ArborGen
HOLDINGS

Annual Report **2021**

ArborGen: Transforming Forestry

ArborGen tree seedlings are redefining forest productivity and creating enhanced value for landowners, with more than 10 million acres of plantings around the world.

ArborGen is the largest tree seedling provider in some of the biggest forestry markets in the world. Our transformative technology and advanced genetic seedling products are a game changer for our forest landowners, delivering bigger and better trees, faster.

Our strength is built on decades of investment in research, intellectual property and people capability. No other competitor can match our advanced genetics programme's breadth or depth.

With some of our younger advanced genetic orchards that were planted in 2011 and 2012 now becoming fully productive, we are well positioned for accelerated growth. Proven performance of our advanced genetic seedlings at commercial scale, combined with active forestry markets, are providing strong tailwinds to the market adoption of our higher value seedlings.

We have robust governance, a sound financial footing and a committed and experienced team of people who are passionate about success in our sector.

The value story for our business is now becoming apparent, with accelerating momentum and positive market conditions setting the path for strong growth in FY22 and beyond. An increasing focus on the ability of trees to address climate change creates significant potential new opportunities.

On behalf of the Board and management, we are pleased to present to you the Annual Report for the 12 months ended 31 March 2021.

Dave Knott Jr
Chairman

Andrew Baum
Chief Executive Officer

23 June 2021

Table of Contents

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.

All references to currencies in this document are in US dollars (US$) unless otherwise stated.

Our Business

We are the leading global commercial provider of advanced genetics tree seedling products

Our high-value products significantly improve the productivity of a given acre of forestry land and are transforming the forestry industry

ArborGen specialises in loblolly pine (US and Brazil), radiata pine (NZ and Australia) and eucalyptus (Brazil and Australia) plantation forestry species

We have large opportunities for growth

ArborGen is the market leader in three of the largest tree seedling markets in the world – the Southern United States, Brazil and Australia/New Zealand

We have a competitive advantage driven by decades of investment in research, intellectual property and people capability

Growth into markets where our superior genetics will create significant gains in productivity and profitability and we can establish a large scale competitive position is progressing as planned

We have unparalleled product portfolios in each of our core markets

We own one of the world's largest and most diverse repositories of commercial tree germplasm

We have a repository of more than 30,000 families and the ability to identify trees that will perform best in specific regions and sites

Our IP and field trials demonstrate the superior performance of our advanced genetic products

Investment in R&D and state of the art technology will drive improvement and create next-generation products

We Are Continuously Advancing Forestry Genetics

Elite Genetics Products

Open Pollinated OP

OP Advanced, Select and Elite: Produced from best mother and fertilised with pollen of an unknown father tree.

Mass Control Pollinated MCP®

Advanced, Select, Elite, 2.0: Seedlings produced from the best mother and father. ArborGen has the most advanced and broadly adapted MCP pipeline in the industry.

Varietals

Multiple identical copies of best MCP seedlings, selected from extensive trials. ArborGen is the only company in the world with the ability to produce varieties at scale.

Our MCP seedlings deliver significant gains to forest owners and $ margins 6-8 times than that of OP seedlings.

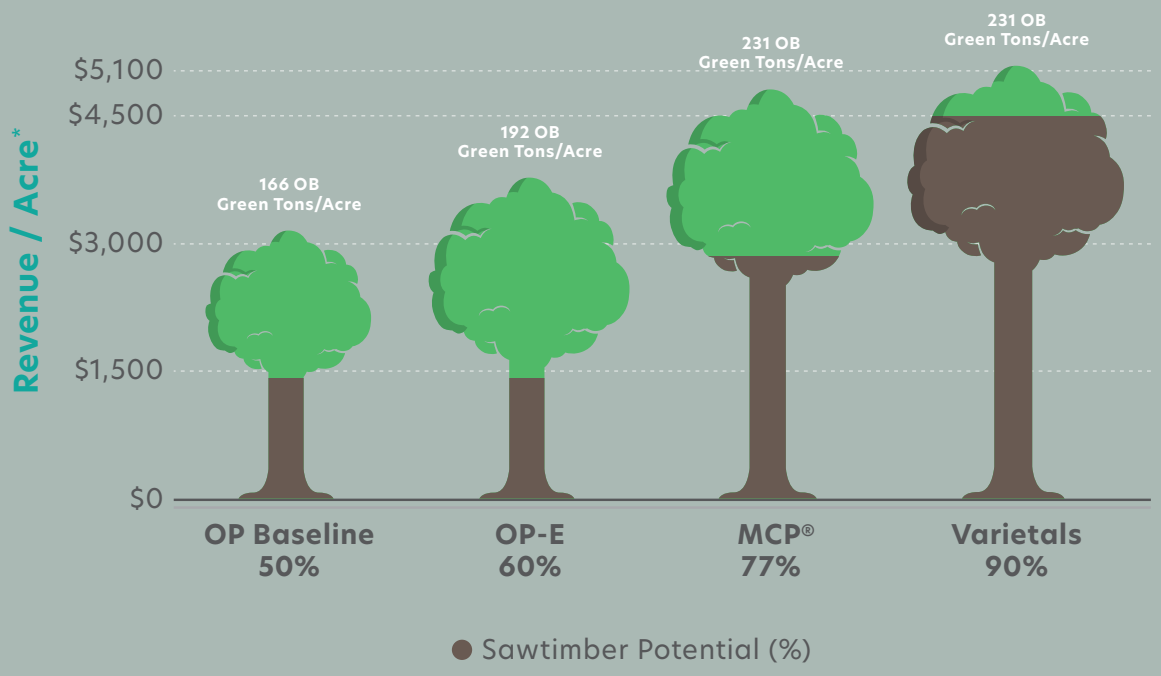
We Are Transforming Forestry Productivity

We service around 2,500 customers each year

We have 18 seedling nurseries, 12 seed producing orchards and overall production capacity of 540 million seedlings annually

We are now positioned for accelerated growth - our advanced genetic seedlings have been proven at commercial scale, market adoption is growing and we will have an increasing supply of seed as our orchards mature

The value story is now apparent and customer demand is growing



*Lower Coastal Plain 5 Year Moving Average ($/ton). Source: Timber Mart South

Note: OB Green Tons/Acre is a measurement for timber weight


1310
AGV123
Ship
1/11/16
Stick
1/13/16
BV AGV123

ArborGen's World Leading Technology

ArborGen's proprietary technology platform enables it to be the only commercial seedling company with products spanning the entire technology spectrum. Our technology platform combines the ongoing efforts of our product development and research teams, and draws upon 100+ years in the aggregate of tree improvement research programmes contributed from our founding shareholders.

The ArborGen in vitro system is a result of decades of intensive research efforts and investment. It is a bio process system that uses advanced plant breeding technologies and clonal propagation to mass produce selected varietal seedlings. ArborGen has developed a totally integrated process that moves from new cell line development to cryopreservation and cell banking. The focus has been primarily loblolly pine but we have also worked with other forestry species including slash and radiata pine, fir, sweetgum and eucalyptus.

The ArborGen in vitro lab team is highly experienced and technically proficient and is well regarded in the plant cell culture industry. Our team has been sought out for advice and contractual propagation for a number of species in addition to our core species loblolly pine and works on specialised projects such as the development of hemp genetics.

We operate an extensive field trial system, with ~1 million trees measured and analysed each year. We believe we have the broadest portfolio of intellectual property in the industry, as well as the largest and most diverse repositories of germplasm, encompassing more than 40 commercial tree species and hybrids.

FY21 Snapshot

FY21 was one of the most challenging periods in the company's history, with Covid-19 materially affecting sales in two of the four regions we operate in (the US and Brazil). Against that backdrop, we were very pleased to deliver strong year-over-year improvement in performance.

Commercial Highlights

- Built supply of higher value MCP seed inventory with material increase in MCP seed production
- Introduced new MCP 2.0 variety on a commercial scale
- Increased MCP bagging and pollination activity by 35% yoy
- Developed and produced new cross-breed to further boost US Coastal MCP supply
- Expanded portfolio in Brazil through new third party exclusive agreements
- Successfully integrated leased nurseries into ArborGen's operations

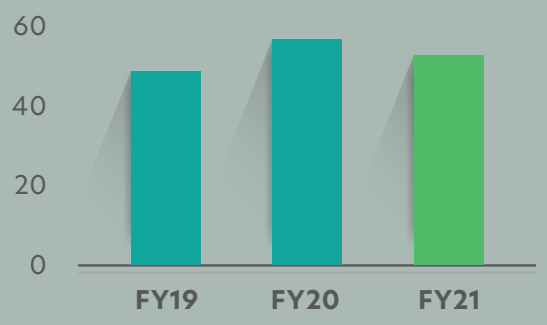
Financial Highlights

- Profit growth in FY21 in line with expectations despite Covid impact
- Material improvement in net earnings to $3.2m ($2.7m loss in FY20)
- Strong operating cash flow of $9.9m, up 106%
- Reduction in net debt to $27.4m, down $2.2m
- Doubling of US-GAAP EBITDA[1] to $11.3m, up 109%

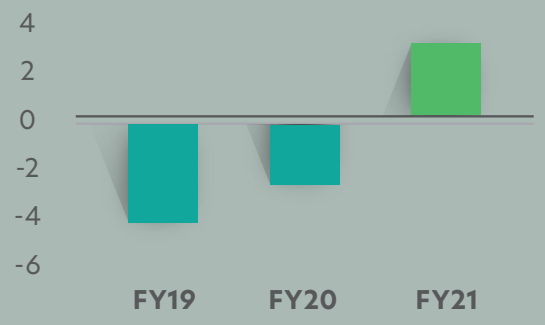
Outlook for FY22 and beyond

- Further growth of MCP expected in future years from flowers pollinated in FY21 and continued maturity of orchards
- Strong housing growth and global carbon markets provide significant growth opportunities
- Added opportunity to extend proprietary intellectual property into other crop species
- **US-GAAP EBITDA guidance for FY22 of $13.0 - $14.5 million – a material increase on FY21 (which included government grant income)**

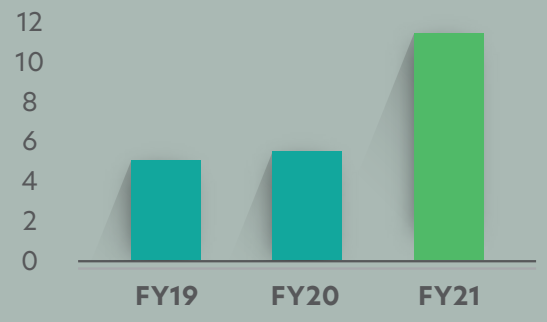
Revenue



NPAT

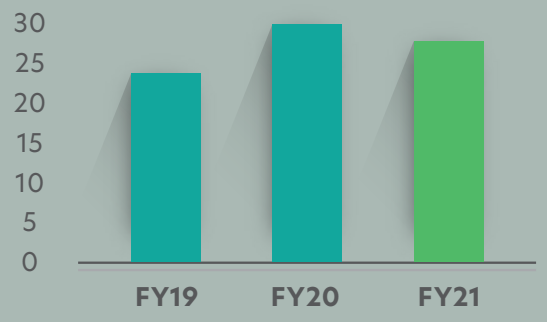


US GAAP EBITDA[1]



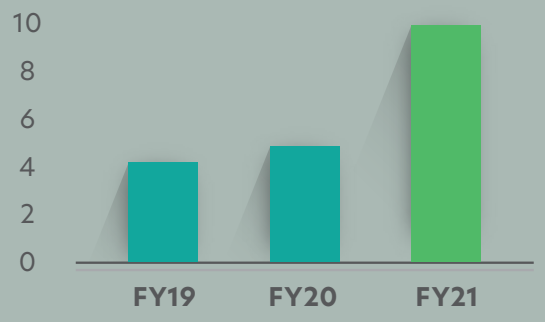
1. US-GAAP EBITDA is US-GAAP Earnings Before Interest, Tax, Depreciation and Amortisation. ArborGen uses US-GAAP EBITDA when discussing financial performance. This is a non-GAAP financial measure and is not recognised within IFRS. Non-GAAP financial measures should not be viewed in isolation nor considered as a substitute for measures reported in accordance with GAAP. Management believes that US-GAAP EBITDA provides useful information, as it is used internally to evaluate performance, and it is also a measure that equity analysts focus on for comparative company performance purposes, as the measure removes distortions caused by differences in asset age, depreciation policies and debt:equity structures. A reconciliation is provided in note 30 of the financial statements.

Net Debt*



*FY19 Net Debt includes capitalised HQ lease. FY20 and FY21 includes HQ mortgage

Operating Cash Flow



Chair & CEO Report

Dear Shareholder

The fiscal year ending March 2021 (FY2021) proved to be one of the most challenging periods we have experienced, as the global Covid pandemic materially affected sales in two of the four regions in which we operate – the United States and Brazil. While in Brazil the impact was expected through most of the year, in the US it was not until lifting season when the extent of the impact of Covid on seedling demand (which affected the entire seedling market) became apparent. Given these unprecedented conditions, we are extremely pleased to be able to report solid year-over-year performance, with significant improvements in net earnings, operating cash flow and US GAAP EBITDA[1], and a reduction in net debt.

Looking ahead, strong underlying demand for solid wood products in the US over the next decade due to years of underbuilding, demographic changes, ageing housing stock, and structural supply constraints in Canada, the Western United States and Europe is driving an expansion in sawmill capacity in the US South. This growth in timber demand will in turn support increasing demand for softwood seedlings over the next decade. These market dynamics create a strong tailwind for the execution of our strategy to drive the market to advanced genetics. We are expecting a significant increase in MCP seedling production and sales will, in turn, drive strong growth in our earnings and cash flow over the next few years.

"We are now beginning to realise the gains from over two decades of investment with proven MCP performance at commercial scale; increased market acceptance of the value of MCP products and an increasing supply of MCP seed."

"Demand is growing for our MCP seedlings, which deliver significant value to forest owners and $ margins 6-8 times that of OP seedlings. We are positioned for accelerated growth in FY22 and beyond as we continue to transform the forest industry."

1. US-GAAP EBITDA is US-GAAP Earnings Before Interest, Tax, Depreciation and Amortisation. ArborGen uses US-GAAP EBITDA when discussing financial performance. This is a non-GAAP financial measure and is not recognised within IFRS. Non-GAAP financial measures should not be viewed in isolation nor considered as a substitute for measures reported in accordance with GAAP. Management believes that US-GAAP EBITDA provides useful information, as it is used internally to evaluate performance, and it is also a measure that equity analysts focus on for comparative company performance purposes, as the measure removes distortions caused by differences in asset age, depreciation policies and debt:equity structures. A reconciliation is provided in note 30 of the financial statements.

FY21 Financial Performance

12 months ended 31 March

US $m	FY21	FY20	% change
Revenue	52.7	56.9	-7%
Operating Earnings (before other significant items)[2]	2.6	2.4	8%
Net Earnings	3.2	(2.7)	N/A
Net Cash from Operating Activities	9.9	4.8	106%
US GAAP EBITDA[1]	11.3	5.4	109%
Net Debt	27.4	29.6	-7%

During the twelve-month period, the Group reported:

- Revenue of $52.7 million, comprising sales of $36.8 million in the US, $9.9 million in New Zealand and Australia, and $6.0 million in Brazil. This is down from the $56.9 million reported in the prior period and is almost entirely due to sales reductions in the United States and Brazil.
- Operating earnings (before other significant items) of $2.6 million, up $0.2 million on the $2.4 million recorded in the prior period.
- Significant improvement in net earnings of $3.2 million[3] up from a loss of $2.7 million recorded in the prior period. During the period, ArborGen received $4.3 million from the US Small Business Administration (SBA) under the Paycheck Protection Program (PPP) of which $3.4 million was recognised as other income in the twelve-month result. The prior period net loss of $2.7 million included $3.9 million of charges, including $1 million of seedling credits provided to customers to address prior period seedling survival claims, and $2.3 million of seed cost adjustments.
- US-GAAP EBITDA of $11.3 million (excluding public company / corporate costs of $1.3 million) – a material improvement on the prior period's $5.4 million.
- Net cash from operating activities of $9.9 million, a doubling of the $4.8 million in the prior period (including Covid grants).
- Net debt (excluding $5.9 million of capitalised leases and deferred grant income) of $27.4 million, down from $29.6 million in the prior comparable period. Net debt would have been even lower but for the late lifting season brought about by restrictions on migrant labour into the US from Central America, which resulted in accounts receivable being approximately $2 million higher than would otherwise have been the case at year end. Such receivables were collected in April. The main use of cash during the period was a $2.5 million spend on building the supply of higher value MCP seed inventory in the US as MCP bagging and pollination activity increased by over 30% compared to the prior period.

2. Includes other significant items of $2.0 million comprising government grant subsidies of $3.7 million, partially offset by expenses in the period of $1.7 million relating to seedlings written-off and incremental Covid expenses incurred in the period (2020: a loss of $3.9 million).
3. Net earnings include a biological asset loss of $0.1 million ($0.6 million loss in the prior period) which relates to a share of earnings on seedling crop still in the ground, as required under IFRS.

FY21 Seedling Sales

	Seedling Sales FY21 (m)	Seedling Sales FY20 (m)
USA	294	333
USA Loblolly MCP%	*31%*	*30%*
Brazil	65	65
New Zealand/Australia	32	39
Total	391	437

In the 12 month period to 31 March 2021, ArborGen sold 391 million seedlings globally – 294 million seedlings in the US (including 263 million loblolly pine seedlings of which 31% were MCP and varietal seedlings), 32 million seedlings in Australasia, and 65 million seedlings in Brazil.

In the US, unit seedling sales decreased by just over 10% to 294 million units in the period, from 333 million seedling units in the prior period. This sales reduction year-over-year is largely explained by the global pandemic which affected ArborGen in two key ways:

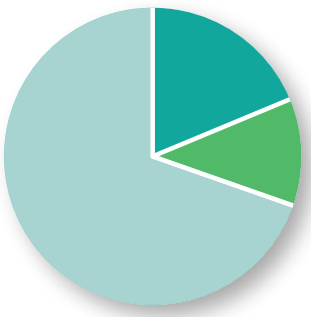
- Sawmill closures in the US in the early part of calendar year 2020 resulted in delayed log harvesting and, in turn, critical site preparation activities, both key prerequisites for seedling planting (customers typically clear and prepare land for planting from March through to October with planting starting in November); and
- Temporary suspension of non-immigrant worker H2-B visas into the US combined with planting crews contracting Covid, led to planting labour shortages during the critical planting season.

Added to this, a number of hurricanes during the period (particularly Hurricane Laura) affected site preparation progress in certain regions.

Our New Zealand and Australian operations had a solid year despite seedling sales decreasing year-over-year to 32 million from 39 million – driven entirely by a reduction in NZ of lower margin sales of OP seedlings that supported the NZ Government's one billion trees programme in the prior year.

In Brazil, sales of 65 million seedlings were flat on prior year as this region was hit the hardest by the pandemic in 2020, followed by an extended drought season. That said, gross margin improved significantly year-over-year due to reduced reliance on third party nursery production capacity following the integration of two leased nurseries into our operations.

Sales Revenue by Region

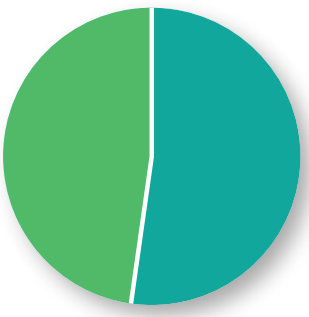


- Australasia
- South America
- USA

US Loblolly Pine Sales Volume

- MCP & Varietals
- OP

US Loblolly Pine Sales Revenue



- MCP & Varietals
- OP

Key Growth and Strategic Initiatives

With the core building blocks of the business now in place, we continue to progress the strategic, operational, and financial goals we have set for the business:

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

MCP Growth Strategy

The most fundamental strategy for growing our earnings and cash flow is premised on growing supply and sales of our proprietary advanced seedling genetics (MCP) supply and sales in our largest market – the US. Specifically, this involves:

- Developing an extensive portfolio of best-in-class proprietary MCP products through continued investment in research and development;
- Expanding the supply of our proprietary genetics through the establishment of orchards across the US South; and
- Accelerating our Acquire, Build Confidence, Convert and Defend (ABCD) sales and marketing strategy – actively acquiring new customers, but importantly, converting or upgrading our customers from lower margin, lower genetic OP seedling to higher value MCP seedlings.

