



ATLAS
PEARLS

Like each pearl, every woman is unique!

FIND THE
ONE...
AS UNIQUE
AS HER.

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DIRECTORS' REPORT

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 2018, referred to hereafter as, the Company, the Group or Atlas Pearls.

1. Directors

The following persons were Directors of Atlas Pearls 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.PA, F.A.I.C.D Chairman	Director since 15 October 2010 Appointed Chairman 16 February 2015
Timothy Martin , BA, M.B.A, G.A.I.C.D Non-Executive Director	Director since 4 February 2013
Pierre Fallourd , M.B.A, G.A.I.C.D CEO, Managing Director	Director since 4 January 2016
Cadell Buss , M.B.A, G.A.I.C.D Independent Non-Executive Director	Director since 1 February 2018

2. Review of Operations

2.1. REVIEW OF OPERATIONS

2.2.1. PEARLING

Atlas Pearls remains focused on the combined hatchery and nursery approach which is progressively delivering improvements in oyster survival and shells for operation. In addition, the Company has tested new satellite grow-out sites and test oysters are displaying faster growth, which is promising.

The seeding team continues to deliver improved retention rate, also focusing on shape and size improvements through both donor and host shell management and seeding techniques to ensure suitable shells are submitted to the operating table.

Seeded oysters have been successfully relocated to the new farming site in East Java. The oysters have adjusted well, and the Company continues to progressively increase bio-mass at the site.

The anticipated gain in pearl size is not yet fully realised and data is continuously collected to facilitate understanding of the relative influence of adverse environmental conditions and genetic heritage against consistency and adequacy of process through the 4 years it takes to produce a pearl.

Atlas Pearls follows the same unifying principle across the Company to ensure the best oysters produce the best pearls to command the best price, maximising resources with an emphasis towards profitability and sustainability.

DIRECTORS' REPORT

2.2.2. PEARLING VALUE ADDED

The combination of private and auction sales for July 2018 to December 2018 delivered a positive outcome with a slight price improvement whilst preserving adequate inventory, further supporting the collaboration with key trade customers.

Retail sales in Bali are inline with the previous period and initiatives to expand the Company's finished products to Asian markets such as Hong Kong, Singapore and Jakarta are slow to deliver but remain promising.

The Australian market remains soft, affecting both wholesale, retail and online sales. As a result, efforts have been concentrated on finished products with the aim to generate a better margin and efficient inventory rotation.

The Company remains focused on maximising value through the selection of suitable pearls to the appropriate markets. All efforts have been and will remain geared towards becoming a more efficient and customer oriented organisation.

2.2.3. NATURAL EXTRACTS

Essential Oils of Tasmania Pty Ltd, a 50% joint venture of Atlas Pearls Ltd, further consolidated and grew its core essential oils business of fennel, peppermint and kunzea crops.

By having a downstream model which aims at providing a refined product in smaller quantities, Essential Oils of Tasmania Pty Ltd continues to progressively move away from the bulk commodity end of the essential oil market.

3. *Financial Result*

The Group net profit for the period ended 31 December 2018 is \$418k, compared to (\$1.5M) loss in the prior year comparative period.

To give a better picture of the underlying performance, Atlas has adopted Normalised Earnings before interest, taxes, depreciation, amortisation (Normalised EBITDA) as a more 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.

	6 MONTHS ENDED 31 DEC 18	6 MONTHS ENDED 31 DEC 17	CHANGE	%
Total revenue from continuing operations	6,604,824	6,349,349	Up	4%
Profit/(loss) from continuing operations after tax	418,050	(1,544,655)	Up	127%
Normalised earnings before interest, taxes, depreciation and amortisation (Normalised EBITDA)	1,528,125	(534,744)	Up	386%

DIRECTORS' REPORT

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 18	6 MONTHS ENDED 31 DEC 17
Profit / (Loss) for the Half Year	418,051	(1,544,655)
Net Forex (gain)/loss	480,396	(102,245)
Net Interest	161,240	122,449
Depreciation/Amortisation	149,701	135,858
Income tax charge/(refund)	345,679	(137,870)
Other non-operating (income)/expense	16,639	12,392
Derivative instruments loss/(gain) unrealised	26,462	34,036
Revaluation of Biological Assets and Inventory	(70,043)	945,291
Normalised EBITDA	1,528,125	(534,744)

3.1 FINANCIAL POSITION

Cash reserves have increased to \$2M (30 June 2018 - \$1.3M) at 31 December 2018. Further to those core improvements, the organisation continues to chase productivity gains in the areas of oyster cleaning and transport aimed both to reduce oyster stress and operating costs and grading efficiencies to ensure time optimal cultivation periods.

