ATLAS PEARLS

ABN 32 009 220 053

NOTICE OF ANNUAL GENERAL MEETING, EXPLANATORY STATEMENT AND PROXY FORM

Date of Meeting: Wednesday, 28 October 2020

Time of Meeting: 11.00am (WST)

Place of Meeting: Atlas Pearls
47 - 49 Bay View Terrace
Claremont, Western Australia

This Notice of Annual General Meeting should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their professional advisers prior to voting.

Should you wish to discuss the matters in this Notice of Annual General Meeting please do not hesitate to contact the Company Secretary on +61 8 9284 4249.

ATLAS PEARLS LTD

ABN 32 009 220 053

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of the Shareholders of Atlas Pearls Ltd ("Atlas Pearls" or "the Company") will be held as follows:

TIME: **11.00am (WST)**

DATE: **Wednesday, 28 October 2020**

LOCATION: **Atlas Pearls, 47 - 49 Bay View Terrace, Claremont, Western Australia**

This Notice of Annual General Meeting should be read in its entirety.

If Shareholders are in doubt as to how they should vote, they should seek advice from their professional advisers without delay.

If you wish to discuss any aspects of this document with the Company, please contact the Company Secretary on +61 8 9284 4249.

Words and phrases used in the Resolutions are defined in Section 4 of the accompanying Explanatory Statement and these words and phrases have the same meaning in this Notice of Annual General Meeting as defined in the Explanatory Statement.

AGENDA

ORDINARY BUSINESS

Financial Statements and Reports

To receive and consider the annual financial report of the Company for the financial year ended 30 June 2020 including the declaration of the Directors, the Directors' report, the Remuneration Report and the Auditor's report.

RESOLUTION 1 – ADOPTION OF REMUNERATION REPORT

To consider and, if thought fit, to pass, the following resolution as a **non-binding** resolution:

"*That, for the purpose of section 250R(2) of the Corporations Act, approval is given for the adoption of the Remuneration Report as contained in the Company's annual financial report for the financial year ended 30 June 2020.*"

Note: Pursuant to section 250R(3) of the Corporations Act, the vote on this Resolution is advisory only and does not bind the Directors or the Company.

Voting Exclusion Statement

A vote on this Resolution must not be cast (in any capacity) by or on behalf of any of the following persons:

(a) a member of the Key Management Personnel, details of whose remuneration are included in the Remuneration Report; or

(b) a Closely Related Party of such a member.

However, a person described above may vote on this Resolution if:

(c) the person is acting as proxy and the proxy form specifies how the proxy is to vote, and the vote is not cast on behalf of a person who is otherwise excluded from voting on this Resolution as described in sub-paragraphs (a) or (b) above; or

(d) the person is the chair of the Annual General Meeting voting an undirected proxy which expressly authorises the chair to vote the proxy on a resolution connected with the remuneration of a member of Key Management Personnel.

RESOLUTION 2 – RE-ELECTION OF DIRECTOR MR CADELL BUSS

To consider and, if thought fit, to pass, the following resolution as an ordinary resolution:

"*That, Mr Cadell Buss, who retires by rotation in accordance with section 10.7(b) of the Company's Constitution and Listing Rule 14.5 and, being eligible, offers himself for election, be re-elected as a Director.*"

RESOLUTION 3 – APPROVAL OF GRANT OF SECURITY PURSUANT TO THE AMENDED AND RESTATED LOAN AGREEMENT

"*To consider and, if thought fit, to pass, the following resolution as an ordinary resolution:*

That, for the purposes of ASX Listing Rule 10.1 and for all other purposes, approval is given for the granting of the Security over the Company's assets in favour of Boneyard to secure the Company's indebtedness under the New Loan on the terms and conditions set out in the Explanatory Statement."

Voting Exclusion Statement – ASX Listing Rules 10.1

The Company will disregard any votes cast in favour of the resolution by or on behalf of Boneyard and any of its Associates and any other person who will obtain a material benefit as a result of the relevant transaction (except a benefit solely by reason of being a holder of ordinary securities in the Company).

However, this does not apply to a vote cast in favour of a resolution by:

- a person as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with directions given to the proxy or attorney to vote on the resolution in that way; or
- the chair of the meeting as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with a direction given to the chair to vote on the resolution as the chair decides; or
- a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
    - the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on the resolution; and
    - the holder votes on the resolution in accordance with directions given by the beneficiary to the holder to vote in that way.

RESOLUTION 4 – APPROVAL OF GRANT OF NEW CONVERSION RIGHTS PURSUANT TO THE AMENDED AND RESTATED LOAN AGREEMENT

"*To consider and, if thought fit, to pass, the following resolution as an ordinary resolution:*

That, for the purposes of ASX Listing Rule 10.11 and for all other purposes, approval is given for the granting of New Conversion Rights to Boneyard under the Amended and Restated Loan Agreement; and where an Event of Default by the Company exists under the Amended and Restated Loan Agreement, the Company to issue, at Boneyard's election, the Conversion Shares to Boneyard on the terms of the Amended and Restated Loan Agreement and Boneyard and its Associates to acquire a Relevant Interest in those Conversion Shares."

Voting Exclusion Statement – ASX Listing Rules 10.11

The Company will disregard any votes cast in favour of the resolution by or on behalf of Boneyard and any of its Associates and any other person who will obtain a material benefit as a result of the issue of the New Conversion Rights (except a benefit solely by reason of being a holder of ordinary securities in the Company).

However, this does not apply to a vote cast in favour of a resolution by:

- a person as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with directions given to the proxy or attorney to vote on the resolution in that way; or

- the chair of the meeting as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with a direction given to the chair to vote on the resolution as the chair decides; or
- a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
    - the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on the resolution; and
    - the holder votes on the resolution in accordance with directions given by the beneficiary to the holder to vote in that way.

RESOLUTION 5 – APPROVAL OF THE ISSUE OF CONVERSION SHARES PURSUANT TO THE AMENDED AND RESTATED LOAN AGREEMENT

"*To consider and, if thought fit, to pass, the following resolution as an ordinary resolution:*

That, for the purposes of Section 611 (item 7) of the Corporations Act and for all other purposes, approval is given for the Voting Power of Boneyard and its Associates increasing as a result of the issue of the New Conversion Shares (up to the Maximum Conversion Shares being 1,089,000,000 new Shares), on the terms and conditions set out in the Explanatory Statement."

Voting Exclusion Statement –Section 611 Item 7 of the Corporations Act

The Company will disregard any votes cast on this Resolution by Boneyard and any of its Associates. However, the Company need not disregard a vote if it is cast by a person as a proxy appointed by writing that specifies how the proxy is to vote on the Resolution and it is not cast on behalf of Boneyard or any of its Associates.

Expert's Report

Shareholders should carefully consider the report prepared by the Independent Expert for the purposes of the Shareholder approval required under ASX Listing Rule 10.1 and section 611 item 7 of the Corporations Act. The Independent Expert's Report comments on the fairness and reasonableness of the transactions the subject of this resolution to the Non-Associated Shareholders in the Company.

Questions and Comments

The Chairman will allow a reasonable opportunity for Shareholders to ask questions about or make comments on the management of the Company.

Dated this 25 September 2020

By order of the Board of Directors

Susan Hunter
Company Secretary

IMPORTANT INFORMATION

EXPLANATORY STATEMENT

Shareholders are referred to the Explanatory Statement accompanying and forming part of this Notice of Annual General Meeting for further explanation of the Resolutions.

PROXIES

Members are encouraged to attend the meeting, but if you are unable to attend the meeting, we encourage you to complete and return the enclosed Proxy Form.

In accordance with section 249L of the Corporations Act, Shareholders are advised that:

- each Shareholder has the right to appoint a proxy;
- the proxy need not be a Shareholder of the Company; and
- a Shareholder who is entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If the member appoints 2 proxies and the appointment does not specify the proportion or number of the member's votes, then in accordance with section 249X(3) of the Corporations Act, each proxy may exercise one-half of the votes.

To be effective, a Proxy Form and, if the Proxy Form is signed by the shareholder's attorney, the authority under which the appointment is signed (or a certified copy of that authority) must be received by the Company not later than 48 hours before the time specified for the commencement of the Annual General Meeting.

CORPORATE REPRESENTATIVES

A body corporate that is a Shareholder, or which has been appointed as proxy, may appoint an individual to act as its representative at the Annual General Meeting. The appointment must comply with the requirements of section 250D of the Corporations Act. The representative should bring to the meeting evidence of his or her appointment, including any authority under which it is signed, unless it has previously been given to the Company.

DATE FOR DETERMINING HOLDERS OF SHARES

In accordance with Regulation 7.11.37 of the *Corporations Regulations 2001* (Cth), the Directors have set a date to determine the identity of those entitled to attend and vote at the Annual General Meeting. For the purposes of determining voting entitlements at the Annual General Meeting, Shares will be taken to be held by the persons who are registered as holding at 5.00pm (WST) on 26 October 2020. Accordingly, transactions registered after that time will be disregarded in determining entitlements to attend and vote at the Annual General Meeting.

ATLAS PEARLS LTD

ABN 32 009 220 053

EXPLANATORY STATEMENT

This Explanatory Statement has been prepared to assist Shareholders with their consideration of the Resolutions proposed for the Annual General Meeting of the Company to be held at Atlas Pearls, 47-49 Bay View Terrace, Claremont, Western Australia at 11.00am (WST) on Wednesday, 28 October 2020.

The purpose of this Explanatory Statement is to provide information which the Directors believe to be material to Shareholders in deciding whether or not to pass the Resolutions. Terms and abbreviations used in this Explanatory Statement are defined in the Glossary.

1. FINANCIAL STATEMENTS AND REPORTS

In accordance with the Corporations Act, the business of the Annual General Meeting will include receipt and consideration of the Company's financial report for the financial year ended 30 June 2020, together with the declaration of the directors, Directors' report, the Remuneration Report and the Auditor's report. The Company will not provide a hard copy of the Company's Annual Report to Shareholders unless specifically requested to do so. The Annual Report is available on the Company's website at www.atlaspearls.com.au.

There is no formal resolution to be put in respect of this matter. However, Shareholders will be given the opportunity to make comments and ask questions in respect of the above reports.

A representative of the Company's Auditor will be present at the Meeting and Shareholders will have the opportunity to ask the Auditor questions in relation to the conduct of the audit, the Auditor's report, the Company's accounting policies and the independence of the Auditor.

2. RESOLUTION 1 – ADOPTION OF REMUNERATION REPORT

2.1 General

The Corporations Act requires that at a listed company's annual general meeting, a resolution that the remuneration report be adopted must be put to the shareholders. However, such a resolution is advisory only and does not bind the company or the directors of the company.

The remuneration report sets out the company's remuneration arrangements for the directors and senior management of the company. The remuneration report is part of the directors' report contained in the annual financial report of the company for a financial year.

The Chair of the meeting must allow a reasonable opportunity for its shareholders to ask questions about or make comments on the remuneration report at the Annual General Meeting.

2.2 Voting consequences

A company is required to put to its shareholders a resolution proposing the calling of another meeting of shareholders to consider the appointment of directors of the company (**Spill Resolution**) if, at consecutive annual general meetings, at least 25% of the votes cast on a remuneration report resolution are voted against adoption of the remuneration report and at the first of those annual general meetings a Spill Resolution was not put to vote. If required, the Spill Resolution must be put to vote at the second of those annual general meetings.

If more than 50% of votes cast are in favour of the Spill Resolution, the company must convene a shareholder meeting (Spill Meeting) within 90 days of the second annual general meeting.

All of the directors of the company who were in office when the directors' report (as included in the company's annual financial report for the most recent financial year) was approved, other than the managing director of the company, will cease to hold office immediately before the end of the Spill Meeting but may stand for re-election at the Spill Meeting.

Following the Spill Meeting those persons whose election or re-election as directors of the company is approved will be the directors of the company.

At the Company's previous annual general meeting, the votes cast against the remuneration report were less than 25%.

3. RESOLUTION 2 – RE-ELECTION OF DIRECTOR MR CADELL BUSS

Clause 10.7(b) of the Constitution requires that when required to do so by the Corporations Act or the Listing Rules, the Company must hold an election of directors. Listing Rule 14.5 requires the Company to hold an election of Directors at each annual general meeting.

Mr Buss was last re-elected a Director of the Company at the 2018 annual general meeting. In accordance with clause 10.7(b) of the Constitution and ASX Listing Rule 14.5, Mr Buss is required to retire and being eligible for election, offers himself for re-election.

Mr Buss was appointed to the Board as a Non-Executive Director on 1 February 2018. Details on Mr Buss' qualifications and experience are included below:

CADELL BUSS MBA, MPM, GAICD

> Mr. Buss is an independent Non-executive Director of the Company and has extensive experience in marketing, communications and advertising spanning 21 years in the industries of Fast Moving Consumer Goods, Sports Administration and Local Government.
>
> Mr Buss' career commenced in sales, progressing into senior leadership engagements at leading commercial enterprises, including Fosters Group Limited and Guinness International. He is the former Chief Executive Officer of DJ Carmichael Pty Ltd in Perth. He brings to the Board skills ranging from corporate branding and marketing, new business development as well as strategic mergers and financial acuity. He has honed his skills overseeing international brand launches in his previous roles and is a graduate of the Australian Institute of Company Directors, holds a Masters of Project Management and a Masters of Business Administration from Murdoch University.
>
> Directorships of other listed companies held in the last three years: Nil

If elected, the Board considers Mr Buss will be an independent Non-executive Director.

The Board unanimously supports the re-election of Mr Buss and recommends that Shareholders vote in favour of Resolution 2.

4. RESOLUTION 3 to 5 – APPROVAL OF GRANT OF SECURITY, GRANT OF NEW CONVERSION RIGHTS AND ISSUE OF CONVERSION SHARES PURSUANT TO AMENDED AND RESTATED LOAN AGREEMENT

4.1. Background

4.1.1. Overview

On 30 June 2020, the Company announced to ASX that it had been in negotiations with Boneyard in relation to the revision of the remaining loan repayments to Boneyard under the loan agreement (**Existing Loan Agreement**) then in place between the Company and Boneyard. The loan outstanding under the Existing Loan Agreement is an amount of $2.5 million (**Existing Loan**), in respect of which loan the Company granted a second ranking security over its assets pursuant to the general security deed that was approved by the Shareholders of the Company at the 2017 AGM (**General Security Deed**) to secure the Company's obligations to Boneyard in respect of the Existing Loan.

To support the revision of the repayment terms of the Existing Loan, as well as the Company's additional funding requirements, on 27 August 2020 the Company announced it and Boneyard had entered into an amended and restated loan agreement (**Amended and Restated Loan Agreement**) which, subject to certain conditions precedent (including shareholder approval will replace the operation of the Existing Loan Agreement. Pursuant to the Amended and Restated Loan Agreement Boneyard has agreed to provide to the Company a revolving loan facility up to the amount of $4.5 million (**Loan Facility**), being the $2.5 million loan outstanding under the Existing Loan Agreement (ie the Existing Loan) as well as an additional loan in the amount of $2 million (**New Loan**).

The material terms of the Amended and Restated Loan Agreement are summarised in Schedule 1 of this Notice of Meeting.

This Notice of Meeting seeks the Shareholder approvals required by the Amended and Restated Loan Agreement.

4.1.2. Security

On 27 August 2020 the Company announced it had obtained a waiver of ASX Listing Rule 10.1 (**Waiver**), allowing the Company, without obtaining Shareholder approval under ASX Listing Rule 10.1, to grant a second ranking security over its assets pursuant to the General Security Deed to secure the Company's obligations in respect of the additional $2m loan (ie the New Loan) provided by Boneyard to the Company under the Amended and Restated Loan Agreement (**Security**). Since the New Loan was urgently required by the Company, the Company sought the Waiver at the request of Boneyard so that the Security could be granted before Shareholder approval was sought as proposed in this Notice of Meeting.

The Waiver was granted subject to the following conditions:

(a) a summary of the material terms of the Waiver as well as the terms of the Amended and

Restated Loan Agreement must be announced to the market (which was done on 27 August 2020);

(b) the announcement must include a description of the reasons why the Company has chosen to enter into the Amended and Restated Loan Agreement with Boneyard rather than a lender that is not a party to which Listing Rule 10.1 applies, and the steps the Board has taken to satisfy itself that the transaction is being entered into on arm's length terms and is fair and reasonable from the perspective of the Shareholders;

(c) the General Security Deed must expressly provide that:

(i) the Security is limited to the funds due under the Loan Facility;

(ii) the Security will be discharged when the funds due under the Loan Facility have been rapid in full;

(iii) in the event the Security is enforced, the assets can only be disposed of to Boneyard if the disposal is approved by the Company's Shareholders under Listing Rule 10.1;

(iv) if Boneyard appoints a receiver, receiver and manager or analogous person to exercise any power of sale under the Security, the assets must be sold to an unrelated third party on arm's length commercial terms, and the net proceeds of sale distributed to Boneyard in accordance with their legal entitlements;

(d) any variations to the terms of the Loan Facility or Security which (i) advantage Boneyard in a material respect, (ii) disadvantage the Company in a material respect, or (iii) are inconsistent with the terms of the Waiver, must be subject to Shareholder approval under Listing Rule 10.1; and

(e) for each year which they remain on foot, a summary of the material terms of the Loan Facility and the Security is included in the related party disclosures in the Company's audited annual reports.

If the Shareholders approve the grant of the Security for the purpose of ASX Listing Rule 10.1, the Waiver will no longer apply meaning that the conditions set out above that apply to the Waiver will no longer apply.

If the Shareholders do not approve the grant of the Security for the purposes of ASX Listing Rule 10.1 pursuant to Resolution 3 in this Notice of Meeting, the Security will still be in force and effect but will remain subject to the Waiver. Boneyard, however, will have the right, pursuant to the Amended and Restated Loan Agreement, to demand immediate repayment of the New Loan (or any portion thereof) provided under the Loan Facility.

4.1.3. Conversion Rights

Under the Existing Loan Agreement (the terms of which were approved by the Shareholders at the 2017 AGM), Boneyard had the right (**Existing Conversion Rights**) up until 14 August 2020 to convert all or part of the Existing Loan, up to a maximum of $4,820,483.75 (**Existing Conversion Amount**), into Shares while there is an Event of Default by the Company. The number of Shares to be issued to Boneyard under the Existing Conversion Rights would have been determined by dividing the Existing Conversion Amount by a price (**Existing Conversion Price**) which is equal to the greater of:

(a) a 15% discount to the 30 day VWAP for Shares ending on the business day immediately before a notice of conversion is received by the Company; and

(b) $0.015 per Share.

However, it should be noted that Boneyard's Existing Conversion Rights under the Existing Loan Agreement have expired on 14 August 2020 and as such if, prior to shareholder approval of the New Conversion Rights (as defined below) pursuant to this Notice of Meeting, an Event of Default occurs in respect of the Existing Loan, Boneyard will no longer be entitled to exercise its Existing Conversion Rights to convert any debt under the Existing Loan into new Shares.

Under the Amended and Restated Loan Agreement, and subject to the approval of the Shareholders as proposed in Resolution 4 of this Notice of Meeting, Boneyard will have the right to convert (**New Conversion Rights**) all or part of the outstanding Loan Facility (which includes the Existing Loan and the New Loan) and interest (**New Conversion Amount**) into Shares if an Event of Default by the Company subsists. The Company will issue up to 1,089,000,000 conversion rights to Boneyard pursuant to the New Conversion Rights (which is a hypothetical number of Shares based on an assumed share price at that time described in more detail below), which will entitle Boneyard to convert any amounts advanced under the Loan Facility into the Maximum Conversion Shares (being 1,089,000,000 new Shares) (see below) if an Event of Default in respect of the Company subsists, provided that if any New

Conversion Rights are not converted into Shares under and pursuant to the terms of the Amended and Restated Loan Agreement (including by the end of the time stipulated therein, being 14 October 2022), they will be cancelled. If Boneyard does not elect to convert all of the outstanding amounts owing under the Loan Facility, the balance will remain outstanding and be payable by the Company in cash.

