ArborGen HOLDINGS

Interim Review 2020

Chairman's Letter

Dear Shareholder

This Report outlines our performance for the six-month period to 30 September 2020.

In the face of unprecedented headwinds, it is our pleasure to report to you strong year-over-year performance for the first six months, with operating earnings (before abnormals) up well over 200% and operating cash flow up $5.7 million. As we will outline in greater detail below, the Board and management are resolutely focusing on those key initiatives identified that will materially grow our immediate earnings and cash flows. This should in turn support improved share price performance which has unquestionably been very disappointing this year, largely due to the significant selling activity of a large shareholder. That said we believe this selling is now nearing completion and are very encouraged by the support for the stock on the buy-side.

In terms of operational performance, while the global Covid-19 pandemic has presented some challenges this year, ArborGen continues to operate all of its nurseries and orchards according to regional government guidelines and regulations. As always, the safety and wellbeing of our employees and customers is paramount to us.

Interim Results for the Six Months to 30 September 2020

During the six-month period, the Group reported –

- Revenue of $11.9 million, comprising $9.0 million in New Zealand and Australia, $2.8 million in Brazil and $0.1 million in the US. Although down on the $14.2 million reported in the prior comparable period, this was not unexpected, with a reduction of the NZ Government's one billion trees programme seeing low-value seedling sales in NZ fall by $0.7 million, the impact of Covid-19 in the hard-hit Brazil region reducing seedling sales in the first six month period by $0.8 million (some of which will be recovered in the second half of the year), and lower seedling sales in the US in April/May due to timing *(seedling revenues in ArborGen's largest market – the US, are heavily weighted to the second half of our fiscal year)*.

- Operating earnings before abnormal items of $2.0 million, up $1.4 million on the $0.6 million recorded in the prior comparable period driven primarily by a $1.1 million reduction in administration expenditure to $7.8 million (including $0.2 million of Covid-19 related costs).

- Net earnings of $4.0 million[1], including $2.6 million of Covid-19 related government grant income, up from a loss of $3.0 million recorded in the prior period. During the period, we received $2.35 million from the US Small Business Administration (SBA) under the Paycheck Protection Program (PPP) which was recognised as other income in the six-month result. The prior comparable period net loss of $3.0 million included $2.8 million of abnormal charges comprising $1 million of seedling credits provided to customers to address seedling survival claims, $1.6 million of seed cost adjustments, and $0.2 million of transaction-related costs.

- US-GAAP underlying loss,[2,3] of $2.2 million (which is the equivalent of US-GAAP EBITDA adjusted for abnormal items, and NZ public company costs) – an improvement on the prior comparable period loss of $3.0 million *(US-GAAP EBITDA is heavily weighted to the second half of the fiscal year when US seedling sales occur)*.

- Net cash from operating activities of $3.3 million, up $5.7 million from the net cash used of $2.4 million in the prior comparable period.

- Net debt (excluding $6.4 million of capitalised leases) of $30.3 million, down from $31.6 million in the prior comparable period despite a $4.7 million increase in inventory primarily due to growth in mass control pollinated ("MCP") work-in-progress seed inventory in the US, and increased seedling crop inventory in NZ for next year's sales.

Progressing Our Cash Flow and Earnings Growth Goals

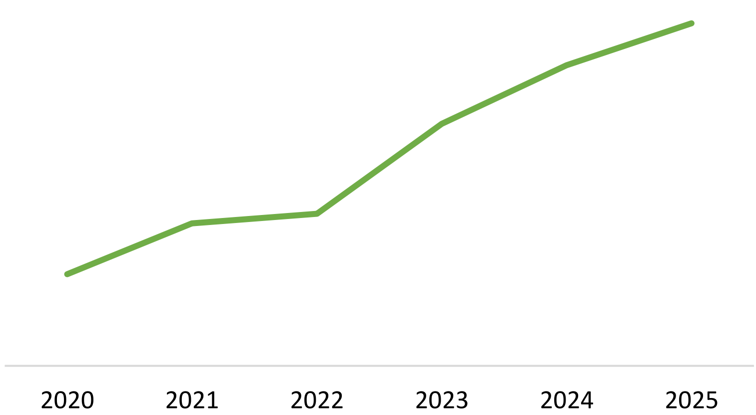
We continue to progress the strategic, operational, and financial goals we have set for the business.

