

ArborGen Holdings Limited and Subsidiaries  
Consolidated Income Statement  
For the year ended ended 31 March 2021

	Notes	Year ended March 2021 US\$m	Year ended Mar 2020 US\$m
Revenue	24	52.7	56.9
Cost of sales	7	(34.5)	(37.2)
<b>Gross profit</b>		<b>18.2</b>	<b>19.7</b>
Change in fair value of biological assets	11	(0.1)	(0.6)
Other income		0.8	0.3
Administration expense		(16.3)	(17.0)
<b>Operating earnings excluding items below</b>		<b>2.6</b>	<b>2.4</b>
Government grants, Inventory adjustment and other	7	2.0	(3.9)
<b>Operating profit (loss) before financing expense</b>		<b>4.6</b>	<b>(1.5)</b>
Financing expense	22	(2.0)	(2.3)
<b>Profit (loss) before taxation</b>		<b>2.6</b>	<b>(3.8)</b>
Tax benefit	8	0.6	1.1
<b>Net earnings (loss)</b>		<b>3.2</b>	<b>(2.7)</b>
<b>Earnings (loss) per share information (cents per share)</b>			
Basic		0.6	(0.5)
Diluted		0.6	(0.5)
<b>Weighted average number of shares outstanding (millions of shares)</b>			
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 ended 31 March 2021

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

ArborGen Holdings Limited and Subsidiaries  
Statement of Changes in Equity  
For the year ended ended 31 March 2021

	Notes	Year ended March 2021 US\$m	Year ended Mar 2020 US\$m
<b>Total comprehensive earnings (loss)</b>		<b>5.8</b>	<b>(5.9)</b>
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)
<b>Total movement in shareholder equity</b>		<b>6.3</b>	<b>(5.7)</b>
Opening Group equity		141.9	147.6
<b>Closing group equity</b>		<b>148.2</b>	<b>141.9</b>

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ArborGen Holdings Limited and Subsidiaries  
Consolidated Statement of Cash Flows  
For the year ended ended 31 March 2021

	Notes	Year ended March 2021 US\$m	Year ended Mar 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			
Payments to suppliers, employees and other		(47.2)	(50.9)
Cash (used in) operating activities			
<b>Net cash from (used in) operating activities</b>			
		<b>9.9</b>	<b>4.8</b>
Sale of assets		-	0.1
Investment in fixed assets	13	(1.0)	(5.3)
Investment in intellectual property	15	(3.7)	(4.1)
<b>Net cash from (used in) investing activities</b>			
		<b>(4.7)</b>	<b>(9.3)</b>
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)
<b>Net cash from (used in) financing activities</b>			
		<b>(7.2)</b>	<b>5.4</b>
<b>Net movement in cash</b>			
		<b>(2.0)</b>	<b>0.9</b>
Opening cash, liquid deposits and restricted cash		7.9	7.2
Effect of exchange rate changes on net cash		0.3	(0.2)
<b>Closing cash, liquid deposits and restricted cash</b>			
		<b>6.2</b>	<b>7.9</b>
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
<b>Cash flow from operations before net working capital movement</b>			
		<b>16.9</b>	<b>8.2</b>
Trade and other receivables		(1.7)	(1.4)
Inventory		(5.3)	(0.5)
Trade and other payables		-	(1.5)
<b>Net working capital movement</b>			
		<b>(7.0)</b>	<b>(3.4)</b>
<b>Net cash from operating activities</b>			
		<b>9.9</b>	<b>4.8</b>

