,007	(1,224)	4,162
Total revenue and other income	224,525	–	17,519	1,007	(6,977)	236,074
Share of equity accounted profits	–	(35)	–	–	3,891	3,856
EBITDA – S[1]	30,776	(35)	134	937	(3,119)	28,693
Significant items	–	–	–	–	–	–
Fair value gain on biological assets			2,615			2,615
EBITDA	30,776	(35)	2,749	937	(3,119)	31,308
Depreciation and amortisation	(4,364)	–	(691)	(885)	1,481	(4,459)
EBIT	26,412	(35)	2,058	52	(1,638)	26,849
Net finance expense	(2,082)	–	(18)	–	(30)	(2,130)
Net profit before tax	24,330	(35)	2,040	52	(1,668)	24,719
Income tax expense	(7,742)	–	(534)	286	1,668	(6,322)
Net profit after tax	16,588	(35)	1,506	338	–	18,397
Segment assets	134,324	–	111,376	–	(57,359)	188,341
Equity accounted investees	12,948	–	–	–	–	12,948
Capital expenditure	(2,546)	–	(5,084)	–	238	(7,392)
Segment liabilities	(65,953)	–	(30,919)	–	7,759	(89,113)

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

(c) Revenue by geographic region

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

2019 Revenue by geographic region ($'000)	Woodfibre processing	Forestry logistics	Plantation management	Ancillary	Eliminations	Total
Australia	2,536	5,637	14,625	–	(11,051)	11,747
China	204,164	–	–	–	9,622	213,786
Japan	90,593	–	–	–	(33,741)	56,852
South East Asia	–	–	1,260	–	–	1,260
	297,293	5,637	15,885	–	(35,170)	283,645

2018 Revenue by geographic region ($'000)	Woodfibre processing	Forestry logistics	Plantation management	Ancillary	Eliminations	Total
Australia	–	–	15,136	–	(8,063)	7,073
China	181,578	–	–	–	8,655	190,233
Japan	39,998	–	–	–	(6,345)	33,653
South East Asia	–	–	953	–		953
	221,576	–	16,089	–	(5,753)	231,912

For the financial year ending 30 June 2019 there were three (2018: four) customers in China and Japan that individually made up 10 per cent or above total sales for the Group.

Policy

Revenue

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

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

1.2 Individually significant items

Individually significant items before tax	2019 $'000	2018 $'000
Reversal of contingent consideration[1]	3,291	–
Gain on bargain purchase of Softwood Logging Services (now Midway Logistics)	149	–
Transactions costs[2]	(379)	–
Impact of individually significant items	3,061	–

1. Relates to the reversal of all contingent consideration for the PMP, SLS and BGP acquisition.
The reversal has arisen as the earnings targets set at acquisition time are unlikely to be achieved.
2. Transaction costs incurred on acquisition of SLS and Bio Growth Partners (BGP), and restructuring the operations of Plantation Management Partners (see below).

Notes to the Consolidated Financial Statements

Section 1: Our performance continued

1.2 Individually significant items continued

Plantation Management Partners (PMP) restructure

The Group restructured the operations of Plantation Management Partners (PMP) during the period. The restructure means that the Company will control the entire woodfibre supply chain and deliver to market an additional three to five vessels per annum by renegotiating contractual arrangements between PMP and its customer Tiwi Plantations Corporation (TPC).

PMP entered into agreements to perform the harvest, haul, processing and marketing of woodfibre on behalf of the customer. This change transforms the business from a labour hire plantation management business to a woodfibre marketer and processer in line with other Group entities. As at 30 June 2019, the Group invested $19.8 million for the purchase of additional property, plant and equipment and assignment of loan receivable from TPC's existing financiers.

1.3 Income tax

	2019 $'000	2018 $'000
(a) Current tax reconciliation		
Current tax	5,198	4,935
Deferred tax	1,770	1,387
Over provision in prior years	16	–
	6,984	6,322
(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% (2018: 30.0%)	9,943	7,416
– Effect of taxes in foreign jurisdictions	(61)	(80)
Add tax effect of:		
– Other non-allowable items	157	153
	10,039	7,489
Less tax effect of:		
– Over provision for income tax in prior years	16	–
– Reversal of contingent consideration on business combinations	987	–
– Share of profits/(losses) in joint ventures	2,052	1,167
	3,055	1,167
Income tax expense attributable to profit	6,984	6,322
(c) Deferred tax		
Deferred tax assets		
Payables	929	737
Blackhole expenditure	918	744
Capital loss[1]	1,499	1,499
Other	6	11
	3,352	2,991
Deferred tax liabilities		
Biological assets	2,141	1,711
Property, plant and equipment	16,177	15,499
Intangible assets[1]	1,869	2,338
	20,187	19,548
Net deferred tax liabilities	16,835	16,557

1. Related to businesses acquired.

Notes to the Consolidated Financial Statements

	2019 $'000	2018 $'000
(d) Deferred income tax (revenue)/expense included in income tax expense comprises		
Decrease/(increase) in deferred tax assets	**186**	447
(Decrease)/increase in deferred tax liabilities	**1,585**	940
	1,771	1,387
(e) Deferred income tax related to items charged or credited directly to equity		
Increase in deferred tax liabilities	**1,972**	(1,366)

Policy

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

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

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

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

Tax consolidation

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

Key estimates and judgements

From time to time the Group takes tax positions that require consideration, including an assessment of the recoverability of Deferred Tax Assets. 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 continued

1.4 Earnings per share

(a) Earnings per share

	2019	2018
Earnings per share	$0.31	$0.25
Diluted earnings per share*	$0.31	$0.25

	2019 number	2018 number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	84,264,989	74,901,933
Adjustments for calculation of diluted earnings per share:		
Performance rights	65,000	147,000
	84,329,989	75,048,933

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

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

1.5 Dividends

	2019 $'000	2018 $'000
Fully franked at 30% (2018: 30%)	14,596	13,475

On 29 August 2019, a final dividend was declared for 9.0 cents per share (fully franked).

The balance of the franking account at 30 June 2019 is 7,673,334 (2018: 3,294,795).

1.6 Business acquisitions

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

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

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

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

Consideration transferred

	Date payable	Purchase consideration fair value $'000
Cash and cash equivalents	Settlement	534
Contingent consideration[1]	30-Jun-19	1,023
		1,557

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

Notes to the Consolidated Financial Statements

Assets acquired and liabilities assumed

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

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

2018

On 26 October 2017, the Company acquired 100 per cent 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 South East Asia. It has a strong industry reputation as a high-quality plantation manager.

