

ATLAS

PEARLS AND PERFUMES

ABN 32 009 220 053

NOTICE OF GENERAL MEETING, EXPLANATORY STATEMENT AND PROXY FORM

Date of Meeting: 13 September 2017

Time of Meeting: 10 AM (WST)

Place of Meeting: Atlas Pearls and Perfumes
47 - 49 Bay View Terrace
Claremont, Western Australia

This Notice of General Meeting should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their professional advisers prior to voting.

Should you wish to discuss the matters in this Notice of General Meeting please do not hesitate to contact the Company Secretary on +61 8 9284 4249.

Independent Expert's Report: Shareholders should carefully consider the Independent Expert's Report prepared for the purposes of ASX Listing Rule 10.1 and section 611, item 7 of the Corporations Act. The Independent Expert's Report comments on the fairness and reasonableness of the transactions the subject of Resolution 1 to the Non-Associated Shareholders. The Independent Expert has determined that:

- the granting of the Security is **fair and reasonable** to the Non-Associated Shareholders;
- the Relevant Interest Acquisition is **not fair but reasonable** to the Non-Associated Shareholders;

Shareholders should refer to Annexure A for a copy of the Independent Expert's Report.

Directors' Recommendation: The Directors (except Mr Timothy Martin who abstains from making any recommendation in respect of Resolution 1) recommend that eligible Shareholders vote **IN FAVOUR** of Resolution 1.

ATLAS PEARLS AND PERFUMES LTD

ABN 32 009 220 053

NOTICE OF GENERAL MEETING

Notice is hereby given that a General Meeting of the Shareholders of Atlas Pearls and Perfumes Ltd ("Atlas Pearls and Perfumes" or "the Company") will be held as follows:

TIME: 10AM (WST)

DATE: 13 September 2017

LOCATION: Atlas Pearls and Perfumes, 47 - 49 Bay View Terrace, Claremont, Western Australia

**This Notice of General Meeting should be read in its entirety.
If Shareholders are in doubt as to how they should vote, they should seek advice from their professional advisers without delay.**

If you wish to discuss any aspects of this document with the Company, please contact the Company Secretary on +61 8 9284 4249.

Words and phrases used in the Resolutions are defined in the Glossary of the accompanying Explanatory Statement and these words and phrases have the same meaning in this Notice of General Meeting as defined in the Explanatory Statement.

AGENDA

ORDINARY BUSINESS

Resolution 1 – Approval of Grant of Security and issue of Conversion Shares pursuant to Loan Agreement and related matters

To consider and, if thought fit, to pass, the following resolution as an **ordinary** resolution:

“That, for the purposes of ASX Listing Rules 10.1 and 10.11 and Chapter 2E and Section 611 (item 7) of the Corporations Act and for all other purposes, approval is given for:

- (a) the granting of the Security over the Company’s assets in favour of the Lenders to secure the Company’s indebtedness under the Loan;
- (b) where an Event of Default by the Company exists under the Varied Loan Agreement, the Company to issue, at the Lenders’ election, the Conversion Shares to the Lenders on the terms of the Varied Loan Agreement and the Lenders and their Associates to acquire a Relevant Interest in those Conversion Shares;
- (c) the giving of financial benefits to the Lenders to the extent they are related parties of the Company pursuant to the Varied Loan Agreement and Security; and
- (d) the Voting Power of the Lenders and their Associates increasing up to a maximum of 58% as a result of the issue of Conversion Shares,

on the terms and conditions set out in the Explanatory Statement.”

Voting Exclusion Statement – ASX Listing Rules 10.1 and 10.11

The Company will disregard any votes cast on this Resolution by the Lenders and any of their Associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Voting Exclusion Statement – Chapter 2E and Section 611 item 7 of the Corporations Act

The Company will disregard any votes cast on this Resolution by the Lenders and any of their Associates. However, the Company need not disregard a vote if it is cast by a person as a proxy appointed by writing that specifies how the proxy is to vote on the

Resolution and it is not cast on behalf of the Lenders or any of their Associates.

Expert's Report

Shareholders should carefully consider the report prepared by the Independent Expert for the purposes of the Shareholder approval required under ASX Listing Rule 10.1 and section 611 item 7 of the Corporations Act. The Independent Expert's Report comments on the fairness and reasonableness of the transactions the subject of this resolution to the Non-Associated Shareholders in the Company.

Dated 9 August 2017

By order of the Board

A handwritten signature in black ink, appearing to read "S. Hunter", followed by a period.

Susan Hunter
Company Secretary

IMPORTANT INFORMATION

EXPLANATORY STATEMENT

Shareholders are referred to the Explanatory Statement accompanying and forming part of this Notice of General Meeting for further explanation of the Resolution.

PROXIES

Members are encouraged to attend the meeting, but if you are unable to attend the meeting, we encourage you to complete and return the enclosed Proxy Form.

In accordance with section 249L of the Corporations Act, Shareholders are advised that:

- each Shareholder has the right to appoint a proxy;
- the proxy need not be a Shareholder of the Company; and
- a Shareholder who is entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If the member appoints 2 proxies and the appointment does not specify the proportion or number of the member's votes, then in accordance with section 249X(3) of the Corporations Act, each proxy may exercise one-half of the votes.

To be effective, a Proxy Form and, if the Proxy Form is signed by the shareholder's attorney, the authority under which the appointment is signed (or a certified copy of that authority) must be received by the Company not later than 48 hours before the time specified for the commencement of the General Meeting.

CORPORATE REPRESENTATIVES

A body corporate that is a Shareholder, or which has been appointed as proxy, may appoint an individual to act as its representative at the General Meeting. The appointment must comply with the requirements of section 250D of the Corporations Act. The representative should bring to the meeting evidence of his or her appointment, including any authority under which it is signed, unless it has previously been given to the Company.

DATE FOR DETERMINING HOLDERS OF SHARES

In accordance with Regulation 7.11.37 of the *Corporations Regulations 2001* (Cth), the Directors have set a date to determine the identity of those entitled to attend and vote at the General Meeting. For the purposes of determining voting entitlements at the General Meeting, Shares will be taken to be held by the persons who are registered as holding at 5PM (WST) on 11 September 2017. Accordingly, transactions registered after that time will be disregarded in determining entitlements to attend and vote at the General Meeting.

ATLAS PEARLS AND PERFUMES LTD

ABN 32 009 220 053

EXPLANATORY STATEMENT

This Explanatory Statement has been prepared to assist Shareholders with their consideration of the Resolution proposed for the General Meeting of the Company to be held at Atlas Pearls and Perfumes, 47-49 Bay View Terrace, Claremont, Western Australia at 10AM (WST) on 13 September 2017.

The purpose of this Explanatory Statement is to provide information which the Directors believe to be material to Shareholders in deciding whether or not to pass the Resolution. Terms and abbreviations used in this Explanatory Statement are defined in the Glossary.

1. BACKGROUND

1.1 Overview

As announced on 30 January 2017, the Company entered into a \$1.5 million loan agreement with TJM Australia Pty Ltd (ACN 115 313 418) ATF the TJM Trust (**TJM**) and Boneyard Investments Pty Ltd ACN 161 625 734 (**Boneyard**) (**Loan Agreement**).

TJM is a related party of the Company by virtue of being controlled by Mr Timothy Martin, a Director. Boneyard, of which Mr Timothy Martin is a director, is an Associate of TJM and Mr Timothy Martin. TJM and Boneyard together are the **Lenders**.

Each of the Lenders subsequently advanced \$750,000 to the Company under the Loan Agreement.

On 28 June 2017 the Company varied the Loan Agreement to:

- (a) provide for an additional \$2 million to be lent to the Company by Boneyard, which advance was advanced on or around 29 June 2017, resulting in a total of \$3.5 million in principal being owed to the Lenders (**Loan**);
- (b) allow additional time for the Company to grant the Lenders a second ranking security to secure the Loan and interest (**Security**) subject to receipt of a waiver of ASX Listing Rule 10.1 and consent from the Company's first secured financier, NAB (which consent has now been obtained). Under the original Loan Agreement, the Company had until 31 March 2017 to grant the Security to the Lenders, which Security now been entered into;
- (c) include a right for the Lenders, if and for so long as there is an Event of Default by the Company under the Loan Agreement (as varied), and subject to obtaining Shareholder approval and necessary regulatory approvals, to convert all or part of the Loan and outstanding interest into Shares, subject to certain caps as detailed further below (**Conversion Right**); and
- (d) require the Company to seek Shareholder approvals for the Security (for the purpose of ASX Listing Rule 10.1) and for the Conversion Right (including for the purpose of ASX Listing Rule 10.11 and section 611(7) of the Corporations Act), and seek NAB consent for the Security (which consent has now been obtained), with the Loan repayable on demand if these Shareholder approvals and consent are not obtained by a specified end date, currently being 15 September 2017, unless otherwise agreed by the Lenders,

(**Varied Loan Agreement**).

The material terms of the Varied Loan Agreement are summarised in Schedule 1.

This Notice of Meeting seeks the Shareholder approvals required by the Varied Loan Agreement.

1.2 Security

A waiver of ASX Listing Rule 10.1 for the Security was obtained on 7 July 2017 (**10.1 Waiver**). It is a condition of the waiver that, if an Event of Default occurs and the Lenders enforce their Security, neither the Lenders nor their Associates may acquire any legal or beneficial interest in an asset of the Company or its subsidiaries in full or part satisfaction of the Company's obligations under the Security, or otherwise deal with the assets of the Company or its subsidiaries, without the Company having first complied with any applicable Listing Rules, including Listing Rule 10.1, other than as required by law or through a receiver, or receiver or manager (or analogous person) appointed by the Lenders exercising their power of sale under the Security and selling the assets to an unrelated third party on arm's length commercial terms and conditions and distributing the cash proceeds to the Lenders or any of its Associates in accordance with their legal entitlements (**10.1 Waiver Condition**).

The Company has obtained NAB's consent to grant the Security and has entered into a general security deed granting the Security that contains the 10.1 Waiver Condition.

If Shareholders approve the grant of the Security for the purpose of ASX Listing Rule 10.1, the 10.1 Waiver Condition will no longer apply to limit the Lenders' ability to enforce the Security.

If Shareholders do not approve the grant of the Security for the purposes of ASX Listing Rule 10.1, the Security will still be in force and effect but will remain subject to the 10.1 Waiver Condition.

The 10.1 Waiver was also granted subject to the following conditions:

- (a) a summary of the material terms of the Security must be made in each annual report of the Company during the term of the Security;
- (b) any variations to the terms of the Security which is not a minor change or inconsistent with the terms of the waiver, must be subject to shareholder approval;
- (c) the Company and the Lenders must seek to discharge the Security when the funds advanced to the Company are repaid, or if it is not discharged, seek shareholder approval for the continuation of the Security for any further period; and
- (d) the Company must immediately release to the market an announcement which sets out the terms of the waiver, and the Company's plans with respect to the (i) repayment of the funds advanced under the Loan Facility, and (ii) discharge of the Security, including the timeframe within which it expects the repayment and discharge to occur.

1.3 Conversion Right

Under the Conversion Right in the Varied Loan Agreement, the Lenders have the right to convert all or part of the outstanding Loan and interest (**Conversion Amount**) into Shares while there is an Event of Default by the Company under the Varied Loan Agreement. The number of Shares to be issued to the Lenders will be determined by dividing the Conversion Amount by a price (**Conversion Price**) which is equal to the greater of:

- (a) a 15% discount to the 30 day VWAP for Shares ending on the business day immediately before a Conversion Notice is received by the Company; and
- (b) \$0.015 per Share (**Floor Price**).

The Conversion Amount is capped to a maximum of \$4,820,483.75 (**Maximum Conversion Amount**) being the \$3.5 million Loan plus approximately three years of default interest on that amount, reflecting that it is essentially three years until the maturity date of the Loan, being 30 June 2020 and that the Lenders have until 14 August 2020 to exercise the Conversion Right. Given this, the maximum number of Shares that may be issued to the Lenders under the Conversion Right is 321,365,583 Shares (**Conversion Shares**).

As the Conversion Price is not fixed (subject to the Floor Price), the number of Shares that may be issued on conversion of the Loan and interest on a default is not known at this time.

Set out below are worked examples of the number of Shares that will be issued to the Lenders if the maximum amount of \$4,820,483.75 is converted into Shares based on a range of Conversion Prices, including the closing price on 9 August 2017 of \$0.026 and the Floor Price of \$0.015 per Share. The dilution effect on existing Shareholders is also set out, assuming there are 427,871,758 Shares on issue (which is the number of Shares currently on issue) and no other Shares are issued.

Assumed Conversion Price	Convertible Loan and Interest Amount	Number of Shares Issued	Total Shares on Issue	Dilution effect on existing Shareholders
\$0.026	\$4,820,483.75	185,403,221	613,274,979	30.2%
\$0.020	\$4,820,483.75	241,024,188	668,895,946	36.0%
\$0.015	\$4,820,483.75	321,365,583	749,237,341	42.9%

The Company obtained the following ASX waivers on 7 July 2017 in respect of the Conversion Right:

- (a) a waiver of ASX Listing Rule 10.13.3 to allow the Conversion Shares to be issued more than one month after the Meeting, being at any time until 14 August 2020 in accordance with the Conversion Right (**10.13.3 Waiver**); and
- (b) a waiver of ASX Listing Rule 10.13.5 to allow this Notice not to contain an exact issue price for Conversion Shares, subject to the Conversion Price being no lower than the Floor Price (**10.13.5 Waiver**).

The 10.13.3 Waiver and the 10.13.5 Waiver were granted subject to the following conditions:

- (a) the Notice states that the Conversion Shares will be issued to the Lenders at an issue price equal to the higher of:
 - (i) a 15% discount to the 30 day volume weighted average price ("VWAP") for Shares ending on the business day immediately before a Conversion Notice is received by the Company; and
 - (ii) \$0.015 per Share ("Floor Price");
- (b) the Notice sets out worked examples of the dilution that will occur to existing shareholders as a result of the issue of the Conversion Shares at three different issue prices, including at the Floor Price;
- (c) if the Company releases its annual report during a period in which the Conversion Shares are issued or remain to be issued, the annual report discloses details of the Conversion Shares that have been issued and any Conversion Shares remaining to be issued; and
- (d) in any half year or quarterly report for a period during which any of the Conversion Shares have been issued or remain to be issued, the Company must include a summary statement of the number of Conversion Shares issued during the reporting period, the number of Conversion Shares that remain to be issued and the basis on which the Conversion Shares may be issued

1.4 Rationale for the Security and Conversion Right

The Directors (other than Mr Timothy Martin, who has a material personal interest in the Varied Loan Agreement and accordingly did not attend any board meetings, participate in any board discussions or vote on any matters in relation to the Varied Loan Agreement and Security) (**Non-Conflicted Directors**) considered the Varied Loan Agreement, including granting the Security and the Conversion Right, in depth and supported the granting of the Security and the Conversion Right for the reasons set out below.