As shareholders know well, our core strategy is to encourage customer adoption of our higher value genetics in the US – i.e. upgrading customers to MCP products from open pollinated ("OP") products resulting in substantial productivity and yield gains for our customers and a material increase in our margins.

Expanding Supply of our MCP Seedlings in the United States

For over a decade now, ArborGen has invested significantly in developing its best-in-class proprietary genetics, deploying those genetics in our seed orchards, and increasing our MCP bagging and pollination activity to increase seed supply in future periods. As this next chart shows, this historic activity is now bearing fruit, with the availability of our proprietary MCP seedlings in the US showing a marked increase in future supply particularly in our highest demand US Coastal and Piedmont markets as our extensive younger seed orchards start producing seed.

MCP availability
(millions - seedling equivalents)



Note: MCP supply projections are based on a number of factors including the number of trees in our seed orchards, number of flowers bagged and pollinated, bushels of cones harvested, pounds of seed extracted per bushel, and the number of plantable seedlings per pound of seed. Accordingly, actuals may vary from projections due to biological factors outside of our control.

Importantly, this year's cone harvesting (now complete) indicate a material increase in MCP seed production across our US orchards over last year's levels, particularly in our severely constrained Coastal regions. This relates to seed that will be available for MCP seedling production and sales next fiscal year (i.e. the 2021-2022 seedling production season). That said, we are still confirming bushel-to-seed yields as the seed extraction process is currently underway – a process that typically runs through to February. The chart below is a graphic presentation of the process and time lines involved.

Production Timeline

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

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

By way of example, this year we introduced a fourth MCP product category which we have called MCP 2.0, further expanding our existing portfolio of MCP advanced, MCP select and MCP elite categories. The MCP elite category currently represents our best-in-class families that are available to customers across multiple US-South regions, and create a strong competitive advantage for ArborGen. The MCP 2.0 category represents a further step change improvement, and we are able to achieve product pricing higher than that of MCP elite. This year, customer demand was such that we sold out of our MCP elite and MCP 2.0 inventory even before planting this year's seedling crop.

We have invested significantly in building the supply pipeline of these products, and we project that the availability of these higher-value MCP products will increase substantially over the next five years.

Added to this is our range of commercial and pre-commercial varietal products. We continue to see validation from field performance data of our top MCP families and our varietal products pushing the boundaries of what can be done with respect to loblolly tree improvement. ArborGen is the only global developer and supplier of loblolly varietal products which represent the pinnacle of genetics value, and beyond the value they create as products themselves, varietals are used as parents to produce our best in class, proprietary OP and MCP products – which no competitor can match.

Growth Across All Regions in a Capital Light Manner

United States

Shareholders will recall that in the last two years we have expanded our nursery seedling production capacity by some 60 million seedlings through –

- Execution of a long-term lease for a 30 million unit seedling nursery from the State of South Carolina, and
- An agreement with TexMark Timber Treasury (TTT) to lease and operate TTT's 30 million unit seedling nursery in Texas (with the right to acquire the properties in 2023).

Our field capacity, spread across eight strategically located nurseries combined with our in-house and outsourced container capacity allows us to comprehensively address the market while providing room for sales volume increases.

Our primary focus currently is on converting existing customers from OP genetics to higher value advanced genetics, which does not require additional expansionary capital spend. In this respect, our industrial customers now fully understand the increased value our advanced genetics offer them in terms of the economic returns delivered to their forest estates and they have stated objectives ranging from 50% to 90% of their estates being planted with MCP genetics over time. As previously indicated, we are now focused on extending our conversion activities into the large private segment (i.e. non-industrial landowners), which comprises more than 50% of the total US seedling market and approximately 60% of our customer base in seedling unit terms.

Australasia

In Australasia, while seedling sales in New Zealand decreased this year compared to the prior year (which included lower margin OP sales to support the NZ Government's one billion trees programme), we are expecting a significant lift in next year's seedling sales.

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

Brazil

While year to date sales have been impacted by the Covid-19 pandemic as customers and planting crews deal with new health and safety standards, and more recently, the extended drought in some areas, we have confirmed orders supporting a significant lift in sales in the second half of the year.

In terms of our production capability, we continue to benefit from increased in-house production capacity and lower production costs following the lease of two new nurseries over the last 12 months –

- The lease of a 15 million eucalyptus nursery in Minas Gerais from Brotale (announced in October of last year) which represents the largest charcoal producing state in Brazil, and
- The lease of a 15 million eucalyptus nursery in Mato Grosso do Sul in April this year.