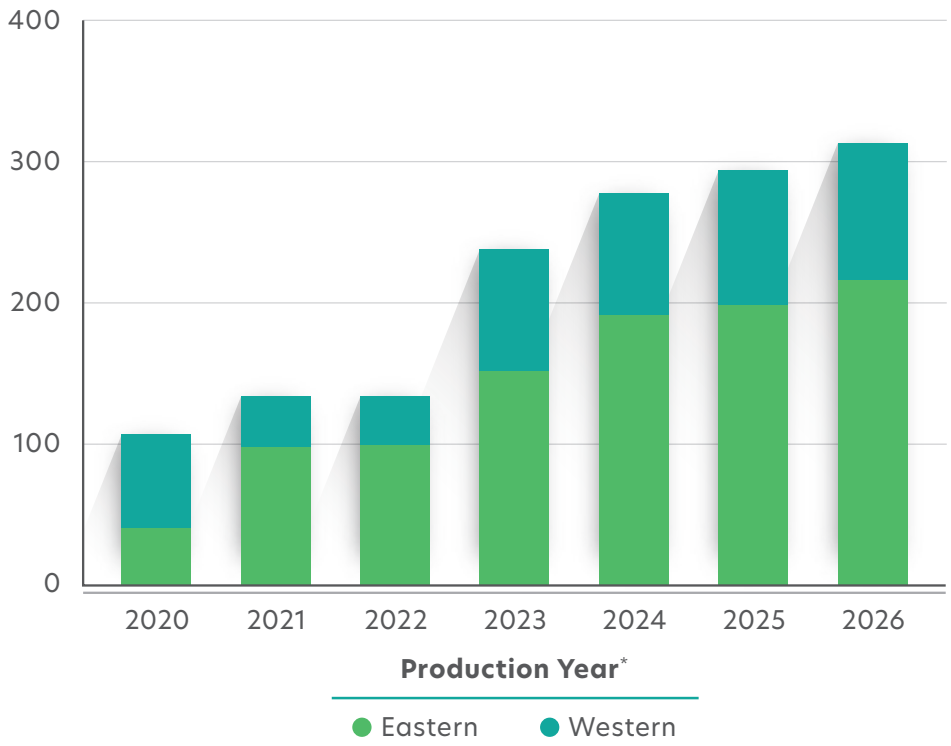
This, in turn, will drive substantial increases in plantation forest productivity and yields, strong financial returns for our customers and also material increases in ArborGen's margins, earnings and cash flow. Proven MCP performance at commercial scale, increased market awareness of the value of MCP products, combined with increasing supply of MCP seed means we are now positioned to realise the gains from over two decades of investment.

Expanding Supply of our MCP Seedlings in the United States

ArborGen has invested significantly in developing its best-in-class proprietary genetics, deploying those genetics in our seed orchards, and increasing our MCP bagging and pollination activity to increase seed supply in future periods.

As the next chart shows, this historic activity is now bearing fruit, with the availability of our proprietary MCP seedlings in the US showing a marked increase in future supply, particularly in our highest demand US Coastal South and Piedmont markets, as our extensive younger seed orchards have started to flower and produce seed.

MCP Projected Seed Supply
Million Seedling Equivalents



The chart shows projected seed supply in seedling equivalents, rather than sales. Please note the 2020 year refers to the fiscal year ending March 2021.

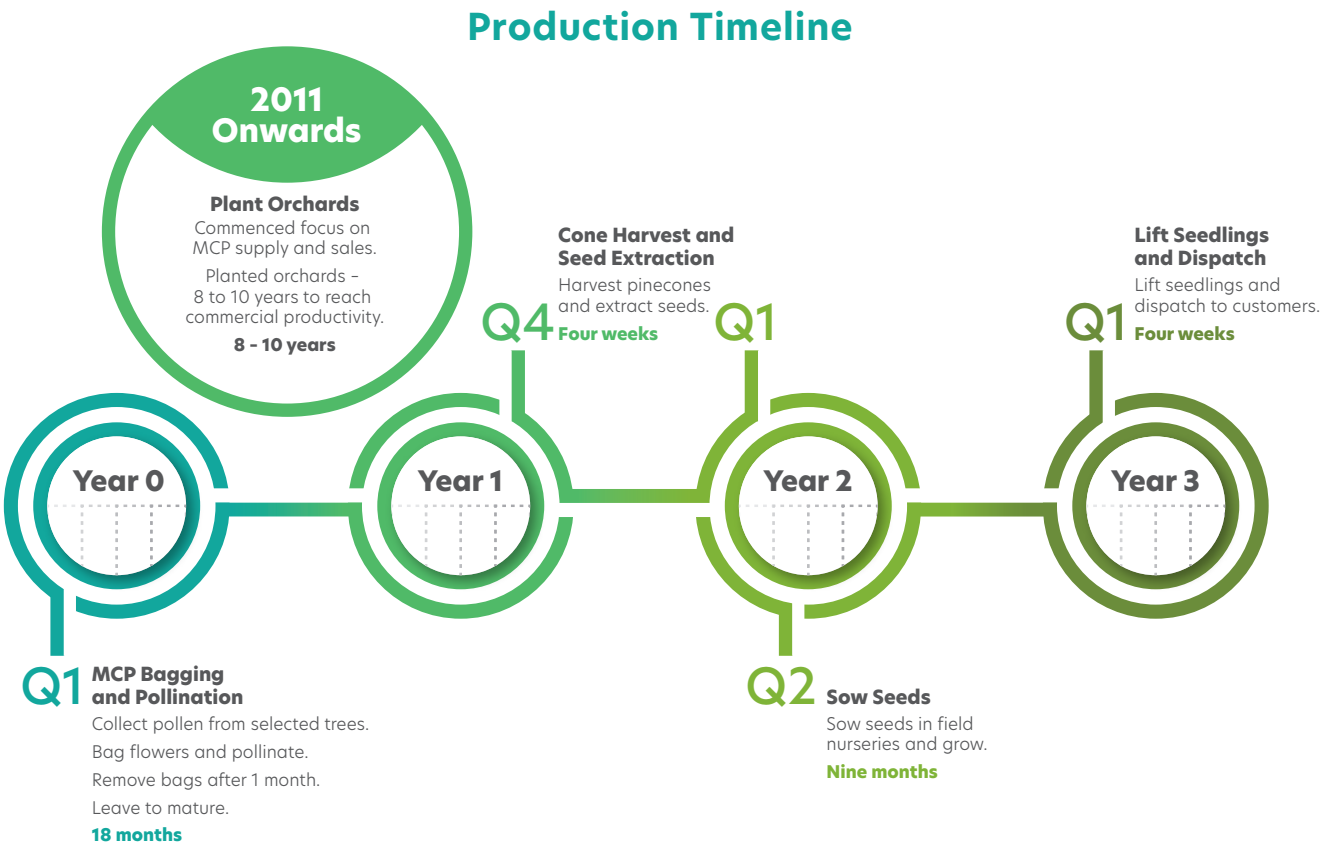
Note: MCP supply projections are based on a number of factors including the number of trees in our seed orchards, number of flowers bagged and number of flowers pollinated each year which are subject to climatic variabilities), as well as bushels of cones harvested, pounds of seed extracted per bushel, and the number of seedlings per pound of seed. As such, actuals may vary from projections due to biological factors outside of our control, as well as operational decisions.

We are very pleased to report that after three years of constrained MCP supply due to a number of unusual biological outcomes (including a lower than normal flower count due to extreme frost in 2017) and abnormal weather events including Hurricane Michael 2018, some of our younger orchards have now entered their productive life. Last year's cone harvest (completed in late 2020) generated a material increase in MCP seed production, particularly in our severely constrained Eastern (Coastal and Piedmont) regions. This is seed that is available for seedling sales in the current fiscal year ending March 2022 (that is, the 2021 seedling production year), which has allowed us to substantially increase MCP seedling production this year by over 30%, or approximately 30 million seedlings.

The margin growth potential for ArborGen is substantial as MCP $ margins are 6-8 times OP $ margins.

We have also recently completed our 2021 MCP bagging and pollination activity which saw an unprecedented number of flowers, resulting in a 35% increase in bagging over the prior year. Nearly every orchard surpassed its projected bagging target. In addition, we successfully carried out a night-time MCP pollination trial at our Livingston seed orchard in Texas, which, if successful, is anticipated to enhance seed production in future periods by allowing us to maximise the time available for pollination during years when the pollination "window" is short due to problematic weather conditions. We also produced, for the first time, a quantity of Texas and Coastal MCP crosses (pollen from Coastal "fathers" crossed with Texas "mothers" to produce seed) to help us further boost Coastal MCP supply that can be used in certain areas (discussed further below in the Risk Mitigation section).

Subject to uncontrollable factors, such as hurricanes, the increase in the recently completed 2021 MCP pollination activity will drive a significant boost in MCP seedling supply for the fiscal year ending March 2024. This time lag is explained in the chart below – as can be seen, there are three years from pollination activity to ultimate seedlings sales.



Increasing the Proportion of Superior, Further-Advanced Products in our US Advanced Genetics Portfolio

As explained in our Interim Review, in addition to growing MCP seed supply, we are also focused on advancing our pipeline of next generation advanced products to ensure we continuously move our customers up the MCP value chain – offering them superior products to increase value and maintaining our strong competitive lead in the market. In this respect, we focus our product development efforts each year on ensuring the MCP families we offer our customers are the best available in the market.

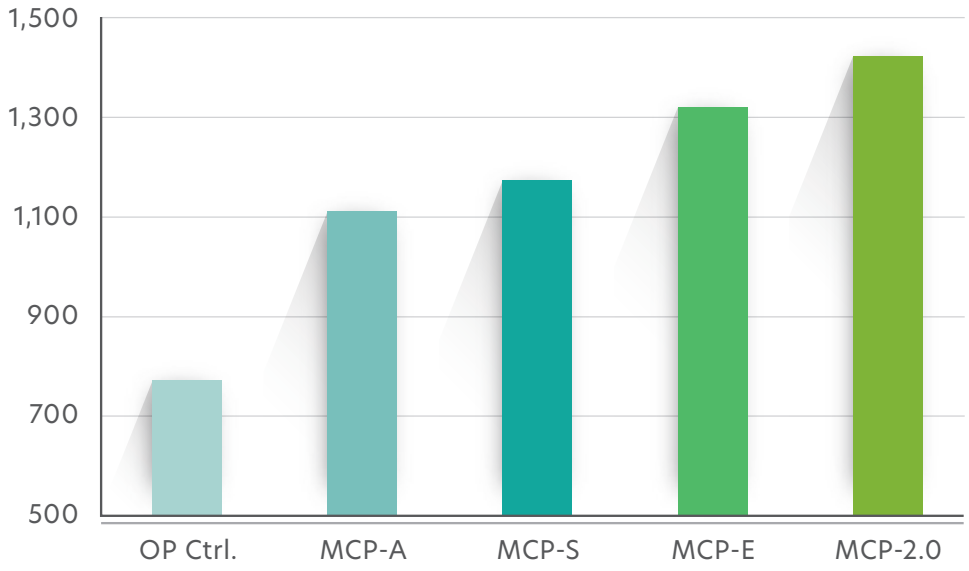
We have invested significantly in building the supply pipeline of these products, and we project that the availability of the higher-value MCP products such as MCP-Elite and MCP-2.0 where we have a very strong competitive advantage, will increase substantially over the next five years.

The chart below is a simple illustration of the substantial value created by our top MCP products and varietal products relative to OP products.

ArborGen is also the only global developer and supplier of loblolly varietal products which represent the pinnacle of genetics value. Beyond the value they create as products themselves, varietals are used as parents to produce our best-in-class, proprietary OP elite and MCP products – which no competitor can match.

Substantial Value Created for Our Customers

Bare Land Value $ Per Acre



Indicative only – ultimate value accretion is dependent on site location and silviculture regime adopted, amongst a range of other factors. Bare land value, or BLV, is a specialised Discounted Cash Flow technique used for timberland investments that calculates the value of bare land in timber production.

ArborGen is the clear MCP market leader, responsible for over 85% of all MCP sales in the addressable market over the past five years. It is the only company with a portfolio of MCP products addressing the entire US loblolly market and the only provider of MCP-2.0 products in the market. Our MCP pipeline continues to improve as we integrate new, better MCP parents into our orchards.

"The market size for loblolly pine in the US South is projected to grow from 800 million to 1 billion seedlings per year. ArborGen's share of this market is currently around 35%. Our share of the addressable loblolly MCP market is over 80% and in FY21, advanced genetics (MCP and varietals) comprised 31% of ArborGen's total loblolly seedlings sales. Our focus is on growing our overall market share and increasing the percentage of MCP seedlings used in forest plantings."

Mitigating the Risk of Adverse Climatic Events

Given the nature of our business, we are subject to climatic events that can adversely impact both our seed and seedling production, and hence we have a number of initiatives and standard operating procedures (SOPs) to minimise and mitigate the risks of these events.

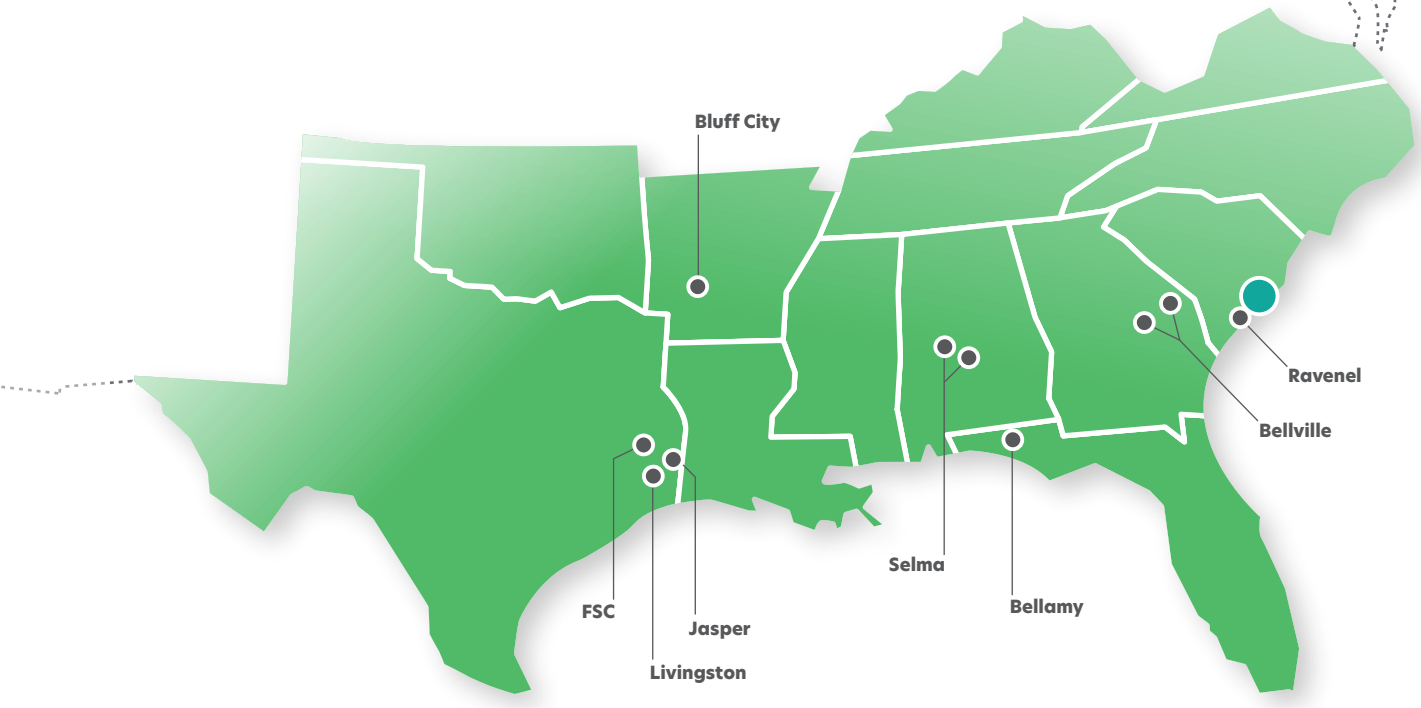
With respect to seed production, the most important risk mitigation strategy is to build sufficient inventory of reserve seed so that we are not completely reliant on seed harvested each year. While we have several years of OP seed inventory on hand, MCP seed supplies in some of our regions have been limited to date, due to the eight to ten year interval between planting orchards and the first seed harvest, and the severe weather events in 2018 which devastated our largest orchard complex. These supply issues, combined with strong and growing demand for MCP, which requires most of our annual seed harvest to be used in annual seedling production, have prevented us from reaching our inventory buffer targets.

We are actively working on building our buffer MCP seed inventory to combat the risks of adverse weather events and biological factors. In this respect, the projected growth in our MCP seed supply (shown on the chart on page 14) should allow us to reach our minimum target of two-years on hand of seed inventory in the next three to four years (we have already begun building inventory in Texas and Arkansas).

Beyond building seed inventory, our orchard investments to date have allowed us to further reduce MCP seed supply risk:

- We have ten geographically dispersed orchards in South Carolina, Georgia, Florida, Alabama, Texas and Arkansas.
- Investments in orchard capacity made eight to ten years ago are now bearing fruit as the large number of younger trees in our orchards aged between seven and twelve years (representing about 60% of our total orchard trees) are now becoming highly productive, and we continue to plant new trees with improved genetics as older trees are taken out of production.

ArborGen Orchard Operations
US-South



● ArborGen Headquarters ● Orchards

With respect to seedling production, seedlings are most vulnerable to mortality in the first four to six weeks of growth post sowing of seed from extreme weather events (wind storms, hail storms and flooding). To mitigate losses due to extreme weather, ArborGen has an array of nursery procedures which we are continuously improving including:

- The use of crop covers and wind fences to protect against wind damage;
- Modifying field topography to maximise drainage and minimise flooding; and
- The use of field glues to minimise seed washing away due to heavy rains immediately after planting.

In addition to standard nursery SOPs, we plant more seedlings than we expect to sell during the initial sowing period in the event of seedling losses. Last year we also established the option of sowing an additional crop up to a month after initial sowing through the staging of additional buffer seed at our nurseries.

Operational Cash Flow Initiatives

We constantly strive to increase the cash generation performance of our business. While the single largest driver of cash flow improvement comes from converting our customers to higher value genetics, we continue to implement a range of initiatives designed to supplement that core objective. Over the last year, these have included:

- The consolidation of certain nursery and orchard roles resulting in annual savings of $0.2 million;
- The elimination of certain R&D roles and work streams reducing R&D spend by approximately $1 million on an annualised basis (about half of the savings will materialise in the current (FY2022) year);
- An increase in collaboration income and lease income (from leasing part of our greenhouse facilities) targeted for the current year;
- Improved utilisation of equipment across our nurseries;
- Reductions in discretionary overhead costs and capital expenditure in all the regions in which we operate; and
- Accessing government funding programmes, where we qualify, to mitigate Covid related disruptions.

Improved Funding Arrangements

As reported in our Interim Review, in November 2020, we successfully renegotiated and extended our revolving credit facility agreement with Synovus Financial Corporation (Synovus) relating to our $17 million letter of credit (LOC) facility in the US to 31 August 2023 from 31 August 2021. As part of the amendment to the agreement, Synovus also agreed to:

- Increase the annual 60-day (continuous) pay down maximum borrowing limit to $10 million, up from $7.5 million previously; and
- Release the final $2 million of restricted cash Synovus previously required as collateral.

The interest rate applicable to the LOC is the 30-day London Inter-bank Offered Rate (LIBOR) base rate plus 2.75% with a minimum annual rate of 3.5%.

The renegotiated agreement provides us with $4.5 million of additional working capital 'cushion', and is a recognition of strengthened performance and the inherent significant seasonality of the business.

Immediate Outlook

Turning to the current FY2022 fiscal year, increased availability of our proprietary MCP seedlings in the US, improving markets in all regions, and higher demand for our proprietary genetics in the US and Brazil, create strong tailwinds for fiscal 2022. In light of this, and subject to any uncontrollable factors, we are targeting US-GAAP EBITDA[4] for the current year ending March 2022 to be in the $13.0 - $14.5 million range and further reduction in net debt from internal cash generation across the period. This earnings target represents significant growth on FY2021 which included Covid related government grant income.

United States

With 50% of adults now fully vaccinated and the expectation that 75%-85% will be vaccinated by August of this year, our operational and sales activities in our largest market will continue to return to normalcy. Consistent with the US Centre for Disease Control recommendations, we are gradually returning to normal operations at our production facilities, increasing our face-to-face customer interactions and participation in industry meetings as they begin to restart. This bodes well for ArborGen's upcoming sales season which commences in December 2021. The regulations around H2-B non-immigrant labour visas have also eased, reducing the risk that this will be a barrier to planting in FY2022.

Moreover, strong underlying demand for solid wood products (particularly softwood products) in the US is driving an expansion in sawmill capacity in the US South, which in turn will support strong demand for softwood seedlings in the current period and beyond.

With approximately 180 million units of our total US loblolly sales of 263 million seedling units last year comprising OP seedlings (approximately 70% of total sales), we are very focused on increasing MCP production and converting existing customers from OP genetics to MCP genetics to create substantial value for customer estates, and to drive earnings growth. In this respect, and as noted earlier, this year we have sown the highest volume of MCP seed in our history (up 30% or 30 million units on last year) for sale in the current fiscal year ending March 2022.

From a demand standpoint, our larger industrial customers now fully understand the increased value our advanced genetics offer them in terms of the economic returns delivered to their forest estates and have stated objectives ranging from 50% to 90% of their estates being planted with MCP genetics over time. As previously indicated, we are now focused on extending our conversion activities into the large private landowner segment) which comprises more than 50% of the total US seedling market and approximately 60% of our customer base in seedling unit terms.

