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ATLAS

PEARLS AND PERFUMES



Celebrating the natural gifts of the South Sea Islands.

Atlas Pearls and Perfumes Ltd is a dynamic, ASX listed company (ATP) sustainably producing pearls and plants as nature intended. These natural materials are among the best in the world and are showcased as finished products in pearl jewellery, fragrances and cosmetics through Atlas retail brands.

The company nurtures, creates and retails high quality luxury products, which, through their formation, are inextricably linked to the well-being of surrounding communities and environments.

Atlas pearls touch so many hearts and are an essential part of the remote communities throughout the South Seas.

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W E L C O M E

Welcome

I took on the role of Executive Chairman of Atlas in January 2010.

The last five years have been a troubled and an unprecedented period in relation to world economic affairs. Based on the 2013/14 financial results, I want to take this occasion to reflect and thank my co-directors, staff, customers, suppliers and shareholders for all of your contributions to the delivery of a five year plan that has resulted in Atlas emerging from the global financial recession as a stronger and more sustainable luxury ingredient supplier.

Atlas is pleased to announce that it lifted gross earnings by 56% in 2013/14; this represents the Company's highest gross revenue in its 20 year history. Significantly, this has been achieved while lifting gross profit from 60% to 62%.

RECORD REVENUE

1. Record revenue of \$16.28m for the 12 months ending 30 June 2014.
2. Closed the period with \$2.66m in liquidity (cash and headroom in bank facility access).
3. EBITDA of \$3.47m. Strong sales results in the June auction have had a positive impact on Normalised EBITDA 2013/14.
4. Sales of essential oils of \$2.02m in the 2013/14 period, improving on the revenue for the 6 months to 30 June 13 of \$503,076.
5. Overall Gross Profit percentage increased to 62% for the 12 months to 30 June 2014 from 60% in 30 June 2013 results as loose pearl prices rose due to the reduced supply of white South Sea pearls driven by lower global production.

Table One:
Increased Revenue and Profits for 2013/14

| | 12mnths 30-Jun 2014 \$ | 12mnths 30-Jun 2013 \$ | Move- ment \$ |
|------------------------------|---------------------------------|---------------------------------|---------------------|
| Revenue | 16,283,183 | 10,453,703 | 5,829,480 |
| Normalised EBITDA | 3,470,313 | (363,078) | 3,833,391 |
| NPBT | 1,458,642 | (4,237,906) | 5,696,548 |
| NPAT | 1,813,922 | (944,694) | 2,758,616 |

* 2012/13 is the normalised 12 Month period ending 30 June 2013.

LICENSING BIOTECHNOLOGY INNOVATIONS

Atlas is viewing pearls with fresh eyes, going beyond the mere beauty of the gem, by extracting the very elements that trigger the formation of the pearl itself. Atlas has extracted a number of active ingredients from the pearl oyster (shell and soft tissues).

Due to the strategic point of difference in the luxury supply chain it has enabled Atlas to open direct dialogue with multi-national brands that offer significant upside for the sale of extracts as well as stimulating new markets for the export of loose pearls and pearl jewellery.

The pearling industry needs to diversify and maximise the use of by-products to build new income streams.



STEPHEN BIRKBECK - CEO & Chairman



TINA ARENA - Singer Song-writer

Atlas has initiated research in the USA, Europe, Asia and Australia on a wide range of applications of pearl extracts in the following sectors:

- 1) Perfume
- 2) Cosmetics
- 3) Jewellery and
- 4) Pearl Farming (seeding of oysters).

This research aims to create demand for the Atlas pearl extracts. This in turn is providing a platform for Atlas to build its corporate profile with a range of luxury brands that see the emerging Corporate Social Responsibility as a key business practice of the 21st Century.

LEVERAGING OFF INDONESIAN ASSETS

As this report demonstrates, the acquisition of EOT has been a success with sales exceeding budget forecasts. The Tasmanian technical IP hub is allowing Atlas to commercialise its pearl powder research and through perfume exports to diversify its revenue streams into the luxury sector.

Atlas is now reviewing how it can combine its Indonesian operational assets to complement Tasmanian technical skills to enter the world's second largest flavour and fragrance market.

There are various short-term growth opportunities in Indonesia that can harness the synergies between our Group's assets, (the Tasmanian and Indonesian work-forces). Atlas has developed a deep knowledge and understanding of business in Indonesia; this accompanied by the Group's existing geographical presence, sourcing and logistical capabilities puts the Company in a unique position to take advantage of this growing market.

CORPORATE SOCIAL RESPONSIBILITY

Cradle to Cradle - 3,000 Hands

The research and commercialisation of pearl extracts is aimed at establishing a deeper luxury connection between the pearl and humans, beyond the visible spectrum of jewellery and is fully aligned with the Atlas cradle to cradle sustainability commitment of making the most out of each and every part of the material that the Company uses to create value.

The Atlas Corporate Responsibility approach is fundamental to the Company's DNA. Recent 21st century market trends provide Atlas with substantial opportunities as licensing partner targets are made aware of the depth of actions taken.

We remain committed to being a global force in luxury Corporate Social Responsibility and intend to pioneer a cradle to cradle approach to the pearl and perfume supply chains by respecting the regional communities and environment in which we work.

VALUE ADDED DIVISION

This division is designed by activities that take our luxury production streams and develop designs, concepts technologies, and markets to substantially increase the price and margin for its farmed produce.

CREATIVE TEAM

Atlas continues to build its Paris and New York based support base for designs, concepts and licensing. With a range of jewellery collaborations being launched over the next year I would like to welcome world leading pearl jewellery designer Simon Henderson to the team.

Over the last four weeks Atlas has had the pleasure of working closely with Tina Arena, who is spearheading the work of a new creative team that is dedicated to joining the genres of perfume and pearls. Her 39 year career is unprecedented in her chosen art-form. A lady of elegance, Tina shares strong roots in France with Atlas and has taken the bold move to invest in Atlas and work towards a common future.

ACKNOWLEDGMENTS

Atlas was announced as a finalist in the WA Industry and Export Awards that will be held on the 24th October 2014, where winners will be selected for the prestigious national finals held in Sydney in November 2014.

Our Indonesian and Tasmanian regional workforces are the reason that we have been able to survive in a marketplace that has proven too tough for many in the pearling industry. The team's sacrifices, work ethic and passion give our Board and senior management the self-belief required through the difficult times.

Stephen Birkbeck
Chairman and CEO

PEARL FARMING

At the heart of Atlas' pearling success are the people of our Company who work passionately and harmoniously with nature to produce some of the world's finest South Sea pearls.

As a world-leader in the successful cultivation of silver and white South Sea pearls from the *Pinctada maxima* we consistently strive to enhance efficiency and productivity of the Company's core business - pearl farming.



PIERRE FALLOURD - Vice President of Pearling

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The last financial year has seen a broadened focus from expanding value added activities to placing further attention on epitomising pearl farming operations through research and development initiatives and an innovative, scientific approach.

With a wide range of water and land assets spread over a diverse geographical range Atlas has a strong foundation to mitigate risk and propel the company into the next financial year with stabilisation and expansion of revenue streams.

PEARL PRODUCTION

In the past five years we have expanded our scale of production. In 2014/15 we estimate Atlas will be producing over 350 kg's of high quality "sellable" pearls – a 100% increase in the core element of the Company's exports.

In the next financial year we will see our second major hub growing to optimal scale with this achievement made all the more remarkable despite the global financial crisis (GFC) causing fiscal hardship to the sector, and a contraction in the global pearling industry.

TRADING

Atlas completed the year strongly with the best auction results achieved since the GFC commenced. This supports our belief that our sales strategy of holding fewer, bigger auctions is paying off and that there is a growing and sustainable demand for the 9-13 mm specialty pearl size, a category for which we have now built our global reputation as a market leader. We are now able to consistently produce harvests of this highly prized and sought after specification of white South Sea pearls.

WHOLESALE

Wholesale grew 50% from \$600k to \$900k in the last financial year. The increase in number of sales can be attributed to retailers as opposed to wholesalers. A positive sign demonstrating that our presence in Perth, Western Australia is practical, efficient and serving key retailers.

The continued success of our pearl farming division has been made possible through an increase in synergy between all involved in the long and complex pearl value chain, stretching from our dedicated workforce in Indonesia right through to our head office team in Australia.

BEYOND
BEAUTY





DANIELLE BRANDENBURG - CFO



At Atlas Pearls and Perfumes, beauty is at the heart of everything we do.

We understand that to build new income streams our Company and the pearling industry as a whole need to diversify and maximize the use of by-products.

The past year has seen the value added divisions at Atlas expand greatly.

Our utilisation of oyster by-product, stranding and matching capabilities coupled with a unique desire to delve beyond the beauty of the pearl and discover further benefits of these wondrous gems, places the Company in a strong position with a diversified product range for the next financial year.

JEWELLERY DESIGN AND SOUTH SEA PEARL MATCHING

Atlas creates a wide range of aspirational and elegant pearl jewellery.

From classic to contemporary styles, each piece showcases the pure beauty of the pearl. We are acknowledged for our value, consistency and unfaltering ability to match quality South Sea pearls. Atlas has also developed an international reputation in the high-demand category of 9-13mm white and silver South Sea pearls.

One of the main aims of our value-added division is to take the highly praised Atlas South Sea pearl and create breathtaking and meaningful jewellery.

Our designs are the result of an in-house team and also selected imported work from internationally acclaimed designers, allowing Atlas retail to offer a range of exquisite designs showcasing the beauty and authenticity of the pearl.

Atlas has five retail outlets in Bali (Indonesia); two tourism operations at other South Sea island pearling centres including Alyui Bay, West Papua and Punggu Island located near the island of the Komodo Dragon.

Atlas has its global headquarters in Claremont, Western Australia – along with a magnificent retail showroom.

With an exceptional selection of pearls and world-class design capabilities the possibilities are endless with Atlas.

INNOVATION

At Atlas we are viewing pearls in a new light, going beyond the mere beauty of the gem, by extracting the very elements that trigger the formation of the pearl itself. Atlas has extracted a number of active ingredients from the pearl oyster (shell and soft tissues).

Due to the strategic value of such points of difference in the luxury supply chain it has enabled us to open direct dialogue with multi-national brands that offer significant upside for the sale of extracts as well as stimulating new markets for the export of loose pearls and pearl jewellery.

There is substantial value adding from pearl by-products (pearl shell, soft tissue and substandard pearls) that are currently discarded or earning less than \$3.00 kg.

Atlas has initiated research in the USA, Europe, Asia and Australia on a wide range of applications of pearl extracts in the following sectors: 1) Perfume; 2) Cosmetics; 3) Jewellery; and 4) Pearl farming (seeding of oysters). This research aims to create demand for the Atlas pearl extracts.

Recognising that the pearl represents less than 1 % of the total bio-mass of the oyster, we have invested significantly in unlocking the active ingredients in the bio-mass highlighted by its acquisition of Essential Oils of Tasmania. Atlas' patented extractive technology, when applied to the 100 tonnes of annual bio-mass, transforms the low value by-product into key active components of perfume and as an active cosmeceutical. Already demonstrating compelling efficacy, global demand for these products is evident in Atlas' advanced negotiations with an international multi-national skin care company.

This in turn is providing a platform for Atlas to build its corporate profile with a range of luxury brands that see Corporate Social Responsibility as an essential business practice in the 21st Century.

ATLAS PEARLS AND PERFUMES • 2014

RESEARCH AND
TECHNOLOGY

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DR. JOSEPH TAYLOR - Non Executive Director

Research results and the commercialization of technology were very exciting for 2013/14. The long-term selective pearl oyster breeding and genetic improvement programme in Indonesia reached a major milestone with virgin pearl oysters reaching seeding maturity within record time. In prior seasons less than 30% of any pearl oyster generation could be seeded below 22 months of age. In FY13/14 76% of the virgin pearl oyster stock was seeded by 21 months of age. This result reduces dramatically the production cycle from birth to harvest and will impact positively on the cost of growing a pearl.

The selective breeding and genetic improvement programme is now housed within a dedicated research hatchery and associated farm area. This facility will provide the "stud" oyster stock for our commercial operations and continue to develop key pedigree lines. The programme has received further support through an Australian Research Council grant that helps fund the ongoing collaboration with James Cook University. This project has now entered phase three into unravelling the complex genetic processes that control pearl development.

During the same period the first scientific studies were completed on the potential benefits of pearl oyster tissue, protein and powder extracts on the genetic activity of human skin cells. In total 9 different key pearl oyster extracts produced by EOT were tested using microarray DNA technology with human skin cells. The results demonstrated effects on the genes responsible for the production of collagen, elastin and hyaluronic acid – all major factors in skin health – as well as anti oxidant activity. These results suggest that the pearl, famous as a traditional skin care

treatment, has scientifically valid potential to improve human skin health.

These same extracts are being tested in the pearl surgery process as potential boosters for natural process of growing a pearl. In effect we are putting key bioactive pearl extracts back into the oyster to stimulate the nacre building process. Preliminary results demonstrated an improvement in the success of pearl seeding surgery with a higher percentage of pearls resulting when oysters were treated with the extracts.

EOT received a \$1.1M grant from AusIndustry in support of commercialising IP developed for the extract. Raw materials include: pearl and pearl oysters, Manuka, Blackcurrant, Sea Lettuce, Tasmanian Mountain Pepper, Fire Tree, Truffles and bioactive compounds. EOT is considered preeminent in extractive technology of natural ingredients.

The grant has provided funds to purchase and commission the first purpose built, commercial scale Supercritical Liquid CO₂ Extraction Device in Australia. The key advantage of the device is the ability to separate essential oils, fragrances and

bioactive compounds without the use of chemical solvents, which as a consequence, results in extracts that can be organically certified. Almost any natural raw material can be fed into the machine.

Using the same funding, a commercial scale pearl powdering mill was also built. This mill can process large volumes (500Kg/day) of mother of pearl shell and produce highly refined micronised pearl powder for the cosmetic and health industry. Research utilising the pearl powder continues including creating ingestible products for the wellness industry.

Atlas is anticipating even more advances in the research and technology division during 2014/15.

ESSENTIAL OILS OF TASMANIA

Hobart-based, Essential Oils of Tasmania (EOT) is a 100% owned subsidiary of Atlas and produces a wide range of essential oil products for use in perfume, pharmaceutical and food industries. Crops include Lavender, Boronia, Tasmanian Native Mountain Pepper, Parsley, Fennel and Peppermint.



STEPHEN GLEESON
Managing Director - Essential Oils of Tasmania

Atlas acquired EOT in January 2013 to strengthen our Company's ability to use the Company's Intellectual Property (IP) and become a processor and exporter of perfume and cosmetic ingredients. The core rationale behind the acquisition was to protect five years of pearl powder research and have EOT deliver the skill base to expand the R & D and commission a pearl powdering facility.

EOT Sales for the 2013/14 year were \$2.02 million, which is a substantial improvement on the previous fiscal year (six month sales to 30th June 2013 were \$503,076).

While there is on-going revenue growth potential in Tasmania, we are continuing to work on ways of combining the Australian extraction IP with our team's intimate and long standing knowledge of operating businesses successfully in Indonesia - the world's second largest flavour and fragrance perfume export market.

There are various short-term growth opportunities in Indonesia that can harness the synergies between our Group's assets, the Tasmanian and Indonesian work-force. Atlas has developed a deep knowledge and

understanding of business in Indonesia, this accompanied with the Group's existing geographical presence, sourcing and logistics capabilities puts the Company in a unique position to take advantage of this growing market.

COMMERCIALISATION GRANT

In May 2014 EOT was awarded a \$1.1 million AusIndustry grant to support the commercialisation of its propriety innovative extraction technology and secure long term supply agreements for these products.

The grant has provided immediate benefits including the creation of regional jobs and export opportunities along with the ability to plan and, in the next three years, create a state of the art manufacturing and extraction facility.

The funding will lay the foundations for an Australian perfume industry that will provide a blueprint for Australian IP to develop stronger agribusiness ties internationally.

It is expected the centre will contribute to the Tasmanian economy in terms of skilled job creation, exports and wide ranging collaboration with global organisations in the luxury industry.

Currently, EOT has over 300 ha of crops it owns (or that are under contract for food flavouring) that have created employment in Tasmania. By diversifying into perfume extractions, this project will lead to the creation of further job opportunities in the region.

TINA ARENA FRAGRANCE

Our recent announcement that Atlas will be creating Australia's first luxury fragrance with singer, song-writer Tina Arena is set to launch Australia into new territory, breaking into the traditional European perfume market and putting Tasmania on the map. The global perfume venture will focus worldwide attention on the incredible crops of EOT and the pristine wonders that the great state of Tasmania has to offer, whilst leading the charge for a new generation of perfume and cosmeceuticals.

It is extracts from the crops, produced on 20 farms across Tasmania's clean environment that will feature in the production of the perfume collaboration, alongside world best plant extracts from France.

FRAGRANCE & COSMETICS DEVELOPMENT

As pioneers of pearl-perfume extraction, Atlas Pearls and Perfumes' explorative gains in pearling are transcending through to the world of fragrances and cosmetics.

The Company's Fragrance and Cosmetic Division is working on a number of exciting projects.





NELSON ROCHER
Head of Development: Perfumes & Cosmetics



TINA ARENA

This year Atlas announced our collaboration with Australia's most successful female recording artist, Tina Arena.

The partnership includes the development of a luxury fragrance utilising quality ingredients from Essential Oils of Tasmania (EOT) and products from France – Tina Arena's adopted home.

Renowned French perfumer Bertrand Duchaufour has been working with Project Manager Nelson Rocher and Tina Arena to create the scent. French company MAKAO is designing the fragrance bottle and packaging.

Tina Arena has been involved in every step of the perfume development process and describes the collaboration "As a blend of beauty from both countries."

Atlas plans to unveil the perfume in 2015.

PEARL COSMETIC BRAND

Atlas is developing an exciting brand based on the properties of the pearl and featuring pearl extract.

Over the past two years we have conducted significant research and development into the efficacy of pearl extracts, with excellent results.

Pearl nacre (shell) has been powdered and then had propriety technology applied to extract key pearl proteins and pearl amino acids. A range of extracts from the shell and soft tissue have simultaneously been tested and experimented in preliminary in-vitro trials in the USA on human DNA to scope key areas of ongoing interest for our key global customer targets (multi-national beauty brands that also sell jewellery). The objective is to validate

traditional Chinese medicinal claims on human cells cultured in the US to determine a range of pearl extract rejuvenation properties on human soft tissues.

These and other in-vitro "proof of concept" trials are vital in securing long term export agreements with larger companies that wish to partner with Atlas as a unique supplier of active ingredients that are complemented with a strategic marketing proposition

The Company has engaged a leading Paris-based luxury creative agency to finalise a strategic plan to maximise the commercial roll out of pearl cosmetics and a pearl perfume extract innovation (2008) that Atlas purchased the rights to in 2011. Nelson Rocher will direct the brief which aims to launch and commercialise specific pearl market concepts and technologies related to its extracts and pearl jewellery through incubating proof of concept marketing trials in Atlas retail shops. If the roll out trial is successful, Atlas will work with a Paris based agent, luxury brand customer base and its own extensive Paris and New York based luxury networks to identify various licensing opportunities for these innovations and products.

Distribution will focus on the global retail jewellery sector, generating further synergies by upselling Atlas pearls in finished supporting jewellery. The pearl perfume extract is unique to Atlas. The extraction of the fragrance of the pearl provides Atlas with a range of other commercial opportunities to explore.

ESSENTIAL OILS OF TASMANIA

To celebrate the beauty and purity of Tasmania, Essential Oils of Tasmania has developed five fragrances, to be launched in late 2014.

Michel Roudnitska, son of legendary Grasse perfumer, Edmond Roudnitska, was critical to the development of the five fragrances. Each fragrance will utilize EOT oils, and will specifically highlight each of EOT's signature ingredients: Mountain Pepper; Boronia; Fire Tree; Lavender and Pearl.

The finished scents will be the first consumer products to come out of EOT.

PEARL JEWELLERY APPLICATIONS

Research has been conducted in collaboration with the Gemological Institute of America to measure the potential benefits of various active ingredients on pearl luster (shine) and also tests on the internal structure of the pearl to measure potential impact on Orient (the ability to refract light). Research has been conducted that follows a protocol very similar to a cosmetic clinical test to reveal the impact on the internal structure of each pearl exposed to accelerated aging in the different environments selected using propriety active ingredients.

Establishing successful correlations between human and pearl skin is unique to Atlas. We are pioneering a new approach with the expressed aim of lifting the global demand for pearls and pearl jewellery which currently represents less than 5% of retailers' inventory value added sales.

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CORPORATE SOCIAL RESPONSIBILITY

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MORE THAN 800 ATLAS EMPLOYEES AROUND THE WORLD.



CRADLE TO CRADLE

Over 3000 hands nurture the journey of an Atlas creation into yours. From the moment nature's treasure is born until the finished product is delivered into the hands of the wearer, we infuse care, love and respect. We operate with the innate philosophy of creating and sharing items of sustainable beauty. This is achieved through harmoniously working to enhance the economic, environmental and social well-being of the communities and locations in which we operate.

Atlas farming operations, whether they are land or sea-based, strive to consistently create and build stable economies in remote areas. Core to our belief is optimising every aspect of our production, ensuring there is minimal wastage and that all the richness of the oyster and the pearl is realised in meaningful ways. To enhance the communities who are integral to the success of Atlas we endeavour to provide support through scholarship, sponsorship and community development programs whilst encouraging a culture whereby knowledge is transferred and skills are shared.

At Atlas we recognise that education and skill development represent empowerment and the betterment of the families and communities that make our business a success. Seeing their commitment and belief in our business is a source of continued pride. We operate and work on a fundamental understanding that harmoniously working to enhance the environment and associated ecosystems is the key to a sustainable future.

An integrated approach is taken to ensure ethical practices underpin all we do, from high-level management strategies right through to daily interactions with surrounding communities and environments.



CHAIRMAN'S REPORT

Dear Shareholder

Atlas is pleased to announce that 2013/14 audited net earnings are higher than forecast.

This report is the first 30 June Annual Financial Report for Atlas Pearls and Perfumes Ltd (Atlas) bringing the Group in line with the Australian financial year. In the past twelve months Atlas realised many key milestones outlined in its strategic plan providing for the on-going and improving profitability of the Company's core business. Research and Development (R & D) is in its tenth year, focussing on optimising core business activities, as well as bio-mass applications that underpin the Company's diversification strategy. This R & D will not only create new high value export and revenue streams from the existing pearl production inputs by utilisation of the waste products but ensures that Atlas is a recognised world leader in pioneering cradle to cradle practises in the luxury supply chain.

\$3.8 Million Improvement in EBITDA in 2013/14 Compared to 2012/13 *

Atlas increased its gross revenue by 56%, to \$16,283,183. This is a record result in the 20 year history of the Company. More importantly, gross profits increased from 60% to 62% and combined with prudent overhead cost management has improved EBITDA from a loss of \$363,078 to a profit of \$3,470,313 (i.e. \$3.8m improvement). The EBITDA is 21% of gross revenue and has resulted in a net profit before tax improvement of \$5,696,548 and an NPAT improvement of \$2,758,616. All net earnings are well in excess of the Board of Director's 2013/14 budgets and forecasts.

Table One:
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* 2012/13 is the normalised 12 Month period ending 30 June 2013.

FISCAL RESULTS IN 2013/14

1. Record revenue of \$16.28m for the 12 months ended 30 June 2014.
2. Closed the period with \$2.66m in liquidity (cash and headroom in bank facility access).
3. EBITDA of \$3.47m. Strong sales results in the June auction have had a positive impact on Normalised EBITDA 2013/14.
4. Sales of essential oils of \$2.02m in the 2013/14 period, improving on the revenue for the 6 months to 30 June 13 of \$503,076.
5. Overall Gross Profit percentage increased to 62% for the 12 months to 30 June 2014 from 60% in 30 June 2013 results as loose pearl prices rose due to the reduced supply of white south sea pearls driven by lower global production.

Refer to Appendix 1 – Summary of key Fiscal Table 3.

PEARL PRODUCTION AND LOOSE PEARL SALES

Atlas has expanded its scale of production over the past five years and in 2014/15 estimates producing over 350 Kgs of high quality "sellable" pearls, which is a 100% increase in this core element of the Company's exports. The team is working on the next 5 Year production blue print (to June 2020). Atlas will build key production strengths to maximise quality through on-going pearl genetic research.

This R & D, when combined with a strong 5 Year historical CAPEX investment provides Atlas with a wide range of water and land assets spread over a diverse geographical range. This unique combination minimises the risks normally associated with aquaculture such as disease and climate. Combined with production efficiency and low cost centres, our key investment features are responsible for the Company's current global competitive advantage.

In 2014/15 Atlas will see its second major hub growing to optimal scale with this achievement made all the more remarkable due to the global financial crisis (GFC) causing fiscal hardship to the sector and a contraction in the global pearling industry.

Atlas completed the year strongly with the best auction results achieved since the GFC commenced. This supports our belief that our sales strategy of holding fewer, bigger auctions is paying off and that there is a growing and sustainable demand for the 9-13 mm specialty pearl size, a category for which we have now built our global reputation as a market leader. We are now able to consistently produce harvests of this highly prized and sought after specification of white south sea pearls.

Atlas will continue to invest heavily in R & D providing the Company with a significant competitive advantage. An Atlas supported pearl research program has been awarded \$540,000 by the Australian Research Council. The collaborative research approach between Atlas and James Cook University (JCU) has resulted in many key achievements in pearl aquaculture and genetic research over the last nine years. Researchers have unravelled the most detailed genetic map of any commercial shellfish species and have created a unique pedigree system allowing for commercial improvements in domestication, retention rates, pearl quality (weight, colour and lustre) and this is providing a strong foundation for sustainable pearl farming.

PEARL BY-PRODUCT EXTRACTS

One of the core products derived from pearl farming is a by-product that represents > 95% of the harvested oyster. The pearling industry needs to diversify and maximise the use of by-products to build new income streams. There is substantial value adding from pearl by-products (pearl shell, soft tissue and substandard pearls) that are currently discarded or earning less than \$3.00 kg.

Atlas has initiated research in the USA, Europe, Asia and Australia on a wide range of applications of pearl extracts in the following sectors:

- 1) Perfume
- 2) Cosmetics
- 3) Jewellery and
- 4) Pearl Farming (seeding of oysters).

This research aims to create demand for the Atlas pearl extracts. This in turn is providing a platform for Atlas to build its corporate profile with a range of luxury brands that see the emerging corporate social responsibility as a key marketing trend of the 21st Century.

PEARL BY-PRODUCT COMMERCIALISATION

Atlas is viewing pearls with fresh eyes, going beyond the mere beauty of the gem, by extracting the very elements that trigger the formation of the pearl itself. Atlas has extracted a number of active ingredients from the pearl oyster (shell and soft tissues).

Due to the strategic value of such points of difference in the luxury supply chain it has enabled Atlas to open direct dialogue with multi-national brands that offer significant upside for the sale of extracts as well as stimulating new markets for the export of loose pearls and pearl jewellery.

CHAIRMAN'S REPORT CONTINUED

PROJECTS CURRENTLY BEING UNDERTAKEN INCLUDE:**1) Perfume of the Pearl Applications**

Atlas has engaged a leading Paris based luxury creative agency to finalise a strategic plan to maximize the commercial roll out of pearl cosmetics (Pearl Rituals) and a pearl perfume extract innovation (2008) that Atlas purchased the rights to in 2011. Nelson Rocher will direct the brief which aims to launch and commercialise specific pearl market concepts and technologies related to its extracts and pearl jewellery through incubating proof of concept marketing trials in Atlas retail shops. If the roll out trial is successful, Atlas will work with the Paris based agent's luxury brand customer base and its own extensive Paris and New York networks to identify various licensing opportunities for these innovations and products.

Distribution will focus on the global retail jewellery sector, generating further synergies by upselling Atlas pearls in finished supporting jewellery. The pearl perfume extract is unique to Atlas. The extraction of the fragrance of the pearl provides Atlas with a range of other commercial opportunities to explore.

2) Cosmetic Application

Pearl nacre (shell) has been powdered and, using propriety technology, pearl proteins and pearl amino acids were extracted. A range of extracts from the shell and soft tissue have simultaneously been tested and experimented in preliminary in-vitro trials in the USA on human DNA to scope key areas of ongoing interest for our key global customer targets (multi-national beauty brands that also sell jewellery). The objective is to validate traditional Chinese medicinal claims on human cells cultured in the US to determine a range of pearl extract rejuvenation properties on human soft tissues.

In Vitro proof of Concept trials conducted in the USA

| Treatment | Reactive Oxygen formation reduction | Collagen production increase | Elastin production increase | Hyaluronic Acid (HA) synthesis |
|---------------------------------------|-------------------------------------|------------------------------|-----------------------------|--------------------------------|
| Pearl Nacre Powder | | x | | x |
| Whole Nacre Protein | | x | x | |
| Hydrolysed Nacre Protein | x | | | x |
| Saibo Mantle Powder | | | x | |
| Whole Saibo Mantle Protein | x | x | x | |
| Hydrolysed Saibo Mantle Protein | x | | x | |
| Peristracum Mantle Powder | | | | x |
| Whole Peristracum Mantle Protein | x | | | x |
| Hydrolysed Peristracum Mantle Protein | x | x | x | |

These and other in-vitro "proof of concept" trials are vital in securing long term export agreements with larger companies that wish to partner with Atlas as a unique supplier of active ingredients that are complemented with a strategic marketing proposition.

Phase 1 of the Pearl Oyster extract cellular studies was completed. In short, results are encouraging. All 9 of the extracts showed activity (concentration dependent) on skin cells, with the protein variants showing the most pronounced results. Overall results give promising indications of extract activity at cellular level.

A post-graduate at James Cook University has been assigned to analyse the DNA Micro Array data (180,000 data points) over the next 2-3 months. In conjunction with the skin cell study results above, the Microarray results will help to map out the directions of the type of testing to run for Phase 2. Phase 2 will narrow down the ingredients and run tests on enhanced skin tissue models, more indicative to effects directly on skin.

3) Pearl Jewellery Applications

Research has been conducted in collaboration with the Gemological Institute of America to measure the potential benefits of various active ingredients on pearl luster (shine) and also tests on the internal structure of the pearl to measure potential impact on Orient (the ability to refract light). Research has been conducted that follows a protocol very similar to a cosmetic clinical test to reveal the impact on the internal structure of each pearl exposed to accelerated aging in the different environments selected using proprietary active ingredients.