Oyster asset values have increased to \$18.9M during the six months ended 31 December 2018 (\$17.3M 30 June 2018). The quantity of oysters on hand has increased from 2.3M shells at June 2018 to 2.8M shells at December 2018, with market pricing remaining stable. The weight of pearls harvested as well as the proportion of sellable pearls has improved only slightly on results observed during FY18.

The number of pearls on hand has increased from 72,879 at 30 June 2018 to 119,324 at 31 December 2018. The net realisable value has increased from \$1.16M at 30 June 2018 to \$2.12M at 31 December 2018.

Jewellery inventory has increased from \$0.9M at 30 June 2018 to \$1.01M at 31 December 2018.

Borrowings have increased by \$2.3M from \$4.0M at 30 June 2018 to \$6.3M at 31 December 2018. The increase in borrowings is due to short term funding received July 2018.

The Company's net tangible assets per share are \$0.059 as at 31 December 2018, which has increased from the position at 30 June 2018 (\$0.055). The number of shares on issue remains unchanged at 427,871,758 (30 June 2018 - 427,871,758).

4. *Security Incident*

A minor security breach has occurred at a remote pearl farm involving the theft of young oysters not bearing pearls. As Atlas Pearls has increased seeding and survival rates of the oysters in the past six months, the incident is not expected to affect seeding targets nor have a material financial impact on future performance.

DIRECTORS' REPORT

5. *Auditor's Independence Declaration*

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 8. Signed in accordance with a resolution of the Directors.



Geoff Newman
Chairman
26 February 2019

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

As lead auditor for the review of Atlas Pearls LTD for the half-year ended 31 December 2018, 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 2019



CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTE	6 MONTHS ENDING 31 DEC 18 \$	6 MONTHS ENDING 31 DEC 17 \$
Revenue from continuing operations	3	6,604,824	6,349,349
Cost of goods sold		(2,282,942)	(3,882,420)
Gross profit		4,321,882	2,466,929
Other income	3	279,133	583,686
Administration expenses	5	(2,648,361)	(2,809,265)
Finance costs	5	(195,771)	(161,908)
Marketing expenses		(131,532)	(239,589)
Change in fair value less husbandry costs of oysters		95,742	(945,291)
Write-off of pearl and jewellery costs		(25,699)	-
Other expenses	5	(931,665)	(577,087)
Profit/(Loss) before income tax		763,729	(1,682,525)
Income tax /(charge) benefit current year		(345,679)	137,870
Profit/(Loss) after income tax for the period from continuing operations		418,050	(1,544,655)
Other comprehensive income/(losses)			
Items that will be reclassified as profit or loss:			
Exchange differences on translation of foreign operations		941,610	(564,130)
Other comprehensive income/(losses) for the period, net of tax		941,610	(564,130)
Total comprehensive income/(losses) for the period		1,359,660	(2,108,785)
Profit/(loss) is attributable to:			
Owners of the Company		1,359,660	(2,108,785)
Total comprehensive income/(losses) is attributable to: Owners of the Company		1,359,660	(2,108,785)
Overall operations:			
Earnings per share for profit/(loss) from continuing operations attributable to the ordinary equity holders of the Company			
Basic earnings profit/(loss) per share (cents)	6	0.10	(0.37)
Diluted earnings per share (cents)	6	0.09	-