Outside of forestry, our somatic embryo capabilities, genomics and tissue culture expertise create a number of opportunities for us in other crop species. We have already deployed our technology in sugar cane, developed tissue culture protocols for cannabis and are evaluating other opportunities including coffee and cocoa production. We are also evaluating opportunities to license elements of our technology platform in areas that are not competitive with us.

Australia / New Zealand

The underlying demand drivers for forestry in NZ and Australia remain strong. In NZ, demand is being driven by a combination of "wall of wood" age class re-planting of existing forests established in the late 1980s to mid-1990s planting boom, as well as new forest establishment driven by government policies to meet climate commitments, regional development goals, land use change, and increased planting of native species.

We also continue to be focused on growing our NZ horticulture business propagating high-value horticultural species, leveraging our expertise in tissue culture and nursery production to rapidly produce elite germplasm plant material for growers. Currently, we are working on a wide variety of crops including hops, blueberries, rubus and tea.

4. Excluding public company / corporate costs of approximately $1 million

Brazil

While sales last year were materially affected by the impact of Covid in the region, we are optimistic that we will see a substantial increase in sales in the current year as evidenced by the fact that orders to date are nearly 70% higher than they were at this time last year. We believe that increasing softwood product exports, new pulp mills (recently announced), strong demand for eucalyptus based pulp and charcoal products, expansion of our sales and marketing efforts and increasing recognition of the value of our proprietary products will all contribute to these projected sales increases.

We continue to benefit from increased in-house production capacity and lower production costs (and hence improved gross margins) following the lease of two full-scale nurseries:

- A 15 million eucalyptus nursery in Minas Gerais (the largest charcoal producing state in Brazil) from Brotale in late 2019; and
- A 15 million eucalyptus nursery in Mato Grosso do Sul in April 2020.

With respect to our superior genetics offering, in October 2020 we announced that ArborGen had entered into an agreement with Vallourec (one of the leading suppliers of steel in South America, and specialty steel globally) which gives us exclusive rights to develop and commercialise Vallourec's genetically improved eucalyptus clones in Brazil. The partnership will expand the products ArborGen can offer our customers, as well as allow us to expand into new markets in Brazil. We also have exclusive rights to commercialise International Paper's and Gerdau's eucalyptus clones in Brazil, and continue to develop our own proprietary eucalyptus clones which we have begun selling in small quantities, with full-scale commercialisation expected by 2024.

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
Chief Executive Officer

Taking Care of What Matters

Environmental Responsibility

Positive Social Impact

Strong Governance

Our aim is to care for and protect our natural ecosystem and provide positive benefits for our people and communities, while delivering robust financial performance and profitability for our shareholders. We are on a journey to identify ways to measure and monitor our environmental and social impact. We believe this will help us to improve all aspects of our business and deliver positive benefits for all our stakeholders.

Environmental Responsibility

Reducing Greenhouse Gases

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 roughly by 3.7 to work out how much carbon dioxide the tree has sucked from the atmosphere. ArborGen will sell over 400 million tree seedlings this year which will re-forest 800,000 acres.

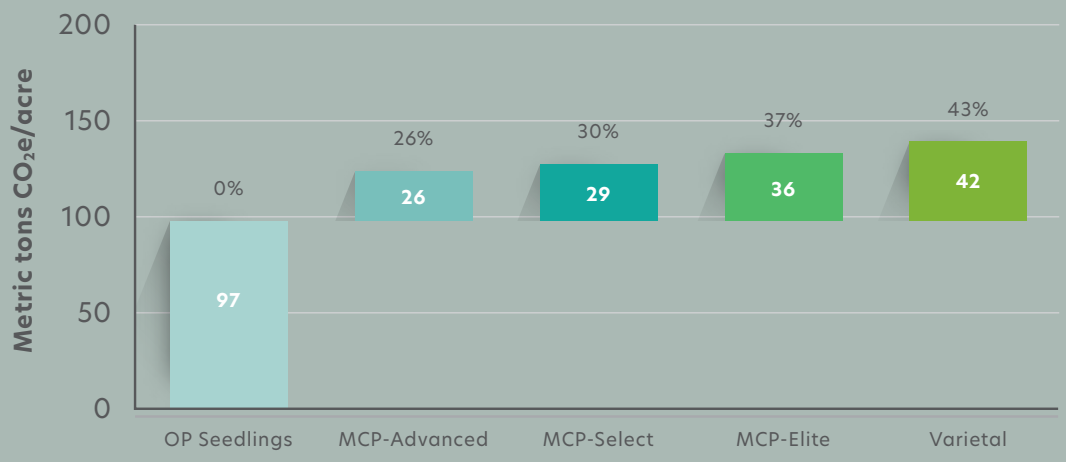
The rate of carbon absorption through forest depends on the speed of the plants' growth. Pine in particular, is adept at growing fast and absorbing carbon dioxide while it is still young. In New Zealand it is estimated that every hectare of exotic pine sequesters more than twice as much carbon as a hectare of indigenous forest. Forests planted with advanced genetics will sequester substantially more, as these seedlings are designed to grow faster.

In 2020, our conifer seedlings were planted on approximately 600,000 acres in the US, Brazil, New Zealand and Australia. The forests that develop from those seedlings will sequester around 64 million tonnes of carbon over their 25 year life. According to the US Environmental Protection Agency (EPA), **those tons of carbon consumption will offset the carbon emissions from all the cars in Auckland, Los Angeles, New York City, Chicago, Paris and London for a full year.**

We plant trees on all acreage feasible around our nurseries to drive carbon capture, reduce soil erosion and optimise soil conditions.

We estimate that approximately 400 million tons of CO_2 has been absorbed from the atmosphere in the last 10 years by the trees provided by ArborGen to our customers.

ArborGen Advanced Genetics Products Absorb More CO_2 Than Traditional OP Seedlings



ArborGen Hardwood Seedlings Serve Environmental Needs

Hardwoods, such as oaks, ash and tupelos, are used to reconstitute the native mix of trees found in bottomlands and other sensitive land areas. They are often used as part of planting programmes for the protection and renewal of important or damaged areas in projects such as restoring wetlands, reclaiming lands used for surface mining and conserving wildlife habitat. Over the last five years, across 1,000 square miles, 30 million of our seedlings, comprising more than 40 different species of hardwoods, have gone into environmental plantings in the US.

Sustainable Operational Practices

We use a portfolio of US EPA registered chemicals including fertilisers, fungicides, insecticides and herbicides, and follow recommended best practices to minimise the impact on the environment and safety for all concerned. Integrated Pest Management efforts are used to minimise chemical usage including monitoring for insects and targeted site specific treatments.

We grow our tree seedlings at a very high density, reducing the acreage required for growing the crop.

Land management practices are employed to minimise runoff and the impact on the local environment.

Our network of nurseries are strategically located to supply landowners in each major growing region, minimising the transport distance for pick up or delivery of seedlings.

We optimise deliveries through larger loads and pooled orders, to reduce transport emissions and pack seedlings at maximum density to reduce packaging requirements.

We have large walk-in coolers which allows us to store seedlings until sufficient quantity is available for a full load going to the customer.

We have a carefully managed water usage policy and use technology and automation to ensure the most efficient use of water when required for irrigation.

ArborGen is a member of the Forest Landowners Association and the Forest Resources Association, and a supporter of the American Forest Foundation for family forest owners. Our customers are members of global, national and regional sustainability and environmental forestry organisations, including the Sustainable Forestry Initiative and the Forest Stewardship Council.

Forest Landowners

FRA Forest Resources ASSOCIATION

Positive Social Impact

Our People

People are the key to our success – our team, our customers and the communities we work in. We support local and national economies by providing jobs and employment opportunities, as well as giving back through support of selected causes.

ArborGen's culture is defined by the questions that we ask ourselves and each other as we work:

Is it fair? Is it right? Does it help our customer? Am I holding myself and others accountable? Have I been transparent? Is there a better way to perform my task or meet our customer's needs? Every manager is expected to lead by example in making sure these elements inform all of our decisions and actions. These values are complemented by encouraging anyone in the organisation to speak up and address their concerns and bring forth their ideas for improving the company. This has created a culture that is transparent, customer focused, action and accountability oriented and committed to success.

We care and support our own people and have an inclusive workforce that recognises the value of diversity. We strive to recruit, train and maintain a diverse team of individuals and enhance their own career goals while supporting the company's mission. We encourage the participation of women and minorities in the forestry industry. Currently, 57% of our workforce is made of up women, with a total workforce of 380 full time employees from many different ethnicities.

Health, safety and wellness is our top priority and our aim is to create a culture that keeps our workers safe and healthy at work, at home and while travelling. Safety is imbued in our corporate culture, and every manager is accountable for the safety of their team. ArborGen has implemented a comprehensive safety programme throughout the company. Every facility in the company has a designated safety officer, and safety committees operate at every level of the company. We use the RAM (Risk Assessment Matrix) and the SixS programmes to ensure we are continually and consistently addressing safety issues.

We also promote wellbeing and encourage our employees to be physically fit. We do this by offering fitness goal challenges and offering a wellness benefit to our employees for reduced insurance premiums once they complete yearly fitness exams.

This is exemplified by our response to the Covid pandemic. As soon as the virus became an issue we instituted strict Covid protocols at all of our facilities. In the US these protocols required:

- Masking, social distancing and extensive sanitation;
- Employees not coming to work and quarantining if exposed to someone who was or might be infected; and
- Allowing employees to work from home if job duties permitted.

In the case of the corporate office we defined traffic flows. We dramatically reduced travel to that necessary to physically transport material or take measurements in the field.

During the cone harvest, lift and pack and MCP bagging seasons we had over a hundred contract labourers working at our facilities, sometimes in close quarters. We required them to follow the same protocols as our regular staff. As a result, although some employees contracted the virus outside of work we did not have a single case of "community spread" in any of our US facilities.

We followed similar practices in Brazil where we had 60-80 employees at each of our two nurseries throughout the pandemic and again had no cases of community spread in spite of the high levels of infection in the Brazilian population. In New Zealand and Australia, we complied with all lock-down and other restrictions and our operations were relatively unaffected.

We have a Code of Conduct that guides the behaviour of all our people and is focused on creating a rewarding and comfortable work environment that recognises and rewards the efforts of our people. We have zero tolerance for any harassment or discrimination and we have active ongoing programmes that address workplace equity, harassment and discrimination in which our employees are engaged. Employees are encouraged to report violations without reprisal from their superiors or their co-workers.

In FY21, we directly employed 380 people in our business. Additionally, we had contract employees supporting our operations in our nurseries and orchards. Ethical labour practices are very important to us and we pay fair wages and salaries. We conduct biennial remuneration reviews to ensure that there is pay equity at all levels of ArborGen to minimise inadvertent discrimination that may affect retention and career progression.

57%
of our workforce are female

100%
of our employees are from local communities

ZERO
high risk accidents and fatalities (in FY21)

Jude Redington

Laboratory Services Manager

Jude Redington started working for ArborGen (then Tasman Forestry) in New Zealand in 1985, as a Lab Technician. Her current position includes a number of responsibilities including Lab Services Manager, Registered Facility Operator for the quarantine facility, HR Manager and Health & Safety Manager. Jude is also a member of the ArborGen Australasia's senior management team.

On a normal day, Jude may spend up to 50% of her time in the laboratory, developing stronger, better plants for both ArborGen and for agricultural customers. One outcome of her team's work and expertise can be new varieties, particularly of fruit and berries, being brought to market. Jude loves the challenge of developing new high value horticulture crops that can add real value to ArborGen and the New Zealand economy.

Gene Bickerstaff

Western Region Manager, ArborGen U.S.

Like many of the ArborGen team, Gene Bickerstaff has been with the group for many years and holds down a number of different responsibilities. Gene began his career with ArborGen in the US in 2007 and was appointed to his most recent role as Western Regional Nursery Lead in February 2021. This sees him managing five of ArborGen's nurseries, in Texas and Arkansas, with responsibility for safety, production, inventory, budgeting, people, and distribution.

In addition to his regional duties, Gene is also the nursery manager at all three Texas nurseries and makes daily recommendations around crop production, planting, soil moisture, fertility, pest and disease control, and other production practices.

"We are now starting to see the value that our customers are getting from our advanced genetics seedlings. I am most excited about the continued growth and deployment of our advanced genetics offerings, and what this means for the future of ArborGen and the forestry industry."

Our Customers

We are only successful when our customers are. This drives our focus on creating strong and long term relationships with our customers by understanding and responding to their needs. We do not just supply seedlings to them but also the advice and support necessary for a successful reforestation programme.

We provide seedlings to approximately 2,500 customers each year, many of whom have been buying from us for decades. In each of the areas in which we operate, our customers range from the largest industrial and financial landowner in the market to small private landowners who only plant occasionally. We have multi-year contracts with many of our customers that call for them to buy all, or a large portion of their seedlings from us every year.

Our Communities

We have nurseries, orchards and offices on 35 sites around the world. We are conscious of our role as a responsible corporate citizen and look to have a positive impact on the people around us.

Each nursery is encouraged to participate and contribute to organisations in their community. For example, in the US, ArborGen supports the Dorchester Children's Center, a treatment facility for neglected and abused children, and animal rescue centres. We are also supporters of Center for Heirs Property, an organisation that provides economic benefit to underserved landowners through forestry and legal services in South Carolina. In each US state where we conduct business, we support Log-A-Load, a charitable arm of the state forestry associations. The contributions are made to the children's hospital in that state. We have contributed both money and historic material to the Forest History Society in North Carolina.

The Proof is in the Timber

Not only is Mitch McElroy a consulting forester, but he is also a private landowner in Jefferson County, Florida. Mitch was one of the first landowners to embrace ArborGen's advanced genetics. As a consulting forester, he provided a wonderful example of what advanced genetics could do and did it on his own property. He was able to conduct a commercial thinning on his 50+ acre stand when the trees were eight years old rather than the standard 10 to 12 years, which means the final harvest can be done at age 23 to 24, rather than 27 years.

Virtually all the trees are sawtimber, one of the most profitable products produced from trees (telephone poles are the most profitable). To be suitable for sawtimber, trees must be straight with small limbs. The more sawtimber, the more value there is for the landowner. Advanced genetics provide straighter trees, with better form and less disease. That's why ArborGen's advanced genetics are so incredibly beneficial for landowners.

This planting has been an endorsement for many other landowners to plant advanced genetics and has greatly helped increase ArborGen's MCP and Varietal sales.

"The ArborGen Varietals I planted have been a great investment. I've been really pleased with their growth, and my plan is to plant more of them. As a forestry consultant, I also recommend them to my customers."

Mitch McElroy

Strong Governance

At ArborGen, we are committed to conducting business in the right way, ethically and in line with our legal and regulatory obligations, to ensure we add long term value to our staff, contractors, shareholders and other stakeholders.

We report on our corporate governance framework each year in our annual report and key governance documents are available for viewing on our website.

ArborGen's Corporate Governance Report for FY21 can be read on pages 68 to 83.

Our Board

DAVID KNOTT: Appointed 16 December 2011

BA University of Pennsylvania; MBA Wharton School of the University of Pennsylvania

David is the Managing Member of Knott Partners who, with associated entities, is ArborGen's largest shareholder. He has served as Chief Investment Manager of Knott Partners since 1987, and prior to this he was a General Partner and analyst at Mandrakos Associates.

DAVE KNOTT JR: Appointed 24 February 2017

David Knott's alternate, Chairman
BA University of North Carolina at Chapel Hill

Dave is the CEO and Chief Investment Manager and Executive Managing Member of Knott Partners who, with associated entities, is ArborGen's largest shareholder. He has served as Co-Chief Investment Manager of Knott Partners since March 2017. Dave is a board member of DRS Holdings LLC, on the Advisory Board of The HiGro Group, LLC and the Tenon Clearwood Limited Partnership Advisory Board.

GEORGE ADAMS: Appointed 12 August 2019

Independent Director
FCA (Fellow of the Institute of Chartered Accountants in Ireland), CFInstD (Chartered Fellow of the Institute of Directors), Diploma in Company Direction, University of Ulster

George, who is based in New Zealand, brings broad industry knowledge to the Board. His previous management positions include Managing Director of Coca-Cola Amatil in New Zealand, Finance Director of British Telecom Northern Ireland and Group Finance Director of Molino Beverages based in Dublin. He is currently a Director of Tegel Group Holdings Limited, Chairman of Cavalier Corporation, Competenz, Netlogix, Mix Cosmetics and New Zealand Frost Fans Limited. In addition, Mr Adams is the Executive Chairman and co-founder of Apollo Foods and Insightful Mobility. George also chaired the Independent Forestry Safety Review in 2014.

THOMAS AVERY: Appointed 18 July 2018

Independent Director
MBA Harvard Business School; BSc Georgia Institute of Technology

Tom has nearly 40 years of investment banking and venture capital experience. He has served on numerous private company boards throughout his career, advising companies on the successful financing, planning and execution of growth strategies.

As an investment banker, Tom worked primarily with middle market growth companies in executing mergers and acquisitions, initial public offerings, and private placements of equity and debt. He served as a Managing Director at Raymond James & Associates from 2000-2014, which involved the management of the technology investment banking group and the financial sponsors' efforts. Prior to that, Tom's career saw him act as the head of the investment banking group at Interstate/Johnson-Lane, be a general partner at Summit Partners and at Noro-Moseley Partners, and work as a Senior Vice President at The Robinson-Humphrey Company.

He currently has directorships at CRA International Inc, KIPP Metro Atlanta and PowerUP Scholarship, a non-profit organisation that gives disadvantaged Atlanta youth new opportunities for personal development.

OZEY HORTON: Appointed 11 July 2018

Independent Director
MBA Harvard Business School; BSE Duke University

Ozey has extensive experience in global operations, strategic planning, merger and acquisition integration and change management.

He has been a Director Emeritus of McKinsey & Co., a business consulting organisation, since 2011 when he retired after nearly 30 years with the firm. At McKinsey, Ozey led various practice areas around the globe, including Pulp, Paper and Packaging, Industrial, Change Management, Global Operations in Energy and Materials, and Basic Materials. His McKinsey client service and practice leadership provided for considerable experience working in Europe, South America, India, and Asia. He is a faculty member for McKinsey's leadership development program, a Senior Advisor at McKinsey, and also serves as an independent business advisor.

He currently serves on the Boards of Worthington Industries and Louisiana–Pacific Corp, and the Advisory Board of Al Dabbagh Group. He also serves on the Board of Spoleto Festival, USA and the Advisory Board of the MUSC Hollings Cancer Center.

PAUL SMART: Appointed 21 August 2018

Independent Director
BBS, Finance Massey University; Chartered Accountant (CA); Chartered Member Institute of Directors (CMinstD)

Paul brings more than 30 years' experience as a senior financial executive and professional director in local and international markets, including listings on the NZX, ASX and NASDAQ.

As an executive, Paul's key experiences were as CFO of NZ's largest energy company, Meridian Energy and prior to that, founding CFO of Sky Television which during his tenure went on to become a top 10 listed company on the NZX. As a professional director Paul has variously acted as a director, audit and finance chair and board chair for a broad range of companies including listed, venture capital, high-net-worth family, and large private companies. These roles have included businesses in the energy, manufacturing, venture capital, transport and tourism and automation sectors in NZ, USA, Australia, Thailand, India, and Spain. He is currently a non-executive director of MHM Automation, Geo40 and Argus Fire Systems Service.

RANJAN TANDON: Appointed 12 September 2017

Director
MBA Harvard Business School; B Tech Indian Institute of Technology

Ranjan is Founder and Managing Member of Libra Advisors LLC (Libra), which holds a 17.2% interest in ArborGen. Libra had assets of $2.5 billion and invested in domestic and emerging market equities prior to conversion to a family office in 2012. He previously served as Sr Management Trainee with DCM in India, CFO of an LBO, InterMarine Incorporated, Houston and as a VP with Merrill Lynch prior to establishing Libra in 1990.

Ranjan is also a Board Member of the NYU Tandon Engineering School and has endowed Faculty Chairs at the Harvard Business School and Yale University. He is also a director of a listed Stockholm Company, Vostok Emerging Finance, which invests in early and growth stage fintech companies across emerging markets. He is also a member of the Tenon Clearwood Limited Partnership Advisory Board.

