

TAO COMMODITIES LIMITED

ABN 84 618 935 372

INTERIM FINANCIAL REPORT FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

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DIRECTORS

Mr Todd Hannigan – Non-Executive Chairman
 Mr Anastasios Arima – Managing Director
 Mr Alastair Smith – Non-Executive Director
 Mr Vaughn Taylor – Non-Executive Director

COMPANY SECRETARY

Mr Gregory Swan

OFFICES**United States**

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 Belmont NC 28012
 UNITED STATES

Australia

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 Perth WA 6000
 AUSTRALIA

WEBSITE

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STOCK EXCHANGE LISTINGS

Australian Securities Exchange:
 Fully paid ordinary shares (ASX code: **TAO**)
 Listed options (ASX code: **TAOOA**)

SHARE REGISTRY

Automic Pty Ltd
 Level 2, 267 St George's Terrace
 Perth WA 6000

LAWYERS**United States**

Johnston Allison & Hord

Australia

Thomson Geer Lawyers

AUDITOR

BDO Audit (WA) Pty Ltd

CONTENTS

| | Page |
|---|-------------|
| Directors' Report | 1 |
| Directors' Declaration | 6 |
| Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income | 7 |
| Condensed Consolidated Statement of Financial Position | 8 |
| Condensed Consolidated Statement of Changes in Equity | 9 |
| Condensed Consolidated Statement of Cash Flows | 10 |
| Notes to the Condensed Consolidated Financial Statements | 11 |
| Auditor's Independence Declaration | 20 |
| Independent Auditor's Review Report | 21 |

The Directors of TAO Commodities Limited present their report on TAO Commodities Limited ("**TAO**" or "**Company**") and the entities it controlled during the interim six-month period ended 31 December 2020 ("**Consolidated Entity**" or "**Group**").

DIRECTORS

The names of the Directors of TAO in office during the interim period and until the date of this report are:

Current Directors

| | |
|----------------------------|--|
| Mr Todd Hannigan | Non-Executive Chairman <i>(appointed effective 1 February 2021)</i> |
| Mr Anastasios (Taso) Arima | Managing Director <i>(appointed Director effective 1 December 2020 and Managing Director effective 1 March 2021)</i> |
| Mr Alastair Smith | Non-Executive Director <i>(appointed effective 11 January 2021)</i> |
| Mr Vaughn Taylor | Non-Executive Director <i>(appointed effective 3 March 2021)</i> |

Former Directors

| | |
|-------------------|---|
| Mr Patric Glovac | Executive Director <i>(resigned effective 1 March 2021)</i> |
| Mr Mark Connelly | Non-Executive Director <i>(resigned effective 18 February 2021)</i> |
| Mr Frank Knezovic | Non-Executive Director <i>(resigned effective 29 December 2020)</i> |

Unless otherwise shown, all Directors were in office from the beginning of the interim period until the date of this report.

OPERATING AND FINANCIAL REVIEW

TAO holds a 100% interest in the Titan Project ("**Titan Project**") in Tennessee, United States, considered prospective for titanium and zircon heavy mineral sands and a 100% interest in the Milford Project ("**Milford Project**") in Utah, United States, considered prospective for base and precious metals.

Titan Project

The Titan Project comprises approximately 3,900 acres of heavy mineral sands ("**HMS**") properties in Tennessee, United States, prospective for critical minerals including titanium, rare earth elements, silica sand and zircon.

The Project is located in an area which saw significant historic exploration from 1960 – 1990 by DuPont, BHP and others, and is strategically located in the southeast of the U.S., close to significant manufacturing capacity, providing a major logistical advantage over current U.S. suppliers of imported feedstocks. Specifically, the Project is ~15 km from Chemours' New Johnsonville pigment plant, one of the largest pigment plants globally and within a low-cost barge, truck or rail-served distance to all other major U.S. titanium pigment and metal plants.

The U.S. is 95% import reliant on titanium feedstocks used to produce TiO₂ pigment for the coatings and plastics sector and is 100% import reliant on Ti metal used for the defense, aerospace, space, and medical sectors. The Company's mission is to address the U.S.'s need for clean, low-cost domestic sources of titanium and other critical minerals, including rare earths and silica sand, and intends to leverage both its HMS deposit in Tennessee and its breakthrough HAMR technology to provide high quality, low cost and low-to-zero carbon critical minerals and titanium metal products to the U.S.

