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ATLAS
PEARLS

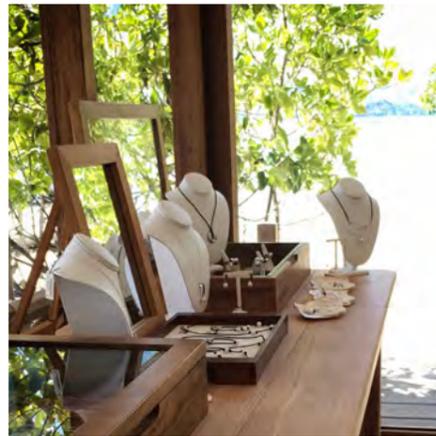
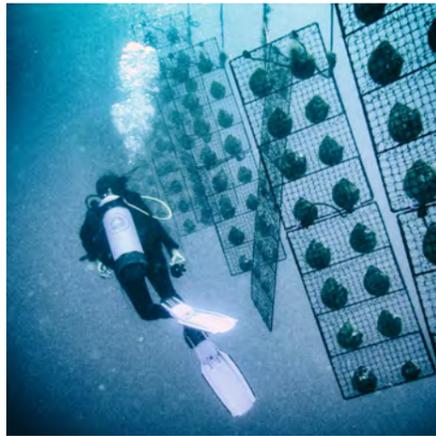
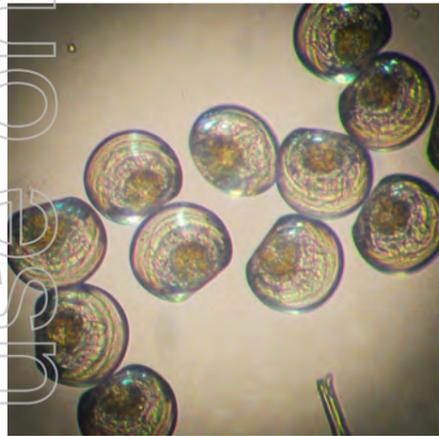


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Like each pearl, every woman is unique!

FIND THE
ONE...
AS UNIQUE
AS HER.

BEHIND THE SCENES



THE MANAGING DIRECTOR

Each pearl is unique, every year is special

It is always an interesting exercise to deliver an accurate and balanced 12-month snapshot of a 4 year-long pearling cycle. Each year brings both challenges and rewards, some driven by Mother Nature and others by our global economy. We have come a long way since 2014/15 but have not yet harvested all the fruits, and certainly the pearls, which have been seeded and nurtured to date.

Here are a few key team achievements I would like to share with you:

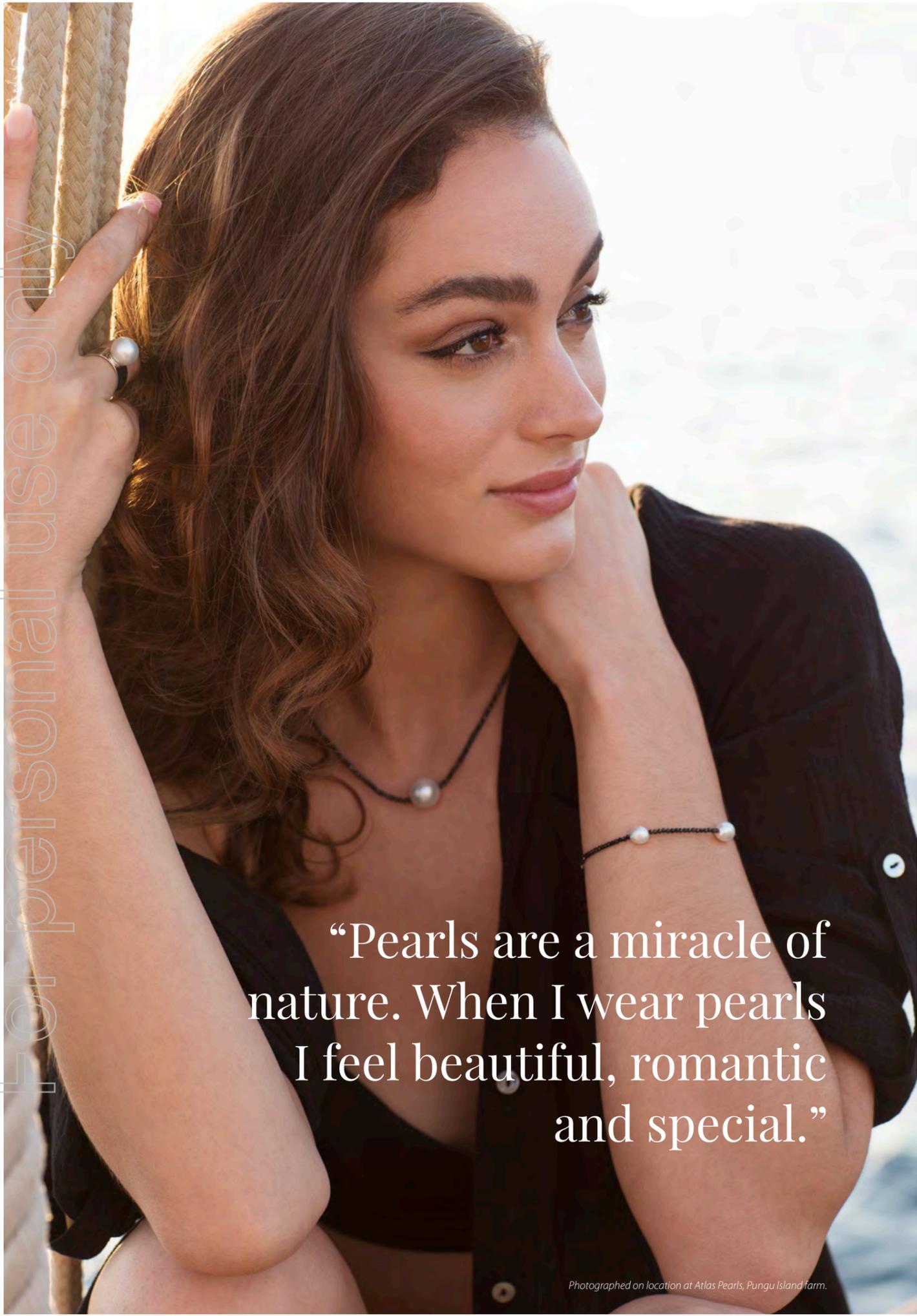
- A record number of oysters seeded due for harvest in 2018/19;
- A significant improvement in hatcheries and juvenile oysters survival;
- A sustained post-seeding nuclei retention rate;
- A promising quality improvement in pearl skin and lustre;
- A steep productivity increase in grading and value adding;
- On-going support from the communities surrounding our farms;
- A strong push in the appreciation of Indonesian pearls by the trade with the support of the Japanese, American and Indonesian pearl associations;
- A solid price recovery at the April and June Atlas private auctions in Kobe, Japan after 6 months of relatively soft prices backed up by an effective currency hedging strategy;
- An effective debt restructuring and tax management process;
- A broader connection with customers through a Channel 9 nationwide TV feature, also seen through Netflix, which showcased our farms in Bali and Flores (700,000 viewers, 141 countries, 14 languages);
- A step forward in pearl education with the launch of the "Pearl as One" program and Atlas' new video;
- A carefully crafted collaboration with the West Australian Ballet and partnership with the WA Opera;
- A successful launch of the Atlas Brand in Singapore and soon to come in Shanghai and Jakarta.

Sarah, Chihiro, Emma and Diah, our Ambassadors, have successfully spread the Atlas message and company values this year. They are our 'pearls' and together we go forward into the community to reveal our inner beauty, and to celebrate the magic of the Atlas South Sea pearl.

Going forward, Atlas will remain focussed on quality and productivity gains, whilst staying close to its customers. This ideal combination fostered by team communication, passion and dedication, will deliver the growth and profitability that will then lead to sustainability.

Once again thank you to the Atlas team, staff, clients and shareholders alike, for your continuous support and inspiration.

Pierre Fallourd
Managing Director



“Pearls are a miracle of nature. When I wear pearls I feel beautiful, romantic and special.”

Photographed on location at Atlas Pearls, Pungu Island farm.

SARAH TILLEKE

Model, Adventurer & Atlas Ambassador

Sarah encompasses the beauty of an Atlas South Sea pearl. As a model, Sarah is known for her versatility and demonstrates both classic and contemporary appeal.

Sarah was one of Atlas Pearls' first models and Ambassadors. Equally, for Sarah, Atlas was the first company to book the then 19-year-old for a campaign.

Now at 22, the international model is making a name for herself and not just as a "token beauty". Sarah is studying Communications and is also a keen adventurer.

Recently she was one of the last contestants remaining on the Australian Survivor TV show. Her ability to outwit, outsmart and play the strategic game saw her make it to the final eight.

Sarah is a wonderful Ambassador for Atlas and, like a pearl, demonstrates an inner glow and projects beauty from within.

*"Pearls are a miracle of nature.
When I wear pearls I feel beautiful, romantic and special."*

Sarah Tilleke

Did you know?

No two pearls are alike, just like every woman is unique & different. Every living pearl is a testimony to its journey.

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“I love Atlas Pearls,
they are so classic &
feminine. I love wearing
my Embraced earrings.”

Photographed at the West Australian Ballet's Maylands Centre

CHIIHIRO NOMURA

Ballet Dancer & Atlas social media Ambassador

Ballet dancer Chihiro Nomura is the perfect balance of grace and strength. She can be both a delicate beauty and a fierce athlete.

Chihiro was born and studied in Tokyo, Japan. She graduated from the Heinz Bost Stiftung Ballet Academy in Munich and has danced for the Norwegian National Ballet in roles including the Sugar Plum Fairy in the Nutcracker and Aurora in Sleeping Beauty.

Chihiro moved to Perth and joined West Australian Ballet (WAB) in 2015. Just this year she was promoted to principal.

Like an elite athlete, Chihiro is in constant training to achieve the fitness and technique demanded of her performances. The same dedication and commitment is required to create an Atlas pearl. Chihiro's inner shine is only enhanced by the Atlas pearls she wears and loves.

“I love Atlas Pearls because they are so classic and feminine and I love wearing my Embraced earrings. At a recent photo shoot with Atlas I was able to model a stunning strand of pearls, so I have been leaving hints with my partner.”

Chihiro Nomura

Did you know?

Pearls are the only living gem.

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“Pearls are the ultimate statement piece for any woman. Timeless & exquisitely beautiful.”

Photographed wearing the Atlas Pearls DIVA Collection, at His Majesty's Theatre, Perth

EMMA PETTEMERIDES

Opera Singer, New Mum & Atlas Ambassador

Emma Pettemerides was about 5 years old when she discovered Judy Garland and became obsessed with singing.

Emma's extraordinary gift led her to the respected West Australian Academy of Performing Arts. Emma began her career in London, but has returned to Australia and is now a soprano with West Australian Opera.

Emma finds great joy in the ability to move people through the power of music. She loves being a story-teller and being able to take people on a journey.

Her performance highlight to date is singing for the late Dame Joan Sutherland's 80th birthday in her presence.

And in another life highlight, Emma recently became a new mum to baby Archer.

Just like the journey of a pearl, each woman's journey is individual and unique.

“Pearls are the ultimate statement piece for any woman. Timeless and exquisitely beautiful, wearing pearls will always make you feel elegant. I love that each pearl is unique in colour, shine and shape and it also happens to be my birth stone.”

Emma Pettemerides

Did you know?

Over 3000 hands nurture the journey of an Atlas creation into yours. It takes up to four years to create this living gem.

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“I feel truly happy when I wear pearls. Pearls are natural and remind me of the ocean, where I feel at home.”

Photographed on location at Atlas Pearls, Pungu Island farm.

DIAH RAHAYU

Pro Surfer & Atlas Ambassador

As one of the few Indonesian female surfers on the pro-circuit, Diah has rightly been described as a “rare pearl”. Diah started surfing when she was 12.

She took up the sport with her father, and then quickly became addicted to surfing. Now at 23 years of age, Diah is a pro-surfer and sponsored by Rip Curl.

In the very competitive world of surfing, Diah demonstrates incredible drive, perseverance and strength. She is breaking new ground for many young female surfers and is an incredible role model for Indonesian women.

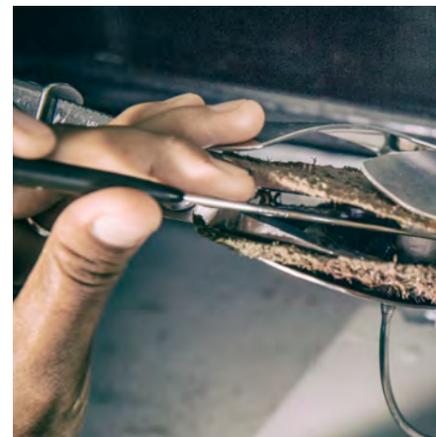
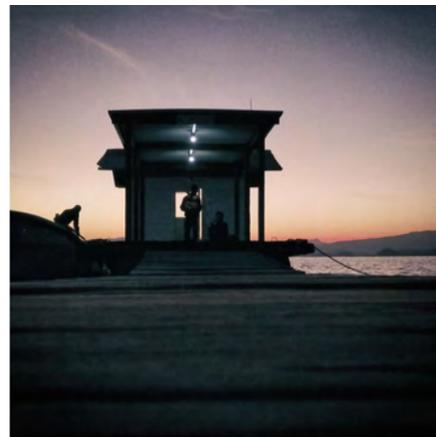
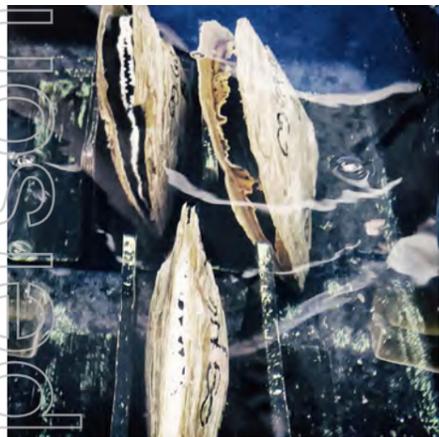
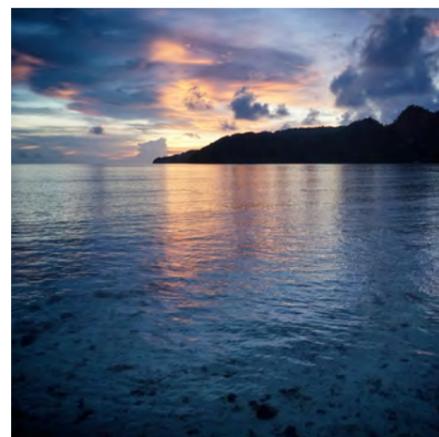
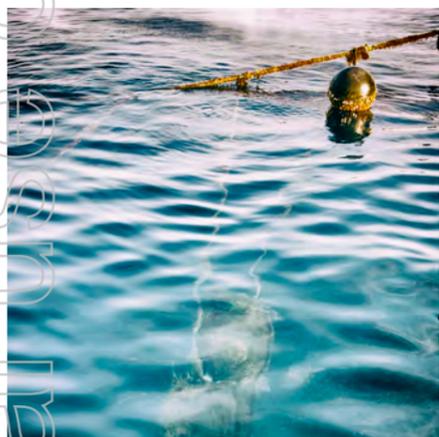
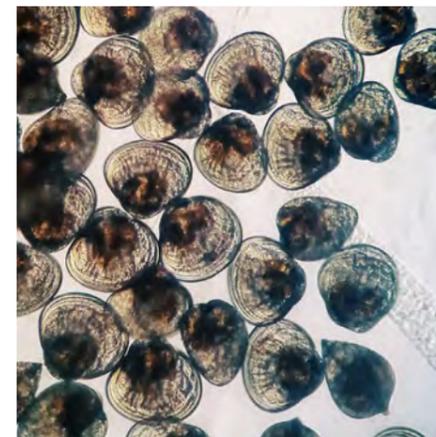
As a lover of the ocean, Diah is a perfect advocate for Atlas Pearls and the Ambassador of the Atlas Pearls “Surfed” Collection.

“I feel truly happy when I wear pearls. I wear pearls because they are natural. Pearls remind me of the ocean and that is where I feel at home.”

Diah Rahayu

Did you know?

To reach their maximum potential, South Sea pearls require the truly pristine environment of remote areas such as the Indonesian Archipelago. Each pearl reflects the very state of the water and the environment in which they are grown.