Establishing successful correlations between human and pearl skin is unique to Atlas. We are pioneering a new approach with the express aim of lifting the global demand for pearls and pearl jewellery, which currently represents less than 5% of retailers inventory value added sales.

4) Pearl Farming Applications

Live experiments using a wide range of pearl extracts on a statistically relevant group of pearl oysters were conducted to track potential benefits on pearl formation and determine if the active ingredients improve seeding retention rates and stimulate nacre deposition. Due to the relative success of the pilot trial, Atlas is now scaling up a large commercial trial using the extract that provided the highest statistical result in the first phase of experimentation.

CONCLUSION ON PEARL EXTRACT RESEARCH AND MARKET COMMERCIALISATION

The research and commercialisation of pearl extracts is aimed at establishing a deeper luxury connection between the pearl and humans, beyond the visible spectrum of jewellery and is fully aligned with the Atlas cradle to cradle sustainability commitment of making the most out of each and every part of the material that the Company uses to create value.

PERFUME DIVISION: ESSENTIAL OILS OF TASMANIA (EOT)

In 2012, EOT was a struggling Australian exporter of food flavours. Atlas purchased the company (January 2013) and widened its scope to use the Company's Intellectual Property (IP) to become a processor and exporter of perfume and cosmetic ingredients. The core rationale behind the acquisition was to protect 5 years of pearl powder research and have EOT provide the skill base to expand the R & D and construct and commission a pearl powdering facility.

In May 2014 EOT was awarded a \$1.1 million grant to support the commercialisation of its pearl extraction technology and secure long term supply agreements for these products. It will be Australia's first Supercritical Fluid Extraction (SFE) plant using CO2 for the extraction of flavour and fragrance ingredients and bioactive compounds.

Atlas is pleased to announce that in August 2014 EOT completed the construction and commissioning of a pearl powdering and extraction plant in Hobart (constructed to Food and Drug Authority, USA standards) and successfully shipped the first shipment of extracts to New York.

World Senses was established in 2012 (50/50% joint venture with Nomad Two Worlds in New York) with the express purpose of collaborating with large international brands to help secure contracts with the vision of seeing pearl powder extract supply agreements established in the USA (this JV in the USA is ongoing).

CHAIRMAN'S REPORT CONTINUED

EOT Sales for the 2013/14 year were \$2.02 million, which is a substantial improvement on the previous fiscal year (6 month sales to 30/6/13 were \$503,076). While there is on-going revenue growth potential in Tasmania, Atlas continues to work on ways of combining the Australian extraction IP with the Atlas team's intimate and long standing knowledge of operating businesses successfully in Indonesia.

There are various short term growth opportunities in Indonesia that can harness the synergies between our groups' assets, the Tasmanian and Indonesian work-forces. Indonesia is the world's second largest flavour and fragrance perfume export market. Atlas has developed a deep knowledge and understanding of business in Indonesia; this accompanied by the Group's existing geographical presence, sourcing and logistics capabilities puts the Company in a unique position to take advantage of this growing market. (Refer to Appendix 2, Tables 4 and 5).

VALUE ADDED SALES DIVISION INCREASED ITS GROSS REVENUE BY 63% IN 2013/14

Value Adding is a key priority for Atlas to de-risk the business from any future commodity price swings for pearls. Value added sales increased by 63% in 2013/14 to \$4.38 million (\$2.75m previous year).

As well as de-risking the core pearling venture cyclical exposure, the value added sales provide significantly higher margins further up the luxury supply chain. This allowed Atlas to increase its GP (now at 62%) and incubate marketing "concepts" in the Company's own chain of retail stores in Indonesia and Australia. This data will be presented as required in global licensing negotiations, demonstrating the proposition of selling luxury products in uncontested niche luxury-market segments; marketing perfumes to jewellery retailers and selling jewellery to perfume retailers.

The Atlas Indonesian farm retail outlets continue to lead the way for Indonesian sales. We are pleased to announce the opening of a new retail outlet at Punggu (Flores) in August 2014. This new outlet will capture the increasing tourism trade to Komodo Island and Flores.

Atlas is launching new jewellery collaborations over the coming twelve months and has recently signed a contract with leading pearl jewellery designer Simon Henderson who will work with the Company's French design and product development team spearheaded by the Atlas Design Director, Tina Arena.

The acquisition of Essential Oils of Tasmania in January 2013 has further assisted in growing value added sales revenue. As the growing revenues demonstrate we have successfully built alternate higher value sales and aim to continue to create increased demand for value added pearls and perfumes.

CORPORATE SOCIAL RESPONSIBILITY

We remain committed to being a global force in luxury Corporate Social Responsibility and intend to pioneer a cradle to cradle approach to the pearl and perfume supply chains by respecting the regional communities and environment we work in. Our approach to pearl by-products is central to this approach and is also opening new revenue streams and giving Atlas invaluable exposure to large multi-national purchasers of luxury ingredients.

RE-INVESTMENT IN FAST GROWTH STRATEGY

Atlas has not paid a dividend since the on-set of the GFC. The Board wants to prioritise access to on-going development funds while we continue to expand our revenue and profits at a fast rate. I am spearheading a revised 5 year blue print commencing 2014/15 with supporting fiscal assumptions and budgets for Board and senior executive ratification at our next Board meeting in November.

The Board is greatly appreciative of the support provided by its shareholders and understands the desire for dividends, however we need to balance this sensible request against the past performance of this cyclical stock and ensure that when we declare the commencement of dividends that we are able to maintain a sustainable dividend that shareholders can rely upon.

ACKNOWLEDGEMENTS

Atlas was announced as a finalist in the WA Industry and Export Awards that will be held on the 24th October 2014, where winners will be selected for the prestigious national finals held in Sydney in November 2014. I would like to highlight the achievements of the Atlas team of employees and consultants and sincerely thank them for their hard work and support over the past 5 years.

Our Indonesian and Tasmanian regional workforces are the reason that we have been able to survive in a marketplace that has proven too tough for many in the pearling industry. The teams sacrifices, work ethic and passion give our Board and senior management the self-belief required through the difficult times.

SUSTAINED GROWTH WHILE THE PEARLING INDUSTRY CONTRACTED

Pearling is traditionally a cyclical industry and the price of the commodity due to the 2009 GFC impact created a contraction in global pearl production.

Over the past 5 years, against a background of an eroding industry, Atlas, with the phenomenal support of our shareholders continued to grow

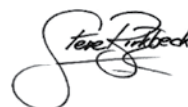
the business and diversify. This year has been truly rewarding and this is reflected in recent share price gains. With a diversified base of operations and product streams we are in a commanding position to increase our footprint in the luxury sector.

In a climate of fiscal restraint, this could have only been achieved with the continued support of our shareholders.

CONCLUSION

It is pleasing to see the share price improving, closing at 8.5 cents as at 30th June 2014 and 13.0 cents as at 26th August 2014.

I took on the role of Executive Chairman of Atlas in January 2010. The last five years have been a troubled and an unprecedented period in relation to world economic affairs. As such I want to take this occasion to reflect and thank my co-directors, staff, customers and suppliers for all of your contributions to the delivery of a five year plan that has resulted in Atlas emerging from the global financial recession a stronger and more sustainable luxury ingredient supplier.



Stephen Birkbeck,
Chairman
28th August 2014

Note: This report is the first full 30 June annual financial report for Atlas and Pearls Perfumes Ltd ("Atlas"), bringing the Group in line with the Australian financial year. The financial report presented covers the period 1 July 2013 to 30 June 2014. The prior period report presented was for the period 1 January 2012 to 30 June 2013, and covered a once off 6 month financial year end. The comparative numbers presented in the Chairman's report are for the 12 months ended 30 June 2013, which are unaudited and based on normalised 2011 and 2012 financials.

CHAIRMAN'S REPORT CONTINUED

Appendix 1, Table 3, Summary of Key Fiscal Achievements in 2013/14

| | 12 Months Ended 30 June 14 \$'000 | Unaudited Normalised 12 Months Ended 30 June 13 \$'000 |
|---|---|---|
| Revenue from continuing operation | 16,283 | 10,453 |
| Normalised earnings before interest, tax, depreciation and amortisation (Normalised EBITDA) | 3,470 | (363) |
| EBITDA margin | 21.31% | (3.47%) |
| Depreciation & amortisation | 303 | 244 |
| Foreign exchange (gains)/losses | 578 | (2,058) |
| Revaluation and write-off of Agriculture Assets (oysters, pearls and crops) | (63) | 5,907 |
| Other non-operating costs | 300 | 302 |
| Inventory write off | (12) | - |
| Derivative instruments | 436 | 404 |
| Other taxes | - | (70) |
| Earnings/(loss) before interest and tax (EBIT) | 1,929 | (4,756) |
| EBIT margin | 11.8% | (45.5%) |
| Finance/interest net costs/(income) | 471 | (519) |
| Income tax benefit | (355) | (3,293) |
| Net profit after tax (NPAT) | 1,814 | (945) |
| Basic earnings/(loss) per share (cents) | 0.61 | (0.81) |
| Net Tangible Assets | 28,416 | 25,797 |
| Assets | 40,823 | 35,676 |
| Debt (Current & Non-current) | 5,155 | 5,274 |
| Shareholder funds | 28,809 | 25,797 |
| Debt/shareholder funds (%) | 18% | 20% |
| Number of shares on issue (million) | 326.62 | 287.04 |

Appendix 2, Tables 4 Regional Exports of Essential Oil in 2010

| Island/Region | Province | Exported Volume (kg) |
|--------------------------|-----------------------|----------------------|
| Sumatra | Riau and Riau Islands | 22,534 |
| | West Sumatra | 198,410 |
| | North Sumatra | 2,361,298 |
| | Lampung | 3,317 |
| | TOTAL | 2,585,559 |
| Java | DKI Jakarta | 1,392,906 |
| | West Java | 7,291 |
| | Central Java | 378,578 |
| | East Java | 236,834 |
| | TOTAL | 2,015,609 |
| Kalimantan | East Kalimantan | 1,862 |
| | TOTAL | 1,862 |
| The lesser Sunda Islands | Bali | 2,635 |
| | Eastern Nusa Tenggara | 616 |
| | TOTAL | 3,251 |
| Sulawesi | Central Sulawesi | 34,400 |
| | TOTAL | 34,400 |

Source: Statistics Indonesia (BPS) 2011

DIRECTORS' REPORT

Your Directors present their report on the consolidated entity (referred to hereafter as the Company) consisting of Atlas Pearls and Perfumes Ltd (formerly Atlas South Sea Pearls Limited) and the entities it controlled at the end of, or during the period ended 30 June 2014.

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:

STEPHEN PAUL BIRKBECK (Age – 54)

EXECUTIVE CHAIRMAN OF THE BOARD, CHIEF EXECUTIVE OFFICER
(Remuneration Committee)

Mr Birkbeck was the founder and former CEO of Mt Romance, an Australian company that has become one of the largest producers of sandalwood oil in the world. Mr Birkbeck has extensive marketing expertise, especially in the luxury goods markets. He has been presented with a number of excellence awards in relation to the success of Mt Romance and brings this extensive business development skill to the Board.

Appointed Chief Executive Officer 16 January 2012

Appointed Director on 15 April 2005

Appointed Chairman of the Board on 21 December 2009

(Last re-elected as a Director – 31 May 2011)

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

NELSON ROCHER (Age - 29)

ALTERNATE DIRECTOR TO STEPHEN PAUL BIRKBECK

Mr Rocher has worked for the internationally recognised cosmetic and perfume group Yves Rocher, a market leader in France. He worked in Yves Rocher marketing department as a product development manager with his focus and passion being the products, branding and marketing areas.

Appointed Alternate Director 18 July 2014

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

JOSEPH JAMES UEL TAYLOR, B.Sc. (Biology), Ph.D. (Age – 47)

NON EXECUTIVE DIRECTOR, TECHNICAL DIRECTOR
(Audit Committee, Remuneration Committee)

Dr Taylor is a marine biologist and aquaculturist whose PhD research specialised in the husbandry of *Pinctada maxima* pearl oysters. Since 1989, Dr Taylor has been involved in the management of aquaculture operations, mainly associated with South Sea pearl farming. He has acquired extensive knowledge about the biology of pearl oysters and has presented many research papers on this subject. Dr Taylor commenced employment with the Company in 1996 as the Project Manager and has overseen the development of the business to its current level of production.

Appointed Director on 13 September 2000

Managing Director from 31 August 2001 to 1 June 2009

(Last re-elected as a Director – 31 May 2010)

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

GEOFF NEWMAN, B.Ec (Hons), M.B.A., F.C.P.A., F.A.I.C.D. (Age – 63)

INDEPENDENT NON EXECUTIVE DIRECTOR
(Chair of Audit Committee, Chair of Remuneration 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.

Director since 15 October 2010

(Last re-elected as a Director – 30 May 2013)

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

* Neptune Marine Services LTD – appointed 16 October 2008, resigned 30 September 2011

TIMOTHY JAMES MARTIN, B.Arts, M.B.A., G.A.I.C.D. (Age – 42)

NON EXECUTIVE DIRECTOR (Remuneration Committee)

Mr Martin has over 16 years of experience in the chemical, manufacturing and property sectors in Australia and south-east Asia. Mr Martin is Managing Director of Coogee Chemicals, a privately owned chemical manufacturing and shore side Terminal and Distribution Company, with operations throughout Australia and in Asia.

He has experience in the resource sector as a Non-Executive Director of related company Coogee Resources, where he was also a member of their Risk and Audit Committee until the company was sold to PTTEP (the National Oil Company of Thailand).

Prior to this Tim worked in the wholesale food manufacturing and distribution business in senior management positions, primarily servicing retail supermarket chains in Australia.

He is also Director Principal of a private company specialising in commercial property development and leasing, with current projects in Port Hedland, Rockingham, and south Western Australia. He is also a board member of the Kwinana Industries Council representing heavy industry to government and other stakeholders as well as being a member of the Plastics and Chemicals Industry Association of Australia (PACIA) strategic issues advisory council.

Appointed Director on 4 February 2013.

Elected as Director on 30 May 2013.

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

STEPHEN JOHN ARROW (Age - 54)

INDEPENDENT NON EXECUTIVE DIRECTOR

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 brings to the Board extensive pearling experience from many regions of the world as well as contacts within the industry.

Mr Arrow previously served on the board of Atlas Pearls and Perfumes Ltd from 29 June 1999 until 28 May 2008.

Appointed 2 January 2014

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

DIRECTORS' REPORT CONTINUED

2. COMPANY SECRETARY

The role of Company Secretary at the end of the financial period was shared by Mr Stephen Gleeson and Ms Susan Hunter.

STEPHEN GLEESON, B.BUS, CPA

Prior to joining Atlas in 2012, Mr Gleeson held the position of CFO/Company Secretary of statewide recruitment company Skill Hire from 2008 to 2012. He also has international experience as CFO of Peter Lik USA and has previously acted as Company Secretary for the ASX listed company Golden Valley Mines NL. He has 26 years' experience in corporate restructuring and business re-engineering, and is a member of CPA Australia.

Appointed 24 April 2012.

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 PricewaterhouseCoopers 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.

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 Committee Meetings | | Remuneration Committee Meetings | |
|------------------------------|---------------------|---------------------|----------|--------------------------|----------|---------------------------------|----------|
| | | Held | Attended | Held | Attended | Held | Attended |
| S.P. Birkbeck ² | 01/07/13 - 30/06/14 | 6 | 6 | 3 | - | 1 | 1 |
| G.Newman ^{1,2} | 01/07/13 - 30/06/14 | 6 | 6 | 3 | 3 | 1 | 1 |
| J.J.U. Taylor ^{1,2} | 01/07/13 - 30/06/14 | 6 | 6 | 3 | 3 | 1 | 1 |
| T. Martin ² | 01/07/13 - 30/06/14 | 6 | 5 | 3 | - | 1 | 1 |
| S.J. Arrow ^{3,4} | 01/07/13 - 30/06/14 | 3 | 3 | 3 | - | 1 | 1 |

Notes

1. Member of the Audit Committee
2. Member of the Remuneration Committee
3. Attended Remuneration Committee as a guest
4. Appointed director on 2 January 2014

4. REMUNERATION REPORT (AUDITED)

The Directors are pleased to present your Company's 2014 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 |
|--|---|
| Non-executive and executive directors | |
| S. Birkbeck | Chairman & CEO |
| N. Rocher (appointed 14 July 2014) | Alternate Director |
| J. Taylor | Non-Executive Director |
| G. Newman | Independent Non-Executive Director |
| T. Martin | Non-Executive Director |
| S. Arrow (appointed 2 Jan 2014) | Independent Non-Executive Director |
| Other key management personnel | |
| S. Gleeson (appointed 01 July 2014) | Managing Director EOT |
| J.S. Jorgensen | Chief Operations Officer PT Cendana Indo pearl |
| C. Triefus (resigned 31 December 2013) | Retail Production Manager PT Cendana Indo pearl |
| D. Brandenburg (appointed 01 July 2014) | Chief Financial Officer |
| P. Fallourd (appointed 01 May 2014) | Vice President of Pearling |
| S. Mackay-Coghill (appointed 01 May 2014) | Vice President of Jewellery, Perfumes & Cosmetics |

Changes since the end of the reporting period

The following changes have been made to the remuneration of the following key management personnel after 30 June 2014;

Managing Director of EOT and Company Secretary – S. Gleeson

Mr S. Gleeson was appointed as Managing Director of Essential Oils on 1 July 2014. Mr S. Gleeson previously held the title of Chief Financial Officer and continues to hold the title of Company Secretary. Mr S. Gleeson's contract was renegotiated on 10 July 2014.

Base salary for the 2014/15 financial year of \$200,000 inclusive of 9.5% superannuation, reviewed annually.

Bonus based on achieving various milestones (STIP) relating to essential oil sales, commissioning of the new pearl extraction plant, and various other grants. Bonus of 1% growth of 2014/15 EBITDA paid quarterly.

Chief Financial Officer – D. Brandenburg

Ms D. Brandenburg was appointed Chief Financial Officer on 1 July 2014. Ms Brandenburg's contract was renegotiated on 18 July 2014.

Base salary for the 2014/15 financial year of \$175,000 inclusive of 9.5% superannuation, reviewed annually.

Bonus of 2% on growth of real EBITDA from 13/14 to 14/15.

4.1 Remuneration Governance

4.1.1 Role of the remuneration committee

The remuneration 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.

DIRECTORS' REPORT CONTINUED

4. REMUNERATION REPORT (AUDITED) (cont.)**4.1.2 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 2014, the total non-executive directors' fees including retirement benefit contributions were \$212,574.

The following fees have applied:

- Base fees for Non-Executive Directors - \$50,000 per annum as of 1 July 2014.
- Additional fees of \$8,000 per annum for the Chairman of the Audit Committee.
- Chairman's package is \$351,000 per annum including superannuation.
- The Technical Director receives an additional \$750 per day for pearl technical and Indonesian entity support.

4.1.3 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, and
- Long-term incentives through participation in the Atlas South Sea Pearl Limited Employee Share 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 4.2 of this report. Short or medium cash incentives are 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 4.5 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 2014 the Company did not engage any remuneration consultants. The Company engaged remuneration consultants Gerard Daniels during the period ended 30 June 2013 to provide an independent market review of the Chief Executive Officer/Executive Chairman and Independent Non-Executive Director Fees. Total fees charged for this service was \$15,000 + GST.

Gerard Daniels was engaged by, and reported directly to, the chair of the remuneration committee. The agreement for the provision of remuneration consulting services was executed by the chair of the remuneration committee under delegated authority on behalf of the board.

The report containing the remuneration recommendations was provided by Gerard Daniels directly to the chair of the remuneration committee; and

Gerard Daniels was permitted to speak to management throughout the engagement to understand company processes, practices and other business issues and obtain management perspectives. However, Gerard Daniels was not permitted to provide any member of management with a copy of their draft or final report that contained the remuneration recommendations.

As a consequence, the board is satisfied that the recommendations were made free from undue influence from any members of the key management personnel.

Voting and comments made that the Company's 2013**Annual General Meeting.**

Atlas Pearls and Perfumes Ltd received more than 90% of "yes" votes on its remuneration report for the 2013 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 CONTINUED

4.2 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 | | Cash salary & fees | Short term benefits | | Total cash salary, fees and short term benefits | Post- employment benefits | Long term benefits | Share base compensation | Total |
|---------------------------------------|-------------|-----------------------|---------------------------------------|---------------------------------|---|---------------------------------|-----------------------|----------------------------|------------------|
| | | \$ | Short term incentive cash bonus | Non-cash monetary benefit | \$ | Super- annuation Benefit | Long Service Leave | \$ | \$ |
| Directors (Non-Executive) | | | | | | | | | |
| G. Newman ⁵ | 2014 | 63,800 | - | - | 63,800 | - | - | - | 63,800 |
| | 2013 | 20,487 | - | - | 20,487 | - | - | - | 20,487 |
| J.J.U. Taylor ^{1, 10} | 2014 | 71,960 | - | - | 71,960 | 4,235 | - | 628 | 76,823 |
| | 2013 | 56,625 | - | - | 56,625 | 2,250 | - | - | 58,875 |
| T. Martin ⁶ | 2014 | 50,000 | - | - | 50,000 | - | - | - | 50,000 |
| | 2013 | 12,500 | - | - | 12,500 | - | - | - | 12,500 |
| S. Arrow ¹¹ | 2014 | 27,500 | - | - | 27,500 | - | - | - | 27,500 |
| Directors (Executive) | | | | | | | | | |
| S.P. Birkbeck ^{1,2,9,10} | 2014 | 225,000 | - | - | 225,000 | 20,625 | - | 12,559 | 258,184 |
| | 2013 | 87,500 | - | - | 87,500 | 7,875 | - | - | 95,375 |
| N. Rocher ¹⁴ | 2014 | 18,812 | - | - | 18,812 | - | - | 2,974 | 21,786 |
| | 2013 | - | - | - | - | - | - | - | - |
| Total | 2014 | 457,072 | - | - | 457,072 | 24,860 | - | 16,162 | 498,094 |
| Total | 2013 | 177,112 | - | - | 177,112 | 10,125 | - | - | 187,237 |
| Other Key Management Personnel | | | | | | | | | |
| S. Gleeson ^{4,8,10} | 2014 | 206,422 | 9,368 | - | 215,790 | 21,844 | - | 13,160 | 250,794 |
| | 2013 | 103,211 | - | - | 103,211 | 9,289 | - | - | 112,500 |
| J.S. Jorgensen ^{3,9,10} | 2014 | 165,000 | - | 33,205 | 198,205 | - | - | 1,487 | 199,692 |
| | 2013 | 75,359 | - | 9,971 | 85,330 | - | - | - | 85,330 |
| C. Triefus ^{7,9} | 2014 | 59,849 | - | 19,940 | 79,789 | - | - | - | 79,789 |
| | 2013 | 42,800 | - | 11,305 | 54,105 | - | - | - | 54,105 |
| D. Brandenburg ^{4,8} | 2014 | 141,672 | 8,547 | - | 150,219 | 13,542 | - | 1,424 | 165,185 |
| | 2013 | - | - | - | - | - | - | - | - |
| P. Fallourd ¹² | 2014 | 66,278 | - | - | 66,278 | 3,519 | - | 3,686 | 73,483 |
| | 2013 | - | - | - | - | - | - | - | - |
| S. Mackay-Coghill ^{13,8} | 2014 | 66,222 | 25,000 | - | 91,222 | 1,354 | - | 1,424 | 94,000 |
| | 2013 | - | - | - | - | - | - | - | - |
| Total | 2014 | 705,443 | 42,915 | 53,145 | 801,503 | 40,259 | - | 21,181 | 862,943 |
| Total | 2013 | 221,370 | - | 21,276 | 242,646 | 9,289 | - | - | 251,935 |
| Grand Total 2014 | 2014 | 1,162,515 | 42,915 | 53,145 | 1,258,575 | 65,119 | - | 37,343 | 1,361,037 |
| Grand Total 2013 | 2013 | 398,482 | - | 21,276 | 419,758 | 19,414 | - | - | 439,172 |

Notes:

- Dr J Taylor and Mr S Birkbeck are Directors of the Company's Malaysian subsidiary Aspirasi Satria Sdn Bhd.
- Mr S Birkbeck is a key management personnel of the Group with the title of Chief Executive Officer. Mr S Birkbeck was appointed Chief Executive Officer as at 16 January 2012.
- Mr J Jorgensen is a key management personnel of the Group and was appointed to the position of Chief Operating Officer (COO) in September 2010. Mr J Jorgensen is the Chief Operations Officer of the Company's Indonesian subsidiary, PT. Cendana Indopearls.
- S. Gleeson was appointed Chief Financial Officer on the 1 February 2012. S. Gleeson resigned as Chief Financial Officer on 1 July 2014. D. Brandenburg was appointed Chief Financial Officer on 1 July 2014.
- G. Newman appointed 15 October 2010.
- T. Martin appointed 4 February 2013.
- Mr C Triefus is the Retail Production Manager. The Retail Production Manager manages the retail stores in Bali and co-ordinates all retail stock for the Group. Mr Triefus resigned as Retail Production Manager on 31 December 2013.
- Bonuses were paid to the KMP's Stephen Gleeson, Sonia Mackay Coghill, and Danielle Brandenburg based on the milestones achieved during the period. In 2013 and 2012 Stephen Gleeson received his bonus based on achieving various milestones relating to tax compliance and 2% of EBITDA paid twice yearly.
- A number of key management took part in the 2012 salary sacrifice scheme. \$50,000 of Stephen Birkbeck's salary was accrued for under the ESSP scheme and was transferred to him in shares in 2013. In 2012, \$25,000 of Jan Jorgensen's salary had been accrued for under the ESSP scheme and was transferred to him in shares in 2013. \$17,000 of Colin Triefus' salary had been accrued for under the ESSP scheme and was transferred to him in shares in 2013.
- Non-Monetary benefits of other key management personnel included accommodation allowances, school fees and medical expenses, as per individual employment contracts.
- S. Arrow appointed as Non Executive Director on 2 January 2014.
- P. Fallourd appointed as Vice President of Pearling on 1 May 2014.
- S. Mackay-Coghill appointed as Vice President Jewellery, Cosmetics & Perfume on 1 May 2014.
- N. Rocher appointed as an alternate director to S. Birkbeck on 18 July 2014.

DIRECTORS' REPORT CONTINUED

4.2.1 Details of remuneration – performance analysis

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

| Year | Name | % Performance | % Options |
|------|------------------|---------------|-----------|
| 2014 | N Rocher | 14.1% | 14.1% |
| 2014 | S Birkbeck | 4.9% | 4.9% |
| 2014 | S Gleeson | 9.0% | 5.2% |
| 2014 | J Jorgensen | 0.7% | 0.7% |
| 2014 | D Brandenburg | 6.0% | 0.9% |
| 2014 | P Fallourd | 5.0% | 5.0% |
| 2014 | S Mackay-Coghill | 28.1% | 1.5% |
| 2014 | J Taylor | 0.8% | 0.8% |

4.2.2 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 2014 | 6 months 2013 | 12 months 2012 | 12 months 2011 | 12 months 2010 |
|--|-------------------|------------------|-------------------|-------------------|-------------------|
| Profit/(loss) for the year / period | 1,813,922 | (2,194,645) | 1,406,150 | 593,936 | 2,387,165 |
| Basic earnings per share | 0.61 | (0.81) | 0.68 | 0.43 | 1.91 |
| Dividend payments | 0 | 0 | 0 | 0 | 0 |
| Increase (decrease) in share price | 53% | (25%) | (60%) | (38%) | (9%) |
| Total KMP incentives as a percentage profit/loss % | 4.4% | 0.0% | 2.6% | 8.8% | 1.5% |

4.3 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:

4.3.1 Mr Stephen Birkbeck (Executive Chairman - CEO)

Mr S Birkbeck was appointed as CEO commencing from 16 January 2012.

Base salary for the 2015 financial period of \$351,000 per annum plus superannuation, reviewed annually for CEO role of Atlas.

Termination conditions- either party may terminate the contract of employment by giving six months' notice or a lesser amount as mutually agreed.

4.3.2 Mr Jan Jorgensen (Chief Operating Officer)

Base salary for the 2014 financial period of \$165,000 per annum reviewed annually and also subject to various non-financial allowances relating to living in Indonesia.

Entitled to commission on Pearl Meat sales of 15% of sales excluding VAT or GST.

Entitled to commission on Mother of Pearl sales of 5% for annual sales in excess of \$300,000 excluding VAT or GST.

Termination conditions – either party may terminate the contract of employment by giving two months' notice or a lesser amount as mutually agreed.

4.3.3 Mrs Danielle Brandenburg

(Chief Financial Officer – appointed 1 July 2014)

Base salary for the 2015 financial period of \$175,000 per annum inclusive of superannuation, reviewed annually.

Bonus on 2% of real EBITDA growth on 13/14 to 14/15.

Termination conditions- either party may terminate the contract of employment by giving six months' notice or a lesser amount as mutually agreed.

4.3.4 Mr Pierre Fallourd (Vice President of Pearling)

Base salary for the 2014 financial period of \$200,000 per annum inclusive of superannuation, reviewed annually.

Bonus on 2% of real EBITDA growth on 13/14 to 14/15.

Termination conditions- either party may terminate the contract of employment by giving six months' notice or a lesser amount as mutually agreed.

4.3.5 Mrs Sonia Mackay-Coghill

(Vice President of Jeweller, Perfumes & Cosmetics)

Base salary for the 2014 financial period of \$200,000 per annum inclusive of superannuation, reviewed annually.

Commission payable on 5% of sales in Australia above last year (excluding loose pearl sales and Showcase)

\$25,000 advance on bonus paid.

Termination conditions- either party may terminate the contract of employment by giving six months' notice or a lesser amount as mutually agreed.

4.3.6 Mr Colin Triefus

(Retail Production Manager retired 31 December 2013)

Employed under a fixed term contract which was renewed 1 January 2013 and expired on 31 December 2013.

Base salary for the 2013 financial period of \$85,600 per annum and also subject to various non-financial allowances relating to living in Indonesia.

Letter of Agreement signed 25 June 2013 that both parties agreed that the employment contract which was dated 28 November 2012 should end at 30 September 2013.