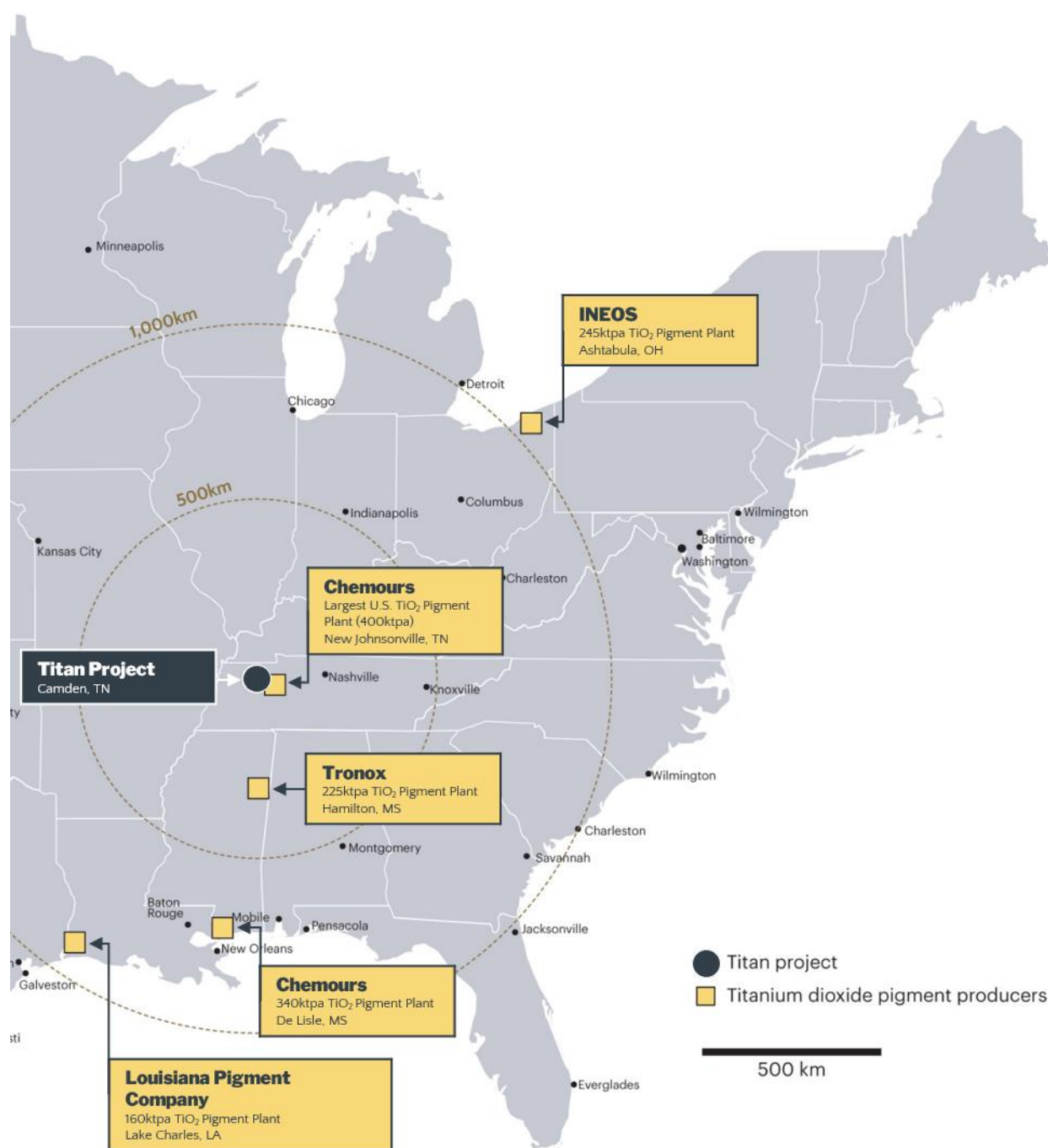


Figure 1: Titan Project location and proximity to major titanium dioxide pigment producers

Milford Project

The Milford Project comprises 100 Mining Rights on U.S. Bureau of Land Management ("**BLM**") administered land. The Project is situated approximately 6 kilometres west of the town of Milford in Utah, United States.

The Project is considered prospective for epithermal and replacement style precious and base metal mineralisation along structural corridors in reactive host rocks. Of primary interest are three areas prospective for replacement or manto/pipe-style base and precious metals. Numerous other old workings and prospects exist within the region, known as the San Francisco Mining District.

HIGHLIGHTS

Highlights during and subsequent to the interim period were as follows:

Titan Project

- Increased the Company's land position at the Titan Project by more than 80% to approximately 3,900 acres, adding to a large and contiguous package of surface and mineral rights;
- Completed Phase 1 and 2 drilling programs at the Titan Project which confirmed thick, high grade mineralisation over approximately 3.6 km strike length, highlighting the potential for a newly defined critical mineral province in the United States;
- Results included thick zones of high-grade Total Heavy Mineral ("**THM**") near surface in all holes, including:
 - 47.2m @ 3.69% THM including 10.7m @ 8.09% THM and 10.7m @ 5.47% THM;
 - 36.6m @ 3.37% THM including 12.2m @ 7.65% THM;
 - 35.1m @ 3.04% THM including 10.7m @ 8.16% THM;
 - 32.0m @ 3.12% THM including 10.7m @ 5.64% THM;
 - 41.1m @ 2.14% THM including 9.1m @ 5.55% THM; and
 - 33.5m @ 2.21% THM including 12.2m @ 5.64% THM;
- Preliminary analysis of Valuable Heavy Minerals ("**VHM**") (which ranges from 42% to 76% of THM across the selected drill holes) indicates a highly valuable average mineral assemblage of the VHM portion consisting of 16.9% Rutile, 14.5% Zircon, 21.6% Leucoxene, 46.0% other high-titanium minerals and 1.8% Monazite;
- The results highlight the potential for a world scale, high-grade HMS deposit in an infrastructure rich region, with the Company focused on rapidly moving towards defining an initial JORC mineral resource estimate late Q2 2021 and a subsequent scoping study;
- Commenced a Phase 3 drilling program on the Titan Project to include infill drilling and bulk sampling for resource delineation and exploration drilling;
- Signed research agreement and option for exclusive licence to develop titanium metal powders using the breakthrough hydrogen assisted magnesiothermic reduction ("**HAMR**") technology invented by Dr. Z. Zak Fang and his team at the University of Utah with funding from ARPA-E, with Boeing and Arconic (formerly Alcoa, Inc.) as industrial partners;

Milford Project

- Completed a Phase 2 soil sampling at the Milford Project in Utah, United States, extending geochemical anomalies along interpreted mineralised trends;
- Sampling at Moccasin extended the geochemical soil anomaly, open to the SW, with the Ag component of the anomaly over 1.5 km long at +0.2 ppm Ag, with rock sampling returning Ag to 65.1 g/t and Au to 1.15 g/t;
- Sampling at Captain Jack Prospect further defined a partially overlapping gold-silver soil anomaly along trend, open to NE;

Corporate

- Completed the acquisition of a 100% interest in the Titan Project comprising titanium and zircon prospective HMS properties in Tennessee, United States;
- Appointed Mr Taso Arima as Managing Director, Mr Todd Hannigan as Non-Executive Chairman, and Mr Vaughn Taylor as Non-Executive Director of the Company. Mr Patric Glovac, Mr Mark Connelly, and Mr Frank Knezovic resigned as Directors of the Company; and
- Subsequent to period end, completed a placement to raise A\$3.6 million to accelerate the development of the Titan Project. Mr. Hannigan subscribed for A\$1.0 million in the placement.

