ArborGen

HOLDINGS

Interim Report **2021**

INTERIM REPORT 2021

The Board of ArborGen Holdings Limited is pleased to present the Interim Report for the six months ended 30 September 2021. All dollar values are in US currency unless otherwise stated.

Highlights for the Six Months to 30 September 2021

- The core US strategy premised on growing sales of ArborGen's higher margin proprietary advanced genetic products (Mass Control Pollinated (MCP®) and Varietals), has been unfolding robustly:
    - On track to deliver the highest MCP sales year in the US in FY22 with year-to-date MCP sales orders now at approximately 104 million seedlings, 24 million units higher than the prior year.
    - MCP unit sales to the US private landowner segment are projected to be up more than 45% compared to prior year.
    - Further growth of MCP expected in future years driven by increased supply from flowers pollinated in FY21 and ongoing maturity of orchards, and increasing adoption from both industrial and private landowner customers.
- Executed non-exclusive license agreement with a company focused on using biotechnology to develop trees that better capture and store carbon.
- Solid forecast FY22 sales and margin growth in Brazil where ArborGen is the only company providing superior, proprietary genetics to pine and eucalyptus growers. Strong underlying growth drivers - US housing growth, Brazil pulp and charcoal demand, carbon markets.
- Added opportunity to extend proprietary intellectual property into other crop species.
- Entered into sale agreement to sell New Zealand and Australian operations (ArborGen ANZ) for NZ$22.25 million, now unconditional with completion scheduled for 30 November 2021. Sale proceeds provide flexibility to invest in the Company's higher growth US and Brazilian businesses, explore investment in new growth opportunities in in vitro and carbon related segments, and repay debt in the US.

Financial Performance

Continuing Operations for the Six Months ended 30 September*

US $m	30 Sept 21	30 Sept 20
Revenue	4.6	2.9
Operating Earnings (before other significant items)[1]	0.6	0.7
Other Significant Items	(0.6)	2.3
Net (Loss) / Earnings from Continuing Operations[2]	(0.5)	2.4
Net Cash from Operating Activities (all operations)	0.1	3.4
Net Debt	29.9	30.3

** The six month consolidated result has been restated to exclude ArborGen's New Zealand and Australian businesses, with the sale of the ANZ business for $22.5m now unconditional and completion scheduled for 30 November 2021.*

During the six-month period, the Group reported:

- Revenue of $4.6 million from continuing operations in the US and Brazil, up 59% on the prior comparative period (pcp).
- Operating earnings (before other significant items)[1] of $0.6 million, in line with the pcp.
- Net loss from continuing operations of $0.5 million[2] which includes $0.9 million of government grant income, $0.5 million of lease termination write-off costs, $0.2 million of costs related to an inventory adjustment in Brazil, and $0.7 million of strategic review costs. This compares with net earnings from continuing operations of $2 million in the prior period which included $2.3 million of government grant income.
- Net cash from total operating activities of $0.1 million, down from the $3.4 million recorded in the prior comparable period which included $2.6 million of government grant subsidies received. No subsidies were received by the continuing operations in the current period.
- Net debt (excluding capitalised leases) of $29.9 million, down from $30.3 million in the prior comparable period. Treestock sales in the US are weighted to the second half of the fiscal year (US sales activities commence in December), which will result in lower net debt at 31 March 2022. In addition, the sale proceeds from the sale of ArborGen ANZ, expected on 30 November 2021, will further reduce net debt materially.
- The company has re-confirmed guidance of US GAAP EBITDA[3] to be in the range of US$11.3 to $11.7 million for the fiscal year ending 31 March 2022 (FY22), subject to any future impact from supply chain and COVID related issues in the US.

[1] Other significant items comprise government grant subsidies of $0.9 million, and one-off expenses relating to tenant eviction and accelerated upfront tenancy costs written off of $0.5 million, Brazil inventory adjustment $0.2 million, and Strategic Review costs of $0.7 million. Other significant items in the prior period comprised US government grant of $2.3 million of and ANZ $0.3 million (discontinued).

[2] Net earnings include a biological asset gain of $7.2 million ($7.2 million gain in the prior period) which relates to a share of earnings on seedling crop still in the ground, as required under IFRS.

[3] US GAAP EBITDA excludes NZ public company costs and the Strategic Review costs.

Dear Shareholder

Key Growth and Strategic Initiatives

We remain focused on executing the key strategic, operational, and financial goals we have set for the business, and we are making good progress.

- Expanding our supply of proprietary advanced genetics, and growing sales of advanced products;
- Improving cash flow generation;
- Expanding our footprint in our core growth regions; and
- Mitigating the risk of adverse climatic events.

ArborGen's Core Growth Strategy – MCP Sales Growth in the US

Our core strategy continues to be growing the sales of our higher margin proprietary advanced genetic products (Mass Control Pollinated (MCP) and Varietals) in the United States and to drive advanced genetics adoption.

ArborGen has a very strong competitive position in the US and we are poised to benefit from decades of investment in developing best-in-class proprietary MCP products, expanding supply through orchard expansions across the US South, and upgrading both industrial and private landowner customers to the productivity benefits of MCP seedlings.

We have the most advanced and broadly adapted MCP product pipeline in the industry, with more than 20 years of field trials and published evidence supporting the superior performance of our proprietary MCP. We have over 115 trials evaluating MCP families, the oldest being 25 years old, across the entire market that validate the performance of our genetics. Importantly, there are now over 380 million MCP trees aged five years and older, planted on 1,200 square miles across the US South, that provide irrefutable visual evidence of the substantial gains in forest productivity and value, over traditional Open Pollinated (OP) seedlings. The performance of these maturing stands, which are developing better than predicted, is a significant driver of MCP adoption.

The investments we made back in 2011 and 2012 to materially expand our MCP orchard capacity are now delivering. Approximately 70% of our orchard trees are now aged 7 – 9 years, which is the beginning of their seed productive phase, with productivity increasing as the trees mature. Our MCP pipeline continues to improve as we integrate new, better MCP parents into our orchards.

In February 2021, we had our highest ever MCP bagging and pollination season. The resulting conelets are now on the trees and will be harvested in November 2022, with the seed extracted from these cones available for MCP seedling production in 2023 (sales in fiscal year ending March 2024).