- (a) **Security:** The Non-Conflicted Directors consider that the granting of the Security is in the best interests of the Company because:
- (i) it is not unusual for companies to grant security over their assets when raising debt finance;
 - (ii) without the agreement to grant the Security, the Company was unlikely to be able to secure sufficient funds to meet its working capital needs;
 - (iii) the Non-Conflicted Directors have no material concerns regarding the ability of the Company to repay the amounts under the Varied Loan Agreement in accordance with its terms and accordingly consider the risk of the Lenders being required to enforce the Security as low;
 - (iv) in the unlikely event that the Company is unable to repay all amounts under the Varied Loan Agreement in accordance with its terms, the Lender's entitlement in relation to the Security is limited to the amount of the outstanding principal and capitalised interest; and
 - (v) as the Lenders have agreed to subordinate their interest in the Security to the Company's first secured financier, NAB, the grant of the Security appears unlikely to have a material impact on the ability of the Company to secure further or alternative debt finance from non-related third parties.
- (b) **Conversion Right:** The Non-Conflicted Directors consider that the Conversion Right is in the best interests the Company because:
- (i) despite sustained efforts, the Board was unable to secure sufficient additional funding from external bank financiers to repay a \$5 million debt owed by the Company to Commonwealth Bank of Australia (**CBA**) that was due on 30 June 2017, and to meet working capital needs. Nor was non-bank financing considered reasonable likely to be available on more favourable terms than those provided in the Varied Loan Agreement;
 - (ii) the Non-Conflicted Directors consider that, on balance, the terms of the Varied Loan Agreement, including the Conversion Right, are more advantageous compared to those available from external bank and non-bank financiers for a similar facility. In this regard it is noted that:
 - (A) the interest rate payable to the Lenders, while higher than that which will be payable under comparable secured loans from a bank, is within the range sought for secured non-bank financing;
 - (B) the Company is entitled to prepay the facility under the Varied Loan Agreement at any time without payment of any fees/ penalty, while any prepayment under the terms provided by non-bank financiers usually involves a substantial fee; and
 - (C) the Varied Loan Agreement requires the Company to provide very limited warranties and covenants and events of defaults are limited and narrow in scope;
 - (iii) conversion, while at the Lenders' election, provides an alternative way for the Company to satisfy the debts it owes under the Varied Loan Agreement without having to pay cash;
 - (iv) it is not unusual for non-bank financiers to seek a right to convert debt into shares at the financiers' election. Under the Varied Loan Agreement, the Conversion Right is only available during an Event of Default by the Company, not at any other time;
 - (v) non-bank financier conversion rights are typically at a discount to market price of up to 20%, and based on the lowest VWAP share price over a short trading period (eg 10 trading days). Under the Conversion Right, the conversion price is at a 15% discount to the 30 day VWAP share price, which was considered to be more favourable, on balance, than the conversion rights likely to be required by non-bank financiers; and
 - (vi) the conversion price will not be lower than the Floor Price (\$0.015 per Share), which is considered a reasonable floor given the Share price on the ASX over

the preceding months, which is in the order of \$0.027 per Share, and more favourable than the floor price likely to be available from non-bank financiers.

2. RESOLUTION 1 – APPROVAL FOR GRANT OF SECURITY AND ISSUE OF CONVERSION SHARES PURSUANT TO LOAN AGREEMENT AND RELATED MATTERS

2.1 Approving Grant of Security for purposes of ASX Listing Rule 10.1

Under Resolution 1, the Company is seeking shareholder approval, amongst other things, for the grant of the Security to the Lenders for the purposes of ASX Listing Rule 10.1.

ASX Listing Rule 10.1 provides that, if an entity or any of its subsidiaries acquires or disposes of a 'substantial asset' to, amongst others, a 'substantial holder' or 'related party' of the entity, or an associate of such a person, it must be approved by the entity's shareholders unless an exception to Listing Rule 10.1 applies.

Under the Listing Rules, the term 'dispose' includes disposing or agreeing to disposing directly or through another person by any means, including using an asset as a collateral by granting security over the asset. The granting of the Security is therefore treated as a disposal of the Company's assets for the purposes of ASX Listing Rule 10.1.

Substantial Asset

A 'substantial asset' is an asset valued at more than 5% of the equity interests as set out in the latest accounts given to ASX.

The equity interests of the Company as defined by the ASX Listing Rules and as set out in the latest accounts given to ASX (being for the financial year ended 31 December 2016) was \$26,571,342. A substantial asset is therefore an asset of value greater than \$1,328,567.

The aggregate of the interest to be paid to the Lenders under the Loan Agreement (being 7.5% pa to the Maturity Date of the Loan) is less than 5% of the Company's equity interests as set out in the latest accounts given to ASX. However, the granting of the Security to the Lenders, which is taken to be a disposal of all of the Company's assets, involves the disposal of a substantial asset that requires Shareholder approval for the purposes of ASX Listing Rule 10.1.

Related Parties and their associates

A 'related party' of an entity is defined under section 228 of the Corporations Act and includes a director of an entity and a company that is controlled by a director of the entity. As TJM is controlled by Mr Timothy Martin, a director of the Company, TJM is a related party of the Company.

An 'associate' of a related party includes a person with whom the related party is acting, or proposing to act, in concert in relation to a designated body's affairs. Mr Timothy Martin is a related party of the Company (being a Director) and is also a director of Boneyard, which acts in concert with Mr Timothy Martin with respect to the Company's affairs. Boneyard is therefore an Associate of a related party.

Independent Expert's Report

Listing Rule 10.10.2 provides that Shareholder approval sought for the purposes of ASX Listing Rule 10.1 must include an independent expert's report on the proposed acquisition or disposal.

The Board engaged BDO to prepare the Independent Expert's Report to provide an opinion on whether or not granting the Security is 'fair and reasonable' to Shareholders who are not associated with the Lenders (**Non-Associated Shareholders**).

The Independent Expert's Report prepared by BDO concludes that the granting of the Security is '**fair and reasonable**' to the Non-Associated Shareholders. The basis for this opinion is summarised in Sections 2.3 and 2.4 of the Independent Expert's Report.

Shareholders may request a hard copy of the Independent Expert's Report from the Company at no cost by contacting the Company Secretary on +61 8 9284 4249. A complete copy of the Independent Expert's Report is provided in Annexure A to this Notice.

2.2 Approving Grant of Conversion Right for purposes of ASX Listing Rule 10.11

Listing Rule Summary

ASX Listing Rule 10.11 requires shareholder approval to be obtained where an entity issues, or agrees to issue, securities to a related party, or a person whose relationship with the entity or a related party is, in ASX's opinion, such that approval should be obtained unless an exception in ASX Listing Rule 10.12 applies.

TJM is a related party of the Company by virtue of being controlled by Mr Timothy Martin, a Director.

Boneyard, of which Mr Timothy Martin is a director, is an Associate of TJM. Boneyard is not considered a related party for the purposes of section 228(4) of the Corporations Act as it is not controlled by Mr Timothy Martin. However, section 228(7) of the Corporations Act provides that a related party includes an entity that acts in concert with a related party on the understanding that the related party will receive a financial benefit if the company gives the entity a financial benefit. As Boneyard and TJM are acting in concert in relation to the Company, and because Resolution 1 provides for financial benefits to both Boneyard and TJM, Boneyard is considered a related party of the Company under section 228(7) of the Corporations Act.

As the Conversion Right involves the issue of equity securities to related parties of the Company, Shareholder approval pursuant to ASX Listing Rule 10.11 is required unless an exception applies. It is the view of the Directors that the exceptions set out in ASX Listing Rule 10.12 do not apply in the current circumstances.

Technical Requirements

Pursuant to and in accordance with ASX Listing Rule 10.13, the following information is provided in relation to the issue to the Lenders of the Conversion Shares:

- (a) the Conversion Shares will be issued to TJM and Boneyard, the Lenders, on their exercise of the Conversion Right;
- (b) the maximum number of Shares that may be issued to the Lenders is 321,365,583 Shares;
- (c) the Shares will be issued each time there is an exercise of the Conversion Right, which must be no later than 14 August 2020. As noted in Section 1.3 above, the Company has obtained the 10.13.3 Waiver to allow the Conversion Shares to be issued more than one month after the date of the Meeting;
- (d) TJM is a related party of the Company by virtue of being controlled by Mr Timothy Martin, a related party director of the Company under section 228(1) of the Corporations Act. Boneyard, of which Mr Martin is a director, is an Associate of TJM, a related party. Subject to the matters outlined in 2.2 above, Boneyard is considered to be a related party of the Company;
- (e) as noted in Section 1.3 above, the Company has obtained the 10.13.5 Waiver to allow the issue price of the Conversion Shares not to be fixed. The issue price of the Conversion Shares will be the greater of:
 - (i) a 15% discount to the 30 day VWAP for Shares ending on the business day immediately before a Conversion Notice is received by the Company; and
 - (ii) \$0.015 per Share.
- (f) the Shares issued will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares; and

- (g) no funds will be raised from the issue of the Conversion Shares as upon Conversion the outstanding monies due under the Varied Loan Agreement will be deemed to be reduced by the amount of the debt converted into Conversion Shares.

Under ASX Listing Rule 7.2 (Exception 14), if approval is sought under ASX Listing Rule 10.11, approval will not be required under ASX Listing Rule 7.1. Therefore, the issue of the Conversion Shares will not count towards the Company's 15% placement capacity under ASX Listing Rule 7.1 (assuming Resolution 1 is passed).

2.3 Approving Grant of Conversion Right for purposes of Item 7 of Section 611 of the Corporations Act

2.3.1 Section 606 of the Corporations Act – Statutory Prohibition

Pursuant to section 606(1) of the Corporations Act, a person must not acquire a Relevant Interest in issued voting shares in a listed company if the person acquiring the interest does so through a transaction in relation to securities entered into by or on behalf of the person and because of the transaction, that person's or someone else's Voting Power in the company increases:

- (a) from 20% or below to more than 20%; or
- (b) from a starting point that is above 20% and below 90%,

(Prohibition).

However, item 7 of section 611 of the Corporations Act provides an exception to the Prohibition, whereby a person may acquire a Relevant Interest in a company's voting shares with shareholder approval.

The Lenders and their Associates currently have Voting Power in the Company of approximately 26.4% (see further below for details). Assuming all the Conversion Shares are issued and no other Shares are issued or Options exercised, the Lenders and their Associates will acquire a Relevant Interest in a maximum 434,452,133 Shares, representing approximately a 58% Voting Power in the Company - see further below for details (**Relevant Interest Acquisition**).

In the absence of Shareholder approval, the increase in the Relevant Interests of the Lenders and their Associates from the issue of the Conversion Shares, which will increase their Voting Power in the Company's Shares from above 20% to less than 90%, will breach the Prohibition.

Accordingly, Resolution 1 seeks Shareholder approval for the purpose of section 611 Item 7 of the Corporations Act to enable the Company to issue up to a maximum of 321,365,583 Conversion Shares on conversion of the Loan to the Lenders and for any Relevant Interest the Lender and their Associates may obtain as a result.

In accordance with ASX Listing Rule 7.2 (Exception 9), an issue of Shares approved for the purposes of Section 611 item 7 of the Corporations Act does not require any further approval under ASX Listing Rule 7.1. Therefore, any Conversion Shares issued to the Lenders will not count towards the Company's 15% placement capacity under ASX Listing Rule 7.1.

ASIC Regulatory Guide 74 specifies certain requirements where a company seeks shareholder approval under Section 611 Item 7 of the Corporations Act, including that an independent expert's report is provided with an opinion on whether the proposed transaction is fair and reasonable to the Non-Associated Shareholders.

The Board engaged BDO to prepare the Independent Expert's Report to provide an opinion on whether or not the Relevant Interest Acquisition is 'fair and reasonable' to Non-Associated Shareholders.

The Independent Expert's Report prepared by BDO concludes that, in the absence of a superior offer, the Relevant Interest Acquisition is '**not fair but reasonable**' to the Non-Associated Shareholders. The basis for this opinion is summarised in Sections 2.3 and 2.4 of the Independent Expert's Report.

Shareholders are urged to carefully read the Independent Expert's Report to understand the scope of the report, the methodology of the valuation and the sources of information and assumptions made.

Shareholders may request a hard copy of the Independent Expert's Report from the Company at no cost by contacting the Company Secretary on +61 8 9284 4249. A complete copy of the Independent Expert's Report is provided in Annexure A to this Notice.

2.3.2 Specific Information required by Section 611 Item 7 of the Corporations Act and ASIC Regulatory Guide 74

The following information is required to be provided to Shareholders under the Corporations Act and ASIC Regulatory Guide 74 in respect of obtaining approval for Item 7 of section 611 of the Corporations Act. Shareholders are also referred to the Independent Expert's Report prepared by BDO which accompanies this Notice of Meeting.

(a) Identity of the Acquirer and its Associates

The identity of the person proposing to make the acquisition of Relevant Interests in the Conversion Shares is the Lenders.

The Lenders have advised that they have no Associates other than as specified in this Notice of Meeting and Explanatory Memorandum.

Name	Association with Lenders
Boneyard	Associate of TJM as acting in concert with TJM in relation to the Company's affairs
TJM	Associate of Boneyard as acting in concert with Boneyard in relation to the Company's affairs
Timothy Martin	Associate of TJM, which he controls. Associate of Boneyard as acting in concert with Boneyard in relation to the Company's affairs
TJ Martin & WG Martin ATF TJM Superannuation Fund	Associate of TJM and Boneyard as acting in concert in relation to the Company's affairs.
Jingie Investments Pty Ltd	Associate of TJM and Boneyard as acting in concert in relation to the Company's affairs
Chemco Superannuation Fund Pty Ltd ATF Chemco Superannuation Fund No.2	Associate of TJM and Boneyard as acting in concert in relation to the Company's affairs
JM Roughan & BM Martin ATF JM Martin Superannuation Fund	Associate of TJM and Boneyard as acting in concert in relation to the Company's affairs
Jennifer M Roughan	Associate of TJM and Boneyard as acting in concert in relation to the Company's affairs

(b) Relevant Interest and Voting Power

Relevant Interest

The Relevant Interests of the Lenders and each Associate in voting shares in the capital of the Company (both current and following the issue of the maximum number of Conversion Shares as contemplated by this Notice) are set out in the table below:

Lender	Relevant Interest as at the date of the Notice¹	% issued Shares	Relevant Interest after the issue of the Conversion Shares	% issued Shares
Boneyard	53,048,882	12.4%	301,099,383	40.2%
TJM	-	-	73,315,082	9.8%
Lenders Subtotal	53,048,882	12.4%	374,414,465	50.0%
Associates				
Timothy Martin	3,997,428 ²	0.9% ²	3,997,428 ³	0.5% ³
TJ Martin & WG Martin ATF TJM Superannuation Fund	1,000,000	0.2%	1,000,000	0.1%
Jingie Investments Pty Ltd	17,880,240	4.2%	17,880,240	2.4%
Chemco Superannuation Fund Pty Ltd ATF Chemco Superannuation Fund No.2	32,400,000	7.6%	32,400,000	4.3%
JM Roughan & BM Martin ATF JM Martin Superannuation Fund	1,400,000	0.3%	1,400,000	0.2%
Jennifer M Roughan	3,360,000	0.8%	3,360,000	0.5%
Associates Subtotal	60,037,668	14.0%	60,037,668	8.0%
Total Lenders and Associates	113,086,550	26.4%	434,452,113	58.0%

Notes:

1. Assuming there 427,871,758 Shares are on issue (being the number of Shares on issue at the date of this Notice), the maximum of 321,365,583 Conversion Shares are issued and no other securities in the Company are issued, resulting in a total of 749,237,341 Shares being on issue.
2. Mr Timothy Martin also has a deemed Relevant Interest in 1,000,000 Shares held by TJ Martin and WG Martin ATF the TJM Superannuation Fund A/C (which Mr Timothy Martin controls as a trustee and beneficiary), comprising a Relevant Interest of 0.2%, resulting in Mr Timothy Martin currently having a Relevant Interest in a total of 4,997,428 Shares representing 1.1% of issued Shares.
3. Mr Timothy Martin also has a deemed Relevant Interest in 1,000,000 Shares held by TJ Martin and WG Martin ATF the TJM Superannuation Fund A/C (which Mr Timothy Martin controls as a trustee and beneficiary), and a maximum of 73,315,082 Conversion Shares held by TJM (which he controls) if the Conversion Right is exercised on a default and all Conversion Shares are issued. These comprise Relevant Interests of 0.2% and 9.8% respectively, resulting in Mr Timothy Martin having a Relevant Interest in a total of 78,312,510 Shares representing 10.4% of issued Shares if the Conversion Right is exercised on a default and all Conversion Shares are issued.

Voting Power

The voting power of the Lenders and each Associate (both current, and following the issue of the Conversion Shares to the Lender as contemplated by this Notice) is set out in the table below.)

Lender	Voting Power as at the date of the Notice	Voting Power after the issue of the Conversion Shares
TJM	26.4%	58%
Boneyard	26.4%	58%
Associate		
Timothy Martin	26.4%	58%
TJ Martin & WG Martin ATF TJM Superannuation Fund	26.4%	58%
Jingie Investments Pty Ltd	26.4%	58%
Chemco Superannuation Fund Pty Ltd ATF Chemco Superannuation Fund No.2	26.4%	58%
JM Roughan & BM Martin ATF JM Martin Superannuation Fund	26.4%	58%
Jennifer M Roughan	26.4%	58%

(c) **Summary of increases**

The estimated maximum Relevant Interest that the Lenders will hold on conversion of the maximum Conversion Amount is 434,452,133 Shares giving the Lenders a Voting Power of 58% (in aggregate).

The maximum Voting Power of 58% represents a maximum increase of 31.6%, being the difference between 58% and 26.4%.