OPERATING RESULTS

The Consolidated Entity's net loss after tax for the six months ended 31 December 2020 was \$2,380,724 (31 December 2019: \$479,747). This loss is partly attributable to:

- (a) exploration and evaluation expense of \$115,174 (31 December 2019: \$52,695), which is attributable to the Group's accounting policy of expensing exploration and evaluation expenditure (other than expenditures incurred in the acquisition of the rights to explore, including option payments to landowners) incurred by the Group in the period subsequent to the acquisition of the rights to explore and up to the successful completion of definitive feasibility studies for each separate area of interest; and
- (b) non-cash share-based payment expenses of \$1,603,470 (31 December 2019: \$55,683) which is attributable to expensing the value (estimated using an option pricing model) of incentive options granted to key employees, consultants and advisors. The value is measured at grant date and recognised over the period during which the option holders become unconditionally entitled to the options.

SIGNIFICANT POST BALANCE DATE EVENTS

- (a) On 7 January 2021, the Company announced results from its maiden drilling program at the Titan Project in west Tennessee that confirmed thick, high grade mineralisation in all 15 drill holes completed in the Phase 1 drilling program and a valuable mineral assemblage from 4 drill holes selected for analysis;
- (b) On 11 January 2021, the Company announced the appointment of Mr. Alastair Smith as Non-Executive Director of the Company;
- (c) On 20 January 2021, the Company announced the appointment of Mr. Todd Hannigan as Non-Executive Chairman of the Company, in conjunction with Mr. Hannigan participating in a placement by the Company to raise A\$3,645,000;
- (d) On 27 January 2021, the Company announced that it has increased its holdings of titanium and zircon prospective HMS properties by approximately 750 acres through additional land option agreements signed with local landowners at the Titan Project in west Tennessee;
- (e) On 1 February 2021, the Company announced that it had completed its previously announced placement of 12,150,000 shares to institutional and sophisticated investors to raise gross proceeds of A\$3,645,000;
- (f) On 15 February 2021, the Company announced that it had signed a research agreement and option for exclusive licence to develop titanium metal powders using the breakthrough HAMR technology invented by Dr. Z. Zak Fang and his team at the University of Utah with funding from ARPA-E, with Boeing and Arconic (formerly Alcoa, Inc.) as industrial partners;
- (g) On 18 February 2021, the Company announced that experienced U.S. based resource company executive, Mr. Taso Arima, has been appointed Managing Director of the Company, effective from March 1, 2021;
- (h) On 1 March 2021, the Company announced the appointment of Mr. Vaughn Taylor as Non-Executive Director of the Company, effective from 3 March 2021;
- (i) On 10 March 2021, the Company announced results from its Phase 2 drilling program at the Titan Project which continue to highlight the potential for a world class, critical mineral rich province in the USA. Assays from all 9 holes of the Phase 2 drill program returned thick zones of high-grade THM near surface; and
- (j) The impact of the Coronavirus (COVID-19) pandemic is ongoing and while it has not significantly impacted the Company up to 31 December 2020, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

Other than as outlined above, at the date of this report there are no other significant events occurring after balance date requiring disclosure.

AUDITOR'S INDEPENDENCE DECLARATION

Section 307C of the Corporations Act 2001 requires our auditors, BDO Audit (WA) Pty Ltd, to provide the directors of TAO Commodities Limited with an Independence Declaration in relation to the review of the interim financial report. This Independence Declaration is on page 20 and forms part of this Directors' Report.

Signed in accordance with a resolution of Directors.

A handwritten signature in black ink, appearing to read 'Taso Arima', with a stylized flourish at the end.

TASO ARIMA
Managing Director

10 March 2021

In accordance with a resolution of the Directors of TAO Commodities Limited, I state that:

In the opinion of the Directors:

- (a) the attached financial statements and notes are in accordance with the Corporations Act 2001, including:
 - (i) section 304 (compliance with accounting standards and Corporations Regulations 2001); and
 - (ii) section 305 (true and fair view); and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



TASO ARIMA
Managing Director

10 March 2021

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR
LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 31 DECEMBER 2020



| | | Six Months Ended 31 December 2020 \$ | Restated Six Months Ended 31 December 2019 \$ |
|--|------|--|--|
| | Note | | |
| Continuing operations | | | |
| Exploration and evaluation expenses | | (115,174) | (52,695) |
| Corporate and administrative expenses | | (655,712) | (355,242) |
| Business development expenses | | (22,851) | (10,500) |
| Share-based payment expense | 6 | (1,603,470) | (55,683) |
| Amortisation expense | | - | (16,339) |
| Finance income | | 4,027 | 13,574 |
| Other income and expenses | | 12,456 | (2,862) |
| Loss before income tax | | (2,380,724) | (479,747) |
| Income tax expense | | - | - |
| Loss for the period | | (2,380,724) | (479,747) |
| Loss attributable to members of TAO Commodities Limited | | (2,380,724) | (479,747) |
| Other comprehensive income | | | |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | | |
| Exchange differences arising on translation of foreign operations | | 66,244 | (1,932) |
| Other comprehensive loss for the period, net of tax | | 66,244 | (1,932) |
| Total comprehensive loss for the period | | (2,314,480) | (481,679) |
| Total comprehensive loss attributable to members of TAO Commodities Limited | | (2,314,480) | (481,679) |
| Loss per share | | | |
| Basic and diluted loss per share (cents per share) | | (5.85) | (1.55) |

