

# ATLAS PEARLS

*Beautiful South Sea pearls. Certified from the source.*



A LETTER FROM

# THE EXECUTIVE CHAIRMAN

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*Dear Shareholders*

*Whilst reporting a loss \$8.1m for the 2019/20 financial year, Atlas has made major advancements in a number of key areas to secure its future as a profitable producer of South Sea Pearls.*

*The COVID-19 pandemic has had a significant impact on the reported financial result with sales of \$13.7m down by \$2.5m (15.4%) against 2018/19.*

*The pandemic presented Atlas with a range of unique challenges that required an immediate and nimble organisational response. It also confirmed the importance of the operational improvement reforms already underway and the need to re-align our distribution systems closer to our end-customers.*

*Achievements over the year include:*

## **OPERATIONS**

Seedings for the year were 821,000 – in line with expectations. Improvements in retention rates (i.e. less mortalities) have allowed us to settle at a seeding rate of around 800-850,000 animals for the production of 500-550,000 pearls. This has caused a short-term drag on capital with more “animals in the water” but ultimately will stabilise at a lower level of capital employed with associated operational efficiencies.

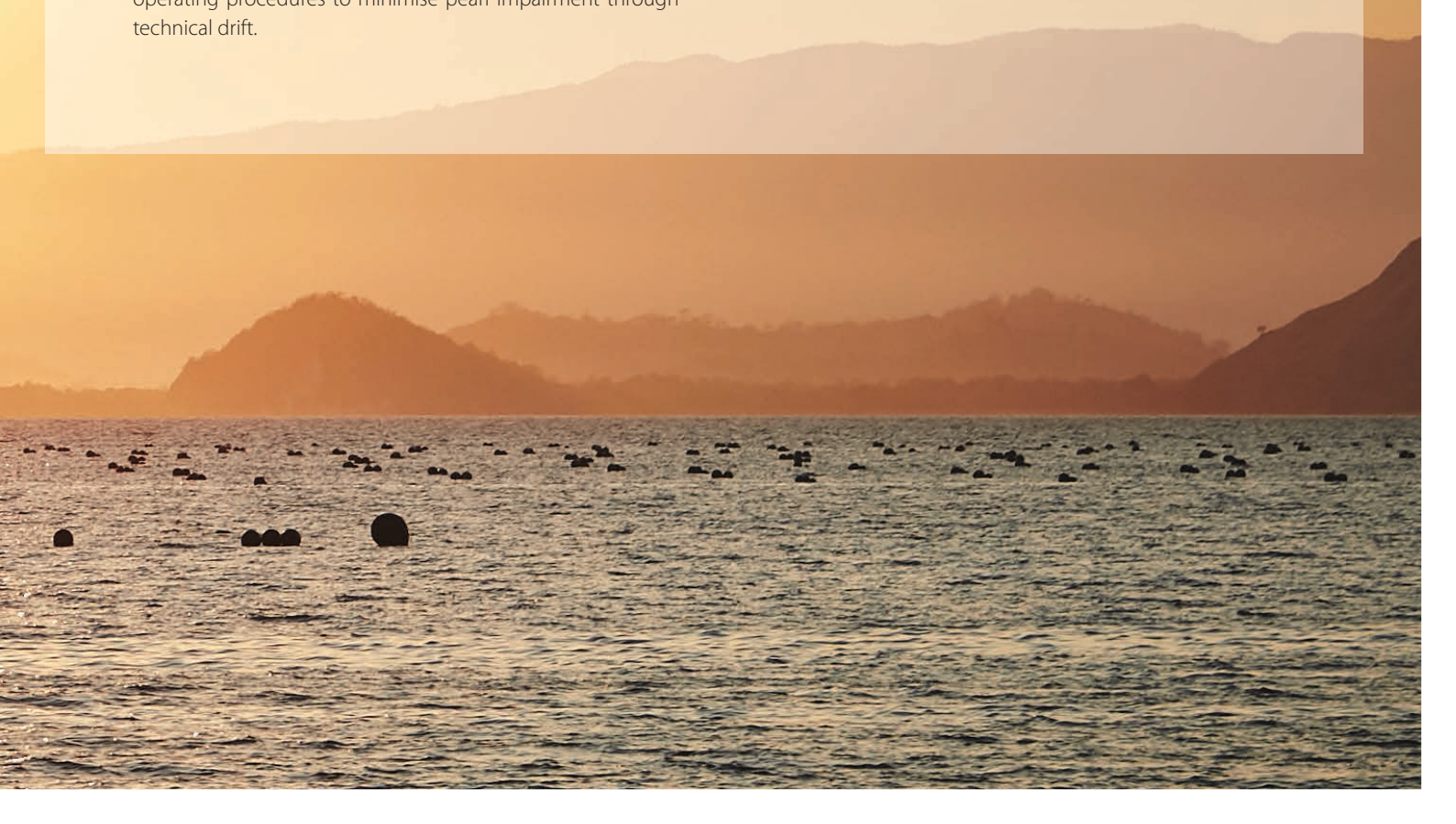
Through improvements in hatchery processes, we can achieve these production metrics by selecting larger animals for seeding thus improving our minimum pearl size.

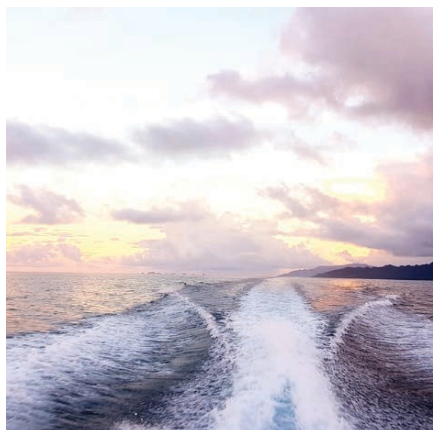
Our new key technical people are ensuring that all seeding events are supervised and have introduced disciplined standard operating procedures to minimise pearl impairment through technical drift.

We have also taken steps to improve our herd genetics by introducing larger and stronger breeding stock to address the small pearl problem (at least to the extent it is not caused by environmental factors).

By necessity, with the short-term reduction in sales, we have moved towards a more optimal harvest cycle of 24 months from seeding with measurable improvements in pearl size and selling prices already in evidence.

We have also identified and secured a new farming site which will enable us to consolidate operations to the best performing farms.





## SALES AND DISTRIBUTION

Our traditional distribution channels were challenged over the year and numbers attending auctions in Kobe at any one time was limited by social distancing guidelines. A key member of our sales team, a former Kobe resident, was in the city at the time of the lock-down and has remained there to oversee auctions and conduct continuous private sales as loose pearl stocks become available.

With 80-90% of our sales ultimately reaching the Chinese market, this has caused the Company to question the efficacy of the traditional auction system and to examine more efficient wholesale paths to reach our final customers.

Distributor and agency partnerships closer to the end market are now under consideration as are novel channels for realising better returns on our lower grade pieces.

The closure of all shop-front retail was completed during the year and the Company has moved to an on-line model with a disciplined and limited number of price-pointed pieces to meet a younger market and show-case the beauty of our product. The same range will be offered through our farm stores when the tourism industry recovers.

## OPERATING EXPENSES

Following announcements by the World Health Organisation (WHO) declaring the spread of COVID-19 as a Global Pandemic in March 2020, the Australian Government announced relief initiatives to eligible businesses. As a result of the downturn in sales revenue, the Company met selected criteria, qualifying for the Government's JobKeeper initiative, which has resulted in a direct cash injection of \$45k for the financial year. The Company also received \$50k from the ATO via the 'Cash Flow Boost' initiative. COVID-19 relief measures include a waiver to payroll tax from March to June 2020, additionally the Office of State Revenue (OSR) announced that the JobKeeper Payment Scheme would be exempt from payroll tax. Other commercial savings included a waiver for rent totalling \$24k and a deferral of \$24k. From 9 April 2020, Australian and Indonesian expatriate employees agreed to reduce their base employment benefits and Directors' fees by 20% for the period April 2020 to June 2020 and 10% effective July 2020 (ongoing) to assist the Company manage its expenses.

Although the global pandemic of COVID-19 has had an adverse impact to the business, key management has adapted and put in place strategies such as reducing discretionary spending, reducing the number of permanent positions no longer required and increasing the focus on alternative distribution channels.

## FUNDING

Reduced sales in 2019/20, the build-up of finished goods and oyster inventory has increased the immediate requirement for working capital. We have addressed this by:

1. Selling the Company's 50% ownership in the joint venture Essential Oils of Tasmania realising a cash injection of \$1,500,000;
2. Successful collaboration with a commercial partner allowing the Company to renegotiate repayments on its short-term trade loan;
3. Post year end, securing an additional \$2m loan from the Company's largest shareholder.

Although Atlas has received an unqualified audit report, I would like to draw shareholders attention to the Going Concern section of the Annual Report on page 26 and the emphasis of matter paragraph in the Auditors report on page 64.

I would like to conclude by acknowledging the extraordinary contribution of all of our people over the past twelve months. Living and managing operations in remote locations is challenging at the best of times. COVID-19 has added to these challenges with regional travel restrictions in Indonesia impacting both the movement of employees and farm supplies.

The expressions of commitment from the Atlas team to the need to make short-term cuts in remuneration was truly heartening and our priority remains the health and safety of our employees, especially as many of them are isolated on farm sites.

There are still many uncertainties with the impact of the pandemic ongoing. We remain positive about the future based on key achievements this year and are particularly hopeful about the early indicators of improved harvests.

We would like to thank all shareholders for their support as we navigate these unprecedented conditions.

Geoff Newman  
Executive Chairman

FINANCIAL REPORT  
2019/2020

# SUMMARY OF FISCAL INDICATORS

	30 JUNE 20 \$'000	30 JUNE 19 \$'000
Revenue from contracts with customers	13,740	16,241
Normalised earnings before interest, tax, depreciation and amortisation (Normalised EBITDA)	178	603
EBITDA margin	1.29%	3.71%
Depreciation and amortisation	(626)	(297)
Foreign exchange gains/(losses)	457	(449)
Revaluation and write-off of agriculture assets (oysters and pearls) gains/(losses)	(6,704)	(590)
Derivative instruments gains/(losses)	(20)	14
(Loss) before interest and tax (EBIT)	(6,655)	(854)
EBIT margin	(48.44%)	(5.26%)
Interest net (costs)	(320)	(321)
Tax (expense)	(1,102)	(2,408)
Net (loss) after tax (NPAT)	(8,077)	(3,582)
Basic (loss) per share (cents)	(1.90)	(0.84)
Net tangible assets (NTA)	13,468	21,567
Assets	22,300	31,231
Debt (current & non-current)	4,583	3,620
Shareholder funds	13,642	21,910
Debt/shareholder funds (%)	33.59%	16.52%
Number of shares on issue (million)	427.9	427.9

# 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 year ended 30 June 2020. Referred to hereafter as, the Company, Atlas Pearls or the Group.

## 1. Directors

The following persons were Directors of Atlas Pearls during all or part of the financial year and up to the date of this report except where stated:

### **GEOFF NEWMAN**, B. Ec. (Hons), M.B.A, F.C.PA ,F.A.I.C.D. / EXECUTIVE CHAIRMAN

Mr. Newman has over 29 years' experience in finance, marketing and general management roles in organisations either directly involved in the resources sector or providing services and products to businesses in that sector. In 1995, after managing Bunnings Pulpwood operations for a number of years, he joined Coogee Chemicals Pty Ltd as Commercial Manager and then was appointed to the Board as Finance Director in the following year. Until August 2005 he was Finance Director/Chief Financial Officer and Company Secretary of both Coogee Chemicals Pty Ltd and its oil and gas subsidiary Coogee Resources Pty Ltd before he retired from the Coogee Group at the end of June 2006.

Appointed Executive Chairman on 1 October 2019

Appointed Chairman on 16 February 2015

Director since 15 October 2010

Directorships of other listed companies held in the last three years: Nil

### **TIMOTHY MARTIN**, B.A., M.B.A, G.A.I.C.D. / NON-EXECUTIVE DIRECTOR

Mr. Martin has been an Executive Manager at Coogee Chemicals Pty Ltd since 2005, held the position of Managing Director from 2012 and was appointed Executive Chairman in July 2015.

Prior to working at Coogee, Mr. Martin worked in management roles within the packaged food manufacturing sector supplying to national supermarket chains and has ongoing interests in commercial property development.

Appointed Director on 4 February 2013

Directorships of other listed companies held in the last three years: Nil

### **PIERRE FALLOURD**, M.B.A, G.A.I.C.D. / MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

Mr. Fallourd has over 22 years' experience in pearling and is highly recognised in the pearl and jewellery industry for his role in developing and marketing golden pearls globally. He is a specialist in managing the pearl value chain and maximising the use and value of each pearl harvested. Pierre is fundamental to Atlas Pearls cradle to cradle strategy of extracting and maximising all aspects of the pearl and its by-products. Mr. Fallourd joined the Company in March 2013 as Vice President of Pearling and has been Chief Executive Officer of Atlas Pearls since November 2014.

Resigned 19 September 2019

Appointed Managing Director 4 January 2016

Directorships of other listed companies held in the last three years: Nil

### **CADELL BUSS**, M.B.A, M.PM, G.A.I.C.D. / Independent NON-EXECUTIVE DIRECTOR

Mr. Buss has extensive experience in marketing, communications and advertising spanning 21 years in the industries of Fast Moving Consumer Goods, Sports Administration and Local Government. His career commenced in sales, progressing into senior leadership engagements at leading commercial enterprises, including Fosters Group Limited, Guinness International and DJ Carmichael Pty Ltd.

Appointed Director on 1 February 2018

Directorships of other listed companies held in the last three years: Nil

## 2. *Company Secretary*

The Company Secretary for the financial year was Ms. Susan Hunter.

**SUSAN HUNTER**, BCom, ACA, F Fin, G.A.I.C.D, AGIA

Ms. Hunter has 23 years experience in the corporate finance industry. She is founder and Managing Director of consulting firm Hunter Corporate which specialises in the provision of corporate governance and company secretarial advice to ASX listed companies and has held Senior Executive roles at Ernst & Young and PricewaterhouseCoopers in the Corporate Finance divisions and at Bankwest in the Strategy and Ventures division. She holds a Bachelor of Commerce, is a Member of the Australian Institute of Chartered Accountants, a Fellow of the Financial Services Institute of Australasia, a Graduate Member of the Australian Institute of Company Directors and a Member of the Governance Institute of Australia.

Appointed 19 December 2012.

## 3. *Directors' Meetings*

The attendance at meetings of the Company's Directors including meetings of committees of Directors is shown below:

DIRECTOR	PERIOD	DIRECTORS' MEETINGS	
		MEETINGS HELD WHILST IN OFFICE	ATTENDED
G. Newman	01 July 19 - 30 June 20	4	4
T. Martin	01 July 19 - 30 June 20	4	4
P. Fallourd	01 July 19 - 19 September 19	1	1
C. Buss	01 July 19 - 30 June 20	4	4

## 4. *Principal Activities and Review of Operations*

### 4.1. PRINCIPAL ACTIVITIES

Atlas Pearls is a Company that produces South Sea Pearls, with farming operations throughout Indonesia, online retail and retail farm stores.

### 4.2. REVIEW OF OPERATIONS AND SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

#### 4.2.1. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 30 June 2020, the Company announced the sale of the 50% joint venture Essential Oils of Tasmania (EOT). Refer to note 24 for further information.

#### 4.2.2. SHAREHOLDER RETURNS

	30 JUNE 2020 \$'000	30 JUNE 2019 \$'000	30 JUNE 2018 \$'000
Net (loss) after tax	(8,077)	(3,582)	(2,034)
Basic EPS (cents)	(1.90)	(0.84)	(0.48)
Dividends paid	Nil	Nil	Nil
Dividends (per share) (cents)	Nil	Nil	Nil



The adjustments from NPAT to arrive at reported Normalised EBITDA for these periods are shown below:

	30 JUNE 2020 \$'000	30 JUNE 2019 \$'000	30 JUNE 2018 \$'000
Net (loss) after tax	(8,077)	(3,582)	(2,034)
Tax expense	1,102	2,408	50
Interest net costs	320	321	283
Depreciation & amortisation	626	297	256
Foreign exchange (gain)/loss	(457)	449	149
Agriculture standard revaluation loss	6,704	590	612
Other non-operating (income)/expense	(60)	134	-
Derivative instrument (gain)/loss	20	(14)	150
Normalised EBITDA	178	603	(535)

#### 4.2.3. FINANCIAL POSITION

	30 JUNE 2020 \$'000	30 JUNE 2019 \$'000	30 JUNE 2018 \$'000
Total assets	22,300	31,231	31,710
Debt (current & non-current)	(4,583)	(3,620)	(4,060)
Other liabilities	(4,076)	(5,701)	(3,750)
Shareholder funds / net assets	13,642	21,910	23,899
Debt / shareholder funds	34%	17%	17%
Number of shares on issue (million)	427.9	427.9	427.9
Net tangible assets per share (cents)	3.1	5.1	5.6
Share price at reporting date (cents)	0.5	0.8	2.4

There has been a decrease in the net assets of the Group of \$8.3M in the year ended 30 June 2020 (30 June 2019: \$2.0M decrease).

#### 4.2.4. OPERATING RESULTS

The operating revenue for the year ended 30 June 2020 was \$13.7M, a decrease of \$2.5M (30 June 2019: \$16.2M).

Administration, finance and marketing expense costs of \$5.7M were \$0.5M below prior year (30 June 2019: \$6.2M). Atlas successfully established an economical cost base during the FY2019 year and management responded efficiently to sales challenges faced as a result of COVID-19 by implementing short-term cost saving measures. The Company continues to collaborate with clients and has negotiated an adjusted repayment schedule on its short-term trade loan. Refer to note 18.4 for further details on current financing arrangements.

#### 4.2.5. REVIEW OF OPERATIONS

##### 4.2.5.1. PEARLING

The Company's pearling operations includes two hatcheries, where oysters grow from 0-2 years, and four grow out farms, where the seeded oysters grow pearls from 2-4 years. The extensive farm network ensures that the Company has a diverse biomass across several locations decreasing the inherent risk of aquaculture.

