

# ATLAS PEARLS

ABN 32 009 220 053

## Appendix 4D Half Year Report

**Name of entity**

ATLAS PEARLS LTD

**ABN**

32 009 220 053

**Half  
Yearly**

✓

**Preliminary  
final**

**Half Year ended**

31 December 2017

**Results for announcement to the market**

The information in this report should be read in conjunction with the most recent annual financial report. The reporting period and previous corresponding period are 31 December 2017 and 31 December 2016.

Revenue from ordinary activities	Down 14%	To \$6,349,349
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Net profit/(loss) from the period attributable to members	Down 465%	To (\$1,544,655)
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Normalised EBITDA	Down 177%	To (\$534,744)
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Dividends (distributions)	Amount per security	Franked amount per security
Final dividend	Nil c	Nil c
Interim dividend		
Previous corresponding period	Nil c	Nil c
Net Tangible Asset backing	Current period	Previous corresponding period
Net Tangible Asset backing	5.7c	6.2c

Signed by:



Name: Geoff Newman

Date: 26/02/2018

# ATLAS

## PEARLS

**ATLAS PEARLS LTD**

**A.B.N. 32 009 220 053**

### **INTERIM FINANCIAL REPORT**

**31 DECEMBER 2017**

**ATLAS PEARLS LTD AND ITS CONTROLLED ENTITIES**

**INTERIM FINANCIAL REPORT  
FOR THE HALF YEAR ENDED 31 DECEMBER 2017**

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## ATLAS PEARLS LTD AND ITS CONTROLLED ENTITIES

### DIRECTORS REPORT FOR THE HALF YEAR ENDED 31 DECEMBER 2017

Your Directors present their report on the consolidated entity, consisting of Atlas Pearls Ltd and the entities it controlled at the end of, or during, the half-year ended 31 December 2017.

#### Directors

The following persons were directors of Atlas Pearls Ltd during the whole of the half-year and up to the date of this report:

Name	Period of Directorship
Geoff Newman, B.Ec (Hons), M.B.A, F.C.P.A , F.A.I.C.D <i>Chairman</i>	Director since 15 October 2010 Appointed Chairman 16 February 2015
Timothy James Martin, BA, M.B.A, G.A.I.C.D <i>Non-Executive Director</i>	Director since 4 February 2013
Pierre Fallourd, M.B.A, G.A.I.C.D <i>CEO, Managing Director</i>	Director since 4 January 2016
Cadell Buss, M.B.A, G.A.I.C.D <i>Independent Non-Executive Director</i>	Director since 1 February 2018

#### REVIEW OF OPERATIONS

Atlas recorded a net loss after tax for the period ended 31 December 2017 of (\$1.5M), \$1.9m under the \$0.4M profit for the period ended 31 December 2016.

This mid-year result is primarily due to a lower average size per pearl compared with the previous 12 months. Specific batches harvested at normal cultivation term featured smaller pearls than expected and drove average size and gross weight available for sale down. All things equal, smaller pearls commend a lower price per piece. Those elements combined triggered a fall in trading revenues which account for over 90% of the company's sales.

In spite of this current size issue, overall demand for Atlas pearls has remained strong and prices for same goods year on year have in fact slightly appreciated, while FX played a neutral role over the period.

A variety of counter measures have been put in place as early as October to address the current size issues. Production processes have been reviewed and enhanced in order to stimulate pearl growth; the sales teams have been focused on getting the best possible price for smaller pearls through the company's value adding capabilities; whilst management across all business areas continue to monitor and contain operating costs.

Atlas remains committed to the execution of its growth plan initiated in 15/16 and the profile of pearls most recently harvested in December are showing confirmed improvements in shape and quality, but also encouraging signs of recovery in size.

Long term, the uplift in volume expected in 18/19 as a result of the increased number of shells seeded in 16/17 will further improve the company cost competitiveness and pave the way for a more sustainable business model.

The core activities of the economic entity remain:

1. the management of a pearl farming business in Indonesia, and
2. the operation of a pearl value adding platform to grade, match, design, manufacture and distribute pearls and pearl jewellery.

There have been no significant changes in the operational activities of the economic entity since the last year-end report.

**ATLAS PEARLS LTD AND ITS CONTROLLED ENTITIES**

**DIRECTORS REPORT  
FOR THE HALF YEAR ENDED 31 DECEMBER 2017**

**REVIEW OF OPERATIONS (CONTINUED...)**

**1. Financial Result**

The group net loss after tax for the period ended 31 December 2017 is (\$1.5M), compared to \$0.4M profit in the prior year comparative period.

The valuation of the company's Oyster stock at the half year point is a key driver of the result, with a fair value downward adjustment of (\$0.95M) booked in the current period. To give a better picture of underlying performance, Atlas has adopted Normalised Earnings before interest, taxes, depreciation and amortisation (Normalised EBITDA) as the most effective way to report comparative results.

Normalised EBITDA (unaudited) specifically excludes foreign exchange and agricultural asset revaluation movements and as a result provides a clear assessment of the company's underlying financial performance.

	Half-Year		Change	%
	6 Months Ended 31 Dec 2017	6 Months Ended 31 Dec 2016		
	\$	\$		
Total revenue from continuing operations	6,349,349	7,360,558	Down	14%
Profit/(loss) from continuing operations after tax	(1,544,655)	423,602	Down	465%
Normalised Earnings before interest, taxes, depreciation and amortisation (Normalised EBITDA)*	(534,744)	696,903	Down	177%

\* Normalised EBITDA (unaudited) excludes foreign exchange and agricultural asset revaluation movements. Normalised EBITDA is adopted by the Group which represents the normal on-going realised earnings of the Group.