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTE	31 DEC 2018 \$	30 JUN 2018 \$
Current assets			
Cash and cash equivalents		1,960,833	1,278,873
Trade and other receivables		862,606	872,865
Derivative financial instruments	11	89,453	6,465
Inventories	7	3,134,432	1,968,744
Biological assets	4	10,337,845	9,204,890
Total current assets		16,385,169	13,331,837
Non-current assets			
Intangible Assets		274,833	-
Loans to joint venture entities		1,338,515	1,262,848
Inventories	7	21,057	-
Biological assets	4	8,543,908	8,080,344
Property, plant and equipment	8	5,423,225	5,035,034
Deferred tax assets		4,007,148	3,999,752
Total non-current assets		19,608,686	18,377,978
Total assets		35,993,855	31,709,815
Current liabilities			
Trade and other payables		2,640,766	2,299,323
Borrowings	9	4,566,479	2,310,482
Derivative Instruments	11	109,451	-
Current tax liabilities		229,516	115,691
Total current liabilities		7,546,212	4,725,496
Non-current liabilities			
Borrowings	9	1,750,000	1,750,000
Deferred tax liabilities		1,290,502	1,207,104
Provisions		131,718	128,091
Total non-current liabilities		3,172,220	3,085,195
Total liabilities		10,718,432	7,810,691
Net assets		25,275,423	23,899,124
Equity			
Contributed equity	10	36,857,415	36,857,415
Reserves		(8,393,110)	(9,351,359)
Accumulated losses		(3,188,882)	(3,606,932)
Total equity		25,275,423	23,899,124

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	ATTRIBUTABLE TO OWNERS OF ATLAS PEARLS						TOTAL EQUITY
	CONTRIBUTED EQUITY	REVALUATION RESERVE	SHARE BASED PAYMENT RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	(ACCUMULATED LOSS)		
	NOTE	\$	\$	\$	\$	\$	
Balances at 1 July 2018		36,857,415	179,179	739,187	(10,269,725)	(3,606,932)	23,899,124
Profit for the year		-	-	-	-	418,050	418,050
Exchange differences on translation of foreign operations		-	-	-	941,610	-	941,610
Revaluation of property, plant and equipment		-	-	-	-	-	-
Total comprehensive income / (loss) for the period		-	-	-	941,610	418,050	1,359,660
Transactions with owners in their capacity as owners							
Contributions of equity, net of transaction costs		-	-	-	-	-	-
Employee share scheme	12	-	-	16,639	-	-	16,639
Balance at 31 December 2018		36,857,415	179,179	755,826	(9,328,114)	(3,188,882)	25,275,423
Balances at 1 July 2017		36,857,415	179,179	739,187	(9,760,221)	(1,572,666)	26,442,894
Profit for the year		-	-	-	-	(1,544,655)	(1,544,655)
Exchange differences on translation of foreign operations		-	-	-	(564,131)	-	(564,131)
Revaluation of property, plant and equipment		-	-	-	-	-	-
Total comprehensive income / (loss) for the period		-	-	-	(564,131)	(1,544,655)	(2,108,786)
Transactions with owners in their capacity as owners							
Contributions of equity, net of transaction costs		-	-	-	-	-	-
Employee share scheme	12	-	-	12,392	-	-	12,392
Balance at 31 December 2017		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 accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

	6 MONTHS ENDING 31 DEC 18 \$	6 MONTHS ENDING 31 DEC 17 \$
Cash flows from operating activities		
Proceeds from pearl, jewellery and oyster sales	6,440,235	6,126,196
Proceeds from customer prepayments	-	1,061,280
Proceeds from other operating activities	202,314	230,620
Payments to suppliers and employees	(7,457,985)	(7,367,230)
Income tax (paid)	(266,078)	(191,898)
Interest paid	(165,976)	(146,630)
Interest received	27,536	1,381
Net cash (used) in operating activities	(1,219,954)	(286,281)
Cash flows from investing activities		
Payments for property, plant and equipment	(532,419)	(336,762)
Acquisition of subsidiary	(197,087)	-
Net cash (used) in investing activities	(729,506)	(336,762)
Cash flows from financing activities		
Net repayment of borrowings	(134,434)	-
Proceeds from borrowings	2,244,149	-
Net cash provided by financing activities	2,109,715	-
Net increase in cash and cash equivalents	160,255	(623,043)
Cash and cash equivalents at the beginning of the period	1,278,873	2,184,968
Effects of exchange rate changes on cash and cash equivalents	521,705	(58,281)
Cash and cash equivalents at the end of the financial period	1,960,833	1,503,644

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.



NOTES TO & FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

1. *Basis of Preparation*

1.1. BASIS OF PREPARATION OF HALF YEAR REPORT

The consolidated financial report for the half year reporting period ended 31 December 2018 has been prepared in accordance with the *Corporations Act 2001* and the Australian Accounting Standard *AASB 134 Interim Financial Reporting*.

The half year consolidated financial report does not include all notes normally included in the annual financial report. Accordingly, this report should be read in conjunction with the annual report for the period ended 30 June 2018 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.

