

For personal use only



# ATLAS

PEARLS

INTERIM FINANCIAL REPORT

ABN 32 009 220 053 • 31 DECEMBER 2020

# CONTENTS

Directors' Report	3.
Auditors Independence Declaration	6.
Consolidated Statement of Profit or Loss & Other Comprehensive Income	7.
Consolidated Statement of Financial Position	8.
Consolidated Statement of Changes in Equity	9.
Consolidated Statement of Cashflows	10.
Notes to the Consolidated Financial Statements	11.
Directors' Declaration	21.
Independent Review Report	22.

# DIRECTORS' REPORT

Your Directors present their report on the consolidated entity consisting of Atlas Pearls Ltd and the entities it controlled at the end of, or during, the half year ended 31 December 2020, referred to hereafter as, the Company, the Group or Atlas Pearls.

## 1. Directors

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

NAME	PERIOD OF DIRECTORSHIP
<b>Geoff Newman</b> , Executive Chairman B. Ec (Hons), M.B.A, F.C.PA, F.A.I.C.D	Director since 15 October 2010 Appointed Chairman 16 February 2015 Appointed Executive Chairman 19 September 2020
<b>Timothy Martin</b> , Non-Executive Director BA, M.B.A, G.A.I.C.D	Director since 4 February 2013
<b>Cadell Buss</b> , Independent Non-Executive Director M.B.A, G.A.I.C.D	Director since 1 February 2018

## 2. Review of Operations

### 2.1. REVIEW OF OPERATIONS

#### 2.2.1. PEARLING

During the financial year ended 2020 the Company introduced disciplined standard operating procedures. This, in addition to the new 24-month cultivation period necessitated through COVID-19, has resulted in improvements in overall pearl quality and size.

On 3 December 2020, Volcano L1e Lewotolok in Lembata, East Nusa Tenggara erupted. This volcano is located near to one of the Company's two hatchery locations. The full effects of this volcanic eruption are unknown, but the hatchery has observed higher than usual failed spawning and initial health checks have shown those growing closest to the volcano have not survived. The mortalities are immaterial to the Groups overall biomass. Mature shells have been moved to alternate farm sites to reduce any further mortalities until the full effects on the water quality can be assessed. Immature shells in 'high risk' areas have been moved to the other side of the bay, away from the eruption zone.

The Company's ability to continue its shell breeding program, maintain the health and wellbeing of its employees and successfully harvest and deliver pearls worldwide despite all the challenges of the past 12 months is a testament to the dedication of its employees and is pivotal to its long-term success.

#### 2.2.2. PEARLING VALUE ADDED

Travel restrictions that resulted from COVID-19 required the Company to seek alternate distribution channels. During the six months ending 31 December 2020, the Company launched its first online auction. At report date, the Company has successfully run four online auctions (November 20, December 20, January 21, and February 21) and has observed positive outcomes.

It is pleasing to witness the evolution of the pearl market in this manner and the support of customers through this process is valued and reflects the confidence in our product offering. Atlas will continue to explore alternative distribution channels to better service our clients' needs.

The international pearl market conditions remain challenging, with selling prices remaining stagnant in most sections – however, some markets are beginning to show signs of improvement and Atlas remains optimistic.

# DIRECTORS' REPORT

## 3. Financial Result

The Group net loss for the period ended 31 December 2020 is (\$744k), compared to \$1.17M profit in the prior year comparative period.

To give a better picture of the underlying performance, Atlas has adopted Normalised Earnings before interest, taxes, depreciation, amortisation (Normalised EBITDA) as a more effective way to report comparative results.

	6 MONTHS ENDED 31 DEC 20	6 MONTHS ENDED 31 DEC 19
Total revenue from contracts with customers	6,826,155	7,774,109
Profit/(loss) from continuing operations after tax	(744,208)	1,171,074
Normalised earnings before interest, taxes, depreciation and amortisation (Normalised EBITDA)	502,850	572,727

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

	6 MONTHS ENDED 31 DEC 20	6 MONTHS ENDED 31 DEC 19
Profit / (Loss) for the Half Year	(744,208)	1,171,073
Net Forex (gain)/loss	565,649	(345,824)
Net Interest	226,625	157,041
Depreciation/Amortisation	237,573	288,445
Income tax charge/(refund)	668,639	869,274
Other non-operating (income)/expense	33,979	15,234
Derivative instruments loss/(gain) unrealised	14,075	(17,122)
Revaluation of Biological Assets and Inventory	(499,482)	(1,565,394)
<b>NORMALISED EBITDA</b>	<b>502,850</b>	<b>572,727</b>

# DIRECTORS' REPORT

---

## 3.1 FINANCIAL POSITION

Cash reserves have increased to \$2.0M (30 June 2020 - \$0.7M) at 31 December 2020. The Company remains focused on improving overall harvest quality and realigning our distribution channels closer to our end consumers. Whilst harvest results are starting to show signs of improvement, market conditions are having adverse impacts on pricing and currency translation.