At the end of 2019/20 the Company was impacted by the COVID-19 pandemic and responded by making the strategic decision to move the pearl grow cycle to the industry ideal of 24 months. The Company extended the growing time of all of the seeded oysters and anticipates that this will increase the overall size and weight of the pearls Atlas produces. Early indications that pearl quality has improved as a result of the extended grow out are promising.

Oyster survival rate continues to show improvements and has allowed an operational shift to focus on the pre-operation selection of oysters. Ensuring that only the best oysters are selected for pearl operation.

Atlas is continuing to focus on density management to provide oysters with improved access to nutrients.

4.2.5.2. PEARLING VALUE ADDED

During the financial year, the retail market continued to show signs of decline and as a result the Company made the decision to close its Claremont, Western Australia and Seminyak, Bali stores in November 2019. Retail farms store sales remained steady. The retail farm stores give customers the opportunity to experience an incredible insight into village life and the beauty and diversity of the island, whilst meeting the people behind our pearls. Atlas remains committed to providing this unique experience to facilitate the education of beautiful south sea pearls.

Trade sales will remain the key focus of the Company's revenue. By-product sales are proving a positive venture, and the Company will explore how best to maximise this avenue.

4.2.5.3. NATURAL EXTRACTS

On 30 June 2020, the Company announced the sale of the 50% joint venture, Essential Oils of Tasmania Pty (EOT).

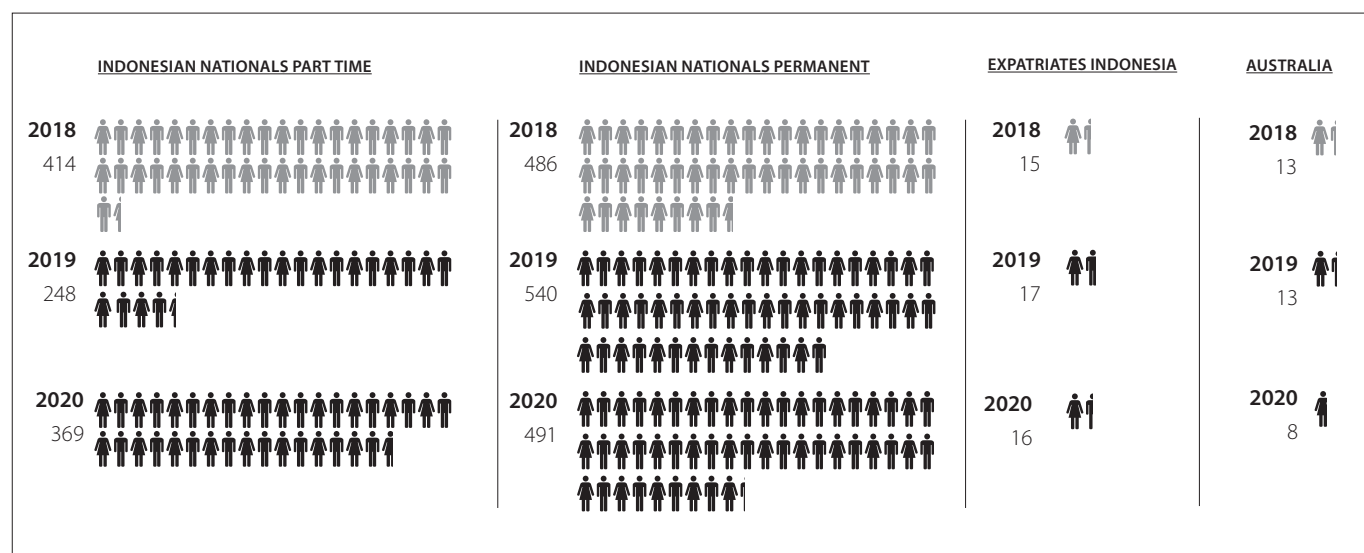
Atlas has been actively reviewing the strategic options around the EOT joint venture. The growing need for additional funding in EOT to produce the required commercial return has culminated in Atlas' decision to sell its holding. Refer to note 24 for further information.

4.2.6. AUDIT OPINION

The financial report has been audited independently and received an unmodified opinion. Refer to page 19 for the Independent Auditors Report and page 64 onwards for the Auditors Opinion.

4.2.7. PERSONNEL

Staff numbers at the end of the year were as follows:



5. Dividends

No dividends were declared and paid by the Company during the period ended 30 June 2020 (30 June 2019: nil).

6. Events Since the end of the Financial Year

At report date, the impact of the Coronavirus (COVID-19) pandemic is ongoing and casts uncertainty over the Company's ability to realise future sales. It is not practical to reliably measure any future impact, as the situation continues to rapidly develop and is dependant on measures imposed by each country's Government. Travel restrictions, quarantine rules, social distancing regulations and commercial flight availability all influence the Company's ability to move pearls and people. Management are closely watching the situation and are proactively responding to developments to ensure as minimum business disruption as possible.

On 27 August, the Group entered into a new loan agreement with Boneyard Investments Pty Ltd (Boneyard) which replaces its Existing Loan Agreement and pursuant to which agreement, Boneyard has agreed to make a revolving loan facility available to Atlas. The aggregate of all loans provided by Boneyard under the Facility will be an amount equal to \$4.5M, being the \$2.5M loan outstanding under the Existing Loan Agreement as well as an additional loan in the amount of \$2M. Refer note 18.4 for full details.

## 7. *Likely Developments and Expected Results of Operations*

There are still many uncertainties as a result of the pandemic, the risk of further waves and imposed Government restrictions remain unclear. The Company is making all efforts to protect the health and safety of our employees whilst ensuring sufficient pearl availability to respond to sales events as and when they become available. Management are actively seeking alternative distribution channels, in the event that the traditional auction halls are not available but financial performance will be entirely market dependant.

Oyster care and best practices remain at the forefront of farming operations, and oyster volumes will remain consistent with 19/20. The company expects to increase biomass at the Banybiru pearl farm, purchased in 2018 to maximum capacity.

## 8. *Directors' Interests*

The relevant interest of each current Director in the share capital of the Company, as notified by the Directors to the Australian Securities Exchange in accordance with S205G (1) of the *Corporations Act 2001*, at the date of this report, are detailed in Section 13.5.5 of the Remuneration Report.

## 9. *Options*

During the year ended 30 June 2019 21,269,928 options were issued to certain employees, pursuant to the Atlas Pearls Employee Option Plan. These options are exercisable at \$0.027 on or before 30 June 2021 and are subject to the following vesting conditions;

- vesting dates - tranche one vested immediately, tranche two vested on 01 July 2019 and tranche three vested on 01 July 2020,
- the employee remains engaged as an employee at the date of the prescribed vesting dates listed above

There were no listed or unlisted options issued during the year ended 30 June 2020.

Refer to note 26.2 for further information.

## 10. *Indemnification and Insurance of Directors and Officers*

### 10.1. INDEMNIFICATION

The Company has agreed to indemnify the following current Directors and officers of the Company; Mr G Newman, Mr T Martin, Mr C Buss and Ms D Kubicki and all former Directors and officers against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as Directors of the Company, except where the liability arises out of conduct which involves negligence, default, breach of duty or a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

### 10.2. INSURANCE PREMIUMS

Since the end of the previous financial year the Company has paid insurance premiums of \$43,685 (30 June 2019: \$43,722) in respect of Directors' and Officers' liability and legal expenses insurance contracts, for current and former Directors and Officers.

## 11. *Non-Audit Services*

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important.

Details of the amounts paid or payable to the auditor (BDO) for audit and non-audit services provided during the period are set out below.

The Board of Directors is satisfied that the provision of non-audit services during the period is compatible with general standards of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the services disclosed below did not compromise the external auditor independence requirements of the *Corporations Act 2001*. The nature of the service provided do not compromise the general principles relating to auditor independence because they relate to tax advice in relation to compliance issues and review of the tax provisions prepared by the Company. None of the services undermine the general principles relating to auditor independence as set out in *APES 110 Code of Ethics for Professional Accountants*.

The following fees were paid or payable for services provided by the auditor of the Company, its related practices and non-related audit firms during the year ended 30 June:

	30 JUNE 2020 \$	30 JUNE 2019 \$
<b>AUDIT SERVICES</b>		
<b>BDO AUSTRALIAN FIRM</b>		
Audit and review of financial reports	87,100	101,148
<b>BDO INDONESIA FIRM</b>		
Audit and review of financial reports	43,955	46,786
Total remuneration for audit services	131,055	147,934
Other Services	3,725	2,328
Total remuneration for other services	3,725	2,328
<b>TAX SERVICES</b>		
<b>RSM AUSTRALIA FIRM</b>		
Tax compliance services and advice	19,500	24,000
<b>RSM INDONESIA FIRM</b>		
Tax compliance services and advice	8,589	4,665
Total remuneration for tax services	28,089	28,665

## 12. Proceedings on Behalf of the Company

No person has applied under section 237 of the *Corporations Act 2001* for leave of court to bring proceedings on behalf of the Company or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings. The Company has not been a party to any proceedings during the period.

## 13. Remuneration Report (Audited)

The Directors are pleased to present your Company's 2020 remuneration report which sets out remuneration information for Atlas Pearls Non-Executive Directors, Executive Directors and other Key Management Personnel. The information provided in this Remuneration Report has been audited as required by section 308(c) of the *Corporations Act 2001*.

NAME	POSITION
<b>Non-Executive and Executive Directors</b>	
G. Newman	Independent Non-Executive Chairman appointed to 1 October 2019
	Executive Chairman appointed 1 October 2019
T. Martin	Non-Executive Director
P. Fallourd	Managing Director, resigned 19 September 2019
C. Buss	Independent Non-Executive Director
<b>Other Key Management Personnel</b>	
M. Longhurst	Chief Operations Officer PT Cendana Indopearl
D. Kubicki	Chief Financial Officer

### Changes since the end of the reporting period

In response to the Global Pandemic COVID-19, Atlas reduced the remuneration of Key Management personnel by 20% for the period 1 April - 30 June 2020 and 10% effective 1 July 2020.

### 13.1. REMUNERATION GOVERNANCE

#### 13.1.1. ROLE OF THE BOARD IN REMUNERATION GOVERNANCE

Remuneration governance is the responsibility of the full the Board as per a resolution passed on 27 February 2017. Primary responsibilities include recommendations including;

- Non-Executive Director fees,
- Remuneration levels of Executive Directors and other Key Management Personnel,
- The overarching Executive remuneration framework and the operation of incentive plans, and
- Key performance indicators ("KPI's") and performance hurdles for the Executive team.

The objective is to ensure that Remuneration policies and structures are fair and competitive and aligned with the long term interest of the Company.

### **Assessing performance and claw-back of remuneration**

The Board is responsible for assessing performance against KPIs and determining the short-term incentives ("STI") and long-term incentives ("LTI") to be paid. To assist in this assessment, the Board receives detailed reports on performance from management which are based on independently verifiable data such as financial measures, market share and data from independently run surveys.

In the event of serious misconduct or a material misstatement in the Company's financial statements, the Board may cancel or defer performance based remuneration and may also claw back performance-based remuneration paid in previous financial years.

#### **13.1.2. NON-EXECUTIVE DIRECTOR REMUNERATION POLICY**

Fees and payments to Non-Executive Directors reflect the demands which are made on, and the responsibilities of, the Directors. Non-Executive Directors' fees are reviewed annually by the Board. Consideration is given to the remuneration of comparable companies when setting fee levels.

The Non-Executive Directors' aggregate annual remuneration may not exceed \$350,000 which is periodically recommended for approval by shareholders. This limit was approved by shareholders at the Annual General Meeting on 30 May 2007. In the period ending 30 June 2020, the total Non-Executive Directors' fees including retirement benefit contributions were \$95,109 (30 June 2019: \$178,114).

The following fees have applied:

- Base fees for Non-Executive Directors is \$50,000 per annum.
- In response to the Global Pandemic, COVID-19, Atlas reduced Director fees by 20% effective 1 April 2020.

#### **13.1.3. EXECUTIVE REMUNERATION POLICY AND FRAMEWORK**

In determining Executive remuneration, the Board aims to ensure that remuneration practices are:

- Competitive and reasonable, enabling the Company to attract and retain key talent
- Aligned to the Company's strategic and business objectives and the creation of shareholder value
- Transparent, and
- Acceptable to shareholders.

Executive remuneration framework has three components;

- Base pay and benefits, including superannuation
- Short-term performance incentives (refer section 13.3 for individual detail), and
- Long-term incentives through participation in the Atlas South Sea Pearl Limited Employee Share Plan and Employee Option Plan.

Employment contracts are in place between the Company (or its subsidiaries) and all Key Management Personnel. Under these contracts, Key Management Personnel are paid a base salary (which may be provided in the form of cash or non-financial benefits) in accordance with their skills and experience, as well as entitlements including superannuation and accrued annual leave and long service leave.

Executive salaries are reviewed annually and are adjusted to take into consideration the individuals' responsibilities and skills compared to others within the Company and the industry. There are no guaranteed base pay increases in any of the Executives' contracts.

There were no short or medium-term cash incentives provided to any Executives of the Company during the last financial year except where noted in section 13.2 of this report. Short or medium-term cash incentives are incorporated into some Executives' salary packages at the time of this report. The framework provides a mix of fixed and variable pay with short and medium-term incentives. As Executives gain seniority with the Group, the balance of this mix shifts to a higher proportion of 'at risk' rewards.

An Employee Share Plan (ESP) provides some Senior Executives with incentive over and above their base salary (refer section 13.2). The allocation of shares under the Employee Share Plan (ESP) is not subject to performance conditions of the Company. The reasons for establishing the ESP were:

- To align the interests of Senior Executives with shareholders. The ESP provides employees with incentive to strive for long-term profitability which is in line with shareholder objectives; and
- To provide an incentive for employees to extend their employment terms with the Company. Pearl farming is a long-term business and the experience of long serving senior employees an important factor in the long-term success of the Company.

### **Use of remuneration consultants**

During the financial year ended 30 June 2020 the Company did not engage any remuneration consultants.

### **Voting and comments made at the Company's 2019 Annual General Meeting**

Atlas Pearls received 95% of "yes" votes on adoption of the remuneration report for the 2019 financial year. On the resolution to elect Director Mr Timothy Martin, Atlas Pearls received 99% of "yes" votes. On the resolution to approve the approval of the Employee Share Option Plan, Atlas Pearls received 91% of "yes" votes. The Company did not receive any specific feedback at the Annual General Meeting or throughout the year on its remuneration.

### **Relationship between Key Management Personnel Remuneration and Performance**

Each Key Management Personnel is remunerated on an individual basis. Some Key Management Personnel are entitled to bonuses based on a percentage of EBITDA.

## 13.2. DETAILS OF REMUNERATION

The following tables show details of the remuneration received by the Directors and the Key Management Personnel of the Group for the current and previous financial period.

NAME		CASH SALARY & FEES	SHORT-TERM BENEFITS			TOTAL CASH SALARY, FEES AND SHORT-TERM BENEFITS <sup>5</sup>	POST-EMPLOYMENT BENEFITS	LONG TERM BENEFITS	SHARE BASED COMPENSATION		TOTAL
			SALARY SACRIFICE FOR SHARES	SHORT-TERM INCENTIVE CASH BONUS	NON-CASH MONETARY BENEFIT <sup>3</sup>		SUPER-ANNUATION BENEFIT	LONG SERVICE LEAVE	BONUS SHARES	OPTIONS <sup>4</sup>	
		\$	\$	\$	\$	\$	\$	\$	\$	\$	
<b>DIRECTORS (NON-EXECUTIVE)</b>											
T. Martin	2020	47,609	-	-	-	47,609	-	-	-	-	47,609
	2019	50,114	-	-	-	50,114	-	-	-	-	50,114
C. Buss	2020	47,500	-	-	-	47,500	-	-	-	-	47,500
	2019	50,000	-	-	-	50,000	-	-	-	-	50,000
<b>DIRECTORS (EXECUTIVE)</b>											
G. Newman <sup>1</sup>	2020	124,025	-	-	-	124,025	11,782	-	-	-	135,807
	2019	78,000	-	-	-	78,000	-	-	-	-	78,000
P. Fallourd <sup>2</sup>	2020	198,340	-	-	-	198,340	11,312	-	-	(10,050)	199,602
	2019	240,000	-	-	-	240,000	22,800	-	-	36,643	299,443
<b>OTHER KEY MANAGEMENT PERSONNEL</b>											
M Longhurst	2020	191,117	-	-	36,238	227,355	-	-	-	13,868	241,223
	2019	200,000	-	-	22,500	222,500	-	-	-	30,536	253,036
D Kubicki	2020	151,092	-	-	-	151,092	14,354	-	-	14,444	179,890
	2019	173,516	-	-	-	173,576	16,484	-	-	24,073	214,073
<b>TOTAL 2020</b>	<b>2020</b>	<b>759,683</b>	-	-	<b>36,238</b>	<b>795,921</b>	<b>37,448</b>	-	-	<b>18,262</b>	<b>851,631</b>
<b>TOTAL 2019</b>	<b>2019</b>	<b>791,630</b>	-	-	<b>22,500</b>	<b>814,130</b>	<b>39,284</b>	-	-	<b>91,252</b>	<b>944,666</b>

1. Mr G Newman was appointed Executive Chairman 1 October 2019.
2. Mr P Fallourd resigned 19 September 2019.
3. Non-Monetary benefits of other Key Management Personnel includes overseas living allowances as per individual employment contracts.
4. Share based remuneration related to options being recognised over the respective vesting period.
5. In response to the Global Pandemic, COVID-19, Atlas reduced the remuneration of Directors and Key Management Personnel by 20%, effective 1 April 2020 - 30 June 2020.