The number of Shares (**Conversion Shares**) to be issued to Boneyard under the New Conversion Rights will be determined by dividing the New Conversion Amount by a price (**New Conversion Price**) which is equal to a 15% discount to the 30 day VWAP for Shares ending on the Business Day immediately before a notice of conversion (**Conversion Notice**) is received by the Company, provided that the Company may not issue more than the Maximum Conversion Shares (as defined below) under the New Conversion Rights.

The Shareholder approval sought in this Notice Of Meeting provides that the New Conversion Amount will be capped to a maximum of $5.445m (**Maximum Conversion Amount**) being the $4.5 million Loan Facility plus approximately two years of default interest on that amount, reflecting that it is essentially two years until the Maturity Date of the Loan Facility, being 30 September 2022 and that Boneyard have until 14 October 2022 to exercise the New Conversion Rights. Given this, the maximum number of Conversion Shares that may be issued to Boneyard under the New Conversion Rights will be 1,089,000,000 Shares (**Maximum Conversion Shares**) if the New Conversion Price is $0.005 at the date the New Conversion Rights is granted to Boneyard (ie the date of approval of Resolution 4). Any additional New Conversion Rights or resultant share issues will be subject to any further shareholder and regulatory approvals.

If Shareholder approval is not obtained for the New Conversion Rights pursuant to Resolution 4 in this Notice of Meeting, the Existing Conversion Rights (as approved by the Shareholders at the 2017 AGM and subject to the conditions attaching to that approval) would have continued under the Amended and Restated Loan Agreement in respect of that portion of the Loan Facility which is equal to the Existing Loan. However, since the exercise date of the Existing Conversion Rights expired on 14 August 2020, Boneyard will no longer be able to exercise its Existing Conversion Rights in respect of the Existing Loan. Additionally, Boneyard shall have the right, pursuant to the Amended and Restated Loan Agreement, to demand immediate repayment of the New Loan (or any portion thereof) provided under the Loan Facility. If Shareholder approval for the New Conversion Rights is obtained pursuant to Resolution 4, the New Conversion Rights will apply and Boneyard shall not be entitled to demand repayment of the New Loan other than in terms of the Amended and Restated Loan Agreement (as summarised in Schedule 1).

As the New Conversion Price is not fixed, the exact number of Conversion Shares that may be issued on conversion of the Loan Facility and interest under the New Conversion Rights is not known at this time. However, the Company will not issue Shares under the New Conversion in excess of the Maximum Conversion Shares without first obtaining the requisite Shareholder and regulatory approvals.

Set out below are worked examples of the number of Conversion Shares that will be issued to Boneyard if the Maximum Conversion Amount is converted into Shares based on a range of New Conversion Prices, including the closing price on 9 September 2020 of $0.009. The dilutionary effect on existing Shareholders is also set out, assuming there are 427,871,758 Shares on issue at the time of conversion under the New Conversion Rights (which is the number of Shares currently on issue as at the date of this Notice of Meeting) and no other Shares are issued.

Assumed Conversion Price	Convertible Loan and Interest Amount	Number of Shares Issued	Total Shares on Issue	Dilution effect on existing Shareholders
$0.005	$5,445,000	1,089,000,000	1,516,871,758	71.79%
$0.009	$5,445,000	605,000,000	1,032,871,758	58.57%
$0.015	$5,445,000	363,000,000	790,871,758	45.90%

4.1.4. Rationale for the Security and New Conversion Rights

The Directors (other than Mr Timothy Martin, who has a material personal interest in the Amended and Restated Loan Agreement and accordingly did not attend any board meetings, participate in any board discussions or vote on any matters in relation to the Amended and Restated Loan Agreement and Security) (**Non-Conflicted Directors**) considered the Amended and Restated Loan Agreement, including granting the Security and the New Conversion Rights, in depth and supported the granting of the Security and the New Conversion Rights for the reasons set out below.

(a) **Security**: The Non-Conflicted Directors consider that the granting of the Security is in the best interests of the Company because:

(i) the Company has already granted a second ranking security over its assets to Boneyard pursuant to the General Security Deed in respect of the Existing Loan;

(ii) it is common practice for companies to grant security over their assets when raising debt finance;

(iii) without the agreement to grant the Security, the Company was unlikely to be able to secure the additional funds to meet its working capital needs;

(iv) having regard to the challenges facing the Company and general economic conditions generally, the Non-Conflicted Directors are of the view that they have a business plan and budget that seeks to ensure that the Company is able to repay the amounts under the Amended and Restated Loan Agreement in accordance with the its terms and accordingly consider the risk of Boneyard being in a position to enforce the Security as relatively low;

(v) in the unlikely event that the Company is unable to repay all amounts under the Amended and Restated Loan Agreement in accordance with its terms, Boneyard's entitlement in relation to the Security is limited to the amount of the outstanding principal and capitalised interest; and

(vi) as Boneyard have agreed to subordinate their interest in the Security to the Company's first secured financier, NAB, the grant of the Security appears unlikely to have a material impact on the ability of the Company to secure further or alternative debt finance from non-related third parties.

(b) **New Conversion Rights**: The Non-Conflicted Directors consider that the New Conversion Rights are in the best interests of the Company because:

(i) the Company already owes amounts to Boneyard under the Existing Loan Agreement, and to other debt financiers, and as a result, the Directors believe that the Company is unlikely to secure the required funding on equal or better terms (including the interest payment obligations) from any third party;

(ii) in agreeing to provide the Loan Facility under the terms of the Amended and Restated Loan Agreement, Boneyard has also agreed to defer the repayment date of the Existing Loan owed to Boneyard under the Existing Loan Agreement;

(iii) the Non-Conflicted Directors consider that, on balance, the terms of the Amended and Restated Loan Agreement, including the New Conversion Rights, are more advantageous compared to those available from external bank and non-bank financiers for a similar facility. In this regard it is noted that:

(A) the interest rate payable to Boneyard, while higher than that which will be payable under comparable secured loans from a bank, is within the range sought for secured non-bank financing;

(B) the Company is entitled to prepay the Loan Facility under the Amended and Restated Loan Agreement at any time without payment of any fees/ penalty, while any prepayment under the terms provided by non-bank financiers usually involves a substantial fee; and

(C) the Amended and Restated Loan Agreement requires the Company to provide very limited warranties and covenants and events of defaults are limited and narrow in scope;

(iv) conversion, while at Boneyard's election, provides an alternative way for the Company to satisfy the debts it owes under the Amended and Restated Loan Agreement without having to pay cash, which the Board considers will be, in certain circumstances, an advantage in that it will avoid potential insolvency and conserve cash to enable the Company to achieve its business plan;

(v) it is common for non-bank financiers to seek a right to convert debt into shares at the financiers' election. Under the Amended and Restated Loan Agreement, the New Conversion Rights are only available during an Event of Default by the Company, not at any other time and Boneyard will not be able to the exercise the New Conversion Rights after 14 October 2022; and

(vi) non-bank financier conversion rights are typically at a discount equal to or higher than the proposed discount of 15% and based on the lowest VWAP share price over a short

trading period (eg 10 trading days) and thus was considered to be more favourable, on balance, than the conversion rights likely to be required by non-bank financiers.

4.2. Approval of Grant of Security for purposes of ASX Listing Rule 10.1

Under Resolution 3, the Company is seeking shareholder approval for the grant of the Security to Boneyard for the purposes of ASX Listing Rule 10.1.

ASX Listing Rule 10.1 provides that, a listed company must not, without the approval of its shareholders, acquire or agree to acquire a substantial asset from, or dispose of or agree to dispose of a substantial asset to, amongst other parties, a related party or an associate of a related party.

Under the Listing Rules, the term 'dispose' includes disposing or agreeing to disposing directly or through another person by any means, including using an asset as a collateral by granting security over the asset. The granting of the Security is therefore treated as a disposal of the Company's assets for the purposes of ASX Listing Rule 10.1.

As the Security will be granted to Boneyard, which is both a 'substantial holder' in that it has a Relevant Interest in 26.43% of the Company's issued share capital and it is an associate of a related party (ie Mr Timothy Martin) of the Company, the granting of the Security will be treated as a disposal of the Company's assets for the purposes of ASX Listing Rule 10.1. Shareholder approval pursuant to ASX Listing Rule 10.1 is required unless an exception applies. It is the view of the Directors that the exceptions set out in ASX Listing Rule 10.3 do not apply in the current circumstances.

4.2.1. Listing Rule 10.5 requirements

Pursuant to and in accordance with ASX Listing Rule 10.5, the following information is provided in relation to the grant of the Security to Boneyard:

Name of the person to whom the entity is disposing the substantial asset

The Company will be granting the Security over its assets in favour of Boneyard, pursuant to the terms and conditions of the General Security Deed, as collateral for the New Loan advanced to the Company under the Loan Facility.

Which category in Listing Rules 10.1.1 – 10.1.5 the person falls within

Boneyard and its Associates currently have a Relevant Interest in 26.43% of the Company's issued share capital and as such is a 'substantial holder' under Listing Rule 10.1.3.

Boneyard is also associated with Mr Timothy Martin, a Director of the Company, and as such Boneyard is also considered a related party of the Company under Listing Rule 10.1.4 by virtue of being associated with Mr Timothy Martin.

Details of the asset being disposed of

An asset will be a substantial asset if its value, or the value of the consideration for its acquisition or disposal, exceeds 5% or more of the equity interests in the entity as set out in the latest accounts given to ASX under the Listing Rules.

Based on the Company's full year accounts which were released to ASX on 31 August 2020, as at 30 June 2020, the Company had:

Contributed equity	**$36,857,415**
Reserves	**($7,787,970)**
(Accumulated losses)	**($15,427,901)**
Total equity	**$13,641,544**
5% of total equity	**$682,077.20**

Although the aggregate of the interest to be paid to Boneyard under the Amended and Restated Loan Agreement (being 7.5% pa to the Maturity Date of the Loan) is less than 5% of the Company's equity interests as set out in the latest accounts released to ASX on 31 August 2020, the granting of the Security to Boneyard, which is taken to be a disposal of the Company's assets, will constitute the disposal of a substantial asset that requires Shareholder approval for the purposes of ASX Listing Rule 10.1. The reason for this is that the Security is a second ranking security over all of the assets of the Company, meaning that if the Company defaults under the New Loan and Boneyard exercises its rights under the Security, Boneyard will be able to dispose of all of the assets of the Company in order to satisfy the debt and the value of that disposal will exceed 5% of the Company's equity interest as set out in the latest accounts given to ASX.

The consideration for the disposal

Boneyard has granted the Loan Facility to the Company as consideration for the Security, being a total loan amount of $4.5 million.

The intended use of funds (if any) received for the disposal

The funds by received by the Company under the Loan Facility will be used by the Company to continue as a going concern and to meet its working capital requirements while it continues to seek a combination of new distribution networks and the pearling industry recovers from the effects of COVID-19.

The timetable for completing the disposal

The Security, the subject of the Waiver, was granted to Boneyard upon conclusion of the Amended and Restated Loan Agreement on 27 August 2020. However, pursuant to the General Security Deed, Boneyard will only be entitled to enforce the Security if the Company defaults in repaying any amounts advanced under the Loan Facility, which repayments are scheduled in four equal tranches in accordance with the Amended and Restated Loan Agreement on the following dates:

(a) 31 March 2021;

(b) 30 September 2021;

(c) 31 March 2022; and

(d) 30 September 2022.

A summary of the material terms of the agreement under which the disposal is occurring

The Security was granted pursuant the terms of the General Security Deed which secures the Existing Loan advanced under the Existing Loan Agreement. The terms of the General Security Deed were approved by the Shareholders at the 2017 AGM and have not been materially amended since its approval. The General Security Deed (including the Security) will continue to operate on the terms approved at the 2017 AGM. A summary of the material terms of the General Security Deed is set out in Schedule 2 of this Notice of Meeting.

Voting exclusion statement

A voting exclusion statement for Resolution 3 (in respect of Listing Rule 10.1) is included in the Notice of Meeting preceding this Explanatory Statement.

Independent Expert Report

The Board engaged BDO to prepare the Independent Expert's Report to provide an opinion on whether or not granting the Security is 'fair and reasonable' to Shareholders who are not associated with Boneyard (**Non-Associated Shareholders**).

The Independent Expert's Report prepared by BDO concludes that the granting of the Security is '**fair and reasonable'** to the Non-Associated Shareholders. The basis for this opinion is summarised in Sections **2.3** and **2.4** of the Independent Expert's Report.

A complete copy of the Independent Expert's Report is provided in Annexure A to this Notice.

4.3. Approval of grant of the New Conversion Rights for purposes of ASX Listing Rule 10.11

The Company has entered into the Amended and Restated Loan Agreement with Boneyard. As outlined above, and as approved by the Shareholders at the 2017 AGM, the Existing Loan Agreement granted Boneyard the ability to convert, at the discretion of Boneyard, the Existing Loan (or any portion thereof) into Shares under the Existing Conversion Rights if an Event of Default occurs. However, since the last exercise date for the Existing Conversion Rights was 14 August 2020, Boneyard's right to convert the Existing Loan into Shares pursuant to the Existing Conversion Rights has expired.

However, the Company wishes for the Shareholders to approve the New Conversion Rights so that both the Existing Loan and the New Loan (and interest thereon) will be convertible into Shares in the Company if an Event of Default in respect of the Company occurs, with the conversion being at Boneyard's option.

Listing Rule 10.11 provides that unless one of the exceptions in Listing Rule 10.12 applies, a listed company must not issue or agree to issue equity securities to, amongst other parties, a related party or an associate of a related party.

Boneyard and its Associates currently have a Relevant Interest in 26.43% of the Company's issued share capital and is associated with Mr Timothy Martin, who is a director of both Boneyard and the Company.

As the New Conversion Rights will constitute a convertible security for purposes of the ASX Listing Rules, and a 'convertible security' falls within the definition of 'equity security' under the ASX Listing

Rules, the grant of the New Conversion Rights to Boneyard will constitute the issue of an equity security to a related party or an associate of a related party of the Company and Shareholder approval pursuant to ASX Listing Rule 10.11 is required unless an exception applies. It is the view of the Directors that the exceptions set out in ASX Listing Rule 10.12 do not apply in the current circumstances.

4.3.1. Listing Rule 10.13 requirements

Pursuant to and in accordance with ASX Listing Rule 10.13, the following information is provided in relation to the grant of the New Conversion Rights and the issue to Boneyard of the Conversion Shares upon exercise of the New Conversion Rights:

The name of the person

The New Conversion Rights will be granted to Boneyard pursuant to and on the terms and conditions of the Amended and Restated Loan Agreement.

Which category in Listing Rules 10.11.1 – 10.11.5 the person falls within

As noted above, Mr Timothy Martin is a related party of the Company by virtue of being a Director of the Company. Boneyard is an Associate of Mr Timothy Martin and as such Boneyard will be considered a related party of the Company by virtue of being associated with Mr Timothy Martin pursuant to Listing Rule 10.11.4

The number and class of securities to be issued to the person

The grant of the New Conversion Rights to Boneyard will constitute the issue of a convertible security to Boneyard.

The Company will, subject to the approval of the Shareholders as proposed in Resolution 4 of this Notice of Meeting, issue up to 1,089,000,000 conversion rights to Boneyard pursuant to the New Conversion Rights, which will entitle Boneyard to convert any amounts advanced under the Loan Facility into the Maximum Conversion Shares (being 1,089,000,000 new Shares) if an Event of Default in respect of the Company subsists.

Any New Conversion Rights that are not converted into New Conversion Shares under and in accordance with the Amended and Restated Loan Agreement (including by the end of the time stipulated therein, being 14 October 2022) will be cancelled.

Summary of the material terms of the securities

As noted under Section 4.1.3 above, under the Amended and Restated Loan Agreement, and subject to the approval of the Shareholders as proposed in Resolution 4 of this Notice of Meeting, the Company will issue up to 1,089,000,000 New Conversion Rights to Boneyard, which will entitle Boneyard to convert any amounts advanced under the Loan Facility into New Conversion Shares up to the Maximum Conversion Shares (being 1,089,000,000 new Shares) if an Event of Default in respect of the Company subsists.

Boneyard shall be entitled to exercise the New Conversion Rights until 14 October 2022, after which date Boneyard's rights under the New Conversion Rights will expire.

If any New Conversion Rights are not converted into Shares pursuant to and on the terms set out in the Amended and Restated Loan Agreement (including by the end of the time stipulated therein, being 14 October 2022), they will be cancelled.

The number of Conversion Shares to be issued to Boneyard under the New Conversion Rights will be determined by dividing the New Conversion Amount by the New Conversion Price, which is a price equal to a 15% discount to the 30 day VWAP for Shares ending on the Business Day immediately before a Conversion Notice is received by the Company, provided that the Company may not issue more than the Maximum Conversion Shares (being 1,089,000,000 new Shares as determined below) under the New Conversion Rights.

The New Conversion Amount will be capped to a maximum of $5.445m (being the Maximum Conversion Amount) being the $4.5 million Loan Facility plus approximately two years of default interest on that amount, reflecting that it is essentially two years until the Maturity Date of the Loan Facility, being 30 September 2022 and that Boneyard have until 14 October 2022 to exercise the New Conversion Rights. Given this, the Maximum Conversion Shares will be 1,089,000,000 Shares if the New Conversion Price is $0.005 at the date the New Conversion Rights is granted to Boneyard (ie the date of approval of Resolution 4). Any additional New Conversion Rights or resultant share issues will be subject to any further shareholder and regulatory approvals.

The date or dates on or by which the entity will issue the securities

The New Conversion Rights will be granted to Boneyard pursuant to the Amended and Restated Loan Agreement immediately upon approval of Resolution 4 by the Shareholders but in any event within one

month after the date of the meeting at which Resolution 4 is approved.

Any further issues of New Conversion Rights will require the Company to obtain any necessary Shareholder and regulatory approvals at that time.

Accordingly, any resultant issue of Conversion Shares to Boneyard pursuant to the exercise by Boneyard of the New Conversion Rights (to the limit of the Maximum Conversion Shares) will be pursuant to ASX Listing Rule 10.12 (Exception 7) and will not require any further approval under ASX Listing Rule 7.1.

The price or other consideration the entity will receive for the issue

The funds received by the Company for granting the New Conversion Rights to Boneyard is the additional New Loan under the Loan Facility. Pursuant to the Amended and Restated Loan Agreement, if the grant of the New Conversion Rights is not approved by Shareholders, Boneyard will have the option to demand immediate repayment of the New Loan provided under the Loan Facility.

The purpose of the issue, including the intended use of any funds raised by the issue

The New Loan advanced by Boneyard to the Company under the Loan Facility will be used by the Company to continue as a going concern and to meet its working capital requirements while it continues to seek a combination of new distribution networks and the pearling industry recovers from the effects of COVID-19.

No funds will be raised from the issue of any Conversion Shares upon exercise of the New Conversion Rights as upon conversion of the New Conversion Rights the outstanding monies due under the Amended and Restated Loan Agreement will be deemed to be reduced by the amount of the debt converted into Conversion Shares.

Details of the director's current total remuneration package

The issue of the New Conversion Rights to Boneyard will be for the purpose of securing the New Loan and the issue of the Conversion Shares to Boneyard under the Amended and Restated Loan Agreement will only occur in the Event of Default by the Company under the Amended and Restated Loan Agreement and if Boneyard, at its option, decides to exercise the New Conversion Rights. The issue of the New Conversion Rights and any Conversion Shares under the New Conversion Rights are therefore not intended to remunerate or incentivise Mr Timothy Martin (even though Boneyard is associated with Mr Timothy Martin).

For completeness, Mr Martin receives approximately $50,000 in director's fees annually and his Relevant Interest in the Company is detailed in section 4.4.2(b).

Summary of the material terms of the agreement under which the securities are issued

The New Conversion Rights and the underlying Conversion Shares to be issued pursuant to the exercise of the New Conversion Rights will be issued pursuant to the terms of the Amended and Restated Loan Agreement, noting that the Shares will rank equally, and be on the same terms and condition, as the other Shares on issue at the date of issue. A summary of the material terms of the Amended and Restated Loan Agreement is set out in Schedule 1 of this Notice of Meeting.