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

Operational Cash Flow Initiatives

We constantly strive to increase the cash generation performance of our business. The largest single future contributor to cash flow improvement is the conversion of our customers to higher value genetics. In addition, we have in place a series of operating initiatives designed to supplement that core objective, which have included -

- The acquisition of ArborGen Inc.'s headquarters in Ridgeville, South Carolina which allowed us to immediately lower our annual cost for this facility by accessing a financing cost lower than the prior lease rate, as well as rationalise our operations on site and lease out surplus floor space to a third party. Collectively this improved ArborGen Holdings' cash flow by approximately $1 million on an annualised basis.

- Reductions in discretionary overhead costs (selling, administration and R&D), and capital expenditure in all the regions in which we operate.
- Access to government funding programmes, where we qualify, to mitigate Covid-19 related disruptions.
- Increased margins from improved product mix and improved production yields.

Improved Funding Arrangements

As we previously noted, we have recently renegotiated and extended our revolving credit facility agreement with Synovus Financial Corporation (Synovus) relating to our $17 million letter of credit (LOC) facility in the US, to 31 August 2023 from 31 August 2021. As part of the amendment to the agreement, Synovus also agreed to –

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

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

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

Immediate Outlook

Turning to our projection for the fiscal year ending 2021, in August we said –

"We expect US-GAAP underlying earnings[1] [which is the equivalent of US-GAAP EBITDA adjusted for abnormal items, and before NZ public company costs] for fiscal year ending March 2021, to be higher than the $9.3 million reported for the prior March 2020 fiscal year, subject to any uncontrollable factors including any impact from Covid-19."

We continue to believe this, although it will not be until the close of the sales season in the US and Brazil later this fiscal year before we will actually know the final outcome.

In our largest market - the *United States* where lifting activities typically commence in December, we now have confirmed sales orders for approximately 90% of our target seedling revenues. Although we are seeing some impact from Hurricane Laura and Covid-19 which have affected customer site preparation progress, we typically only finalise sales in the US in February/March (i.e. three months from now). Importantly, we expect to be sold out of MCP and varietal seedlings, and currently unallocated OP seedlings are in our strongest markets.

As previously explained, advanced genetics (MCP and varietal) sales in the US are supply constrained this fiscal year and hence expected to be relatively flat on the prior year. The US Coastal region, which spans North Carolina, South Carolina, Georgia, Florida and Alabama, is currently where demand for advanced genetics is the strongest, but unfortunately is also where our MCP seed orchard supply was hit the hardest in 2018 and 2019, resulting in a supply-demand shortage of at least 30 million MCP seedlings in the current fiscal year. While the inability to meet demand this year is disappointing, it does give us confidence that with our Coastal MCP seed supply increasing significantly in this year's harvest (as explained above), we should expect to see a material lift in MCP seedling sales, and hence earnings, next fiscal year (fiscal year ending March 2022).

With *Australia / New Zealand's* current year seedling sales now complete, we are focused on achieving our horticulture and quarantine revenues for this year which are heavily weighted to the second half of this fiscal year. We have also mostly confirmed seedling orders for next fiscal year, with the ordered crop now in the ground across our nurseries in NZ and Australia. We are pleased to report an approximate 15% increase in seedling orders for next year in NZ with the growth largely in the Central North Island benefitting from carbon planting initiatives as well as increased harvesting and reforestation efforts.

In *Brazil*, while pine sales have been solid, ArborGen's eucalyptus sales have to date been affected by the impact of Covid-19 in the region. Our revised target is to achieve 60 million eucalyptus seedling sales in the current fiscal year and to date we have confirmed orders for over 90% of this target. We are now extremely focused on ensuring we are able to ship the required seven to eight million seedlings every month over the next several months.

Finally, I would like to thank all of our stakeholders for their continued support – it is very much appreciated, particularly in the current environment. As noted at the outset, we are putting considerable effort into the operational performance and cash generation of this business to ensure the share price value-gap is closed for shareholders as quickly as possible. I look forward to reporting to you next at the successful conclusion of our fiscal year.