Oyster asset values have decreased to \$12.2M during the six months ended 31 December 2020 (\$12.8M 30 June 2020). The quantity of oysters on hand has increased from 2.6M shells at June 2020 to 2.7M shells at December 2020. The weight of pearls harvested as well as the proportion of sellable pearls has improved only slightly on results observed during FY20.

The number of pearls on hand has increased from 122,565 at 30 June 2020 to 152,249 at 31 December 2020. The net realisable value has decreased from \$1.3M at 30 June 2020 to \$0.7M at 31 December 2020.

Jewellery inventory has decreased from \$0.44M at 30 June 2020 to \$0.31M at 31 December 2020.

Borrowings have increased by \$2.3M from \$4.6M at 30 June 2020 to \$6.9M at 31 December 2020. The increase in borrowings is due to additional funding received from Boneyard. Refer to note 8 for further details.

The Company's net tangible assets per share are \$0.026 as at 31 December 2020 which has decreased from the position at 30 June 2020 (\$0.032). The number of shares on issue remains unchanged at 427,871,758 (30 June 2020 - 427,871,758).

## 4. *Auditor's Independence Declaration*

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 6. Signed in accordance with a resolution of the Directors.



Geoff Newman Executive Chairman  
26 February 2021



Tel: +61 8 6382 4600  
Fax: +61 8 6382 4601  
www.bdo.com.au

38 Station Street  
Subiaco, WA 6008  
PO Box 700 West Perth WA 6872  
Australia

## DECLARATION OF INDEPENDENCE BY JARRAD PRUE TO THE DIRECTORS OF ATLAS PEARLS LIMITED

As lead auditor for the review of Atlas Pearls Limited for the half-year ended 31 December 2020, I declare that, to the best of my knowledge and belief, there have been:

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

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

**Jarrad Prue**

**Director**

**BDO Audit (WA) Pty Ltd**

Perth, 26 February 2021

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS & OTHER COMPREHENSIVE INCOME

	NOTES	6 MONTHS ENDING 31 DEC 20 \$	6 MONTHS ENDING 31 DEC 19 \$
Revenue from contracts with customers	3	6,826,155	7,774,109
Cost of goods sold		(4,558,216)	(4,376,958)
<b>GROSS PROFIT</b>		<b>2,267,939</b>	3,397,151
Other income	3	444,560	616,029
Administration expenses	5	(2,075,148)	(2,635,920)
Finance costs		(228,590)	(183,807)
Marketing expenses		(120,306)	(131,917)
Change in fair value less husbandry costs of oysters	4	499,481	1,751,877
Write-off of pearl and jewellery costs		-	(186,483)
Other expenses	5	(863,505)	(586,582)
<b>PROFIT/(LOSS) BEFORE INCOME TAX</b>		<b>(75,569)</b>	2,040,348
Income tax expense		(668,639)	(869,274)
<b>PROFIT/(LOSS) AFTER INCOME TAX FOR THE PERIOD</b>		<b>(744,208)</b>	1,171,074
<b>OTHER COMPREHENSIVE INCOME/(LOSSES)</b>			
Items that will be reclassified as profit or loss:			
Exchange differences on translation of foreign operations		(1,590,886)	340,234
<b>OTHER COMPREHENSIVE INCOME/(LOSSES) FOR THE PERIOD, NET OF TAX</b>		<b>(1,590,886)</b>	340,234
<b>TOTAL COMPREHENSIVE INCOME/(LOSSES) FOR THE PERIOD</b>		<b>(2,335,094)</b>	1,511,308
<b>PROFIT/(LOSS) ATTRIBUTABLE TO:</b>			
<b>OWNERS OF THE COMPANY</b>		<b>(2,335,094)</b>	1,511,308
<b>TOTAL COMPREHENSIVE INCOME/(LOSSES) ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>		<b>(2,335,094)</b>	1,511,308
Overall operations:			
<b>EARNINGS PER SHARE FOR PROFIT/(LOSS) ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE COMPANY</b>			
Basic earnings profit/(loss) per share (cents)	6	(0.18)	0.28
Diluted earnings per share (cents)	6	-	0.26

