

## **GOVERNANCE GUIDELINES**

### **ML MACADAMIA ORCHARDS, L. P. CORPORATE GOVERNANCE GUIDELINES Adopted July 1, 2004**

#### **1. PURPOSE**

The Board of Directors (the "Board") of ML Resources, Inc. ("MLR") has adopted these Corporate Governance Guidelines (the "Guidelines") to address significant corporate governance issues related to M.L. Macadamia Orchards, L.P. (the "Company") or MLR, its general partner. The Board's Audit Committee is responsible for overseeing and reviewing the Guidelines and reporting and recommending to the Board any changes to the Guidelines. These guidelines shall be posted on the Partnership's website accessible to investors.

#### **2. BOARD COMPOSITION**

##### **2.1 Independence**

A majority of the members of the Board shall meet the criteria for independence set forth in the listing standards of the New York Stock Exchange (the "NYSE"), whether or not the Company could qualify for exemption from those requirements because it is a limited partnership. As required by the NYSE listing standards, no director shall qualify as independent unless the Board affirmatively determines the director has no direct or indirect material relationship with the Company (or any related party, including MLR). In making a determination whether a director is independent, no director shall qualify as independent if he or she falls within one of the following categories (the "Minimum Independence Standards"):

Any director who is an employee of, or whose immediate family member is an executive officer of the Company or MLR, is not considered independent until three years after the end of such employment relationship.

Any director who receives, or whose immediate family member receives, more than \$50,000 per year in direct or indirect compensation from the Company, other than director and meeting fees and pension and other forms of deferred compensation for prior services (not contingent on future service), is not independent until three years after he or she ceases to receive more than \$50,000 per year in such compensation.

Any director who is affiliated with or employed by, or whose immediate family member is affiliated with or employed in a professional capacity by, a present or former internal or external auditor of the Company is not independent until three years after the end of either the affiliation or the employment or auditing relationship.

Any director who is employed, or whose immediate family member is employed, as an executive officer of another company where any of the Company's present executives serves on that company's compensation committee is not independent until three years after the end of such service or the employment relationship.

Any director who is an executive officer or an employee, or whose immediate family member is an executive officer, of a company that makes payments to, or receives payments from, the Company for property or services in an amount which, in any single fiscal year, exceeds the greater of \$100,000 or 2% of such other company's consolidated gross revenues, in each case is not independent until three years after falling below such threshold.

Any director who is, or whose immediate family member is, an officer, director or trustee of a not-for-profit organization that received contributions from the Company during the organization's most recent fiscal year equal to or greater than the lesser of \$50,000 or 1% of the organization's consolidated gross revenues, in each case is not independent until three years after falling below such threshold.

In the event that a director has a business or other relationship with the Company or any related party (including the relationships described below under "Disclosure of Relationships") other than the relationships described in the Minimum Independence Standards (which would preclude the director from being considered to be independent), the Board shall make its determination whether such director is independent based on the particular facts and circumstances of the relationship.

The Company shall disclose in its annual Form 10-K filing (1) which directors and nominees the Board has determined are independent, (2) whether any such independent director has any business or other relationship with the Company or any related party, and (3) if so, the basis for the Board's determination that such relationship is immaterial.

## **2.2 Disclosure of Relationships**

It shall be the responsibility of each director and prospective director to disclose to the Board any relationship that could impair his or her independence or any conflict of interest with the Company or any related party. Relationships that should be disclosed may include, among others, affiliations of a director or prospective director or an immediate family member (defined as a person's spouse, parents, children, siblings, mothers and fathers-in-law, sons and daughters-in-law, brothers and sisters-in-law, and anyone (other than domestic employees) who shares such person's home) of a director or prospective director with a (1) customer, supplier, distributor, dealer, reseller or other channel partner of the Company; (2) lender, outside legal counsel, investment banker or consultant of the Company; (3) a significant stockholder of the Company; (4) charitable or not-for-profit institution that has received or receives donations from the Company or (5) competitor or other person having an interest adverse to the Company. Each director shall review the provisions of these Guidelines relating to independence, including, the Minimum Independence Standards, at least annually and advise the Board of any such relationships as needed to assist the Board in making a determination of his or her independence and in making any required disclosures in the Company's annual Form 10-K.

### **2.3 Chairman Director/Lead Director**

The Board shall elect a Chairman, who may be an employee of the Company, an independent director or another outside director. The Chairman shall have the duties assigned by the Company's By-laws or, from time to time, by the Board. The chairman of the Audit Committee shall serve as Lead Director and will oversee Executive Committee or non-management sessions. The Chief Executive Officer shall conduct meetings or fulfill other responsibilities in the absence of the Chairman.

## **3. NOMINATION OF DIRECTORS**

### **3.1 Qualifications of Directors**

In evaluating candidates for election to the Board, the Nominating Committee shall take into account the qualifications of the individual candidate as well as the composition of the Board as a whole. Among other things, the Committee shall consider (1) the professional qualifications of the candidate including any industry experience or expertise, (2) the number of other boards on which the candidate serves, including public and private company boards as well as not-

for-profit boards, (3) other business and professional commitments of the candidate, (4) the need of the Board for directors having certain skills and experience, and (5) the diversity, in the broadest sense, of the directors then comprising the Board.