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

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

Consideration transferred

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

1. Payable on meeting the contracted EBITDA target. The targets were not subsequently achieved and as such no amount was paid.
2. Higher cash and trade debtors were acquired than the contracted target. It is anticipated payment will be made by 30 June 2020.

Notes to the Consolidated Financial Statements

Section 1: Our performance continued

1.6 Business acquisitions continued

Assets acquired and liabilities assumed

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

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

Fair value measurement

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

Section 2: Our asset base

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

- The Group sources wood supply from owned and third party plantation land, which is used to grow hardwood trees.
- The Group's plantation land portfolio increased in value by $1.9 million in the current year as a result of additions in South West Victoria.
- The Group holds biological assets for harvest of which $6.4 million relates to seedlings and $45.8 million is plantation hardwood.
- The Group has low credit risk due to the nature and size of customers and use of letters of credit in the majority of cases.
- The Group optimises its working capital position regularly and excess cash is used to grow the business or returned to shareholders.

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 2018						
Opening net book amount	64,048	12,670	1,908	14,201	5,491	98,318
Additions	3,540	–	–	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
Year ended 30 June 2019						
Opening net book amount	**72,756**	**12,670**	**1,837**	**14,205**	**6,380**	**107,848**
Additions	**1,884**	**–**	**1,022**	**16,872**	**1,528**	**21,306**
Business acquired note 1.6	**–**	**–**	**–**	**5,443**	**–**	**5,443**
Disposals	**–**	**–**	**–**	**(155)**	**–**	**(155)**
Depreciation	**–**	**–**	**(90)**	**(6,196)**	**(782)**	**(7,068)**
Revaluation	**(5)**	**–**	**–**	**–**	**–**	**(5)**
Closing carrying amount	**74,635**	**12,670**	**2,769**	**30,169**	**7,126**	**127,369**

Notes to the Consolidated Financial Statements

Section 2: Our asset base continued

2.1 Property, plant and equipment continued

(a) Key estimates and judgements – fair value

	2019 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 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 2019 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	74,635	Market approach/ net present value approach[1]	The Company's plantation land is stated at revalued amounts, being the fair value for its highest and best use at the date of revaluation. The highest and best use is subjective and judgemental given potential alternate uses. It requires careful analysis and detailed knowledge of the local market conditions and recent sales trends. As a result, the Group engaged an independent valuer to provide an independent valuation on an unencumbered basis as at 30 June 2019. The independent valuation is adjusted by the Directors using a DCF methodology to estimate the fair value on an encumbered basis. Assumptions about clear fall period and reversion costs have been included where/as appropriate. In some instances, the valuations highest and best use is lifestyle differing from actual use, forestry. A change to inputs to the valuer's and/or the Directors' assessment would result in differing valuation results.

1. The same valuation technique was used in 2018.

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.

2019 plantation land measurement

The unencumbered value of the plantation land is $90.7 million (2018: $87.4 million). 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 that is legally owned by third parties), taking into account where appropriate reversionary costs and utilising a discounted cash flow analysis from the highest and best use determined by the independent valuation expert.

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

Assumption	Variable
Discount rate	7.25%
Growth rate	2% to 6%
Reversionary costs	$0 – $1,550 per hectare
Clearfall period	2019 – 2027

(b) Sensitivity analysis

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

	2019		2018	
Plantation land at fair value	Increase $'000	Decrease $'000	Increase $'000	Decrease $'000
Discount rate +/- 1%	(3,043)	3,242	(2,808)	2,996
Growth rate +/- 1%	3,150	(3,013)	3,081	(2,938)
Reversionary costs +/- 10%	(179)	179	(184)	184

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; and
- rate per hectare applied to each individual block based on individual characteristics of that block.

Freehold land

A 1 per cent change in assumptions to the $ rate per hectare applied will increase the value by $0.1 million (2018: $0.1 million), or decrease by $0.1 million (2018: $0.1 million). Based on current and prior valuations of the land, a 1 per cent rate change is considered reasonable.

(c) Policy

Freehold and plantation land

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

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

Other items of property, plant and equipment

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

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

Depreciation

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

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

2.2 Biological assets

	2019 $'000	2018 $'000
Current		
Plantation hardwood at fair value	2,408	12,172
Non-current		
Plantation hardwood at fair value	44,204	–
Plantation hardwood at fair value (new plantings)	6,404	3,868
	53,016	16,040

Notes to the Consolidated Financial Statements

Section 2: Our asset base continued

2.2 Biological assets continued

	Note	Biological assets $'000
At 1 July 2018		16,040
Hardwood trees bought back on balance sheet as a result of adoption of AASB 15 at 1 July	2.2(d)	27,887
Restated opening balance as at 1 July 2018		43,927
Harvested timber		(4,778)
New plantings		3,334
Purchase of standing timber		–
Change in fair value less estimated point of sale costs – due to:		–
Change in discount rate		–
Change in volumes and prices		10,533
Balance at 30 June 2019		53,016

(a) Reconciliation of carrying amount

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 12 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 one, two or three on the fair value hierarchy.

New plantings

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

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

Notes to the Consolidated Financial Statements

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

Valuation technique	Description of valuation technique	Significant unobservable inputs[1]	Inter-relationship between key unobservable inputs and fair value measurement
Net present value approach	An independent market valuation is performed based on a net present value (NPV) calculation. NPV is calculated as the net of the future cash inflows and outflows associated with forest production activities discounted back to current values at the appropriate discount rate. Key assumptions underpinning the NPV calculation include: • Forest valuations are based on the expected volumes of merchantable timber that will be realised from existing stands, given current management strategies and forecast timber recovery rates. • Only the current crop (standing timber) is valued. The cash flow analysis is based on the optimised timing of the harvest of existing stands, which has been developed in the context of sustained yield management. • Volume increments/decrements are determined both by periodic re-measurement of forest samples and by modelling growth from the date of the most recent measurement to date of harvest. • Ancillary income earned from activities such as the leasing of land for grazing and other occupancy rights is added to the net harvest revenues.	• Estimated future timber market prices per tonne (weighed average USD/ BDMT $202.4 2018: $179.4). • Estimated yields per hectare (weighed average gmt/ha 248 2018: 262). • Estimated harvest and transportation costs (weighted average $44.6/ gmt 2018: $39.9/gmt). • Risk-adjusted discount rate 8% (2018: 8%).	The estimated fair value would increase/(decrease) if the: • estimated timber prices per tonne were higher/(lower); • estimated yield per hectare or estimated timber projections were higher/ (lower); • estimated average direct and indirect costs were lower/(higher); and/or • discount rate was lower/ (higher).

