

CORPORATE GOVERNANCE STATEMENT

The Board and management of Australian Agricultural Projects Ltd (the **Company**) recognise their duties and obligations to shareholders and other stakeholders to implement and maintain a proper system of corporate governance. The Company believes that the adoption of good corporate governance adds value to stakeholders and enhances investor confidence.

The ASX Listing Rules require listed companies to prepare a statement disclosing the extent to which they have complied with the recommendations of the ASX Corporate Governance Council (**Recommendations**) in the reporting period. The Recommendations are guidelines designed to improve the efficiency, quality and integrity of the Company. They are not prescriptive, so that if a company considers a recommendation to be inappropriate having regard to its own circumstances, it has the flexibility not to follow it. Where a company has not followed all the Recommendations, it must identify which Recommendations have not been followed and give reasons for not following them.

This Corporate Governance Statement (**Statement**) sets out a description of the Company's main corporate practices and provides details of the Company's compliance with the Recommendations, or where appropriate, indicates a departure from the Recommendations with an explanation.

This Statement is current as at 25 September 2018 and has been approved by the Board of Directors of Australian Agricultural Projects Ltd.

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Corporate Governance Recommendation		Followed
Principle 1: Lay solid foundations for management and oversight		
1.1	A listed entity should disclose: (a) the respective roles and responsibilities of its board and management; and (b) those matters expressly reserved to the board and those delegated to management.	Yes
1.2	A listed entity should: (a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and (b) provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.	Yes
1.3	A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.	Yes
1.4	The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.	Yes
1.5	A listed entity should: (a) have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them; (b) disclose that policy or a summary of it; and (c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them and either: (1) the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or (2) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.	No – see commentary
1.6	A listed entity should: (a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.	Yes
1.7	A listed entity should: (a) have and disclose a process for periodically evaluating the performance of its senior executives; and (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.	Yes

Commentary

The Board Charter sets out the functions and responsibilities of the Board and is available on the Company's website.

The Board does not currently have a stand-alone policy regarding the gender, age, ethnic and cultural diversity of its directors and senior executives. Given the size of the Company, the nature of the employment structure and the limited number of Board and senior executive positions available, the Company does not expect to develop such a policy in this regard in the near future. Nevertheless, as and when circumstances warrant, the Board will take into consideration diversity as one of the criteria in formulating decisions.

The performance of the Board, its committees and individual directors are evaluated in accordance with the Performance Evaluation Process. Performance evaluations were not carried out during the reporting period.

The performance of senior executives is evaluated in accordance with the Performance Evaluation Process (available on the Company's website). Performance evaluations were not carried out during the reporting period.

Corporate Governance Recommendation		Followed
Principle 2: Structure the Board to add value		
2.1	The board of a listed entity should: (a) have a nomination committee which: (1) has at least three members, a majority of whom are independent directors; and (2) is chaired by an independent director, and disclose: (3) the charter of the committee; (4) the members of the committee; and (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; OR (b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.	Partly – see commentary
2.2	A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.	No – see commentary
2.3	A listed entity should disclose: (a) the names of the directors considered by the board to be independent directors; (b) if a director has an interest, position, association or relationship of the type described in Box 2.3 but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and (c) the length of service of each director.	Yes
2.4	A majority of the board of a listed entity should be independent directors.	No – see commentary
2.5	The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.	No – see commentary
2.6	A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.	Yes

Commentary

Although the Board has established a Nomination and Remuneration Committee, the Company is at variance with Recommendation 2.1 in that the Committee only has two members and is chaired by a non-independent director, Mr Grimsey. The Board considers that this composition is appropriate given the current size of the Company. The Nomination and Remuneration Committee Charter is available on the Company's website.

The Board consists of the Managing Director and two non-executive directors. Details of their skills, experience and expertise and the period of office held by each director have been included in the 2018 Directors' Report. The policy for Appointment and Selection of New Directors is available on the Company's website. At the present time, a formal Board skills matrix setting out the mix of skills and diversity that the Board currently has or is looking to achieve in its membership has not been established, and therefore the Company does not comply with Recommendation 2.2. The Board will periodically give consideration to the establishment of such a matrix having regard to the size of the business and the complexity of its operations.