### 13.2.1. DETAILS OF REMUNERATION – PERFORMANCE ANALYSIS

The following table indicates the percentage of remuneration relating to options and performance:

NAME	30 JUNE 2020 % PERFORMANCE	30 JUNE 2019 % PERFORMANCE
P. Fallourd	(5.00%)	12.24%
M. Longhurst	5.75%	12.07%
D. Kubicki	8.03%	11.25%

### 13.2.2. RELATIONSHIP BETWEEN REMUNERATION AND ATLAS PERFORMANCE

The following table shows performance indicators as prescribed by the *Corporations Act 2001* over the past five reporting periods:

	30 JUNE 2020	30 JUNE 2019	30 JUNE 2018	30 JUNE 2017	30 JUNE 2016
Profit/(loss) for the year	(8,076,827)	(3,582,461)	(2,034,099)	900,581	968,103
Basic earnings per share	(1.90)	(0.84)	(0.48)	0.21	0.23
Dividend payments	-	-	-	-	-
Decrease in share price	(38%)	(67%)	(8%)	(19%)	(27%)
Total KMP incentives as a percentage profit/(loss) %	(0.2%)	(2.5%)	(0.8%)	3%	12%

### 13.3. SERVICE AGREEMENTS

On appointment to the Board, all Non-Executive Directors enter into a service agreement with the Company. Remuneration and other terms of employment for the Chief Executive Officer, Chief Financial Officer, Chief Operations Officer and other Key Management Personnel are also formalised in service agreements.

Details of Key Management Personnel contracts are set out below:

- 13.3.1. MR GEOFFERY NEWMAN** (Executive Chairman - Appointed 1 October 2019)
- Base salary for the 2020 financial period of \$112,590 per annum inclusive of superannuation for three days per week, reviewed annually.
  - Chairman fees of \$85,410 per annum including superannuation.
  - In response to the Global Pandemic, COVID-19, salaries were reduced 20% effective 01 April 2020.
  - No bonus has been accrued as payable for 19/20.
  - Either party may terminate the contract of employment by giving three months' notice or a lesser amount as mutually agreed.
- 13.3.2. MR PIERRE FALLOURD** (Managing Director and Chief Executive Office - Appointed 4 January 2016 - Resigned 19 September 2019)
- Base salary for the 2020 financial period of \$240,900 per annum inclusive of superannuation, reviewed annually.
  - Directors fees of \$21,900 per annum including superannuation, payable from appointment (4 Jan 2016)
  - No bonus has been accrued as payable for 19/20.
  - Either party may terminate the contract of employment by giving three months' notice or a lesser amount as mutually agreed.
- 13.3.3. MR MARK LONGHURST** (Chief Operating Officer - Appointed 1 March 2016)
- Base salary for the 2020 financial period of \$200,000 per annum.
  - Non-Financial allowances related to living in Indonesia are also included, to a maximum allowance of \$22,500 annually.
  - No bonus has been accrued as payable for 19/20.
  - In response to the Global Pandemic, COVID-19, salaries were reduced 20% effective 01 April 2020.
  - Either party may terminate the contract of employment by giving six months' notice or a lesser amount as mutually agreed.
- 13.3.4. MS DIANA KUBICKI** (Chief Financial Officer - Appointed 26 March 2018)
- Base salary for the 2020 financial period of \$190,000 per annum inclusive of superannuation.
  - In response to the Global Pandemic, COVID-19, salaries were reduced 20% effective 01 April 2020.
  - Either party may terminate the contract of employment by giving three months' notice or a lesser amount as mutually agreed.
- 13.3.5. OTHER NON - EXECUTIVES (STANDARD CONTRACTS)**
- Contract terminates on retirement.
  - The Company may terminate the Executive's employment agreement by providing two months' written notice or providing payment in lieu of the notice period.
  - No entitlement to any special termination payments under these contracts.

### 13.4. ADDITIONAL INFORMATION OF THE REMUNERATION REPORT

#### 13.4.1. LOANS FROM DIRECTORS AND EXECUTIVES

- The Company obtained a debt financing package of \$3.5M from Tim Martin (Non-Executive Director) and the Martin Family (related party) in June 2017.
- During the year ended 30 June 2019, Mr. Martin was discharged from the loan and the outstanding balance was repayable to Boneyard Investments Pty Ltd, a related party of Mr. Martin.
- Refer note 18.4 for further details of the loan arrangement.
- As at 30 June 2020 the balance of the loan was \$2.5M (30 June 2019: \$2.5M)
- As at 30 June 2020 interest accrued and payable on loans from related parties is \$46,747 (30 June 2019: nil)

#### 13.4.2. OPTIONS

- Performance options were issued to Directors and Key Management Personnel during the financial period end 30 June 2019.
- The options were issued at nil cost to employees and expire on 30 June 2021. The options are exercisable based on graduated vesting dates. Refer to section 13.5.3 for details.

#### 13.4.3. OTHER KEY MANAGEMENT PERSONNEL TRANSACTIONS

- As at 30 June 2020, Director fees of \$3,333 are payable (30 June 2019: \$10,667).

### 13.5. SHARE BASED PAYMENTS COMPENSATION

#### 13.5.1. EMPLOYEE SALARY SACRIFICE SHARE PLAN

There was no salary sacrifice scheme undertaken for the year ended 30 June 2020.

#### 13.5.2 NON-EXECUTIVE DIRECTOR FEE SACRIFICE SHARE PLAN

Please refer to Note 26 in the financial statements for details.

### 13.5.3. PERFORMANCE OPTIONS

The details relating to the allocation of performance options to Directors and Key Management Personnel under the Atlas Pearls Employee Option Plan are as follows.

The fair value at grant date, for options issued 20 November 2018, 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 volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

NAME	DATE OF GRANT	ENTITLEMENT NO. OF OPTIONS	VESTING DATE	EXPIRY DATE	FINANCIAL YEAR IN WHICH SHARES VEST	SHARE PRICE AT GRANT DATE	OPTION EXERCISE PRICE	VOLATILITY	RISK FREE RATE	TOTAL VALUE OF OPTIONS AT GRANT DATE	FAIR VALUE
Pierre Fallourd <sup>1</sup>	20/11/18	1,083,940	30/11/18	30/06/21	2019	\$0.019	\$0.027	100%	2.13%	\$10,666	\$0.00984
Mark Longhurst <sup>1</sup>	20/11/18	903,282	30/11/18	30/06/21	2019	\$0.019	\$0.027	100%	2.13%	\$8,888	\$0.00984
Pierre Fallourd <sup>1</sup>	20/11/18	1,625,908	01/07/19	30/06/21	2020	\$0.019	\$0.027	100%	2.13%	\$15,999	\$0.00984
Mark Longhurst <sup>1</sup>	20/11/18	1,354,924	01/07/19	30/06/21	2020	\$0.019	\$0.027	100%	2.13%	\$13,332	\$0.00984
Diana Kubicki <sup>1</sup>	20/11/18	1,567,340	01/07/19	30/06/21	2020	\$0.019	\$0.027	100%	2.13%	\$15,423	\$0.00984
Pierre Fallourd <sup>1</sup>	20/11/18	2,709,847	01/07/20	30/06/21	2021	\$0.019	\$0.027	100%	2.13%	\$26,665	\$0.00984
Mark Longhurst <sup>1</sup>	20/11/18	2,258,206	01/07/20	30/06/21	2021	\$0.019	\$0.027	100%	2.13%	\$22,221	\$0.00984
Diana Kubicki <sup>1</sup>	20/11/18	2,351,009	01/07/20	30/06/21	2021	\$0.019	\$0.027	100%	2.13%	\$23,134	\$0.00984

Notes: 1. These unlisted options were approved by the Board of Directors on 20 November 2018, and are subject to the following vesting conditions:  
i. vesting dates - tranche one will vest immediately, tranche two will vest on 01 July 2019 and tranche three will vest on 01 July 2020; and  
ii. the employee remains engaged as an employee at the date of the prescribed vesting above in (i)

### 13.5.5. EQUITY INSTRUMENTS

The details relating to the equity instruments held by Key Management Personnel are as follows:

#### (A) EQUITY INSTRUMENT DISCLOSURES RELATING TO KEY MANAGEMENT PERSONNEL

##### 1. Options and rights granted as compensation:

There were nil options issued to Key Management Personnel as remuneration during the year ended 30 June 2020 (30 June 2019: 13,854,456).

#### (B) SHAREHOLDINGS

The number of shares in the Company held during the financial period by each Director of the Company and the other Key Management Personnel of the Group, including their personally related parties, are set out below.

The details relating to the equity instruments held by Key Management Personnel are as follows:

	BALANCE 01/07/19	GRANTED AS COMPENSATION	OPTIONS EXERCISED	OTHER CHANGES	BALANCE 30/06/20
<b>PARENT ENTITY DIRECTORS</b>					
Mr G. Newman	2,563,443	-	-	-	2,563,443
Mr T. Martin <sup>1</sup>	108,326,550	-	-	-	108,326,550
Mr C. Buss	-	-	-	-	-
Mr P. Fallourd <sup>2</sup>	3,866,762	-	-	-	3,866,762
<b>OTHER KEY MANAGEMENT PERSONNEL</b>					
Mr M. Longhurst	-	-	-	-	-
Ms D. Kubicki	-	-	-	-	-
	<b>114,756,795</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>114,756,755</b>

Notes: 1. 4,997,428 shares are directly held by Mr T Martin. The balance of 103,329,122 shares, are related party share holdings.  
2. Mr P Fallourd resigned 19 September 2019.



**(C) OPTION HOLDING**

The number of options over ordinary shares in the parent entity held during the 12 months ended 30 June 2020 by each Director and other members of Key Management Personnel of the consolidated entity, including their personally related parties, is set out below:

	BALANCE 01/07/19	GRANTED <sup>2</sup>	VESTED	EXERCISED	LAPSED/ FORFEITED/ OTHER <sup>1</sup>	BALANCE 30/06/20
<b>PARENT ENTITY DIRECTORS</b>						
Mr G. Newman	-	-	-	-	-	-
Mr T. Martin	-	-	-	-	-	-
Mr. C Buss	-	-	-	-	-	-
Mr P. Fallourd <sup>1</sup>	4,335,755	-	1,625,908	-	2,709,847	-
<b>OTHER KEY MANAGEMENT PERSONNEL</b>						
Mr M. Longhurst	3,613,130	-	1,354,924	-	-	2,258,206
Ms D. Kubicki	3,918,349	-	1,567,340	-	-	2,351,009
	<b>11,867,234</b>	-	<b>4,548,172</b>	-	<b>2,709,847</b>	<b>4,609,215</b>

Notes: 1. Mr. P Fallourd resigned 19 September 2019, his options were forfeited upon resignation.  
2. These unlisted options were approved by the Board of Directors on 20 November 2018.

This is the end of the Audited Remuneration Report.

#### *14. 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 19.

Signed in accordance with a resolution of the Directors.

A handwritten signature in black ink, appearing to read 'Geoff Newman', with a long horizontal flourish extending to the right.

Geoff Newman  
Chairman  
31 August 2020



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## DECLARATION OF INDEPENDENCE BY DEAN JUST TO THE DIRECTORS OF ATLAS PEARLS LIMITED

As lead auditor of Atlas Pearls Limited for the year ended 30 June 2020, 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 audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

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

A handwritten signature in black ink, appearing to read 'Dean Just', is written over a light grey circular stamp.

**Dean Just**

Director

**BDO Audit (WA) Pty Ltd**

Perth, 31 August 2020

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS & OTHER COMPREHENSIVE INCOME

	NOTES	2020 \$	2019 \$
Revenue from contracts with customers	3	13,740,385	16,240,725
Cost of goods sold		(8,546,266)	(9,884,321)
<b>GROSS PROFIT</b>		<b>5,194,119</b>	6,356,404
Other income	3	1,005,310	668,625
Administration expenses	5	(5,116,483)	(5,561,172)
Finance costs	5	(368,301)	(373,354)
Marketing expenses		(196,306)	(294,687)
Change in fair value less husbandry costs of oysters		(4,280,249)	1,741,557
Change in fair value of pearl and jewellery		(2,423,906)	(2,331,340)
Other expenses	5	(789,252)	(1,380,887)
<b>(LOSS) BEFORE INCOME TAX</b>		<b>(6,975,068)</b>	(1,174,854)
Income tax (charge) current year	7	(1,101,760)	(2,407,607)
<b>PROFIT/(LOSS) AFTER INCOME TAX FOR THE PERIOD</b>		<b>(8,076,828)</b>	(3,582,461)
<b>OTHER COMPREHENSIVE INCOME/(LOSSES)</b>			
Items that will be reclassified as profit or loss:			
Exchange differences on translation of foreign operations		(67,431)	1,458,792
<b>OTHER COMPREHENSIVE INCOME/(LOSSES) FOR THE PERIOD, NET OF TAX</b>		<b>(67,431)</b>	1,458,792
<b>TOTAL COMPREHENSIVE INCOME/(LOSSES) FOR THE PERIOD</b>		<b>(8,144,259)</b>	(2,123,669)
<b>PROFIT/(LOSS) IS ATTRIBUTABLE TO:</b>			
<b>OWNERS OF THE COMPANY</b>		<b>(8,076,828)</b>	(3,582,461)
<b>TOTAL COMPREHENSIVE INCOME/(LOSSES) IS ATTRIBUTABLE TO: OWNERS OF THE COMPANY</b>		<b>(8,144,259)</b>	(2,123,669)
Overall operations:			
<b>EARNINGS PER SHARE FOR PROFIT/(LOSS) FROM CONTRACTS WITH CUSTOMERS ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE COMPANY</b>			
Basic earnings profit/(loss) per share (CENTS)	6	(1.90)	(0.84)
Diluted earnings per share (CENTS)	6	-	-

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

	NOTES	2020 \$	2019 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	8	718,302	1,017,220
Trade and other receivables	10	358,361	791,797
Derivative financial instruments		-	20,405
Inventories	9	1,718,211	2,227,798
Biological assets	4	5,410,284	7,299,854
<b>TOTAL CURRENT ASSETS</b>		<b>8,205,158</b>	11,357,074
<b>NON-CURRENT ASSETS</b>			
Intangibles		173,410	243,902
Loans to joint venture entities	23	-	1,364,851
Biological assets	4	7,373,444	9,730,810
Property, plant and equipment	12	5,288,247	5,517,912
Right-of-use assets	13	569,603	-
Deferred tax assets	7	689,873	3,016,446
<b>TOTAL NON-CURRENT ASSETS</b>		<b>14,094,577</b>	19,873,921
<b>TOTAL ASSETS</b>		<b>22,299,735</b>	31,230,995
<b>CURRENT LIABILITIES</b>			
Trade and other payables	11	927,393	1,100,718
Provisions	11	2,260,371	2,074,104
Borrowings	14	4,268,989	2,870,140
Lease Liabilities	13	269,203	-
Current tax liabilities	7	393,200	421,675
<b>TOTAL CURRENT LIABILITIES</b>		<b>8,119,156</b>	6,466,638
<b>NON-CURRENT LIABILITIES</b>			
Borrowings	14	313,631	750,000
Deferred tax liabilities	7	116,657	1,842,223
Provisions	11	108,747	131,300
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>539,035</b>	2,854,822
<b>TOTAL LIABILITIES</b>		<b>8,658,191</b>	9,321,460
<b>NET ASSETS</b>		<b>13,641,544</b>	21,909,535
<b>EQUITY</b>			
Contributed equity	15	36,857,415	36,857,415
Reserves	16	(7,787,970)	(7,758,487)
(Accumulated losses)		(15,427,901)	(7,189,393)
<b>TOTAL EQUITY</b>		<b>13,641,544</b>	21,909,535

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)		
	NOTES	\$	\$	\$	\$	\$	
<b>BALANCES AT 1 JULY 2019</b>		<b>36,857,415</b>	<b>179,179</b>	<b>873,267</b>	<b>(8,810,933)</b>	<b>(7,189,393)</b>	<b>21,909,535</b>
<b>LOSS FOR THE YEAR</b>		-	-	-	-	(8,076,828)	(8,076,828)
Exchange differences on translation of foreign operations	16	-	-	-	(67,431)	-	(67,431)
<b>TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE PERIOD</b>		-	-	-	(67,431)	(8,076,828)	(8,144,259)
<b>TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS</b>							
Adjustment from the adoption of AASB16	13	-	-	-	-	(161,680)	(161,680)
<b>BALANCE AT 01 JULY 2019 - RESTATED</b>	15	<b>36,857,415</b>	<b>179,179</b>	<b>873,267</b>	<b>(8,810,933)</b>	<b>(7,351,073)</b>	<b>(21,747,855)</b>
Employee share scheme	16	-	-	37,948	-	-	37,948
<b>BALANCE AT 30 JUNE 2020</b>		<b>36,857,415</b>	<b>179,179</b>	<b>911,215</b>	<b>(8,878,364)</b>	<b>(15,427,901)</b>	<b>13,641,544</b>
<b>BALANCES AT 1 JULY 2018</b>		<b>36,857,415</b>	<b>179,179</b>	<b>739,187</b>	<b>(10,269,725)</b>	<b>(3,606,932)</b>	<b>23,899,124</b>
<b>LOSS FOR THE YEAR</b>		-	-	-	-	(3,582,461)	(3,582,461)
Exchange differences on translation of foreign operations	16	-	-	-	1,458,792	-	1,458,792
<b>TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE PERIOD</b>		-	-	-	1,458,792	(3,582,461)	(2,123,669)
<b>TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS</b>							
Contributions of equity, net of transaction costs	15	-	-	-	-	-	-
Employee share scheme	16	-	-	134,080	-	-	134,080
<b>BALANCE AT 30 JUNE 2019</b>		<b>36,857,415</b>	<b>179,179</b>	<b>873,267</b>	<b>(8,810,933)</b>	<b>(7,189,393)</b>	<b>21,909,535</b>

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CASH FLOWS

	NOTES	2020 \$	2019 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Proceeds from pearl and jewellery sales		13,026,422	15,950,602
Proceeds from other operating activities		1,362,575	387,188
Payments to suppliers and employees		(14,944,263)	(14,560,264)
Income tax (paid)		(460,406)	(661,125)
Interest paid		(364,595)	(359,154)
Interest received		87,202	6,607
Net cash (outflow)/inflow from operating activities	8	(1,293,065)	763,854
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of joint venture	24	1,500,000	-
Payments for property, plant and equipment		(946,327)	(1,144,875)
Acquisition of subsidiary PT Disthi Mutiara Suci		(129,321)	(197,087)
Net cash inflow/(outflow) from investing activities		424,352	(1,341,962)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of borrowings		(2,678,023)	(3,813,087)
Proceeds from borrowings		3,273,124	3,140,235
Repayment of lease liabilities		(503,081)	-
Net cash inflow/(outflow) from financing activities		92,020	(672,852)
Net decrease in cash and cash equivalents		(776,693)	(1,250,960)
Cash and cash equivalents at the beginning of the period		1,017,220	1,278,873
Effects of exchange rate changes on cash and cash equivalents		477,775	989,307
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR</b>	8	<b>718,302</b>	1,017,220

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

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# NOTES TO & FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

## PART A BASIS OF PREPARATION

### 1. *Basis of Preparation*

#### 1.1. BASIS OF PREPARATION

The financial statements cover the consolidated entity of Atlas Pearls Ltd and its subsidiaries. Atlas Pearls is a listed public Company, incorporated and domiciled in Australia.