We are projecting the 2022 cones harvested to generate over 200 million MCP seedling equivalents.

Importantly, ArborGen's MCP bagging process, orchard genetic fingerprinting, and rigorous quality control processes all work towards ensuring product purity for our customers.

MCP adoption by both our industrial and private landowner customers has been growing steadily. MCP seedlings now represent around 62% of our Industrial customer orders and around 25% of our private landowner customer orders, up from 51% and 15% respectively in FY21.

A number of large industrial customers have publicly stated MCP targets ranging from 75% to 100% of their plantings as maturing stands of MCP trees demonstrate compelling value gains, with a much higher percentage of valuable sawtimber generated per acre. Demand for sawtimber in the US South is expected to grow significantly over the next few years supported by strong housing demand (new homes and remodelling). This in turn is supported by favourable demographics and structural supply constraints in Canada and Western United States which is driving significant sawmill expansion in the US South.

ArborGen is the clear MCP market leader in the US, responsible for approximately 80% of all MCP sales in the addressable market, and is the only company with a portfolio of MCP products addressing the entire US South loblolly market.

Brazil Strategy

ArborGen has grown to become one of the largest commercial suppliers of eucalyptus and loblolly pine seedlings in the Brazilian market.

We are replicating our US strategy to convert the market to products with superior genetics in Brazil. Our product portfolio includes:

- Advanced eucalyptus products licensed from International Paper, Gerdau and Vallourec under exclusive license arrangements
- ArborGen's own proprietary eucalyptus products, the first of which will be launched in 2022-2023
- ArborGen's proprietary loblolly pine genetics
- Pine genetics licensed from Arauco and CMPC

We have a pipeline of products that span the entire development timeframe from crossing eucalyptus parents to the final stages of pre-commercialisation (semi-commercial scale plantings on customer land).

After years of oversupply, both pine and eucalyptus seedling markets are now supply constrained, with increasing domestic and export demand for softwood (pine), new pulp mills (eucalyptus) and strong charcoal markets as a result of increasing iron ore demand.

Pine and eucalyptus growers are looking for new genetics, and in this respect, ArborGen is the only company providing superior, proprietary genetics to Brazilian pine and eucalyptus growers.

A growing market and unmet needs have created strong tailwinds for our Brazilian business, however a key constraint for us currently is production capacity which we are looking to address in coming months.

New Growth Opportunities – Reducing Greenhouse Gas Emissions

The increasing focus on reducing greenhouse gases globally and the growing emphasis on the role trees can play in offsetting carbon emissions is creating new opportunities for ArborGen.

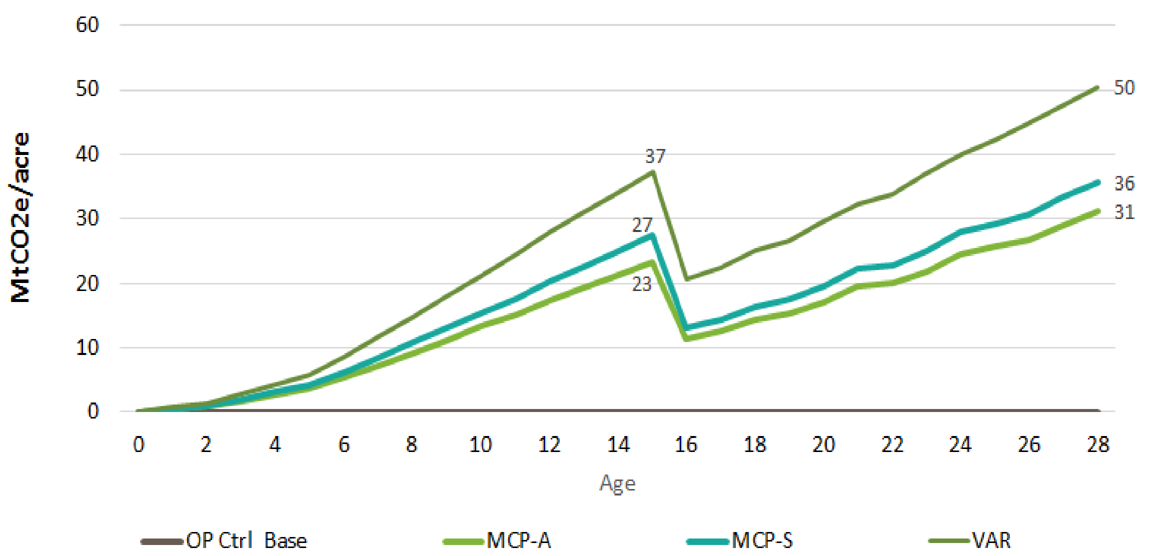
Forests have an important role to play in the reduction of greenhouse gas emissions:

- Trees capture carbon dioxide, one of the main greenhouse gases, from the atmosphere and store it in trunks, branches, foliage and roots.
- Typically, about half a tree's dry weight is carbon, which can be multiplied approximately by 3.7 to work out how much carbon dioxide the tree has absorbed from the atmosphere.
- The rate of carbon absorption through forest depends on the speed of the plants' growth. Pine in particular, is adept at growing fast and absorbing carbon dioxide while it is still young.

Many of the world's largest companies have set carbon goals as part of their ESG commitments. These commitments are driving demand for CO_2 offset credits. For example, Microsoft vows to be carbon negative by 2030. The Microsoft Climate Innovation Fund invested in NCX, a venture-backed climate tech company focussed on the largest forest carbon project (by acreage) in the continental United States. BP aims to be net zero by 2050, and have acquired majority stake in largest US forest carbon offset developer Finite Carbon.

ArborGen is currently working on developing our carbon strategy for the United States market. A core part of that strategy will be articulating to parties the value of our advanced genetics products which fix up to 40% more carbon than traditional OP genetics. We will comment on this further in coming months.

ArborGen's Elite Genetics Sequester 27-45% More CO^2



The reduction in years 15-16 relate to thinning of the plantations.

Sale of ArborGen ANZ

Consistent with our goals to focus on our core growth markets, on 1 November 2021, we announced that we had entered into an agreement to sell our New Zealand and Australian businesses (ArborGen ANZ) to a New Zealand-based consortium of private investors for NZ$22.25 million. The agreement is now unconditional and settlement is expected to occur on 30 November 2021.

