INTERIM FINANCIAL REPORT

ABN 32 009 220 053 • 31 DECEMBER 2019

ATLAS PEARLS

CONTENTS

DIRECTORS' REPORT

Your Directors present their report on the consolidated entity consisting of Atlas Pearls Ltd and the entities it controlled at the end of, or during, the half year ended 31 December 2019, referred to hereafter as, the Company, the Group or Atlas Pearls.

1. *Directors*

The following persons were Directors of Atlas Pearls during the whole of the half year and up to the date of this report unless otherwise stated.

NAME	PERIOD OF DIRECTORSHIP
Geoff Newman, Executive Chairman B. Ec (Hons), M.B.A, F.C.P.A, F.A.I.C.D	Director since 15 October 2010 Appointed Chairman 16 February 2015 Appointed Executive Chairman 19 September 2019
Timothy Martin, Non-Executive Director BA, M.B.A, G.A.I.C.D	Director since 4 February 2013
Pierre Fallourd, Managing Director M.B.A, G.A.I.C.D CEO,	Director since 4 January 2016 Resigned on 19 September 2019
Cadell Buss, Independent Non-Executive Director M.B.A, G.A.I.C.D	Director since 1 February 2018

2. *Review of Operations*

2.1. REVIEW OF OPERATIONS

2.2.1. PEARLING

Atlas Pearls continues improvements to the hatchery and nursery, which is progressively delivering improvements in oyster survival and shells for operation. The Company has launched new satellite grow-out sites and continues to test oysters.

The seeding team delivered improved retention rates and is focused on shape and size improvements through both donor and host shell management and seeding techniques ensuring suitable shells are submitted to the operating table.

Seeded oysters have been relocated to the new farming site in East Java. The oysters have adjusted well, and the Company continues to progressively increase biomass across all farms.

The anticipated gain in pearl size is not yet fully realised and data is continuously collected to facilitate the influence of adverse environmental conditions and genetic factors on the pearl quality.

Atlas Pearls follows unifying principles across the Company to ensure that the best oysters produce the best pearls to command the best price.

2.2.2. PEARLING VALUE ADDED

The Company's revenue stream is split into the following categories;

- Trade sales, achieved through a mix of auctions and private sales,
- Australian wholesale sales, and retail sales.

Trade and wholesale sales combined represent 83% of the Company's revenue for the half year. Maximising the best mix between trade (blind auction) and wholesale (face-to-face) sales and will remain the key focus for the Company to ensure the most appropriate pearls are presented through the best distribution channel. This will ensure that profit margins are maximised, and customer relations are nurtured.

Demand has been stable for high quality white South Sea pearls with the Company continuing to achieve strong prices for high quality pearls. The interest in low grade pearls remains weak and consequently inventory levels over the half year have increased by $783k.

The Company's major sales events are based in Japan and China. Due to the recent outbreak of respiratory illness caused by a novel (new) coronavirus first identified in Wuhan, Hubei Province, China, the virus and its potential impact on the Company is being constantly monitored with alternative sales networks being explored to decrease any impact the virus may have.

The retail division has undergone a restructure with the Claremont and Seminyak stores closed during the half year. The Company remains focused on servicing retail clients through farm stores and online. A new silver collection will be launched online during the second half of the financial year and rolled out to the farm stores with a gold collection to follow shortly thereafter which will only be available online. The Company remains focused on maximising value through pearl selection and jewellery design.

2.2.3. NATURAL EXTRACTS

Essential Oils of Tasmania Pty Ltd, a 50% joint venture of Atlas Pearls Ltd, continued to focus on its core essential oils business.

Strong process and marketing efforts have continued which have supported the international interest in the high-quality oils produced.

3. *Financial Result*

The Group net profit for the period ended 31 December 2019 is $1.12M, compared to $418k in the prior year comparative period.

Atlas has adopted Normalised Earnings before interest, taxes, depreciation, amortisation (Normalised EBITDA) as a more effective way to report comparative results and underlying performance.