RESULTS FOR ANNOUNCEMENT TO THE MARKET

FOR THE YEAR ENDED 30 JUNE 2017

LETTER FROM

THE CHAIRMAN

	Compared to actual for previous 12 months ending 30 June 2016	12 months ending 30 June 2017 \$
Consolidated Financial Results		
Total revenue from ordinary activities	Down 11%	16,355,404
Profit from ordinary activities after tax attributable to the owners of Atlas Pearls and Perfumes Ltd	Down 7%	900,581
Net Profit attributable to the owners of Atlas Pearls and Perfumes Ltd	Down 73%	434,621
Dividends		
	Amount per security	Franked Amount per security
Dividend per ordinary share in respect of 30 June 2017 financial period	0.0 cents	0.0 cents
Commentary on results for the financial period Refer to the Annual Report attached.		
Consolidated Statement of Profit or Loss and Other Comprehensive Income Refer to the Annual Report attached.		
Consolidated Statement of Financial Position Refer to the Annual Report attached.		
Consolidated Statement of Change in Equity Refer to the Annual Report attached.		
Consolidated Statement of Cash Flow Refer to the Annual Report attached.		
Dividend It is not proposed to pay dividends		
	Year ended 30 June 2016 \$	Year ended 30 June 2017 \$
Net tangible assets per security		
NTA per ordinary share	6.1	6.2
Control gained or lost over entities during the financial year: No control gained or lost during the financial year.		
Other Information Refer to the Annual Report attached.		
Commentary on results for the period Refer to the Annual Report attached.		
Audit The accounts have been audited and an unqualified opinion has been issued		
Attachments The Annual Report of Atlas Pearls and Perfumes Limited for the year ended 30 June 2017 is attached.		

Dear Shareholder

2016/17 marked a year of consolidation for Atlas and the laying of the foundations for sustained growth.

Our sales revenue did not match the previous year due to softened market conditions between October 2016 and March 2017. Pleasingly, prices firmed during the latter part of the financial year to levels which would have allowed our performance to mirror 2015/16 had they been sustained across the full 12 months.

Importantly, we were able to continue our progress towards a material uplift in future revenues from our operational reforms evidenced by improved pearl quality, reduced mortality and a significant increase in the number of shells seeded.

On the capital structure front, the company has been fortunate in securing a \$3.5m term debt facility from its major shareholder to replace the prior existing bank short term debt facility. The loan, which has been approved by the shareholders, is repayable in a number of instalments through to June 2020. In addition, Atlas has also been successful in tapping the traditional bank lending market for an overdraft of \$1million to accommodate the historically slower cash flows in the first part of the year.

Reflecting the new certainty around our funding, we no longer have an "Emphasis of matter" paragraph relating to our going concern status in our Audit Report, which I'm sure will be welcomed by all shareholders.

Last year I wrote that, as we had listed our 50% interest in Essential Oils of Tasmania ("EOT") as an asset for sale at the end of the year and, as it had not sold, we were required to take a precautionary write down on the value of that investment. This year, I am pleased to report that the earnings outlook for this business has improved significantly. New trading revenue streams have been developed, new commercial arrangements instituted with growers and new products identified for further market development. Programs for selling cosmetic products based on pearl powder and proteins in North America are also continuing to evolve with a renewed effort scheduled for November 2017.

We are now confident that EOT will justify the investment the company made in it and it has the potential to grow into a significant source of diversified earnings for the company.

Finally, on behalf of my fellow directors, I want again to acknowledge the contribution of all our employees not only for the achievements of 2016/17 but for putting in place the human and financial resources to underwrite future improvements in performance.

The Board is convinced that the production expansion path we are now pursuing will ensure both stability and growth in our future earnings and I am looking forward to sharing with you the fruits of these initiatives in the coming years.



Geoff Newman
Chairman

CORPORATE DIRECTORY

FOR THE YEAR ENDED 30 JUNE 2017

DIRECTORS

Geoff **NEWMAN**
B.Ec (Hons), M.B.A, F.C.PA, F.A.I.C.D.

Timothy James **MARTIN**
BA., M.B.A, G.A.I.C.D.

Pierre **FALLOURD**
B.A, EXECUTIVE M.B.A., G.A.I.C.D.

COMPANY SECRETARIES

Susan **HUNTER**
BCom, ACA, F Fin, GAICD, AGIA

Trevor **HARRIS**
BCom, CPA, GDip Law_ACG, AGIA

REGISTERED OFFICE

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Claremont
Western Australia 6010

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Western Australia 6910

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Website: <http://www.atlaspearls.com.au>

E-mail: atlas@atlaspearls.com.au

AUDITORS

BDO Audit (WA) Pty Ltd
38 Station Street
Subiaco WA 6008

TAX ADVISERS

RSM Bird Cameron
8 St Georges Terrace
Perth WA 6000

BANKERS

National Australia Bank
100 St Georges Terrace
Perth
Western Australia 6000

SHARE REGISTRY

Computershare (WA) Pty Ltd
Level 11,
172 St George's Terrace
Perth
Western Australia 6000

HOME EXCHANGE

Australian Securities Exchange Ltd
Exchange Plaza
2 The Esplanade
Perth
Western Australia 6000

ASX Trading Code: ATP

SUMMARY OF KEY FISCAL INDICATORS 2016/17

FOR THE YEAR ENDED 30 JUNE 2017

	30 June 17 \$'000	30 June 16 \$'000
Revenue from continuing operation	16,355	18,434
Normalised earnings before interest, tax, depreciation and amortisation (Normalised EBITDA)	1,016	3,762
EBITDA margin	6.21%	20.4%
Depreciation and amortisation	(470)	(399)
Foreign exchange gains/(losses)	598	(750)
Revaluation and write-off of Agriculture Assets (oysters, pearls and crops) gains/(losses)	(206)	1,827
Other non-operating (costs)/benefits	(286)	(281)
Derivative instruments gains/(losses)	410	(268)
Impairment of joint venture loan	-	(816)
Earnings/(loss) before interest and tax (EBIT)	1,062	3,076
EBIT margin	6.5%	16.7%
Interest net (costs)/income	(257)	(288)
Tax benefit/(expense)	96	(1,819)
Net Profit/(Loss) after tax (NPAT)	901	968
Basic earnings/(loss) per share (cents)	0.21	0.23
Net Tangible Assets	26,443	25,162
Assets	34,178	34,808
Debt (Current & Non-current)	3,529	4,225
Shareholder funds	26,443	25,825
Debt/shareholder funds (%)	13%	16%
Number of shares on issue (million)	427.9	425.4

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

Your Directors present their report on the consolidated entity (referred to hereafter as the Company) consisting of Atlas Pearls and Perfumes Ltd and the entities it controlled at the end of, or during, the period ended 30 June 2017.

1. Directors'

The following persons were directors of Atlas Pearls and Perfumes Ltd during all or part of the financial period and up to the date of this report except where stated:

GEOFF NEWMAN
B.EC (HONS), M.B.A, F.C.PA, F.A.I.C.D.
(AGE - 66)

INDEPENDENT NON EXECUTIVE CHAIRMAN
(Chair of Audit and Risk Committee, Chair of Remuneration and Nomination Committee)

Mr Newman has over 26 years' experience in finance, marketing and general management roles in organisations either directly involved in the resources sector or providing services and products to businesses in that sector. In 1995, after managing Bunnings Pulpwood operations for a number of years, he joined Coogee Chemicals Pty Ltd as Commercial Manager and then was appointed to the Board as Finance Director in the following year. Until August 2005 he was Finance Director/CFO and Company Secretary of both Coogee Chemicals and its oil and gas subsidiary Coogee Resources Ltd before he retired from the Coogee group of companies at the end of June 2006.

Appointed Chairman on 16 February 2015

Director since 15 October 2010

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

TIMOTHY JAMES MARTIN
BA., M.B.A, G.A.I.C.D. (AGE - 45)

NON EXECUTIVE DIRECTOR
Audit and Risk Committee, Remuneration and Nomination Committee)

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

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

He was previously a director on the board of the Australian Plastics and Chemicals Industry Association (PACIA) for the past three years.

Appointed Director on 4 February 2013.

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

STEPHEN JOHN ARROW (AGE - 57)

INDEPENDENT NON EXECUTIVE DIRECTOR (Audit and Risk Committee)

Mr Arrow has been involved in the pearling industry in Western Australia and the Northern Territory since 1980 and is Managing Director and

owner of Arrow Pearl Co Pty Ltd. Mr Arrow previously served on the board of Atlas Pearls and Perfumes Ltd from 29 June 1999 until 28 May 2008. He was appointed again on 2 January 2014, and resigned his position on 22 September 2016.

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

PIERRE FALLOURD
B.A, EXECUTIVE M.B.A., G.A.I.C.D. (AGE - 43)

MANAGING DIRECTOR (CEO)

Mr Fallourd has over 15 years' experience in pearling and is highly recognised in the pearl and jewellery industry for his role in developing and marketing Golden Pearls globally. He is a specialist in managing the pearl value chain and maximising the use and value of each pearl harvested. Pierre is fundamental to Atlas' cradle to cradle strategy of extracting and maximising all aspects of the pearl and its by-products. Mr Fallourd joined the company in March 2013 as vice president pearling and has been CEO of Atlas since November 2014.

Appointed Managing Director 4 January 2016

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

2. Company Secretary

The role of Company Secretary for the financial year was shared by Mr Trevor Harris and Ms Susan Hunter.

TREVOR HARRIS
BCOM, CPA, GDIP COMP LAW_ACG, AGIA

Mr Harris joined Atlas on 31 August 2015 as Chief Financial Officer and was appointed joint Company Secretary 4 January 2016. Mr. Harris has over 20 years' experience in financial management in a wide variety of industry sectors. As well as being a qualified CPA accountant, he holds a postgraduate qualification in Commercial Law and is a Chartered Company Secretary. Mr. Harris has filled multi-disciplinary roles with companies such as Alcyone Resources Ltd, Shield Mining Ltd, Sphere Minerals Limited, BGC Australia and Toll Holdings.

Appointed 4 January 2016.

SUSAN HUNTER
BCOM, ACA, F FIN, GAICD, AGIA

Ms Hunter has 20 years' experience in the corporate finance industry. She is founder and Managing Director of consulting firm Hunter Corporate which specialises in the provision of corporate governance and company secretarial advice to ASX listed companies and has held senior executive roles at Ernst & Young and Pricewaterhouse Coopers in their Corporate Finance divisions and at Bankwest in their Strategy and Ventures division. She holds a Bachelor of Commerce, is a Member of the Australian Institute of Chartered Accountants, a Fellow of the Financial Services Institute of Australasia, a Graduate Member of the Australian Institute of Company Directors and a Member of the Governance Institute of Australia.

Appointed 19 December 2012.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

3. Directors' Meetings

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

Director	Period	Directors' Meetings		Audit and Risk Committee Meetings		Remuneration and Nomination Committee Meeting	
		Meetings Held Whilst in Office	Attended	Meetings Held Whilst in Office	Attended	Meetings Held Whilst in Office	Attended
G. Newman	01/07/16 - 30/06/17	4	4	1	1	1	1
T. Martin	01/07/16 - 30/06/17	4	4	1	1	1	1
S.J. Arrow ²	01/07/16 - 30/06/17	1	1	1	1	-	-
P. Fallourd	01/07/16 - 30/06/17	4	4	-	-	1	1

- On the 27 February the Board resolved that the full Board would act as the Audit and Risk Committee and Remuneration and Nomination Committee effective from that date.
- S.J. Arrow resigned on 22 September 2016

4. Principal Activities and Review of Operations

4.1 PRINCIPAL ACTIVITIES

Atlas Pearls and Perfumes is a Company that produces South Sea Pearls, with farming operations throughout Indonesia, and retail stores in Perth and Bali. The company also has a 50% interest in Essential Oils of Tasmania, a company providing essential oils, pearl shell by-products and perfumes to local and international markets.

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

4.2.1 SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Group during the financial year.

4.2.2 SHAREHOLDER RETURNS

	12 Months Ending 30 June 2017 \$'000	12 Months Ending 30 June 2016 \$'000	12 Months Ending 30 June 2015 \$'000
Net profit/(loss) after tax	901	968	(8,134)
Basic EPS (cents)	0.21	0.23	(2.40)
Dividends paid	Nil	Nil	Nil
Dividends (per share) (cents)	Nil	Nil	Nil

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

	12 Months Ending 30 June 2017 \$'000	12 Months Ending 30 June 2016 \$'000	12 Months Ending 30 June 2015 \$'000
Net profit/(loss) after tax	901	968	(8,134)
Tax expense/(benefit)	(96)	1,819	521
Interest net costs	257	288	398
Depreciation & amortisation	470	399	589
Foreign Exchange (gain)/loss	(598)	750	(792)
Agriculture Standard revaluation (gain)/loss/ pearl adjustments	206	(1,827)	6,697
Other Non-Operating (income)/ expense	286	281	(497)
Derivative Instrument (gain)/loss	(410)	268	(656)
Impairment of JV loan	-	816	149
Fair value (gain)/loss on EOT assets	-	-	245
(Gain)/Loss on sale of investment	-	-	245
Normalised EBITDA	1,016	3,762	(1,235)

4.2.3 FINANCIAL POSITION

	30 June 2017 \$'000	30 June 2016 \$'000	30 June 2015 \$'000
Total Assets	34,178	34,808	30,942
Debt (Current & Non-current)	(3,529)	(4,225)	(4,085)
Other Liabilities	(4,207)	(4,759)	(2,883)
Shareholder funds	26,443	25,825	23,974
Debt / Shareholder funds	13%	16%	17%
Number of shares on issue (million)	427.9	425.4	425.4
Net tangible assets per share (cents)	6.2	6.1	5.6
Share price at reporting date (cents)	2.6	3.2	4.4

There has been an increase in the net assets of the group of \$0.62M in the year ended 30 June 2017 (30 June 2016 - \$1.85M increase).

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

4.2.4 OPERATING RESULTS

Atlas recorded a net profit after tax for the period ended 30 June 2017 of \$0.9M, in line with the prior year result. (30 June 2016 – net profit after tax \$0.96M).

The operating revenue for the year ended 30 June 2017 was \$16.4M, compared to the year ended 30 June 2016 - \$18.4M. Pearl sales revenue was \$15.4M (30 June 2016 - \$16.0M), with retail and wholesale sales revenue of \$0.9M (30 June 2016 - \$1.9M).

While pearl quality has remained consistent, market conditions at a trading level became challenging early in this financial year, particularly for the company's high-end product, before a partial recovery at the company's April and June Auctions. These market conditions were also felt at a wholesale and retail level, however the company holds a more positive market outlook for 2017/18.

The subsequent reduction in revenues was partially off-set by effective, responsible cost controls. Farm operating costs remained in line with the prior year despite upward costs pressures in Indonesia generally, with cost of goods sold values reflect an increase in the number of pearls sold. Administration and Marketing expenses again remained consistent with the prior year on aggregate, and the combination of these cost performance efforts helped ensure the company remained profitable in 2016/17 despite tough market conditions.

From a Capital perspective, the company raised \$3.5M from its major shareholder during the year to drive the company's long term strategic plan and assist with the full repayment of the CBA debt (\$4M at 1 July 2016). The company has now concluded its relationship with the CBA and is moving forwards with the support of the National Australia Bank. (NAB)

4.2.5 REVIEW OF OPERATIONS

4.2.5.1 PEARLING

Following on from the efforts in 2015/16, improvements in operational processes at all levels of Oyster management remained a key focus during the year.

The return to normal water temperatures at the end of the El Nino season experienced in 2015/16 has allowed the full effects of hatchery evolution and juvenile husbandry to be understood, generating improved spat survival on sea deployment. Juvenile numbers have increased significantly when compared to June 2016, and the company expects to see the benefit of improved juvenile husbandry practices to build on the hatchery results and translate into increased virgin availability in the coming years.

In terms of seeding performance, the company has injected a significant number of quality virgin shells sourced from supportive Indonesian oyster producers, allowing the company to increase its seeding numbers in the current year while we wait for the oysters that are the product of the hatchery and juvenile reforms to move through the 2 year growth cycle prior to seeding.

The outcome of both improved juvenile survival and increased seeding number is significant increase in the company's biomass as at June 30 2017.

Project capital sourced in January 2017 was used to support the shell purchase program and provide the necessary infrastructure to host the growing number of Oysters that is the company's future revenue stream.

Overall harvest profiles remained in line with those experienced towards the end of 2015/16, however pearl quality is beginning to show the benefits of seeding and husbandry reforms and the company is optimistic that this will continue to evolve and result in a steady flow of high quality goods into the market.

4.2.5.2 PEARLING VALUE ADDED

Wholesale and retail pearl markets struggled in 2016/17, reflecting the market changes at a trading level as well as global economic factors impacting discretionary spending in western economies. The company's traditional pathways to non-trading markets performed poorly and showed only limited appetite for quality product, with most sales generated from mid-range goods at less than premium price points. As a result of these market conditions, more pearls were sold via trading avenues, realising value but returning lower margins.

