



**TAO COMMODITIES LIMITED
ACN 618 935 372**

**NOTICE OF ANNUAL GENERAL MEETING
AND
EXPLANATORY STATEMENT**

For the Annual General Meeting to be held
on Monday 25th November 2019 at 4.00pm (WST) at

22 Townshend Road
Subiaco WA 6008

This is an important document. Please read it carefully. If Shareholders are in doubt as to how to vote, they should seek advice from their professional adviser prior to voting.

If you are unable to attend the Meeting, please complete the form of proxy enclosed and return it in accordance with the instructions set out on that form.

TIME AND PLACE OF ANNUAL GENERAL MEETING AND HOW TO VOTE

Venue

The Annual General Meeting of the Company will be held at:

22 Townshend Road
Subiaco, Western Australia

Commencing 4.00 pm (WST)
Monday 25th November 2019

Voting in person

To vote in person, attend the Meeting at the time, date and place set out above.

Voting by proxy

To vote by proxy, please complete and sign the enclosed Proxy Form and return by the time and in accordance with the instructions set out on the Proxy Form.

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

- each Shareholder has a right to appoint a proxy;
- the proxy need not be a Shareholder of the Company; and
- a Shareholder who is entitled to cast 2 or more votes may appoint 2 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.

Shareholders and their proxies should be aware that:

- if proxy holders vote, they must cast all directed proxies as directed; and
- any directed proxies which are not voted will automatically default to the Chair, who must vote the proxies as directed.

Should you wish to discuss the matters in this Notice of Meeting please do not hesitate to contact the Company Secretary on +61 8 6380 2470.

TAO COMMODITIES LIMITED
ACN 618 935 372
NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of the Shareholders of TAO Commodities Limited will be held at 22 Townshend Road Subiaco WA 6008, at 4.00pm (WST) on Monday 25th November 2019 (WST) for the purpose of transacting the following business.

The attached Explanatory Statement is provided to supply Shareholders with information to enable Shareholders to make an informed decision regarding the Resolutions set out in this Notice. The Explanatory Statement is to be read in conjunction with this Notice.

AGENDA

ORDINARY BUSINESS

Financial Statements and Reports

To receive and consider the Annual Report of the Company for the financial year ended 30 June 2019 together with the declaration of the directors, the Directors' Report, the Remuneration Report and the Auditor's Report.

RESOLUTION 1 – ADOPTION OF REMUNERATION REPORT

To consider and, if thought fit, to pass, with or without amendment, the following Resolution as a **non-binding Resolution**:

"That, for the purpose of Section 250R(2) of the Corporations Act and for all other purposes, approval is given for the adoption of the Remuneration Report that forms part of the Directors' Report as contained in the Company's Annual Report for the financial year ended 30 June 2019 on the terms and conditions in the Explanatory Memorandum."

Please note that a vote on this Resolution is advisory only and does not bind the Directors or the Company.

Voting prohibition statement

In accordance with section 250R of the Corporations Act, a vote on this Resolution must not be cast (in any capacity) by or on behalf of either of the following persons:

- (a) a member of the Key Management Personnel, details of whose remuneration are included in the Remuneration Report; or
- (b) a Closely Related Party of such a member.

However, a vote may be cast by such person if:

- (a) the person is acting as a proxy and the Proxy Form specifies how the proxy is to vote, and the vote is not cast on behalf of a person who is otherwise excluded from voting on this Resolution as described above; or
- (b) the person is the Chair voting an undirected proxy which expressly authorizes the Chair to vote on a resolution connected with the remuneration of a member of the Key Management Personnel.

RESOLUTION 2 – RE-ELECTION OF DIRECTOR – JASON BREWER

To consider and, if thought fit, to pass, with or without amendment, the following Resolution as an **ordinary resolution**:

“That, for the purposes of clause 11.4 of the Constitution and for all other purposes, Mr Jason Brewer, a Director, retires by rotation, and being eligible, offers himself for re-election as a Director of the Company.”

RESOLUTION 3 – APPROVAL OF ADDITIONAL PLACEMENT CAPACITY

To consider and, if thought fit, to pass, with or without amendment, the following Resolution as a **special resolution**:

"That, pursuant to and in accordance with Listing Rule 7.1A and for all other purposes, approval is given for the Company to issue Equity Securities up to 10% of the issued capital of the Company (at the time of issue) calculated in accordance with the formula prescribed in Listing Rule 7.1A.2, to be issued on the terms set out in the Explanatory Statement."

Voting exclusion:

The Company will disregard any votes cast in favour of this Resolution by or on behalf of:

- (a) a person (or persons) who is expected to participate in, or who will obtain a material benefit as a result of, the proposed issue of equity Securities (except a benefit solely by reason of being a holder of ordinary securities in the Company); or
- (b) any Associate of that person (or those persons).

However, the Company need not disregard a vote if:

- (a) it is cast by the person as a proxy for a person who is entitled to vote, in accordance with directions on the Proxy Form; or
- (b) it is cast by the Chairman as proxy for a person who is entitled to vote, in accordance with the direction of the Proxy Form to vote as the proxy decides.

RESOLUTION 4 – AMENDMENT OF CONSTITUTION

To consider and, if thought fit, to pass the following resolution as a **special resolution**:

“That, for the purposes of section 136(2) of the Corporations Act and for all other purposes, approval is given for the Company to amend its existing Constitution to incorporate additional provisions relating to restricted securities as required by ASX.”

RESOLUTION 5 – GRANT OF PERFORMANCE RIGHTS TO MR MARK CONNELLY

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

“Subject to the passing of Resolutions 6 and 7, for the purposes of section 195(4) and section 208 of the Corporations Act and Listing Rule 10.11, and for all other purposes, approval is given for the Company to grant 1,500,000 Performance Rights to Mark Connelly (and/or his nominees), on the terms and conditions set out in the Explanatory Statement.”

Voting Exclusion

The Company will disregard any votes cast in favour of this Resolution by or on behalf of:

- (a) Mark Connelly (and/or his nominees), who is to receive the Performance Rights in relation to the Company (each, an **Excluded Person**); or
- (b) an Associate of that Excluded Person (or those Excluded Persons) who is to receive the Performance Rights in relation to the Company.

However, the Company need not disregard a vote if:

- (a) it is cast by the person as a proxy for a person who is entitled to vote, in accordance with directions on the Proxy Form; or
- (b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction of the Proxy Form to vote as the proxy decides.

Voting Prohibition

A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if the proxy is either:

- (a) a member of the Key Management Personnel; or
- (b) a Closely Related Party of such a member; and
- (c) the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- (a) the proxy is the Chair; and
- (b) the appointment expressly authorises the Chair to exercise the proxy even though this Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

RESOLUTION 6 – GRANT OF PERFORMANCE RIGHTS TO MR PATRIC GLOVAC

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

"Subject to the passing of Resolutions 5 and 7, for the purposes of section 195(4) and section 208 of the Corporations Act and Listing Rule 10.11, and for all other purposes, approval is given for the Company to grant 1,500,000 Performance Rights to Patric Glovac (and/or his nominees), on the terms and conditions set out in the Explanatory Statement."

Voting Exclusion

The Company will disregard any votes cast in favour of this Resolution by or on behalf of:

- (a) Patric Glovac (and/or his nominees), who is to receive the Performance Rights in relation to the Company (each, an **Excluded Person**); or
- (b) an Associate of that Excluded Person (or those Excluded Persons) who is to receive the Performance Rights in relation to the Company.

However, the Company need not disregard a vote if:

- (a) it is cast by the person as a proxy for a person who is entitled to vote, in accordance with directions on the Proxy Form; or
- (b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction of the Proxy Form to vote as the proxy decides.

Voting Prohibition

A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if the proxy is either:

- (a) a member of the Key Management Personnel; or
- (b) a Closely Related Party of such a member; and
- (c) the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- (a) the proxy is the Chair; and
- (b) the appointment expressly authorises the Chair to exercise the proxy even though this Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

RESOLUTION 7 – GRANT OF PERFORMANCE RIGHTS TO MR JASON BREWER

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

"Subject to the passing of Resolutions 5 and 6, for the purposes of section 195(4) and section 208 of the Corporations Act and Listing Rule 10.11, and for all other purposes, approval is given for the Company to grant 1,500,000 Performance Rights to Jason Brewer (and/or his nominees), on the terms and conditions set out in the Explanatory Statement."

