TOE.AU

Toro Energy Limited

A$ 0.12

28 March 2011
Uranium
Australia (WA,NT,SA), Namibia
BFS and Exploration
Exchanges: ASX:TOE

The economics of Toro's Wiluna (WA) project (boosting resources to ~37mlb) will be enhanced with the purchase of a key tenement. Uranium sector weakness could be a chance for acquisitions required to reach a resource target of 220mlb by 2015.

Capital Profile

Share price (A$)	0.12		
52 week range (A$/share)	0.06	to	0.18
Number of shares (m)	965		
Options and warrants (m)	22		
Convertible notes (m)	0		
Fully diluted (m)	987		
Market capitalisation (undiluted) (A$m)	111.0		
Debt (A$m) - Mar 11F	0.0		
Enterprise value (A$m)	111.0		
Major shareholders: OZ Minerals Ltd (42.5%), ANZ Nominees (2.3%), HSBC Nominees (1.5%), Allarrow Pty Ltd (1.0%)			
Avg monthly volume (m)	98		
Cash (A$m) - Mar 11F	32.1		
Price/Cash (x)	3.5		
Price/Book (x)	1.0		
Listed company options:	No		

Production and Financial Forecasts

YEAR END: June	Dec-10a	Mar-11F	2010a	2011F	2012F
Exploration and evaluation (A$m)	4.35	2.80	9.46	16.07	14.00
Corporate (A$m)	1.17	0.85	3.51	3.56	3.20
Exploration/(Expl.+ Corporate) (%)	79	77	73	82	81
Funding duration at current burn (years)	6.4	8.8	4.2	1.2	0.4
Shares on issue (pr end) (m shares)	964.9	964.9	964.9	964.9	964.9
Drilling - RAB (m)	5,000	3,500	20,000	22,500	15,000
Drilling - RC/Sonic/Diamond (m)	2,500	2,000	15,500	11,500	8,000
Land holding ('000 ha)	4,132	4,132	4,225	4,132	4,132
Tenement costs ($k per year)	-	-	-	-	-
Capital raisings (A$m)	0.0	0.0	60.6	0.0	0.0
Funding from JV partners (A$m)	0	0	0	0	0
Cash (A$m) *	35.4	32.1	54.5	23.7	7.4
Cash backing (Ac/share)	3.7	3.3	5.6	2.7	0.9
Net asset backing (Ac/share)	11.7	11.6	12.5	12.2	13.1

* FY11 cash assumes A$4.5m Norilsk payment 2Q11.

Investment Points

100% uranium focus. Expl. + eval. budget ~A$16m pa.

Cashed up (est. A$32m Mar '11) to fund Wiluna BFS, Wiluna resource expansion and exploration/acquisitions.

Potential Wiluna production mid 2013: ~2.0mtpa ore, alkaline tank leach, ~2.2mlbpa output.

Wiluna BFS underway, draft EIS lodged, resource upgrade expected 2Q11.

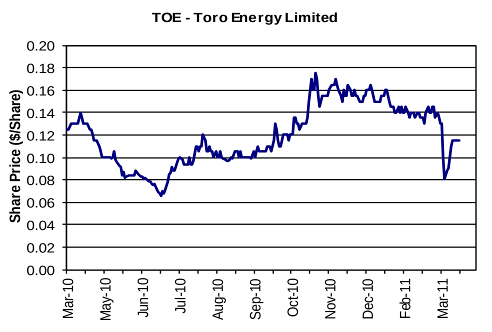
TOE's regional resource consolidation strategy for Wiluna signifcantly enhances Wiluna Project value.

Purchase of strategic Norilsk tenements (target 4-5mlb resource) for A$4.5m is very positive.

TOE's Wiluna resource base should now exceed 37mlb U_3O_8, base case valuation is A$0.15/share.

TOE can be seen as OZ Minerals' (ASX:OZL) uranium division - an acquisitive strategic vehicle.

OZL likely to bankroll Australian/overseas acquisitions to reach TOE's stated 220mlb resource target.