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

CONDENSED CONSOLIDATED STATEMENT OF
FINANCIAL POSITION

FOR THE SIX MONTHS ENDED 31 DECEMBER 2020



| | Note | 31 December 2020 \$ | Restated ⁽¹⁾ 30 June 2020 \$ | Restated ⁽¹⁾ 1 July 2019 \$ |
|-----------------------------------|------|------------------------|---|--|
| ASSETS | | | | |
| Current Assets | | | | |
| Cash and cash equivalents | | 2,508,125 | 1,649,187 | 2,466,133 |
| Trade and other receivables | | 47,947 | 42,438 | 15,131 |
| Prepayments | | 5,843 | 24,874 | 19,883 |
| Total Current Assets | | 2,561,915 | 1,716,499 | 2,501,147 |
| Non-Current Assets | | | | |
| Exploration and evaluation assets | 3 | 9,757,937 | 434,607 | 434,607 |
| Property, plant and equipment | | - | 30,800 | - |
| Total Non-Current Assets | | 9,757,937 | 465,407 | 434,607 |
| TOTAL ASSETS | | 12,319,852 | 2,181,906 | 2,935,754 |
| LIABILITIES | | | | |
| Current Liabilities | | | | |
| Trade and other payables | | 262,825 | 68,602 | 68,307 |
| Other financial liabilities | | - | 25,960 | - |
| Total Current Liabilities | | 262,825 | 94,562 | 68,307 |
| TOTAL LIABILITIES | | 262,825 | 94,562 | 68,307 |
| NET ASSETS | | 12,057,027 | 2,087,344 | 2,867,447 |
| EQUITY | | | | |
| Contributed equity | 5 | 13,019,808 | 4,577,708 | 4,527,708 |
| Reserves | 6 | 4,178,760 | 1,224,153 | 1,164,391 |
| Accumulated losses | | (5,141,541) | (3,714,517) | (2,824,652) |
| TOTAL EQUITY | | 12,057,027 | 2,087,344 | 2,867,447 |

Notes:

⁽¹⁾ With effect from 1 July 2019, the policy for accounting for exploration expenditure has changed from the policy applied in previous reporting periods (refer Note 1(c)). As such in accordance with AASB 101 *Presentation of Financial Statements* a third consolidated Statement of Financial Position and Notes to the restated amounts have been presented.

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

CONDENSED CONSOLIDATED STATEMENT OF
CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 DECEMBER 2020



| | Issued Capital \$ | Option Premium Reserve \$ | Share- Based Payments Reserve \$ | Foreign Currency Translation Reserve \$ | Accumulated Losses \$ | Total Equity \$ |
|---|-------------------------|------------------------------------|--|---|-----------------------------|-----------------------|
| As at 1 July 2020 (restated) | 4,577,708 | 153,750 | 993,493 | 76,910 | (3,714,517) | 2,087,344 |
| Net loss for the period | - | - | - | - | (2,380,724) | (2,380,724) |
| Exchange differences arising on translation of foreign operations | - | - | - | 66,244 | - | 66,244 |
| Total comprehensive loss | - | - | - | 66,244 | (2,380,724) | (2,314,480) |
| Share placement | 2,000,000 | - | - | - | - | 2,000,000 |
| Share issue costs | (1,224,500) | - | 1,104,500 | - | - | (120,000) |
| Acquisition of Titan Project | 7,579,000 | - | 1,206,000 | - | - | 8,785,000 |
| Conversion of performance rights | 87,600 | - | (87,600) | - | - | - |
| Issue of listed options | - | 15,693 | - | - | - | 15,693 |
| Expiry of incentive options | - | - | (953,700) | - | 953,700 | - |
| Share-based payment expense for the period | - | - | 1,603,470 | - | - | 1,603,470 |
| As at 31 December 2020 | 13,019,808 | 169,443 | 3,866,163 | 143,154 | (5,141,541) | 12,057,027 |
| As at 1 July 2019 (restated) | 4,527,708 | - | 1,107,450 | 56,941 | (2,824,652) | 2,867,447 |
| Net loss for the period | - | - | - | - | (479,747) | (479,747) |
| Exchange differences arising on translation of foreign operations | - | - | - | (1,932) | - | (1,932) |
| Total comprehensive loss | - | - | - | (1,932) | (479,747) | (481,679) |
| Share issue costs | 50,000 | - | - | - | - | 50,000 |
| Share-based payment expense for the period | - | - | 5,683 | - | - | 5,683 |
| As at 31 December 2019 | 4,577,708 | - | 1,113,133 | 55,009 | (3,304,399) | 2,441,451 |

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

| | Note | Six Months Ended 31 December 2020 \$ | Restated Six Months Ended 31 December 2019 \$ |
|--|------|--|--|
| Cash flows from operating activities | | | |
| Payments to suppliers and employees | | (735,843) | (379,351) |
| Interest received | | 4,027 | 13,312 |
| Other income | | 12,456 | - |
| Net cash flows used in operating activities | | (719,360) | (366,039) |
| Cash flows from investing activities | | | |
| Payments for plant and equipment | | (604) | - |
| Purchase of exploration and evaluation assets | 3 | (21,375) | (52,695) |
| Net cash outflow on acquisition of controlled entity | 7 | (295,416) | - |
| Net cash flows used in investing activities | | (317,395) | (52,695) |
| Cash flows from financing activities | | | |
| Proceeds from issue of shares | 5 | 2,000,000 | - |
| Share issue costs | | (120,000) | - |
| Proceeds from issue of options | 6 | 15,693 | - |
| Payment of principal portion of lease liabilities | | - | (18,000) |
| Net cash inflow/(outflow) from financing activities | | 1,895,693 | (18,000) |
| Net Foreign exchange differences | | - | - |
| Net (decrease)/increase in cash and cash equivalents | | 858,938 | (436,734) |
| Cash and cash equivalents at the beginning of the period | | 1,649,187 | 2,440,618 |
| Cash and cash equivalents at the end of the period | | 2,508,125 | 2,003,884 |

The above Condensed Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The interim consolidated financial statements of TAO Commodities Limited and its consolidated entities (collectively, the "Group") for the six-months ended 31 December 2020 were authorised for issue in accordance with the resolution of the directors on 10 March 2021.