(d) **Assumptions**

The following assumptions have been made in calculating the above Voting Power:

- (i) the Company has 427,871,758 Shares on issue as at the date of this Notice of Meeting;
- (i) the Lenders are issued the maximum of 321,365,583 Conversion Shares;
- (ii) the Company does not issue any other securities prior to conversion; and
- (iii) the Lenders do not acquire a Relevant Interest in any additional securities in the Company other than under this Resolution.

(e) **Reasons for the proposed Relevant Interest Acquisition**

As set out in Section 1 of this Explanatory Statement, the reason for the issue of the Conversion Shares to the Lenders is to comply with the Company's obligations under the Varied Loan Agreement if there is an Event of Default.

(f) **Date of proposed Relevant Interest Acquisition**

The Conversion Shares the subject of this Resolution may only be issued, subject to Shareholder and regulatory approvals being obtained, if an Event of Default subsists under the Varied Loan Agreement and the Lenders have exercised the Conversion Right.

(g) **Material terms of proposed Relevant Interest Acquisition**

The Conversion Shares will be issued in accordance with the terms and conditions of the Varied Loan Agreement and will be issued on the same terms and conditions as all other existing Shares on issue in the Company. The material terms of the Varied Loan Agreement are summarised in Schedule 1.

(h) **Details of other relevant agreements between the Lenders and their Associates and the Company that is conditional on, or depends on, Shareholders approving the Relevant Interest Acquisition**

Apart from the Varied Loan Agreement and the Security, there is no other relevant agreement between the Lenders and their Associates and the Company that is conditional on, or depends on, Shareholders approving the Relevant Interest Acquisition.

(i) **Intentions of the Lenders**

Other than as disclosed elsewhere in this Explanatory Statement, the Company understands that the Lenders and their associates:

- (i) have no present intention of making any significant changes to the business of the Company;
- (ii) will consider participating in further capital raisings of the Company to maintain their shareholding interest;
- (iii) have no present intention of making changes regarding the future employment of the present employees of the Company (with future changes, if any, to be made in consultation with the Company's management team);
- (iv) do not intend to redeploy any fixed assets of the Company;
- (v) do not intend to transfer any property between the Company and any other entity; and
- (vi) have no intention to change the Company's existing policies in relation to financial matters or dividends.

These intentions are based on information concerning the Company, its business and the business environment which is known to the Lenders at the date of this Notice.

These present intentions may change as new information becomes available, as circumstances change or in the light of all material information, facts and circumstances necessary to assess the operational, commercial, taxation and financial implications of those decisions at the relevant time.

(j) **The interests that any Director has in the Relevant Interest Acquisition or any relevant agreement disclosed above**

The Directors interests are set out in Section 2.4.1(c).

(k) **Proposed changes of Directors of the Company**

There Lenders do not presently propose to change the Directors of the Company if the Conversion Right is exercised.

(l) **Advantages of the Relevant Interest Acquisition**

The Directors are of the view that the following non-exhaustive list of advantages may be relevant to a Shareholder's decision on how to vote on the Resolution contained in this Notice of Meeting:

- (i) the Company will not be at risk of having to repay on demand up to \$3.5 million provided under the Varied Loan Agreement. Instead, the Company will have access to the remaining Loan funds, with repayments occurring in stages to June 2020;

- (ii) the Loan does not involve any dilution of Shareholder's equity interest in the Company provided there is no Event of Default, while any capital raising is likely to result in some dilution of the holdings of existing Shareholders;
 - (iii) if the Company is able to secure funding on terms more favourable than the Loan, the Company has the flexibility to prepay the Loan under the Varied Loan Agreement (without the payment of any fees/ penalty) and obtain funding on more favourable terms; and
 - (iv) the Independent Expert's Report (in section 11.1) identifies other advantages of the Relevant Interest Acquisition to which Shareholders should have regard.
- (m) **Disadvantages of the Relevant Interest Acquisition**

The Directors are of the view that the following non-exhaustive list of disadvantages may be relevant to a Shareholder's decision on how to vote on the Resolution contained in this Notice of Meeting:

- (i) if the Company is unable to repay all amounts under the Varied Loan Agreement in accordance with its terms, the Lenders may enforce the Security and sell assets comprising the Security;
- (ii) despite the Lenders subordinating its interest in the Security in favour of the NAB's existing first ranking secured debt, the granting of the Security may create some level of disincentive to any future debt provider;
- (iii) if Resolution 1 is approved and the Conversion Shares are issued, existing Shareholders will hold a diluted interest in the Company's assets. Section 1.3 above provides details of the possible dilutionary effect; and
- (iv) the Lenders and their associates (including Mr Timothy Martin) will have Relevant Interests in 58% of Shares on issue in the Company if the Conversion Right is exercised and the maximum number of Conversion Share are issued. In such circumstances, the Lenders will have significant influence over matters that require approval by the Company's shareholders including the election of directors and approval of significant corporate transactions. This concentration of ownership might also have the effect of delaying or preventing a change of control transaction in respect of the Company that other Shareholders may view as beneficial as the Lenders' shareholding interest will mean that they can block any proposal by a third party to acquire all of the Shares in the Company.

The Independent Expert's Report (in section 11.2) identifies the following disadvantages of the Relevant Interest Acquisition to which Shareholders should have regard:

- (i) the Relevant Interest Acquisition is not fair;
- (ii) in the event of the Conversion Right being exercised by the Lenders, the Relevant Interest Acquisition will result in the dilution of the existing Shareholders. The Lenders and their associates currently have approximately a 26.4% interest in the Company. Assuming that the Maximum Conversion Amount is converted into shares and no other shares are issued or Options exercised, the Lenders and their associates will acquire a relevant interest of approximately 58% in the Company; and
- (iii) the Varied Loan Agreement includes negative pledges that place restrictions on the Company's ability to deal with its assets without prior consent of the Lender. The Independent Expert notes that, under the terms of the Varied Loan Agreement, the Company must not, without the consent of the Lender, not to be unreasonably withheld or delayed, issue additional equity capital other than shares issued on exercise of existing options.

2.3.3 Potential position if Shareholders do not approve Resolution 1

If Shareholders do not approve Resolution 1, and the Lenders elect to require repayment of the Loan on demand, the Non-Conflicted Directors of the Company consider that the alternatives available to the Company include:

(a) Raising alternative equity capital

This option has been considered by the Non-Conflicted Directors. The Company has actively sought additional funding. However, as at the date of this Notice, no such funding has been secured.

Attempts by the Company to identify an alternative, suitable cornerstone investor may require considerable amounts of time and, even if a suitable alternative cornerstone investor was able to be identified, there is no guarantee of the price at which they would invest in the Company or other terms and conditions that would be required.

The ongoing financial support to the Company provided by the Lenders is welcomed by the Non-Conflicted Directors.

(b) Raising alternative debt capital

Alternatively, the Company may need to attempt to establish an alternative debt facility. If the Company were able to secure such a facility, there is no guarantee that it would be on terms with respect to pricing, security or otherwise that are favourable to the Company.

The difficulty the Company may face in raising further debt financing was highlighted over the past eight months when the Company sought further funding from various bank and non-bank financiers but was unable to secure any such funding.

2.4 Approving financial benefits to related parties – Ch 2E of the Corporations Act

Chapter 2E of the Corporations Act requires shareholder approval where a public company such as the Company seeks to give a 'financial benefit' to a 'related party' unless an exception applies.

As mentioned above, for the purposes of Chapter 2E of the Corporations Act, the Lenders are considered to be related parties of the Company.

Under the Varied Loan Agreement, the financial benefit being provided to the Lenders is the payment of interest, the value of the Security and the Conversion Right (**Financial Benefit**).

While the Non-Conflicted Directors consider that the Varied Loan Agreement was negotiated at arms' length between the Company and the Lenders, the Non-Conflicted Directors have decided not to rely on any of the exceptions and, as such, the Company is seeking Shareholder approval under Chapter 2E of the Corporations Act for the financial benefits to be provided to the Lenders under the Varied Loan Agreement and the Security.

2.4.1 Information for Shareholders

Refer to Sections 1.1 to 1.4 and 2.3.2(b) above for the background and circumstances in which the Financial Benefit is to be given and the existing interests of the Lenders in the Company.

(a) The Nature of the Financial Benefit

The nature of the proposed Financial Benefit is the various matters comprising the Varied Loan Agreement including, without limitation:

- (i) the payment of interest on the Loan;
- (ii) the grant of the Conversion Right and the Security; and
- (iii) subject to the Conversion Right being exercised, the issue of the Conversion Shares.

Refer to Sections 1.1 to 1.4 above for the reasons for giving the Financial Benefit and the basis for which it is given.

(b) Non-Conflicted Directors' Recommendation

Each of the Non-Conflicted Directors (Mr Geoffrey Newman and Mr Pierre Fallourd) recommends that Shareholders vote in favour of Resolution 1. The reasons for this recommendation are set out in Section 2.5 below.

As Mr Timothy Martin controls TJM, a Lender, he makes no recommendation in relation to Resolution 1.

(c) Directors' interest and other remuneration

The Non-Conflicted Directors do not have a material personal interest in the outcome of Resolution 1, save for any interest they may have solely in their capacity as Shareholders which interest they hold in common with other Non-Associated Shareholders of the Company.

Mr Timothy Martin, as the controller of TJM, has a material personal interest in the outcome of Resolution 1 and makes no recommendation in relation to Resolution 1.

No other Director has any interest in the outcome of Resolution 1 or any other relevant agreement.

(d) Valuation

The Conversion Shares that may be issued in accordance with the Conversion Right are in a class of securities that are quoted on the ASX. The issue price of the Conversion Shares is the greater of:

- (i) a 15% discount to the 30 day VWAP for Shares ending on the business day immediately before a Conversion Notice is received by the Company; and
- (ii) \$0.015 per Share.

The Independent Experts Report, in section 9, considers which valuation methodology is appropriate in respect of the Security and the Conversion Shares. Shareholders should refer to the Independent Expert's Report for further details.

(e) Any other information reasonably required by Shareholders to make a decision and that is known by the Company or any of its Directors

There is no other information known to the Company or its Directors save and except as follows:

(i) Market Price Movements

The closing market price of the Shares of the Company on 9 August 2017 was \$0.26. The VWAP of Shares for the previous month up to and including 9 August 2017 was \$0.0277.

(ii) Trading History

In the 12 months up to 9 August 2017, the Company's trading history is as follows:

Highest Price	11, 12, 13, 14, 17 and 20 October 2016	\$0.05
Lowest Price	28 June 2017	\$0.025
Last Price	9 August 2017	\$0.026

(iii) **Opportunity Costs**

The opportunity costs and benefits foregone by the Company in granting the Financial Benefit pursuant to Resolution 1 are fully explained in Sections 2.3.2(m) and 2.3.3.

The Non-Conflicted Directors consider that the disadvantages of granting the Financial Benefit are offset by the advantages accruing to the Company in granting the Financial Benefit.

(iv) **Taxation Costs**

No duty or GST will be payable on the granting of the Financial Benefit.

(v) **Dilutionary effect**

The effect that the issue of the Conversion Shares will have on the issued Shares of the Company in various scenarios is set out in Section 1.3.

(vi) **Alternative options to granting the Financial Benefits and implications of not proceeding**

Set out in Section 2.3.3 are the alternative available options identified by the Directors if Resolution 1 is not passed.

(vii) **Impact on the Company of granting the Financial Benefits**

The impact of the granting of the Financial Benefits on the Company is set out in full detail in Sections 1.4 – 2.3 above.

Save as set out in this Notice of Meeting, the Directors are not aware of any other information that would be reasonably required by Shareholders to make a decision in relation to the grant of the Financial Benefit as contemplated by Resolution 1.

2.5 Board Recommendation

After carefully considering all aspects of the grant of the Security and the Conversion Right (including the advantages and disadvantages set out above), the Independent Expert's Report and the alternatives available (as set out above), each Non-Conflicted Director considers that the granting of the Security and the Conversion Right is in the best interests of Shareholders. Accordingly, each Non-Conflicted Director recommends that the Shareholders vote in favour of Resolution 1. The Chair intends to vote undirected proxies in favour of Resolution 1.

Mr Timothy Martin declines to make a recommendation to Shareholders in relation to Resolution 1 due to his interest in the outcome of Resolution 1 by virtue of him controlling TJM and being associated with Boneyard. In order to manage any potential or perceived conflict of interest, Mr Timothy Martin has abstained from making a recommendation and did not participate in the Board's consideration or vote in relation to the Varied Loan Agreement, Security and the Conversion Right.

GLOSSARY

10.1 Waiver	has the meaning given in Section 1.2.
10.1 Waiver Condition	has the meaning given in Section 1.2.
Associate	has the meaning set out in sections 11 to 17 of the Corporations Act, except that a reference to “Associate” in relation to a Listing Rule has the meaning given to it in Listing Rule 14.11.
ASX	means ASX Limited (ABN 98 008 624 691), or as the context requires, the financial market operated by it.
Atlas or Atlas Pearls and Perfumes	means Atlas Pearls and Perfumes Ltd (ABN 32 009 220 053).
BDO	means BDO Corporate Finance (WA) Pty Ltd
Board	means the board of Directors of the Company.
Boneyard	means Boneyard Investments Pty Ltd ACN 161 625 734.
Chair or Chairman	means the chair of the General Meeting.
Company	means Atlas Pearls and Perfumes Ltd (ABN 32 009 220 053).
Conversion Amount	has the meaning given in Section 1.3.
Conversion Notice	has the meaning given in Schedule 1.
Conversion Right	has the meaning given in Section 1.1.
Conversion Shares	has the meaning given in Section 1.3.
Corporations Act	means the Corporations Act 2001 (Cth).
Director	means a director of the Company.
EBIDTA	means earnings before interest, depreciation, tax and amortisation
Event of Default	has the meaning given in Schedule 1.
Explanatory Statement	means this explanatory statement attached to the Notice of General Meeting.
Floor Price	has the meaning given in Section 1.3.
General Meeting or Meeting	means the general meeting of Shareholders to be held at Atlas Pearls and Perfumes, 47-49 Bay View Terrace, Claremont, WA 6010 at 10AM (WST) on 13 September 2017.
Independent Expert	means BDO.
Independent Expert’s Report	means the independent expert’s report provided in Annexure A of this Notice of Meeting.
Lenders	means TJM and Boneyard.
Listing Rules	means the listing rules of the ASX.
Loan	has the meaning given in Section 1.1.
Loan Agreement	has the meaning given in Section 1.1.
NAB	means National Australia Bank Limited and its subsidiaries.
Non-Associated Shareholders	means Shareholders whose votes are not to be disregarded on Resolution 1.
Non-Conflicted Directors	has the meaning given in Section 1.4.
Notice or Notice of General Meeting	means the notice of General Meeting accompanying this Explanatory Statement.

Proxy Form	means the proxy form enclosed with the Notice of General Meeting.
Related Party	means a party so defined by section 228 of the Corporations Act.
Relevant Interest	has the meaning given in the Corporations Act
Relevant Interest Acquisition	means the Lenders and their Associates potentially increasing their Relevant Interest in Shares from 26.4% to 58%.
Resolution	means a resolution proposed to be passed at the General Meeting and contained in the Notice of General Meeting.
Section	means a section of the Explanatory Statement.
Security	means a general security over the Company's assets and undertaking on the terms summarised in Schedule 1.
Share	means a fully paid ordinary share in the capital of the Company.
Shareholder	means a person, corporation or body holding a Share on the register of shareholders.
TJM	means TJM Australia Pty Ltd (ACN 115 313 418) ATF the TJM Trust.
Varied Loan Agreement	has the meaning given in Section 1.1.
WST	means Western Standard Time as observed in Perth, Western Australia.