	6 MONTHS ENDED 31 DEC 19	6 MONTHS ENDED 31 DEC 18	CHANGE	%
Total revenue from contracts with customers	7,774,109	6,577,288	Up	18%
Profit from continuing operations after tax	1,171,074	418,050	Up	180%
Normalised earnings before interest, taxes, depreciation and amortisation (Normalised EBITDA)	572,727	1,528,125	Down	63%

Reconciliation of Normalised EBITDA to Profit/(Loss) for the half year (Consolidated Statement of Profit or Loss and Other Comprehensive Income)

	6 MONTHS ENDED 31 DEC 19	6 MONTHS ENDED 31 DEC 18
Profit for the Half Year	1,171,074	418,051
Net Forex (gain)/loss	(345,824)	480,396
Net Interest	157,041	161,240
Depreciation/Amortisation	288,445	149,701
Income tax charge/(refund)	869,274	345,679
Other non-operating (income)/expense	15,234	16,639
Derivative instruments loss/(gain) unrealised	(17,122)	26,462
Revaluation of Biological Assets and Inventory	(1,565,394)	(70,043)
NORMALISED EBITDA	**572,727**	**1,528,125**

3.1 FINANCIAL POSITION

Cash reserves have increased to $1.4M at 31 December 2019 (30 June 2019: $1.0M). The Company remains focused on operational efficiencies whilst maintaining the health of the oysters at optimal operating costs.

Oyster asset values have increased to $19.1M during the six months ended 31 December 2019 ($17.0M 30 June 2019). The quantity of oysters on hand has increased from 2.7M shells at June 2019 to 2.8M shells at December 2019. The weight of pearls harvested as well as the proportion of sellable pearls has improved only slightly on results observed during FY19.

The number of pearls on hand has increased from 122,565 at 30 June 2019 to 156,436 at 31 December 2019. The net realisable value has increased from $1.04M at 30 June 2019 to $2.17M at 31 December 2019.

Jewellery inventory has decreased from $1.18M at 30 June 2019 to $0.44M at 31 December 2019.

Borrowings have increased by $2.7M from $2.9M at 30 June 2019 to $5.6M at 31 December 2019. The increase in borrowings is due to short-term funding received July 2019.

The Company's net tangible assets per share are $0.054 as at 31 December 2019 which has increased from the position at 30 June 2019 ($0.051). The number of shares on issue remains unchanged at 427,871,758 (30 June 2019: 427,871,758).

4. *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 6. Signed in accordance with a resolution of the Directors.

Geoff Newman
Executive Chairman
27 February 2020

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DECLARATION OF INDEPENDENCE BY DEAN JUST TO THE DIRECTORS OF ATLAS PEARLS LIMITED

As lead auditor for the review of Atlas Pearls Limited for the half-year ended 31 December 2019, 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 review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

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

Dean Just

Director

BDO Audit (WA) Pty Ltd

Perth, 27 February 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS & OTHER COMPREHENSIVE INCOME

	NOTES	6 MONTHS ENDING 31 DEC 19 $	6 MONTHS ENDING 31 DEC 18 $
Revenue from contracts with customers	3	**7,774,109**	6,577,288
Cost of goods sold		**(4,376,958)**	(2,282,942)
Gross profit		**3,397,151**	4,294,346
Other income	3	**616,029**	306,669
Administration expenses	5	**(2,635,920)**	(2,648,361)
Finance costs	5	**(183,807)**	(195,771)
Marketing expenses		**(131,917)**	(131,532)
Change in fair value less husbandry costs of oysters	4	**1,751,877**	95,742
Write-off of pearl and jewellery costs		**(186,483)**	(25,699)
Other expenses	5	**(586,582)**	(931,665)
Profit before income tax		**2,040,348**	763,729
Income tax (charge) current year		**(869,274)**	(345,679)
Profit after income tax for the period from contracts with customers		**1,171,074**	418,050
Other comprehensive income			
Items that will be reclassified as profit or loss:			
Exchange differences on translation of foreign operations		**340,234**	941,610
Other comprehensive income for the period, net of tax		**340,234**	941,610
Total comprehensive income for the period		**1,511,308**	1,359,660
Profit attributable to:			
Owners of the Company		**1,511,308**	1,359,660
Total comprehensive income attributable to owners of the Company		**1,511,308**	1,359,660
Overall operations:			
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company			
Basic earnings profit per share (cents)	6	**0.28**	0.10
Diluted earnings per share (cents)	6	**0.26**	0.09