Voting Exclusion

The Company will disregard any votes cast in favour of this Resolution by or on behalf of:

- (a) Jason Brewer (and/or his nominees), who is to receive the Performance Rights in relation to the Company (each, an **Excluded Person**); or
- (b) an associate of that Excluded Person (or those Excluded Persons) who is to receive the Performance Rights in relation to the Company.

However, the Company need not disregard a vote if:

- (a) it is cast by the person as a proxy for a person who is entitled to vote, in accordance with directions on the Proxy Form; or
- (b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction of the Proxy Form to vote as the proxy decides.

Voting Prohibition

A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if the proxy is either:

- (a) a member of the Key Management Personnel; or
- (b) a Closely Related Party of such a member; and
- (c) the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- (a) the proxy is the Chair; and
- (b) the appointment expressly authorises the Chair to exercise the proxy even though this Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

By order of the Board

Mrs Anna MacKintosh
Company Secretary

Dated: 23 October 2019

Voting in person

To vote in person, attend the Meeting at the time, date and place set out above.

Voting by proxy

To vote by proxy, please complete and sign the enclosed Proxy Form and return by the time and in accordance with the instructions set out on the Proxy Form.

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

- each Shareholder has a right to appoint a proxy;
- the proxy need not be a Shareholder of the Company; and
- a Shareholder who is entitled to cast 2 or more votes may appoint 2 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.

Shareholders and their proxies should be aware that:

- if proxy holders vote, they must cast all directed proxies as directed; and
- any directed proxies which are not voted will automatically default to the Chair, who must vote the proxies as directed.

Proxy vote if appointment specifies way to vote

Section 250BB(1) of the Corporations Act provides that an appointment of a proxy may specify the way the proxy is to vote on a particular resolution and, if it does:

- the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote that way (i.e. as directed); and
- if the proxy has 2 or more appointments that specify different ways to vote on the resolution – the proxy must not vote on a show of hands; and
- if the proxy is the Chair of the meeting at which the resolution is voted on – the proxy must vote on a poll, and must vote that way (i.e. as directed); and
- if the proxy is not the Chair – the proxy need not vote on the poll, but if the proxy does so, the proxy must vote that way (i.e. as directed).

Transfer of non-chair proxy to Chair in certain circumstances

Section 250BC of the Corporations Act provides that, if:

- an appointment of a proxy specifies the way the proxy is to vote on a particular resolution at a meeting of the Company's members; and
- the appointed proxy is not the Chair of the meeting; and
- at the meeting, a poll is duly demanded on the resolution; and
- either of the following applies:
 - (i) the proxy is not recorded as attending the meeting;
 - (ii) the proxy does not vote on the resolution,

the Chair of the meeting is taken, before voting on the resolution closes, to have been appointed as the proxy for the purposes of voting on the resolution at the meeting.

The enclosed Proxy Form provides further details on appointing proxies and lodging Proxy Forms.

Voting Prohibition by Proxy Holders

In accordance with section 250R of the Corporations Act, a vote on Resolution 1 must not be cast (in any capacity) by, or on behalf of:

- a member of the Key Management Personnel whose remuneration details are included in the Remuneration Report; or
- a Closely Related Party of such member.

However, a person described above may cast a vote on Resolution 1 as proxy if the vote is not cast behalf of a person described above and either:

- the person does so as a proxy appointed by writing that specifies how the proxy is to vote on Resolution; or
- the person is the Chair and the appointment of the Chair as proxy:
 - (i) does not specify the way the proxy is to vote on Resolution 1; and
 - (ii) expressly authorises the Chair to exercise the proxy even if Resolution 1 is connected directly or indirectly with the remuneration of Key Management Personnel.

Corporate Representatives

A corporation may appoint an individual as a representative to exercise its powers as Shareholder or as a Shareholder's proxy. The representative must bring to the Meeting evidence of his or her appointment, including any authority under which it is signed, unless it has previously give to the Company's share registry.

Should you wish to discuss the matters in this Notice of Meeting please do not hesitate to contact the Company Secretary on +61 8 6380 2470.

EXPLANATORY STATEMENT

This Explanatory Statement has been prepared to provide information which the Directors believe to be material to Shareholders in deciding whether or not to pass the Resolutions in the Notice for the Annual General Meeting of Shareholders of the Company to be held at 22 Townshend Road, Subiaco Western Australia, 6008 on Monday 25th November 2019, commencing at 4:00pm (WST).

The Chair intends to direct all undirected Proxies in favour of Resolutions 1 to 7.

FINANCIAL STATEMENTS AND REPORTS

In accordance with the Constitution, the business of the Meeting will include receipt and consideration of the Annual Report of the Company for the financial year ended 30 June 2019, which includes the Financial Report, the Directors' Report and the Auditor's Report. The Company will not provide a hard copy of the Company's Annual Report to Shareholders unless specifically requested to do so. The Company's Annual Report is available on its website at <http://www.taocommodities.com.au/>.

There is no requirement for Shareholders to approve the Annual Report.

Shareholders will be offered the following opportunities:

- (a) discuss the Annual Report;
- (b) ask questions or make comment on the management of the Company;
- (c) ask the auditor questions about the conduct of the audit and the preparation and content of the auditor's report.

In addition to taking questions at the Meeting, written questions to the Chairman about the management of the Company, or to the Company's auditor about:

- (a) the preparation and the content of the auditor's report; and
- (b) the conduct of the audit;
- (c) accounting policies by the Company in relation to the preparation of the financial statements; and
- (d) the independence of the auditor in relation to the conduct of the audit,

may be submitted no later than 5 Business Days before the Meeting to the Company Secretary at the Company's registered office.

1. RESOLUTION 1 – ADOPTION OF REMUNERATION REPORT

1.1 General

Section 250R(2) of the Corporations Act requires that at a listed company's annual general meeting, a Resolution that the Remuneration Report be adopted must be put to the shareholders. However, such a Resolution is advisory only and does not bind the Directors or the Company, a failure of shareholders to pass Resolution1 will not require the Directors to alter any of the arrangements in the Remuneration Report.

The Remuneration Report sets out the Company's remuneration arrangements for the Directors and senior management of the Company. The Remuneration Report is part of the Directors' Report contained in the Annual Report for a financial year.

The chair of the meeting must allow a reasonable opportunity for its shareholders to ask questions about or comments on the Remuneration Report at the Meeting.

1.2 Voting Consequences

A company is required to put to its shareholders a resolution proposing the calling of another meeting of shareholders to consider the appointment of directors of the company (Spill Resolution) if, at consecutive annual general meetings, at least 25% of the votes cast on a remuneration report resolution are voted against adoption of the remuneration report and at the first of those annual general meetings a Spill Resolution was not put to vote. If required, the Spill Resolution must be put to vote at the second of those annual general meetings.

If more than 50% of votes cast are in favour of the Spill Resolution, the Company must convene a shareholder meeting (**Spill Meeting**) within 90 days of the second annual general meeting.

All of the directors of the company who were in office when the directors' report (as included in the company's Annual Report for the most recent financial year) was approved, other than the managing director of the company, will cease to hold office immediately before the end of the Spill Meeting but may stand for re-election at the Spill Meeting. Following the Spill Meeting those persons whose election or re-election as directors of the company is approved will be the directors of the company.

The Chair intends to exercise all undirected proxies in favour of Resolution 1. If the Chair of the Meeting is appointed as your proxy and you have not specified the way the Chair is to vote on Resolution 1, by signing and returning the Proxy Form, the Shareholder is considered to have provided the Chair with an express authorisation for the Chair to vote the proxy in accordance with the Chair's intention.

1.3 Previous voting results

At the Company's previous annual general meeting the votes cast against the remuneration report considered at that annual general meeting were less than 25%. Accordingly, the Spill Resolution is not relevant for this Meeting.

2. RESOLUTION 2 – RE-ELECTION OF DIRECTOR – JASON BREWER

2.1 Overview

The Constitution requires that at every annual general meeting, one third of directors (excluding the managing director) shall retire from office and provides that such Directors are eligible for re-election at the meeting. Mr Jason Brewer retires by rotation and being eligible, offers himself for re-election.