Agreement stated that from 1 October 2013 until 31 December 2013 Colin Triefus would work two days each week.

Base Salary 1 October 2013 until 31 December 2013 was \$3,000 per month. During this time Colin Triefus accrued no further holiday entitlement.

Not entitled to any special termination payments under these contracts.

4.3.7 Mr Stephen Gleeson (Managing Director Essential Oils of Tasmania & Joint Company Secretary – appointed 1 July 2014)

Base salary for the 2015 financial period of \$200,000 per annum inclusive of superannuation, reviewed annually.

Bonus based on achieving various milestones (STIP) relating to essential oil sales, commissioning of the new pearl extraction plant, and various other grants.

Bonus of 1% growth of 2014/15 EBITDA paid quarterly.

Termination conditions- either party may terminate the contract of employment by giving six months' notice or a lesser amount as mutually agreed.

4.3.8 Mr Nelson Rocher (Alternate Director – appointed 18 July 14 Head of Perfume Development – appointed 1 June 2014)

Base salary for the 2015 financial period of \$82,125 per annum inclusive of superannuation, reviewed annually.

Termination conditions- either party may terminate the contract of employment by giving one months' notice or a lesser amount as mutually agreed.

4.3.9 Other non - executives (standard contracts)

Contract terminates on retirement.

The Company may terminate the executive's employment agreement by providing 2 months' written notice or providing payment in lieu of the notice period.

Not entitled to any special termination payments under these contracts.

DIRECTORS' REPORT CONTINUED

4.4 Additional Information of the remuneration report

4.4.1 Loans to Directors and Executives

Details of loans made to directors of the company and other key management personnel of the Group under the Employee Salary Sacrifice Plan, including their personally related parties, are set out below:

Loans to Directors and Executives

| Group | Balance at the start of the period | Loans provided during the period | Interest paid and payable for the period | Interest not charged | Balance at the end of the period | No in Group at the end of the period |
|-------------|------------------------------------|----------------------------------|--|----------------------|----------------------------------|--------------------------------------|
| | \$ | \$ | \$ | \$ | \$ | |
| 30 Jun 2014 | 375,000 | - | - | 14,100 | 375,000 | 2 |
| 30 Jun 2013 | 375,000 | - | - | 6,864 | 375,000 | 2 |

i. Individuals with loans above \$100,000 during the financial year

| 30 Jun 2014 | Balance at the start of the period | Loans provided during the period | Interest paid and payable for the period | Interest not charged | Balance at the end of the period | Highest indebtedness during the period |
|-------------|------------------------------------|----------------------------------|--|----------------------|----------------------------------|--|
| Name | \$ | \$ | \$ | \$ | \$ | \$ |
| J. Taylor* | 263,000 | - | - | 9,889 | 263,000 | 263,000 |
| S. Adams* | 112,000 | - | - | 4,211 | 112,000 | 112,000 |
| | 375,000 | - | - | 14,100 | 375,000 | 375,000 |

| 30 Jun 2013 | Balance at the start of the year | Loans provided during the year | Interest paid and payable for the year | Interest not charged | Balance at the end of the year | Highest indebtedness during the year |
|-------------|----------------------------------|--------------------------------|--|----------------------|--------------------------------|--------------------------------------|
| Name | \$ | \$ | \$ | \$ | \$ | \$ |
| J. Taylor* | 263,000 | - | - | 4,787 | 263,000 | 263,000 |
| S. Adams* | 112,000 | - | - | 2,077 | 112,000 | 112,000 |
| | 375,000 | - | - | 6,864 | 375,000 | 375,000 |

All loans to key management persons are under terms and conditions as set out in note 23 relating to the employee share plan.

The amounts shown for interest not charged in the tables above represent the difference between the amount paid and payable for the period and the amount of interest that would have been charged on an arms' length basis.

*These loans have been provided for in a prior period.

There is no allowance for impaired receivables in relation to any outstanding balances, and no expense has been recognised in respect of impaired receivables due from key management.

ii. Other loans to Key Management Personnel

The loan advance of \$25,000 to S Mackay-Coghill in advance of anticipated bonuses. The loan is to be repaid to the Company at the earlier of; the date that the individual meets their bonus criterion, or the date that the individual terminates employment. An interest rate of 7% p.a. will be charged on the loan from date of draw down until date of repayment. Interest is due for payment when the loan is repaid. The bonus will be taxed when the bonus criterion are met.

4.4.2 Options

Performance options were issued to directors and key management personnel during the financial period end 30 June 2014. The options were issued at nil cost to employees and will expire at 31 December 2016. The options are exercisable based on the completion of KPI's specific to each individual. See table at 4.5.10 for details.

4.4.3 Other Key Management Personnel transactions

- \$11,905 of the ESSP accrual above is for shares salary sacrificed by Stephen Birkbeck during the year ended 30 June 2014 under the Atlas South Sea Pearl Employee Share Plan.
- During the twelve months ended 30 June 2014 and the six months ended 30 June 2013 none of the directors salary sacrificed into the Non - Executive Director Fee Salary Sacrifice Share plan.
- During the period, sales of individual pearls of small quantities were made to some staff and Directors on normal commercial terms.
- During the 12 months ended 30 June 2014, \$30,000 in research and development fees were charged to Atlas Pearls and Perfumes Ltd by Raintree Pearls and Perfumes Pty Ltd. Raintree Pearls and Perfumes Pty Ltd is controlled by Stephen Birkbeck.
- During the twelve months ended 30 June 2014 Atlas Pearls and Perfumes Ltd sold pearls on behalf of Arrow Pearls Pty Ltd. Atlas received on consignment approximately \$1,750,000 of loose South Sea Pearls from Steve Arrow on the 5th of December 2013. Atlas received a sales commission of 5.0% based on the gross value of the pearls. Commission earned on the sale of loose pearls 24.2on behalf of entities controlled by key management personnel was \$113,614 for the year end 30 June 2014 (30 June 2013 – nil). Atlas paid the net proceeds of pearls sales to Arrow less the commission, in the form of 50% cash and 50% in shares until 10 million shares were acquired (capped at \$650,000). The shares were priced at \$0.065 per share.

DIRECTORS' REPORT CONTINUED

4.5 Share based payments compensation

In 2006 and 2007 ordinary shares were issued to key management personnel of Atlas Pearls and Perfumes Ltd under an Employee Share Plan (ESP) that was approved by shareholders at the company's annual general meeting in May 2006. These shares have been issued to employees under the following terms:

4.5.1 In 2007 shares were issued at a price of 40 cents each, 900,000 were issued on 17th April and 200,000 were issued on 10th May 2007 when the market price was 41 cents and 48 cents per share respectively. In 2006, 2,150,000 shares were issued at a price of 29 cents each on 30th May when the market price was 31 cents per share.

4.5.2 Entitlement to 50% of the beneficial interest on the shares vested to employees after they have completed two (2) years of employment with the company from the date of issue of the shares, and entitlement to the remaining 50% of the beneficial interest in the shares vested to employees after they have completed three (3) years of employment with the company from the date of issue of the shares;

4.5.3 Shares issued under the ESP have been paid for by employees who have been provided with an interest free, non-recourse loan by the Company. This loan is to be repaid from the proceeds of dividends paid in relation to these shares.

4.5.4 Details relating to the allocation of shares to directors and key management personnel under the ESP are as follows:

| Name | Date of Issue | No. of Shares Issued ⁽³⁾ | Shares Vested to end of 2010 | Shares Forfeited in the year | Financial Year in which shares vested | Nature of shares | Minimum value of grant yet to be vested ⁽¹⁾ | Maximum value of grant yet to be vested ⁽²⁾ |
|---------------|---------------|-------------------------------------|------------------------------|------------------------------|---------------------------------------|------------------|--|--|
| Joseph Taylor | 10/5/07 | 200,000 | 100% | 0% | 2009 – 50% 2010 – 50% | Ordinary Shares | \$- | \$- |
| | 30/5/06 | 1,000,000 | 100% | 0% | 2008 – 50% 2009 – 50% | Ordinary Shares | \$- | \$- |

Notes –

The minimum benefit is based on the fact that the vesting criteria for the shares on issue have not yet been met.

The maximum value is based on the value that is calculated at the time that the shares were issued.

The above named individuals are only entitled to these shares when the recourse loan is repaid. As at 30 June 2014, none of these loans have been repaid. Hence, these shares remain as treasury shares in the employee share trust.

4.5.5 In 2012 key management personnel were invited to participate in the Atlas South Sea Pearl Limited Non-Executive Director Fee Sacrifice Share Plan and Employee Salary Sacrifice Share Plan that was approved by shareholders at the Company's Annual General Meeting on 30 May 2012. These shares have been issued to employees under the terms outlined in note 4.5.6.

The existing Employee Share Loan Plan was replaced by a new Employee Salary Sacrifice Share Plan and Non-Executive Director Plan at the AGM on the 30 May 2012.

4.5.6 The Atlas Employee Salary Sacrifice Share Plan

On 30 May 2012, the Atlas Employee Salary Sacrifice Share Plan was established. On the 4th of September 2012 6,064,000 shares were issued into the Atlas South Sea Pearl Limited Employee Share Trust at \$0.05 per share. During the 12 months ended 30 June 2014 2,866,640 shares were issued into the Atlas South Sea Pearl Ltd Employee Share Trust in eight different tranches at prices ranging between \$0.0639 and \$0.0661. On the 15th of March 2013, 2,931,616 shares were issued into the Atlas South Sea Pearl Limited Employee Share Trust at \$0.05 per share. During the twelve months ended 30 June 2014 2,866,640 shares were issued out of the Atlas South Sea Pearl Limited Employee Share Trust to employees who participated in the salary sacrifice plan (six months ended 30 June 2013 5,594,000).

Under the Salary Sacrifice Plan, the Company agrees to issue shares to eligible employees, in lieu of the amount of remuneration that each eligible employee has agreed to sacrifice from their monthly remuneration.

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). For the participants who entered into conditional salary sacrifice arrangements before the AGM on the 30th of May 2012, the issue price per share is 5 cents.

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.

There are no vesting conditions attached to the plan. Once an employee has salary sacrificed salary equivalent to the number of shares taken up under the plan the shares are issued to the employee.

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 issued, 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 issued, 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.

Shares to be acquired by eligible participants under the salary sacrifice plan are held in the trust until such time that the shares are fully paid for. 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. As at 30 June 2014 2,866,640 (30 June 2013 - 5,594,000) of the shares issued were issued out of the Atlas South Sea Pearl Limited Employee Share Trust to eligible participants. The shares rank equally with other fully paid ordinary shares. Where shares are issued to employees of subsidiaries of the Group, the transactions are treated in accordance with the accounting policy at note 1.16.

DIRECTORS' REPORT CONTINUED

4.5.7 The details relating to the allocation of shares to directors and key management personnel under the Employee Salary Sacrifice Share Plan are as follows for year end 30 June 2014 and period ended 30 June 2013:

| Name | Date of Entrance | Entitlement No. of Shares | No. of Shares to be Issued | Date of Issue | Shares Vested to June 2014 | Shares Forfeited in the year | Financial Year in which shares vest | Nature of shares | Share issue price | Total Value Salary Sacrificed |
|------------------|------------------|---------------------------|----------------------------|---------------|----------------------------|------------------------------|-------------------------------------|------------------|-------------------|-------------------------------|
| Stephen Birkbeck | 07/03/14 | 183,154 | - | - | 100% | 0% | 2014 – 100% | Ordinary Shares | \$0.065 | \$11,905 |

| Name | Date of Entrance | Entitlement No. of Shares | No. of Shares Issued | Date of Issue | Shares Vested to end of 2012 | Shares Forfeited in the year | Financial Year in which shares vested | Nature of shares | Share issue price | Total Value Salary Sacrificed |
|------------------|------------------|---------------------------|----------------------|---------------|------------------------------|------------------------------|---------------------------------------|------------------|-------------------|-------------------------------|
| Stephen Birkbeck | 4/09/12 | 1,000,000 | 1,000,000 | 8/5/13 | 100% | 0% | 2012 – 100% | Ordinary Shares | \$0.05 | \$50,000 |
| Jan Jorgensen | 4/09/12 | 500,000 | 500,000 | 4/3/13 | 100% | 0% | 2012 – 100% | Ordinary Shares | \$0.05 | \$25,000 |
| Colin Triefus | 4/09/12 | 340,000 | 340,000 | 28/3/13 | 100% | 0% | 2012 – 100% | Ordinary Shares | \$0.05 | \$17,000 |

4.5.8 The Atlas Non-Executive Director Fee Sacrifice Share Plan

On the 26 June 2012 828,000 shares were issued into the Atlas Pearls and Perfumes Ltd Non-Executive Director Trust at \$0.05 per share. These shares have since been issued to Non-Executive Directors. There were no new shares issued under the NED plan during the period ended 30 June 2014.

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). For the participants who entered into conditional salary sacrifice arrangements before the AGM on the 30th of May 2012, the issue price per share is 5 cents.

4.5.9 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 2012 | Shares Forfeited in the year | Financial Year in which shares vested | Nature of shares | Share issue price | Total Value Salary Sacrificed |
|---------------|------------------|---------------------------|----------------------|---------------|------------------------------|------------------------------|---------------------------------------|------------------|-------------------|-------------------------------|
| Joseph Taylor | 26/6/12 | 180,000 | 180,000 | 29/6/12 | 100% | 0% | 2012 – 100% | Ordinary Shares | \$0.05 | \$9,000 |
| Geoff Newman | 26/6/12 | 648,000 | 648,000 | 29/6/12 | 100% | 0% | 2012 – 100% | Ordinary Shares | \$0.05 | \$32,400 |

Notes – 1. These shares were issued under the NED plan described above directly to the NEDs, for past services rendered.

4.5.10 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 14 | Option Exercise Price |
|-----------------------------------|---------------|----------------------------|--------------|-------------|------------------------------|-------------------------------------|------------------|---------------------------------|-----------------------|
| Stephen Birkbeck ¹ | 13/05/14 | 10,000,000 | 30/6/16 | 31/12/16 | 0% | 2016 | Ordinary Shares | \$12,559 | \$0.0858 |
| Joseph Taylor ¹ | 13/05/14 | 500,000 | 30/6/16 | 31/12/16 | 0% | 2016 | Ordinary Shares | \$628 | \$0.0858 |
| Stephen Gleeson ² | 24/02/14 | 2,000,000 | 30/6/16 | 31/12/16 | 0% | 2016 | Ordinary Shares | \$5,948 | \$0.0858 |
| Stephen Gleeson ¹ | 02/06/14 | 1,000,000 | 30/6/16 | 31/12/16 | 0% | 2016 | Ordinary Shares | \$712 | \$0.095 |
| Pierre Fallourd ² | 24/02/14 | 1,000,000 | 30/6/16 | 31/12/16 | 0% | 2016 | Ordinary Shares | \$2,974 | \$0.0858 |
| Pierre Fallourd ¹ | 02/06/14 | 1,000,000 | 30/6/16 | 31/12/16 | 0% | 2016 | Ordinary Shares | \$712 | \$0.095 |
| Nelson Rocher ² | 24/02/14 | 1,000,000 | 30/6/16 | 31/12/16 | 0% | 2016 | Ordinary Shares | \$2,974 | \$0.0858 |
| Jan Jorgensen ² | 24/02/14 | 500,000 | 30/6/16 | 31/12/16 | 0% | 2016 | Ordinary Shares | \$1,487 | \$0.0858 |
| Danielle Brandenburg ¹ | 02/06/14 | 2,000,000 | 30/6/16 | 31/12/16 | 0% | 2016 | Ordinary Shares | \$1,424 | \$0.095 |
| Sonia McKay-Coghill ¹ | 02/06/14 | 2,000,000 | 30/6/16 | 31/12/16 | 0% | 2016 | Ordinary Shares | \$1,424 | \$0.095 |

Notes –

1. These unlisted options were approved by the shareholders at the EGM held on 13 May 2014

2. These unlisted options were approved by the Board of Directors on 24 February 2014

DIRECTORS' REPORT CONTINUED

4.5.11 The details relating to the equity instruments held by key management personnel are as follows:**a. Equity instrument disclosures relating to key management personnel****1. Options and rights granted as compensation**

There were 21,000,000 options issued to key management personnel as remuneration during the period ended 30 June 2014 (30 June 2013 – Nil).

2. Option holdings

There were 21,000,000 options on issue to key management personnel during the period ended 30 June 2014 (30 June 2013 – 500,000).

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 23 and in the Remuneration Report contained at section 4 of the Directors' Report.

| | Balance 01/07/13 | Options Exercised | Other Changes ⁽¹⁾ | Balance 30/06/14 |
|---------------------------------------|-------------------|-------------------|------------------------------|-------------------|
| Parent Entity Directors | | | | |
| Mr S.P. Birkbeck | 37,109,027 | 6,018,172 | - | 43,127,199 |
| Mr J.J.U. Taylor | 1,400,000 | - | - | 1,400,000 |
| Mr G. Newman | 1,411,295 | 128,000 | - | 1,539,295 |
| Mr T. Martin ⁽²⁾ | 16,628,145 | 2,528,600 | - | 19,156,745 |
| Mr S. Arrow ⁽³⁾ | - | - | 11,508,089 | 11,508,089 |
| Mr N. Rocher ⁽³⁾ | - | - | 6,612,185 | 6,612,185 |
| Other Key Management Personnel | | | | |
| Mr J. Jorgensen | 624,400 | - | - | 624,400 |
| Mr S. Gleeson | 3,100,000 | 500,000 | 49,072 | 3,649,072 |
| Mr C. Triefus ⁽²⁾ | 1,215,000 | - | (1,215,000) | - |
| Mr P. Fallourd ⁽³⁾ | - | - | 2,586,206 | 2,586,206 |
| Ms S. Mackay - Coghill ⁽³⁾ | - | - | - | - |
| Ms D. Brandenburg ⁽³⁾ | - | - | 100,000 | 100,000 |
| | 61,487,867 | 9,174,772 | 19,640,552 | 90,303,191 |

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
- Director/KMP retired or resigned in the financial period
- Director/KMP appointed in the period

c. Option holding

The number of options over ordinary shares in the parent entity held during the six months ended 30 June 2014 by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

| | Balance 01/07/13 | Granted | Exercised | Expired/ forfeited/other | Balance 30/06/14 |
|---------------------------------------|------------------|-------------------|------------------|--------------------------|-------------------|
| Parent Entity Directors | | | | | |
| Mr S.P. Birkbeck | 6,018,172 | 10,000,000 | 6,018,172 | - | 10,000,000 |
| Mr J.J.U. Taylor | - | 500,000 | - | - | 500,000 |
| Mr G. Newman | 128,000 | - | 128,000 | - | - |
| Mr T. Martin | 2,528,000 | - | 2,528,000 | - | - |
| Mr S. Arrow ⁽¹⁾ | - | - | - | - | - |
| Mr N. Rocher | - | 1,000,000 | - | - | 1,000,000 |
| Other Key Management Personnel | | | | | |
| Mr J. Jorgensen | - | 500,000 | - | - | 500,000 |
| Mr S. Gleeson | 500,000 | 3,000,000 | 500,000 | - | 3,000,000 |
| Mr C. Triefus | - | - | - | - | - |
| Mr P. Fallourd | - | 2,000,000 | - | - | 2,000,000 |
| Ms S. Mackay- Coghill | - | 2,000,000 | - | - | 2,000,000 |
| Ms D. Brandenburg | - | 2,000,000 | - | - | 2,000,000 |
| | 9,174,172 | 21,000,000 | 9,174,172 | - | 21,000,000 |

This is the end of the Audited Remuneration Report.

DIRECTORS' REPORT CONTINUED

5. PRINCIPAL ACTIVITIES AND REVIEW OF OPERATIONS

5.1 Principal Activities

The Company is a producer of pearls and perfumes (and cosmetics) with administrative and retail centres in Bali and Perth, pearl farms in Indonesia and a natural ingredients processing plant in Tasmania for the processing of natural ingredients to extract essential oils, fragrances and flavours. In addition, the Company has a joint venture, World Senses, with Nomad Two Worlds in marketing and value adding.

LOCATION OF OPERATIONS



DIRECTORS' REPORT CONTINUED

5.2 Review of Operations and significant changes in the state of affairs

5.2.1 12 Months in Perspective.

This report is the first twelve month period with the new 30 June financial year end. The prior year comparative period reported is for the once off six month financial report required as part of changing over to Australian reporting year. The results reflect a full twelve months of trading for the period 1st July 2013 to 30 June 2014.

Record sales revenue of \$16,283,183 was achieved for the twelve months ended 30 June 2014. The year finished strongly with the Company's most successful pearl auction to date held in Kobe Japan in June 2014.

Atlas is now considered the market leader in 9-13mm specialty pearl size of South Sea Pearls. Growing and sustainable demand for loose pearls is evidence of a significant recovery in the market from the low point reached during the Global Financial Crisis in 2009.

This combined with a change in selling strategy has seen a significant recovery in the Group's revenues for the year to date. Atlas is now selling pearls to 50 of the world's largest wholesalers, previously 70-80% of the Atlas harvest was sold to just four different customers.

Essential oils sales contributed \$2,023,581 towards the Group's total revenues (30 June 2013 - \$503,076). Essential Oils of Tasmania was acquired in January 2013 as part of the Group's value-added strategy.

5.2.2 Shareholder Returns

| | 12 Months Ending | 6 Months Ending | 12 Months Ending |
|-------------------------------|------------------------|---------------------------|--------------------------|
| | 30 June 2014 \$'000 | 30 June 2013 \$'000 | 31 Dec 2012 \$'000 |
| Net profit/(loss) after tax | 1,814 | (2,195) | 1,406 |
| Basic EPS (cents) | 0.61 | (0.81) | 0.68 |
| 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 | 6 Months Ending | 12 Months Ending |
|---|------------------------|---------------------------|--------------------------|
| | 30 June 2014 \$'000 | 30 June 2013 \$'000 | 31 Dec 2012 \$'000 |
| Net profit/(loss) after tax | 1,814 | (2,195) | 1,406 |
| Tax expense/(benefit) | (355) | (1,472) | (1,767) |
| Finance/Interest net costs | 471 | 222 | (650) |
| Depreciation & amortisation | 303 | 136 | 216 |
| Foreign Exchange (gain)/loss | 578 | (1,091) | (1,137) |
| Agriculture Standard revaluation (gain)/ loss/ pearl adjustments | (63) | 2,908 | 3,147 |
| Other Non-Operating (income)/expense | 300 | 242 | 130 |
| Inventory write off | (12) | - | - |
| Derivative Instrument (gain)/loss | 436 | - | - |
| Normalised EBITDA | 3,470 | (1,250) | 1,345 |

5.2.3 Financial Position

| | 30 June 2014 \$'000 | 30 June 2013 \$'000 | 31 Dec 2012 \$'000 |
|---------------------------------------|---------------------------|---------------------------|--------------------------|
| Total Assets | 40,823 | 35,676 | 33,602 |
| Debt (Current & Non-current) | (5,155) | (5,274) | (4,936) |
| Other Liabilities | (6,859) | (4,605) | (4,449) |
| Shareholder funds | 28,809 | 25,797 | 24,217 |
| Debt / Shareholder funds | 18% | 20% | 20% |
| Number of shares on issue (million) | 326.62 | 287.039 | 237.135 |
| Net tangible assets per share (cents) | 8.7 | 9.0 | 10.2 |
| Share price at reporting date (cents) | 8.5 | 4.1 | 4.5 |

There has been an increase in the net assets of the group of \$5.1M in the twelve months to 30 June 2014 (six months to 30 June 2013 - \$1.6M). Movements in the net worth of the economic entity are summarised below:

- Cash reserves decreased to \$1.7M (30 June 2013 - \$1.8M) at 30 June 2014. During the twelve months ended 30 June 2014 core debt was decreased by \$119K.
- Trade receivables increased to \$3M (30 June 2013 - \$1.1M) principally due to the 30 June 2014 loose pearl auction held on the 29th of June 2014.
- Oyster assets value increased by \$2.3M during the twelve months ended 30 June 2014. The main drivers behind the increase in value include: an improvement in the market price of pearls from ¥8,250/momme at 30 June 2013 to ¥11,000/momme and a higher number of Oysters harvestable within the next 12 months from 205K at 30 June 2013 to 249K at 30 June 2014. This increase has been partly offset by a weaker Yen: ¥95.52 to AUD (30 June 2014) compared to ¥91.64 to AUD (30 June 2013), and the total change in fair value less husbandry costs of oysters during the twelve months ended 30 June 2014 was an increase of \$1.9M.
- Pearls on hand decreased from 164,399 at 30 June 2013 to 52,436 at 30 June 2014; the net realisable value decreased from \$2.5M at 30 June 2013 to \$1.07M at 30 June 2014 as the auction originally scheduled for June 2013 was held in early July 2013 resulting in a build-up of stock at 30 June 2013 and another large auction was held on the 29 June 2014. A write-off of \$1.2M was recognised in relation to adjusting the fair value of loose pearls and jewellery costs for the period as inventory is required to be valued at either fair value (for biological harvested assets) or the lower of cost and net realisable value. Pearl inventory on hand at 30 June 2014 was lower grade after the large June auction.
- Jewellery inventory was \$2.9M as at 30 June 2014, down from \$3.0M as at 30 June 2013 reflecting the Company's improving inventory management controls.
- Borrowings were \$5.1M at 30 June 2014 consistent with the 30 June 2013.
- Essential oil finished product made up \$1.35M of the inventory balance at 30 June 2014 (\$1.1M at 30 June 2013). During the twelve months ended 30 June 2014 the group recorded write-ups of Lavender and Boronia crops of \$0.3M, for six months ended 30 June 2013 the group recorded write-downs of Lavender and Boronia crops totalling \$0.4M.

5.2.4 Operating Results

Atlas recorded a net profit after tax for the period ended 30 June 2014 of \$1.8M, an increase of \$4M (30 June 2013- net loss after tax of \$2.2M).

The operating revenue for the twelve months ended 30 June 2014 was \$16.3M, compared to the six months ended 30 June 2013 was \$3.5M. Pearl sales revenue was \$11.9M (30 June 2013 - \$1.9M), with retail and wholesale sales revenue of \$1.45M (30 June 2013 - \$0.6M) and essential oil sales of \$2.02M (30 June 2013 - \$0.5M). The number of jewellery retail outlets in Bali remained consistent with 2013 at a total of seven.

Gross Profit percentage overall increased to 62% for the twelve months of 2014 from 60% for the first six months of 2013 due to the reduced supply of white south sea pearls as a result of lower global production.

DIRECTORS' REPORT CONTINUED

5.2.5 Pearl Oyster Production Results

Results across the breeding and farming system for the financial period July 1 2013 to June 30, 2014 were on target with operational projections. Both the Bali and Lembata hatcheries have had successful seasons and a record number of virgin oysters were seeded during the 13/14 financial year. These oysters produce the best quality pearls within the Atlas production system and currently represent almost 90% of all pearl carrying stocks farmed internally. A record seeding result achieved in Bali in the second half of FY13/14 bodes well for future harvests.

Juvenile grow-out was particularly good in Bali with Lembata results improving again on the prior season, with the later close to mirroring Bali's production. There are sufficient juvenile oysters in the farming system to reach seeding targets for FY14/15.

The effects of the selective breeding programme in terms of growth took a significant leap forward during the last six months with pearl oysters achieving seeding size two to three months earlier than prior years. At the same time, these young oysters are taking the same size range of nuclei and have achieved a record result in terms of pearl formation or retention.

Over the past year pearl quality has also improved, which has been reflected in both price and demand for goods. We have now had several commercial sized pearl harvests at the newer sites of Punggu (near Komodo Island) and Alor. Each site has specific differences in terms of certain pearl traits but importantly the value of pearls from each farm is consistent. The subtle variations observed particularly in relation to overtones in colour may prove to be an added value drive in pearl marketing. As it stands, Atlas pearls are well recognised with the international wholesale trade.

With increasing numbers of high quality oysters coming through the system, Atlas has increased its selection criteria for seeding. As a consequence the Company has expanded its JV seeding programme using surplus 2nd grade stock with a third party farmer. This allows extra oysters to be seeded for Atlas at minimal cost.

A major change is underway in the selective breeding programme with the completion of the R & D facility in Bali. All future genetic improvement programmes will be independent to the commercial operation. The Company now has a pearl oyster "Stud" farm and hatchery for developing "best of breed" which will in turn become the pedigree broodstock for the commercial division. In doing so, the efficiency of the main commercial operations will improve significantly.

5.2.6 3000 Hands: Sharing and Sustaining

Over 3000 Hands are involved in the journey of an Atlas creation from the moment nature's treasure is born until the finished product is delivered into the hands wearer. 3000 Hands encompasses the values acknowledged by all shareholders and stakeholders as they enter the world of Atlas.

The 3000 Hands: Sharing and Sustaining video web series will continue over the next 12 months, featuring portraits supporting the unique position of Atlas in Indonesia and the relationship of creating beautiful pearls and perfumes with community, people and environment.

These stories reveal the Atlas philosophy in terms of community engagement and sustainable practice and provide a strong vehicle for "marketing our luxury products to the world. If you haven't done so, please take a moment to visit www.3000hands.com. New episodes will continue to become available.

5.2.7 Personnel

Atlas places a strong emphasis on training and retention of its workforce to ensure a more efficient and cost effective operation. Staff numbers increased from 2013 to 2014 as the Company continues to develop operations.

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

| | 2014 | 2013 | 2012 |
|----------------------------------|------|------|------|
| Expatriates – Indonesia | 21 | 15 | 20 |
| Indonesian nationals – permanent | 536 | 613 | 629 |
| Indonesian nationals – part time | 341 | 149 | 178 |
| Australia | 43 | 30 | 13 |
| Total Personnel | 941 | 807 | 840 |

5.2.8 Marketing

Over the past few months, several companies have approached Atlas seeking opportunities to collaborate. A group of 20 European retailers led by a global jewellery leader (Gellner) visited Atlas farms, an Australian South Sea pearl farmer confirmed its interest to join Atlas auction format, researchers and the prestigious Gemmological Institute of America (GIA) commenced collaboration on various R&D programs. All this positive feedback further reinforce the strong perception of Atlas as a sophisticated operator, the quality of the pearls produced as well as the reliability and consistency of the Company's distribution and marketing.