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

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTE	31 DEC 2020 \$	30 JUN 2020 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		2,041,838	718,302
Trade and other receivables		596,548	358,361
Inventories	7	1,043,737	1,718,211
Biological assets	4	7,346,072	5,410,284
<b>TOTAL CURRENT ASSETS</b>		<b>11,028,195</b>	<b>8,205,158</b>
<b>NON-CURRENT ASSETS</b>			
Intangible Assets		142,233	173,410
Biological assets	4	4,810,846	7,373,444
Property, plant and equipment		5,026,406	5,288,247
Right-of-use assets		423,463	569,603
Deferred tax assets		497,539	689,873
<b>TOTAL NON-CURRENT ASSETS</b>		<b>10,900,487</b>	<b>14,094,577</b>
<b>TOTAL ASSETS</b>		<b>21,928,682</b>	<b>22,299,735</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		678,599	927,393
Provisions		2,094,589	2,260,371
Borrowings	8	4,423,179	4,268,989
Lease Liabilities		121,174	269,203
Derivative instruments		14,075	-
Current tax liabilities		515,169	393,200
<b>TOTAL CURRENT LIABILITIES</b>		<b>7,846,785</b>	<b>8,119,156</b>
<b>NON-CURRENT LIABILITIES</b>			
Borrowings	8	2,496,539	313,631
Lease Liabilities		51,800	-
Deferred tax liabilities		117,196	116,657
Provisions		110,043	108,747
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>2,775,578</b>	<b>539,035</b>
<b>TOTAL LIABILITIES</b>		<b>10,622,363</b>	<b>8,658,191</b>
<b>NET ASSETS</b>		<b>11,306,319</b>	<b>13,641,544</b>
<b>EQUITY</b>			
Contributed equity		36,857,415	36,857,415
Reserves		(9,378,987)	(7,787,970)
Accumulated losses		(16,172,109)	(15,427,901)
<b>TOTAL EQUITY</b>		<b>11,306,319</b>	<b>13,641,544</b>

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



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	ATTRIBUTABLE TO THE OWNERS OF ATLAS						TOTAL EQUITY
	NOTE	CONTRIBUT- ED EQUITY	REVAL- UATION RESERVE	SHARE BASED PAYMENTS	FOREIGN CURRENCY TRANSLATION RESERVE	(ACCUMULAT- ED LOSS)	
		\$	\$	\$	\$	\$	
<b>BALANCES AT 1 JULY 2020</b>		<b>36,857,415</b>	<b>179,179</b>	<b>911,215</b>	<b>(8,878,364)</b>	<b>(15,427,901)</b>	<b>13,641,544</b>
<b>LOSS FOR THE PERIOD</b>		-	-	-	-	<b>(744,208)</b>	<b>(744,208)</b>
Exchange differences on translation of foreign operations		-	-	-	<b>(1,590,886)</b>	-	<b>(1,590,886)</b>
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD</b>		-	-	-	<b>(1,590,886)</b>	<b>(744,208)</b>	<b>(2,335,094)</b>
Employee share scheme		-	-	<b>(131)</b>	-	-	<b>(131)</b>
<b>BALANCE AT 31 DECEMBER 2020</b>		<b>36,857,415</b>	<b>179,179</b>	<b>911,084</b>	<b>(10,469,250)</b>	<b>(16,172,109)</b>	<b>11,306,319</b>
<b>BALANCES AT 1 JULY 2019</b>		<b>36,857,415</b>	<b>179,179</b>	<b>873,267</b>	<b>(8,810,933)</b>	<b>(7,189,393)</b>	<b>21,909,535</b>
<b>PROFIT FOR THE PERIOD</b>		-	-	-	-	1,171,074	1,171,074
Exchange differences on translation of foreign operations		-	-	-	340,234	-	340,234
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD</b>		-	-	-	340,234	1,171,074	1,511,308
<b>TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS</b>							
Adjustment from the adoption of AASB 16		-	-	-	-	(161,680)	(161,680)
<b>BALANCE AT 1 JULY 2019 - RESTATED</b>		<b>36,857,415</b>	<b>179,179</b>	<b>873,267</b>	<b>(8,810,933)</b>	<b>(7,351,073)</b>	<b>21,747,855</b>
Employee share scheme		-	-	14,056	-	-	14,056
<b>BALANCE AT 31 DECEMBER 2019</b>		<b>36,857,415</b>	<b>179,179</b>	<b>887,323</b>	<b>(8,470,699)</b>	<b>(6,180,000)</b>	<b>23,273,219</b>