2.2 Background

Mr Brewer is Non-Executive Director. Details of the qualifications and expertise of Mr Brewer are set out in the Annual Report.

2.3 Board recommendation

The Board (other than Mr Brewer) unanimously recommend shareholders vote in favour of the re-election of Mr Brewer as a Director.

3. RESOLUTION 3 – APPROVAL OF ADDITIONAL PLACEMENT CAPACITY

3.1 General

Listing Rule 7.1 permits entities to issue 15% of its issued capital without shareholder approval in a 12 month period, subject to a number of exceptions.

Listing Rule 7.1A permits eligible entities, which have obtained shareholder approval by special Resolution, to issue Equity Securities up to an additional 10% of its issued capital by placements over a 12 month period after the annual general meeting (**Additional Placement Capacity**).

The Company seeks Shareholder approval under this Resolution to be able to issue Equity Securities under the Additional Placement Capacity. The exact number of Equity Securities to be issued is not fixed and will be determined in accordance the formula prescribed in Listing Rule 7.1A.2 (set out at 3.2(d) below).

3.2 Requirements of Listing Rule 7.1A

(a) Eligible entities

An eligible entity for the purposes of Listing Rule 7.1A is an entity that is not included in the S&P/ASX 300 Index and has a market capitalisation of \$300 million or less. The Company is an eligible entity.

(b) Shareholder approval

Shareholders must approve the Additional Placement Capacity by special Resolution at the annual general meeting and therefore requires approval of 75% of the votes cast by Shareholders present and eligible to vote. A Resolution under Listing Rule 7.1A cannot be put at any other shareholder meeting.

(c) Equity Securities

Equity Securities issued under the Additional Placement Capacity must be in the same class as an existing class of Equity Securities of the Company that are quoted on ASX.

As at the date of this Notice, the Equity Securities that are quoted on ASX are fully paid ordinary Shares.

(d) **Formula for calculating number of Equity Securities that may be issued under the Additional Placement Capacity**

If this Resolution is passed, the Company may issue or agree to issue, during the 12 month period after this Meeting, the number of Equity Securities calculated in accordance with the following formula:

$$(A \times D) - E$$

A	The number of shares on issue 12 months before the date of issue or agreement: <ul style="list-style-type: none">• plus the number of fully paid shares issued in the 12 months under an exception in Listing Rule 7.2;• plus the number of partly paid shares that became fully paid in the 12 months;• plus the number of fully paid shares issued in the 12 months with the approval of shareholders under Listing Rules 7.1 or 7.4. This does not include the number of fully paid shares under the entity's 15% placement capacity without shareholder approval;• less the number of fully paid shares cancelled in the 12 months.
D	10%
E	The number of Equity Securities issued or agreed to be issued under Rule 7.1A.2 in the 12 months before the date of issue or agreement to issue that are not issued with the approval of shareholders under Listing Rules 7.1 or 7.4.

(e) **Interaction between Listing Rules 7.1 and 7.1A**

The Additional Placement Capacity under Listing Rule 7.1A is in addition to the Company's 15% placement capacity under Listing Rule 7.1.

The Company has 30,970,000 Shares on issue as at the date of this Notice. If all of the Resolutions in this Notice are passed, the Company will be permitted to issue (as at the date of this Notice):

- 4,645,500 Equity Securities under Listing Rule 7.1; and
- 3,097,000 Equity Securities under Listing Rule 7.1A.

The actual number of Equity Securities that the Company will be permitted to issue under Listing Rule 7.1A will be calculated at the date of issue or agreement to issue the Equity Securities in accordance with the formula prescribed in Listing Rule 7.1A.2 (as set out at 11.2(d) above).

The effect of this Resolution will be to allow the Company to issue securities under Listing Rule 7.1A without using the Company's placement capacity under Listing Rule 7.1.

3.3 Information for Shareholders as required by Listing Rule 7.3A

(a) Minimum price

The issue price of the new Equity Securities will be not less than 75% of the volume weighted average price (**VWAP**) for securities in the relevant quoted class calculated over the 15 Trading Days on which trades in that class were recorded immediately before:

- the date on which the price of the Equity Securities are to be issued is agreed; or
- if the Equity Securities are not issued within 5 Trading Days of the date above, the date on which the Equity Securities are issued.

(b) Risk of economic and voting dilution

If this Resolution is passed and the Company issues Equity Securities under the Additional Placement Capacity, existing Shareholders' voting power in the Company will be diluted.

There is the risk that:

- the market price for the Company's existing Equity Securities in that class may be significantly lower on the date of issue of the new Equity Securities than on the date of the Meeting; and
- the new Equity Securities may be issued at a price that is at a discount to the market price of the Company's existing Equity Securities on the issue date,

which may have an effect on the amount of funds raised by the issue of the new Equity Securities.

The table below shows the dilution of existing Shareholders on the basis of the current market price of Shares and the current number of ordinary securities for variable "A" calculated in accordance with the formula in Listing Rule 7.1A.2 as at the date of this Notice.

The table also shows:

- two examples where variable "A" has increased by 50% and 100%. Variable "A" is based on the number of ordinary securities the Company has on issue. The number of ordinary securities may increase as a result of issues of ordinary securities that do not require Shareholder approval (for example a pro rata entitlement issue) or future placements under Listing Rule 7.1 that are approved by Shareholders in the future;
- two examples of where the issue price of ordinary securities has decreased by 50% and increased by 100% as against the current market price at 10 October 2019.

Number of Shares on Issue	Dilution			
	Issue Price (per Share)	\$0.065 (50% decrease in current issue price)	\$0.13 (Current issue price)	\$0.195 (100% increase in current issue price)
30,970,000 (Current)	Shares issued	3,097,000	3,097,000	3,097,000
	Funds raised	\$201,305	\$402,610	\$603,915
46,455,000 (50% increase)*	Shares issued	4,645,500	4,645,500	4,645,500
	Funds raised	\$301,958	\$603,915	\$905,873
61,940,000 (100% increase)*	Shares issued	6,194,000	6,194,000	6,194,000
	Funds raised	\$402,610	\$805,220	\$1,207,830

This table has been prepared on the following assumptions:

- (i) The total number of Shares on issue at the date of this Notice is 30,970,000.
- (ii) The issue price is 13c cents, being the latest closing price of the Shares on ASX on 10 October 2019.
- (iii) The Company issues the maximum number of Equity Securities available under the Additional Placement Capacity.
- (iv) The Company has not issued any Equity Securities in the 12 months prior to the Meeting that were not issued under an exception in Listing Rule 7.2 or with Shareholder approval.
- (v) No quoted Options (including any quoted Options issued under the Additional Placement Capacity) are exercised into Shares before the date of the issue of the Equity Securities.
- (vi) The table does not show an example of dilution that may be caused to a particular Shareholder by reason of placements under the Additional Placement Capacity, based on that Shareholder's holding at the date of the Meeting.
- (vii) The table shows only the effect of issues of Equity Securities under Listing Rule 7.1A, not under the 15% placement capacity under Listing Rule 7.1.
- (viii) The issue of Equity Securities under the Additional Placement Capacity consists only of Shares. If the issue of Equity Securities includes quoted Options, it is assumed that those Options are exercised into Shares for the purpose of calculating the voting dilution effect on existing Shareholders.

The Company's ability to issue securities under Listing Rule 7.1A is in addition to its ability to issue securities under listing rule 7.1.

(c) Placement Period

Shareholder approval of the Additional Placement Capacity under Listing Rule 7.1A is valid from 25th November 2019 (the date of this Meeting) and expires on the earlier of:

- 25th November 2020, which is 12 months after this Meeting; or
- the date that Shareholders approve a transaction under Listing Rule 11.1.2 (significant change to nature or scale of activities) or 11.2 (disposal of the main undertaking)

(the **Placement Period**).

The Company will only issue and allot new securities during the Placement Period. The approval will cease to be valid in the event that Shareholders' approve a transaction under Listing Rules 11.1.2 or 11.2.