Voting exclusion statement

A voting exclusion statement for Resolution 4 (in respect of Listing Rule 10.11) is included in the Notice of Meeting preceding this Explanatory Statement.

Under ASX Listing Rule 7.2 (Exception 14), if approval is sought under ASX Listing Rule 10.11, approval will not be required under ASX Listing Rule 7.1. Therefore, the issue of New Conversion Rights and the underlying Conversion Shares pursuant to the exercise of the New Conversion Rights will not count towards the Company's 15% placement capacity under ASX Listing Rule 7.1 (assuming Resolution 4 is passed). However, the Company will obtain the relevant Shareholder approval if the number of Conversion Shares to be issued to Boneyard upon its exercise of the New Conversion Rights exceeds the Maximum Conversion Shares.

4.4. Approving grant of New Conversion Rights for purposes of Item 7 of Section 611 of the Corporations Act

4.4.1. Section 606 of the Corporations Act – Statutory Prohibition

Pursuant to section 606(1) of the Corporations Act, a person must not acquire a Relevant Interest in issued voting shares in a listed company if the person acquiring the interest does so through a transaction in relation to securities entered into by or on behalf of the person and because of the transaction, that person's or someone else's Voting Power in the company increases:

(a) from 20% or below to more than 20%; or

(b) from a starting point that is above 20% and below 90%,

(***Prohibition***).

However, item 7 of section 611 of the Corporations Act provides an exception to the Prohibition, whereby a person may acquire a Relevant Interest in a company's voting shares with shareholder approval.

Boneyard and its Associates currently have a Relevant Interest of approximately 26.43% in the issued share capital of the Company (see further below for details). Assuming the New Conversion Rights is exercised for the Maximum Conversion Amount and the Maximum Conversion Shares are issued to Boneyard, Boneyard and its Associates' Relevant Interest in the Company will increase from a from a starting point that is above 20% and below 90%, - see further below for details (**Relevant Interest Acquisition**).

In the absence of Shareholder approval, the increase in the Relevant Interests of Boneyard and its Associates from the exercise of the New Conversion Rights, which will increase their Voting Power in the Company's Shares from above 20% to less than 90%, will breach the Prohibition.

Accordingly, Resolution 5 seeks Shareholder approval for the purpose of section 611 Item 7 of the Corporations Act to enable the Company to issue Shares in the event that Boneyard exercises the New Conversion Rights pursuant to the Amended and Restated Loan Agreement and for any Relevant Interest Boneyard and its Associates may obtain as a result.

In accordance with ASX Listing Rule 7.2 (Exception 8), an issue of Shares approved for the purposes of Section 611 item 7 of the Corporations Act does not require any further approval under ASX Listing Rule 7.1. Therefore, any Shares issued pursuant to the New Conversion Rights will not count towards the Company's 15% placement capacity under ASX Listing Rule 7.1. However, the Company will obtain the relevant Shareholder approval if the number of Conversion Shares to be issued to Boneyard upon its exercise of the New Conversion Rights exceeds the Maximum Conversion Shares.

ASIC Regulatory Guide 74 specifies certain requirements where a company seeks shareholder approval under Section 611 Item 7 of the Corporations Act, including that an independent expert's report is provided with an opinion on whether the proposed transaction is fair and reasonable to the Non-Associated Shareholders.

The Board engaged BDO to prepare the Independent Expert's Report to provide an opinion on whether or not the Relevant Interest Acquisition is 'fair and reasonable' to Non-Associated Shareholders.

The Independent Expert's Report prepared by BDO concludes that, in the absence of a superior offer, the Relevant Interest Acquisition is '**not fair but reasonable**' to the Non-Associated Shareholders. The basis for this opinion is summarised in Sections **2.3** and **2.4** of the Independent Expert's Report.

Shareholders are urged to carefully read the Independent Expert's Report to understand the scope of the report, the methodology of the valuation and the sources of information and assumptions made.

A complete copy of the Independent Expert's Report is provided in Annexure A to this Notice.

4.4.2. Specific Information required by Section 611 Item 7 of the Corporations Act and ASIC Regulatory Guide 74

The following information is required to be provided to Shareholders under the Corporations Act and ASIC Regulatory Guide 74 in respect of obtaining approval for Item 7 of section 611 of the Corporations Act. Shareholders are also referred to the Independent Expert's Report prepared by BDO which accompanies this Notice of Meeting.

(a) **Identity of the Acquirer and its Associates**

The identity of the person proposing to make the acquisition of Relevant Interests pursuant to the New Conversion Rights is Boneyard.

Boneyard has advised that it has no Associates other than as specified in this Notice of Meeting and Explanatory Memorandum.

Name	*Association with Boneyard*
TJM Australia Pty Ltd (ACN 115 313 418) as the trustee for the TJM Trust	Associate of Boneyard as acting in concert with Boneyard in relation to the Company's affairs
Timothy Martin	Associate of Boneyard as acting in concert with Boneyard in relation to the Company's affairs

TJ Martin & WG Martin ATF TJM Superannuation Fund	Associate of Boneyard as acting in concert in relation to the Company's affairs.
Jingie Investments Pty Ltd	Associate of Boneyard as acting in concert in relation to the Company's affairs
Chemco Superannuation Fund Pty Ltd ATF Chemco Superannuation Fund No.2	Associate of Boneyard as acting in concert in relation to the Company's affairs
JM Roughan & BM Martin ATF JM Martin Superannuation Fund	Associate of Boneyard as acting in concert in relation to the Company's affairs
Jennifer M Roughan	Associate of Boneyard as acting in concert in relation to the Company's affairs

(b) **Relevant Interest and Voting Power**

Relevant Interest

The Relevant Interests of Boneyard and each Associate in voting shares in the capital of the Company (both current and following the issue of the Maximum Conversion Shares as if the New Conversion Rights is exercised in respect of the Maximum Conversion Amount) are set out in the table below:

Lender	***Relevant Interest as at the date of the Notice[1]***	**% issued Shares**	***Relevant Interest after the issue of the Conversion Shares***	**% issued Shares**
Boneyard	53,048,882	12.40%%	1,142,048,882	75.29%
Associates				
TJM Australia Pty Ltd (ACN 115 313 418) as the trustee for the TJM Trust	-	-%	-	0.00%
Timothy Martin	3,997,428	0.93%%	3,997,42 8	0.26%
TJ Martin & WG Martin ATF TJM Superannuation Fund	1,000,000	0.23%	1,000,000	0.07%
Jingie Investments Pty Ltd	17,880,240	4.18%	17,880,240	1.18%
Chemco Superannuation Fund Pty Ltd ATF Chemco Superannuation Fund No.2	32,400,000	7.57%	32,400,000	2.14%
JM Roughan & BM Martin ATF JM Martin Superannuation Fund	1,400,000	0.33%	1,400,000	0.09%
Jennifer M Roughan	3,360,000	0.79%	3,360,000	0.22%
Associates Subtotal	**60,037,668**	14.03%	**60,037,668**	**3.96%**
Total Boneyard and Associates	**113,086,550**	26.43%	**1,202,086,550**	**79.25%**

Notes:

1. *Assuming there are 427,871,758 Shares on issue (being the number of Shares on issue at the date of this Notice) at the time of exercise of the New Conversion Rights, the maximum number of Shares are issued as if the New Conversion Rights is exercised in respect of the total amount of the Loan Facility and interest and no other securities in the Company are issued, resulting in a total of 1,516,871,758 Shares being on issue.*

Voting Power

The voting power of Boneyard and each Associate (both current, and following the issue of the Maximum Conversion Shares as if the New Conversion Rights is exercised in respect of the Maximum

Conversion Amount) is set out in the table below.

Lender	*Voting Power as at the date of the Notice*	*Voting Power after the issue of the Conversion Shares*
Boneyard	26.43%	79.25%
Associate		
TJM Australia Pty Ltd (ACN 115 313 418) as the trustee for the TJM Trust	26.43%	79.25%
Timothy Martin	26.43%	79.25%
TJ Martin & WG Martin ATF TJM Superannuation Fund	26.43%	79.25%
Jingie Investments Pty Ltd	26.43%	79.25%
Chemco Superannuation Fund Pty Ltd ATF Chemco Superannuation Fund No.2	26.43%	79.25%
JM Roughan & BM Martin ATF JM Martin Superannuation Fund	26.43%	79.25%
Jennifer M Roughan	26.43%	79.25%

(c) **Summary of increases**

The estimated maximum Relevant Interest that Boneyard will hold on conversion of the Maximum Conversion Amount if the Maximum Conversion Shares are issued is 1,089,000,000 Shares giving Boneyard a Voting Power of 79.25% (in aggregate).

The maximum Voting Power of 79.25% represents a maximum increase of 52.82%%, being the difference between 26.43% and 79.25.

(d) **Assumptions**

The following assumptions have been made in calculating the above Voting Power:

(i) the Company has 427,871,758 Shares on issue as at the date of this Notice of Meeting;

(ii) Boneyard are issued the Maximum Conversion Shares as if the New Conversion Rights are exercised in respect of the Maximum Conversion Amount;

(iii) the Company does not issue any other securities prior to the conversion under the New Conversion Rights; and

(iv) Boneyard do not acquire a Relevant Interest in any additional securities in the Company other than under Resolution 5.

(e) **Reasons for the proposed Relevant Interest Acquisition**

As set out in Section 4.1.3 of this Explanatory Statement, the reason for the issue of the Conversion Shares to Boneyard is to comply with the Company's obligations under the Amended and Restated Loan Agreement if there is an Event of Default and Boneyard exercises the New Conversion Rights.

(f) **Date of proposed Relevant Interest Acquisition**

The Conversion Shares the subject of Resolution 5 may only be issued, subject to Shareholder and regulatory approvals being obtained, if an Event of Default subsists under the Amended and Restated Loan Agreement and Boneyard has exercised the New Conversion Rights.

(g) **Material terms of proposed Relevant Interest Acquisition**

The Conversion Shares will be issued in accordance with the terms and conditions of the Amended and Restated Loan Agreement and will be issued on the same terms and conditions as all other existing Shares on issue in the Company. The material terms of the Amended and Restated Loan Agreement are summarised in Schedule 1 of this Notice of Meeting.

(h) **Details of other relevant agreements between Boneyard and its Associates and the Company that is conditional on, or depends on, Shareholders approving the Relevant Interest Acquisition**

Apart from the Amended and Restated Loan Agreement and the General Security Deed, there are no other relevant agreement between Boneyard and its Associates and the Company that is conditional on, or depends on, Shareholders approving the Relevant Interest Acquisition.

(i) **Intentions of Boneyard**

Other than as disclosed elsewhere in this Explanatory Statement, the Company understands that Boneyard and its Associates:

(i) have no present intention of making any significant changes to the business of the Company;

(ii) will consider participating in further capital raisings of the Company to maintain their shareholding interest;

(iii) have no present intention of making changes regarding the future employment of the present employees of the Company (with future changes, if any, to be made in consultation with the Company's management team);

(iv) do not intend to redeploy any fixed assets of the Company;

(v) do not intend to transfer any property between the Company and any other entity; and

(vi) have no intention to change the Company's existing policies in relation to financial matters or dividends.

These intentions are based on information concerning the Company, its business and the business environment which is known to Boneyard at the date of this Notice.

These present intentions may change as new information becomes available, as circumstances change or in the light of all material information, facts and circumstances necessary to assess the operational, commercial, taxation and financial implications of those decisions at the relevant time.

(j) **The interests that any Director has in the Relevant Interest Acquisition or any relevant agreement disclosed above**

The Directors interests are set out in Section 4.4.4(a).

(k) **Proposed changes of Directors of the Company**

Boneyard do not presently propose to change the Directors of the Company if the New Conversion Rights is exercised.

(l) **Advantages of the Relevant Interest Acquisition**

The Directors are of the view that the following non-exhaustive list of advantages may be relevant to a Shareholder's decision on how to vote on Resolution 5 contained in this Notice of Meeting:

(i) the Company will not be at risk of having to repay on demand up to $4.5 million provided to the Company pursuant to the Loan Facility under the Amended and Restated Loan Agreement. Instead, the Company will have access to the remaining funds under the Loan Facility, with repayments occurring in stages up to September 2022;

(ii) the Loan Facility does not involve any dilution of Shareholder's equity interest in the Company provided there is no Event of Default, while any capital raising is likely to result in some dilution of the holdings of existing Shareholders;

(iii) if the Company is able to secure funding on terms more favourable than the Loan Facility, the Company has the flexibility to prepay the Loan Facility under the Amended and Restated Loan Agreement (without the payment of any fees/ penalty) and obtain funding on more favourable terms; and

(iv) the Independent Expert's Report identifies other advantages of the Relevant Interest Acquisition to which Shareholders should have regard.

(m) **Disadvantages of the Relevant Interest Acquisition**

The Directors are of the view that the following non-exhaustive list of disadvantages may be relevant to a Shareholder's decision on how to vote on Resolution 5 contained in this Notice of Meeting:

(i) if the Company is unable to repay all amounts under the Amended and Restated Loan Agreement in accordance with its terms, Boneyard may enforce the Security and sell assets comprising the Security;

(ii) despite Boneyard subordinating its interest in the Security in favour of NAB's existing first ranking secured debt, the granting of the Security may create some level of disincentive to any future debt provider;

(iii) if Resolution 5 is approved and the Conversion Shares are issued upon exercise of the New Conversion Rights upon an Event of Default by the Company, existing Shareholders will hold a diluted interest in the Company's assets. The table in Section 4.1.3 above provides details of the possible dilutionary effect; and

(iv) Boneyard and its Associates will have Relevant Interests in 79.25% of Shares on issue in the Company if the New Conversion Rights is exercised and the Maximum Conversion Shares are issued if the if the New Conversion Rights is exercised in respect of the Maximum Conversion Amount. In such circumstances, Boneyard will have significant influence over matters that require approval by the Company's Shareholders including the election of directors and approval of significant corporate transactions. This concentration of ownership might also have the effect of delaying or preventing a change of control transaction in respect of the Company that other Shareholders may view as beneficial as Boneyard's shareholding interest will mean that they can block any proposal by a third party to acquire all of the Shares in the Company.

The Independent Expert's Report identifies the following disadvantages of the Relevant Interest Acquisition to which Shareholders should have regard:

(i) the Relevant Interest Acquisition is not fair;

(ii) in the event of the New Conversion Rights being exercised by Boneyard, the Relevant Interest Acquisition will result in the dilution of the existing Shareholders. Boneyard and its Associates currently have approximately a 26.43% interest in the Company. Assuming that the Maximum Conversion Amount is converted into the Maximum Conversion Shares and no other Shares are issued or Options exercised, Boneyard and its Associates will acquire a relevant interest of approximately 79.25% in the Company; and

(iii) the Amended and Restated Loan Agreement includes negative pledges that place restrictions on the Company's ability to deal with its assets without prior consent of Boneyard. The Independent Expert notes that, under the terms of the Amended and Restated Loan Agreement, the Company must not, without the consent of Boneyard, not to be unreasonably withheld or delayed, issue additional equity capital other than shares issued on exercise of existing Options.

4.4.3. Potential position if Shareholders do not approve Resolutions 3 to 5

If Shareholders do not approve Resolutions 3 to 5, Boneyard is entitled, pursuant to the Amended and restated Loan Agreement, to elect to require repayment of the New Loan advanced under the Loan Facility on demand. Therefore, if the Shareholders do not approve Resolutions 3 to 5 and Boneyard elects to demand repayment of the New Loan pursuant to the Amended and Restated Loan Agreement, the Non-Conflicted Directors of the Company consider that the alternatives available to the Company include:

(a) **Raising alternative equity capital**

(i) This option has been considered by the Non-Conflicted Directors. However, attempts by the Company to identify an alternative, suitable cornerstone investor may require considerable amounts of time and, even if a suitable alternative cornerstone investor was able to be identified, there is no guarantee of the price at which they would invest in the Company or other terms and conditions that would be required.

(ii) The ongoing financial support to the Company provided by Boneyard in order for the Company to continue as a going concern is welcomed by the Non-Conflicted Directors.

(b) **Raising alternative debt capital**

(i) Alternatively, the Company may need to attempt to establish an alternative debt facility. If the Company were able to secure such a facility, there is no guarantee that it would be on terms with respect to pricing, security or otherwise that are favourable to the Company.

(ii) Additionally, this alternative seems unlikely given the amounts the Company currently owes to Boneyard and its other debt financiers.

Therefore, if Resolutions 3 to 5 are not approved and Boneyard demand repayment of the New Loan under the Amended and Restated Loan Agreement, the Company considers that there would be significant uncertainty regarding the Atlas' ability to continue as a going concern.

4.4.4. Other information for Shareholders

(a) **Directors' interest and other remuneration**

The Non-Conflicted Directors do not have a material personal interest in the outcome of Resolutions 3 to 5, save for any interest they may have solely in their capacity as Shareholders which interest they hold in common with other Non-Associated Shareholders of the Company.

Mr Timothy Martin, by virtue of being associated with Boneyard, has a material personal interest in the outcome of Resolutions 3 to 5 and makes no recommendation in relation to Resolutions 3 to 5.

No other Director has any interest in the outcome of Resolutions 3 to 5 or any other relevant agreement.

(b) **Valuation**

The Conversion Shares that may be issued in accordance with the New Conversion Rights are in a class of securities that are quoted on the ASX. The issue price of the Conversion Shares is a 15% discount to the 30 day VWAP for Shares ending on the business day immediately before a Conversion Notice is received by the Company.

The Independent Experts Report considers which valuation methodology is appropriate in respect of the Security and the Conversion Shares. Shareholders should refer to the Independent Expert's Report for further details.

(c) **Any other information reasonably required by Shareholders to make a decision and that is known by the Company or any of its Directors**

There is no other information known to the Company or its Directors save and except as follows:

(i) **Market Price Movements**

The closing market price of the Shares of the Company on 9 September 2020 was $0.009. The VWAP of Shares for the previous month up to and including 9 September 2020 2020 was $0.008.

(ii) **Trading History**

In the 12 months up to 9 September 2020, the Company's trading history is as follows:

Highest Price	28 April 2020	$0.013
Lowest Price	13 July 2020	$0.005
Last Price	9 September 2020	$0.009

(iii) **Opportunity Costs**

The opportunity costs and benefits foregone by the Company in granting the Security and New Conversion Rights to Boneyard pursuant to Resolutions 3 and 4 are fully explained in this Explanatory Statement.

The Non-Conflicted Directors consider that the disadvantages of granting the Security and New Conversion Rights to Boneyard are offset by the advantages accruing to the Company in granting the Security and New Conversion Rights to Boneyard.

(iv) **Taxation Costs**

No duty or GST will be payable on the granting of the Security and New Conversion Rights to Boneyard.

(v) **Dilutionary effect**

The effect that the issue of the Conversion Shares will have on the issued Shares of the Company in various scenarios is set out in the table in Section 4.1.3.

(vi) **Alternative options to granting the Security and New Conversion Rights and implications of not proceeding**

Set out in Section 4.4.3 are the alternative available options identified by the Directors if Resolutions 3 to 5 are not passed.

(vii) **Impact on the Company of granting the Security and New Conversion Rights**

The impact of the granting of the Security and New Conversion Rights on the Company is set out in full detail in Sections 4.1.4 – 4.4 above.

Save as set out in this Notice of Meeting, the Directors are not aware of any other information that would be reasonably required by Shareholders to make a decision in relation to the grant of the Security and New Conversion Rights to Boneyard as contemplated by Resolutions 3 and 4.

4.5. Board Recommendation

After carefully considering all aspects of the grant of the Security and the New Conversion Rights (including the advantages and disadvantages set out above), the Independent Expert's Report and the alternatives available (as set out above), each Non-Conflicted Director considers that the granting of the Security and the New Conversion Rights is in the best interests of Shareholders. Accordingly, each Non-Conflicted Director recommends that the Shareholders vote in favour of Resolutions 3 to 5. The Chair intends to vote undirected proxies in favour of Resolutions 3 to 5.