Schedule 1 – Summary of Varied Loan Agreement and Security

The key terms of the Varied Loan Agreement are as follows:

- (a) \$3.5 million Loan, with \$750,000 advanced by TJM and \$2,750,000 advanced by Boneyard to the Company;
- (b) interest accrues monthly on the Loan at a rate of 7.5% per annum and is payable in arrears on the last business day of each calendar quarter and on the Maturity Date. Interest is not capitalised. Default interest of 10% per annum is payable on amounts not paid when due;
- (c) the Loan is repayable as follows:
 - (i) \$250,000 on 1 February 2018;
 - (ii) \$250,000 on 1 February 2019;
 - (iii) \$500,000 on 30 April 2019;
 - (iv) \$750,000 on 30 June 2019;
 - (v) \$750,000 on 1 February 2020;
 - (vi) \$500,000 on 30 April 2020; and
 - (vii) \$500,000 on 30 June 2020;
- (d) the Company may repay the outstanding Loan early without penalty;
- (e) subject to NAB's consent and the grant of a waiver of Listing Rule 10.1, the Lenders must grant the Security to the Lenders, which will be second ranking behind NAB (this Security has now been granted);
- (f) the Loan Agreement contains negative covenants the Company must comply with during the term of the Loan, including that it must not (without the consent of the Lenders, not to be unreasonably withheld or delayed):
 - (i) vary the \$3.5 million CBA debt repayment schedule (this debt has now been repaid);
 - (ii) issue additional equity capital (other than Shares issued on exercise of existing Options);
 - (iii) incur additional financial indebtedness in excess of \$250,000 (other than up to \$500,000 in additional debt funding from CBA) or \$1 million from NAB to be secured by a first ranking security over the Company;
 - (iv) create or suffer to exist any security interest except in the ordinary course or to the Lenders;
 - (v) give any guarantee or indemnity;
 - (vi) incur material liabilities other than in the usual course of business; or
 - (vii) dispose or agree to dispose or grant an option over its assets other than in the usual course of business;
- (g) the Company must maintain financial year EBITDA of at least \$2 million;
- (h) the Loan Agreement contains default provision limited to failure to pay amounts due within 5 business days of notice of the failure, non-financial default of material obligations that are not cured within 10 business days of notice, material misrepresentation and an event of insolvency (**Event of Default**);
- (i) if and for so long as an Event of Default by the Company is subsisting, the Lenders have the Conversion Right, subject to Shareholder and necessary regulatory approval, to convert all or part of the Conversion Amount into Shares by giving the Company a conversion notice (**Conversion Notice**). The number of Shares to be issued to the Lenders will be determined by dividing the Conversion Amount by the conversion price, which is equal to the higher of:
 - a. a 15% discount to the 30 day VWAP for Shares ending on the business day immediately before a Conversion Notice is received by the Company; and
 - b. the Floor Price;
- (j) the Conversion Amount is capped to a maximum of \$4,820,483.75, being the \$3.5 million Loan plus approximately three years of default interest on that amount, reflecting there being approximately three years until the Maturity Date and that the Lenders may exercise the Conversion Right up until 14 August 2020;
- (k) the Company must immediately seek Shareholder approval for the Security for the purposes of ASX Listing Rule 10.1, and for converting the Loan and outstanding interest into Shares on an Event of Default, and seek NAB consent for granting the Security (which consent has now been obtained). If Shareholder approval is not obtained by a specified end date, currently being 15 September 2017, the outstanding Loan and interest are repayable on demand by the Lenders; and
- (l) the Lenders' can only convert the Loan and outstanding interest on the Company's default up until 14 August 2020, being approximately three years after the latest date by which Shareholders approval for the issue of the Conversion Shares must be obtained, and just after the Maturity Date of 30 June 2020.

The proposed Security is on standard terms for an agreement of this nature. Its terms include limited events of default (failure to pay monies due, non-compliance with material terms, granting new security

interests without consent, cross default under other financing agreements and insolvency). The Security contains typical negative covenants, including a prohibition on the disposal of secured property except in the ordinary course of business.

Annexure A – Independent Expert’s Report



ATLAS PEARLS AND PERFUMES LIMITED Independent Expert's Report

Opinions:

The Security Transaction is fair and reasonable

The Relevant Interest Acquisition is not fair but reasonable

26 July 2017



Financial Services Guide

26 July 2017

BDO Corporate Finance (WA) Pty Ltd ABN 27 124 031 045 ('we' or 'us' or 'ours' as appropriate) has been engaged by Atlas Pearls and Perfumes Limited ('Atlas' or 'the Company') to provide an independent expert's report in relation to the secured loan agreement that Atlas has entered into with Boneyard Investments Pty Ltd ('Boneyard') and TJM Australia Pty Ltd as trustee for the TJM Trust ('TJM'), which are both entities associated with Mr Tim Martin, a current director of Atlas. You will be provided with a copy of our report as a retail client because you are a shareholder of Atlas.

Financial Services Guide

In the above circumstances we are required to issue to you, as a retail client, a Financial Services Guide ('FSG'). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

This FSG includes information about:

- ◆ Who we are and how we can be contacted;
- ◆ The services we are authorised to provide under our Australian Financial Services Licence, Licence No. 316158;
- ◆ Remuneration that we and/or our staff and any associates receive in connection with the general financial product advice;
- ◆ Any relevant associations or relationships we have; and
- ◆ Our internal and external complaints handling procedures and how you may access them.

Information about us

BDO Corporate Finance (WA) Pty Ltd is a member firm of the BDO network in Australia, a national association of separate entities (each of which has appointed BDO (Australia) Limited ACN 050 110 275 to represent it in BDO International). The financial product advice in our report is provided by BDO Corporate Finance (WA) Pty Ltd and not by BDO or its related entities. BDO and its related entities provide services primarily in the areas of audit, tax, consulting and financial advisory services.

We do not have any formal associations or relationships with any entities that are issuers of financial products. However, you should note that we and BDO (and its related entities) might from time to time provide professional services to financial product issuers in the ordinary course of business.

Financial services we are licensed to provide

We hold an Australian Financial Services Licence that authorises us to provide general financial product advice for securities to retail and wholesale clients.

When we provide the authorised financial services we are engaged to provide expert reports in connection with the financial product of another person. Our reports indicate who has engaged us and the nature of the report we have been engaged to provide. When we provide the authorised services we are not acting for you.

General Financial Product Advice

We only provide general financial product advice, not personal financial product advice. Our report does not take into account your personal objectives, financial situation or needs. You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice.

Fees, commissions and other benefits that we may receive

We charge fees for providing reports, including this report. These fees are negotiated and agreed with the person who engages us to provide the report. Fees are agreed on an hourly basis or as a fixed amount depending on the terms of the agreement. The fee payable to BDO Corporate Finance (WA) Pty Ltd for this engagement is approximately \$21,000. BDO Corporate Finance (WA) Pty Ltd also performed investigation services for Atlas within the last two years for a collective fee of \$44,000.

Except for the fees referred to above, neither BDO, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

BDO Audit (WA) Pty Ltd is the appointed independent auditor of Atlas. We do not consider that this impacts on our independence in accordance with the requirements of Regulatory Guide 112 'Independence of Experts'. We have completed a conflict search of BDO affiliated organisations within Australia. This conflict search incorporates all Partners, Directors and Managers of BDO affiliated organisations. We are not aware of any circumstances that, in our view, would constitute a conflict of interest or would impair our ability to provide objective assistance in this matter. BDO Audit (WA) Pty Ltd has performed work for Atlas over the past two years for a collective fee of \$198,428.

Remuneration or other benefits received by our employees

All our employees receive a salary. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report. We have received a fee from Atlas for our professional services in providing this report. That fee is not linked in any way with our opinion as expressed in this report.

Referrals

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

Complaints resolution

Internal complaints resolution process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing addressed to The Complaints Officer, BDO Corporate Finance (WA) Pty Ltd, PO Box 700 West Perth WA 6872.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than **45 days** after receiving the written complaint, we will advise the complainant in writing of our determination.

Referral to External Dispute Resolution Scheme

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Ombudsman Service ('FOS'). FOS is an independent organisation that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial service industry. FOS will be able to advise you as to whether or not they can be of assistance in this matter. Our FOS Membership Number is 12561. Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly via the details set out below.

Financial Ombudsman Service
GPO Box 3
Melbourne VIC 3001
Toll free: 1800 367 287
Facsimile: (03) 9613 6399
Email: info@fos.org.au

Contact details

You may contact us using the details set out on page 1 of the accompanying report.

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Appendix 1 - Glossary and copyright notice

Appendix 2 - Valuation Methodologies

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26 July 2017

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47-49 Bayview Terrace
Claremont, WA 6010

Dear Directors

INDEPENDENT EXPERT'S REPORT

1. Introduction

On 30 January 2017, Atlas Pearls and Perfumes Ltd ('Atlas' or 'the Company') announced that it had entered into a secured \$1.5 million loan agreement ('Loan Agreement') with Boneyard Investments Pty Ltd ('Boneyard') and TJM Australia Pty Ltd as trustee for the TJM Trust ('TJM'), together ('the Lenders'). Each of the Lenders subsequently advanced \$750,000 to the Company under the Loan Agreement on 1 February 2017.

On 28 June 2017, the Company varied the Loan Agreement to:

- provide for an additional \$2.0 million to be lent to the Company by Boneyard, which was advanced on or around 29 June 2017, resulting in a total of \$3.5 million in principal being owed to the Lenders ('Loan'). Funds from the Loan are being used for ongoing working capital;
- allow additional time for the Company to grant the Lenders a second ranking security to secure the Loan and interest ('Security Transaction') subject to receipt of a waiver of ASX Listing Rule 10.1 and consent from the Company's first secured financier, National Australia Bank ('NAB'). Under the original Loan Agreement, the Company had until 31 March 2017 to grant the security to the Lenders under the Security Transaction;
- include a right for the Lenders, if and for so long as there is an event of default by the Company under the Loan Agreement (as varied), and subject to obtaining shareholder approval and necessary regulatory approvals, to convert all or part of the Loan and outstanding interest ('Conversion Amount') into shares, subject to certain caps ('Conversion Right'). The maximum number of shares that may be issued to the Lenders under the Conversion Right is 321,365,583 shares ('Conversion Shares'). The Lenders and their associates currently have approximately a 26.4% interest in the Company. Assuming that all the Conversion Shares are issued and no other shares are issued or Options exercised, the Lenders and their associates will acquire a relevant interest of approximately 58% in the Company ('Relevant Interest Acquisition'); and
- require the Company to seek shareholder approvals for the Security Transaction, Relevant Interest Acquisition and seek NAB consent for the Security Transaction, with the Loan repayable on

demand if these shareholder approvals and consent are not obtained by 30 August 2017, unless otherwise agreed by the Lenders,

collectively, the **'Varied Loan Agreement'**.

The Security Transaction and the Relevant Interest Acquisition are together referred to as **'the Transactions'**.

Our report is prepared pursuant to the requirements of the Australian Securities Exchange (**'ASX'**) Listing Rule 10.1 and Section 611 Item 7 of the Corporations Act 2001 (Cth) (**'Corporations Act'** or **'the Act'**), for the following reasons:

Security Transaction

An independent expert's report is required by ASX Listing Rule 10.1 because Mr Tim Martin, a director of Atlas, is also a director of Boneyard and controls TJM. For the purpose of ASX Listing Rule 10.1, Mr Tim Martin is considered to be a related party. ASX Listing Rule 10.1 applies when an entity acquires a substantial asset from, or disposes of a substantial asset to, a related party. An asset is substantial if its value, or the value of the consideration for it, is 5% or more of the equity interests of the entity at the date of the last audited/reviewed accounts.

Our report is prepared pursuant to the requirements of ASX Listing Rule 10.1 because, by entering into the Security Transaction, the Company is deemed to have disposed of a substantial asset, being the general security deed to grant security to the Lenders, a related party, of which the value of the security granted is more than 5% of the Company's equity interest at 31 December 2016.

Relevant Interest Acquisition

The potential issue of shares under the Relevant Interest Acquisition would result in the Lenders and their associates increasing their interest from a starting point that is above 20% and below 90%. As such, the Relevant Interest Acquisition requires the approval of the non associated shareholders of Atlas (**'Shareholders'**), pursuant to Section 611 Item 7 of the Corporations Act (**'Section 611'**).

Further details of the Transactions is available in Section 4 of our report and the Company's Notice of Meeting.

2. Summary and Opinion

2.1 Purpose of the report

The directors of Atlas have requested that BDO prepare an independent expert's report (**'our Report'**) to express an opinion as to whether or not the Transactions are fair and reasonable for Shareholders.

Our Report is prepared pursuant to ASX Listing Rule 10.1 and Section 611 of the Corporations Act, and is to be included in the Notice of Meeting for Atlas in order to assist the Shareholders in their decision whether to approve the Transactions.

2.2 Approach

Our Report has been prepared having regard to Australian Securities and Investments Commission ('ASIC') Regulatory Guide 74 'Acquisitions Approved by Members' ('RG 74'), Regulatory Guide 111 'Content of Expert's Reports' ('RG 111') and Regulatory Guide 112 'Independence of Experts' ('RG 112').

In arriving at our opinion, we have assessed the terms of the Transactions as outlined in the body of this report. We have considered:

- how the value of the proceeds of the sale of assets that would be provided to the Lenders under a mortgage deed in relation to the Varied Loan Agreement, in the event of a default, compares to the value of the liabilities that would be settled (Security Transaction);
- how the value of an Atlas share on a control basis prior to the Relevant Interest Acquisition compares to the value of an Atlas share on a minority basis following the Relevant Interest Acquisition;
- the likelihood of a superior alternative offer being available to Atlas;
- other factors which we consider to be relevant to the Shareholders in their assessment of the Transactions; and
- the position of Shareholders should the Transactions not proceed.

2.3 Opinion

Security Transaction

We have considered the terms of the Security Transaction as outlined in the body of this report and have concluded that, in the absence of any other relevant information, the Security Transaction is fair and reasonable for Shareholders.

We concluded that the value of the proceeds of the sale of the security that would be provided to the Lenders under the Security Transaction in the event of default, is equivalent to or lower than the value of the liabilities that would be settled. This is discussed in Section 10 of our Report. Therefore, in the absence of any other relevant information, and a superior offer, the Security Transaction is fair for Shareholders.

Relevant Interest Acquisition

We have considered the terms of the Relevant Interest Acquisition as outlined in the body of this report and have concluded that, in the absence of a superior offer, the Relevant Interest Acquisition is not fair but reasonable for Shareholders.

We concluded that the Relevant Interest Acquisition is not fair in the scenario that the value per Atlas share including a premium for control is more than the Floor Price. This is discussed in Section 10 of our Report. Therefore, in the absence of any other relevant information we consider the Relevant Interest Acquisition to be not fair for Shareholders.

2.4 Reasonableness

We have considered the analysis in Section 11 of this report, in terms of both

- advantages and disadvantages of the Transactions; and
- other considerations including the position of Shareholders if the Transactions do not proceed and the consequences of not approving the Transactions.

In our opinion, the position of Shareholders if the Transactions are approved is more advantageous than the position if the Transactions are not approved. Accordingly, in the absence of any other relevant information and/or a superior proposal, we believe that;

- the Security Transaction is reasonable for Shareholders; and
- the Relevant Interest Acquisition is reasonable for Shareholders.

The respective advantages and disadvantages considered are summarised below:

ADVANTAGES AND DISADVANTAGES			
Section	Advantages	Section	Disadvantages
11.1.1	The Security Transaction is fair	11.2.1	The Relevant Interest Acquisition is not fair
11.1.2	The Transactions result in the Company being under less cash flow strain and strengthens its ability to remain a going concern	11.2.2	Potential dilution of existing Shareholders' interests
11.1.3	Alternative sources of funding may need to take the form of debt that can be converted at the discretion of the holder without the condition of a default event	11.2.3	Atlas will grant to the Lenders a second ranking security over all the assets of the Company to secure the Loan
11.1.4	The Varied Loan Agreement does not include any fees or penalties for prepayments on the Loan	11.2.4	Limited restrictions placed on the Company's ability to issue additional equity, raise further debt and deal with its assets without the Lenders' consent
11.1.5	No changes to current operating arrangements		
11.1.6	Supports debt funding		

Other key matters we have considered include:

Section	Description
11.3.1	Alternative proposal
11.3.2	Practical level of control
11.3.3	Fiduciary Duty of the Company's Directors

3. Scope of the Report

3.1 Purpose of the Report

Security Transaction

ASX Listing Rule 10.1 requires that a listed entity must obtain shareholders' approval before it acquires or disposes of a substantial asset from a related party of the company, a substantial shareholder (i.e. shareholder holding 10% or more of the shares in the company) or an associate of a related party or substantial shareholder, when the consideration to be paid for the asset or the value of the asset being disposed constitutes more than 5% of the equity interest of that entity at the date of the last audited/reviewed accounts.

By entering into the Security Transaction, the Company is deemed to have disposed of a substantial asset, being the general security deed to grant security to the Lenders, a related party, of which the value of the security granted is more than 5% of the Company's equity interest at 31 December 2016.

For the purpose of ASX Listing Rule 10.1, Mr Tim Martin, a director of Atlas, is considered to be a related party because he is also a director of Boneyard and controls TJM.