(d) Purposes for which the new Equity Securities may be issued

The Company may seek to issue new Equity Securities for the following purposes:

- cash consideration for the continued development on the Company's current assets, the acquisition of new assets or investments (including the expenses associated such acquisition) and for general working capital; and/or
- non-cash consideration for acquisition of new assets, investments or for the payment of goods or services or for the issue of Equity Securities associated with equity, debt or convertible security facilities that may be provided to the Company. In such circumstances the Company will provide a valuation of the non-cash consideration as required by Listing Rule 7.1A.3.

(e) Allocation policy

The Company's allocation policy for the issue of new Equity Securities under the Additional Placement Capacity will depend on the market conditions existing at the time of the proposed issue. The allottees will be determined at the relevant time having regard to factors such as:

- the methods of raising funds that are available to the Company, including but not limited to, a placement or a rights issue;
- the effect of the issue of new Equity Securities on the control of the Company;
- the financial situation and solvency of the Company;
- advice from corporate, financial and broking advisers (as relevant).

As at the date of this Notice the allottees are not known but may include existing substantial Shareholders and/or new Shareholders. No allottee under the Additional Placement Capacity will be a related party or associate of a related party. Existing Shareholders may or may not be entitled to subscribe for any Equity Securities issued under the Additional Placement Capacity and it is possible that their shareholding will be diluted.

If the Additional Placement Capacity is used to acquire new assets or investments, then it is likely that the allottees will be the vendors of the new assets.

The Company will comply with the disclosure obligations under Listing Rule 7.1A.4 and 3.10.5A on the issue of any new Equity Securities.

(f) Details of Equity Securities issued in the 12 months preceding the date of the Meeting

The Company previously obtained Shareholder approval under Listing Rule 7.1A at its annual general meeting held on 28 November 2018. Since October 2018, the Company has issued a total of 220,000 Equity Securities, representing 0.71% of the total number of Equity Securities on issue at 29 November 2018. Details of the Equity Securities issued in the preceding 12 month period are set out in Schedule 1.

(g) **Voting exclusion**

At the date of this Notice, the Company has not approached any particular existing Shareholder or security holder or an identifiable class of existing security holder to participate in a proposed issue of Equity Securities under the proposed Additional Placement Capacity. No existing Shareholder's votes will therefore be excluded under the voting exclusion in the Notice.

4. **RESOLUTION 4 – AMENDMENT TO CONSTITUTION**

Overview

As announced by ASX on 28 November 2018 in its public consultation paper titled “Simplifying, clarifying and enhancing the integrity and efficiency of the ASX listing rules” (**Consultation Paper**), ASX is proposing to introduce a two-tier escrow regime where ASX can (and will) require certain holders of restricted securities (i.e. related parties, promoters and substantial holders) and their controllers to execute a formal escrow agreement in the form of Appendix 9A, as is currently the case. However, for less significant holdings, ASX will instead permit entities to rely on a provision in their constitution imposing appropriate escrow restrictions on the holder of restricted securities and to simply give a notice to the holder of restricted securities in the form of a new Appendix 9C advising them of those restrictions.

A company may modify or repeal its constitution or a provision of its constitution by special resolution of Shareholders.

As set out in ASX’s compliance update released on 20 September 2019, the proposed changes will take effect from 1 December 2019 and will include an updated Listing Rule 15.12 which will apply to entities admitted to the official list, or that issue restricted securities, on or after that date (**Proposed Listing Rule 15.12**). Entities that were admitted to the official list and issued restricted securities before that date must continue to comply with the provisions of Listing Rule 15.12 in force immediately prior to that date.

This resolution is a special resolution and will allow the Company to modify its Constitution to comply with the Proposed Listing Rule 15.12. A copy of the updated Constitution is available for review by Shareholders at the Company’s website www.taocommodities.com.au and at the office of the Company. A copy of the updated Constitution can also be sent to Shareholders upon request to the Company Secretary (+61 8 6380 2470). Shareholders are invited to contact the Company if they have any queries or concerns.

Summary of the proposed modification

Under the Proposed Listing Rule 15.12, for so long as an entity has restricted securities on issue, its constitution must provide for each of the following:

- (a) a holder of restricted securities must not dispose of, or agree or offer to dispose of, the securities during the escrow period applicable to those securities except as permitted by the Listing Rules or ASX;
- (b) if the securities are in the same class as quoted securities, the holder will be taken to have agreed in writing that the restricted securities are to be kept on the entity’s issuer sponsored subregister and are to have a holding lock applied for the duration of the escrow period applicable to those securities;

- (c) the entity will refuse to acknowledge any disposal (including, without limitation, to register any transfer) of restricted securities during the escrow period applicable to those securities except as permitted by the Listing Rules or ASX;
- (d) a holder of restricted securities will not be entitled to participate in any return of capital on those securities during the escrow period applicable to those securities except as permitted by the Listing Rules or ASX; and
- (e) if a holder of restricted securities breaches a restriction deed or a provision of the entity's constitution restricting a disposal of those securities, the holder will not be entitled to any dividend or distribution, or to exercise any voting rights, in respect of those securities for so long as the breach continues.

Therefore, subject to the passing of this resolution, the provisions set out in (a) to (e) above will replace clause 3.19 of the Constitution.

The Directors believe these amendments are not material nor will they have any significant impact on Shareholders. The changes are being implemented for compliance with ASX policy only.

The Board recommends that Shareholders vote in favour of Resolution 4. The Chair of the meeting intends to vote undirected proxies in favour of Resolution 4.

5. RESOLUTIONS 5, 6 AND 7 GRANT OF PERFORMANCE RIGHTS TO DIRECTORS - MR MARK CONNELLY, MR PATRIC GLOVAC AND MR JASON BREWER

Resolutions 5 to 7 seek Shareholder approval for the grant of a total of 4,500,000 Performance Rights, being 1,500,000 Performance Rights each to Mr Mark Connelly, Mr Patric Glovac and Mr Jason Brewer to incentivise their performance, on the terms and conditions set out in the Schedule 1 (**Performance Rights**)

The Company considers that vesting hurdles tied to its Share price are the most appropriate indicator for Director performance at its current stage of growth.

The Company currently does not have Performance Rights on issue.

Section 195(4) of the Corporations Act

Each of the Directors has a material personal interest in the outcome of Resolutions 5 to 7 (as applicable to each Director) in this Notice of Meeting by virtue of the fact that Resolutions 5 to 7 are concerned with the issue of Performance Rights to Directors. Section 195 of the Corporations Act essentially provides that a director of a public company may not vote or be present during meetings of directors when matters in which that director holds a material personal interest are being considered. In the absence of Shareholder approval under section 195(4) of the Corporations Act, the Directors may not be able to form a quorum at Board meetings necessary to carry out the terms of these Resolutions. The Directors have accordingly exercised their right under section 195(4) of the Corporations Act to put the issue to Shareholders to determine.

Section 208 of the Corporations Act

Chapter 2E of the Corporations Act prohibits a public company from giving a financial benefit to a related party of the public company unless either:

- (a) the giving of the financial benefits falls within one of the nominated exceptions to the provision; or
- (b) Shareholder approval is obtained prior to the giving of the financial benefit and the benefit is given within 15 months after obtaining such approval.

Section 208(1)(a) of the Corporations Act prohibits a company from giving a financial benefit (including an issue of securities) to a related party of the company without the approval of shareholders by a resolution passed at a general meeting at which no votes are cast in relation to the resolution in respect of any shares held by the related party or by an associate of the related party.

The grant of the Performance Rights constitutes giving a financial benefit and Mr Connelly, Mr Glovac and Mr Brewer are related parties of the Company by virtue of being directors of the Company. Accordingly, the Company is seeking Shareholder approval for the purposes of section 208 of the Corporations Act.

Resolutions 5, 6 and 7 are interdependent and the Board require that each of the three Resolutions be passed for any of the Directors to obtain their Performance Rights. Accordingly, if one or more of Resolutions 5, 6 or 7 are not passed by at least 50% of Shareholders, none of Resolutions 5, 6 or 7 can be passed.

Listing Rule 10.11

Listing Rule 10.11 provides that a company must not issue equity securities to a related party without the approval of holders of ordinary securities. Further, exception 14 of Listing Rule 7.2 states that approval pursuant to Listing Rule 7.1 is not required if shareholder approval is obtained under Listing Rule 10.11.

As set out above, the Directors are related parties of the Company for the purposes of section 228 of the Corporations Act. Accordingly, Shareholder approval is sought under Listing Rule 10.11 to permit the grant of the Performance Rights to the Directors.

