

Corporate Governance Statement

The Board of Directors of Australian Rural Capital Limited (**ARC** or **the Company**) is responsible for the corporate governance of the Company. The Board guides and monitors the business and affairs the Company, on behalf of the shareholders by whom they are elected and to whom they are accountable.

The table below summarises the Company's compliance with the 3rd edition of the ASX Corporate Governance Council's (**CGC**) Principles and Recommendations (**Recommendations**).

PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

	Corporate Governance Council Recommendation	Compliance	Disclosure
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.	Complies	<p>The Board has adopted a Board Charter which establishes those matters reserved for the Board and authority delegated to management. The Board's functions, as detailed in the Board Charter, include:</p> <ul style="list-style-type: none"> • approving ARC strategies, budgets, plans and policies and assessing performance against these; • reviewing operating and financial information; • overseeing and approving recommendations on proposed acquisitions, divestments and significant capital expenditure; • overseeing and approving recommendations on capital management, the issue or allotment of equity, borrowings and other financial proposals; • ensuring that the Company operates an appropriate corporate governance structure, in particular ensuring that ARC acts legally, ethically and responsibly on all matters; • approving ARC's risk management strategy and frameworks and monitoring their effectiveness; • considering the social, ethical and environmental impact of ARC's activities. <p>ARC has an Executive Chairman, who fulfils both Executive and governance roles; his executive role is referred to as 'Lead Executive'. In its Charter. The Board specifically delegates the day-to-day management of the Company's affairs to the Lead Executive within the levels of authority specified by the Board, along with the implementation of strategy, policy and financial initiatives.</p>

	Corporate Governance Council Recommendation	Compliance	Disclosure
1.2	<p>A listed entity should:</p> <p>(a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a Director; and</p> <p>(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.</p>	Complies	<p>(a) The Company seeks to appoint Board members with the requisite experience and cultural fit given the focused area of investment of ARC in agriculture, its current small size and desire for expansion. ARC undertakes formal and informal checks prior to proposing the candidate for initial and subsequent appointment by shareholders as required under the ASX Listing Rules and the Company's Constitution.</p> <p>(b) This includes undertaking background and other checks before appointing a person or putting them forward to shareholders as a candidate for election as a Director, as well as providing all material information relevant to a decision for election as a Director. The qualifications, experience and any special responsibilities of the Board members will be set out in the most recent Annual Report and for any individual Director seeking election or re-election, in the notice of Annual General Meeting (AGM).</p>
1.3	<p>A listed entity should have a written agreement with each Director and senior executive setting out the terms of their appointment.</p>	Complies	<p>The Lead Executive's responsibilities and terms of employment, including termination entitlements, are set out in a formal service agreement. A summary of the main elements in terms of the agreement is reproduced in the Remuneration Report section of the Annual Report. Letters of appointment are prepared for non-executive Directors and any senior executives appointed, covering duties, time commitments, induction, company policies and corporate governance. Given the small number of these individuals, their remuneration structure and main elements of terms of employment are reproduced in the Remuneration Report section of the Annual Report.</p>
1.4	<p>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.</p>	Complies	<p>The Board Charter sets out the role of the Company Secretary and that the appointment or removal of the Company Secretary must be made by the Board. The Board Charter also states that whilst the Company Secretary should be accountable to the Lead Executive and to the Board through the Chairman, on all corporate governance matters, all Directors shall have direct access to the Company Secretary.</p>

	Corporate Governance Council Recommendation	Compliance	Disclosure
1.5	<p>A listed entity should:</p> <p>(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;</p> <p>(b) disclose that policy or a summary of it; and</p> <p>(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:</p> <p>(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</p> <p>(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.</p>	Does not comply	<p>Within the confines of being a small listed company, ARC seeks to ensure diversity within the organisation. Given the size of the Company and the nature of its business, a formal diversity policy has not been established. The Board's composition is reviewed on a needs basis. In the event a vacancy arises, the Board will consider diversity as part of its nomination process. The Company is not a relevant employer under the Workplace Gender Equality Act.</p>