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTE	31 DEC 2019 $	30 JUN 2019 $
CURRENT ASSETS			
Cash and cash equivalents		**1,371,556**	1,017,220
Trade and other receivables		**997,146**	791,797
Derivative financial instruments		**37,527**	20,405
Inventories	7	**3,011,194**	2,227,798
Biological assets	4	**10,193,567**	7,299,854
Total current assets		**15,610,990**	11,357,074
Non-current assets			
Intangible Assets		**209,356**	243,902
Loans to joint venture entities		**1,383,782**	1,364,851
Biological assets	4	**8,948,399**	9,730,810
Property, plant and equipment		**5,588,814**	5,517,912
Right-of-use assets	8	**386,546**	-
Deferred tax assets		**2,419,794**	3,016,446
Total non-current assets		**18,936,691**	19,873,921
Total assets		**34,547,683**	31,230,995
CURRENT LIABILITIES			
Trade and other payables		**3,032,833**	3,174,823
Borrowings	9	**5,564,420**	2,870,140
Lease Liabilities	10	**332,554**	-
Current tax liabilities		**192,188**	421,675
Total current liabilities		**9,121,995**	6,466,638
Non-current liabilities			
Borrowings	9	**-**	750,000
Lease Liabilities	10	**179,791**	-
Deferred tax liabilities		**1,866,966**	1,842,223
Provisions		**105,710**	131,300
Total non-current liabilities		**2,152,467**	2,854,822
Total liabilities		**11,274,462**	9,321,460
Net assets		**23,273,219**	21,909,535
EQUITY			
Contributed equity		**36,857,415**	36,857,415
Reserves		**(7,404,197)**	(7,758,487)
Accumulated losses		**(6,179,999)**	(7,189,393)
Total equity		**23,273,219**	21,909,535

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		ATTRIBUTABLE TO THE OWNERS OF ATLAS					
	NOTE	CONTRIBUTED EQUITY $	REVALUATION RESERVE $	SHARE BASED PAYMENTS $	FOREIGN CURRENCY TRANSLATION RESERVE $	(ACCUMULATED LOSS) $	TOTAL EQUITY $
Balances at 1 July 2019		**36,857,415**	**179,179**	**873,267**	**(8,810,933)**	**(7,189,393)**	**21,909,535**
Profit for the year		-	-	-	-	1,171,074	1,171,074
Exchange differences on translation of foreign operations		-	-	-	340,234	-	340,234
Total comprehensive income/(loss) for the period		-	-	-	340,234	1,171,074	1,511,308
Transactions with owners in their capacity as owners							
Adjustment from the adoption of *AASB 16*	1.3	-	-	-	-	(161,680)	(161,680)
Balance at 1 July 2019 - restated		36,857,415	179,179	873,267	(8,810,933)	(7,351,073)	21,747,855
Employee share scheme		-	-	14,056	-	-	14,056
Balance at 31 December 2019		**36,857,415**	**179,179**	**887,323**	**(8,470,699)**	**(6,179,999)**	**23,273,219**
Balances at 1 July 2018		36,857,415	179,179	739,187	(10,269,725)	(3,606,932)	23,899,124
Profit for the year		-	-	-	-	418,050	418,050
Exchange differences on translation of foreign operations		-	-	-	941,610	-	941,610
Total comprehensive income/(loss) for the period		-	-	-	941,610	418,050	1,359,660
Transactions with owners in their capacity as owners							
Employee share scheme		-	-	16,639	-	-	16,639
Balance at 31 December 2018		**36,857,415**	**179,179**	**755,826**	**(9,328,115)**	**(3,188,882)**	**25,275,423**