Dave Knott Jr
Chairman

25 November 2020

1. *Net earnings include a biological asset gain of $6.8 million ($6.5 million in the prior period) which relates to a share of earnings on seedling crop still in the ground, as required under IFRS.*
2. *US GAAP underlying earnings is a non-GAAP earnings measure which does not have a prescribed meaning by GAAP, and may not be comparable to similar financial information presented by other entities. Please refer to Note 30 of the 31 March 2020 Financial Statements.*
3. *Please refer Note 11 of the 30 September 2020 Interim Financial Statements.*

Consolidated Income Statement

For the six months ended 30 September 2020

	Notes	6 months Sep 2020 US$m	Year ended Mar 2020 US$m	6 months Sep 2019 US$m
Revenue		11.9	56.9	14.2
Cost of sales		(9.2)	(37.2)	(11.2)
Gross profit		**2.7**	**19.7**	**3.0**
Change in fair value of biological assets	4	6.8	(0.6)	6.5
Other income		0.3	0.3	-
Administration expense		(7.8)	(17.0)	(8.9)
Operating earnings excluding items below		2.0	2.4	0.6
Government grant income	5	2.6	-	-
Inventory adjustment, extreme weather and transaction related expenses	5	-	(3.9)	(2.8)
Operating profit (loss) before financing expense		**4.6**	**(1.5)**	**(2.2)**
Financing expense		(1.0)	(2.3)	(1.2)
Profit (loss) before taxation		**3.6**	**(3.8)**	**(3.4)**
Tax benefit		0.4	1.1	0.4
Net earnings (loss)		**4.0**	**(2.7)**	**(3.0)**

Basic/diluted earnings (loss) per share information (cents per share)	0.8	(0.5)	(0.6)
Continuing operations	0.8	(0.5)	(0.6)
Weighted average number of shares outstanding (millions of shares)	499.4	497.8	498.6

ARBORGEN HOLDINGS LIMITED AND SUBSIDIARIES

Consolidated Statement of Comprehensive Income

For the six months ended 30 September 2020

	Notes	Unaudited 6 months Sep 2020 US$m	Audited Year ended Mar 2020 US$m	Unaudited 6 months Sep 2019 US$m
Net earnings (loss)		**4.0**	**(2.7)**	**(3.0)**
Items that may be reclassified to the Consolidated Income Statement:				
Movement in currency translation reserve	9	1.2	(2.5)	(1.2)
Movement in hedge reserve	9	-	(0.7)	-
Other comprehensive earnings (loss) (net of tax)		**1.2**	**(3.2)**	**(1.2)**
Total comprehensive earnings (loss)		**5.2**	**(5.9)**	**(4.2)**

ARBORGEN HOLDINGS LIMITED AND SUBSIDIARIES

Statement of Changes in Equity

For the six months ended 30 September 2020

	Notes	Unaudited 6 months Sep 2020 US$m	Audited Year ended Mar 2020 US$m	Unaudited 6 months Sep 2019 US$m
Total comprehensive earnings (loss)		**5.2**	**(5.9)**	**(4.2)**
Movement in ArborGen Holdings shareholders' equity:				
Movement in issued capital	8	0.2	1.3	1.3
Movement in share based payment reserve	9	0.1	(1.1)	(1.2)
Total movement in shareholder equity		**5.5**	**(5.7)**	**(4.1)**
Opening Group equity		141.9	147.6	147.6
Closing group equity		**147.4**	**141.9**	**143.5**

Consolidated Statement of Cash Flows

For the six months ended 30 September 2020

	Unaudited **6 months Sep 2020 US$m**	Audited **Year ended Mar 2020 US$m**	Unaudited **6 months Sep 2019 US$m**
Cash was provided from operating activities			
Receipts from customers	19.3	55.7	22.5
Government grants received	2.6	-	-
Cash provided from operating activities	21.9	55.7	22.5
Payments to suppliers, employees and other	(18.5)	(50.9)	(24.9)
Cash (used in) operating activities	(18.5)	(50.9)	(24.9)
Net cash from (used in) operating activities	**3.4**	**4.8**	**(2.4)**
Sale of assets	-	0.1	-
Investment in fixed assets	(0.7)	(5.3)	(4.3)
Investment in intellectual property	(1.8)	(4.1)	(1.9)
Net cash from (used in) investing activities	**(2.5)**	**(9.3)**	**(6.2)**
Debt drawdowns	6.0	25.2	22.5
Repayment of lease liabilities	(0.5)	(12.6)	(11.9)
Debt repayment	(6.1)	(4.7)	(0.6)
Interest paid	(1.2)	(2.5)	(1.1)
Net cash from (used in) financing activities	**(1.8)**	**5.4**	**8.9**
Net movement in cash	**(0.9)**	**0.9**	**0.3**
Opening cash, liquid deposits and restricted cash	7.9	7.2	7.2
Effect of exchange rate changes on net cash	0.1	(0.2)	(0.1)
Closing cash, liquid deposits and restricted cash	**7.1**	**7.9**	**7.4**
Net earnings	4.0	(2.7)	(3.0)
Adjustment for:			
Financing expense	1.0	2.5	1.2
Depreciation and amortisations	4.2	9.5	4.3
Taxation	(0.4)	(1.1)	(0.4)
Foreign exchange	0.1	(0.8)	(0.3)
Change in fair value of biological assets	(6.8)	0.6	(6.5)
Other non cash items	0.3	0.2	(0.1)
Cash flow from operations before net working capital movement	2.4	8.2	(4.8)
Trade and other receivables	6.5	(1.4)	4.2
Inventory	(7.4)	(0.5)	(2.8)
Trade and other payables	1.9	(1.5)	1.0
Net working capital movement	1.0	(3.4)	2.4
Net cash from operating activities	**3.4**	**4.8**	**(2.4)**

