ATLAS

SOUTH SEA PEARL

ABN 32 009 220 053

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ASX ANNOUNCEMENT
BUSINESS EXPANSION AND CONFIRMING REVENUE GUIDANCE

Key information

- **Atlas announces capital expenditure program designed to significantly increase production.**
- **Objective of the program is to:**
  - **increase pearl production capacity by 80 to 100% of current level over a 5 year period; and**
  - **improve sales potential through a focus on pearl quality and vertical integration of the business.**
- **Confirms revenue guidance of between $9.5-10M for 2010.**

Overview

The Board of Atlas South Sea Pearl Limited ("**Atlas**" or "the **Company**") is pleased to announce details of its capital expenditure program designed to implement the Company's previously announced objective of significantly increasing its pearl production, focusing on improving production yields and spreading geographical risk. The expansion of production is possible as a result of acquiring the East Nusa Tengara ("ENT") farm sites in April 2010.

The increase in pearl production by the company is expected to improve revenue and profitability of the Company. The increase in output from Atlas comes partly from existing production but a long term increase in higher quality pearls is expected in the future as the global economy recovers.

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The key focuses of this capital expenditure program are:

- to increase production output over an initial 5 year period by 80 to 100% of current levels;
- focus on quality of the pearl produced and yield of pearls from oysters; and
- expansion of the value adding opportunities of the business through vertical integration,

details of which are set out in more detail below.

Background to business expansion

Over the last 12 months, the Company has been focused on the stabilisation of its financial position in light of the impact of the global financial crisis and subsequently on creating a platform from which it may pursue growth opportunities at the appropriate time.

This culminated in the acquisition in April 2010 of new pearl farming assets in ENT, Indonesia. This acquisition has delivered an increased capacity for hatchery production of oysters and pearl production. While the Company is awaiting the final approval from the Indonesian foreign investment board for the transfer of the ENT pearling assets, the Company has management control of these sites and has ownership of the key assets being the pearl oysters and any existing and new removable infrastructure that belongs to the business through a lease and management agreement with the vendors of the assets. In the unlikely event that the transfer does not gain government approval, all of these assets can be legally relocated by the Company from the ENT farm sites.

During the global financial crisis the Company was able to maintain stable pearl production numbers while many of our competitors either closed or significantly reduced their productivity. While this means that there is unlikely to be a significant increase in pearl harvest volumes for 2011 and 2012, the number of oysters that will be seeded over the next 24 months is expected to increase which will yield more pearls and we are well positioned to meet growing demand as the global economy recovers.

The Board believes this solid platform has ideally positioned the Company to capitalise on its natural competitive advantages of low cost of production, high quality for its loose pearls and production level flexibility (as pearl production is not inhibited by government imposed quota limits like many of its Australian based competitors). To do so, the Board has developed a capital expenditure program designed to expand production levels to further drive shareholder value.

Capital expenditure program to increase production

The key focus of the Company's business expansion plans is a staged increase in pearl production levels with a goal to increased production by 80-100% of current production within a 5 years timeframe.

This growth in production is expected to create significant cost saving synergies as well as serving to reduce production risks through geographical diversification. The addition of an extra hatchery and proven oyster growing sites in the ENT sites provides a backup for potential seasonal fluctuations.

The increased production levels can be achieved with the land and water assets that Atlas already controls. However, it will require capital investment focusing on increasing operational scale and improving current infrastructure.

The key focuses of this capital expenditure program are:

1) An immediate expansion in the production base for juvenile oysters. This program is already underway with the commissioning of a refurbished hatchery acquired in ENT which has had one spawning event already this season. The North Bali hatchery has also achieved success in the early part of the breeding season with three spawning events. A third hatchery will be established in future years to manage the risk of hatchery failure at one of the existing sites. Hatchery production will continue at the existing North Bali site.

2) The Company will need to double its annual oyster seeding program. Atlas will focus its seeding operations using specialised centres in North Bali and ENT. Additional seeding technicians are being recruited and trained with a strong focus on quality supervision through the operation phases of the seeding program.

3) The Company will acquire additional equipment including vessels, oyster panels and longlines and oyster cleaning equipment. These assets will be acquired as the program expands but some one off acquisitions such as a second large transport vessel will be sourced in the first half of 2011.

4) Land based infrastructure upgrades at the NTT sites will take place progressively over the next four years but there are sufficient buildings and support infrastructure currently in place to allow the primary expansion phase to commence.

5) The expansion of the Company's retailing operations in Indonesia and the improved management of loose pearl distribution to maximise value will require some capital to fund stock.

Based on the current plan, the Board estimates the capital expenditure required to achieve this objective will be between A$8-9 million of which A$3-4 million is required over the next two years. It is expected that capital requirements in the medium to long term will be funded from the cash flow but short term capital of $1.5-2.5 million will be required from external sources which the Board is currently pursuing and is confident that it will be able to secure.