Source: Bloomberg

Company Comment

Overview: TOE listed on the ASX in March 2006 and is a pacesetter in advancing calcrete style uranium projects in Australia - Wiluna (WA) is at the BFS stage.
Toro's Aspirational Targets: TOE has ambitious growth targets: 220mlb U_3O_8 resources by 2015 (currently 30mlb) and production of 5.5mlbpa by 2020. Meeting these will require TOE (backed by major shareholder Oz Minerals - ~A$1.4bn cash) to look beyond the current core asset at Wiluna.
Wiluna Regional Resource Consolidation: We have previously highlighted the potential for TOE to increase its Wiluna resource base to >30mlb U_3O_8 in a 40km radius of Wiluna, with strategic acquisitions/alliances. TOE has now achieved this to great affect. Our modelling suggest this regional consolidation will increase forecast Wiluna Project NPV by ~A$25m (~2.6cps). The Acquisition of the Firestrike uranium discovery in 4Q09 was the first step. Then came the purchase of 100% of the Dawson-Hinkler Well calcrete uranium project (20km W of Centipede) from U3O8 Ltd (ASX:UTO), for a A$1.00/lb resource (A$6.2m) and a 2% royalty for production in excess of 6.2mlb. Recently, the final key piece of the Wiluna jigsaw puzzle has been put in place with the proposal to acquire key tenements which cover a uranium mineralised zone called Millipede, bordering TOE's Centipede deposit. There is not much doubt, based on continuity of mineralisation and past drilling, that these tenements contain 4-5mlb U_3O_8 at similar grades to Lake Way and Centipede (400-600ppm). The purchase consideration of A$4.5m plus a 2% NSR on production of >4.5mlb from the tenements is pitched at a similar level (~US$1.00/lb) to the Dawson-Hinkler Well acquisition, and is probably better value given the likely higher grades and proximity to existing resources.
Wiluna Project Status: A PFS was completed Sep '08, followed by Optimistation Study in Sep '09.
Wiluna BFS: BFS is now underway. The milestone Environmental Management Review Programmme/Draft Environmental Impact Statement was lodged with the EPA (WA) in March 2011. This should trigger the important public exhibition phase. Resource upgrade due 2Q11. The BFS should be completed 4Q11, which could see a go-ahead decision in 2Q12, and potential production mid 2013.
Other Exploration: Lake Mackay (WA): Theseus discovery is promising - Potential buried palaeochannel – will need to wait until 2Q11 for drilling due to wet season. TOE has extensive U exploration portfolio in SA, NT, WA and Namibia (~43,000km^2)**.** Mount Woods (SA): TOE has 100% U rights for OZL's currently aggressive exploration for IOCGU targets – recent interesting U-only hits.
Investment Comment: We think that TOE's ambitions in the uranium sector go beyond Wiluna, which is a challenging first production project. It demonstrates viability (particularly with the smart regional acquisitions) with long term prices >US$65/lb. Our base case evaluation for TOE of A$0.15/share is based on NPV's at US$60/lb long term U price and A$ back to US$0.82. At US$70/lb, NAV rises to A$0.23. TOE's talented team, backed by cash rich major shareholder Oz Minerals, may well be able to take advantage of a window of opportunity generated by the Japanese disaster, and look at project acquisitions, as well as maintaining focus on its extensive exploration ground, to generate a much increased uranium market presence, and potentially increased shareholder value.

Reserves and Resources/Mineralised Material

Code for reporting mineral resources - Australian: (JORC)

Uranium U_3O_8	Classification	Project Equity	Ore Mt	U_3O_8 %	Cut Off ppm	U_3O_8 Kt	U_3O_8 Mlb	Eqty Mlb
Reserves						**0.0**	**0.0**	**0.0**
Resources								
Wiluna: L. Way & C'pede	Meas Ind & Inf.	100%	20.2	0.0548	200	11.1	24.4	24.4
Dawson-Hinkler Well	Inferred	100%	9.50	0.0293	200	2.8	6.2	6.2
Total Resources			29.70	0.0467		**13.85**	**30.6**	**30.6**
Mineralised Material (est., non compliant with JORC)								
Total Mineralised (non JORC)						**0.0**	**0.0**	**0.0**