(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:

Biological assets	2019 Increase $'000	2019 Decrease $'000	2018 Increase $'000	2018 Decrease $'000
Discount rate +/- 1%	(2,087)	2,221	(100)	106
Expected future sales prices +/- 10%	12,320	(12,320)	2,476	(2,649)
Expected future costs +/- 10%	(6,938)	6,938	(1,287)	855
Expected future changes in volume +/- 10%	5,944	(5,944)	1,734	(1,907)

Notes to the Consolidated Financial Statements

Section 2: Our asset base continued

2.2 Biological assets continued

(d) Strategy agreement

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

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

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

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

See section 4.11 for the impact of new accounting standard AASB 15 has on the accounting for this transaction from 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

2.3 Commitments

	2019 $'000	2018 $'000
Operating lease commitments		
Non-cancellable operating leases contracted for but not capitalised in the financial statements:		
Payable		
not later than one year	1,514	1,462
later than one year and not later than five years	2,758	3,780
later than five years	284	388
	4,556	5,630
Other commitments[1]		
Payable		
not later than one year	28,633	24,721
later than one year and not later than five years	77,480	103,261
later than five years	89,387	169,281
	195,500	297,263

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

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

Policy

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

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

2.4 Working capital

Working capital	Section	2019 $'000	2018 $'000
Cash and cash equivalents		15,518	10,356
Inventories	a	22,689	6,146
Trade and other receivables	b	22,752	19,457
Trade and other payables	c	(27,282)	(24,642)
Provisions		(4,008)	(3,973)
		29,669	7,344

Notes to the Consolidated Financial Statements

Section 2: Our asset base continued

2.4 Working capital continued

(a) Inventories

	2019 $'000	2018 $'000
At cost		
Finished goods	**22,359**	5,097
Work in progress	**330**	1,049
	22,689	6,146

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 (GMTs), (fibre inclusive of moisture) and is sold in Bone Dry Metric Tonnes (BDMTs), (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

	2019 $'000	2018 $'000
Trade receivables	**20,728**	18,270
GST receivable	**2,024**	1,187
	22,752	19,457

Policy

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

Notes to the Consolidated Financial Statements

(c) Trade and other payables

	2019 $'000	2018 $'000
Unsecured liabilities		
Trade payables	11,080	18,370
Deferred payment for businesses acquired	–	2,951
Sundry creditors and accruals	16,202	3,321
	27,282	24,642

Policy

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

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

Financial liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 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 2018			
Opening net book amount	1,971	–	1,971
Business acquired (note 1.6)	984	8,550	9,534
Additions	–	–	–
Disposals	–	–	–
Amortisation	–	(756)	(756)
Closing carrying amount	2,955	7,794	10,749
Year ended 30 June 2019			
Opening net book amount	2,955	7,794	10,749
Business acquired (note 1.6)	–	57	57
Disposals	–	–	–
Amortisation	–	(1,565)	(1,565)
Revaluation	–	–	–
Closing carrying amount	2,955	6,286	9,241

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

Notes to the Consolidated Financial Statements

Section 3: Funding structures

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

- Returning the maximum amount of capital to shareholders where possible (71 per cent of NPAT from ordinary activities in FY2019).
- Forward cover taken out against the USD in accordance with the Group's hedging policy to safeguard against volatility and maximise profits (see section 3.2).

3.1 Net debt

	2019 $'000	2018 $'000
Bank loans – current	**2,432**	6,562
Bank loans – non-current	**31,874**	34,313
Hire purchase liabilities – current	**3,990**	742
Hire purchase liabilities – non-current	**6,482**	1,109
Other finance arrangements	**215**	–
Cash and cash equivalents	**(15,518)**	(10,356)
	29,475	32,370

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

ii. Refinancing

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

Type	Utilised $'000	Total $'000	Maturity
Term debt	29,400	29,400	30-Sep-21[1]
Working capital, asset finance	10,472	30,620	31-May-20[1]
Acquisition debt facility – tranche 1	931	931	30-Sep-19
Acquisition debt facility – tranche 2	3,975	3,975	31-Jul-21

1. Maturity date was extended in the current period.

The Group has the ability to enter into purchase arrangements under the asset finance facility until it expires on 31 May 2020. Each outstanding finance arrangement will then be repaid within a five-year period.

The Group utilised $13.8 million (2018: $0.4 million) of HP facility in the current year to acquire property, plant and equipment. The transaction did not involve cash flows and the entity acquired the assets by assuming the directly related finance liability.

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

(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:

	2019 $'000	2018 $'000
Cash on hand	1	1
Cash at bank	15,517	10,355
At call deposits with financial institutions	–	–
	15,518	10,356

Reconciliation of cash flow from operations with profit after income tax		
Profit from ordinary activities after income tax	26,158	18,397
Adjustments and non-cash items		
Depreciation and amortisation	8,633	4,459
Sundry movements	23	544
Share of equity accounted investees profit	(6,841)	(3,856)
Fair value increment on revaluation of biological assets	(10,533)	(2,615)
Reversal of contingent consideration	(3,291)	–
Net non-cash interest expense	7,122	–
Changes in operating assets and liabilities		
(Increase)/decrease in receivables	(847)	(9,632)
(Increase)/decrease in other assets	(1,232)	(296)
(Increase)/decrease in inventories	(13,143)	1,536
Increase in biological assets (net of revaluation increment/decrement)	1,444	(1,156)
Increase/(decrease) in payables	(1,555)	189
(Increase)/decrease in deferred taxes	1,980	1,388
Increase/(decrease) in tax provision	(2,520)	1,877
Increase/(decrease) in provisions	192	2,330
Cash flows provided from operating activities	5,590	13,165

Policy

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

(b) Finance expense

	2019 $'000	2018 $'000
Interest expenses	2,012	1,886
Strategy finance expenses	7,377	–
Bank charges	357	203
Finance lease charges	165	92
	9,911	2,181

Notes to the Consolidated Financial Statements

Section 3: Funding structures continued

3.2 Financial risk management

Capital risk management

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

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors has established the Audit and 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 has 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; and

(c) liquidity risk.