TAO Commodities Limited ("Company") is a for profit company limited by shares, incorporated and domiciled in Australia, whose shares are publicly traded on the Australian Securities Exchange ("ASX"). The Group's principal activities are the exploration and development of mineral resource properties.

(a) Basis of preparation

This general-purpose financial report for the interim six-month reporting period ended 31 December 2020 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report of the Company for the year ended 30 June 2020 and any public announcements made by the Company and its controlled entities during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The financial report has been prepared on a historical cost basis and is presented in Australian dollars (\$). Amounts in the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

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

The accounting policies and methods of computation adopted in the preparation of the interim financial report are consistent with those adopted and disclosed in the Group's annual financial report for the financial year ended 30 June 2020, except as disclosed below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

(b) Statement of Compliance

In the current period, the Group has adopted all of the new and revised standards, interpretations and amendments that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2020.

New and revised Standards and amendments thereof and Interpretations effective for the current year that are relevant to the Group are:

- AASB 2018-6 Amendments to AASs – Definition of a Business
- AASB 2018-7 Amendments to AASs – Definition of Material
- AASB 2019-1 Amendments to AASs – References to the Conceptual Framework
- AASB 2019-3 Amendments to AASs – Interest Rate Benchmark Reform
- AASB 2019-5 Amendments to AASs – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The new standards have not had a material effect on the Group's financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in Accounting Policy

The policy for accounting for exploration and evaluation expenditure has changed from the policy applied in previous reporting periods.

In previous reporting periods, the costs incurred in connection with the exploration and evaluation of areas with current rights of tenure were capitalised to the Statement of Financial Position. The criteria for carrying forward the costs were:

- Such costs are expected to be recouped through successful development and exploitation of the area of interest, or alternatively by its sale; or
- Exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area are continuing.

Costs carried forward in respect of an area of interest that was abandoned were written off in the year in which the decision to abandon was made.

The policy has changed, and the new policy has been applied retrospectively (with comparative information restated accordingly). Under the new policy, except as noted below, exploration and evaluation expenditure is expensed to the Statement of Profit or Loss and other Comprehensive Income as and when it is incurred.

Exploration and evaluation costs are only capitalised to the Statement of Financial Position if they result from an acquisition of a project. Exploration and evaluation costs, subsequent to the acquisition of the rights to explore, will now be expensed as incurred, up and until the preparation of a technical feasibility study.

The Directors are of the opinion that the change in accounting policy provides users with more relevant and no less reliable information as the policy is more transparent and less subjective. The policy is common of smaller exploration companies as exploration and evaluation expenditure is viewed as an ongoing expense of discovery, until a technical feasibility study has been completed.

The impact of this change in accounting policy is reflected below:

| | Year Ended 30 June 2020 \$ | Six Months Ended 31 December 2019 \$ |
|--|----------------------------------|--|
| Consolidated statement of financial position | | |
| Decrease in exploration and evaluation assets | (143,746) | (52,695) |
| Increase/(decrease) in equity | (143,746) | (52,695) |
| | | |
| Consolidated statement of profit or loss and other comprehensive income | | |
| Increase in exploration and evaluation expenses | (143,746) | (52,695) |
| Increase/(decrease) in profit or loss | (143,746) | (52,695) |

Basic and diluted earnings per share have also been restated. The amount of the impact on basic and diluted earnings per share for the new result for the year ended 30 June 2020 due to the change in accounting policy is a decrease in earnings per share of 0.38 cents.

The impact of the change in accounting policy has not been quantified for the current year as these accounting records have not been maintained.

2. SEGMENT INFORMATION

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Consolidated Entity that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Consolidated Entity operates in one segment, being mineral exploration in the United States of America.

3. EXPLORATION AND EVALUATION ASSETS

| | Titan Project \$ | Milford Project \$ | Total \$ |
|--|------------------------|--------------------------|------------------|
| Carrying value at 1 July 2020 (Restated) | - | 434,607 | 434,607 |
| Acquisition of Titan Project (Note 7) | 9,301,955 | - | 9,301,955 |
| Additions | 21,375 | - | 21,375 |
| Carrying amount at 31 December 2020 ⁽¹⁾ | 9,323,330 | 434,607 | 9,757,937 |
| Carrying value at 1 July 2019 (restated) | - | 434,607 | 434,607 |
| Carrying amount at 30 June 2020 (restated) | - | 434,607 | 434,607 |

Notes:

⁽¹⁾ The ultimate recoupment of costs carried forward for exploration and evaluation is dependent on the successful development and commercial exploitation or sale of the respective areas of interest.

4. DIVIDENDS PAID OR PROVIDED FOR

No dividend has been paid or provided for during the six months ended 31 December 2020 (31 December 2019: nil).