**Reconciliation of Normalised EBITDA to Profit/(Loss) for the Half-Year (Consolidated Statement of Profit or Loss and Other Comprehensive Income)**

	6 Months Ended 31 Dec 2017	6 Months Ended 31 Dec 2016
	\$	\$
<b>Profit / (Loss) for the Half-Year</b>	<b>(1,544,655)</b>	423,602
Less: Net Forex (gain)	(102,245)	(100,917)
Add: Net Interest	122,449	123,965
Add: Depreciation/Amortisation	135,858	215,799
Less: Income tax charge/(refund)	(137,870)	399,335
Add: Other non-operating (income)/expense	12,392	215,795
Add: Derivative instruments loss/(gain) unrealised	34,036	(575,201)
Add: Revaluation of Biological Assets and Inventory	945,291	(5,475)
<b>Normalised EBITDA</b>	<b>(534,744)</b>	696,903

# ATLAS PEARLS LTD AND ITS CONTROLLED ENTITIES

## DIRECTORS REPORT FOR THE HALF YEAR ENDED 31 DECEMBER 2017

### REVIEW OF OPERATIONS (CONTINUED...)

#### 1. Financial Result (Continued...)

##### a. Operating results

Consolidated revenues were \$6.35M for the six months ended 31 December 2017, down 14% or \$1M against the same 6 month period in 2016 (\$7.3M). The primary driver for revenues remains the company's loose pearl sales earnings at a trading level. Auction and private sales revenues for the half year totalled \$5,025,853 (2016: \$6,281,649). The average weight of pearls harvested has been down on expectations, leading to lower value being derived and thus has impacted both the P&L sales result and cash flow receipts.

Gross profit results have thus been impacted with lower trade revenues earned on a per piece base; the gross margin at December 2017 sits at 39%, down from 55% in the equivalent period in 2016.

The company has maintained good cost control on its overheads and production costs in the period. Marketing, Administration and Finance costs have reduced by a combined 10%, or \$340K, from 2016. Production costs have had minimal increases despite the fact that there has been an increase in the quantity of mature oysters being maintained at farm site level. A core element of the company's strategy is to leverage its current fixed base more effectively through production volume increases. This approach, combined with the continuing implementation of more efficient farming practices, should aide in maintaining cost structures at current levels whilst growing the company's biomass, and ultimately, the number of harvestable pearls.

##### b. Financial position

Cash reserves have decreased to \$1.5M (30 June 2017 - \$2.2M) at 31 December 2017. Expenditure on core operations has been in line with expectations and normal operating practices, but lower revenue earned has resulted in a negative cash flow during the first 6 months of the year. Customer prepayments of \$1m were received in November 17 in advance of the February 18 sales event, and have buffered the cash flow position in this period.

Oyster asset values have decreased to \$17.2M during the six months ended 31 December 2017. This equates to a fair value adjustment of (\$0.9M) in the period. The quantity of oysters on hand has increased from 1.9M at June 17 to 2.5M shells at December 17, and market pricing has remained stable. However, the weight of pearls harvested as well as the proportion of sellable pearls has reduced over the last 6 months, and is the primary driver of the fall in the valuation.

The number of pearls on hand has increased from 26,722 at 30 June 2017 to 75,216 at 31 December 2017, as stock is harvested and held in advance of sales in early 2018. The net realisable value has increased from \$0.49M at 30 June 2017 to \$2.2M at 31 December 2017, however pearl stock is held at a value of \$1.8M as inventory is required to be valued at the lower of cost and net realisable value.

Jewellery inventory is \$0.9M as at 31 December 2017, in line with the balance of 30 June 2017. A jewellery inventory stockholding of \$1m is required to service current retail outlets. All obsolescence provisions in relation to Jewellery stock were released by 30 June 17, with no provisions in place or deemed required at 31 December 2017.

Borrowings are \$3.6M at 31 December 2017, an increase of \$110K on 30 June 2017 (\$3.5M) due to short term insurance funding arrangements being put in place post June year end.

The Company's net tangible assets per share are \$0.057 as at 31 December 2017, which has fallen from the position at 30 June 2017 (\$0.061). The number of shares in issue remains unchanged at 427,871,758 (30 June 2017 - 427,871,758).

DIRECTORS REPORT  
FOR THE HALF YEAR ENDED 31 DECEMBER 2017

REVIEW OF OPERATIONS (CONTINUED...)

**2. Pearling Operations**

Across Atlas' harvested crop over the most recent six months, the majority of the key characteristics that derive pearl value have been improving and this has been acknowledged accordingly by Atlas' key customers. Colour, skin, lustre and shape have all steadily improved but conversion into value per piece has been held back by average size shortfalls.

All factors that influence size have been thoroughly reviewed. Continuous improvements in oyster mortality and pearl retention has encouraged the team to rule out process related issues as well as genetically induced weaknesses, and highlights an environmental factor as being the key driver. It is very difficult to isolate one factor; the only commonality among all batches that are subject to smaller size is a recorded temporary spike in ocean temperature that would have affected food availability in volume or quality and/ or trigger the concerned animal to shut down and focus on survival as opposed to building nacre for a period of time.

The company will continue to monitor and investigate results, but pearls harvested in December are already showing signs of improvement on all value factors, including size. The Pearling team is committed to continuous improvement through implementation of best practice throughout its operations from hatchery to harvest as well as grading and data gathering processes.