The Committee shall, in making a recommendation regarding the reelection of an existing member of the Board for an additional one-year term, consider the director's tenure, as provided in paragraph 6.2, and make an assessment of the director's past contributions and effectiveness as a Board member and his or her ability to continue to provide future value to the Board.

### **3.2 Service on Other Boards**

While the Board has not established a maximum number of board memberships for current directors or nominees to the Board, the Nominating Committee will consider the commitments of a director or candidate to other board memberships in assessing an individual's suitability for election or reelection to the Board.

### **3.3 Process for Additional Board Memberships**

A director who desires to serve on another public company board shall notify the Chairman of the Board and General Counsel of the Company before accepting the appointment to that board and provide any information requested in order to enable the Board to determine that the additional directorship does not impair the director's independence. The General Counsel may report to the Chairman of the Board his or her advice as to whether the appointment may impair the director's independence or raise other legal issues. In addition, the Chief Executive Officer of the Company shall obtain the approval of the Board before accepting a directorship with another public or private company.

## **4. NUMBER OF DIRECTORS**

The size of the Board shall be fixed from time to time as determined by the Board in accordance with the Company's Certificate of Incorporation, and shall not be comprised of less than five members. It is the sense of the Board that, given the Company's size and the need for diversity of Board experience, a Board consisting of approximately seven (7) directors is appropriate for the Company's current needs, although the size of the Board shall be assessed regularly in light of the Company's needs.

## **5. DIRECTOR COMPENSATION REVIEW**

The Compensation Committee will review annually the director compensation program and recommend any changes to the Board for approval. The Committee will seek, among other factors, a compensation program that aligns the Board with the long-term interests of the Company's shareholders, compensates directors fairly for their work and promotes ownership by the directors of Company stock. The Committee will obtain advice on competitive compensation practices and may retain an outside consultant for this purpose. The Committee shall provide for pro-rated compensation treatment for directors who are appointed to the Board other than coincident with the beginning of a calendar quarter.

## **6. DIRECTOR TENURE**

### **6.1 Retirement from the Board**

Unless waived by the Board at the request of the Chairman of the Board, a director shall retire from the Board immediately prior to the Annual Meeting of Shareholders that occurs in the calendar year of his or her 75th birthday. The Shareholders may make exceptions to the age limitation in the best interest of the company after consideration of individual circumstances.

### **6.2 Number of Terms**

While the Board has not established a fixed maximum term for a director, the Nominating Committee shall periodically [or annually] consider a director's tenure in making a recommendation to the Board whether or not a director shall be retained or replaced. In particular, the Committee shall consider factors such as the director's continued productivity, the value to the Company of retaining an experienced director and the disruption to board effectiveness that can result from changes of board personnel that are too frequent or extensive.

## **7. DIRECTOR RESPONSIBILITIES**

### **7.1 General**

It is the responsibility of the directors to exercise their best business judgment when acting on behalf of the Company and its shareholders, being able to rely on the honesty and integrity of the Company's senior management and its outside advisors and auditors. Directors

must act ethically at all times and adhere to the applicable provisions of ML Macadamia Orchards, L. P.'s Code of Conduct, Doing Business with Integrity.

## **7.2 Trading in Company Securities**

The directors shall adhere to the Company's policy on trading in securities of the Company and to specific guidance provided by the Secretary as to periods when directors should refrain from trading in the Company's securities.

## **7.3 Conflicts of Interest**

It is the Company's policy that executive officers shall not have any conflict of interest. In the event that any executive officer of the Company has an unavoidable conflict of interest or seeks a waiver of any other provision of the Code of Conduct for which a waiver may be obtained, the officer shall notify the Secretary, who shall arrange for the Board to consider the request. The waiver shall be granted only if approved by the Board.

Because of the business relationships that a director may have outside of the Company, it is possible that an actual or potential conflict of interest may develop as a result of actions contemplated by the Company or another person. In the event a director has an actual or potential conflict of interest with respect to a matter involving the Company, whether or not under consideration by the Board, the director shall inform the Board, which shall determine what action, if any, is required, including whether the director should excuse himself or herself from discussion or voting with respect to the matter. In the case of a conflict of interest that is of an ongoing and material nature, the director may be asked to tender his or her resignation.

## **7.4 Governance Review**

At least annually, the Board shall review the governance structure of the Company, including, among other items, its various Committee Charters, the board composition, other provisions of its charter and by-laws affecting governance, other arrangements containing provisions that become operative in the event of a change in control of the Company, governance practices and the composition of the Company's shareholder base.

