

Atlas Pearls: Funding Update

Atlas Pearls Ltd (ASX: ATP) (“Atlas” or “the Company”) today announces an update in the Company’s funding arrangements in place with Boneyard Investments Pty Ltd (“Boneyard”) under the loan arrangements announced to ASX on 30 January 2017 and varied on 28 June 2017 (“the Existing Loan Agreement”). Boneyard is an entity associated with Tim Martin, a Non-executive Director of Atlas.

Atlas is pleased to advise that it has entered into a new loan agreement with Boneyard (“New Loan Agreement”), which agreement replaces the Existing Loan Agreement and pursuant to which agreement, Boneyard has agreed to make a revolving loan facility (“Facility”) available to Atlas. The aggregate of all loans provided by Boneyard under the Facility will be an amount equal to \$4.5m, being the \$2.5m loan outstanding under the Existing Loan Agreement as well as an additional loan in the amount of \$2m.

The material terms of the New Loan Agreement are:

- loans provided under the Facility will bear interest at the rate of 7.5% per annum (which is identical to the interest provisions under the Existing Loan Agreement);
- repayment of any loans outstanding under the Facility as at 31 March 2021 are scheduled equally over four tranches commencing on 31 March 2021, with the last tranche due for repayment on 30 September 2022.
- any amounts repaid by Atlas prior to 31 March 2021 may be re-borrowed under the Facility up to a limit of \$4.5m;
- all loans provided under the Facility will be secured under the existing general security deed (“General Security Deed”) in place between Atlas and Boneyard, which document currently secures the loans provided to Atlas under the Existing Loan Agreement; and
- subject to shareholder approval, all outstanding loans and interest under the New Loan Agreement will be convertible into shares in Atlas in the event Atlas defaults on its repayment terms, with conversion being at Boneyard’s option (“Convertibility Provisions”). In that event, the conversion price per share will be at a 15% discount to the most recent 30 day VWAP.

The Company wishes to advise that it has been granted a waiver of ASX Listing Rule 10.1 (“Waiver”), which Waiver will allow the Company, without obtaining shareholder approval under ASX Listing Rule 10.1, to grant a second ranking security over its assets (“Security”) pursuant to the General Security Deed to secure the Company’s obligations in respect of the additional \$2m loan provided by Boneyard under the Facility. The Company sought the Waiver at the request of Boneyard so that the Security could be granted before shareholder approval is sought. The key terms of the Waiver (which are on customary terms) are set out in the annexure to this announcement.

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

The Board of Atlas has accepted the offer of the Facility by Boneyard after investing significant time and effort in seeking a solution to the effect of COVID-19 on the Company’s distribution network. In the current circumstances, and given the amounts Atlas already owed to Boneyard (under the Existing Loan Agreement) and to its other debt financiers, the Board of Atlas believes that Atlas is unlikely to secure the required funding on equal or better terms (including the interest payment obligations) from any third party.

In agreeing to provide the Facility under the terms of the New Loan Agreement, Boneyard has also agreed to defer the repayment date of the outstanding loans owed to Boneyard under the Existing Loan Agreement. As a result, the repayment deferment of the existing loans together with the additional loan provided to the Company under the Facility will not only enable the Company to continue as a going concern but will also provide to Atlas urgently needed working capital to proceed with the working capital requirements of the

Company while it continues to seek a combination of new distribution networks and the pearling industry recovers from the effects of COVID-19.

In view of the above, the Board of Atlas is satisfied that the transaction between Atlas and Boneyard under the New Loan Agreement is on arm's length terms and is fair, reasonable and in the best interest of the shareholders of Atlas.

This announcement was approved for release by the Board of Atlas Pearls Ltd.

Investor and Media Queries:

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ABOUT ATLAS PEARLS LTD

Atlas Pearls Ltd (ASX: ATP) is an Australian listed pearling business with core operations in Indonesia established in 1992. Atlas has earned an enviable reputation as a world leading pearl producer of "the queen of all gems", the South Sea pearl, specialising in high quality white and silver pearls. Atlas operates pearl farms spread across the Indonesian archipelago, including Bali, Flores, and West Papua. Atlas is a fully integrated business including hatchery, seeding, harvesting, grading, trading, design and manufacturing capabilities to sell directly to customers through wholesale partners and via its retail outlets.

Atlas has been involved since its inception in managing active community relationships in Indonesia in the areas of environment protection, education and alternative livelihood programs.

Annexure – Key terms of Waiver

The Waiver is subject to the following conditions:

- (a) the Company must release to the market an announcement which sets out the material terms of the Waiver as well as the material terms of the loan transaction between the Company and Boneyard (ie the New Loan Agreement);
- (b) the announcement to the market must include a description of the reasons why Atlas has chosen to enter into the Facility with Boneyard rather than a lender that is not a party to which Listing Rule 10.1 applies and the steps the Board of the Company has taken to satisfy itself that the transaction is being entered into on arm's length terms and is fair and reasonable from the perspective of the shareholders of the Company;
- (c) the security documents (ie the General Security Deed) must expressly provide that:
 - i) the Security is limited to the funds due under the Facility;
 - ii) the Security will be discharged when the funds due under the Facility have been repaid in full;
 - iii) in the event the Security is enforced, the assets can only be disposed of to Boneyard or an associate of Boneyard if the disposal is first approved by the shareholders of Atlas under Listing Rule 10.1; and
 - iv) otherwise, if Boneyard exercises, or appoints a receiver, receiver and manager or analogous person to exercise any power of sale under the Security, the assets must be sold to an unrelated third party on arm's length commercial terms and the net proceeds of sale distributed to Boneyard in accordance with their legal entitlements;
- (d) any variation to the terms of the Facility or the Security which:
 - i) advantages Boneyard in a material respect;
 - ii) disadvantages the Company in a material respect; or
 - iii) is inconsistent with the terms of the Waiver,must be subject to shareholder approval under Listing Rule 10.1; and
- (e) for each year while they remain on foot, a summary of the material terms of the Facility and the Security is included in the related party disclosures in the Company's audited annual accounts.