**3. Sales**

Trading sales have been negatively impacted on two fronts, one because of a higher than usual number of sub 9mm pearls which are traditionally undervalued by pearl traders, and at the same time by an overall drop in average weight per piece in spite of the pearls being harvested at standard historical cultivation period.

However, thanks to gains in shape and skin quality, the price of pearls with size ranges between 9 and 13mm have actually appreciated and confirm the strong demand for Atlas pearls continues.

The sub 9mm pearls and other fringe merchandise which are traditionally undervalued at a trade level have been directed to the Company's value add division for further transformation via matching of strands, pairs or jewellery design and manufacturing. Value add merchandise would command a higher price compared to Trading, but usually takes longer to go to market and convert into revenue, and as such a balanced approach to sales avenues will always be maintained.

Wholesale and retail divisions have been enjoying better margins in the current period and the increased value is worthwhile pursuing, as it brings Atlas closer to the end consumer where most of the value is concentrated and less price variations expected.

**SIGNIFICANT CHANGES**

On Feb 1, 2018, the company secured a 100M (\$1.06M AUD) Yen financing package from a long term Japanese Pearl Trading client of Atlas. The loan is structured to be repaid in June 2018, with an option to renew for a further 12 months, to be agreed by both parties, one month in advance of expiry of the current loan period. The loan is unsecured, with an annual interest rate of 2.5%, payable on re-payment of the principal.

**AUDITOR'S INDEPENDENCE DECLARATION**

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

Signed in accordance with a resolution of the Directors.



**G Newman**  
Chairman

26/02/2018

## DECLARATION OF INDEPENDENCE BY GLYN O'BRIEN TO THE DIRECTORS OF ATLAS PEARLS LIMITED

As lead auditor for the review of Atlas Pearls Limited for the half-year ended 31 December 2017, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Atlas Pearls Limited and the entities it controlled during the period.



Glyn O'Brien  
Director

BDO Audit (WA) Pty Ltd  
Perth, 26 February 2018

**ATLAS PEARLS LTD AND ITS CONTROLLED ENTITIES**  
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

		6 Months Ending	6 Months Ending
		31 Dec 2017	31 Dec 2016
	Note	\$	\$
Revenue from continuing operations	2	6,349,349	7,360,558
Cost of goods sold		<b>(3,882,420)</b>	(3,301,581)
Gross profit		<b>2,466,929</b>	4,058,977
Other income	2	<b>583,686</b>	1,037,073
Marketing expenses		<b>(239,589)</b>	(268,466)
Administration expenses	3	<b>(2,809,265)</b>	(3,055,268)
Finance costs	3	<b>(161,908)</b>	(230,839)
Other expenses	3	<b>(577,087)</b>	(540,271)
Change in fair value less husbandry cost of oysters and pearls		<b>(945,291)</b>	5,475
Share of equity accounted investments		-	(183,744)
<b>Profit/(Loss) before income tax</b>		<b>(1,682,525)</b>	822,937
Income tax (charge)/benefit		<b>137,870</b>	(399,335)
<b>Profit/(Loss) after income tax for the period from continuing operations</b>		<b>(1,544,655)</b>	423,602
<b>Other comprehensive income/(losses)</b>			
Items that will be reclassified as profit or loss:			
Exchange differences on translation of foreign operations		<b>(564,130)</b>	151,825
<b>Other comprehensive income/(losses) for the period</b>		<b>(564,130)</b>	151,825
<b>Total comprehensive income/(losses) for the period</b>		<b>(2,108,785)</b>	575,427
<b>Profit/(loss) is attributable to:</b>			
<b>Owners of the Company</b>		<b>(2,108,785)</b>	423,602
<b>Total comprehensive income/(expenses) is attributable to:</b>			
<b>Owners of the Company</b>		<b>(2,108,785)</b>	575,427
Overall operations:			
<b>Earnings per share for profit/(loss) from continuing operations attributable to the ordinary equity holders of the Company</b>			
Basic earnings/(loss) per share <b>(cents)</b>	9	<b>(0.37)</b>	0.10
Diluted earnings/(loss) per share <b>(cents)</b>	9	-	0.10

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the notes to and forming part of the half-year financial report.

**ATLAS PEARLS LTD AND ITS CONTROLLED ENTITIES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2017**

		31 Dec 2017	30 June 2017
		\$	\$
<b>Current assets</b>	<b>Note</b>		
Cash and cash equivalents		1,503,643	2,184,968
Trade and other receivables		925,352	856,382
Derivative financial instruments		122,603	156,639
Inventories	5	2,774,830	1,508,465
Biological assets	4	7,923,749	8,728,104
<b>Total current assets</b>		<b>13,250,177</b>	<b>13,434,558</b>
<b>Non-current assets</b>			
Loans to Joint Venture Entity		1,237,555	1,226,871
Inventories	5	-	108,901
Biological assets	4	9,282,335	10,471,069
Property, plant and equipment	10	5,094,461	5,298,579
Deferred tax assets		3,772,903	3,638,436
<b>Total non-current assets</b>		<b>19,387,254</b>	<b>20,743,856</b>
<b>Total assets</b>		<b>32,637,431</b>	<b>34,178,414</b>
<b>Current liabilities</b>			
Trade and other payables		2,360,728	2,612,940
Deferred Revenue	7	1,061,280	-
Borrowings	8	389,509	278,722
Current tax liabilities		136,194	260,538
<b>Total current liabilities</b>		<b>3,947,711</b>	<b>3,152,200</b>
<b>Non-current liabilities</b>			
Borrowings	8	3,250,000	3,250,000
Deferred tax liabilities		1,075,013	1,316,458
Provisions		18,207	17,030
<b>Total non-current liabilities</b>		<b>4,343,220</b>	<b>4,583,488</b>
<b>Total liabilities</b>		<b>8,290,931</b>	<b>7,735,688</b>
<b>Net assets</b>		<b>24,346,500</b>	<b>26,442,726</b>
<b>Equity</b>			
Contributed equity	12	36,857,415	36,857,415
Reserves		(9,393,594)	(8,841,856)
(Accumulated losses)		(3,117,321)	(1,572,833)
<b>Total equity</b>		<b>24,346,500</b>	<b>26,442,726</b>

The above-consolidated statement of financial position should be read in conjunction with the notes to and forming part of the half-year financial report.