To further enhance the customer experience both at wholesale and retail level, new grading and matching capabilities have been added to Perth Headquarters making it an efficient, convenient and flexible trading and service platform for the Australian market.

Significant efforts are being invested to improve the clarity of Atlas' range of finished product and retail experience. New Jewellery collections are being designed/produced, showrooms are under renovation and the trend of industrial tourism in Bali is being embraced with the opening of a new retail site near the Komodo Island National Park. At the same time we have implemented specially crafted customer recruitment programs and tourism strategies.

Those coordinated efforts will be rewarded by pearl price improvement and further reinforced with the addition of new talent at the pearling and distribution level. It can be said that Atlas pearls are now becoming a quality household name.

5.2.9 Research and Development

A third grant from the Australian Research Council is supporting phase three of our collaborative genetic research project with James Cook University. The program, which now boasts a dedicated hatchery and farm facility, is exploring in more detail the genetic basis for pearl creation. This "stud" breeding facility in North Bali has been commissioned and is a first for pearl oysters using the world's most comprehensive shellfish genome map to create a diverse stock selected for growth and pearl quality. The foundation work over the last 9 years has already seen our current generation of pearl oysters reduce the cycle of production by an average three months whilst enjoying record success in terms of survival and post operation success.

A \$1M development grant to commercialise key pearl and native plant extracts at EOT was a major coup and recognises the technical skills of the Tasmanian team.

Concurrently, pearl and pearl oyster protein extracts are being tested in the pearl growing process. Preliminary results are exciting, even more so as all the IP is controlled and contained within the Atlas group.

The same extracts have already completed the first round of efficacy testing in relation to human skin cell health. Initial results indicate that the extracts have a potential for skin health. Moreover, The Gemmological Institute of America is testing these materials directly on the surface of pearls.

6. DIVIDENDS

No dividends were declared and paid by the Company during the twelve month period ended 30 June 2014 or the 6-month period ended 30 June 2013.

7. EVENTS SINCE THE END OF THE FINANCIAL YEAR

Mr Nelson Rocher was appointed Alternate Director to Mr Stephen Birkbeck on 18 July 2014.

DIRECTORS' REPORT CONTINUED

8. LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

With our two technical hubs, Bali and Lembata beginning to reach optimal size Atlas is surveying both dormant existing lease areas and new sites for future growth opportunities. Several internationally backed pearl farming companies have approached Atlas wishing to collaborate and all potential JV options are being investigated.

Our current surplus in hatchery capacity has the potential to convert to a surplus in mature oysters for seeding over the next 2 years creating opportunity for additional pearl production.

Commissioning of our second pearl oyster transport vessel, the Poernomo, in the first quarter of FY14/15 will greatly enhance our ability to efficiently relocate virgin and seeded oysters and create opportunities for testing new sites by acting as a temporary operations facility.

The commissioning of the dedicated stud breeding facility will have an impact on the efficiency of the commercial farming programme by removing the need to maintain detailed comprehensive records of every pearl oyster family in the system. With family pedigree lines now numbering in the hundreds, isolating the monitoring and selection programme to a dedicated team and facility frees the large-scale farms to rationalise stock and improve efficiency on the commercial scale and reduce husbandry costs. Furthermore, financial modelling analysis demonstrates that the stud farm is expected to be a profit centre within three years and is expected to produce the Best of Breed pearls creating a unique marketing position for a small premium grade crop. The availability of three hatcheries within the Atlas farm model is creating major risk mitigation and extending our production season by exploiting the environmental variation found in our different regional centres. A major spawning in August 2014 resulted in larvae being shared by the three hatcheries.

9. 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 is as follows:

| | Ordinary Shares | | Unlisted Options | |
|----------------------------------|-----------------|------------|------------------|------------|
| | Direct | Indirect | Direct | Indirect |
| S.P. Birkbeck ⁽³⁾ | - | 43,127,199 | - | 10,000,000 |
| N. Rocher ⁽⁵⁾ | - | 6,612,185 | - | 1,000,000 |
| J.J.U. Taylor ^{(1),(2)} | 200,000 | 1,200,000 | - | 500,000 |
| G. Newman ⁽²⁾ | - | 1,539,295 | - | - |
| S. Arrow ⁽⁴⁾ | - | 11,508,089 | - | - |
| T. Martin ⁽⁶⁾ | 4,256,545 | 14,900,200 | - | - |

1. The 1,200,000 shares held indirectly by Dr J Taylor are held in trust under the rules of the Employee Share Plan. These shares have now vested. Dr Taylor is only entitled to the shares once the loan is repaid in full (Refer Note 23).
2. Dr J Taylor acquired 180,000 shares, and G Newman acquired 648,000 shares in 2012 under the Non-Executive Director Fee Salary Sacrifice Share Plan (Refer to Note 4.5.9 of Remuneration Report).
3. 1,000,000 shares held in trust in the ESP for Stephen Birkbeck were issued on 8 May 2013 (Refer to Note 4.5.7).
4. Mr S Arrow was appointed as director on 2 January 2014
5. Mr N Rocher was appointed as alternate director to Mr S Birkbeck on 18 July 2014
6. 14,900,200 indirect ordinary shares held by Mr T Martin are held by a private entity which Mr T Martin is 1 of 4 directors. This entity is classified as a related party.

10. OPTIONS

The Company had 32,582,005 options granted over unissued shares at the 30 June 2013. As part of the rights issue on 18 January 2013 a total of 30,240,735 unlisted options expiring 29 January 2014 exercisable at \$0.05 each were issued pursuant to the Company's non-renounceable entitlements Prospectus dated 16 November 2012. An additional 2,452,979 options were issued when the shortfall was taken up in March and April 2013. These options expired on 29 January 2014. Options exercised during the six months ended 30 June 2013 totalled 111,709. Options exercised during the twelve months ended 30 June 2014 totalled 29,577,674.

During the year end 30 June 2014 26,500,000 in unlisted options were issued to certain employees and consultants of Atlas Pearls and Perfumes Ltd, pursuant to the Atlas Pearls and Perfumes Ltd Employee Option Plan. The unquoted options are exercisable at \$0.0858 (18,000,000) and \$0.095 (8,500,000) respectively, on or before 31 December 2016, subject to certain vesting conditions specific to each employee/consultant.

11. INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

11.1 Indemnification

The Company has agreed to indemnify the following current directors of the Company; Mr S Birkbeck, Dr J Taylor, Mr G Newman and Mr T Martin and the following former directors; 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.

11.2 Insurance Premiums

Since the end of the previous financial year the Company has paid insurance premiums of \$15,670 (2013 - \$16,498) in respect of directors' and officers' liability and legal expenses insurance contracts, for current and former directors and officers.

12. 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 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.

DIRECTORS' REPORT CONTINUED

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:

| | Consolidated 12 months Ending 30 June 2014 \$ | 6 months Ending 30 June 2014 \$ |
|--|--|---|
|--|--|---|

12. NON AUDIT SERVICES (CONT)

| | | |
|--|----------------|---------------|
| BDO Australian Firm | | |
| Audit and review of financial reports | 111,966 | 74,765 |
| Related practices of BDO Australian Firm | - | - |
| Total remuneration for audit services | 111,966 | 74,765 |

TAXATION SERVICES

| | | |
|---|---------------|---------------|
| BDO Australian Firm: | | |
| Tax compliance services and advice | 51,962 | 28,449 |
| Related practices of BDO Australian Firm | - | - |
| Total remuneration for taxation services | 51,962 | 28,449 |

| | | |
|---|---------------|---------------|
| Total remuneration for non-audit and taxation services | 51,962 | 28,449 |
|---|---------------|---------------|

13. 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.

14. AUDITORS 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 35.

Signed in accordance with a resolution of the Directors.



S.P Birkbeck
Chairman
28 August 2014

DIRECTORS' REPORT CONTINUED



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 Australia

DECLARATION OF INDEPENDENCE BY CHRIS BURTON TO THE DIRECTORS OF ATLAS PEARLS AND PERFUMES LTD

As lead auditor of Atlas Pearls and Perfumes Ltd for the year ended 30 June 2014, 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.

Chris Burton
 Director

BDO Audit (WA) Pty Ltd
 Perth, 28 August 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2014

| | Note | 12 Months Ending 30 June 2014 \$ | 6 Months Ending 30 June 2013 \$ |
|---|------|--|---------------------------------------|
| Revenue from continuing operations | 2 | 16,283,183 | 3,505,125 |
| Cost of goods sold | | (6,230,257) | (1,389,004) |
| Gross profit | | 10,052,926 | 2,116,121 |
| Other income | 2 | 1,091,279 | 1,754,041 |
| Marketing expenses | 3 | (360,364) | (88,221) |
| Administration expenses | 3 | (6,814,921) | (3,444,476) |
| Finance costs | 3 | (513,496) | (240,532) |
| Other expenses | | (1,996,783) | (3,763,505) |
| Profit/(Loss) before income tax | | 1,458,642 | (3,666,572) |
| Income tax benefit | 4 | 355,280 | 1,471,927 |
| Profit/(Loss) for the period from continuing operations | | 1,813,922 | (2,194,645) |
| Other comprehensive income/(losses) | | | |
| Items that will be reclassified as profit or loss: | | | |
| Exchange differences on translation of foreign operations | | (792,775) | 1,181,648 |
| Other comprehensive income/(losses) for the period, net of tax | | (792,775) | 1,181,648 |
| Total comprehensive income/(losses) for the period | | 1,021,147 | (1,012,997) |
| Profit/(loss) is attributable to: | | | |
| Owners of the Company | | 1,813,922 | (2,194,645) |
| Total comprehensive income/(losses) is attributable to: | | | |
| Owners of the Company | | 1,021,147 | (1,012,997) |
| Overall operations : | | | |
| Earnings per share for profit/(loss) from continuing operations attributable to the ordinary equity holders of the Company | | | |
| Basic earnings/(loss) per share (cents) | 5 | 0.61 | (0.81) |
| Diluted earnings/(loss) per share (cents) | 5 | 0.57 | N/A |

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2014

| | Note | 12 Months Ending 30 June 2014 \$ | 6 Months Ending 30 June 2013 \$ |
|---|------|--|---------------------------------------|
| Current Assets | | | |
| Cash and cash equivalents | 6 | 1,665,207 | 1,767,156 |
| Trade and other receivables | 7 | 3,020,985 | 1,0764,871 |
| Derivative financial instruments | 8 | - | - |
| Inventories | 9 | 6,114,013 | 7,115,790 |
| Biological assets | 10 | 8,414,231 | 5,914,682 |
| Total current assets | | 19,214,436 | 15,872,499 |
| Non-current assets | | | |
| Intangibles | | 392,875 | - |
| Loans joint venture entities | 25 | 67,896 | 313,926 |
| Investments accounted for using Equity Method | 29 | 3,025 | 280,984 |
| Inventories | 9 | 132,093 | 223,399 |
| Biological Assets | 10 | 12,011,412 | 11,535,561 |
| Property, plant and equipment | 11 | 4,401,274 | 4,513,455 |
| Deferred tax assets | 14 | 4,599,784 | 2,936,629 |
| Total non-current assets | | 21,608,359 | 19,803,955 |
| Total assets | | 40,822,795 | 35,676,454 |
| Current liabilities | | | |
| Trade and other payables | 12 | 3,141,549 | 2,329,224 |
| Borrowings | 13 | 5,014,791 | 4,436,797 |
| Derivative financial instruments | 8 | 852,323 | 14,479 |
| Current tax liabilities | 14 | (94,060) | 234,884 |
| Short-term provisions | 15 | 57,928 | 92,037 |
| Total current liabilities | | 8,971,901 | 7,107,421 |
| Non-current liabilities | | | |
| Derivative financial instrument | 8 | - | 390,148 |
| Borrowings | 13 | 140,168 | 837,646 |
| Deferred tax liabilities | 14 | 2,901,397 | 1,544,570 |
| Total non-current liabilities | | 3,041,565 | 2,772,364 |
| Total liabilities | | 12,013,466 | 9,879,785 |
| Net assets | | 28,809,329 | 25,796,669 |
| Equity | | | |
| Contributed equity | 16 | 32,153,001 | 30,203,033 |
| Reserves | 17 | (8,036,205) | (7,284,974) |
| Retained profits | 18 | 4,692,533 | 2,878,610 |
| Total equity | | 28,809,329 | 25,796,669 |

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 2014

| | Note | Attributable to owners of Atlas Pearls and Perfumes Ltd | | | | Total equity |
|---|------|---|-----------------------------|--------------------------------------|-------------------|-------------------|
| | | Contributed equity | Share based payment reserve | Foreign currency translation reserve | Retained earnings | |
| | | \$ | \$ | \$ | \$ | \$ |
| Balance at 1 January 2013 | | 27,610,085 | 581,029 | (9,047,651) | 5,073,255 | 24,216,718 |
| (Loss) for the period | 18 | - | - | - | (2,194,645) | (2,194,645) |
| Exchange differences on translation of foreign operations | 17 | - | - | 1,181,648 | | 1,181,648 |
| Total comprehensive income / (loss) for the period | | - | - | 1,181,648 | (2,194,645) | (1,012,997) |
| Transactions with owners in their capacity as owners | | | | | | |
| Contributions of equity, net of transaction costs | 16 | 2,592,948 | - | - | - | 2,592,948 |
| Dividends provided for or paid | 19 | - | - | - | - | - |
| Employee share scheme | 17 | - | - | - | - | - |
| | | 2,592,948 | - | - | - | 2,592,948 |
| Balance at 30 June 2013 | | 30,203,033 | 581,029 | (7,866,003) | 2,878,610 | 25,796,669 |
| Balances at 1 July 2013 | | 30,203,033 | 581,029 | (7,866,003) | 2,878,610 | 25,796,669 |
| Profit for the year | 18 | - | - | - | 1,813,922 | 1,813,922 |
| Exchange differences on translation of foreign operations | 17 | - | - | (792,776) | - | (792,775) |
| Total comprehensive income / (loss) for the period | | - | - | (792,776) | 1,813,922 | 1,021,147 |
| Transactions with owners in their capacity as owners | | | | | | |
| Contributions of equity, net of transaction costs | 16 | 1,949,968 | | | | 1,949,968 |
| Dividends provided for or paid | 19 | - | - | - | - | - |
| Employee share scheme | 17 | - | 41,545 | - | - | 41,545 |
| Acquisition of EOT | | - | - | - | - | - |
| Balance at 30 June 2014 | | 32,153,001 | 622,574 | (8,658,779) | 4,692,532 | 28,809,329 |

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 2014

| | Note | 12 Months Ending 30 June 2014 \$ | 6 Months Ending 30 June 2013 \$ |
|--|------|--|---------------------------------------|
| Cash flows from operating activities | | | |
| Proceeds from pearl, jewellery and oyster sales | | 11,858,342 | 2,336,290 |
| Proceeds from essential oil sales | | 1,738,829 | 682,947 |
| Proceeds from other operating activities | | 443,514 | 299,375 |
| Interest paid | | (204,364) | (169,515) |
| Interest received | | 9,329 | 22,221 |
| Payments to suppliers and employees | | (13,743,885) | (6,637,748) |
| Income tax (paid)/received | | (359,059) | 2,321,163 |
| Net cash used in operating activities | 24.2 | (257,294) | (1,145,267) |
| Cash flows from investing activities | | | |
| Cash obtained on business combination | | - | 142,221 |
| Payments for property, plant and equipment | | (1,234,528) | (233,328) |
| Joint venture partnership contributions (paid) | | (53,971) | (186,109) |
| Net cash used in investing activities | | (1,288,499) | (277,216) |
| Cash flows from financing activities | | | |
| Repayment of borrowings | | (329,224) | (1,646,257) |
| Proceeds from issue of shares | | 1,808,715 | 1,640,271 |
| Share transaction costs | | (30,321) | (43,688) |
| Proceeds from convertible notes | | - | 1,100,000 |
| Net cash used in financing activities | | 1,449,171 | 1,050,326 |
| Net increase/(decrease) in cash and cash equivalents | | (96,623) | (372,157) |
| Cash and cash equivalents at the beginning of the financial period | | 1,767,156 | 2,127,414 |
| Effects of exchange rate changes on cash and cash equivalents | | (5,326) | 11,899 |
| Cash and cash equivalents at the end of the financial year | 6 | 1,665,207 | 1,767,156 |

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

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENT

FOR THE YEAR ENDED 30 JUNE 2014

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**1.1 Basis of preparation**

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board 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 28th August 2014. 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.

1.2 Compliance with IFRS

The consolidated financial statements of the Atlas Pearls and Perfumes Ltd group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

1.3 New and amended standards adopted by the group

None of the new standards and amendments to standards that are mandatory for the first time for the financial period beginning 1 July 2013 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods. Changes in AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, AASB 13 Fair Value Measurement did not result in adjustment to the amounts recognised in the financial statements.

1.4 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.

1.5 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 areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 1.34.

1.6 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 2014 and the results of its subsidiaries for the twelve month 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 consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

(i) Employee Share Trust

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.

(ii) Joint Ventures**Joint venture entities**

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. Details relating to the entity are set out in note 30.

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.

1.7 Income tax

The income tax expense or revenue 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 substantively 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.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENT

FOR THE YEAR ENDED 30 JUNE 2014

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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.

1.8 Inventories

- (a) Pearls – The cost of pearls grown by the Group is the fair value less husbandry costs at the time the pearls are harvested. At each reporting date they are valued at the lower of cost and net realisable value.
- (b) Nuclei - quantities on hand at the period end are valued at the lower of cost and net realisable value.
- (c) Oysters – refer note 1.10.
- (d) Crops – refer note 1.10.
- (e) Essential Oils - quantities on hand at the period end are valued at the lower of cost and net realisable value.
- (f) Other inventories – including jewellery, fuel, mechanical parts and farm spares at the period end are valued at the lower of cost and 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.

1.9 Biological Assets

Oysters and Crops 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/crops, discounted using a pre-tax market determined rate.

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 details of the Biological assets that are held by the economic entity as at 30 June 2014 are provided at Note 10.

Each class of property, plant & equipment is stated at historical cost less, where applicable, any accumulated depreciation and impairment losses.

1.10 Property, Plant and Equipment**Property**

Freehold land and buildings are shown at their cost, less subsequent depreciation for buildings.

Leasehold property is shown at cost and amortised over the shorter of the term of the unexpired lease on the property or the estimated useful life of the improvements on the property.

Plant and Equipment

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

The carrying value of plant and equipment and their useful lives are reviewed annually by Directors 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

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:

| Class of fixed asset | Depreciation Rate | |
|---|-------------------|--------|
| | 2013/14 | 2013 |
| Freehold land | 5-10% | 5-10% |
| Leasehold land & buildings & improvements | 5-10% | 5-10% |
| Vessels | 10% | 10% |
| Plant & equipment | 10-50% | 10-50% |

1.11 Investments and Other Financial Assets

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the consolidated statement of profit or loss and other comprehensive income in the period in which they arise.

(b) Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in receivables in the statement of financial position.

(c) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date. Unrealised gains and losses arising from changes in fair value are taken directly to equity. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

(d) Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the consolidated statement of profit or loss and other comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the economic entity has transferred substantially all the risks and rewards of ownership.

(e) Measurement

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the profit or loss.

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest rate method.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENT

FOR THE YEAR ENDED 30 JUNE 2014

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

category are presented in the consolidated statement of profit or loss and other comprehensive income within other income or other expenses in the period in which they arise.

(f) Impairment

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss' event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If there is evidence of impairment for any of the Group's financial assets carried at amortised cost, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in the consolidated statement of profit or loss and other comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the consolidated statement of profit or loss and other comprehensive income.

1.12 Derivative instruments

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. Gains and losses arising from changes in fair value are taken to the consolidated statement of profit or loss and other comprehensive income.

1.13 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.

1.14 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.

1.15 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 23.

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.

1.16 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.

1.17 Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, high liquid investments with original maturity or 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.

1.18 Revenue recognition

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:

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENT

FOR THE YEAR ENDED 30 JUNE 2014

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

(a) 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.

(b) Interest Income is recognised as it accrues.

1.19 Leases

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.

1.20 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. All trade receivables are generally due for settlement within 30 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.

1.21 Trade and other payables

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

1.22 Borrowings

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.

1.23 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.

1.24 Convertible notes

The fair value of the liability portion of a convertible note is determined using a market interest rate for an equivalent non-convertible note. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the notes. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

1.25 Contributed Equity

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.

1.26 Dividends

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.

1.27 Goods and Service Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except where the GST incurred on a purchase of goods & services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and where receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables in the statement of financial position.

Cash flows are included in the statement of cashflows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

1.28 Earnings Per Share**(a) 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. The weighted average number of shares used for the basic earnings per share calculation is 297,634,113.

(b) 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. The weighted average number of shares used for the basic earnings per share calculation is 319,634,113.

1.29 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 contained in note 1 to the accounts 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.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENT

FOR THE YEAR ENDED 30 JUNE 2014

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**Biological assets and pearl inventories**

These are recognised at cost within the internal reports.

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.

1.30 Comparative Figures

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

1.31 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition by acquisition basis, the group recognises any non – controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurements of all amounts have been reviewed, the difference is recognised directly in profit and loss as a bargain purchase.

Where settlement of any part of cash contribution is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

1.32 Parent entity financial information

The financial information for the parent entity, Atlas Pearls and Perfumes Ltd, disclosed in note 31 has been prepared on the same basis as the consolidated financial statements, except as set out below:

(i) Investments in subsidiaries

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

(ii) 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.

1.33 Critical accounting estimates and judgments

The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. 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.

Key estimates – Impairment

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

Critical judgements in applying the entity's accounting policies**- Doubtful debts provision**

No provision has been recognised in respect of receivables owed to the group for the period ended 30 June 2014 or 30 June 2013.

- Write-off of pearl inventories

There was a write-off of \$2,229,674 as at 30 June 2014 (30 June 2013 – \$1,745,978). Refer to note 3.

- Determination of net market value of inventories and biological assets

Agricultural assets include pearl oysters, both seeded and unseeded and pearls that have been harvested from the oysters which remain unsold. Seeded oysters are measured at their fair value using the net present value of expected future net cash flows attributed to this inventory less the estimated husbandry costs. The fair value of unseeded oysters is determined by reference to market prices for this type of asset in Indonesia. Pearls are measured at their fair value husbandry costs by reference to anticipated market prices for pearls upon harvest. Carrying amount of inventories and biological assets are disclosed in note 10.

Key assumptions that have been used to determine the fair market value of the oysters at 30 June 2014 are as follows:

| | 30 June 2014 | 30 June 2013 |
|---|-----------------------|-----------------------|
| Average selling price for pearls ¹ | ¥11,000 per momme | ¥8,250 per momme |
| ¥ exchange rate | ¥95.52:AUD1.00 | ¥91.64:AUD1.00 |
| Average pearl size | 0.60 momme | 0.60 momme |
| Proportion of market grade pearls | 62% | 61% |
| Discount rate applied to cash flow | 20% | 20% |
| Mortality & Rejection rates | Historical comparison | Historical comparison |
| Average unseeded oyster value | \$1.32 | \$1.90 |

Sellable Actual Results for the year ended 30 June 2014

| | 01/07/13 – 31/12/13 | 01/01/14 – 30/06/14 | Total |
|---------------------------|---------------------|---------------------|-------------------|
| Total Weight Sold (Momme) | 55,327 | 41,675 | 97,002 |
| Average ¥/Momme | ¥9,615 per momme | ¥10,539 per momme | ¥10,012 per momme |
| Total No. of Pearls sold | 98,673 | 80,683 | 179,356 |

1. Average pearl prices are based on management's best judgement of the quality of pearls in the water at year end. Atlas expects the percentage of F-ops harvested to increase over the next two years, resulting in the harvest of heavier, rounder pearls. Management takes into consideration historical averages discounted for potential market volatility when calculating the average selling prices for pearls.
2. In May 2014 approx. 40,000 low grade/by product pearls were sold, reducing the ¥ per momme for this period.

Biological assets are valued using estimated future yen rates. 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 yen rate used is based on the estimated yen rates for the next 18 months from Commonwealth Bank of Australia.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENT

FOR THE YEAR ENDED 30 JUNE 2014

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Key assumptions that have been used to determine the fair market value of the crops at 30 June 2014 are as follows:

| Boronia | 30 June 2014 | 30 June 2013 |
|------------------------------------|---|---|
| Discount rate applied to cash flow | 3-6% | 3-6% |
| Estimated life | 10 years | 10 years |
| Flower yield per ha | 2,000kg | 2,000kg |
| Oil Yield per kg of flower | 60% | 60% |
| Farm gate price per kg | \$2,425 | \$2,500 |
| JV Grower Share | 50% of profit after production and harvesting costs | 50% of profit after production and harvesting costs |

| Lavender | 30 June 2014 | 30 June 2013 |
|------------------------------------|---|---|
| Discount rate applied to cash flow | 3-6% | 3-6% |
| Estimated life | 10 years | 10 years |
| Oil Yield per ha | Year 1 – nil Year 2 – 30% Year 3 – 40% Year 4:10 – 50% | Year 1 – nil Year 2 – 10% Year 3 – 25% Year 4:10 – 40% |
| Selling price per kg | \$320 | \$300 |

- Determination of derivative liability within Convertible Notes

The fair value of the embedded derivative outstanding is measured using models that require the exercise of judgements in relation to variables such as expected volatility and future share price. Any changes in the variables will affect the fair value of the derivative post reporting date.

2. REVENUE FROM CONTINUING OPERATIONS

| | Consolidated | |
|--|--|---|
| | 12 Months Ending 30 June 2014 | 6 Months Ending 30 June 2013 |
| | \$ | \$ |
| Sales Revenue | | |
| Sale of goods | 15,933,177 | 3,252,608 |
| Other Revenue | | |
| Interest income | 13,333 | 18,629 |
| Other revenues | 336,673 | 233,888 |
| Revenue | 16,283,183 | 3,505,125 |
| Other Income | | |
| Foreign exchange (losses)/gains realised | 405,990 | 400,792 |
| Foreign exchange gains unrealised | - | 885,945 |
| Gain on acquisition of EOT | - | 59,911 |
| Gain on derivative liability | - | 32,177 |
| Grant funds | 336,600 | - |
| Insurance refund | 16,922 | 114,431 |
| Write back of dividend provision | 9,768 | 260,785 |
| EOT Crop Revaluation | 321,999 | - |
| Other Income | 1,091,279 | 1,754,041 |

3. PROFIT/(LOSS) BEFORE INCOME TAX INCLUDES THE FOLLOWING SPECIFIC ITEMS

| | 12 Months Ending 30 June 2014 | 6 Months Ending 30 June 2013 |
|---|--|---|
| Administration expenses from ordinary activities | | |
| Salaries and wages | 4,226,756 | 1,479,544 |
| Depreciation property, plant and equipment | 302,686 | 136,160 |
| Operating lease rental costs | 707,575 | 172,094 |
| Compliance and finance | 571,833 | 657,450 |
| Other | 1,006,071 | 999,228 |
| | 6,814,921 | 3,444,476 |
| Other expenses | | |
| Loss on foreign exchange unrealised | 971,954 | - |
| Loss on financial instruments unrealised | 11,964 | 195,906 |
| Gain on derivative financial instruments | 435,732 | - |
| Provision for employee entitlements | (6,290) | 135,128 |
| Change in fair value less husbandry costs of oysters | (1,971,114) | 735,322 |
| Write-off of pearl and jewellery costs | 2,229,675 | 1,745,978 |
| Write-off of crops | (11,982) | 405,566 |
| Changes in fair value less husbandry costs of crops | - | 36,616 |
| Share of loss on joint ventures | 299,971 | 273,781 |
| Write-down on investments | - | 84,693 |
| Other | 36,874 | 150,615 |
| | 1,996,784 | 3,763,505 |
| Finance costs | | |
| Interest and finance charges payable | 513,496 | 240,532 |
| | 513,496 | 240,532 |
| Net loss/(profit) on foreign currency derivatives not qualifying as hedges | 11,964 | 195,806 |

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENT

FOR THE YEAR ENDED 30 JUNE 2014

4. INCOME TAX EXPENSE

| | 12 Months Ending 30 June 2014 \$ | 6 Months Ending 30 June 2013 \$ |
|--|---|--|
| a) The components of tax expense/(benefit) comprise: | | |
| Current tax | (240,946) | (308,328) |
| Deferred tax | (114,334) | (786,208) |
| Prior period under/(over) provision | - | (377,391) |
| | (355,280) | (1,471,927) |
| b) Deferred income tax (revenue) expense included in income tax expense comprises: | | |
| Decrease(increase) in deferred tax assets (excluding tax losses) (note 14) | (1,398,565) | (400,535) |
| (Decrease)increase in deferred tax liabilities (note 14) | 1,284,231 | (385,673) |
| | (114,334) | (786,208) |
| c) Numerical reconciliation of income tax expenses to prima facie tax payable: | | |
| Profit/(loss) before income tax expense | 1,458,642 | (3,666,572) |
| Tax at the Australian tax rate of 30% | 437,593 | (1,099,972) |
| Tax effect of amounts which are not deductible in calculating taxable income: | | |
| Non deductible expenses | 26,224 | (26,114) |
| Tax losses not brought to account | (8,923) | 114,724 |
| Sundry items | (667,992) | (216) |
| Permanent Differences (Indonesia) | (142,182) | (34,848) |
| Difference in overseas tax rates | - | (48,110) |
| Income tax under/(over) provided in prior years | - | (377,390) |
| Income tax expense/(benefit) | (355,280) | (1,471,927) |
| Weighted average effective tax rates | (24%) | 40% |
| d) Dererred income tax at 30 June relates to the following: | | |
| Deferred tax liabilities | | |
| Accrued interest | - | - |
| Fair value adjustment on biological assets and agricultural produce | 1,312,530 | (541,261) |
| Prepayments | 665 | (1,080) |
| Convertible notes | - | 9,653 |
| Property, Plant and Equipment | - | - |
| Unrealised foreign exchange gain | 43,634 | 147,950 |
| Deferred tax assets | | |
| Difference in accounting and tax depreciation | - | (90,740) |
| Stock | (1,116,863) | (274,151) |
| Accruals | - | (6,450) |
| Provisions | (105,977) | 215,041 |
| Unrealised foreign exchange losses | (180,228) | (69,323) |
| Unrealised foreign exchange gains | - | - |
| Other | 4,530 | (193,789) |
| Tax losses | (264,590) | (617,232) |
| Deferred tax (income) | (306,326) | (1,421,382) |

For details of the franking account, refer to Note 19.