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

# CONSOLIDATED STATEMENT OF CASH FLOW

	6 MONTHS ENDING 31 Dec 20 \$	6 MONTHS ENDING 31 Dec 19 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Proceeds from pearl, jewellery and oyster sales	<b>6,065,430</b>	7,145,819
Proceeds from other operating activities	<b>793,032</b>	644,132
Payments to suppliers and employees	<b>(6,782,917)</b>	(8,212,372)
Income tax (paid)	<b>(289,037)</b>	(159,643)
Interest paid	<b>(212,668)</b>	(125,958)
Interest received	<b>1,965</b>	26,766
Net cash (used) in operating activities	<b>(424,195)</b>	(681,256)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payments for property, plant and equipment	<b>(634,120)</b>	(615,476)
Acquisition of subsidiary PT Disthi Mutiara Suci	-	(129,321)
Net cash (used) in investing activities	<b>(634,120)</b>	(744,797)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Net repayment of borrowings	<b>(1,136,566)</b>	(1,018,422)
Proceeds from borrowings	<b>3,615,269</b>	3,633,113
Repayment of the lease liabilities	<b>(184,454)</b>	(246,983)
Net cash provided by financing activities	<b>2,294,249</b>	2,367,708
Net increase in cash and cash equivalents	<b>1,235,934</b>	941,606
Cash and cash equivalents at the beginning of the period	<b>718,302</b>	1,017,220
Effects of exchange rate changes on cash and cash equivalents	<b>87,602</b>	(587,269)
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL PERIOD</b>	<b>2,041,838</b>	1,371,556

# NOTES TO & FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. *Basis of Preparation*

### 1.1. BASIS OF PREPARATION OF HALF YEAR REPORT

The consolidated financial report for the half year reporting period ended 31 December 2020 has been prepared in accordance with the *Corporations Act 2001* and the Australian Accounting Standard *AASB 134 Interim Financial Reporting*.

The half year consolidated financial report does not include all notes normally included in the annual financial report. Accordingly, this report should be read in conjunction with the annual report for the period ended 30 June 2020 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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

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

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

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

### 1.2. CRITICAL ACCOUNTING ESTIMATES

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

Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) Pandemic has had, or may have, on the Company based on known information. This consideration extends to the nature of products offered, customers, supply chain and employees. Other than as addressed in specific notes, there does not appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the Company unfavorably at the reporting date or subsequently as a result of the Coronavirus (COVID-19) Pandemic.

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

- (a) Determination of market value of biological assets
- (c) Recoverability of deferred tax assets

### 1.3. GOING CONCERN

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

The net profit loss after tax for the Group for the period ended 31 December 2020 is (\$744k) (30 December 2019: profit of \$1.12M). At 31 December 2020 the Group has a working capital balance of \$1.1M (30 June 2020: (\$0.6M) deficit); \$7.4M (30 June 2020: \$5.4M) of this balance comprised of current unharvested oysters.

On 27 August 2020, the Group entered into a new loan agreement with Boneyard Investments Pty Ltd (Boneyard) which replaced its Existing Loan Agreement and pursuant to which agreement, Boneyard has agreed to make a revolving loan facility available to Atlas. The balance of the loan provided by Boneyard, as at 31 December 2020 is \$4.5M, being the \$2.5M loan outstanding under the Existing Loan Agreement as well as an additional loan in the amount of \$2M. Repayments are scheduled equally over four tranches commencing on 31 March 2021, with the last tranche due for repayment on 30 September 2022.

On 26 February 2021, Boneyard agreed to a new repayment schedule, with the first tranche delayed from 31 March 2021 until 30 June 2021.

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

- the international market for wholesale loose white South Sea pearls continuing to show signs of recovery post COVID-19,
- the quality of harvested pearls meeting valuation expectations, and
- the Group achieving profitable operations with positive operating cash flows.

The COVID-19 pandemic announced by the World Health Organisation (WHO) continues to have a negative impact on world stock markets, currencies, and general business activity. There are still many uncertainties, at report date the impact of the pandemic is still ongoing and the possibility of further waves and imposed Government restrictions remain unclear making it impractical to reliably measure any future impact to the Groups financial performance.

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

The Directors have reasonable grounds to believe that the Group will continue as a going concern due to the realisation of sales through alternate distribution channels, such as the online auction system and improvements in pearl quality. The support of its major lender and the deferral of the first repayment will also provide the Company with sufficient working capital.