**ATLAS PEARLS LTD AND ITS CONTROLLED ENTITIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

	Attributable to owners of Atlas Pearls Ltd						Total equity	
		Contributed equity	Revaluation Reserve	Share based payment reserve	Foreign currency translation reserve	Retained profits/(accumulated reserves)		
	Note	\$		\$	\$	\$		\$
<b>Balance at 1 July 2016</b>		36,698,536	-	714,605	(9,115,083)	(2,473,414)	25,824,644	
<b>Profit for the period</b>		-	-	-	-	423,602	423,602	
<b>Exchange differences on translation of foreign operations</b>		-	-	-	151,825	-	151,825	
<b>Total comprehensive income for the period</b>		-	-	-	151,819	423,602	575,427	
<b>Transactions with owners in their capacity as owners</b>								
<b>Contributions of equity, net of transaction costs</b>	12	158,879	-	-	-	-	158,879	
<b>Dividends provided for or paid</b>		-	-	-	-	-	-	
<b>Employee share scheme</b>		-	-	12,392	-	-	12,392	
		158,879	-	12,392	-	-	171,271	
<b>Balance at 31 December 2016</b>		36,857,415	-	726,997	(8,963,258)	(2,049,812)	26,571,343	
<b>Balance at 1 July 2017</b>		36,857,415	179,179	739,187	(9,760,221)	(1,572,666)	26,442,894	
<b>(Loss) for the period</b>		-	-	-	-	(1,544,655)	(1,544,655)	
<b>Exchange differences on translation of foreign operations</b>		-	-	-	(564,131)	-	(564,131)	
<b>Total comprehensive income for the period</b>		-	-	-	(564,131)	(1,544,655)	(2,108,786)	
<b>Transactions with owners in their capacity as owners:</b>								
<b>Contributions of equity, net of transaction costs</b>	12	-	-	-	-	-	-	
<b>Dividends provided for or paid</b>		-	-	-	-	-	-	
<b>Employee share scheme</b>		-	-	12,392	-	-	12,392	
		-	-	12,392	-	-	12,392	
<b>Balance at 31 December 2017</b>		36,857,415	179,179	751,579	(10,324,352)	(3,117,321)	24,346,500	

The above consolidated statement of changes in equity should be read in conjunction with the notes to and forming part of the half-year financial

**ATLAS PEARLS LTD AND ITS CONTROLLED ENTITIES**

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

	<b>6 Months Ending 31 Dec 2017 \$</b>	<b>6 Months Ending 31 Dec 2016 \$</b>
<b>Cash flows from operating activities</b>		
Proceeds from pearl, jewellery and oyster sales	<b>6,126,196</b>	7,288,632
Proceeds from customer prepayments	<b>1,061,280</b>	-
Proceeds from other operating activities	<b>230,620</b>	77,663
Interest paid	<b>(146,630)</b>	(152,618)
Interest received	<b>1,381</b>	13,453
Payments to suppliers and employees	<b>(7,367,230)</b>	(7,731,965)
Income tax (paid)	<b>(191,898)</b>	(809,912)
Net cash (used) in operating activities	<b>(286,281)</b>	(1,314,747)
<b>Cash flows from investing activities</b>		
Payments for property, plant and equipment	<b>(336,762)</b>	(684,294)
Net cash (used in) investing activities	<b>(336,762)</b>	(684,294)
<b>Cash flows from financing activities</b>		
Net repayment of borrowings	-	(666,818)
Proceeds from borrowings	-	82,306
Net cash (used) in financing activities	-	(584,512)
Net increase/(decrease) in cash and cash equivalents	<b>(623,043)</b>	(2,583,553)
Cash and cash equivalents at the beginning of the financial period	<b>2,184,968</b>	4,343,407
Effects of exchange rate changes on cash and cash equivalents	<b>(58,281)</b>	3,139
Cash and cash equivalents at the end of the financial period	<b>1,503,644</b>	1,762,993

The above consolidated statement of cash flows should be read in conjunction with the notes to and forming part of the half-year financial report.

## ATLAS PEARLS LTD AND ITS CONTROLLED ENTITIES

### NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

#### 1. GOING CONCERN

The financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of the business.

The net loss after tax for the Group for the period ended 31 December 2017 amounts to a loss of (\$1.54m) (period ended 31 Dec 2016 \$0.42m profit). At 31 December 2017 the Group had a working capital balance of \$9.3m (June 2017: \$10.2m); \$7.9m (June 2017: \$8.7m) of this balance comprised of unharvested oysters due for harvest during the next 12 months. At 31 December 2017, the Group had a net asset position of \$24.3m (June 2017: \$26.4m); \$17.2m (June 2017: \$19.2m) of this balance comprised of unharvested oysters.