	Corporate Governance Council Recommendation	Compliance	Disclosure
1.6	<p>A listed entity should:</p> <p>(a) have and disclose a process for periodically evaluating the performance of the Board, its committees and individual Directors; and</p> <p>(b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.</p>	Does not comply	Under the leadership of the Board Chairman, the performance of the Board is reviewed subject to an informal review, its Committees and individual Directors are considered as part of the overall functioning and governance of the Company. The Board does not undertake a formal evaluation process. Director
1.7	<p>A listed entity should:</p> <p>(a) have and disclose a process for periodically evaluating the performance of its senior executives; and</p> <p>(b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.</p>	Does not comply	<p>Apart from the Lead Executive, the Company does not have any full-time executives.</p> <p>There is another Executive Director who works on a part-time basis. This Executive Director fulfils the role of CFO. Given this structure, Board the Board has not yet identified a need to establish a performance evaluation structure for executives.</p>

PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE

	Corporate Governance Council Recommendation	Compliance	Disclosure
2.1	<p>The Board of a listed entity should:</p> <p>(a) have a nomination committee which:</p> <ul style="list-style-type: none"> (1) has at least three members, a majority of whom are independent Directors; and (2) is chaired by an independent (3) Director; <p>and disclose:</p> <ul style="list-style-type: none"> (4) the charter of the committee; (5) the members of the committee; and (6) 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>(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.</p>	<p>Does not comply with 2.1(a).</p> <p>Complies with 2.1(b)</p>	<p>As the number of Directors is small, the Board takes on the role of nominations and governance. Details of this role is set out in the Board Charter. By virtue of their shareholding in the Company, none of the Directors are considered independent. However, given the size and structure of the Board, the Directors consider that they are able to exercise proper judgement in carrying out their Board role.</p> <p>The Board as a whole considers the composition of the Board and appointment of any new Directors. The Board will identify suitable candidates to fill vacancies as they arise with consideration to the optimal mix of experience, skills and diversity.</p> <p>The process for nomination and succession is set out in the Board charter, a copy of which is on the Company's website.</p>

	Corporate Governance Council Recommendation	Compliance	Disclosure
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.	Does not comply	The Company supports the appointment of Directors who bring a wide range of business and professional skills and experience. The Company has not developed a formal skills matrix. The qualifications, skills, experience and expertise relevant to the position of Director held by each Director in office at the date of the Annual Report and their attendance at Board and Committee meetings is included in the Annual Report.
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 of the ASX Corporate Governance Principles and Recommendations 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.	Complies	The Board comprises three Directors and considers none of these to be independent for reasons of their shareholdings, executive role within the Company or the provision of services to the Company. The Company however regards each Director as being capable of exercising impartial judgement based on their expertise, experience, and desire to grow the equity base of the Company. In addition, the Board has in place a process to ensure that conflicts of interest are managed appropriately. If a potential conflict of interest arises, the Director concerned does not receive the relevant Board paper and leaves the Board meeting while the matter is considered. Directors must advise the Board immediately of any interests that could conflict with those of ARC. The length of service for each Director is disclosed in the Annual Report.
2.4	A majority of the Board of a listed entity should be independent Directors.	Does not comply	The Board is comprised of three Directors none of whom is currently considered independent (refer 2.3 above).

	Corporate Governance Council Recommendation	Compliance	Disclosure
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.	Does not comply	James Jackson as Executive Chairman of the Board is not considered independent. The Company believes that while the Executive Chairman has a significant personal interest in the Company, his skills and investment expertise add considerable value to the Company to the benefit of all shareholders. At this stage of its development, the Company regards this situation as enhancing its potential for growth, whilst maintaining a low cost base.
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.	Complies	Due to the relatively uncomplicated nature of the Company's operations and structure, the Board induction process is of an informal nature. New Directors are fully briefed about the nature of the business, current issues, the corporate strategy and the expectations of the Company concerning performance of Directors. New Directors are also introduced to external service providers in order to build the relationships necessary to meet the requirements of the role. Directors receive a formal letter of appointment setting out the key terms and conditions together with corporate expectations relevant to their appointment. Directors are individually responsible for maintaining relevant and up to date skills and knowledge.