The Group holds the following financial instruments:

	2019 $'000	2018 $'000
Financial assets		
Cash and cash equivalents	15,518	10,356
Receivables	20,728	18,270
Other receivables	2,024	1,187
Derivatives	–	–
	38,270	29,813
Financial liabilities		
Bank and other loans	34,521	40,875
Creditors	11,080	18,370
Deferred payment for businesses acquired	–	2,951
Finance lease liability	10,472	1,851
Other payables	16,202	3,321
Derivatives	483	484
	72,758	67,852

(a) Market risk

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

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 2019
If transactions are denominated in currencies other than AUD. There is a risk of an unfavourable financial impact if there is an adverse movement in foreign currency. Export sales are denominated in US Dollars (USD), with one of the Group's bank accounts being in USD.	The Group mitigates currency risk by entering into forward exchange/swap contracts and fX options to sell specified amounts of USD usually within 12 months at stipulated exchange rates in accordance with the Group's hedging policy. The objective in entering the contracts is to protect the Group against unfavourable exchange rate movements for contracted and anticipated future sales undertaken in USD.	At balance date the notional amount of outstanding forward exchange contracts was $75.6 million (2018: $50.3 million), and AUD put options was $31.2 million (2018: $0). 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.

	2019 USD $'000	2018 USD $'000
Cash	**323**	379
Trade receivables	**1,987**	10,096

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 per cent 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:

	2019		2018	
USD movement impact (+/- 10%)	**Increase $'000**	**Decrease $'000**	Increase $'000	Decrease $'000
Impact on profit after tax	**(203)**	**237**	(252)	286
Impact on equity	**8,764**	**(11,605)**	2,890	(3,890)

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

Notes to the Consolidated Financial Statements

Section 3: Funding structures continued

3.2 Financial risk management continued

ii. Interest rate risk

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

What is the risk?	How does Midway manage the risk?	Impact at 30 June 2019
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 that may impact movements in the variable rate. Effective interest rate monitored by Audit and Risk Management Committee. No swaps are currently taken out.	If interest rates were to increase/decrease by 100 basis points from rates applicable at the reporting date, assuming all other variables that might impact on fair value remain constant, the impact on profit for the year and equity is not significant.

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

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

2019	Interest bearing $'000	Non-interest bearing $'000	Total carrying amount $'000	Weighted average effective interest rate	
Financial assets					
Cash	15,081	437	15,518	1.25%	Floating
Trade receivables	–	20,728	20,728		
Other receivables	–	2,024	2,024		
Derivatives	–	–	–		
	15,081	22,753	38,270		
Financial liabilities					
Bank and other loans	34,521	–	34,521	3.63%	Floating
Creditors	–	11,080	11,080		
Deferred payment for businesses acquired		–	–		
Finance lease liability	10,472	–	10,472	4.1%	Fixed
Sundry creditors and accruals	–	16,202	16,202		
Derivatives	–	483	483		
	44,993	27,765	72,758		

(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 2019
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 seven business days of invoicing.	As at 30 June 2019, there are only receivables for two 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 and subsequent operational restructure, the Group is exposed to credit risk on plantation management activities in addition to the sale of woodfibre to customers in China.	The Group produces and markets woodfibre on the Tiwi Islands on behalf of the wood owners. Receiving outstanding receivables is contingent on the Group performing its obligations successfully in terms of producing and marketing woodfibre. This limits the Group's credit risk on the receivables given receipt of the debt is linked to the Group's performance (within Group's control).	$4.6 million is outstanding over 90 days relating to trade receivables of a major customer of Plantation Management Partners. As at 30 June 2019, the Group expects to receive all outstanding amounts given receipt of the funds is contingent on the performance of the Group and as such no expected credit loss provision has been recorded.

As at 30 June 2019, the ageing of trade and other receivables that were not impaired was as follows:

	2019 $'000	2018 $'000
Neither past due nor impaired	17,747	16,208
Past due 1–30 days	164	1,087
Past due 31–60 days	64	1,081
Past due 61–90 days	164	880
Over 90 days	4,613[1]	201
	22,752	19,457

1. Relates to receivables from a major customer of Plantation Management Partners.

Notes to the Consolidated Financial Statements

Section 3: Funding structures continued

3.2 Financial risk management continued

(c) Liquidity risk

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

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

Maturity analysis

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

2019	< 6 months $'000	6–12 months $'000	1–5 years $'000	Total contractual cash flows $'000	Carrying amount $'000
Cash and cash equivalents	15,518	–	–	15,518	15,518
Receivables	22,752	–	–	22,752	22,752
Derivatives	(483)	–	–	(483)	(483)
Payables	(27,282)	–	–	(27,282)	(27,282)
Borrowings	(4,468)	(2,153)	(38,372)	(44,993)	(44,993)
Net maturities	6,037	(2,153)	(38,372)	(34,488)	(34,488)
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)

3.3 Contributed equity

(a) Ordinary share capital

	Number of shares		Company	
Share capital	2019	2018	2019 $'000	2018 $'000
Ordinary shares				
Opening balance – 1 July 2018	74,901,933	74,819,933	29,045	28,833
Performance rights vested	82,000	82,000	212	212
Issued during the year	12,287,289	–	36,862	–
Capital raising costs incurred net of recognised tax benefit	–	–	(1,328)	–
Closing balance 30 June 2019	87,271,222	74,901,933	64,791	29,045

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

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

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

Notes to the Consolidated Financial Statements

Proceeds of the placement and SPP (collectively the capital raising) were used to partially fund the PMP restructure, fund acquisition and investment of Softwood Logging Services (now Midway Logistics) and Bio Growth Partners respectively and will be used for future investments based on the Group's growth strategy.

(b) Reserves

Reserves	2019 $'000	2018 $'000
Movements:		
Cash flow hedge reserve[1]		
Opening balance	**(372)**	227
Cash flow hedges – effective portion	**(21)**	(856)
Deferred tax	**6**	257
Balance 30 June	**(387)**	(372)
Share-based payments reserve[2]		
Opening balance	**225**	199
Share rights granted	**86**	238
Share rights issued/vested	**(212)**	(212)
Balance 30 June	**99**	225
Asset revaluation reserve[3]		
Opening balance	**32,429**	28,811
Revaluation of land	**(7)**	5,169
Deferred tax	**2**	(1,551)
Balance 30 June	**32,424**	32,429
Profit reserve[4]		
Opening balance	**34,697**	29,812
Adjustment on adoption of AASB 15	**(3,319)**	–
Restated opening balance	**31,378**	–
Transfers of current year profits	**25,787**	18,360
Dividends paid	**(14,596)**	(13,475)
Balance 30 June	**42,569**	34,697
Foreign currency translation reserve		
Opening balance	**4**	–
Foreign currency translation differences	**1**	4
Balance 30 June	**5**	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 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	
	2019 %	2018 %	**2019 %**	2018 %
Subsidiaries of Midway Limited and controlled entities:				
Queensland Commodity Exports Pty Ltd	**90**	90	**10**	10
Midway Plantations Pty Ltd	**100**	100	**–**	–
Midway Properties Pty Ltd	**100**	100	**–**	–
Midway Tasmania Pty Ltd	**100**	100	**–**	–
Plantation Management Partners Pty Ltd[1]	**100**	100	**–**	–
Resource Management Partners Pty Ltd[1]	**100**	100	**–**	–
Plantation Management Partners Pte Ltd[1,2]	**100**	100	**–**	–
Midway Logistics Pty Ltd[3]	**100**	–	**–**	–
Midway Logistics Unit Trust[3]	**100**	–		

1. Acquired on 26th October 2017.
2. 50 per cent held in trust by an independent party; however, all risks and benefits of ownership of the share are held by the Group.
3. Acquired on 15 October 2018, previously known as 'Softwood Logging Services Pty Ltd' and 'SLS Unit Trust'.