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations and activities in the Directors' report which is not part of these financial statements. The financial statements were authorised for issue by the Directors on 31 August 2020. The Directors have the power to amend and reissue the financial statements.

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, and other authoritative pronouncements of the Australian Accounting Standards Board (AASB), IFRS and the *Corporations Act 2001*. Atlas Pearls is a for-profit entity for the purpose of preparing the financial statements.

These financial statements have been prepared under the historical cost basis, financial assets and liabilities (including derivative instruments) at fair value through profit or loss and biological assets and inventories at fair value less cost to sell.

The accounting policies are consistent with those disclosed in the 2019 financial statements, except for the impact of all new or amended standards and interpretations. The following new standards and interpretations have been adopted by the Group:

- AASB 16 *Leases* (refer note 28 for accounting policy and note 13 for impact of the transition).

#### 1.2. CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The Directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

##### *Coronavirus (COVID-19) pandemic*

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) Pandemic has had, or may have, on the Company based on known information. This consideration extends to the nature of products offered, customers, supply chain and employees. Other than as addressed in specific notes, there does not appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the Company unfavourably at the reporting date or subsequently as a result of the Coronavirus (COVID-19) Pandemic.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are detailed below:

- Determination of market value of biological assets – see note 4
- Write off of inventories – see note 9
- Recoverability of deferred tax asset - see note 7
- Property, plant and equipment depreciation rates - see note 12
- Assessment of Lease Liabilities - see note 13

### 1.3. 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.

During the year, the Group recorded a net loss of \$8.1M (30 June 2019: \$3.6M loss). At 30 June 2020 the Group had a working capital deficit of (\$0.6M) (30 June 2019 \$3.7M); \$5.4M of this balance comprised of current unharvested oysters (30 June 2019: \$7.3M).

Based on future cashflow forecasts, the Group will require additional funding within the next 12 months to enable it to continue its normal business activities to ensure the realisations of assets and extinguish liabilities as and when they fall due. Post year end, an additional \$2M loan was received from the Company's lender, Boneyard Investments Pty Ltd (Boneyard).

During the year, the Company restructured its current funding. Atlas sold its 50% ownership in the joint venture Essential Oils of Tasmania (EOT) realising a cash injection of \$1.5M. Successful collaboration with a commercial partner allowed the Company to renegotiate repayments on its short-term trade loan. A \$250k long term loan was also received from National Australian Bank (NAB) as part of the Australian Government's SME COVID-19 loan scheme.

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 showing signs of recovery post COVID-19,
- the quality of harvested pearls meeting valuation expectations, and
- the Group achieving profitable operations with positive operating cash flows.

On 31 January 2019, the COVID-19 pandemic announced by the World Health Organisation (WHO) is having a negative impact on world stock markets, currencies, and general business activity. There are still many uncertainties, at report date the impact of the pandemic is still ongoing and the possibility of further waves and imposed Government restrictions remain unclear making it impractical to reliability measure any future impact to the Groups financial performance.

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.

Th Directors have reasonable grounds to believe that the Group will continue as a going concern due to the realisation of cash from the sale of the joint venture, the restructure of short-term loan and additional funds received post year end.

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.

## PART B FINANCIAL PERFORMANCE

### 2. Segment reporting

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 consistent with the 2019 Financial Statements.

#### DISAGGREGATION OF REVENUE

The Group derives revenue from the transfer of goods at a point in time in major product lines and geographical regions as shown below.

The operating segments are identified by management based on the manner in which the product is sold, whether wholesale or retail. 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.

The accounting policies used by the Group in reporting segments are the same as those detailed throughout the financial statements and in the prior period except as detailed below.

#### INTER-ENTITY SALES

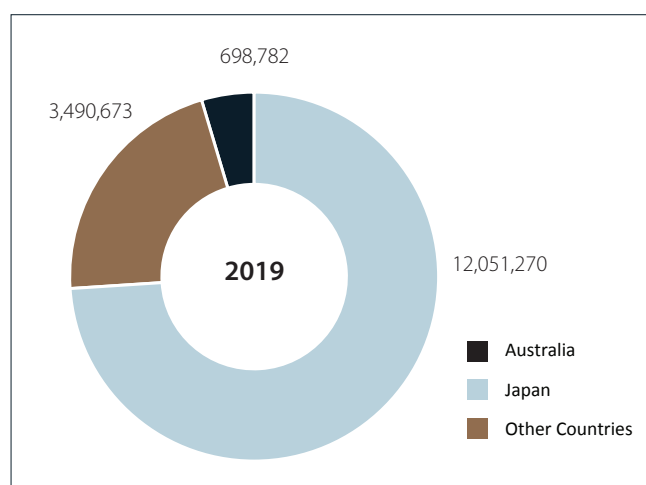
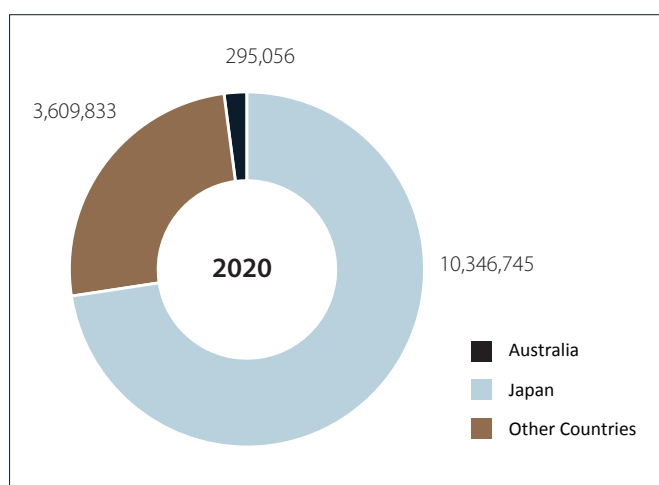
Inter-entity sales are recognised on a cost-plus arrangement as per the Advance Pricing Agreement (APA) effective 1 July 2017 through to 30 June 2020. The transfer price terms per the APA are between 11.8% and 16.47%. These transactions are eliminated within the internal reports. The revenue from external parties reported to the chief operating decision maker is measured in a manner consistent with that in the statement of profit or loss and other comprehensive income.

It is the Group's policy that if items of revenue and expense are not allocated to operating segments then any associated assets and liabilities are also not allocated to segments. This is to avoid asymmetrical allocations within segments which management believe would be inconsistent.

Segment revenue reconciles to total revenue from contracts with customers in the statement of profit or loss and other comprehensive income as follows:

	2020 \$	2019 \$
<b>TOTAL SEGMENT REVENUE</b>	<b>27,951,111</b>	31,056,073
Inter-segment eliminations	<b>(14,210,726)</b>	(14,853,766)
Other revenues	-	38,418
<b>TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS (NOTE 3)</b>	<b>13,740,385</b>	16,240,725

#### Major customers by country



**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 30 June 2020 is as follows:

30 JUNE 2020	WHOLESALE LOOSE PEARLS		JEWELLERY		TOTAL
	AUSTRALIA \$	INDONESIA \$	AUSTRALIA \$	INDONESIA \$	
Total segment revenue	11,790,536	15,421,224	402,930	336,421	27,951,111
Inter-segment revenue	-	(14,210,726)	-	-	(14,210,726)
<b>REVENUE FROM EXTERNAL CUSTOMERS</b>	<b>11,790,536</b>	<b>1,210,498</b>	<b>402,930</b>	<b>336,421</b>	<b>13,740,385</b>
<b>TIMING OF REVENUE RECOGNITION</b>					
At a point in time	11,790,536	1,210,498	402,930	336,421	13,740,385
Over time	-	-	-	-	-
	<b>11,790,536</b>	<b>1,210,498</b>	<b>402,930</b>	<b>336,421</b>	<b>13,740,385</b>
<b>NORMALISED EBITDA</b>	<b>(1,752,609)</b>	<b>2,165,041</b>	<b>(67,854)</b>	<b>(166,676)</b>	<b>177,902</b>
<b>ADJUSTED NET OPERATING PROFIT/(LOSS) BEFORE INCOME TAX</b>	<b>(2,455,713)</b>	<b>1,982,090</b>	<b>(157,035)</b>	<b>(175,227)</b>	<b>(805,884)</b>
Depreciation and amortisation	357,568	179,245	80,254	8,946	626,012
Revaluation of Biological Assets	-	-	-	-	-
<b>TOTAL SEGMENT ASSETS</b>	<b>1,054,485</b>	<b>20,177,948</b>	<b>488</b>	<b>376,336</b>	<b>21,609,257</b>
Total assets include:					
Additions to non-current assets	40,089	906,237	-	-	946,326
<b>TOTAL SEGMENT LIABILITIES</b>	<b>(601,255)</b>	<b>(2,681,089)</b>	<b>-</b>	<b>(14,168)</b>	<b>(3,296,511)</b>

(ii) The segment information provided to the Board of Directors and management team for the reportable segments for the period ended 30 June 2019 is as follows:

30 JUNE 2019	WHOLESALE LOOSE PEARLS		JEWELLERY		TOTAL
	AUSTRALIA \$	INDONESIA \$	AUSTRALIA \$	INDONESIA \$	
Total segment revenue	15,206,115	15,154,080	245,521	450,357	31,056,073
Inter-segment revenue	-	(14,853,766)	-	-	(14,853,766)
<b>REVENUE FROM EXTERNAL CUSTOMERS</b>	<b>15,206,115</b>	<b>300,314</b>	<b>245,521</b>	<b>450,357</b>	<b>16,202,307</b>
<b>TIMING OF REVENUE RECOGNITION</b>					
At a point in time	15,206,115	300,314	245,521	450,357	16,202,307
Over time	-	-	-	-	-
	<b>15,206,115</b>	<b>300,314</b>	<b>245,521</b>	<b>450,357</b>	<b>16,202,307</b>
<b>NORMALISED EBITDA</b>	<b>624,298</b>	<b>286,259</b>	<b>(258,969)</b>	<b>(48,910)</b>	<b>602,678</b>
<b>ADJUSTED NET OPERATING PROFIT/(LOSS) BEFORE INCOME TAX</b>	<b>24,177</b>	<b>183,323</b>	<b>(294,179)</b>	<b>(63,125)</b>	<b>(149,804)</b>
Depreciation and amortisation	144,435	106,105	32,330	14,385	297,255
Revaluation of Biological Assets	-	-	-	-	-
<b>TOTAL SEGMENT ASSETS</b>	<b>1,185,456</b>	<b>24,217,500</b>	<b>366,040</b>	<b>1,080,091</b>	<b>26,849,086</b>
Total assets include:					
Additions to non-current assets or deferred tax.	-	1,132,878	3,595	8,401	1,144,874
<b>TOTAL SEGMENT LIABILITIES</b>	<b>(1,870,442)</b>	<b>(2,248,279)</b>	<b>(27,345)</b>	<b>(41,356)</b>	<b>(4,187,422)</b>

## 2.2. 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:

	2020 \$	2019 \$
<b>NET OPERATING (LOSS) BEFORE TAX</b>	<b>(805,884)</b>	(149,804)
Changes in fair value of biological and agricultural assets	<b>(6,704,155)</b>	(589,783)
Foreign exchange gains	<b>625,052</b>	552,334
Foreign exchange losses	<b>(168,064)</b>	(1,001,542)
Other	<b>77,985</b>	13,940
<b>(LOSS) BEFORE INCOME TAX FROM OPERATIONS</b>	<b>(6,975,068)</b>	(1,174,854)

### (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:

	2020 \$	2019 \$
<b>SEGMENT ASSETS</b>	<b>21,609,257</b>	26,849,086
Unallocated:		
Joint Venture Loans	<b>605</b>	1,365,463
Deferred tax assets	<b>689,873</b>	3,016,446
<b>TOTAL ASSETS AS PER THE STATEMENT OF FINANCIAL POSITION</b>	<b>22,299,735</b>	31,230,995

The total of non-current assets other than financial instruments and deferred tax assets located in Australia is \$941,927 (30 June 2019: \$2,890,036). The total located in Indonesia is \$14,468,195 (30 June 2019: \$15,203,333).

### (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:

	2020 \$	2019 \$
<b>SEGMENT LIABILITIES</b>	<b>3,296,511</b>	4,187,422
Unallocated:		
Current tax liabilities	<b>393,200</b>	421,675
Borrowings	<b>4,582,620</b>	2,870,140
Lease liabilities	<b>269,203</b>	-
Deferred tax liabilities	<b>116,657</b>	1,842,223
<b>TOTAL LIABILITIES AS PER THE STATEMENT OF FINANCIAL POSITION</b>	<b>8,658,191</b>	9,321,460

### (iv) Normalised EBITDA reconciliation

	2020 \$	2019 \$
Net (Loss) before tax	<b>(6,975,068)</b>	(1,174,854)
Finance/interest paid	<b>319,828</b>	321,147
Depreciation/amortisation	<b>626,012</b>	297,255
FX (gain)/loss	<b>(456,988)</b>	449,207
Agriculture standard revaluation (gain)/loss	<b>6,704,155</b>	589,783
Other non-operating (income)/expense	<b>(60,441)</b>	134,080
(Gain) / loss on derivative instruments	<b>20,404</b>	(13,940)
<b>NORMALISED EBITDA</b>	<b>177,902</b>	602,878

### 3. Revenue from Contracts with Customers

#### 3.1. REVENUE FROM CONTRACTS WITH CUSTOMERS

	2020 \$	2019 \$
Sale of goods	13,740,385	16,202,307
<b>TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS</b>	<b>13,740,385</b>	<b>16,202,307</b>

#### 3.2. OTHER INCOME

	2020 \$	2019 \$
Foreign exchange gains	625,052	552,334
Grant funds <sup>1</sup>	169,366	50,144
Gain on derivative financial instruments	-	13,940
Interest income	48,473	52,207
Gain on sale of joint venture	98,390	-
COVID-19 rent relief	23,577	-
Other Income	40,452	38,418
<b>TOTAL OTHER INCOME</b>	<b>1,005,310</b>	<b>707,043</b>

1. Grant funds includes export market development grant, Job Keeper payment scheme and BAS cashflow boost.

#### SIGNIFICANT ACCOUNTING POLICY

##### *Revenue from contracts with customers*

Revenue is recognised when the Group transfers control of products to a customer at the amount to which the Group expects to be entitled. Revenue shall be measured at the fair value of the consideration received or receivable. The amount of revenue arising on a transaction is usually determined by an agreement between the Group and the customer.

##### *Government Grants*

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the loss they are intended to compensate.

##### *Sale of Goods - Wholesale*

The Group produces and sells pearls in the wholesale market. Revenue from the sale of goods is recognised at a point in time when control of the product is transferred to the customer, which is typically on delivery.

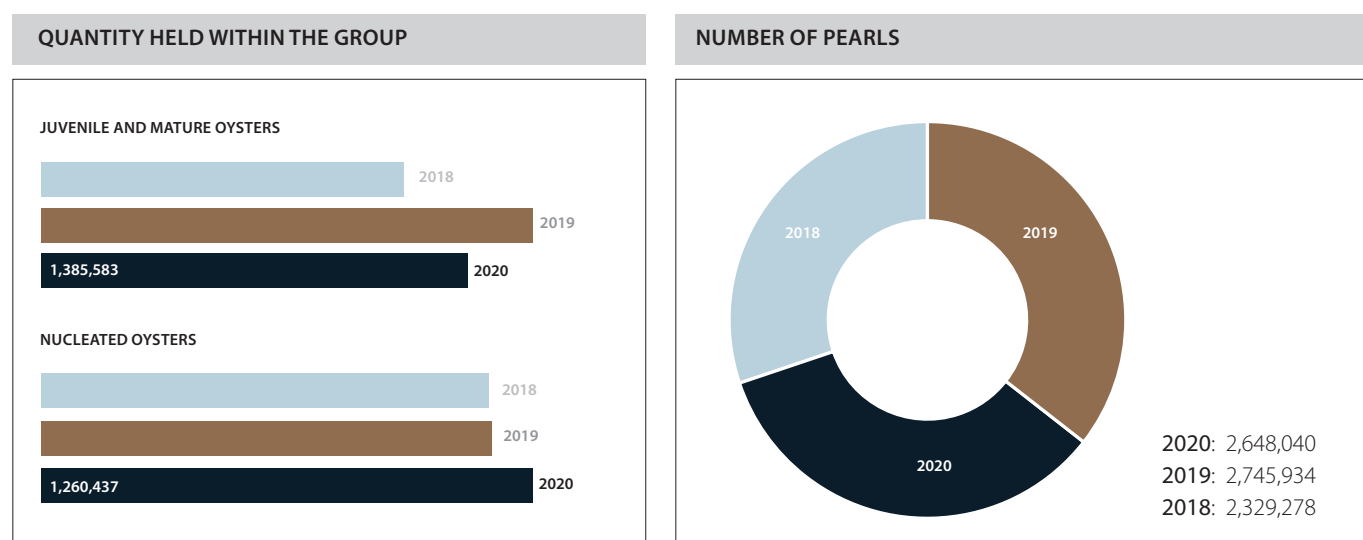
##### *Sale of Goods - Retail*

The Group operates a chain of retail stores selling pearl jewellery. Revenue from the sale of goods is recognised when the Group transfers control of the product to the customer, which is typically at the point of sale.