Resolutions 5 to 7 seek approval for the grant of 4,500,000 Performance Rights to the Directors for the purposes of satisfying the requirements of Listing Rule 10.11. If Resolutions 5 to 7 are approved, the Performance Rights granted will not affect the capacity of the Company to issue securities in the next 12 months under Listing Rule 7.1 as those securities, once issued, will be excluded from the calculations under Listing Rule 7.1.

As required by section 219 of the Corporations Act and Listing Rule 10.13, the following information is provided in relation to Resolutions 5 to 7:

(a) Related parties to whom the financial benefits are to be given

Directors Mark Connelly, Patric Glovac and Jason Brewer (and/or their nominees).

(b) Nature of the financial benefits

The maximum number of Performance Rights (being the nature of the financial benefit being provided) are set out below.

Director	Class A	Class B	Class C	Total
Mark Connelly	500,000	500,000	500,000	1,500,000
Patric Glovac	500,000	500,000	500,000	1,500,000
Jason Brewer	500,000	500,000	500,000	1,500,000
Total	1,500,000	1,500,000	1,500,000	4,500,000

The Performance Rights will be granted for nil cash consideration. Instead of cash consideration, they are being granted to incentivise the performance of the Directors.

Each Performance Right is exercisable into a Share for \$0.00001 in the event that it vests within 3 years of being granted. The vesting conditions are as follows:

Class A	The Company achieving a VWAP of at least \$0.25 over a 20 trading day period
Class B	The Company achieving a VWAP of at least \$0.40 over a 20 trading day period
Class C	The Company achieving a VWAP of at least \$0.55 over a 20 trading day period

The Performance Rights are otherwise on the terms set out in Schedule 2.

The Performance Rights will be granted no later than 1 month after the date of the Meeting (or such later date to the extent permitted by an ASX waiver or modification of the Listing Rules). It is anticipated that the Performance Rights will be granted immediately after the Meeting.

(c) Valuation of the financial benefits

The Company has engaged RSM Australia Pty Ltd (**RSM**) to determine a value for the Performance Rights as set out in the valuation report in Schedule 3. RSM has used the Hoadley Trading & Investment Tools *Barrier1* trinomial option valuation model. RSM has determined that the value of each Performance Right is:

- Class A – \$0.1044;
- Class B – \$0.0800; and
- Class C - \$0.0634,

based on the assumptions and inputs set out below (as applicable):

Item	Class A	Class B	Class C
Valuation date	9/10/2019	9/10/2019	9/10/2019
Spot price	\$0.135	\$0.135	\$0.135
Exercise price	\$0.00001	\$0.00001	\$0.00001
Vesting hurdle (20-day VWAP)	\$0.25	\$0.40	\$0.55
Expiry date	8/10/22	8/10/22	8/10/22
Expected future volatility	76%	76%	76%
Risk free rate	0.60%	0.60%	0.60%
Dividend yield	Nil	Nil	Nil

Accordingly, the value of the financial benefits to be given to the Directors under Resolutions 5 to 7 are set out below.

Director	Class A Total Value	Class B Total Value	Class C Total Value	Value Total
Mark Connelly	\$52,200	\$40,000	\$31,700	\$123,900
Patrick Glovac	\$52,200	\$40,000	\$31,700	\$123,900
Jason Brewer	\$52,200	\$40,000	\$31,700	\$123,900
Total	\$156,600	\$120,000	\$95,100	\$371,700

(d) **Reason for the financial benefits**

The Performance Rights are being granted to the Directors to incentivise their performance in their roles as a Director of the Company.

(e) **Current remuneration**

The current remuneration (including superannuation) paid to the Directors is set out below.

Director	Position	Salary / fees per annum
Mark Connelly	Non-Executive Chairman	\$65,700
Patric Glovac ¹	Executive Director	\$91,980
Jason Brewer	Non-Executive Director	\$39,420

¹Patric Glovac is a Director and Shareholder of GTT Ventures Pty Ltd. In addition, the Company has entered into a 12 month sub-lease arrangement for premises with GTT Ventures Pty Ltd (\$3,000 per month including outgoings) and Consultant Agreement (\$10,500 per month).

(f) **Current security holdings**

The security holdings of the Directors at the date of this Notice are set out below.

Director	Shares
Mark Connelly	NIL
Patric Glovac	1,359,445
Jason Brewer	Nil

(g) **Historical prices**

The highest and lowest closing prices of Shares on the ASX during the 12 months preceding the date of this Notice, and the latest closing price, are set out below.

High – 4 Oct 2019	Low – 17 June 2019	Latest – 10 October 2019
\$0.15	\$0.055	\$0.13

(h) Dilution

If all of the Performance Rights to be granted under Resolutions 5 to 7 vest and are exercised into Shares, and no other Shares are issued by the Company then Shareholders would be diluted by approximately 0.041%.

(i) Accounting treatment

Under the accounting standard AASB 2 *Share-based Payment*, the Company will recognise an expense in its statement of financial performance based on the fair value of the Performance Rights over the period from the date that they are granted until they vest. Based on the valuation report set out in section 5(c), the total fair value of the Performances to be granted is \$371,700.

(j) Opportunity costs

Other than as set out in this Notice, the Company does not consider that there are any material opportunity costs to the Company or benefits foregone by the Company in granting the Performance Rights under Resolutions 5 to 7.

(k) Intended use of funds raised

No funds will be raised from the grant of the Performance Rights as they are being granted to the Directors to incentivise their performance.

In the event the Performance Rights vesting conditions are satisfied, only a nominal amount of funds will be raised from the exercise of the Performance Rights (being a total of \$45). This nominal amount will supplement the Company's working capital.

(l) Directors' interests and recommendations

Each Director is proposed to receive Performance Rights under Resolutions 5 to 7 and, therefore, the Directors do not consider that it is appropriate to make a recommendation on how Shareholders should vote on these Resolutions.

(m) Reasons to vote in favour

The Company considers that the following are reasons why Shareholders may vote in favour of Resolutions 5 to 7:

- The Company is currently in the exploration phase of its growth, which means that it is not generating revenues or profits, and does not anticipate doing so in the near term. As a result, the Company's sources of funding are limited and it therefore needs to closely monitor its cash reserves and mitigate cash expenditure. Accordingly, the Company considers that a more appropriate way to remunerate its Directors is through equity based incentives, such as the Performance Rights. Please see section 5(e) for further information on the remuneration of the Directors.
- The Company considers that vesting hurdles tied to its Share price are the most appropriate indicator for Director performance at its current stage of growth.

- There may be further synergistic benefits to the Company in the Directors holding Shares in the event that the Performance Rights vest and are exercised as this will help to align their interests with those of Shareholders.

(n) Reasons to vote against

The Company considers that the following are reasons why Shareholders may vote against Resolutions 5 to 7.

- The number of Performance Rights to be granted represent a significant proportion of the total number of Shares on issue. Therefore, if the Performance Rights vest, a large number of Shares will likely be issued to the Directors which will dilute and reduce the voting Power of Shareholders, and may reduce their influence over the Company. See section 9(i) for further information on the maximum dilution of Shareholders' interests resulting from the Performance Rights vesting and being exercised into Shares.
- Using the valuation in section 5(c), the grant of the Performance Rights would significantly increase the total remuneration being paid to the Directors, which Shareholders may not agree with. See section 5(e) for further information on the remuneration of Directors.
- The grant of the Performance Rights would require the Company to recognise their value as an expense on the Company's statement of financial performance, which in turn will increase the size of anticipated losses. See section 5(j) for further information on the accounting treatment of the Performance Rights.
- If the Performance Rights vest then the additional number of Shares on issue will necessarily cause the value of a Share to reduce which in turn may be reflected by a fall in the Share price on the ASX.
- Even if the milestones are achieved there is no guarantee that the Share price will retain its value for long or at all. Therefore, the Performance Rights may vest and be exercised into Shares, but the benefit to Shareholders who retain their Shares may not be realised if the Share price subsequently falls.

(o) Other information

Other than as set out in this Explanatory Statement, there is no further information that is known to the Company or any of the Directors which Shareholders would reasonably require in order to decide whether or not it is in the Company's best interests to approve Resolutions 5 to 7.