Listing Rule 10.10.2 requires the Notice of Meeting for shareholders' approval to be accompanied by a report by an independent expert expressing their opinion as to whether the transaction is fair and reasonable to the shareholders whose votes are not to be disregarded in respect of the transaction non-associated shareholders.

Accordingly, an independent experts' report is required for the Security Transaction. The report should provide an opinion by the expert stating whether or not the terms and conditions in relation thereto are fair and reasonable to non-associated shareholders of Atlas.

Relevant Interest Acquisition

The Lenders (and their associates) together currently own approximately 26.4% of the shares in Atlas. Following the execution of the Conversion Right, assuming that all the Conversion Shares are issued and no other Shares are issued or options exercised, the Lenders and their associates will acquire a relevant interest of approximately 58% in the Company. Section 606 of the Corporations Act expressly prohibits the acquisition of further shares by a party who already holds (with associates) more than 20% of the issued shares of a public company, unless a full takeover offer is made to all shareholders.

Section 611 of the Corporations Act permits such an acquisition if the shareholders of that entity have agreed to the issue of such shares. This agreement must be by resolution passed at a general meeting at which no votes are cast in favour of the resolution by any party who is associated with the party acquiring the shares, or by the party acquiring the shares. Section 611 states that shareholders of the company must be given all information that is material to the decision on how to vote at the meeting.

RG 74 states that the obligation to supply shareholders with all information that is material can be satisfied by the non-associated directors of Atlas, by either:

- undertaking a detailed examination of the Transactions themselves, if they consider that they have sufficient expertise, experience and resources; or
- By commissioning an Independent Expert's Report.

The directors of Atlas have commissioned this Independent Expert's Report to satisfy this obligation.

3.2 Regulatory guidance

Neither the Listing Rules nor the Corporations Act define the meaning of 'fair and reasonable'. In determining whether the Transactions are fair and reasonable, we have had regard to the views expressed by ASIC in RG 111. This regulatory guide provides guidance as to what matters an independent expert should consider to assist security holders to make informed decisions about transactions.

Security Transaction

RG 111 suggests that, where an expert assesses whether a related party transaction is 'fair and reasonable' for the purposes of ASX Listing Rule 10.1, this should not be applied as a composite test, that is, there should be a separate assessment of whether the transaction is 'fair' and 'reasonable', as in a control transaction. An expert should not assess whether the transaction is 'fair and reasonable' based simply on a consideration of the advantages and disadvantages of the proposal.

We do not consider the Security Transaction to be a control transaction. As such, we have used RG 111 as a guide for our analysis but have considered the Security Transaction as if it were not control transaction.

Relevant Interest Acquisition

RG 111 suggests that where the transaction is a control transaction, the expert should focus on the substance of the control transaction rather than the legal mechanism used to effect it. RG 111 suggests that where a transaction is a control transaction, it should be analysed on a basis consistent with a takeover bid.

In our opinion, the Relevant Interest Acquisition is a control transaction as defined by RG 111 and we have therefore assessed the Relevant Interest Acquisition as a control transaction to consider whether, in our opinion, it is fair and reasonable for Shareholders.

3.3 Adopted basis of evaluation

Security Transaction

RG 111.57 states that a proposed related party transaction is fair if the value of the financial benefit to be provided by the entity to the related party is equal to or less than the value of the consideration being provided to the entity. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length.

For the Security Transaction, the financial benefit provided by Atlas is cash or assets up to the equivalent cash amount sufficient to repay the outstanding liability to the Lenders in the case of default on the Loan. The consideration being provided to Atlas is the amount payable to the Lenders that would be settled by the sale of the secured assets, including the principal amount drawn down and related interest accrued.

Further to this, RG 111 states that a transaction is reasonable if it is fair. It might also be reasonable if despite being 'not fair' the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid.

Having regard to the above, we have completed this comparison in two parts:

- a comparison between the value of the proceeds of the sale of the security that would be provided to the Lenders under the Security Transaction in the event of default and the value of the liabilities that would be settled (fairness - see Section 10 'Are the Transactions Fair?'); and
- an investigation into other significant factors to which Shareholders might give consideration, prior to approving the Security Transaction, after reference to the fairness assessment above (reasonableness - see Section 11 'Are the Transactions Reasonable?').

Relevant Interest Acquisition

Section 606 of the Corporations Act expressly prohibits the acquisition of further shares by a party who already holds (with associates) more than 20% of the issued shares of a public company, unless a full takeover offer is made to all shareholders.

RG 111 considers that all transactions whereby an entity increases its shareholding from a starting point that is above 20% and below 90% are control transactions and should be assessed as a takeover bid. RG 111.31 stipulates that in a control transaction a comparison should be made between the value of the target entity's securities prior to the transaction on a controlling basis and the value of the target entity's securities following the transaction allowing for a minority discount. This comparison reflects the fact that the acquirer is obtaining or increasing control of the target entity and the security holders in the target entity will no longer hold a controlling interest.

Because the Relevant Interest Acquisition cannot take place unless the Company is in default, the approval of the Transactions has no immediate consequences relating to Section 606, as the voting interest in Atlas does not change at the time of approval. As such, in considering the possible exercise of the Conversion Right and resultant Relevant Interest Acquisition, the relevant date to assess the value of an Atlas share would be at or around the time that the Conversion Right is exercised and the Lenders' interest in Atlas increases.

Therefore, as at the date of our Report, no assessment of the value of an Atlas share can reasonably be made as the possible date that the Conversion Right is executed (if it is executed at all) cannot be predicted. Consequently, the value of an Atlas share and the Conversion Price at any future date cannot be determined. For that reason, the contingent nature of the Relevant Interest Acquisition and terms of the Varied Loan Agreement, together with the current circumstances of Atlas and the advantages provided by the Loan are of more significance than the possible value of the Company's assets and liabilities at some future date. We have discussed these issues in our assessment of reasonableness in Section 10 of our Report.

Notwithstanding this, in assessing the issue of the Conversion Shares to the Lenders upon the possible exercise of the Conversion Right and resultant Relevant Interest Acquisition, we have illustrated the various scenarios that may arise in the event of default at a future date, given the mechanism of the Conversion Right.

Having regard to the above, we have completed this comparison in two parts:

- how the value of an Atlas share on a control basis prior to the Relevant Interest Acquisition compares to the value of an Atlas share on a minority basis following the Relevant Interest Acquisition (fairness - see Section 10 'Are the Transactions Fair?'); and
- an investigation into other significant factors to which Shareholders might give consideration, prior to approving the Relevant Interest Acquisition, after reference to the fairness assessment above (reasonableness - see Section 11 'Are the Transactions Reasonable?').

This assignment is a Valuation Engagement as defined by Accounting Professional & Ethical Standards Board professional standard APES 225 'Valuation Services' ('APES 225').

A Valuation Engagement is defined by APES 225 as follows:

'an Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Valuer is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Valuer at that time.'

This Valuation Engagement has been undertaken in accordance with the requirements set out in APES 225.

4. Outline of the Transactions

On 30 January 2017, Atlas announced that it had entered into a secured \$1.5 million loan agreement with the Lenders. Each of the Lenders subsequently advanced \$750,000 to the Company under the Loan Agreement on 1 February 2017. The Funds are being used for ongoing working capital.

On 28 June 2017, the Company varied the Loan Agreement to:

- provide for an additional \$2.0 million to be lent to the Company by Boneyard, which was advanced on or around 29 June 2017, resulting in a total of \$3.5 million in principal being owed to the Lenders;
- allow additional time for the Company to grant the Lenders a second ranking security to secure the Loan and interest subject to receipt of a waiver of ASX Listing Rule 10.1 and consent from the Company's first secured financier, NAB. Under the original Loan Agreement, the Company had until 31 March 2017 to grant the security to the Lenders under the Security Transaction;
- include a right for the Lenders, if and for so long as there is an event of default by the Company under the Loan Agreement (as varied), and subject to obtaining shareholder approval and necessary regulatory approvals, to convert the Conversion Amount into shares, subject to certain caps. The Lenders and their associates currently have approximately a 26.4% interest in the Company. Assuming all the Conversion Shares are issued and no other Shares are issued or Options exercised, the Lenders and their Associates will acquire a relevant interest of approximately 58% in the Company;
- require the Company to seek shareholder approvals for the Security Transaction, Relevant Interest Acquisition and seek NAB consent for the Security Transaction, with the Loan repayable on demand if these shareholder approvals and consent are not obtained by 30 August 2017, unless otherwise agreed by the Lenders.

The key terms of the Varied Loan Agreement are as follows:

- Interest accrues monthly on the Loan at a rate of 7.50% per annum and is payable quarterly in arrears and on 30 June 2020 (**'Maturity Date'**). Interest is not capitalised. Default interest of 10% per annum is payable on amounts not paid when due;
- **Scheduled repayments:**
 - \$250,000 on 1 February 2018
 - \$250,000 on 1 February 2019
 - \$500,000 on 30 April 2019
 - \$750,000 on 30 June 2019
 - \$750,000 on 1 February 2020
 - \$500,000 on 30 April 2020
 - \$500,000 on 30 June 2020
- The Company may repay the outstanding Loan without penalty;
- **Negative Pledges** - Atlas must not, without the prior written consent of the Lenders:
 - vary the repayment schedule of the existing \$1 million first ranking secured debt facility from NAB (**'NAB Debt'**);
 - raise further capital via the issue of shares, options or other equity securities, other than from the exercise of options on issue as at the execution date;
 - receive, or agree to receive, additional debt funding of more than \$250,000;
 - create, permit, suffer to exist, or agree to, any security interest, other than security interest in favour of the Lenders, over any of its assets except in the ordinary course of its ordinary business or in accordance with a transaction document;
 - give any guarantee or indemnity;
 - incur material liabilities other than in the usual course of business; or
 - dispose or agree to dispose or grant an option over its assets other than in the usual course of business.
- The Company must maintain financial year earnings before interest, tax, depreciation and amortisation of at least \$2.0 million.

In the event of default by the Company, the Lenders have the right to convert the Conversion Amount into shares. The number of shares to be issued to the Lenders will be determined by dividing the Conversion Amount by the conversion price, which is equal to the greater of:

- a 15% discount to the 30-day volume weighted average price (**'VWAP'**) for shares ending on the business day immediately before a notice for conversion is received by the Company; and
- \$0.015 per share (**'Floor Price'**).

The Conversion Amount is capped to a maximum of \$4,820,483.75 (**'Maximum Conversion Amount'**), being the \$3.5 million Loan plus approximately three years of default interest on that amount, reflecting

there being approximately three years until the Maturity Date and that the Lenders may exercise the Conversion Right up until 14 August 2020. Given this, the maximum number of shares that may be issued to the Lenders under the Conversion Right is 321,365,583 shares.

Given that the Conversion Price is not fixed (subject to the Floor Price), the number of shares that may be issued on conversion of the Loan and interest on a default is not know at this time.

The following table shows the maximum number of shares that may be issued to the Lenders upon the Conversion Right being exercised and resultant Relevant Interest Acquisition.

Potential capital structure following Relevant Interest Acquisition	Lenders and their associates	Existing Shareholders	Total
Existing shareholding			
Issued shares as at the date of our Report	113,086,550	314,785,208	427,871,758
<i>% holdings as at the date of the Report</i>	<i>26%</i>	<i>74%</i>	100%
Potential shares to be issued under the Relevant Interest Acquisition (Assuming Maximum Conversion Amount)			
Assumed Conversion Price \$0.030	273,769,341	314,785,208	588,554,550
<i>% holdings following Relevant Interest Acquisition</i>	<i>47%</i>	<i>53%</i>	100%
Assumed Conversion Price \$0.025	305,905,900	314,785,208	620,691,108
<i>% holdings following Relevant Interest Acquisition</i>	<i>49%</i>	<i>51%</i>	100%
Assumed Conversion Price \$0.020	354,110,737	314,785,208	668,895,946
<i>% holdings following Relevant Interest Acquisition</i>	<i>53%</i>	<i>47%</i>	100%
Assumed Conversion Price \$0.015 (Floor Price)	434,452,133	314,785,208	749,237,341
<i>% holdings following Relevant Interest Acquisition</i>	<i>58%</i>	<i>42%</i>	100%

Source: BDO analysis

Further details of the Transactions are disclosed in the Company's Notice of Meeting.

5. Profile of Atlas

5.1 Background

Atlas, formerly Atlas Pacific Limited, is an Australian based pearl and perfume business which listed on the ASX in 1993. The Company operates throughout the Indonesian Archipelago, and is an eco-pearling and producer of silver and white South Sea pearls. The current Board of Directors are:

- Mr Geoffrey Newman, Executive Chairman;
- Mr Timothy James Martin, Non-Executive Director; and
- Mr Pierre Fallourd, Managing Director.

Atlas operates five pearl farms and has two technical hubs in Bali and Lembata for its breeding and seeding programs. The Company makes long-term research and development investments into breeding optimisation and pearl quality and has developed expertise in seeding superior quality hatchery-bred pearls. Atlas employs over 900 staff and harvests over 300,000 South Sea pearls each year.

In addition to the pearl farm operations, Atlas has its own high quality grading and loose pearl distribution business, including jewellery manufacturing capability. The Company has established relationships with

global retailers and supplies pearls to major brand names and fashion houses in New York and Paris. Atlas sells direct to customers through wholesale partners, its online store and stores in Perth, Australia and Seminyak, Bali.

In 2012, Atlas expanded its operations into perfumes, developing a range of proprietary products that include pearl powder and proteins for cosmetics, and pearl volatiles and boronia for perfumes.

5.2 Interests in Joint Ventures

Atlas holds a 50% interest in Essential Oils of Tasmania Pty Ltd ('EOT'), a company located in Australia whose principal activity is to grow and produce essential oils.

Atlas holds a 50% interest in World Senses Pty Ltd, a company located in Australia whose principal activity is the commercialisation of Atlas' and EOT's research and development, products and export markets.

Atlas holds a 50% interest in Brookfield Tasmania Pty Ltd, a company incorporated in Australia with the principal activity being the development of a manufacturing and tourism facility.

World Senses Pty Ltd and EOT are accounted for in the financial statements of Atlas using the equity method of accounting. Brookfield Tasmania Pty Ltd is unlisted and hence no fair value is disclosed.

5.3 Recent Events

On 21 April 2015, the Company announced that it had sold 50% of its wholly owned subsidiary EOT to Westwood Properties Pty Ltd ('Westwood'). Westwood's investment, totalling \$1.4 million, comprised \$280,000 in cash to Atlas and the balance as loans to EOT.

During FY16, Atlas received offers for the purchase its remaining 50% interest in EOT. On evaluation of the offers made, the Company decided that EOT adds more strategic value as a diversified revenue stream and decided to retain its interest in EOT.

On 20 June 2016, the Company announced that it had completed its biggest pearl auction to date, held in Kobe, Japan with sales of \$4 million.

On 31 October 2016, Atlas executed a pearl powder and protein extract supply and licensing agreement with the world's largest direct marketing beauty company, Guthy-Renker LLC. The agreement is for an initial four-year period and forms part of Atlas' revenue diversification strategy. The extract of pearl powder and protein ensures the maximum value is generated from each Oyster, and is a key opportunity for Atlas to gain entry into the international cosmetics market.