During the year ended 30 June 2017, the group's debt was restructured and new investment obtained to increase oyster stocks and drive the group's long term strategic plan. This strategy remains on course, with higher seeding targets being met, and the oyster stock quantity increases expected being achieved. Oyster stocks on hand (Seeded and Unseeded) at 31 December 17 is 2.5M shells (30 June 17; 1.98M shells).

The group however has not met its revenue forecasts for the six months ended 31 December 17. Whilst the number of pieces expected to be harvested, as well as selling prices achieved at market, have been on target, the proportion of goods harvested at a sellable grade, and the overall weight of the harvests have been lower than expected. This has had an impact on the revenue result, and oyster valuation for the six month period, as well as on cash flow receipts.

As a result, further cash flow funding will be required to bridge working capital requirements until the benefits of the growth strategy can be realised. The company's intention is to seek short term funding arrangements with commercial partners, with a view to these being repaid in full over the next 18 months. Funding of 100M Yen has already been obtained in February 18 at an annual interest rate of 2.5%. This short term debt is repayable at the end June 18, with an option to renew this arrangement for a further 12 months, to be agreed by both parties, one month in advance of expiry.

The Group's core debt facility remains in place and repayments are expected to be made on schedule. The balance of the debt owing to the Martin Family is \$3.5m at 31 December 2017. A payment of \$250k was made in Feb 2018 as scheduled. The loan is to be repaid in staggered payments by June 2020.

The ability of the Group to both meet its debt repayments and continue to fund its working capital requirements are dependent upon:

- the international market for wholesale loose white south sea pearls maintaining existing demand levels and pricing;
- the Group meeting its auction forecasts;
- the quality of harvested pearls meeting valuation expectations;
- the Group maintaining profitable operations with positive operating cash flows; and
- Obtaining short term funding to bridge working capital requirements

These conditions indicate a material uncertainty that may cast a significant doubt about the Group's ability to continue as a going concern and, therefore, it may be unable to realise its assets and discharge its' liabilities in the normal course of business.

Management believe that there are reasonable grounds to believe that the Group will continue as a going concern. The profile of the most recent pearl harvest is an improvement on the previous 6 month average. Funding of 100M Yen has already been obtained and will enable the company to effectively manage its harvest schedule.

Should the Group be unable to continue as a going concern it may be required to realise its assets and discharge its liabilities other than in the normal course of business and at amounts different to those stated in the financial statements. This financial report does not include any adjustments relating to the recovery and classification of recorded asset amounts or the amounts or classification of liabilities and appropriate disclosure that may be necessary should the Group be unable to continue as a going concern.

ATLAS PEARLS LTD AND ITS CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

2. REVENUE FROM CONTINUING OPERATIONS AND OTHER INCOME

2.1 Revenue from continuing operations

	6 Months Ending 31 Dec 2017 \$	6 Months Ending 31 Dec 2016 \$
Sales Revenue		
Sale of goods	6,325,128	7,174,863
Other Revenue		
Interest income	24,221	28,653
Other revenues	-	157,042
<b>Total revenue from continuing operations</b>	<b>6,349,349</b>	<b>7,360,558</b>

2.2 Other Income

Other Income		
Foreign exchange gains realised	217,635	337,648
Foreign exchange gains unrealised	325,247	84,224
Grant funds	40,000	40,000
Gain on derivative instruments	-	575,201
Gain on sale of assets	804	-
<b>Total other Income</b>	<b>583,686</b>	<b>1,037,073</b>

3. PROFIT/(LOSS) BEFORE INCOME TAX INCLUDES THE FOLLOWING SPECIFIC ITEMS

3.1 Administration expenses from ordinary activities

	6 Months Ending 31 Dec 2017 \$	6 Months Ending 31 Dec 2016 \$
Salaries and wages	1,641,394	1,683,751
Depreciation property, plant and equipment	135,858	215,799
Operating lease rental costs	257,210	257,693
Compliance and accounting	235,059	271,079
Other	539,744	626,946
<b>Total administration expenses</b>	<b>2,809,265</b>	<b>3,055,268</b>

ATLAS PEARLS LTD AND ITS CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

3. PROFIT/(LOSS) BEFORE INCOME TAX INCLUDES THE FOLLOWING SPECIFIC ITEMS  
(CONTINUED...)

3.2 Finance Costs

	31 Dec 2017	31 Dec 2016
	\$	\$
Interest and finance charges payable	161,908	230,839
<b>Total finance costs</b>	<b>161,908</b>	<b>230,839</b>

3.3 Other Expenses

	31 Dec 2017	31 Dec 2016
	\$	\$
Loss on foreign exchange realised	73,364	63,881
Loss on foreign exchange unrealised	367,273	257,074
Loss on derivative financial instruments	34,036	-
Provision for employee entitlements	22,836	37,470
Loss on joint venture loan	-	177,240
Share option expense	12,392	12,392
Other	67,186	(7,786)
<b>Total other expenses</b>	<b>577,087</b>	<b>540,271</b>

4. BIOLOGICAL ASSETS

	31 Dec 2017	30 June 2017
	\$	\$
<b>CURRENT</b>		
Oysters – at fair value	7,923,749	8,728,104
	<b>7,923,749</b>	<b>8,728,104</b>
<b>NON-CURRENT</b>		
Oysters – at fair value	9,282,335	10,471,069
	<b>9,282,335</b>	<b>10,471,069</b>
<b>Total Biological Assets</b>	<b>17,206,084</b>	<b>19,199,173</b>
Quantity held within the Group operations:		
Juvenile and mature oysters which are not seeded	1,599,713	1,035,169
Nucleated oysters	891,900	950,588
	<b>2,491,613</b>	<b>1,985,757</b>

During the six-months ended 31 December 2017, no significant events occurred which impacted on oyster mortalities.