TAO COMMODITIES LIMITED
ACN 618 935 372

GLOSSARY

In the Notice and this Explanatory Statement the following expressions have the following meanings:

Additional Placement Capacity	means the capacity to issue additional Equity Securities by way of placement approved by Shareholders under Listing Rule 7.1A.
Associate	has the meaning given in sections 12 and 16 of the Corporations Act. Section 12 is to be applied as if paragraph 12(1)(a) included a reference to the Listing Rules and on the basis that the Company is the “designated body” for the purposes of that section. A related party of a director or officer of the Company or of a Child Entity of the Company is to be taken to be an associate of the director or officer unless the contrary is established.
ASX	means ASX Limited (ACN 008 624 691) or the Australian Securities Exchange, as the context requires.
Annual Report	means the annual report of the Company for the financial year ended 30 June 2019.
Annual General Meeting or Meeting	the meeting convened by this Notice.
Auditor’s Report	means the auditor’s report contained in the Annual Report.
Board	the Board of Directors of the Company.
Chair	the chairperson of the Company.
Closely Related Party	<p>means a closely related party of a member of Key Management Personnel as defined in section 9 of the Corporations Act, being:</p> <ul style="list-style-type: none">(a) a spouse or child of the member;(b) a child of that member’s spouse;(c) a dependent of that member or of that member’s spouse;(d) anyone else who is one of that member’s family and may be expected to influence that member, or be influenced by that member, in that member’s dealings with the Company;(e) a company that is controlled by that member; or(f) any other person prescribed by the regulations.
Company	TAO Commodities Limited (ACN 618 935 372).
Constitution	the constitution of the Company.

Corporations Act	Corporations Act 2001 (Cth).
Directors	Directors of the Company from time to time.
Directors' Report	means the directors' report contained in the Annual Report.
Equity Securities	has the same meaning as in the Listing Rules.
Explanatory Statement	this Explanatory Statement.
Key Management Personnel	means the key management personnel of the Company as defined in section 9 of the Corporations Act and Australian Accounting Standards Board accounting standard 124, being those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any Director (whether executive or otherwise).
Listing Rules	the listing rules of the ASX.
Notice	notice of meeting that accompanies this Explanatory Statement.
Placement Period	means the period during which Shareholder Approval under Listing Rule 7.1A is valid.
Remuneration Report	means the remuneration report contained in the Annual Report.
Resolution	a resolution referred to in the Notice.
Share	a fully paid ordinary share in the capital of the Company.
Shareholder	a registered holder of Shares in the Company.
Trading Days	has the same meaning as in the Listing Rules.
WST	Western Standard Time, Perth, Western Australia.

Schedule 1– Issues of Equity Securities since October 2018

Date	Quantity	Class	Recipients	Issue price and discount to Market Price (if applicable) ¹	Form of consideration
Issue -19 Oct 2018 Appendix 3B – 19 October 2018	220,000	Shares ²	Shares issued to Consultant using the Company's placement capacity under ASX Listing Rule 7.1.	Deemed issue price \$0.15	Non-cash Consideration: Issued as consideration to a company consultant for the services provided to the Company Current value = \$28,600

Notes:

- 1 Market Price means the closing price on ASX (excluding special crossings, overnight sales and exchange traded option exercises). For the purposes of this table the discount is calculated on the Market Price on the last trading day on which a sale was recorded prior to the date of issue of the relevant Equity Securities.
- 2 Fully paid ordinary shares in the capital of the Company, ASX Code: TAO (terms are set out in the Constitution).
- 3 This is a statement of current intentions as at the date of this Notice. As with any budget, intervening events and new circumstances have the potential to affect the manner in which the funds are ultimately applied. The Board reserves the right to alter the way the funds are applied on this basis.
- 4 In respect of quoted Equity Securities the value is based on the closing price of the Shares (\$0.13) on the ASX on 10 October 2019.

Schedule 2 – Performance Rights

1. Grant price

Each Performance Right will be granted by the Company for nil cash consideration.

2. Rights

- (a) The Performance Rights do not carry any voting rights in the Company.
- (b) The Performance Rights confer on the holder the right to receive notices of general meetings and financial reports and accounts of the Company that are circulated to shareholders. Holders of Performance Rights have the right to attend general meetings of shareholders.
- (c) The Performance Rights do not entitle the holder to any dividends.
- (d) The Performance Rights do not confer any right to participate in the surplus profits or assets of the Company upon winding up of the Company.
- (e) The Performance Rights do not confer any right to a return of capital, whether in a winding up, upon a reduction of capital or otherwise.
- (f) The Performance Rights do not confer the right to participate in new issues of securities such as entitlement issues or bonus issues. If the Company makes a bonus issue of Shares or other securities to existing shareholders (other than an issue in lieu or in satisfaction of dividends or by way of dividend reinvestment) the number of Shares which must be issued on the exercise of a Performance Right will be increased by the number of Shares which the holder would have received if the Performance Right had been exercised before the record date for the bonus issue.
- (g) If at any time the issued capital of the Company is reorganised, the rights of the holder may change to comply with Listing Rule 6.16. Further, the Performance Rights are to be treated in the manner set out in Listing Rule 7.21 (assuming that the Listing Rules apply), being that the number of Performance Rights or the conversion ratio or both will be reorganised so that the holder of the Performance Rights will not receive a benefit that holders of ordinary shares do not receive and so that the holders of ordinary shares will not receive a benefit that the holder of the Performance Rights does not receive.
- (h) The Performance Rights give the holder no rights other than those expressly provided by these terms and those provided at law where such rights at law cannot be excluded by these terms.

3. Exercise

- (a) A class of Performance Rights (**Class**) immediately vests and becomes exercisable by the holder into Shares (**Conversion Shares**) on a one for one basis upon and subject to the Company providing written notice (**Vesting Notice**) to the holder that the Company has satisfied the relevant condition (**Condition**) by the relevant expiry date (**Expiry Date**) set out below.



Class A	The Company achieving a VWAP of at least \$0.25 over a period of 20 trading days.	3 years from the date of grant.
Class B	The Company achieving a VWAP of at least \$0.40 over a period of 20 trading days.	3 years from the date of grant.
Class c	The Company achieving a VWAP of at least \$0.55 over a period of 20 trading days.	3 years from the date of grant.

- (b) In order to exercise a Class into Conversion Shares following receipt of a Vesting Notice, the holder must provide written notice (**Exercise Notice**) to the Company of its election to exercise the Class into the Conversion Shares. The holder must pay \$0.00001 upon exercise for each Performance Right (**Exercise Price**). A Class may only be exercised into Conversion Shares once.
- (c) Despite any other provision, the exercise of any Performance Rights is subject to the Company obtaining any required shareholder or regulatory approval for the purpose of issuing the Conversion Shares. If exercise of all or part of the Performance Rights would result in any person being in contravention of section 606(1) of the *Corporations Act 2001* (Cth) (**Corporations Act**) then the exercise of each Performance Right that would cause the contravention will be deferred until such time or times that the exercise would not at a later date result in a contravention of section 606(1) of the Corporations Act. The holder must give prior written notice to the Company if it considers that the exercise of all or part of its Performance Rights may result in the contravention of section 606(1) of the Corporations Act, failing which the Company will be entitled to assume that the exercise of the Performance Rights under these terms will not result in any person being in contravention of section 606(1) of the Corporations Act.
- (d) The Company must issue Conversion Shares in the name of the holder (or its nominee) within 7 days of receiving a valid Exercise Notice and the Exercise Price.
- (e) Each Conversion Share will rank equally with a fully paid ordinary share in the capital of the Company.
- (f) The Performance Rights will not be quoted on any securities exchange and the Company will not make an application for quotation in respect of them. However, if the Company is listed on the ASX at the relevant time, the Company must apply for quotation of any Conversion Shares on the ASX in accordance with the Listing Rules, subject always to the requirements of the Listing Rules, including those relating to escrow.

4. Expiry

Performance Rights which have not been validly exercised into Conversion Shares on or before the earlier of:

- (a) the date that is 1 month after the date that the holder ceases to be engaged for services by the Company in any capacity; and

- (b) the relevant Expiry Date,

will automatically be deemed to be terminated and cancelled by the Company for nil cash consideration.