5. EARNINGS/ (LOSS) PER SHARE

| Earnings reconciliation | 30 June 2014 \$ | 30 June 2013 \$ |
|---|--------------------|--------------------|
| Basic earnings/(loss) per share (cents per share) | 0.61 | (0.81) |
| Diluted earnings per share (cents per share) | 0.57 | N/A |
| Net profit/(loss) used for basic earnings | 1,813,922 | (2,194,645) |
| After tax effect of dilutive securities | - | - |
| Diluted earnings/(loss) | 1,813,922 | (2,194,645) |
| Weighted average number of ordinary shares out- standing during the period used for calculation of basic earnings per share | 297,634,113 | 271,638,917 |
| Adjustments for calculation of diluted earnings per share: convertible notes | 22,00,000 | N/A |
| Weighted average number of potential ordinary shares outstanding during the period used for calculation of diluted earnings per share | 319,634,113 | N/A |

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 2014 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.

6. CASH AND CASH EQUIVELANT

| | 30 June 2014 \$ | 30 June 2013 \$ |
|--------------|--------------------|--------------------|
| Cash at bank | 1,665,207 | 1,767,156 |
| | 1,665,207 | 1,767,156 |

Interest rate risk exposure

The Group's exposure to interest rate risk is disclosed in note 32. 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 \$112,153 (2013: \$106,441).

7. TRADE & OTHER RECEIVABLES

| | 12 Months Ending 30 June 2014 \$ | 6 Months Ending 30 June 2013 \$ |
|------------------------------|---|---------------------------------------|
| CURRENT | | |
| Trade receivables | 2,339,893 | 355,464 |
| Sundry debtors & prepayments | 681,092 | 719,407 |
| | 3,020,985 | 1,074,871 |

(a) Impaired trade receivables

There were no impaired trade receivables for the group during the period ended 30 June 2014 or 30 June 2013.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENT

FOR THE YEAR ENDED 30 JUNE 2014

7. TRADE & OTHER RECEIVABLES (cont.)**(b) Past due but not impaired**

As at 30 June 2014, trade receivables of \$289,325 (2013: \$220,576) 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 this customer no impairment has been recognised in the financial period. The ageing analysis of these trade receivables is as follows:

| | 12 Months Ending 30 June 2014 \$ | 6 Months Ending 30 June 2013 \$ |
|--------------------|---|--|
| Up to one month | 163,797 | 143,378 |
| 2-3 months | 43,466 | 23,002 |
| 3 months and above | 82,062 | 54,196 |
| | 289,325 | 220,576 |

The other classes within trade and other receivables do not contain impaired assets other than those disclosed and are not past due.

(c) Other receivables

These amounts generally arise from transactions outside the normal operating activities of the Group. Collateral is not normally obtained.

(d) Foreign exchange and interest rate risk

The Group's exposure to interest rate risk and foreign exchange risk in relation to trade and other receivables is disclosed in note 32.

(e) Fair value and credit risk

Due to the short term nature of these receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. Refer to note 32 for more information on the risk management policy of the Group and the credit quality of the entity's trade receivables.

8. DERIVATIVE FINANCIAL INSTRUMENTS

| | 30 June 2014 \$ | 30 June 2013 \$ |
|------------------------------------|-----------------------|-----------------------|
| Derivative financial assets | | |
| Forward foreign exchange contracts | - | - |
| Derivative financial liabilities | | |
| Forward foreign exchange contracts | 26,443 | 14,479 |
| Convertible notes | 825,880 | 390,148 |
| | 852,323 | 404,627 |

(a) Instruments used by the Group

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 32).

Derivative financial assets and liabilities comprise forward exchange contracts and an embedded derivative in the convertible note agreements (refer to note 13 for convertible note terms). Gains and losses arising from changes in fair value of foreign exchange hedging contracts and convertible notes 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. In order to protect against exchange rate movements, during the year ended 31 December 2012 the Group had entered into forward exchange contracts to purchase Indonesian Rupiah during the year. During the period ended 30 June 2014 the Group did not enter into any forward exchange contracts to purchase Indonesian Rupiah. In addition 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.

See note 1.12 for details of accounting policy in relation to derivatives.

(b) Risk exposures

Information about the Group's exposure to credit risk, foreign exchange risk and interest rate risk is provided in note 32.

9. INVENTORIES

| | 12 Months Ending 30 June 2014 \$ | 6 Months Ending 30 June 2013 \$ |
|---|---|--|
| CURRENT | | |
| Pearls – at fair value | 1,067,815 | 2,454,602 |
| Essential oil finished products – at cost | 1,350,428 | 1,140,927 |
| Other – at cost | | |
| Jewellery | 2,935,950 | 3,010,595 |
| Pearl Meat | 15,658 | 46,464 |
| Mother of Pearl | 332,693 | 160,268 |
| Farm Consumables & Fuel | 263,560 | 302,934 |
| Cosmetics | 147,910 | - |
| | 3,695,770 | 3,520,261 |
| | 6,114,013 | 7,115,790 |
| NON CURRENT | | |
| Nuclei – at cost | 132,093 | 223,399 |
| | 6,246,106 | 7,339,189 |

Inventories write-off expense of \$2,229,675 (2013: \$1,745,978) is included within other expenses in the statement of profit or loss and other comprehensive income refer to note 3. Write-off of pearls occurred when reviewing net realisable value versus cost.

10. BIOLOGICAL ASSETS

| | 12 Months Ending 30 June 2014 \$ | 6 Months Ending 30 June 2013 \$ |
|-------------------------|---|--|
| CURRENT | | |
| Oysters – at fair value | 8,414,231 | 5,818,298 |
| Crops – at fair value | - | 96,384 |
| | 8,414,231 | 5,914,682 |
| NON CURRENT | | |
| Oysters – at fair value | 10,930,028 | 11,204,083 |
| Crops – at fair value | 1,081,385 | 331,478 |
| | 12,011,412 | 11,535,561 |
| Total Biological Assets | 20,425,643 | 17,450,243 |

During the twelve months ended 30 June 2014 no significant events occurred which impacted on oyster mortalities.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENT

FOR THE YEAR ENDED 30 JUNE 2014

10. BIOLOGICAL ASSETS (cont.)

The details of the Biological Assets that are held by the Group as at period end are as follows:

Nature: Oysters (Pinctada Maxima)

| | 12 Months Ending 30 June 2014 | 6 Months Ending 30 June 2013 |
|--|----------------------------------|------------------------------------|
| | No. | No. |
| Quantity held within the Group operations:- | | |
| Juvenile and mature oysters which are not seeded | 2,060,121 | 1,276,824 |
| Nucleated oysters | 727,793 | 696,030 |
| | 2,787,914 | 1,972,854 |

During the period ended 30 June 2014, the Group harvested 272,479 (2013: 109,037) pearls. A reconciliation of the movement in the fair market value of the oysters during the period is reflected as follows:

| Oysters | 12 Months Ending 30 June 2014 \$ | 6 Months Ending 30 June 2013 \$ |
|---|--|---|
| Carrying amount at beginning of the period | 17,022,380 | 16,434,545 |
| Value of new juvenile oysters recognised into stock | 3,198,017 | 1,414,911 |
| Increase in value of stock from change in pearl oyster development | 13,808,040 | 3,210,849 |
| Decrease in value through mortality | (5,182,524) | (1,733,834) |
| Decrease in value of Agriculture asset from harvest of pearls | (8,329,108) | (2,926,974) |
| Gain/(Loss) from changes to fair value less estimated husbandry costs | 1,971,114 | (735,322) |
| Exchange adjustment | (3,143,663) | 1,358,206 |
| Carrying amount at end of the period | 19,344,256 | 17,022,381 |

Sensitivity analysis - Oysters

The mark to market estimation of the value of the biological assets (Oysters) is determined using the net present value of expected future net cash flows attributed to this inventory less the estimated husbandry costs. The primary assumptions used for this estimate are shown in Note 1.33. The following table summarises the potential impact of changes in the key non-production related variables:

| | Selling Price (¥/momme) | | |
|---------------|--|--|--|
| | -10% | No Change | +10% |
| | ¥10,000 (Sellable Grade) ¥1,727 (Commercial Grade) | ¥11,000 (Sellable Grade) ¥1,900 (Commercial Grade) | ¥12,100 (Sellable Grade) ¥2,090 (Commercial Grade) |
| Discount rate | Profit \$ | Profit \$ | Profit \$ |
| 22% | (\$2,243,054) | (\$237,764) | \$1,968,056 |
| 20% | (\$2,035,022) | - | \$2,238,524 |
| 18.18% | (\$1,839,885) | \$223,066 | \$2,492,311 |

| | Selling Price (¥/momme) | | |
|---------|--|--|--|
| | -10% | No Change | +10% |
| | ¥10,000 (Sellable Grade) ¥1,727 (Commercial Grade) | ¥11,000 (Sellable Grade) ¥1,900 (Commercial Grade) | ¥12,100 (Sellable Grade) ¥2,090 (Commercial Grade) |
| FX rate | Profit \$ | Profit \$ | Profit \$ |
| ¥105.07 | (\$3,917,634) | (\$2,070,873) | (\$39,436) |
| ¥95.52 | (\$2,035,022) | - | \$2,238,524 |
| ¥86.84 | \$43,598 | \$2,286,482 | \$4,753,655 |

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.

Sensitivity analysis - Crops

The mark to market estimation of the value of the biological assets (Crops) is determined using the net present value of expected future net cash flows attributed to this inventory less the estimated husbandry costs. The primary assumptions used for this estimate are shown in Note 1.33. The following table summarises the potential impact of changes in the key non-production related variables:

| | Boronia Farm Gate Price | | |
|---------------|----------------------------|------------|------------|
| | -10% | No Change | +10% |
| | \$2,205/kg | \$2,425/kg | \$2,668/kg |
| Discount rate | Profit \$ | Profit \$ | Profit \$ |
| 3% - 5.7% | (\$30,350) | \$5,642 | \$45,231 |
| 3 - 6% | (\$35,233) | - | \$38,743 |
| 3.3 - 6.9% | (\$40,431) | (\$6,022) | \$31,820 |

| | Lavender Farm Gate Price | | |
|---------------|-----------------------------|------------|-----------|
| | -10% | No Change | +10% |
| | \$291/kg | \$320/kg | \$352/kg |
| Discount rate | Profit \$ | Profit \$ | Profit \$ |
| 3% - 5.7% | (\$87,738) | \$15,618 | \$129,309 |
| 3 - 6% | (\$101,572) | - | \$111,733 |
| 3.3 - 6.9% | (\$116,268) | (\$16,589) | \$93,061 |

The Group is exposed to financial risk in respect of its involvement in primary production which consists of the tending to crops the purpose of producing essential oils. 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 crops 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 and the crops. 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 inputs below are confirmed with the relevant executives and agreed with the Board of Directors every six months.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENT

FOR THE YEAR ENDED 30 JUNE 2014

10. BIOLOGICAL ASSETS (cont.)

The main level 3 inputs used by the group for oysters are derived and evaluated as follows:

| Input | 2014 | 2013 | Commentary |
|-----------------------|-------------------|------------------|---|
| Average selling price | ¥11,000 per momme | ¥8,250 per momme | Obtain by analysing sales prices achieved and the trend analysis of the past 12 months of average sales prices. |
| Yen Exchange rate | ¥95.52: AUD 1 | ¥91.64: AUD 1 | Based on forward Yen price per a financial institution. |
| Average Pearl size | 0.60 per momme | 0.60 per momme | Based on technical assessment of expected harvest output. |
| Marketable grade | 62% | 61% | Based on historical data for pearl size 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 |
| Costs to complete | \$0.63 | \$0.58 | Based on historical averages of costs to complete and sell pearls per momme. |

The main level 3 inputs used by the group for crops are derived and evaluated as follows:

| Input | 2014 | 2013 | Commentary |
|------------------------------------|---|---|---|
| Estimated life | 10 years | 10 years | Based on management's historical view of the life cycle of the crops. |
| Flower yield per ha | 2,000kg | 2,000kg | Based on technical assessment of expected harvest output. |
| Oil Yield per kg of flower | 60% | 60% | Based on historical data for oil yield |
| Farm gate price per kg | \$2,425 | \$2,500 | Based on the average contract price over the last 12 months. |
| JV Grower Share | 50% of profit after production and harvesting costs | 50% of profit after production and harvesting costs | Based on contract price with growers |
| Fencing per hectare | \$2,000 | \$2,000 | Based on the average contract price over the last 12 months. |
| Irrigation per hectare | \$3,000 | \$3,000 | Based on the average contract price over the last 12 months. |
| Discount rate applied to cash flow | 3-6% | 3-6% | Based on management assessment of risk factor |
| Oil Yield per ha (Lavender) | Year 1 – nil Year 2 – 30% Year 3 – 40% Year 4:10 – 50% | Year 1 – nil Year 2 – 10% Year 3 – 25% Year 4:10 – 40% | Based on historical data for oil yield |
| Selling price per kg (Lavender) | \$320 | \$300 | Based on the average contract price over the last 12 months. |

11. PROPERTY, PLANT AND EQUIPMENT

| | 12 Months Ending 30 June 2014 \$ | 6 Months Ending 30 June 2013 \$ |
|---|--|---------------------------------------|
| (a) Non-Pearling Assets | | |
| Plant and equipment | | |
| - at cost | 2,262,932 | 1,818,830 |
| - accumulated depreciation | (1,142,376) | (899,219) |
| | 1,120,555 | 919,611 |
| Leasehold improvements | | |
| - at cost | 1,037,198 | 944,630 |
| - accumulated depreciation | (301,141) | (252,391) |
| | 736,057 | 692,240 |
| Total non-pearling assets | 1,856,613 | 1,611,851 |
| (b) Pearling project | | |
| Land (leasehold and freehold) and buildings | | |
| - at cost | 1,135,047 | 1,126,188 |
| - accumulated depreciation | (198,265) | (200,644) |
| | 936,782 | 925,544 |
| Plant and equipment, vessels, vehicles | | |
| - at cost | 4,261,299 | 4,786,972 |
| - accumulated depreciation | (2,653,420) | (2,810,913) |
| | 1,607,879 | 1,976,059 |
| Total pearling project | 2,544,662 | 2,901,603 |
| Total property, plant and equipment | 4,401,274 | 4,513,455 |

Included in Pearling project land (leasehold and freehold) and buildings is \$311,560 (2013 - \$168,699) 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:

| | | |
|--|-----------|----------|
| (a) Non-Pearling Assets | | |
| Plant and equipment | | |
| Carrying amount at beginning of the year | 919,611 | 557,825 |
| Additions | 482,805 | 464,269 |
| Reclassifications /Disposals | - | - |
| Foreign exchange movement | 27,814 | (4,731) |
| Depreciation | (309,676) | (97,752) |
| Carrying amount at end of the year | 1,120,555 | 919,611 |
| Leasehold Improvements | | |
| Carrying amount at beginning of the year | 692,240 | 702,398 |
| Additions | 128,111 | 11,792 |
| Foreign exchange movement | 25,457 | 12,738 |
| Reclassifications/Disposals | - | - |
| Depreciation | (109,750) | (34,688) |
| Carrying amount at end of the year | 736,058 | 692,240 |
| (b) Pearling project | | |
| Leasehold land and buildings | | |
| Carrying amount at beginning of the year | 925,544 | 796,974 |
| Additions | 236,292 | 79,950 |
| Acquisition of pearling operation | - | - |
| Disposals/reclassifications | - | (114) |
| Depreciation | (39,282) | (21,189) |
| Foreign exchange movement | (185,771) | 69,923 |
| Carrying amount at end of the year | 936,782 | 925,544 |

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENT

FOR THE YEAR ENDED 30 JUNE 2014

11. PROPERTY, PLANT AND EQUIPMENT (cont.)

| | 12 Months Ending 30 June 2014 \$ | 6 Months Ending 30 June 2013 \$ |
|---|---|--|
| Plant and equipment, vessels, vehicles. Carrying amount at beginning of the year. | | |
| Additions | 387,319 | 60,184 |
| Acquisition of pearling operation | - | - |
| Disposals / reclassifications | - | (1,427) |
| Depreciation | (391,558) | (219,045) |
| Foreign exchange movement | (363,942) | 152,795 |
| Carrying amount at end of the year | 1,607,879 | 1,976,059 |
| Total Carrying amount | 4,401,275 | 4,513,454 |
| Reconciliation of depreciation to the Statement of Profit of Loss and Other Comprehensive Income: | | |
| Depreciation charge (Note 11) | (850,266) | (372,674) |
| Capitalised depreciation charge | 547,580 | 236,514 |
| | (302,686) | (136,160) |
| Depreciation charge (Note 3) | (302,686) | (136,160) |
| Balance | - | - |

Refer note 32 for information on non-current assets pledged as security by the Group.

12. TRADE AND OTHER PAYABLES

| | 12 Months Ending 30 June 2014 \$ | 6 Months Ending 30 June 2013 \$ |
|-------------------------------------|---|--|
| CURRENT | | |
| Trade payables | 1,652,259 | 559,092 |
| ESSP accrual* | 17,135 | 18,883 |
| Other payables and accrued expenses | 1,472,154 | 1,751,249 |
| | 3,141,549 | 2,329,224 |

* \$11,905 of the ESSP accrual above is for shares salary sacrificed by Stephen Birkbeck during the year ended 30 June 2014 under the Atlas South Sea Pearl Employee Share Plan.

(a) Amounts not expected to be settled within the next 12 months

Other payables include accruals for annual leave of \$827,853 and \$933,945 in the consolidated entity for 30 June 2014 and 30 June 2013 respectively. The entire obligation is presented as current, since the Group does not have an unconditional right to defer settlement. All amounts are expected to be settled wholly within the next 12 months.

(b) Risk Exposure

Information about the Groups exposure to foreign exchange risk is provided in note 32.

13. BORROWINGS

| | 12 Months Ending 30 June 2014 \$ | 6 Months Ending 30 June 2013 \$ |
|--------------------------------------|--|---|
| CURRENT | | |
| Secured | | |
| Bank loan | 3,951,715 | 4,226,864 |
| Other bank loan | 2,800 | - |
| Lease liabilities | 61,651 | 126,033 |
| Total secured current borrowings | 4,016,165 | 4,352,897 |
| Unsecured | | |
| Other | 4,108 | 83,900 |
| Convertible notes | 994,518 | - |
| Total current borrowings | 5,014,791 | 4,436,797 |
| NON CURRENT | | |
| Secured | | |
| Other bank loan | 89,665 | - |
| Lease liabilities | 50,503 | 52,868 |
| Total secured non current borrowings | 140,168 | 52,868 |
| Unsecured | | |
| Convertible notes | - | 784,778 |
| Total non current borrowings | 140,168 | 837,646 |

(a) Security and fair value disclosure

Information about the security relating to secured liabilities and the fair value is provided in note 33.

(b) Risk Exposure

Information about the Group's exposure to risks arising from borrowings is provided in note 33.

During the prior year reporting period 30 June 2013, Atlas issued Convertible Notes for a total value of \$1,100,000. No new Convertible notes have been issued in the current period ending 30 June 2014. The Convertible Notes have a maturity date of 2 years after issue (therefore maturing between January and June 2015), attract an interest rate of 6% payable six monthly in arrears and are redeemable for ordinary shares in Atlas at any time during the 10 Business Days prior to the first anniversary of the Issue Date for the Convertible Notes; or the Maturity Date of the Convertibles Notes, or such other period as agreed in writing between the Company and the Noteholder. If the Noteholder exercises its conversion right, the Company must comply by redeeming all of the convertibles notes referred to in the Conversion Notice at their Face Value; and applying the Conversion Amount as subscription funds for the Conversion Shares which are to be issued to the Noteholder at a price per Conversion Share equal to the lower of: 5 cents or 90% of the 10 day volume weighted average.

14. TAX

| (a) Liabilities | 12 Months Ending 30 June 2014 \$ | 6 Months Ending 30 June 2013 \$ |
|--|--|---|
| CURRENT | | |
| Income tax payable | 94,060 | 234,884 |
| NON-CURRENT | | |
| Deferred tax liabilities comprises temporary differences attributable to - | | |
| Agricultural and biological assets at fair value | 2,636,603 | 1,324,075 |
| Prepayments | 749 | 2,147 |
| Accrued interest income | - | - |
| Convertible notes | - | 9,653 |
| Other | 2,147 | 84 |
| Unrealised foreign exchange gains | 261,898 | 208,611 |
| Total deferred tax liabilities | 2,901,397 | 1,544,570 |

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENT

FOR THE YEAR ENDED 30 JUNE 2014

14. TAX (Cont.)

| (b) Assets | 12 Months Ending 30 June 2014 \$ | 6 Months Ending 30 June 2013 \$ |
|---|----------------------------------|---------------------------------|
| Deferred tax assets comprises temporary differences attributable to - | | |
| Tax allowances relating to property, plant & equipment | 1,059 | 1,059 |
| Agricultural and biological assets at fair value | 2,305,204 | 1,188,341 |
| Accruals | - | 24,300 |
| Provisions | 209,449 | 82,912 |
| Impairment of assets | - | - |
| Unrealised foreign exchange losses | 262,817 | 82,589 |
| Other | 204,777 | 205,540 |
| | 2,983,306 | 1,584,741 |
| Tax losses recognised | 1,616,478 | 1,351,888 |
| Total deferred tax assets | 4,599,784 | 2,936,629 |

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 | (1,392,059) | (29,323) |
| (Charge)/credit to statement of profit or loss and other comprehensive income | 306,326 | 1,421,382 |
| Other movements | 2,784,120 | - |
| Closing balance | 1,698,387 | (1,392,059) |

15. PROVISION

| | 30 June 2014 \$ | 30 June 2013 \$ |
|--------------------------|-----------------|-----------------|
| CURRENT | | |
| Employee benefits | 57,295 | 92,037 |
| Total current provisions | 57,925 | 92,037 |
| Number of employees | 941 | 807 |

Employee benefits provisions have been recognised in relation to long service leave for Australian and expatriate employees. The current provision for long service leave includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The amount presented as non-current represents amounts where an agreement is in place to pay the entitlements over a period of time longer than the next 12 months.

Reconciliation of provisions:

| | | |
|--------------------------------|---------------|---------|
| Balance at beginning of period | 92,037 | 1,805 |
| Provision used | - | - |
| Unused provisions reversed | - | (1,746) |
| Provisions added | - | 91,978 |
| Provisions released | (34,742) | - |
| Closing balance | 57,925 | 92,037 |

16. CONTRIBUTED EQUITY

| | 2014 No. of Shares | 2013 No. of shares | 2014 \$ | 2013 \$ |
|--|--------------------|--------------------|-------------------|------------|
| Issued and fully paid-up capital | 319,485,425 | 281,737,162 | 32,315,473 | 30,203,033 |
| Ordinary Shares | | | | |
| Balance at beginning of period | 281,737,162 | 229,171,072 | 30,203,033 | 27,610,085 |
| Shares issued ⁽¹¹⁶²⁾⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾⁽⁸⁾⁽⁹⁾⁽¹⁰⁾⁽¹¹⁾⁽¹²⁾⁽¹³⁾⁽¹⁴⁾ | 37,748,263 | 52,566,090 | 1,949,968 | 2,592,948 |
| Balance at end of period | 319,485,425 | 281,737,162 | 32,153,001 | 30,203,033 |
| Treasury Shares | | | | |
| Balance at beginning of period | 5,301,616 | 7,964,000 | | |
| Acquisition of shares by Trust under Plan | 6,291,051 | 2,931,616 | | |
| Shares released | (4,461,640) | (5,594,000) | | |
| Balance at end of period | 7,131,027 | 5,301,616 | | |

1. Atlas undertook a rights issue which closed on 18th of January 2013. Unlisted options were issued to all those who took up the rights issue. The Option exercise period closed on 29th January 2014.
2. On 11 October 2013, 5,462 shares were issued at an issue price of \$0.05 after multiple shareholders exercised their unlisted options acquired in the January 2013 rights issue.
3. On 6 November 2013, 36,118 shares were issued at an issue price of \$0.05 after multiple shareholders exercised their unlisted options acquired in the January 2013 rights issue.
4. On 9 December 2013, 333,000 shares were issued at an issue price of \$0.05 after multiple shareholders exercised their unlisted options acquired in the January 2013 rights issue.
5. On 17 December 2013, 331,050 shares were issued at an issue price of \$0.05 after multiple shareholders exercised their unlisted options acquired in the January 2013 rights issue.
6. On 17 December 2013, 5,251,969 fully paid ordinary shares were issued at an issue price of \$0.065 to Arrow Pearl Co Pty Ltd, as part of the agency sales agreement with Arrow pearls for the sale by auction of pearls by Atlas Pearls and Perfumes Ltd.
7. On 24 December 2013, 619,507 shares were issued at an issue price of \$0.05 after multiple shareholders exercised their unlisted options acquired in the January 2013 rights issue.
8. On 14 January 2014, 1,244,304 shares were issued at an issue price of \$0.05 after multiple shareholders exercised their unlisted options acquired in the January 2013 rights issue.
9. On 16 January 2014, 14,180,361 shares were issued at an issue price of \$0.05 after multiple shareholders exercised their unlisted options acquired in the January 2013 rights issue.
10. On 24 January 2014, 2,574,613 shares were issued at an issue price of \$0.05 after multiple shareholders exercised their unlisted options acquired in the January 2013 rights issue.
11. On 31 January 2014, 9,634,325 shares were issued at an issue price of \$0.05 after multiple shareholders exercised their unlisted options acquired in the January 2013 rights issue.
12. On 3 February 2014, 18,934 shares were issued at an issue price of \$0.05 after multiple shareholders exercised their unlisted options acquired in the January 2013 rights issue.
13. On 5 February 2014, 600,000 shares were issued at an issue price of \$0.05 after multiple shareholders exercised their unlisted options acquired in the January 2013 rights issue.
14. On 4 June 2014, 4,748,031 fully paid ordinary shares were issued at an issue price of \$0.065 to Arrow Pearl Co Pty Ltd, as remuneration for Arrow pearls sold at auction by Atlas Pearls and Perfumes Ltd.

(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.

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

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENT

FOR THE YEAR ENDED 30 JUNE 2014

16. CONTRIBUTED EQUITY (Cont.)

(ii) Options

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 23. See summary detail below:

- On 27 February 2014, 7,500,000 unlisted options were issued to certain employees and consultants of Atlas Pearls and Perfumes Ltd, pursuant to the Atlas Pearls and Perfumes Ltd Employee Option Plan, as approved by the Board on 24 February 2014. The unquoted options are exercisable at \$0.0858 each on or before 31 December 2016, subject to certain vesting conditions specific to each employee/consultant.
- On 4 June 2014, 8,500,000 unlisted options were issued to certain employees and consultants of Atlas Pearls and Perfumes Ltd, pursuant to the Atlas Pearls and Perfumes Ltd Employee Option Plan, as approved by shareholders on 13 May 2014. The unquoted options are exercisable at \$0.095 each on or before 31 December 2016, subject to certain vesting conditions specific to each employee/consultant.
- On 4 June 2014, 10,000,000 unlisted options were issued to Director Stephen Birkbeck and 500,000 unlisted options to Director Joseph Taylor, pursuant to the Atlas Pearls and Perfumes Ltd Employee Option Plan, as approved by shareholders on 13 May 2014. The unquoted options are exercisable at \$0.0858 each on or before 31 December 2016, subject to certain vesting conditions specific to each director

(iii) Share Buyback

The share buy-back has been terminated as at the date of this report and no shares had been bought back during the financial period ended 30 June 2014 or 30 June 2013.

(iv) 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 no external requirements imposed upon it in relation to capital structure except those noted in note 32 as part of the covenants relating to the financing arrangements with Commonwealth Bank.

17. RESERVES

| | 12 Months Ending 30 June 2014 | 6 Months Ending 30 June 2013 |
|--|-------------------------------------|------------------------------------|
| Foreign Currency Translation Reserve | (8,658,779) | (7,866,003) |
| Employee Share Reserve | 622,574 | 581,029 |
| Total Reserves | (8,036,205) | (7,284,974) |
| Movements : Foreign Currency Translation Reserve - | | |
| Balance at beginning of year | (7,866,003) | (9,047,651) |
| Currency translation differences arising during the Year | (792,775) | 1,181,648 |
| Balance at end of year | (8,658,778) | (7,866,003) |
| The foreign currency translation reserve records exchange differences arising on translation of foreign controlled subsidiaries to the reporting currency. | | |
| Employee Share Reserve - | | |
| Balance at beginning of period | 581,029 | 581,029 |
| Movement in Employee Share Reserve | 41,545 | - |
| Balance at end of year | 622,574 | 581,029 |
| The employee share reserve records the value of equity portion of remuneration paid to employees in the form of shares or other equity instruments. | | |

18. RETAINED PROFITS

| | 12 Months Ending 30 June 2014 \$ | 6 Months Ending 30 June 2013 \$ |
|---|---|--|
| Reconciliation of retained earnings/(Accumulated losses): | | |
| Balance at beginning of year | 2,878,610 | 5,073,255 |
| Net profit/(loss) for the year | 1,813,922 | (2,194,645) |
| Movement in equity distribution account | - | - |
| Dividends paid | - | - |
| Balance at end of year | 4,692,532 | 2,878,610 |

19. DIVIDENDS

No dividends have been paid or declared in respect of the 2014 financial year or the period ended 30 June 2013.

| | 12 Months Ending 30 June 2014 \$ | 6 Months Ending 30 June 2013 \$ |
|--|---|--|
| 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.

20. OPTIONS

The Company had 26,500,000 options granted over unissued shares at the 30 June 2014 (30 June 2013 – 32,582,005). The 26,500,000 options granted over unissued shares at 30 June 2014 were issued under the Atlas Pearls and Perfumes Ltd Employee Option Plan. Information pertaining to the plan including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the reporting period, is set out in note 23.