ARBORGEN HOLDINGS LIMITED AND SUBSIDIARIES

Consolidated Balance Sheet

As at 30 September 2020

	Notes	Unaudited **Sep 2020** **US$m**	Audited **Mar 2020** **US$m**	Unaudited **Sep 2019** **US$m**
Current assets				
Cash and liquid deposits		5.1	5.9	5.4
Restricted cash	6	2.0	-	-
Trade and other receivables		4.0	10.5	5.0
Inventory		44.2	29.3	39.5
Total current assets		**55.3**	**45.7**	**49.9**
Non current assets				
Restricted cash	6	-	2.0	2.0
Fixed assets		44.0	43.5	44.1
Right-of-use assets		6.4	5.7	5.7
Intellectual property		102.5	103.8	104.6
Total non current assets		**152.9**	**155.0**	**156.4**
Total assets		**208.2**	**200.7**	**206.3**
Current liabilities				
Trade, other payables and provisions		(14.9)	(13.1)	(15.7)
Current lease obligation		(0.5)	(1.2)	(1.1)
Current debt	6	(4.6)	(6.3)	(15.1)
Total current liabilities		**(20.0)**	**(20.6)**	**(31.9)**
Term liabilities				
Term debt	6	(32.8)	(31.2)	(23.9)
Derivative financial instruments		(0.7)	(0.7)	-
Lease obligation		(5.9)	(4.5)	(4.5)
Deferred taxation liability		(1.4)	(1.8)	(2.5)
Total term liabilities		**(40.8)**	**(38.2)**	**(30.9)**
Total liabilities		**(60.8)**	**(58.8)**	**(62.8)**
Net assets		**147.4**	**141.9**	**143.5**
Equity				
Share capital	8	202.5	202.3	202.3
Reserves	9	(55.1)	(60.4)	(58.8)
Total group equity		**147.4**	**141.9**	**143.5**

Net Asset Backing	US 30 cps	US 29 cps	US 29 cps

Dave Knott Jr
Chairman of the Board

Paul Smart
Audit Committee Chairman

25 November 2020

Notes to the Consolidated Financial Statements

For the six months ended 30 September 2020

1 BASIS OF PRESENTATION

The unaudited financial statements presented are those of ArborGen Holdings Limited and Subsidiaries (the Group) for the six months from 1 April 2020 to 30 September 2020. The financial statements have been prepared in accordance with New Zealand International Accounting Standard 34, and because they are interim statements they do not include all of the information required to be disclosed for full annual financial statements. 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.

These financial statements should be read in conjunction with the audited financial statements for the periods ended 31 March 2020 and 31 March 2019, which have been prepared in accordance with New Zealand International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

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

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

Accounting Policies

The accounting policies applied are consistent with those applied in the annual financial statements for the period ended 31 March 2020.

2 APPROVAL OF ACCOUNTS

These financial statements have been prepared on a consolidated Group basis and were approved for issue by the Board of Directors on 25 November 2020.

3 USE OF ESTIMATES AND JUDGEMENT

The preparation of financial statements in conformity with NZ IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period (refer March 2020 statutory report, note 4, for greater detail). Actual results could differ from those estimates.