Ongoing refinements in matching our jewellery design offering to international market demands, and value adding non-traditional product categories remains an opportunity in the sector and will be pursued in 2017/18.

The company is now well advanced in efforts to both re-open old markets in the USA and Middle East and evolve our wholesale offering by seeking partnerships with high end department stores and jewellery chains internationally. Private sales made available to VIP customers of aligned company's also remains an area expected to add value.

The company remains committed to a strong retail presence, with refined efforts to build the Atlas brand ongoing.

4.2.5.3 NATURAL EXTRACTS

Essential Oils of Tasmania (EOT) was retained in the Atlas portfolio last year as a 50% owned subsidiary, and has been subject to a material evolution. The appointment of a new CEO and the re-negotiation of the company's farming contracts has changed the business model to a more collaborative approach with the Tasmanian growers and is considered much more sustainable in the long term.

In a further sign on the company's evolution, EOT has begun a relationship with a USA based direct marketing company to develop a market pathway for Tasmanian oils separate from the company's traditional trading markets. This has resulted in significant sales of locally sourced Tasmanian native species Kunzea and Southern Rosalina Oil into US markets and has been instrumental in the company achieving record sales in 2016/17. Of the company's two major product lines, Peppermint pricing struggled, impacted by strong US seasonal production volumes, while traditional fennel markets remain strong.

A broadening of the EOT product offering and ongoing development of alternate market pathways remains the focus for 2017/18.

4.2.5.4 AUDIT OPINION

The financial report has been audited independently and received an unmodified opinion. Refer to page 56 for the Independent Auditors Report and Opinion.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

4.2.5.5 PERSONNEL

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

	2017	2016	2015
Expatriates – Indonesia	21	22	18
Indonesian nationals – permanent	476	422	430
Indonesian nationals – part time	544	444	435
Australia	19	19	22
Total Personnel	1,060	907	905

5. Dividends

No dividends were declared and paid by the Company during period ended 30 June 2017 (2016 – nil).

6. Events Since the End of the Financial Year

There have been no material events since the end of the financial year.

7. Likely Developments and Expected Result of Operations

The company expects to continue to refine its pearling operations towards industry best practice. The long term strategic plan will continue to drive a growth agenda and both JV and diversification strategies will be assessed in 2017/18.

Pearl volumes to the market will be approximately the same as 2016/17 while the increased bio-mass generated in the current year matures. Financial performance will be quality and market dependant.

Efforts to evolve the operations in Tasmania will continue.

8. Directors' Interests

The relevant interest of each current Director in the share capital of the Company, as notified by the Directors to the Australian Stock Exchange in accordance with S205G (1) of the *Corporations Act 2001*, at the date of this report, are detailed in Section 13.5.6 of the Remuneration Report.

9. Options

During the year end 30 June 2015 5,500,000 unlisted options were issued to certain employees of Atlas Pearls and Perfumes Ltd, pursuant to the Atlas Pearls and Perfumes Ltd Employee Option Plan. These options are exercisable at \$0.059, on or before 31 December 2018, subject to the following vesting conditions;

- achieving a minimum A\$2.75m average normalised EBITDA for the 3 years ended 30 June 2018,
- and that the employee remains directly engaged as an employee of Atlas Pearls and Perfumes Ltd until 30 June 2018.

There were no listed or unlisted options issued during the year ended 30 June 2017.

10. Indemnification and Insurance of Directors and Officers

10.1 INDEMNIFICATION

The Company has agreed to indemnify the following current directors of the Company; Mr G Newman, Mr T Martin, and Mr P Fallourd and the following former directors; Mr S Arrow, Mr S Birkbeck, Dr J Taylor, Mr S Adams, Mr RP Poernomo, Mr G Snow, Mr R Wright and Mr I Murchison, against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors of the Company, except where the liability arises out of conduct which involves negligence, default, breach of duty or a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

10.2 INSURANCE PREMIUMS

Since the end of the previous financial year the Company has paid insurance premiums of \$32,500 (2016 - \$22,110) in respect of directors' and officers' liability and legal expenses insurance contracts, for current and former Directors and Officers.

11. Non-Audit Services

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

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

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

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

	30 June 2017	30 June 2016
AUDIT SERVICES	\$	\$
BDO Australian Firm:		
Audit and review of financial reports	94,349	86,000
BDO Indonesian Firm:		
Audit and review of financial reports	35,704	17,011
Total remuneration for audit services	130,053	103,011
OTHER SERVICES	18,544	40,000
Total remuneration for other services	18,544	40,000

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

12. Proceedings on Behalf of the Company

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

13. Remuneration Report (Audited)

The directors are pleased to present your Company's 2017 remuneration report which sets out remuneration information for Atlas Pearls and Perfumes Ltd's non-executive directors, executive directors and other key management personnel.

NAME	POSITION
<i>Non-executive and executive directors</i>	
G. Newman	Independent Non-Executive Chairman
T. Martin	Non-Executive Director
S. Arrow	Independent Non-Executive Director (until 22 September 2016)
P. Fallourd	Managing Director
<i>Other key management personnel</i>	
M. Longhurst	Chief Operations Officer Pt Cendana Indopearl
T. Harris	Chief Financial Officer

Changes since the end of the reporting period

There have been no changes to the remuneration of key management personnel after 30 June 2017.

13.1 REMUNERATION GOVERNANCE**13.1.1 ROLE OF THE REMUNERATION AND NOMINATION COMMITTEE**

The remuneration and nomination committee is a committee of the board. It is primarily responsible for making recommendations to the board on:

- Non-executive director fees
- Remuneration levels of executive directors and other key management personnel
- The over-arching executive remuneration framework and operation of the incentive plan, and
- Key performance indicators and performance hurdles for the executive team.

Their objective is to ensure that remuneration policies and structures are fair and competitive and aligned with the long-term interest of the company.

Assessing performance and claw-back of remuneration

The remuneration committee is responsible for assessing performance against KPIs and determining the STI and LTI to be paid. To assist in this assessment, the committee receives detailed reports on performance from management which are based on independently verifiable data such as financial measures, market share and data from independently run surveys.

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

13.1.2 NON-EXECUTIVE DIRECTOR REMUNERATION POLICY

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

The Non-Executive Directors' aggregate annual remuneration may not exceed \$350,000 which is periodically recommended for approval by shareholders. This limit was approved by shareholders at the Annual General Meeting on 30th May 2007. In the period ending 30 June 2017, the total non-executive directors' fees including retirement benefit contributions were \$139,404.

The following fees have applied:

- Base fees for Non-Executive Directors - \$50,000 per annum
- The Independent Non-Executive Chairman's fee is \$78,000 per annum
- The Managing Directors base package is \$240,900, with an additional \$21,900 per annum including Superannuation payable for directors' duties.

13.1.3 EXECUTIVE REMUNERATION POLICY AND FRAMEWORK

In determining executive remuneration, the board aims to ensure that remuneration practices are:

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

The executive remuneration framework has three components;

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

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

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

There were no short or medium term cash incentives provided to any executives of the company during the last financial period except where noted in section 13 of this report. Short or medium cash incentives are

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

13.1.3 EXECUTIVE REMUNERATION POLICY AND FRAMEWORK (CONTINUED...)

incorporated into some executives' salary packages at the time of this report. The framework provides a mix of fixed and variable pay with short and medium term incentives. As executives gain seniority with the group, the balance of this mix shifts to a higher proportion of 'at risk' rewards.

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

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

Use of remuneration consultants

During the financial year ended 30 June 2017 the Company did not engage any remuneration consultants.

Voting and comments made that the Company's 2016 Annual General Meeting.

Atlas Pearls and Perfumes Ltd received more than 98% of "yes" votes on its remuneration report for the 2016 financial year. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration.

Relationship between Key Management Personnel Remuneration and Performance.

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

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

13. Remuneration Report (Audited) (continued...)

13.2 DETAILS OF REMUNERATION

The following tables show details of the remuneration received by the directors and the key management personnel of the Group for the current and previous financial period.

Name		Short term benefits				Total cash salary, fees and short term benefits	Post-employment benefits	Long term benefits	Share based compensation		Total
		Cash salary & fees	Salary Sacrifice for shares	Short term incentive cash bonus	Non-cash monetary benefit				Bonus Shares	Options	
		\$	\$	\$	\$	\$	\$	\$	\$	\$	
Directors (Non-Executive)											
G. Newman ^{3,4}	2017	78,000	-	-	-	78,000	-	-	-	78,000	
	2016	78,000	-	-	-	78,000	-	-	-	78,000	
T. Martin ⁴	2017	50,114	-	-	-	50,114	-	-	-	50,114	
	2016	50,114	-	-	-	50,114	-	-	-	50,114	
S. Arrow ^{4,6}	2017	11,290	-	-	-	11,290	-	-	-	11,290	
	2016	50,000	-	-	-	50,000	-	-	-	50,000	
Directors (Executive)											
P. Fallourd ^{4,5,7,8,9}	2017	240,000	-	-	-	240,000	22,800	-	-	273,725	
	2016	219,712	9,615	48,000	-	277,327	21,786	-	-	328,012	
Total	2017	379,404	-	-	-	379,404	22,800	-	-	413,129	
Total	2016	397,826	9,615	48,000	-	455,441	21,786	-	-	506,126	
Other Key Management Personnel											
R. Satchell ^{1,4,8,9}	2017	-	-	-	-	-	-	-	-	-	
	2016	191,570	12,205	-	18,490	222,265	-	-	(24,764)	197,501	
D. Brandenburg ^{2,4,8,9}	2017	-	-	-	-	-	-	-	-	-	
	2016	61,379	-	-	-	61,379	5,831	-	(19,983)	47,227	
T. Harris ^{2,9}	2017	185,693	-	-	-	185,693	17,641	-	8,194	211,528	
	2016	159,567	-	30,000	-	189,567	15,159	-	8,216	212,942	
M. Longhurst ^{1,5,8,9}	2017	206,608	-	-	22,500	229,108	-	-	5,463	234,571	
	2016	169,004	-	30,000	20,432	219,436	-	-	14,783	234,219	
Total	2017	392,301	-	-	22,500	414,801	17,641	-	13,657	446,099	
Total	2016	581,520	12,205	60,000	38,922	692,647	20,990	-	(21,748)	691,889	
Grand Total 2017	2017	771,705	-	-	22,500	794,205	40,441	-	24,582	859,228	
Grand Total 2016	2016	979,346	21,820	108,000	38,922	1,148,088	42,779	-	7,151	1,198,015	

Notes:

- Mr R Satchell was appointed as Chief Operations Officer on the 23 January 2015. Mr Satchell resigned 20 April 2016. Mr M Longhurst took over as Chief Operations Officer following Mr Satchell's resignation.
- D Brandenburg was appointed Chief Financial Officer on 1 July 2014. D Brandenburg resigned 30 August 2015. T Harris was appointed Chief Financial Officer on 31 August 2015.
- Mr G Newman was appointed 15 October 2010 as Non-Executive Director. Mr G Newman was appointed as Non-Executive Chairman on 16 February 2015.
- A number of key management took part in the 2016 and 2015 salary sacrifice schemes. In 2015, Mr P Fallourd \$9,615 and R Satchell \$12,205 participated in the salary sacrifice scheme which finished on 25 December 2015. In 2015, Mr P Fallourd, Ms D Brandenburg and Mr R Satchell all participated in the salary sacrifice scheme. Mr G Newman, Mr T Martin, and Mr S Arrow salary sacrificed all director fees from 1 November 2014 to 30 June 2015. Fees accrued under the plan as at 30 June 2016 for the directors were: G Newman \$32,233; Mr T Martin \$23,333; Mr S Arrow \$23,333 and Dr J Taylor \$7,393.
- Non-Monetary benefits of other key management personnel included accommodation allowances, school fees and medical expenses, as per individual employment contracts.
- Mr S Arrow appointed as Non-Executive Director on 2 January 2014. Mr S Arrow resigned 22 September 2016.
- Mr P Fallourd appointed as Vice President of Pearling on 1 May 2014. Mr P Fallourd was appointed as Chief Executive Officer on 26 November 2015. Mr P. Fallourd was appointed Managing Director on 4 January 2016.
- Option benefit related expenses recognised in June 2015 year end have been reversed in 2016 for all those employees who have left the employment of the company during the year and are no longer eligible for to realise these options.
- Share based remuneration related to Options, relates to options issued in prior periods, being recognised over the respective vesting period.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

13.2 DETAILS OF REMUNERATION (CONTINUED...)

13.2.1 DETAILS OF REMUNERATION – PERFORMANCE ANALYSIS

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

	30 June 2017	30 June 2016
Name	% Performance	% Performance
P Fallourd	3.99%	23.44%
T Harris	3.87%	17.95%
M Longhurst	2.33%	19.12%

13.2.2 RELATIONSHIP BETWEEN REMUNERATION AND ATLAS PERFORMANCE

The following table shows performance indicators as prescribed by the Corporations Act 2001 over the past 5 reporting periods:

	12 months 2017	12 months 2016	12 months 2015	12 months 2014	6 months 2013
Profit/(loss) for the year / period	900,581	968,103	(8,134,049)	1,813,922	(2,194,645)
Basic earnings per share	0.21	0.23	(2.4)	0.61	(0.81)
Dividend payments	-	-	-	-	-
Increase / (decrease) in share price	(19%)	(27%)	(48%)	53%	(25%)
Total KMP incentives as a percentage profit/loss %	3%	12%	-0.8%	4.4%	0.0%

13.3 SERVICE AGREEMENTS

On appointment to the board, all non-executive directors enter into a service agreement with the Company. Remuneration and other terms of employment for the Chief Executive Officer, Chief Financial Officer, Chief Operations Officer and other key management personnel are also formalised in service agreements.

Details of key management personnel contracts are set out below:

13.3.1 MR PIERRE FALLOURD

(MANAGING DIRECTOR – APPOINTED 4 JANUARY 2016.
CEO – APPOINTED 26 NOVEMBER 2014)

- Base salary for the 2017 financial period of \$240,900 per annum inclusive of superannuation, reviewed annually.
- Directors fees of \$21,900 per annum including superannuation, payable from appointment (4 Jan 2016).
- Short-term incentive plan based on % of Normalised EBITDA for 2016/17, where Normalised EBITDA is greater than \$3.8m. The bonus is inclusive of taxes and super. No bonus has been accrued as payable for 16/17.
- Termination conditions - either party may terminate the contract of employment by giving three months' notice or a lesser amount as mutually agreed.

13.3.2 MR TREVOR HARRIS

(CHIEF FINANCIAL OFFICER – APPOINTED 31 AUGUST 2015)

- Base salary for the 2017 financial period of \$190,000 per annum inclusive of superannuation
- At 1 January 2017, Base salary was adjusted to \$200,000 per annum inclusive of superannuation.

- Short-term incentive plan based on % of Normalised EBITDA for 2016/17, where Normalised EBITDA is greater than \$3.8m. The bonus is inclusive of taxes and super. No bonus has been accrued as payable for 16/17.
- Termination conditions - either party may terminate the contract of employment by giving three months' notice or a lesser amount as mutually agreed.

13.3.3 MR MARK LONGHURST

(CHIEF OPERATING OFFICER – APPOINTED 1 MARCH 2016)

- Base salary for the 2017 financial period of \$200,000 per annum inclusive of superannuation.
- Non-Financial allowances related to living in Indonesia are also included, to a maximum allowance of \$22,500 annually.
- Short-term incentive plan based on % of Normalised EBITDA for 2016/17, where Normalised EBITDA is greater than \$3.8m. The bonus is inclusive of taxes and super. No bonus has been accrued as payable for 16/17.
- Termination conditions - either party may terminate the contract of employment by giving six months' notice or a lesser amount as mutually agreed.

13.3.4 OTHER NON - EXECUTIVES (STANDARD CONTRACTS)

- Contract terminates on retirement.
- The Company may terminate the executive's employment agreement by providing two months' written notice or providing payment in lieu of the notice period.
- Not entitled to any special termination payments under these contracts.

13.4 ADDITIONAL INFORMATION OF THE REMUNERATION REPORT

13.4.1 LOANS TO DIRECTORS AND EXECUTIVES

The Company has obtained a new debt financing package of \$3.5m from Tim Martin (Non-Executive Director) and the Martin Family (related party) during the June 2017 financial year. The Loan is repayable in staged payments to be completed by 30 June 2020. An interest charge of 7.5% is payable quarterly on the loan balance. The Martin Family facility is currently not secured but it is the intention of the Company to provide a second priority charge to the lenders on the company's assets. The provision of this security is dependent on approval by the shareholders.