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	Mar 2020 US\$m
<b>Current assets</b>			
Cash and liquid deposits	9	6.2	5.9
Trade and other receivables	10	12.2	10.5
Inventory	11	34.5	29.3
<b>Total current assets</b>		<b>52.9</b>	<b>45.7</b>
<b>Non current assets</b>			
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
<b>Total non current assets</b>		<b>150.4</b>	<b>155.0</b>
<b>Total assets</b>		<b>203.3</b>	<b>200.7</b>
<b>Current liabilities</b>			
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)	-
<b>Total current liabilities</b>		<b>(15.9)</b>	<b>(20.6)</b>
<b>Term liabilities</b>			
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)
<b>Total term liabilities</b>		<b>(39.2)</b>	<b>(38.2)</b>
<b>Total liabilities</b>		<b>(55.1)</b>	<b>(58.8)</b>
<b>Net assets</b>		<b>148.2</b>	<b>141.9</b>
<b>Equity</b>			
Share capital	19	202.5	202.3
Reserves	20	(54.3)	(60.4)
<b>Total group equity</b>		<b>148.2</b>	<b>141.9</b>

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 100.0% 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), 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.

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**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	(6.2)	(5.9)
Administration expense: G&A	(1.3)	(1.1)
<b>Total depreciation and amortisations</b>	<b>(10.2)</b>	<b>(9.5)</b>
<b>Cost of inventory expensed in cost of sales</b>	<b>(34.5)</b>	<b>(37.2)</b>
Employee related expenses (excluding restructuring and transaction-related expenses)	(17.3)	(17.3)
Government grant income <sup>(1)</sup>	3.7	-
Seedling write off and Covid related costs <sup>(2)</sup>	(1.7)	-
Seedling mortality customer assistance <sup>(3)</sup>	-	(1.0)
Inventory cost adjustment <sup>(4)</sup>	-	(2.3)
Varietal inventory cost adjustment <sup>(5)</sup>	-	(0.4)
Transaction-related expenses incurred by ArborGen Inc in relation to the acquisition by ArborGen Holdings <sup>(6)</sup>	-	(0.2)
<b>Government Grants, Inventory adjustment and other</b>	<b>2.0</b>	<b>(3.9)</b>

- (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 <sup>(1)</sup>	0.9	0.7
<b>Taxation (expense)/benefit</b>	<b>0.6</b>	<b>1.1</b>

- (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
<b>Trade and other receivables</b>	<b>12.2</b>	<b>10.5</b>

**11 INVENTORY**

	March 2021 US\$m	March 2020 US\$m
Finished goods - seedlings	1.4	0.7
Work in progress - seedlings <sup>(1)(4)</sup>	8.2	7.3
Finished goods - seed	16.0	13.4
Work in progress - seed <sup>(2)</sup>	8.1	7.0
Fair value on biological assets <sup>(3)(4)</sup>	0.8	0.9
<b>Inventory</b>	<b>34.5</b>	<b>29.3</b>

(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 of 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 asset	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)
<b>Change in fair value of biological assets recognised in income statement</b>	<b>(0.1)</b>	<b>(0.6)</b>
<b>Closing fair value uplift biological asset</b>	<b>0.8</b>	<b>0.9</b>

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	Mar 2020 US\$m
Opening provision for deferred taxation		(1.8)	(2.9)
Taxation (expense)/benefit in the income statement	8	0.6	1.1
<b>Deferred taxation (liability)</b>		<b>(1.2)</b>	<b>(1.8)</b>

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
<b>Total cost</b>	<b>48.2</b>	<b>46.3</b>
Accumulated depreciation		
Buildings	(3.2)	(2.0)
Plant and equipment	(1.7)	(0.8)
<b>Total accumulated depreciation</b>	<b>(4.9)</b>	<b>(2.8)</b>
Net book value		
Land	16.0	15.3
Buildings	22.5	22.7
Plant and equipment	4.8	5.5
<b>Fixed assets net book value</b>	<b>43.3</b>	<b>43.5</b>
Domicile of fixed assets		
Australasia	10.1	8.7
United States	33.2	34.8
<b>Fixed assets net book value</b>	<b>43.3</b>	<b>43.5</b>