The Group has applied the following standards and amendments for the first time to the half year reporting period ended 31 December 2018:

- *AASB 9 Financial Instruments*, and
- *AASB 15 Revenue from Contracts with Customers*

The adoption of these amendments did not have any impact on the amounts recognised in prior periods and will also not affect the current or future periods.

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 four 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.

1.2. 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 profit after tax for the Group for the period ended 31 December 2018 is \$0.4M (30 June 2018: \$2.0M loss). At 31 December 2018 the Group had a working capital balance of \$6.8M (30 June 2018: \$7.3M); \$10.3M (30 June 2018: \$9.2M) of this balance comprised of unharvested oysters due for harvest during the next 12 months. At 31 December 2018, the Group had a net asset position of \$25.3M (30 June 2018: \$23.4M); \$18.9M (30 June 2018: \$17.3M) 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 and increased oyster stock. Oyster stocks on hand (seeded and unseeded) at 31 December 2018 is 2.8M shells (30 June 18: 2.3M shells).

The Group has met revenue forecasts for the half-year, however, 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 has not recovered as expected.

In July 2018, further short-term funding was secured with commercial partners, with a view for these to be repaid in full over the next 12 months. Funding of ¥165M was obtained in July 2018, repayable by 30 June 2019 in addition to the existing funding of US\$600,000 that was obtained in May 2018, repayable by 30 April 2019.

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 \$3.25M at 31 December 2018. A payment of \$250k was made in February 2019 as scheduled. The loan is to be repaid in staggered payments by June 2020.

NOTES TO & FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

The ability for 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 auction forecasts;
- the quality of harvested pearls meeting valuation expectations;
- the Group achieving 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, the Company may be unable to realise its assets and discharge its liabilities in the normal course of business.

Management have 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 six-month average. Short term funding has 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 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.

2. Segment Reporting

2.1. SEGMENT INFORMATION PROVIDED TO THE BOARD OF DIRECTORS AND MANAGEMENT TEAM

- (i) The segment information provided to the Board of Directors and management team for the reportable segments for the period ended 31 December 2018 is as follows:

31 December 2018	WHOLESALE LOOSE PEARLS		JEWELLERY		TOTAL
	AUSTRALIA	INDONESIA	AUSTRALIA	INDONESIA	
	\$	\$	\$	\$	\$
Total segment revenue	6,000,587	5,743,098	93,222	254,505	12,091,412
Inter-segment revenue	-	(5,534,998)	-	-	(5,534,998)
Revenue from external customers	6,000,587	208,100	93,222	254,505	6,556,414
Normalised EBITDA	972,533	698,078	(144,868)	2,380	1,528,123
Adjusted net operating profit/(loss) before income tax	720,316	645,799	(160,906)	(4,665)	1,200,544
Totals segment assets					
31 December 2018:	3,343,781	25,964,470	326,198	1,013,136	30,647,585
30 June 2018:	1,921,577	23,387,021	301,816	836,207	26,446,622
Total segment liabilities					
31 December 2018:	(1,004,434)	(1,839,071)	(15,098)	(23,331)	(2,881,934)
30 June 2018:	(539,440)	(1,812,958)	(8,928)	(20,896)	(2,382,222)

NOTES TO & FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

- (ii) The segment information provided to the Board of Directors and management team for the reportable segments for the period ended 31 December 2017 is as follows:

31 December 2017	WHOLESALE LOOSE PEARLS		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)
Revenue from external customers	5,666,944	216,529	142,012	299,642	6,325,127
Normalised EBITDA	(1,406,455)	1,030,439	(167,564)	7,836	(534,744)
Adjusted net operating profit/(loss) before income tax	(1,616,962)	996,896	(184,856)	(521)	(805,443)
Total segment assets					
31 December 2017	2,809,794	23,589,011	366,173	861,995	27,626,973
30 June 2017	3,267,839	24,722,448	450,387	871,896	29,312,571
Total segment liabilities					
31 December 2017	(1,693,732)	(1,695,260)	(17,627)	(32,057)	(3,438,676)
30 June 2017	(656,236)	(1,914,665)	(34,023)	(20,594)	(2,625,521)

2.1. OTHER SEGMENT INFORMATION

(i) Adjusted net operating profit

The Board of Directors and the management team review on a monthly basis the performance of each segment by analysing the segment's net operating profit before tax. A segment's net operating profit before tax excludes non-operating income and expense such as interest paid and received, foreign exchange gains and losses whether realised or unrealised, fair value gains and losses and impairment charges.