The financial success of any increase in pearl production will ultimately be measured by the number of sellable grade pearls produced. This is influenced by securing sufficient good quality virgin oysters for seeding, ensuring the standard of the seeding and animal husbandry of the oyster post operation and the focusing on training and internal systems to improving yield.

The future revenue stream that will be derived from pearl sales which depends on a number of factors including market price, exchange rate (pearls are sold in Japanese Yen) and average pearl quality. The Board believes providing any form of financial forecast as to the revenue impact of capital expenditure program or increased production levels is therefore premature.

The time frame to achieve the production targets is extended due to the long production cycle associated with producing a pearl (four years from hatchery to pearl). There are a number of risks associated with the implementation of the Company's strategy and its success in significantly increasing production levels:

1. Sellable pearls – The success rate of seeded oyster transitioning to a sellable pearl is dependent upon a large number of variables. These include:

    a. the proportion of nuclei that are retained after the oysters are operated (determined six months after seeding when the oyster is X-rayed),
    b. the natural mortality rates of oysters after seeding takes place, and
    c. the proportion of pearls that are considered to be of a sellable grade at harvest (influenced by pearl quality and oyster husbandry).

    While the Company has based its expansion plan on historical results over more than 15 years of commercial production, there can be no guarantee that historical performance will be repeated.

2. Climate – adverse climatic events can impact the survival rate and growth rates of the *Pinctada maxima* oyster. These animals are most susceptible to adverse climate change in their first 12 months of existence. By establishing hatcheries in different geographical zones and having juvenile oyster growout spread over a wide area, this risk is lowered;

3. Disease – strict husbandry protocols are in place to monitor any signs of deteriorating oyster health. Rapid response systems reduce the risk of disease outbreak. The establishment of exclusion zones and quarantine areas on the farms helps control the potential of disease outbreak.

4. Pollution – water pollution is a direct threat to oysters and can have an impact on mortalities and pearl quality. Atlas has secured sites with a wide geographical spread in undeveloped areas of Indonesia helps to mitigate this risk.

5. Management ability – the delivery of this expansion program relies on experienced, capable managers. The current senior management personnel have a broad and extensive experience in the pearling industry in Indonesia. There is s strong skill level amongst senior Indonesian management and there is a readily available workforce that can deliver the necessary manpower skills for this project.

6. Security – the high value of pearls and their small size makes them a potential theft risk. Internal policies reduce the risk of minor pilfering of unharvested oysters and loose pearls. On-site security along with the appropriate transit protocols reduce the potential for any significant loss of loose pearls through theft. Insurance is taken out to minimise the risk of loss.

7. Sovereign risk – Indonesia has proven that its transition to a stable democracy has resulted in a strong government and so sovereign risk has reduced over the last ten years. Issues still remain with regards to the treatment of tax matters in the two jurisdictions that Atlas deals in but these are dealt with through existing double tax arrangements.

8. Access to capital – the expansion program proposed by the Company will require additional capital funding which can come from debt, equity or a combination of these sources. Access to this funding depends on the market conditions at the time that the funding is required. The cost of capital is market driven and depends on a range of market risk factors at the time that funds are sourced. Atlas is confident that it will be successful in obtaining the required funds to implement this growth strategy.

The Company wishes to highlight these risks as there are a number of factors which could lead to the expanded production objectives not being met. Prior results achieved by Atlas in its pearling activities do not guarantee that they can be replicated or improved on in the future.

Vertical integration strategy

In addition to increasing current pearl production levels, the Board believes the development of the Company's in-house loose pearl distribution capacity is critical to maximising the benefits of the vertical integration of its business. The Company has successfully negotiated loose pearl sales with over 35 clients representing small, medium and large businesses from China, Japan, Switzerland, France, Germany and the USA. It will continue to work to foster these relationships in order to become the supplier of choice for quality loose pearls, especially white pearls in the in the medium size range of 10-13mm.

Further value adding through the Company's retail operations have developed significantly in 2010 and will continue in 2011 with the opening of a fifth outlet in Bali (due by December this year). Leading edge jewellery designs and strong brand development enhance value adding opportunities. Retail revenue will represent approximately 10% of total revenue in 2010.

Opportunities exist for distribution of pearls and jewellery into Europe with the establishment of a representative office and consultant in France. The development of a market driven culture throughout the Company and a strong sense of end-product ownership from all parts of the organisation will lead to better results.

Confirmation of revenue guidance

Atlas is on target to achieve an anticipated revenue of $9.5-10M for the full year ending December 2010 which is in line with projections made on 2 August 2010. There has been improvement in the loose pearl market with demand increasing and prices firmer than in 2009. Atlas has seen growth of nearly 50% in retail sales from the Indonesian retail operations in 2010.

Yours sincerely

STEPHEN BIRKBECK
Chairman