There is a fair value adjustment of (\$0.95M) at 31 December 2017 as a result of the oyster valuation review conducted. The increase in the number of oyster stocks on hand has positively impacted the valuation upward, however a reduction in the assumptions in relation to sellable % and weight of future harvests has had a negative impact on the valuation and resulted in the fair value downward adjustment.

ATLAS PEARLS LTD AND ITS CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

5. INVENTORIES

	31 Dec 2017	30 June 2017
	\$	\$
<b>CURRENT</b>		
Pearls	1,847,005	495,532
Jewellery	894,656	939,062
Other inventory	33,169	73,871
	<u>2,774,830</u>	<u>1,508,465</u>
<b>NON CURRENT</b>		
Nuclei	-	108,901
<b>Total Inventory</b>	<u>2,774,830</u>	<u>1,617,366</u>

6. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Fair value hierarchy

AASB 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- (b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2), and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the Group's financial assets and financial liabilities measured and recognised at fair value at 31 December and 30 June 2017 on a recurring basis:

31 December 2017	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
	\$	\$	\$	\$
<b>Assets</b>				
Forward foreign exchange contracts	-	122,603	-	122,603
<b>Total Assets</b>	-	122,603	-	122,603

30 June 2017	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
	\$	\$	\$	\$
<b>Assets</b>				
Forward foreign exchange contracts	-	156,639	-	156,639
<b>Total Assets</b>	-	156,639	-	156,639

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

**6. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED...)****(b) Valuation techniques used to derive level 2 and level 3 fair values**

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities. As at 31 December 2017 there are no level 3 related instruments in place.

**(i) Transfers between levels 2 and 3 and changes in valuation techniques**

There were no transfers between the levels of the fair value hierarchy in the six months to 31 December 2017. There were also no changes made to any of the valuation techniques applied as of 30 June 2017.

**(c) Fair values of other financial instruments**

The Group also has a number of financial instruments which are not measured at fair value in the balance sheet. These had the following fair values as at 31 December 2017:

	31 Dec 2017 \$	31 Dec 2017 \$	30 June 2017 \$	30 June 2017 \$
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Non-current borrowings</b>				
Other loans	<b>3,250,000</b>	<b>3,250,000</b>	3,250,000	3,250,000
	<b>3,250,000</b>	<b>3,250,000</b>	3,250,000	3,250,000

Due to their short-term nature, the carrying amounts of the current receivables, current payables and current borrowings is assumed to approximate their fair value.

ATLAS PEARLS LTD AND ITS CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

7. DEFERRED REVENUE

	31 Dec 2017	30 June 2017
	\$	\$
CURRENT		
Customer Prepayments	1,061,280	-
Total current deferred revenue	1,061,280	-
<b>Total Deferred Revenue</b>	<b>1,061,280</b>	<b>-</b>

The deferred revenue arises as a result of arrangements with customers for prepayment of goods. Revenue will be recognised upon customer acceptance of delivered goods.

Customer prepayments have been classified as short-term liabilities as it is expected that the balances will be utilised within 12 months.

8. BORROWINGS

	31 Dec 2017	30 June 2017
	\$	\$
CURRENT		
Other loans	389,509	278,722
Total current borrowings	389,509	278,722
NON CURRENT		
Other loans	3,250,000	3,250,000
Total non-current borrowings	3,250,000	3,250,000
<b>Total borrowings</b>	<b>3,639,509</b>	<b>3,528,722</b>

The company secured a debt financing packing of \$3,500,000 from Mr. Tim Martin (Non-Executive Director) and the Martin Family, a related party. \$1.5M of this facility was drawn down in January 2017 with a further \$2M taken in June 2017. The loan is repayable over a 3-year period at a 7.5% interest rate, in staged repayments to be completed by 30 June 2020.

A General Security Deed was approved by the shareholders on 13 September 2017, which secured the facility as second priority over the Company's assets, behind the NAB facility.

ATLAS PEARLS LTD AND ITS CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

9. EARNINGS PER SHARE

	31 Dec 2017 Cents	31 Dec 2016 Cents
Basic earnings/(loss) per share	(0.37)	0.10
Diluted earnings per share	-	0.10
<b>Earnings reconciliation</b>		
Net profit/ (loss) used for basic earnings	(1,544,655)	423,601
Diluted earnings	(1,544,655)	423,601
	No.	No.
Weighted average number of ordinary shares outstanding during the half-year used for calculation of basic earnings per share	422,909,620	420,155,665
Employee Options	5,500,000	5,500,000
Weighted average number of potential ordinary shares outstanding during the half-year used for calculation of diluted earnings per share	428,409,620	425,655,665

Diluted earnings per share is calculated after taking into consideration all options and any other securities that were on issue that remain unconverted at 31 December 2017 as potential ordinary shares which may have a dilutive effect on the profit of the Group.