PRINCIPLE 3 – ACT ETHICALLY AND RESPONSIBLY

	Corporate Governance Council Recommendation	Compliance	Disclosure
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.	Complies	The Company has adopted a formal Directors' code of conduct. This is incorporated into the Company's Board Charter. The Company requires all its Directors to comply with the standards of behaviour and business ethics in accordance with the law and the code of conduct. These include acting honestly and fairly in all dealings. The Company has made its Code of Conduct publicly available on its website - https://www.ruralcapital.com.au/investors-centre

PRINCIPLE 4 – SAFEGUARD INTEGRITY IN CORPORATE REPORTING

	Corporate Governance Council Recommendation	Compliance	Disclosure
4.1	<p>The Board of a listed entity should:</p> <p>(a) have an audit committee which:</p> <p>(1) has at least three members, all of whom are non-executive Directors and a majority of whom are independent Directors; and</p> <p>(2) is chaired by an independent Director, who is not the chair of the Board,</p> <p>and disclose:</p> <p>(3) the charter of the committee;</p> <p>(4) the relevant qualifications and experience of the members of the committee; and</p> <p>(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</p> <p>(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.</p>	<p>Complies (with the exception of 4.1 (a)1 and 2</p>	<p>The Company has a Risk and Audit Committee (Committee) which plays a key role in assisting the Board of Directors with its responsibilities relating to accounting, developing internal control systems, reporting practices, and risk management.</p> <p>The Company has adopted a Charter for this Committee incorporating policies and procedures to ensure an effective focus from an independent perspective.</p> <p>Members of the Committee are: Darren Anderson – Chairman, Non-executive Director James Jackson –Executive Director</p> <p>At the date of this report, due to the size of the Board and the CFO role undertaken by Director, Wayne Massey, the Committee has only two members, so as to maintain some independence from Mr Massey’s executive role. The Board have considered this departure from the Recommendations (three members and majority independent) and are satisfied that the Committee still provides a valuable forum for the external auditor to raise any issues they may have.</p> <p>Details of the Directors’ qualifications and their membership and attendance at Committee meetings are set out in the Directors’ Report contained in the Annual Report.</p> <p>Detailed terms of reference for the Committee have been adopted and are available at https://www.ruralcapital.com.au/investors-centre.</p> <p>The Committee meets separately with the auditor to discuss the audit reviews and reports, to ensure that there are no outstanding issues and to assess the auditor’s continuing independence. At every Committee meeting, a period of discussion is held between the members of the Committee and the external auditor without the CFO and Company Secretary being present.</p>

	Corporate Governance Council Recommendation	Compliance	Disclosure
			The external auditor is required to confirm at the time of any statutory reporting their independence within the meaning of applicable legislation and professional standards. The current engagement Auditor was appointed following the 2016 AGM and must be rotated every five years, as a minimum, under applicable legislation.
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.	Complies	The Lead Executive and Executive Director provide written confirmation to the Board that the Company's Financial Reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards. Further they confirm this is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.
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.	Complies	The external auditor is requested to attend the AGM and is available to answer shareholders' questions regarding the conduct of the audit and preparation of the Auditor's Report.

	Corporate Governance Council Recommendation	Compliance	Disclosure
<u>PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE</u>			
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.	Complies	The Board is very conscious of its disclosure obligations and has adopted a detailed continuous and periodic disclosure policy. The Board Charter deals comprehensively with the process and policy to deal with the Company's continuous disclosure obligations. All Directors are responsible to ensure that the disclosure policy is adhered to. The Lead Executive works with the Company Secretary in dealing with media contact and any external communications. Current and archived releases announced by the Company to the ASX are available free of charge at www.asx.com.au

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.	Complies	The Company's website has a dedicated section for shareholders, and endeavours to publish on the website all important company information and announcements made to the market.
6.2	A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.	Does not comply	The Company is committed to: <ul style="list-style-type: none"> ensuring that shareholders and the financial markets are provided with full and timely information about the Company's activities in a balanced and understandable way through the annual and half yearly reports, Investor Presentations, ASX releases, general meetings and the Company's website; complying with continuous disclosure obligations contained in the applicable ASX Listing Rules and the Corporations Act in Australia; and encouraging shareholder participation at general meetings. Being a smaller company at this juncture, the Company does not currently have a structured Investor Relations team or program.