5. CONTRIBUTED EQUITY

| | 31 December 2020 \$ | 30 June 2020 \$ |
|---|------------------------|--------------------|
| Issued capital | | |
| 86,536,667 ordinary shares (30 June 2020: 31,386,667) | 13,019,808 | 4,577,708 |
| 19,800,000 Class A performance shares (30 June 2020: Nil) (refer Note 7) | - | - |
| 19,800,000 Class B performance shares (30 June 2020: Nil) (refer Note 7) | - | - |
| | 13,019,808 | 4,577,708 |

5. CONTRIBUTED EQUITY (CONTINUED)

Movements in issued capital

| Date | Details | Number of Ordinary Shares | Number of Performance Shares | \$ |
|-------------|-------------------------------------|---------------------------------|------------------------------------|-------------------|
| 1 Jul 2020 | Opening balance | 31,386,667 | - | 4,577,708 |
| 3 Nov 2020 | Conversion of performance rights | 1,000,000 | - | 87,600 |
| 1 Dec 2020 | Share placement | 25,000,000 | - | 2,000,000 |
| 1 Dec 2020 | Issued to acquire the Titan Project | 29,150,000 | 39,600,000 ⁽¹⁾ | 7,579,000 |
| | Share issue costs | - | - | (1,224,500) |
| 31 Dec 2020 | Closing balance | 86,536,667 | 39,600,000 | 13,019,808 |

Notes:

⁽¹⁾ As the performance conditions have not been met at reporting date, the deferred consideration has not been accounted for (refer Note 7 for further details).

6. RESERVES

| | 31 December 2020 \$ | 30 June 2020 \$ |
|--------------------------------------|------------------------|--------------------|
| Reserves | | |
| Option premium reserve | 169,443 | 153,750 |
| Share based payments reserve | 3,866,163 | 993,493 |
| Foreign currency translation reserve | 143,154 | 76,920 |
| Total Reserves | 4,178,760 | 1,224,163 |

Movements in option premium reserve

| Date | Details | Number of Listed Options | \$ |
|-------------|--------------------------|-----------------------------|----------------|
| 1 Jul 2020 | Opening balance | 15,448,351 | 153,750 |
| 1 Sep 2020 | Expiry of listed options | (15,448,351) | - |
| 1 Sep 2020 | Issue of listed options | 15,693,334 | 15,693 |
| 31 Dec 2020 | Closing Balance | 15,693,334 | 169,443 |

6. RESERVES (CONTINUED)

Movements share based payments reserve

| Date | Details | Number of Unlisted Options | Number of Performance Rights | \$ |
|-------------|--|----------------------------------|------------------------------------|------------------|
| 1 Jul 2020 | Opening balance | 11,000,000 | 3,000,000 | 993,493 |
| 1 Aug 2020 | Expiry of unlisted options | (11,000,000) | - | (953,700) |
| 3 Nov 2020 | Conversion of performance rights | - | (1,000,000) | (87,600) |
| 1 Dec 2020 | Options issued to acquire Titan Project ⁽¹⁾ | 13,000,000 | - | 1,206,000 |
| 1 Dec 2020 | Grant of placement options ⁽²⁾ | 5,000,000 | - | 1,104,500 |
| 1 Dec 2020 | Grant of management options ⁽³⁾ | 7,000,000 | - | - |
| | Share-based payment expense | - | - | 1,603,470 |
| 31 Dec 2020 | Closing Balance | 25,000,000 | 2,000,000 | 3,866,163 |

Notes:

⁽¹⁾ During the half year, the Company issued the following options as part consideration for the acquisition of the Titan Project:

- 5,000,000 unlisted consideration options, each exercisable at \$0.20 each on or before 1 December 2025;
- 4,000,000 unlisted Class A performance options, each exercisable at \$0.20 each on or before 1 December 2025; and
- 4,000,000 unlisted Class B performance options, each exercisable at \$0.20 each on or before 1 December 2025.

⁽²⁾ During the half year, the Company issued 5,000,000 unlisted placement options, each exercisable at \$0.20 each on or before 31 December 2023.

⁽³⁾ During the half year, the Company issued 7,000,000 unlisted management options, each exercisable at \$0.25 each on or before 31 December 2023.

Unlisted options pricing model

The fair value of Unlisted Options granted was estimated as at the date of grant using the Binomial option pricing model taking into account the terms and conditions upon which the Unlisted Options were granted. The tables below list the inputs to the valuation model used for share options granted by the Group during the half-year:

| | Consideration Options | Class A Performance Options | Class B Performance Options | Placement Options | Management Options |
|---------------------|--------------------------|-----------------------------------|-----------------------------------|----------------------|-----------------------|
| Exercise price | \$0.20 | \$0.20 | \$0.20 | \$0.20 | \$0.25 |
| Expected spot price | \$0.26 | \$0.26 | \$0.26 | \$0.26 | \$0.26 |
| Risk free rate | 0.26% | 0.26% | 0.26% | 0.10% | 0.10% |
| Median Volatility | 155% | 155% | 155% | 155% | 155% |

7. ASSET ACQUISITION

On 1 December 2020, the Company acquired 100% of Hyperion Metals Pty Ltd ("**Hyperion**"), a private Australian company, and its wholly owned subsidiary, TN Exploration LLC, a private U.S. company, which held exclusive option agreements with local landowners in Tennessee over approximately 2,100 acres of titanium and zircon prospective HMS properties in Tennessee, United States, comprising the Titan Project.

In line with relevant accounting standards, the Company has treated the acquisition Hyperion Metals Pty Ltd and the Titan Project as an asset acquisition and a share-based payment transaction under AASB 2 *Share Based Payments*.

Where an acquisition does not meet the definition of a business combination the transaction is accounted for as an asset acquisition. The consideration transferred for the acquisition of an asset comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs with regards to the acquisition are capitalised. Identifiable assets acquired and liabilities assumed in the acquisition are measured at their fair value at the acquisition date.