As explained in our market announcement, ArborGen ANZ is an operationally separate and significantly smaller operation than ArborGen's US business with a lower growth profile compared to our other markets. The business is currently operating at around its maximum combined productive capacity of approximately 30 million tree stocks per annum in NZ and 5.5 million per annum in Australia, and further expansion of capacity to grow the core forestry and horticulture businesses would require significant additional capital spend.

The sale of ArborGen ANZ will realise value for the comparatively mature ANZ business and affords us great strategic and financial flexibility to invest in expanding our high growth US and Brazilian businesses, explore investment in new growth opportunities in in vitro and carbon related segments and repay debt.

Outlook

Demand for MCP seedlings is growing and ArborGen is on track to deliver its highest MCP sales year in the US in FY22, year-to-date MCP sales orders now at approximately 104 million seedlings, 24 million units higher than the prior year. Timber prices remain strong and recent weather conditions have been conducive to site preparation and seedling planting activities, which bodes well for the rest of the season and the FY23 financial year.

Strong sales and margin growth is also being seen in Brazil (in both our pine and eucalyptus products). We expect to lift sales and margins substantially next fiscal year assuming supply constraints are addressed.

In the short term, there are supply constraints particularly in our US western regions due to extreme rain conditions resulting in the loss of 25m seedlings early in the season. The harvest of softwood timber in the US South is also expected to fall short of previous expectations, largely due to pandemic related supply-chain issues and numerous weather events leading to temporary mill shutdowns. This will have a flow-on effect on the number of seedlings being purchased for replanting, particularly in the coastal regions. Approximately 90% of overall available seedlings are currently sold. Inflationary cost pressures are also expected to impact in the FY22 financial year, although will be incorporated into new pricing and contracts for FY23 onwards.

As noted in the financial performance section, we are also recognising some one-time charges (mostly non-cash in the current period) totalling $0.9 million relating to the eviction of the defaulting tenant of our headquarter premises in Ridgeville, South Carolina, an inventory cost adjustment in Brazil, and higher varietal costs due to a change in accounting policy (we are expensing FY23 costs that historically would be capitalised in inventory). We have engaged a broker to find a replacement tenant and are also working with the defaulting tenant's bank to find a suitable tenant.

FY22 also includes a new multi-year non-exclusive license agreement with a company focused on using biotechnology to develop trees that better capture and store carbon which resulted in an additional $0.5 million of income in FY22. The non-exclusive license gives the party access to our technology necessary for the development of transgenic and CRISPR (gene edited) pine products.

Taking into account all of the above factors, as announced late last month we are currently projecting US GAAP EBITDA[3] for FY22 to be in the range of $11.3 to $11.7 million. This includes $2 million related to ArborGen ANZ's six-month performance, and $0.9 million of one-time costs noted above. Rental income from the Ridgeville premises is expected to generate $0.5 to $0.6 million on an annualised basis when a new tenant is found. The industry is still experiencing the impacts of the pandemic (i.e. disrupted supply chains with the flow on effects) which could impact final seedling sales this fiscal year. That said, demand and timber prices remain strong, and the weather in the US south has been much drier than forecasted which is conducive to site preparation and seedling planting activities, which is positive for the balance of the season, and bodes well for the fiscal year ending March 2023.

We expect the cash generated from operations this fiscal year and from the sale of ArborGen ANZ, will result in net debt dropping to between $10 - $11 million by fiscal year end, materially strengthening ArborGen's balance sheet (including through cash interest cost savings), and placing us in a strong position to explore growth opportunities.

We would like to thank all of our stakeholders for their continued support – it is very much appreciated. As noted at the outset, we are putting considerable effort into the operational performance and cash generation of this business. We are committed to delivering increasing value for our shareholders.

Dave Knott Jr
Chairman

Andrew Baum
CEO

23 November 2021

ArborGen Holdings Limited and Subsidiaries

Consolidated Income Statement

For the six months ended 30 September 2021

	Notes	Unaudited 6 months Sep 2021 US$m	Re-presented[1] Audited Year ended Mar 2021 US$m	Re-presented[1] Unaudited 6 months Sep 2020 US$m
Revenue		4.6	42.8	2.9
Cost of sales	4	(4.1)	(27.2)	(2.4)
Gross profit		**0.5**	**15.6**	**0.5**
Change in fair value of biological assets	4	7.2	-	7.2
Other income		-	0.8	0.3
Administration expense		(7.1)	(15.1)	(7.3)
Operating earnings excluding items below		0.6	1.3	0.7
Strategic review costs, government grants and other	5	(0.6)	1.7	2.3
Operating profit (loss) before financing expense		**-**	**3.0**	**3.0**
Financing expense		(0.9)	(2.0)	(1.0)
Profit (loss) before taxation		**(0.9)**	**1.0**	**2.0**
Tax benefit		0.4	0.6	0.4
Net earnings (loss) after taxation from continuing operations		(0.5)	1.6	2.4
Net earnings after taxation from discontinued operations	10	0.6	1.6	1.6
Net earnings (loss)		**0.1**	**3.2**	**4.0**

Earnings (loss) per share information (cents per share)			
From ontinuing operations			
Basic	(0.1)	0.3	0.5
Diluted	(0.1)	0.3	0.5
From continuing and discontinued operations			
Basic	-	0.6	0.8
Diluted	-	0.6	0.8
Weighted average number of shares outstanding (millions of shares)			
Basic	500.3	499.5	499.4
Diluted	504.2	502.8	499.4

The accompanying notes form part of, and are to be read in conjunction with, these financial statements.

(1) The period ended 31 March 2021 and 30 September 2020 have been re-presented to show net profit after taxation from discontinued operations separately.