## **8. ATTENDANCE AND MEETING MATERIALS**

Directors are expected to attend Board meetings and Committee meetings on which they serve in order to best fulfill their responsibilities. Meeting materials will be provided to the Board and Committees prior to a scheduled meeting. Directors are responsible for reviewing these materials in advance of the meetings.

## **9. DIRECTOR ORIENTATION**

Upon election, directors will be presented with orientation and reference materials to familiarize them with the Company's senior management and independent auditor, Code of Conduct, insider trading policy, and other compliance programs. The Company shall include in the board's regular agenda updates regarding its products and technology, including projects in research and development, competitors and commercial relationships. The Company shall also make available senior managers and other employees of the Company in order to better acquaint individual directors with the Company's business.

## **10. BOARD COMMITTEES**

### **10.1 Committee Designation and Composition**

The Board has an Audit Committee, a Governance Committee, a Nominating Committee and a Compensation Committee..

The Board may establish or maintain additional permanent or temporary committees as necessary or appropriate. Committees may meet in separate, concurrent, sessions in the interest of allowing more time for each committee meeting.

Each Committee shall adopt a Charter, which it shall review annually, making modifications as appropriate. The Committee shall determine in its Charter whether it shall implement a process for evaluating its effectiveness annually or on some other interval.

Each Committee shall determine who shall attend any session, or part of a session, of each meeting and whether the Committee wishes to conduct any of its proceedings in an executive session that includes only Committee members.

Committee members are appointed by and serve at the pleasure of the Board.

## **10.2 Committee Compensation**

The Board, upon the recommendation of the Compensation Committee, shall fix the compensation of each committee member and may provide different compensation for members and chairs of the various committees.

## **11. AUDIT COMMITTEE**

Other than director fees, Audit Committee members may not receive any additional compensation from the Company. All members of the Audit Committee shall meet the independence requirements of these Guidelines, as well as any additional independence requirements imposed by the NYSE, or by the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

All members of the Audit Committee shall meet the financial literacy requirements of the NYSE, as provided in the Audit Committee Charter. It is the objective of the Board that at least one member of the Audit Committee at any time shall qualify as an "audit committee financial expert" as defined by the rules and regulations of the SEC.

## **12. BOARD MEETINGS AND AGENDAS**

The Chief Executive officer shall be responsible for its agenda, which shall include an ongoing review of strategy, financial and capital plans, along with quarterly updates on the performance and plans of each of the Company's major businesses, as well as matters on which the Board is legally required to act. The Chairman or President shall distribute an agenda and distribute materials in advance of each Board meeting. Each Board member may suggest the inclusion of items on the agenda at any time.

The agendas and meeting minutes of the Committees will be shared with the full Board. The Chairman of each Committee, with the support of members of management, will develop the Committee meeting agendas taking into account the views of the Committee members.

## **13. MANAGEMENT ATTENDANCE**

The Board welcomes the periodic attendance of senior officers of the Company at Board meetings to provide insight and updates into items being addressed by the Board and to provide high potential managers

exposure to the Board. The Board may invite other members of management as it deems appropriate.

#### **14. EVALUATIONS AND SUCCESSION PLANNING**

At least once during each fiscal year, the Compensation Committee will review the goals and objectives and the performance of the Executive Management Team and provide an evaluation to the Board. As part of this process, the Committee will seek feedback on the CEO's performance from other members of the Board and incorporate it in the evaluation of the CEO.

The Chief Executive Officer will review with the Board annually succession planning and management development, including the assessment of senior officers considered potential successors to certain senior management positions, including the position of Chief Executive Officer.

#### **15. BOARD SELF-ASSESSMENT**

Self-assessment of the performance of the Board will be conducted annually and will be led by the chairman of the Governance Committee. These assessments will focus on the Board's contributions to the Company and will include a review of any areas the Board or management believes the Board could improve upon.

#### **16. BOARD INTERACTION WITH THIRD PARTIES AND EMPLOYEES**

##### **16.1 Third Party Access**

The Board recognizes that management speaks on behalf of the Company. However, the Board shall establish procedures for third party access to the Audit Committee and to the non-management directors as a group. The Board and the committees shall have the right at any time to retain outside financial, legal or other advisors and shall have appropriate access to the Company's internal and external auditors and outside counsel.

##### **16.2 Employee Access**

Board members have full access to the Company's management and employees. Board members will use their judgment to assure that any contacts will not disrupt the daily business operation of the Company. The Chief Executive Officer and/or the Secretary of the Company will

be copied, as appropriate, on any written communication between a director and an officer or employee.

### **16.3 Receipt of Complaints**

The Audit Committee will establish procedures for receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

## **17. MEETINGS OF NON-MANAGEMENT DIRECTORS**

The non-management directors will meet regularly in executive sessions without management. "Non-management" directors are all those who are not Company officers and include such directors who are not "independent" by virtue of the existence of a material relationship with the Company. Executive Sessions shall be lead by the Lead Director. An executive session will be held in conjunction with each regularly scheduled Audit Committee meeting and other sessions may be called by the Lead Director in his or her own discretion or at the request of the Board.

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