



**Australian
Agricultural
Projects Ltd**

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20 May 2019

ASX Ltd
Level 40, Central Park
152-158 St George's Terrace
PERTH WA 6000

Attn: Ms Anjuli Sinniah

by email: Anjuli.Sinniah@asx.com.au

Dear Anjuli

RE: APPENDIX 4C QUERY

We acknowledge receipt of your letter dated 16 May 2019 regarding the Company's quarterly report for the period ended 31 March 2019, released to ASX Limited ("ASX") on 30 April 2019 (the "Appendix 4C").

In your letter you note:

- *negative net operating cash flows for the quarter of \$57,000;*
- *negative cash at the end of the quarter of \$315,000;*
- *\$200,000 remaining on a secured loan facility;*
- *\$8,000 remaining on an overdraft facility; and*
- *estimated cash outflows for the next quarter of \$737,000*

and we comment as follows:

- The small deficit in net operating cash flows for the March quarter was in line with management expectations and market disclosures including our response to your enquiry in February 2019 and the commentary attached to the relevant Appendix 4C where we have noted:
 - *The quarterly operating deficit of \$57,000 (year to date \$210,000) is largely in line with management expectations given the increased cost of water (Commentary attached to March 2019 Appendix 4C released 30 April 2019)*
 - *In line with the normal business cycle, cashflows for the next quarter, which will include the cost of harvest and processing, are expected to be negative before returning to net operating surpluses as the proceeds of an improved harvest are received. (Commentary attached to March 2019 Appendix 4C released 30 April 2019)*
 - *The Company expects neutral to negative net operating cash flows for the March 2019 and June 2019 quarters as part of the normal operating cycle of business operations and as explained above. The Company's cashflow forecasts demonstrate that the Company has sufficient cash reserves to fund current operations. Subject to the value of the 2019 harvest and management's future strategy for acquisition of water, the Company expects to return to positive net operating cashflows in the September 2019 quarter. (Extracted from letter of response to ASX query in respect of the December 2018 Appendix 4C).*

- The reporting of “estimated cash outflows for the next quarter of \$737,000” ignores cash inflows over the same period and includes some net outflows from the orchard replanting programme. It is management’s expectation that these outflows will be met from existing cash balances and customer receipts over the June 2019 quarter after which the proceeds from the current harvest will be available where, subject to the value of the 2019 harvest and management’s future strategy for the acquisition of water, the Company expects to return to positive operating cashflows in the September 2019 quarter.

In response to each of your specific questions, we advise as follows:

1. The Company expects neutral to negative net operating cash flows for the June 2019 quarter as part of the normal operating cycle of business operations. The Company’s cashflow forecasts demonstrate that the Company has sufficient cash reserves to fund current operations. Subject to the value of the 2019 harvest and management’s future strategy for acquisition of water, the Company expects to return to positive net operating cashflows in the September 2019 quarter.
2. The Company does not consider it necessary, nor does it have any immediate plans, to raise further cash in order to fund its operations through the June 2019 quarter. However, subject to the value of the 2019 harvest, the timing of receipts from the sale of that harvest, the timing and approach to the acquisition of water for next season combined with any decision to accelerate the replanting programme, the Company may consider short to medium term funding options in order to ensure sufficient headroom to operating cashflows over the following twelve to twenty four month period. After this timeframe, the replanted portions of the orchard are expected to commence producing which should add significantly to operating cashflows.
3. The Company continues to operate its business in accordance with its business objectives. The negative operating cash flow for the March 2019 quarter did not vary significantly from management’s expectations after accounting for the sharp increase in the cost of water across the irrigation region. At this point in time, the Company does not believe that it need change its operations or take any additional steps in order to meet its business objectives.
4. The Company confirms that, to its best knowledge and belief, it is in compliance with ASX Listing Rules and in particular, Listing Rule 3.1.
5. The Company confirms that this letter and the responses to the questions contained in the letter from the ASX dated 16 May 2019 have been authorised and approved by its board.

Yours sincerely



Paul Challis
Managing Director