#### 4. *Biological Assets*

	2020 \$	2019 \$
<b>CURRENT</b>		
Oysters – at fair value	<b>5,410,284</b>	7,299,854
<b>TOTAL CURRENT BIOLOGICAL ASSETS</b>	<b>5,410,284</b>	7,299,854
<b>NON-CURRENT</b>		
Oysters – at fair value	<b>7,373,444</b>	9,730,810
<b>TOTAL NON-CURRENT BIOLOGICAL ASSETS</b>	<b>7,373,444</b>	9,730,810
<b>TOTAL BIOLOGICAL ASSETS</b>	<b>12,783,728</b>	17,030,664

Biological Assets recognised as current assets on the statement of financial position represent the estimated value of the pearls to be harvested within the next 12 months. The details of the Biological Assets that are held by the Group as at period end are as follows:



No significant events occurred which impacted on oyster mortalities during the financial year.

#### **SIGNIFICANT ACCOUNTING POLICY**

Agricultural assets include pearl oysters, both seeded and unseeded. Seeded oysters are measured at their fair value less estimated husbandry costs. The fair value of these biological assets is determined by using the present value of expected net cash flows from the oysters, discounted using a pre-tax market determined rate. The fair value of unseeded oysters is determined by reference to market prices for this type of asset in Indonesia.

Changes in fair value less estimated husbandry costs of these assets are recognised in the consolidated statement of profit or loss and other comprehensive income in the period they arise.

#### **SIGNIFICANT JUDGEMENT**

Fair value should reflect market participant views and market data at the measurement date under current market conditions. The valuation of oysters contains both observable and unobservable inputs impacted by COVID-19. Looking ahead, the impact of COVID-19 on the global economy and financial markets is expected to continue to evolve. The Group carefully considered these impacts when assessing the fair value of oyster stocks. A fair valuation expense of \$4,280,249 (2019: \$1,741,557 increase) is included in the valuation of biological assets.

The Group is exposed to financial risk in respect of its involvement in primary production which consists of the 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 the expenditure of cash in relation to the operation of the farm and the harvesting of the pearls and realisation of cash receipts from the 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. The data is taken from internal management reporting and work completed by the executive within the respective field teams to determine the material inputs to the model. The key production inputs are confirmed with the relevant executives and agreed with the Board of Directors every six months. These are listed in note 4.1.

#### 4.1. KEY PRODUCTION ASSUMPTIONS

The key assumptions utilised to determine the fair market value of oysters are detailed below:

INPUT	2020	2019	COMMENTARY
Average selling price	¥9,413 - ¥12,383 per momme	¥13,200 per momme	Obtained by analysing sales prices achieved and the trend analysis of the past 12 months of average sales prices.
Yen exchange rate	¥76.60: AUD 1	¥75.73: AUD 1	Based on forward Yen price per a financial institution.
Average pearl size	0.39	0.37	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%	36%	Based on historical data for pearl grade over the last 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	\$2.04	\$2.46	Based on historical independant valuation.
Costs to complete	\$0.76	\$0.77	Based on historical averages of costs to complete and sell pearls per momme.

#### 4.2. SENSITIVITY ANALYSIS - OYSTERS

The following tables summarise the potential impact of changes in the key non-production related variables on the oyster valuation:

	AVERAGE SELLING PRICE (¥/MOMME)		
	-10% ¥9,541 (SELLABLE GRADE) ¥921 (COMMERCIAL GRADE)	NO CHANGE ¥10,601 (SELLABLE GRADE) ¥1,023 (COMMERCIAL GRADE)	+10% ¥11,661 (SELLABLE GRADE) ¥1,126 (COMMERCIAL GRADE)
DISCOUNT RATE	PROFIT \$	PROFIT \$	PROFIT \$
22%	(460,307)	(191,467)	77,374
20%	(274,288)	-	274,288
18%	(80,711)	199,259	479,229

	AVERAGE SELLING PRICE (¥/MOMME)		
	-10% ¥9,541 (SELLABLE GRADE) ¥921 (COMMERCIAL GRADE)	NO CHANGE ¥10,601 (SELLABLE GRADE) ¥1,023 (COMMERCIAL GRADE)	+10% ¥11,661 (SELLABLE GRADE) ¥1,126 (COMMERCIAL GRADE)
FX RATE	PROFIT \$	PROFIT \$	PROFIT \$
84.26	(2,365,850)	(2,116,572)	(1,867,294)
76.60	(274,288)	-	274,288
68.94	2,281,683	2,586,564	2,891,445

	SELLABLE %		
	-10% 32% (SELLABLE %) 58% (COMMERCIAL %)	NO CHANGE 35% (SELLABLE %) 65% (COMMERCIAL %)	+10% 39% (SELLABLE %) 71% (COMMERCIAL %)
AV. WEIGHT	PROFIT \$	PROFIT \$	PROFIT \$
0.43	257,933	2,322,677	4,389,593
0.39	(1,877,792)	-	1,879,732
0.36	(3,988,902)	(2,296,379)	(602,110)



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

5.1. ADMINISTRATION EXPENSES FROM ORDINARY ACTIVITIES

	2020 \$	2019 \$
Salaries and wages	3,004,855	3,401,080
Depreciation property, plant and equipment and occupancy costs	294,598	233,070
Amortisation of intangible asset	102,803	64,185
Amortisation of right-of-use asset	228,611	-
Occupancy Costs	158,711	510,680
Compliance and accounting	405,965	360,662
Travel	318,308	383,297
Other	602,632	608,198
<b>TOTAL ADMINISTRATION EXPENSES</b>	<b>5,116,483</b>	<b>5,561,172</b>

5.2. FINANCE COSTS

	2020 \$	2019 \$
Interest and finance charges payable	342,017	373,354
Interest from lease Liabilities	26,284	-
<b>TOTAL FINANCE COSTS</b>	<b>368,301</b>	<b>373,354</b>

5.3. OTHER EXPENSES

	2020 \$	2019 \$
Loss on foreign exchange	168,064	1,001,542
Loss on derivative financial instruments	20,404	-
Provision for employee entitlements	254,854	123,985
Share option expense	37,948	134,080
Other	307,982	121,280
<b>TOTAL OTHER EXPENSES</b>	<b>789,252</b>	<b>1,380,887</b>

## 6. Earnings profit / (loss) per share

	2020 \$	2019 \$
Basic (loss) per share (cents per share)	(1.90)	(0.84)
Diluted earnings per share (cents per share)	-	-

### 6.1. EARNINGS RECONCILIATION

	2020 \$	2019 \$
Net (loss) used for basic earnings	(8,076,828)	(3,582,461)
After tax effect of dilutive securities	-	-
<b>DILUTED EARNINGS/(LOSS)</b>	<b>(8,076,828)</b>	<b>(3,582,461)</b>

	2020 \$	2019 \$
Weighted average number of ordinary shares outstanding during the period used for calculation of basic earnings per share	424,809,620	424,809,620
Adjustments for calculation of diluted earnings per share: options (note 26)	-	-
<b>WEIGHTED AVERAGE NUMBER OF POTENTIAL ORDINARY SHARES OUTSTANDING DURING THE PERIOD USED FOR CALCULATION OF DILUTED EARNINGS PER SHARE</b>	<b>424,809,620</b>	<b>424,809,620</b>

Diluted earnings per share is calculated after taking into consideration all options and any other securities that were on issue that remain unconverted at 30 June 2020 as potential ordinary shares which may have a dilutive effect on the profit of the 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.

#### SIGNIFICANT ACCOUNTING POLICY

##### *Basic earnings per share*

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial period, adjusted for bonus elements in ordinary shares issued during the period. Refer to Note 26.1 for further detail.

##### *Diluted earnings per share*

Diluted earnings per share adjusts the figure used in determination of basic earnings per share to take into account the after income tax effect of interest and other financial costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares. Refer to Note 26.1 for further detail.

## PART C TAX

### 7. Tax

#### 7.1. INCOME TAX EXPENSE

	2020 \$	2019 \$
<b>(A) THE COMPONENTS OF TAX EXPENSE/(BENEFIT) COMPRISE:</b>		
Current tax	543,587	789,180
Deferred tax	601,006	1,618,427
Prior period (over) provision	(42,833)	-
<b>INCOME TAX EXPENSE</b>	<b>1,101,760</b>	<b>2,407,607</b>
<b>(B) DEFERRED INCOME TAX (REVENUE) EXPENSE INCLUDED IN INCOME TAX EXPENSE COMPRISES:</b>		
Decrease/(increase) in deferred tax assets (excluding tax losses) (note 7.2)	2,326,571	983,310
(Decrease)/increase in deferred tax liabilities (note 7.2)	(1,725,565)	635,117
<b>DEFERRED TAX EXPENSE</b>	<b>601,006</b>	<b>1,618,427</b>
<b>(C) NUMERICAL RECONCILIATION OF INCOME TAX EXPENSE TO PRIMA FACIE TAX PAYABLE:</b>		
Loss before income tax expense	(6,975,068)	(1,174,854)
Tax at the Australian tax rate of 27.5%	(1,918,144)	(323,085)
Tax effect of amounts which are not deductible in calculating taxable income:		
Non-deductible expenses	84,217	134,990
Sundry items	109,653	440,475
Permanent differences	(13,750)	(24,222)
Difference in overseas tax rates	(49,846)	(60,391)
Prior period (over) provision	(42,833)	-
Capital losses not recognised	(262,835)	-
Previously recognised deferred tax assets	2,800,658	2,239,840
Adjustment to Australian tax rate	394,640	-
<b>INCOME TAX EXPENSE</b>	<b>1,101,760</b>	<b>2,407,607</b>
Weighted average effective tax rates	(16%)	(205%)
<b>(D) DEFERRED INCOME TAX AT 30 JUNE RELATES TO THE FOLLOWING:</b>		
Deferred tax liabilities		
Fair value adjustment on biological assets	1,726,026	(548,669)
Prepayments	128	313
Derivative financial instruments	5,611	(3,833)
Other	(6,200)	(82,927)
Deferred tax assets		
Difference in accounting and tax depreciation	73,350	(19,265)
Stock	(7,596)	525,130
Accruals	238	(3,775)
Provisions	66,719	126,192
Other	(54,220)	19,871
Tax losses	673,504	608,376
Investment	(277,908)	-
Previously recognised deferred tax assets	(2,800,658)	(2,239,840)
<b>DEFERRED (INCOME)</b>	<b>(601,006)</b>	<b>(1,618,427)</b>

For details of the franking account, refer to Note 17

**7.2. TAX ASSETS AND LIABILITIES**

	2020 \$	2019 \$
<b>(A) LIABILITIES</b>		
CURRENT		
Income tax payable	393,200	421,675
NON-CURRENT		
Deferred tax liabilities comprises temporary differences attributable to:		
Agricultural and biological assets at fair value	27,528	1,753,554
Prepayments	-	128
Current derivative instruments	-	5,611
Other	89,129	82,930
<b>TOTAL DEFERRED TAX LIABILITIES</b>	<b>116,657</b>	<b>1,842,223</b>
<b>(B) ASSETS</b>		
Deferred tax assets comprises temporary differences attributable to:		
Agricultural and biological assets at fair value	605,976	613,570
Accruals	18,613	18,375
Provisions	636,317	569,598
Impairment of loans	-	277,908
Tax allowances relating property, plant & equipment	73,350	-
Other	13,413	67,637
	<b>1,347,669</b>	<b>1,547,088</b>
Previously recognised deferred tax assets	<b>(5,040,498)</b>	<b>(2,239,840)</b>
Tax losses recognised	<b>4,382,702</b>	<b>3,709,198</b>
<b>TOTAL DEFERRED TAX ASSETS</b>	<b>689,873</b>	<b>3,016,446</b>
<b>(C) RECONCILIATIONS</b>		
The overall movement in deferred tax account is as follows:		
Opening balance	1,174,223	2,792,650
(Charge)/credit to statement of profit or loss and other comprehensive income	(601,006)	(1,618,427)
<b>CLOSING BALANCE</b>	<b>573,217</b>	<b>1,174,223</b>

**SIGNIFICANT JUDGEMENT****Deferred tax assets**

Deferred tax assets and liabilities have been brought to account after considering the level of tax losses carried forward and available to the Group against future taxable profits and the probability within the future that taxable profits will be available against which the benefits of the deductible temporary difference can be claimed.

During the year ended 30 June 2019 the Group converted an inter-company quasi-equity loan to equity, crystallising tax losses relating to foreign exchange movements. As a result of this transaction the Group has concluded that the total value of the tax losses available to the Group will not be fully utilised within the next five years and reversed \$2,239,840 of previously recognised deferred tax assets.

As a result of COVID-19, the Group assessed the carrying value of deferred tax assets relating to carry forward losses. The Group has determined that it is no longer probable that future tax profits will be available to utilise the carrying balance of tax losses within the next five years. Therefore a further reversal of previously recognised deferred tax assets of \$3,417,396 has been recognised at 30 June 2020.

The losses can be carried forward indefinitely and have no expiry date.

## PART D CASH FLOW INFORMATION

### 8. Cash and Cash Equivalents

	2020 \$	2019 \$
Cash at bank	718,302	1,017,220
<b>BALANCES PER STATEMENT OF CASH FLOWS</b>	<b>718,302</b>	<b>1,017,220</b>

#### RISK EXPOSURE

The Group's exposure to interest rate risk is disclosed in note 18. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of cash and cash equivalents mentioned above.

#### CASH NOT AVAILABLE FOR USE

The Group has cash held as a guarantee as part of their obligations under their lease agreement totalling \$100,000 (30 June 2019: \$100,000).

#### 8.1. NOTES TO THE CASH FLOW STATEMENT

##### 8.1.1. RECONCILIATION OF CASH

For the purposes of the statement of cash flows, and in line with the accounting policy, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, high liquid investments with original maturity or three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value, and bank overdrafts.

Cash at the end of the financial period as shown in the statement of cashflows is reconciled to the related items in the statement of financial performance as noted above.

##### 8.1.2. RECONCILIATION OF PROFIT/(LOSS) AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2020 \$	2019 \$
<b>PROFIT/(LOSS) AFTER INCOME TAX</b>	<b>(8,076,828)</b>	<b>(3,582,461)</b>
Depreciation and amortisation	626,012	297,255
Investment income	(98,390)	(45,600)
Share based payments	37,948	134,080
Foreign exchange (gain)/losses unrealised	613,260	277,954
Income tax expense/(benefit)	1,101,760	2,407,607
Derivative instrument (gains)/losses unrealised	20,404	(13,940)
Agricultural asset fair value (gains)/losses	6,704,155	589,783
Decrease/(increase) in trade and other debtors	1,726,452	149,767
Decrease/(increase) in inventories	(2,289,496)	1,338,228
(Decrease)/increase in trade and other creditors	(210,457)	420,902
Increase/(decrease) in provision	241,314	408,707
Increase/(decrease) in taxes	(1,689,199)	(1,618,427)
<b>NET CASH OBTAINED/ (USED IN) OPERATING ACTIVITIES</b>	<b>(1,293,065)</b>	<b>763,855</b>

As at the date of this report the Company has not entered into any non-cash financing or investing activities.

**8.1.3. CREDIT FACILITIES**

As at 30 June 2020, the Company had in place a bank overdraft loan facility with the National Australia Bank with a limit of \$1.5M (30 June 2019: \$1.5M).

**8.1.4. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES**

	CLOSING BALANCE 2019 \$	CASH FLOWS \$	PROCEEDS \$	NON-CASH CHANGES			CLOSING BALANCE 2020 \$
				FOREIGN VALUE CHANGES \$	FAIR VALUE CHANGES \$	RE-CLASS- IFICATION IN BALANCE SHEET \$	
Long term borrowings	750,000	-	-	-	-	(750,000)	-
Short-term borrowings	2,870,140	(2,678,023)	3,273,124	53,748	-	750,000	4,268,989
Lease liabilities	-	(503,081)	-	-	-	-	(503,081)
Assets held to hedge	-	-	-	-	-	-	-
<b>Total liabilities from financing activities</b>	<b>3,620,140</b>	<b>(3,181,104)</b>	<b>3,273,124</b>	<b>53,748</b>	<b>-</b>	<b>-</b>	<b>3,765,908</b>

**PART E WORKING CAPITAL****9. Inventories**

	2020 \$	2019 \$
Pearls	1,281,225	1,046,377
Jewellery	436,985	1,181,421
<b>TOTAL INVENTORY</b>	<b>1,718,210</b>	<b>2,227,798</b>

**SIGNIFICANT ACCOUNTING POLICY**

Pearls: Pearl inventory is held at cost and value assessed based on the cost of oyster stock at time of harvest. At each reporting date, pearl inventory is reviewed to ensure it is valued at the lower of cost and net realisable value. At 30 June 2020, a write off of pearl stocks of \$2,423,906 has been recorded (30 June 2019: \$2,331,340) to bring the value in line with the assessed net realisable value.

Net Realisable Value: Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

**10. Trade and Other Receivables**

	2020 \$	2019 \$
Trade receivables	126,030	288,798
Provision for loss allowance	-	-
Net trade receivables	126,030	288,798
Sundry debtors & prepayments	232,331	502,999
<b>TOTAL TRADE &amp; OTHER RECEIVABLES</b>	<b>358,361</b>	<b>791,797</b>

**SIGNIFICANT ACCOUNTING POLICY**

The Group's customers are required to pay in accordance with agreed payment terms. Depending on the capture of the sales, settlement terms are either cash on delivery or 30 days from the date of invoice. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised costs using the effective interest method. Details about the Group's impairment policies and the calculation of the loss allowance are provided in Note 28.