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOW

	6 MONTHS ENDING 31 Dec 19 $	6 MONTHS ENDING 31 Dec 18 $
Cash flows from operating activities		
Proceeds from pearl, jewellery and oyster sales	**7,145,819**	6,440,235
Proceeds from other operating activities	**644,132**	202,314
Payments to suppliers and employees	**(8,212,372)**	(7,457,985)
Income tax (paid)	**(159,643)**	(266,078)
Interest paid	**(125,958)**	(165,976)
Interest received	**26,766**	27,536
Net cash (used) in operating activities	**(681,256)**	(1,219,954)
Cash flows from investing activities		
Payments for property, plant and equipment	**(615,476)**	(532,419)
Acquisition of subsidiary PT Disthi Mutiara Suci	**(129,321)**	(197,087)
Net cash (used) in investing activities	**(744,797)**	(729,506)
Cash flow from financing activities		
Net repayment of borrowings	**(1,018,422)**	(134,434)
Proceeds from borrowings	**3,633,113**	2,244,149
Repayment of the lease liabilities	**(246,983)**	-
Net cash provided by financing activities	**2,367,708**	2,109,715
Net increase in cash and cash equivalents	**941,606**	160,255
Cash and cash equivalents at the beginning of the period	**1,017,220**	1,278,873
Effects of exchange rate changes on cash and cash equivalents	**(587,269)**	521,705
Cash and cash equivalents at the end of the financial period	**1,371,556**	1,960,833

NOTES TO & FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

1. *Basis of Preparation*

1.1. BASIS OF PREPARATION OF HALF YEAR REPORT

The consolidated financial report for the half year reporting period ended 31 December 2019 has been prepared in accordance with the *Corporations Act 2001* and the Australian Accounting Standard *AASB 134 Interim Financial Reporting*.

The half year consolidated financial report does not include all notes normally included in the annual financial report. Accordingly, this report should be read in conjunction with the annual report for the period ended 30 June 2019 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The following new standards have been adopted by the Group during the half year period ending 31 December 2019 :

- *AASB 16 : Leases*

Refer to note 1.3. for the new accounting policy.

The Group has not elected to early adopt any new standards or amendments.

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 way 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.

1.2. GOING CONCERN

The financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of the business.

The net profit after tax for the Group for the period ended 31 December 2019 is $1.17M (30 June 2019: $3.6M loss). At 31 December 2019 the Group had a working capital balance of $5.1M (30 June 2019: $3.7M); $10.2M (30 June 2019: $7.3M) of this balance comprised of un-harvested oysters due for harvest during the next 12 months. At 31 December 2019, the Group had a net asset position of $23.3M (30 June 2019: $21.9M); $19.1M (30 June 2019: $17.0M) of this balance comprised of un-harvested oysters.

The Group's long-term strategic plan remains on course, with higher seeding targets and increased oyster stock. Oyster stocks on hand (seeded and unseeded) at 31 December 2019 is 2.8M shells (30 June 2019: 2.7M shells).

The Group has met revenue forecasts for the half year. The number of pieces and quality of shells harvested for the half year are showing a slight improvement on results observed in the year ended June 2019.

In July 2019, the Company secured short term funding of ¥200M (AUD $2.6M), repayable by 30 June 2020, to bridge working capital requirements.

The Group's core debt facility remains in place and repayments are expected to be made on schedule. The balance of the debt owing to the Martin Family is $2.5M at 31 December 2019. The loan is to be repaid in staggered payments by October 2020.

The ability for the Group to both meet its debt repayments and continue to fund its working capital requirements are dependent upon:

- the international market for wholesale loose white south sea pearls maintaining existing demand levels and pricing;
- the Group meeting auction forecasts;
- the quality of harvested pearls meeting valuation expectations;
- the Group achieving profitable operations with positive operating cash flows; and
- obtaining short term funding to bridge working capital requirements

These conditions indicate a material uncertainty that may cast a significant doubt about the Group's ability to continue as a going concern and, therefore, the Company may be unable to realise its assets and discharge its' liabilities in the normal course of business.

Management have reasonable grounds to believe that the Group will continue as a going concern. The profile of the most recent pearl harvest is an improvement on the previous six-month average. Short term funding has been obtained and will enable the Company to effectively manage its harvest schedule.