Leadership Team

Andrew Baum, President and CEO	Kathy Parker, VP Finance & Accounting	Michael Cunningham, VP Global Product Development
John Pait, VP Sales & Marketing	Jason Watson, Sales Manager	Greg Mann, GM Operations Australasia
Gabriella Bassa, GM Operations Brazil	Sharon Ludher-Chandra, Company Secretary and Performance Improvement Director	Alex Brown, Chief Financial Officer

Financial Statements

FOR THE PERIOD ENDED 31 MARCH 2021

ArborGen Holdings Limited and Subsidiaries

Consolidated Income Statement

FOR THE YEAR ENDED 31 MARCH 2021

	Notes	Year ended March 2021 US$m	Year ended March 2020 US$m
Revenue	24	52.7	56.9
Cost of sales	7	(34.5)	(37.2)
Gross profit		**18.2**	**19.7**
Change in fair value of biological assets	11	(0.1)	(0.6)
Other income		0.8	0.3
Administration expense		(16.3)	(17.0)
Operating earnings excluding items below		2.6	2.4
Government grants, Inventory adjustment and other	7	2.0	(3.9)
Operating profit (loss) before financing expense		**4.6**	**(1.5)**
Financing expense	22	(2.0)	(2.3)
Profit (loss) before taxation		**2.6**	**(3.8)**
Tax benefit	8	0.6	1.1
Net earnings (loss)		**3.2**	**(2.7)**

Earnings (loss) per share information (cents per share)		
Basic	0.6	(0.5)
Diluted	0.6	(0.5)
Weighted average number of shares outstanding (millions of shares)		
Basic	499.5	497.8
Diluted	502.8	497.8

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

ArborGen Holdings Limited and Subsidiaries

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 MARCH 2021

	Notes	Year ended March 2021 US$m	Year ended March 2020 US$m
Net earnings (loss)		**3.2**	**(2.7)**
Items that may be reclassified to the Consolidated Income Statement:			
Movement in currency translation reserve	20	2.2	(2.5)
Movement in hedge reserve	20	0.4	(0.7)
Other comprehensive earnings (loss) (net of tax)		**2.6**	**(3.2)**
Total comprehensive loss		**5.8**	**(5.9)**

ArborGen Holdings Limited and Subsidiaries

Statement in Changes in Equity

FOR THE YEAR ENDED 31 MARCH 2021

	Notes	Year ended March 2021 US$m	Year ended March 2020 US$m
Total comprehensive earnings (loss)		**5.8**	**(5.9)**
Movement in ArborGen Holdings shareholders' equity:			
Movement in issued capital	19	0.2	1.3
Movement in share based payment reserve	20	0.3	(1.1)
Total movement in shareholder equity		**6.3**	**(5.7)**
Opening Group equity		141.9	147.6
Closing Group Equity		**148.2**	**141.9**

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

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 MARCH 2021

	Notes	Year ended March 2021 US$m	Year ended March 2020 US$m
Cash was provided from operating activities			
Receipts from customers		52.5	55.7
Government grants received		4.6	–
Cash provided from operating activities		57.1	55.7
Payments to suppliers, employees and other		(47.2)	(50.9)
Cash (used in) operating activities		(47.2)	(50.9)
Net cash from (used in) operating activities		**9.9**	**4.8**
Sale of assets		–	0.1
Investment in fixed assets	13	(1.0)	(5.3)
Investment in intellectual property	15	(3.7)	(4.1)
Net cash from (used in) investing activities		**(4.7)**	**(9.3)**
Debt drawdowns		8.5	25.2
Repayment of lease liabilities		(1.3)	(12.6)
Debt repayment		(12.4)	(4.7)
Interest paid		(2.0)	(2.5)
Net cash from (used in) financing activities		**(7.2)**	**5.4**
Net movement in cash		**(2.0)**	**0.9**
Opening cash, liquid deposits and restricted cash		7.9	7.2
Effect of exchange rate changes on net cash		0.3	(0.2)
Closing Cash, Liquid Deposits and Restricted Cash		**6.2**	**7.9**
Net earnings		3.2	(2.7)
Adjustment for:			
Financing expense		2.0	2.5
Depreciation and amortisations	7	10.2	9.5
Taxation		(0.6)	(1.1)
Foreign exchange		0.4	(0.8)
Deferred grant income		0.9	–
Change in fair value of biological assets		0.1	0.6
Other non cash items		0.7	0.2
Cash flow from operations before net working capital movement		16.9	8.2
Trade and other receivables		(1.7)	(1.4)
Inventory		(5.3)	(0.5)
Trade and other payables		–	(1.5)
Net working capital movement		(7.0)	(3.4)
Net cash from operating activities		**9.9**	**4.8**

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 31 MARCH 2021

	Notes	March 2021 US$m	March 2020 US$m
Current assets			
Cash and liquid deposits	9	6.2	5.9
Trade and other receivables	10	12.2	10.5
Inventory	11	34.5	29.3
Total current assets		**52.9**	**45.7**
Non current assets			
Restricted cash	9 & 18	–	2.0
Fixed assets	13	43.3	43.5
Right-of-use assets	14	5.8	5.7
Intellectual property	15 & 16	101.3	103.8
Total non current assets		**150.4**	**155.0**
Total assets		**203.3**	**200.7**
Current liabilities			
Trade, other payables and provisions	17	(13.1)	(13.1)
Current lease obligation	22	(0.8)	(1.2)
Current debt	18	(1.0)	(6.3)
Current taxation liability		(0.1)	–
Deferred grant income	7	(0.9)	–
Total current liabilities		**(15.9)**	**(20.6)**
Term liabilities			
Term debt	18	(32.6)	(31.2)
Derivative financial instruments	5 & 27	(0.3)	(0.7)
Lease obligation	22	(5.1)	(4.5)
Deferred taxation liability	12	(1.2)	(1.8)
Total term liabilities		**(39.2)**	**(38.2)**
Total liabilities		**(55.1)**	**(58.8)**
Net assets		**148.2**	**141.9**
Equity			
Share capital	19	202.5	202.3
Reserves	20	(54.3)	(60.4)
Total group equity		**148.2**	**141.9**
Net Asset Backing	29	US 30 cps	US 29 cps

Dave Knott Jr
Chairman of the Board

Paul Smart
Audit Committee Chairman

27 May 2021

Both of the above signatories certifies that these financial statements comply with generally accepted accounting standards and present a true and fair view of the financial affairs of the ArborGen Holdings Group.

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

1 GENERAL INFORMATION

ArborGen Holdings Limited (ArborGen Holdings) is an international forestry business. ArborGen Holdings, a limited liability company incorporated and domiciled in New Zealand, is listed on the New Zealand stock exchange. As at 31 March 2021 ArborGen Holdings had one investment ArborGen Inc (ArborGen Inc) (95% economic interest (with 5% warrants outstanding relating to ArborGen's acquisition of Cellfor), and 100% voting interest and ownership of common stock).

On the 30th of September 2019 Rubicon Limited formally changed its name to ArborGen Holdings Limited and also changed its NZX listing ticker to be ARB on that date. Any historical references to ArborGen Holdings refer also to Rubicon Limited.

2 APPROVAL OF ACCOUNTS

These consolidated financial statements have been prepared on a consolidated Group basis and were approved for issue by the Board of Directors on 27 May 2021.

3 BASIS OF PRESENTATION

The financial statements presented are those of ArborGen Holdings Limited (the Company) and Subsidiaries (the Group).

Basis of preparation

The Company is a FMC reporting entity for the purposes of the Financial Reporting Act 2013 and 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.

Statement of compliance

The financial statements have been prepared in accordance with New Zealand International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards. The financial statements are in compliance with International Financial Reporting Standards (IFRS). The Group has designated itself as a profit-oriented entity for the purposes of compliance with NZ IFRS.

The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 2013, Financial Markets Conduct Act 2013 and the Companies Act 1993 and comply with generally accepted accounting practice in New Zealand (NZ GAAP).

Chief operating decision-makers

The 'chief operating decision-makers' are the Board of Directors who jointly make strategic decisions for ArborGen Holdings.

COVID

The global Covid pandemic materially affected sales in two of the three regions in which we operate – the United States and Brazil. While in Brazil the impact was experienced through most of the year, in the US it was not until lifting season when the extent of the impact of Covid became apparent.

Under the various governmental Covid recovery plans ArborGen has received support in the US, New Zealand and Australia. In May 2020 ArborGen Inc received US$2.3 million from the US Small Business Administration (SBA) under the CARES Act Paycheck Protection Program (PPP). The PPP is a loan scheme designed to provide a direct incentive for businesses with fewer than 500 employees in the US to keep their workers on the payroll due to the uncertainties caused by Covid. The SBA loans will be forgiven if all employees are kept on the payroll for eight weeks and the money is used for payroll costs, rent, mortgage interest, or utilities payments over the eight weeks after receiving the loan. At least 75% of the forgiven amount must have been used for payroll costs which includes employee salaries, hourly wages, sick or medical leave, and group health insurance premiums.

In March 2021 ArborGen Inc received a second SBA loan under the PPP of US$2.0 million. The funds have been used to fund payroll costs including benefits and other business related costs due to the uncertainties caused by Covid. Similar to the previous loan if all employees are 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. As with the previous PPP loan this funding will ensure ArborGen retains all employees and avoid any layoffs during a period of significant uncertainty.

ArborGen applied for forgiveness of this first PPP loan in accordance with the guidelines late last year. While this application is still being processed, ArborGen believes it has provided the documents necessary to support the full forgiveness of the loan, and accordingly has recognised this loan as other income. ArborGen believes it has met the requirements for forgiveness on approximately 55% the second PPP loan and accordingly has recognised $1.1 million of that loan as other income.

In the US the forestry industry is defined as an "essential critical infrastructure workforce" and as such, our operations across all nurseries and orchards continue to progress with all typical activities continuing as planned, while ensuring compliance with all appropriate state specific regulations and requirements. Seedling sales decreased by just over 10% to 294 million units in the period, from 333 million seedling units in the prior period. This reduction year-over-year is largely explained by the Covid pandemic which affected ArborGen in two key ways:

- Sawmill closures in the early part of calendar year 2020 resulted in delayed log harvesting and, in turn, critical site preparation activities – both key prerequisites for seedling planting (customers typically clear and prepare land for planting from March through to October with planting starting in November); and
- Temporary suspension of non-immigrant worker H2-B visas into the US combined with planting crews contracting Covid, led to planting labour shortages during the critical planting season.

These issues resulted in the write off of $1.5m of seedlings.

To mitigate the impact of Covid related disruptions, ArborGen reduced costs and accessed available government funding programmes, where we qualified.

4 SIGNIFICANT ACCOUNTING POLICIES

Accounting Policies

All significant accounting policies are set out on the following pages. There have been no changes made to accounting policies during the year. All mandatory amendments and interpretations have been adopted in the current year. None had a material impact on these financial statements.

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. Actual results could differ from those estimates. The principal areas of judgement in preparing these financial statements are:

ArborGen cash generating unit impairment (note 16)

The carrying value of investments is assessed at least annually to ensure there is no impairment. Performing these assessments generally requires management to estimate future cash flows to be generated by the investment, which entails making judgements about the expected future performance and cash flows of the investment and the appropriate discount rate to apply when valuing future cash flows. The carrying value of assets acquired are also affected by the estimates and judgements applied to capitalisation of developmental expenditure and the adopted amortisation policy.

Basis of Consolidation

Subsidiaries

Subsidiaries are entities that are controlled, either directly or indirectly, by the Company. Control exists when the Parent has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. ArborGen is a subsidiary of ArborGen Holdings Limited.

Transactions and balances between subsidiaries or between the Parent and subsidiaries are eliminated on consolidation.

Functional Currency

Foreign operations

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (the functional currency). The consolidated financial statements are presented in US$ (the presentation currency).

The assets and liabilities of all of the Group companies that have a functional currency that differs from the presentation currency, including goodwill and fair value adjustments arising on consolidation, are translated to the presentation currency at foreign exchange rates ruling at balance date. All exchange differences arising from the translation of foreign operations are recognised in the foreign currency translation reserve.

Transactions

Transactions in currencies other than the functional currency are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in currencies other than the functional currency at balance date are translated to the functional currency at the foreign exchange rate ruling at that date, with foreign exchange differences arising on translation being recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a currency other than the functional currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities that are stated at fair value in a currency other than the functional currency are translated using the exchange rate ruling at the date the fair value was determined.

Valuation of Assets

Land, buildings, plant and equipment

Land, buildings, plant and equipment are stated at historical cost less accumulated depreciation and impairment. Land is not depreciated. Depreciation on other fixed assets is calculated using the straight-line method. Expected useful lives are:

Buildings	25 to 40 years
Plant and equipment	3 to 15 years

Inventory

Trading inventory, raw materials and work in progress are valued at the lower of cost or net realisable value. Cost includes direct costs and overheads at normal operating levels and excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling costs.

Biological assets (such as seedlings or treestocks) are measured at the end of each reporting period at their fair value less costs to sell. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

Intellectual property

Intellectual property is amortised over the useful life of the assets. Intellectual property relates primarily to output from ArborGen Inc's research and development activities and is reviewed at least annually for impairment, and otherwise is amortised (on average) over 20 years. The useful life is reviewed each balance date and adjusted if appropriate.

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for expected credit losses.

The Company applies the simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance for all trade receivables as they all display the same risk profile. The measurement of expected credit losses is a function of the probability of default, loss given default and the exposure at default. The Company considers an event of default as occurring when information obtained (internally and externally) indicates a debtor is unlikely to pay its creditors including the Company. The assessment of the probability of default and loss given default is based on historical data adjusted by forward looking information relating to the debtor and general economic conditions of the debtors. As for the exposure at default, this is represented by the assets' gross carrying amount at the reporting date.

Cash and cash equivalents

Cash and cash equivalents comprises cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Assets held for sale and discontinued operations

Assets held for sale are assets whose carrying value will be recovered principally through sale rather than through continuing use. Assets held for sale are stated at the lower of their carrying amount and fair value less costs to sell and are not depreciated or amortised while they are classified as held for sale.

A discontinued operation is a component of the Group's business that represents a separate major line of business. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier.

Impairment

The carrying amounts of the Group's assets are reviewed regularly, including at each reporting date, to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated and whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount, an impairment loss is recognised. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units, and then to reduce the carrying amount of other assets in the cash-generating unit on a pro-rata basis.

The recoverable amount of non-financial assets is the greater of their fair value less costs to sell or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. With the exception of goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Valuation of Liabilities

Trade and other payables

Trade and other payables are stated at amortised cost.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the Group's best estimate of the expenditure required to settle the present obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest rate basis.

Deferred income tax

Deferred income tax is provided in full, using the balance sheet method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting, nor taxable, profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. The measurement of deferred taxation assets and liabilities reflects the tax consequences that would follow from the manner that the Group expects, at balance date, to recover or settle the carrying amount of its assets and liabilities. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Hedge accounting

The Group designates certain derivatives as hedging instruments in respect of cash flow hedges. Interest Rate swaps hedging interest rate exposure on issued debt are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationship meets all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the Group applies a hedge ratio of 1 : 1.

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item. The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. Any gain or loss recognised in other comprehensive income and accumulated in cash flow hedge reserve at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in the cash flow hedge reserve is reclassified immediately to profit or loss.

Items carried at fair value

The items which are carried at fair value include derivative financial instruments. These items are classified into the following levels in the fair value measurement hierarchy:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Income Determination

Revenue recognition

Revenue is measured based on consideration specified in a contract with a customer and is recognised when control over a good or service transfers to a customer. Revenue excludes amounts collected on behalf of third parties and is net of any value added tax, rebates, returns and discounts, and after eliminating sales within the Group.

The Group's revenues are earned from the sale of seedlings or treestocks and logistics services to some customers. Seedling or Treestock revenue is recognised, either when the goods are dispatched or when goods have reached their destination, depending on the terms and agreements with customers and when documentary evidence supports the customer taking ownership and control of the product. Logistics and other services revenue is recognised over the period the service is provided.

Goods sold

Revenue from the sale of goods is recognised in the income statement when control over a good or service transfers to a customer. Products are generally sold with volume discounts and customers have a right to return faulty product. Sales are recorded based on the price negotiated with the customer, net of estimated volume discounts and returns. Historical experience is used to estimate the level of returns likely and volume rebates are calculated on a preset formula.

Government grants

Government grants are not recognised until there is reasonable assurance that the grants will be received and that the Group will comply with the conditions attaching to them. Government grants are recognised in the income statement on a systematic basis over the periods in which the Group recognises as an expense the related costs for which the grants are intended to compensate. Government grants are disclosed further in note 7.

Investment income

Interest income is recognised in the income statement as it accrues, using the effective interest method.

Finance expense

Finance expenses comprise interest payable on borrowings calculated using the effective interest rate method.

Leases

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a ROU asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related ROU asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group did not make any such adjustments during the periods presented.

The ROU assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

ROU assets are depreciated over the shorter period of lease term and useful life of the underlying asset. The estimated useful lives of ROU assets are determined on the same basis as similar owned assets within fixed assets. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The ROU assets are presented as a separate line in the consolidated statement of financial position.

The Group applies IAS 36 to determine whether a ROU asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the ROU asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs.

Research and development costs

All research costs are recognised as an expense when incurred. When a project reaches the stage where it is reasonably certain that further expenditure can be recovered through the processes or products produced, development expenditure is recognised as a development asset under intellectual property. The asset is amortised from the commencement of commercial production of the product to which it relates, over the period of expected benefit.

Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at balance date, and any adjustment to tax payable in respect of previous years.

Employee Benefits

Share-based payments

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards.

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. The Group has one reportable segment, being forestry genetics. The Group's geographical segments are based on both the location of customers and primary location of assets (refer to note 24 segmental information summary).

Goods and Services Tax (GST)

The income statement, statement of comprehensive income and statement of cash flow have been presented exclusive of GST. All items in the balance sheet are stated net of GST, except for receivables and payables, which include GST invoiced.

Comparatives

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

Future NZ IFRS pronouncements

Standards or interpretations issued but not yet effective and relevant to the Group

The International Accounting Standards Board has issued a number of standards, amendments and interpretations which are not yet effective and which may have an impact on the Group's financial statements, none of these have been early adopted. The Group expects to adopt these standards when they become mandatory. None are expected to materially impact the Group's financial statements although may result in changes in disclosure.

5 FINANCIAL RISKS

This note presents information about the Group's potential exposure to financial risks that the Group has identified; the Group's objectives, policies and processes for managing those risks; the estimation of fair values of financial instruments; and the Group's management of capital. Quantitative disclosures of some of the key financial risks are made below.

5.1 Foreign exchange risk

Both ArborGen Holdings and ArborGen Inc are US functional currency, operating in three geographies – the United States, Brazil and Australasia. Generally, there are limited cash flows between Australasia and the US, and the foreign exchange risk in Australasia is limited to the translation effect on its net earnings and balance sheet from movements in the USD against the NZD and AUD. Similarly, the Brazil operations are to a large degree internally self-sufficient from a funding perspective, which limits the effect of relative currency movements to the net earnings and balance sheet translation impacts.

5.2 Credit risk

The Group is at risk of customer default on payment for treestocks at the conclusion of a growing season. This risk is mitigated by dealing with a wide-range of customers in multiple markets and by securing up-front deposits from selected customers for the treestocks it grows each year. The nature of nursery activity is such that its customers tend to require yearly repeat business, and historically customer payment defaults have not been material to the business. However, in the US market (the Group's largest market), as treestock orders are not considered to be unconditional until late in the season each year, there remains the risk that orders cancelled prior to collection may not be able to be sold to other customers during the remaining season. In addition there is the risk of non-payment of further lease obligations by a tenant, over and above an initial bond paid (refer to note 28 contingent liabilities). We will enforce our rights under the lease agreement, and are exploring alternative lease arrangements.

5.3 Liquidity risk

The Group has four banking facilities (in total $40 million (2020: $40 million)) three are with two banks in the United States; a $10.0 million reducing loan (2020: $10.5 million) which matures in May 2036, a $17 million revolver which expires in August 2023 (2020: $17 million) and a $10.9 million seven year mortgage (2020: $11.3 million), and a NZ$2 million line of credit with a New Zealand bank. In addition to these bank facilities the Group has a $2.88 million Note issued to related parties (2020: $2.88 million). These facilities are used to fund the Group's working capital and capital expenditure needs. If any of these facilities were not to be renewed then the Group may need to obtain similar facilities from other banks, or an equivalent amount of funding may need to be provided through a capital raising event.

Liquidity risk management requires the maintenance of available cash combined with the availability of funding to meet the Company's needs as they develop. Forecasts are prepared of cash requirements to ensure there are financial resources in place to meet its day-to-day operating and investment needs. The Group believes it has sufficient resources to meet its funding needs through to 31 May 2022.

5.4 Interest rate risk

The Group's has facilities that are either fixed or floating depending on their nature and use. Fixed interest rate facilities include; the $10.0 million reducing loan facility, the $10.9 million mortgage facility fixed via an interest rate swap and $2.88 million Note. Floating rate facilities are the US revolver facility and the New Zealand Line of Credit (when drawn).

Interest rate swap contracts

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt held and the cash flow exposures on the issued variable rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the curves at the reporting date and the credit risk inherent in the contract, and is disclosed below. The average interest rate is based on the outstanding balances at the end of the financial year.

The Group adopts a policy of ensuring that between 50% and 80% of its interest rate risk exposure is at a fixed rate. This is achieved partly by entering into fixed-rate instruments and partly by borrowing at a floating rate and using interest rate swaps as hedges of the variability in cash flows attributable to movements in interest rates. The Group applies a hedge ratio of 1:1.

The Group determines the existence of an economic relationship between the hedging instrument and hedged item based on the reference interest rates, tenors, repricing dates and maturities and the notional or par amounts. The Group assesses whether the derivative designated in each hedging relationship is expected to be effective in offsetting changes in cash flows of the hedged item using the hypothetical derivative method.

As at 31 March 2021, the Group had one interest rate swap totalling $10.9 million (2020: $11.3 million), covering the US head office property mortgage facility. The swap, entered into in August 2019 and expires in August 2026, receives a floating rate of 2% above 30-day LIBOR and pays a fixed interest rate of 3.52%. This swap is designated a cash flow hedge, is fully effective with the counterparty being Synovus the issuing bank.