5.4 Historical Statement of Financial Position

Statement of Financial Position	Reviewed as at 31-Dec-16 \$	Audited as at 30-Jun-16 \$	Audited as at 30-Jun-15 \$
CURRENT ASSETS			
Cash and cash equivalents	1,762,993	4,343,407	2,632,311
Trade and other receivables	803,763	726,993	562,021
Derivative financial instruments	321,877	-	14,245
Inventories	3,717,817	2,949,908	3,030,227
Biological assets	5,633,029	5,331,477	3,565,680
TOTAL CURRENT ASSETS	12,239,479	13,351,785	9,804,484
NON-CURRENT ASSETS			
Intangibles	104,213	161,969	276,854
Loans joint venture entities	1,033,525	1,016,456	1,597,015
Investments accounted for using equity method	-	183,744	292,940
Inventories	109,626	199,393	173,510
Biological assets	12,585,176	12,118,179	10,988,645
Property, plant and equipment	5,055,040	4,740,815	4,473,286
Deferred tax assets	2,893,493	3,035,807	3,335,614
TOTAL NON-CURRENT ASSETS	21,781,073	21,456,363	21,137,864
TOTAL ASSETS	34,020,552	34,808,148	30,942,348
CURRENT LIABILITIES			
Trade and other payables	2,360,301	2,528,685	1,685,124
Borrowings	3,633,392	4,191,016	3,954,527
Derivative financial instruments	-	253,324	-
Current tax liabilities	82,690	661,111	225,528
TOTAL CURRENT LIABILITIES	6,076,383	7,634,136	5,865,179
NON-CURRENT LIABILITIES			
Borrowings	6,666	33,553	130,208
Deferred tax liabilities	1,366,161	1,315,815	972,780
TOTAL NON-CURRENT LIABILITIES	1,372,827	1,349,368	1,102,988
TOTAL LIABILITIES	7,449,210	8,983,504	6,968,167
NET ASSETS	26,571,342	25,824,644	23,974,181
EQUITY			
Contributed equity	36,857,415	36,698,536	36,465,656
Reserves	(8,236,266)	(8,400,478)	(9,049,958)
(Accumulated losses)	(2,049,807)	(2,473,414)	(3,441,517)
TOTAL EQUITY	26,571,342	25,824,644	23,974,181

Source: Atlas' audited financial statements for the years ended 30 June 2015 and 30 June 2016, and reviewed financial statements for the half-year ended 31 December 2016

We note that Atlas' auditor issued an emphasis of matter in the Company's half-year report for the six months ended 31 December 2016. The basis of the emphasis of matter was a material uncertainty relating to going concern, specifically, the ability of the Atlas to make repayments on \$3.5 million of secured debt repayable to the Commonwealth Bank of Australia by 30 June 2017 ('CBA Debt') and continue to fund its working capital requirements.

Commentary on Historical Statement of Financial Position

We note the following in relation to Atlas' historical statement of financial position:

- Cash and cash equivalents decreased from \$4.34 million as at 30 June 2016 to \$1.76 million as at 31 December 2016. The decrease was primarily attributable to \$0.68 million in payments for property plant and equipment, and \$0.67 million in repayment of borrowings.
- Derivative financial instruments of \$0.32 million as at 31 December 2016 related solely to a forward foreign exchange contract. The operating expenses of the business are predominantly in Indonesian Rupiah and the sale of pearls is denominated in Japanese Yen. As at 31 December 2016, Atlas had a derivative financial asset of \$0.32 million that comprised forward contracts entered into to sell Japanese Yen and receive Australian dollars.
- Current inventories of \$3.72 million as at 31 December 2016 comprised primarily pearls carried at fair value totalling \$2.26 million and jewellery carried at cost totalling \$1.10 million.
- Biological assets of \$5.63 million (current) and \$12.59 million (non-current) as at 31 December 2016 comprised oysters measured at their fair value less estimated husbandry costs. Oysters typically require two to three years to grow.
- Loans from joint venture entities of \$1.03 million as at 31 December 2016 related to salary and administration recharges.
- Non-current inventories of \$0.11 million as at 31 December 2016 comprised nuclei carried at cost.
- Property, plant and equipment of \$5.06 million as at 31 December 2016 consisted of \$0.41 million in non-pearling assets and \$4.65 million in pearling related assets.
- Current borrowings of \$3.63 million as at 31 December 2016 was primarily attributable to a \$3.47 million facility with CBA, which expires on 30 June 2017. The following loans are provided under the facility:
 - Japanese Yen Domestic Foreign Currency Advance with a limit of A\$1.87 million. The facility attracts a fixed interest rate plus the Japanese Bank Bill Swap Bid Rate. As at 31 December 2016, the facility had been fully drawn and the fixed interest rate was 6.58% per annum, with a 0.50% per annum bank fee, and management fee of \$4,825 per month.
 - Australian Dollar Bills Discount facility with a limit of A\$2.13 million. The facility attracts a fixed interest rate plus the London Interbank Offered Rate. As at 31 December 2016, \$2.12 million had been drawn and the fixed interest rate was 6.58% per annum, with a 0.50% per annum bank fee, and management fee of \$4,825 per month.

5.5 Historical Statement of Comprehensive Income

Statement of Profit or Loss and Other Comprehensive Income	Reviewed for the half-year ended 31-Dec-16 \$	Audited for the year ended 30-Jun-16 \$	Audited for the year ended 30-Jun-15 \$
Revenue from continuing operations	7,360,558	18,434,855	12,118,312
Cost of goods sold	(3,301,581)	(8,152,468)	(5,891,435)
Gross profit	4,058,977	10,282,387	6,226,877
Other income	1,037,073	1,324,354	3,824,188
Marketing expenses	(268,466)	(234,896)	(454,199)
Administration expenses	(3,055,268)	(6,270,373)	(7,407,977)
Finance costs	(230,839)	(414,270)	(473,131)
Change in fair value less husbandry costs of oysters	5,475	1,992,520	(5,489,228)
Write-off of pearl and jewellery costs	-	(165,036)	(1,386,517)
Other expenses	(540,271)	(3,618,346)	(2,220,528)
Loss on sale of investment	-	-	(245,234)
Share of equity accounted investment	(183,744)	(109,195)	12,940
Profit/(Loss) before income tax	822,937	2,787,145	(7,612,809)
Income tax benefit	(399,335)	(1,819,042)	(521,240)
Profit/(Loss) after income tax for the period from continuing operations	423,602	968,103	(8,134,049)
Other comprehensive income/(losses)			
Exchange differences on translation of foreign operations	151,825	617,216	(1,073,521)
Other comprehensive income/(losses) for the period, net of tax	151,825	617,216	(1,073,521)
Total comprehensive income/(losses) for the period	575,427	1,585,319	(9,207,570)

Source: Atlas' audited financial statements for the years ended 30 June 2015 and 30 June 2016, and reviewed financial statements for the half-year ended 31 December 2016

Commentary on Statement of Profit or Loss and Other Comprehensive Income

We note the following in relation to Atlas' historical statement of profit or loss and other comprehensive income:

- Revenue from continuing operations increased from \$12.12 million for the year ended 30 June 2015 to \$18.43 million for the year ended 30 June 2016, with the increase largely attributable to favourable exchange rate movements between the Japanese Yen and the Australian dollar.
- Other income of \$1.04 million for the half-year ended 31 December 2016 related to foreign exchange gains, gains on derivative financial instruments and grant funding.
- Administration expenses of \$3.06 million for the half-year ended 31 December 2016 comprised salaries and wages, operating lease costs, finance and compliance costs, and depreciation.
- Other expenses of \$0.54 million for the half-year ended 31 December 2016 comprised loss on foreign exchange, provisions, impairment charges and share option expenses.

5.6 Capital Structure

The share structure of Atlas as at 6 June 2017 is outlined below:

	Number
Total ordinary shares on issue	427,871,758
Top 20 shareholders	243,190,631
Top 20 shareholders - % of shares on issue	56.84%

Source: Share registry information

The range of shares held in Atlas as at 6 June 2017 is as follows:

Range of Shares Held	Number of Ordinary Shareholders	Number of Ordinary Shares	Percentage of Issued Shares (%)
1 - 1,000	129	74,368	0.02%
1,001 - 5,000	409	1,261,647	0.29%
5,001 - 10,000	316	2,625,925	0.61%
10,001 - 100,000	829	30,344,060	7.09%
100,001 - and over	374	393,565,758	91.98%
TOTAL	2,057	427,871,758	100.00%

Source: Share registry information

The ordinary shares held by the most significant shareholders as at 6 June 2017 are detailed below:

Name	Number of Ordinary Shares Held	Percentage of Issued Shares (%)
Boneyard Investments Pty Ltd	53,048,882	12.40%
Chemco Superannuation Fund Pty Ltd	32,400,000	7.57%
Raintree Pearls and Perfumes Pty Ltd	22,339,228	5.22%
SP and Birkbeck Holdings Pty Ltd	20,529,202	4.80%
Subtotal	128,317,312	29.99%
Others	299,554,446	70.01%
Total ordinary shares on issue	427,871,758	100.00%

Source: Share registry information

The current options on issue for Atlas as at 6 June 2017 are detailed below:

Current Options on Issue	Number
Unlisted options exercisable at 5.9 cents on or before 31 December 2018	5,500,000

Source: Share registry information

6. Profile of the Lenders

6.1 Boneyard

Boneyard is a private investment company of the Martin family, established in 2012. The head office of Boneyard is in West Perth, Western Australia.

Boneyard has interests in a range of enterprises and provides funding through equity investment and occasional private lending.

As at the date of our Report, Boneyard held a relevant interest of 12.40% in the Company.

6.2 TJM

TJM Australia Pty Ltd, of which Tim Martin is the sole director, is the corporate trustee of the TJM Trust, established in 2005. The head office of TJM is in West Perth, Western Australia.

TJM is the personal investment vehicle of Tim Martin. It is self-funding and has activities in private lending, property investment and land development.

7. Economic analysis

7.1 Global

Overall, the global economy is continuing to grow at a moderate level, entering 2017 with more momentum than originally anticipated. This overall improvement in the global economy has also contributed to higher commodity prices. Growth in global industrial production and trade has picked up recently, and labour market conditions in many countries have tightened.

In China, the 2017 growth target for the economy of around 6.5% is slightly lower than the pace of growth recorded in 2016. This is reflective of the continuing implementation of a proactive fiscal policy and maintenance of prudent monetary policy, with the tolerance for slightly slower economic growth giving the country more room to push through reforms and deal with levels of built-up debt.

Above-trend growth is expected in a number of advanced economies, however uncertainty regarding the global economic outlook and policy settings for major jurisdictions continues. Recently, global monetary policy has been accommodative however there no longer exists an expectation of additional monetary easing in major economies.

7.2 Australia

Domestic growth

In Australia, the available information suggests that the economy is growing moderately, and should continue to do so over the next couple of years. The Australian economy has experienced a decline in mining investment over recent years, but indicators suggest that the transition to lower levels of mining investment following the mining boom, is almost complete. The decline in mining investment has been offset by growth in other areas such as residential construction, government expenditure and exports.

Inflation is expected to increase as the effects of some factors that have been weighing on domestic cost pressure dissipate, including earlier declines in the terms of trade and falling employment in mining related industries. The increase in underlying inflation is likely to be gradual.

Recent data relating to the Australian labour market is mixed. Employment growth has picked up over recent months and is expected to continue in the short to medium term. However, wage growth remains subdued, and is expected to remain low going forward.

Credit growth

Business credit growth has slowed in recent months, partly as a result of deleveraging in the mining sector. Demand for credit has been uneven across sectors, with reported increases in demand from the tourism, agriculture, infrastructure and health sectors, and a decline in demand from the manufacturing sector.

Conditions in the housing markets around the country are mixed, with prices rising significantly in some markets and declining in others. There is some indication that conditions are starting to ease in the eastern capital cities, with additional apartment supply becoming available in the next couple of years. Growth in housing debt is outpacing growth in household incomes. Funding costs are starting to increase, with lenders increasing mortgage rates and rates paid on interest only loans.

Currency movements

The recent increase in the terms of trade have been associated with an appreciation of the Australian dollar. An overall depreciating Australian dollar since 2013 has assisted the ongoing adjustment of the economy towards non-resource sectors following the end of the mining boom, however an appreciating exchange rate could complicate that process.

Commodity prices

Commodity prices are generally higher than they were twelve months ago, however prices of iron ore and coal have fallen in recent months (consistent with forecasts). Although the spot price of iron ore has fallen, it remains above the lows of late 2015. Iron ore prices in 2016 and early 2017 were largely supported by China's infrastructure spending and spending on property construction. Prices of bulk commodities are expected to decline further in coming months, as additional supply comes online and as demand from China is expected to wane, unwinding some of the earlier increases in Australia's terms of trade.

Source: www.rba.gov.au *Statement by Philip Lowe, Governor: Monetary Policy Decision 4 July 2017, 6 June 2017 and 2 May 2017*

8. Industry analysis

Oysters make pearls in response to an irritant, such as a grain of sand or parasite, through the production of nacre, a protective coating that helps reduce irritation; with the layers of nacre eventually forming a pearl. A natural pearl is one that is formed in nature without any human intervention and prior to human intervention of cultured pearls; all pearls grew in the wild making them extremely rare and valuable. Cultured pearls are created by the same process as natural pearls, however a pearl harvester will open the oyster shell and cut a small slit in the mantle tissue and insert small irritants under the mantle.

There are two basic varieties of cultured pearls; freshwater and saltwater. Freshwater pearls are grown primarily in man-made lakes and reservoirs while saltwater pearls are grown in bays, inlets and atolls. Saltwater pearls account for approximately 5% of the total weight of global pearl production, while freshwater pearls account for the 95% of the total global pearl production.

Saltwater cultured pearls include the Akoya pearls, the Tahitian black pearls and the South Sea pearls, and are considered more valuable than freshwater pearls. South Sea pearls and Tahitian black pearls together account for half of the world market by value and the Japanese Akoya pearls and Chinese freshwater pearls each supply a quarter of the world market by value.

The first cultured pearl was the Japanese Akoya pearl in the early 1900's. Twenty-five years ago, the Japanese Akoya pearls accounted for 90% of the world market by value; however Australia, French Polynesia, Indonesia and China now dominate the global supply of pearls, with Australia being the major global producer of South Sea pearls and the French Polynesia the main producer of Tahitian black pearls.

South Sea pearls are the largest and most valuable pearls grown today. The South Sea pearls are grown in large pearl oysters native to Australia, the Philippines, Myanmar and Indonesia. Tahitian pearls are grown in a black lipped oyster, and their name is derived from the general location of Tahiti, despite being produced in the waters of French Polynesia.

Freshwater pearls are primarily farmed in China and are grown in a mussel. The production of Chinese freshwater pearls occurs in triangular shell mussels, which are able to produce pearls in much harsher conditions than saltwater oysters. These mussels can produce up to 40 pearls in one harvest whereas saltwater oysters can produce just one pearl at a time. Typically, pearls are harvested for one year for Akoya pearls, two to four years for Tahitian Black pearls and South Sea pearls, and two to seven years for freshwater pearls.

China became the largest producer of cultured pearls in the 1980s. In 2010, it produced 20 tonnes of marine cultured pearls from the Akoya oyster and 1,500 tonnes of freshwater cultured pearls. During the same year, Australia produced 10 tonnes of South Sea marine cultured pearls. Chinese cultured pearls have long been associated with mass production, low value and relatively low qualities however this is beginning to change through cleaner production and innovation.

Pearls are graded according to size, shape, shade, shine and surface. While cultured and natural pearls are considered to be of equal quality, cultured pearls are generally less expensive as they are not as rare. Pearls derive their value from their inherent beauty and the social message they convey when worn, and as a result the demand for pearls is driven by social factors, advertising, price and disposable income of consumers.

Most pearls are sold directly to the international market through Japan and Hong Kong, with pricing set in either Japanese Yen or United States Dollars. Pearl auctions and jewellery fairs are an important

wholesale outlet for pearl producers, with auctions held in Hong Kong and Japan. These auctions allow suppliers to gauge the market and in some cases control the price by setting reserve prices or restricting supply.

The pearl industry has changed substantially over the last 50 years, from one reliant solely on wild catch to one largely dependent on the culture of oysters. The structure and nature of the pearl industry varies between countries, however on a global scale it is dominated by a few large, vertically integrated companies. New technologies and greater access to technologies for cultivating pearls has played a major role in the change in the economic structure of the industry.

Source: Economics of Pearl Farming, Clem Tisdell and Bernard Poirine; www.Pearl-Guide.com

9. Assessment approach adopted

9.1 Valuation approach adopted

There are a number of methodologies which can be used in valuation engagements. The principal methodologies which can be used are as follows:

- Capitalisation of future maintainable earnings ('FME')
- Discounted cash flow ('DCF')
- Quoted market price basis ('QMP')
- Net asset value ('NAV')
- Market based assessment

A summary of each of these methodologies is outlined in Appendix 2.

Different methodologies are appropriate in particular valuation engagements, based on the individual circumstances and available information.

As detailed in Section 3, no assessment of the value of an Atlas share can reasonably be made at the date of our Report as the possible date that the Conversion Right is executed (if executed at all) cannot be predicted due to it being contingent on an event of default. Consequently, the above valuation methodologies are not relevant in the assessment of the value of an Atlas share at an unknown point in the future, for the purpose of assessing fairness.

Nonetheless we have conducted a qualitative fairness assessment as outlined below.

9.2 Fairness approach adopted

Security Transaction

RG 111.57 states that a proposed related party transaction is 'fair' if the value of the financial benefit to be provided by the entity to the related party is equal to or less than the value of the consideration being provided by the company.