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13 FIXED ASSETS continued

Fixed assets net book value	Land US\$m	Buildings US\$m	Plant and equipment US\$m	Finance lease assets US\$m	Total US\$m
<b>31 March 2020</b>					
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 <sup>(1)</sup>	0.6	9.7	-	-	10.3
Disposition of TCLP operations	-	-	(0.1)	-	(0.1)
Depreciation charge	-	(0.9)	(0.9)	-	(1.8)
<b>Fixed assets net book value as at 31 March 2020</b>	<b>15.3</b>	<b>22.7</b>	<b>5.5</b>	<b>-</b>	<b>43.5</b>
<b>31 March 2021</b>					
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)
<b>Fixed assets net book value as at 31 March 2021</b>	<b>16.0</b>	<b>22.5</b>	<b>4.8</b>	<b>-</b>	<b>43.3</b>

- (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 & Buildings US\$m	Plant and equipment US\$m	Total US\$m
<b>31 March 2020</b>			
Opening net book value	-	-	-
Transfer from finance lease assets	10.7	0.8	11.5
Assets recognised under IFRS 16 <sup>(1)</sup>	4.0	1.4	5.4
Additions	0.2	0.6	0.8
Other transfers <sup>(2)</sup>	(10.3)	-	(10.3)
Depreciation charge	(0.4)	(1.3)	(1.7)
<b>Right-of-use assets net book value as at 31 March 2020</b>	<b>4.2</b>	<b>1.5</b>	<b>5.7</b>
<b>31 March 2021</b>			
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)
<b>Right-of-use assets net book value as at 31 March 2021</b>	<b>4.3</b>	<b>1.5</b>	<b>5.8</b>

- (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	Mar 2020 US\$m
Opening balance		103.8	105.6
Capitalisation during period		3.7	4.1
Amortisation during period	7	(6.2)	(5.9)
<b>Intellectual property</b>		<b>101.3</b>	<b>103.8</b>

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.

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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 sawn 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
<b>US Loblolly Market - terminal year assumptions</b>		
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%
<b>Total ArborGen valuation</b>		
Us inflation rate	3.0%	3.0%
Terminal Growth rate (TGR) <sup>(1)</sup>	3.0%	3.0%
Nominal post-tax discount rate	10.6%	11.0%
ArborGen implied enterprise valuation <sup>(2)</sup>	\$295.5	\$290.4
less net debt <sup>(3)</sup>	\$28.4	\$29.6
<b>ArborGen equity valuation (100%)</b>	<b>\$267.1</b>	<b>\$260.8</b>
<b>Discount Rate Sensitivity</b>		
Nominal post-tax discount rate	15.0%	15.4%
ArborGen implied enterprise valuation	\$176.6	\$171.5
less net debt	\$28.4	\$29.6
<b>Total group equity <sup>(4)</sup></b>	<b>\$148.2</b>	<b>\$141.9</b>
<b>Terminal year sensitivities equity value impact (increase/decrease)</b>	<b>Equity value change by</b>	
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 <sup>(1)</sup>	(1.8)	(2.4)
Other payables	(1.0)	(1.3)
Seedling Mortality	(0.1)	(0.2)
Seedling deposits from customers <sup>(2)</sup>	(3.4)	(2.6)
<b>Trade, other payables and provisions</b>	<b>(13.1)</b>	<b>(13.1)</b>

(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**

	March 2021 US\$m	March 2020 US\$m
<b>Summary of repayment terms</b>		
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)
<b>Total term and current debt</b>	<b>(33.6)</b>	<b>(37.5)</b>
<b>Summary of Interest Rates by Repayment Period</b>	<b>March 2021</b>	<b>March 2020</b>
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%
<b>Current debt - weighted average interest rate</b>	<b>3.99%</b>	<b>4.98%</b>
<b>Term debt - weighted average interest rate</b>	<b>4.48%</b>	<b>4.44%</b>

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).