Should the Group be unable to continue as a going concern it may be required to realise its assets and discharge its liabilities other than in the normal course of business at amounts different to those stated in the financial statements. This financial report does not include any adjustments relating to the recovery and classification of recorded asset amounts or the amounts or classification of liabilities and appropriate disclosure that may be necessary should the Group be unable to continue as a going concern.

1.3. LEASES

The Group has adopted *AASB 16* from 1 July 2019. The standard replaces *AASB 117 'Leases'* and for lessees eliminates the classification of operating and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs).

In the earlier periods of the lease, the expenses associated with the lease under *AASB 16* will be higher when compared to lease expenses under *AASB 117*. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss.

For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities.

(i) Impact of adoption

AASB 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated. The impact of adoption on opening retained earnings as at 1 July 2019 was as follows:

	1 JUL 2019 $
Operating lease commitments as at 1 July 2019 *(AASB 117)*	**715,622**
Operating lease commitments discount based on the weighted average incremental borrowing rate of 6.12% *(AASB 16)*	**(671,733)**
Accumulated depreciation as at 1 July 2019 *(AASB 16)*	**(1,876,114)**
Right-of-use assets *(AASB 16)*	**2,424,512**
Lease liabilities *(AASB 16)*	**(671,733)**
Tax effect on the above adjustments	**11,782**
Reduction in opening retained earnings as at 1 July 2019	**(161,680)**

(ii) Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

(iii) Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

2. *Segment Reporting*

2.1. 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 31 December 2019 is as follows:

31 DECEMBER 2019	WHOLESALE LOOSE PEARLS		JEWELLERY		TOTAL
	AUSTRALIA $	INDONESIA $	AUSTRALIA $	INDONESIA $	$
Total segment revenue	6,455,791	6,659,768	391,403	271,914	13,778,876
Inter-segment revenue	-	(6,011,061)	-	-	(6,011,061)
Revenue from external customers	**6,455,791**	**648,707**	**391,403**	**271,914**	**7,767,815**
At a point in time	6,455,791	648,707	391,403	271,914	7,767,815
Over time	-	-	-	-	-
	6,455,791	**648,707**	**391,403**	**271,914**	**7,767,815**
Normalised EBITDA	**694,553**	**117,941**	**(78,800)**	**(160,967)**	**572,727**
Net operating profit/(loss) before income tax	**360,170**	**22,907**	**(104,116)**	**(166,955)**	**112,006**
Total segment assets					
31 December 2019	**2,278,689**	**27,884,059**	**107,050**	**473,689**	**30,743,487**
30 June 2019	1,185,456	24,217,500	366,040	1,080,091	26,849,086
Total segment liabilities					
31 December 2019	**(761,916)**	**(2,346,698)**	**(21,579)**	**(8,350)**	**(3,138,543)**
30 June 2019	(1,870,442)	(2,248,279)	(27,345)	(41,356)	(4,187,422)

ii. The segment information provided to the Board of Directors and management team for the reportable segments for the period ended 31 December 2018 is as follows:

31 DECEMBER 2018	WHOLESALE LOOSE PEARLS AUSTRALIA $	 INDONESIA $	JEWELLERY AUSTRALIA $	 INDONESIA $	TOTAL $
Total segment revenue	6,000,587	5,743,098	93,222	254,505	12,091,412
Inter-segment revenue	-	(5,534,998)	-	-	(5,534,998)
Revenue from external customers	**6,000,587**	**208,100**	**93,222**	**254,505**	**6,556,414**
Timing of revenue recognition					
At a point in time	6,000,587	208,100	93,222	254,505	6,556,414
Over time	-	-	-	-	-
	6,000,587	208,100	93,222	254,505	6,556,414
Normalised EBITDA	**972,533**	**698,078**	**(144,868)**	**2,380**	**1,528,123**
Net operating profit/(loss) before income tax	**720,316**	**645,799**	**(160,906)**	**(4,665)**	**1,200,544**
TOTAL SEGMENT ASSETS					
31 December 2018	**3,343,781**	**25,964,470**	**326,198**	**1,013,136**	**30,647,585**
30 June 2018	1,921,577	23,387,021	301,816	836,207	26,446,622
Total segment liabilities					
31 December 2018	**(1,004,434)**	**(1,839,071)**	**(15,098)**	**(23,331)**	**(2,881,934)**
30 June 2018	(539,440)	(1,812,958)	(8,928)	(20,896)	(2,382,222)