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

## 2. Segment Reporting

### 2.1. SEGMENT INFORMATION PROVIDED TO THE BOARD OF DIRECTORS AND MANAGEMENT TEAM

i. The segment information provided to the Board of Directors and management team for the reportable segments for the period ended 31 December 2020 is as follows:

31 DECEMBER 2020	WHOLESALE LOOSE PEARLS		TOTAL
	AUSTRALIA \$	INDONESIA \$	\$
Total segment revenue	6,225,674	8,557,694	14,783,368
Inter-segment revenue	-	(7,957,213)	(7,957,213)
<b>REVENUE FROM EXTERNAL CUSTOMERS</b>	<b>6,225,674</b>	<b>600,481</b>	<b>6,826,155</b>
<b>TIMING OF REVENUE RECOGNITION</b>			
At a point in time	6,225,674	600,481	6,826,155
Over time	-	-	-
	<b>6,225,674</b>	<b>600,481</b>	<b>6,826,155</b>
<b>NORMALISED EBITDA</b>	<b>(910,770)</b>	<b>1,411,412</b>	<b>500,641</b>
<b>ADJUSTED NET OPERATING PROFIT/(LOSS) BEFORE INCOME TAX</b>	<b>(1,318,490)</b>	<b>1,323,165</b>	<b>4,675</b>
<b>TOTAL SEGMENT ASSETS</b>			
<b>31 DECEMBER 2020</b>	<b>2,214,560</b>	<b>19,216,009</b>	<b>21,430,569</b>
30 June 2020	1,054,485	20,177,948	21,609,257
<b>TOTAL SEGMENT LIABILITIES</b>			
<b>31 DECEMBER 2020</b>	<b>(520,457)</b>	<b>(2,376,849)</b>	<b>(2,897,306)</b>
30 June 2020	(601,255)	(2,681,089)	(3,296,511)

ii. The segment information provided to the Board of Directors and management team for the reportable segments for the period ended 31 December 2019 is as follows:

31 DECEMBER 2019	WHOLESALE LOOSE PEARLS		TOTAL
	AUSTRALIA \$	INDONESIA \$	\$
Total segment revenue	6,847,194	6,931,682	13,778,876
Inter-segment revenue	-	(6,011,061)	(6,011,061)
<b>REVENUE FROM EXTERNAL CUSTOMERS</b>	<b>6,847,194</b>	<b>920,621</b>	<b>7,767,815</b>
<b>TIMING OF REVENUE RECOGNITION</b>			
At a point in time	6,847,194	920,621	7,767,815
Over time	-	-	-
	<b>6,847,194</b>	<b>920,621</b>	<b>7,767,815</b>
<b>NORMALISED EBITDA</b>	<b>615,753</b>	<b>(43,026)</b>	<b>572,727</b>
<b>ADJUSTED NET OPERATING PROFIT/(LOSS) BEFORE INCOME TAX</b>	<b>256,054</b>	<b>94,048</b>	<b>112,006</b>
<b>TOTAL SEGMENT ASSETS</b>			
<b>31 DECEMBER 2019</b>	<b>2,385,739</b>	<b>28,357,748</b>	<b>30,743,487</b>
30 June 2019	1,551,496	25,297,591	26,849,086
<b>TOTAL SEGMENT LIABILITIES</b>			
<b>31 DECEMBER 2019</b>	<b>(783,495)</b>	<b>(2,355,048)</b>	<b>(3,138,543)</b>
30 June 2019	(1,897,787)	(2,289,635)	(4,187,422)

## 2.2. OTHER SEGMENT INFORMATION

### (i) Adjusted net operating profit

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

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

	6 MONTHS ENDING 31 DEC 2020 \$	6 MONTHS ENDING 31 DEC 2019 \$
<b>NET OPERATING PROFIT/(LOSS) BEFORE TAX</b>	<b>4,675</b>	112,006
Changes in fair value of biological assets	<b>499,481</b>	1,565,394
Foreign exchange gains	<b>227,181</b>	572,141
Foreign exchange losses	<b>(792,830)</b>	(226,317)
Other	<b>(14,076)</b>	17,124
<b>PROFIT/(LOSS) BEFORE INCOME TAX FROM CONTINUING OPERATIONS</b>	<b>(75,569)</b>	2,040,348

### (ii) Segment Assets

Assets are allocated based on the operations of the segment and the physical location of the asset. Reportable segments' assets are reconciled to total assets as follows:

	31 DEC 2020 \$	30 JUN 2020 \$
<b>SEGMENT ASSETS</b>	<b>21,430,569</b>	21,609,257
Unallocated:		
Joint Venture Loans	<b>574</b>	605
Deferred tax assets	<b>497,539</b>	689,873
<b>TOTAL ASSETS AS PER THE STATEMENT OF FINANCIAL POSITION</b>	<b>21,928,682</b>	22,299,735

The total of non-current assets other than financial instruments and deferred tax assets located in Australia is \$791,261 (30 June 2020: \$941,927). The total located in Indonesia is \$9,313,481 (30 June 2020: \$14,468,195).