Policy

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

4.2 Interest in joint ventures

(a) Carrying amount

		Ownership interest		Carrying amount	
	Nature of relationship	**2019 %**	2018 %	**2019 $'000**	2018 $'000
South West Fibre Pty Ltd[1]	Ordinary shares	**51**	51	**11,307**	12,525
Bio Growth Partners (BGP)[2]	Ordinary shares	**40**	–	**2,206**	–
ADDCO	Ordinary shares	**25**	25	**1,727**	403
Plantation Export Group (PEG)	Ordinary shares	**33**	33	**54**	20
				15,294	12,948

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

1. *South West Fibre Pty Ltd*

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

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

2. *Bio Growth Partners*

On 15 October 2018, Midway acquired 40 per cent of Bio Growth Partners (BGP) for $1.8 million cash consideration. Contingent consideration was also recorded in the value of the investment for $0.5 million, which was the estimated fair value and was contingent on BGP meeting EBITDA targets. The fair value of contingent consideration reflected the inherent risks in the acquisition based on the entities' historical performance. The targets were subsequently not met and no cash was paid.

(b) South West Fibre Pty Ltd financial information

	2019 $'000	2018 $'000
Cash and cash equivalents	17,321	11,445
Other current assets	16,035	13,059
Total current assets	33,356	24,504
Property, plant and equipment	12,476	14,723
Total non-current assets	12,476	14,723
Total current liabilities	(23,211)	(14,461)
Total non-current liabilities	(450)	(207)
Net assets	22,171	24,559
Revenue	206,077	165,180
Interest income	123	93
Depreciation and amortisation	(2,859)	(2,904)
Income tax expense	(6,259)	(3,271)
Total comprehensive income	14,559	7,304
Reconciliation to carrying amount of interest in joint venture:		
Opening net assets	24,559	26,255
Add: Current year profit	14,559	7,304
Less: Dividends paid	(17,000)	(9,000)
Hedge revaluation reserve	53	–
Closing net assets	22,171	24,559
Company's 51% share of net assets	11,307	12,525
Carrying amount of investment	11,307	12,525

Notes to the Consolidated Financial Statements

Section 4: Other disclosures continued

4.3 Midway Limited – parent entity

Summarised balance sheet	2019 $'000	2018 $'000
Assets		
Current assets	**84,681**	48,224
Non-current assets	**83,117**	78,591
Total assets	**167,798**	126,815
Liabilities		
Current liabilities	**24,940**	34,561
Non-current liabilities	**31,765**	34,617
Total liabilities	**56,705**	69,178
Net assets	**111,093**	57,637
Equity		
Share capital	**64,791**	29,045
Retained earnings	**1,614**	1,614
Reserves	**44,688**	26,978
Total equity	**111,093**	57,637

Summarised statement of profit or loss and other comprehensive income		
Profit for the year after income tax	**32,345**	17,193
Total comprehensive income	**32,257**	16,594

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 per cent of the performance rights issued to the participants have vested during the prior period (12 months after Completion of the IPO), as all prior 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 per cent of the performance rights issued to the participants vested 24 months after Completion of the IPO as all participants remained 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.

Notes to the Consolidated Financial Statements

(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 was until 30 June 2019. The offer was accepted on 9 February 2017 (grant date).

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

Assumption		Vesting conditions
Share price	$2.59	Participant must maintain continuous employment over the performance period.
Risk free rate	1.8%	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.
Dividend yield	7.0%	
Volatility	32.0%	
Initial TSR	10.7%	

The Group recorded a share-based payments expense of $0.1 million in 2019 (2018: $0.2 million).

Midway's TSR was measured against a comparator group of companies in the S&P/ASX300 subsequent to the performance period. The TSR measured was 78.2 per cent against the comparator group and as such the 65,000 rights will be issued to the Managing Director subsequent to 30 June 2019.

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

	2019 $'000	2018 $'000
Short-term employee benefits	**1,726**	1,560
Post-employment benefits	**114**	116
Share-based payments	**74**	194
Other long-term incentives	**23**	(16)
Total KMP remuneration expense	**1,938**	1,854

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 2019.

The aggregate shareholdings of KMP at 30 June 2019 are 12,679,334 (2018: 16,185,313).

(b) Transactions with South West Fibre Pty Ltd

Nature	2019 $'000	2018 $'000
Operator fee income	**3,091**	2,477
Reimbursement of costs	**300**	276
Dividends received	**8,670**	4,590
Sale of wood products (at cost)	**11,614**	6,708
	23,675	14,051

The outstanding receivable balance from South West Fibre Pty Ltd at 30 June 2019 is $0.2 million (2018: $0.7 million).

Notes to the Consolidated Financial Statements

Section 4: Other disclosures continued

4.5 Related parties continued

(c) Transactions with ADDCO Fibre Group Limited

Nature	2019 $'000	2018 $'000
Loan provided to ADDCO	164	–
Harvesting service received	3,292	–
Logging service received	2,015	–
	5,471	–

The outstanding receivable balance from ADDCO Fibre Group Ltd at 30 June 2019 is $161,000.

(d) Transactions with Bio Growth Partners

Nature	2019 $'000	2018 $'000
Loan owed to BGP	215	–
Production income	1,028	–
Cartage income	632	–
Equipment hire	108	–
	1,983	–

The outstanding receivable balance from Bio Growth Partners at 30 June 2019 is $236,000.