Where settlement of any part of cash consideration is deferred and/or contingent, the probability of making these future payments is assessed as at acquisition date and measured accordingly. The amounts of payable in the future are discounted to their present value as at the date of exchange. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

The total cost of the asset acquisition was \$8,865,729 and comprised an issue of equity instruments and costs directly attributable to the combination, as follows:

- An option fee of US\$25,000;
- 29,150,000 fully paid ordinary shares in the capital of the Company (at a deemed issue price of \$0.26);
- 5,000,000 unlisted options each exercisable at \$0.20 and expiring 1 December 2025;
- 19,800,000 unlisted Class A performance shares expiring 1 December 2024;
- 19,800,000 unlisted Class B performance shares expiring 1 December 2025;
- 4,000,000 Class A performance options each exercisable at \$0.20 and expiring 1 December 2024;
- 4,000,000 Class B performance options each exercisable at \$0.20 and expiring 1 December 2024; and
- Costs of acquisition totalling \$46,402.

| | 1 December 2020 \$ |
|---|-----------------------|
| Consideration | |
| Cash option fee (US\$25,000) | 34,327 |
| 29,150,000 ordinary shares | 7,579,000 |
| 5,000,000 unlisted consideration options | 1,206,000 |
| 19,800,000 unlisted Class A performance shares ⁽¹⁾ | - |
| 19,800,000 unlisted Class B performance shares ⁽²⁾ | - |
| 4,000,000 unlisted Class A performance options ⁽¹⁾ | - |
| 4,000,000 unlisted Class B performance options ⁽²⁾ | - |
| Direct costs relating to the acquisition | 46,402 |
| Total consideration | 8,865,729 |

7. ASSET ACQUISITION (CONTINUED)

| | 1 December 2020 \$ |
|---|-----------------------|
| Identifiable net assets | |
| Cash at bank | 235,192 |
| Exploration and evaluation assets | 9,301,955 |
| Other receivables | 1,088 |
| Trade and other payables | (222,627) |
| Loan payable to TAO Commodities Limited | (449,879) |
| Identifiable net assets | 8,865,729 |
| Net cash outflow | |
| Cash option fee paid | (34,327) |
| Direct costs relating to the acquisition | (46,402) |
| Pre-acquisition loan to Hyperion Metals Pty Ltd | (449,879) |
| Net cash acquired on acquisition of Hyperion Metals Pty Ltd | 235,192 |
| Net consolidated cash outflow | (295,416) |

Notes:

- (1) The Class A Performance Shares and Class A Performance Options vest upon completion of a positive pre-feasibility study (prepared in accordance with the JORC Code and independently verified by a Competent Person) for HMS mining and processing on any of the project area which demonstrates a net present value of at least \$200,000,000. As the Class A performance condition has not been met at reporting date, the deferred consideration has not been accounted for.
- (2) The Class B Performance Shares and Class B Performance Options vest upon commencement of commercial production from the any of the project area. As the Class B performance condition has not been met at reporting date, the deferred consideration has not been accounted for.

8. SUBSIDIARIES

The consolidated financial statements include the financial statements of TAO Commodities Limited and the subsidiaries listed in the following table.

| | Country of Incorporation | 31 December 2020 | 30 June 2020 |
|-------------------------|-----------------------------|---------------------|--------------|
| Parent Entity | | | |
| TAO Commodities Limited | Australia | | |
| Subsidiaries | | | |
| Hyperion Metals Pty Ltd | Australia | 100% | - |
| TN Exploration LLC | USA | 100% | - |
| Calatos Pty Ltd LLC | USA | 100% | 100% |

TAO Commodities Limited is the ultimate Australian parent entity and ultimate parent of the Group.

9. COMMITMENTS

At 31 December 2020, Calatos Pty Ltd LLC (100% subsidiary of the Company) held exploration licences in Utah. The financial commitment is as follows:

| | Annual Commitment |
|-----------------|------------------------|
| 101 Claims Utah | \$14,516 (USD\$10,600) |

At 31 December 2020, TN Exploration LLC (100% subsidiary of the Company) held an office lease agreement in North Carolina. The financial commitment is as follows:

| | Annual Commitment |
|------------|------------------------|
| Lease Rent | \$18,487 (USD\$13,500) |

10. CONTINGENT ASSETS AND LIABILITIES

At 31 December 2020, the Group had entered into exclusive option agreements with local landowners in Tennessee, United States, in relation to its Titan Project, which upon exercise, allows the Group to lease or purchase approximately 3,133 acres of surface property and the associated mineral rights from the local landowners. Upon exercise, in the case of an option to lease, the Company will pay a production royalty to the landowners, subject to a minimum royalty. Upon exercise, in the case of a purchase, the Company will pay cash consideration approximating the fair market value of the property, excluding the value of any minerals, plus a premium. See Note 7 for details.

11. RELATED PARTY TRANSACTIONS

During the half-year, GTT Ventures Pty Ltd, a company associated with Mr Patric Glovac, was paid: (a) consulting fees of \$117,750 (31 December 2019: \$63,000); (b) rent and outgoings of \$61,433 (31 December 2019: \$18,802); (c) placement fees of \$33,000 (31 December 2019: nil); and (d) a facilitation fee for the acquisition of the Titan Project, comprising 2,650,000 shares, 1,800,000 Class A performance shares and 1,800,000 Class B performance shares.

During the half-year, Nova Legal Pty Ltd, a company associated with Mr Frank Knezovic, was paid \$36,295 (31 December 2019: \$32,465) for legal services.

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

Remuneration of Key Management Personnel is disclosed in the Company's annual report and not disclosed in this note.