4 FAIR VALUE ADJUSTMENT ON BIOLOGICAL ASSET

	Unaudited 6 months Sep 2020	Audited Year ended Mar 2020	Unaudited 6 months Sep 2019
Opening balance	0.9	1.5	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	7.7	0.9	8.0
Reversal of prior period fair value change	(0.9)	(1.5)	(1.5)
Change in fair value of biological assets recognised in the income statement	6.8	(0.6)	6.5
Closing fair value uplift biological asset	7.7	0.9	8.0

At 30 September primarily the US crop (which will be lifted prior to year end, being 31 March the following year) is established and fair valued. This fair value will reverse at year end in March upon sale of the crop. At 31 March 2020, only the Australasian crops were established and fair valued. The Australasian crops are primarily lifted from late May through to September each year.

Notes to the Consolidated Financial Statements

For the six months ended 30 September 2020

5 GOVERNMENT COVID-19 GRANTS, INVENTORY ADJUSTMENT AND OTHER NON-RECURRING ITEMS

Under the various governmental Covid-19 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 Paycheck Protection Program (PPP). The PPP is a loan 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-19. 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. ArborGen has applied for formal forgiveness of the PPP loan, on the basis that all of the requirements to have this loan forgiven, have been met.

In New Zealand, ArborGen met the eligibility criteria for the New Zealand Government's wage subsidy, and in Australia received Jobkeeper payments from the Australian Government, receiving in total $0.3 million.

In each of these jurisdictions ArborGen has met all of the criteria for forgiveness of loans or to retain the subsidies and recognised $2.6 million as non-recurring income. In addition, to safeguard our employees during the Covid-19 pandemic ArborGen instituted social distancing and personal protection equipment requirements. As a result of these requirements, ArborGen has incurred additional expenses of $0.2 million, which are recorded within administration expense.

The inventory adjustment, extreme weather and transaction related expenses of $3.9 million for March 2020 and $2.8 million for September 2019 relate to a number of historical items. These items include expenses relating to seedling survival issues that affected some of our customers sites in 2019, extreme weather events that lowered the seed production yield for the 2018/2019 seed harvest, adjustment to varietal inventory and costs related to the acquisition of ArborGen in 2017. For further details on these items refer to note 7 of the Annual Report 2020.

6 CURRENT DEBT AND TERM DEBT

At 30 September 2020 the Group had debt facilities with the following banks: Synovus Financial Corporation (Synovus) and AgSouth Farm Credit (AgSouth) in the United States and Westpac New Zealand Limited (Westpac) in New Zealand. In addition the Group has subordinated promissory notes (Notes) (issued to Directors, shareholders and senior management in August 2019) to facilitate the US Ridgeville headquarters property purchase.

ArborGen Inc. has a non-revolving promissory note issued to AgSouth for $9.9 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), which following being favourably amended, is classified as term debt as at 30 September 2020. The amendment extended the expiry from 31 August 2021 to 31 August 2023 and increased the annual 60-day (continuous) pay down maximum borrowing limit (between 1 March and 31 August) to $10 million (previously $7.5 million). Synovus will also release the $2 million that was previously maintained 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 of ArborGen Inc.'s United States assets not otherwise pledged under the AgSouth agreement. The credit agreements with both Synovus and AgSouth include covenants which require ArborGen Inc. to maintain a minimum net worth of $29 million and $24 million respectively.

Notes to the Consolidated Financial Statements

For the six months ended 30 September 2020

6 CURRENT DEBT AND TERM DEBT continued

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 (refer to note 10) issued by ArborGen Inc to related parties (being Directors, shareholders and senior management) for $2.88 million. The Notes are fully subordinated to all bank debt, repayable at maturity (August 2022), and due to their subordinated nature attracts a 7% per annum interest rate, payable six monthly in arrears.

Rubicon Industries USA LLC (RIUSA) has a $11.1 million mortgage facility from Synovus secured by the Ridgeville headquarters. The mortgage is a seven-year term facility, based on a 20-year amortising loan, incurring interest at the 30-day LIBOR base rate plus 2% (currently 2.15%). The Group has entered into a seven-year interest rate swap, with terms that match that of the mortgage, at a fixed rate of 3.52%. The mortgage requires RIUSA to maintain a debt service coverage ratio of not less than 1.25:1 for the trailing 12 months.

At 30 September 2020 the Group held cash and liquid deposits of $7.1 million (including restricted cash of $2 million on deposit with Synovus) (2019: $7.4 million, including restricted cash of $2 million) and had debt of $37.4 million and a lease liability of $6.4 million (2019: $39.0 million of debt plus $5.6 million of lease liability).