5.5 Capital risk

ArborGen Holdings capital includes share capital, reserves and retained earnings, and ArborGen Holdings manages capital in such a manner as to maintain stakeholder confidence and safeguard ArborGen Holdings' ability to continue as a going concern, whilst also maximising the return for shareholders and sustaining resources for the future development of the business. In order to maintain or adjust the capital structure ArborGen Holdings may, pay dividends or return capital, or issue new shares or sell assets.

6 REPORTING CURRENCY

The Group reports in United States dollars (US$), consequently all financial numbers are in US$ unless otherwise stated.

7 OPERATING EXPENSES INCLUDE

	Refer to Note	Year ended March 2021 US$m	Year ended March 2020 US$m
Depreciation and amortisations included in:			
Cost of sales expense		(2.7)	(2.5)
Administration expense: intellectual property	15	(6.2)	(5.9)
Administration expense: General & Administration		(1.3)	(1.1)
Total depreciation and amortisations		(10.2)	(9.5)
Cost of inventory expensed in cost of sales		(34.5)	(37.2)
Employee related expenses (excluding restructuring and transaction-related expenses)		(17.3)	(17.3)
Government grant income [1]		3.7	–
Seedling write off and Covid related costs [2]		(1.7)	–
Seedling mortality customer assistance [3]		–	(1.0)
Inventory cost adjustment [4]		–	(2.3)
Varietal inventory cost adjustment [5]		–	(0.4)
Transaction-related expenses incurred by ArborGen Inc in relation to the acquisition by ArborGen Holdings [6]		–	(0.2)
Government grants, Inventory adjustment and other		2.0	(3.9)

(1) During the period ArborGen Inc received $4.6 million of assistance in the form of Government support grants in US, Australia and NZ, under the various Covid support programmes. As a result of receiving these grants ArborGen was able to retain all staff and continue to operate in the challenging environment. Of that cash received $3.7 million has been deemed to either meet the threshold for forgiveness under the US CARES Act Paycheck Protection Program (PPP) or is a grant. The remaining $0.9 million is recorded as a deferred grant income in the balance sheet and should meet the threshold for forgiveness in the 2022 financial year (refer to note 3).

(2) The Group incurred significant costs directly related to the Covid pandemic, primarily due to cancellation of ordered seedlings in the US, where sawmill closures in the early part of calendar year 2020 delayed harvesting which flowed on to delay site preparation activities. Compounding these issues was the temporary suspension of non-immigrant worker H2-B visas into the US, which combined with planting crews contracting Covid, led to planting labour shortages during the critical planting season. Sales orders cancelled due to the Covid pandemic left ArborGen with 25 million seedlings that had to be destroyed, resulting in a seedling write off of $1.5 million.

(3) The extremely unusual and widespread seedling survival issues occurring throughout the US South-eastern region, affected the survival of some of the 2019 year's seedlings, including across some of our customer sites. While we didn't believe this mortality issue could be attributed to our seedling quality, the industry agreed to share the cost of this loss, and accordingly we recorded $1 million as an expense in the 2020 fiscal year to assist customers to replace lost seedlings.

(4) A series of extreme weather events had the effect of lowering seed production volumes (yield) for the 2018/2019 seed harvest. This lower yield resulted in an abnormally high average cost per pound of seed produced. This adjustment returned the seed costs to a normal production cost, or standard cost, per seed.

(5) In the previous period circa one million of bareroot varietal seedlings, for sale in fiscal year 2021, were lost and this varietal inventory cost adjustment recognises the write-down from those losses.

(6) The transaction related cost of $0.2 million in the prior period, is the final expense under the ArborGen retention plan put in place when ArborGen was acquired in June 2017.

Expenses incurred also includes payments made and accrued for:

- Directors fees for Non-executive Directors of ArborGen Holdings for the current period of $232,881 (paid in NZ$341,000) (2020: $265,939 (paid in NZ$413,105)). In addition Non-executive Directors participate in Directors share plans, $148,496 was accrued in relation to these share plans (NZ$224,017) (2020: $235,369 (NZ$364,379)). In September 2020, 829,016 shares vested to Directors under the plans together with cash tax payments of $38,971 (NZ$57,573) (refer to notes 19, 20 and 25).
- The statutory audit of the annual financial statements in the current period; for ArborGen Holdings NZ$104,000 (2020: NZ$99,000) and ArborGen $190,000 (Deloitte) (2020: $180,000).
- Other services provided by the auditors for ArborGen Holdings in the current period were less than NZ$10,000 (2020: NZ$20,500), which include attendance at the annual meetings and procedures relating to the interim financial statements.
- Refer to Reporting and Disclosure and Auditors in the Corporate Governance section of the Annual Report for commentary on the Audit Committee process in managing the relationship with the Auditor and confirming their independence.

8 INCOME TAX EXPENSE

	Year ended March 2021 US$m	Year ended March 2020 US$m
Earnings (loss) before taxation	2.6	(3.8)
Taxation at 28%	(0.7)	1.1
Adjusted for:		
Change in deferred tax liability	0.6	1.1
Net taxation losses not recognised	(0.2)	(1.8)
Recognition of previously unrecognised benefits [1]	0.9	0.7
Taxation (expense) / benefit	**0.6**	**1.1**

(1) Reflects the utilisation of previously unrecognised tax losses.

9 CASH, LIQUID DEPOSITS AND RESTRICTED CASH

At 31 March the Group held total cash, liquid deposits and restricted cash of $6.2 million (2020: $7.9 million) comprising cash held by: ArborGen $6.2 million (2020: $5.2 million) and no restricted cash on deposit with Synovus to secure the ArborGen debt facility (2020: $2.0 million) (refer to note 18).

10 TRADE AND OTHER RECEIVABLES

	March 2021 US$m	March 2020 US$m
Trade debtors	10.3	8.2
Prepayments	1.8	1.9
Other receivables	0.1	0.4
Trade and other receivables	**12.2**	**10.5**

11 INVENTORY

	March 2021 US$m	March 2020 US$m
Finished goods - seedlings	1.4	0.7
Work in progress - seedlings [1] [4]	8.2	7.3
Finished goods - seed	16.0	13.4
Work in progress - seed [2]	8.1	7.0
Fair value on biological assets [3] [4]	0.8	0.9
Inventory	**34.5**	**29.3**

(1) Work in progress - seedlings, is principally growing seedling crop.

(2) Work in progress - seed, is principally harvesting seed to be sown as a future crop.

(3) Fair value adjustment on biological assets reflects the change in fair value less costs to sell biological assets (seedlings) as at balance date.

(4) Seedlings in progress are treated as biological assets for financial reporting purposes and are recognised at fair value less costs to sell, $9 million (2020: $8.2 million). Biological assets will be transferred to finished goods seedlings at lifting, for dispatch to customers and sale.

Fair value adjustment on biological assets	March 2021 US$m	March 2020 US$m
Opening balance	0.9	1.5
Change in fair value of biological assets recognised in income statement		
Fair value change for crop to be lifted in the coming period	0.8	0.9
Reversal of prior period fair value change	(0.9)	(1.5)
Change in fair value of biological assets recognised in income statement	**(0.1)**	**(0.6)**
Closing fair value uplift biological assets	**0.8**	**0.9**

At both 31 March 2021 and 31 March 2020, only the Australasian crops are established and fair valued. The Australasian crops are primarily lifted from late May through until September of each year.

12 TAXATION

Deferred taxation (liability)	Refer to Note	March 2021 US$m	March 2020 US$m
Opening provision for deferred taxation		(1.8)	(2.9)
Taxation (expense) / benefit in the income statement	8	0.6	1.1
Deferred taxation (liability)		**(1.2)**	**(1.8)**

In June 2017 when ArborGen Inc. became a consolidated subsidiary of the Company, a deferred tax liability was recognised on the intellectual property asset as a result of the fair value exercise undertaken for the acquired assets and liabilities. The current year balance is $1.0 million (2020: $1.8 million).

NZ IFRS only allows the recognition of taxation assets when utilisation is considered probable, which is subject to the future earnings of the Group and on meeting shareholder continuity and loss carry forward expiry dates. The Group had taxation losses (gross after valuation adjustments) at 31 March 2021 of $89.1 million, predominately in the United States (2020: $84.0 million). The Group has unrecognised tax losses in New Zealand of $35.3 million (2020: $31.9 million) after the utilisation of $1.7 million and $53.8 million in the US (2020: $52.1 million) after the utilisation of $1.8 million. The Group's unrecognised US losses will be utilised against future earnings. At acquisition (June 2017), ArborGen Inc had pre-acquisition losses of $26.9 million, that can be utilised at $1.4 million per annum. ArborGen Holdings also has imputation credits available to its shareholders of $2.8 million (2020: $2.4 million).

13 FIXED ASSETS

	March 2021 US$m	March 2020 US$m
Cost		
Land	16.0	15.3
Buildings	25.7	24.7
Plant and equipment	6.5	6.3
Total cost	48.2	46.3
Accumulated depreciation		
Buildings	(3.2)	(2.0)
Plant and equipment	(1.7)	(0.8)
Total accumulated depreciation	(4.9)	(2.8)
Net book value		
Land	16.0	15.3
Buildings	22.5	22.7
Plant and equipment	4.8	5.5
Fixed assets net book value	**43.3**	**43.5**
Domicile of fixed assets		
Australasia	10.1	8.7
United States	33.2	34.8
Fixed assets net book value	**43.3**	**43.5**

Fixed assets net book value	Land US$m	Buildings US$m	Plant and equipment US$m	Finance lease assets US$m	Total US$m
31 March 2020					
Opening net book value	15.3	9.9	6.0	11.5	42.7
Transfer of right-of-use assets	–	–	–	(11.5)	(11.5)
Exchange differences	(0.6)	(0.3)	(0.5)	–	(1.4)
Additions	–	4.3	1.0	–	5.3
Transfer of leased assets [1]	0.6	9.7	–	–	10.3
Disposition of TCLP operations	–	–	(0.1)	–	(0.1)
Depreciation charge	–	(0.9)	(0.9)	–	(1.8)
Fixed assets net book value as at 31 March 2020	**15.3**	**22.7**	**5.5**	**–**	**43.5**
31 March 2021					
Opening net book value	15.3	22.7	5.5	–	43.5
Exchange differences	0.7	0.4	0.5	–	1.6
Additions	–	0.6	0.4	–	1.0
Depreciation charge	–	(1.2)	(1.6)	–	(2.8)
Fixed assets net book value as at 31 March 2021	**16.0**	**22.5**	**4.8**	**–**	**43.3**

(1) In August 2019 the Group acquired the ArborGen US headquarters' premises in Ridgeville South Carolina, for $14.5 million (including costs of $0.1 million). Prior to acquisition these premises were recognised on the Group balance sheet as a finance lease asset and as a lease obligation. The value of the leased asset transferred at acquisition was $10.3 million (refer to note 14).

14 RIGHT-OF-USE ASSETS

Right-of-use assets net book value	Land and Buildings US$m	Plant and Equipment US$m	Total US$m
31 March 2020			
Opening net book value	–	–	–
Transfer from finance lease assets	10.7	0.8	11.5
Assets recognised under IFRS 16 (1)	4.0	1.4	5.4
Additions	0.2	0.6	0.8
Other transfers (2)	(10.3)	–	(10.3)
Depreciation charge	(0.4)	(1.3)	(1.7)
Right-of-use assets net book value as at 31 March 2020	**4.2**	**1.5**	**5.7**
31 March 2021			
Opening net book value	4.2	1.5	5.7
Exchange differences	0.1	–	0.1
Additions	0.5	0.5	1.0
Depreciation charge	(0.5)	(0.5)	(1.0)
Right-of-use assets net book value as at 31 March 2021	**4.3**	**1.5**	**5.8**

(1) This is initial recognition of the right-of-use assets existing at 1 April 2019 representing assets held under operating leases.

(2) In August 2019 the Group acquired the ArborGen US headquarters' premises in Ridgeville South Carolina, for $14.5 million. Prior to acquisition these premises were recognised on the Group balance sheet as a finance lease asset of $10.3 million and as a lease obligation totalling $11.1 million (refer to note 13).

15 INTELLECTUAL PROPERTY

	Refer to Note	March 2021 US$m	March 2020 US$m
Opening balance		103.8	105.6
Capitalisation during period		3.7	4.1
Amortisation during period	7	(6.2)	(5.9)
Intellectual property		**101.3**	**103.8**

16 ARBORGEN INVESTMENT AND IMPAIRMENT

We regularly review the carrying value of the ArborGen cash generating unit to determine whether there has been a subsequent change in circumstances or conditions that requires an impairment to be taken through earnings. Our impairment review is undertaken on a 'Value-in-use' (VIU) basis, which is the estimated value to be derived from our continued ownership and operation of the ArborGen business.

In the prior year (fiscal year ending March 2020), our approach was to utilise a set of cash flow assumptions that had already been sensitised for more conservative outcomes, particularly in the largest and most material market for ArborGen – the US, for impairment testing purposes (the 2020 Case). We have applied the same approach this year with our 2021 Case.

Consistent with the approach taken in the prior year, our impairment analysis utilises a 10-year plus terminal DCF valuation model. We use a 10-year period rather than a shorter time period because ArborGen's advanced genetic products in the US market (the largest and most material market) are in the earlier stages of supply availability and adoption, and hence this period of time is deemed appropriate to adequately capture the scale-up of advanced genetics supply and adoption in the US. The same holds true for ArborGen's Brazil position where projected growth in advanced genetics sales, market share expansion and continued recovery in the forestry sector from its current depressed state, necessitate the use of a 10-year model. We use a DCF methodology because ArborGen's advanced products adoption profile does not lend itself to the application of short-term market multiple metrics to determine valuation, given the relatively early-stage of ArborGen's revenue, earnings and cash profile. With time these metrics will become directly applicable, but for now the Board believes a 10-year DCF approach is the most appropriate to use to assess impairment.

Our DCF impairment model values only the projected cash flows from the existing core markets (i.e. Australia, New Zealand, United States and Brazil), with growth market opportunities outside of the core excluded from the analysis. Separate demand projections are determined for each geography and end-use market. The total addressable seedling market for each geography is then estimated, as is seedling type, production technology employed, production cost and sales price.

To highlight the assumptions that have been utilised to derive the 2021 Case cash flows, the model assumes -

- Minimal organic growth in ArborGen's US loblolly market share outside of recent acquisitive growth – i.e. the growth that is assumed is derived primarily from recent acquisition activity already undertaken and in place – i.e. the Jasper nursery in Texas, and the Taylor nursery in Edgefield, South Carolina;
- Modest recovery in the overall US loblolly market consistent with projections from Forest Economic Advisers (FEA) driven primarily by projected growth in saw timber demand in the US South, and recovery from depressed Covid-19 seedling demand levels in 2020-2021;
- Minimal 'real' price increases in individual US seedling products despite the projected recovery in US saw timber prices supported by continued projected growth in US South sawmill capacity and saw timber demand, and continued R&D investment;
- Increasing overall OP and MCP weighted average prices reflecting an increasing proportion of higher value sub-category product sales (e.g. MCP-elite and MCP-2.0) over the next 10 years;
- That in the terminal year ArborGen's total advanced genetics seedlings sales in the US represent 61% (primarily mass control pollinated (MCP) adoption) of its total US loblolly sales. This adoption rate is significantly lower than ArborGen's projected US MCP seed supply as younger seed orchards mature and near-term supply constraints are overcome, and compares with a NZ adoption rate of over 80% of sales in recent years;
- Limited recovery in the overall Brazilian eucalyptus forestry markets from current recessionary levels;
- Continued growth in Brazil following the recent expansion of ArborGen's internal production capabilities in Minas Gerais, Mato Grosso do Sul and Sao Paulo;
- Continued expansion of ArborGen's eucalyptus offering leveraging licensed International Paper, Vallourec and Gerdau's eucalyptus clones, and ArborGen's own eucalyptus advanced products; and
- ArborGen's advanced genetics sales as a percentage of its total eucalyptus in Brazil approaching 80% in the terminal year.

These cash flows are then discounted at a cost of capital that reflects the underlying risk inherent in the cash flow assumptions. Specifically, the discount rate applied to the DCF analysis was calculated using a derived weighted average cost of capital (WACC), with the cost of equity calculated using the Capital Asset Price Model and the cost of debt based on the risk-free rate plus the option adjusted spread for BBB rated bonds. Specifically, cash flows from each market that forms the ArborGen cash generating unit are discounted at separate WACC rates, or an overall weighted average derived nominal post-tax nominal WACC of 10.6%.

There are warrants outstanding equal to 5% of the issued ArborGen's share capital, which reduces the Group's effective economic exposure in ArborGen to 95%. These warrants arose out of ArborGen's purchase of CellFor in 2012, and represent part-consideration for that acquisition. The warrants are automatically exercised, for no payment, upon an IPO of ArborGen. The warrants may be exercised by a 66.67% (by value) of the warrant holders, at any time prior to 19 June 2032. The derived 100% equity valuation using the above approach is $267.1 million (2020: $260.8 million) – $295.5 million (2020: $290.4 million) enterprise value less net debt of $28.4 million (2020: $29.6 million). Adjusting for the CellFor Warrants that are equal to 5% of the issued capital in ArborGen, arrives at a 95% equity valuation in ArborGen of $254.4 million (2020: $248.8 million).

The table below shows the assumptions and sensitivities for the critical US loblolly market compared with those used in last year's assessment. As an added sensitivity to test impairment, a change in discount rate is the simplest sensitivity to apply particularly given the DCF model assumes inputs at the conservative end of the spectrum of outcomes. In this instance, the post-tax WACC applied to the DCF model would need to increase to 15% before an impairment would arise, which we do not believe is within a reasonable range given the sector ArborGen operates in, and the relatively conservative inputs that underlie the longer term cash flows for the US loblolly market.

The uptake of advanced genetics seedlings sales in the US loblolly market (i.e. MCP adoption) is a key assumption in the model. This uptake progressively increases throughout the forecast period to the terminal year where it is assumed this uptake reaches 61%, up from the FY2022 Budget assumption of circa 40%. However, keeping all other elements constant and excluding ANZ and Brazil from the valuation, even if the uptake reached 49% by terminal year, this would not result in an impairment.

US$ millions	2021 Case	2020 Case
US Loblolly Market - terminal year assumptions		
Loblolly market size - millions	900	900
ArborGen market share %	37.8%	37.8%
ArborGen unit sales - millions	340	340
% advanced genetics MCP	59%	55%
% advanced genetics Varietal	2%	2%
% traditional genetics	39%	43%
Total ArborGen valuation		
US inflation rate	3.0%	3.0%
Terminal Growth Rate (TGR) (1)	3.0%	3.0%
Nominal post-tax discount rate	10.6%	11.0%
ArborGen implied enterprise valuation (2)	$295.5	$290.4
less net debt (3)	$28.4	$29.6
ArborGen equity valuation (100%)	**$267.1**	**$260.8**
Discount Rate Sensitivity		
Nominal post-tax discount rate	15.0%	15.4%
ArborGen implied enterprise valuation	$176.6	$171.5
less net debt	$28.4	$29.6
Total group equity (4)	**$148.2**	**$141.9**

Terminal year sensitivities equity value impact (increase / decrease)	Equity value change by	
Total market size - 25 million	+/- $1.8	+/- $4.2
Market share by 1%	+/- $1.8	+/- $4.0
Advanced genetics adoption by 1%	+/- $2.7	+/- $1.8
Real MCP price by 5%	+/- $11.0	+/- $8.6

(1) A TGR of 3% in a 3% inflation environment equates to a 0% real TGR assumption.

(2) This represents the total ArborGen valuation and not just the US market.

(3) Net debt including capital leases of $1 million.

(4) Note this reconciles the ArborGen equity valuation to total group equity value, rather than to carrying value of the investment, and is merely a presentation change.

17 TRADE, OTHER PAYABLES AND PROVISIONS

	March 2021 US$m	March 2020 US$m
Trade creditors	(6.8)	(6.6)
Accrued employee benefits (1)	(1.8)	(2.4)
Other payables	(1.0)	(1.3)
Seedling mortality	(0.1)	(0.2)
Seedling deposits from customers (2)	(3.4)	(2.6)
Trade, other payables and provisions	**(13.1)**	**(13.1)**

(1) Includes accrued expense of $0.2 million being the cash component of the 2021 LTI Plan for ArborGen Inc Senior management (refer notes 20 and 25).

(2) The deposits from customers will be recognised as revenue within 12 months as the seedlings are transferred to the customer.

18 TERM AND CURRENT DEBT

Summary of repayment terms	March 2021 US$m	March 2020 US$m
Due for repayment:		
Less than one year	(1.0)	(6.3)
between one and two years	(3.9)	(8.5)
between two and three years	(11.0)	(3.9)
between three and four years	(1.0)	(1.0)
between four and five years	(1.0)	(1.0)
after five years	(15.7)	(16.8)
Total term and current debt	**(33.6)**	**(37.5)**

Summary of interest rates by repayment period	March 2021	March 2020
Due for repayment:		
Less than one year	3.99%	4.98%
between one and two years	4.22%	4.96%
between two and three years	3.98%	4.80%
between three and four years	4.37%	4.38%
between four and five years	4.37%	4.38%
after five years	4.12%	4.13%
Current debt - weighted average interest rate	**3.99%**	**4.98%**
Term debt - weighted average interest rate	**4.48%**	**4.44%**

The weighted average interest rates reflect the effective interest rate, inclusive of fee amortisations.