ArborGen Holdings Limited and Subsidiaries

Consolidated Statement of Comprehensive Income

For the six months ended 30 September 2021

	Notes	Unaudited **6 months Sep 2021 US$m**	Audited **Year ended Mar 2021 US$m**	Unaudited **6 months Sep 2020 US$m**
Net earnings (loss)		**0.1**	**3.2**	**4.0**
Items that may be reclassified to the Consolidated Income Statement:				
Movement in currency translation reserve	9	(0.2)	2.2	1.2
Movement in hedge reserve	9	-	0.4	-
Other comprehensive earnings (loss) (net of tax)		**(0.2)**	**2.6**	**1.2**
Total comprehensive earnings (loss)		**(0.1)**	**5.8**	**5.2**

ArborGen Holdings Limited and Subsidiaries

Statement of Changes in Equity

For the six months ended 30 September 2021

	Notes	Unaudited **6 months Sep 2021 US$m**	Audited **Year ended Mar 2021 US$m**	Unaudited **6 months Sep 2020 US$m**
Total comprehensive earnings (loss)		**(0.1)**	**5.8**	**5.2**
Movement in ArborGen Holdings shareholders' equity:				
Movement in issued capital	8	0.3	0.2	0.2
Movement in share based payment reserve	9	(0.1)	0.3	0.1
Total movement in shareholder equity		**0.1**	**6.3**	**5.5**
Opening Group equity		148.2	141.9	141.9
Closing group equity		**148.3**	**148.2**	**147.4**

ArborGen Holdings Limited and Subsidiaries

Consolidated Statement of Cash Flows

For the six months ended 30 September 2021

	6 months Sep 2021 US$m	Year ended Mar 2021 US$m	6 months Sep 2020 US$m
Cash was provided from operating activities			
Receipts from customers	24.1	52.5	19.3
Government grants received	0.2	4.6	2.6
Cash provided from operating activities	24.3	57.1	21.9
Payments to suppliers, employees and other	(24.2)	(47.2)	(18.5)
Cash (used in) operating activities	(24.2)	(47.2)	(18.5)
Net cash from (used in) operating activities	**0.1**	**9.9**	**3.4**
Investment in fixed assets	(0.5)	(1.0)	(0.7)
Investment in intellectual property	(1.4)	(3.7)	(1.8)
Net cash from (used in) investing activities	**(1.9)**	**(4.7)**	**(2.5)**
Debt drawdowns	1.7	8.5	6.0
Repayment of lease liabilities	(0.1)	(1.3)	(0.5)
Debt repayment	(1.1)	(12.4)	(6.1)
Interest paid	(0.9)	(2.0)	(1.2)
Net cash from (used in) financing activities	**(0.4)**	**(7.2)**	**(1.8)**
Net movement in cash	**(2.2)**	**(2.0)**	**(0.9)**
Opening cash, liquid deposits and restricted cash	6.2	7.9	7.9
Effect of exchange rate changes on net cash	(0.1)	0.3	0.1
Closing cash, liquid deposits and restricted cash	**3.9**	**6.2**	**7.1**
Net earnings after taxation	0.1	3.2	4.0
Adjustment for:			
Financing expense	0.9	2.0	1.0
Depreciation and amortisations	4.4	10.2	4.2
Taxation	(0.3)	(0.6)	(0.4)
Foreign exchange	(0.2)	0.4	0.1
Deferred grant income	-	0.9	-
Change in fair value of biological assets	(6.3)	0.1	(6.8)
Other non cash items	0.1	0.7	0.3
Cash flow from operations before net working capital movement	(1.3)	16.9	2.4
Trade and other receivables	6.9	(1.7)	6.5
Inventory	(5.1)	(5.3)	(7.4)
Trade and other payables	(0.4)	-	1.9
Net working capital movement	1.4	(7.0)	1.0
Net cash from operating activities	**0.1**	**9.9**	**3.4**

The accompanying notes form part of, and are to be read in conjunction with, these financial statements.

ArborGen Holdings Limited and Subsidiaries

Consolidated Balance Sheet

As at 30 September 2021

	Notes	Unaudited **Sep 2021** **US$m**	Audited **Mar 2021** **US$m**	Unaudited **Sep 2020** **US$m**
Current assets				
Cash and liquid deposits		3.9	6.2	5.1
Restricted cash		-	-	2.0
Trade and other receivables		2.7	12.2	4.0
Inventory		41.4	34.5	44.2
Assets held for sale	10	17.6	-	-
Total current assets		**65.6**	**52.9**	**55.3**
Non current assets				
Fixed assets		32.8	43.3	44.0
Right-of-use assets		4.8	5.8	6.4
Intellectual property		99.6	101.3	102.5
Total non current assets		**137.2**	**150.4**	**152.9**
Total assets		**202.8**	**203.3**	**208.2**
Current liabilities				
Trade, other payables and provisions		(10.7)	(13.1)	(14.9)
Current lease obligation		(0.6)	(0.8)	(0.5)
Current debt	6	(4.9)	(1.0)	(4.6)
Current taxation liability		(0.1)	(0.1)	-
Deferred grant income		-	(0.9)	-
Liabilities associated with assets held for sale	10	(3.7)	-	-
Total current liabilities		**(20.1)**	**(15.9)**	**(20.0)**
Term liabilities				
Term debt	6	(28.9)	(32.6)	(32.8)
Derivative financial instruments		(0.3)	(0.3)	(0.7)
Lease obligation		(4.4)	(5.1)	(5.9)
Deferred taxation liability		(0.8)	(1.2)	(1.4)
Total term liabilities		**(34.4)**	**(39.2)**	**(40.8)**
Total liabilities		**(54.5)**	**(55.1)**	**(60.8)**
Net assets		**148.3**	**148.2**	**147.4**
Equity				
Share capital	8	202.8	202.5	202.5
Reserves	9	(54.5)	(54.3)	(55.1)
Total group equity		**148.3**	**148.2**	**147.4**
Net Asset Backing		US 30 cps	US 30 cps	US 30 cps

Dave Knott Jr
Chairman of the Board

Paul Smart
Audit Committee Chairman

23 November 2021

Notes to the Consolidated Financial Statements

For the six months ended 30 September 2021

1 BASIS OF PRESENTATION

The unaudited financial statements presented are those of ArborGen Holdings Limited and Subsidiaries (the Group) for the six months from 1 April 2021 to 30 September 2021. The financial statements have been prepared in accordance with New Zealand International Accounting Standard 34, and because they are interim statements they do not include all of the information required to be disclosed for full annual financial statements.