As at 30 June 2017, interest accrued and payable on Loans from related parties is \$1,233 (30 June 2016 – nil)

13.4.2 OPTIONS

- Performance options were issued to directors and key management personnel during the financial period end 30 June 2015. The options were issued at nil cost to employees and will respectively expire on 31 December 2018. The options are exercisable based on the completion of KPIs specific to each individual.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

13. Remuneration Report (Audited) (continued...)

13.4 ADDITIONAL INFORMATION OF THE REMUNERATION REPORT (CONTINUED...)

13.4.3 OTHER KEY MANAGEMENT PERSONNEL TRANSACTIONS

- During the year end, pearl sales of \$34,936 were made to Arrow Pearl Pty Ltd, of which Stephen Arrow (former non-executive director) is a director. There was a balance of \$nil receivable at year end (30 June 2016 - \$7,455).
- As at 30 June 2017, Director Fees of \$8,236 are payable (30 June 2016 - \$78,900).

13.5 SHARE BASED PAYMENTS COMPENSATION

13.5.1 EMPLOYEE SALARY SACRIFICE SHARE PLAN

There was no salary sacrifice scheme undertaken for the year ended 30 June 2017. The details below relate to the issuing of shares to directors and key management personnel in the past 12 months under the Employee Salary Sacrifice Share Plan, for salary sacrificed during the year ended 30 June 2016 and year ended 30 June 2015. Please refer to Note 18 in the financial statements for details of the Atlas Employee Salary Sacrifice Share Plan.

Name	Date of Entrance	Entitlement No. of Shares	No. of Shares to be Issued	Date of Issue	Shares Forfeited in the year	Financial Year in which shares vested	Nature of shares	Share issue price	Total Value Salary Sacrificed
Pierre Fallourd	17/11/14	213,667	213,667	28/11/16	0%	2016 – 100%	Ordinary Shares	\$0.045	\$9,615
Pierre Fallourd	17/11/14	341,889	341,889	28/11/16	0%	2015 – 100%	Ordinary Shares	\$0.045	\$15,385

13.5.2 NON-EXECUTIVE DIRECTOR FEE SACRIFICE SHARE PLAN

Please refer to Note 18 in the financial statements for details.

13.5.3 The details relating to the allocation of shares to directors and key management personnel under the Non-Executive Director Fee Salary Sacrifice Share Plan are as follows:

Name	Date of Entrance	Entitlement No. of Shares	No. of Shares Issued	Date of Issue	Shares Vested to end of 2017	Shares Forfeited in the year	Financial Year in which shares vested	Nature of shares	Share issue price	Total Value Salary Sacrificed
Joseph Taylor	1/11/14	164,289	164,289	28/11/16	100%	0%	2016 – 100%	Ordinary Shares	\$0.045	7,393
Geoff Newman	1/11/14	716,289	716,289	28/11/16	100%	0%	2016 – 100%	Ordinary Shares	\$0.045	32,233
Tim Martin	1/11/14	518,512	518,512	28/11/16	100%	0%	2016 – 100%	Ordinary Shares	\$0.045	23,333
Stephen Arrow	1/11/14	518,512	518,512	28/11/16	100%	0%	2016 – 100%	Ordinary Shares	\$0.045	23,333

Notes – These shares were issued under the NED plan described above directly to the NEDs, for past services rendered.

13.5.4 The details relating to the allocation of performance options to directors and key management personnel under the Atlas Pearls and Perfumes Ltd Employee Option Plan are as follows:

Name	Date of Grant	Entitlement No. of Options	Vesting Date	Expiry Date	Shares Forfeited in the year	Financial Year in which shares vest	Nature of shares	Value Per Options at 30 June 17	Value Per Options at 30 June 16	Option Exercise Price
Pierre Fallourd ¹	30/06/15	2,000,000	30/6/18	31/12/18	0%	2018	Ordinary Shares	\$21,880	\$10,955	\$0.059
Trevor Harris ¹	30/06/15	1,500,000	30/6/18	31/12/18	0%	2018	Ordinary Shares	\$16,410	\$8,216	\$0.059
Mark Longhurst ¹	30/06/15	1,000,000	30/6/18	31/12/18	0%	2018	Ordinary Shares	\$10,940	\$5,478	\$0.059

1. These unlisted options were approved by the Board of Directors on 29 May 2015

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

13.5 SHARE BASED PAYMENTS COMPENSATION (CONTINUED...)

13.5.5 The details relating to the equity instruments held by key management personnel are as follows:

- a.) Equity instrument disclosures relating to key management personnel
- Options and rights granted as compensation. There were no options issued to key management personnel as remuneration during the year ended 30 June 2017.
 - Option holdings. There are 4,500,000 options on issue to Key Management personal at 30 June 2016. None were issued during the year ended 30 June 2017.

b.) Shareholdings

The number of shares in the company held during the financial period by each director of the company and the other key management personnel of the Group, including their personally related parties, are set out below.

Details of shares that were granted as compensation during the reporting period are provided at note 18 and in the Remuneration Report contained at section 13 of the Directors' Report.

13.5.6 The details relating to the equity instruments held by key management personnel are as follows:

	Balance 01/07/16	Granted as Compensation ⁽⁴⁾	Options Exercised	Other Changes ⁽²⁾	Balance 30/06/17
Parent Entity Directors					
Mr G. Newman	1,847,154	716,289	-	-	2,563,443
Mr T. Martin ⁽¹⁾	107,585,667	518,512	-	222,371	108,326,550
Mr S. Arrow ⁽³⁾	13,809,707	518,512	-	-	14,328,219
Mr P. Fallourd	3,311,206	555,556	-	-	3,866,762
Other Key Management Personnel					
Mr T. Harris	-	-	-	-	-
Mr M. Longhurst	-	-	-	-	-
	126,553,734	2,308,869	-	222,371	129,084,974

Notes –

- 4,997,428 shares are directly held by Mr T Martin. The balance of 103,329,122 shares, are related party share holdings.
- Other changes refer to shares purchased or sold during the financial period. Removal of balance on resignation of Director/KMP or balance held at appointment of Director/KMP.
- Mr. S Arrow resigned on 22 September 2016. At this date, 518,512 were owing to him in lieu of fees salary sacrificed. These shares were issued in November 2016 post approval at the Annual General Meeting.
- Share issued as compensation to the Directors were in lieu of fees salary sacrificed.

The details relating to the equity instruments held by key management personnel are as follows:

- c.) Option holding
The number of options over ordinary shares in the parent entity held during the twelve months ended 30 June 2017 by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance 01/07/16	Granted	Exercised	Expired/forfeited/other ⁽¹⁾	Balance 30/06/17
Parent Entity Directors					
Mr G. Newman	-	-	-	-	-
Mr T. Martin	-	-	-	-	-
Mr S. Arrow	-	-	-	-	-
Mr P. Fallourd	2,000,000	-	-	-	2,000,000
Other Key Management Personnel					
Mr T. Harris	1,500,000	-	-	-	1,500,000
Mr M. Longhurst	1,000,000	-	-	-	1,000,000
	4,500,000	-	-	-	4,500,000

Notes –

- Other changes refer to shares purchased or sold during the financial period. Removal of balance on resignation of Director/KMP or balance held at appointment of Director/KMP.

This is the end of the Audited Remuneration Report.

14. Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 27.

Signed in accordance with a resolution of the Directors.



Geoffrey Newman
Chairman
28 August 2017

AUDITOR'S INDEPENDANCE DECLARATION

FOR THE YEAR ENDED 30 JUNE 2017



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DECLARATION OF INDEPENDENCE BY GLYN O'BRIEN TO THE DIRECTORS OF ATLAS PEARLS AND PERFUMES LTD

As lead auditor of Atlas Pearls and Perfumes Ltd for the year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

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

Glyn O'Brien
Director

BDO Audit (WA) Pty Ltd
Perth, 28 August 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017 \$	2016 \$
Revenue from continuing operations	1	16,355,404	18,434,855
Cost of goods sold		(8,938,039)	(8,152,468)
Gross profit		7,417,365	10,282,387
Other income	1	1,800,532	1,324,354
Marketing expenses		(484,778)	(234,896)
Administration expenses	2	(6,144,142)	(6,270,373)
Finance costs	2	(462,683)	(414,270)
Change in fair value less husbandry costs of oysters		57,074	1,992,520
Write-off of pearl and jewellery costs		(263,441)	(165,036)
Other expenses	2	(931,695)	(3,618,346)
Share of equity accounted investment		(183,744)	(109,195)
Profit/(Loss) before income tax		804,487	2,787,145
Income tax (charge)/benefit current year	9	96,094	(1,819,042)
Profit/(Loss) after income tax for the period from continuing operations		900,581	968,103
Other comprehensive income/(losses)			
Items that will not be reclassified as profit or loss:			
Revaluation of land and buildings		179,179	-
Items that will be reclassified as profit or loss:			
Exchange differences on translation of foreign operations		(645,139)	617,216
Other comprehensive income/(losses) for the period, net of tax		(465,960)	617,216
Total comprehensive income/(losses) for the period		434,621	1,585,319
Profit/(loss) is attributable to:			
Owners of the Company		900,581	968,103
Total comprehensive income/(losses) is attributable to: Owners of the Company		434,621	1,585,319
Overall operations:			
Earnings per share for profit/(loss) from continuing operations attributable to the ordinary equity holders of the Company			
Basic earnings profit/(loss) per share (cents)	12	0.21	0.23
Diluted earnings per share (cents)	12	0.21	0.23

The above Consolidated Statement of Profit or Loss and OCI should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 30 JUNE 2017

		2017 \$	2016 \$
Current assets	Note		
Cash and cash equivalents	5	2,184,968	4,343,407
Trade and other receivables	8	856,382	726,993
Derivative financial instruments	11	156,639	-
Inventories	4	1,508,465	2,949,908
Biological assets	3	8,728,104	5,331,477
Total current assets		13,434,558	13,351,785
Non-current assets			
Intangibles		-	161,969
Loans joint venture entities	20	1,226,871	1,016,456
Investments accounted for using Equity Method	21	-	183,744
Inventories	4	108,901	199,393
Biological assets	3	10,471,069	12,118,179
Property, plant and equipment	14	5,298,579	4,740,815
Deferred tax assets	9	3,638,436	3,035,807
Total non-current assets		20,743,856	21,456,363
Total assets		34,178,414	34,808,148
Current liabilities			
Trade and other payables	7	2,612,940	2,528,685
Borrowings	10	278,722	4,191,016
Derivative financial instruments	11	-	253,324
Current tax liabilities	9	260,538	661,111
Total current liabilities		3,152,200	7,634,136
Non-current liabilities			
Borrowings	10	3,250,000	33,553
Deferred tax liabilities	9	1,316,458	1,315,815
Provisions		17,030	-
Total non-current liabilities		4,583,488	1,349,368
Total liabilities		7,735,688	8,983,504
Net assets		26,442,726	25,824,644
Equity			
Contributed equity	16	36,857,415	36,698,536
Reserves	17	(8,841,856)	(8,400,478)
(Accumulated losses)		(1,572,833)	(2,473,414)
Total equity		26,442,726	25,824,644

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2017

	Note	Attributable to owners of Atlas Pearls and Perfumes Ltd					Total equity
		Contributed equity	Revaluation Reserve	Share based payment reserve	Foreign currency translation reserve	(Accumulated loss)	
		\$	\$	\$	\$	\$	\$
Balance at 1 July 2015		36,465,656	-	682,341	(9,732,299)	(3,441,517)	23,974,181
Profit for the year		-	-	-	-	968,103	968,103
Exchange differences on translation of foreign operations	17	-	-	-	617,216	-	617,216
Total comprehensive income for the period		-	-	-	617,216	968,103	1,585,319
Transactions with owners in their capacity as owner							
Contributions of equity, net of transaction costs	16	232,880	-	-	-	-	232,880
Employee share scheme	17	-	-	32,264	-	-	32,264
Balance at 30 June 2016		36,698,536	-	714,605	(9,115,083)	(2,473,414)	25,824,644
Balances at 1 July 2016		36,698,536	-	714,605	(9,115,083)	(2,473,414)	25,824,644
Profit for the year		-	-	-	-	900,581	900,581
Exchange differences on translation of foreign operations	17	-	-	-	(645,139)	-	(645,139)
Revaluation of property, plant and equipment	17	-	179,179	-	-	-	179,179
Total comprehensive income for the period		-	179,179	-	(645,139)	900,581	434,621
Transactions with owners in their capacity as owners							
Contributions of equity, net of transaction costs	16	158,879	-	-	-	-	158,879
Employee share scheme	17	-	-	24,582	-	-	24,582
Balance at 30 June 2017		36,857,415	179,179	739,187	(9,760,222)	(1,572,833)	26,442,726

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017 \$	2016 \$
Cash flows from operating activities			
Proceeds from pearl, jewellery and oyster sales		15,875,707	17,646,039
Proceeds from other operating activities		402,952	396,504
Interest paid		(310,669)	(332,676)
Interest received		8,183	12,062
Payments to suppliers and employees		(15,529,227)	(14,681,056)
R&D tax credit cash received		-	339,826
Income tax (paid)		(517,023)	(893,471)
Net cash (used) in operating activities	5	(70,077)	2,487,228
Cash flows from investing activities			
Payments for property, plant and equipment		(1,307,180)	(451,502)
Joint venture partnership contributions (paid)		(221,748)	(170,196)
Net cash (used) in investing activities		(1,528,928)	(621,698)
Cash flows from financing activities			
Net repayment of borrowings		(3,990,904)	(222,297)
Proceeds from borrowings		3,500,000	-
Net cash (used) in financing activities		(490,904)	(222,297)
Net increase/(decrease) in cash and cash equivalents		(2,089,909)	1,643,233
Cash and cash equivalents at the beginning of the period		4,343,407	2,632,311
Effects of exchange rate changes on cash and cash equivalents		(68,530)	67,863
Cash and cash equivalents at the end of the financial year	5	2,184,968	4,343,407

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

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

1. Revenue from continuing operations and other income

1.1 REVENUE FROM CONTINUING OPERATIONS

	2017 \$	2016 \$
Sales Revenue		
Sale of goods	16,301,591	18,042,174
Other Revenue		
Interest income	53,813	57,335
Other revenues	-	335,346
Total revenue from continuing operations	16,355,404	18,434,855

1.2 OTHER INCOME

	2017 \$	2016 \$
Foreign exchange gains	1,331,955	943,012
Grant funds	58,614	41,516
Research and development tax offset	-	339,826
Gain on derivative financial instruments	409,963	-
Total other income	1,800,532	1,324,354

SIGNIFICANT ACCOUNTING POLICY

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

- Sales Revenue comprises of revenue earned from the sale of products or services to entities outside the economic entity. Sales revenue is recognised when the goods are provided or when the fee in respect of services provided is receivable.
- Interest Income is recognised as it accrues.

2. Profit/(Loss) before income tax Includes the Following Specific Items

2.1 ADMINISTRATION EXPENSES FROM ORDINARY ACTIVITIES

	2017 \$	2016 \$
Salaries and wages	3,530,469	3,699,586
Depreciation property, plant and equipment and amortisation of intangible assets	470,030	398,575
Operating lease rental costs	522,288	504,894
Compliance and Accounting	474,951	556,026
Other	1,146,404	1,111,292
Total administration expenses	6,144,142	6,270,373

2.2 OTHER EXPENSES

	2017 \$	2016 \$
Loss on foreign exchange	733,814	1,693,104
Loss on derivative financial instruments	-	267,570
Impairment of other receivables	-	315,158
Provision for employee entitlements	116,760	413,824
Impairment of Joint venture loan Essential Oils of Tasmania	-	816,028
Share option expense	24,582	32,265
Other	56,539	80,397
Total other expenses	931,695	3,618,346

2.3 FINANCE COSTS

	2017 \$	2016 \$
Interest and finance charges payable	462,683	414,270
Total finance costs	462,683	414,270

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

3. Biological Assets

	2017	2016
CURRENT		
Oysters – at fair value	8,728,104	5,331,477
	8,728,104	5,331,477
NON CURRENT		
Oysters – at fair value	10,471,069	12,118,179
	10,471,069	12,118,179
Total Biological Assets	19,199,173	17,449,656

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

Nature: Oysters (*Pinctada maxima*)

	2017 No.	2016 No.
Quantity held within the Group operations: -		
Juvenile and mature oysters which are not seeded	1,035,169	638,977
Nucleated oysters	950,588	764,864
	1,985,757	1,403,841

During the year ended 30 June 2017, the Group harvested 374,046 (2016: 351,557) pearls. No significant events occurred which impacted on oyster mortalities during the financial year.