As part of the rights issue on 18 January 2013 a total of 30,240,735 unlisted options expiring 29 January 2014 exercisable at \$0.05 each were issued pursuant to the Company's non-renounceable entitlements Prospectus dated 16 November 2012. An additional 2,452,979 options were issued when the shortfall was taken up in March and April 2013. Options exercised during the twelve months ended 30 June 2014 totalled 29,577,673. Options exercised during the six months ended 30 June 2013 totalled 111,709.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENT

FOR THE YEAR ENDED 30 JUNE 2014

21. COMMITMENTS

| | 12 Months Ending 30 June 2014 \$ | 6 Months Ending 30 June 2013 \$ |
|--|---|--|
| Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows: | | |
| Within one year | 419,247 | 375,737 |
| Later than one year, but not later than five years | 1,881,569 | 1,976,866 |
| Later than five years | 362,367 | 710,794 |
| | 2,663,183 | 3,063,397 |

Non - cancellable operating leases

The Group leases premises under non-cancellable operating leases expiring in 7 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.

22. CONTINGENCIES

The 2008 tax audit for PT Cendana Indopearls was completed during the reporting period and a liability in the order of IDR 3,504,206,185 or AUD\$350,000 has been assessed by the Indonesian Tax Office. PT Cendana Indopearls are in agreement with an amount in the order of AUD\$50,000 and plan to dispute the balance of AUD \$300,000 via an appeal process.

Atlas Pearls and Perfumes Ltd has a bank guarantee with the Commonwealth Bank of Australia for AUD\$112,153 at 30 June 2014 (30 June 2013 - \$106,441). This guarantee has been taken out to secure the rental of the Atlas Pearls and Perfumes corporate offices in Claremont, Western Australia.

23. SHARE BASED PAYMENTS

In May 2006, an employee share plan was established which entitles the Board of Directors to offer shares to key management personnel within the Group. A total of 1,100,000 shares were issued during 2007 to six (6) employees including the managing director at a price of 40 cents per share which was a one (1) cent and eight (8) cent discount to the market at the dates of issue being 17th April 2007 and 10th May 2007 respectively. An interest free, non-recourse loan was provided to the key management staff to pay for these shares. This loan will be repaid by the employees from the proceeds of dividends that they are entitled to from the ownership of the shares. 50% of the shares vested to the employees after two (2) years employment from the time of issuing the shares and the remaining 50% vested to the employees after they have completed three (3) years of employment from the time of issuing the shares. Employees are only entitled to the shares if the loan is repaid in full.

1,900,000 shares remain on issue as at 30 June 2014 with debt of \$428,500 outstanding by employees from the initial loan of \$1,063,500 that was made when the shares were allocated to employees. Refer note 25 for details of equity held and loans outstanding to Key Management Personnel.

Shares issued to the employees are acquired and held in trust for the employees. 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 fair value of shares issued under the scheme is independently determined using a Black-Scholes pricing model that takes into account the exercise price, the term of the share, 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 share.

The shares rank equally with other fully paid ordinary shares.

Where shares are issued to employees of subsidiaries of the Group, the transactions are treated in accordance with the accounting policy at note 1.15.

At the company's annual general meeting in May 2007, shareholders approved the allocation of a maximum of 4,000,000 shares to senior executives under the employee share plan within three years of the approval of the plan. No shares were issued in the current year under this allocation.

There were no shares issued under the plan in 2011. In 2012 the plan was replaced with a new Employee Salary Sacrifice Share Plan and Non-Executive Director Fee Salary Sacrifice Share Plan.

At the AGM on the 30 May 2012 it was resolved to cease issuing Shares under this existing Employee Share Loan Plan that was approved by Shareholders at the Company's annual general meeting in May 2006.

This existing Employee Share Loan Plan was replaced by a new Employee Salary Sacrifice Share Plan and Non-Executive Director Plan at the AGM on the 30 May 2012.

The Atlas Employee Salary Sacrifice Share Plan

On 30 May 2012, the Atlas Employee Salary Sacrifice Share Plan was established. On the 29th of June 2012 506,000 shares were issued into the Atlas South Sea Pearl Limited Employee Share Trust at \$0.055 per share. Also, on the 4th of September 2012 5,814,000 shares were issued into the Atlas South Sea Pearl Limited Employee Share Trust at \$0.05 per share.

On 15 March 2013 a further 2,931,616 shares were issued into the Atlas South Sea Pearl Limited Employee Share Trust at \$0.05 per share. During the period ended 30 June 2013, 5,594,000 shares were issued out of the Atlas South Sea Pearl Limited Employee Share Trust to employees. Of the 5,594,000 shares issued out of the trust during the six months ended 30 June 2013, 300,000 shares were issued to employees who did not salary sacrifice shares but were instead issued shares out of the trust in lieu of cash bonuses. The total value of the bonuses issued was \$15,000.

During the twelve months ended 30 June 2014 an additional 6,291,051 shares were acquired on market and issued into the Atlas Pearls and Perfumes Limited Employee Share Trust and issued out 4,461,640 shares to employees and contractors. Of the 4,461,640 shares issued out of the trust during the twelve months ended 30 June 2014, 361,298 shares were issued to employees who did not salary sacrifice shares but were instead issued shares out of the trust in lieu of cash bonuses. The total value of the bonuses issued was \$23,484.37. A further 1,798,077 were issued to contractors who were issued shares in lieu of cash payment. The total value settled totalled \$98,950.

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). For the participants who entered into conditional salary sacrifice arrangements before the AGM on the 30th of May 2012, the issue price per Share is 5 cents.

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:

- i any Eligible Contractor; or
- ii 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:

- (a) An individual that has:
 - i. Performed work for a Group Company, for more than 12 months; and
 - ii. Received 80% of more of their income in the preceding year from a Group Company; or
- (b) A company where each of the following are satisfied in relation to the company:
 - i. 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;
 - ii. The contracting individual has performed work for a Group Company, for more than 12 months;
 - iii. The contracting individual has been the only member for the company for more than 12 months; and;
 - iv. 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.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENT

FOR THE YEAR ENDED 30 JUNE 2014

23. SHARE BASED PAYMENTS (cont.)

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 issued, 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 issued, 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.

Shares to be acquired by Eligible Participants under the Salary Sacrifice plan are held in the trust until such time that the Shares are fully paid for. 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. As at 30 June 2014 4,461,640 of the shares issued to the Atlas South Sea Pearl Limited Employee Share Trust had been issued to Eligible Participants (30 June 2013 – 5,594,000 shares).

The shares rank equally with other fully paid ordinary shares.

Where shares are issued to employees of subsidiaries of the Group, the transactions are treated in accordance with the accounting policy at note 1.15.

The Atlas Non-Executive Director Fee Sacrifice Share Plan

On the 26 June 2012 828,000 shares were issued into the Atlas South Sea Pearl Limited Non-Executive Director Trust at \$0.05 per share. A further 250,000 shares were issued on the 4 September 2012 into the Atlas South Sea Pearl Limited Non-Executive Director Trust at \$0.05 per share. All shares have been issued to recipients from the Atlas South Sea Pearl Limited Non-Executive Director Trust.

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). For the participants who entered into conditional salary sacrifice arrangements before the AGM on the 30th of May 2012, the issue price per Share is 5 cents.

Refer to Note 16 for movement in share plan, under treasury shares.

Atlas Pearls and Perfumes Ltd Employee Option Plan

At the EGM on 13 May 2014 it was resolved 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 intention of the Plan is to reward and to provide ongoing incentives to Directors, executives, employees, consultants and contractors of the Company.

The Directors, executives, employees and contractors of the Company have been, and will continue to be, instrumental in the growth of 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 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. The options expire on the 31 December 2016.

The exercise price of options is based on 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.

| | 2014 Average exercise price per share option | Number of options | 2013 Average exercise price per share option | Number of options |
|--|---|-------------------------|---|-------------------------|
| As at 1 July 2013 | - | - | - | - |
| Granted during the year | 0.089 | 26,500,000 | - | - |
| Exercised during the year* | - | - | - | - |
| Forfeited during the year | - | - | - | - |
| As at 30 June | 0.089 | 26,500,000 | - | - |
| Vested and exercisable at 30 June 2014 | - | - | - | - |

The weighted average exercise price per share option during the year ended 30 June 2014 was \$0.089 (2013 – not applicable).

| | Expiry Date | Exercise Price | Share Options 30 June 2014 | Share Options 30 June 2013 |
|---|------------------|----------------|----------------------------|----------------------------|
| 25 February 2014 | 31 December 2016 | 0.0858 | 7,500,000 | - |
| 13 May 2014 | 31 December 2016 | 0.0858 | 10,500,000 | - |
| 2 June 2014 | 31 December 2016 | 0.0950 | 8,500,000 | - |
| Total | | | 26,500,000 | - |
| Weighted average remaining contractual life of options outstanding at end of period | | | 2.51 years | - |

Fair value of options granted

The assessed fair value at grant date of options granted during the year ended 30 June 2014 was \$0.20. There were no options granted during the six months ended 30 June 2013. 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.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENT

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23. SHARE BASED PAYMENTS (cont.)

The model inputs for options granted during the year ended 30 June 2014 are detailed below.

On the 24th of February 2014 7,500,000 options exercisable at \$0.0858 each on or before 31 December 2016 were issued to employees and contractors 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. The options issued on the 24th of February have a fair value of \$0.020. This valuation imputes a total value of approximately \$151,720 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 Black & Scholes methodology has been used, together with the following assumptions:

- (i) 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 2016.
- (ii) Exercise price - \$0.086;
- (iii) Grant date - 24 February 2014;
- (iv) Share price at grant date: \$0.063
- (v) Expected price volatility of the company's shares: 60%;
- (vi) Expected dividend yield: 0%;
- (vii) Risk-free interest rate: 3.06%

On the 13th of May 2014 10,000,000 options exercisable at \$0.0858 each on or before 31 December 2016 were issued to Stephen Birkbeck on the terms and conditions set out in the Explanatory Memorandum ratified at the Extraordinary General Meeting held on the 13th of May 2014.

On the 13th of May 2014 500,000 options exercisable at \$0.0858 each on or before 31 December 2016 were issued to Joseph Taylor on the terms and conditions set out in the Explanatory Memorandum ratified at the Extraordinary General Meeting held on the 13th of May 2014.

The options issued on the 13th of May 2014 have a fair value of \$0.020. This valuation imputes a total value of approximately \$214,020 (respectively \$203,829 for Mr Birkbeck and \$10,191 for Dr Taylor) 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 Black & Scholes methodology has been used, together with the following assumptions:

- (i) 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 2016.
- (ii) Exercise price - \$0.086;
- (iii) Grant date - 13 May 2014;
- (iv) Share price at grant date: \$0.065
- (v) Expected price volatility of the company's shares: 60%;
- (vi) Expected dividend yield: 0%;
- (vii) Risk-free interest rate: 3.06%

On the 2nd of June 2014 8,500,000 options exercisable at \$0.095 each on or before 31 December 2016 were issued to employees and contractors 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. The options issued on the 2nd of June 2014 have a fair value of \$0.019. This valuation imputes a total value of approximately \$164,017 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 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 2016.

- (i) Exercise price - \$0.095;
- (ii) Grant date - 2 June 2014;
- (iii) Share price at grant date: \$0.067
- (iv) Expected price volatility of the company's shares: 60%;
- (v) Expected dividend yield: 0%;
- (vi) 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.

Other Share Based Payments

On 15 January 2013, 10,000,000 fully paid ordinary shares were issued at an issue price of \$0.05 as consideration of all of the shares in Essential Oils of Tasmania Pty Ltd, as announced by the Company on 22 October 2012 and ratified at the 2012 AGM.

On 15 January 2013, 3,333,334 fully paid ordinary shares were issued to extinguish the existing debt in Essential Oils of Tasmania (\$166,000) and increase the Group's working capital balance. The 3,333,334 fully paid ordinary shares were issued at an issue price of \$0.05 and rank equally with the Company's existing issued shares.

On 1 March 2013, 833,333 shares were issued at an issue price of \$0.06 each to Abermac Pty Ltd the former owner of Essential Oils of Tasmania, as remuneration for continued services provided in the financial period.

On the 17 December 2013, 5,251,969 shares were issued at an issue price of \$0.065 each to Arrow Pearl Co Pty Ltd. Arrow Pearl Co Pty Ltd is an entity controlled by Stephen Arrow. The purpose of the issue was the reimbursement for the sale of Arrow Pearl Co Pty Ltd pearls at the December 2013 auction in accordance with an arrangement to remit the proceeds in Atlas Shares at \$0.065 each.

At the Extraordinary General Meeting held on 13 May 2014, the issue of 4,748,031 shares to Arrow Pearl Co Pty Ltd was ratified. The purpose of the issue was the reimbursement for the sale of Arrow Pearl Co Pty Ltd pearls at the February 2014 auction in accordance with an arrangement to remit the proceeds in Atlas Shares at \$0.065 each.

Expenses arising from share-based payment transactions

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

| | 12 Months Ending 30 June 2014 \$ | 6 Months Ending 30 June 2013 \$ |
|---|---|--|
| Shares issued under the employee share plan | 66,561 | - |
| | 66,561 | - |

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.

24. Notes to the CASH FLOW STATEMENT**24.1 Reconciliation of cash**

For the purposes of the statement of cashflows, cash includes cash on hand and in banks, and investments in money market instruments, net of outstanding 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 follows:

| | 12 Months Ending 30 June 2014 \$ | 6 Months Ending 30 June 2013 \$ |
|-------------------------------------|--|---|
| Cash at bank (Note 6) | 1,665,207 | 1,767,156 |
| Balances per statement of cashflows | 1,665,207 | 1,767,156 |

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENT

FOR THE YEAR ENDED 30 JUNE 2014

24. NOTES TO THE CASH FLOW STATEMENT (cont.)**24.2 Reconciliation of profit/(loss) after income tax to net cash inflow from operating activities**

| | 12 Months Ending 30 June 2014 \$ | 6 Months Ending 30 June 2013 \$ |
|---|--|---|
| Profit/(loss) after income tax | 1,813,922 | (2,194,645) |
| Depreciation and amortisation | 302,686 | 136,160 |
| Gains/(Losses) on Equity Investments | 299,971 | 273,781 |
| Share based payments | 66,561 | 65,000 |
| Gain on sale of intangible | - | - |
| Gain on extinguishment | - | (33,333) |
| Foreign exchange (losses) unrealised | 971,954 | (690,139) |
| Inventory revaluations (losses) | (11,982) | 15,705 |
| Derivative instrument gains/(losses) unrealised | 435,732 | (32,177) |
| Gain on bargain | - | (59,911) |
| Agricultural asset fair value (losses) and inventory write-offs | (63,439) | 2,907,779 |
| Provision for dividend | - | (260,785) |
| Decrease in trade and other debtors | (1,861,060) | 234,162 |
| Decrease in other assets | - | 85,978 |
| (Increase) in inventories | (2,275,043) | (2,238,868) |
| Increase in trade and other creditors | 918,473 | 64,556 |
| (Decrease) in Provision | (140,834) | (101,787) |
| Increase in taxes | (714,236) | 683,257 |
| Net cash (used in) operating activities | (257,294) | (1,145,267) |

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

- During the six month period ended 30 June 2014, the Company did not enter any new loans to acquire property, plant and equipment. The Company did enter into the following non-cash transactions in acquiring Essential Oils of Tasmania Ltd on the 15 January 13:
- On 15 January 2013, 10,000,000 fully paid ordinary shares were issued at an issue price of \$0.05 as consideration of all of the shares in Essential Oils of Tasmania Pty Ltd, as announced by the Company on 22 October 2012 and ratified at the 2012 AGM. The total value of the shares issued was \$500,000.
- On 15 January 2013, 3,333,334 fully paid ordinary shares were issued to extinguish the existing debt in Essential Oils of Tasmania and increase the Group's working capital balance. The 3,333,334 fully paid ordinary shares were issued at an issue price of \$0.05 and rank equally with the Company's existing issued shares. The total value of the shares issued was \$166,667.
- On 1 March 2013, 833,333 shares were issued at an issue price of \$0.06 each to Abermac Pty Ltd the former owner of Essential Oils of Tasmania, as remuneration for continued services provided in the financial period. The total value of the shares issued was \$50,000.

During the twelve months ended 30 June 2014 Atlas Pearls and Perfumes Ltd sold pearls on behalf of Arrow Pearls Pty Ltd. Atlas received on consignment approximately \$1,750,000 of loose South Sea Pearls from Steve Arrow on the 5th of December 2013. Atlas received a sales commission of 5.0% based on the gross value of the pearls. Atlas paid the net proceeds of pearls sales to Arrow less the commission, in the form of 50% cash and 50% in shares until 10 million shares were acquired (capped at \$650,000). The shares were priced at \$0.065 per share.

Also, during the period ended 30 June 2014, 4,461,640 shares were issued out of the Atlas South Sea Pearl Limited Employee Share Trust to employees (30 June 2013 - 5,594,000). Of the 4,461,640 shares issued out of the trust, 361,298 shares were issued to employees who did not salary sacrifice shares but were instead issued shares out of the trust in lieu of cash bonuses. The total value of the bonuses issued was \$23,484.37. 361,298 shares were issued to employees who did not salary sacrifice shares but were instead issued shares out of the trust in

lieu of cash bonuses (30 June 2013 - \$300,000). The total value of the bonuses issued was \$23,484 (30 June 2013 - \$15,000). A further 1,798,077 were issued to contractors who were issued shares in lieu of cash payment. The total value settled totalled \$98,950.

During the year ended 30 June 2014, the Company entered into a finance agreement with Microsoft to finance a new accounting software package for the group Microsoft Navision. At 30 June 2014 the balance of the loan was \$92,465. There were no other new loans to acquire property, plant and equipment entered into during the year ended 30 June 2014. During the year ended 30 June 2014, the Company did not issue any ordinary shares to acquire any new investments.

24.3 Credit facilities

As at 30 June 2014, the Company had in place a loan facility with the Commonwealth Bank with a limit of \$5,000,000 (30 June 2013 - \$5,000,000). This facility has been partially utilised, see note 33 for further disclosure. Information about the security relating to secured liabilities and the fair value is provided in note 32.

25. RELATED PARTY TRANSACTIONS**a. Subsidiaries**

Interests in subsidiaries are set out in note 28.

b. Joint venture

World Senses Pty Ltd 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 2014, there is loan balance of \$140,857 owing from World Senses to Atlas (30 June 2013 - \$258,851). This balance consists of salary and administration recharges and accounting charges, offset by pearl cosmetic products and pearl protein extraction assets transferred to Atlas.

At 30 June 2014 an agreement was entered into between Atlas Pearls and Perfumes Ltd and its joint venture partner Nomad Two Worlds Global trading Pte Ltd to reallocate a portion of the assets held in World Senses Pty Ltd back to its respective parent entities. The intellectual property (intangible asset) over the pearl protein extraction process was transferred to Atlas Pearls and Perfumes Ltd at its' net book value of \$392,925. The Riji jewellery inventory at 30 June 14 was transferred to Perl Eco Pty Ltd (100% subsidiary of Atlas Pearls and Perfumes Ltd) at its' cost of \$112,776. The Raw Spirit perfume inventory and Nomad Two World's book inventory at 30 June 14 was transferred to Nomad Two Worlds Global Trading Pte Ltd at their cost of \$88,311 and \$10,000 respectively.

At 30 June 2014, there is loan balance of \$72,961 owing to World Senses from Perl'Eco. This balance consists of pearl jewellery sold to Perl' Eco by World Senses on which \$72,961 is the amount due.

Brookfield Tasmania Pty Ltd was formed on the 1 January 2014 as a joint venture between Westwood Properties Pty Ltd and Atlas Pearls and Perfumes Ltd.

As at 30 June 2014, there is an investment of \$22,012 in Brookfield Tasmania Pty Ltd.

c. Key management personnel compensation -

| | 12 Months Ending 30 June 2014 \$ | 6 Months Ending 30 June 2013 \$ |
|--------------------------------|---|--|
| Short-term employment benefits | 1,258,575 | 419,758 |
| Post-employment benefits | 65,119 | 19,414 |
| Long-term benefits | 37,343 | - |
| | 1,361,037 | 439,172 |

Detailed remuneration disclosures are provided in section 4.2 of the remuneration report.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENT

FOR THE YEAR ENDED 30 JUNE 2014

25. RELATED PARTY TRANSACTIONS (cont.)

d. Transactions with other related parties

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

| | 12 Months Ending 30 June 2014 \$ | 6 Months Ending 30 June 2013 \$ |
|--|---|--|
| Current payables (reimbursement of travel) | 31,058 | - |
| Director fees payable | 9,000 | - |
| | 40,058 | |

e. Loans to/from related parties

Loans to key management personnel

| | | |
|-----------------------|----------------|---------|
| Beginning of the year | 375,000 | 375,000 |
| Loans advanced | 25,000 | - |
| End of year | 400,000 | 375,000 |

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:

| | 2014 \$ | 2013 \$ |
|--|----------------|------------|
| a. BDO Australia | | |
| <i>Audit and other assurance services</i> | | |
| Audit and review of financial reports | 111,966 | 74,765 |
| Total remuneration for audit and other assurance services | 111,966 | 74,765 |
| <i>Taxation Services</i> | | |
| Tax compliance services and advise | 51,962 | 28,449 |
| Total remuneration for taxation services | 51,962 | 28,449 |
| Total remuneration of BDO Australia | 163,928 | 103,214 |
| b. Related practices of BDO Australia | | |
| <i>Audit and other assurance services</i> | | |
| Audit and review of financial reports | - | - |
| Total remuneration for audit and other assurance services | - | - |
| <i>Taxation Services</i> | | |
| Tax compliance services and advise | - | - |
| Total remuneration for taxation services | - | - |
| Total remuneration of related practices of BDO Australia | - | - |
| Total remuneration of BDO Australia and related practices | 163,928 | 103,214 |

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENT

FOR THE YEAR ENDED 30 JUNE 2014

27. SEGMENT REPORTING

(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 2014 is as follows:

| 30 June 2014 | Wholesale Loose Pearl | | Jewellery | | Essential Oils | All other segments | Total |
|---|-----------------------|-------------------|------------------|------------------|--------------------|--------------------|--------------------|
| | Australia \$ | Indonesia \$ | Australia \$ | Indonesia \$ | Australia \$ | \$ | \$ |
| Total segment revenue | 12,040,978 | 7,944,875 | 555,755 | 896,076 | 2,023,581 | - | 23,461,265 |
| Inter-segment revenue | (17,541) | (7,510,548) | - | - | - | - | (7,528,089) |
| Revenue from external customers | 12,023,437 | 434,327 | 555,755 | 896,076 | 2,023,581 | - | 15,933,176 |
| Normalised EBITDA | 185,168 | 3,074,888 | (185,226) | (27,060) | 422,542 | - | 3,470,312 |
| Adjusted net operating profit/(loss) before income tax | (374,017) | 2,892,311 | (235,238) | (93,835) | 368,088 | - | 2,557,308 |
| Depreciation and amortisation | 109,293 | 43,167 | 43,123 | 51,967 | 55,136 | - | 302,686 |
| Revaluation of Biological Assets | - | 1,971,114 | - | - | 321,999 | - | 2,293,113 |
| Totals segment assets | 13,181,788 | 17,966,654 | 1,192,564 | 956,946 | 4,084,381 | - | 37,382,333 |
| Total assets includes: | | | | | | | |
| Additions to non – current assets (other than financial assets or deferred tax) | 128,458 | 563,131 | 40,034 | 105,070 | 397,835 | - | 1,234,528 |
| Total segment liabilities | (2,030,664) | (784,221) | (23,001) | (181,392) | (1,027,094) | - | (4,046,371) |

Included within the net operating profit for wholesale loose pearls in Indonesia is an impairment charge of \$11,982 in relation to the impairment of oysters

- (ii) The segment information provided to the Board of Directors and management team for reportable segments for the year ended 30 June 2013 is as follows.

| 30 June 2013 | Wholesale Loose Pearl | | Jewellery | | Essential Oils | All other segments | Total |
|---|-----------------------|-------------------|------------------|------------------|------------------|--------------------|--------------------|
| | Australia \$ | Indonesia \$ | Australia \$ | Indonesia \$ | Australia \$ | \$ | \$ |
| Total segment revenue | 1,875,635 | 4,357,536 | 204,863 | 399,257 | 503,076 | - | 7,340,368 |
| Inter-segment revenue | - | (4,087,760) | - | - | - | - | (4,087,760) |
| Revenue from external customers | 1,875,635 | 269,776 | 204,863 | 399,257 | 503,076 | - | 3,252,608 |
| Normalised EBITDA | (1,781,708) | 1,355,106 | (184,713) | (447,815) | (190,929) | - | (1,250,057) |
| Adjusted net operating profit/(loss) before income tax | (2,053,237) | 991,165 | (210,584) | (121,995) | (195,037) | - | (1,589,688) |
| Depreciation and amortisation | 59,204 | 26,116 | 22,427 | 23,460 | 4,953 | - | 136,160 |
| Revaluation of Biological Assets | 597,959 | 735,322 | - | - | 36,616 | - | 1,369,897 |
| Totals segment assets | 8,064,039 | 20,266,417 | 990,205 | 1,088,218 | 2,532,429 | - | 32,941,308 |
| Total assets includes: | | | | | | | |
| Additions to non – current assets (other than financial assets or deferred tax) | 7,476 | 14,879 | 140,134 | 12,256 | 441,450 | - | 616,195 |
| Total segment liabilities | (773,822) | (907,729) | (96,161) | (167,658) | 645,092 | - | (2,590,461) |

Included within the net operating profit for wholesale loose pearls in Indonesia is an impairment charge of \$15,705 in relation to the impairment of oysters.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENT

FOR THE YEAR ENDED 30 JUNE 2014

27. SEGMENT REPORTING (cont.)

(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:

| | 12 Months Ending 30 June 2014 \$ | 6 Months Ending 30 June 2013 \$ |
|---|---|--|
| Total segment revenue | 23,461,265 | 7,340,368 |
| Intersegment eliminations | (7,528,089) | (4,087,760) |
| Interest income | 13,333 | 18,629 |
| Other revenues | 336,674 | 233,888 |
| Total revenue from continuing operations (note 2) | 16,283,183 | 3,505,125 |

Major customers

A Japanese wholesaler accounted for 11% of external revenue in the twelve months to 30 June 2014 (6 months ended 30 June 2013 - 37%). 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 \$907,756 (6 months ended 30 June 2013: \$299,243) in relation to wholesale loose pearl sales. Revenue for wholesale loose pearls from third party customers based in other countries during the twelve months to 30 June 2014 was \$10,981,121 (6 months ended 30 June 2013: \$1,577,091). 84% of the total loose pearl sales revenue during the period ended 30 June 2014 (6 months ended 30 June 2013: 68%) was 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:

| | 12 Months Ending 30 June 2014 \$ | 6 Months Ending 30 June 2013 \$ |
|---|---|--|
| Net operating profit/(loss) before tax | 2,557,308 | (1,589,688) |
| Intersegment eliminations | - | (2,727) |
| Changes in fair value of biological and agricultural assets | 63,439 | (2,907,773) |
| Impairment expense | 11,982 | (15,705) |
| Foreign exchange gains | 216,375 | 1,286,737 |
| Foreign exchange losses | (794,303) | (195,806) |
| Other | (596,160) | (241,610) |
| Profit/(loss) before income tax from continuing operations | 1,458,641 | (3,666,572) |

(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:

| | 30 June 2014 \$ | 30 June 2013 \$ |
|--|-----------------------|-----------------------|
| Segment assets | 37,382,333 | 32,941,308 |
| Intersegment eliminations | 533,159 | (529,407) |
| Unallocated: | | |
| Other | 534 | 622 |
| Investments | 3,025 | 280,984 |
| Joint Venture Loans | 67,896 | 313,295 |
| Deferred tax assets | 4,599,784 | 2,936,629 |
| Fair value adjustments on biological and agricultural assets | (1,763,936) | (267,607) |
| Derivative financial instruments | - | - |
| Total assets as per the statement of financial position | 40,822,795 | 35,676,454 |

The total of non-current assets other than financial instruments and deferred tax assets located in Australia is \$2,674,188 (2013: \$1,791,365). The total located in Indonesia is \$14,134,400 (2013: \$14,553,360).

(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:

| | 30 June 2014 \$ | 30 June 2013 \$ |
|--|-----------------------|-----------------------|
| Segment liabilities | 4,046,371 | 2,590,461 |
| Intersegment eliminations (note 28(a)) | - | 232,877 |
| Unallocated: | | |
| Other | 4,800 | 2,550 |
| Current tax liabilities | (94,060) | 234,884 |
| Borrowings | 5,154,959 | 5,274,443 |
| Deferred tax liabilities | 2,901,397 | 1,544,570 |
| Derivative financial instruments | - | - |
| Total liabilities as per the statement of financial position | 12,013,467 | 9,879,785 |

(v) Normalised EBITDA reconciliation

| | 30 June 2014 \$ | 30 June 2013 \$ |
|--------------------------------------|-----------------------|-----------------------|
| Net profit/(loss) before tax | 1,458,642 | (3,666,572) |
| Finance/Interest (rec)/paid | 470,755 | 221,093 |
| Depreciation/Amortisation | 302,686 | 136,160 |
| FX (gain)/loss | 577,928 | (1,090,131) |
| Agriculture standard revaluation | (63,439) | 2,907,779 |
| Inventory write-off | (11,982) | - |
| Other non-operating (income)/expense | 299,971 | 273,780 |
| Gain on derivative instruments | 435,732 | (32,177) |
| Normalised EBITDA | 3,470,313 | (1,250,058) |

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENT

FOR THE YEAR ENDED 30 JUNE 2014

28. SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1.7.

| Name of entity | Class of shares | Percentage owned 30 June 2014 | Percentage owned 30 June 2013 | Place of incorporation |
|---|-----------------|----------------------------------|----------------------------------|------------------------|
| Perl'Eco Pty Ltd ⁽¹⁾ | Ord | 100% | 100% | Australia |
| Tansim Pty Ltd | Ord | 100% | 100% | Australia |
| P.T. Cendana Indoparls | Ord | 100% | 100% | Indonesia |
| P.T. Cahaya Bali ⁽²⁾ | Ord | 100% | 100% | Indonesia |
| Aspirasi Satria Sdn Bhd | Ord | 100% | 100% | Malaysia |
| Essential Oils of Tasmania ⁽³⁾ | Ord | 100% | 100% | Australia |

1. Previously named Sharcon Pty Ltd
 2. Bali retail operations have been set up in a separate company structure P.T. Cahaya Bali as of 1 May 2013 in order to comply with Indonesian rules and regulations.
 3. Essential Oils of Tasmania Ltd was acquired on 15 January 2013.
- The ultimate parent entity, Atlas Pearls and Perfumes Ltd, is incorporated in Australia.