These financial statements should be read in conjunction with the audited financial statements for the periods ended 31 March 2021 and 31 March 2020, which have been prepared in accordance with New Zealand International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

ArborGen Holdings Limited is registered in New Zealand under the Companies Act 1993, is listed on the New Zealand Stock Exchange, and is a FMC Reporting Entity under the Financial Markets Conduct Act 2013.

The presentation currency used in the preparation of these financial statements is United States dollars (US$), rounded to the nearest hundred thousand dollars. Consequently all financial numbers are in US$ unless otherwise stated.

Changes in prior year disclosure comparatives have been made to align with the current year presentation.

Accounting Policies

The accounting policies applied are consistent with those applied in the annual financial statements for the period ended 31 March 2021. Noting the recognition of Australia and New Zealand as discontinued operations (refer to 10) and the treatment of US varietal programme (refer to note 4).

2 APPROVAL OF ACCOUNTS

These financial statements have been prepared on a consolidated Group basis and were approved for issue by the Board of Directors on 23 November 2021.

3 USE OF ESTIMATES AND JUDGEMENT

The preparation of financial statements in conformity with NZ IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period (refer March 2021 statutory report, note 4, for greater detail). Actual results could differ from those estimates.

4 INVENTORY AND FAIR VALUE ADJUSTMENT ON BIOLOGICAL ASSETS

	Unaudited 6 months Sep 2021	Audited Year ended Mar 2021	Unaudited 6 months Sep 2020
Opening balance	0.8	0.9	0.9
Change in fair value of biological assets recognised in income statement			
Fair value change for crop to be lifted in the coming period - continuing	7.2	0.8	7.7
Reversal of prior period fair value change - discontinued	(0.9)	(0.9)	(0.9)
Total change in fair value of biological assets recognised in the income statement	**6.3**	**(0.1)**	**6.8**
Closing fair value uplift biological assets	**7.1**	**0.8**	**7.7**

At 30 September primarily the US crop (which will be lifted prior to year end) is established and fair valued. This fair value will reverse at year end in March upon sale of the crop. At 31 March 2021, only the Australasian crops were established and fair valued. The Australasian crops are primarily lifted from late May through to September each year. Consistent with the treatment of the Australasian business as "held for sale", the fair value adjustment recognised for the Australasian crop at 30 September 2021 is part of asset held for sale.

In the US, ArborGen has chosen to scale varietal production back in FY23 and FY24 as we transition to a more cost effective and reliable production system, pursuing production directly from somatic embryos. As a result costs of $0.2 million have been expensed in cost of sales that previously would have been capitalised to inventory and recognised in the following year.

5 STRATEGIC REVIEW COSTS, GOVERNMENT GRANTS AND OTHER

Under the various governmental Covid-19 recovery plans ArborGen has received support in the US, New Zealand and Australia. In March 2021 ArborGen Inc received a second SBA loan under the CARES Act Paycheck Protection Program (PPP) of US$2.0 million. As with the previous PPP loan, this funding was to ensure ArborGen retained all employees and avoided any layoffs. Similar to the previous loan if all employees were kept on the payroll for eight weeks and at least 60% of the loan is used for payroll related costs plus rent, mortgage interest, or utilities payments over the eight week period the loan will be forgiven. At 31 March 2021 $0.9 million of this tranche was recognised as a liability, these funds have since been used to fund payroll costs including benefits and other business related costs. Consequently application has been made for forgiveness, and the remaining loan has been released into earnings. Forgiveness for the first round of PPP funding (from May 2020) was received in July 2021. We have also applied for forgiveness of the March 2021 PPP funding.

More than offsetting the release of the PPP funding are the costs relating to the strategic review announced on 30 June 2021, the inventory adjustment recognised in Brazil and costs related to the eviction of the head office tenant.

The objective of the strategic review is to consider all options to unlock value for the benefit of all shareholders. These options could include (but are not limited to) a potential sale of all of the shares in, or all or some of the assets of the Company, or a US listing. On 1 November 2021, ArborGen announced it had entered into an agreement to sell the assets of its Australian and New Zealand operations to Geyser Limited Partnership (now ArborGen ANZ Limited Partnership, refer to note 10 for more details). Year to date the Group has incurred costs in relation to the strategic review totalling $0.7 million, including costs specifically related to the sale of the ANZ operations. Additionally, an inventory adjustment of $0.2 million was recognised in Brazil, this adjustment returned the carrying value of opening inventory to a normal production cost (standard cost per seedling).

Further, expenses of $0.5 million relating to the eviction of the defaulting sub-lessee from the headquarter premises in Ridgeville, South Carolina were recognised. This includes the accelerated recognition of tenancy costs and other expenses of the eviction process. ArborGen Inc is in the process of finding new tenants for the premises.

6 CURRENT DEBT AND TERM DEBT

At 30 September 2021 the Group had debt facilities with the following banks: Synovus Financial Corporation (Synovus) and AgSouth Farm Credit (AgSouth) in the United States and Westpac New Zealand Limited (Westpac) in New Zealand. In addition the Group has subordinated promissory notes (Notes) (issued to Directors, shareholders and senior management in August 2019) to facilitate the US Ridgeville headquarters property purchase.

ArborGen Inc has a non-revolving promissory note issued to AgSouth for $9.3 million (2020: $9.9 million) bearing interest at 4.95%, with a maturity date of 1 May 2036. This facility is secured against ArborGen's US real estate properties, with an annual principal repayment of $0.6 million in May each year. ArborGen's revolving facility agreement with Synovus, is a $17 million letter of credit (LOC) and is classified as term debt as at 30 September 2021. The facility has an expiry date of 31 August 2023 and annual 60-day (continuous) pay down maximum borrowing limit of $10 million (between 1 March and 31 August). The LOC bears interest at the 30 day LIBOR base rate plus 2.75%, subject to a minimum annual rate of 3.5%, and is collateralised by all of ArborGen Inc's United States assets not otherwise pledged under the AgSouth agreement. The credit agreements with both Synovus and AgSouth include covenants which require ArborGen Inc to maintain a minimum net worth of $29 million and $24 million respectively. ArborGen New Zealand Unlimited (ArborGen NZ) has a NZ$2 million line of credit facility, which is subject to renewal on an annual basis, and categorised as part of the disposal group. As part of the acquisition of the US Ridgeville headquarters premises the Group has two financing facilities. The first is represented by the Notes (refer to note 11) issued by ArborGen Inc to related parties (being Directors, shareholders and senior management) for $2.88 million. The Notes are fully subordinated to all bank debt, repayable at maturity (August 2022), and due to their subordinated nature attracts a 7% per annum interest rate, payable six monthly in arrears.