SIGNIFICANT ACCOUNTING POLICY

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

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

The Group is exposed to financial risk in respect of its involvement in primary production which consists of the breeding and rearing of oysters for the purpose of producing pearls. The primary financial risk associated with this activity occurs due to the length of time between the expenditure of cash in relation to the operation of the farm and the harvesting of the pearls and realisation of cash receipts from the sales to third parties. The Group ensures that it maintains sufficient working capital to ensure that it can sustain its operation through any delays in cash flow that may be reasonably foreseen.

Level 3 analysis: The finance and operations departments undertake the valuation of the oysters. The calculations are considered to be level 3 fair values. The data is taken from internal management reporting and work completed by the executive within the respective field teams to determine the material inputs to the model. The key production inputs are confirmed with the relevant executives and agreed with the Board of Directors every six months. These are listed in below:

3.1 KEY PRODUCTION ASSUMPTIONS

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

Input	2017	2016	Commentary
Average selling price	¥12,300 per momme	¥13,000 per momme	Obtained by analysing sales prices achieved and the trend analysis of the past 12 months of average sales prices.
Yen Exchange rate	¥86.15: AUD 1	¥76.93: AUD 1	Based on forward Yen price per a financial institution.
Average Pearl size	0.49	0.49	Based on technical assessment of expected harvest output, and taking into account historical actual results over the past 12 months
Proportion of Marketable grade	48%	50%	Based on historical data for pearl grade over the last 12 months
Discount rate	20%	20%	Based on analysis of comparable primary producers.
Mortality	Historical	Historical	Based on historical harvest mortality rates
Average unseeded oyster value	\$1.50	\$1.61	Based on independent valuation
Costs to complete	\$0.76	\$0.80	Based on historical averages of costs to complete and sell pearls per momme.

3.2 SENSITIVITY ANALYSIS - OYSTERS

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

Discount rate	Selling Price (¥/momme)		
	-10% ¥11,182 (Sellable Grade) ¥1,451 (Commercial Grade)	No Change ¥12,300 (Sellable Grade) ¥1,596 (Commercial Grade)	+10% ¥13,530 (Sellable Grade) ¥1,756 (Commercial Grade)
	Profit \$	Profit \$	Profit \$
22%	(\$2,375,103)	\$94,757	\$2,811,603
20%	(\$2,418,057)	-	\$2,779,722
18.18%	(\$2,458,679)	\$21,427	\$2,749,543

FX rate	Selling Price (¥/momme)		
	-10% ¥11,182 (Sellable Grade) ¥1,451 (Commercial Grade)	No Change ¥12,300 (Sellable Grade) ¥1,596 (Commercial Grade)	+10% ¥13,530 (Sellable Grade) ¥1,756 (Commercial Grade)
	Profit \$	Profit \$	Profit \$
¥94.77	(\$4,710,638)	(\$2,464,763)	\$5,699
¥86.15	(\$2,418,057)	-	\$2,779,722
¥78.32	\$113,860	\$2,842,184	\$5,843,342

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

3.2 SENSITIVITY ANALYSIS - OYSTERS (CONTINUED...)

Av. Weight	Marketable Grade		
	-10% 44% (Sellable Grade) 56% (Commercial Grade)	No Change 48% (Sellable Grade) 52 (Commercial Grade)	+10% 53% (Sellable Grade) 47% (Commercial Grade)
	Profit \$	Profit \$	Profit \$
0.54	\$651,402	\$2,768,855	\$5,098,054
0.49	(\$1,867,882)	-	\$2,174,529
0.45	(\$4,158,140)	(\$2,408,179)	(\$483,221)

4. Inventories

	2017 \$	2016 \$
CURRENT		
Pearls	495,532	1,411,216
Jewellery	939,062	1,306,538
Jewellery obsolescence provision	-	(100,000)
Other inventory	73,871	332,154
	1,508,465	2,949,908
NON CURRENT		
Nuclei	108,901	199,393
	108,901	199,393
Total Inventory	1,617,366	3,149,301

SIGNIFICANT ACCOUNTING POLICY

Pearls: Pearl inventory is held at cost and value assessed based on the cost of oyster stock at time of harvest. At each reporting date, pearl inventory is reviewed to ensure it is valued at the lower of cost and net realisable value. At 30 June 2017, a write off of pearl stocks of \$263,441 has been recorded (30 June 2016- \$165,036) to bring the value in line with the assessed net realisable value.

Nuclei: Quantities on hand at the period end are valued at the lower of cost and net realisable value.

Other: Including jewellery, cosmetics, fuel, mechanical parts and farm spares at the period end are valued at the lower of cost and net realisable value.

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

5. Cash and Cash Equivalents

	2017 \$	2016 \$
Cash at bank	2,184,968	4,343,407
Balances per statement of cash-flows	2,184,968	4,343,407

Risk exposure

The Group's exposure to interest rate risk is disclosed in note 6. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of cash and cash equivalents mentioned above.

Cash not available for use

The Group has cash held as a guarantee as part of their obligations under their lease agreement totalling \$100,000 (2016: \$100,000).

5.1 NOTES TO THE CASH FLOW STATEMENT

5.1.1 RECONCILIATION OF CASH

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

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

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

	2017 \$	2016 \$
Profit/(loss) after income tax	900,581	968,103
Depreciation and amortisation	470,030	398,575
(Gains)/Losses on Equity Investments	183,744	321,657
Investment income	(57,896)	(331,872)
Share based payments	24,582	32,265
Foreign exchange (gain)/losses unrealised	(16,644)	750,093
Impairment of JV loan	-	718,724
Derivative instrument (gains)/losses unrealised	(409,963)	267,570
Agricultural asset fair value (gains)/losses and inventory write-offs	206,367	(1,827,484)
Decrease/(increase) in trade and other debtors	(130,366)	(164,971)
Decrease/(increase) in inventories	(340,220)	(813,412)
(Decrease)/Increase in trade and other creditors	53,223	460,260
Increase/(Decrease) in Provision	50,042	590,314
Increase/(decrease) in taxes	(1,003,557)	1,117,406
Net cash obtained/(used in) operating activities	(70,077)	2,487,228

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

5.1.3 CREDIT FACILITIES

As at 30 June 2017, the Company had in place a bank overdraft loan facility with the National Australia Bank with a limit of \$1,000,000. As at 30 June 2016, the Company had a \$4,000,000 facility in place with the Commonwealth Bank of Australia. This facility was repaid in full during the year end 30 June 2017 and all debt facilities with the Commonwealth Bank of Australia have now been closed. See note 6 for further disclosure on current banking and debt facility arrangements. Information about the security relating to secured liabilities and the fair value is also provided in note 6.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

6. Financial Risk Management

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

The Group holds the following financial instruments:

	2017 \$	2016 \$
FINANCIAL ASSETS		
Cash and cash equivalents	2,184,968	4,343,407
Trade and other receivables	326,396	287,642
Derivative financial instruments	156,639	-
	2,668,003	4,631,049
FINANCIAL LIABILITIES		
Trade and other payables	525,009	976,754
Borrowings	3,528,722	4,224,569
Derivative financial instruments	-	253,324
	4,053,731	5,454,647

6.1 MARKET RISK

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Japanese Yen, Indonesian Rupiah, US Dollar and Euro.

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

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

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

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

6. Financial Risk Management (continued...)

GROUP SENSITIVITY ANALYSIS

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

	Statement of Financial Position Amount AUD		Foreign Exchange Rate Risk							
			30 June 2017				30 June 2016			
			-10%		10%		-10%		10%	
			Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
	2017	2016								
FINANCIAL ASSETS										
Cash	2,184,968	4,343,407	5,249	-	(4,294)	-	71,190	-	(58,247)	-
Trade and other receivables	326,396	287,642	20,650	-	(16,895)	-	7,164	-	(5,861)	-
Derivatives	156,639	-	17,404	-	(14,240)	-	-	-	-	-
FINANCIAL LIABILITIES										
Trade and other payables	525,009	976,754	(4,091)	-	3,347	-	(5,333)	-	4,363	-
Borrowings	3,528,722	4,224,569	-	-	-	-	(217,226)	-	177,731	-
Derivatives	-	253,324	-	-	-	-	(28,147)	-	23,030	-
Total Increase/(Decrease)			39,212	-	(32,082)	-	(172,352)	-	141,016	-

In prior years the majority of the exposure in the Company related to the borrowings held in Yen. As at 30 June 17 all Yen borrowings have been settled. Current borrowings are all held in AUD.

Not shown in the table above, is the exposure to exchange movements on the intercompany loans made to the Indonesian subsidiaries. The loans are held in IDR and revalued to AUD at each year end. At 30 June 2017 this loan stood at AUD\$2,463,005. The intercompany loans are eliminated on consolidation.

(ii) Cash flow and fair value interest rate risk

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

(iii) Price risk

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

6.2 CREDIT RISK

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

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised on page 35. For retail customers without credit rating the Group generally retains title over the goods sold until payment is received in full.

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

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

6. Financial Risk Management (continued...)

6.2 CREDIT RISK (CONTINUED...)

TRADE RECEIVABLES	2017 \$	2016 \$
Retail customers – no credit history	-	-
Wholesale customers – existing customers with no defaults in the past	348,437	243,821
Total trade receivables	305,348	243,821
Derivative financial assets	156,639	-

6.3 LIQUIDITY RISK

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Group management aims at maintaining flexibility in funding by keeping committed credit lines available. Surplus funds are generally only invested in instruments such as term deposits that are highly liquid. Management monitors rolling forecasts of the Group's liquidity reserve (comprising the undrawn borrowing facilities below) and cash and cash equivalents (Note 5) on the basis of expected cash flows. This is generally carried out by the Senior Management and the Board of Directors on a Group basis. In addition, the Group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these and monitoring debt financing plans.

6.4 FINANCING ARRANGEMENTS

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

	2017 \$	2016 \$
FIXED RATE		
Foreign currency loan trade (CBA)	-	4,000,000
Overdraft facility (NAB)	1,000,000	-
	1,000,000	4,000,000

During the year ended 30 June 2017 the Company's debt position has been restructured. As at 30 June 2016, the Company had a \$4,000,000 facility in place with the Commonwealth Bank of Australia (CBA). This was fully drawn down at this date and due for repayment by 30 June 2017. This loan facility was secured by a registered company charge by CBA over the whole of the assets and undertaking including uncalled capital of Atlas Pearls and Perfumes Ltd and its related entities except for the shares and assets of Essential Oils of Tasmania Pty Ltd and World Senses Pty Ltd.

- The CBA loan was fully repaid by 30 June 2017 and the security position has been discharged.

- The Company secured a new debt financing package of \$3,500,000 from Mr. Tim Martin (Non-Executive Director) and the Martin Family, a related party. \$1.5m of this facility was drawn down in January 2017, with a further \$2m secured in June 17. The loan is repayable over a 3 year period at a 7.5% interest rate, in staged repayments to be completed by 30 June 2020.

- Subject to shareholder approval, the loan agreement with the Martin Family will contain a convertibility provision. The outstanding debt and interest will only be convertible into ordinary shares in the event the Company defaults on its repayment terms as noted above, with convertibility being at the lender's option. In that event, the conversion price will be at a 15% discount to 30 day VWAP, with a minimum conversion price of 1.5c

- In addition to the financing package noted above, the Company has agreed a new facility with the National Australia Bank (NAB). The NAB has taken over from CBA as the Company's transactional banker and provided a \$1,000,000 working capital overdraft facility. The overdraft facility will be secured by a registered company charge over the Company's Assets. As at 30 June 2017, no amount has been drawn down on this facility.

- The Martin facility is currently not secured, but it is the intention of the Company to seek approval from the shareholders for a General Security Deed in relation to the debt, that will rank as a second priority charge over the Company's assets, behind the NAB facility. A General Meeting has been called for September 2017 to attend to this matter.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

6.5 MATURITIES OF FINANCIAL LIABILITIES AND DERIVATIVE FINANCIAL INSTRUMENTS

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

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

CONSOLIDATED ENTITY	30 June 2017						30 June 2016					
	Less than 6 Months	6-12 months	Between 1 & 2 years	Between 2 & 5 years	Total contractual cash flows	Carrying amount (asset)/ Liabilities	Less than 6 Month	6-12 months	Between 1 & 2 years	Between 2 & 5 years	Total contractual cash flows	Carrying amount (asset)/ Liabilities
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
NON-DERIVATIVES												
Trade payables	525,009	-	-	-	525,009	525,009	973,995	-	-	-	973,995	973,995
Borrowings	22,057	256,665	1,500,000	1,750,000	3,528,722	3,528,722	55,061	4,135,955	33,553	-	4,224,569	4,224,569
TOTAL NON-DERIVATIVES	547,066	256,665	1,500,000	1,750,000	4,053,731	4,053,731	1,029,056	4,135,955	33,553	-	5,198,564	5,198,564
DERIVATIVES												
Net settled (Non deliverable forwards)	156,639	-	-	-	156,639	156,639	(99,368)	(153,957)	-	-	(253,325)	(253,325)
Gross settled												
-(inflow)	3,300,000	-	-	-	3,300,000	3,300,000	3,000,000	7,500,000	-	-	10,500,000	10,500,000
-(outflow)	(3,143,361)	-	-	-	(3,143,361)	(3,143,361)	(3,099,368)	(7,653,957)	-	-		
TOTAL DERIVATIVES	156,639	-	-	-	156,639	156,639	(99,368)	(153,957)	-	-	(253,325)	(253,325)

(a) Fair value hierarchy

AASB 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2), and
- inputs for the asset/liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the group's financial assets and financial liabilities measured and recognised at fair value at 30 June 2017 and 30 June 2016 on a recurring basis:

30 JUNE 2017	LEVEL 1 \$	LEVEL 2 \$	LEVEL 3 \$	TOTAL \$
Assets				
Forward foreign exchange contracts	-	156,639	-	-
Total Assets	-	156,639	-	-
Liabilities				
Total Liabilities	-	-	-	-

30 JUNE 2016	LEVEL 1 \$	LEVEL 2 \$	LEVEL 3 \$	TOTAL \$
Assets	-	-	-	-
Total Assets	-	-	-	-
Liabilities				
Forward foreign exchange contracts	-	(253,325)	-	(253,325)
Total Liabilities	-	(253,325)	-	(253,325)

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

6. Financial Risk Management (continued...)

6.5 MATURITIES OF FINANCIAL LIABILITIES AND DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED...)

(b.) Valuation techniques used to derive level 2 and level 3 fair values

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities. As at 30 June 2017 there are no level 3 related instruments in place.

(i) Transfers between levels 2 and 3 and changes in valuation techniques

There were no transfers between the levels of the fair value hierarchy in the period ended 30 June 2017. There were also no changes made to any of the valuation techniques applied as of 30 June 2016.

(c.) Fair values of other financial instruments

The group also has a number of financial instruments which are not measured at fair value in the statement of financial position. These had the following fair values as at 30 June 2017:

	2017 \$ Carrying amount	2017 \$ Fair value	2016 \$ Carrying amount	2016 \$ Fair value
NON-CURRENT BORROWINGS				
Debt Financing	3,250,000	3,250,000	-	-
Other bank loan	-	-	33,553	33,553
	3,250,000	3,250,000	33,553	33,553

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

7. Trade and Other Payables

	2017 \$	2016 \$
CURRENT		
Trade payables	520,963	325,930
ESSP accrual	-	160,147
Other payables and accrued expenses	2,091,977	2,042,608
Total trade and other payables	2,612,940	2,528,685

Other payables include accruals for annual leave and employee benefits of \$1,647,565, and \$1,614,554 in the consolidated entity for 30 June 2017 and 30 June 2016 respectively. The entire obligation is presented as current, since the Group does not have an unconditional right to defer settlement.

SIGNIFICANT ACCOUNTING POLICY

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

8. Trade and Other Receivables

	2017 \$	2016 \$
CURRENT		
Trade receivables	349,331	245,218
Provision for impairment	(43,090)	-
Net trade receivables	306,241	245,218
Sundry debtors & prepayments	550,141	481,775
Total trade & other receivables	856,382	726,993

(a.) Impaired trade receivables

At 30 June 2017, an impairment of \$43,090 has been booked in relation to trade receivables. This relates to debts owing from two wholesale customers that are past due by more than 3 months and which management have deemed are at risk of not being collected. Management are actively pursuing recovery of the debt.

(b.) Past due but not impaired

As at 30 June 2017, trade receivables of \$52,726 (2016: \$134,491) were past due but not impaired in the Group. Within the Group these relate to a small number of independent customers for whom there is no recent history of default. Given the past history with these customers no impairment has been recognised in the financial period. The ageing analysis of these trade receivables is as follows:

	2017 \$	2016 \$
Up to one month	53,546	74,795
2-3 months	3,180	37,536
3 months and above	-	22,160
	56,726	134,491

(c.) Risk exposure

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. Refer to note 6 for more information on the risk management policy of the Group and the credit quality of the entity's trade receivables.