10. PROPERTY, PLANT AND EQUIPMENT

	Non – Pearling Assets		Pearling Project		Total
	Plant & equipment	Leasehold improvements	Leasehold land & buildings	Plant & equipment, vessels, vehicles	
<b>At 30 June 2017</b>	\$	\$	\$	\$	\$
- at cost	1,137,838	1,045,347	2,861,215	6,361,985	11,406,385
- accumulated depreciation	(782,898)	(586,044)	(391,702)	(4,347,162)	(6,107,806)
	<b>354,940</b>	<b>459,303</b>	<b>2,469,513</b>	<b>2,014,823</b>	<b>5,298,579</b>
<b>Half-year ended 31 December 2017</b>					
Carrying amount at beginning of period	354,940	459,303	2,469,513	2,014,823	5,298,579
Additions	14,353	-	237,104	85,304	336,761
Disposals/Transfers	(51,523)	-	(492,897)	492,897	(51,523)
Depreciation	(64,414)	(37,824)	(26,319)	(250,767)	(379,324)
Depreciation on Disposals	49,526	-	-	-	49,526
Foreign exchange movement	(263)	(6,211)	(84,174)	(68,910)	(159,558)
	<b>302,619</b>	<b>415,268</b>	<b>2,103,227</b>	<b>2,273,347</b>	<b>5,094,461</b>
<b>At 31 December 2017</b>					
-at cost	1,096,619	1,031,940	2,507,897	6,723,102	11,359,558
-accumulated depreciation	(794,000)	(616,672)	(404,670)	(4,449,755)	(6,265,097)
	<b>302,619</b>	<b>415,268</b>	<b>2,103,227</b>	<b>2,273,347</b>	<b>5,094,461</b>

ATLAS PEARLS LTD AND ITS CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

11. SEGMENT INFORMATION

(a) Segment information provided to the Board of Directors and management team

- (i) The segment information provided to the board of Directors for the reportable segments for the half-year ended 31 December 2017 is as follows:

31 December 2017	Wholesale Loose Pearl		Jewellery		Total
	Australia	Indonesia	Australia	Indonesia	
	\$	\$	\$	\$	\$
Total segment revenue	5,666,944	6,019,823	142,012	299,642	12,128,421
Inter-segment revenue	-	(5,803,294)	-	-	(5,803,294)
<b>Revenue from external customers</b>	<b>5,666,944</b>	<b>216,529</b>	<b>142,012</b>	<b>299,642</b>	<b>6,325,127</b>
<b>Normalised EBITDA</b>	<b>(1,406,455)</b>	<b>1,030,439</b>	<b>(167,564)</b>	<b>7,836</b>	<b>(534,744)</b>
<b>Adjusted net operating profit/(loss) before income tax</b>	<b>(1,616,962)</b>	<b>996,896</b>	<b>(184,856)</b>	<b>(521)</b>	<b>(805,443)</b>

31 December 2016	Wholesale Loose Pearl		Jewellery		Total
	Australia	Indonesia	Australia	Indonesia	
	\$	\$	\$	\$	\$
Total segment revenue	6,682,037	4,746,192	217,703	219,701	11,865,633
Inter-segment revenue	-	(4,690,770)	-	-	(4,690,770)
Revenue from external customers	6,682,037	55,422	217,703	219,701	7,174,863
Normalised EBITDA	819,965	84,804	(192,246)	(15,620)	696,903
Adjusted net operating profit/(loss) before income tax	709,599	34,689	(213,788)	(23,958)	506,542

**Total segment assets**

<b>31 December 2017</b>	<b>2,809,794</b>	<b>23,589,011</b>	<b>366,173</b>	<b>861,995</b>	<b>27,626,973</b>
30 June 2017	3,267,839	24,722,448	450,387	871,896	29,312,571

**Total segment liabilities**

<b>31 December 2017</b>	<b>(1,693,732)</b>	<b>(1,695,260)</b>	<b>(17,627)</b>	<b>(32,057)</b>	<b>(3,438,676)</b>
30 June 2017	(656,236)	(1,914,665)	(34,023)	(20,594)	(2,625,521)

(b) Other segment information

- (i) *Adjusted net operating profit*

Segment net operating profit/ (loss) before income tax reconciliation to the statement of profit or loss and other comprehensive income.

The board of Directors and management team assesses the performance of the operating segments based on a measure of net operating profit. This measurement basis excludes the effects of foreign exchange losses and gains, both realised and unrealised, impairment expenses on financial assets and the effects of fair value adjustments on biological and agricultural assets.

ATLAS PEARLS LTD AND ITS CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

11. SEGMENT INFORMATION (CONTINUED...)

A reconciliation of adjusted net operating profit to loss before income tax is provided as follows:

	Consolidated	
	31 Dec 2017	31 Dec 2016
	\$	\$
<b>Net operating profit / (loss) before tax</b>	<b>(805,443)</b>	506,542
Change in fair value of biological assets	<b>(945,291)</b>	5,475
JV (loss)	-	(360,983)
Foreign exchange losses	<b>(440,637)</b>	(172,851)
Foreign exchange gains	<b>542,882</b>	273,768
Gains/(loss) on derivative financial instruments	<b>(34,036)</b>	575,201
Other Tax	-	(4,215)
<b>Profit/(Loss) before income tax from continuing operations</b>	<b>(1,682,525)</b>	822,937

The amounts provided to the board of Directors with respect to total assets are measured in a manner consistent with that of the financial statements except for excluding fair value adjustments in relation to biological and agricultural assets. These assets are allocated based on the operations of the segment and the physical location of the asset.

(ii) *Segment assets*

Assets are located based on the operations of the segment and the physical location of the asset. Reportable segments' assets are reconciled to total assets as follows:

	31 Dec 2017	30 June 2017
	\$	\$
<b>Segment assets</b>	<b>27,626,973</b>	29,312,571
Joint Venture Loans	<b>1,237,555</b>	1,227,407
Deferred tax assets	<b>3,772,903</b>	3,638,436
<b>Total assets as per the statement of financial position</b>	<b>32,637,431</b>	34,178,414

The total of non-current assets other than financial instruments and deferred tax assets located in Australia is \$1,455,788 (June 2017: \$1,139,452). The total located in Indonesia is \$14,809,991 (June 2017: \$16,389,934).

