

ATLAS

PEARLS AND PERFUMES

ASX Release
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MARKET UPDATE

Operations and Funding Update

On 25 November 2014, Atlas Pearls and Perfumes Limited ("the Company") released to the market a Pearling Operations Update, which announced an anticipated reduction in the average size of loose pearls of approximately 15% for FY2015 when compared to FY2014.

On 6 January 2015, the Company advised that annual Group revenue for FY2015 is anticipated to be approximately 15% down on FY2014 results. This assessment remains unchanged. Management has performed an internal audit of oyster stocks and it is anticipated that the harvest of smaller pearls will be completed by the end FY2015, and see a return to historical average sizes in FY2016.

The pearls due to be harvested over the next 6 to 12 months will attract a lower valuation as the average size per loose pearl is anticipated to be lower than in FY2014. This fair valuation adjustment or mark-to-market will reduce the carrying value of oysters and negatively impact the Consolidated Statement of Profit or Loss and Other Comprehensive Income; it does not affect the Group's Normalised EBITDA.

In light of this matter management has reviewed all operations and overheads to identify cost savings aligned with a refocus on the core pearling business whilst preserving the most prospective of the value-adding projects.

Finance:

The reduction in FY2015 revenue from pearling operations will impact the Group's liquidity in the second half of FY2015. Although the Company has not yet breached lending covenants, it is unlikely to be compliant with its Normalised EBITDA covenant at year-end and has taken the following immediate steps to address the situation:

- Atlas agreed with its lender the continuation of its existing debt facilities until the end of June 2015 on the basis that regular auction updates are provided to the lender and that the Group's actual performance meets the forecasts provided to the lender for the remainder of FY2015;
- Atlas also agreed with its lender to enter into negotiations for 2015/16 covenants based on minimum EBITDA earnings sufficient for debt servicing. The covenant will be renegotiated following the finalisation of the Group's FY2016 budgets. In the event that the Company cannot reach agreement with its lender as to new suitable terms, it will need to seek to refinance those arrangements. The lender has however offered their ongoing support while the company re-finances its operations;

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- On the 12 February 2015 a A\$500,000 bridging loan was secured from Jingie Investments Pty Ltd. The loan is unsecured and attracts an interest rate of 7%. The loan is repayable 6 months after the date of drawdown (or as otherwise agreed between the parties). Jingie Investments is a related party of Atlas Pearls and Perfumes Ltd director Tim Martin;
- The Company will continue to monitor its expenditure and cash flow projections and assess the need for additional capital and the optimal way to raise it.

Strategic Investment:

- The Company has executed a Heads of Agreement for strategic Tasmanian owned partner Westwood Properties Pty Ltd to invest in Essential Oils of Tasmania ("EOT") with the objective to jointly own the company and grow the business to the next level;
- Atlas Pearls and Perfumes Ltd and Westwood Properties Pty Ltd already jointly own Brookfield Pty Ltd (50/50), an entity established to facilitate the building and operation of a tourism facility at Brookfield, Tasmania on land owned by Westwood Properties Pty Ltd.;
- The Company is in the final stages of negotiating a partial advance on Westwood Properties Pty Ltd's investment into EOT for A\$550,000. This advance is a short-term loan repayable within 45 days of drawdown. It does not attract interest and it is secured against the assets of EOT. The 45-day timeframe is intended to provide the Group with sufficient time to finalise a Shareholder Agreement;
- Beyond the targeted synergies and cost savings, this new partnership is strategic in that it will ensure the alignment of interests between EOT and Westwood Properties Pty Ltd. It is the intention to relocate the current essential oils extraction facility to Brookfield, whilst providing EOT with a potential multi-million dollar fragrance and flavours industrial tourism platform.

People:

- Atlas Pearls and perfumes has restructured its Board position in a move to streamline and refocus the business;
- The number of Directors on the Board has reduced from 5 members to 3. The Company announces that Mr Steven Birkbeck has resigned as Executive Chairman and Dr Joseph Taylor has resigned as a Non-Executive Director. Nelson Rocher, Mr Birkbeck's Alternate Director, has also resigned but remains involved in Atlas' daily operations. The experience and expertise of both these past Chief Executive Officers and Directors of the Company will remain accessible to Atlas by way of consultancy in the respective areas of Perfumes/ Cosmetics and Pearling;
- The Company also announces that Joint Company Secretary, Mr Stephen Gleeson, has today resigned from his position as Joint Company Secretary following his move to Tasmania last year. He will retain his role as Managing Director Essential Oil of Tasmania. Chief Financial Officer Ms Danielle Brandenburg has been appointed Joint Company Secretary;
- Current Non-executive Director Mr Geoff Newman will assume the role of Chairman.

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“While the current circumstances are calling for a re-focus on our core pearling business, I have complete confidence in the executive management team to embrace and successfully execute the “cradle-to-cradle” vision instilled by Steve Birkbeck. Adding value along both EOT and Atlas Pearling symmetrical value chains remains at the center of the group objectives. There are near-term opportunities to improve returns from pearling through more effective management of growth cycles and expansion of operations as well as opportunities for new extracts and concentrate sales for EOT” said Geoff Newman, Non-Executive Chairman.

ABOUT ATLAS PEARLS AND PERFUMES LTD

Atlas Pearls and Perfumes (“Atlas”) is an Australian based pearling and perfume business established in 1992. Atlas has earned an enviable reputation as a world leading pearl producer of “nature’s most precious gift”, the South Sea pearl, specialising in highly sought after white and silver pearls. Atlas operates pearl farms spread across the Indonesian archipelago, including Bali, Flores, and West Papua. Atlas is a fully integrated pearling business. The Company has its own high quality grading and loose pearl distribution business, a jewellery manufacturing capability and sells direct to customers through wholesale partners and via its retail outlets. In 2012, the Company expanded its operations into perfumes and is currently developing a range of propriety products which include pearl powder (cosmetics and nutraceuticals), pearl proteins (cosmetics), pearl volatiles and boronia (perfumes) for supply into the global luxury supply chain.

For more information please visit: www.atlaspearlsandperfumes.com.au

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