SIGNIFICANT ACCOUNTING POLICY

Trade receivables are recognised at fair value less provision for impairment. All trade receivables are generally due for settlement within 30-60 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account – provision for impairment of trade receivables, is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Significant financial difficulties of the debtor, financial reorganisation, and default and delinquency in payments, more than 30 days overdue, are considered indicators that the trade receivable is impaired. The Group also considers the long-term history of the debtor. The amount of the impairment allowance is the difference between the assets carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the statement of profit or loss and other comprehensive income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of profit or loss and other comprehensive income.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

9. Tax

9.1 INCOME TAX EXPENSE

	2017 \$	2016 \$
(a.) The components of tax expense/(benefit) comprise:		
Current tax	505,893	569,759
Deferred tax	(601,986)	642,838
Prior period under provision	-	606,445
	(96,094)	1,819,042

(b.) Deferred income tax (revenue) expense included in income tax expense comprises:

Decrease/(increase) in deferred tax assets (excluding tax losses) (note 9.2)	(602,629)	299,807
(Decrease)/increase in deferred tax liabilities (note 9.2)	643	343,031
	(601,986)	642,838

(c.) Numerical reconciliation of income tax expense to prima facie tax payable:

Profit/(loss) before income tax expense	804,487	2,787,145
Tax at the Australian tax rate of 30%	241,346	836,143
Tax effect of amounts which are not deductible in calculating taxable income:		
Non-deductible expenses	66,750	285,375
Sundry items	22,322	(169,467)
Difference in overseas tax rates	(93,566)	(111,159)
Research and development tax offset	-	371,705
De-recognition of assets	400,840	-
Income tax under(over) provided in prior years	(699,454)	606,445
Income tax expense/(benefit)	(96,094)	1,819,042
Weighted average effective tax rates	-12%	65%

(d.) Deferred income tax at 30 June relates to the following:

Deferred tax liabilities		
Fair value adjustment on biological assets	14,270	498,131
Prepayments	189	474
Derivative financial instruments	(1,120)	(80,271)
Investment in subsidiary	(11,302)	(76,697)
Unrealised foreign exchange gain	(1,394)	1,394

Deferred tax assets		
Difference in accounting and tax depreciation	(7,934)	(1,498)
Stock	24,935	(451,340)
Accruals	(18,884)	17,151
Provisions	(37,265)	(138,966)
Foreign exchange losses	1,286,879	(145,758)
Other	(15,036)	(31,100)
Tax losses	(275,111)	117,523
Investment	(285,669)	299,716
Intangible Asset	(69,287)	34,465
Deferred tax (income)	603,271	43,224

For details of the franking account, refer to Note 13.

9.2 TAX ASSETS AND LIABILITIES

	2017 \$	2016 \$
(a.) Liabilities		
CURRENT		
Income tax payable	260,538	661,111

NON-CURRENT		
Deferred tax liabilities comprises temporary differences attributable to -		
Agricultural and biological assets at fair value	1,268,744	1,254,475
Prepayments	718	529
Investment in subsidiary	-	11,302
Current derivative instruments	46,996	48,111
Unrealised foreign exchange gains	-	1,398
Total deferred tax liabilities	1,316,458	1,315,815

(b.) Assets

Deferred tax assets comprises temporary differences attributable to -		
Tax allowances relating to property, plant & equipment	25,432	33,366
Agricultural and biological assets at fair value	69,731	44,796
Accruals	20,250	39,134
Provisions	396,717	433,982
Intangible asset	-	69,287
Impairment of loans	303,219	588,888
Other	47,150	62,184
	862,499	1,271,637
Tax losses recognised	2,775,937	1,764,170
Total deferred tax assets	3,638,436	3,035,807

The Company believes that the deferred tax asset relating to tax losses recognised is available to be carried forward based upon the Company's projections of future taxable amounts.

(c.) Reconciliations

The overall movement in deferred tax account is as follows:		
Opening balance	1,719,996	2,362,384
(Charge)/credit to statement of profit or loss and other comprehensive income	603,271	43,224
Other movements	(1,285)	(685,611)
Closing balance	2,321,982	1,719,996

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

9. Tax (continued...)

SIGNIFICANT ACCOUNTING POLICY

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

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax is credited in the consolidated statement of profit or loss and other comprehensive income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

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

Deferred tax liabilities and assets are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

10. Borrowings

	2017 \$	2016 \$
CURRENT		
Bank loan	-	4,075,722
Other loans	278,722	110,122
Lease liabilities	-	5,172
Total current borrowings	278,722	4,191,016
NON CURRENT		
Other loans	3,250,000	33,553
Total non-current borrowings	3,250,000	33,553
Total borrowings	3,528,722	4,224,569

Refer to Note 6.4 for disclosures on financing arrangements currently in place.

SIGNIFICANT ACCOUNTING POLICY

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

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

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

11. Derivative Financial Instruments

	2017 \$	2016 \$
Derivative financial assets		
Forward foreign exchange contracts	156,639	-
Derivative financial liabilities		
Forward foreign exchange contracts	-	253,324

SIGNIFICANT ACCOUNTING POLICY

Derivative instruments are initially measured at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The Group is party to derivative financial instruments in the normal course of business in order to hedge a proportion of the exposure to fluctuations in foreign exchange rates in accordance with the Groups financial risk policies (refer note 6).

Derivative financial assets and liabilities comprise forward exchange contracts. Gains and losses arising from changes in fair value of foreign exchange hedging contracts are recognised in the statement of profit or loss and other comprehensive income in the period in which they arise.

The Groups operating expenses mainly consist of materials and services purchased in Indonesian Rupiah. During the period ended 30 June 2017 the Group did not enter into any forward exchange contracts to purchase Indonesian Rupiah. The sale of pearls is denominated in Japanese Yen and so the Group has entered into forward exchange contracts and options to sell Japanese Yen and receive Australian Dollars.

12. Earnings Profit / (Loss) per share

	2017 \$	2016 \$
Basic earnings/(loss) per share (cents per share)	0.21	0.23
Diluted earnings per share (cents per share)	0.21	0.23

12.1 EARNINGS RECONCILIATION

Net profit/(loss) used for basic earnings	900,581	968,103
After tax effect of dilutive securities	-	-
Diluted earnings/(loss)	900,581	968,103
Weighted average number of ordinary shares outstanding during the period used for calculation of basic earnings per share	421,525,077	415,837,428
Adjustments for calculation of diluted earnings per share: options	5,500,000	5,500,000
Weighted average number of potential ordinary shares outstanding during the period used for calculation of diluted earnings per share	427,025,077	421,337,428

Diluted earnings per share is calculated after taking into consideration all options and any other securities that were on issue that remain unconverted at 30 June 2017 as potential ordinary shares which may have a dilutive effect on the profit of the Consolidated Group.

Ordinary shares issued to employees under the Employee Share Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent that they are dilutive.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

12. Earnings Profit / (Loss) per share (continued...)

SIGNIFICANT ACCOUNTING POLICY

Basic earnings per share

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial period, adjusted for bonus elements in ordinary shares issued during the period. Refer to Note 12.1 for further detail.

Diluted earnings per share

Diluted earnings per share adjusts the figure used in determination of basic earnings per share to take into account the after income tax effect of interest and other financial costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares. Refer to Note 12.1 for further detail.

13. Dividends

	2017 \$	2016 \$
Dividend Franking Account		
Franking credits available to shareholders of the Company for subsequent financial years based on a tax rate of 30%	1,278,704	1,278,704

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

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

SIGNIFICANT ACCOUNTING POLICY

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

No dividends have been paid or declared in respect of the 2017 financial year or the period ended 30 June 2016.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

14. Property, plant and equipment

	2017 \$	2016 \$
(a) Non-Pearling Assets		
Plant and equipment		
- at cost	1,137,838	1,120,324
- accumulated depreciation	(782,898)	(662,406)
	354,940	457,918
Leasehold improvements		
- at cost	1,045,347	1,062,714
- accumulated depreciation	(586,044)	(518,820)
	459,303	543,894
Total non-pearling assets	814,243	1,001,812
(b) Pearling project		
Land (leasehold and freehold) and buildings		
- at cost	2,861,215	1,679,552
- accumulated depreciation	(391,702)	(352,219)
	2,469,513	1,327,333
Plant and equipment, vessels, vehicles		
- at cost	6,361,985	6,421,575
- accumulated depreciation	(4,347,162)	(4,009,905)
	2,014,823	2,411,670
Total pearling project	4,484,336	3,739,003
Total property, plant and equipment	5,298,579	4,740,815

Included in Pearling project land (leasehold and freehold) and buildings is \$1,519,873 (2016 - \$466,488) which represents construction of buildings in progress at cost.

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

	2017 \$	2016 \$
(a.) Non-Pearling Assets		
Plant and equipment		
Carrying amount at the beginning of the year	457,918	584,276
Additions	21,518	18,550
Reclassifications/Disposals	-	-
Depreciation	(107,936)	(145,541)
Foreign exchange movement	(16,560)	633
Carrying amount at the end of the year	354,940	457,918
Leasehold Improvements		
Carrying amount at the beginning of the year	543,894	612,288
Additions	-	-
Foreign exchange movements	(8,525)	8,714
Reclassifications/Disposals	-	-
Depreciation	(76,066)	(77,108)
Carrying amount at the end of the year	459,303	543,894
(b.) Pearling project		
Leasehold land and buildings		
Carrying amount at beginning of the year	1,327,333	1,107,622
Additions	1,073,500	138,311
Revaluation of freehold land	179,179	-
Disposals/reclassifications	-	87,082
Depreciation	(54,376)	(52,805)
Foreign exchange movement	(56,123)	47,123
Carrying amount at end of the year	2,469,513	1,327,333
Plant and equipment, vessels, vehicles		
Carrying amount at beginning of the year	2,411,670	2,169,100
Additions	212,164	294,642
Disposals / reclassifications	-	257,788
Depreciation	(506,807)	(500,897)
Depreciation write offs	-	99,231
Foreign exchange movement	(102,204)	91,806
Carrying amount at end of the year	2,014,823	2,411,670
Total Carrying amount	5,298,579	4,740,815

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

	2017 \$	2016 \$
Depreciation charge (Note 14)	(745,185)	(776,350)
Capitalised depreciation charge	437,124	492,347
Depreciation of PPE	(308,061)	(284,003)
Depreciation of PPE	(308,061)	(284,004)
Amortisation of Intangible Asset	(161,969)	(114,571)
Depreciation charge (Note 2)	(470,030)	(398,575)

SIGNIFICANT ACCOUNTING POLICY

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

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

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

15. Segment reporting

The Group has identified its operating segments based on internal reports that are reviewed and used by the board of Directors and management team (the chief operating decision makers) in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the manner in which the product is sold, whether retail or wholesale. Management also considers the business from a geographical perspective and has identified four reportable segments. Discrete financial information about each of these operating businesses is reported to the board of Directors and management team on at least a monthly basis.

The wholesale business is a producer and supplier of pearls within the wholesale market. The retail business is the manufacture and sale of pearl jewellery and related products within the retail market.

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

Inter-entity sales

Inter-entity sales are recognised based on an internally set transfer price. These transactions are eliminated within the internal reports. The revenue from external parties reported to the chief operating decision maker is measured in a manner consistent with that in the statement of profit or loss and other comprehensive income.

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

(a.) Segment information provided to the Board of Directors and management team

(i) The segment information provided to the Board of Directors and management team for the reportable segments for the period ended 30 June 2017 is as follows:

30 June 2017	Wholesale Australia \$	Loose Pearl Indonesia \$	Jewellery Australia \$	Indonesia \$	Total \$
Total segment revenue	15,343,728	12,141,560	370,470	351,104	28,206,862
Inter-segment revenue	-	(11,905,271)	-	-	(11,905,271)
Revenue from external customers	15,343,728	236,289	370,470	351,104	16,301,591
Normalised EBITDA	(288,056)	1,843,201	(394,221)	(145,670)	1,015,254
Adjusted net operating profit/ (loss) before income tax	(938,190)	1,719,381	(433,026)	(161,670)	186,495
Depreciation and amortisation	309,420	106,455	38,125	16,030	470,030
Revaluation of Biological Assets	-	57,074	-	-	57,074
Totals segment assets	3,267,839	24,722,448	450,387	871,896	29,312,571
Total assets include:					
Additions to non – current assets (other than financial assets or deferred tax)	-	1,464,843	3,109	18,409	1,486,361
Total segment liabilities	(656,239)	(1,914,665)	(34,023)	(20,594)	(2,625,521)

(ii) The segment information provided to the Board of Directors and management team for the reportable segments for the year ended 30 June 2016 is as follows:

30 June 2016	Wholesale Australia \$	Loose Pearl Indonesia \$	Jewellery Australia \$	Indonesia \$	Total \$
Total segment revenue	16,783,473	12,568,397	490,503	412,516	30,254,889
Inter-segment revenue	-	(12,212,715)	-	-	(12,212,715)
Revenue from external customers	16,783,473	355,682	490,503	412,516	18,042,174
Normalised EBITDA	1,418,525	2,560,972	(232,410)	14,441	3,761,528
Adjusted net operating profit/ (loss) before income tax	1,440,441	1,460,736	(279,796)	(10,123)	2,611,258
Depreciation and amortisation	274,418	61,157	45,346	17,654	398,575
Revaluation of Biological Assets	-	(1,827,483)	-	-	(1,827,483)
Totals segment assets	6,700,678	22,587,105	759,263	708,839	30,755,885
Total assets include:					
Additions to non – current assets (other than financial assets or deferred tax)	13,386	432,952	4,020	1,144	451,502
Total segment liabilities	(984,754)	(1,728,711)	(30,846)	(11,827)	(2,756,138)

(b.) Other segment information

(i) Segment revenue

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

	2017 \$	2016 \$
Total segment revenue	28,206,862	30,254,889
Intersegment eliminations	(11,905,271)	(12,212,715)
Interest income	53,813	57,335
Other revenues	-	335,346
Total revenue from continuing operations (Note 1)	16,355,404	18,434,855

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15. Segment reporting (continued...)

Major customers

A Japanese wholesaler accounted for 10% of external revenue in the period ended 30 June 2017 (2016 - 19%). The top three Japanese customers accounted for 27% of revenue in the current period. These revenues are attributable to the Australian wholesale loose pearl segment.

The entity is domiciled in Australia. The result of its revenue from third party customers in Australia is \$599,528 (2016: \$653,152) in relation to wholesale loose pearl sales. Revenue for wholesale loose pearls from third party customers based in other countries during the period ended 30 June 2017 was \$14,748,723 (2016: \$15,389,416). 89% of the total loose pearl sales revenue during the period ended 30 June 2017 (2016: 86%) were to Japanese based customers.

In relation to retail jewellery sales the above segment reporting is based on the location of the sale, whether in Australia or Indonesia as the nature of the retail business relies on one off sales transactions with customers from a variety of locations.

(ii) Adjusted net operating profit

Segment net operating profit/(loss) before income tax reconciliation to the statement of profit or loss and other comprehensive income.

The Board of Directors and the management team review on a monthly basis the performance of each segment by analysing the segment's net operating profit before tax. A segment's net operating profit before tax excludes non-operating income and expense such as interest paid and received, foreign exchange gains and losses whether realised or unrealised, fair value gains and losses and impairment charges.

A reconciliation of adjusted net operating profit/(loss) before income tax is provided as follows:

	2017 \$	2016 \$
Net operating profit before tax	186,495	2,611,258
Intersegment eliminations	-	-
Changes in fair value of biological and agricultural assets	(206,367)	1,827,483
JV Impairment expense	-	(918,724)
Foreign exchange gains	1,331,955	105,780
Foreign exchange losses	(733,814)	(855,872)
Other	226,218	17,220
Profit/(loss) before income tax from continuing operations	804,487	2,787,145

(iii) Segment assets

Assets are allocated based on the operations of the segment and the physical location of the asset.

Reportable segments' assets are reconciled to total assets as follows:

	2017 \$	2016 \$
Segment assets	29,312,571	30,755,885
Unallocated:		
Joint Venture Loans	1,227,407	1,016,456
Deferred tax assets	3,638,436	3,035,807
Total assets as per the statement of financial position	34,178,414	34,808,148

The total of non-current assets other than financial instruments and deferred tax assets located in Australia is \$1,139,452 (2016: \$951,381). The total located in Indonesia is \$16,389,934 (2016: \$16,268,975).

(iv) Segment liabilities

Liabilities are allocated based on the operations of the segment and the physical location of the asset.