29. NON-CURRENT ASSETS – INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

| | 30 June 2014 \$ | 30 June 2013 \$ |
|---|--------------------|--------------------|
| Share in World Senses joint venture partnership (note 30) | - | 280,984 |
| Share in Brookfield Tasmania joint venture partnership | 3,025 | |
| | 3,025 | 280,984 |

30. 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. This vehicle will commercialise the production of new emerging extracts from Essential Oils of Tasmania and pearls from Atlas with an intimal focus on pearl micronized powder, pearl perfume extracts, pearl cosmetic extracts, Perl'fume™ technology and Australian indigenous perfume ingredients such as Sandalwood, Boronia and Fire Tree (Zanthorrhoea preissii).

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 interest in World Senses Pty Ltd is accounted for in the financial statements using the equity method of accounting (refer to note 29). The joint venture is unlisted hence no quoted fair value is disclosed. Information regarding to the joint venture is set out below.

| | 12 Months Ending 30 June 2014 \$ | 6 Months Ending 30 June 2013 \$ |
|---|---|--|
| Joint Ventures' assets and liabilities | | |
| Current assets | 294,366 | 679,714 |
| Non-current assets | 257,118 | 507,496 |
| Total assets | 551,484 | 1,187,210 |
| Current liabilities | 41,754 | 13,204 |
| Non-current liabilities | 529,808 | 593,822 |
| Total liabilities | 571,562 | 607,026 |
| Net Assets | (20,078) | 580,183 |
| Joint Venture's revenues, expenses and results | | |
| Revenues | 113,098 | 32,559 |
| Expenses | (970,158) | (814,792) |
| Loss before income tax | (857,060) | (782,233) |
| Reconciliation to carrying value | | |
| Opening net asset 1 July | 580,183 | 1,127,747 |
| Profit/(loss) for the period | (600,261) | 32,559 |
| Closing net assets | (20,078) | 580,183 |
| Group share in % | 50% | 50% |
| Group share in \$ | 300,131 | 273,782 |
| Carrying value | - | 280,984 |

(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.

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

31. PARENT ENTITY FINANCIAL INFORMATION

(a) Summary financial information

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

| | 12 Months Ending 30 June 2014 \$ | 6 Months Ending 30 June 2013 \$ |
|--|---|--|
| Statement of financial position | | |
| Current assets | 4,419,122 | 3,746,564 |
| Total assets | 24,800,754 | 27,255,307 |
| Current liabilities | 7,159,650 | 5,692,923 |
| Total liabilities | 5,044,219 | 6,185,797 |
| Shareholders equity | | |
| Issued capital | 32,153,002 | 30,203,033 |
| Reserves | | |
| Share-based payment reserve | 622,574 | 581,029 |
| (Accumulated losses) | (9,714,552) | (8,005,438) |
| | 23,061,024 | 22,778,624 |
| (Loss) for the period | (3,304,489) | (1,709,114) |
| Total comprehensive (loss) | (3,304,489) | (1,709,114) |

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENT

FOR THE YEAR ENDED 30 JUNE 2014

31. PARENT ENTITY FINANCIAL INFORMATION (cont.)**(b) Contingent liabilities**

The parent entity did not have any contingent liabilities as at 30 June 2014 or 30 June 2013

The parent entity did not provide financial guarantees during the period (2013: Nil).

32. 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, ie 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.

The Group holds the following financial instruments:

| | 30 June 2014 \$ | 30 June 2013 \$ |
|----------------------------------|--------------------|--------------------|
| Financial Assets | | |
| Cash and cash equivalents | 1,665,207 | 1,767,156 |
| Trade and other receivables | 2,773,752 | 578,556 |
| Derivative financial instruments | - | - |
| | 4,438,959 | 2,345,712 |
| Financial Liabilities | | |
| Trade and other payables | 2,313,695 | 1,395,280 |
| Borrowings | 5,154,959 | 5,274,443 |
| Derivative financial instruments | 852,323 | 404,627 |
| | 8,320,977 | 7,074,350 |

Market Risk**(i) Foreign exchange risk**

The Group operates internationally and are 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.

The Groups exposure to foreign currency risk at the reporting date expressed in Australian dollars, was as follows:

| | 30 June 2014 | | | 30 June 2013 | | |
|--|--------------|-----------|-----------|--------------|-----------|-----------|
| | JPY \$ | USD \$ | EUR \$ | JPY \$ | USD \$ | EUR \$ |
| Cash and cash equivalents | 639,550 | 163,445 | 21,561 | 31,048 | 105,986 | 15,335 |
| Trade and other receivables | 1,782,738 | 256,058 | - | 5,032 | 34,756 | 2,174 |
| Trade and other payables | 565,957 | 119,872 | 1,483 | 5,546 | 3,637 | - |
| Borrowings | 2,706,030 | - | - | 4,226,864 | - | - |
| Forward exchange contracts – buy foreign currency | - | - | - | - | - | - |
| Forward exchange contracts – sell foreign currency | (26,443) | - | - | (14,568) | - | - |

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENT

FOR THE YEAR ENDED 30 JUNE 2014

32. FINANCIAL RISK MANAGEMENT (cont.)**Group Sensitivity Analysis**

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

| | Statement of Financial Position Amount AUD | | Foreign Exchange Rate Risk | | | | | | | |
|------------------------------|--|-----------|----------------------------|--------|-----------|--------|--------------|--------|----------|--------|
| | | | 30 June 2014 | | | | 30 June 2013 | | | |
| | 2014 | 2013 | -10% | | 10% | | -10% | | 10% | |
| | | | Profit | Equity | Profit | Equity | Profit | Equity | Profit | Equity |
| Financial Assets | | | | | | | | | | |
| Cash | 1,665,207 | 1,767,156 | 91,617 | - | (74,960) | - | 16,930 | - | (13,930) | - |
| Trade and other receivables | 2,773,752 | 578,556 | 226,533 | - | (185,345) | - | 4,421 | - | (3,617) | - |
| Derivatives | - | - | - | - | - | - | - | - | - | - |
| Financial Liabilities | | | | | | | | | | |
| Trade and other payables | 2,313,695 | 1,395,280 | (76,368) | - | 62,483 | - | 1,020 | - | (835) | - |
| Borrowings | 5,154,959 | 5,274,443 | (300,670) | - | 246,003 | - | (411,818) | - | 431,578 | - |
| Derivatives | 852,323 | 404,627 | (2,938) | - | 2,404 | - | 78,376 | - | (95,793) | - |
| Total Increase / (Decrease) | | | (61,826) | | | | (311,071) | | 317,482 | |

Majority of the exposure above relates to the borrowings held in Yen.

Not shown in the table above, is the exposure to exchange movements on the intercompany loan denominated in Australian dollars made to the Indonesian subsidiaries. At the period end this loan stood at AUD\$2,379,072. The intercompany loans are eliminated on consolidation. The impact for the current year on the profit or loss was a loss of \$599,763 because the Indonesian Rupiah weakened against the Australian dollar. If the Indonesian Rupiah strengthens or weakens against the Australian dollar by 10%, there would be an effect on the (profit) or loss of (\$264,341) or \$216,279 respectively.

(ii) Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from its borrowings. Given that borrowings are all due within 12 months and are at fixed interest rates 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.

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 51. 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.

The credit quality of trade receivables that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates.

| Trade receivables | 30 June 2014 \$ | 30 June 2013 \$ |
|---|-----------------------|-----------------------|
| Retail customers – no credit history | - | - |
| Wholesale customers – existing customers with no defaults in the past | 1,928,369 | 121,729 |
| Total trade receivables | 1,928,369 | 121,729 |
| Derivative financial assets | - | - |

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 6) on the basis of expected cash flows. This is generally carried out by 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.

Financing arrangements

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

| Fixed rate | 30 June 2014 \$ | 30 June 2013 \$ |
|--|-----------------------|-----------------------|
| Expiring within one year – Foreign currency loan trade | 5,000,000 | 5,000,000 |
| | 5,000,000 | 5,000,000 |

Bank loans are secured by a registered company charge by Commonwealth Bank of Australia over the whole of the assets and undertakings 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 bank loans are provided under a Japanese Yen Domestic Foreign Currency Advance facility with a fixed interest rate which currently stands at 32.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENT

FOR THE YEAR ENDED 30 JUNE 2014

32. FINANCIAL RISK MANAGEMENT (cont.)

3.67% expiring on 31 May 2016 and an undrawn Australian Dollar Bills Discount facility with a bank bill rate of BBSY plus a margin of 3.55% repayable one year from the draw down date. As at the reporting date the Company had drawn down \$3,951,715 (30 June 2013: \$4,226,864) and had undrawn facilities available of \$1,048,285 (30 June 2013: \$773,136). The loans can be drawn at any time and are subject to annual review.

The other bank loan (secured) also provided by Commonwealth Bank of Australia was repaid during the period ended 30 June 2013. A new other bank loan (unsecured) provided by Microsoft Finance was provided during the year to acquire the accounting software Microsoft Navision; the liability at reporting date was \$92,465.

Lease liabilities have been provided by St George Bank and Esanda and are effectively secured by the rights to the leased assets, recognised in the financial statements, which revert to the lessor in the event of default. The value of the loans relating to Lease liabilities as at the reporting date was \$112,064 (30 June 2013: \$178,901).

During the six month period ended 30 June 2013 Atlas issued Convertible Notes for a total value of \$1,100,000. The Convertible Notes have a maturity date of 2 years after issue, attract an interest rate of 6% payable six monthly in arrears and are redeemable for ordinary shares in Atlas at any time during the 10 Business Days prior to the first anniversary of the Issue Date for the Convertible Notes; or the Maturity Date of the Convertibles Notes, or such other period as agreed in writing between the Company and the Noteholder. If the Noteholder exercises its conversion right, the Company must comply by redeeming all of the convertibles notes referred to in the Conversion Notice at their Face Value; and applying the Conversion Amount as subscription funds for the Conversion Shares which are to be issued to the Noteholder at a price per Conversion Share equal to the lower of: 5 cents or 90% of the 10 day volume weighted average. If the Noteholder does not exercise its conversion right the face value is redeemable in cash at the date of expiry.

The company is required to meet three financial undertakings to comply with the lending conditions imposed by the bank as follows: (All covenants have been met for the year ended 30 June 2014).

Earnings before interest, tax, depreciation, amortisation and exceptional items (Normalised EBITDA) will be greater than and at least equal to;

\$1,500,000 for the 12 months 1 July 2013 to 30 June 2014; and

\$1,500,000 for the 12 months 1 July 2014 to 30 June 2015; and

\$1,500,000 for the 12 months 1 July 2015 to 30 June 2016

Minimum net worth of the borrower (Atlas) will at all times be greater than \$18,000,000; and

The ratio of net worth of the borrower to total tangible assets of the borrower will at all times be equal to or greater than 60%. All the covenants have been met during the year. The fair value of bank loans equals their carrying amount, as the impact of discounting is not significant. The fair value of convertible notes is reviewed half-yearly to determine the fair value of the derivative liability component.

Maturities of financial liabilities

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 2014 | | | | | | 30 June 2013 | | | | | |
|--|--------------------|------------------|---------------------|---------------------|------------------------------|--------------------------------------|--------------------|----------------|---------------------|---------------------|------------------------------|--------------------------------------|
| | 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 Months | 6-12 months | Between 1 & 2 years | Between 2 & 5 years | Total contractual cash flows | Carrying amount (asset)/ Liabilities |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Non-Derivatives | | | | | | | | | | | | |
| Trade payables | 2,313,694 | - | - | - | 2,313,694 | 2,313,694 | 1,371,888 | - | - | - | 1,371,888 | 1,371,888 |
| Borrowings | 4,047,184 | 1,142,848 | 56,955 | 55,668 | 5,302,655 | 5,154,959 | 4,364,831 | 137,966 | 1,204,618 | 14,250 | 5,721,665 | 5,721,665 |
| Total non-derivatives | 6,360,878 | 1,142,848 | 56,955 | 55,668 | 7,616,349 | 7,468,653 | 5,736,719 | 137,966 | 1,204,618 | 14,250 | 7,093,553 | 7,093,553 |
| Derivatives | | | | | | | | | | | | |
| Net settled (Non deliverable forwards) | 4,546 | 21,793 | - | - | 26,339 | 26,339 | (14,568) | - | - | - | - | (14,568) |
| Gross settled | | | | | | | | | | | | |
| -(inflow) | 1,400,000 | 2,100,000 | - | - | 3,500,000 | 3,500,000 | 850,000 | - | - | - | - | 850,000 |
| -(outflow) | (1,395,454) | (2,078,207) | - | - | (3,473,661) | (3,473,661) | (864,568) | - | - | - | - | (864,568) |
| Total Derivatives | 4,546 | 21,793 | - | - | 26,339 | 26,339 | (14,568) | - | - | - | - | (14,568) |

Borrowings, includes the loan to the Commonwealth Bank (CBA), and is classified as an amount due within 6 months. This loan is drawn as a bank bill facility which has various maturity dates during the period 1 July 2014 to 30 September 2014. Bank bills which expire during the period 1 July 2014 to 30 September 2014 will be rolled over into a new loan with a revised maturity date within 6-12 months.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENT

FOR THE YEAR ENDED 30 JUNE 2014

32. FINANCIAL RISK MANAGEMENT (cont.)**(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 30 June 2014 and 30 June 2013 on a recurring basis:

| 30 June 2014 | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
|------------------------------------|---------|---------|---------|-------|
| | \$ | \$ | \$ | \$ |
| Liabilities | | | | |
| Derivative financial instruments | - | - | 825,985 | - |
| Forward foreign exchange contracts | - | 26,339 | - | - |
| Total Liabilities | - | 26,339 | 825,985 | - |

| 30 June 2013 | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
|------------------------------------|---------|---------|---------|-------|
| | \$ | \$ | \$ | \$ |
| Liabilities | | | | |
| Derivative financial instruments | - | - | 390,148 | - |
| Forward foreign exchange contracts | - | 14,479 | - | - |
| Total Liabilities | - | 14,479 | 390,148 | - |

(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.

During the prior reporting period Atlas issued Convertible Notes for a total value of \$1,100,000. The Convertible Notes have a maturity date of 2 years after issue (therefore maturing between January and June 2015), attract an interest rate of 6% payable six monthly in arrears and are redeemable for ordinary shares in Atlas at any time during the 10 Business Days prior to the first anniversary of the Issue Date for the Convertible Notes; or the Maturity Date of the Convertibles Notes, or such other period as agreed in writing between the Company and the Noteholder. If the Noteholder exercises its conversion right, the Company must comply by redeeming all of the convertibles notes referred to in the Conversion Notice at their Face Value; and applying the Conversion Amount as subscription funds for the Conversion Shares which are to be issued to the Noteholder at a price per Conversion Share equal to the lower of: 5 cents or 90% of the 10 day volume weighted average.

This conversion feature represents an embedded derivative that is required to be fair valued.

The current fair value is governed by the 5 cents conversion rather than the 90% of the 10 day volume weighted average, therefore the derivative has been valued using the Black-Scholes model. The inputs used in this model are as follows:

30 June 2014

| Note | Issue Date | Expiry date | No. Of Options | Fair Value of Option | Exercise Price | Price of shares on valuation date | Expected Volatility annualised | Risk free interest rate | Dividend yield |
|----------|------------|-------------|----------------|----------------------|----------------|-----------------------------------|--------------------------------|-------------------------|----------------|
| A | 15/01/2013 | 15/01/2015 | 10,000,000 | \$0.037 | \$0.050 | \$0.085 | 60% | 2.56% | - |
| B | 25/01/2013 | 25/01/2015 | 2,000,000 | \$0.037 | \$0.050 | \$0.085 | 60% | 2.56% | - |
| C | 01/03/2013 | 01/03/2015 | 7,000,000 | \$0.038 | \$0.050 | \$0.085 | 60% | 2.56% | - |
| D | 30/05/2013 | 05/06/2015 | 3,000,000 | \$0.038 | \$0.050 | \$0.085 | 60% | 2.56% | - |

30 June 2013

| Note | Issue Date | Expiry date | No. Of Options | Fair Value of Option | Exercise Price | Price of shares on valuation date | Expected Volatility annualised | Risk free interest rate | Dividend yield |
|----------|------------|-------------|----------------|----------------------|----------------|-----------------------------------|--------------------------------|-------------------------|----------------|
| A | 15/01/2013 | 15/01/2015 | 12,820,513 | \$0.013 | \$0.039 | \$0.041 | 60% | 2.53% | - |
| B | 25/01/2013 | 25/01/2015 | 2,631,578 | \$0.014 | \$0.038 | \$0.041 | 60% | 2.53% | - |
| C | 01/03/2013 | 01/03/2015 | 9,210,526 | \$0.014 | \$0.038 | \$0.041 | 60% | 2.53% | - |
| D | 30/05/2013 | 05/06/2015 | 3,846,153 | \$0.015 | \$0.039 | \$0.041 | 60% | 2.53% | - |

All of the resulting fair value estimates are included in level 3.

(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 twelve months to 30 June 2014. There were also no changes made to any of the valuation techniques applied as of 30 June 2013.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENT

FOR THE YEAR ENDED 30 JUNE 2014

32. FINANCIAL RISK MANAGEMENT (cont.)**(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 2014:

| | 30 June 2014 \$ Carrying amount | 30 June 2014 \$ Fair value | 30 June 2013 \$ Carrying amount | 30 June 2013 \$ Fair value |
|-------------------------------|---|-------------------------------------|---|-------------------------------------|
| Non-current borrowings | | | | |
| Bank Loan | - | - | 28,447 | 28,447 |
| Other bank loan | 89,665 | 89,665 | - | - |
| Convertible note | 994,518 | 1,142,214 | 784,778 | 1,208,214 |
| Lease liabilities | 1,863 | 1,863 | 4,312 | 4,312 |
| | 1,086,046 | 1,233,742 | 817,537 | 1,204,973 |

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.

33. BUSINESS COMBINATION

Acquisition of Essential Oils of Tasmania during the comparative six month period ended 30 June 2013.

On 15 January 2013 the parent entity acquired 100% of the issued share capital of Essential Oils of Tasmania Ltd, a grower and producers of essential oils.

The acquisition is a strategic move for the Group further extending its supply chain to encompass an established manufacturer of essential oils that has the technical knowledge to manufacture cosmeceutical products.

Details of the purchase consideration, the net assets acquired and gain on acquisition are as follows:

| | \$ |
|--|---------|
| Purchase consideration: | |
| Cash paid | - |
| Share based payment consideration (refer below) | 500,000 |
| Total purchase consideration | 500,000 |

The asset and liabilities recognised as a result of the acquisition are as follows:

| | Fair value \$ |
|--------------------------------|------------------|
| Cash | 142,221 |
| Trade receivables | 351,450 |
| Other current assets | 30,150 |
| Income tax receivable | 70,124 |
| Inventories | 922,588 |
| Biological assets | 430,801 |
| Land and buildings | 5,980 |
| Plant and equipment | 368,712 |
| Other non-current assets | 24,429 |
| Trade payables | (300,974) |
| Loans to directors | (200,000) |
| Borrowings | (1,200,000) |
| Deferred tax liability | (85,570) |
| Net identified assets acquired | 559,911 |
| Gain on acquisition | 59,911 |

(i) Share based payment consideration

Atlas acquired Essential Oils of Tasmania by way of issuing 10,000,000 fully paid ordinary shares in Atlas. The fully paid ordinary shares in Atlas issued to the owners of Essential Oils of Tasmania must be recorded at fair value. The share price of Atlas at the date of settlement being the 15th of January 2013 was \$0.05. The fair value of the 10,000,000 fully paid ordinary shares is \$500,000.

(ii) Revenue and profit contribution

The acquired business contributed revenues of \$503,076 and a net loss of (\$533,446) to the group for the period 1 January to 30 June 2013.

(iii) Information not disclosed as not yet available

The Group has reported a provisional gain on acquisition as part of the purchase of Essential Oils of Tasmania Pty Ltd (see above) as the final assessment of the fair value of assets is yet to be determined. The group is still in the provisional accounting period as at 31 December 2013.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENT

FOR THE YEAR ENDED 30 JUNE 2014

34. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

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 2014 unless disclosed in Note 1. The Group's and the parent entity's assessment of the impact of these new standards and interpretations is set out below. The initial application of the following Standards and Interpretations is not expected to have any material impact on the financial report of the consolidated entity and the company.

| 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 17 | 1 July 17 |
| AASB 2013-9 (issued December 2013) | Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments | AASB 2013-9 makes three amendments to AASB 9 | 1 Jan 15 | 1 July 17 |
| AASB 2013-3 | Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets | Clarifies disclosure requirements for goodwill and intangibles | 1 Jan 14 | 1 July 14 |
| IFRS 2 | Share-based Payment | Changes definition of vesting condition | 1 July 14 | 1 July 14 |
| IFRS 3 | Business Combinations | Clarifies Accounting for contingent consideration in a business combination | 1 July 14 | 1 July 14 |
| IFRS 8 | Operating Segments | Clarifies aggregation of operating segments and reconciliation of the reportable segment's assets to the entity's assets | 1 July 14 | 1 July 14 |
| IAS 16 | Property, Plant and Equipment | Clarifies the computation of accumulated depreciation when items of property, plant and equipment are subsequently measured using the revaluation model. | 1 July 14 | 1 July 14 |
| IAS 24 | Related Party Disclosures | Changes key management personnel disclosures | 1 July 14 | 1 July 14 |
| IAS 38 | Intangible Assets | Clarifies the computation of accumulated amortisation when intangible assets are subsequently measured using the revaluation model. | 1 July 14 | 1 July 14 |
| IFRS 13 | Fair Value Measurement | Changes the scope of contracts that qualify for the portfolio exception. | 1 July 14 | 1 July 14 |

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

35. EVENTS OCCURRING AFTER THE REPORTING PERIOD

Mr Nelson Rocher was appointed Alternate Director to Mr Stephen Birkbeck on 18 July 2014.

36. ECONOMIC DEPENDENCY

All of the company's pearls are purchased from its wholly owned subsidiary PT Cendana Indopearls.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENT

FOR THE YEAR ENDED 30 JUNE 2014

The Directors of the Company declare that:

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 2014 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.

The Company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A. 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.

The remuneration disclosures included in the Directors' Report (as part of audited remuneration report) for the period ended 30 June 2014 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:



S.P. Birkbeck
Chairman
Perth, Western Australia

28th August 2014

INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 30 JUNE 2014



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INDEPENDENT AUDITOR'S REPORT

To the members of Atlas Pearls and Perfumes Ltd

Report on the Financial Report

We have audited the accompanying financial report of Atlas Pearls and Perfumes Ltd, which comprises the consolidated statement of financial position as at 30 June 2014, 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, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility 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. In Note 1.2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

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INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 30 JUNE 2014

**Independence**

In conducting our audit, 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 Atlas Pearls and Perfumes Ltd, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

- (a) the financial report of Atlas Pearls and Perfumes Ltd is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.2.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2014. 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.

Opinion

In our opinion, the Remuneration Report of Atlas Pearls and Perfumes Ltd for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

BDO

Chris Burton

Director

Perth, 28 August 2014

ADDITIONAL INFORMATION - UNAUDITED

FOR THE YEAR ENDED 30 JUNE 2014

NORMALISED EBITDA

| | 12 Months Ending 30 June 2014 \$ | 12 Months Ending 30 June 2013 \$ |
|---|---|---|
| Profit/(Loss) for the period | 1,813,922 | (944,694) |
| Less: Net Forex Gains | 577,928 | (2,058,701) |
| Add: Net Interest | 470,775 | (519,086) |
| Add: Depreciation/Amortisation | 302,686 | 243,928 |
| Add: Income tax expense | (355,280) | (3,293,213) |
| Add: Other taxes | - | (70,015) |
| Add: Revaluation of Biological Assets and Inventory | (75,421) | 5,906,702 |
| Add: Other non-operating (income/expense) | 299,971 | 404,179 |
| Add: Loss on derivative | 435,732 | (32,177) |
| Normalised EBITDA | 3,470,313 | (363,078) |

UNAUDITED NORMALISED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2014

| | 12 Months Ending 30 June 2014 \$ | 12 Months Ending 30 June 2013 \$ |
|---|---|---|
| Revenue from continuing operations | 16,283,183 | 10,453,703 |
| Cost of goods sold | (6,230,257) | (4,223,494) |
| Gross profit | 10,052,926 | 6,230,209 |
| Other income | 1,091,279 | 3,376,326 |
| Marketing expenses | (360,364) | (148,860) |
| Administration expenses | (6,814,921) | (5,930,665) |
| Finance costs | (513,496) | (359,517) |
| Other expenses | (1,996,783) | (7,405,399) |
| Profit/(Loss) before income tax | 1,458,642 | (4,237,906) |
| Income tax (expense)/benefit | 355,280 | 3,293,212 |
| Profit/(Loss) for the period from continuing operations | 1,813,922 | (944,694) |
| Other comprehensive income/(expenses) | | |
| Items that will be reclassified as profit or loss: | | |
| Exchange differences on translation of foreign operations | (792,775) | (303,133) |
| Income tax on items that will be reclassified to profit or loss | - | - |
| Other comprehensive income/(expenses) for the period, net of tax | - | (303,133) |
| Total comprehensive income/(expenses) for the period | (792,775) | (1,247,827) |
| Profit/(loss) is attributable to: | 1,021,147 | |
| Owners of the Company | | (944,694) |
| Total comprehensive income/(expenses) is attributable to: | 1,813,922 | (1,247,827) |
| Owners of the Company | | |
| Overall operations : | | |
| Basic earnings/(loss) per share (cents) | 0.61 | (0.38) |
| Diluted earnings per share (cents) | 0.57 | n/a |

UNAUDITED NORMALISED STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 30 JUNE 2014

| | 30 June 2014 \$ | 30 June 2013 \$ |
|---------------------------------------|--------------------|--------------------|
| Current assets | | |
| Cash and cash equivalents | 1,665,207 | 1,767,156 |
| Trade and other receivables | 3,020,985 | 1,074,871 |
| Derivative financial instruments | - | - |
| Inventories | 6,114,013 | 7,115,790 |
| Biological assets | 8,414,231 | 5,914,682 |
| Total current assets | 19,214,436 | 15,872,499 |
| Non-current assets | | |
| Intangibles | 392,875 | - |
| Loans joint venture entities | 67,896 | 313,926 |
| Equity accounted for investments | 3,025 | 280,984 |
| Inventories | 132,093 | 223,399 |
| Biological assets | 12,011,412 | 11,535,561 |
| Property, plant and equipment | 4,401,274 | 4,513,455 |
| Deferred tax assets | 4,599,784 | 2,936,629 |
| Total non-current assets | 21,608,359 | 19,803,955 |
| Total assets | 40,822,795 | 35,676,454 |
| Current liabilities | | |
| Trade and other payables | 3,141,549 | 2,329,224 |
| Borrowings | 5,014,791 | 4,436,797 |
| Derivative financial instruments | 852,323 | 14,479 |
| Current tax liabilities | (94,060) | 234,884 |
| Short-term provisions | 57,298 | 92,037 |
| Total current liabilities | 8,971,901 | 7,107,421 |
| Non-current liabilities | | |
| Derivative financial instruments | - | 390,148 |
| Borrowings | 140,168 | 837,646 |
| Deferred tax liabilities | 2,901,397 | 1,544,570 |
| Total non-current liabilities | 3,041,565 | 2,772,364 |
| Total liabilities | 12,013,466 | 9,879,785 |
| Net assets | 28,809,329 | 25,796,669 |
| Equity | | |
| Contributed equity | 32,153,001 | 30,203,033 |
| Reserves | (8,036,205) | (7,284,974) |
| Retained profits/(accumulated losses) | 4,692,533 | 2,878,610 |
| Total equity | 28,809,329 | 25,796,669 |

UNAUDITED NORMALISED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2014

| Consolidated | Attributable to owners of Atlas Pearls and Perfumes Limited | | | | |
|---|---|-----------------------------|--------------------------------------|---|--------------------|
| | Contributed equity | Share based payment reserve | Foreign currency translation reserve | Retained earnings/ (accumulated losses) | Total equity |
| | \$ | \$ | \$ | \$ | \$ |
| Balance at 1 July 2013 | 30,203,033 | 581,028 | (7,866,003) | 2,878,610 | 25,796,669 |
| Profit/(loss) for the period | - | - | - | 1,813,922 | 1,813,922 |
| Exchange differences on translation of foreign operations | - | - | (792,775) | - | (792,775) |
| Total comprehensive income for the period | | | (792,775) | 1,813,922 | 1,021,147 |
| Transactions with owners in their capacity as owners | | | | | |
| Contributions of equity, net of transaction costs | 1,949,968 | - | - | - | 1,949,968 |
| Dividends provided for or paid | - | - | - | - | - |
| Employee share scheme | - | 41,545 | - | - | 41,545 |
| | 1,949,968 | 41,545 | - | - | 1,991,513 |
| Balance at 30 June 2014 | 32,153,001 | 622,574 | (8,658,778) | 4,692,532 | 28,809,329 |
| Balance at 1 July 2012 | 27,666,203 | 581,028 | (7,562,869) | 3,823,304 | 24,507,666 |
| Profit/(loss) for the period | - | - | - | (944,694) | (944,694) |
| Exchange differences on translation of foreign operations | - | - | (303,133) | - | (303,133) |
| Total comprehensive income for the period | - | - | (303,133) | (944,694) | (1,247,827) |
| Transactions with owners in their capacity as owners | | | | | |
| Contributions of equity, net of transaction costs | 2,536,830 | - | - | - | 2,536,830 |
| Dividends provided for or paid | - | - | - | - | - |
| Employee share scheme | - | - | - | - | - |
| | 2,536,830 | - | - | - | 2,536,830 |
| Balance at 30 June 2013 | 30,203,033 | 581,028 | (7,866,003) | 2,878,610 | 25,796,669 |

UNAUDITED NORMALISED STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 30 JUNE 2014

| | Note | 12 Months Ending 30 June 2014 \$ | 12 Months Ending 30 June 2013 \$ |
|--|------|---|---|
| Cash flows from operating activities | | | |
| Proceeds from pearl, jewellery and oyster sales | | 11,858,342 | 8,485,855 |
| Proceeds from essential oil sales | | 1,738,829 | 682,947 |
| Proceeds from other operating activities | | 443,514 | 282,168 |
| Interest paid | | (204,364) | (300,472) |
| Interest received | | 9,329 | 30,624 |
| Payments to suppliers and employees | | (13,743,885) | (11,598,895) |
| Income tax (paid)/received | | (359,059) | 2,186,701 |
| Net cash used in operating activities | | (257,294) | (231,072) |
| Cash flows from investing activities | | | |
| Cash obtained on business combination | | - | 142,221 |
| Payments for property, plant and equipment | | (1,234,528) | (687,301) |
| Joint venture partnership contributions (paid) | | (53,971) | (286,109) |
| Other loans | | | (89,105) |
| Net cash used in investing activities | | (1,288,499) | (920,294) |
| Cash flows from financing activities | | | |
| Repayment of borrowings | | (329,224) | (2,337,833) |
| Proceeds from issue of shares | | 1,808,715 | 1,588,329 |
| Share transaction costs | | (30,321) | (149,611) |
| Proceeds from convertible notes | | - | 1,100,000 |
| Net cash used in financing activities | | 1,449,171 | 200,885 |
| Net increase/(decrease) in cash and cash equivalents | | (96,623) | (950,481) |
| Cash and cash equivalents at the beginning of the financial period | | 1,767,156 | 2,719,917 |
| Effects of exchange rate changes on cash and cash equivalents | | (5,326) | (2,280) |
| Cash and cash equivalents at the end of the financial year | | 1,665,207 | 1,767,156 |

ADDITIONAL ASX INFORMATION

FOR THE YEAR ENDED 30 JUNE 2014

The following additional information is required by the Australian Securities Exchange. The information is current as at 11 September 2014.