### (iii) Segment Liabilities

Liabilities are allocated based on the operations of the segment and the physical location of the asset. Reportable segments' liabilities are reconciled to total liabilities as follows:

	31 DEC 2020 \$	30 JUN 2020 \$
<b>SEGMENT LIABILITIES</b>	<b>2,897,306</b>	3,296,511
Unallocated:		
Current tax liabilities	<b>515,169</b>	393,200
Borrowings	<b>6,919,718</b>	4,582,620
Lease Liabilities	<b>172,974</b>	269,203
Deferred tax liabilities	<b>117,196</b>	116,657
<b>TOTAL LIABILITIES AS PER THE STATEMENTS OF FINANCIAL POSITION</b>	<b>10,622,363</b>	8,658,191

### 3. Revenue from contracts with customers

#### 3.1. REVENUE FROM CONTRACTS WITH CUSTOMERS

	6 MONTHS ENDING 31 DEC 2020 \$	6 MONTHS ENDING 31 DEC 2019 \$
<b>SALES REVENUE</b>		
Sale of goods	6,826,155	7,767,815
<b>TOTAL REVENUE FROM CONTRACTS WITH CUSTOMERS</b>	<b>6,826,155</b>	<b>7,767,815</b>

#### 3.2. OTHER INCOME

	6 MONTHS ENDING 31 DEC 2020 \$	6 MONTHS ENDING 31 DEC 2019 \$
Foreign exchange gains	227,181	572,141
Grant Funds	198,866	-
Gain on derivative financial instruments	-	17,122
Interest income	1,965	26,766
Other income	16,548	6,294
<b>TOTAL OTHER INCOME</b>	<b>444,560</b>	<b>622,323</b>

### 4. Biological Assets

	31 DEC 2020 \$	30 JUN 2020 \$
<b>CURRENT</b>		
Oysters - at fair value	7,346,072	5,410,284
<b>TOTAL CURRENT BIOLOGICAL ASSETS</b>	<b>7,346,072</b>	<b>5,410,284</b>
<b>NON-CURRENT</b>		
Oysters - at fair value	4,810,847	7,373,444
<b>TOTAL CURRENT BIOLOGICAL ASSETS</b>	<b>4,810,847</b>	<b>7,373,444</b>
<b>TOTAL BIOLOGICAL ASSETS</b>	<b>12,156,919</b>	<b>12,783,728</b>

During the six months ended 31 December 2020, no significant events occurred which impacted on oyster mortalities.

There is a fair value adjustment uplift of \$0.5M at 31 December 2020 as a result of the oyster valuation review conducted. Whilst harvest results are starting to show signs of improvements market conditions are having adverse impacts on pricing and currency translation.

#### SIGNIFICANT JUDGEMENT

Fair value should reflect market participant views and market data at the measurement date under current market conditions. The valuation of oysters contains both observable and unobservable inputs impacted by COVID-19. Looking ahead, the impact of COVID-19 on the global economy and financial markets is expected to continue to evolve. The Group carefully considered these impacts when assessing the fair value of oyster stocks.

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

5.1. **ADMINISTRATION EXPENSES FROM ORDINARY ACTIVITIES**

	6 MONTHS ENDING 31 DEC 2020 \$	6 MONTHS ENDING 31 DEC 2019 \$
Salaries and wages	1,307,720	1,620,862
Depreciation property, plant and equipment	60,255	125,682
Depreciation on right-of-use assets	146,140	123,509
Amortisation of intangible assets	31,177	39,254
Occupancy costs	36,689	113,763
Compliance and accounting	174,029	183,899
Travel	45,742	127,347
Other	273,396	301,605
<b>TOTAL ADMINISTRATION EXPENSES</b>	<b>2,075,148</b>	<b>2,635,920</b>

5.2. **OTHER EXPENSES**

	6 MONTHS ENDING 31 DEC 2020 \$	6 MONTHS ENDING 31 DEC 2019 \$
Loss on foreign exchange	792,830	226,317
Loss on derivative financial instruments	14,075	-
Provision for employee entitlements	52,047	48,255
Share option expense	(132)	14,056
Loss on disposal of property, plant and equipment	-	244,557
Other	4,685	53,397
<b>TOTAL OTHER EXPENSES</b>	<b>863,505</b>	<b>586,582</b>

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

	31 DEC 2020 \$	31 DEC 2019 \$
Basic earnings/(loss) per share (cents per share)	(0.18)	0.28
Diluted earnings per share (cents per share)	-	0.26



## 6.1. EARNINGS RECONCILIATION

	6 MONTHS ENDING 31 DEC 2020 \$	6 MONTHS ENDING 31 DEC 2019 \$
Net profit/(loss) used for basic earnings	(744,208)	1,171,074
After tax effect of dilutive securities	-	-
<b>DILUTED EARNINGS/(LOSS)</b>	<b>(744,208)</b>	<b>1,171,074</b>

	31 DEC 2020 No.	31 DEC 2019 No.
Weighted average number of ordinary shares outstanding during the period used for calculation of basic earnings per share	424,809,620	424,809,620
Adjustments for calculation of diluted earnings per share: options	17,448,777	17,596,165
<b>WEIGHTED AVERAGE NUMBER OF POTENTIAL ORDINARY SHARES OUTSTANDING DURING THE PERIOD USED FOR CALCULATION OF DILUTED EARNINGS PER SHARE</b>	<b>442,258,397</b>	<b>442,405,785</b>

Diluted earnings per share is calculated after taking into consideration all options and any other securities that were on issue that remain unconverted at 31 December 2020 as potential ordinary shares which may have a dilutive effect on the profit of the Consolidated Group.