(iii) *Segment Liabilities*

Liabilities are allocated based on the operations of the segment and the physical location of the asset. Reportable segments' liabilities are reconciled to total liabilities as follows:

	31 Dec 2017	30 June 2017
	\$	\$
<b>Segment liabilities</b>	<b>3,438,676</b>	2,625,521
Current tax liabilities	<b>136,194</b>	260,538
Borrowings	<b>3,639,509</b>	3,528,722
Deferred tax liabilities	<b>1,075,013</b>	1,316,453
Other	<b>1,539</b>	4,454
<b>Total liabilities as per the statement of financial position</b>	<b>8,290,931</b>	7,735,688

**ATLAS PEARLS LTD AND ITS CONTROLLED ENTITIES**

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

**12. CONTRIBUTED EQUITY**

	31 Dec 2017	30 June 2017	31 Dec 2017	30 June 2017
	No. of shares	No. of shares	\$	\$
Issued and fully paid-up capital	<b>422,909,620</b>	422,909,620	<b>36,857,415</b>	36,857,415
<b>Ordinary Shares</b>				
Balance at beginning of period	<b>422,909,620</b>	419,380,906	<b>36,857,415</b>	36,698,536
Shares issued <sup>(1)</sup>	-	3,528,714	-	158,879
Share transaction costs	-	-	-	-
Balance at end of period	<b>422,909,620</b>	422,909,620	<b>36,857,415</b>	36,857,415
<b>Treasury Shares</b>				
Balance at beginning of period	<b>4,932,138</b>	6,017,694		
Shares released <sup>(2)</sup>	-	(1,055,556)		
Balance at end of period	<b>4,962,138</b>	4,962,138		

- 1) On the 28 November 2016, 2,473,158 fully paid ordinary shares were issued to past and present Directors of the Company in lieu of payment of Directors' fees, at a deemed issue price of \$0.045, in accordance with shareholder approval at the Annual General Meeting of Shareholders held on 31 October 2016.
- 2) Treasury shares are shares in Atlas Pearls Ltd that are held by the Atlas Pearls Ltd Executive Share Plan Trust for the purpose of issuing shares under the Atlas South Sea Pearl Employee share plan. During the year ended 30 June 2017, 1,055,556 Treasury shares were issued to employees as part of the Atlas employee share salary sacrifice plan. No shares were issued in the 6 month period ending 31 December 2017.

**13. EVENTS OCCURRING AFTER THE REPORTING PERIOD**

On the 1st February 2018, Atlas secured 100M Yen in short term financing from a commercial partner. The loan is unsecured, with a 2.5% interest rate payable at the end of the loan period. The loan is repayable on or before 30th June 2018. There is an option to renew the loan agreement for a further 12 months, to be agreed by both parties one month in advance of expiry. The loan funding provides the Company with short term working capital which will aide in the effective management of its harvest schedule.

On the 29th January 2018 Mr Trevor Harris resigned from the position of CFO and Company Secretary.

On the 1st February 2018 Mr Cadell Buss was appointed as a Non-Executive Director.

## ATLAS PEARLS LTD AND ITS CONTROLLED ENTITIES

### NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

#### 14. BASIS OF PREPARATION OF HALF-YEAR REPORT

This consolidated interim financial report for the half-year reporting period ended 31 December 2017 has been prepared in accordance with the *Corporations Act 2001* and Australian Accounting Standard *AASB 134 Interim Financial Reporting*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual report for the period ended 30 June 2017 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

There were no new or revised accounting standards which became operative, for the annual reporting period commencing on 1 July 2017, which impacted the Group.

The Group has not elected to early adopt any new standards or amendments.

The Group has identified its operating segments based on internal reports that are reviewed and used by the board of Directors and management team (the chief operating decision makers) in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the manner in which the product is sold, whether retail or wholesale. Management also considers the business from a geographical perspective and has identified 4 reportable segments. Discrete financial information about each of these operating businesses is reported to the Board of Directors and management team on at least a monthly basis.

The wholesale business is a producer and supplier of pearls within the wholesale market. The retail business is the manufacture and sale of pearl jewellery and related products within the retail market.

**ATLAS PEARLS LTD AND ITS CONTROLLED ENTITIES**

**DIRECTORS' DECLARATION  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

The Directors declare that the financial statements and notes set out on pages 6 to 20:

- (a) comply with Accounting Standard AASB134 "Interim Financial Reporting" and the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- (b) give a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date;

In the Directors opinion there are reasonable grounds to believe that Atlas Pearls Ltd will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.



Geoffrey Newman  
Chairman  
Perth, Western Australia

**26/02/2018**

## INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Atlas Pearls Ltd

### Report on the Half-Year Financial Report

#### Conclusion

We have reviewed the half-year financial report of Atlas Pearls Ltd (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year then ended, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2017 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

#### Emphasis of matter - Material uncertainty relating to going concern

We draw attention to Note 1 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our conclusion is not modified in respect of this matter.

#### Directors' responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

#### Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2017 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO Audit (WA) Pty Ltd

A handwritten signature in blue ink. The signature consists of the letters 'BDO' in a stylized, blocky font, followed by a cursive signature that appears to read 'Glyn O'Brien'.

Glyn O'Brien

Director

Perth, 26 February 2018