(a) Distribution schedule and number of holders of equity securities as at 11 September 2014

| | 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) | 126 | 436 | 358 | 914 | 360 | 2,194 |
| Unlisted Options – 8.58c 31/12/16 | - | - | - | - | 11 | 11 |
| Unlisted Options – 9.5c 31/12/16 | - | - | - | - | 7 | 7 |
| Convertible Notes | - | - | - | - | 3 | 3 |

The number of holders holding less than a marketable parcel of fully paid ordinary shares as at 11 September 2014 is 466.

(b) 20 Largest holders of quoted equity securities as at 11 September 2014

The names of the twenty largest holders of fully paid ordinary shares (ASX code: ATP) as at 11 September 2014 are:

| Rank | Name | Shares | % of Total Shares |
|------|--|-------------|-------------------|
| 1 | RAINTREE PEARLS & PERFUMES PTY LTD | 24,197,997 | 7.36 |
| 2 | CHEMCO SUPERANNUATION FUND PTY LTD <CHEMCO SUPER FUND NO 2 A/C> | 22,400,000 | 6.82 |
| 3 | SP & K BIRKBECK HOLDINGS PTY LTD <SP & K BIRKBECK S/F A/C> | 18,929,202 | 5.76 |
| 4 | JINGIE INVESTMENTS PTY LTD | 14,900,200 | 4.53 |
| 5 | ARROW PEARL CO PTY LTD | 11,508,089 | 3.50 |
| 6 | ABERMAC PTY LTD <RAMAC A/C> | 10,833,333 | 3.30 |
| 7 | WESTWOOD PROPERTIES PTY LTD | 8,000,000 | 2.43 |
| 8 | FARJOY PTY LTD | 7,099,412 | 2.16 |
| 9 | MR NELSON MICHEL PIERRE ROCHER | 6,712,185 | 2.04 |
| 10 | MR CHRIS CARR + MRS BETSY CARR | 5,000,000 | 1.52 |
| 11 | COAKLEY PASTORAL CO PTY LTD <TIM COAKLEY SUPER FUND A/C> | 5,000,000 | 1.52 |
| 12 | FIVE TALENTS LIMITED | 4,820,000 | 1.47 |
| 13 | FORSYTH BARR CUSTODIANS LTD <FORSYTH BARR LTD-NOMINEE A/C> | 4,801,563 | 1.46 |
| 14 | ATLAS PEARL EMPLOYEE SHARE PLAN PTY LTD <ATLAS SHARE PLANS A/C> | 4,776,051 | 1.45 |
| 15 | BYRON BAY CELEBRANT PTY LTD <CHRIS & LYNDA DEAN S/F A/C> | 4,170,589 | 1.27 |
| 16 | QUEENSRIDGE INVESTMENTS PTY LTD <GLEESON SUPER FUND A/C> | 3,649,072 | 1.11 |
| 17 | MR MICHAEL BROWN + MRS CHRISTINE BROWN <MICHAEL BROWN SUPER A/C> | 3,100,000 | 0.94 |
| 18 | MR PAWEL REJ + MRS MIROSLAWA REJ | 3,078,000 | 0.94 |
| 19 | DORRAN PTY LTD | 3,000,000 | 0.91 |
| 20 | MR TIMOTHY JAMES MARTIN | 2,800,000 | 0.85 |
| | TOTAL | 168,775,693 | 51.36 |

Stock Exchange Listing – Listing has been granted for 328,616,452 ordinary fully paid shares of the Company on issue on the Australian Securities Exchange.

The unquoted securities on issue as at 11 September 2014 are detailed below in part (d).

ADDITIONAL ASX INFORMATION

(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 |
|--|------------|
| W. G. MARTIN & ASSOCIATES * | 31,971,600 |
| RAINTREE PEARLS & PERFUMES PTY LTD & ASSOCIATES ** | 30,090,855 |
| T. J. MARTIN & ASSOCIATES *** | 16,628,145 |

* Includes shares held by Chemco Superannuation Fund Pty Ltd <Chemco Super Fund No 2 A/C> and Jingie Investments Pty Ltd.

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

*** Includes shares held by Timothy James Martin and Jingie Investments Pty Ltd.

(d) Unquoted Securities

The number of unquoted securities on issue as at 11 September 2014:

| Security | Number on issue |
|--|-----------------|
| Unlisted options exercisable at 8.58 cents, on or before 31 December 2016. | 20,000,000 |
| Unlisted options exercisable at 9.5 cents, on or before 31 December 2016. | 8,500,000 |
| Convertible notes. | 1,000,000 |

(e) Names of persons holding more than 20% of a given class of unquoted securities as at 11 September 2014 other than those securities issued under an employee incentive scheme

| Security | Holder Name | Number of Securities | % Held |
|-------------------|---|----------------------|--------|
| Convertible notes | Chemco Superannuation Fund Pty Ltd <Chemco Superannuation Fund> | 500,000 | 50% |
| Convertible notes | Abermac Pty Ltd <Ramac A/C> | 350,000 | 35% |

(f) Restricted Securities as at 11 September 2014

There were no restricted securities on issue as at 11 September 2014.

(g) Voting Rights

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

Unquoted options and convertible notes have no voting rights.

(h) Company Secretary

The Joint Company Secretaries are Mr Stephen Gleeson and Ms Susan Hunter.

(i) Registered Office

The Company's Registered Office is 47 - 49 Bay View Terrace, Claremont, Western Australia 6010. Telephone: +61 8 9284 4249 Facsimile: +61 8 9284 3031

(j) Share Registry

The Company's Share Registry is Computershare Investor Services Pty Ltd of Level 2, 45 St Georges Terrace, Perth WA 6000.

Telephone: 1300 557 010 (from within Australia); +61 3 9415 4000 (from outside Australia).

(k) On-Market Buy-back

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

CORPORATE GOVERNANCE STATEMENT 2014

The Board of Directors of Atlas Pearls and Perfumes Ltd ("Atlas" or "the Company") is responsible for the corporate governance of the Company and its subsidiaries and the Board has adopted a manual of corporate governance policies and procedures based on control systems and accountability.

The Board of the Company will review the Atlas' Corporate Governance Plan annually. The Corporate Governance Plan is available in the corporate governance information section of the Company's website at www.atlaspearlsandperfumes.com.au. A summary of the Company's corporate governance policies and procedures is included in this Statement.

The Company's corporate governance policies and procedures are in line with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (2nd Edition) ("the Principles & Recommendations"). The Company has followed the Principles & Recommendations where the Board has considered the recommendation to be an appropriate benchmark for its corporate governance practices. Where, after due consideration by the Board, the Company's corporate governance practices depart from the Principles & Recommendations, the Board has fully disclosed the departure and the reason for the adoption of its own practice, in compliance with the "if not, why not" exception reporting regime.

The third edition of the Corporate Governance Principles and Recommendations was released on 27 March 2014 and takes effect for a listed entity's first full financial year commencing on or after 1 July 2014. During the 30 June 2015 financial year the Company will review and update their corporate governance policies and practices.

Further information about the Company's corporate governance practices including the information on the Company's charters, code of conduct and other policies and procedures is set out on the Company's website.

BOARD OF DIRECTORS

Role of the Board and Management

The Board is responsible for promoting the success of the Company in a way which ensures that the interests of shareholders and stakeholders are promoted and protected. The Board may delegate some powers and functions to the Managing Director or CEO for the day-to-day management of the Company. Powers and functions not delegated remain with the Board. The key responsibilities and functions of the Board include the following:

- appointment of the Managing Director/CEO and other senior executives and the determination of their terms and conditions including remuneration and termination;
- driving the strategic direction of the Company, ensuring appropriate resources are available to meet objectives and monitoring management's performance;
- reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct and legal compliance;

- approving and monitoring the progress of major capital expenditure, capital management and significant acquisitions and divestitures;
- approving and monitoring the budget and the adequacy and integrity of financial and other reporting;
- approving the annual and half yearly accounts;
- approving significant changes to the organisational structure;
- approving the issue of any shares, options, equity instruments or other securities in the Company;
- ensuring a high standard of corporate governance practice and regulatory compliance and promoting ethical and responsible decision making;
- recommending to shareholders the appointment of the external auditor as and when their appointment or re-appointment is required to be approved by them; and
- meeting with the external auditor, at their request, without management being present.
- The Board's role and the Company's corporate governance practices are periodically reviewed and improved as required.

The role of the senior management of the Company is to progress the strategic direction provided by the Board. Senior management will be responsible for supporting the Board in implementing the running of the general operations and financial business of the Company in accordance with the delegated authorities for expenditure levels and materiality thresholds in place.

The Company has a Performance Evaluation policy which outlines the performance evaluation of the Board, its Committees and its individual Directors. The Nomination Committee is responsible for evaluation of the Board its Committees and its individual Directors, if required, on an annual basis.

No formal reviews of the Board, its Committees and its individual Directors were undertaken during the financial year. Following the update of the Company's corporate governance policies and procedures which is planned for the end of the 2014 calendar year, a formal review of the role of the Board is proposed to be conducted to assess the performance of the Board over the previous twelve (12) months and examine ways of assisting the Board in performing its duties more effectively. The review may include:

- comparing the performance of the Board with the requirements of its Charter;
- examination of the Board's interaction with management;
- the nature of information provided to the Board by management; and
- management's performance in assisting the Board to meet its objectives.

A similar formal review will be conducted for each Committee, if relevant, by the Board with the aim

of assessing the performance of each Committee and identifying areas where improvements can be made. A review may also be conducted for each Director to assess performance of that Director and to identify areas where improvements can be made.

The Board with assistance from the Remuneration Committee oversee the performance evaluation of the executive team. This evaluation is based on specific criteria, including the performance of the Company, whether strategic objectives are being achieved and the development of management and personnel. Performance and remuneration reviews of the executive team were conducted during the financial year and these reviews are undertaken at least annually. Senior executives are reviewed against a number of qualitative and quantitative factors relevant to their role and position.

The Board Charter including matters reserved for the Board and senior management and the Performance Evaluation Policy is available on the Company's website.

COMPOSITION OF THE BOARD

The Company has adopted a policy on assessing the independence of Directors which is consistent with the guidelines detailed in the ASX Principles & Recommendations and detailed in the Board Charter and is attached as Annexure A to the Corporate Governance Plan. The materiality thresholds in this policy are assessed on a case-by-case basis, taking into account the relevant Director's specific circumstances, rather than referring to a general materiality threshold.

The Board includes an executive Chairman/CEO, Mr Stephen Birkbeck, Mr Birkbeck's alternate Director Mr Nelson Rocher, and four non-executive Directors, Mr Geoff Newman, Mr Timothy Martin, Mr Stephen Arrow and Dr Joseph Taylor. The Board considers Messrs Newman and Arrow to be independent based on the criteria for independence included in the Company's Policy on Assessing the Independence of Directors and the ASX Principles & Recommendations. Mr Birkbeck being an executive of the Company and a substantial holder via his controlled entities is not be considered to be independent. Mr Martin being a substantial holder via his controlled entities is not considered to be independent. Dr Taylor provides consulting services to the Company and is not considered to be independent. Therefore, the Company currently has two independent Directors and three Directors who are not considered to be independent and does not have a majority of independent Directors.

The role of CEO and Chairman are both fulfilled by Mr Birkbeck. Mr Birkbeck brings specific skills and industry experience relevant to the Company. Given the size of the Company and the size of the Board, the Board considers that this appointment is appropriate.

Any changes to the composition of the Board will be determined by the Board, subject to the Company's Constitution, any applicable laws and the resolutions of Shareholders. The Board will seek to nominate persons for appointment to the Board with the appropriate mix of skills and experience to ensure an effective decision-making body and

CORPORATE GOVERNANCE STATEMENT 2014

to ensure that the Board is comprised of Directors who contribute to the successful management of the Company and discharge their duties having regard to the law and the highest standards of corporate governance. The Board should comprise Directors with a mix of qualifications, experience and expertise which will assist the Board in fulfilling its responsibilities, as well as assisting the Company in achieving growth and delivering value to shareholders.

As required by the Constitution of Atlas, at the Company's annual general meeting in every year, one-third of the Directors for the time being, or, if their number is not a multiple of 3, then the number nearest one-third, shall retire from office, provided always that no Director (except the Managing Director) shall hold office for a period in excess of 3 years, or until the third annual general meeting following his or her appointment, whichever is the longer, without submitting himself or herself for re-election. Any Director (except the Managing Director) appointed by the Directors since the date of the last annual general meeting must also stand for re-election at the next annual general meeting following their appointment. Prior to the Board proposing re-election of non-executive Directors, their performance will be evaluated to ensure that they continue to contribute effectively to the Board.

The Company's policy for re-election of Directors and selection and appointment of new Directors is available in the Board Charter and Nomination Committee Charter in the Corporate Governance Plan on the Company's website at www.atlaspearlsandperfumes.com.au.

A profile of each Director containing their skills, experience and expertise is set out in the Directors' Report.

STATEMENT CONCERNING AVAILABILITY OF INDEPENDENT PROFESSIONAL ADVICE

The Board considers that to assist Directors with independent judgement a Director may consider it necessary to obtain independent professional advice to properly discharge the responsibility of their office as a Director. Provided the Director first obtains approval for incurring such expense from the Chairman, the Company will pay the reasonable expenses associated with obtaining such advice.

NOMINATION COMMITTEE

Given the present size of the Company, the whole Board acts as the Nomination Committee. The Board believes no efficiencies or other benefits could be gained by establishing a separate Nomination Committee. To assist the Board to fulfill its function as the Nomination Committee, the Board has adopted a Nomination Committee Charter. The responsibilities of the Committee include the periodic review and consideration of the structure and balance of the Board and the making of recommendations regarding appointments, retirements and terms of office of Directors.

The Nomination Committee Charter is available on the Company's website.

REMUNERATION COMMITTEE

The Board has established a Remuneration Committee which is comprised of Mr Newman (Chairman of the Committee and independent Non-executive Director), Dr Taylor (Non-executive Director), Mr Timothy Martin (Non-executive Director) and Mr Birkbeck (Chairman of the Board and CEO). Mr Birkbeck, in his capacity as CEO does not attend the Remuneration Committee Meetings that involve matters that pertain to him. The Committee does not have a majority of independent Directors but is chaired by an independent Director.

To assist the Committee to fulfill its function as the Remuneration Committee, the Board has adopted a Remuneration Committee Charter. The Remuneration Committee Charter is available on the Company's website at www.atlaspearlsandperfumes.com.au.

Remuneration of Directors and senior management is determined with regard to the performance of the Company, the performance and skills and experience of the particular person and prevailing remuneration expectations in the market. Details of remuneration of Directors and Key Management Personnel are disclosed in the Remuneration Report.

The performance of the CEO and the executive team is reviewed annually by the Remuneration Committee. The Board has engaged the services of independent remuneration experts in assessing remuneration levels for the Directors and executives. The performances of the other staff are reviewed on an annual basis by the CEO in consultation with the Remuneration Committee.

There are no termination or retirement benefits for non-executive Directors (other than for superannuation).

Executives are prohibited from entering into transactions or arrangements which limit the economic risk of participating in unvested entitlements.

CODE OF CONDUCT

The Company has adopted a Code of Conduct that outlines how the Company expects its Directors and employees of the Company to behave and conduct business in the workplace on a range of issues. The Company is committed to the highest level of integrity and ethical standards in all business practices.

The purpose of the Code of Conduct is to provide a framework for decisions and actions in relation to ethical conduct in employment. It underpins the Company's commitment to integrity and fair dealing in its business affairs and to a duty of care to all employees, clients and stakeholders.

It sets out the Company's expectations of its Directors and employees with respect to a range of issues including personal and professional behaviour, conflicts of interest, public and media comment, use of Company resources, security of information, intellectual property and copyright, discrimination and harassment, corrupt conduct, occupational health and safety, fair dealing and insider trading.

A breach of the Code is subject to disciplinary action which may include punishment under legislation and/or termination of employment. The Code of Conduct is available on the Company's website at www.atlaspearlsandperfumes.com.au.

ETHICAL STANDARDS

The Board considers that the success of the Company will be enhanced by a strong ethical culture within the Company. Accordingly, the Board is committed to the highest level of integrity and ethical standards in all business practices. Employees must conduct themselves in a manner consistent with current community and corporate standards and in compliance with all legislation.

CONFLICTS OF INTEREST

In accordance with the Corporations Act 2001, Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes that a significant conflict exists, the Director concerned does not receive the relevant Board papers and is not present at the meeting whilst the item is considered.

GUIDELINES FOR TRADING IN THE COMPANY'S SECURITIES

The Trading Policy adopted by the Board prohibits trading in shares by a Director, officer or employee during certain blackout periods (in particular, prior to release of the half yearly and annual financial results) except in exceptional circumstances and subject to procedures set out in the Guidelines.

Outside of these blackout periods, a Director, officer or employee must first obtain clearance in accordance with the Guidelines before trading in shares. For example:

A Director must receive clearance from the CEO or Chairman before he may buy or sell shares.

If the Chairman wishes to buy or sell shares he must first obtain clearance from the Board.

Other officers and employees must receive clearance from the Managing Director/CEO or Chairman before they may buy or sell shares.

Directors, officers and employees must observe their obligations under the Corporations Act 2001 not to buy or sell shares if in possession of price sensitive non-public information and that they do not communicate price sensitive non-public information to any person who is likely to buy or sell shares or communicate such information to another party.

The Trading Policy is available on the Company's website at www.atlaspearlsandperfumes.com.au.

CONTINUOUS DISCLOSURE

The Company is a "disclosing entity" for the purposes of Part 1.2A of the Corporations Act 2001. As such, the Company has a Continuous Disclosure Policy. The purpose of this Continuous Disclosure Policy is to ensure the Company complies with

CORPORATE GOVERNANCE STATEMENT 2014

continuous disclosure requirements arising from legislation and the Listing Rules of the Australian Securities Exchange ("ASX"). The Policy sets out the procedure for:

- protecting confidential information from unauthorised disclosure;
- identifying material price sensitive information and reporting it to the Company Secretary for review;
- ensuring the Company achieves best practice in complying with its continuous disclosure obligations under legislation and the Listing Rules; and
- ensuring the Company and individual officers do not contravene legislation or the Listing Rules.

The Company has obligations under the Corporations Act 2001 and ASX Listing Rules to keep the market fully informed of information which may have a material effect on the price or value of the Company's securities and to correct any material mistake or misinformation in the market. Atlas discharges these obligations by releasing information to the ASX in the form of an ASX release or disclosure in other relevant documents (e.g. the Annual Report).

The Company recognises that the maintenance of confidentiality is also of paramount importance to the Company both to protect its trade secrets and to prevent any false market for the Company's shares from developing.

All relevant information provided to ASX in compliance with the continuous disclosure requirements of legislation and the Listing Rules is promptly posted on the Company's web site.

The Continuous Disclosure Policy is available on the Company's website.

AUDIT COMMITTEE

The Board has established an Audit Committee which is comprised of Mr Newman (Chairman of the Committee and independent Non-executive Director), Mr Arrow (Non-executive Director) and Dr Taylor (Non-executive Director). The Committee consists of a majority of independent Non-executive Directors and is chaired by an independent chair, who is not the chair of the Board. Mr Newman, the Chairman of the Committee, has extensive financial experience. Mr Arrow and Dr Taylor have a good understanding of business and are financially literate.

The Committee only had two members during the financial year as Mr Arrow was appointed subsequent to 30 June 2014 but now has a total of three members.

To assist the Committee to fulfill its function as the Audit Committee, the Board has adopted an Audit Committee Charter.

The Audit Committee provides recommendations in relation to the initial appointment of the external auditor and the appointment of a new external auditor should a vacancy arise. Any appointment of a new external auditor made by the Board must be

ratified by shareholders at the next annual general meeting of the Company.

Proposed external auditors must be able to demonstrate complete independence from the Company and an ability to maintain independence through the engagement period. In addition, the successful candidate for external auditor must have arrangements in place for the rotation of the lead audit engagement partner on a regular basis. Other than these mandatory criteria, the Board may select an external auditor based on other criteria relevant to the Company such as references, cost and any other matters deemed relevant by the Board.

A formal Audit Committee Charter has been adopted, a copy of which is available on the Company's website.

COMMUNICATION TO SHAREHOLDERS

The Company has a Shareholder Communications Strategy that promotes effective communication with shareholders and encourages presentation of information to shareholders in a clear, concise and effective manner. The Board aims to ensure that Shareholders are informed of all major developments affecting the Company's state of affairs. Information will be communicated to Shareholders through the annual report, half yearly report, disclosures and announcements made to the ASX, the annual general meeting and general meetings and through the Company's website.

The Company considers general meetings to be an effective means to communicate with shareholders and encourages shareholders to attend the meeting. Information included in the notice of meeting sent to shareholders will be presented in a clear, concise and effective manner.

The Shareholder Communications Strategy is available on the Company's website.

RISK MANAGEMENT

The Board determines the Company's "risk profile" and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control.

The Board delegates to the CEO responsibility for implementing the risk management system who will submit particular matters to the Board for its approval or review. The Chairman/CEO is required to report on the management of risk as a standing agenda item at each Board meeting. This involves the tabling of a risk register which is monitored and updated by management periodically.

The responsibility for undertaking and assessing risk management and internal control effectiveness is delegated to management. Management is required to assess risk management and associated internal compliance and control procedures and regularly report back to the Board.

The Board will regularly review assessments of the effectiveness of risk management and internal compliance and control. The Board also receives an assurance from management that the Company's management of its material business risks is effective.

The Company's Risk Management Policy is available on the Company's website.

INTEGRITY OF FINANCIAL REPORTING

The Board has received assurance in writing from Mr Birkbeck, Executive Chairman and CEO and Ms Danielle Brandenburg, Chief Financial Officer, in accordance with section 295A of the Corporations Act 2001 that:

- the consolidated financial statements of the Company and its controlled entities for the financial year present a true and fair view, in all material aspects, of the Company's financial condition and operational results and are in accordance with accounting standards;
- the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- the Company's risk management and internal compliance and control framework is operating efficiently and effectively in all material respects.

DIVERSITY POLICY

The Company recognises the benefits arising from employee and Board diversity, including a broader pool of high quality employees, improving employee retention, accessing different perspectives and ideas and benefiting from all available talent. Given the present size of the Company, the Board has not adopted a Diversity Policy. The Board believes no efficiencies or other benefits could be gained by establishing a formal Diversity Policy. The Board will consider the adoption of a formal Diversity Policy if deemed appropriate in future.

| | Men | Woman |
|--------------------------|------|-------|
| Board | 100% | - |
| Senior Management | 83% | 17% |
| Staff | 57% | 43% |

ATLAS PEARLS AND PERFUMES LTD AND ITS SUBSIDIARIES

CORPORATE GOVERNANCE STATEMENT 2014

ASX LISTING RULE DISCLOSURE – EXCEPTION REPORTING

As required by ASX Listing Rules, the following table discloses the extent to which Atlas has not followed the best practice recommendations set by the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations.

| PRINCIPLE NO. | BEST PRACTICE RECOMMENDATION | COMPLIANCE | REASONS FOR NON-COMPLIANCE |
|---------------|---|---|--|
| 2.1 | A majority of the Board should be independent directors. | Currently, Atlas has two independent and three non-independent Directors. | The Board considers that the current composition of the Board is appropriate in the context of the size of the Board and the Company and the scope and scale of the Company's operations. Further, the Company considers that each of the non-independent Directors possess skills and experience suitable for building the Company. The Board may consider the appointment of independent Directors if deemed appropriate in future. |
| 2.2 | The Chair should be an independent Director. | Currently, Atlas has a non-independent Chair. | The Board considers that the non-independent Chair possesses skills and experience suitable for leading the Board and considers a non-independent Chair to be appropriate in the context of the Company's operations. Mr Birkbeck brings specific skills and industry experience relevant to the Company. The Board may consider the appointment of an independent Director as the Chair if deemed appropriate in future. |
| 2.3 | The role of Chair and CEO should not be exercised by the same individual. | Currently, Atlas' Chair also fulfils the role of CEO. | The Board considers Mr Birkbeck brings specific skills and industry experience relevant to the Company and considers a Chair/CEO to be appropriate in the context of the Company's operations and the size of the Board and the Company. The Board may consider splitting the role of Chairman and CEO/Managing Director if deemed appropriate in future. |
| 2.4 | The Board should establish a nomination committee. | The Board has not established a nomination committee. The role of the nomination committee is carried out by the full Board. | Given the present size of the Company and the Board, the whole Board acts as a nomination committee. The Board believes no efficiencies or other benefits could be gained by establishing a separate Nomination Committee. However, it is noted the Board has adopted a Nomination Committee Charter. |
| 2.5 | Companies should disclose the process for evaluating the performance of the Board, its committee and individual Directors. | The Board did not undertake a formal process for the evaluation of the board, individual Directors or committees during the financial year. | The Board plans to undertake a formal process process for evaluating the performance of the Board, its committees and individual Directors in the coming financial year following the review of the Company's corporate governance policies and procedures in line with the third edition of the Corporate Governance Principles and Recommendations. |
| 3.2 | Companies should establish a diversity policy and include measurable objectives for achieving gender diversity for the Board to assess annually both the objectives and progress in achieving them. | The Board has not adopted a formal diversity policy. | Given the present size of the Company, the Board has not adopted a Diversity Policy. The Board believes no efficiencies or other benefits could be gained by establishing a formal Diversity Policy. The Board will consider the adoption of a formal Diversity Policy if deemed appropriate in future given the size of the Company, the Board, the workforce and the activities of the Company. It is noted that the Company recognises the benefits arising from employee and Board diversity, including a broader pool of high quality employees, improving employee retention, accessing different perspectives and ideas and benefiting from all available talent. |
| 3.3 | Companies should disclose achievement of measurable objectives for gender diversity. | Given the size of the Company, no measurable objectives for achieving gender diversity have been set. | Whilst no measurable objectives have been set for achieving gender diversity, the Company has disclosed in this Annual Report the proportion of women employees in the Company, in senior executive positions and on the Board. The Board will consider the setting of measurable objectives for achieving gender diversity as the size of the Company, Board, workforce and the activity of the Company increase. |

DIRECTORY

DIRECTORS

Stephen Paul Birkbeck, Joseph James Uel Taylor B.Sc. (Biology), Ph.D, Geoff Newman B.Ec (Hons), M.B.A, F.C.P.A, F.A.I.C.D.
Timothy James Martin B.Arts, M.B.A, G.A.I.C.D., Stephen Arrow and Nelson Rocher.

COMPANY SECRETARIES

Susan Hunter B.Com, ACA, F Fin, G.A.I.C.D, A.C.I.S, A.C.S.A.
and Stephen Gleeson B.BUS, CPA

REGISTERED OFFICE

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Website: www.AtlasPearlsAndPerfumes.com.au
E-mail: atlas@atlaspearlsandperfumes.com.au

AUDITORS

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

INVESTOR RELATIONS

Bourse Communications Pty Ltd. Suite 104, 22 St. Kilda Rd, St Kilda VIC 3182

TAX ADVISERS

BDO Tax (WA) Pty Ltd. 38 Station Street Subiaco WA 6008

BANKERS

Commonwealth Bank of Australia.
150 St Georges Terrace Perth Western Australia 6000

SHARE REGISTRY

Computershare (WA) Pty Ltd .
Level 2, 45 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

PERTH, SHOWROOM AND HEADQUARTERS

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T: (08) 9284 4249 E: Atlas@AtlasPearlsAndPerfumes.com.au

BALI SHOWROOM, SEMINYAK

Jalan Raya Seminyak No. 73, Seminyak, Bali

BALI SHOWROOM, GRAND HYATT HOTEL

Grand Hyatt Hotel, BTDC Nusadua, Nusa Dua, Bali

BALI SHOWROOM, SANUR

Jalan Danau Tamblingan, No. 121, Denpasar Bali

BALI SHOWROOM, JIMBARAN

Jimbaran Corner Blok A17, Jalan Bukit Permai, Banjar Pesalakan, Jlmbaran, 80361 Bali

PEARL FARMS AND SHOWROOMS*

ALYUI* S00 11.624 E130 15.905

LEMBATA S08 22.145 E123 33.204

ALOR S08 14.884 E124 30.204

PUNGGU* S08 31.260 E119 47.631

NORTH BALI S08 09.290 E114 43.640

CORPORATE WEBSITE: AtlasPearlsAndPerfumes.com.au

ESSENTIAL OILS OF TASMANIA WEBSITE: EOTasmania.com.au

SHOP ONLINE: ShopAtlas.com.au

Make the most of your Atlas experience by contacting us
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