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The Board has assessed the independence of the non-executive directors using defined criteria of independence and materiality consistent with the guidance and commentary for Recommendation 2.3. Although Mr Ho holds 2,000,001 fully paid ordinary shares in the Company, the Board does not consider his shareholding to be material for the purpose of assessment of independence. He is regarded as independent as he is not a substantial shareholder as defined by the *Corporations Act*. Mr Grimsey does not satisfy the tests of independence as detailed in the Recommendations due to his shareholding interests.

Consequently, the Company is at variance with Recommendation 2.4 in that the majority of directors are not independent. The directors have determined that the current composition of the Board represents the best mix of directors that have an appropriate range of qualifications and expertise, can understand and competently deal with current and emerging business issues and can effectively review and challenge the performance of management. Furthermore, each individual member of the Board is satisfied that all directors bring an independent judgment to bear on Board decisions.

The Company has yet to appoint a chair of the Board and is therefore at variance with Recommendation 2.5 in that the Board does not have an independent chair. The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the expense of the appointment of an additional director to perform the function of an independent chair.

Directors are entitled to request and receive such additional information as they consider necessary to support informed decision-making. The Board also has a policy under which individual directors and Board committees may obtain independent professional advice at the Company's expense in relation to the execution of their duties.

Corporate Governance Recommendation		Followed
Principle 3: Act ethically and responsibly		
3.1	A listed entity should: (a) have a code of conduct for its directors, senior executives and employees; and (b) disclose that code or a summary of it.	Yes

Commentary

The Company's Code of Conduct is available on the Company's website.

Corporate Governance Recommendation		Followed
Principle 4: Safeguard integrity in corporate reporting		
4.1	The board of a listed entity should: (a) have an audit committee which: (1) has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and (2) is chaired by an independent director, who is not the chair of the board, and disclose: (3) the charter of the committee; (4) the relevant qualifications and experience of the members of the committee; and (5) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.	Partly – see commentary
4.2	The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.	Yes
4.3	A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.	Yes

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Commentary

The Audit and Risk Committee consists of two members and is chaired by Mr Ho. The Company is at variance with Recommendation 4.1 in that the Committee does not consist of a majority of independent directors and does not have three members. However, the Board considers this composition is appropriate given the current size of the Company. Details of the qualifications and experience of Committee members, and the Committee meeting and attendance details for the reporting period, are set out in the 2018 Directors' Report. The Audit and Risk Committee Charter is available on the website.

When considering the Audit and Risk Committee's review of financial reports, the Board receives a statement declaration in accordance with section 295A of the Corporations Act, signed by the Managing Director and Chief Financial Officer (or equivalents), that the Company's financial reports give a true and fair view, in all material respects, of the Company's financial position and comply in all material respects with relevant accounting standards. This statement also confirms that the Company's financial reports are founded on a sound system of risk management and internal control and that the system is operating effectively in relation to financial reporting risks.

Corporate Governance Recommendation		Followed
Principle 5: Make timely and balanced disclosure		
5.1	A listed entity should: (a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and (b) disclose that policy or a summary of it.	Yes

Commentary

The Company's Continuous Disclosure Policy is available on the Company's website. The Continuous Disclosure Policy sets out the key obligations of directors and employees in relation to continuous disclosure as well as the Company's obligations under the Listing Rules and the Corporations Act. The Policy also provides procedures for internal notification and external disclosure, as well as procedures for promoting understanding of compliance with the disclosure requirements for monitoring compliance.

Corporate Governance Recommendation		Followed
Principle 6: Respect the rights of security holders		
6.1	A listed entity should provide information about itself and its governance to investors via its website.	Yes
6.2	A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.	No – see commentary
6.3	A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.	Yes
6.4	A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.	Yes

Commentary

The Company's Shareholder Communications Policy is available on the Company's website.

At the present time, the Company has not developed a formal investor relations program, relying instead on the traditional lines of communication with shareholders. The Board will continue to monitor the demand for such a program from the Company's shareholders.