At 31 March 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 has a non-revolving promissory note issued to AgSouth for $9.9 million bearing interest at 4.95%, with a maturity date of 1 May 2036, which is secured against ArborGen's US real estate properties. Annual principal repayments of $0.6 million are due 1 May each year.

ArborGen's revolving facility agreement with Synovus is a $17 million letter of credit (LOC) facility (currently $10 million), was favourably amended extending the expiry from 31 August 2021 to 31 August 2023 and increasing the annual 60-day (continuous) pay down maximum borrowing limit (between 1 March and 31 August) to $10 million (previously $7.5 million). Synovus also released the $2 million that was previously maintained as a certificate of deposit (restricted cash 2020; $2 million). The LOC bears interest at the 30 day LIBOR base rate plus 2.75%, subject to a minimum annual rate of 3.5% (formerly 4.75%), and is collateralised by all the 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 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.

As part of the acquisition of the US Ridgeville headquarters premises the Group has two financing facilities. The first is represented by the Notes 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 attract a 7% per annum interest rate, payable six monthly in arrears. Independent advice, at the time of issuance, confirmed that the interest rate and terms were reasonable to the Company (refer to note 25).

The second facility, drawn through Rubicon Industries USA LLC (RIUSA), is an $11.5 million mortgage from Synovus (currently $10.9 million outstanding), which is secured by headquarters land and buildings. 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 2.11%). 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 31 March 2021 the Group held cash and liquid deposits of $6.2 million (2020: $7.9 million, including restricted cash of $2 million) and had debt of $33.6 million and lease liability of $5.9 million (2020: $37.5 million of debt and $5.7 million of lease obligations).

19 CAPITAL

Share capital	March 2021 US$m	March 2020 US$m
Share capital at the beginning of the period	202.3	201.0
Issue of shares [3] [4]	–	1.2
Vesting of interest - Non-Executive Directors' Share Plan [1] [2]	0.2	0.1
Share capital	**202.5**	**202.3**

Number of shares	March 2021	March 2020
Opening shares on issue	499,395,391	489,574,393
Issue of shares[3]	–	9,000,000
Issue of shares [2] [4]	216,347	820,998
Number of shares on issue	**499,611,738**	**499,395,391**

Treasury stock	March 2021	March 2020
Opening shares on issue	1,931,700	1,666,050
Issue of shares [1] [2]	–	820,998
Vesting of shares [1] [2]	(829,017)	(555,348)
Number of shares on issue	**1,102,683**	**1,931,700**

(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 are accounted for as treasury stock until vesting, and the share based transactions are recorded in the share based payment reserve. On 18 September 2020 the second tranche of 555,351 shares vested to the three Directors (185,117 each) (refer to notes 20 for share based payment information).

(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 the newly appointed Director (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. On 18 September 2020 the first tranche of 273,666 shares vested to George (refer to note 20 for share based payment information).

(3) Pursuant to the settlement agreed with the former CEO and CFO on 29 March 2019, ArborGen Holdings allotted and issued nine million new ordinary shares in two tranches, four million on 1 April 2019 and five million on 30 May 2019.

(4) In accordance with the provisions of an Executive Fixed Trading Plan, ArborGen Holdings issued 216,347 new shares to Andrew Baum (CEO). The new shares were issued for 20% of his base remuneration (net of taxes) for the period 16 August 2020 to 31 December 2020, at the five-day VWAP of NZ$0.13189 for a total value of NZ$28,534.01.

20 RESERVES

Retained earnings	March 2021 US$m	March 2020 US$m
Opening balance	(56.5)	(53.8)
Net earnings (loss)	3.2	(2.7)
Closing balance	**(53.3)**	**(56.5)**
Cash flow hedge reserve [1]		
Opening balance	(0.7)	–
Fair value gains / (losses) for the year	0.4	(0.7)
Closing balance	**(0.3)**	**(0.7)**
Share based payments reserve		
Opening balance	0.2	1.3
Non-Executive Directors' Share Plan [2]	0.1	0.2
Non-Executive Directors' Share Plan shares vested [3]	(0.2)	(0.1)
Executive share plan [4]	0.4	–
Executive settlement share plan shares vested [5]	–	(1.2)
Closing balance	**0.5**	**0.2**
Currency translation reserve		
Opening balance	(3.4)	(0.9)
Translation of independent foreign operations	2.2	(2.5)
Closing balance	**(1.2)**	**(3.4)**
Total reserves	**(54.3)**	**(60.4)**

(1) The cash flow hedging reserve records the net movement of cash flow hedging instruments, being interest rate swaps (refer to notes 4, 5, 18 & 27).

(2) Under the two Rubicon Non-executive Directors' Share Plans in the current period $148,496 was accrued in relation to the cost of the share plan (NZ$224,017) (2020: $157,697 (NZ$244,132).

(3) Under the two Rubicon Non-executive Directors' Share Plans, in the current period, 829,017 shares vested and the relevant portion of the reserve transferred to share capital (2020: 555,348) (refer to notes 19).

(4) Pursuant to the 2021 LTI plan (the Plan) an expense of $0.6 million has been accrued, the $0.4 million in the share based payment reserve represents the portion that will be settled by the issuance of shares (refer to note 25). The fair value of the Plan is $0.9 million, which is to be settled in shares $0.6 million and cash $0.3 million. The total restricted stock units (equivalent of an ordinary shares) under the Plan is 5,176,445. Any award under the Plan is on the basis of 2021 performance for one third and a two year service requirement for the remaining two thirds.

(5) Pursuant to the settlement agreed with the former CEO and CFO on 29 March 2019, ArborGen Holdings allotted and issued nine million new ordinary shares, with the $1.2 million being transferred to share capital (refer note 19).

21 CAPITAL EXPENDITURE COMMITMENTS

In November 2018 ArborGen entered into agreements with TexMark Timber Treasury, L.P. (TTT) initially to manage and then from 1 April 2019 lease TTT's nursery and seed orchard facility located in Texas. ArborGen has the right to acquire the leased properties for $2.5 million, payable upon the expiration of the 5-year lease period. It is ArborGen's current intention to exercise this option and the present value of this amount is recorded as a liability in term lease obligations (refer to note 22).

22 LEASE OBLIGATIONS

The expected future minimum rental payments required under leases (including capitalised finance leases) that have initial or remaining non-cancellable lease terms in excess of one year at 31 March 2021 are as follows:

	Refer to Note	March 2021 US$m	March 2020 US$m
Lease obligations are reconciled as follows:			
Current lease obligations	27	(0.8)	(1.2)
Term lease obligations	27	(5.1)	(4.5)
Total lease obligations		**(5.9)**	**(5.7)**

Financing expense includes interest payments relating to lease obligations of $0.3 million (2020: $0.7 million).

The lease expense for short-term leases was $325,000 (2020: $300,000) and low value leases $35,000 (2020: $40,000).

In November 2018 ArborGen entered into a management agreements with TTT, which converted to a lease agreement from 31 March 2019. The terminal payment (or deferred settlement) is the $2.5 million purchase price, payable at expiration of the lease (refer to note 21).

23 REMUNERATION

Key management compensation	Refer to Note	Year ended March 2021 US$m	Year ended March 2020 US$m
Salaries and other short-term employee benefits		2.7	2.8
Share based payments (executive settlement share plan) (1)	19 & 25	–	–
Other payments (2)	7	–	1.0
		2.7	**3.8**

Key management compensation is prepared on a cash basis and excludes Directors. Directors remuneration is disclosed in notes 7 and 25.

(1) In accordance with the provisions of an Executive Fixed Trading Plan, ArborGen Holdings issued 216,347 new shares to Andrew Baum (CEO). The new shares were issued for 20% of his base remuneration (net of taxes) for the period 16 August 2020 to 31 December 2020, at the five-day VWAP of NZ$0.13189 for a total value of NZ$28,534.01.

(2) Upon the 100% acquisition of ArborGen Inc a plan was put in place to retain ArborGen senior management, split across ten individuals. The benefit under this plan totalled $2.0 million, with payments made by ArborGen Inc of $1.0 million in July 2018 and the final $1.0 million in June 2019.

24 SEGMENTAL INFORMATION SUMMARY

The Group has one reportable segment and the analysis is as follows:

Forestry genetics	Year ended March 2021 US$m	Year ended March 2020 US$m
Operating revenue	52.7	56.9
Financing expense	(2.0)	(2.3)
Tax (expense) / benefit	0.6	1.1
Net earnings (loss) after taxation	4.5	(1.1)
Total assets	203.3	200.4
Liabilities	(54.9)	(58.3)
Capital expenditure	(4.8)	(9.4)
Depreciation and amortisation	(10.2)	(9.5)
Reconciliation		
Corporate		
Net earnings (loss) after taxation	(1.3)	(1.6)
Total assets	–	0.3
Liabilities	(0.2)	(0.5)
Total Group		
Total revenue	52.7	56.9
Financing expense	(2.0)	(2.3)
Tax (expense) / benefit	0.6	1.1
Net earnings (loss) after taxation	3.2	(2.7)
Total assets	203.3	200.7
Total liabilities	(55.1)	(58.8)
Capital expenditure	(4.8)	(9.4)
Depreciation and amortisation	(10.2)	(9.5)

The Group's geographical analysis is as follows:

Australasia		
Operating revenue	9.9	10.3
Non current assets	10.2	8.9
South America		
Operating revenue	6.0	7.9
Non current assets	0.1	0.3
North America		
Operating revenue	36.8	38.7
Non current assets	140.1	145.8
Total Group		
Operating revenue [1]	52.7	56.9
Non current assets	150.4	155.0

(1) The Group's revenue represents sales of seedlings and treestock of $51.4 million (2020: $55.6 million) and the provision of logistic services $1.3 million (2020: $1.3 million).

25 RELATED PARTY TRANSACTIONS AND BALANCES

	Refer to Note	March 2021 US$m	March 2020 US$m
Income Statement			
Non-executive Directors' Share Plan [1]	7, 19 & 20	(0.2)	(0.2)
Directors remuneration (excluding Non-executive Directors' Share Plan)	7	(0.2)	(0.3)
Executive share plan [4]	19 & 20	–	–
ArborGen senior management 2021 LTI plan [2]		(0.6)	–
Interest on subordinated notes [3]	18	(0.2)	(0.1)
Balance Sheet			
ArborGen senior management share option scheme [2]	17 & 20	(0.6)	–
Subordinated notes [4]	18	(2.9)	(2.9)

(1) On 17 September 2018 (at the Annual Shareholders' meeting) shareholders passed a resolution approving the Rubicon Non-executive Directors Share Plan. Under the share plan, 1,666,050 new shares were issued to the Trust on 18 September 2018. The Trust will hold the shares on behalf of the three Directors (Tom Avery, Ozey Horton, and Paul Smart, equally) until the vesting terms are met. The shares will 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.

On 17 September 2019 (at the Annual Shareholders' meeting) shareholders passed a resolution approving the 2019 Rubicon Non-executive Directors Share Plan. Under the share plan, 820,998 new shares were issued to the 2019 Trust. The 2019 Trust will hold the shares on behalf of the Director (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 (refer to notes 7, 19 & 20).

(2) Pursuant to the 2021 LTI plan an expense of $0.6 million has been accrued. The liability will be settled by the issuance of shares and cash (refer to notes 20 & 17).

(3) As part of the acquisition of the US Ridgeville headquarters premises subordinated Notes were 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 attract a 7% per annum interest rate, payable six monthly in arrears. Independent advice, at the time of issuance, has confirmed that the interest rate and terms were reasonable to the Company (refer to note 18).

(4) In accordance with the provisions of an Executive Fixed Trading Plan, ArborGen Holdings issued 216,347 new shares to Andrew Baum (CEO). The new shares were issued for 20% of his base remuneration (net of taxes) for the period 16 August 2020 to 31 December 2020, at the five-day VWAP of NZ$0.13189 for a total value of NZ$28,534.01.

26 PRINCIPAL OPERATIONS

ArborGen Holdings Limited (a New Zealand incorporated limited liability company) is the holding company of the ArborGen Group. The principal subsidiaries, as at 31 March 2021, were:

	Country of Domicile	Interest % March 2021	Interest % March 2020	Balance Date	Principal Activity
Principal subsidiaries					
Rubicon Forests Holdings Limited	NZ	100	100	31 March	Holding company
Rubicon Industries USA LLC	USA	100	100	31 March	Holds ArborGen, Inc investment
ArborGen Inc [(1)]	USA	100	100	31 March	Forestry genetics
ArborGen Inc subsidiaries					
ArborGen Comercie de Produtos Florestal Importacao e Exportacao LTDA	Brazil	100	100	31 March	Forestry genetics
ArborGen Technologia Florestal LTDA	Brazil	100	100	31 March	Holding company
ArborGen New Zealand Holding LLC	USA	100	100	31 March	Holding company
ArborGen New Zealand Unlimited	NZ	100	100	31 March	Forestry genetics
ArborGen Australia Holdings Pty Ltd	Australia	100	100	31 March	Holding company
ArborGen Australia Pty Ltd	Australia	100	100	31 March	Forestry genetics

(1) ArborGen Holdings owns 100% of ArborGen Inc's issued share capital, or 95% by economic interest (given the 5% of outstanding warrants). These warrants arose out of ArborGen Inc's purchase of Cellfor in 2012, and represent part-consideration for that acquisition. The warrants are automatically exercised, for no payment, upon an IPO of ArborGen Inc, or alternatively at any time if 66.67% of the warrant holders so elect. The warrants can also be exercised by ArborGen Inc, upon either a sale of substantially all of the ArborGen Inc business or of a sale of 50.01% or more of ArborGen Inc's share capital.

27 FINANCIAL INSTRUMENTS

(a) Market risk

(i) Exposure to currency risk

The functional currency of the Group is the US$ and the risk to the Group's equity and earnings are from assets, liabilities, revenues and costs in currencies denominated in currencies other than US$. The Group's exposure to foreign currency risks on financial instruments is shown in the following:

in US$m	March 2021		March 2020	
	US$	Non US$	US$	Non US$
Cash, liquid deposits and restricted cash	4.2	2.0	5.7	2.2
Trade debtors and other receivables	8.5	1.9	7.4	1.2
Trade creditors and other payables	(8.7)	(4.4)	(8.5)	(4.6)
Current debt	(1.0)	–	(6.3)	–
Non current debt	(32.6)	–	(31.2)	–
Lease obligation	(5.2)	(0.7)	(5.5)	(0.2)
Gross balance sheet exposure		(1.2)		(1.4)

The following exchange rates applied during the year:

	Average rate [1]		Spot rate	
	March 2021	March 2020	March 2021	March 2020
NZ$:US$	0.6713	0.6478	0.6989	0.5994
US$:R$	0.1865	0.2440	0.1767	0.1928
US$:AU$	0.7191	0.6820	0.7613	0.6139

(1) These are merely arithmetical averages not hedged rates.

Foreign exchange contracts

The Group had no foreign exchange contracts outstanding (2020: nil).

Sensitivity Analysis - gross balance sheet exposure

Given the small size of the gross balance sheet exposure shown above, any movement in the NZ$, R$ and AU$ against the US$ is unlikely to be material.

(ii) Exposure to interest rate risk

The Group has $33.6 million of debt at 31 March 2021 (2020: $37.5 million), drawn at a mix of fixed and floating rates.

The weighted average interest rate of borrowings and interest rate hedges are shown in note 18 term and current debt.

As at 31 March 2021, the Group had one interest rate swap totalling $10.9 million (2020: $11.3 million), covering 32% (2020: 31%) of total debt. The swap was entered into in August 2019 and expires in August 2026. The swap receives a floating rate of 2% above 30-day LIBOR and pays a fixed interest rate of 3.52%. At 31 March 2021 the mark-to-market of the swap resulted in liability of $0.3 million, which is reflected in the cash flow hedge reserve and derivative financial instrument liability (refer note 20).

(b) Credit risk

(i) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure, which at 31 March 2021 was $16.6 million of trade and other receivables, and cash, liquid deposits and restricted cash (2020: $16.5 million).

US cash, liquid deposits and restricted cash are only held with banks that are part of the Group's banking consortiums. In the event of default, cash balances may be set off against obligations owing by the Group to its lenders. Moody's credit ratings of the primary counterparties for cash and liquid deposits are all rated as investment grade. The status of trade debtors, is as follows:

	March 2021 US$m	March 2020 US$m
Neither past due nor impaired	4.8	4.2
Past due but not impaired – 1 month	3.3	2.6
2 months	2.4	1.5
Impaired	0.2	0.4
	10.7	8.7
Less provision for expected credit loss	(0.4)	(0.5)
Net trade debtors	10.3	8.2

ArborGen Inc has a strong history of trade debtor collections and there is no reason to believe that the debtors will not be collected.

(c) Liquidity risk

The following are contractual maturities of financial liabilities and net settled derivatives. The amounts disclosed are the contractual undiscounted cash flows.

Financial liabilities	Carrying value US$m	Total cash flows US$m	0-6 months US$m	6-12 months US$m	1-2 years US$m	2-5 years US$m	Over 5 years US$m
31 March 2020							
Non derivative financial liabilities							
Trade and other payables	(9.0)	(9.0)	(8.1)	–	–	(0.9)	–
Debt	(37.5)	(50.9)	(0.8)	(5.6)	(14.4)	(6.8)	(23.3)
Lease obligation	(5.7)	(6.5)	(0.6)	(0.6)	(1.1)	(3.2)	(1.0)
Financial liabilities as at 31 March 2020	(52.2)	(66.4)	(9.5)	(6.2)	(15.5)	(10.9)	(24.3)
31 March 2021							
Non derivative financial liabilities							
Trade and other payables	(8.6)	(8.6)	(8.2)	–	–	(0.4)	–
Debt	(33.6)	(41.7)	(0.8)	(0.2)	(4.1)	(14.2)	(22.4)
Lease obligation	(5.9)	(5.9)	(0.5)	(0.5)	(0.8)	(1.9)	(2.2)
Financial liabilities as at 31 March 2021	(48.1)	(56.2)	(9.5)	(0.7)	(4.9)	(16.5)	(24.6)

28 CONTINGENT LIABILITIES

The tenant for part of ArborGen's Ridgeville head office facility (the Property) which is legally owned by ArborGen Holdings' subsidiary Rubicon Industries USA LLC (Rubicon), contracted certain parties to perform some improvement work on parts of the Property leased from Rubicon. These parties have filed mechanic's liens against the Property alleging they are owed $496,000 in total that the tenant has failed to pay. Rubicon was not part of any contractual arrangements between the tenant and their contractors, and has been working to achieve a resolution, including as to payment of rental arrears. Rubicon has also obtained surety bonds to bond the liens in question as required under its loan agreement.

In November 2020, ArborGen Inc. filed a claim against a former customer for uncollected receivables for seedlings sold in relation to the fiscal year ending March 2020 in the amount of $0.3 million and legal fees. In December 2020, the customer filed a response to ArborGen's complaint with a counterclaim for damages suffered. The parties are currently in settlement discussions.

29 ASSET BACKING - NON-GAAP MEASURE

At 31 March 2021 the net asset backing was 30 cents per share (cps) (NZ$43 cps), (2020: 29 cps, NZ$48 cps); and net tangible asset backing (including right-of-use assets) was 9 cps (NZ$13 cps) (2020: 8 cps, NZ$13 cps), calculated on the basis of shares on issue at 31 March 2021 (excluding treasury stock) 498,509,055 (2020: 497,463,691).

30 EARNINGS - NON-GAAP 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'.

ArborGen	**Refer to Note**	**Year ended March 2021 US$m**	**Year ended March 2020 US$m**
Revenue	24	52.7	56.9
Cost of sales	24	(34.5)	(37.2)
Gross profit		18.2	19.7
Net profit (loss) after taxation	24	4.5	(1.1)
less Tax benefit	24	(0.6)	(1.1)
plus Financing expense	24	2.0	2.3
Operating profit (loss) before financing expense		5.9	0.1
plus depreciation and amortisations	7	10.2	9.5
EBITDA (NZ IFRS)		16.1	9.6
Add back NZ IFRS adjustments			
Investment in intellectual property	15	(3.7)	(4.1)
Change in fair value of biological assets	11	0.1	0.6
Other IFRS adjustments (including IFRS 16 adjustment)		(1.2)	(0.7)
US-GAAP EBITDA		11.3	5.4
Add back significant items			
Government Grants, Inventory adjustment and other	7	(2.0)	3.9
Adjusted US-GAAP EBITDA		**9.3**	**9.3**

Deloitte.

Independent Auditor's Report

To the Shareholders of ArborGen Holdings Limited

Opinion

We have audited the consolidated financial statements of ArborGen Holdings Limited and its subsidiaries (the 'Group'), which comprise the consolidated balance sheet as at 31 March 2021, and the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, on pages 35 to 64, present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2021, and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs') and International Standards on Auditing (New Zealand) ('ISAs (NZ)'). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor, and the performance of ancillary services in that capacity, we have no relationship with or interests in the entity.