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19 CAPITAL

	March 2021 US\$m	Mar 2020 US\$m
<b>Share capital</b>		
Share capital at the beginning of the period	202.3	201.0
Issue of shares <sup>(3) (4)</sup>	-	1.2
Vesting of shares - non executive directors' share plan <sup>(1) (2)</sup>	0.2	0.1
<b>Share capital</b>	<b>202.5</b>	<b>202.3</b>
<b>Number of shares</b>	<b>March 2021</b>	<b>Mar 2020</b>
Opening shares on issue	499,395,391	489,574,393
Issue of shares <sup>(3)</sup>	-	9,000,000
Issue of shares <sup>(2) (4)</sup>	216,347	820,998
<b>Number of shares on issue</b>	<b>499,611,738</b>	<b>499,395,391</b>
<b>Treasury stock</b>	<b>March 2021</b>	<b>Mar 2020</b>
Opening shares on issue	1,931,700	1,666,050
Issue of shares <sup>(1) (2)</sup>	-	820,998
Vesting of shares <sup>(1) (2)</sup>	(829,017)	(555,348)
<b>Number of shares on issue</b>	<b>1,102,683</b>	<b>1,931,700</b>

- (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 NZ\$27.01 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 NZ\$18.27 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

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

- (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 2018 Rubicon Non-Executive Directors' Share Plan, 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).

ArborGen Holdings Limited and Subsidiaries  
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**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 obligation (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)
<b>Total lease obligation</b>		<b>(5.9)</b>	<b>(5.7)</b>

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) <sup>(1)</sup>	19 & 25	-	-
Other payments <sup>(2)</sup>	7	-	1.0
		<b>2.7</b>	<b>3.8</b>

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:

	Year ended March 2021 US\$m	Year ended Mar 2020 US\$m
<b>Forestry genetics</b>		
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)
<b>Reconciliation</b>		
<b>Corporate</b>		
Net earnings (loss) after taxation	(1.3)	(1.6)
Total assets	-	0.3
Liabilities	(0.2)	(0.5)
<b>Total Group</b>		
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 - per balance sheet	203.3	200.7
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)

24 SEGMENTAL INFORMATION SUMMARY (continued)

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 <sup>(1)</sup>	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
<b>Income Statement</b>			
Non-executive Directors' share plan <sup>(1)</sup>	7, 19 & 20	(0.2)	(0.2)
Directors remuneration (excluding Non-executive Directors' share plan)	7	(0.2)	(0.3)
Executive share plan <sup>(4)</sup>	19 & 20	-	-
ArborGen senior management 2021 LTI plan <sup>(2)</sup>		(0.6)	-
Interest on subordinated notes <sup>(3)</sup>	18	(0.2)	(0.1)
<b>Balance Sheet</b>			
ArborGen senior management 2021 LTI plan <sup>(2)</sup>	17 & 20	(0.6)	-
Subordinated notes <sup>(4)</sup>	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
<b>Principal subsidiaries</b>					
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 <sup>(1)</sup>	USA	100	100	31 March	Forestry genetics
<i>ArborGen Inc subsidiaries</i>					
ArborGen Comercio de Produtos Florestal Importacao e Exportacao LTDA	Brazil	100	100	31 March	Forestry genetics
ArborGen Tecnologia 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	Aust	100	100	31 March	Holding company
ArborGen Australia Pty Ltd	Aust	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 <sup>(1)</sup>		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 or impaired	4.8	4.2
Past due but not impaired - 1 month	3.3	2.6
2 month	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.

	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
<b>Financial liabilities</b>							
<b>31 March 2020</b>							
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)
<b>31 March 2021</b>							
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)

## Notes to the Consolidated Financial Statements

For the year ended ended 31 March 2021

## 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 NON-GAAP PERFORMANCE MEASURE

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

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

EBITDA, US-GAAP EBITDA and Adjusted US-GAAP EBITDA are all non-GAAP financial measure and are not recognised under NZ IFRS. As they are not necessarily uniformly defined or utilised, these measures may not be comparable with similarly titled measures used by other companies. Non-GAAP financial measures should not be viewed in isolation or considered as a substitute for measures reported in accordance with GAAP.

The following table provides users useful ArborGen Inc. information for year-on-year comparison and reconciles net earnings to 'Adjusted US-GAAP EBITDA'.

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 other significant items			
Government Grants, Inventory adjustment and other	7	(2.0)	3.9
Adjusted US-GAAP EBITDA		9.3	9.3

## 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 12 to 32, 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