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

## 7. Inventories

	31 DEC 2020 \$	30 JUN 2020 \$
<b>CURRENT</b>		
Pearls	733,088	1,281,225
Jewellery	310,649	436,985
<b>TOTAL CURRENT INVENTORY</b>	<b>1,043,737</b>	<b>1,718,210</b>

### SIGNIFICANT JUDGEMENT

Pearl inventory is held at the lower of cost or 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.

## 8. Borrowings

	31 DEC 2020 \$	30 JUN 2020 \$
<b>CURRENT</b>		
Other loans	3,253,231	4,268,989
Bank loans	1,169,948	-
<b>TOTAL CURRENT BORROWINGS</b>	<b>4,423,179</b>	4,268,989
<b>NON CURRENT</b>		
Bank loans	246,539	250,000
Other loans	2,250,000	63,631
<b>TOTAL NON-CURRENT BORROWINGS</b>	<b>2,496,539</b>	313,631
<b>TOTAL BORROWINGS</b>	<b>6,919,717</b>	4,582,620

On 27 August 2020, the Group entered into a new loan agreement with Boneyard Investments Pty Ltd (Boneyard) which replaced its Existing Loan Agreement and pursuant to which agreement, Boneyard has agreed to make a revolving loan facility available to Atlas. The balance of the loan provided by Boneyard as at 31 December 2020 is \$4.5M, being the \$2.5M loan outstanding under the Existing Loan Agreement as well as an additional loan in the amount of \$2M.

On 26 February 2021, Boneyard agreed to a new repayment schedule, with the first tranche delayed from 31 March 2021 until 30 June 2021.

## 9. Contributed equity

	31 DEC 2020 NO. OF SHARES	30 JUN 2020 NO. OF SHARES	31 DEC 2020 \$	30 JUN 2020 \$
Issued and fully paid-up capital	422,909,620	422,909,620	38,857,415	38,857,415
<b>ORDINARY SHARES</b>				
Balance at beginning of period	424,809,620	424,809,620	38,857,415	36,857,415
Shares issued	-	-	-	-
Share transaction costs	-	-	-	-
<b>BALANCE AT END OF PERIOD</b>	<b>424,809,620</b>	424,809,620	<b>36,857,415</b>	36,857,415
<b>TREASURY SHARES</b>				
Balance at beginning of period	3,062,138	3,062,138		
Shares released	-	-		
<b>BALANCE AT END OF PERIOD</b>	<b>3,062,138</b>	3,062,138		

Treasury shares are shares in Atlas Pearls that are held by the Atlas Pearls Ltd Executive Share Plan Trust for the purpose of issuing shares under the Atlas South Sea Pearl Employee share plan. No treasury shares were issued over the half financial year ended 31 December 2020 to employees as part of the Atlas employee share salary sacrifice plan (30 June 2020: Nil).

## 10. Fair Value Measurement of Financial Instruments

### A) FAIR VALUE HIERARCHY

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

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

The following table presents the Group's financial assets and financial liabilities measured and recognised at fair value at 31 December 2020 and 30 June 2020 on a recurring basis:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
<b>31 DECEMBER 2020</b>	\$	\$	\$	\$
<b>ASSETS</b>				
Forward Exchange Contracts	-	-	-	-
Biological Assets	-	-	12,156,919	12,156,919
<b>TOTAL ASSETS</b>	-	-	<b>12,156,919</b>	<b>12,156,919</b>
<b>LIABILITIES</b>				
Forward Foreign Exchange Contracts	-	(14,075)	-	(14,075)
<b>TOTAL LIABILITIES</b>	-	<b>(14,075)</b>	-	<b>(14,075)</b>

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
<b>30 JUNE 2020</b>	\$	\$	\$	\$
<b>ASSETS</b>				
Forward Exchange Contracts	-	-	-	-
Biological Assets	-	-	12,783,728	12,783,728
<b>TOTAL ASSETS</b>	-	-	<b>12,783,728</b>	<b>12,783,728</b>

### B) VALUATION TECHNIQUES USED TO DERIVE LEVEL 2 AND LEVEL 3 FAIR VALUES

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

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

Level 3 analysis: The finance and operations departments undertake the valuation of the oysters. The calculations are considered to be level 3 fair values as the significant inputs used in the model are not based on observable market data. The data is taken from internal management reporting work and work completed by the executive within the respective field teams to determine the material inputs in the model. The key inputs are confirmed with the relevant executives and agree with the Board of Directors every six months. These are listed in point c) below.