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Corporate Governance Recommendation		Followed
Principle 7: Recognise and manage risk		
7.1	The board of a listed entity should: (a) have a committee or committees to oversee risk, each of which: (1) has at least three members, a majority of whom are independent directors; and (2) is chaired by an independent director, and disclose: (3) the charter of the committee; (4) the members of the committee; and (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.	Partly – see commentary
7.2	The board or a committee of the board should: (a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and (b) disclose, in relation to each reporting period, whether such a review has taken place.	Yes
7.3	A listed entity should disclose: (a) if it has an internal audit function, how the function is structured and what role it performs; or (b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.	Yes – see commentary
7.4	A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.	Yes

Commentary

The Company's risk management framework is supported by the Board, management and the Audit and Risk Committee. The Board is responsible for approving and reviewing the Company's risk management strategy and policy. Management is responsible for monitoring that appropriate processes and controls are in place to effectively and efficiently manage risk. The Audit and Risk Committee also has delegated responsibilities in relation to risk management and the financial reporting process as set out in the Audit and Risk Committee Charter. The Company specifically recognises that this approach to managing risk is appropriate considering the small size of the management team. A review of the risk management framework was not undertaken during the reporting period as the nature of the business had not changed.

The Audit and Risk Committee consists of two members and is chaired by Mr Ho. The Company is at variance with Recommendation 7.1 in that the Committee does not consist of a majority of independent directors and does not have three members. However, the Board considers this composition is appropriate given the current size of the Company. Details of the qualifications and experience of Committee members, and the Committee meeting and attendance details for the reporting period, are set out in the 2018 Directors' Report. The Audit and Risk Committee Charter is available on the website.

The Board has adopted a Risk Management Policy which sets out the Company's system of risk oversight, management of material business risks and internal control. The Risk Management Policy is available on the Company's website.

The Company does not presently have an internal audit function. However, the Board and management continually monitor and endeavour to improve the effectiveness of the Company's risk management and internal control procedures. The Audit Committee and its interaction with the Company's external auditor also provide additional oversight of this area.

The Company is exposed to material environmental risks in its normal course of operations which is consistent with other participants in the agricultural industry. These risks are reviewed and managed through the Company's orchard management plan but cannot be fully mitigated. The Board does not consider the Company has any material exposure to economic or social sustainability risks at this time.

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Corporate Governance Recommendation		Followed
Principle 8: Remunerate fairly and responsibly		
8.1	<p>The board of a listed entity should:</p> <p>(a) have a remuneration committee which:</p> <p>(1) has at least three members, a majority of whom are independent directors; and</p> <p>(2) is chaired by an independent director, and disclose:</p> <p>(3) the charter of the committee;</p> <p>(4) the members of the committee; and</p> <p>(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or</p> <p>(b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.</p>	Partly – see commentary
8.2	A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.	Yes
8.3	<p>A listed entity which has an equity-based remuneration scheme should:</p> <p>(a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and</p> <p>(b) disclose that policy or a summary of it.</p>	Yes

Commentary

The Nomination and Remuneration Committee consists of two members and is chaired by Mr Grimsey. The Company is therefore at variance with Recommendation 8.1 in that the Committee does not consist of a majority of independent directors, is not chaired by an independent chair, and does not have three members. However, the Board considers the present composition is appropriate given the current size and structure of the Company. The Nomination and Remuneration Committee Charter is available on the Company's website.

Details of the Company's policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives are disclosed in the 2018 Remuneration Report.

The Company has an equity-based remuneration scheme for employees (the Australian Agricultural Projects Ltd Employee Option Scheme). In accordance with the provisions of the Scheme, employees may be granted options over ordinary shares in the Company, with vesting conditions as considered appropriate. The Company has introduced a policy that prohibits employees from entering into transactions that operate or are intended to operate to limit the economic risk or are designed or intended to hedge exposure to unvested Company securities. This includes entering into arrangements to hedge their exposure to options granted as part of their remuneration package. This policy may be enforced by requesting employees to confirm compliance.