Rubicon Industries USA LLC (RIUSA) has a $10.7 million (2020: $11.1 million) mortgage facility from Synovus secured by the Ridgeville headquarters. The mortgage is a seven-year term facility, based on a 20-year amortising loan, incurring interest at the 30-day LIBOR base rate plus 2% (currently 2.09%). The Group has entered into a seven-year interest rate swap, with terms that match that of the mortgage, at a fixed rate of 3.52%. The mortgage requires RIUSA to maintain a debt service coverage ratio of not less than 1.25:1 for the trailing 12 months.

At 30 September 2021 the Group held cash and liquid deposits of $3.9 million (2020: $7.1 million, including restricted cash of $2 million) and had debt of $33.8 million and a lease liability of $5.0 million (2020: $37.4 million of debt plus $6.4 million of lease liability).

7 SEGMENTAL INFORMATION SUMMARY

The Group has only one reportable segment, being 'forestry genetics' and each of the primary statements reflects the full segmental operations.

		Unaudited	Audited	Unaudited
		6 months	**Year ended**	**6 months**
		Sep 2021	**Mar 2021**	**Sep 2020**
Forestry genetics	Note	**US$m**	**US$m**	**US$m**
Operating revenue		4.6	42.8	2.9
Net earnings (loss) after taxation		1.0	2.9	3.1
Total assets		185.2	203.3	208.2
Liabilities		(37.3)	(54.9)	(46.3)
Reconciliation				
Discontinued operations	10			
Operating revenue		9.4	9.9	9.0
Net earnings after taxation		0.6	1.6	1.6
Total assets - discontinued		17.6	-	-
Liabilities - discontinued		(3.8)	-	-
Corporate				
Net earnings (loss) after taxation		(1.5)	(1.3)	(0.7)
Liabilities		(13.4)	(0.2)	(14.5)
Total Group				
Operating revenue - Total		14.0	52.7	11.9
Operating revenue - Continuing		4.6	42.8	2.9
Operating revenue - Discontinued		9.4	9.9	9.0
Net earnings (loss) after taxation - Total		0.1	3.2	4.0
Net earnings (loss) after taxation - Continuing		(0.5)	1.6	2.4
Net earnings (loss) after taxation - Discontinued		0.6	1.6	1.6
Total assets		202.8	203.3	208.2
Liabilities		(54.5)	(55.1)	(60.8)

8 CAPITAL

Share capital	Note	Unaudited Sep 2021 US$m	Audited Mar 2021 US$m	Unaudited Sep 2020 US$m
Share capital at the beginning of the period		202.5	202.3	202.3
Issue of shares [3]	9	0.2	-	-
Vesting of shares - Non-Executive Directors Share Plan [1] [2]	9	0.1	0.2	0.2
Share capital		202.8	202.5	202.5

Number of shares	Note	Sep 2021	Mar 2021	Sep 2020
Opening shares on issue		499,611,738	499,395,391	499,395,391
Issue of shares [3]	9	1,620,391	216,347	0
Closing shares on issue		501,232,129	499,611,738	499,395,391

Treasury stock	Sep 2021	Mar 2021	Sep 2020
Opening shares on issue	1,102,683	1,931,700	1,931,700
Vesting of shares [1]	(829,017)	(829,017)	(829,017)
Closing treasury stock shares on issue	273,666	1,102,683	1,102,683

(1) In accordance with the shareholders' resolution passed at the ArborGen Holdings Annual Shareholders' meeting held on 17 September 2018, on 18 September 2018 ArborGen Holdings issued 1,666,050 new shares to the Rubicon Non-Executive Directors Share Plan (the Trust). The Trust holds the shares on behalf of the three Directors (Tom Avery, Ozey Horton, and Paul Smart, equally) until the vesting terms are met. The shares vest, to each Director, in three equal tranches on the first, second and third anniversaries following the date of issue (18 September 2018), provided that the Director remains a Director of the Company on the relevant anniversary date. The new shares were issued at the NZX 20-day market VWAP for ArborGen Holdings shares of NZ27.01 cents per share, for a total value of NZ$450,000. These shares were accounted for as treasury stock until vesting, and the share based transactions are recorded in the share based payment reserve. In September 2021 the third (and final) tranche of 555,351 shares vested to the three Directors (185,117 each) (refer to note 11 for related party transactions), this plan has now been completed.

(2) In accordance with the shareholders' resolution passed at ArborGen Holdings Annual Shareholders' meeting held on 17 September 2019, on 18 September 2019 ArborGen Holdings issued 820,998 new shares to the 2019 Rubicon Non-Executive Director Share Plan (the 2019 Trust). The 2019 Trust will hold the shares on behalf of George Adams until the vesting terms are met. The shares will vest in three equal tranches on the first, second and third anniversaries following the date of issue (18 September 2019), provided that the Director remains a Director of the Company on the relevant anniversary date. The new shares were issued at the NZX 20-day market VWAP for ArborGen Holding shares of NZ18.27 cents per share, for a total value of NZ$150,000. The share based transactions are recorded in the share based payment reserve and the shares are accounted for as treasury stock until vesting. In September 2021 the second tranche of 273,666 shares vested to George (refer to note 11 for related party transactions).

(3) In July 2021 ArborGen awarded 3,933, 535 RSU's (restricted share units) to ArborGen Inc executives, in relation to its FY2021 Long Term Incentive (2021 LTI) Plan. Pursuant to this award, ArborGen Holdings issued 1,620,391 new shares, 1,156,572 of those shares represent the first of three equal tranches awarded under the 2021 LTI Plan and 463,819 shares were issued to one retiring employee (with all three tranches vesting on retirement). The remaining RSU's (2,313,144) will vest over the next two anniversaries of the award, provided that the holder of the RSU remains employed by the ArborGen group on the applicable vesting date.