## 11. Trade and Other Payables

	2020 \$	2019 \$
CURRENT		
Provisions	2,260,371	2,074,104
Trade payables	573,734	822,720
Other payables and accrued expenses	353,660	277,998
<b>TOTAL CURRENT TRADE AND OTHER PAYABLES</b>	<b>3,187,764</b>	<b>3,174,823</b>
NON-CURRENT		
Other payables and accrued expenses	108,747	131,299
<b>TOTAL NON-CURRENT TRADE AND OTHER PAYABLES</b>	<b>108,747</b>	<b>131,299</b>
<b>TOTAL TRADE AND OTHER PAYABLES</b>	<b>3,296,511</b>	<b>3,306,122</b>

Non-current other payables comprise of accrued long service leave for employees with more than five year tenure with the Company and provision for make good of commercial rent.

### SIGNIFICANT ACCOUNTING POLICY

Trade Payables represent liabilities for goods and services provided to the Group prior to the end of the financial period which are unpaid. These amounts are unsecured and are usually settled within 30 days of recognition.

## PART F FIXED ASSETS

### 12. Property, plant and equipment

	2020 \$	2019 \$
<b>(A) NON-PEARLING ASSETS</b>		
Plant and equipment		
- at cost	1,121,537	1,087,569
- accumulated depreciation	(1,089,264)	(946,771)
	32,273	140,798
Leasehold improvements		
- at cost	898,999	1,058,057
- accumulated depreciation	(775,325)	(745,476)
	123,674	312,581
Total non-pearling assets	155,947	453,379
<b>(B) PEARLING PROJECT</b>		
Land (leasehold and freehold) and buildings		
- at cost	2,718,632	2,615,703
- accumulated depreciation	(674,293)	(567,581)
	2,044,339	2,048,122
Plant and equipment, vessels, vehicles		
- at cost	9,634,999	8,831,433
- accumulated depreciation	(6,547,038)	(5,815,021)
	3,087,961	3,016,412
Total pearling project	5,132,300	5,064,534
<b>TOTAL PROPERTY, PLANT AND EQUIPMENT</b>	<b>5,288,247</b>	<b>5,517,913</b>

Included in pearling project land (leasehold and freehold) and buildings is \$571,941 (30 June 2019: \$669,709) which represents construction of buildings in progress at cost.

Reconciliations of the carrying amount for each class of property, plant and equipment are set out below:

	2020 \$	2019 \$
<b>(A) NON-PEARLING ASSETS</b>		
Plant and equipment		
Carrying amount at beginning of the year	140,798	244,588
Additions	40,090	11,997
Reclassifications /Disposals	(2,341)	(911)
Depreciation	(142,068)	(115,394)
Foreign exchange movement	(4,205)	518
Carrying amount at end of the year	32,274	140,798
Leasehold Improvements		
Carrying amount at beginning of the year	312,581	377,895
Additions	-	-
Reclassifications/Disposals	(118,650)	-
Depreciation	(70,363)	(76,305)
Foreign exchange movement	106	10,991
Carrying amount at end of the year	123,674	312,581
<b>(B) PEARLING PROJECT</b>		
Leasehold land and buildings		
Carrying amount at beginning of the year	2,048,120	1,774,358
Additions	772,921	878,604
Revaluation of freehold land	(671,667)	(665,318)
Depreciation	(106,349)	(79,469)
Foreign exchange movement	1,314	139,947
Carrying amount at end of the year	2,044,339	2,048,122
Plant and equipment, vessels, vehicles		
Carrying amount at beginning of the year	3,016,413	2,638,193
Additions	133,316	254,274
Disposals / reclassifications	664,594	642,000
Depreciation	(735,366)	(711,663)
Foreign exchange movement	9,004	193,607
Carrying amount at end of the year	3,087,961	3,016,411
<b>TOTAL CARRYING AMOUNT</b>	<b>5,288,247</b>	<b>5,517,912</b>

Reconciliation of depreciation to the Statement of Profit or Loss and Other Comprehensive Income:

	2020 \$	2019 \$
Depreciation charge (Note 12)	(1,054,146)	(982,831)
Capitalised depreciation charge	759,548	685,576
<b>DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT</b>	<b>(294,598)</b>	<b>(297,255)</b>
Depreciation of PPE	(294,598)	(233,070)
Amortisation of Intangible Asset	(102,803)	(64,185)
Amortisation of right-of-use Asset	(228,611)	-
<b>DEPRECIATION CHARGE (NOTE 5)</b>	<b>(626,012)</b>	<b>(297,255)</b>



**SIGNIFICANT ACCOUNTING POLICY**

Each class of property, plant & equipment is stated at historical cost less, where applicable, any accumulated depreciation and impairment losses. The carrying value of property, plant and equipment and their useful lives are reviewed annually by management to ensure it is not in excess of the recoverable amount of these assets which is assessed on the basis of the expected net cash flows that will be received from the assets employed and subsequent disposal.

The cost of fixed assets constructed within the economic entity includes the cost of materials and direct labour. Repairs and maintenance carried out on the assets are expensed unless there is a future economic benefit that will flow to the Group which can be reliably measured, in which case the value of the asset is increased. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated statement of profit or loss and other comprehensive income.

Depreciation on property, plant and equipment is calculated on a straight-line basis so as to write off the cost or valuation of property, plant and equipment over their estimated useful lives commencing from the time the asset is held ready for use. The depreciation rates used for each class of depreciable assets are unchanged: Freehold Land (5-10%), Leasehold land & buildings improvements (5-10%), Vessels (10%), and Plant and Equipment (10-50%).

The estimations of useful lives, residual values and depreciation methods require significant management judgements and are regularly reviewed. If they need to be modified, the depreciation and amortisation expense is accounted for prospectively from the date of the assessment until the end of the revised useful life (for both the current and future years).

**13. Leases**

This note provides information for leases where the group is a lease. Lease amounts are presented in the statement of financial position as follows:

**(a) Right-of-use Assets**

	2020 \$	2019 \$
Land and buildings - right-of-use	2,728,657	-
Less: Accumulated depreciation	(2,159,054)	-
<b>TOTAL RIGHT-OF-USE ASSETS</b>	<b>569,603</b>	<b>-</b>

**(b) Lease Liabilities**

	2020 \$	2019 \$
Lease Liabilities (current)	269,203	-
Lease Liabilities (non-current)	-	-
<b>TOTAL LEASE LIABILITIES</b>	<b>269,203</b>	<b>-</b>

**(c) Impact of Adoption**

The Group has adopted AASB 16 from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classification of operating and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). On transition to AASB 16 the Group has chosen to measure right of use assets as if AASB 16 had been applied since the commencement of the lease, except that the discount rate used is the incremental borrowing rate on the date of initial application and certain practical expedients are available (see below for the practical expedients used by the Group). The Group has used this method for all of its leases.

AASB16 was adopted using the modified retrospective approach and as such the comparatives have not been restated. In applying the modified retrospective approach, the Group has taken advantage of the following practical expedients:

A single discount rate has been applied to portfolios of leases with reasonably similar characteristics.

Leases with a remaining term of 12 months or less from the date of application have been accounted for as short-term leases (i.e. not recognised on balance sheet) even though the initial term of the leases from lease commencement date may have been more than 12 months.

For the purposes of measuring the right-of-use asset hindsight has been used. Therefore, it has been measured based on prevailing estimates at the date of initial application and not retrospectively by making estimates and judgements (such as the term of leases) based on circumstances on or after the lease commencement date.

The weighed average incremental borrowing rate applied to lease liabilities on 1 July 2019 was 6.12%.

The impact of adoption on opening retained earnings as at 1 July 2019 was as follows:

	1 JUL 2019 \$
Operating lease commitments as at 1 July 2019 (AASB 117)	715,622
Operating lease commitments discount based on the weighted average incremental borrowing rate of 6.12% (AASB 16)	(671,733)
Accumulated depreciation as at 1 July 2019 (AASB 16)	(1,876,114)
Right-of-use assets (AASB 16)	2,424,512
Lease liabilities (AASB 16)	(671,733)
Tax effect on the above adjustments	11,782
Reduction in opening retained earnings as at 1 July 2019	(161,680)

**SIGNIFICANT JUDGEMENT****Leases**

In determining the leases terms, management considers all facts and circumstances that create an economic incentive to exercise and extension options, or not exercise termination options. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

Extension options on leased offices in Claremont, West Australia and Sanur, Indonesia have not been included in the lease liability because the Group could replace the assets without significant cost or business disruption.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

Refer to note 28 for accounting policy.

## PART G FUNDING, CAPITAL MANAGEMENT & EQUITY

### 14. Borrowings

	2020 \$	2019 \$
CURRENT		
Other loans	4,268,989	2,870,140
<b>TOTAL CURRENT BORROWINGS</b>	<b>4,268,989</b>	<b>2,870,140</b>
NON CURRENT		
Bank Loan	250,000	-
Other loans	63,631	750,000
<b>TOTAL NON-CURRENT BORROWINGS</b>	<b>313,631</b>	<b>750,000</b>
<b>TOTAL BORROWINGS</b>	<b>4,582,620</b>	<b>3,620,140</b>

Refer to Note 18.4 for disclosures on financing arrangements currently in place.

#### SIGNIFICANT ACCOUNTING POLICY

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds and the redemption amount is recognised in the statement of profit or loss and other comprehensive income over the period of the borrowings using the effective interest rate method.

Fees paid on the establishment of loan facilities, which are not an incremental cost relating to the actual draw down of the facility, are recognised in the statement of profit or loss and other comprehensive income.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, canceled or expired. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

### 15. Contributed equity

	2020 NO. OF SHARES	2019 NO. OF SHARES	2020 \$	2019 \$
Issued and fully paid-up capital	422,909,620	422,909,620	38,857,415	38,857,415
<b>ORDINARY SHARES</b>				
Balance at beginning of year	424,809,620	424,809,620	36,857,415	36,857,415
Shares issued	-	-	-	-
Share transaction costs	-	-	-	-
Balance at end of year	424,809,620	424,809,620	36,857,415	36,857,415
<b>TREASURY SHARES</b>				
Balance at beginning of year	3,062,138	3,062,138		
Shares released	-	-		
Balance at end of year	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 course of financial year ended 30 June 2020 to employees as part of the Atlas employee share salary sacrifice plan (30 June 2019: nil).

**(I) RIGHTS**

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of winding up of the Company, ordinary shareholders rank after all other shareholders (where applicable) and creditors and are fully entitled to any proceeds of liquidation in proportion to the number of shares held.

**(II) OPTIONS**

There are 17,596,165 unlisted options on issue at 30 June 2020. Information relating to the Atlas Limited Employee Option Plan, including details of options issued, exercised and lapsed during the financial year and the options outstanding at the end of the reporting period, is set out in note 26.

**(III) CAPITAL RISK MANAGEMENT**

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns to shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group has a net gearing ratio of 20% at 30 June 2020 (30 June 2019 : 20%)

The Group has no external requirements imposed upon it in relation to capital structure.

**SIGNIFICANT ACCOUNTING POLICY**

Ordinary share capital is recognised at the fair value of the consideration received by the Company and recognised in equity.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

**16. Reserves**

	2020 \$	2019 \$
Foreign Currency Translation Reserve	<b>(8,878,364)</b>	(8,810,933)
Employee Share Reserve	<b>911,215</b>	873,267
Revaluation Reserve	<b>179,179</b>	179,179
<b>TOTAL RESERVES</b>	<b>(7,787,970)</b>	(7,758,487)
Movements:		
Foreign Currency Translation Reserve <sup>1</sup>		
Balance at beginning of year	<b>(8,810,933)</b>	(10,269,725)
Currency translation differences arising during the year	<b>(67,431)</b>	1,458,792
Balance at end of year	<b>(8,878,364)</b>	(8,810,933)
Employee Share Reserve <sup>2</sup>		
Balance at beginning of year	<b>873,267</b>	739,187
Movement in Employee Share Reserve	<b>37,948</b>	134,080
Balance at end of year	<b>911,215</b>	873,267
Revaluation Reserve <sup>3</sup>		
Balance at beginning of year	<b>179,179</b>	179,179
Movement in Revaluation Reserve	-	-
Balance at end of year	<b>179,179</b>	179,179

NOTES: 1. The foreign currency translation reserve records exchange differences arising on translation of foreign controlled subsidiaries to the reporting currency.

2. The employee share reserve records the value of equity portion of remuneration paid to employees in the form of shares or other equity instruments.

3. The revaluation reserve records the value of increase in the carrying value of assets as a result of revaluation.

## 17. Dividends

	2020 \$	2019 \$
Dividend Franking Account		
Franking credits available to shareholders of the Company for subsequent financial years based on a tax rate of 27.5%	<b>1,305,572</b>	1,305,572

The above amounts represent the balance of the franking account as at the end of the financial period adjusted for:

- (i) Franking credits that will arise from the payment of the amount of the provision for income tax;
- (ii) Franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
- (iii) Franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

### SIGNIFICANT ACCOUNTING POLICY

A Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the period but not distributed at reporting date.

No dividends have been paid or declared in respect of the 2020 financial year or the period ended 30 June 2019.

## PART H FINANCIAL RISK MANAGEMENT

### 18. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. The Group uses sensitivity analysis in the case of interest rate and foreign exchange risks and aging analysis for credit risk. Risk management is carried out by the Board of Directors and senior management.

The Group holds the following financial instruments:

	2020 \$	2019 \$
<b>FINANCIAL ASSETS</b>		
Cash and cash equivalents	<b>718,302</b>	1,017,220
Trade and other receivables	<b>126,030</b>	310,502
Derivative financial instruments	-	20,405
<b>TOTAL FINANCIAL ASSETS</b>	<b>844,332</b>	1,348,127
<b>FINANCIAL LIABILITIES</b>		
Trade and other payables	<b>675,829</b>	824,821
Lease Liabilities	<b>378,404</b>	
Borrowings	<b>4,582,620</b>	3,620,140
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>5,636,854</b>	4,444,961

#### 18.1. MARKET RISK

##### (I) FOREIGN EXCHANGE RISK

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Japanese Yen ("JPY"), Indonesian Rupiah ("IDR") and US Dollars ("USD").

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency and net investments in foreign operations. The risk is measured using sensitivity analysis and cash flow forecasting.

Management manages their foreign exchange risk against their functional currency. Group companies are required to hedge a proportion of their foreign exchange risk exposure arising from future commercial transactions and recognised assets and liabilities using forward exchange contracts and options under the guidance of the Board of Directors.

The majority of the Group's cash reserves are held in Australian banks with AAA ratings.

##### GROUP SENSITIVITY ANALYSIS

Sensitivity analysis is based on exchange rates in US Dollars and Japanese Yen increasing or decreasing by 10% and the effect on profit and equity.

	STATEMENT OF FINANCIAL POSITION AMOUNT AUD		FOREIGN EXCHANGE RATE RISK							
			30 JUNE 2020				30 JUNE 2019			
			-10%		10%		-10%		10%	
			2020	2019	PROFIT	EQUITY	PROFIT	EQUITY	PROFIT	EQUITY
<b>FINANCIAL ASSETS</b>										
Cash	<b>718,302</b>	1,017,220	<b>1,711</b>	-	<b>(1,400)</b>	-	63,182	-	(51,694)	-
Trade and other receivables	<b>126,030</b>	310,502	-	-	-	-	27,143	-	(22,208)	-
Derivatives	-	20,405	-	-	-	-	2,267	-	(1,855)	-
<b>FINANCIAL LIABILITIES</b>										
Trade and other payables	<b>675,829</b>	824,821	<b>(2,152)</b>	-	<b>1,761</b>	-	(37,374)	-	30,579	-
Borrowings	<b>4,582,620</b>	3,620,140	<b>(194,894)</b>	-	<b>159,459</b>	-	-	-	-	-
Derivatives	-	-	-	-	-	-	-	-	-	-
Total Increase/(Decrease)			<b>(195,336)</b>	-	<b>159,820</b>	-	55,218	-	(45,178)	-

Trade debtors relates to sales made in JPY. Current borrowings are all held in AUD and JPY. Not shown in the table above is the exposure to exchange movements on the inter-company loans made to the Indonesian subsidiaries. The loans are held in IDR and revalued to AUD at each year end. The loan balance as at 30 June 2020 was \$3,810,433 (30 June 2019: AUD\$2,736,848). The inter-company loans are eliminated on consolidation.

(ii) Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from its borrowings, which are repayable by 30 October 2020 at fixed interest rates. As such the Group considers that any fair value interest rate risk or cash flow risk will be immaterial.

(iii) Price risk

The Group is exposed to fluctuations in pearl prices. This product is not traded as a commodity on an open market and as such the price risk cannot be hedged.

## 18.2. CREDIT RISK

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments, as well as credit exposures to wholesale and retail customers, including outstanding receivables. The Group considers the credit quality of the customer, taking into account its financial position, past experience and other factors. Sales to retail customers are required to be settled in cash or using major credit cards, thus mitigating credit risk.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised below. For retail customers without credit rating the Group generally retains title over the goods sold until payment is received in full.

All cash balances held at banks are held at internationally recognised institutions. The Australian Government has guaranteed all deposits held with Australian banks, cash held in Indonesia is not covered by this guarantee. The majority of other receivables held are with related parties and within the Group. Given this, the credit quality of financial assets that are neither past due or impaired can be assessed by reference to historical information about default rates.

### *Impairment of financial assets*

The Group hold trade receivables that are subject to the expected credit loss model. While cash and cash equivalents are also subject to the impairment requirements of AASB 9, the identified impairment loss was immaterial.

### *Trade receivables*

The Group applies the AASB 9 simplified approach to measuring the expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The expected credit losses have been grouped based on shared credit risk characteristics and the days past due.

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience, historical collection rates, the impact of the Coronavirus (COVID-19) pandemic and forward-looking information that is available. The allowance for expected credit losses, is calculated based on the information available at the time of preparation. The actual credit losses in future years may be higher or lower.

Major purchases are invoiced as cash on delivery (COD). Smaller accounts are provided 30 day credit terms and are usually paid by their due date.