2.2. OTHER SEGMENT INFORMATION

(i) Net operating profit

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 net operating profit/(loss) before income tax is provided as follows:

	6 MONTHS ENDING 31 DEC 2019 $	6 MONTHS ENDING 31 DEC 2018 $
Net operating profit before tax	**112,006**	1,200,544
Changes in fair value of biological assets	**1,565,394**	70,043
Foreign exchange gains	**572,141**	279,133
Foreign exchange losses	**(226,317)**	(759,529)
Other	**17,124**	(26,462)
Profit before income tax from continuing operations	**2,040,348**	763,729

(ii) 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:

	31 DEC 2019 $	30 JUN 2019 $
Segment assets	**30,743,487**	26,849,086
Unallocated:		
Joint Venture Loans	**1,384,400**	1,365,463
Deferred tax assets	**2,419,796**	3,016,446
Total assets as per the statement of financial position	**34,547,683**	31,230,995

The total of non-current assets other than financial instruments and deferred tax assets located in Australia is $1,399,708 (30 June 2019: $2,890,036). The total located in Indonesia is $10,806,555 (30 June 2019: $15,203,333).

(iii) 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:

	31 DEC 2019 $	30 JUN 2019 $
Segment liabilities	**3,138,543**	4,187,422
Unallocated:		
Current tax liabilities	**192,194**	421,675
Borrowings	**6,076,765**	2,870,140
Deferred tax liabilities	**1,866,963**	1,842,223
Total liabilities as per the statements of financial position	**11,274,465**	9,321,460

3. *Revenue from contracts with customers*

3.1. REVENUE FROM CONTRACTS WITH CUSTOMERS

	6 MONTHS ENDING 31 DEC 2019 $	6 MONTHS ENDING 31 DEC 2018 $
Sales revenue		
Sale of goods	**7,767,815**	6,556,414
Other revenue		
Other Revenues	**6,294**	20,874
Total revenue from contracts with customers	**7,774,109**	6,577,288

3.2. OTHER INCOME

	6 MONTHS ENDING 31 DEC 2019 $	6 MONTHS ENDING 31 DEC 2018 $
Foreign exchange gains	**572,141**	279,133
Gain on derivative financial instruments	**17,122**	-
Interest income	**26,766**	27,536
Total other income	**616,029**	306,669

4. Biological Assets

	31 DEC 2019 $	30 JUN 2019 $
Current		
Oysters - at fair value	**10,193,567**	7,299,854
Total current biological assets	**10,193,567**	7,299,854
Non-current		
Oysters – at fair value	**8,948,399**	9,730,810
Total current biological assets	**8,948,399**	9,730,810
Total biological assets	**19,141,966**	17,030,664

During the six months ended 31 December 2019, no significant events occurred which impacted on oyster mortalities.

There is a fair value adjustment uplift of $1.8M at 31 December 2019 as a result of the oyster valuation review conducted. The increase in the number of oyster stocks on hand has positively impacted the valuation upward, however a reduction in the assumptions in relation to sellable price of future harvests has had a negative impact on the valuation.

5. Profit / (loss) before income tax includes the following specific items

5.1. ADMINISTRATION EXPENSES FROM ORDINARY ACTIVITIES

	6 MONTHS ENDING 31 DEC 2019 $	6 MONTHS ENDING 31 DEC 2018 $
Salaries and wages	**1,620,862**	1,616,669
Depreciation property, plant and equipment and amortisation of intangible assets	**164,936**	149,701
Depreciation on right-of-use assets	**123,509**	-
Operating lease rental costs	**113,763**	265,346
Compliance and accounting	**183,899**	170,960
Travel	**127,347**	171,369
Other	**301,605**	274,316
Total administration expenses	**2,635,920**	2,648,361

5.2. FINANCE COSTS

	6 MONTHS ENDING 31 DEC 2019 $	6 MONTHS ENDING 31 DEC 2018 $
Interest and finance charges payable on borrowings	**161,383**	195,771
Interest and finance charges payable on lease liabilities	**22,424**	-
Total finance costs	**183,807**	195,771