Reportable segments' liabilities are reconciled to total liabilities as follows:

	2017 \$	2016 \$
Segment liabilities	2,625,521	2,756,138
Unallocated:		
Current tax liabilities	260,538	661,111
Borrowings	3,528,722	4,224,569
Deferred tax liabilities	1,316,453	1,315,815
Other	4,454	25,871
Total liabilities as per the statement of financial position	7,735,688	8,983,504

(v) Normalised EBITDA reconciliation

	2017 \$	2016 \$
Net profit before tax	804,487	2,787,145
Finance/Interest paid	256,886	288,459
Depreciation/Amortisation	470,030	398,575
FX (gain)/loss	(598,095)	750,092
Agriculture standard revaluation	206,367	(1,827,483)
Other non-operating (income)/expense	285,812	90,240
Gain on derivative instruments	(409,963)	267,570
Impairment of Joint Venture investment	-	816,028
Other taxes/penalties (land tax/fees)	-	190,902
Normalised EBITDA	1,015,524	3,761,528

16. Contributed Equity

	2017 No. of Shares	2016 No. of shares	2017 \$	2016 \$
Issued and fully paid-up capital	422,909,620	419,380,906	38,857,415	36,698,536

Ordinary Shares

Balance at beginning of period	419,380,906	414,327,191	36,698,536	36,465,656
Shares issued ⁽¹⁾⁽²⁾	3,528,714	5,053,715	158,879	232,880
Share transaction costs	-	-	-	-
Balance at end of period	422,909,620	419,380,906	36,857,415	36,698,536

Treasury Shares

Balance at beginning of period	6,017,694	11,071,409		
Acquisition of shares by Trust under Plan	-	-		
Shares released	(1,055,556)	(5,053,715)		
Balance at end of period	4,962,138	6,017,694		

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Treasury shares are shares in Atlas Pearls and Perfumes Ltd that are held by the Atlas Pearls and Perfumes Ltd Executive Share Plan Trust for the purpose of issuing shares under the Atlas South Sea Pearl Employee share plan.

- During the year ended 30 June 2017, 1,055,556 Treasury shares were issued over the course of the year to employees as part the Atlas employee share salary sacrifice plan (30 June 2016: 5,053,715).
- On the 28 November 2016, 2,473,158 in fully paid ordinary shares were issued to past and present Directors of the Company in lieu of payment of Directors' fees, at a deemed issue price of \$0.045, in accordance with shareholder approval at the Annual General Meeting of Shareholders held on 31 October 2016.

(i) Rights

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

(ii) Options

There are 5,500,000 unlisted options on issue at 30 June 2017. Information relating to the Atlas South Sea Pearl Limited Employee Option Plan, including details of options issued, exercised and lapsed during the financial year and the options outstanding at the end of the reporting period, is set out in note 18.

(iii) Capital Risk Management

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns to shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group has a net gearing ratio of 13% at 30 June 2017 (16% at 30 June 2016).

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

SIGNIFICANT ACCOUNTING POLICY

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

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

17. Reserves

	2017 \$	2016 \$
Foreign Currency Translation Reserve	(9,760,222)	(9,115,083)
Employee Share Reserve	739,188	714,605
Revaluation Reserve	179,179	-
Total Reserves	(8,841,856)	(8,400,478)

Movements:

Foreign Currency Translation Reserve ⁽¹⁾ -		
Balance at beginning of year	(9,115,083)	(9,732,299)
Currency translation differences arising during the Year	(645,139)	617,216
Balance at end of year	(9,760,222)	(9,115,083)

Employee Share Reserve⁽²⁾ -

Balance at beginning of period	714,605	682,341
Movement in Employee Share Reserve	24,582	32,264
Balance at end of year	739,187	714,605

Revaluation Reserve⁽³⁾ -

Balance at beginning of period	-	-
Movement in Revaluation Reserve	179,179	-
Balance at end of year	179,179	-

- The foreign currency translation reserve records exchange differences arising on translation of foreign controlled subsidiaries to the reporting currency.
- The employee share reserve records the value of equity portion of remuneration paid to employees in the form of shares or other equity instruments.
- The revaluation reserve records the value of increase in the carrying value of assets as a result of revaluation.

18. Share Based Payments and Options

18.1 EMPLOYEE SALARY SACRIFICE SHARE PLAN

On 30 May 2012, the Atlas Employee Salary Sacrifice Share Plan was established. The Group has formed a trust to administer the Group's employee share scheme. The trust is consolidated, as the substance of the relationship is that the trust is controlled by the Group. Shares held by Atlas South Sea Pearl Limited Employee Share Trust are disclosed as treasury shares and deducted from contributed equity.

Shares held by the trust and not yet issued to employees at the end of the reporting period are shown as treasury shares in the financial statements. The shares rank equally with other fully paid ordinary shares.

To participate in the Salary Sacrifice Plan, Eligible Employees are required to salary sacrifice a minimum of 10% of their annual base salary into Shares. There is no maximum percentage or value cap to the amount that each Eligible Employee can sacrifice. The issue price for Shares under the Salary Sacrifice Plan will be determined from time to time by the Board of Directors (in their discretion).

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

18. Share Based Payments and Options (continued...)

18.1 EMPLOYEE SALARY SACRIFICE SHARE PLAN (CONTINUED...)

The Employee Share Plan is open to Eligible Participants being any Eligible Employee; or conditional upon the company obtaining any necessary ASIC relief to extend the operation of ASIC Class Order 03/184 (or similar class order) to them:

- any Eligible Contractor; or
- Eligible Casual Employee,

Who is declared by the Board to be an Eligible Participant for the purposes of the Plan. An Eligible Employee means: a full time or part time employee (including an executive director) of a Group Company.

An Eligible Contractor means:

- An individual that has:
 - Performed work for a Group Company, for more than 12 months; and
 - Received 80% of more of their income in the preceding year from a Group Company; or
- A company where each of the following are satisfied in relation to the company:
 - Throughout the previous 12 months the company has had a contract in place with a Group Company, for the provision of the services of an individual (contracting individual) to a Group Company;
 - The contracting individual has performed work for a Group Company, for more than 12 months;
 - The contracting individual has been the only member for the company for more than 12 months; and;
 - More than 80% of the aggregate income of the company and the contracting individual from all sources (other than from each other) in the preceding 12 months was received from a Group Company.

The Board may determine the terms and conditions of the Salary Sacrifice arrangement for which Shares are offered in lieu of that Remuneration. The number of Shares to be issues, transferred or allocated to the trustee to be held on behalf of a Participant will be the dollar amount of the Salary Sacrifice divided by the issue price per Share outlined in the Invitation. In the case of fractional entitlements, the number of Shares to be issue, transferred or allocated to the Trustee to be held on behalf of a Participant will be rounded up to the nearest whole Share, unless otherwise determined by the Board from time to time.

18.2 NON-EXECUTIVE DIRECTOR FEE SACRIFICE SHARE PLAN

The Non-Executive Director Salary Sacrifice Share Plan is open to Eligible Participants, being any Non-Executive Director who is declared by the Board to be an Eligible Participant for the purpose of the Plan.

The Company's Non-Executive Directors will receive a portion of their Director's fee in the form of Shares.

The Company agrees to issue or procure the transfer of Shares to eligible Non-Executive Directors, in lieu of the amount of Directors' fees that each eligible Non-Executive Director has agreed to sacrifice from their monthly Directors' fees each financial year. The issue price for Shares under the Salary Sacrifice Plan will be determined from time to time by the Board of Directors (in their discretion).

Refer to Note 16 for disclosures on the movement in Employee and Non-Executive share plans, under treasury shares.

18.3 ATLAS PEARLS AND PERFUMES LTD EMPLOYEE OPTION PLAN

At the EGM on 13 May 2014 it was resolved by the shareholders to approve the Atlas Pearls and Perfumes Ltd Employee Option Plan. On 24 February 2014, the Board adopted the Atlas pearls and Perfumes Ltd Employee Option Plan (Plan) under which eligible participants may be granted Options to acquire Shares in the Company. The Directors consider that the plan is an appropriate method to:

- Reward Directors, executives, employees, consultants and contractors for their past performance;
- Provide long term incentives for participation in the Company's future growth;
- Motivate Directors, executives, employees, consultants and contractors and general loyalty; and
- Assist to retain the services of valuation Directors, executives, employees, consultants and contractors.

The Plan will be used as part of the remuneration planning for Directors, executives, employees and contractors. Under the plan, participants are granted options which only vest if certain performance standards are met. Participation in the plan is at the board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

The Corporate Governance Council Guidelines recommend that remuneration packages involve a balance between fixed and incentive pay reflecting short and long-term performance objectives appropriate to the Company's circumstances and goals. The Board considers that the Plan will assist the Company in structuring the remuneration packages of its executives in accordance with the Guidelines.

The amount of options that will vest depends on the individual's Key Performance Indicators. An option which has vested but has not been exercised will immediately lapse upon the first to occur of:

- Close of business on the Expiry Date;
- The transfer or supported transfer of the Option in breach of Clause 7(a) of the plan;
- Termination of the Participant's employment or engagement with the Company or an Associate Body Corporate on the basis that the Participant acted fraudulently, dishonestly, in breach of the Participant's obligations or otherwise for cause; and
- The day which is six months after an event which gives rise to a vesting under clauses 4(a) to 4(d) of the plan.

Options on Issue

On the 30th of June 2015 5,500,000 options exercisable at \$0.059 each, on or before 31 December 2018 (expiry date), were issued to employees of the Company on the terms and conditions set out in the Explanatory Memorandum ratified at the Extraordinary General Meeting held on the 13th of May 2014.

Options are granted under the plan for no consideration. Options granted under the plan carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share. The exercise price of options is based on 143% (June 2016: 143%) of the volume weighted average share price at which the company's shares are traded on the Australian Stock Exchange (ASX) during the week up to and including the date of the grant.

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	2015 Average exercise price per share option	Number of options
As at 1 July 2016	0.066	5,500,000
Granted during the year	-	-
Exercised during the year	-	-
Forfeited during the year	-	-
As at 30 June 2017	0.066	5,500,000

There were no options issued during the year ended 30 June 2017 (2016: nil).

Issue Date	Expiry Date	Exercise Price	Share Options 30 June 2017	Share Options 30 June 2016
30 June 2015	31 December 2018	0.0590	5,500,000	5,500,000
Total			5,500,000	5,500,000
Weighted average remaining contractual life of options outstanding at end of period			0.6 years	1.8 years

Fair value of options granted

The assessed fair value at grant date of options granted during the year ended 30 June 2015 was \$0.16 (5,500,000 options). This valuation imputes a total value of approximately \$90,215 for the proposed Options. The value may go up or down as it will depend in part on the future price of a Share.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option. The model inputs for options granted during the year ended 30 June 2015 are detailed below.

The Black & Scholes methodology has been used, together with the following assumptions:

- Options are granted for no consideration and vest based on the individual's Key Performance Indicators. Vested options are exercisable for a period of six months after vesting or the earlier of 31 December 2018.
- Exercise price - \$0.0590;
- Grant date - 30 June 2015;
- Share price at grant date: \$0.044
- Expected price volatility of the company's shares: 60%;
- Expected dividend yield: 0%;
- Risk-free interest rate: 3.06%

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

Where options are issued to employees of subsidiaries within the group, the subsidiaries compensate Atlas Pearls and Perfumes Ltd for the amount recognised as expense in relation to these options.

Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions and option related valuation expenses recognised during the period as part of employee benefit expense were as follows:

	2017 \$	2016 \$
Shares issued under the employee share plan	-	-
Option expense	24,582	32,265
	24,582	32,265

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

SIGNIFICANT ACCOUNTING POLICY

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

19. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 27.4.

Name of entity	Class of shares	Percentage owned	Percentage owned		Place of incorporation
			30 June 2017	30 June 2016	
Perl'Eco Pty Ltd	Ord	100%	100%		Australia
Tansim Pty Ltd	Ord	100%	100%		Australia
P.T. Cendana Indopearls	Ord	100%	100%		Indonesia
Aspirasi Satria Sdn Bhd	Ord	100%	100%		Malaysia

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

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

20. Related Party Transactions

(a.) Subsidiaries

Interests in subsidiaries are set out in note 19.

(b.) Joint ventures

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

At 30 June 2017, there is a net loan balance of \$698,212 owing from World Senses to Atlas (30 June 2016 - \$698,212). This balance consists of salary and administration recharges and accounting charges, offset by pearl cosmetic products, pearl jewellery and pearl protein extraction assets transferred to Atlas. The net loan receivable balance for the Atlas group from World Senses of \$698,212 has been fully impaired due to the net liability position of the World Senses Pty Ltd accounts.

Essential Oils of Tasmania Pty Ltd (EOT) was acquired in January 2013 as a 100% subsidiary. On 20th April 2015 50% of the investment in the entity was sold to Westwood Properties Pty Ltd. Post this sale Essential Oils of Tasmania has been deemed a joint venture and has been equity accounted for.

As at 30 June 2017, there is a loan balance of \$2,042,450 (30 June 2016: \$1,832,284) owing from Essential Oils of Tasmania Pty Ltd to Atlas. This balance consists of admin and expense recharges, and funding advances. A provision for impairment of \$816,028 was booked against the loan for the year ending 30 June 2016 as a result of a review conducted on the recoverability of the intercompany receivable. The provision represents a write-down to the director's best estimate of the recoverable value and is deemed a prudent assessment.

The parent entity has a 50% interest in Brookfield Tasmania Pty Ltd. At 30 June 2017, there is a loan balance of \$449 (30 June 2016: \$200) owing from Brookfield Tasmania Pty Ltd.

	2017 \$	2016 \$
Due from World Senses	771,173	771,173
Due to World Senses	(72,961)	(72,961)
Impairment of World Senses asset	(698,212)	(698,212)
Due from EOT	2,042,450	1,832,284
Impairment of EOT Receivable	(816,028)	(816,028)
Due from Brookfield Tasmania Pty Ltd	449	200
	1,226,871	1,016,456

(c.) Key management personnel compensation -

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

	2017 \$	2016 \$
Short-term employment benefits	(794,205)	1,148,088
Post-employment benefits	40,441	42,776
Share based compensation	24,582	7,151
	859,228	1,198,015

(d.) Transactions with other related parties

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

	2017 \$	2016 \$
Director fees payable	8,286	78,900
Current receivables (wholesale purchase of jewellery)	-	7,455
	8,286	86,355

(e.) Loans from Related Parties

Refer to Note 6.4 for detailed disclosures on financing arrangements. Loans detailed below are accounted for under current and non-current liabilities (see note 10).

	2017 \$	2016 \$
Beginning of the year	-	-
Loans advanced from	3,500,000	-
Interest charged	49,623	-
Interest paid	(48,390)	-
End of year	3,501,233	-

21. Investments Accounted for using the Equity Method

	2017 \$	2016 \$
Share in World Senses joint venture partnership	-	-
Share in Brookfield Tasmania joint venture partnership	-	-
Share in Essential Oils of Tasmania joint venture partnership	-	183,744
	-	183,744

22. Interests in Joint Ventures

(a.) Joint venture

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

The parent entity has a 50% interest in Brookfield Tasmania Pty Ltd, which is a resident in Australia and the principal activity of which is to develop a manufacturing and tourism facility.

The parent entity has a 50% interest in Essential Oils of Tasmania Pty Ltd, which is a resident in Australia and the principal activity of which is to grow and produce essential oils.

The interest in World Senses Pty Ltd and Essential Oils of Tasmania Pty Ltd is accounted for in the financial statements using the equity method of accounting (refer to note 21). The joint venture is unlisted hence no quoted fair value is disclosed. Information regarding to the joint ventures are set out in the next column.