Mr Timothy Martin declines to make a recommendation to Shareholders in relation to Resolutions 3 to 5 due to his interest in the outcome of Resolutions 3 to 5 by virtue of him being associated with Boneyard. In order to manage any potential or perceived conflict of interest, Mr Timothy Martin has abstained from making a recommendation and did not participate in the Board's consideration or vote in relation to the Amended and Restated Loan Agreement, Security and the New Conversion Rights.

5. GLOSSARY

2017 AGM	means the annual general meeting of the Shareholders held on 13 September 2017.
Amended and Restated Loan Agreement	has the meaning given in Section 4.1.1, the terms of which are summarised in Schedule 1 of this Notice of Meeting.
Annual Report	means the Company's annual financial report for the year ended 30 June 2020.
Annual General Meeting or **Meeting**	means the annual general meeting of Shareholders to be held at Atlas Pearls Ltd, 47-49 Bay View Terrace, Claremont, WA at 11.00am on Wednesday, 28 October 2020.
Associate	has the meaning set out in sections 11 to 17 of the Corporations Act, except that a reference to "Associate" in relation to a Listing Rule has the meaning given to it in Listing Rule 14.11.
ASX	means ASX Limited (ABN 98 008 624 691), or as the context requires, the financial market operated by it.
Atlas or Atlas Pearls	means Atlas Pearls Ltd (ABN 32 009 220 053).
Auditor	means BDO Audit (WA) Pty Ltd.
BDO	means BDO Corporate Finance (WA) Pty Ltd
Board	means the board of Directors of the Company.
Boneyard	means Boneyard Investments Pty Ltd ACN 161 625 734.

Chair or Chairman	means the chair of the Annual General Meeting.
Closely Related Party	of a member of the Key Management Personnel means: (a) a spouse or child of the member; (b) a child of the member's spouse; (c) a dependant of the member or of the member's spouse; (d) anyone else who is one of the member's family and may be expected to influence the member, or be influenced by the member, in the member's dealings with the Company; or (e) a company the member controls.
Company	means Atlas.
Constitution	means the Company's constitution.
Corporations Act	means the Corporations Act 2001 (Cth).
Conversion Notice	has the meaning given in Section 4.1.3.
Conversion Shares	has the meaning given in Section 4.1.3.
Director	means a director of the Company.
Event of Default	has the meaning given in Schedule 1 of this Notice of Meeting.
Existing Conversion Amount	has the meaning given in Section 4.1.3.
Existing Conversion Rights	has the meaning given in Section 4.1.3.
Existing Loan	has the meaning given in Section 4.1.1.
Existing Loan Agreement	has the meaning given in Section 4.1.1.
Explanatory Statement	means this explanatory statement attached to the Notice of Annual General Meeting.
General Security Deed	has the meaning given in Section 4.1.1.
Independent Expert's Report	means the independent expert's report provided in Annexure A of this Notice of Meeting.
Key Management Personnel	has the same meaning as in Australian accounting standards. Broadly speaking this includes those persons with the authority and responsibility for planning, directing and controlling the activities of the Company (whether directly or indirectly), and includes any Directors.
Listing Rules	means the listing rules of the ASX.
Loan Facility	has the meaning given in Section 4.1.1.
Maturity Date	has the meaning given in Schedule 1 of this Notice of Meeting.

Maximum Conversion Amount	has the meaning given in Section 4.1.3.
Maximum Conversion Shares	has the meaning given in Section 4.1.3.
New Conversion Amount	has the meaning given in Section 4.1.3.
New Conversion Price	has the meaning given in Section 4.1.3.
New Conversion Rights	has the meaning given in Section 4.1.3.
New Loan	has the meaning given in Section 4.1.1.
NAB	means National Australia Bank Limited and its subsidiaries.
Non-Associated Shareholders	means Shareholders whose votes are not to be disregarded on Resolutions 3 to 5 as explained in Section 4.2.1.
Non-Conflicted Directors	has the meaning given in Section 4.1.4.
Notice or Notice of Annual General Meeting	means the notice of Annual General Meeting accompanying this Explanatory Statement.
Proxy Form	means the proxy form enclosed with the Notice of Annual General Meeting.
Related Party	means a party so defined by section 228 of the Corporations Act.
Relevant Interest	has the meaning given in the Corporations Act
Relevant Interest Acquisition	has the meaning given in Section 4.4.1.
Remuneration Report	means the remuneration report as contained in the Annual Report.
Resolution	means a resolution proposed to be passed at the Annual General Meeting and contained in the Notice of Annual General Meeting.
Section	means a section of the Explanatory Statement.
Security	has the meaning given in Section 4.1.2.
Share	means a fully paid ordinary share in the capital of the Company.
Shareholder	means a person, corporation or body holding a Share on the register of shareholders.
Voting Power	has the meaning given in the Corporations Act.
VWAP	Means the volume weighted average closing price of the Company's Shares on ASX (excluding any block trades, large portfolio trades, permitted trades during the pre-trading hours or post-trading hours, out of hours trades and exchange traded option exercises) over a particular period of time.
Waiver	has the meaning given in Section 4.1.2.

WST means Western Standard Time as observed in Perth, Western Australia.

Schedule 1 – Summary of Amended and Restated Loan Agreement

The key terms of the Amended and Restated Loan Agreement are as follows:

(a) $4.5 million Loan Facility advanced by Boneyard, consisting of the Existing Loan of $2.5 million and the New Loan of $2 million;

(b) Boneyard may, until 30 March 2021, redraw any amounts repaid on the Loan Facility;

(c) interest accrues monthly on the Loan Facility at a rate of 7.5% per annum and is payable in arrears on the last business day of each calendar quarter and on 30 September 2022 (**Maturity Date**). Interest is not capitalised. Default interest of 10% per annum is payable on amounts not paid when due;

(d) the Loan Facility is repayable in four equal tranches on the following dates:

(i) 31 March 2021;

(ii) 30 September 2021;

(iii) 31 March 2022; and

(iv) 30 September 2022

(e) the Company may repay the outstanding Loan Facility early without penalty;

(f) subject to NAB's consent (which was obtained) and the grant of a waiver of Listing Rule 10.1 (which was obtained), the Company must grant the Security to Boneyard, which will be second ranking behind NAB, on the terms and condition of the General Security Deed (this Security has now been granted);

(g) the Amended and Restated Loan Agreement contains negative covenants the Company must comply with during the term of the Loan, including that it must not (without the consent of Boneyard, not to be unreasonably withheld or delayed):

(i) vary the NAB debt

(ii) issue additional equity capital (other than Shares issued on exercise of existing Options);

(iii) incur additional financial indebtedness in excess of $250,000;

(iv) create or suffer to exist any security interest except in the ordinary course or to Boneyard;

(v) give any guarantee or indemnity;

(vi) incur material liabilities other than in the usual course of business; or

(vii) dispose or agree to dispose or grant an option over its assets other than in the usual course of business;

(h) if the Company defaults in complying with the negative covenants listed under paragraph (g) above and such default is not remedies within 10 Business Days of receipt of written notice from Boneyard providing details of such default and requiring such default to be remedied, it will constitute an Event of Default (as defined below) and Boneyard shall have the right, subject to Shareholder and necessary regulatory approval, to convert all or part of the Loan Facility (including the Existing Loan and the New Loan) (ie the New Conversion Amount) into Shares, if and for so long as an Event of Default subsists.

(i) the Company must maintain financial year EBITDA of at least $2 million unless Boneyard approves otherwise in writing. Boneyard has agreed in writing to waive compliance with this financial undertaking for the financial year ending 30 June 2021. The parties have agreed to discuss in good faith an appropriate EBITDA threshold for subsequent financial years depending on market conditions at that time;

(j) the Amended and Restated Loan Agreement contains default provision limited to failure to pay amounts due within 5 business days of notice of the failure, non-financial default of material obligations that are not cured within 10 business days of notice, material misrepresentation and an event of insolvency (**Event of Default**);

(k) Until such time as the Shareholders approve the New Conversion Rights, Boneyard had the Existing Conversion Rights up until 14 August 2020, subject to Shareholder and necessary regulatory approval, to convert all or part of the Existing Conversion Amount into Shares, if and for so long as an Event of Default subsists, by giving the Company a conversion notice. In that case, the number of Shares to be issued to Boneyard will be determined by dividing the Existing Conversion Amount by the conversion price, which is equal to the higher of:

(i) a 15% discount to the 30 day VWAP for Shares ending on the business day immediately before a notice of conversion is received by the Company; and

(ii) $0.015 per Share;

(l) Boneyard's conversion rights under the Existing Conversion Rights have, however, expired on 14 August 2020, meaning that Boneyard cannot exercise its Existing Conversion Rights anymore.

(m) Once the New Conversion Rights is approved by the Shareholders (pursuant to Resolution 4 set out in this Notice of Meeting), Boneyard shall have the right, subject to Shareholder and necessary regulatory approval, to convert all or part of the Loan Facility (including the Existing Loan and the New Loan) (ie the New Conversion Amount) into Shares, if and for so long as an Event of Default subsists, by giving the Company a Conversion Notice. In that case, the number of Conversion Shares to be issued to Boneyard will be determined by dividing the New Conversion Amount by the New Conversion Price, which will be an amount equal to a 15% discount to the 30 day VWAP for Shares ending on the business day immediately before a Conversion Notice is received by the Company;

(n) Boneyard may exercise the New Conversion Rights up until 14 October 2022;

(o) the Company must immediately seek Shareholder approval for the Security for the purposes of ASX Listing Rule 10.1, and for converting the Loan Facility and outstanding interest into Shares on an Event of Default, and seek NAB consent for granting the Security (which consent has now been obtained). If Shareholder approval is not obtained by a specified end date, currently being 31 March 2021, the New Loan and interest are repayable on demand by Boneyard; and

(p) Boneyard can only convert the Loan Facility and outstanding interest on the Company's default up until 14 October 2022, being approximately two years after the latest date by which Shareholders approval for the issue of the Conversion Shares must be obtained, and just after the Maturity Date of 30 September 2022.

Schedule 2 – Summary of General Security Deed

The key terms of the General Security Deed are as follows:

(a) the General Security Deed will secure all money and amounts (in any currency) that the Borrower is or may become liable at any time (presently, prospectively or contingently) to pay to the Lender, whether alone or in any capacity, in respect of the Loan Facility;

(b) the Security granted to Boneyard under the General Security Deed is a second ranking security (behind NAB) over all of the assets of the Company (**Secured Property**);

(c) upon the occurrence of an Event of Default (as that term is defined under the Amended and Restated Loan Agreement), the Secured Moneys are immediately due and payable by the Grantor without the need for any demand or notice to be given to the Grantor or any other person other than a demand or notice required to be given by the terms of the Amended and Restated Loan Agreement;

(d) upon the occurrence of an Event of Default (as that term is defined under the Amended and Restated Loan Agreement), the Security is immediately enforceable without the need for any demand or notice to be given to the Company or any other person, and right of the Company to deal, for any purpose, with any asset which forms part of the Secured Property, other than by or through a controller appointed under this Deed, will immediately cease;

(e) therefore, upon occurrence of an Event of Default, Boneyard shall be entitled, or may appoint a receiver, to take possession of and sell the Secured Property in order to satisfy any amounts owing under the Loan Facility, provided that any surplus remaining from the proceeds of the Secured Property after satisfying the debt owing under the Loan Facility should be repaid to the Company;

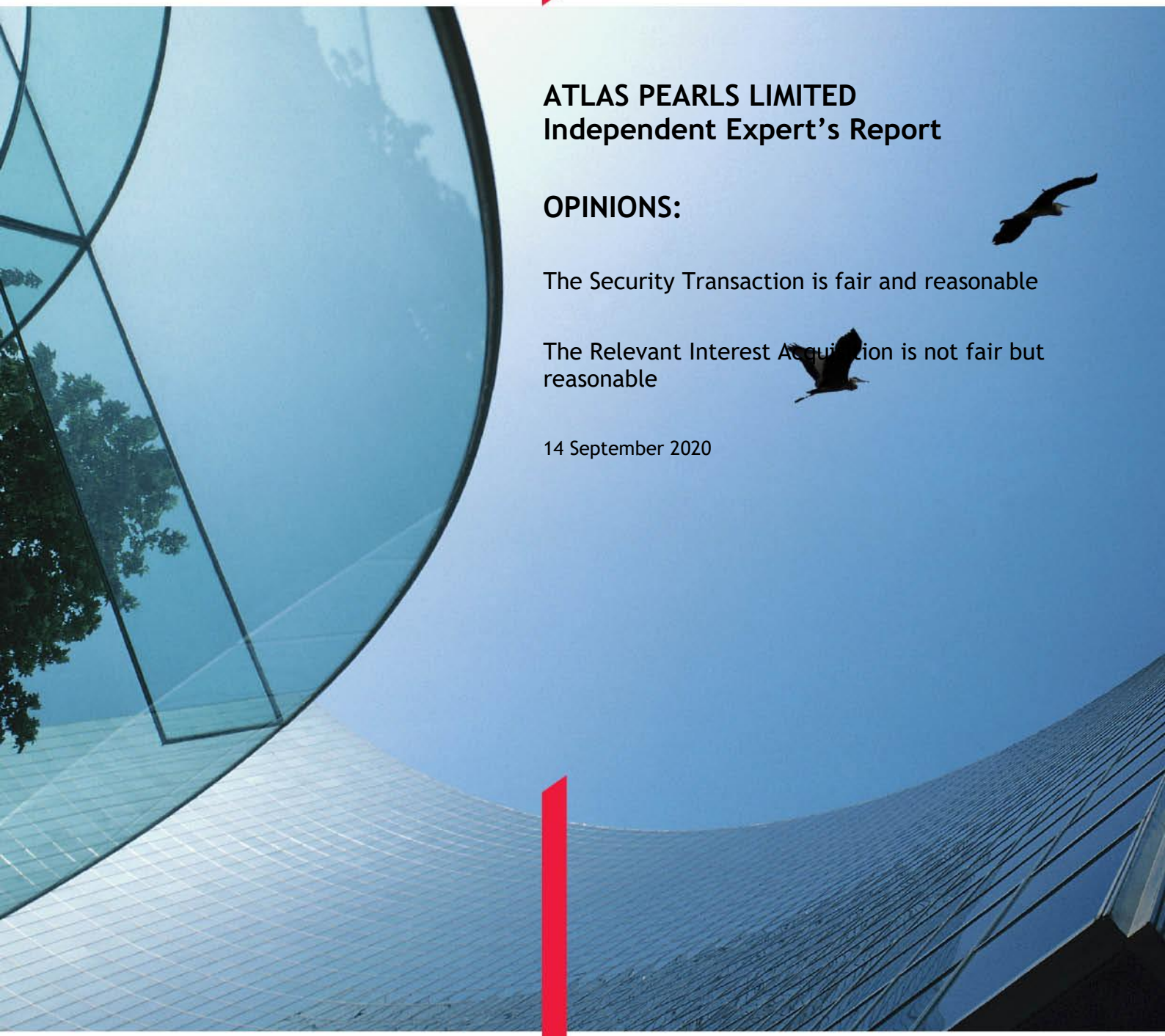
(f) Boneyard will discharge the Security once the Company has repaid or satisfy, in full, all amounts owing under the Loan Facility;

(g) the Company is restricted from certain dealing while the Security remain in place. For example the Company must not grant security interest over the Secured Property or dispose in any manner of any Secured Property without the consent of Boneyard. The Company is, however, not restricted form carrying on its business in the ordinary course;

(h) the General Security Deed contains customary representations and warranties by the Company for a document of this nature, including title and capacity warranties and that no person holds a security interest in or over the Secured Property unless specifically permitted;

(i) the Board considers the remaining terms of the General Security Deed to be consistent with ordinary commercial practice for agreements of this nature.

Annexure – Independent Expert's Report



ATLAS PEARLS LIMITED
Independent Expert's Report

OPINIONS:

The Security Transaction is fair and reasonable

The Relevant Interest Acquisition is not fair but reasonable

14 September 2020

BDO

Financial Services Guide

14 September 2020

BDO Corporate Finance (WA) Pty Ltd ABN 27 124 031 045 (‘**we**’ or ‘**us**’ or ‘**ours**’ as appropriate) has been engaged by Atlas Pearls Limited (‘**Atlas**‘) to provide an independent expert’s report in relation to the Amended and Restated Loan Agreement that Atlas has entered into with Boneyard Investments Pty Ltd (‘Boneyard’), which is an entity associated with Mr Tim Martin, a current director of Atlas. You are being provided with a copy of our report because you are a shareholder of Atlas and this Financial Services Guide (‘**FSG**’) is included in the event you are also classified under the Corporations Act 2001 (‘**the Act**’) as a retail client.

Our report and this FSG accompanies the Notice of Meeting required to be provided to you by Atlas to assist you in deciding on whether or not to approve the proposal.

Financial Services Guide
This FSG is designed to help retail clients make a decision as to their use of our general financial product advice and to ensure that we comply with our obligations as a financial services licensee.

This FSG includes information about:

- Who we are and how we can be contacted;
- The services we are authorised to provide under our Australian Financial Services Licence No. 316158;
- Remuneration that we and/or our staff and any associates receive in connection with the general financial product advice;
- Any relevant associations or relationships we have; and
- Our internal and external complaints handling procedures and how you may access them.

Information about us
We are a member firm of the BDO network in Australia, a national association of separate entities (each of which has appointed BDO (Australia) Limited ACN 050 110 275 to represent it in BDO International). The financial product advice in our report is provided by BDO Corporate Finance (WA) Pty Ltd and not by BDO or its related entities. BDO and its related entities provide professional services primarily in the areas of audit, tax, consulting, mergers and acquisition, and financial advisory services.

We and BDO (and its related entities) might from time to time provide professional services to financial product issuers in the ordinary course of business and the directors of BDO Corporate Finance (WA) Pty Ltd may receive a share in the profits of related entities that provide these services.

Financial services we are licensed to provide
We hold an Australian Financial Services Licence that authorises us to provide general financial product advice for securities to retail and wholesale clients, and deal in securities for wholesale clients. The authorisation relevant to this report is general financial product advice.

When we provide this financial service we are engaged to provide an expert report in connection with the financial product of another person. Our reports explain who has engaged us and the nature of the report we have been engaged to provide. When we provide the authorised services we are not acting for you.

General Financial Product Advice
We only provide general financial product advice, not personal financial product advice. Our report does not take into account your personal objectives, financial situation or needs. You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. If you have any questions, or don’t fully understand our report you should seek professional financial advice.

Fees, commissions and other benefits that we may receive
We charge fees for providing reports, including this report. These fees are negotiated and agreed with the person who engages us to provide the report. Fees are agreed on an hourly basis or as a fixed amount depending on the terms of the agreement. The fee payable to BDO Corporate Finance (WA) Pty Ltd for this engagement is approximately $20,000.

Except for the fees referred to above, neither BDO, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report and our directors do not hold any shares in Atlas.

Other Assignments
BDO Audit (WA) Pty Ltd is the appointed Auditor of Atlas. We do not consider that this impacts on our independence in accordance with the requirements of Regulatory Guide 112 'Independence of Experts'. We have completed a conflict search of BDO affiliated organisations within Australia. This conflict search incorporates all Partners, Directors and Managers of BDO affiliated organisations. We are not aware of any circumstances that, in our view, would constitute a conflict of interest or would impair our ability to provide objective assistance in this matter.

Remuneration or other benefits received by our employees
All our employees receive a salary. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report. We have received a fee from Atlas for our professional services in providing this report. That fee is not linked in any way with our opinion as expressed in this report.

Referrals
We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

Complaints resolution
Internal complaints resolution process
As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing addressed to The Complaints Officer, BDO Corporate Finance (WA) Pty Ltd, PO Box 700 West Perth WA 6872.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than **45 days** after receiving the written complaint, we will advise the complainant in writing of our determination.

Referral to External Dispute Resolution Scheme
A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Australian Financial Complaints Authority ('**AFCA**').