7 SEGMENTAL INFORMATION SUMMARY

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

	Unaudited	Audited	Unaudited
Forestry genetics	6 months Sep 2020 US$m	Year ended Mar 2020 US$m	6 months Sep 2019 US$m
Operating revenue	11.9	56.9	14.2
Net earnings (loss) after taxation	4.7	(1.1)	(2.2)
Total assets	208.2	200.4	206.1
Liabilities	(60.6)	(58.3)	(62.4)
Reconciliation			
Discontinued operations			
Total assets - discontinued	-	-	0.1
Corporate			
Net earnings (loss) after taxation	(0.7)	(1.6)	(0.8)
Total assets	-	0.3	0.1
Liabilities	(0.2)	(0.5)	(0.4)
Total Group			
Operating revenue	11.9	56.9	14.2
Net earnings (loss) after taxation	4.0	(2.7)	(3.0)
Total assets	208.2	200.7	206.3
Liabilities	(60.8)	(58.8)	(62.8)

8 CAPITAL

		Unaudited	Audited	Unaudited
Share capital	Note	Sep 2020 US$m	Mar 2020 US$m	Sep 2019 US$m
Share capital at the beginning of the period		202.3	201.0	201.0
Issue of shares (3)	9	-	1.2	1.2
Vesting of shares - Non-Executive Directors Share Plan (1) (2)	9	0.2	0.1	0.1
Share capital		202.5	202.3	202.3

Number of shares	Note	Sep 2020	Mar 2020	Sep 2019
Opening shares on issue		499,395,391	489,574,393	489,574,393
Issue of shares (3)	9	-	9,000,000	9,000,000
Issue of shares (1) (2)	9	-	820,998	820,998
Closing shares on issue		499,395,391	499,395,391	499,395,391

Treasury stock	Note	Sep 2020	Mar 2020	Sep 2019
Opening shares on issue		1,931,700	1,666,050	1,666,050
Issue of shares (1) (2)	9	-	820,998	820,998
Vesting of shares (1)		(829,017)	(555,348)	(555,348)
Closing treasury stock shares on issue		1,102,683	1,931,700	1,931,700

(1) In accordance with the shareholders' resolution passed at the ArborGen Holdings Annual Shareholders' meeting held on 17 September 2018, on 18 September 2018 ArborGen Holdings issued 1,666,050 new shares to the Rubicon Non-Executive Directors Share Plan (the Trust). The Trust holds the shares on behalf of the three Directors (Tom Avery, Ozey Horton, and Paul Smart, equally) until the vesting terms are met. The shares vest, to each Director, in three equal tranches on the first, second and third anniversaries following the date of issue (18 September 2018), provided that the Director remains a Director of the Company on the relevant anniversary date. The new shares were issued at the NZX 20-day market VWAP for ArborGen Holdings shares of NZ27.01 cents per share, for a total value of NZ$450,000. These shares are accounted for as treasury stock until vesting, and the share based transactions are recorded in the share based payment reserve. On 18 September 2020 the second tranche of 555,351 shares vested to the three Directors (185,117 each) (refer to note 10 for related party transactions).

(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 Director (George Adams) until the vesting terms are met. The shares will vest in three equal tranches on the first, second and third anniversaries following the date of issue (18 September 2019), provided that the Director remains a Director of the Company on the relevant anniversary date. The new shares were issued at the NZX 20-day market VWAP for ArborGen Holding shares of NZ18.27 cents per share, for a total value of NZ$150,000. The share based transactions are recorded in the share based payment reserve and the shares are accounted for as treasury stock until vesting. On 18 September 2020 the first tranche of 273,666 shares vested to George (refer to note 10 for related party transactions).

(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.

Notes to the Consolidated Financial Statements

For the six months ended 30 September 2020

9 RESERVES

		Unaudited	Audited	Unaudited
Retained earnings	Note	Sep 2020 US$m	Mar 2020 US$m	Sep 2019 US$m
Opening balance		(56.5)	(53.8)	(53.8)
Net earnings		4.0	(2.7)	(3.0)
Closing balance		(52.5)	(56.5)	(56.8)
Cash flow hedge reserve (1)				
Opening balance		(0.7)	-	-
Fair value gains (losses) for the year		-	(0.7)	-
Closing balance		(0.7)	(0.7)	-
Share based payments reserve				
Opening balance		0.2	1.3	1.3
Non-Executive Directors Share Plan	8 (1) & 8 (2)	0.1	0.2	0.1
Non-Executive Directors Share Plan shares vested	8 (1) & 8 (2)	(0.2)	(0.1)	(0.1)
Executive settlement share plan (2)		0.2	-	-
Executive settlement share plan shares vested	8 (3)	-	(1.2)	(1.2)
Closing balance		0.3	0.2	0.1
Currency translation reserve				
Opening balance		(3.4)	(0.9)	(0.9)
Translation of independent foreign operations		1.2	(2.5)	(1.2)
Closing balance		(2.2)	(3.4)	(2.1)
Total reserves		(55.1)	(60.4)	(58.8)