5. Transferability

The Performance Rights are not transferable.

6. Compliance with law

- (a) Despite anything else contained in these terms, if the Corporations Act, Listing Rules or Constitution prohibits an act being done, that act must not be done.
- (b) Nothing contained in these terms prevents an act being done that the Corporations Act, Listing Rules or Constitution require to be done.
- (c) If the Corporations Act, Listing Rules or Constitution conflict with these terms, or these terms do not comply with the Corporations Act, Listing Rules or the Constitution, the holder authorises the Company to do anything necessary to rectify such conflict or non-compliance, including but not limited to unilaterally amending these terms.
- (d) The terms of the Performance Rights may be amended as necessary by the directors of the Company in order to comply with the Listing Rules, or any directions of ASX regarding the terms.

7. Control Event

- (a) A change of control event (**Control Event**) occurs where:
 - (i) an offer is made for Shares pursuant to a takeover bid under Chapter 6 of the Corporations Act and is, or is declared, unconditional; or
 - (ii) the Court sanctions under Part 5.1 of the Corporations Act a compromise or arrangement relating to the Company or a compromise or arrangement proposed for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies.
- (b) If a Control Event occurs, the Company may in its sole and absolute discretion, and subject to the Listing Rules and 7(c) below, determine how unvested Performance Rights will be treated, including but not limited to determining that unvested Performance Rights (or a portion of unvested Performance Rights) will become immediately exercisable into Conversion Shares with such exercise deemed to have taken place immediately prior to the effective date of the Control Event.
- (c) The total number of Conversion Shares issued under 7(b) above must not exceed 10% of the issued ordinary capital of the Company as at the date of exercise.
- (d) Whether or not the Company determines to accelerate the vesting of any Performance Rights, the Company must give written notice of any proposed Control Event to the holder



TAO COMMODITIES LIMITED

Performance rights valuation

October 2019



9 October 2019

Ms Anna MacKintosh
Company Secretary
TAO Commodities Limited
22 Townshend Road
Subiaco WA 6008

Level 32, 2 The Esplanade Perth WA 6000
GPO Box R1253 Perth WA 6844

T +61 (0) 8 9261 9100
F +61 (0) 8 9261 9111
www.rsm.com.au

Valuation of performance rights

Dear Ms MacKintosh,

We have pleasure in presenting our report, the purpose of which is to provide TAO Commodities Limited ("TAO" or the "Company") with our opinion as to the indicative fair value of performance rights ("Rights") as at 9 October 2019 ("Valuation Date").

We understand the Rights valuation is required for disclosure in a Notice of Meeting for the Company.

Should you have any queries in relation to our report, or the valuation opinions provided, please do not hesitate to contact me on 08 9261 9375.

Yours sincerely,

NADINE MARKE
Director
RSM Australia Pty Ltd

CONTENTS

1.	Introduction	5
2.	Scope of valuation	6
3.	Valuation Methodology	7
4.	Valuation	9

Appendices

A.	Nadine Marke qualifications and experience.....	11
----	---	----

DEFINITIONS OF TERMS

The following definitions apply throughout this document unless the context requires otherwise:

Term	Definition
AASB	Australian Accounting Standards Board, issuer of accounting standards under the Act
AGM	Annual General Meeting
APES 225	Australian Professional Ethical Standard 225 – Valuation services
Act	Corporations Act, 2001
ASX	Australian Securities Exchange
Board or Directors	The Board of Directors of the Company
The Company	TAO Commodities Limited
TAO	The Company
Hoadley	Hoadley Trading & Investment Tools (www.hoadley.net)
Management or Directors	The directors and key management personnel of the Company
RBA	Reserve Bank of Australia
Rights	Performance rights proposed to be issued by the Company
RSM, us, we	RSM Australia Pty Ltd
S&P Capital IQ	Standard and Poor's Capital IQ database
Shareholders	The Shareholders of the Company
Valuation Date	9 October 2019
VWAP	Volume weighted average price

1. INTRODUCTION

Terms of reference

In accordance with your instructions, we have performed an assessment of the indicative fair value of the Rights in accordance with AASB 2.

For the purposes of this report “fair value” is defined as:

“The amount for which an asset could be exchanged, a liability settled, or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arms-length transaction.”

We understand the indicative valuation is required for disclosure in a Notice of Meeting of the Company.

Nature of the assignment

This indicative valuation engagement has been undertaken in accordance with APES 225 – *Valuation Services*.

This indicative valuation has been undertaken by Nadine Marke, a director of the Corporate Finance Division of RSM Australia, acting independently. Nadine Marke has extensive experience in providing valuations of businesses, shares and other equities. A brief resume is set out at Appendix A to this report.

The fee to be paid to RSM Australia for this indicative valuation assignment is not contingent on the conclusion, content or future use of this valuation report.

Use of report

Our report is prepared solely for the confidential use of the Company, and solely for disclosure in a Notice of Meeting of the Company. The indicative valuation provided and this report should not be relied on by any other party or for any other purpose, including financial reporting purposes.

Disclaimer

The statements and opinions given in this report are given in good faith and in the belief that such statements and opinions are not false or misleading. In preparing this report we have relied upon information supplied by the Company, which we believe to be accurate and reliable. We have not, in preparing this report, independently verified the correctness, existence or value of any item, which is, or should be, in such information. We do not have any reason to believe that any material facts have been withheld from us, nor do we warrant that our investigation has revealed all of the matters which an audit or more extensive examination might disclose. Although the report and opinions expressed herein are based on information supplied to us, we believe the report and opinions to be accurate. However, for the above reasons, we do not warrant the accuracy or reliability of either the information supplied to us or the conclusion drawn there from.

2. SCOPE OF VALUATION

Background

We understand that TAO is planning to issue 4.5 million Rights in three classes to three Directors of the Company, subject to shareholder approval at the Company's AGM.

The terms attached to the Rights are summarised in the table below:

Table 1 Rights terms

Rights	Class A	Class B	Class C
Number	1,500,000	1,500,000	1,500,000
Valuation date	9-Oct-19	9-Oct-19	9-Oct-19
Exercise Price	nil	nil	nil
Expiry period	3 years	3 years	3 years
Vesting hurdle (20-day VWAP)	\$0.25	\$0.40	\$0.55

We understand that there are market-based vesting conditions attached to Class A, B and C Rights. The vesting conditions attached to each class are summarised as follows:

- Class A Rights will vest when the volume weighted average price ("VWAP") of the Company's shares, as traded on the ASX over a 20 day trading period, is equal to or greater than \$0.25;
- Class B Rights will vest when the VWAP of the Company's shares, as traded on the ASX over a 20 day trading period, is equal to or greater than \$0.40; and
- Class C Rights will vest when the VWAP of the Company's shares, as traded on the ASX over a 20 day trading period, is equal to or greater than \$0.55.

Scope of Valuation

The scope of the work performed in assessing the fair value of the Rights has consisted of:

- An assessment of the indicative fair value of the Rights based on the above terms;
- A review of the historical volatility of the share price of the Company; and
- Discussions with the Company Secretary.

3. VALUATION METHODOLOGY

Consideration of AASB 2

AASB 2 specifies the financial reporting requirements by an entity when it undertakes a share based payment transaction. In particular, it sets out the approach which the entity must follow in reporting in its profit and loss account any impact of any share based payment transaction.