12. SUBSEQUENT EVENTS AFTER BALANCE DATE

- (a) On 7 January 2021, the Company announced results from its maiden drilling program at the Titan Project in west Tennessee that confirmed thick, high grade mineralisation in all 15 drill holes completed in the Phase 1 drilling program and a valuable mineral assemblage from 4 drill holes selected for analysis;
- (b) On 11 January 2021, the Company announced the appointment of Mr. Alastair Smith as Non-Executive Director of the Company;
- (c) On 20 January 2021, the Company announced the appointment of Mr. Todd Hannigan as Non-Executive Chairman of the Company, in conjunction with Mr. Hannigan participating in a placement by the Company to raise A\$3,645,000;
- (d) On 27 January 2021, the Company announced that it has increased its holdings of titanium and zircon prospective HMS properties by approximately 750 acres through additional land option agreements signed with local landowners at the Titan Project in west Tennessee;
- (e) On 1 February 2021, the Company announced that it had completed its previously announced placement of 12,150,000 shares to institutional and sophisticated investors to raise gross proceeds of A\$3,645,000;
- (f) On 15 February 2021, the Company announced that it had signed a research agreement and option for exclusive licence to develop titanium metal powders using the breakthrough HAMR technology invented by Dr. Z. Zak Fang and his team at the University of Utah with funding from ARPA-E, with Boeing and Arconic (formerly Alcoa, Inc.) as industrial partners;
- (g) On 18 February 2021, the Company announced that experienced U.S. based resource company executive, Mr. Taso Arima, has been appointed Managing Director of the Company, effective from March 1, 2021;
- (h) On 1 March 2021, the Company announced the appointment of Mr. Vaughn Taylor as Non-Executive Director of the Company, effective from 3 March 2021;
- (i) On 10 March 2021, the Company announced results from its Phase 2 drilling program at the Titan Project which continue to highlight the potential for a world class, critical mineral rich province in the USA. Assays from all 9 holes of the Phase 2 drill program returned thick zones of high-grade THM near surface; and
- (j) The impact of the Coronavirus (COVID-19) pandemic is ongoing and while it has not significantly impacted the Company up to 31 December 2020, it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

Other than as outlined above, at the date of this report there are no other significant events occurring after balance date requiring disclosure.

DECLARATION OF INDEPENDENCE BY DEAN JUST TO THE DIRECTORS OF TAO COMMODITIES LIMITED

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

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

This declaration is in respect of TAO Commodities Limited and the entities it controlled during the period.



Dean Just
Director

BDO Audit (WA) Pty Ltd

Perth, 10 March 2021

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of TAO Commodities Limited

Report on the Half-Year Financial Report

Conclusion

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

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

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

Basis for conclusion

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

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

Responsibility of the directors for the financial report

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



Auditor's responsibility for the review of the financial report

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

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

BDO Audit (WA) Pty Ltd

A handwritten signature in black ink, appearing to read 'Dean Just', is written over a faint, light blue BDO logo.

Dean Just

Director

Perth, 10 March 2021

Forward Looking Statements

Information included in this release constitutes forward-looking statements. Often, but not always, forward looking statements can generally be identified by the use of forward looking words such as “may”, “will”, “expect”, “intend”, “plan”, “estimate”, “anticipate”, “continue”, and “guidance”, or other similar words and may include, without limitation, statements regarding plans, strategies and objectives of management, anticipated production or construction commencement dates and expected costs or production outputs.

Forward looking statements inherently involve known and unknown risks, uncertainties and other factors that may cause the Company's actual results, performance, and achievements to differ materially from any future results, performance or achievements. Relevant factors may include, but are not limited to, changes in commodity prices, foreign exchange fluctuations and general economic conditions, increased costs and demand for production inputs, the speculative nature of exploration and project development, including the risks of obtaining necessary licenses and permits and diminishing quantities or grades of reserves, political and social risks, changes to the regulatory framework within which the company operates or may in the future operate, environmental conditions including extreme weather conditions, recruitment and retention of personnel, industrial relations issues and litigation.

Forward looking statements are based on the Company and its management's good faith assumptions relating to the financial, market, regulatory and other relevant environments that will exist and affect the Company's business and operations in the future. The Company does not give any assurance that the assumptions on which forward looking statements are based will prove to be correct, or that the Company's business or operations will not be affected in any material manner by these or other factors not foreseen or foreseeable by the Company or management or beyond the Company's control.

Although the Company attempts and has attempted to identify factors that would cause actual actions, events or results to differ materially from those disclosed in forward looking statements, there may be other factors that could cause actual results, performance, achievements or events not to be as anticipated, estimated or intended, and many events are beyond the reasonable control of the Company. Accordingly, readers are cautioned not to place undue reliance on forward looking statements. Forward looking statements in these materials speak only at the date of issue. Subject to any continuing obligations under applicable law or any relevant stock exchange listing rules, in providing this information the company does not undertake any obligation to publicly update or revise any of the forward looking statements or to advise of any change in events, conditions or circumstances on which any such statement is based.

Competent Person's Statement

The information in this announcement that relates to the Titan Project Exploration Results is extracted from the Company's ASX Announcements dated 10 March 2021 and 7 January 2021 and the information in this announcement that relates to the Milford Project Exploration Results is extracted from the Company's ASX Announcements dated 9 July 2018, 30 April 2020, 30 June 2020 and 17 August 2020 (“Original ASX Announcements”). These announcements are available to view at the Company's website at www.taocommodities.com.au.

The Company confirms that a) it is not aware of any new information or data that materially affects the information included in the Original ASX Announcements; b) all material assumptions included in the Original ASX Announcements continue to apply and have not materially changed; and c) the form and context in which the relevant Competent Persons' findings are presented in this report have not been materially changed from the Original ASX Announcements.