5.3. OTHER EXPENSES

	6 MONTHS ENDING 31 DEC 2019 $	6 MONTHS ENDING 31 DEC 2018 $
Loss on foreign exchange	**226,317**	759,529
Loss on derivative financial instruments	**-**	26,462
Provision for employee entitlements	**48,255**	51,307
Share option expense	**14,056**	16,639
Loss on disposal of property, plant and equipment	**244,557**	-
Other	**53,397**	77,728
Total other expenses	**586,582**	931,665

6. *Earnings profit / (loss) per share*

	31 DEC 2019 $	31 DEC 2018 $
Basic earnings/(loss) per share (cents per share)	**0.28**	0.10
Diluted earnings per share (cents per share)	**0.26**	0.09

6.1. EARNINGS RECONCILIATION

	6 MONTHS ENDING 31 DEC 2019 $	6 MONTHS ENDING 31 DEC 2018 $
Net profit used for basic earnings	**1,171,074**	418,050
After tax effect of dilutive securities	**-**	-
Diluted earnings	**1,171,074**	418,050

	31 DEC 2019 No.	31 DEC 2018 No.
Weighted average number of ordinary shares outstanding during the period used for calculation of basic earnings per share	**424,809,620**	422,357,622
Adjustments for calculation of diluted earnings per share: options	**17,596,165**	21,269,930
Weighted average number of potential ordinary shares outstanding during the period used for calculation of diluted earnings per share	**442,405,785**	443,627,552

Diluted earnings per share is calculated after taking into consideration all options and any other securities that were on issue that remain unconverted at 31 December 2019 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.

7. *Inventories*

	31 DEC 2019 $	30 JUN 2019 $
Current		
Pearls	**2,572,514**	1,046,377
Jewellery	**438,680**	1,181,421
Total current inventory	**3,011,194**	2,227,798

8. *Right-of-use Assets*

	31 DEC 2019 $
Land and Buildings – Right-of-use	2,424,512
Less: Accumulated depreciation	(2,037,966)
Total right-of-use assets	**386,546**

The Group leases two buildings for its offices, under agreements of between five to fifteen years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated. The Group also leases land and buildings for its oyster farms, these leases are exempted from application of *AASB 16* because they are associated with leases of biological assets within the scope of *AASB 141 Agriculture* held by a lessee.

9. *Borrowings*

	31 DEC 2019 $	30 JUN 2019 $
Current		
Other loans	**5,564,420**	2,870,140
Total current borrowings	**5,564,420**	2,870,140
Non current		
Other loans	-	750,000
Total non-current borrowings	**-**	750,000
Total borrowings	**5,564,420**	3,620,140

On 9 April 2019, the Company agreed to an unsecured short term loan of ¥200,000,000 (AU $2.65M). The loan is to be repaid in full on or before 30 June 2020.

10. *Leases*

Lease liabilities are presented in the statement of financial position as follows:

	31 DEC 2019 $
Lease liabilities (current)	**332,554**
Lease liabilities (non-current)	**179,791**
Total lease liabilities	**512,345**

The Group has leases for an office in Claremont, Australia and Sanur, Indonesia.

11. *Contributed equity*

	31 DEC 2019 NO. OF SHARES	30 JUN 2019 NO. OF SHARES	31 DEC 2019 $	30 JUN 2019 $
Issued and fully paid-up capital	**422,909,620**	422,909,620	**36,857,415**	36,857,415
Ordinary shares				
Balance at beginning of period	**424,809,620**	424,809,620	**36,857,415**	36,857,415
Shares issued	**-**	-	**-**	-
Share transaction costs	**-**	-	**-**	-
Balance at end of period	**424,809,620**	424,809,620	**36,857,415**	36,857,415
Treasury shares				
Balance at beginning of period	**3,062,138**	3,062,138		
Shares released	**-**	-		
Balance at end of period	**3,062,138**	3,062,138		

Treasury shares are shares in Atlas Pearls that are held by the Atlas Pearls Ltd Executive Share Plan Trust for the purpose of issuing shares under the Atlas South Sea Pearl Employee share plan. No treasury shares were issued over the half financial year ended 31 December 2019 to employees as part of the Atlas employee share salary sacrifice plan (30 June 2019: Nil).

