



DEAR SHAREHOLDER,

This is the first shareholder update in some time and comes as a direct consequence of the many exciting developments happening right now. Following the EGM on December 4, 2012 Atlas South Sea Pearl will soon be Atlas Pearls and Perfumes. The perfume division is a key diversification and the approved acquisition of Essential Oils of Tasmania will play a critical role in enabling implementation of this programme. Whilst the perfume division will certainly create some key cosmetic and fragrance products (Sea Spirit and Raw Spirit are examples) that will complement our retail pearl jewellery offer, the core business will be selling processed and value added natural extracts and licencing technology into the lucrative major global luxury brands. Pearl farming remains the cornerstone of the business and we are consolidating the expanded operations across our five regional farming centres in Indonesia. Our wholesale marketing arm has gone from strength to strength over the past year despite a very difficult selling environment and our client base has expanded dramatically.

CORPORATE

In November 2012, to support key initiatives associated with the acquisition of EOT, the production of strategic new products, the expansion of our pearl markets and the strengthening of the balance sheet, we announced a 1 for 5 pro-rata non-renounceable entitlement offer at an offer price of \$0.05 per New Share to raise up to \$2.37 million together with 1 free attaching unlisted New Option for every 1 New Share issued¹.

PEARLS

Hatchery/Grow-out

The new Lembata (Flores) hatchery was commissioned in November with a successful spawning. Atlas now boasts three hatcheries in Indonesia, enabling both significant risk mitigation and the ability to increase the overall selection pressure on stock for quality purposes. Using very inexpensive transport technology, large numbers of larvae can be moved between each hatchery creating opportunities to utilise a surplus of production from one hatchery to bolster or fast track results from another.

So far we have promising grow out results for season 2012-2013. Both Bali and Lembata are focused on maximising results for the group.

Farming Activities

Our first commercial harvest from the newly developed site of Punggu (near Komodo Island) resulted in pearls of very similar quality to our long-standing Alyui Bay location (West Papua). This is exciting as Punggu is mid-way between the two technical hubs of Bali and Lembata and can be operated at a significantly lower cost when compared with Alyui. The farming site of Alor is currently being stripped back to the essential requirements of a pearl growing site, and as with the hatcheries, we now have three distinct regions for pearl growth. The main focus in 2013 is increasing the selection for quality pressure on pearl oysters for seeding.

Research and Development

Full commercialisation of the selective breeding programme using pedigree pearl oyster stock is well underway. A third stage genetic research programme with our partners at JCU is at the final stages of review with an anticipated start date of mid-2013. This project is looking at using specific genes that have been implicated in pearl production to identify quality pearl oysters at a very young age thus increasing the rate at which qualitative pressure is applied in our selection programmes. This programme is a world first for pearl oysters and an exciting new step for Atlas.

¹Subject to the terms of the Entitlement Offer outlined in the Prospectus



Marketing

In the last 6 months our wholesale marketing division has had two successful auction events in Japan with a relatively high clearance rate at prices acceptable to the company and cash flow requirements. There is now a clear path for marketing efforts and the opportunity to improve returns for our pearls.

The wholesale and retail jewellery divisions continue to grow. Bali now has six stores with the recent opening of the new Sanur premises bringing our total retail outlets to eight including the Alyui Bay farm and Claremont in Perth. To shareholders who have the opportunity to visit the stores and farms we remind you that you are entitled to a 30% discount on any item. Management enjoys showing shareholders our operations in Bali so if you are travelling there on holiday please let us know so we can ensure you see your investment in detail.



PERFUME

Essential Oils of Tasmania

EOT has a 30-year history of developing highly innovative, commercial successful methods of extracting natural ingredients (Sandalwood oil, Boronia, Fire Tree and many more) for the flavour and fragrance industry. Atlas will acquire the existing sales and export customers and a range of extraction skills and secret processes that will greatly enhance the Intellectual Property of the group. This technical back-end will be central to managing the commercial roll out and utilization of pearl by-products that in turn will provide significant new income streams.

Perle'fume TM Technology

In collaboration with world-leading perfumers in Europe, Atlas has developed the trade marked Perle'fume technology that captures the raw essence of a pearl and transforms it into an ingredient for fragrance. This world first technology has received incredible interest from some of the most celebrated cosmetic companies globally and the intention is to produce both our own products and licence the technology to maximise revenue. Further, this product has led to a perfumed pearl. The beauty of this technique is that alcohol and other products that can potentially damage a pearl are not used. The first fragrant pearl pendant will be launched in the New Year via a design and marketing JV with German jewellery group Gellner. This product will be available at our Claremont showroom and online.

World Senses

The second tier to success in the emerging perfume division is our 50:50 joint venture: World Senses Pty Ltd, which was incorporated in October 2012. The joint venture which will commercialize the production and export of existing and new products created by Essential Oils of Tasmania with a specific focus on pearl micronized powder, pearl perfume extracts, pearl cosmetic extracts, Perle'fume TM technology and Australian indigenous perfume ingredients. The first perfume "Fire Tree" (part of the Raw Spirit range) was launched in November both in Australia and New York and is selling through ABC luxury stores in the USA

3000 HANDS: THE JOURNEY OF A PEARL

We are currently documenting in images and text the Atlas story, our history and future. Over 3000 hands are involved in the journey of an Atlas pearl from the birth of the oyster until this living gem is delivered into the hands of the wearer. Consequently, every Atlas pearl has a unique history encapsulating the fragile natural bounty of Indonesia with the ethnic diversity of those farming the pearl and the cultural variety of the people that support the farms. Our pearls touch so many hearts and are an essential part of the remote communities and this makes Atlas unique. The simple truth is that Atlas is not a venture built on a single personality. The company is owned by over 2,000 individuals, employs more than 700 people and directly influences the lives of many thousands across the breadth of the Indonesian archipelago.

We wish you the very best this festive season and a happy New Year.

STEPHEN BIRKBECK

Executive Chairman and CEO

Atlas South Sea Pearl Limited

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