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

(2) In September 2019, the Board established a new share-based incentive scheme (Rubicon Limited 2019 Omnibus Incentive Scheme) permitting the granting of various equity-based awards to officers, employees and directors of the ArborGen Group. Pursuant to this agreement ArborGen entered in restricted share units (RSU) agreements with 10 ArborGen Inc. employees. If certain financial performance targets are met during the fiscal year ending 31 March 2021, RSUs and conditional cash awards will be granted to the participants at no cost to the participant. The number of RSUs and cash awards to be granted to each participant will depend on the relevant business unit's achievement of the performance targets, which relate to free cash flow before expansion, revenue and EBITDA. Provided participants remain employed by the Group on the relevant vesting dates, RSUs will vest in three equal tranches as ordinary shares in the Company and cash awards. Those vesting dates being, the date the Remuneration Committee determines the FY2021 performance target have been met (Performance Approval Date), then the first and second anniversaries of the Performance Approval Date. Refer to page 45 of the Annual Report 2020 for more details. The $0.2m movement in share based payment reserve (for the six months to 30 September 2020) relates to this incentive scheme.

Notes to the Consolidated Financial Statements

For the six months ended 30 September 2020

10 RELATED PARTY TRANSACTIONS

Under the terms of the two Non-Executive Directors Share Plan's approved by shareholders (17 September 2018 and 17 September 2019), on 18 September 2020 the second tranche of shares vested to the three Directors (Tom Avery, Ozey Horton and Paul Smart) being 185,117 each (total 555,351) and first tranche of 273,666 shares vested to George Adams.

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

11 NON-GAAP PERFORMANCE MEASURE

ArborGen Holdings shareholders and users of the financial statements are very interested in ArborGen Inc.'s underlying earnings 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 'US-GAAP underlying earnings' (which is the equivalent of US-GAAP adjusted for abnormal items) 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 'US-GAAP underlying earnings' 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 US-GAAP underlying earnings 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 'US-GAAP underlying earnings'.

Notes to the Consolidated Financial Statements

For the six months ended 30 September 2020

	Note	Unaudited 6 months Sep 2020 US$m	Audited Year ended Mar 2020 US$m	Unaudited 6 months Sep 2019 US$m
Revenue	7	11.9	56.9	14.2
Cost of sales		(9.2)	(37.2)	(11.2)
Gross profit		2.7	19.7	3.0
Net earnings (loss)	7	4.7	(1.1)	(2.2)
less tax benefit		(0.4)	(1.1)	(0.4)
plus Financing expense		1.0	2.3	1.2
Operating profit (loss) before financing expense		5.3	0.1	(1.4)
plus Depreciation and amortisations		4.2	9.5	4.3
EBITDA (NZ IFRS)		9.5	9.6	2.9
Add back NZ IFRS adjustments				
Investment in intellectual property		(1.8)	(4.1)	(1.9)
Change in fair value of biological assets		(6.8)	0.6	(6.5)
Other IFRS adjustments (including IFRS 16 adjustment)		(0.7)	(0.7)	(0.3)
US-GAAP EBITDA profit (loss)		0.2	5.4	(5.8)
Add back significant non-recurring items				
Inventory adjustment, extreme weather and transaction related expenses	5	-	3.9	2.8
Government grants net of Covid-19 additional costs	5	(2.4)	-	-
US-GAAP underlying earnings (loss)		**(2.2)**	**9.3**	**(3.0)**

Investor Information

INVESTOR ENQUIRIES/REGISTERED OFFICE

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STOCK EXCHANGE LISTING

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

SHAREHOLDER ENQUIRIES

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

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

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

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

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

Fluctuations in industrial output and the impact that has on global demand for wood fibre and hence harvest and reforestation levels, government environmental and regional development policies, Covid-19, capital availability, relative exchange rates, interest rates, the profitability of our customers, can each have a substantial impact on our operations and financial condition.

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

ELECTRONIC COMMUNICATIONS

You can elect to receive your shareholder communications electronically.

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

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