12. *Fair Value Measurement of Financial Instruments*

A) Fair value hierarchy

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

a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)

b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2), and

c) inputs for the asset or 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 31 December 2019 and 30 June 2019 on a recurring basis:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
31 December 2019	$	$	$	$
Assets				
Forward Exchange Contracts	-	37,527	-	37,527
Biological Assets	-	-	19,141,966	19,141,966
Total assets	**-**	**37,527**	**19,141,966**	**19,179,493**
30 June 2019				
Assets				
Forward Exchange Contracts	-	20,405	-	20,405
Biological assets	-	-	17,030,664	17,030,664
Total assets	**-**	**20,405**	**17,030,664**	**17,051,069**

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.

The Group is exposed to financial risk in respect of its involvement in primary production, which consists of 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 expenditure of cash in relation to the operation of the farm and the harvesting of the pearls and realisation of cash receipts from 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 as the significant inputs used in the model are not based on observable market data. The data is taken from internal management reporting work and work completed by the executive within the respective field teams to determine the material inputs in the model. The key inputs are confirmed with the relevant executives and agree with the Board of Directors every six months. These are listed in point c) below.

(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 six months to 31 December 2019. There were also no changes made to any of the valuation techniques applied as of 30 June 2019.

C) FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)

The following table presents the changes in level 3 Instruments for the half year ended 31 December 2019:

	BIOLOGICAL ASSETS $
Opening balance 30 June 2019	17,030,664
Additions	1,760,774
Gains recognised though 'change in fair value'	2,987,689
Losses recognised though 'change in fair value'	(2,637,161)
Closing balance at 31 December 2019	**19,141,966**

(i) Valuation inputs

INPUT	31 DEC 2019	30 JUN 2019	COMMENTARY
Average selling price	**¥ 13,000 per momme**	¥ 13,200 per momme	Obtained by analysing sales price achieved and the trend analysis of the past 12 months of average sales prices.
Yen exchange rate	**¥ 76.28 : AUD 1**	¥ 75.73 : AUD 1	Based on the forward Yen price per a financial institution.
Average pearl size	**0.38**	0.37	Based on technical assessment of expected harvest output and taking into account historical actual results over the past 12 months.
Proportion of marketable grade	**34%**	36%	Based on historical data for pearl grade over the past 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	**$2.57**	$2.46	Based on independent calculation.
Costs to complete	**$0.83**	$0.77	Based on historical averages of costs to complete and sell pearls per momme.

13. Events occurring after the reporting period

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

14. Related party transactions

During the half-year ended 31 December 2019, due to resignation of Mr. Fallourd in September 2019, Mr. Geoffrey Newman has agreed to increase his responsibilities and step into the role as Executive Chairman having been part of the Atlas Board since October 2010 and Chairman since 2015. Mr Newman brings broad skill set including experience in strategic leadership, transaction negotiations and agriculture and aquaculture industry knowledge. As a result of the restructure, Mr. Newman's remuneration have been increased to $198,000 (0.6 FTE) p.a. inclusive of statutory superannuation

DIRECTORS' DECLARATION

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:

   1. give a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of the performance for the period ended on that date; and

   2. comply with Accounting Standards, and the *Corporations Act 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.

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:

Geoff Newman
Executive Chairman
Perth, Western Australia
27 February 2020

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Atlas Pearls Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Atlas Pearls Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2019, 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 half-year then ended, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group is not in accordance with the Corporations Act 2001 including:

(i) Giving a true and fair view of the Group's financial position as at 31 December 2019 and of its financial performance for the half-year ended on that date; and

(ii) Complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

Emphasis of matter – Material uncertainty relating to going concern

We draw attention to Note 1 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our conclusion is not modified in respect of this matter.

Directors' responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the Group's financial position as at 31 December 2019 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO Audit (WA) Pty Ltd

BDO

Dean Just

Director

Perth, 27 February 2020