Audit materiality

We consider materiality primarily in terms of the magnitude of misstatement in the financial statements of the Group that in our judgement would make it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced (the 'quantitative' materiality). In addition, we also assess whether other matters that come to our attention during the audit would in our judgement change or influence the decisions of such a person (the 'qualitative' materiality). We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group financial statements as a whole to be US$2m.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
ArborGen Cash Generating Unit – impairment assessment As set out in note 15 of the financial statements the Group has US$101.3m of intellectual property recorded on its balance sheet relating to the ArborGen business. The impairment assessment in relation to the ArborGen business, or Cash Generating Unit (CGU), as disclosed in note 16, is considered to be a key audit matter as a result of the significance of the intellectual property asset to the Group, and the level of judgement required when determining the value in use of ArborGen. The value in use of ArborGen is determined by undertaking a discounted cash flow analysis which involves management making a number of assumptions in relation to forecast future cash flows, determining an appropriate weighted average cost of capital (WACC) and terminal value (TV) growth rate. Each of these inputs requires judgement to be applied.	In performing our audit procedures in this area we: • assessed the appropriateness of the methodology applied by management; • examined the robustness of the financial model used by management to calculate ArborGen's value in use; • tested the key assumptions driving the forecast future cash flow. Of particular importance are the average selling prices and gross margin linked to the projected uptake of Mass Controlled Pollinated (MCP) product primarily in the United States market; • performed a look back analysis for current year actual results, including considering the impact of COVID-19, compared to what was forecasted in the prior year impairment model; • undertook sensitivity analysis on key assumptions to assess the impact on the carrying value of ArborGen; • tested the calculation of the WACC and TV growth rate, including obtaining input from our valuation specialists; and • ensured the disclosures in the financial statements properly reflect the judgements and estimates made by management.

Other information

The directors are responsible on behalf of the Group for the other information. The other information comprises the information in the Chairman's letter that accompanies the consolidated financial statements and the audit report, and the Annual Report that accompanies the consolidated financial statements and the audit report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and consider whether it is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If so, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the consolidated financial statements

The directors are responsible on behalf of the Group for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible on behalf of the Group for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located on the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1

This description forms part of our auditor's report.

Restriction on use

This report is made solely to the Company's shareholders, as a body. Our audit has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Deloitte Limited

Peter Gulliver,
Partner for Deloitte Limited
Auckland, New Zealand
27 May, 2021

Corporate Governance

This section describes how ArborGen's business practices reflect corporate governance best practice.

This Annual Report was approved by the Board on 23 June 2021.

Dave Knott Jr
Chairman of the Board

Paul Smart
Audit Committee Chairman

All references to $ is to US$ unless otherwise stated.

The Group's corporate governance framework is guided by the principles and recommendations of the NZX Corporate Governance Code. ArborGen Holdings considers it has followed these recommendations in all material respects during the fiscal year ended March 2021 (FY2021), and as at 23 June 2021. In addition, the corporate governance principles followed by the Company do not materially differ from the Corporate Governance Principles and Guidelines issued by the Financial Markets Authority.

Ethical Standards

Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for these standards being followed throughout the organisation.

The Company's Code of Conduct and Ethics, Board Charter and other documents related to corporate governance, collectively and individually encourage high standards of ethical and responsible behaviour.

The Code of Conduct and Ethics sets out clear expectations for ethical decision-making and personal behaviour by Directors and employees in relation to situations where their or ArborGen's integrity could be compromised. These include conflicts of interest, proper use of company property and information, fair dealings with employees and other stakeholders, compliance with laws and regulations, reporting of unethical decision making and dishonest behaviour, and related matters.

Included in the Code of Conduct and Ethics are mechanisms for dealing with breaches of the Code. Employees are encouraged to report any breaches in line with the processes outlined in the Code of Ethics. The Code of Conduct and Ethics has been communicated to all Directors and employees of the Company, and is also published on our corporate website www.arborgenholdings.com.

ArborGen Holdings' Security Trading Policy sets out restrictions on its personnel buying and selling financial products when in possession of material information. The policy employs "black-out" periods to restrict persons covered by the policy who are likely to have inside information from trading. This group of personnel must also obtain the written consent of the General Counsel prior to any transaction involving ArborGen Holdings' securities. ArborGen Holdings' Securities Trading Policy is published on our corporate website.

Board Composition and Performance

To ensure an effective Board, there should be a balance of independence, skills, knowledge, experience and perspectives.

There is a balance of independence, skills, knowledge, experience, and perspectives among Directors that allows the Board to work effectively. The Board's primary role and obligation is to protect and enhance the value of the assets of the Company and to act in the best interests of the Company. The Board has statutory responsibility for the activities of the Company, which in practice is partially exercised through delegation to the three Board standing committees (Audit, Remuneration and Nominations).

The Board Charter outlines a number of key roles and responsibilities of the Board, including:

- the review and approval of appropriate corporate strategies and objectives, transactions relating to acquisitions and divestments, capital expenditures above delegated authority limits, financial and capital structure policies, financial statements and reports to shareholders;
- the review of performance against strategic objectives; and
- ensuring that appropriate systems and processes are in place so that the Group is managed in an honest, ethical, responsible and safe manner.

The Board Charter is published on our corporate website.

The roles of and duties associated with the Board and management are separate at ArborGen Holdings and the Chairman and the CEO roles are not executed by the same individual.

The Chairman's role is to foster a constructive corporate governance structure, manage the Board effectively and provide leadership to the Board, chair shareholders meetings and to interface with senior management.

The Non-executive Directors' principal role is to provide independent judgement. This includes bringing outside experience and objectivity on all issues which come before the Board, having a detailed knowledge of the Company's business activities and ongoing performance, so they can make informed decisions.

Board Composition

The Company's Constitution requires a minimum of three Directors and provides for a maximum of nine.

As at 31 March 2021, the Directors were:

David Knott / Dave Knott Jr, Chairman (USA)[(1)(2)]
George Adams, Independent Director (NZ)
Tom Avery, Independent Director (USA)
Ozey Horton, Independent Director (USA)
Paul Smart, Independent Director (NZ)
Ranjan Tandon (USA)[(2)]

(1) In February 2017, Mr DM Knott appointed Mr DM Knott Jr by notice in writing as his alternate director. The remaining directors unanimously approved the appointment of Mr DM Knott Jr in that role.

(2) Substantial product holders.

Of the six Directors, two are ordinarily resident in New Zealand. In addition, the Board has identified four of the Directors as being Independent Directors. In order for a Director to be independent, the Board has determined that he or she must not be an executive of ArborGen and must have no disqualifying relationships.

The Company's Board represents a balance of independence, skills, knowledge, experience and perspectives (refer Board biographies for details), thereby ensuring the effectiveness of the Board in guiding the strategic direction of the Company and overseeing management.

While the nomination process for new Director appointments is the responsibility of the Board as a whole, the Nomination Committee is responsible for identifying, reviewing and recommending candidates to the full Board. The Board may engage consultants to assist in the identification, recruitment and appointment of suitable candidates.

Directors will retire and may stand for re-election by shareholders at least every three years, in accordance with the NZX Listing Rules. A Director appointed since the previous annual meeting holds office only until the next annual meeting but is eligible for re-election at that meeting.

The Board asks for Director nominations each year prior to the Annual Shareholders Meeting, in accordance with the constitution of the Company and the NZX Listing Rules.

Each new Director receives a letter outlining the key terms of their appointment including the Company's expectations for the role of the Director that is required to be countersigned to confirm agreement.

Directors receive comprehensive information on the Company's operations and have access to any additional information they consider necessary for informed decision-making. The Company is committed to ensuring its Directors have the knowledge and information to discharge their responsibilities effectively.

Information on each director is available on the ArborGen website and on page 32 of the 2021 Annual Report.

Director's interests are disclosed on page 74 of the 2021 Annual Report.

Board Committees

The Board should use committees where this will enhance its effectiveness in key areas, while still retaining Board responsibility.

The Board has three permanent committees, being the Audit Committee, the Remuneration Committee and the Nominations Committee. Committees enhance the effectiveness of the Board through closer examination of issues and more efficient decision making. The committees assist the Board in the conduct of its responsibilities and report to the full Board on all material matters and issues requiring Board decisions. All Board Directors receive copies of all committee minutes and papers and can attend the committee meetings.

Each permanent committee has adopted a formal Charter addressing purpose, constitution and membership, authority, reporting procedures and evaluation of the committee. These Charters are published on our corporate website.

Audit Committee

Paul Smart (Chairman)
George Adams
Ozey Horton
Tom Avery

The Audit Committee is comprised solely of Non-executive Directors of the Company and is chaired by an Independent Director. It has been determined by the Board that several members of the Audit Committee have an adequate accounting or financial background as defined in the NZX Listing Rules. All of the members of the Audit Committee are Independent Directors. The Chair of the Board is not the Chair of the Audit Committee. Management may only attend Audit Committee meetings at the invitation of the Committee.

The Audit Committee is well resourced and operates under a formal written Charter. The Audit Committee's terms of reference include the following duties and responsibilities:

- To review the effectiveness of the internal control framework across the ArborGen Group with management and the independent Auditor;
- To review the Group's accounting policies, financial reporting practices, and auditing practices;
- To ensure that the Board is properly and regularly informed and updated on corporate financial matters;
- To review all financial statements of the Group and advise all Directors whether these financial statements comply with the appropriate laws and regulations;
- To monitor and review the Group's compliance with regulatory and statutory requirements and obligations;
- To maintain direct communication with the independent Auditor;
- To make recommendations to the Board as to the appointment and discharge of the independent Auditor and to ensure that the independent Auditor or lead audit partner is changed at least every five years;
- To pre-approve non-audit services; and
- To confirm the independence of the independent Auditor.

Remuneration Committee

Tom Avery (Chairman)
George Adams
Ozey Horton
Dave Knott Jr
Paul Smart
Ranjan Tandon

The Remuneration Committee is responsible for evaluating the performances of the senior executives of the Company, setting the remuneration packages for senior executives, and recommending to the Board the remuneration of the senior executives and Non-executive Directors. The chairman of the Remuneration Committee is an Independent Director as are two thirds of the members. Management may only attend Remuneration Committee meetings at the invitation of the Committee.

Nominations Committee

Dave Knott Jr (Chairman)
George Adams
Tom Avery
Ozey Horton
Paul Smart
Ranjan Tandon

The Nominations Committee is responsible for making recommendations on Director appointments. The majority of the members of the Nominations Committee are Independent Directors.

In addition to the three permanent committees noted above, the Board establishes committees on an "as required" basis to address specific issues that arise. The Board believes this enhances its effectiveness through closer scrutiny of specific issues.

In the event of a takeover, the Board's protocols require the immediate formation of a subcommittee (the Takeovers Committee), comprised of non-interested Non-executive Directors, which will have the authority to make binding decisions in respect of the takeover, including:

- retaining independent legal and financial advisers;
- appointing an independent adviser for the purposes of the Takeovers Code;
- negotiating with the bidder;
- ensuring strict process separation and independence from interested Directors; and
- approving any announcements or communications relating to the potential transaction.

Attendance at Board and Committee Meetings

The table below shows Directors' attendance at the Board and committee meetings during the year ended 31 March 2021.

	Board	Audit Committee	Nominations Committee	Remuneration Committee
Number of meetings held	4	2	0	4
Dave Knott	4	n/a	0	4
George Adams	4	2	0	4
Tom Avery	4	2	0	4
Ozey Horton	4	2	0	4
Paul Smart	4	2	0	4
Ranjan Tandon	4	n/a	0	2

In addition to the formal Board and committee meetings held during the year, Directors regularly participate in discussions with management on a variety of matters.

Reporting and Disclosure

The Board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosures.

The Board focuses on providing accurate, adequate and timely information both to its shareholders and to the market generally. This enables all investors to make informed decisions about the Company. All significant announcements made to NZX, and reports issued, are posted on the Company's website.

The Company has procedures in place to ensure that it complies with its continuous disclosure requirements under the NZX Listing Rules. The Continuous Disclosure Policy governs the release to the market of all material information that may affect the value of the Company.

Copies of the key governance documents, including the Continuous Disclosure Policy, Code of Conduct and Ethics, Securities Trading Policy, Board and Committee Charters and Diversity and Inclusion Policy are available on the Company's website.

https://www.arborgenholdings.com/governance-documents

Financial Information

The Board is ultimately responsible for ensuring the quality and integrity of the Company's financial reports. To achieve this, the Company has in place a structure to independently verify and safeguard the integrity of the Group's reporting. The Audit Committee constitutes a key component of this structure.

The Company Secretary is an independent role and is not held by the Chief Financial Officer. In all accounting and secretarial matters, the Board ensures that the Secretary's reports are objective and that the Secretary has unfettered access to the Chair and the Audit Committee, without reference to the CEO.

For the financial year ended 31 March 2021, the directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance with the Financial Reporting Act 1993. The Audit Committee has confirmed in writing to the Board that ArborGen's external financial reports present a true and fair view in all material aspects.

ArborGen's full financial statements and half year results are available on ArborGen's website.

Non-financial Information

Non-financial information is provided on a regular basis to shareholders to allow them to measure the progress of the company. ArborGen discusses its strategic objectives and its progress against these in the Chair and CEO's commentary in shareholder reports and other market communications.

ArborGen's aim is to care and protect the natural ecosystem and provide positive benefits for its people and communities, while delivering robust financial performance and profitability for shareholders. The company has commenced a journey to identify ways to measure and monitor its environmental and social impact. The Board believes this will help to improve all aspects of the business and deliver positive benefits for all stakeholders.

Environmental and Social commentary has been provided in this year's Annual Report.

Diversity

The Group is committed to providing equal employment opportunities and believes it is in compliance with this commitment. The Company ensures its selection processes for recruitment and employee development opportunities are free from bias and are based on merit and the Board has practices in place to ensure diversity and fairness within the organisation. The Company has a flexible working programme that permits work/life balance.

ArborGen has a formal Diversity and Inclusion Policy which is published on our corporate website. The policy sets out how ArborGen will set measurable objectives for achieving and maintaining diversity and inclusion, and how it will assess its progress towards achieving these objectives. Current objectives include:

- the creation of a diversity and inclusion scorecard, which measures employee composition by gender, age and ethnicity, that is prepared quarterly for the Board (or a designated committee) to review;
- the establishment of an education programme for employees on different diversity and inclusion topics, including unconscious bias, bullying, harassment and inclusion in the workplace;
- conducting regular remuneration reviews (every two years) to ensure that there is pay equity at all levels of ArborGen to minimise inadvertent discrimination that may affect retention and career progression;
- annual review and update of ArborGen's human resources policies and employee handbook to promote the importance of diversity and inclusion.

The Board is satisfied that the current objectives are in line with the Diversity and Inclusion Policy and with its progress towards achieving those objectives. As measurable metrics for furthering diversity and inclusion are established, performance against these agreed metrics will be referenced in subsequent annual reports.

The Remuneration Committee provides oversight of employment practices and HR processes and practices, and the Board is comfortable that these are in line with the intent of the Diversity Policy.

As at 31 March 2021, five of the ArborGen Group's senior executives were female, being the Company Secretary & Performance Optimisation Director (ArborGen), the General Manager of ArborGen Brazil, VP Finance and Accounting (ArborGen Inc), Varietal Manufacturing Director (ArborGen Inc) and the Finance Manager of ArborGen Australasia.

As at 31 March 2021, females represented 20% of Directors and Officers of the Company (31 March 2020: 20%).

The following table shows the gender split for ArborGen Holdings only as at 31 March 2021, as compared to the split for the previous period ending 31 March 2020:

	March 2021		March 2020	
	Women	Men	Women	Men
Board of Directors	0	6	0	6
Officers	1	2	1	2

Remuneration

The remuneration of directors and executives should be transparent, fair and reasonable.

Director Equity Holdings

The Company believes it is appropriate to have Directors' and executives' remuneration aligned with the performance of the Company, and that the ownership of ArborGen Holdings' shares is a good way of achieving this goal. Consistent with this policy, on 17 September 2018 (at the 2018 Annual Shareholders' Meeting) shareholders passed a resolution approving the Non-Executive Directors Share Plan (2018 Share Plan). Under the 2018 Share Plan, 1,666,050 new shares in the Company were issued to a trustee to be held on behalf of the three independent Directors elected to the Board at that Shareholders' meeting (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 (being 18 September 2018), provided that the Director remains a Director of the Company on the relevant anniversary date (refer to notes 19 and 25 to the Financial Statements for more detail). The requisite vesting terms for the first and second tranches were met on 18 September 2019 and 18 September 2020, respectively, and the corresponding ArborGen Holdings' shares were transferred to each of Tom Avery, Ozey Horton and Paul Smart, equally.

On 17 September 2019 (at the 2019 Annual Shareholders' Meeting) shareholders passed resolutions electing George Adams as an independent Director of ArborGen Holdings and approving the issuance of NZ$150,000 of new shares to George Adams under the 2019 Non-Executive Directors Share Plan (2019 Share Plan). Under the 2019 Share Plan, 820,998 shares were issued to a trustee to be held on behalf of George Adams. These shares will vest to George Adams in three equal tranches on the first, second and third anniversaries following the date of issue (being 18 September 2019), provided George Adams remains a Director of the Company on the relevant anniversary date (refer to notes 19 and 25 to the Financial Statements for more detail). The requisite vesting terms for the first tranche were met on 18 September 2020, and the corresponding ArborGen Holdings' shares were transferred to George Adams.

At 31 March 2021, Directors of the Company held the following relevant interests (as defined in the Financial Markets Conduct Act 2013) in ArborGen shares:

Name	Position	Number of Shares
DM Knott / DM Knott Jr	Chairman and Non-executive Director	137,663,111
R Tandon	Non-executive Director	86,108,419
TA Avery	Non-executive Director (1)	555,350 (370,233 vested)
OK Horton	Non-executive Director (1)	555,350 (370,233 vested)
PR Smart	Non-executive Director (1)	555,350 (370,233 vested)
THG Adams	Non-executive Director (2)	820,998 (273,666 vested)

(1) Shares issued in relation to the 2018 Share Plan.

(2) Shares issued in relation to the 2019 Share Plan.

The Company's remuneration policies aim to attract and retain talented and motivated Directors and executives who will contribute to enhancing the performance of the Company.

Non-executive Director Remuneration

The Company's remuneration policy for Directors is to remunerate Directors at levels that are fair and reasonable in a competitive market environment taking into account the skills, knowledge and experience required by the Company.

The remuneration earned, prior to any taxation liability, by Non-executive Directors of ArborGen for services in their capacity as Directors during the twelve-month period ended 31 March 2021 was:

Name	Directors Fees NZ$	Shares (5) Vested NZ$	Cash Tax (5) Payment NZ$	Total Remuneration NZ$
DM Knott	0			0
DM Knott Jr (Chairman) (1)	1			1
R Tandon	62,500			62,500
TA Avery (3)	62,500	50,000	12,856	125,356
OK Horton (3)	62,500	50,000	12,856	125,356
PR Smart (2) (3)	91,000	50,000	12,856	153,856
THG Adams (4)	62,500	50,000	19,005	131,505
Total	**341,001**	**200,000**	**57,573**	**592,425**

(1) From 1 April 2020 Mr Knott reduced his fee to NZ $1.

(2) Mr Smart received an additional fee of NZ$28,500 as Chairman of the Audit Committee.

(3) Under the terms of the 2018 Rubicon Non-Executive Directors Share Plan on 18 September 2020 the second tranche of 555,350 shares vested to the three Directors (185,116 each) together with the cash tax payments.

(4) Under the terms of the 2019 Rubicon Non-Executive Directors Share Plan on 18 September 2020 the first tranche of 273,666 shares vested to George Adams together with the cash tax payments.

(5) Represents the value of shares as accrued and the cash tax as paid in September 2020.

Non-executive Directors are not entitled to receive retirement payments.

Executive Director and Employee Remuneration

The Group's Remuneration Policy aims to attract, retain and incentivise employees in order to drive and enhance Company performance. Performance incentive payments are determined by the Remuneration Committee and are calculated by measuring actual performance outputs against target individual and/or Company objectives.

In accordance with Section 211 of the Companies Act, remuneration and other benefits (including performance benefits and all redundancy payments) which in total exceeded NZ$100,000 per annum received by employees of ArborGen and its subsidiaries (i.e. including ArborGen Inc. and its respective subsidiaries) in the period ended 31 March 2021 is summarised in the following table:

NZ$000			Number of Employees	NZ$000			Number of Employees
100	to	110	19	220	to	230	4
110	to	120	9	230	to	240	1
120	to	130	9	240	to	250	1
130	to	140	5	260	to	270	1
140	to	150	6	290	to	300	1
150	to	160	5	310	to	320	1
160	to	170	5	320	to	330	1
170	to	180	4	340	to	350	2
190	to	200	1	360	to	370	1
200	to	210	1	430	to	440	1
210	to	220	1	540	to	550 *	1

* Payments inclusive of redundancy and severance payments.