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

	6 MONTHS ENDING 31 DEC 2018 \$	6 MONTHS ENDING 31 DEC 2017 \$
Net Operating Profit / (Loss) Before Tax	1,200,544	(805,443)
Changes in fair value of biological assets	70,043	(945,291)
Foreign exchange gains	279,133	542,882
Foreign exchange losses	(759,529)	(440,637)
Other	(26,462)	(34,036)
Profit/(loss) before income tax from continuing operations	763,729	(1,682,525)

NOTES TO & FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

(ii) Segment Assets

Assets are allocated 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 2018 \$	30 JUN 2018 \$
Segment Assets	30,647,585	26,446,622
Unallocated:		
Joint Venture Loans	1,339,122	1,263,441
Deferred tax assets	4,007,148	3,999,752
Total assets as per the statement of financial position	35,993,855	31,709,815

The total of non-current assets other than financial instruments and deferred tax assets located in Australia is \$830,341 (30 June 2018: \$916,388). The total located in Indonesia is \$13,212,149 (30 June 2018: \$15,400,741).

(ii) 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 2018 \$	30 JUN 2018 \$
Segment Liabilities	2,881,934	2,382,222
Unallocated:		
Current tax liabilities	229,517	115,691
Borrowings	6,316,479	4,060,482
Deferred tax liabilities	1,290,501	1,207,104
Other	-	45,192
Total liabilities as per the statement of financial position	10,718,431	7,810,691

3. Revenue from Continuing Operations

3.1. REVENUE FROM CONTINUING OPERATIONS

	6 MONTHS ENDING 31 DEC 2018 \$	6 MONTHS ENDING 31 DEC 2017 \$
SALES REVENUE		
Sale of goods	6,556,414	6,325,128
OTHER REVENUE		
Interest income	27,536	24,221
Other Revenues	20,874	-
Total revenue from continuing operations	6,604,824	6,349,349

NOTES TO & FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

3.2. OTHER INCOME

	6 MONTHS ENDING 31 DEC 2018 \$	6 MONTHS ENDING 31 DEC 2017 \$
Foreign exchange gains	279,133	542,882
Grant funds	-	40,000
Gain on sale of assets	-	804
Total other income	279,133	583,686

4. *Biological Assets*

	31 DEC 2018 \$	30 JUN 2018 \$
CURRENT		
Oysters – at fair value	10,337,845	9,204,890
Total current biological assets	10,337,845	9,204,890
NON-CURRENT		
Oysters – at fair value	8,543,908	8,080,344
Total non-current biological assets	8,543,908	8,080,344
Total biological assets	18,881,753	17,285,234

During the six months ended 31 December 2018, no significant events occurred which impacted on oyster mortalities.

There is a fair value adjustment uplift of \$0.9k at 31 December 2018 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 percentage and weight of future harvests has had a negative impact on the valuation.

NOTES TO & FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

5. Profit / (loss) before income tax includes the following specific items

5.1. ADMINISTRATION EXPENSES FROM ORDINARY ACTIVITIES

	6 MONTHS ENDING 31 DEC 2018 \$	6 MONTHS ENDING 31 DEC 2017 \$
Salaries and wages	1,616,669	1,641,394
Depreciation property, plant and equipment and amortisation of intangible assets	149,701	135,858
Operating lease rental costs	265,346	257,210
Compliance and Accounting	170,960	235,059
Other	445,685	539,744
Total administration expenses	2,648,361	2,809,265

5.2. FINANCE COSTS

	6 MONTHS ENDING 31 DEC 2018 \$	6 MONTHS ENDING 31 DEC 2017 \$
Interest and finance charges payable	195,771	161,908
Total finance costs	195,771	161,908

5.3. OTHER EXPENSES

	6 MONTHS ENDING 31 DEC 2018 \$	6 MONTHS ENDING 31 DEC 2017 \$
Loss on foreign exchange	759,529	440,637
Loss on derivative financial instruments	26,462	34,036
Provision for employee entitlements	51,307	22,836
Share option expense	16,639	12,392
Other	77,728	67,186
Total other expenses	931,665	577,087