In the case of the Security Transaction, the value of the financial benefit provided by Atlas to the Lenders is the value of the proceeds of the sale of the secured assets that would be provided as settlement of amounts payable to the Lenders in the event of default ('Security Provided'). The value of the consideration being provided to Atlas is the amounts payable to the Lenders (in the event of default that

would be settled by the sale of the secured assets), which comprises the principal amount drawn and related interest accrued (**'Liabilities To Be Settled'**).

We have undertaken this analysis by observing the various scenarios that may arise in comparing the Security Provided with the Liabilities To Be Settled.

The Security Transaction is fair if the value of the Security Provided is equal to, or less than the value of the Liabilities To Be Settled.

Relative Interest Acquisition

RG 111.31 stipulates that in a control transaction a comparison should be made between the value of the target entity's securities prior to the transaction on a controlling basis and the value of the target entity's securities following the transaction allowing for a minority discount.

Because the Relevant Interest Acquisition cannot take place unless the Company is in default, the approval of the Transactions has no immediate impact on the voting interest in Atlas. As such, in considering the possible exercise of the Conversion Right and resultant Relevant Interest Acquisition, the relevant date to assess the value of an Atlas share would be at, or around, the time that the Conversion Right is exercised and the Lenders' interest in Atlas increases.

Therefore, as at the date of our Report, no assessment of the value of an Atlas share can reasonably be made as the possible date that the Conversion Right is executed (if it is executed at all) cannot be predicted. Consequently, the value of an Atlas share and the Conversion Price at any future date cannot be determined. For that reason, the contingent nature of the Relevant Interest Acquisition and terms of the Varied Loan Agreement, together with the current circumstances of Atlas and the advantages provided by the Loan are of more significance than the possible value of the Company's assets and liabilities at some future date. We have discussed these issues in our assessment of reasonableness in Section 10 of our Report.

Notwithstanding this, in assessing the issue of the Conversion Shares to the Lenders upon the possible exercise of the Conversion Right and resultant Relevant Interest Acquisition, we have illustrated the various scenarios that may arise in the event of default at a future date, given the mechanism of the Conversion Right.

10. Are the Transactions fair?

10.1 Security Transaction

As stated in Section 9, the Security Transaction is fair if the value of the Security Provided is equal to or less than the Liabilities To Be Settled in the event of default. Therefore, the Security Transaction is not fair if the Security Provided is greater than the Liabilities To Be Settled.

We have considered the various scenarios which could occur in the event Atlas defaults on the Loan.

In a scenario that the value of the Security Provided is greater than or equal to the Liabilities To Be Settled in the event of default, the Lenders would only be entitled to recover the principal and interest outstanding under the Loan.

Furthermore, in a scenario that the value of the Security Provided is less than the Liabilities To Be Settled in the event of default, the secured assets would be sold and the proceeds provided to the Lender.

These scenarios can be summarised as follows:

Scenario	Consequence	Fairness
Security Provided > Liabilities To Be Settled	Security Provided = Liabilities To Be Settled	Fair
Security Provided = Liabilities To Be Settled	Security Provided = Liabilities To Be Settled	Fair
Security Provided < Liabilities To Be Settled	Security Provided < Liabilities To Be Settled	Fair

Source: BDO analysis

Under the terms of the Varied Loan Agreement, specifically in the event of default, the Lenders are only entitled to be repaid the principal and interest outstanding under the Loan. If the proceeds of the sale of the security assets are greater than the Liabilities To Be Settled, the excess would be retained.

Consequently, the value of the Security Provided is equal to or less than the value of the Liabilities To Be Settled in all scenarios. Therefore, we consider the Security Transaction to be fair for Shareholders.

10.2 Relevant Interest Acquisition

The exercise of the Conversion Right and resultant Relevant Interest Acquisition will only occur if the Company defaults on the Loan. The Varied Loan Agreement contains default provision limited to failure to pay amounts due within five business days of notice of the failure, nonfinancial default of material obligations that are not cured within 10 business days of notice, material representation and an event of insolvency ('Event of Default'). As disclosed in Section 4 and the Company's Notice of Meeting, the Conversion Right is only exercisable if an Event of Default by the Company is subsisting.

A key provision under the Varied Loan Agreement is that an Event of Default is triggered by the Company failing to pay amounts due within five business days of receiving notice of failure. This means that the Company does not have to be in financial distress in order to trigger an Event of Default, the Company may simply not have the liquid assets available at the time to meet its debt obligations.

Historically, Atlas has typically had high levels of non-current assets compared to cash. This is due to the nature of its business, specifically the fact that it holds significant levels of biological assets, which have long lead times to reach cash generating stages. It can take up to four years before oysters are mature enough to begin producing pearls and hence become cash generating. This is illustrated by the Company's financial statements as at 31 December 2016, in which the Company had \$1.7 million in liquid cash and cash equivalents, and \$18.2 million in illiquid biological assets.

When a company does not have sufficient liquid assets to meet an imminent debt obligation, it is common for companies to seek alternative short term funding in order to make the repayment and avoid defaulting on the obligation. As discussed in Section 11.1.3, due to the Company's high levels of existing debt it is unlikely that Atlas will be able to source additional bank funding. This is evidenced by the Company being unable to secure sufficient additional funding from external financiers to repay the CBA Debt and meet working capital needs, despite sustained efforts. Consequently, it is unlikely that the Company would be able to secure additional debt funding in order to meet existing debt obligations that it could not settle using internally generated funds.

Given the nature of the Company's biological assets and resultant non-current asset rich yet restricted cash position, in conjunction with the Company's inability to secure additional debt funding, there is a

possibility that in the Event of Default, the value of the Company’s assets and therefore underlying value per Atlas share may be greater than the Floor Price.

Furthermore, the Event of Default includes other nonfinancial default of material obligations and material representation provisions. These provisions are not related to the Company’s financial position and therefore could trigger an Event of Default, even if the Company has sufficient liquid assets required to meet its existing debt obligations.

Consequently, at the date of our Report, no assessment of the value of an Atlas share can reasonably be made as the possible date of an Event of Default by the Company, the Conversion Price and whether the Conversion Right is exercised, cannot be predicted.

Notwithstanding this, we have considered the various scenarios that may transpire in the Event of Default by the Company and presented illustrative examples of how the Conversion Right mechanism would accordingly apply.

As depicted in Section 4, the Conversion Price is equal to the greater of:

- a 15% discount to the 30-day VWAP for shares ending on the business day immediately before a notice for conversion is received by the Company (**‘Discounted Conversion Price’**); and
- the Floor Price of \$0.015 per share.

By definition, the Discounted Conversion Price implies that the Conversion Price will be less than the underlying value of an Atlas share. Furthermore, RG 111 states that when considering the value of the securities of the offer in a control transaction, the expert should consider this value inclusive of a control premium. As the Discounted Conversion Price is already at a discount to the underlying value of an Atlas share there is no control premium being paid.

In the scenario where the Conversion Price is equal to the Floor Price, the underlying value of an Atlas share may be greater or less than the Conversion Price, as illustrated in the table below:

Scenario		Fairness
Value per Atlas share (inc control premium)	>	Floor Price
Value per Atlas share (inc control premium)	<	Floor Price
		Not Fair
		Fair

Source: BDO analysis

Unlike the Discounted Conversion Price, the Floor Price is fixed at \$0.015. Hence, there is the possibility that in the Event of Default by the Company, the value per Atlas share including a premium for control may be less than the Floor Price, which would result in the Relevant Interest Acquisition being fair.

We note that in the case where the value per Atlas share including a control premium is less than the Floor Price, the Lenders will assess the relative merits of exercising their Conversion Right versus enforcing the Security Transaction, which may result in a “fair” scenario being realised.

Because the future fair value of the shares to be issued under the Relevant Interest Acquisition cannot be determined, an assessment of whether or not the Lenders would be paying a premium for the control if the Conversion Right is exercised is not possible at the date of our Report.

Given that the Relevant Interest Acquisition is not fair in the scenario that the value per Atlas share including a premium for control is more than the Floor Price, we consider the Relevant Interest Acquisition to be not fair for Shareholders.

11. Are the Transactions reasonable?

11.1 Advantages of approving the Transactions

We have considered the following advantages when assessing whether the Transactions are reasonable.

11.1.1. The Security Transaction is fair

As set out in Section 10, the Security Transaction is fair. RG 111 states that an offer is reasonable if it is fair. In the Event of Default by the Company, the Lenders' entitlement in relation to the Security is limited to the principal amount drawn down and related interest accrued.

11.1.2. The Transactions result in the Company being under less cash flow strain and strengthens its ability to remain a going concern

We note that the Company's auditor issued an Emphasis of Matter in the audited financial reports for the years ended 30 June 2015, 30 June 2016 and the reviewed financial report for the half-year ended 31 December 2016. The auditor outlined the existence of material uncertainty in relation to the Company's ability to continue as a going concern. Specifically, the going concern related to the CBA Debt, which has been repaid subsequent to 31 December 2016.

As at 31 December 2016, Atlas had a cash and cash equivalents balance of \$1.76 million. Therefore, after repaying the CBA Debt, the Company would be under significant cash flow strain if it did not have access to the Loan. Atlas managed to secure the NAB Debt, which may alleviate some of this strain temporarily, however, if the Transactions are not approved and the Company is required to pay back the Loan, the Company would be placed under significant cash flow strain and may not have the working capital required to operate the business.

If the Transactions are approved, the Loan will continue to provide the Company with a cash injection that will ensure the Company remains a going concern.

11.1.3. Alternative sources of funding may need to take the form of debt that can be converted at the discretion of the holder without the condition of a default event

Due to the Company's high levels of existing debt it is unlikely that Atlas will be able to source additional bank funding. Despite sustained efforts, the Company has been unable to secure sufficient additional funding from external financiers to repay the CBA Debt and meet working capital needs.

In the event that Shareholder approval is not granted for the Transactions, Atlas may need to seek convertible debt as an alternative source of funding.

Prima facie, the terms of the Varied Loan Agreement appear more favourable than other sources of potential convertible debt finance as the conversion feature is only enforceable in the Event of Default. Typically, more conventional convertible debt is convertible at the election of the holder at any time.

11.1.4. The Varied Loan Agreement does not include any fees or penalties for prepayments on the Loan

Under the Varied Loan Agreement the Company is entitled to prepay the Loan at any time without incurring fees or penalties. It is not uncommon for prepayments under terms provided by non-bank financiers to incur fees and or penalties.

11.1.5. No changes to current operating arrangements

We are not aware of any operational changes that the Lenders wishes to introduce if the Transactions are approved, and there has been no indication from the Lenders that they intend to change Atlas' business as conducted by the current management team.

11.1.6. Supports debt funding

The provision of the Security enables the Company to obtain the debt funding that it requires. If Atlas seeks alternative funding through bank debt, it is most likely that there will be a requirement by bank lenders to furnish adequate collateral to secure the bank debt. Therefore, the provision of security for debt funding purposes is not unusual.

11.2 Disadvantages of Approving the Transactions

If the Transactions are approved, in our opinion, the potential disadvantages to Shareholders include the following:

11.2.1. The Relevant Interest Acquisition is not fair

As set out in Section 10, the Relevant Interest Acquisition is not fair.

11.2.2. Potential dilution of existing Shareholders' interests

In the Event of Default by the Company and the Conversion Right being exercised by the Lenders, the Relevant Interest Acquisition will result in the dilution of the existing Shareholders. The Lenders and their associates currently have a 26.5% interest in the Company. Assuming that the Maximum Conversion Amount is converted into shares and no other shares are issued or Options exercised, the Lenders and their associates will acquire a relevant interest of approximately 58% in the Company.

11.2.3. Atlas will grant to the Lenders a second ranking security over all the assets of the Company to secure the Loan

In the Event of Default by the Company, the Lenders may enforce the security and require that Atlas sell the secured assets in order to repay the monies outstanding under the Varied Loan Agreement.

11.2.4. Limited restrictions placed on the Company's ability to issue additional equity, raise further debt and deal with its assets without the Lenders' consent

As outlined in Section 4, the Varied Loan Agreement includes negative pledges that place restrictions on the Company's ability to deal with its assets without prior consent of the Lender. We note that under the terms of the Varied Loan Agreement, the Company must not, without the consent of the Lender, not to be

unreasonably withheld or delayed, issue additional equity capital other than shares issued on exercise of existing options.

11.3 Other considerations

11.3.1. Alternative proposal

We are unaware of any alternative proposal that might offer the Shareholders of Atlas a premium over the value ascribed to, resulting from the Transactions.

11.3.2. Practical level of control

In the Event of Default by the Company and the Conversion Right being exercised by the Lenders, the Relevant Interest Acquisition may result in existing Shareholders surrendering control of the Company to the Lenders. The Lenders and their associates currently have approximately a 26.4% interest in the Company. Assuming that all the Conversion Shares are issued and no other shares are issued or options exercised, the Lenders and their associates will acquire a relevant interest of approximately 58% in the Company.

When shareholders are required to approve an issue that relates to a company there are two types of approval levels. These are general resolutions and special resolutions. A general resolution requires 50% of shares to be voted in favour to approve a matter and a special resolution requires 75% of shares on issue to be voted in favour to approve a matter. If the Maximum Conversion Amount is converted into shares and no other shares are issued or options exercised, the Lenders and their associates will be able to block both special and general resolutions.

The implications of the various levels of control that the Lenders may obtain as a result of the Relevant Interest Acquisition are outlined below:

Controlling Interest	Company Influence
>5%	ability to requisition a general meeting of the Company
>10%	ability to prevent a compulsory acquisition
>25%	ability to block special resolutions
>50%	ability to block and pass general resolutions

In the Event of Default by the Company and the Conversion Right being exercised by the Lenders, the Relevant Interest Acquisition will result in the Lenders' control of Atlas being significant when compared to all other Shareholders. Therefore, in our opinion, the Lenders will be able to significantly influence the activities of the Company.

11.3.3. Fiduciary Duty of the Company's Directors

As stated in Section 4, the Relevant Interest Acquisition can only proceed in the Event of Default by the Company. The directors of the Company have a fiduciary duty to act in the best interest of the Company as a whole, which would entail exploring all available options to mitigate the Event of Default and resultant dilution under the Relevant Interest Acquisition. In the event that the Company was close to exhibiting an Event of Default the directors of the Company would be expected to explore mitigating options including but not limited to the following:

- liquidate a portion of the Company's assets and use the proceeds to avoid the Event of Default;
- conduct a rights issue or attempt to raise additional capital at a premium to the Conversion Price; and
- seek additional debt funding, which can be used to meet the Loan obligations and avoid the Event of Default.

These actions may require the consent of the Lenders, which should not be unreasonably withheld or delayed.

12. Conclusion

We have considered the terms of the Transactions as outlined in the body of this report and have concluded that, in the absence of a superior offer, the:

- Security Transaction is fair and reasonable for the Shareholders of Atlas; and
- Relevant Interest Acquisition is not fair but reasonable for the Shareholders of Atlas.

We have assessed the Security Transaction to be fair for Shareholders because the Security Provided to secure the repayment of monies owned under the Varied Loan Agreement in the event of default is equal to or lower than the value of the Liabilities To Be Settled.

We consider the Security Transaction to be reasonable because the advantages of approving the Security Transaction outweigh the disadvantages of approving the Security Transaction.

We concluded that the Relevant Interest Acquisition is not fair in the scenario that the value per Atlas share including a premium for control is more than the Floor Price. Therefore, in the absence of any other relevant information, and a superior offer, we consider the Relevant Interest Acquisition to be not fair for Shareholders.

We consider the Relevant Interest Acquisition to be reasonable because the advantages of approving the Relevant Interest Acquisition outweigh the disadvantages of approving the Relevant Interest Acquisition.

13. Sources of information

This report has been based on the following information:

- Draft Loan Agreement;
- Draft Varied Loan Agreement;
- Draft Notice of Meeting and Explanatory Statement on or about the date of our Report;
- Audited financial statements of Atlas for the years ended 30 June 2015, 30 June 2016 and reviewed financial statements for the half-year 31 December 2016;
- Share registry information;
- Information in the public domain; and
- Discussions with directors and management of Atlas.

14. Independence

BDO Corporate Finance (WA) Pty Ltd is entitled to receive a fee of \$21,000 (excluding GST and reimbursement of out of pocket expenses). The fee is not contingent on the conclusion, content or future use of this Report. Except for this fee, BDO Corporate Finance (WA) Pty Ltd has not received and will not receive any pecuniary or other benefit whether direct or indirect in connection with the preparation of this report.