For the purposes of AASB 2, a share based payment transaction is defined as a transaction in which an entity:

- (i) *receives goods or services from the supplier of those goods and services (including an employee) in a share based payment arrangement; or*
- (ii) *incurs an obligation to settle the transaction with the supplier in a share based payment arrangement when another group entity receives those goods and services.*

Further, a share based payment arrangement is defined as:

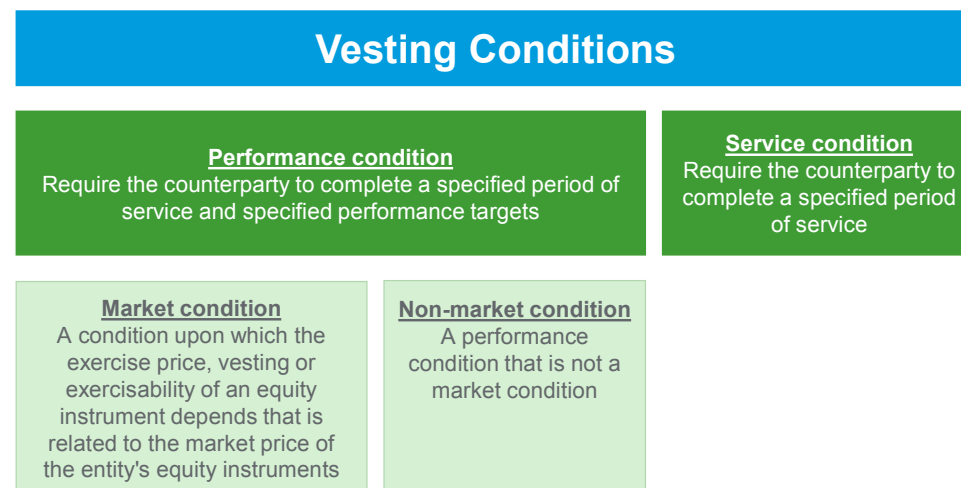
An agreement between an entity and another party (including an employee) that entitles the other party to receive:

- (i) *cash or other assets of the entity for amounts that are based on the price (or value) of equity instruments (including shares or share options) of the entity or another group entity; or*
- (ii) *equity instruments (including shares or shares) of the entity or another group entity, provided the specified vesting conditions are met.*

AASB 2 prescribes that vesting conditions are either 'service' conditions or 'performance' conditions and that performance conditions are further defined as 'market' conditions or 'non-market' conditions.

The features of each type of vesting condition, as set out in AASB 2, are summarised in the figure opposite.

Figure 1 AASB 2 vesting condition definitions



Determining the fair value of equity instruments granted

AASB 2 states that an entity shall measure the fair value of instruments granted as at the measurement (grant) date, based on market prices, if available, taking into account the terms and conditions upon which the instruments were granted.

Where market prices are not available, the entity must estimate the value of the instrument based upon a valuation technique to estimate the price the equity instruments would have been at the measurement date. The valuation technique should be consistent with generally accepted valuation methodologies and shall incorporate all factors and assumptions that a knowledgeable willing market participant would consider in setting the price.

Valuation impact of vesting conditions

If a grant of equity instruments is subject to satisfying certain vesting conditions, such conditions may be taken into account when estimating the fair value. AASB 2 specifies that vesting conditions, other than market conditions, shall not be taken into account when estimating the fair value of the shares or share options at the measurement date.

With regard to the treatment of vesting conditions, and in particular non-market conditions, when accounting for a share based payment, paragraph 19 of AASB 2 states:

*“There might be performance conditions that must be satisfied, such as the entity achieving a specified growth in profit or a specified increase in the entities share price. **Vesting conditions, other than market conditions, shall not be taken into account when estimating the fair value of the shares or share options at the measurement date.** Instead, vesting conditions shall be taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount, so that ultimately, the amount recognised for goods and services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. Hence on a cumulative basis, no amount is recognised for goods or services received if the equity instruments granted do not vest because of failure to satisfy a vesting condition, for example the counterparty fails to complete a specified service period, or a performance condition is not satisfied.”*

Selected valuation methodology

In our opinion, the vesting conditions attached to Class A, B and C Rights meet the definition of a market condition, as the vesting of the Rights is dependent on the future market price of the Company's ordinary shares.

Therefore, determining the value of the Rights, we have used the Hoadley Trading & Investment Tools (“Hoadley”) *Barrier1* trinomial option valuation model.

Further information on Hoadley's employee option valuation models can be found at www.hoadley.net.

Valuation model assumptions

We set out the assumptions we have used in assessing the indicative fair value of the Rights in the table opposite.

Table 2 Performance rights valuation assumptions

Assumptions	Ref	Class A	Class B	Class C
Valuation date	1	9-Oct-19	9-Oct-19	9-Oct-19
Spot price	2	\$0.135	\$0.135	\$0.135
Exercise price	3	nil	nil	nil
Expiry date	4	8-Oct-22	8-Oct-22	8-Oct-22
Vesting hurdle (20-day VWAP)	5	\$0.25	\$0.40	\$0.55
Expected future volatility	6	76%	76%	76%
Risk free rate	7	0.60%	0.60%	0.60%
Dividend yield	8	nil	nil	nil

Source: The Company and RSM analysis

1. *Valuation date* – We note that the Rights are yet to be issued and have therefore assumed the Grant date of the Rights to be 9 October 2019.
2. *Spot price* – This is the market close spot price on 8 October 2019, the last trading day prior to the Valuation Date.
3. *Exercise price* – We understand the exercise price is nil for all classes of Rights.
4. *Expiry date* – We understand that the Rights will expire three years after they are granted. We have assumed the expiry date to be 8 October 2022, three years after the Valuation Date.
5. *Vesting hurdle* – As per the terms of the Rights in Table 1.
6. *Expected future volatility* – In assessing the expected future volatility we have considered the historical volatility in the Company's shares over one, two and three year trading periods and concluded that a volatility figure of 76% is reflective of the future volatility of the Company's shares over the life of the Rights.
7. *Risk free rate* – We have determined this based on the yields of Commonwealth bonds using a three-year bond rate for the Rights, being the period which most closely correspond to the respective lives of the Rights. The interest rate has been sourced from the RBA as the closing rate on 8 October 2019.
8. *Dividend yield* – We have assumed a nil dividend yield as the Company is not expected to pay dividends over the life of the Rights.

4. VALUATION

Valuation summary

Based on the methodology and assumptions set out in Section 3 of this report, we summarise below our assessment of the indicative fair value of the Rights as at the Valuation Date in the table below.

Table 3 Indicative fair value of the Rights

Rights	Class A	Class B	Class C	Total
Value per Right	0.1044	0.0800	0.0634	n/a
Number	1,500,000	1,500,000	1,500,000	4,500,000
Value	\$156,600	\$120,000	\$95,100	\$371,700

Source: RSM calculation

We note that the values above are indicative only based on assumptions relevant at the date of this report. Different assumptions may be relevant at grant date which may alter the value of the Rights for financial reporting purposes.



APPENDICES

A. NADINE MARKE QUALIFICATIONS AND EXPERIENCE



NADINE MARKE DIRECTOR, CORPORATE FINANCE

Biography

Nadine is a Director of the Corporate Finance division in Perth. She leads our valuation and litigation support services team with a particular focus on valuations, financial investigations and forensic accounting services.

Nadine has been undertaking valuations for almost 15 years and is an accredited Business Valuation Specialist of Chartered Accountants Australia and New Zealand.

She is also the Western Australian representative on the CAANZ Business Valuations Special Interest Group and is a BV Specialisation assessor.

Nadine regularly presents on valuation topics and current issues to audiences in Perth.

Solutions

Nadine undertakes valuations of businesses, shares and other equity instruments for a wide range of purposes, including:

- Expert Witness and litigation matters
- Transactions, including Independent Expert Reports
- Lending and refinancing
- Taxation
- Management
- Financial Reporting

Associations

- Member, Chartered Accountants Australia & New Zealand (CA ANZ)
- Member, CAANZ Business Valuations Special Interest Group (BVSIG)
- WA Representative of the BVSIG National Committee

Qualifications

- BA - Accounting and Finance
- Business Valuation Specialist of CA ANZ

CA Business Valuation Specialist



RSM Australia

Level 32 Exchange Tower, 2 The Esplanade, Perth WA 6000

T +61 (08) 9261 9375

M + 61 (0) 439 68 4459

nadine.marke@rsm.com.au

www.rsm.com.au

THE POWER OF BEING UNDERSTOOD

AUDIT | TAX | CONSULTING

RSM Australia Pty Ltd is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network.

Each member of the RSM network is an independent accounting and consulting firm each of which practices in its own right. The RSM network is not itself a separate legal entity of any description in any jurisdiction.

The RSM network is administered by RSM International Limited, a company registered in England and Wales (company number 4040598) whose registered office is at 11 Old Jewry, London EC2R 8DU.

The brand and trademark RSM and other intellectual property rights used by members of the network are owned by RSM International Association, an association governed by article 60 et seq of the Civil Code of Switzerland whose seat is in Zug.

© RSM International Association

rsm.com.au

Liability limited by a scheme approved under professional standards legislation