AFCA is an external dispute resolution scheme that deals with complaints from consumers in the financial system. It is a not-for-profit company limited by guarantee and authorised by the responsible federal minister. AFCA was established on 1 November 2018 to allow for the amalgamation of all Financial Ombudsman Service ('**FOS**') schemes into one. AFCA will deal with complaints from consumers in the financial system by providing free, fair and independent financial services complaint resolution. If an issue has not been resolved to your satisfaction you can lodge a complaint with AFCA at any time.

Our AFCA Membership Number is 12561. Further details about AFCA are available on its website www.afca.org.au or by contacting it directly via the details set out below.

Australian Financial Complaints Authority
GPO Box 3
Melbourne VIC 3001
AFCA Free call: 1800 931 678
Website: www.afca.org.au
Email: info@afca.org.au

You may contact us using the details set out on page 1 of the accompanying report.

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Appendix 1 – Glossary and copyright notice

Appendix 2 – Valuation Methodologies

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PO Box 700 West Perth WA 6872
Australia

14 September 2020

The Directors
Atlas Pearls Limited
47-49 Bayview Terrace
Claremont WA 6010

Dear Directors

INDEPENDENT EXPERT'S REPORT

1. Introduction

On 27 August 2020, Atlas Pearls Ltd ('**Atlas**' or '**the Company**') announced that it had updated its funding arrangements in place with Boneyard Investments Pty Ltd ('**Boneyard**' or '**the Lender**') in relation to the existing loan arrangements which were announced to the Australian Securities Exchange ('**ASX**') on 30 January 2017 and varied on 28 June 2017 ('**the Existing Loan Agreement**'). Boneyard is an entity associated with Mr Tim Martin, a non-executive director of Atlas.

The amended and restated loan agreement ('**Amended and Restated Loan Agreement**') with Boneyard will replace the Existing Loan Agreement and pursuant to which, Boneyard has agreed to make a revolving loan facility ('**Loan Facility**') available to Atlas. Under the Existing Loan Agreement, TJM Australia Pty Ltd ('**TJM**') had advanced $0.75 million to Atlas, which has now been fully repaid. Consequently, TJM is no longer a party to the Amended and Restated Loan Agreement, which involves only Atlas and Boneyard.

All loans provided under the Loan Facility will be secured under the existing general security deed ('**General Security Deed'**) in place between Atlas and Boneyard, which currently secures the loans provided to Atlas under the Existing Loan Agreement. Atlas has granted the Lender a second ranking security to secure the Company's obligations in respect of the additional $2m loan. The Company obtained a waiver of ASX Listing Rule 10.1 allowing it to grant the security without obtaining shareholder approval, and the waiver was granted subject to a number of conditions. The Company is now seeking approval for the grant of security for the purposes of ASX Listing Rule 10.1. ('**Security Transaction**').

Subject to shareholder approval, all or part of the outstanding loans and interest ('**Conversion Amount**') under the Amended and Restated Loan Agreement will be convertible into Atlas shares in the event Atlas defaults on its repayment terms ('**Convertibility Provisions**'), with conversion being at Boneyard's discretion ('**Relevant Interest Acquisition**'). The price at which shares will be converted ('**Conversion Price**') will be at a 15% discount to the 30-day volume weighted average price ('**VWAP**') for shares ending on the business day immediately before a notice for conversion is received by the Company.

As at the date of the announcement, the aggregate of all loans provided by Boneyard under the Loan Facility is an amount equal to $4.5 million, comprising the $2.5 million outstanding loan under the Existing Loan Agreement and an additional loan in the amount of $2.0 million.

The Security Transaction and the Relevant Interest Acquisition are together referred to as '**the Transactions**'.

BDO Corporate Finance (WA) Pty Ltd ABN 27 124 031 045 AFS Licence No 316158 is a member of a national association of independent entities which are all members of BDO (Australia) Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Corporate Finance (WA) Pty Ltd and BDO (Australia) Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation.

2. Summary and Opinion

2.1 Requirement for the report

The directors of Atlas have requested that BDO Corporate Finance (WA) Pty Ltd ('**BDO**') prepare an independent expert's report ('**our Report**') to express an opinion as to whether or not the Transactions are fair and reasonable to the non-associated shareholders of Atlas ('**Shareholders**').

Our Report is prepared pursuant to ASX Listing Rules 10.1 and 10.5, Section 611 of the Corporations Act 2001 Cth ('**Corporations Act**' or '**the Act**') and relevant Corporations Regulations, and is to be included in the Notice of Meeting for Atlas in order to assist the Shareholders in their decision whether to approve the Transactions. Our report is prepared pursuant to the above for the following reasons:

Security Transaction

An independent expert's report is required by ASX Listing Rule 10.1 because Mr Tim Martin, a director of Atlas, is also a director of Boneyard. For the purpose of ASX Listing Rule 10.1, Mr Tim Martin is considered to be a related party. ASX Listing Rule 10.1 applies when an entity acquires a substantial asset from, or disposes of a substantial asset to, a related party. An asset is substantial if its value, or the value of the consideration for it, is 5% or more of the equity interests of the entity at the date of the last audited/reviewed accounts.

Our report is prepared pursuant to the requirements of ASX Listing Rule 10.1 because, by entering into the Security Transaction, the Company is deemed to have disposed of a substantial asset, being the general security deed to grant security to the Lender, a related party, of which the value of the security granted is more than 5% of the Company's equity interest at 30 June 2020.

Relevant Interest Acquisition

The potential issue of shares under the Relevant Interest Acquisition would result in the Lender and its associates increasing its interest from a starting point that is above 20% and below 90%. As such, the Relevant Interest Acquisition requires the approval of the Shareholders pursuant to the Corporations Act.

Further details of the Transactions is available in Section 4 of our report and the Company's Notice of Meeting.

2.2 Approach

Our Report has been prepared having regard to Australian Securities and Investments Commission ('**ASIC**') Regulatory Guides Regulatory Guide 74 'Acquisitions Approved by Members' (**'RG 74'**), Regulatory Guide 111 'Content of Expert's Reports' (**'RG 111'**) and Regulatory Guide 112 'Independence of Experts' (**'RG 112'**).

In arriving at our opinion, we have assessed the terms of the Transactions as outlined in the body of this report. We have considered:

- How the value of the proceeds arising from the sale of assets that would be provided to the Lender under the General Security Deed, in the event of a default, compares to the value of the liabilities that would be settled (Security Transaction);

- How the value of an Atlas share on a control basis prior to the Relevant Interest Acquisition compares to the value of an Atlas share on a minority basis following the Relevant Interest Acquisition;
- The likelihood of a superior alternative offer being available to Atlas;
- Other factors which we consider to be relevant to the Shareholders in their assessment of the Transactions; and
- The position of Shareholders should the Transactions not proceed.

2.3 Opinion

Security Transaction

We have considered the terms of the Security Transaction as outlined in the body of this report and have concluded that, in the absence of an alternate offer, the Security Transaction is fair and reasonable to Shareholders.

We concluded that the value of the proceeds arising from the sale of the security that would be provided to the Lender under the Security Transaction in the event of default, is equivalent to or lower than the value of the liabilities that would be settled. This is discussed in Section 10 of our Report. Therefore, in the absence of any other relevant information, and a superior offer, the Security Transaction is fair for Shareholders.

Relevant Interest Acquisition

We have considered the terms of the Relevant Interest Acquisition as outlined in the body of this report and have concluded that, in the absence of a superior offer, the Relevant Interest Acquisition is not fair but reasonable to Shareholders. We believe the Relevant Interest Acquisition is reasonable as the benefits arising from the approval of the Transactions, being the ability for Atlas to continue as a going concern, outweighs the disadvantages of not approving the Transactions, being the requirement of Atlas to immediately repay the additional $2m advanced under the Loan Facility, which may impact Atlas' ability to continue as a going concern.

We concluded that the Relevant Interest Acquisition is not fair as the New Conversion Price is at a discount to the value of an Atlas share. This is discussed in Section 10 of our Report. Therefore, in the absence of any other relevant information we consider the Relevant Interest Acquisition to be not fair for Shareholders.

2.4 Reasonableness

We have considered the analysis in Section 11 of this report, in terms of both

- advantages and disadvantages of the Transactions; and
- other considerations, including the position of Shareholders if the Transactions do not proceed and the consequences of not approving the Transactions.

In our opinion, the position of Shareholders if the Transactions are approved is more advantageous than the position if the Transactions are not approved. Accordingly, in the absence of any other relevant information and/or an alternate proposal we believe that the Transactions are reasonable for Shareholders.

The respective advantages and disadvantages considered are summarised below:

ADVANTAGES AND DISADVANTAGES			
Section	**Advantages**	**Section**	**Disadvantages**
11.1.1	The Security Transaction is fair	11.2.1	Potential dilution of existing Shareholders' interests
11.1.2	The Transactions result in the Company being under less cash flow strain and strengthens its ability to remain as a going concern	11.2.2	Atlas will grant to the Lender a second ranking security over all the assets of the Company
11.1.3	Alternative sources of funding may need to take the form of debt that can be converted at the discretion of the holder without the condition of a default event	11.2.3	Limited restrictions placed on the Company's ability to issue additional equity, raise further debt and deal with its assets without the Lender's consent
11.1.4	The Amended and Restated Loan Agreement does not include any fees or penalties for prepayments		
11.1.5	No changes to current operating arrangements		
11.1.6	Supports debt funding		

Other key matters we have considered include:

Section	Description
11.3.1	Alternative Proposal
11.3.2	Practical Level of Control
11.3.3	Fiduciary Duty of the Company's Directors

3. Scope of the Report

3.1 Purpose of the Report

Security Transaction

ASX Listing Rule 10.1 requires that a listed entity must obtain shareholders' approval before it acquires or disposes, or agrees to acquire or dispose of, a substantial asset when the consideration to be paid for the asset or the value of the asset being disposed constitutes more than 5% of the equity interest of that entity as set out in the latest accounts given to the ASX under its Listing Rules. Listing Rule 10.1 applies where the vendor or acquirer of the relevant assets is a related party or person of influence of the listed entity as defined under the ASX Listing Rules.

By entering into the Security Transaction, the Company is deemed to have disposed of a substantial asset, being the general security deed to grant security to Boneyard, a related party. Based on the audited accounts as at 30 June 2020 the value of the asset being disposed (security interest up to $4.5m) is approximately 33% of the equity interest of Atlas as at 30 June 2020 ($13.64m), and, as such constitutes more than 5% of Atlas' equity interest at that date.

For the purpose of ASX Listing Rule 10.1, Mr Tim Martin, a director of Atlas, is considered to be a related party because he is also a director of Boneyard.

Listing Rule 10.5.10 requires the Notice of Meeting for shareholders' approval to be accompanied by a report by an independent expert expressing their opinion as to whether the transaction is fair and reasonable to the shareholders whose votes are not to be disregarded.

Accordingly, an independent experts' report is required for the Security Transaction. Under RG 111 the report should provide an opinion by the expert stating whether or not the terms and conditions in relation thereto are fair and reasonable to non-associated shareholders of Atlas.

Relevant Interest Acquisition

The current shareholders of Boneyard (and their associates) together own 26.43% of the shares in Atlas. Section 606 of the Corporations Act ('**Section 606**') expressly prohibits the acquisition of further shares if the party acquiring the interest does so through a transaction and because of the transaction the party (or someone else's voting power in the company increases from a starting point above 20% and below 90%.

Following the execution of the Conversion Right, assuming that all the Conversion Shares are issued and no other Shares are issued or options exercised, Boneyard and their associates will acquire a relevant interest of approximately 79.25% in the Company.

Section 611 of the Corporations Act ('**Section 611**') provides exceptions to the Section 606 prohibition and item 7 Section 611 ('**item 7 s611**') permits such an acquisition if the shareholders of Atlas have agreed to the acquisition. This agreement must be by resolution passed at a general meeting at which no votes are cast in favour of the resolution by the party to the acquisition or any party who is associated with the acquiring party.

Item 7 Section 611 states that shareholders of the company must be given all information that is material to the decision on how to vote at the meeting.

RG 74 states that to satisfy the obligation to provide all material information on how to vote on the item 7 resolution, Atlas can commission an Independent Expert's Report.

The directors of Atlas have commissioned this Independent Expert's Report to satisfy this obligation.

3.2 Regulatory guidance

Neither the Listing Rules nor the Corporations Act defines the meaning of 'fair and reasonable'. In determining whether the Transactions are fair and reasonable, we have had regard to the views expressed by ASIC in RG 111. This regulatory guide provides guidance as to what matters an independent expert should consider to assist security holders to make informed decisions about transactions.

Security Transaction

This regulatory guide suggests that, where an expert assesses whether a related party transaction is 'fair and reasonable' for the purposes of ASX Listing Rule 10.1, this should not be applied as a composite test—that is, there should be a separate assessment of whether the transaction is 'fair' and 'reasonable', as in a control transaction. An expert should not assess whether the transaction is 'fair and reasonable' based simply on a consideration of the advantages and disadvantages of the proposal.

We do not consider the Security Transaction to be a control transaction. As such, we have used RG 111 as a guide for our analysis but have considered the Security Transaction as if it were not a control transaction.

Relevant Interest Acquisition

This regulatory guide suggests that where the transaction is a control transaction, the expert should focus on the substance of the control transaction rather than the legal mechanism used to effect it. RG 111 suggests that where a transaction is a control transaction, it should be analysed on a basis consistent with a takeover bid.

In our opinion, the Relevant Interest Acquisition is a control transaction as defined by RG 111 and we have therefore assessed the Relevant Interest Acquisition as a control transaction to consider whether, in our opinion, it is fair and reasonable to Shareholders.

3.3 Adopted basis of evaluation

Security Transaction

RG 111.57 states that a proposed related party transaction is fair if the value of the financial benefit to be provided by the entity to the related party is equal to or less than the value of the consideration being provided to the entity. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length.

For the Security Transaction, the financial benefit provided to Boneyard is cash or assets up to the equivalent cash amount sufficient to repay the outstanding liability in the case of default on the Loan Facility. The consideration being provided to Atlas is the amount payable to Boneyard that would be settled by the sale of the secured assets, including the principal amount drawn down and related interest accrued.

RG 111 states that a transaction is reasonable if it is fair. It might also be reasonable if despite being 'not fair' the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any alternate options.

Having regard to the above, BDO has completed this comparison in two parts:

- A comparison between the value of the proceeds arising from the sale of the security that would be provided to Boneyard under the Security Transaction in the event of default and the value of the liabilities that wold be settled (fairness – see Section 10 'Are the Transactions Fair?'); and
- An investigation into other significant factors to which Shareholders might give consideration, prior to approving the Security Transaction, after reference to the fairness assessment above (reasonableness – see Section 11 'Are the Transactions Reasonable?').

Relevant Interest Acquisition

Section 606 of the Corporations Act expressly prohibits the acquisition of further shares by a party who already holds (with associates) more than 20% of the issued shares of a public company, unless a full takeover offer is made to all shareholders.

RG 111 considers that all transactions whereby an entity increases its shareholding from a starting point that is above 20% and below 90% are control transactions and should be assessed as a takeover bid. RG 111.31 stipulates that in a control transaction, a comparison should be made between the value of the target entity's securities prior to the transaction on a controlling basis and the value of the target entity's securities following the transaction allowing for a minority discount. This comparison reflects the fact that the acquirer is obtaining or increasing control of the target entity and the security holders in the target entity will no longer hold a controlling interest.

Because the Relevant Interest Acquisition cannot take place unless the Company is in default, the approval of the Transactions has no immediate consequences relating to Section 606, as the voting interest in Atlas does not change at the time of approval. As such, in considering the possible exercise of the Conversion Right and resultant Relevant Interest Acquisition, the relevant date to assess the value of an Atlas share would be at or around the time that the Conversion Right is exercised and Boneyard's interest in Atlas increases.

Therefore, as at the date of our Report, no assessment of the value of an Atlas share can reasonably be made as the possible date that the Conversion Right is executed (if it is executed at all) cannot be predicted. Consequently, the value of an Atlas share and the Conversion Price at any future date cannot be determined. For that reason, the contingent nature of the Relevant Interest Acquisition and terms of the Amended and Restated Loan Agreement, together with the current circumstances of Atlas and the advantages provided by the Loan Facility are of more significance than the possible value of the Company's assets and liabilities at some future date. We have discussed these issues in our assessment of reasonableness in Section 10 of our Report.

Notwithstanding this, in assessing the issue of the Conversion Shares to Boneyard upon the possible exercise of the Conversion Right and resultant Relevant Interest Acquisition, we have illustrated a number of various scenarios that may arise in the event of default at a future date, given the mechanism of the Conversion Right.

Having regard to the above, BDO has completed this comparison in two parts:

- A comparison between existing Shareholder's percentage holdings of Atlas as at the date of the Report and the existing Shareholder's percentage holdings of Atlas following the Relevant Interest Acquisition. We note that we have considered the value of an Atlas share on a control basis prior to the Relevant Interest Acquisition and the value of an Atlas share on a minority basis following the Relevant Interest Acquisition (fairness – See Section 10 'Are the Transactions Fair?'); and

- An investigation into other significant factors to which Shareholders might give consideration, prior to approving the resolution, after reference to the value derived above (reasonableness – see Section 10 'Are the Transactions Reasonable?').

RG 111 suggests that the main purpose of an independent expert's report is to adequately deal with the concerns that could reasonably be anticipated of those persons affected by the transaction.

Having regard to RG 111, we have completed our Report as follows:

- An investigation into the advantages and disadvantages of the Transactions (Sections 11.1 and 11.2); and
- An analysis of any other issues that could be reasonably anticipated to concern Shareholders as a result of the Transactions (Section 11.3).

This assignment is a Valuation Engagement as defined by Accounting Professional & Ethical Standards Board professional standard APES 225 'Valuation Services' ('**APES 225**').

A Valuation Engagement is defined by APES 225 as follows:

'an Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Valuer is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Valuer at that time.'

This Valuation Engagement has been undertaken in accordance with the requirements set out in APES 225.

4. Outline of the Transactions

On 27 August 2020, Atlas announced an update in the Company's existing funding arrangements in place with Boneyard under the Existing Loan Agreement. The Amended and Restated Loan Agreement replaces the Existing Loan Agreement and pursuant to which agreement, Boneyard agreed to make a revolving loan Loan Facility available to Atlas. The aggregate of all loans provided by Boneyard under the Loan Facility will be an amount equal to $4.50 million, being the $2.50 million loan outstanding under the Existing Loan Agreement as well as an additional loan in the amount of $2.00 million.

The material terms of the Amended and Restated Loan Agreement are:

- Loans provided under the Loan Facility will bear interest at the rate of 7.5% per annum (which is identical to the interest provisions under the Existing Loan Agreement);
- Repayment of any loans outstanding under the Loan Facility as at 31 March 2021 are scheduled equally over four tranches commencing on 31 March 2021, with the last tranche due for payment on 30 September 2022 (**'Maturity Date'**);
- **Scheduled repayments:**
    - 31 March 2021;
    - 30 September 2021;
    - 31 March 2022; and
    - 30 September 2022.

- The Company may repay the outstanding amounts at any time before they are due without penalty;
- Any amounts repaid by Atlas prior to 31 March 2021 may be re-borrowed under the Loan Facility up to a limit of $4.50 million;
- All loans provided under the Loan Facility will be secured under the existing General Security Deed in place between Atlas and Boneyard, which currently secures the loans provided to Atlas under the Existing Loan Agreement;
- Subject to shareholder approval, all outstanding loans and interest under the Amended and Restated 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 ('Conversion Rights'). In that event, the conversion price per share (**'Conversion Price'**) will be equal to a 15% discount to the recent 30-day volume weighted average price (**'VWAP'**) for Shares ending, on the business day immediately before a notice of conversion (**'Conversion Notice'**) is received by the Company.
- **Negative Pledges** – Atlas must not, without the prior written consent of the Lender:
    - vary the repayment schedule of the existing $1.75 million first ranking secured debt facility from NAB (**'NAB Debt'**);
    - raise further capital via the issue of shares, options or other equity securities, other than from the exercise of options on issue as at the execution date;
    - receive, or agree to receive, additional debt funding of more than $250,000;
    - create, permit, suffer to exist, or agree to, any security interest, other than security interest in favour of the Lenders, over any of its assets except in the ordinary course of its ordinary business or in accordance with a transaction document;
    - give any guarantee or indemnity;
    - incur material liabilities other than in the usual course of business; or
    - dispose or agree to dispose or grant an option over its assets other than in the usual course of business.
- The Company must maintain financial year earnings before interest, tax, depreciation and amortisation of at least $2.0 million.