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	2017 \$	2016 \$
World Senses		
Joint Ventures' assets and liabilities		
Current assets	304,334	302,386
Non-current assets	441,333	623,443
Total assets	745,667	925,829
Current liabilities	41,791	40,490
Non-current liabilities	2,375,450	1,760,292
Total liabilities	2,417,241	1,800,782
Net assets	(1,671,574)	(874,953)

	2017 \$	2016 \$
Joint Venture's revenues, expenses and results		
Revenues	8,165	20,143
Expenses	(622,676)	(445,066)
Profit/(loss) for the period	(614,511)	(424,923)

	2017 \$	2016 \$
Reconciliation to carrying value		
Opening net asset 1 July	(874,952)	(450,029)
Profit/(loss) for the period	(614,511)	(424,923)
Closing net liabilities	(1,489,463)	(874,952)

	2017 \$	2016 \$
Group's share in %	50%	50%
Group share in \$	(307,256)	(212,462)
Carrying value	-	-

	2017 \$	2016 \$
Essential Oils of Tasmania		
Joint Ventures' assets and liabilities		
Current assets	3,031,525	3,957,157
Non-current assets	1,061,804	389,859
Total assets	4,093,329	4,347,016
Current liabilities	340,446	476,586
Non-current liabilities	3,894,684	3,503,564
Total liabilities	4,235,130	3,980,150

	2017 \$	2016 \$
Net assets	(141,801)	366,866

	2017 \$	2016 \$
Joint Venture's revenues, expenses and results		
Revenues	3,227,576	3,029,452
Expenses	(4,213,771)	(3,247,842)
Profit/(loss) for the period	(986,195)	(218,390)

	2017 \$	2016 \$
Reconciliation to carrying value		
Opening net asset 1 July	844,395	1,062,785
Profit/(loss) for the period	(986,195)	(218,390)
Closing net assets (liabilities)	(141,800)	844,395

	2017 \$	2016 \$
Group's share in %	50%	50%
Group share in profit/(loss)	(493,098)	(109,195)
Carrying value	-	183,744

(b.) Contingent liabilities relating to joint ventures

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

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

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

23. Parent Entity Financial Information

(a.) Summary financial information

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

	2017 \$	2016 \$
Statement of financial position		
Current assets	2,852,239	5,459,755
Total assets	26,803,398	27,804,960
Current liabilities	3,650,070	7,936,513
Total liabilities	4,800,932	5,820,593
Shareholders' equity		
Issued capital	36,857,417	36,698,541
Reserves		
Share-based payment reserve	739,188	714,606
(Accumulated losses)	(15,759,497)	(14,973,372)
	21,837,108	22,439,775
(Loss) for the period	(165,359)	(455,408)
Total comprehensive (loss)	(165,359)	(455,408)

(b.) Summary financial information

The parent entity did not have any contingent liabilities as at 30 June 2017 or 30 June 2016.

The parent entity did not provide financial guarantees during the period (2016: Nil).

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

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23. Parent Entity Financial Information

SIGNIFICANT ACCOUNTING POLICY

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

Investments in subsidiaries

Investments in subsidiaries are accounted for at cost in the financial statements of Atlas Pearls and Perfumes Ltd.

Share-based payments

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

24. Commitments

	2017 \$	2016 \$
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	344,740	432,506
Later than one year, but not later than five years	1,066,427	1,481,950
Later than five years	-	-
	1,411,167	1,914,456

Non - cancellable operating leases

The Group leases premises under non-cancellable operating leases expiring in 5 years. On renewal the terms of the leases are renegotiated.

There are no capital commitments in place in relation to the acquisition of property, plant and equipment. Fixed assets are replaced in the normal course of business operations and the company does not anticipate any material capital outlay for such replacement costs in the coming year.

Other commitments/guarantees

Atlas Pearls and Perfumes Ltd had a bank guarantee with the Commonwealth Bank of Australia for AUD\$100,000 at 30 June 2017 (30 June 2016: \$100,000). This guarantee has been taken out to secure the rental of the Atlas Pearls and Perfumes corporate offices in Claremont, Western Australia.

SIGNIFICANT ACCOUNTING POLICY

Lease payments for operating leases, where substantially all the risk and benefits remain with the lessor, are charged as expenses in the period in which they are incurred.

25. Contingencies

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

26. Remuneration of auditors

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

	2017 \$	2016 \$
AUDIT SERVICES		
BDO Australia (WA) Pty Ltd		
Audit and other assurance services		
Audit and review of financial reports	94,349	86,000
KAP Tanubrata Sutanto Fahmi Babang & Rekan (BDO)		
Audit and review of financial reports	35,704	17,011
Total remuneration for audit and other assurance services	130,053	103,011
Other Services		
Other review	18,544	40,000
Total remuneration for other services	18,544	40,000
Total remuneration of BDO Australia for audit and other related services	148,596	143,011

27. Accounting Policies

27.1 BASIS OF PREPARATION

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

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

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations and activities in the directors' report which is not part of these financial statements. The financial statements were authorised for issue by the directors on 28 August 2017. The directors have the power to amend and reissue the financial statements.

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. The accounting policies have been consistently applied to all the periods presented, unless otherwise stated.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

27.2 HISTORICAL COST CONVENTION

These financial statements have been prepared under the historical cost basis, as modified by the revaluation of available for sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss and biological assets at fair value less cost to sell.

27.3 NEW AND AMENDED STANDARDS ADOPTED BY THE GROUP

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ending 30 June 2017 unless disclosed separately. The Group's and the parent entity's assessment of the impact of these new standards and interpretations is set out below.

AASB Amendment	Affected Standard(s)	Nature of Change to Accounting Policy	Application Date of Standard*	Application Date for Group
AASB 9	Financial Instruments	Changes to classification and measurement requirements of financial instruments.	1 Jan 18	1 July 18
AASB 15	Revenue from Contracts with Customers	Revenue will be recognised when control of the goods or services is transferred, rather than on transfer of risks and rewards as is currently the case under IAS 18 Revenue.	1 Jan 17	1 July 17
AASB 16	Leases	AASB 16 eliminates the operating and finance lease classifications for lessees currently accounted for under AASB 117 Leases. Leases with terms greater than 12 months, unless the underlying asset is immaterial, will be recognised as a lease liability and a right of use asset in the statement of financial position.	1 Jan 19	1 July 19

Impact on initial application:

- AASB 9 - The Company enters into forward hedge contracts to manage foreign currency risk but it currently does not apply hedge accounting. These derivative instruments are fair valued at each reporting date and gain or loss recognised in the statement of profit or loss and other comprehensive income. It is expected that the application of the new amendments will not have an impact on the entity's financial statements.
- AASB 15 - The Company does not currently enter into revenue contracts that will be affected by changes to this standard. It is expected that the application of the new amendments will not have an impact on the entity's financial statements.

- AASB 16 - To the extent that the Company, as lessee, has significant operating leases outstanding at the date of initial application, 1 July 2019, right-of-use assets will be recognised for the amount of the unamortised portion of the useful life, and lease liabilities will be recognised at the present value of the outstanding lease payments.

Thereafter EBITDA will increase as a result of operating lease expenses currently included in EBITDA which will be recognised instead as amortisation of the right-of-use asset, and interest expense on the lease liability. However, there will be an overall reduction in net profit before tax in the early years of a lease because the amortisation and interest charges will exceed the current straight-line expense incurred under AASB 117 Leases. This trend will reverse in the later years.

Atlas has identified the following lease where this standard change will have an impact:

- Claremont office lease held by the parent entity

Any other amendments are not applicable to the Group and therefore have no impact.

27.4 PRINCIPLES OF CONSOLIDATION

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Atlas Pearls and Perfumes Ltd ("Company" or "parent entity") as at 30 June 2017 and the results of its subsidiaries for the period then ended. Atlas Pearls and Perfumes Ltd and its subsidiaries together are referred to in this financial statement as the consolidated entity.

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

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

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

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

27. Accounting Policies (continued...)

27.4 PRINCIPLES OF CONSOLIDATION (CONTINUED...)

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

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

27.5 CRITICAL ACCOUNTING ESTIMATES

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

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

- Determination of market value of biological assets – see note 3
- Write off of inventories – see note 4
- Impairment of debtors – see note 8
- Impairment of joint venture receivables – see note 22

27.6 FOREIGN CURRENCY TRANSLATION

(a.) Functional and presentation currency

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

(b.) Transactions and balances

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

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

All foreign exchange gains and losses are presented in the Statement of Profit or Loss and Other Comprehensive Income within other income or other expenses unless they relate to financial instruments.

(c.) Group Companies

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

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

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

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

27.7 COMPARATIVE FIGURES

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

27.8 IMPAIRMENT OF ASSETS

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

27.9 EMPLOYEE BENEFITS

Short Term Obligation

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

Wages and salaries, annual leave, sick leave and long service leave

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

Share-based payments

Share-based compensation benefits are provided to employees via the Atlas Pearls and Perfumes Ltd Employee Share Plan. Information relating to this scheme is set out in note 18.

27.10 PROVISIONS

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

27.11 BORROWING COSTS

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

28. Events occurring after the reporting period

There have been no material events since the end of the financial year.

DIRECTORS' DECLARATION

FOR THE YEAR ENDED 30 JUNE 2017

The Directors of the Company declare that:

- (a.) the financial statements comprising the statement of profit or loss and other comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and accompanying notes are in accordance with the *Corporations Act 2001* and:
- (i) give a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of the performance for the period ended on that date; and
 - (ii) comply with Accounting Standards, and the *Corporations Regulations 2001* and other mandatory professional reporting requirements.
- (b.) the Company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.
- (c.) the Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A.
- (d.) in the Directors opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (e.) the remuneration disclosures included in the Directors' Report (as part of audited remuneration report) for the period ended 30 June 2017 comply with section 300A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors by:



Geoffrey Newman
Chairman
Perth, Western Australia
28 August 2017

AUDITORS REPORT

FOR THE YEAR ENDED 30 JUNE 2017



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Australia

INDEPENDENT AUDITOR'S REPORT

To the members of Atlas Pearls and Perfumes Ltd

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Atlas Pearls and Perfumes Ltd (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

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

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

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

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

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

AUDITORS REPORT

FOR THE YEAR ENDED 30 JUNE 2017

BDO

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of Biological Assets

Key audit matter	How the matter was addressed in our audit
<p>As at 30 June 2017, the carrying value of biological assets inventory of the Group was \$19,199,173 as disclosed in note 3.</p> <p>AASB 141 <i>Agriculture</i> requires the Group to value their biological assets at fair value less costs to sell. The determination of the value of the biological asset requires significant management judgements and estimates as detailed in note 3.</p> <p>We considered this issue to be a Key Audit Matter, due to the significance of the balance to the reported financial position and performance of the Group, and the extent to which management judgements and estimates determine the final valuation.</p>	<p>Our audit procedures included, but were not limited, to the following:</p> <ul style="list-style-type: none"> • Considering the appropriateness of the valuation methodology against the relevant Australian Accounting Standards; • Testing the mathematical accuracy of the fair value model used by management; • Physically counting the numbers of oysters on-hand at the year end. • Performing analytical procedures and sensitivity analysis in order to determine the inputs of most significance to the final valuation, including the extent to which they may have changed from previous years, and focused our substantive testing on those items. <p>In the case of specific inputs, we performed the following:</p> <ul style="list-style-type: none"> • Obtaining historical farming data, and comparing this to forecasts used in the model; • Obtaining sales data, including where available post-year-end data, and comparing these to forecast sales prices; • Comparing the expected exchange rates to futures prices and other financial data; • Obtaining written representation over the suitability of the assumptions used from senior management. • Considering the completeness and accuracy of the disclosures made in note 3, including sensitivity disclosures.

AUDITORS REPORT

FOR THE YEAR ENDED 30 JUNE 2017

BDO

Recoverability of Deferred Tax

Key audit matter	How the matter was addressed in our audit
<p>At 30 June 2017, the Group recognised deferred tax assets relating to deductible temporary differences and carried-forward tax losses of \$3.2m in Australia, and \$0.4m in Indonesia, totalling \$3.6m. Australian Accounting Standards require that deferred tax assets be recognised only to the extent that it is probable that they may be utilised against future taxable profits.</p> <p>We considered this a Key Audit Matter due to the quantum of the recognised assets, the complexities surrounding which losses can be utilised against which profits, and the additional uncertainties that arise from the international aspects of the Group's operations.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Reviewing the calculation of the deferred tax assets, which have been undertaken by the Group tax expert including assessing the competency and objectivity of the expert; • Assessing and challenging management's judgements relating to the forecast of future taxable profit and evaluating the reasonableness of the assumptions underlying the preparation of these forecasts against actual performance of the Group; • Reviewing correspondence between the Group and the Australian and Indonesian tax authorities. • Assessing the appropriateness of the disclosure included in Note 9 in respect of current and deferred tax balances.

Other information

The directors are responsible for the other information. The other information comprises the information contained in the Directors' Report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the Annual Report, which is expected to be made available to us after that date.

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

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

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

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and will request that it is corrected. If it is not corrected, we will seek to have the matter appropriately brought to the attention of users for whom our report is prepared.

Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

AUDITORS REPORT

FOR THE YEAR ENDED 30 JUNE 2017

BDO

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

Auditor's responsibilities for the audit of the Financial Report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (<http://www.auasb.gov.au/Home.aspx>) at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our auditor's report.

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

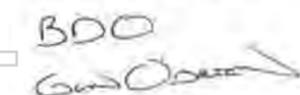
We have audited the Remuneration Report included in section 13 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Atlas Pearls and Perfumes Ltd, for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

BDO Audit (WA) Pty Ltd



Glyn O'Brien

Director

Perth, 28 August 2017

ADDITIONAL ASX INFORMATION

FOR THE YEAR ENDED 30 JUNE 2017

The following additional information is required by the Australian Securities Exchange. The information is current as at 13 September 2017.

(a.) Distribution schedule and number of holders of equity securities as at 13 September 2017

	1 – 1,000	1,001 – 5,000	5,001 – 10,000	10,001 – 100,000	100,001 – and over	Total
Fully Paid Ordinary Shares (ATP)	129	404	311	806	371	2,021
Unlisted Options – 5.9c 31/12/18	-	-	-	-	4	4

The number of holders holding less than a marketable parcel of fully paid ordinary shares as at 13 September 2017 is 1,037.

(b.) 20 Largest holders of quoted equity securities as at 13 September 2017

The names of the twenty largest holders of fully paid ordinary shares (ASX code: ATP) as at 13 September 2017 are:

RANK	NAME	SHARES	% OF TOTAL SHARES
1	BONEYARD INVESTMENTS PTY LTD	53,048,882	12.40
2	CHEMCO SUPERANNUATION FUND PTY LTD <CHEMCO SUPER FUND NO 2 A/C>	32,400,000	7.57
3	RAINTREE PEARLS & PERFUMES PTY LTD	22,339,228	5.22
4	SP & K BIRKBECK HOLDINGS PTY LTD <SP & K BIRKBECK S/F A/C>	20,529,202	4.80
5	JINGIE INVESTMENTS PTY LTD	17,880,240	4.18
6	ABERMAC PTY LTD	17,833,333	4.17
7	ARROW PEARL CO PTY LTD	13,809,707	3.23
8	WESTWOOD PROPERTIES PTY LTD	8,000,000	1.87
9	FARJOY PTY LTD	7,099,412	1.66
10	MR NELSON MICHEL PIERRE ROCHER	6,712,185	1.57
11	FIVE TALENTS LIMITED	5,620,000	1.31
12	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	5,486,717	1.28
13	MR PAUL MICHAEL BUTCHER	5,000,000	1.17
14	CHEMBANK PTY LIMITED <CABAC SUPER FUND A/C>	5,000,000	1.17
15	FORSYTH BARR CUSTODIANS LTD <FORSYTH BARR LTD-NOMINEE A/C>	4,880,651	1.14
16	COAKLEY PASTORAL CO PTY LTD <TIM COAKLEY SUPER FUND A/C>	4,744,717	1.11
17	MISS KRISTIE BIRKBECK	3,818,536	0.89
18	QUEENSRIDGE INVESTMENTS PTY LTD <GLEESON SUPER FUND A/C>	3,549,072	0.83
19	MR TIMOTHY JAMES MARTIN	3,540,883	0.83
20	MS JENNIFER MICHELLE ROUGHAN	3,360,000	0.79
	TOTAL	244,652,765	57.19

ADDITIONAL ASX INFORMATION

FOR THE YEAR ENDED 30 JUNE 2017

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

The unquoted securities on issue as at 13 September 2017 are detailed below in part (d).

(c.) Substantial shareholders

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

NAME	SHARES	% VOTING POWER
Boneyard Investments Pty Ltd & Associates *	112,345,667	27.09%
Raintree Pearls & Perfumes Pty Ltd & Associates **	30,090,855	13.12%

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

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

(d.) Unquoted Securities

The number of unquoted securities on issue as at 13 September 2017:

SECURITY	NUMBER ON ISSUE
Unlisted options exercisable at 5.9 cents, on or before 31 December 2018.	5,500,000

(e.) Holder Details of Unquoted Securities

All unquoted securities were issued under an employee incentive scheme. Therefore, no disclosure is required in relation to people that hold more than 20% of a given class of unquoted securities as at 13 September 2017.

(f.) Restricted Securities as at 13 September 2017

There were no restricted securities on issue as at 13 September 2017.

(g.) Voting Rights

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

Unquoted options have no voting rights.

(h.) On-Market Buy-back

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

(i.) Corporate Governance

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

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ATLAS

PEARLS

URBAN BOUTIQUES

SINGAPORE

AUSTRALIA, Perth

BALI, Seminyak

FARM BOUTIQUES

NORTH BALI, Penyangban

FLORES, Labuan Bajo, Pungu Island

RAJA AMPAT, Alyui Bay

FARMS

EAST NUSA TENGGARA, Lembata Bay

EAST NUSA TENGGARA, Alor Bay

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