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Thursday 1 July 2010

Toro Energy - Corporate Update

Dear fellow shareholder in Toro Energy,

As we commence the new financial year, the Australian resources industry faces a significant challenge in the form of the Federal Government's proposed resource tax.

The uncertainty created by the resource tax proposal has weighed heavily on the share market's valuation of Australian resource companies in general and on your Company's share price in particular.

It is extremely disappointing that these external events have obscured the significant progress achieved at our advanced Wiluna uranium project in Western Australia where we are aiming for maiden production from early 2013.

At the same time it is highly pleasing to note that Toro is commencing its first round of offtake agreement negotiations underway in Japan and the United States for uranium oxide product from Wiluna. Talks will follow immediately with potential customers in Europe, Korea and China.

In terms of development timetables, this is a remarkable achievement for such a young company.

Numerous milestones in 2009-2010

Before outlining my reasons as to why this progress is not being mirrored in Toro's share price strength, it is worth recounting the key growth objectives achieved in the last 12 months:

- Completion of the Optimisation Study, a major technical study for Wiluna that identified significant improvements to the financial parameters of the project and found that several development paths were viable at long-term price forecasts for uranium
- A\$60 million in funds was raised through placements to institutional investors, including OZ Minerals Limited, and a Share Purchase Plan for you, our shareholders
- The government environmental approval processes has been advanced for Wiluna, with public comment on the new Environmental Scoping Document closing shortly
- A full Environmental Review Management Plan is being prepared for submission later this year, with public release scheduled for early 2011
- On site operations have commenced at Wiluna to undertake a Resource Test Pit. The Test Pit will provide a bulk sample for further pilot test work, and provide valuable in-situ geological and groundwater information to further define project parameters

- Significant metallurgical and process testwork continues and several first pass tests and initial results have been received for larger-scale column test work and other chemical characterisation of the Wiluna deposit
- Our Wiluna district footprint has been expanded, acquiring the “Firestrike” discovery tenements to the immediate east of our Wiluna blocks
- We made our first greenfields uranium discovery, Theseus, at the Lake Mackay project in Western Australia. This is an exciting project with excellent potential to add to your company’s mid-term project pipeline.

Equity market issues

It was disappointing to end a year of such achievement with weakness in the Toro share price, at one point trading down to historic lows and marginalising any difference between asset values and our cash in hand, as we headed to balance date, of around A\$56 million.

It has been a challenging period for the uranium market. The spot uranium price globally continued to trade flat at around the US\$41/lb U₃O₈ mark, and global financial conditions have been tested by credit concerns in Europe and mixed signals out of the United States. In Australia, the uncertainty created by the proposed resource tax significantly weakened confidence in the resources sector across the board.

It is my view that the Toro share price trend of the past six months reflected all of these factors.

Notwithstanding this difficult environment, Toro remains well placed to emerge as one of Australia’s new breed of uranium developers and producers in just over two years from now, noting the continuing record of progress towards development and in particular, our first talks with potential customers.

I emphasise that our fiscal position is very secure with over A\$56 million in cash resources - a bank balance that augurs well for project development objectives in the near-term.

Strong fundamentals behind global demand

Your Board and senior management at Toro believe the fundamentals of the global uranium market remain supportive of new uranium developments such as those of Toro.

Expanding demand, difficult supply expansion in some countries, and a diminishing secondary supply market are moving the industry broadly from one characterised by an inventory overhang and depressed uranium prices, to one where risks to supply are becoming more acute in an expanding global nuclear power market.

According to World Nuclear Association figures, there are now 57 nuclear plants under construction (with 23 in China alone) and another 151 ordered or planned worldwide. This represents significant growth given the current total of 439 nuclear power plants globally.

This is why the long-term uranium price has also been relatively stable at around US\$60/lb U₃O₈, which is a significant premium to the spot price and indicates the price levels required to bring on new production. This is important, as most long-term supply agreements to power utilities are written around the long-term price, not the spot price, given supply needs to be guaranteed to support a power station development and continuous operation.

Toro is currently holding discussions for future long-term sales agreements with potential customers in Japan and the United States, with plans to expand these negotiations to a wider group including Europe, Korea and China.

Look forward to 2010-2011

Toro will continue to build the quality of its asset base and advance its flagship Wiluna uranium project towards government approval and production. We also look forward to the results of a substantial exploration program, especially at Lake Mackay, and will continue to assess project and corporate opportunities that add to the business and enhance its long term value.

In essence, Toro will look to manage its risks, unearth new opportunities and move forward towards its goal of becoming a new uranium producer.

In conclusion I would like to recognise the efforts of our staff and thank them for continuing to forge ahead in what has been a difficult environment. I believe that one of the most important foundations for a company is its people. Toro has assembled a great team of industry professionals, including many with specific expertise in uranium exploration and the development and operation of uranium projects. I look forward to working with them to achieve our goals in the coming year.

A more detailed update will be provided to you later this year in our 2010 annual report and I look forward to seeing further positive news flow from our projects this financial year.

Yours sincerely,

A handwritten signature in black ink, appearing to read "ESM", with a long horizontal stroke extending to the right.

Erica Smyth
Chairman