In the event of default by the Company, Boneyard has the right to convert the Conversion Amount into shares. The number of shares to be issued to Boneyard will be determined by dividing the Conversion Amount by the Conversion Price.

The Conversion Amount is capped to a maximum of $5,445,000 ('**Maximum Conversion Amount**'), being the $4.50 million Facility accrued default interest on that amount, reflecting that it is essentially two years until the Maturity Date of the Facility, being 30 September 2022, and that Boneyard may exercise the Conversion Rights until 14 October 2022 (**'Conversion End Date'**). Given this, the maximum number of shares that may be issued to Boneyard under the Conversion Rights will be 1,089,000,000 shares (**'Maximum Conversion Shares'**) assuming the Conversion Price is $0.005.

Given that the Conversion Price is based on the 30-day VWAP of an Atlas share at a future date, the number of shares that would be issued on conversion of the Facility and interest on a default is not known at this time. As shareholder approval is being sought for the Maximum Conversion Shares should the

actual number of shares that may be issued under the agreement exceed that amount further shareholder approval would be required.

The following table shows, for illustrative purposes only, the maximum number of shares that may be issued to Boneyard upon the Conversion Right being exercised based on the following assumed conversion prices:

- $0.005;
- $0.009; and
- $0.015.

Potential capital structure following Relevant Interest Acquisition	Lenders and their associates	Existing Shareholders	Total
Existing shareholding			
Issued shares as at the date of our Report	113,086,550	314,785,208	427,871,758
% holdings as at the date of the Report	*26%*	*74%*	*100%*
Potential shares to be issued under the Relevant Interest Acquisition (Assuming Maximum Conversion Amount)			-
Assumed Conversion Price $0.005	1,202,086,550	314,785,208	1,516,871,758
% holdings following Relevant Interest Acquisition	*79%*	*21%*	*100%*
Assumed Conversion Price $0.009	718,086,550	314,785,208	1,032,871,758
% holdings following Relevant Interest Acquisition	*70%*	*30%*	*100%*
Assumed Conversion Price $0.015	475,387,508	314,785,208	790,172,716
% holdings following Relevant Interest Acquisition	*60%*	*40%*	*100%*

Further details of the Transactions are disclosed in the Company's Notice of Meeting.

If the Company does not obtain Shareholder approval for the purposes of ASX Listing Rule 10.1, for the granting of security under the General Security Deed and for the Convertibility Provisions by 31 March 2021, the additional $2m advanced under the Loan Facility will become immediately repayable on written demand from the Lender.

The Company advised that it has been granted a waiver of ASX Listing Rule 10.1 (**'Waiver'**), which allowed the Company, without obtaining shareholder approval under ASX Listing Rule 10.1, to grant a second ranking security over its assets (**'Security'**) pursuant to the General Security Deed to secure the Company's obligations in respect of the additional $2.00 million loan provided by Boneyard under the Facility.

Notwithstanding this, the Company intends to seek shareholder approval under ASX Listing Rule 10.1 for the Security (which will in effect remove a number of the conditions that apply to the Waiver). Accordingly, the Company will seek shareholder approval at its upcoming Annual General Meeting in October 2020 for the Security under the General Security Deed (which will continue to rank second behind the debt owed to NAB) as well as for the Convertibility Provisions.

Should Shareholders not approve the grant of the security, the security will still be in force and effect but will remain subject to the Waiver.

5. Profile of Atlas

5.1 History

Atlas, formerly Atlas Pearls and Perfumes Limited, is an Australian-based pearling business which listed on the ASX in 1993. The Company operates throughout the Indonesian Archipelago and produces South Sea pearls. The Company has farming operations throughout Indonesia, and sells through online and retail farm stores. The current Board of Directors are:

- Mr Geoffrey Newman, Executive Chairman;
- Mr Timothy Martin, Non-Executive Director; and
- Mr Cadell Buss, Independent Non-Executive Director.

Atlas operates six pearl farms located in Alyui, Alor, Lembata, Pungu, North Bali and Banubiru, with Alyui, North Bali and Pungu having both a pearl farm and a showroom. The Company employs more than 900 employees and harvests over 500,000 South Sea pearls each year.

In addition to its pearl farm operations, Atlas has its own high quality grading and loose pearl distribution business, including jewellery manufacturing capability. The Company has established relationships with global retailers and supplies pearls to major brand names and fashion houses in New York and Paris. Atlas sells its pearl stock to its wholesale and trade customers online and via auctions which are held 3-4 times per year at the Japan Pearl exporters Association in Kobe Japan. Atlas also sells pearl jewellery direct to retail customers through its online store. Until recently it also sold from showrooms in Perth, Australia and Seminyak, Bali. In November 2019, the Company made a strategic decision to close all of its shop-front retail and move to an online model with a disciplined and limited number of price-pointed pieces to meet a younger market. The same range will be offered through its farm stores when the tourism industry recovers.

5.2 Recent Corporate Events

On 27 August 2020, the Company announced that it had entered into the Amended and Restated Loan Agreement with Boneyard pursuant to which the repayment of the existing loan of $2.50 million was deferred, in that the loan facility under the Amended and Restated Loan Agreement (which includes the existing loan and the new loan) will be repayable in four equal payments, the first payment being due on 31 March 2021.

On 31 July 2020, the Company announced that Boneyard had agreed that the repayment of $1,750,000 be scheduled for 31 August 2020, with the remaining $750,000 repayment due on 30 October 2020.

On 30 June 2020, the Company announced that Boneyard had agreed that the repayments of $750,000 and $500,000 due on 30 June be deferred to 31 July 2020.

On 30 June 2020, the Company announced the sale of its 50% ownership in Essential Oils of Tasmania Pty Ltd (**'EOT'**), a company located in Australia whose principal activity is to grow and produce essential oils, which it had acquired in 2013. The completion of the sale resulted in a cash injection to Atlas of $1.50 million.

On 29 May 2020, the Company announced that Boneyard had agreed that the repayments of $750,000 and $500,000 due on 29 May 2020 be deferred to 30 June 2020.

On 7 April 2020, the Company announced that Boneyard had agreed that the scheduled repayment of $750,000 which was subsequently delayed to 6 April 2020, be deferred to 29 May 2020.

On 6 March 2020, the Company announced that Boneyard had agreed that the scheduled repayment of $750,000 originally due for repayment on 1 February 2020 and subsequently delayed to 5 March 2020, be deferred to 6 April 2020.

In December 2017, the Company announced a change of company name to Atlas Pearls Limited in order to strategically refocus the Company to its core pearling business.

5.3 Historical Statement of Financial Position

Statement of Financial Position	Audited as at 30-Jun-20 A$	Audited as at 30-Jun-19 A$	Audited as at 30-Jun-18 A$
CURRENT ASSETS			
Cash and cash equivalents	718,302	1,017,220	1,278,873
Trade and other receivables	358,361	791,797	872,865
Derivative financial instruments	-	20,405	6,465
Inventories	1,718,211	2,227,798	1,968,744
Biological assets	5,410,284	7,299,854	9,204,890
TOTAL CURRENT ASSETS	**8,205,158**	**11,357,074**	**13,331,837**
NON-CURRENT ASSETS			
Intangibles	173,410	243,902	-
Loans to joint venture entities	-	1,364,851	1,262,848
Biological assets	7,373,444	9,730,810	8,080,344
Property, plant and equipment	5,288,247	5,517,912	5,035,034
Right-of-use assets	569,603	-	-
Deferred tax assets	689,873	3,016,446	3,999,752
TOTAL NON-CURRENT ASSETS	**14,094,577**	**19,873,921**	**18,377,978**
TOTAL ASSETS	**22,299,735**	**31,230,995**	**31,709,815**
CURRENT LIABILITIES			
Trade and other payables	927,393	1,100,718	2,299,323
Provisions	2,260,371	2,074,104	-
Borrowings	4,268,989	2,870,140	2,310,482
Lease Liabilities	269,203	-	-
Current tax liabilities	393,200	421,675	115,691
TOTAL CURRENT LIABILITIES	**8,119,156**	**6,466,637**	**4,725,496**
NON-CURRENT LIABILITIES			
Borrowings	313,631	750,000	1,750,000
Deferred tax liabilities	116,657	1,842,223	1,207,104
Provisions	108,747	131,300	128,091

Statement of Financial Position	Audited as at 30-Jun-20 A$	Audited as at 30-Jun-19 A$	Audited as at 30-Jun-18 A$
Trade and other payables	-	131,300	-
TOTAL NON-CURRENT LIABILITIES	**539,035**	**2,854,823**	**3,085,195**
TOTAL LIABILITIES	**8,658,191**	**9,321,460**	**7,810,691**
NET ASSETS	**13,641,544**	**21,909,535**	**23,899,124**
EQUITY			
Contributed equity	36,857,415	36,857,415	36,857,415
Reserves	(7,787,970)	(7,758,487)	(9,351,359)
(Accumulated losses)	(15,427,901)	(7,189,393)	(3,606,932)
TOTAL EQUITY	**13,641,544**	**21,909,535**	**23,899,124**

Source: Atlas' audited financial statements for the years ended 30 June 2018, 30 June 2019 and 30 June 2020.

We note that Atlas' auditor issued an emphasis of matter in the Company's annual report for the year ended 30 June 2020. The basis of the emphasis of matter was a material uncertainty relating to going concern, specifically due to the Company recording a net loss of $8.10 million for the year ended 30 June 2020 with a working capital deficit of $0.60 million, the COVID-19 pandemic having a negative impact on world stock markets, currencies and general business activity, and the ability of Atlas to continue to fund its working capital requirements.

Commentary on Historical Statement of Financial Position

We note the following in relation to Atlas' historical statement of financial position:

- Cash and cash equivalents decreased from $1.02 million as at 30 June 2019 to $0.72 million as at 30 June 2020. The decrease of $0.30 million was primarily due to payments to suppliers and employees of $14.94 million, payments for property, plant equipment of $0.95 million, repayment of borrowings and lease liabilities of $2.68 million and $0.50 million respectively and income tax paid and interest paid of $0.46 million and $0.36 million respectively. This was partially offset by proceeds from pearl and jewellery sales and other operating activities of $14.39 million, proceeds from sale of joint venture in Essential Oils of Tasmania of $1.50 million and proceeds from borrowings of $3.27 million.
- Trade and other receivables decreased from $0.79 million as at 30 June 2019 to $0.36 million as at 30 June 2020. The decrease of $0.43 million was primarily due to a decrease in sundry debtors and prepayments of $0.27 million and a decrease in trade receivables of $0.16 million.
- Current inventories of $1.72 million comprised primarily of pearls and jewellery carried at the lower of cost and net realisable value. The value of pearl stock is assessed based on the cost of oyster stock at the 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 was recorded to being the value in line with the assessed net realisable value which totalled $1.28 million. At 30 June 2020 the carrying value of jewellery was $0.44 million.
- Biological assets of $5.41 million (current) and $7.37 million (non-current) as at 30 June 2020 comprised pearl oysters, both seeded and unseeded, measured at their fair value less estimated

husbandry costs. Biological assets recognised as current assets represent the estimated value of the pearls to be harvested within the next 12 months.

- Property, plant and equipment of $5.29 million as at 30 June 2020 consisted of $0.16 million in non-pearling assets and $5.29 million in pearling related assets.
- Borrowings of $4.58 million as at 30 June 2020 was primarily attributable to the $2.50 million loan facility provided by Boneyard, foreign currency trade loans of $1.75 million and a NAB COVID-19 loan of $0.25 million. The foreign currency trade loan relates to an Unsecured Japanese Yen domestic Foreign Currency Advance of ¥200,000,000, of which ¥70,000,000 was repaid on 23 June 2020. The remaining balance is payable by grant of four equal first purchase rights of ¥32,500,000 exercisable each quarter. This foreign currency trade loan was recorded at $1.75 million as at 30 June 2020.

5.4 Historical Statement of Comprehensive Income

Statement of Profit or Loss and Other Comprehensive Income	Audited for the year ended 30-Jun-20 A$	Audited for the year ended 30-Jun-19 A$	Audited for the year ended 30-Jun-18 A$
Revenue from continuing operations	13,740,385	16,240,725	14,162,190
Cost of goods sold	(8,546,266)	(9,884,321)	(8,909,878)
Gross profit	**5,194,119**	**6,356,404**	**5,252,312**
Other income	1,005,310	668,625	579,621
Marketing expenses	(196,306)	(294,687)	(344,577)
Administration expenses	(5,116,483)	(5,561,172)	(5,586,504)
Finance costs	(368,301)	(373,354)	(331,386)
Change in fair value less husbandry costs of oysters	(4,280,249)	1,741,557	(287,128)
Change in fair value of pearls and jewellery	(2,423,906)	(2,331,340)	(324,982)
Other expenses	(789,252)	(1,380,887)	(941,472)
Profit/(Loss) before income tax	**(6,975,068)**	**(1,174,854)**	**(1,984,116)**
Income tax (charge) current year	(1,101,760)	(2,407,607)	(49,983)
Profit/(Loss) after income tax for the period from continuing operations	**(8,076,828)**	**(3,582,461)**	**(2,034,099)**
Other comprehensive income/(losses)			
Exchange differences on translation of foreign operations	(67,431)	1,458,792	(509,503)
Other comprehensive income/(losses) for the period, net of tax	**(67,431)**	**1,458,792**	**(509,503)**
Total comprehensive income/(losses) for the period	**(8,144,259)**	**(2,123,669)**	**(2,543,602)**

Source: Atlas' audited financial statements for the years ended 30 June 2018, 30 June 2019 and 30 June 2020.

Commentary on Statement of Profit or Loss and Other Comprehensive Income

We note the following in relation to Atlas' historical statement of profit or loss and other comprehensive income:

- Revenue from continuing operations decreased from $16.24 million for the year ended 30 June 2019 to $13.74 million for the year ended 30 June 2020, with the decrease attributable to COVID-

19 constraining its traditional distribution channels and numbers attending pearl auctions at any one time being limited by social distancing guidelines, as well as a decline in economic conditions.

- Other income of $1.01 million for the year ended 30 June 2020 related to foreign exchange gains, grant funds, gain-on-sale on 50% ownership in the joint venture EOT, and interest income.
- Administration expenses of $5.12 million for the year ended 30 June 2020 comprised salaries and wages, compliance and accounting, depreciation and amortisation of right-of-use asset.
- Other expenses of $0.79 million for the year ended 30 June 2020 comprised provision for employee entitlements, loss on foreign exchange and share option expenses.

5.5 Capital Structure

The share structure of Atlas as at 11 September 2020 is outlined below:

	Number
Total Ordinary Shares on issue	427,871,758
Top 20 Shareholders	251,858,332
Top 20 Shareholders - % of shares on issue	58.86%

Source: Share registry information

The range of shares held in Atlas as at 11 September 2020 is as follows:

Range of Shares Held	No. of Ordinary Shareholders	No. of Ordinary Shares	Percentage of Issued Shares (%)
1 - 1,000	134	75,224	0.02%
1,001 - 5,000	389	1,189,479	0.28%
5,001 - 10,000	281	2,348,292	0.55%
10,001 - 100,000	796	28,714,390	6.71%
100,001 - and over	335	395,544,373	92.44%
TOTAL	**1,935**	**427,871,758**	**100.00%**

Source: Share registry information

The ordinary shares held by the most significant shareholders as at 11 September 2020 are detailed below:

Name	Number of Ordinary Shares Held	Percentage of Issued Shares (%)
Boneyard Investments Pty Ltd	113,086,550	26.43%
Raintree Pearls & Perfumes Pty Ltd	30,090,855	7.03%
Subtotal	143,177,405	33.46%
Others	284,694,353	66.54%
Total ordinary shares on Issue	**427,871,758**	**100.00%**

Source: Share registry information

**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*

The most significant option holders of Atlas as at 30 June 2020 are outlined below:

Unquoted securities	Number of Options	Exercise Price ($)	Expiry Date
Unlisted options	17,596,165	0.027	30 June 2021
Total Number of Options	**17,596,165**		
Cash Raised if Options Exercised	**$475,096**		

Source: Share registry information

6. Profile of the Lender

6.1 Boneyard

Boneyard is a private investment company of the Gordon Martin family, established in 2012. The head office of Boneyard is located in West Perth, Western Australia.

Boneyard has interests in a range of enterprises and provides funding through equity investment and occasional private lending.

As at the date of our Report, Boneyard held a relevant interest of 26.43% in the Company.

7. Economic analysis

Overview

The Australian economy grew at 2% over 2019. The Reserve Bank of Australia (**'RBA'**) had predicted growth of approximately 2.75% for 2020, based on low interest rates, lower exchange rates, a rise in mining investment, high levels of spending on infrastructure and an expected recovery in residential construction. However, as a result of the COVID-19 outbreak and the Australian bushfires, this momentum has been significantly disrupted.

COVID-19 has led to the largest contraction in global economic activity in decades. Labour markets have been severely disrupted, and inflation has declined. However, since May, global economic conditions have started to recover, likely as a result of substantial fiscal and monetary policy easing and the relaxing of containment measures.

The pandemic has had a significant impact on the Australian economy and financial system, along with creating considerable volatility in financial markets. Equity prices experienced sharp declines and the yield on government bonds reached historic lows in March 2020. Measures taken by the Australian government and the RBA have improved stability in equity and bond markets over recent months.

Globally, financial market conditions have rebounded from the period of dislocation in March, and over the past few months financial conditions have remained accommodative as interest rates have fallen to historical lows. The expectation that significant fiscal and monetary stimulus will be provided for an extended period, is supporting sentiment in financial markets.

Government Policies

The Australian Government introduced a range of stimulus measures in response to the impact of COVID-19 on the economy.

Support from public policy has cushioned the effects of the health-related activity restrictions on incomes and will shape the recovery of the economy. In aggregate, household disposable income has been maintained throughout the pandemic, even as many people lost their jobs or worked fewer hours. The largest contributor to this support has been the JobKeeper program, which is estimated to have supported more than 25% of all workers nationwide. The program has been extended beyond September and will continue to support employment until March 2021, although at lower rates of subsidy and with changed eligibility criteria. The extension is targeting support to businesses and not-for-profits which continue to be significantly impacted by COVID-19.

Furthermore, additional payments to recipients of other forms of social assistance have boosted household incomes and will continue to do so over the next few quarters. Many households have also been able to supplement their income cash flows by withdrawing from their superannuation.

Further stimulus measures include the $680 million Homebuilder Program announced on 4 June 2020, which was introduced to assist the residential construction market. The program provides eligible owner-occupiers with a grant of $25,000 to build a new home or renovate an existing home.

In mid-March, the RBA introduced a comprehensive package of policy measures to support the Australian economy. The RBA announced it would implement further measures including focusing on lowering the cash rate and reducing the 3-year government bond yield to 0.25%. Since then, the RBA has purchased approximately $50 billion worth of bonds in the secondary market. Although the target yield of 0.25% has been achieved, the RBA will continue to monitor the cash rate, which will remain in place until progress is made towards full employment level and medium term inflation between 2% and 3%.

In addition, the RBA introduced a three-year term funding facility which was provided for authorised deposit-taking institutions, such as commercial banks, unlocking access to additional funding, equivalent to 2% of their outstanding credit, at a fixed rate of 0.25% for three years.

Economic Indicators

According to the RBA's baseline scenario, the Australian economy is expected to contract by approximately 6% over 2020, before growing by approximately 5% over 2021 and 4% over 2022. If realised, this would still leave the level of output below where it would have been, had the pandemic not occurred. The expected recovery will be supported by considerable fiscal and monetary policy easing, as well as accommodative financial conditions.