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

	2019 $'000	2018 $'000
Consolidated group		
Limit	5,200	5,200
Amount utilised	2,248	1,744
Parent entity		
Limit	4,250	4,250
Amount utilised	2,023	1,519

4.7 Remuneration of auditors

KPMG Australia	2019 $	2018 $
Audit and assurance services		
– Statutory audit fees	233,807	163,000
Other services		
– Non-assurance services – other advisory services	9,225	25,400
– Agreed upon procedures	20,500	–

Notes to the Consolidated Financial Statements

4.8 Other income

	2019 $'000	2018 $'000
Plantation management fees	487	974
SWF operating fee	3,091	2,478
Reversal of contingent consideration	3,291	–
Other	2,213	710
	9,082	4,162

Policy

Dividend income

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

Other income

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

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

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

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

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 2019 are set out below:

Summarised consolidated statement of comprehensive income	2019 $'000	2018 $'000
Sales revenue	243,028	201,713
Other income	12,017	4,424
	255,045	206,137
Expenses	(227,794)	(185,927)
Share of net profits from equity accounted investments	6,841	3,856
Profit before income tax expense	34,092	24,066
Income tax expense	(6,299)	(6,167)
Profit for the period	27,793	17,899
Other comprehensive income for the period	(5)	3,190
Total comprehensive income for the period	27,788	21,089
Retained earnings at the beginning of the financial year	1,614	1,614
Profit for the year	27,793	17,899
Transfers to/(from) reserves	(27,793)	(17,899)
Retained profits at the end of the financial year	1,614	1,614

Notes to the Consolidated Financial Statements

Section 4: Other disclosures continued

4.9 Deed of Cross Guarantee continued

Consolidated balance sheet	2019 $'000	2018 $'000
Current assets		
Cash and cash equivalents	**13,176**	10,188
Receivables	**21,224**	19,103
Inventories	**16,082**	3,020
Biological assets	**2,408**	12,172
Other assets	**9,899**	3,533
Current tax receivable	**2,141**	(210)
Total current assets	**64,930**	47,806
Non-current assets		
Biological assets	**50,608**	3,868
Investments	**23,069**	19,181
Intangible assets	**7,213**	8,778
Property, plant and equipment	**120,202**	104,610
Loan receivables – NC	**3,200**	–
Total non-current assets	**204,292**	136,437
Total assets	**269,222**	184,243
Current liabilities		
Trade and other payables	**23,803**	22,998
Borrowings	**6,422**	7,309
Provisions	**3,724**	5,268
Current tax liabilities	**–**	589
Other financial liabilities	**434**	484
Derivative assets	**368**	–
Total current liabilities	**34,751**	36,648
Non-current liabilities		
Borrowings	**38,357**	35,422
Provisions	**127**	1,756
Deferred tax liabilities	**15,339**	15,705
Other financial liabilities	**40,210**	–
Total non-current liabilities	**94,033**	52,883
Total liabilities	**128,784**	89,531
Net assets	**140,438**	94,712
Contributed equity		
Share capital	**64,791**	29,046
Reserves	**71,768**	61,735
Retained earnings	**3,879**	3,931
Total equity	**140,438**	94,712

4.10 Subsequent events

(a) Dividend

A final dividend of $7.9 million was declared on 27 August 2019 for 9.0 cents per share (fully franked).

There have been no other matters or circumstances, which have arisen since 30 June 2019 that have significantly affected or may significantly affect:

(a) the operations, in financial years subsequent to 30 June 2019, of the Group; or

(b) the results of those operations; or

(c) the state of affairs, in financial years subsequent to 30 June 2019 of the Group.

4.11 Basis of preparation

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

The Financial Report was approved by the Board of Directors as at the date of the Directors' Report.

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

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

Compliance with IFRS

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

Historical cost convention

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

Significant accounting estimates and judgements

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

Comparatives

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

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

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

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

Functional and presentation currency

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

Section 4: Other disclosures continued

4.11 Basis of preparation continued

Transactions and balances

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

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

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

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

Impairment of non-financial assets

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

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

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

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

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

New Standards adopted

Adoption of 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 and has been adopted from 1 July 2018.

Notes to the Consolidated Financial Statements

Strategy arrangement

In relation to the sale of hardwood trees to Strategy[1], recognised as a sale by Midway in February 2016, it has been assessed the transaction would not meet the requirements for recognition of a sale under AASB 15 as Midway is contractually required to repurchase the trees from Strategy in the future in accordance with an agreed harvest profile.

Accordingly, from 1 July 2018 the biological assets (hardwood trees) have been recognised on the balance sheet as an asset at fair value, with subsequent changes in fair value each reporting period recognised in the profit and loss. The Strategy arrangement is treated as a financing arrangement, which results in the recognition of a financial liability, initially recognised at fair value and subsequently carried at amortised cost using the effective interest rate method. This liability represents the estimated net present value of amounts payable under the contract for repurchase of the trees in accordance with the contractual harvest profile. Although there is no embedded derivative and the liability is considered a fixed rate instrument, the cash flows are reassessed each reporting date for changes in Midway specific wood chip prices, which results in a gain or loss recognised in the income statement each period.

An independent valuation has been 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 equity on 1 July 2018. The corresponding financial liability representing the Group's contractual liability to repurchase the trees from Strategy has then been calculated based on the Group's best estimate of contractual cash flows.

As the arrangement is treated as a financing arrangement, from 1 July 2018 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 materially affects statutory net profit after tax of the Group with the impact in the current period being $6.9 million for the period ending 30 June 2019 recognised as 'Finance Costs' in the profit and loss.

In accordance with the transition provisions in the standard, the Group has adopted AASB 15 using the cumulative effect method. Under this approach, comparatives are not restated, instead, the cumulative effect of adopting the new standard is recognised in the opening balance of reserves in the current reporting period. The new standard is only applied to contracts that remain in force at adoption date.

In addition to selling the tree crop and repurchasing in accordance with the agreed harvest profile, the Group receives income from performing plantation management services on the tree crop that was sold to Strategy. Income received from Strategy for management of the hardwood estate cannot be recognised in the profit and loss as the trees are now on the Group's balance sheet. The sale and repurchase contracts are interlinked such that Strategy cannot replace Midway as the plantation manager easily and hence they must be assessed as a whole. As such, on initial recognition of the financing arrangement, the plantation management fees that will be recognised from Strategy is recognised as a financial asset.

AASB 15 Strategy impacts

	$'000
Opening reserves balance as at 30 June 2018 as previously reported	**66,983**
Decrease due to financial liability created to repurchase the hardwood trees	(34,247)
Increase due to financial asset created to receive plantation management fees	1,618
Increase due to the hardwood biological trees being re-recognised on the balance sheet	27,887
Net deferred tax asset	1,423
Restated opening reserves balance as at 1 July 2018	**63,664**

Sale of goods

A portion of the Group's export sales are sold on CIF (cost, insurance and freight) terms. Under CIF terms this is with when the woodfibre loading is completed at the port of origin, and therefore there is no change in policy under AASB 15.