2021 and 2022 LTI Plans

In September 2019, the Board established a new share-based incentive scheme named the Rubicon Limited 2019 Omnibus Incentive Scheme (the Omnibus Incentive Scheme) permitting the Board or the Remuneration Committee to grant various equity-based awards (including stock options, stock appreciation rights, restricted stock units and other types of equity and cash awards) to officers, employees and directors of the ArborGen Group. The Omnibus Incentive Scheme aims to align the interests of the Groups' officers, employees and directors with those of the Company's shareholders over the longer term.

In accordance with the terms of the Omnibus Incentive Scheme, in May 2020, the Remuneration Committee approved the FY2021 Long Term Incentive Plan (2021 LTI Plan) allowing certain employees of the Company and its subsidiaries (Participants) to participate in the 2021 LTI Plan via the ArborGen Conditional Restricted Share Unit Agreement with Associated Cash Payments (the RSU Agreement). Entry into a RSU Agreement was conditional on the cancellation of all incentive stock options granted to any participant pursuant to the ArborGen Inc. 2010 Stock Option and Incentive Plan (as amended and restated on 3 August 2016).

In accordance with the 2021 LTI Plan and related RSU Agreements, if certain financial performance targets were met by the ArborGen Group during the fiscal year ended 31 March 2021, restricted share units (RSUs) and conditional cash awards were required to be granted to the Participants at no cost to the Participants. The number of RSUs and cash awards to be granted to each Participant depends on the relevant business unit's achievement of the performance targets, which relate to free cash flow before expansion, revenue and EBITDA.

Provided Participants remain employed by the ArborGen Group on the relevant vesting dates, RSUs will vest in Participants as ordinary shares in the Company (on a one-to-one ratio) and the cash awards will be transferred to Participants as follows:

- one third of the RSUs will vest and one-third of the cash awards will be paid, on the Performance Approval Date (being the date on which the Remuneration Committee determines the extent to which the FY2021 performance targets have been met, and the number of RSUs and cash awards to be granted);
- one third of the RSUs will vest and one-third of the cash awards will be paid on the first anniversary of Performance Approval Date; and
- one third of the RSUs will vest and one-third of the cash awards will be paid on the second anniversary of Performance Approval Date.

Under the terms of the 2021 LTI Plan, only one employee met the target, and accordingly one-third of his respective RSUs and one-third of his cash awards vested in June 2021. In June 2021, 127,315 of shares were issued to this Participant. The Remuneration Committee has discretion whether to grant RSUs and cash awards to the remaining Participants and is currently still deliberating any further pay outs.

In June 2021, the Remuneration Committee approved the FY2022 Long Term Incentive Plan (2022 LTI Plan) allowing certain employees of the Company and its subsidiaries (Participants) to participate in the 2022 LTI Plan. In accordance with the 2022 LTI Plan, if certain financial performance targets are met by the ArborGen Group during the fiscal year ending 31 March 2022, restricted share units (RSUs) and conditional cash awards will be granted to the Participants at no cost to the Participants. The number of RSUs and cash awards to be granted to each Participant will depend on the relevant business unit's achievement of the performance targets, which relate to free cash flow before expansion, revenue and EBITDA. The maximum total value of the overall 2022 LTI Plan is $1 million (NZ$1.4 million). The related RSU Agreements have not yet been prepared, nor have the number of RSUs been confirmed at this stage. The Board has not yet approved the required resolutions confirming the number of RSUs to be issued.

CEO Remuneration

The base salary of ArborGen's CEO, Andrew Baum, in the period was $392,016 (NZ$583,965) plus other medical and superannuation benefits of $30,600 (NZ$45,583).

Mr. Baum is also a Participant of the 2021 LTI Plan and the 2022 LTI Plan. Mr Baum is entitled to receive a maximum of 1,831,663 RSUs under the 2021 LTI Plan. The maximum total value of Mr Baum's entitlement under the 2021 LTI Plan, subject to satisfaction of the conditions, is $261,300 (NZ$423,500) (of which 80% will be RSUs and 20% will be in cash awards). The Remuneration Committee has discretion whether to grant RSUs and cash awards to Participants and is currently still deliberating any further pay outs under the 2021 LTI Plan. In addition, Mr. Baum is entitled to receive a maximum of $261,300 (NZ$362,917) under the 2022 LTI Plan.

The CEO's remuneration can be summarised as follows:

	Salary	Benefits	Subtotal	Retention Payment	Pay for Performance		Total Remuneration	Total Remuneration NZ$
					$ Paid	% of bonus paid out		
FY21	392,016	30,600	422,616		(1)		422,616	629,549 (1)
FY20	392,016	30,000	422,016	375,000 (2)			797,016	1,230,343
FY19	390,113	31,600	421,713	375,000 (2)	186,493	100%	983,206	1,442,709

(1) Under the terms of the LTI Plan, only one employee met the target. The Remuneration Committee has discretion whether to grant RSUs and cash awards to the remaining Participants and is currently still deliberating any further amounts or benefits to be paid to Participants under the 2021 LTI Plan.

(2) Mr Baum received a retention payment totalling $375,000 (NZ$625,000) in each of FY19 and FY20 which related to a Long Term Incentive and Retention Agreement and General Release of Claims executed in June 2017. This incentive and retention arrangement was in connection with the acquisition of the respective holdings of International Paper Company and MeadWestvaco LLC in ArborGen Inc. Pursuant to that agreement, Mr Baum was entitled to $750,000 payable in two equal instalments on 1 July 2018 and 1 July 2019.

Risk Management

Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The Board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks.

ArborGen is committed to proactively managing risk. While this is the responsibility of the entire Board, the Audit Committee assists the Board and provides additional oversight in regards to the risk management framework and monitoring compliance with that framework.

The Audit Committee carries out a robust risk assessment process which includes reviews with management and the independent Auditor of significant risks and exposures of the Group, and assessments of risk mitigation steps taken by management to minimise such risks. The Board receives regular reports of the material, emerging and existing risks from management.

The executive team and senior management are required to regularly identify the major risks affecting the business and develop structures, practices and processes to manage and monitor these risks.

The Board is satisfied that ArborGen has in place a risk management process to effectively identify, manage and monitor ArborGen's principal risks. ArborGen maintains insurance policies that it considers adequate to meet its insurable risks.

Health and Safety

The health and safety of our employees, customers and suppliers is critical and essential for our success. We are committed to delivering a safe workplace, and safety training is integral to our zero-harm goal. We monitor health and safety results, and measure senior management against our zero-harm expectation. We operate safety education programmes and have other continuous programme initiatives in place to keep our people safe at work. At our secure containment facilities, we have procedures designed to ensure compliance with regulatory requirements in each of the jurisdictions in which we operate, including procedures to ensure employee safety at those facilities.

Total Case Incident Rate (TCIR) for all ArborGen facilities in all geographies was 3.48. TCIR is defined as total number of recordable injuries and illness cases per 100 full-time employees that a site has experienced in a given time frame.

Auditors

The Board should ensure the quality and independence of the external audit process.

The Board's relationship with its external auditors is governed by the Audit Committee Charter. For the year ended March 2021, the Company's external Auditor was Deloitte. Deloitte was re-appointed under the Companies Act 1993 at the 2020 Annual Shareholders Meeting. Consistent with best practice the audit partner is rotated at no greater than five yearly intervals.

A formal engagement letter with Deloitte clearly sets out the responsibilities of Deloitte in relation to the external audit of the Group's financial statements and financial systems. As part of the external audit process, Deloitte provide feedback on internal processes and functions. The Board facilitates full and frank communication between the Audit Committee, Deloitte and management. Deloitte attends all Audit Committee meetings and has sessions, at least semi-annually, with the Audit Committee without management in attendance.

The Audit Committee is satisfied that the independence of Deloitte is not compromised by any relationship between Deloitte and ArborGen or any related party or as a result of any non-audit services provided by Deloitte, and has obtained confirmation from Deloitte to this effect.

The Audit Committee, together with the Company's management, monitor the performance of Deloitte to ensure that the services being provided to the Company are of the highest standard, relevant, timely and cost effective. Please refer to page 70 for details on the structure and role of the Audit Committee.

Representatives from Deloitte attend the annual meeting each year where they are available to answer questions from shareholders.

ArborGen has a number of internal controls overseen by the Audit Committee, including controls for treasury, delegated authority, and prevention and identification of fraud. ArborGen does not have a dedicated Internal Auditor role.

Shareholder Relations

The Board should respect the rights of shareholders and foster constructive relationships with shareholders that encourage them to engage with the issuer.

The Board is committed to promoting good relations with the shareholders through:

- communicating effectively with them;
- giving them ready access to information about the Company, its goals, strategies, governance and performance through its website; and
- facilitating participation at shareholder meetings. The Company has a formal continuous disclosure policy in place and the Company regularly communicates to the market to ensure compliance with the NZX Rules on continuous disclosure.

The Company's website (www.arborgenholdings.com) includes the following information:

- Annual and Interim Reports;
- disclosures made to the stock exchange;
- press releases; and
- corporate governance documents.

Shareholders are encouraged to attend the Annual Shareholder Meeting and may raise matters for discussion at this event. The ASM is streamed live and is accessible worldwide. All written communications and reports are available on the Company's website, as well as emailed to shareholders who elect to be emailed.

In accordance with the NZX Listing Rules, shareholders have the right to vote on major decisions which may change the nature of the Company. Each shareholder has one vote per share and voting is conducted by polls.

The notice of the Annual Meeting is announced on the NZX, sent to shareholders and posted on to the Company's website at least 20 working days prior to the meeting each year.

All shareholders are given the option to elect to receive electronic communications from the Company.

The Board respects the interests of stakeholders within the context of the Company's ownership type and its fundamental purpose.

ArborGen is strongly committed to meeting its legal and other obligations to stakeholders such as employees, shareholders, and suppliers.

Interests Register

Directors' certificates to cover entries in the Interests Register made during the twelve-month period ended 31 March 2021 in respect of remuneration, dealing in the Company's securities, insurance and other interests have been separately disclosed as required by the New Zealand Companies Act 1993.

Directors' Interests

The following are particulars of general disclosures of interest given by the Directors of the Company as at the date of this report pursuant to section 140(2) of the Companies Act 1993:

	Relationship
DM Knott	
Knott Partners, LP	Managing Member
Knott Family Foundation	President
DM Knott Jr	
Knott Partners, LP	CEO and Chief Investment Manager and Executive Managing Member
DRS Holdings, LLC	Board Member
The HiGro Group, LLC	Advisory Board
Knott Family Foundation	Secretary
Tenon Clearwood Limited Partnership	Advisory Board Member
THG Adams	
Apollo Foods Limited	Executive Chairman and shareholder
Cavalier Corporation Limited	Chairman
Competenz	Chairman
Insightful Mobility Limited	Chairman and shareholder
Mix Global Holdings Limited	Chairman
Netlogix Group Holdings	Chairman
New Zealand Frost Fans Limited	Chairman
Tegel Group Holdings Limited	Director
TA Avery	
CRA International Inc	Director and shareholder
KIPP Metro Atlanta	Director
PowerUP Scholarship	Director
Razorhorse Capital	Advisory Board Member
Southeast Pet Inc	Advisory Board Member
OK Horton	
Al Dabbagh Group	Advisory Board Director
Louisiana-Pacific Corporation	Director and shareholder
Worthington Industries, Inc	Director and shareholder
Spoleto Festival, USA	Board member
MUSC Hollings Cancer Center	Advisory Board Member
Liberty Fellowship Foundation	Mentor
PR Smart	
Argus Fire Systems Service Limited	Director
Bellbird Trust	Trustee
Geo40 Limited	Director and Chair Audit Committee
MHM Automation Limited	Director and Chair Audit Committee
Saddleback Trust	Trustee and beneficiary
Sunrise Consulting Limited	Director
R Tandon	
Libra Advisors LLC	Founder and Managing Member
Vostok Emerging Finance Ltd	Director
NYU Tandon Engineering School	Director
Tenon Clearwood Limited Partnership	Advisory Board Member

During the twelve-month period ended 31 March 2021 Directors advised the following resignations:

	Relationship
PR Smart	
SolarZero Limited	Director

Dealings in Company Securities

There has been no trading in ArborGen Holdings' shares by Directors and Senior Officers during the twelve-month period ended 31 March 2021 other than other than vesting of shares under the Non-Executive Directors' Share Plans and the issuance of shares under the Executive Fixed Trading Plan:

- 555,348 shares vested to TA Avery, OK Horton and PR Smart (in equal shares) pursuant to the Non-Executive Directors Share Plan, as detailed in Notes 19 and 25 of this Annual Report;
- 273,666 shares vested to THG Adams pursuant to the 2019 Non-Executive Directors' Share Plan, as detailed in notes 19 and 25 of this Annual Report; and
- 216,347 new shares issued to AM Baum pursuant to the Executive Fixed Trading Plan as detailed in notes 19 and 25 of this Annual Report.

Directors' and Officers' Indemnity and Insurance

In accordance with section 162 of the Companies Act 1993 and the constitution of the Company, the Company has given indemnities to, and has effected insurance for, Directors and executives of ArborGen and its related companies which indemnify and insure Directors and executives against monetary losses as a result of actions or omissions by them in the course of their duties. The Company shall maintain insurance cover for the Directors and executives for a period of seven years following the date the Director or executive has ceased to be a Director or executive of the Company. Excluded from the indemnity are actions of criminal liability or breach of the Director's duty to act in what they believe to be the best interests of the Company.

Donations

During the twelve-month period ended 31 March 2021, the total amount of donations made by ArborGen and its subsidiaries was $5,148 (2020: nil).

Credit Rating

ArborGen has not sought a credit rating.

Subsidiary Company Directors

Section 211(2) of the Companies Act 1993 requires the Company to disclose in relation to directors and former directors of its subsidiaries, amongst other things, the total remuneration and value of other benefits received by them, and particulars of interest register entries made by them during the twelve-month period ended 31 March 2021. No employee of an ArborGen Group company appointed as a director of any wholly-owned subsidiary receives any remuneration or other benefits in that role. The remuneration and other benefits of employees are disclosed elsewhere in this Annual Report. No director of any subsidiary receives any remuneration or other benefits as a director. The following persons held office as directors of subsidiary companies as at 31 March 2021, or in the case of those persons with the letter (R) after their name, ceased to hold office during the period:

Rubicon Forests Holdings Limited	DM Knott Jr, PR Smart
Rubicon Industries USA LLC	DM Knott, DM Knott Jr, R Tandon,
ArborGen Inc	AM Baum, DM Knott Jr, R Tandon, TA Avery, OK Horton, PR Smart, THG Adams
ArborGen Comercio de Produtos Florestais Importacao e Exportacao LTDA	G Bassa
ArborGen Technologia Florestal LTDA	G Bassa
ArborGen New Zealand Holdings, LLC	AM Baum
ArborGen New Zealand Unlimited	AM Baum, G Mann
ArborGen Australia Holdings Pty Ltd	AM Baum, G Mann, A Frees
ArborGen Australia Pty Ltd	AM Baum, G Mann, A Frees

Shareholder Information

The Company's shares are listed on the Main Board of NZX Limited. The 20 shareholders of record with the largest holdings of shares at 30 April 2021 were:

	Number of shares	% of shares
New Zealand Central Securities Depository Limited	341,858,311	68.42
JBWere (NZ) Nominees Limited	25,000,000	5.00
Sky Hill Limited	17,741,043	3.55
The Tai Shan Foundation – F Pearson & S Pearson	7,478,090	1.50
Fletcher Brothers Limited	5,649,731	1.13
S Moriarty	5,320,000	1.06
M Taylor	3,680,000	0.74
Moriarty Superannuation Fund – S & D Moriarty	2,710,124	0.54
The So Proud a/c – S Godfrey, D Toothill & M Godfrey	2,639,027	0.53
New Zealand Depository Nominee Limited	2,331,874	0.47
Y Chiam & S Boey	2,241,937	0.45
P Bradfield	1,722,000	0.34
G Simms	1,675,000	0.34
M Teulon & E Quigley	1,540,467	0.31
B Tyler	1,500,000	0.30
Wallace Family a/c – S Wallace & Offen Advisors Trustees Limited	1,250,000	0.25
F Pearson	1,235,000	0.25
P Hill	1,191,610	0.24
Taylor Superannuation Fund – M & L Taylor	1,093,234	0.22
Circada Limited	1,000,000	0.20
Total	428,857,448	85.84

New Zealand Central Securities Depository Limited provides a custodial depository service, which allows electronic trading of securities to its members, and does not have a beneficial interest in these shares. Its holders of ArborGen shares at 30 April 2021 were:

	Number of shares	% of shares
HSBC Nominees (New Zealand) Limited	167,704,863	33.57
Citibank Nominees (New Zealand) Limited	132,343,232	26.48
Accident Compensation Corporation	32,601,933	6.53
Public Trust	5,000,000	1.00
BNP Paribas Nominees (NZ) Limited	3,014,985	0.60
National Nominees Limited	752,455	0.15
JPMorgan Chase Bank NA NZ Branch - Segregated Clients	440,843	0.09
Total	341,858,311	68.42

Distribution of Shareholders and Holdings as at 30 April 2021

	Number of shareholders		Number of shares	
Size of holding	**Number**	**%**	**Number**	**%**
1-999	1,860	32.51	1,231,677	0.25
1,000–9,999	3,135	54.80	8,320,696	1.67
10,000–49,999	459	8.02	9,209,821	1.84
50,000–99,999	91	1.59	6,089,224	1.21
100,000 and over	176	3.08	474,760,320	95.03
Total [1]	5,721	100.00	499,611,738	100.00

Domicile of Shareholders and Holdings as at 30 April 2021

	Number of shareholders		Number of shares	
	Number	**%**	**Number**	**%**
New Zealand	4,701	82.17	473,044,836	94.68
Australia	611	10.68	2,092,427	0.42
United Kingdom	152	2.66	18,409,993	3.68
United States of America	140	2.45	3,031,939	0.61
Other	117	2.04	3,032,543	0.61
Total [1]	5,721	100.00	499,611,738	100.00

Substantial Product Holders

According to notices that have been provided under the Financial Markets Conduct Act 2013, as at 31 March 2021 the following were substantial product holders in the Company. In terms of the Act, the number of shares and percentages shown below are as last advised by the substantial product holder and may not be their current holdings.

Substantial product holder	Number of voting securities	% of voting securities	Date of notice
David Knott [a]	115,583,162	28.256	23 August 2016 [2]
Libra Fund LP / Ranjan Tandon	86,108,419	17.648	3 July 2017 [1]
Accident Compensation Corporation	32,221,000	6.604	4 January 2018 [1]
Irvin Kessler	25,000,000	5.124	3 January 2018 [1]
Bank of New Zealand [b]	25,000,000	5.124	8 January 2018 [1]

The following substantial product holder notices have been received (which are included in the substantial product holder notices disclosed above);

Substantial product holder	Number of voting securities	% of ArborGen voting securities	Date of notice
(a) Mr Knott has disclosed he holds a relevant interest in ArborGen shares held by:			
Dorset Management Corporation	105,679,657	25.835	23 August 2016 (2)
Knott Partners, L.P. (i)	82,511,226	20.171	13 June 2014 (2)

(i) Dorset Management Corporation has entered into an investment management agreement with Knott Partners, L.P. pursuant to which Dorset Management Corporation has discretion over the acquisition, disposition and voting of the securities held by Knott Partners, L.P. David Knott is the sole shareholder, Co-Director and Co-President of Dorset Management Corporation. Dave Knott Jr is a Co-Director and Co-President of Dorset Management Corporation.

(b) In their substantial product holder notice the Bank of New Zealand stated "Conditional power to control the disposal of the financial product. The relevant interest only arises from the powers of investment contained in an investment management contract for Bank of New Zealand's portfolio execution service."

The total number of issued voting securities at 31 March 2021 was 499,611,738. All of the references to voting securities in this section are to the Company's ordinary shares.

(1) The total number of shares on issue at date substantial product holder notice was received was 487,908,343.

(2) The total number of shares on issue at date substantial product holder notice was received was 409,051,378.

NZX Waivers

No NZX waivers were granted to the Company by NZX, or otherwise relied upon by the Company, under the NZX Listing Rules during the period from 1 April 2020 to 31 March 2021.

Directory

Registered Office
Suite 107, 100 Parnell Road,
Auckland 1052, New Zealand
PO Box 68 249, Wellesley Street,
Auckland 1141, New Zealand
Telephone: +64 9 356 9800
Email: info@arborgenholdings.com

Website
www.arborgenholdings.com

Directors
David Knott / Dave Knott Jr, Chairman (USA) [(1)(2)]
George Adams, Independent Director (NZ)
Ozey Horton, Independent Director (USA)
Paul Smart, Independent Director (NZ)
Ranjan Tandon (USA) [(2)]
Tom Avery, Independent Director (USA)

Share Registry
Computershare Investor Services Limited
Private Bag 92119,
Auckland 1142, New Zealand
Ph: +64 9 488 8777
Fax: +64 9 488 8787
Email: enquiry@computershare.co.nz
Website: www.computershare.co.nz

Auditor
Deloitte Limited

Solicitors
Bell Gully

(1) In February 2017, Mr DM Knott appointed Mr DM Knott Jr by notice in writing as his alternate director. The remaining directors unanimously approved the appointment of Mr DM Knott Jr in that role.

(2) Substantial product holders.

www.arborgenholdings.com