6. Earnings profit / (loss) per share

	31 DEC 2018 \$	31 DEC 2017 \$
Basic earnings/(loss) per share (cents per share)	0.10	(0.37)
Diluted earnings per share (cents per share)	0.09	-

NOTES TO & FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

6.1. EARNINGS RECONCILIATION

	6 MONTHS ENDING 31 DEC 2018 \$	6 MONTHS ENDING 31 DEC 2017 \$
Net profit/(loss) used for basic earnings	418,050	(1,544,655)
After tax effect of dilutive securities	-	-
Diluted earnings/(loss)	418,050	(1,544,655)

	31 DEC 2018 NO.	31 DEC 2017 NO.
Weighted average number of ordinary shares outstanding during the period used for calculation of basic earnings per share	422,357,622	422,909,620
Adjustments for calculation of diluted earnings per share: options	21,269,930	5,500,000
Weighted average number of potential ordinary shares outstanding during the period used for calculation of diluted earnings per share	443,627,552	428,409,620

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 2018 as potential ordinary shares which may have a dilutive effect on the profit of the Consolidated Group.

Ordinary shares issued to employees under the Employee Share Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent that they are dilutive.

7. Inventories

	31 DEC 2018 \$	30 JUN 2018 \$
CURRENT		
Pearls	2,119,474	1,161,282
Jewellery	1,014,958	808,462
Total current inventory	3,134,432	1,968,744
NON CURRENT		
Nuclei	21,057	-
Total non-current inventory	21,057	1,968,744

NOTES TO & FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

8. Property, plant and equipment

	NON-PEARLING ASSETS		PEARLING ASSETS		TOTAL
	PLANT & EQUIPMENT	LEASEHOLD IMPROVEMENTS	LEASEHOLD LAND & BUILDING	PLANT & EQUIPMENT, VESSELS, VEHICLES	
At 30 June 2018	\$	\$	\$	\$	\$
- at cost	1,096,538	1,032,844	2,211,080	7,376,010	11,716,472
- accumulated depreciation	(851,950)	(654,949)	(436,722)	(4,737,817)	(6,681,438)
	244,588	377,895	1,774,358	2,638,193	5,035,034
Six months ended 31 December 2018					
Carrying amount at beginning of period	244,588	377,895	1,774,358	2,638,193	5,035,034
Additions	1,326	-	550,659	126,667	678,652
Disposals / Transfers	-	-	(470,860)	470,860	-
Depreciation	(58,087)	(38,033)	(36,439)	(318,103)	(450,663)
Depreciation on Disposals	-	-	-	-	-
Foreign Exchange Movement	1,794	6,240	88,565	63,602	160,201
	189,621	346,102	1,906,283	2,981,219	5,423,225
At 31 December 2018					
- at cost	1,103,919	1,047,158	2,417,733	8,301,343	12,870,153
- accumulated depreciation	(914,298)	(701,056)	(511,450)	(5,320,124)	(7,446,929)
	189,621	346,102	1,906,283	2,981,219	5,423,225

9. Borrowings

	31 DEC 2018 \$	30 JUNE 2018 \$
CURRENT		
Other loans	4,566,479	2,310,482
Total current borrowings	4,566,479	2,310,482
NON-CURRENT		
Other loans	1,750,000	1,750,000
Total non-current borrowings	1,750,000	1,750,000
Total borrowings	6,316,479	4,060,482

NOTES TO & FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

10. Contributed equity

	31 DEC 2018	30 JUN 2018	31 DEC 2018	30 JUN 2018
	NO. OF SHARES	NO. OF SHARES	\$	\$
Issued and fully paid-up capital	424,809,620	424,809,620	38,857,415	38,857,415
Ordinary Shares				
Balance at beginning of period	424,809,620	424,809,620	36,857,415	36,857,415
Shares issued	-	-	-	-
Share transaction costs	-	-	-	-
Balance at end of period	424,809,620	424,809,620	36,857,415	36,857,415
Treasury Shares				
Balance at beginning of period	3,062,138	3,062,138		
Shares released	-	-		
Balance at end of period	3,062,138	3,062,138		

Treasury shares are shares in Atlas Pearls 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. No treasury shares were issued over the half financial year ended 31 December 2018 to employees as part of the Atlas employee share salary sacrifice plan (30 June 2018: Nil).