The Group also arranges the insurance and freight for CIF vessels, which is deemed a separate performance obligation. The performance obligation is satisfied over time until the shipment arrives at the destination port. Therefore, for the component of revenue relating to freight and insurance should also be recognised over time (i.e. as performance obligation settled). This will not have a material impact on the Group financial statements as only shipments that have not arrived at the destination port by balance date will be affected. As at 1 July 2018, there was no adjustment to opening equity for the change in accounting policy.

1. Legal entity is Strategy Timber Pty Ltd as trustee for the Strategy Timber Trust (Strategy), an investment managed by GMO Renewable Resources LLC, a Timber Management Organisation.

Notes to the Consolidated Financial Statements

Section 4: Other disclosures continued

4.11 Basis of preparation continued

Marketing revenue

Where the Group performs the function of marketing third party woodfibre, the Group has assessed there is no change in accounting treatment under AASB 15, whereby a principal vs agent is assessed on each transaction.

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

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 has adopted AASB 9 and related amendments from 1 July 2018. There were no significant impacts as a result of adoption.

There was 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 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 hedging relationships as at 1 July 2018 qualify as continuing hedges upon the adoption of AASB 9. Accordingly, adoption of AASB 9 did not have a significant impact on the accounting for its hedging relationships.

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 Financial Instruments: Recognition and Measurement. It applies to financial assets classified at amortised cost, debt instruments measured at Fair Value through Other Comprehensive Income (FVOCI) contract assets under AASB 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. At adoption date, no material provision for ECL was recognised on the basis that the receivables were short-term in nature and the Group has historically had minimal to no write-downs on receivables from export customers. Additionally, at transition date, there was only $0.2 million over 90 days past due.

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 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 will adopt the standard from 1 July 2019.

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.

The Group will adopt a modified retrospective approach with practical expedients which means the Group will:

- apply a single discount rate to a portfolio of leases with reasonably similar characteristics (such as plantation land);
- account for leases for which the lease term ends within 12 months of the date of initial application as short-term leases;
- exclude initial direct costs from the measurement of the right-of-use asset at the date of application;
- use hindsight, such as in determining the lease term as if the contract contains options to extend or terminate the lease; and
- apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply AASB 16 to all contracts entered into before 1 July 2019 and identified as leases in accordance with AASB 117 and AASB interpretation 4.

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.

The Group expects that as a result of the new standard, an additional recognition of a right-of-use asset and a liability for future payments is expected to be approximately $6.8 million, of which the majority is for leases of plantation land.

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 42 to 83 are in accordance with the *Corporations Act 2001* including;

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

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

   give a true and fair view of the financial position of the Company as at 30 June 2019 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.

G H McCormack
Chairman

28 August 2019

Independent Auditor's Report

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 2019 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 2019;
- *Consolidated Statement of Comprehensive Income*, *Consolidated Statement of Changes in Equity*, and *Consolidated Statement of Cash Flows* for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

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

Basis for opinion

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

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

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (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.

Independent Auditor's Report

KPMG

Key Audit Matters

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

- Valuation of Land; and
- Valuation of Biological assets

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 ($87.3m)

Refer to Note 2.1 Property, plant and equipment

The key audit matter	How the matter was addressed in our audit
The Group's property assets are predominantly forestry plantation land which is measured at fair value. This was a key audit matter given the size of the balance (being 31.5% of total assets) and due to the complexity and judgment involved in determining fair value. Management engaged an independent expert to perform a valuation of the unencumbered market value of the Group's land assets. Where appropriate, management adjust this valuation using a discounted cashflow model to determine the encumbered land valuation as at balance date. Determining the fair value of land assets therefore involves significant estimation and judgment, including assessments of: • General market conditions and expected future market volatility and fluctuation; • The highest and best use of the land; • Comparability of the Group's land to available market evidence including sales of forestry and non-forestry land; • The physical condition of the land and amount of any reversionary costs to be incurred post-harvest in order to revert the land to its assessed highest and best use; and	Working with our valuation specialists, our procedures included: • vouching land purchases during the period to underlying source documentation; • reading the independent expert's report and making inquiries of management and the independent expert as appropriate in order to assess our ability to rely on the unencumbered land valuation, including an assessment of the expert's independence, objectivity, competence and scope of work; • performing a sensitivity analysis of the key assumptions in the Group's discounted cash flow model, including growth rates, discount rates, harvest profiles and reversionary costs to focus our work on the more sensitive assumptions; • checking the consistency of key assumptions used in the model such as highest and best use, growth rates, discount rates, harvest profiles and reversionary costs to those determined by the independent expert and other information used by the Group including the biological assets valuations; • using our industry knowledge and experience in to assess the reasonableness of data and assumptions in the independent valuation and management's discounted cashflow model. This included comparing a sample of data to underlying supporting information and observable market transactions; • assessing the integrity of the Group's discounted cashflow model, including the accuracy of the

• Appropriate growth rates, discount rates and harvest profiles. We spent considerable time and effort assessing the independent expert's work and the Group's discounted cashflow model. We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.	underlying calculations; • recalculating the change in fair value of the land and agreeing it to the revaluation reserve; and • assessing the land fair value disclosures against accounting standard requirements.

Biological Assets ($53.0m)	
Refer to Note 2.2 Biological assets	
The key audit matter	**How the matter was addressed in our audit**
Biological assets consist of unharvested plantation trees and are recorded at their fair value. Biological assets increased significantly during the period following the Group's adoption of AASB 15 *Revenue from Contracts with Customers* (AASB 15) which saw hardwood plantation trees previously recognised as a sale, come back on balance sheet and be accounted for as a financing arrangement. This was a key audit matter given the size of the balance (19.1% of total assets) and judgment required by us in considering the complexities and assumptions adopted by the Group in the valuation model for the biological assets. Management engaged an independent expert to perform an assessment of the fair value of the Group's biological assets. Determining the fair value of biological assets therefore involves significant estimation and judgment, including: • assessments of expected yields and volumes (biological advancement), and harvest periods, • discount rates, forecast production and harvesting costs; and • expectations of future market pricing for wood chips, taking into account fluctuations in demand and supply and the impact of foreign exchange rates	Working with our valuation specialists, our audit procedures included, amongst others: • assessing the design and implementation of key management controls over the preparation and review of inputs and outputs of the biological asset valuations; • assessing the accounting treatment adopted by management for the sale of plantation hardwood trees and obligation to subsequently repurchase against accounting standard requirements, particularly the de-recognition of the 'sale', and the recognition of biological assets and a related financial liability; • reading the independent expert's report on the fair value of biological assets and making inquiries of management and the independent expert. We also assessed the expert's independence, objectivity competence and scope and the appropriateness of the methodology applied by the independent expert against accounting standard requirements; • evaluating management's sensitivity analysis in respect of key assumptions, including the identification of areas of estimation uncertainty and reasonably possible changes in key assumptions; • using our industry knowledge and experience to assess the reasonableness of inputs and assumptions in the valuation; including yield tables, harvest periods, production and harvest costs, wood prices and the discount rate. We also compared these variables to internal source documentation, market data (where available), historical trends and