BDO Corporate Finance (WA) Pty Ltd has been indemnified by Atlas in respect of any claim arising from BDO Corporate Finance (WA) Pty Ltd's reliance on information provided by the Atlas, including the non provision of material information, in relation to the preparation of this report.

Prior to accepting this engagement BDO Corporate Finance (WA) Pty Ltd has considered its independence with respect to Atlas and the Lenders and any of their respective associates with reference to ASIC Regulatory Guide 112 'Independence of Experts'. In BDO Corporate Finance (WA) Pty Ltd's opinion it is independent of Atlas and the Lenders and their respective associates.

The provision of our services is not considered a threat to our independence as auditors under Professional Statement APES 110 - Professional Independence. The services provided have no material impact on the financial report of Atlas.

A draft of this report was provided to Atlas and its advisors for confirmation of the factual accuracy of its contents. No significant changes were made to this report as a result of this review.

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15. Qualifications

BDO Corporate Finance (WA) Pty Ltd has extensive experience in the provision of corporate finance advice, particularly in respect of takeovers, mergers and acquisitions.

BDO Corporate Finance (WA) Pty Ltd holds an Australian Financial Services Licence issued by the Australian Securities and Investment Commission for giving expert reports pursuant to the Listing rules of the ASX and the Corporations Act.

The persons specifically involved in preparing and reviewing this report were Sherif Andrawes and Adam Myers of BDO Corporate Finance (WA) Pty Ltd. They have significant experience in the preparation of independent expert reports, valuations and mergers and acquisitions advice across a wide range of industries in Australia and were supported by other BDO staff.

Sherif Andrawes is a Fellow of the Institute of Chartered Accountants in England & Wales and a Fellow of Chartered Accountants in Australia and New Zealand. He has over twenty-nine years' experience working in the audit and corporate finance fields with BDO and its predecessor firms in London and Perth. He has been responsible for over 300 public company independent expert's reports under the Corporations Act or ASX Listing Rules and is a CA BV Specialist. These experts' reports cover a wide range of industries in

Australia with a focus on companies in the natural resources sector. Sherif Andrawes is the Chairman of BDO in Western Australia, Corporate Finance Practice Group Leader of BDO in Western Australia and the Natural Resources Leader for BDO in Australia.

Adam Myers is a member of the Australian Institute of Chartered Accountants. Adam's career spans 18 years in the Audit and Assurance and Corporate Finance areas. Adam has considerable experience in the preparation of independent expert reports and valuations in general for companies in a wide number of industry sectors.

16. Disclaimers and consents

This report has been prepared at the request of Atlas for inclusion in the Explanatory Memorandum which will be sent to all Atlas Shareholders. Atlas engaged BDO Corporate Finance (WA) Pty Ltd to prepare an independent expert's report to consider the secured loan agreement that Atlas has entered into with Boneyard Investments Pty Ltd and TJM Australia Pty Ltd as trustee for the TJM Trust, which are both entities associated with Mr Tim Martin, a current director of Atlas.

BDO Corporate Finance (WA) Pty Ltd hereby consents to this report accompanying the above Explanatory Memorandum. Apart from such use, neither the whole nor any part of this report, nor any reference thereto may be included in or with, or attached to any document, circular resolution, statement or letter without the prior written consent of BDO Corporate Finance (WA) Pty Ltd.

BDO Corporate Finance (WA) Pty Ltd takes no responsibility for the contents of the Explanatory Memorandum other than this report.

We have no reason to believe that any of the information or explanations supplied to us are false or that material information has been withheld. It is not the role of BDO Corporate Finance (WA) Pty Ltd acting as an independent expert to perform any due diligence procedures on behalf of the Company. The Directors of the Company are responsible for conducting appropriate due diligence in relation to the Lender. BDO Corporate Finance (WA) Pty Ltd provides no warranty as to the adequacy, effectiveness or completeness of the due diligence process.

The opinion of BDO Corporate Finance (WA) Pty Ltd is based on the market, economic and other conditions prevailing at the date of this report. Such conditions can change significantly over short periods of time.

With respect to taxation implications it is recommended that individual Shareholders obtain their own taxation advice, in respect of the Transactions, tailored to their own particular circumstances. Furthermore, the advice provided in this report does not constitute legal or taxation advice to the Shareholders of Atlas, or any other party.

The statements and opinions included in this report are given in good faith and in the belief that they are not false, misleading or incomplete.

The terms of this engagement are such that BDO Corporate Finance (WA) Pty Ltd is required to provide a supplementary report if we become aware of a significant change affecting the information in this report arising between the date of this report and prior to the date of the meeting or during the offer period.



Yours faithfully

BDO CORPORATE FINANCE (WA) PTY LTD

A handwritten signature in black ink, appearing to read 'Sherif Andrawes'.

Sherif Andrawes

Director

A handwritten signature in blue ink, appearing to read 'Adam Myers'.

Adam Myers

Director

Appendix 1 - Glossary of Terms

Reference	Definition
the Act	The Corporations Act 2001 Cth
APES 225	Accounting Professional & Ethical Standards Board professional standard APES 225 'Valuation Services'
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
Atlas	Atlas Pearls and Perfumes Limited
BDO	BDO Corporate Finance (WA) Pty Ltd
Boneyard	Boneyard Investments Pty Ltd
CBA Debt	The \$3.50 million debt facility with the Commonwealth Bank of Australia (which has been repaid)
the Company	Atlas Pearls and Perfumes Limited
Conversion Amount	All or part of the Loan and outstanding interest that is to be converted into shares in the Company
Conversion Right	The Right of the Lenders to convert all or part of the Loan into shares in the Company in the Event of Default
Conversion Shares	The maximum number of shares that may be issued to the Lenders under the Conversion Right, being 321,365,583
Corporations Act	The Corporations Act 2001 Cth
DCF	Discounted Future Cash Flows
Discounted Conversion Price	A 15% discount to the 30-day VWAP for shares ending on the business day immediately before a notice for conversion is received by the Company
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EOT	Essential Oils of Tasmania Pty Ltd

Reference	Definition
Event of Default	Default provision limited to failure to pay amounts due within five business days of notice of the failure, nonfinancial default of material obligations that are not cured within 10 business days of notice, material representation and an event of insolvency
Floor Price	\$0.015
FME	Future Maintainable Earnings
FOS	Financial Ombudsman Service
FSG	Financial Services Guide
the Lenders	Boneyard and TJM
Liabilities To Be Settled	The amounts payable to the Lenders that would be settled by the sale of the secured assets, including the principal amount drawn and related interest accrued
Loan	Total secured loan of \$3.50 million from the Lenders
Loan Agreement	The secured \$1.50 million cash advance term loan facility with the Lender
Maturity Date	30 June 2020
Maximum Conversion Amount	The capped conversion amount of \$4,820,483.75
NAV	Net Asset Value
NAB	National Australia Bank
NAB Debt	\$1.0 million loan from NAB
QMP	Quoted market price
Relevant Interest Acquisition	Upon exercising the Conversion Right, the Lenders and their associates will convert all or part of the Loan and outstanding interest into shares in the Company, which will increase their current holding of approximately 26.4% up to a maximum of approximately 58%
our Report	This Independent Expert's Report prepared by BDO
RG 74	Acquisition Approved by Members (December 2011)
RG 111	Content of expert reports (March 2011)

Reference	Definition
RG 112	Independence of experts (March 2011)
Section 611	Section 611 Item 7 of the Corporations Act
Security Provided	The value of the proceeds of the sale of the secured assets that would be provided as settlement of amounts payable to the Lenders in the event of default
Security Transaction	The security agreement with the Lenders to secure the repayment of the Loan, under the terms of which, the Company will grant second ranking security over all the assets of the Company to the Lender
Shareholders	Shareholders of Atlas not associated with the Lenders
TJM	TJM Australia Pty Ltd as trustee for the TJM Trust
the Transactions	The Security Transaction and Relevant Interest Acquisition, collectively
Valuation Engagement	An Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Valuer is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Valuer at that time
Varied Loan Agreement	Loan Agreement following the variations made by the Company on 28 June 2017
VWAP	Volume weighted average price
Westwood	Westwood Properties Pty Ltd

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For permission requests, write to BDO Corporate Finance (WA) Pty Ltd, at the address below:

The Directors
 BDO Corporate Finance (WA) Pty Ltd
 38 Station Street
 SUBIACO, WA 6008
 Australia

Appendix 2 - Valuation Methodologies

Methodologies commonly used for valuing assets and businesses are as follows:

1 *Net asset value ('NAV')*

Asset based methods estimate the market value of an entity's securities based on the realisable value of its identifiable net assets. Asset based methods include:

- Orderly realisation of assets method
- Liquidation of assets method
- Net assets on a going concern method

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to entity holders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the entity is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the entity may not be contemplated, these methods in their strictest form may not be appropriate. The net assets on a going concern method estimates the market values of the net assets of an entity but does not take into account any realisation costs.

Net assets on a going concern basis are usually appropriate where the majority of assets consist of cash, passive investments or projects with a limited life. All assets and liabilities of the entity are valued at market value under this alternative and this combined market value forms the basis for the entity's valuation.

Often the FME and DCF methodologies are used in valuing assets forming part of the overall Net assets on a going concern basis. This is particularly so for exploration and mining companies where investments are in finite life producing assets or prospective exploration areas.

These asset based methods ignore the possibility that the entity's value could exceed the realisable value of its assets as they do not recognise the value of intangible assets such as management, intellectual property and goodwill. Asset based methods are appropriate when an entity is not making an adequate return on its assets, a significant proportion of the entity's assets are liquid or for asset holding companies.

2 *Quoted Market Price Basis ('QMP')*

A valuation approach that can be used in conjunction with (or as a replacement for) other valuation methods is the quoted market price of listed securities. Where there is a ready market for securities such as the ASX, through which shares are traded, recent prices at which shares are bought and sold can be taken as the market value per share. Such market value includes all factors and influences that impact upon the ASX. The use of ASX pricing is more relevant where a security displays regular high volume trading, creating a 'deep' market in that security.

3 Capitalisation of future maintainable earnings ('FME')

This method places a value on the business by estimating the likely FME, capitalised at an appropriate rate which reflects business outlook, business risk, investor expectations, future growth prospects and other entity specific factors. This approach relies on the availability and analysis of comparable market data.

The FME approach is the most commonly applied valuation technique and is particularly applicable to profitable businesses with relatively steady growth histories and forecasts, regular capital expenditure requirements and non-finite lives.

The FME used in the valuation can be based on net profit after tax or alternatives to this such as earnings before interest and tax ('EBIT') or earnings before interest, tax, depreciation and amortisation ('EBITDA'). The capitalisation rate or 'earnings multiple' is adjusted to reflect which base is being used for FME.

4 Discounted future cash flows ('DCF')

The DCF methodology is based on the generally accepted theory that the value of an asset or business depends on its future net cash flows, discounted to their present value at an appropriate discount rate (often called the weighted average cost of capital). This discount rate represents an opportunity cost of capital reflecting the expected rate of return which investors can obtain from investments having equivalent risks.

Considerable judgement is required to estimate the future cash flows which must be able to be reliably estimated for a sufficiently long period to make this valuation methodology appropriate.

A terminal value for the asset or business is calculated at the end of the future cash flow period and this is also discounted to its present value using the appropriate discount rate.

DCF valuations are particularly applicable to businesses with limited lives, experiencing growth, that are in a start-up phase, or experience irregular cash flows.

5 Market Based Assessment

The market based approach seeks to arrive at a value for a business by reference to comparable transactions involving the sale of similar businesses. This is based on the premise that companies with similar characteristics, such as operating in similar industries, command similar values. In performing this analysis it is important to acknowledge the differences between the comparable companies being analysed and the company that is being valued and then to reflect these differences in the valuation.

ATLAS PEARLS AND PERFUMES LTD
ABN 32 009 220 053
PROXY FORM - GENERAL MEETING

Name: _____
Address: _____
SRN / HIN: _____

Appointment of Proxy

I/We being a member/s of Atlas Pearls and Perfumes Ltd and entitled to attend and vote hereby appoint

the Chairman of the Meeting **OR** **PLEASE NOTE:** Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).
(mark with an 'X')

or failing the person so named or, if no person is named, the Chairman of the General Meeting, or the Chairman's nominee, as my/our proxy and to vote in accordance with the following directions, or, if no directions have been given, as the proxy sees fit, at the General Meeting to be held at 10AM (WST) on 13 September 2017 at Atlas Pearls and Perfumes, 47-49 Bay View Terrace, Claremont, Western Australia and at any postponement or adjournment thereof.

The Chairman of the Meeting intends to vote undirected proxies **in favour** of the item of business.

Voting directions to your proxy – please mark to indicate your directions

FOR AGAINST ABSTAIN*

Resolution 1 – Approval for Grant of Security and issue of Conversion Shares pursuant to the Loan Agreement and related matters

**If you mark the abstain box for a particular item, you are directing your proxy not to vote on that item.*

Signed this _____ day of _____ 2017

Authorised signature(s) *This section must be signed in accordance with the instructions overleaf to enable your directions to be implemented.*

INDIVIDUAL/SECURITY HOLDER 1
Individual/Sole Director and
Sole Company Secretary

SECURITY HOLDER 2
Director

SECURITY HOLDER 3
Director/Company Secretary

Contact Details

Contact Email address

Contact Telephone Number

()

Instructions for completing Proxy Form

1. **(Appointing a proxy):** A Shareholder entitled to attend and cast a vote at the Meeting is entitled to appoint a proxy to attend and vote on their behalf at the Meeting. If a Shareholder is entitled to cast 2 or more votes at the Meeting, the Shareholder may appoint a second proxy to attend and vote on their behalf at the Meeting. However, where both proxies attend the Meeting, voting may only be exercised on a poll. The appointment of a second proxy must be done on a separate copy of the Proxy Form. A Shareholder who appoints 2 proxies may specify the proportion or number of votes each proxy is appointed to exercise. If a Shareholder appoints 2 proxies and the appointments do not specify the proportion or number of the Shareholder's votes each proxy is appointed to exercise, each proxy may exercise one-half of the votes. Any fractions of votes resulting from the application of these principles will be disregarded. A duly appointed proxy need not be a Shareholder.
2. **(Direction to vote):** A Shareholder may direct a proxy how to vote by marking one of the boxes opposite each item of business. The direction may specify the proportion or number of votes that the proxy may exercise by writing the percentage or number of Shares next to the box marked for the relevant item of business. Where a box is not marked the proxy may vote as they choose subject to the relevant laws. Where more than one box is marked on an item the vote will be invalid on that item.
3. **(Signing instructions):**
 - **(Individual):** Where the holding is in one name, the Shareholder must sign.
 - **(Joint holding):** Where the holding is in more than one name, all of the Shareholders should sign.
 - **(Power of attorney):** If you have not already provided the power of attorney with the registry, please attach a certified photocopy of the power of attorney to this Proxy Form when you return it.
 - **(Companies):** Where the company has a sole director who is also the sole company secretary, that person must sign. Where the company (pursuant to Section 204A of the Corporations Act) does not have a company secretary, a sole director can also sign alone. Otherwise, a director jointly with either another director or a company secretary must sign. Please sign in the appropriate place to indicate the office held. In addition, if a representative of a company is appointed pursuant to Section 250D of the Corporations Act to attend the Meeting, the documentation evidencing such appointment should be produced prior to admission to the Meeting. A form of a certificate evidencing the appointment may be obtained from the Company.
4. **(Attending the Meeting):** Completion of a Proxy Form will not prevent individual Shareholders from attending the Meeting in person if they wish. Where a Shareholder completes and lodges a valid Proxy Form and attends the Meeting in person, then the proxy's authority to speak and vote for that Shareholder is suspended while the Shareholder is present at the Meeting.
5. **(Return of Proxy Form):** To vote by proxy, please complete and sign the enclosed Proxy Form and return by:
 - (a) deliver to the Company at 47 - 49 Bayview Terrace, Claremont, WA 6010; or
 - (b) post to Atlas Pearls and Perfumes Ltd, PO Box 1048, Claremont, WA 6910; or
 - (c) facsimile to the Company on facsimile number +61 8 9284 3031; or
 - (d) email to the Company at atlas@atlaspearlsandperfumes.com.au.

so that it is received not less than 48 hours prior to commencement of the Meeting.

Proxy Forms received later than this time will be invalid.