Notes to the Consolidated Financial Statements

For the six months ended 30 September 2021

9 RESERVES

		Unaudited	Audited	Unaudited
Retained earnings	Note	**Sep 2021 US$m**	**Mar 2021 US$m**	**Sep 2020 US$m**
Opening balance		(53.3)	(56.5)	(56.5)
Net earnings		0.1	3.2	4.0
Closing balance		(53.2)	(53.3)	(52.5)
Cash flow hedge reserve (1)				
Opening balance		(0.3)	(0.7)	(0.7)
Fair value gains (losses) for the year		-	0.4	-
Closing balance		(0.3)	(0.3)	(0.7)
Share based payments reserve				
Opening balance		0.5	0.2	0.2
Non-Executive Directors Share Plan	8	-	0.1	0.1
Non-Executive Directors Share Plan shares vested	8	(0.1)	(0.2)	(0.2)
Executive settlement share plan (3)		0.2	0.4	0.2
Executive settlement share plan shares vested (2)	8	(0.2)	-	-
Closing balance		0.4	0.5	0.3
Currency translation reserve				
Opening balance		(1.2)	(3.4)	(3.4)
Translation of independent foreign operations		(0.2)	2.2	1.2
Closing balance (4)		(1.4)	(1.2)	(2.2)
Total reserves		(54.5)	(54.3)	(55.1)

(1) The cash flow hedging reserve records the net movement of cash flow hedging instruments, being interest rate swaps (refer to note 6).

(2) In July 2021 ArborGen awarded 3,933, 535 RSU's to ArborGen Inc executives, in relation to the 2021 LTI Plan. Pursuant to this award, ArborGen Holdings issued 1,620,391 new shares, refer to note 8 for more details.

(3) In July 2021, the Board entered into a new RSUs agreement for 2,808,845 RSUI's to ArborGen Inc executives. Any award is subject to the ArborGen Group's achieving certain financial performance hurdles in accordance with the ArborGen 2022 LTI Plan. Any RSUs awarded under the RSU Agreement will vest as ARB Ordinary Shares in three equal tranches on three separate vesting dates, provided that the holder of the RSU remains employed by the ArborGen Group on the applicable vesting date.

(4) The closing currency translation reserve includes a debit balance of $0.5 million relating to the Australian and New Zealand operations.

10 DISCONTINUED OPERATIONS

Sale of ArborGen Australia and New Zealand's assets

On 1 November 2021, ArborGen announced it had entered into an agreement to sell the assets of its Australian and New Zealand (ANZ) operations to Geyser Limited Partnership (now ArborGen ANZ Limited Partnership (ANZLP)). ANZLP is a consortium of New Zealand investors predominantly comprising charitable trusts and private families, with the consortium led by Mr Hugh Fletcher.

Notes to the Consolidated Financial Statements

For the six months ended 30 September 2021

ANZLP has agreed to acquire the business of ArborGen ANZ, comprising the assets (including goodwill) of ArborGen New Zealand Unlimited and ArborGen Australia Pty Limited for a total purchase price of NZ$22.25 million on a debt free and cash free basis and with a locked box mechanism applying from 1 October 2021. The purchase price of NZ$22.25 million will be reduced by a working capital adjustment of NZ$450,000 reflecting the seasonality of the business. The transaction is structured as an asset sale, with ANZLP assuming all ArborGen ANZ's obligations (other than tax) which were incurred before completion in the ordinary course of business.

In terms of the strategic review process, it became evident that there was strategic benefit in separating the ANZ business from that of the US and Brazil. One significant advantage being, if the purchaser was an Australian or New Zealand resident, that would remove the complexities of gaining approvals from both the Overseas Investment Office in New Zealand and the Foreign Investment Review Board, as would be the case for a non ANZ resident entity. The Board saw the removal of this complexity, together with the ability of a resident purchaser to transact quickly, meant a separation of the ANZ operations was logical. The separation and disposal of ANZ is consistent with the Group's long-term policy to focus its activities on the Group's US and Brazilian businesses. The ANZ transaction is expected to be completed on 30 November 2021 and as such has been classified as a disposal group held for sale and presented separately in the statement of financial position. The proceeds of disposal are expected to exceed the carrying amount of the related net assets and accordingly no impairment losses have been recognised on the classification of these operations as held for sale. The major classes of assets and liabilities comprising the operations classified as held for sale, are presented below.

On 19 November the Company announced that the agreement was now unconditional, following the conditions being satisfied. Those conditions being, acceptance of offer of employment by more than 75% of permanent employees and the approval by Radiata Pine Breeding Company Limited to transfer the 2.34% shareholding to the purchaser.

Included within the liabilities associated with discontinued operations is the ArborGen New Zealand Unlimited NZ$2 million line of credit facility, which is subject to renewal on an annual basis.

	Unaudited 6 months Sep 2021 US$m	Audited Year ended Mar 2021 US$m	Unaudited 6 months Sep 2020 US$m
Gross revenue	9.4	9.9	9.0
Profit before taxation (1)	0.8	1.6	1.6
Tax expense on profit before taxation	(0.1)	-	-
Net profit after taxation from discontinued operations	0.6	1.6	1.6
(1) Profit before taxation from discontinued operations includes:			
Depreciation	0.5	0.4	0.3

Statement of cash flows for the period ended	Unaudited 6 months Sep 2021 US$m	Audited Year ended Mar 2021 US$m	Unaudited 6 months Sep 2020 US$m
Net cash from:			
Operating activities	1.2	1.7	1.8
Investing activities	(0.3)	(0.2)	(0.2)
Financing activities	0.7	-	-
Net cash from discontinued operations	1.6	1.5	1.6

Notes to the Consolidated Financial Statements

For the six months ended 30 September 2021

Balance Sheet Items	**Unaudited**	**Audited**	**Unaudited**
As at	**Sep 2021 US$m**	**Mar 2021 US$m**	**Sep 2020 US$m**
Trade and other receivables	1.8	0.2	1.4
Inventory	5.2	7.4	4.9
Fixed assets	10.0	10.1	9.6
Right-of-use assets	0.6	0.6	0.9
Assets held for sale	17.6	18.3	16.9
Trade, other payables and provisions	(2.4)	(3.4)	(2.4)
Current lease obligation	(0.1)	(0.1)	(0.1)
Current debt	(0.7)	-	-
Lease obligation	(0.6)	(0.6)	(0.8)
Liabilities associated with assets held for sale	3.8	(4.1)	(3.4)

11 RELATED PARTY TRANSACTIONS

Under the terms of the two Non-Executive Directors Share Plan's approved by shareholders (17 September 2018 and 17 September 2019), in September 2021 the final tranche of shares vested to the three Directors (Tom Avery, Ozey Horton and Paul Smart) being 185,117 each (total 555,351) and second tranche of 273,666 shares vested to George Adams.