Independent Auditor's Report

KPMG

given sales prices are generally denominated in USD, and the discount rate applied; We spent considerable time and effort assessing the independent expert's work and underlying valuation models. We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.	performance and other information used by the Group including the land valuations; • recalculating the change in fair value of biological assets and agreeing it to the net fair value increment recognised in profit and loss; and • assessing financial statement disclosures against accounting standard requirements, including transitional disclosures required on the adoption of AASB 15.

Other Information

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

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

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

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

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

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- 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.

Independent Auditor's Report

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 2019, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

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

Our responsibilities

We have audited the Remuneration Report included in the Directors' report for the year ended 30 June 2019.

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

KPMG

KPMG

Vicky Carlson

Partner

Melbourne

28 August 2019

Additional Shareholder Information

For the year ended 30 June 2019

Additional Securities Exchange information

In accordance with ASX Listing Rule 4.10, the Company provides the following information to shareholders not elsewhere disclosed in this Annual Report. The information provided is current as at 29 August 2019 (**Reporting Date**).

Corporate Governance Statement

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

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

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

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

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

Substantial shareholders

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

Substantial holders	Number of shares held	% of total issued share capital
Chebmont Pty Ltd	20,798,294	23.81
Gregory McCormack and McCormack Timbers	9,504,599	10.88
Regal Funds Management Pty Ltd	7,007,672	8.02
Renaissance Smaller Companies Pty Ltd	5,000,001	5.73
E.T and E.W Murnane Pty Ltd	4,688,526	5.37

Number of holders

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

Class of equity securities	Number of holders
Fully paid ordinary shares	87,336,222

There are no performance rights.

Additional Shareholder Information

Voting rights

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

As at the Reporting Date, there were **1,655** holders of a total of **87,336,222** ordinary shares in the Company.

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

Distribution of holders of equity securities

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

Distribution of ordinary shareholders

Holdings ranges	Number of holders	Total ordinary shares	%
1 to 1,000	319	154,062	0.18
1,001 to 5,000	538	1,644,184	1.88
5,001 to 10,000	332	2,555,133	2.93
10,001 to 100,000	415	10,718,591	12.27
100,001 and over	51	72,264,252	82.74
Total	**1,655**	**87,336,222**	**100.00**

Unquoted equity securities

There are no unquoted equity securities on issue in the Company.

Less than marketable parcels of ordinary shares (UMP shares)

The number of holders of less than a marketable parcel of ordinary shares as at the Reporting Date is as follows:

Unmarketable parcels	Minimum parcel size	Holders	Units
Minimum $500.00 parcel at $2.900 per unit	173	69	6,639

Additional Shareholder Information

Twenty largest shareholders

The names of the 20 largest security holders of quoted equity securities (being ordinary shares) as at the reporting date are listed below:

Ordinary shares

Rank	Name		Number of shares	%
1	Chebmont Pty Ltd		20,798,294	23.81
2	UBS Nominees Pty Ltd		5,784,802	6.62
3	HSBC Custody Nominees (Australia) Limited		5,199,241	5.95
4	McCormack Timber Holdings Pty Ltd		5,193,036	5.95
5	E T And E W Murnane Pty Ltd		4,688,526	5.37
6	J P Morgan Nominees Australia Pty Limited		3,967,618	4.54
7	McCormack Timbers Pty Ltd		2,913,152	3.34
8	National Nominees Limited		2,633,559	3.02
9	W.H. Bennett & Sons Pty Ltd		2,560,356	2.93
10	Jr Micah Pty Ltd <Jr Micah Super Fund A/C>		1,801,042	2.06
11	Cs Third Nominees Pty Limited <HSBC Cust Nom Au Ltd 13 A/C>		1,635,655	1.87
12	Citicorp Nominees Pty Limited		1,532,457	1.75
13	J & J Corrigan Nominees Pty Ltd <Eureka Timber A/C>		1,513,530	1.73
14	McCormack Timbers Pty Ltd <Staff Super Fund A/C>		1,338,411	1.53
15	Ms Esma Clara Thiele + Mr Murray Edward Thiele		916,843	1.05
16	Warbont Nominees Pty Ltd <Unpaid Entrepot A/C>		860,242	0.98
17	Janakis Pty Ltd <Peter Stoll Family A/C>		650,215	0.74
18	J & J Corrigan Nominees Pty Ltd <Corrigan Family A/C>		640,436	0.73
19	Janakis Pty Ltd <Tim Stoll Family A/C>		620,670	0.71
20	Brispot Nominees Pty Ltd <House Head Nominee A/C>		556,864	0.64
		Total	**65,804,949**	**75.35**
		Balance of register	21,531,273	24.65
		Grand total	**87,336,222**	**100.00**

Stock exchange listing

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

Voluntary escrow

There are no securities on issue in the Company that are subject to voluntary escrow.

On-market buy-back

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

Securities purchased on-market

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

Issues of securities

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

Corporate Directory

Midway Limited
ABN 44 005 616 044

Registered Office
10 The Esplanade
North Shore Victoria 3214
Australia

T +61 3 5277 9255
F +61 3 5277 0667

Website
www.midwaylimited.com.au

Board of Directors
Gregory McCormack (Chairman and Non-Executive Director)

Anthony Price (Chief Executive Officer and Executive Director)

Anthony Bennett (Non-Executive Director)

Gordon Davis (Non-Executive Director)

Nils Gunnersen (Non-Executive Director)

Tom Gunnersen (Non-Executive Director)

Thomas Keene (Non-Executive Director)

Leanne Heywood (Non-Executive Director)

Company Secretary
Sophie Karzis

Auditor
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Solicitors
SBA Law
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Melbourne Victoria 3000
Australia

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Share Registry
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Midway

midwaylimited.com.au