On that basis, the loss allowance as at 30 June 2020 and 30 June 2019 was determined to be nil.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group and failure to make contractual payments for a period of greater than 120 days past due.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

	2020 \$	2019 \$
<b>TRADE RECEIVABLES</b>		
Wholesale customers – existing customers with no previous defaults	<b>9,486</b>	288,798
Derivative financial assets	-	20,405

## 18.3. LIQUIDITY RISK

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Management aims at maintaining flexibility in funding by keeping committed credit lines available. Surplus funds are generally only invested in instruments such as term deposits that are highly liquid. Management monitors rolling forecasts of the Group's liquidity reserve (comprising the un-drawn borrowing facilities below) and cash and cash equivalents (Note 8) on the basis of expected cash flows. This is generally carried out by the Senior Management and the Board of Directors on a Group basis. In addition, the Group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these and monitoring debt financing plans.

## 18.4. FINANCING ARRANGEMENTS

The Group had access to the following borrowing facilities at the reporting date.

	2020 \$	2019 \$
Foreign currency trade loans	1,754,048	-
Overdraft facility (NAB)	1,500,000	1,500,000
NAB COVID-19 Loan	250,000	-
	<b>3,504,048</b>	1,500,000

- During the year ended 30 June 2020, the Company maintained the existing \$1,500,000 working capital overdraft facility with the National Australia Bank (NAB). The overdraft facility will be secured by a registered company charge over the Company's Assets. As at 30 June 2020 no amount had has been drawn down on this facility, (30 June 2019: \$1,120,140).
- During the year ended 30 June 2020, no repayments were made to the debt financing package from the Martin Family (a related party).
- On 27 August, the Group entered into a new loan agreement with Boneyard Investments Pty Ltd (Boneyard) which replaces its Existing Loan Agreement and pursuant to which agreement, Boneyard has agreed to make a revolving loan facility available to Atlas;
- The aggregate of all loans provided by Boneyard under the Facility will be an amount equal to \$4.5M, being the \$2.5M loan outstanding under the Existing Loan Agreement as well as an additional loan in the amount of \$2M. Refer note 18.4 for full details;
- Repayment of any loans outstanding under the Facility as at 31 March 2021 are scheduled equally over four tranches commencing on 31 March 2021, with the last tranche due for repayment on 30 September 2022;
- Any amounts repaid by Atlas prior to 31 March 2021 may be re-borrowed under the Facility up to a limit of \$4.5M;
- Loans provided under the Facility will bear interest at the rate of 7.5% per annum (which is identical to the interest provisions under the Existing Loan Agreement);
- Subject to shareholder approval, all outstanding loans and interest under the New Loan Agreement will be convertible into shares in Atlas in the event Atlas defaults on its repayment terms, with conversion being at Boneyard's option In that event, the conversion price per share will be at a 15% discount to the most recent 30 day VWAP.
- On 1 July 2018, the Company agreed to an unsecured short-term loan of ¥165,000,000. The loan was repaid in full on 17 June 2019.
- On 9 April 2019, the Company agreed to an unsecured short-term loan of ¥200,000,000. On 8 June 2020 the Company agreed to extend the short-term loan. A repayment of ¥70,000,000 was made on 23 June 2020. The remaining loan balance is payable by grant of four equal first purchase rights of ¥32,500,000 exercisable each quarter.
- On 11 June 2020, the Company received a \$250,000 loan from NAB. The loan is repayable over a three year period at a variable interest rate. Payments are deferred for six months.

## 18.5. MATURITIES OF FINANCIAL LIABILITIES AND DERIVATIVE FINANCIAL INSTRUMENTS

The table below analyses the Group's financial liabilities, net and gross settled derivative financial instruments into relevant maturity groupings based on their remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual un-discounted cash flows.

Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	30 JUNE 2020						30 JUNE 2019					
	LESS THAN 6 MONTHS	6 - 12 MONTHS	BETWEEN 1 & 2 YEARS	BETWEEN 2 & 5 YEARS	TOTAL CONTRAC- TUAL CASH FLOWS	CARRYING AMOUNT (ASSET)/ LIABILITIES	LESS THAN 6 MONTHS	6 - 12 MONTHS	BETWEEN 1 & 2 YEARS	BETWEEN 2 & 5 YEARS	TOTAL CONTRAC- TUAL CASH FLOWS	CARRYING AMOUNT (ASSET)/ LIABILITIES
CONSOLIDATED ENTITY	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>NON-DERIVATIVES</b>												
Trade payables	675,829	-	-	-	675,829	675,829	824,821	-	-	-	824,821	824,821
Borrowings	3,377,024	960,357	83,333	83,333	4,504,048	4,504,048	-	1,750,000	750,000	-	2,500,000	2,500,000
Lease Liabilities	181,572	124,416	20,209	52,207	378,404	378,404	-	-	-	-	-	-
<b>TOTAL NON-DERIVATIVES</b>	<b>4,234,426</b>	<b>1,084,774</b>	<b>103,542</b>	<b>135,540</b>	<b>5,558,281</b>	<b>5,558,281</b>	<b>824,821</b>	<b>1,750,000</b>	<b>750,000</b>	<b>-</b>	<b>3,324,821</b>	<b>3,324,821</b>
<b>DERIVATIVES</b>												
Net settled (Non deliverable forwards)	-	-	-	-	-	-	20,405	-	-	-	20,405	20,405
Gross settled												
-(inflow)	-	-	-	-	-	-	2,334,223	-	-	-	2,334,223	2,334,223
-(outflow)	-	-	-	-	-	-	(2,313,818)	-	-	-	(2,313,818)	(2,313,818)
<b>TOTAL DERIVATIVES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20,405</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20,405</b>	<b>20,405</b>



**(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/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 30 June 2020 and 30 June 2019 on a recurring basis:

30 JUNE 2020	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
	\$	\$	\$	\$
<b>ASSETS</b>				
Forward foreign exchange contracts	-	-	-	-
Biological Assets	-	-	12,783,728	12,783,728
<b>TOTAL ASSETS</b>	-	-	<b>12,783,728</b>	<b>12,783,728</b>

30 JUNE 2019	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
	\$	\$	\$	\$
<b>ASSETS</b>				
Forward foreign exchange contracts	-	20,405	-	20,405
Biological Assets	-	-	17,030,664	17,030,664
<b>TOTAL ASSETS</b>	-	<b>20,405</b>	<b>17,030,664</b>	<b>17,051,069</b>

**(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.

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. 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 production inputs are confirmed with the relevant executives and agree with the Board of Directors every six. These are listed in point (C) below.

- 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 period ended 30 June 2020 or 30 June 2019.

**(C) FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)**

The following table presents the changes in level 3 instruments for the period ended 30 June 2020:

	BIOLOGICAL ASSETS	TOTAL
	\$	\$
<b>OPENING BALANCE 30 JUNE 2019</b>	17,030,664	<b>17,030,664</b>
Additions	54,587	<b>54,587</b>
Gains recognised through 'change in fair value'	1,827,417	<b>1,827,417</b>
Losses recognised through 'change in fair value'	(6,128,940)	<b>(8,782,052)</b>
<b>CLOSING BALANCE AT 30 JUNE 2020</b>	12,783,728	<b>10,130,615</b>

INPUT	2020	2019	COMMENTARY
Average selling price	<b>¥9,413 - ¥12,383 per momme</b>	¥13,200 per momme	Obtained by analysing sales prices achieved and the trend analysis of the past 12 months of average sales prices.
Yen exchange rate	<b>¥76.60: AUD 1</b>	¥75.73: AUD 1	Based on forward Yen price per a financial institution.
Average pearl size	<b>0.39</b>	0.37	Based on technical assessment of expected harvest output, and taking into account historical actual results over the past 12 months.
Proportion of marketable grade	<b>35%</b>	36%	Based on historical data for pearl grade over the last 12 months.
Discount rate	<b>20%</b>	20%	Based on analysis of comparable primary producers.
Mortality	<b>Historical</b>	Historical	Based on historical harvest mortality rates.
Average unseeded oyster value	<b>\$2.04</b>	\$2.46	Based on historical independant valuation.
Costs to complete	<b>\$0.76</b>	\$0.77	Based on historical averages of costs to complete and sell pearls per momme.

#### (D) FAIR VALUES OF OTHER FINANCIAL INSTRUMENTS

The Group also has a number of financial instruments which are not measured at fair value in the statement of financial position. These had the following fair values as at 30 June 2020:

	2020	2020	2019	2019
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Bank Loan	<b>250,000</b>	<b>250,000</b>	-	-
Debt Financing	<b>4,252,048</b>	<b>4,252,048</b>	750,000	750,000
<b>TOTAL NON-CURRENT BORROWING</b>	<b>4,502,048</b>	<b>4,502,048</b>	750,000	750,000

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

## PART I UNRECOGNISED ITEMS

### 19. Events occurring after the reporting period

At report date, the impact of the Coronavirus (COVID-19) pandemic is ongoing and casts uncertainty over the Company's ability to realise future sales. It is not practical to reliably measure any future impact, as the situation continues to rapidly develop and is dependant on measures imposed by each Countries Government. Travel restrictions, quarantine rules, social distancing regulations and commercial flight availability all influence the Company's ability to move pearls and people. Management continue to observe the developing situation and are responding proactively, ensuring minimum business disruption where possible.

On 27 August, the Group entered into a new loan agreement with Boneyard Investments Pty Ltd (Boneyard) which replaces its Existing Loan Agreement and pursuant to which agreement, Boneyard has agreed to make a revolving loan facility available to Atlas. The aggregate of all loans provided by Boneyard under the Facility will be an amount equal to \$4.5M, being the \$2.5M loan outstanding under the Existing Loan Agreement as well as an additional loan in the amount of \$2M. Refer note 18.4 for full details.

### 20. Commitments

Atlas Pearls had a bank guarantee with the National Bank of Australia for AUD\$100,000 at 30 June 2020 (30 June 2019: \$100,000). This guarantee has been taken out to secure the rental of the Atlas Pearls corporate offices in Claremont, Western Australia.

### 21. Contingencies

The Company's historical tax affairs are regularly subject to audit by the Indonesian Tax Office and this process remains ongoing. There is a possibility that this review programme may result in future tax liabilities in relation to prior year tax returns. All assessments received to date have been brought to account. Currently there are no periods under review.

## PART J OTHER

### 22. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 28.2.

NAME OF ENTITY	CLASS OF SHARES	PERCENTAGE OWNED	PERCENTAGE OWNED	PLACE OF INCORPORATION
		30 JUNE 2020	30 JUNE 2019	
Perl'Eco Pty Ltd	Ord	100%	100%	Australia
Tansim Pty Ltd	Ord	100%	100%	Australia
P.T. Cendana Indopearls	Ord	100%	100%	Indonesia
P.T Disthi Mutiara Suci	Ord	100%	100%	Indonesia
P.T Chaya Bali	Ord	100%	100%	Indonesia
Aspirasi Satria Sdn Bhd	Ord	100%	100%	Malaysia

The ultimate parent entity, Atlas Pearls Ltd, is incorporated in Australia.

### 23. Related party transactions

#### (A) SUBSIDIARIES

Interests in subsidiaries are set out in note 22.

#### (B) JOINT VENTURES

World Senses Pty Ltd was formed on 29 November 2012 as a joint venture between Nomad Two Worlds Global Trading Pte Ltd and Atlas Pearls Ltd.

At 30 June 2020, there is a net loan balance of \$698,212 owing from World Senses Pty Ltd to Atlas (30 June 2019: \$698,212). This balance consists of salary and administration recharges and accounting charges, offset by pearl cosmetic products, pearl jewellery and pearl protein extraction assets transferred to Atlas. The net loan receivable balance for Atlas from World Senses Pty Ltd of \$698,212 has been fully impaired due to the net liability position of the World Senses Pty Ltd accounts.

Essential Oils of Tasmania Pty Ltd (EOT) was acquired in January 2013 as a 100% subsidiary. On 20 April 2015 50% of the investment in the entity was sold to Westwood Properties Pty Ltd. Post this sale Essential Oils of Tasmania Pty Ltd has been deemed a joint venture and accounted for using the equity method. On 30 June 2020, the Company announced the sale of the joint venture (refer to note 24).

	2020 \$	2019 \$
Due from World Senses Pty Ltd	771,173	771,173
Due to World Senses Pty Ltd	(72,961)	(72,961)
Impairment of World Senses asset	(698,212)	(698,212)
Due from Essential Oils of Tasmania Pty Ltd	-	2,180,879
Impairment of Essential Oils of Tasmania Pty Ltd Receivable	-	(816,028)
<b>TOTAL LOANS TO JOINT VENTURES</b>	-	1,364,581

#### (C) KEY MANAGEMENT PERSONNEL COMPENSATION

Detailed remuneration disclosures are provided in section 13.2 of the remuneration report.

	2020 \$	2019 \$
Short-term employment benefits	795,921	814,130
Post-employment benefits	37,448	39,284
Share based compensation	18,262	91,250
	<b>851,631</b>	944,666

**(D) TRANSACTIONS WITH OTHER RELATED PARTIES**

The following balances are outstanding at the end of the reporting period in transactions with related parties:

	2020 \$	2019 \$
Director fees payable	3,333	10,667
Expatriate Medical Insurance	6,978	-

**(E) LOANS FROM RELATED PARTIES**

Refer to Note 18.4 for detailed disclosures on financing arrangements. Loans detailed below are accounted for under current and non-current liabilities (see note 14).

	2020 \$	2019 \$
Beginning of the year	2,500,000	3,250,000
Loans advanced from	-	-
Principal repayments	-	(750,000)
Interest charged	188,014	229,829
Interest paid	(141,267)	(229,829)
<b>END OF YEAR</b>	<b>2,546,747</b>	<b>2,500,000</b>

**24. Interests in Joint Ventures****(A) JOINT VENTURE**

The parent entity has a 50% interest in World Senses Pty Ltd, which is a resident in Australia and the principal activity of which was the commercialisation of Atlas and Essential Oils of Tasmania Pty Ltd's research and development, products and export markets.

The interest in World Senses Pty Ltd is accounted for in the financial statements using the equity method of accounting (refer to note 23). The joint venture is unlisted hence no quoted fair value is disclosed. Information regarding to the joint ventures are set out below.

	2020 \$	2019 \$
<b>WORLD SENSES PTY LTD</b>		
<b>JOINT VENTURES' ASSETS AND LIABILITIES</b>		
Current assets	302,568	304,246
Non-current assets	441,333	441,333
Total assets	743,901	745,579
Current liabilities	41,341	41,491
Non-current liabilities	1,760,292	1,760,292
Total liabilities	1,801,633	1,801,783
<b>NET ASSETS</b>	<b>(1,057,731)</b>	<b>(1,056,204)</b>
<b>JOINT VENTURE'S REVENUES, EXPENSES AND RESULTS</b>		
Revenues	360	-
Expenses	(1,888)	(718)
Profit/(loss) for the period	(1,528)	(718)
<b>RECONCILIATION TO CARRYING VALUE</b>		
Opening net asset 1 July	(1,056,204)	(1,055,486)
Profit/(loss) for the period	(1,528)	(718)
<b>CLOSING NET ASSETS (LIABILITIES)</b>	<b>(1,057,731)</b>	<b>(1,056,204)</b>
<b>GROUP'S SHARE IN PERCENTAGE</b>		
Group share in profit/(loss)	(764)	(359)
Carrying value	-	-

	2020 \$	2019 \$
<b>ESSENTIAL OILS OF TASMANIA PTY LTD</b>		
<b>JOINT VENTURES' ASSETS AND LIABILITIES</b>		
Current assets	-	4,262,277
Non-current assets	-	1,181,730
Total assets	-	5,444,007
Current liabilities	-	473,693
Non-current liabilities	-	4,706,483
Total liabilities	-	5,180,176
<b>NET ASSETS</b>	-	263,831
<b>JOINT VENTURE'S REVENUES, EXPENSES AND RESULTS</b>		
Revenues	-	3,832,172
Expenses	-	(3,504,422)
Profit/(loss) for the period	-	327,750
<b>RECONCILIATION TO CARRYING VALUE</b>		
Opening net asset 1 July	-	(63,919)
Profit/(loss) for the period	-	327,750
<b>CLOSING NET ASSETS (LIABILITIES)</b>	-	263,831
<b>GROUP'S SHARE IN PERCENTAGE</b>		
Group share in profit/(loss)	-	50%
Carrying value	-	163,875
	-	-

On 30 June 2020, the Company sold its 50% interest in Essential Oils of Tasmania (EOT) for consideration of \$1,500,000, resulting in a profit on sale before income tax of \$98,390. Atlas has been reviewing the strategic options surrounding EOT and the growing need for additional funding in EOT to produce the required commercial return culminated Atlas' decision to sell its holding.

	2020
Total Sale Consideration	1,500,000
Reversal of previous impairment	816,029
Carrying amount of net assets disposed	(2,217,639)
<b>GAIN ON SALE OF JOINT VENTURE</b>	<b>98,390</b>

## (B) CONTINGENT LIABILITIES RELATING TO JOINT VENTURES

Each of the partners in World Senses Pty Ltd are jointly and severally liable for the debts of the joint venture. The assets of the joint venture do not exceed its' debts.

There have been no legal claims lodged against the joint ventures. The joint ventures do not have any contingent liabilities in respect of a legal claim lodged against the joint venture.

## 25. Parent entity financial information

### (A) SUMMARY FINANCIAL INFORMATION

The individual financial statements for the parent entity show the following aggregate amounts:

	2020 \$	2019 \$
<b>STATEMENT OF FINANCIAL POSITION</b>		
Current assets	<b>3,827,896</b>	1,638,652
Total assets	<b>17,070,600</b>	22,229,455
Current liabilities	<b>7,752,617</b>	6,596,130
Total liabilities	<b>5,994,931</b>	5,361,007
<b>SHAREHOLDERS' EQUITY</b>		
Issued capital	<b>36,857,417</b>	36,857,417
<b>RESERVES</b>		
Share-based payment reserve	<b>911,218</b>	823,270
Accumulated losses	<b>(20,862,237)</b>	(18,377,313)
	<b>16,906,398</b>	19,353,373
<b>LOSS FOR THE PERIOD</b>	<b>(5,830,729)</b>	(2,484,924)
<b>TOTAL COMPREHENSIVE LOSS</b>	<b>(5,830,729)</b>	(2,484,924)

### (B) CONTINGENT LIABILITIES

The parent entity did not have any contingent liabilities as at 30 June 2020 (30 June 2019: Nil). The parent entity did not provide financial guarantees during the period (30 June 2019: Nil).