Consumer Price Index (**'CPI'**) inflation declined by 2% in the June quarter, which took year-ended inflation to -0.3%, which was the first decline in year-ended CPI inflation since the early 1960s and the largest quarterly decline since 1931. The decline was entirely accounted for by two temporary factors: the fall in petrol prices and the decision to make child care (and some preschool) free. The government subsidy, which also covered before- and after-school services, led to a 95% decline in child care prices in the June quarter, which singlehandedly subtracted 1.2% from inflation in the June quarter. The decline in inflation is anticipated to reverse in the September quarter as petrol prices begin to increase and fees for child care and preschool are being progressively reintroduced. According to the RBA's baseline scenario, inflation is expected to gradually increase to 1.5% by the end of 2022.

The COVID-19 outbreak has severely affected the labour market. The measured unemployment rate increased by more than 2% over the course of a few months, reaching 7.4% in the month of June, the highest rate in more than two decades. Although some job losses have since been recovered as restrictions begin to ease and spending activity has picked up, employment still remains 5% lower than in mid-March. The scale of job losses to date, and the increase in unemployment would have been much greater were it

not for the Australian Government's JobKeeper program, which is currently subsidising 3.5 million jobs nationwide. The unemployment rate is expected to gradually decline from this peak over the course of the next couple of years.

The unemployment rate increased to 7.4% in August 2020, up from 6.2% in late June and 5.3% in January 2020. Employment fell by around 870,000 people over April and May. Some of these job losses have since been recovered as restrictions have been lifted and activity has picked up, but employment remains around 5% lower than in mid-March. The Australian Government's JobKeeper program introduced in March is currently subsidising 3.5 million jobs, in the absence of this program, employment would have declined much further.

After depreciating significantly during the height of the market turmoil in March, the Australian dollar has since appreciated to be slightly above its level at the beginning of 2020. This appreciation is in line with the currencies of a range of other advanced economies against the backdrop of a broad-based depreciation of the Unites States dollar over recent months. The Australian dollar is now in a range that is broadly consistent with its fundamental determinants, namely, the terms of trade and the differential between interest rates in Australia and rates in major advanced economies.

Outlook

There is considerable uncertainty for the near term outlook of the Australian economy with outcome depending on the success of efforts to contain the coronavirus as well as the time frame for social distancing measures currently in place. Further outbreaks of the virus and associated restrictions on activity are the key risks to the outlook. The measures taken to address the current outbreak in Victoria will further delay the economic recovery. The most recently announced restriction measures are expected to subtract at least 2% from national GDP growth in the September quarter, relative to the counterfactual where the renewed outbreak had not occurred.

While uncertainty exists, the RBA is predicting that the downturn will be less than earlier predicted, with the rate of infections declining and some restrictions being eased earlier than previously suggested. This has resulted in the RBA amending its forecast of -8% GDP growth to -6% for the 2020 financial year. In response to the easing of restrictions, there has been an increase in retail spending, however, the recent outbreak in Victoria places further uncertainty on the economy's recovery.

Source: www.rba.gov.au Statement by Phillip Lowe, Governor: Monetary Policy Decision 1 September, 7 July 2020, 2 June 2020, 5 May 2020, 7 April 2020 and 19 March 2020, www.abs.gov.au Consumer Price Index March August 2020.

8. Industry analysis

Oysters create pearls in response to an irritant, such as a grain of sand or parasite, through the production of nacre, a protecting coating that helps reduce irritation; with the layers of nacre eventually forming a pearl. A natural pearl is one that is formed in nature without any human intervention and, prior to human intervention of cultured pearls, all pearls grew in the wild making them extremely rare and valuable. Cultured pearls are created by the same process as natural pearls, however a pearl harvester will open the oyster shell and cut a small slit in the mantle tissue and insert small irritants under the mantle.

There are two basic varieties of cultured pearls; freshwater and saltwater. Freshwater pearls are grown primarily in man-made lakes and reservoirs while saltwater pearls are grown in bays, inlets and atolls.

Freshwater pearls account for the 95% of global pearl production, while saltwater pearls account for approximately 5% of total global pearl production.

Saltwater cultured pearls include Akoya pearls, Tahitian black pearls and South Sea pearls and are considered more valuable than freshwater pearls. South Sea pearls and Tahitian black pearls together account for half of the world market by value and the Japanese Akoya pearls and Chinese freshwater pearls each supply a quarter of the world market by value.

The first cultured pearl was the Japanese Akoya pearl in the early 1900's. Twenty-five years ago, Japanese Akoya pearls accounted for 90% of the world market by value, however, Australia, French Polynesia, Indonesia and China now dominate the global supply of pearls, with Australia being the major global producer of South Sea pearls and French Polynesia the main producer of Tahitian black pearls.

South Sea pearls are the largest and most valuable pearls grown today. South Sea pearls are grown in large pearl oysters native to Australia, the Philippines, Burma and Indonesia. Tahitian pearls are grown in a black lipped oyster, and their name is derived from the general location of Tahiti, despite being produced in the waters of French Polynesia.

Freshwater pearls are primarily farmed in China and are grown in a mussel. The production of Chinese freshwater pearls occurs in triangular shell mussels, which are able to produce pearls in much harsher conditions than saltwater oysters. These mussels can produce up to 40 pearls in one harvest whereas saltwater oysters can produce just one pearl at a time. Typically, pearls are harvested for one year for Akoya pearls, two to four years for Tahitian Black pearls and South Sea pearls, and two to seven years for freshwater pearls.

China became the largest producer of cultured pearls in the 1980s. Chinese cultured pearls have long been associated with mass production, low value and relatively low qualities however this is beginning to change through cleaner production and innovation. Today, China accounts for over 95% of all commercially-sold freshwater pearls.

Pearls are graded according to size, shape, shade, shine and surface. While cultured and natural pearls are considered to be of equal quality, cultured pearls are generally less expensive as they are not as rare. Pearls derive their value from their inherent beauty and the social message they convey when worn, and as a result the demand for pearls is driven by social factors, advertising, price and disposable income of consumers.

Most pearls are sold directly to the international market through Japan and Hong Kong, with pricing set in either Japanese Yen or United States Dollars. Pearl auctions and jewellery fairs are an important wholesale outlet for pearl producers, with auctions held in Hong Kong and Japan. These auctions allow suppliers to gauge the market and in some cases control the price by setting reserve prices or restricting supply.

The pearl industry has changed substantially over the last 50 years, from one reliant solely on wild catch to one largely dependent on the culture of oysters. The structure and nature of the pearl industry varies between countries, however on a global scale it is dominated by a few large, vertically integrated companies. New technologies and greater access to technologies for cultivating pearls has played a major role in the change in the economic structure of the industry.

Source: Economics of Pearl Farming, Clem Tisdell and Bernard Poirine; www.Pearl-Guide.com

9. Valuation approach adopted

There are a number of methodologies which can be used to value a business or the shares in a company. The principal methodologies which can be used are as follows:

- Capitalisation of future maintainable earnings ('**FME**')
- Discounted cash flow ('**DCF**')
- Quoted market price basis ('**QMP**')
- Net asset value ('**NAV**')
- Market based assessment

A summary of each of these methodologies is outlined in Appendix 2.

Different methodologies are appropriate in valuing particular companies, based on the individual circumstances of that company and available information.

As detailed in Section 3, no assessment of the value of an Atlas share can reasonably be made at the date of our Report as the possible date that the Conversion Right is executed (if executed at all) cannot be predicted due to it being contingent on an event of default. Consequently, the above valuation methodologies are not relevant in the assessment of the value of an Atlas share at an unknown point in the future, for the purpose of assessing fairness.

Nonetheless, we have conducted a qualitative fairness assessment as outlined below.

9.1 Fairness approach adopted

Security Transaction

RG 111.57 states that a proposed related party transaction is 'fair' if the value of the financial benefit to be provided by the entity to the related party is equal to or less than the value of the consideration being provided by the company.

In the case of the Security Transaction, the value of the financial benefit provided by Atlas to the Lender is the value of the proceeds arising from the sale of the secured assets that would be provided as settlement of amounts payable to the Lender in the event of default (**'Security Provided'**). The value of the consideration being provided to Atlas is the amounts payable to the Lender which comprises the principal amount drawn and related interest accrued (**'Liabilities To Be Settled'**).

We have undertaken this analysis by observing the various scenarios that may arise in comparing the Security Provided with the Liabilities To Be Settled.

The Security Transaction is fair, if the value of the Security Provided is equal to, or less than the value of the Liabilities To Be Settled.

Relative Interest Acquisition

RG 111.31 stipulates that in a control transaction, a comparison should be made between the value of the target entity's securities prior to the transaction on a controlling basis and the value of the target entity's securities following the transaction, allowing for a minority discount.

Because the Relevant Interest Acquisition cannot take place unless the Company is in default, the approval of the Transactions has no immediate impact on the voting interest in Atlas. As such, in considering the possible exercise of the Conversion Right and resultant Relevant Interest Acquisition, the

relevant date to assess the value of an Atlas share would be at, or around, the time that the Conversion Right is exercised and the Lender's interest in Atlas increases.

Therefore, as at the date of our Report, no assessment of the value of an Atlas share can reasonably be made as the possible date that the Conversion Right is executed (if executed at all) cannot be predicted. Consequently, the value of an Atlas share and the Conversion Price at any future date cannot be determined. For that reason, the contingent nature of the Relevant Interest Acquisition and terms of the Amended and Restated Loan Agreement, together with the current circumstances of Atlas and the advantages provided by the Loan are of more significance than the possible value of the Company's assets and liabilities at some future date. We have discussed these issues in our assessment of reasonableness in Section 10 of our Report.

Notwithstanding this, in assessing the issue of the Conversion Shares to the Lender upon the possible exercise of the Conversion Right and resultant Relevant Interest acquisition, we have illustrated the various scenarios that may arise in the event of default at a future date, given the mechanism of the Conversion Right.

10. Are the Transactions fair?

10.1 Security Transaction

As stated in Section 9, the Security Transaction is fair if the value of the Security Provided is equal to or less than the Liabilities To Be Settled in the event of default. Therefore, the Security Transaction is not fair if the Security Provided is greater than the Liabilities To Be Settled.

We have considered the various scenarios which could occur in the event Atlas defaults on the Loan Facility.

In a scenario where the value of the Security Provided is greater than, or equal to the Liabilities To Be Settled in the event of default, the Lenders would only be entitled to recover the principal and interest outstanding under the Loan Facility.

Furthermore, in a scenario where the value of the Security Provided is less than the Liabilities To Be Settled in the event of default, the secured assets would be sold and the proceeds provided to the Lender.

These scenarios can be summarised as follows:

Scenario	Consequence	Fairness
Security Provided > Liabilities To Be Settled	Security Provided = Liabilities To Be Settled	Fair
Security Provided = Liabilities To Be Settled	Security Provided = Liabilities To Be Settled	Fair
Security Provided < Liabilities To Be Settled	Security Provided < Liabilities To Be Settled	Fair

Source: BDO analysis

Under the terms of the Amended and Restated Loan Agreement, specifically in the event of default, the Lender is only entitled to be repaid the principal and interest outstanding under the Loan Facility. If the proceeds arising from the sale of the security assets are greater than the Liabilities To Be Settled, the excess would be retained by Atlas. Consequently, the value of the Security Provided is equal to, or less than the value of the Liabilities To Be Settled in all scenarios. Therefore, we consider the Security Transaction to be fair for Shareholders.

10.2 Relevant Interest Acquisition

The exercise of the Conversion Right and resultant Relevant Interest Acquisition will only occur if the Company defaults on the Loan Facility. The Amended and Restated Loan Agreement contains default provisions limited to;

- failure to pay amounts due within five business days of notice of the failure;
- nonfinancial default of material obligations that are not remedied within 10 business days of notice;
- material misrepresentation; and
- an event of insolvency.

Each of the above is an event of default (**'Event of Default'**)

As disclosed in Section 4 and the Company's Notice of Meeting, the Conversion Right is only exercisable if an Event of Default is triggered.

A key provision under the Amended and Restated Loan Agreement is that an Event of Default is triggered by the Company failing to pay amounts due, within five business days of receiving notice of failure. This means that the Company does not need to be in financial distress in order to trigger an Event of Default, the Company may simply not have the liquid assets available at the time to meet its debt obligations.

Historically, Atlas has typically had high levels of non-current assets compared to cash. This is due to the nature of its business, specifically the fact that it holds significant levels of biological assets, which have long lead times to reach cash generating stages. It can take years before oysters are mature enough to begin producing pearls and hence become cash generating. This is illustrated by the Company's financial statements as at 30 June 2020, in which the Company had $0.72 million in liquid cash and cash equivalents, and $12.78 million in illiquid biological assets.

Given the nature of the Company's biological assets and resultant strong non-current asset position, yet restricted cash position, in conjunction with the Company's challenges in securing additional debt funding, there is a possibility that in the Event of Default, the value of the Company's assets and therefore underlying value per Atlas share may be greater than the Conversion Price.

Furthermore, the Event of Default includes other nonfinancial default of material obligations and material representation provisions. These provisions are not related to the Company's financial positon and therefore could trigger an Event of Default, even if the Company has sufficient liquid assets required to meet its existing debt obligations.

Consequently, at the date of our Report, no assessment of the value of an Atlas share can reasonably be made as the possible date of an Event of Default by the Company, the Conversion Price and whether the Conversion Right is exercised, cannot be predicted.

Notwithstanding this, we have considered the various scenarios that may transpire in the Event of Default by the Company and presented illustrative examples of how the Conversion Right mechanism would apply.

As outlined in Section 4, the Conversion Price is equal to a 15% discount to the 30-day VWAP for Atlas shares ending on the business day immediately before a notice for conversion is received by the Company. By definition, this implies that the Conversion Price will be less than the underlying value of an Atlas share. Furthermore, RG 111 states that when considering the value of the securities under offer in a control transaction, the expert should consider this value inclusive of a control premium. As the Conversion Price is already at a discount to the underlying value of an Atlas share, there is no control premium being paid.

As the Conversion Price will be at a discount to the 30-day VWAP for Atlas shares, we consider that the Relevant Interest Acquisition is not fair for Shareholders.

11. Are the Transactions reasonable?

11.1 Consequences of not Approving the Transactions

Consequences

In the event that Shareholder approval is not granted for the Transactions, the terms of the Existing Loan Agreement will remain. However, the existing loan will be subject to the new repayment terms approved under the Amended and Restated Loan Agreement, with the first repayment due on 31 March 2021. In addition, should Shareholders not approve the Transactions, Boneyard will only be entitled to demand repayment of the new Facility of $2.0 million.

11.2 Advantages of Approving the Transactions

We have considered the following advantages when assessing whether the Transactions are reasonable.

11.2.1. The Security Transaction is fair

As set out in Section 10.1, the Security Transaction is fair. RG 111.12 states that an offer is reasonable if it is fair. In the Event of Default by the Company, the Lender's entitlement in relation to the Security is limited to the principal amount drawn down and related interest accrued.

11.2.2. The Transactions result in the Company being under less cash flow strain and strengthens its ability to remain as a going concern

We note that the Company's auditor issued an Emphasis of Matter in the audited financial reports for the years ended 30 June 2018, 30 June 2019 and 30 June 2020. The auditor outlined the existence of material uncertainty in relation to the Company'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. Specifically, in the Company's financial report for the year ended 30 June 2020, the uncertainty in relation to the Company's going concern related to its working capital deficit of $0.60 million and the COVID-19 pandemic having a negative impact on world stock markets, currencies and general business activity.

In addition, the auditor stated that, based on cash flow forecasts, the Company will require additional funding within the next 12 months to enable it to continue its normal business activities and ensure the realisations of assets and extinguish liabilities and when they fall due.

If the Transactions are approved, the Loan Facility will provide the Company with a cash injection that will allow the Company to remain as a going concern.

Furthermore, Boneyard has agreed to defer the repayment date of the outstanding loans owed to Boneyard under the Existing Loan Agreement. As a result, the deferral of the repayment of the existing loans, together with the additional loan provided to the Company under the Loan Facility, will not only enable the Company to continue as a going concern but will also provide to Atlas urgently needed working capital to proceed with the working capital requirements of the Company while it continues to seek a combination of new distribution networks and the pearling industry recovers from the effects of COVID-19.

Having regard to the challenges facing the Company and general economic conditions generally, the Non-Conflicted Directors are of the view that they have a business plan and budget that seeks to ensure that

the Company is able to repay the amounts under the Amended and Restated Loan Agreement in accordance with the its terms and accordingly consider the risk of Boneyard being in a position to enforce the Security as relatively low.

11.2.3. Alternative sources of funding may need to take the form of debt that can be converted at the discretion of the holder without the condition of a default event

The Board of Atlas accepted the offer of the Loan Facility from Boneyard after investing significant time and effort in seeking a solution to the impact of COVID-19 on the Company's distribution network. In the event that Shareholder approval is not granted for the Transactions, Atlas may need to seek alternative sources of funding.

In the current circumstances of Atlas, and given the existence of first and second ranking security, alternative funding options available to Atlas may be limited. Consequently, Atlas may need to seek convertible debt in order to leverage its position with lenders.

Prima facie, the terms of the Amended and Restated Loan Agreement appear more favourable than other sources of potential debt finance as the conversion feature is only enforceable in the Event of Default, reducing the probability of Shareholder dilution. Typically, more conventional convertible debt is convertible at the election of the holder at any time, as such, the terms of the Amended and Restated Loan Agreement are considered reasonable in Atlas' circumstances.

The Board of Atlas believes that Atlas is unlikely to secure the required funding on equal or better terms (including the interest payment obligations) from any third party.

11.2.4. The Amended and Restated Loan Agreement does not include any fees or penalties for prepayments

Under the Amended and Restated Loan Agreement, the Company is entitled to prepay the Loan Facility at any time without incurring fees or penalties. It is not uncommon for prepayments under terms provided by non-bank financiers to incur fees and or penalties for prepayments on loans.

11.2.5. Supports debt funding

The provision of the Security Transaction enables the Company to obtain the debt funding that it requires. If Atlas seeks alternative funding through bank debt, it is most likely that there will be a requirement by bank lenders to furnish adequate collateral to secure the bank debt. Given that a first and second ranking security already exists, a different lender would be unlikely to accept a third ranking security.

11.2.6. No changes to current operating arrangements

We are not aware of any operational changes that the Lender wishes to introduce if the Transactions are approved, and there has been no indicated from the Lender that they intend to change Atlas' business as conducted by the current management team.

11.3 Disadvantages of Approving the Transactions

If the Transactions are approved, in our opinion, the potential disadvantages to Shareholders include the following:

11.3.1. Potential dilution of existing Shareholders' interests

If the Transactions are approved, then if there is an Event of Default by the Company, and the Conversion Right being exercised by the Lender, the Relevant Interest Acquisition will result in the dilution of the existing Shareholders. The Lender and its associates have a 26.43% interest in the Company. Assuming that the Maximum Conversion Amount is converted into shares and no other shares are issued or exercised, the Lender and its associates will acquire a relevant interest of approximately 79.25% in the Company.

11.3.2. Atlas will grant to the Lender a second ranking security over all the assets of the Company

If there is an Event of Default by the Company, the Lender may enforce the Security Transaction and require that Atlas sell the secured assets in order to repay the monies outstanding under the Amended and Restated Loan Agreement. However, we note that the General Security Deed remains the same as in the Existing Loan Agreement, which already secures the Existing Loan against all of Atlas' assets.

11.3.3. Limited restrictions placed on the Company's ability to issue additional equity, raise further debt and deal with its assets without the Lender's consent

As outlined in Section 4, the Amended and Restated Loan Agreement includes negative pledges that place restrictions on the Company's ability to deal with its assets without prior consent of the Lender. We note that under the terms of the Amended and Restated Loan Agreement, the Company must not, without the consent of the Lender, issue additional equity capital (other than shares issued on exercise of existing options) nor receive additional debt funding in excess of $250,000).