As part of the acquisition of the US Ridgeville headquarters premises the Group issued subordinated promissory notes (Notes) to related parties (being Directors, shareholders and senior management) for $2.88 million. The Notes are fully subordinated to all bank debt, repayable at maturity (August 2022), and due to their subordinated nature attract a 7% per annum interest rate, payable six monthly in arrears.

12 NON-GAAP PERFORMANCE MEASURE

ArborGen Holdings shareholders and users of the financial statements are very interested in ArborGen Inc's underlying performance under US-GAAP (as well as under IFRS), as that is the result that ArborGen Inc would report in a US 'listing' situation. ArborGen Holdings believes 'Adjusted US-GAAP EBITDA' provides useful information, as it is used internally to evaluate performance. It is also a measure that equity analysts focus on for comparative company performance purposes, as the measure removes distortions caused by different depreciation policies and debt:equity structures.

In contrast with US-GAAP, IFRS requires the capitalisation of ArborGen's development spend, the amortisation of intellectual property, the accrual of the change in fair value of biological assets on the seedling crop each year prior to its sale, and the capitalisation of operating leases. Because of these differences, US-GAAP results, and in particular 'Adjusted US-GAAP EBITDA' cannot be easily derived from reported IFRS numbers. For these reasons and in order to provide users with relevant and understandable information we provide the reconciliation below.

EBITDA, US-GAAP EBITDA and Adjusted US-GAAP EBITDA are all non-GAAP financial measure and are not recognised under NZ IFRS. As they are not necessarily uniformly defined or utilised, these measures may not be comparable with similarly titled measures used by other companies. Non-GAAP financial measures should not be viewed in isolation or considered as a substitute for measures reported in accordance with GAAP. The following table provides users useful ArborGen Inc information for year-on-year comparison and reconciles net earnings to 'Adjusted US-GAAP EBITDA'.

Notes to the Consolidated Financial Statements

For the six months ended 30 September 2021

	Note	Unaudited 6 months Sep 2021 US$m	Audited Year ended Mar 2021 US$m	Unaudited 6 months Sep 2020 US$m
Revenue	7	4.6	52.7	11.9
Cost of sales		(4.1)	(34.5)	(9.2)
Gross profit		0.5	18.2	2.7
Net profit (loss) after taxation	7	1.0	4.5	4.7
less tax benefit		(0.4)	(0.6)	(0.4)
plus Financing expense		0.9	2.0	1.0
Operating profit (loss) before financing expense		1.5	5.9	5.3
plus Depreciation and amortisations		3.8	10.2	4.2
EBITDA (NZ IFRS)		5.3	16.1	9.5
Add back NZ IFRS adjustments				
Investment in intellectual property		(1.4)	(3.7)	(1.8)
Change in fair value of biological assets - continuing	4	(7.2)	0.1	(6.8)
Other IFRS adjustments (including IFRS 16 adjustment)		(0.2)	(1.2)	(0.7)
Discontinued operations (1)	10	2.1	-	-
US-GAAP EBITDA profit (loss)		(1.4)	11.3	0.2
Add back significant non-recurring items				
Government Grants, Inventory adjustment and other	5	(0.1)	(2.0)	(2.4)
Other expenses	5	0.2	-	-
Adjusted US-GAAP EBITDA		**(1.3)**	**9.3**	**(2.2)**

(1) Includes; profit before taxation $0.7 million, adding back change in fair value of biological asset $0.9 million and Depreciation $0.5 million.

Investor Information

INVESTOR ENQUIRIES/REGISTERED OFFICE

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Website: www.arborgenholdings.com

STOCK EXCHANGE LISTING

The Company's shares (ARB) are listed on the NZSX.

SHAREHOLDER ENQUIRIES

Shareholders with enquiries about share transactions or changes of address should contact the Share Registrar:

Computershare Investor Services Limited
Level 2, 159 Hurstmere Road
Takapuna, Auckland
Private Bag 92 119,
Auckland 1142, New Zealand

Telephone: 64 9 488 8777
Facsimile: 64 9 488 8787
Email: enquiry@computershare.co.nz

ELECTRONIC COMMUNICATIONS

You can elect to receive your shareholder communications electronically.

To register, visit www.investorcentre.com/nz. To initially access this website, you will need your CSN or Holder Number and FIN. You will be guided through a series of steps to register your account, including setting up a new user ID and password for on-going use of the website. Once logged in, click on "My Profile". In the Communication preferences panel, click "update".

Alternatively send your name, address and CSN or holder number to ecomms@computershare.co.nz advising you wish to receive your ArborGen Holdings shareholder communications by email.

There are statements in this Report that are 'forward looking statements.' As these forward-looking statements are predictive in nature, they are subject to a number of risks and uncertainties relating to the Group, many of which are beyond our control.

In particular, ArborGen's operations and results are significantly influenced by the general level of economic activity in the various sectors of the economies in which it competes, particularly in the United States, Brazil, New Zealand and Australia.

Fluctuations in industrial output and the impact that has on global demand for wood fibre and hence harvest and reforestation levels, government environmental and regional development policies, capital availability, relative exchange rates, interest rates, the profitability of our customers, can each have a substantial impact on our operations and financial condition.

ArborGen-specific risks and uncertainties include (in addition to those broad economic factors noted above) the global markets and geographies in which it operates, intellectual property protection, regulatory approvals, public and customer acceptance of genetically engineered products, the rate of customer adoption of advanced seedling products, the success of its research and development activities, weather conditions, cone and seed inventory, biological matters, and the fact that ArborGen's annual crops and seed orchards are not the subject of insurance cover.

As a result of the foregoing; actual results, conditions and conclusions may differ materially from those expressed or implied by such statements.