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.	Complies	The Board encourages full participation of shareholders at the Company's AGM and any other general meetings to ensure a high level of accountability and identification with the Company's strategy. In addition, the Company encourages on-line voting if shareholders are unable to attend the relevant shareholder meeting. The external auditor will also be invited to attend the annual general meeting of shareholders and will be available to answer any questions concerning the conduct, preparation and content of the auditor's report.
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.	Complies	The Company's registrar, Boardroom Pty Limited, provides the option for shareholders to receive and send communications electronically. Shareholders are encouraged to create an online account at https://www.investorserve.com.au

PRINCIPLE 7 – RECOGNISE AND MANAGE RISK

7.1	<p>The Board of a listed entity should:</p> <p>(a) have a committee or committees to oversee risk, each of 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,</p> <p>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>	Complies (with the exception of 7.1 (a)(1) and (2)).	<p>The Board takes a proactive approach to the Company's risk management and internal compliance and control system.</p> <p>Whilst a Risk and Audit Committee has been established (refer to 4.1 above and the Annual Report for details) the Board of Directors is the ultimate sponsor of risk oversight within the Company. It does so in a manner which reflects the transparent nature of the Company's systems, reporting as well as noting the use of a number of external risk managers and advisers who contribute in various ways to providing comfort that the Company is operating within a sound management framework.</p> <p>The core activities of the Company mean that it deliberately assumes a level of risk of capital loss, the quantum of which is regularly discussed and debated by the Board. Through the reporting by the Lead Executive and the Executive Director, the Board is able to monitor the level of interest rate, asset concentration of, capital, reputational, credit and overall financial management risk being issued by the Company.</p> <p>The Risk and Audit Committee terms of reference include a requirement for the Committee to review and monitor the risk management practices and activities of the Company. An appropriate note or notes within the annual financial statements will capture the financial instruments, risk management and capital risk management that the Directors have identified and their assessment.</p>
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	(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.		For the reasons outlined earlier in this report, the Committee only has two members at this time which does not meet the Recommendations of having at least three members and the majority of which are independent. Therefore as noted above the full Board undertakes many of the responsibilities of the Committee in overseeing the entity's risk management framework.
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.	Complies	The Risk and Audit Committee and the Board considers risk management in making all of its decisions at meetings throughout the year. As noted under 7.1 the Risk and Audit Committee has a mandate to review and monitor the risk management practices and activities of the Company. IN addition, the full Board actively engages in the risk framework of the Company. A review was undertaken during the period of certain aspects of the risk framework. The framework will be further developed in alignment with future business growth and activities.
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 evaluation and continually improving the effectiveness of its risk management and internal control processes.	Does not comply with 7.3(a) Complies	As a small entity with limited operational complexity, the Company does not have an internal audit function. The Board works collectively to identify and manage operational, financial and compliance risks which could prevent the Company from achieving its objectives.
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.	Complies	A summary of risks and actions taken to mitigate these risks including capital, interest rate, credit, liquidity, financial market and net fair values are included in Note 26 of the Annual Report.

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>	Not Applicable	As there are no suitable hedges for ARC securities given the small number and illiquidity, there is no policy in this respect.
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ARC's corporate governance practices were in place for the financial year ended 30 June 2018 and is up to date to 14 August 2018, the date of the Board approving this Corporate Governance Statement for lodgment.

Various corporate governance practices are discussed within this statement. For further information on corporate governance policies adopted by the Company, refer to our website: www.ruralcapital.com.au