11. 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:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2), and
- 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 2018 and 30 June 2018 on a recurring basis:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
31 December 2018	\$	\$	\$	\$
Assets				
Forward Exchange Contracts	-	89,453	-	89,453
Biological Assets	-	-	18,881,753	18,881,753
Total Assets	-	89,453	18,881,753	18,971,206
Liabilities				
Forward Exchange Contracts	-	(109,451)	-	(109,451)
Total Liabilities	-	(109,451)	-	(109,451)

NOTES TO & FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

11. Fair Value Measurement of Financial Instruments continued...

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
30 June 2018	\$	\$	\$	\$
Assets				
Forward Exchange Contracts	-	6,465	-	6,465
Biological Assets	-	-	17,285,234	17,285,234
Total Assets	-	6,465	17,285,234	17,291,699

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.

The Group is exposed to financial risk in respect of its involvement in primary production which consists of breeding and rearing of oysters for the purpose of producing pearls. The primary financial risk associated with this activity occurs due to the length of time between expenditure of cash in relation to the operation of the farm and the harvesting of the pearls and realisation of cash receipts from sales to third parties. The Group ensures that it maintains sufficient working capital to ensure that it can sustain its operation through any delays in cash flow that may be reasonably foreseen.

Level 3 analysis: The finance and operations departments undertake the valuation of the oysters. The calculations are considered to be level 3 fair values as the significant inputs used in the model are not based on observable market data. The data is taken from internal management reporting work and work completed by the executive within the respective field teams to determine the material inputs in the model. The key inputs are confirmed with the relevant executives and agree with the Board of Directors every six months. These are listed in point c) below.

(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 2018. There were also no changes made to any of the valuation techniques applied as of 30 June 2018.

C) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 Instruments for the half year ended 31 December 2018:

	BIOLOGICAL ASSETS
	\$
Opening balance 30 June 2018	17,285,234
Additions	7,343,505
Gains recognised through 'change in fair value'	226,126
Losses recognised through 'change in fair value'	(6,046,112)
Closing Balance at 31 December 2018	18,881,753

NOTES TO & FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

(i) Valuation inputs

INPUT	31 DEC 2018	30 JUN 2018	COMMENTARY
Average Selling Price	¥ 12,724 per momme	¥ 12,600 per momme	Obtained by analysing sales price achieved and the trend analysis of the past 12 months of average sales prices.
Yen exchange rate	¥ 77.59: AUD 1	¥ 81.90: AUD 1	Based on the forward Yen price per a financial institution.
Average pearl size	0.42	0.44	Based on technical assessment of expected harvest output, and taking into account historical actual results over the past 12 months.
Proportion of marketable grade	35%	41%	Based on historical data for pearl grade over the past 12 months.
Discount rate	20%	20%	Based on analysis of comparable primary producers.
Mortality	Historical	Historical	Based on historical harvest mortality rates.
Average unseeded oyster value	\$1.93	\$2.04	Based on independent calculation.
Costs to complete	\$0.76	\$0.76	Based on historical averages of costs to complete and sell pearls per momme.

12. Share Based Payments and Options

12.1 ATLAS PEARLS LTD EMPLOYEE OPTION PLAN

At the Annual General Meeting on 20 November 2018 it was resolved by the shareholders to approve the Atlas Pearls Ltd Employee Option Plan. The Board adopted the Atlas Pearl Ltd Employee Option Plan (Plan) under which eligible participants may be granted Options to acquire shares in the Company. The Directors consider that the Plan is an appropriate method to:

- (a) Reward Directors, Executives, employees, consultants and contractors for their past performance
- (b) Provide long term incentives for participation In the Company's future growth
- (c) Motivate Directors, Executives, employees, consultants and contractors and general loyalty; and
- (d) Assist to retain the services of valued Directors, Executives, employees, consultants and contractors.

The Plan will be used as part of the remuneration planning for Directors, Executives, employees, consultants and contractors. Under the Plan, participants are granted options which can only vest if share price increases are met. Participation in the Plan is at the Board's discretion and no Individual has a contractual right to participate in the Plan or receive any guaranteed benefits.

The Corporate Governance Council Guidelines recommend that remuneration packages involve a balance between fixed and incentive pay reflecting short and long-term performance objectives appropriate to the Company's circumstance and goals. The Board considers that the Plan will assist the Company in structuring the remuneration packages of its Executives in accordance with the Guidelines.