#### SIGNIFICANT ACCOUNTING POLICY

The financial information for the parent entity, Atlas Pearls, has been prepared on the same basis as the consolidated financial statements, except as set out below:

##### *Investments in subsidiaries*

Investments in subsidiaries are accounted for at cost in the financial statements of Atlas Pearls and reviewed at each reporting period for impairment indicators.

##### *Share-based payments*

The grant by the Company of ordinary shares to the employees of subsidiary undertakings in the Group is treated as a capital contribution to that subsidiary undertaking. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

## 26. Share Based Payments and Options

### 26.1. EMPLOYEE SALARY SACRIFICE SHARE 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 ("Plan"). The Board adopted the 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:

- Reward Directors, Executives, employees, consultants and contractors for their past performance
- Provide long term incentives for participation in the Company's future growth
- Motivate Directors, Executives, employees, consultants and contractors and general loyalty; and
- 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.

An option which has not vested 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 25(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 25(b), subject to clause 25(a).

## 26.2. 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.

	EXERCISE PRICE PER SHARE OPTION	NUMBER OF OPTIONS
<b>AS AT 30 JUNE 2019</b>	<b>0.027</b>	<b>20,306,013</b>
Granted during the period		
Exercised during the period	-	-
Expired during the period	-	-
Forfeited during the period <sup>1</sup>	0.027	2,709,847
<b>AS AT 30 JUNE 2020</b>	<b>0.027</b>	<b>17,596,165</b>

1. Forfeited on resignation

ISSUE DATE	EXPIRY DATE	EXERCISE PRICE	SHARE OPTIONS 30 JUNE 2020	SHARE OPTIONS 30 JUNE 2019
20 November 2018	30 June 2021	0.0270	17,596,165	20,306,013
<b>TOTAL</b>			17,596,165	20,306,013

Weighted average remaining contractual life of options outstanding at the end of the period

1.0 years	2.0 years
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## 26.3. FAIR VALUE OF OPTIONS GRANTED

The assessed fair value at grant date of options granted during the year ended 30 June 2019 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 year ended 30 June 2019 are detailed below:

- 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%, and
- 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 option related valuation expenses recognised during the period as part of employee benefit expense were as follows:

	2020 \$	2019 \$
Option expense	37,948	134,080
Option release for forfeited options	-	-
<b>TOTAL SHARE-BASED PAYMENT EXPENSE</b>	<b>37,948</b>	<b>134,080</b>

The share-based payment expenses arising from the salary sacrifice share plan is nil as the plan does not give additional benefit to the employees as shares are issued in lieu of cash salary and cash bonus. The value of the shares originally issued to the trust is at the value sacrificed by the employee under the plan.

**SIGNIFICANT ACCOUNTING POLICY****Share Based Payments**

The fair value of shares granted under the Employee Share Plan is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at the date that the employee enters into the plan and is recognised over the period during which the employee becomes unconditionally entitled to the shares.

**27. Remuneration of Auditors**

During the period, the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

AUDIT SERVICES	2020 \$	2019 \$
<b>BDO AUSTRALIA FIRM:</b> Audit and review of financial reports	<b>87,100</b>	101,148
<b>BDO INDONESIA FIRM:</b> Audit and review of financial reports	<b>43,955</b>	46,786
Total remuneration for audit and other assurance services	<b>131,055</b>	147,934
Other Services	<b>3,725</b>	2,328
Total remuneration for other services	<b>3,725</b>	2,328
<b>TOTAL REMUNERATION OF BDO FOR AUDIT AND OTHER RELATED SERVICES</b>	<b>134,780</b>	150,262

TAX SERVICES	2020 \$	2019 \$
<b>RSM AUSTRALIA FIRM:</b> Tax compliance services and advice	<b>19,500</b>	24,000
<b>RSM INDONESIA FIRM:</b> Tax compliance services and advice	<b>8,589</b>	4,665
<b>TOTAL REMUNERATION FOR TAXATION SERVICES</b>	<b>28,089</b>	28,665



## 28. Accounting policies

### 28.1. NEW AND AMENDED STANDARDS ADOPTED BY THE GROUP

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB") that are mandatory for the reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The following Accounting Standards and Interpretations are most relevant to the Group:

#### AASB 16 – Leases

The Group has adopted AASB 16 from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classification of operating and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs).

In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss.

For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities.

The impact on the financial performance from the adoption of this Accounting Standard is detailed in Note 13.

#### AASB 2018-6 Amendments to the Australia Accounting Standards – Definition of a business

This standard amends AASB 3 Business Combinations' ("AASB 3") definition of a business. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contributes to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present. The revisions to AASB 3 also introduced an optional concentration test. If the concentration test is met, the set of activities and assets acquired is determined not to be a business combination and asset acquisition accounting is applied. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The Group's assessment of the impact of this new amendment is that it is not expected to have a material impact on the Group in the current or future reporting periods.

### 28.2. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Atlas Pearls as at 30 June 2020 and the results of its subsidiaries for the period then ended. Atlas Pearls and its subsidiaries together are referred to in this financial statement as the consolidated entity.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of business combinations by the Group. Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of financial position respectively.

The interest in a joint venture entity is accounted for using the equity method after initially being recognised at cost in the consolidated statement of financial position. Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group. The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to the owners.

### 28.3. FOREIGN CURRENCY TRANSLATION

#### (A) FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the financial statements of each of the subsidiaries within the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is Atlas Pearls functional and presentation currency.

#### (B) TRANSACTIONS AND BALANCES

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of profit or loss and other comprehensive income, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. Translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary assets such as equities classified as available for sale financial assets are included in the fair value reserve in equity.

All foreign exchange gains and losses are presented in the statement of profit or loss and other comprehensive income within other income or other expenses unless they relate to financial instruments.

#### (C) GROUP COMPANIES

The results and financial position of all Group entities (none of which has the currency of a hyperinflation economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position,
- Income and expenses for each statement of profit or loss and other comprehensive income are translated at average exchange rates, and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or borrowings are repaid, a proportional share of such exchange differences are recognised in the statement of profit or loss and other comprehensive income as part of the gain or loss on sale.

### 28.4. COMPARATIVE FIGURES

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial period.

### 28.5. IMPAIRMENT OF ASSETS

Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

### 28.6. EMPLOYEE BENEFITS

#### *Short-term Obligation*

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

#### *Wages and salaries, annual leave, sick leave, long service leave and superannuation*

Provision is made for the Group's liability for employee entitlements arising from services rendered by employees to reporting date. Employee entitlements expected to be settled within one year together with entitlements arising from wages and salaries, annual leave and sick leave which will be settled after one year have been measured at their nominal amount. Other employee entitlements payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those entitlements. Liabilities due to be paid within 12 months of the reporting date are recognised in other payables. The liability for long service is recognised in the provision for employee benefits.

Contributions are made by the Group to employee superannuation funds and are charged as expenses when incurred.

#### *Share-based payments*

Share-based compensation benefits are provided to employees via the Atlas Pearls Employee Share Plan Pty Ltd. Information relating to this scheme is set out in note 26.

**28.7. PROVISIONS**

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of a past event; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

**28.8. BORROWING COSTS**

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

**28.9. FINANCIAL INSTRUMENTS**

AASB 9 *Financial Instruments* replaces the provisions of AASB 139 *Financial Instruments: Recognition and Measurement* that relate to the recognition, classification and measurement of financial assets and financial liabilities, de-recognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of AASB 9 *Financial Instruments* from 1 July 2018 did not give rise to any material transitional adjustments.

In accordance with the transitional provisions in AASB 9 (7.2.15) and (7.2.26), comparative figures have not been restated.

*Classification and measurement*

Except for certain trade receivables the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under AASB 9 financial assets are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: The Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

The new classification and measurement of the Group's financial assets are, as follows:

Debt instruments at amortised cost, for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the 'SPPI criterion'. This category includes the Group's trade and other receivables and long-term loan receivable.

On transition to AASB 9 the assessment of the Group's business models was made as of the date of initial application, 1 July 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

*Impairment*

From 1 July 2018 the Group assesses, on a forward-looking basis, the expected credit losses (ECLs) associated with its debt instruments carried at amortised cost and FVOCI. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For trade receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The loss allowance calculated for 30 June 2020 is \$nil due to past history with Customers who have never previously defaulted on amounts due.

For other debt financial assets including long term loan receivables, the ECL is based on either the 12-month or lifetime ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. When there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. In all cases, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

**28.10. INCOME TAX**

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the applicable tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial

recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled. Deferred tax is credited in the consolidated statement of profit or loss and other comprehensive income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only to the extent that it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities have been brought to account after considering the level of tax losses carried forward and available to the Group against future taxable profits and the probability within the future that taxable profits will be available against which the benefits of the deductible temporary difference can be claimed.

### **28.11 LEASES LIABILITIES**

The Group leases offices in Claremont, West Australia and Sanur, Indonesia. As the leases are of real estate, the Group has elected not to separate the lease and non-lease components and instead accounts for these as a single lease component. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Until the period ending 30 June 2019, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability as the date at which the leased asset is available for use by the Group.

### **28.12 RIGHT OF USE ASSETS**

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of-use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred. Low value assets comprise IT equipment and vehicles.

Leases relating to the farms in Indonesia have been recognised as right of use assets and are amortised over the life of the lease. There is no lease liability as the leases have all been prepaid on inception of the agreements.

# 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 30 June 2020 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.
- (e) the remuneration disclosures included in the Directors' Report (as part of audited remuneration report) for the period ended 30 June 2020 comply with section 300A of the *Corporations Act 2001*.

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  
31 August 2020

# ADDITIONAL ASX INFORMATION

The following additional information is required by the Australian Securities Exchange. The information is current as at 20 August 2020.

## (A) DISTRIBUTION SCHEDULE AND NUMBER OF HOLDERS OF EQUITY SECURITIES AS AT 20 AUGUST 2020

	1 - 1000	1,001 - 5,000	5,001 - 10,000	10,001 - 100,000	100,001 - and over	TOTAL
Fully Paid Ordinary Shares (ATP)	134	390	281	800	342	1,947
Unlisted Options - 2.7c 30/06/2021	-	-	-	-	15	15

The number of holders holding less than a marketable parcel of fully paid ordinary shares as at 20 August 2020 is 1,213.

## (B) 20 LARGEST HOLDERS OF QUOTED EQUITY SECURITIES AS AT 20 AUGUST 2020

The names of the twenty largest holders of fully paid ordinary shares (ASX code: ATP) as at 20 August 2020 are:

RANK	NAME	SHARES	% OF TOTAL SHARES
1	BONEYARD INVESTMENTS PTY LTD	53,048,882	12.40
2	CHEMCO SUPERANNUATION FUND PTY LTD	32,400,000	7.57
3	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	26,371,481	6.16
4	RAINTREE PEARLS & PERFUMES PTY LTD	20,718,834	4.84
5	SP & K BIRKBECK HOLDINGS PTY LTD	20,529,202	4.80
6	JINGIE INVESTMENTS PTY LTD	17,880,240	4.18
7	ABERMAC PTY LTD	17,833,333	4.17
8	WESTWOOD PROPERTIES PTY LTD	8,000,000	1.87
9	MR NELSON MICHEL PIERRE ROCHER	6,712,185	1.58
10	CITICORP NOMINEES PTY LIMITED	5,851,053	1.37
11	FIVE TALENTS LIMITED	5,620,000	1.31
12	MR PAUL MICHAEL BUTCHER	5,567,208	1.30
13	CHEMBANK PTY LIMITED	5,000,000	1.17
14	COAKLEY PASTORAL CO PTY LTD	4,744,717	1.11
15	MR WESLEY RUTHERFORD + MRS SIAN RUTHERFORD	4,000,000	0.93
16	MISS KRISTIE BIRKBECK	3,818,536	0.89
17	QUEENSRIDGE INVESTMENTS PTY LTD	3,549,072	0.83
18	MR TIMOTHY JAMES MARTIN	3,540,883	0.83
19	MS JENNIFER MICHELLE ROUGHAN	3,360,000	0.79
20	MR GERALD FRANCIS PAULEY + MR MICHAEL JAMES PAULEY	3,312,706	0.77
	<b>TOTAL</b>	<b>251,858,332</b>	<b>58.86</b>

Stock Exchange Listing – Listing has been granted for 427,871,758 ordinary fully paid shares of the Company on issue on the Australian Securities Exchange.

The unquoted securities on issue as at 20 August 2020 are detailed in part (D).

**(C) SUBSTANTIAL HOLDERS**

Substantial shareholders in Atlas Pearls Limited and the number of equity securities over which the substantial shareholder has a relevant interest as disclosed in substantial holding notices provided to the Company are listed below:

NAME	SHARES	% VOTING POWER	DATE OF NOTICE
Boneyard Investments Pty Ltd & Associates *	112,345,667	27.09%	4 May 2015
Raintree Pearls & Perfumes Pty Ltd & Associates **	30,090,855	13.12%	8 June 2012

\* Includes shares held by Boneyard Investments Pty Ltd, Chemco Superannuation Fund Pty Ltd, Jingie Investments Pty Ltd, T. Martin, T. & W. Martin, J. Martin and J & B Martin.

\*\* Includes shares held by Raintree Pearls & Perfumes Pty Ltd and SP & K Birkbeck Holdings Pty Ltd <SP & K Birkbeck S/F A/C>.

**(D) UNLISTED SECURITIES**

The number of unquoted securities on issue as at 22 August 2020;

SECURITY	NUMBER ON ISSUE
Unlisted options exercisable at 2.7 cents on or before 30 June 2021	21,269,928

**(E) HOLDER DETAILS OF UNQUOTED SECURITIES**

All unquoted securities were issued under an employee incentive scheme. Therefore, no disclosure is required in relation to people that hold more than 20% of a given class of unquoted securities as at 20 August 2020.

**(F) RESTRICTED SECURITIES AS AT 20 AUGUST 2020**

There were no restricted securities on issue as at 20 August 2020.

**(G) VOTING RIGHTS**

All fully paid ordinary shares carry one vote per ordinary share without restriction.

**(H) ON-MARKET-BUY-BACK**

The Company is not currently performing an on-market buy-back.

**(I) CORPORATE GOVERNANCE**

The Board of Atlas Pearls Ltd is committed to achieving and demonstrating the highest standards of Corporate Governance. The Board is responsible to its shareholders for the performance of the Company and seeks to communicate extensively with Shareholders. The Board believes that sound Corporate Governance practices will assist in the creation of Shareholder wealth and provide accountability. In accordance with ASX Listing Rule 4.10.3, the Company has elected to disclose its Corporate Governance policies and its compliance with them on its website, rather than in the Annual Report. Accordingly, information about the Company's Corporate Governance practices is set out on the Company's website at <https://www.atlaspearls.com.au/pages/corporate-governance>.

## INDEPENDENT AUDITOR'S REPORT

To the members of Atlas Pearls Limited

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of Atlas Pearls Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2020, 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 year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

#### Material uncertainty related to going concern

We draw attention to Note 1.3 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 opinion is not modified in respect of this matter.



## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

### Valuation of Biological Assets

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>The Group's biological assets, as disclosed in Note 4 to the financial report, was a key audit matter as the calculation of the fair value of the oysters requires significant estimates and judgements by management.</p> <p>The Australian Accounting Standards require biological assets to be measured at fair value less costs to sell or, in the absence of a fair value, at cost less impairment.</p> <p>The Group have valued the biological assets at fair value less costs to sell. The valuation requires management's judgement in relation to estimating the future selling prices, exchange rates, pearl size, sellable percentage of pearls, mortality, costs to complete and discount rate.</p>	<p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>• considering the appropriateness of the valuation methodology against the relevant Australian Accounting Standards;</li> <li>• testing the mathematical accuracy of the fair value model used by management;</li> <li>• counting a sample of oysters on hand at reporting date as part of our year end site visit and agreeing this to the fair value model;</li> <li>• assessing the key inputs contained within the fair value model, including the future selling prices, incorporating any potential impact of the COVID-19 pandemic, exchange rates, pearl size, sellable percentage of pearls, mortality, costs to complete and discount rate;</li> <li>• performing a sensitivity analysis of the key inputs including the discount rate, foreign exchange rate, selling price, pearl size and sellable percentage of pearls and impact of COVID-19 as these are the key assumptions against which the model is most sensitive to; and</li> <li>• evaluating the adequacy of the related disclosure in Note 4 to the financial report.</li> </ul>



## **Other information**

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2020, but does not include the financial report and the auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **Responsibilities of the directors for the Financial Report**

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

## **Auditor's responsibilities for the audit of the Financial Report**

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

[https://www.auasb.gov.au/admin/file/content102/c3/ar1\\_2020.pdf](https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf)

This description forms part of our auditor's report.



## **Report on the Remuneration Report**

### **Opinion on the Remuneration Report**

We have audited the Remuneration Report included in pages 12 to 17 of the directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Atlas Pearls Limited, for the year ended 30 June 2020, complies with section 300A of the *Corporations Act 2001*.

### **Responsibilities**

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

**BDO Audit (WA) Pty Ltd**

A handwritten signature in black ink, appearing to read 'Dean Just', written over the BDO logo.

**Dean Just**

**Director**

Perth, 31 August 2020

# ATLAS

## PEARLS

### URBAN BOUTIQUES

AUSTRALIA, Perth

BALI, Seminyak

### FARM BOUTIQUES

NORTH BALI, Penyangban

FLORES, Labuan Bajo, Pungu Island

RAJA AMPAT, Alyui Bay

### FARMS

EAST NUSA TENGGARA, Lembata Bay

EAST NUSA TENGGARA, Alor Bay



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