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

There were no transfers between the levels of the fair value hierarchy in the six months to 31 December 2020. There were also no changes made to any of the valuation techniques applied as of 30 June 2020.

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

The following table presents the changes in level 3 Instruments for the half year ended 31 December 2020:

	BIOLOGICAL ASSETS \$
<b>OPENING BALANCE 01 JULY 2020</b>	12,783,728
Additions	2,525,168
Gains recognised through 'change in fair value'	2,157,481
Losses recognised through 'change in fair value'	(5,309,458)
<b>CLOSING BALANCE AT 31 DECEMBER 2020</b>	<b>12,156,919</b>

**(i) Valuation inputs**

INPUT	31 DEC 2020	30 JUN 2020	COMMENTARY
Average selling price	<b>¥9,217 per momme</b>	¥ 9,413 - ¥ 12,283 per momme	Obtained by analysing sales price achieved and the trend analysis of the past 12 months of average sales prices.
Yen exchange rate	<b>¥79.51 : AUD 1</b>	¥ 76:60 : AUD 1	Based on the forward Yen price per a financial institution.
Average pearl size	<b>0.40</b>	0.39	Based on technical assessment of expected harvest output and taking into account historical actual results over the past 12 months.
Proportion of marketable grade	<b>36%</b>	35%	Based on historical data for pearl grade over the past 12 months.
Discount rate	<b>20%</b>	20%	Based on analysis of comparable primary producers.
Mortality	<b>Historical</b>	Historical	Based on historical harvest mortality rates.
Average unseeded oyster value	<b>\$1.81</b>	\$2.04	Based on independent calculation.
Costs to complete	<b>\$0.61</b>	\$0.76	Based on historical averages of costs to complete and sell pearls per momme.

**13. Events occurring after the reporting period**

As at report date, the impact of the Coronavirus (COVID-19) pandemic is still ongoing and cast uncertainty over the Company's ability to realise future sales. It is not practical to reliably measure any future impact, as the situation continues to develop and is dependent on measures imposed by each Countries Government. Travel restrictions, quarantine rules, social distancing regulations and commercial flight availability all influence the Company's ability to move pearls and people. Management continue to observe the developing situation and are responding proactively, ensuring minimum business disruption where possible

## DIRECTORS' DECLARATION

The Directors of the Company declare that:

- a) the financial statements comprising the statement of profit or loss and other comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and accompanying notes are in accordance with the *Corporations Act 2001* and:
1. give a true and fair view of the consolidated entity's financial position as at 31 December 2020 and of the performance for the period ended on that date; and
  2. comply with Accounting Standards, and the *Corporations Act 2001* and other mandatory professional reporting requirements.
- b) the Company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.
- c) the Directors have been given the declarations by the Executive Chairman and Chief Financial Officer required by section 295A.
- d) in the Directors opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



Geoff Newman  
Executive Chairman  
Perth, Western Australia  
26 February 2021

## INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Atlas Pearls Limited

### Report on the Half-Year Financial Report

#### Conclusion

We have reviewed the half-year financial report of Atlas Pearls Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2020 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

#### Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

#### Material uncertainty relating to going concern

We draw attention to Note 1.3 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our conclusion is not modified in respect of this matter.

For personal use only



### **Responsibility of the directors for the financial report**

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

### **Auditor's responsibility for the review of the financial report**

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Company's financial position as at 31 December 2020 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 Interim Financial Reporting and the *Corporations Regulations 2001*.

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

**BDO Audit (WA) Pty Ltd**

BDO

A handwritten signature in black ink that reads 'J Prue'.

**Jarrad Prue**

**Director**

Perth, 26 February 2021

For personal use only

For personal use only

# ATLAS

PEARLS

**MAILING ADDRESS**

PO Box 1048, Claremont 6910  
Perth Western Australia

**OFFICE ADDRESS**

47-49 Bay View Terrace, Claremont 6010  
Perth Western Australia

**TELEPHONE**

+61 (8) 9284 4249

**EMAIL**

[Atlas@AtlasPearls.com.au](mailto:Atlas@AtlasPearls.com.au)

**WEB**

[www.AtlasPearls.com.au](http://www.AtlasPearls.com.au)