The amount of options that will vest depends on the increase in share price. An option which has vested but had not been exercised will immediately lapse upon the first to occur of:

- I. The expiry of the Option Period;
- II. If an eligible person's employment or engagement with the Company ceases because of an Uncontrollable Event, the last day of any period specified in clause 11(b); and
- III. If an eligible Person's employment or engagement with the Company ceases because of a Controllable Event, the last day of any period specified in clause 12(b), subject to clause 12(a).

NOTES TO & FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

12.2 OPTIONS ON ISSUE

On 20 November 2018 21,269,928 options exercisable at \$0.027 each, on or before 30 June 2021 (expiry date), were issued to employees of the Company on the terms and conditions set out in the Explanatory Memorandum ratified at the Annual General Meeting held on 20 November 2018.

Options are granted under the plan for no consideration. Options granted under the Plan carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share. The exercise price of the options is based on 142.8% of the volume weighted average share price at which the Company's shares are traded on the Australian Stock Exchange (ASX) during the 30 trading days prior to the date of the grant.

	AVERAGE EXERCISE PRICE PER SHARE OPTION	NUMBER OF OPTIONS
As at 30 June 2018	0.059	3,000,000
Granted during the period	0.027	21,269,928
Exercised during the period	-	-
Expired during the period	0.059	3,000,000
Forfeited during the period	-	-
As at 31 December 2018	0.027	21,269,928

Issue Date	EXPIRY DATE	EXERCISE PRICE	SHARE OPTIONS 30 DECEMBER 2018	SHARE OPTIONS 30 JUNE 2018
30 June 2015	31 December 2018	0.0590	-	3,000,000
20 November 2018	30 June 2021	0.0270	21,269,928	-
Total			21,269,928	3,000,000

Weighted average remaining contractual life of options outstanding at the end of the period	2.5 years	0.5 years
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NOTES TO & FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

12.3 FAIR VALUE OF OPTIONS GRANTED

The assessed fair value at grant date of options granted during the period ended 31 December 2018 was \$0.00984 (21,269,928 options). This valuation imputes a total value of approximately \$209,296 for the proposed Options. The value may go up or down as it will depend in part on the future price of a Share.

The fair value at grant date is independently determined using a Hoadley Trading & Investment valuation model which takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted during the period ended 31 December 2018 are detailed below:

The Hoadley Trading & Investment valuation has been used, together with the following assumptions;

- I. Options are granted for no consideration;
- II. Vesting dates - Tranche one will vest immediately, Tranche two will vest on 01 July 2019 and Tranche 3 will vest on 01 July 2020;
- III. Exercise price - \$0.0270;
- IV. Grant date - 20 November 2018
- V. Share price at grant date - \$0.019
- VI. Expected price volatility of the Company's shares - 100%
- VII. Expected dividend yield - 0%
- VIII. Risk-free Interest rate - 2.13%

The expected price volatility is based on the historical weekly volatility of the Company over two and three-year trading periods.

Where options are issued to employees of subsidiaries within the Group, the subsidiaries compensate Atlas Pearls for the amount recognised as an expense in relation to these options.

Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions and options related valuation expenses recognised during the period as part of employee benefit expenses were as follows:

	31 DECEMBER 2018	31 DECEMBER 2017
Option Expense	16,639	12,392
Option release for forfeited options	-	-
	16,639	12,392

13. Events occurring after the reporting period

A minor security breach in December has occurred at a remote pearl farm involving the theft of young oysters not bearing pearls. As Atlas Pearls Ltd has increased seeding and survival rates of the oysters in the past six months, the incident is not expected to affect seeding target nor have a material financial impact on future performance.

There have been no other material events since the end of the financial year.

DIRECTORS' DECLARATION

The Directors of the Company declare that:

- (a) the financial statements comprising the statement of profit or loss and other comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and accompanying notes are in accordance with the *Corporations Act 2001* and:
 - i. give a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of the performance for the period ended on that date; and
 - ii. comply with Accounting Standards, and the *Corporations Act 2001* and other mandatory professional reporting requirements.
- (b) the Company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.
- (c) the Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A.
- (d) in the Directors opinion there are reasonable grounds to believe that the Company 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 Board of Directors and is signed for and on behalf of the Directors by:



Geoff Newman

Chairman

Perth, Western Australia

26 February 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 2018, 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 2018 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 1.2 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 2018 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

BDO


Glyn O'Brien

Director

Perth, 26 February 2019