11.4 Other considerations

11.4.1. Alternative Proposal

We are unaware of any alternative proposal that might offer the Shareholders of Atlas a premium of the value ascribed to, resulting from the Transactions.

11.4.2. Practical Level of Control

If the Transactions are approved, then if there is an Event of Default by the Company and the Conversion Right being exercised by the Lenders, the Relevant Interest Acquisition may result in existing Shareholders surrendering control of the Company to the Lender. The Lender and its associates currently have approximately a 26.43% interest in the Company. Assuming that all the Conversion Shares are issued and no other shares are issued or options exercised, the Lender and its associates will acquire a relevant interest of approximately 79.25% in the Company.

When shareholders are required to approve an issue that relates to a company, there are two types of approval levels. These are general resolutions and special resolutions. A general resolution requires 50% of shares to be voted in favour to approve a matter and a special resolution requires 75% of shares on issue to be voted in favour to approve a matter. As outlined in Section 4, if the 15% discount to the 30-day VWAP remains at $0.005, and if the Maximum Conversion is converted into shares and no other shares are issued or options exercised, then the Lender and its associates will be able to block both special and general resolutions.

The implications of the various levels of control that the Lenders may obtain as a result of the Relevant Interest Acquisition are outlined below:

Controlling Interest	Company Influence
>5%	ability to requisition a general meeting of the Company
>10%	ability to prevent a compulsory acquisition
>25%	ability to block special resolutions
>50%	ability to block and pass general resolutions

If there is an Event of Default by the Company and the Conversion Right is exercised by the Lender, the Relevant Interest Acquisition will result in the Lender's control of Atlas being significant when compared to all other Shareholders. Therefore, in our opinion, the Lender will be able to significantly influence the activities of the Company.

11.4.3. Fiduciary Duty of the Company's Directors

As stated in Section 4, the Relevant Interest Acquisition can only proceed in an Event of Default by the Company. The directors of the Company have a fiduciary duty to act in the best interest of the Company as a whole, which would entail exploring all available options to mitigate the Event of Default and resultant dilution under the Relevant Interest Acquisition. In the event that the Company was close to exhibiting an Event of Default the directors of the Company would be expected to explore mitigating options including but not limited to the following:

- liquidate a portion of the Company's assets and use the proceeds to avoid the Event of Default;
- conduct a rights issue or attempt to raise additional capital at a premium to the Conversion Price; and
- seek additional debt funding, which can be used to meet the repayment obligations and avoid the Event of Default.

These actions may require the consent of the Lender, which should not be unreasonably withheld or delayed.

11.4.4. Financial undertaking

The Amended and Restated Loan Agreement states that Atlas undertakes, except to the extent that the Lender otherwise approves in writing, that in any consolidated half yearly, annual or management accounts of Atlas, the EBITDA for each period will not be less than $2.0 million. We note that Atlas' EBITDA has been below $2.0 million for the past three financial years, however, the Lender has not relied upon this as a mechanism to trigger default, and no consequence has arisen.

12. Conclusion

We have considered the terms of the Transactions as outlined in the body of this report and have concluded that the:

- Security Transaction is fair and reasonable to the Shareholders of Atlas; and
- Relevant Interest Acquisition is not fair but reasonable to the Shareholders of Atlas.

We have assessed the Security Transaction to be fair for Shareholders because the Security Provided to secure the repayment of monies owned under the Amended and Restated Loan Agreement in the event of default is equal to or lower than the value of the Liabilities To Be Settled.

We consider the Security Transaction to be reasonable because the advantages of approving the Security Transaction outweigh the disadvantages of approving the Security Transaction.

We concluded that the Relevant Interest Acquisition is not fair as the Conversion Price will be at a discount to the 30-day VWAP for Atlas shares. Therefore, in the absence of any other relevant information, and a superior offer, we consider the Relevant Interest Acquisition to be not fair for Shareholders.

We consider the Relevant Interest Acquisition to be reasonable because the advantages of approving the Relevant Interest Acquisition outweigh the disadvantages of approving the Relevant Interest Acquisition. In particular, by approving the Relevant Interest Acquisition, the Company will be under less cash flow strain and strengthen its ability to remain as a going concern. In addition, the Relevant Interest Acquisition will only occur, and therefore only produce an outcome that is not fair for Shareholders, if an Event of Default is triggered. We believe the benefits arising from the approval of the Relevant Interest Acquisition are superior to the alternative scenario, in which $1,750,000 will be payable immediately to Boneyard and $750,000 payable on 30 October.

13. Sources of information

This report has been based on the following information:

- Draft Notice of General Meeting on or about the date of this report;
- Audited financial statements of Atlas for the years ended 30 June 2020, 30 June 2019 and 30 June 2018;
- Existing Loan Agreement;
- Amended and Restated Loan Agreement;
- General Security Deed;
- Share registry information;
- Information in the public domain; and
- Discussions with Directors and Management of Atlas.

14. Independence

BDO Corporate Finance (WA) Pty Ltd is entitled to receive a fee of $20,000 (excluding GST and reimbursement of out of pocket expenses). The fee is not contingent on the conclusion, content or future use of this Report. Except for this fee, BDO Corporate Finance (WA) Pty Ltd has not received and will not receive any pecuniary or other benefit whether direct or indirect in connection with the preparation of this report.

BDO Corporate Finance (WA) Pty Ltd has been indemnified by Atlas in respect of any claim arising from BDO Corporate Finance (WA) Pty Ltd's reliance on information provided by Atlas including the non-provision of material information, in relation to the preparation of this report.

BDO Audit (WA) Pty Ltd is the auditor for Atlas. The provision of our services is not considered a threat to our independence as auditors under Professional Statement APES 110 – Professional Independence. The services provided have no material impact on the financial report of Atlas.

A draft of this report was provided to Atlas and its advisors for confirmation of the factual accuracy of its contents. No significant changes were made to this report as a result of this review.

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15. Qualifications

BDO Corporate Finance (WA) Pty Ltd has extensive experience in the provision of corporate finance advice, particularly in respect of takeovers, mergers and acquisitions.

BDO Corporate Finance (WA) Pty Ltd holds an Australian Financial Services Licence issued by the Australian Securities and Investments Commission for giving expert reports pursuant to the Listing rules of the ASX and the Corporations Act.

The persons specifically involved in preparing and reviewing this report were Sherif Andrawes and Adam Myers of BDO Corporate Finance (WA) Pty Ltd. They have significant experience in the preparation of independent expert reports, valuations and mergers and acquisitions advice across a wide range of industries in Australia and were supported by other BDO staff.

Sherif Andrawes is a Fellow of the Institute of Chartered Accountants in England & Wales and a Fellow of Chartered Accountants Australia & New Zealand. He has over 30 years' experience working in the audit and corporate finance fields with BDO and its predecessor firms in London and Perth. He has been responsible for over 350 public company independent expert's reports under the Corporations Act or ASX Listing Rules and is a CA BV Specialist. These experts' reports cover a wide range of industries in Australia with a focus on companies in the natural resources sector. Sherif Andrawes is the Corporate Finance Practice Group Leader of BDO in Western Australia, the Global Head of Natural Resources for BDO and a former Chairman of BDO in Western Australia.

Adam Myers is a member of the Australian Institute of Chartered Accountants. Adam's career spans over 20 years in the Audit and Assurance and Corporate Finance areas. Adam is a CA BV Specialist and has considerable experience in the preparation of independent expert reports and valuations in general for companies in a wide number of industry sectors.

16. Disclaimers and consents

This report has been prepared at the request of Atlas for inclusion in the Notice of Meeting which will be sent to all Atlas Shareholders. Atlas engaged BDO Corporate Finance (WA) Pty Ltd to prepare an independent expert's report to consider the amended secured loan agreement that Atlas has entered into with Boneyard Investments Pty Ltd, which is an entity associated with Mr Tim Martin, a current director of Atlas.

BDO Corporate Finance (WA) Pty Ltd hereby consents to this report accompanying the above Notice of Meeting. Apart from such use, neither the whole nor any part of this report, nor any reference thereto may be included in or with, or attached to any document, circular resolution, statement or letter without the prior written consent of BDO Corporate Finance (WA) Pty Ltd.

BDO Corporate Finance (WA) Pty Ltd takes no responsibility for the contents of the Notice of Meeting other than this report.

We have no reason to believe that any of the information or explanations supplied to us are false or that material information has been withheld. It is not the role of BDO Corporate Finance (WA) Pty Ltd acting as an independent expert to perform any due diligence procedures on behalf of the Company. The Directors of the Company are responsible for conducting appropriate due diligence in relation to Atlas. BDO Corporate Finance (WA) Pty Ltd provides no warranty as to the adequacy, effectiveness or completeness of the due diligence process.

The opinion of BDO Corporate Finance (WA) Pty Ltd is based on the market, economic and other conditions prevailing at the date of this report. Such conditions can change significantly over short periods of time.

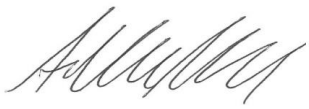
With respect to taxation implications it is recommended that individual Shareholders obtain their own taxation advice, in respect of the Transactions, tailored to their own particular circumstances. Furthermore, the advice provided in this report does not constitute legal or taxation advice to the Shareholders of Atlas, or any other party.

The statements and opinions included in this report are given in good faith and in the belief that they are not false, misleading or incomplete.

The terms of this engagement are such that BDO Corporate Finance (WA) Pty Ltd is required to provide a supplementary report if we become aware of a significant change affecting the information in this report arising between the date of this report and prior to the date of the meeting or during the offer period.

Yours faithfully

BDO CORPORATE FINANCE (WA) PTY LTD



Adam Myers
Director

Sherif Andrawes
Director

Appendix 1 – Glossary of Terms

Reference	Definition
The Act	The Corporations Act 2001 Cth
ACFA	Australian Financial Complaints Authority
APES 225	Accounting Professional & Ethical Standards Board professional standard APES 225 'Valuation Services'
ASIC	Australian Securities and Investments Commission
Atlas	Atlas Pearls Limited
ASX	Australian Securities Exchange
BDO	BDO Corporate Finance (WA) Pty Ltd
Boneyard	Boneyard Investments Pty Ltd
The Company	Atlas Pearls Limited
Conversion Amount	All or part of the outstanding loans and interest
Conversion End Date	14 October 2022
Conversion Price	15% discount to the 30-day volume weighted average price for shares ending on the business day immediately before a notice for conversion is received by the Company
Corporations Act	The Corporations Act 2001 Cth
DCF	Discounted Future Cash Flows
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
Event of Default	Failure to pay amounts due within five business days of notice of the failure, nonfinancial default of material obligations that are not remedied within 10 business days of notice, material misrepresentation and an event of insolvency
Existing Loan Agreement	The existing loan arrangements which were announced to the ASX on 30 January 2017 and varied on 28 June 2017
FME	Future Maintainable Earnings
FOS	Financial Ombudsman Service

Reference	Definition
FSG	Financial Services Guide
Item 7 s11	Item 7 s611 of Section 611 of the Corporations Act
Lender	Boneyard Investments Pty Ltd
Liabilities To Be Settled	Principal amount drawn and related interest accrued
Maturity Date	30 September 2022
Maximum Conversion Shares	1,089,000,000 assuming the Conversion Price is $0.005
NAB Debt	The $1.75 million first ranking secured debt facility from NAB
NAV	Net Asset Value
QMP	Quoted market price
RBA	Reserve Bank of Australia
Regulations	Corporations Act Regulations 2001 (Cth)
Relevant Interest Acquisition	Subject to shareholder approval, the Conversion Amount will be convertible into Atlas shares in the event Atlas defaults on its repayment terms, with conversion being at Boneyard's discretion
Our Report	This Independent Expert's Report prepared by BDO
RG 74	Acquisitions approved by Members (December 2011)
RG 111	Content of expert reports (March 2011)
RG 112	Independence of experts (March 2011)
Scheduled repayments	31 March 2021, 30 September 2021, 31 March 2022 and 30 September 2022.
Section 411	Section 411 of the Corporations Act
Section 611	Section 611 of the Corporations Act
Security Provided	Value of the proceeds arising from the sale of the secured assets that would be provided as settlement of amounts payable to the Lender in the event of default
Security Transaction	The grant of second ranking security to Boneyard
Shareholders	Shareholders of Atlas not associated with Boneyard

Reference	Definition
Sum-of-Parts	A combination of different methodologies used together to determine an overall value where separate assets and liabilities are valued using different methodologies
TJM	TJM Australia Pty Ltd
The Transactions	The Security Transaction and the Relevant Interest Acquisition
Valuation Engagement	An Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Valuer is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Valuer at that time.
VWAP	Volume Weighted Average Price
Waiver	Atlas has been granted a waiver of ASX Listing Rule 10.1, which allowed the Company, without obtaining shareholder approval under ASX Listing Rule 10.1, to grant a second ranking security over its assets

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For permission requests, write to BDO Corporate Finance (WA) Pty Ltd, at the address below:

The Directors

BDO Corporate Finance (WA) Pty Ltd

38 Station Street

SUBIACO, WA 6008

Australia

Appendix 2 – Valuation Methodologies

Methodologies commonly used for valuing assets and businesses are as follows:

1 *Net asset value ('NAV')*

Asset based methods estimate the market value of an entity's securities based on the realisable value of its identifiable net assets. Asset based methods include:

- Orderly realisation of assets method
- Liquidation of assets method
- Net assets on a going concern method

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to entity holders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the entity is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the entity may not be contemplated, these methods in their strictest form may not be appropriate. The net assets on a going concern method estimates the market values of the net assets of an entity but does not take into account any realisation costs.

Net assets on a going concern basis are usually appropriate where the majority of assets consist of cash, passive investments or projects with a limited life. All assets and liabilities of the entity are valued at market value under this alternative and this combined market value forms the basis for the entity's valuation.

Often the FME and DCF methodologies are used in valuing assets forming part of the overall Net assets on a going concern basis. This is particularly so for exploration and mining companies where investments are in finite life producing assets or prospective exploration areas.

These asset based methods ignore the possibility that the entity's value could exceed the realisable value of its assets as they do not recognise the value of intangible assets such as management, intellectual property and goodwill. Asset based methods are appropriate when an entity is not making an adequate return on its assets, a significant proportion of the entity's assets are liquid or for asset holding companies.

2 *Quoted Market Price Basis ('QMP')*

A valuation approach that can be used in conjunction with (or as a replacement for) other valuation methods is the quoted market price of listed securities. Where there is a ready market for securities such as the ASX, through which shares are traded, recent prices at which shares are bought and sold can be taken as the market value per share. Such market value includes all factors and influences that impact upon the ASX. The use of ASX pricing is more relevant where a security displays regular high volume trading, creating a liquid and active market in that security.

3 *Capitalisation of future maintainable earnings ('FME')*

This method places a value on the business by estimating the likely FME, capitalised at an appropriate rate which reflects business outlook, business risk, investor expectations, future growth prospects and other entity specific factors. This approach relies on the availability and analysis of comparable market data.

The FME approach is the most commonly applied valuation technique and is particularly applicable to profitable businesses with relatively steady growth histories and forecasts, regular capital expenditure requirements and non-finite lives.

The FME used in the valuation can be based on net profit after tax or alternatives to this such as earnings before interest and tax (‘**EBIT**’) or earnings before interest, tax, depreciation and amortisation (‘**EBITDA**’). The capitalisation rate or ‘earnings multiple’ is adjusted to reflect which base is being used for FME.

4 *Discounted future cash flows (‘DCF’)*

The DCF methodology is based on the generally accepted theory that the value of an asset or business depends on its future net cash flows, discounted to their present value at an appropriate discount rate (often called the weighted average cost of capital). This discount rate represents an opportunity cost of capital reflecting the expected rate of return which investors can obtain from investments having equivalent risks.

Considerable judgement is required to estimate the future cash flows which must be able to be reliably estimated for a sufficiently long period to make this valuation methodology appropriate.

A terminal value for the asset or business is calculated at the end of the future cash flow period and this is also discounted to its present value using the appropriate discount rate.

DCF valuations are particularly applicable to businesses with limited lives, experiencing growth, that are in a start up phase, or experience irregular cash flows.

5 *Market Based Assessment*

The market based approach seeks to arrive at a value for a business by reference to comparable transactions involving the sale of similar businesses. This is based on the premise that companies with similar characteristics, such as operating in similar industries, command similar values. In performing this analysis it is important to acknowledge the differences between the comparable companies being analysed and the company that is being valued and then to reflect these differences in the valuation.

ATLAS PEARLS

ABN 32 009 220 053

Need assistance?

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1300 850 505 (within Australia)
+61 3 9415 4000 (outside Australia)

Online:
www.investorcentre.com/contact

ATP
MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

YOUR VOTE IS IMPORTANT

For your proxy appointment to be effective it must be received by **11:00 AM (AWST) on Monday, 26 October 2020.**

Proxy Form

How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

APPOINTMENT OF PROXY

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote or abstain as they choose (to the extent permitted by law). If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of the Company.

SIGNING INSTRUCTIONS FOR POSTAL FORMS

Individual: Where the holding is in one name, the securityholder must sign.

Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.

Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

PARTICIPATING IN THE MEETING

Corporate Representative
If a representative of a corporate securityholder or proxy is to participate in the meeting you will need to provide the appropriate "Appointment of Corporate Representative". A form may be obtained from Computershare or online at www.investorcentre.com under the help tab, "Printable Forms".

Lodge your Proxy Form: XX

Online:

Lodge your vote online at www.investorvote.com.au using your secure access information or use your mobile device to scan the personalised QR code.

Your secure access information is

Control Number: 999999
SRN/HIN: I9999999999
PIN: 99999

For Intermediary Online subscribers (custodians) go to www.intermediaryonline.com

By Mail:

Computershare Investor Services Pty Limited
GPO Box 242
Melbourne VIC 3001
Australia

By Fax:

1800 783 447 within Australia or
+61 3 9473 2555 outside Australia

PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.

MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

☐ **Change of address.** If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with '**X**') should advise your broker of any changes.

I 9999999999 I N D

Proxy Form

Please mark ☒ to indicate your directions

Step 1 Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of Atlas Pearls Ltd hereby appoint

☐ **the Chairman of the Meeting** **OR** _____

PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit) at the Annual General Meeting of Atlas Pearls Ltd to be held at Atlas Pearls, 47 - 49 Bay View Terrace, Claremont, WA 6010 on Wednesday, 28 October 2020 at 11:00 AM (AWST) and at any adjournment or postponement of that meeting.
Chairman authorised to exercise undirected proxies on remuneration related resolutions: Where I/we have appointed the Chairman of the Meeting as my/our proxy (or the Chairman becomes my/our proxy by default), I/we expressly authorise the Chairman to exercise my/our proxy on Item 1 (except where I/we have indicated a different voting intention in step 2) even though Item 1 is connected directly or indirectly with the remuneration of a member of key management personnel, which includes the Chairman.
Important Note: If the Chairman of the Meeting is (or becomes) your proxy you can direct the Chairman to vote for or against or abstain from voting on Item 1 by marking the appropriate box in step 2.

Step 2 Items of Business

PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

		For	Against	Abstain
1	Adoption of Remuneration Report	☐	☐	☐
2	Re-election of Director Mr Cadell Buss	☐	☐	☐
3	Approval of Grant of Security Pursuant to the Amended and Restated Loan Agreement	☐	☐	☐
4	Approval of Grant of New Conversion Rights Pursuant to the Amended and Restated Loan Agreement	☐	☐	☐
5	Approval of the Issue of Conversion Shares Pursuant to the Amended and Restated Loan Agreement	☐	☐	☐

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business. In exceptional circumstances, the Chairman of the Meeting may change his/her voting intention on any resolution, in which case an ASX announcement will be made.

Step 3 Signature of Securityholder(s)

This section must be completed.

Individual or Securityholder 1	Securityholder 2	Securityholder 3	
			/ /
Sole Director & Sole Company Secretary	Director	Director/Company Secretary	Date

Update your communication details *(Optional)*

Mobile Number _____

Email Address _____

By providing your email address, you consent to receive future Notice of Meeting & Proxy communications electronically

Computershare