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Key Projects

Project	Ownership/ Option	Metal	JV / Partner	Target Type	Process Route	Project Status	Location
Wiluna	100%	U	none	Calcrete	Alk. Leach	BFS	Aus (WA)
Lake Mackay	100%	U	none	Palaeo/IOCG	na	Early Expl.	Aus (WA)
Namibia	25%	U	DYL	Calc/Alask	na	Early Expl.	Namibia
Mount Woods	100% U rights	U	OZL/MNT	IOCGU	na	Early Expl.	Aus (SA)
Birrindudu	50.01%	U	Cameco	Unc+S'stone	na	Early Expl.	Aus (SA)

TORO ENERGY VALUATION

	Uranium Resource/Mineralisation		Target Price *		Valuation Range (Low)	(High) **
	mlbs	US$/lb	A$m	A$/Share	A$m	A$m
Projects						
+ **Wiluna Project NPV** (Optimisation Study completed, BFS underway) *	30.6	1.54	47	0.05	19	91
+ **Wiluna regional resource potential NPV** (regional resource acquisition)			25	0.03	10	40
+ **Lake Mackay -** (grassroots palaeochannel discovery)			5	0.01	4	10
+ **Namibia** (DYL JV - strategic tenements in DYL palaeochannel system)			5	0.01	2	8
+ **Basement projects** (SA, uranium rights to OZL's IOCGU exploration program)			8	0.01	5	12
+ **Other Australia - WA, NT and SA** (grass roots, requires targeting work)			5	0.01	2	8
Sub Total			95	0.10	42	169
+ Cash (Mar 11F)			32	0.03	32	32
+ Tax Losses			28	0.03	28	28
- Corporate			11	0.01	11	11
Sub Total			49	0.05	49	49
TOE NET ASSET VALUE			**144**	**0.15**	**91**	**218**
Capital Structure						
Shares (Mar '11)			964.9		964.9	964.9
Fully Diluted Shares			986.6		986.6	986.6
TOE NET ASSET VALUE PER SHARE :A$/share			**0.15**		**0.09**	**0.23**
TOE NET ASSET VALUE DILUTED :A$/share fully diluted			**0.15**		**0.10**	**0.23**

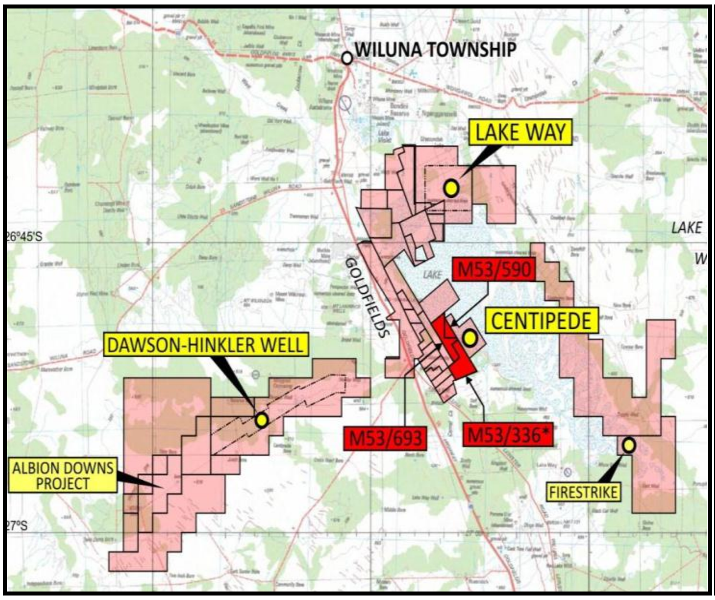
NOTE: * Wiluna Project NPV is based on Sep '09 optimisation study parameters, long term contract uranium pricing at US$60/lb, 10% discount rate nominal.
** High valuation assumes further improvements in grades and positive uranium price movements (US$70/lb long term).
Modelling is based on project NPV's for Wiluna discounted by 30% to allow for pre-BFS project status.

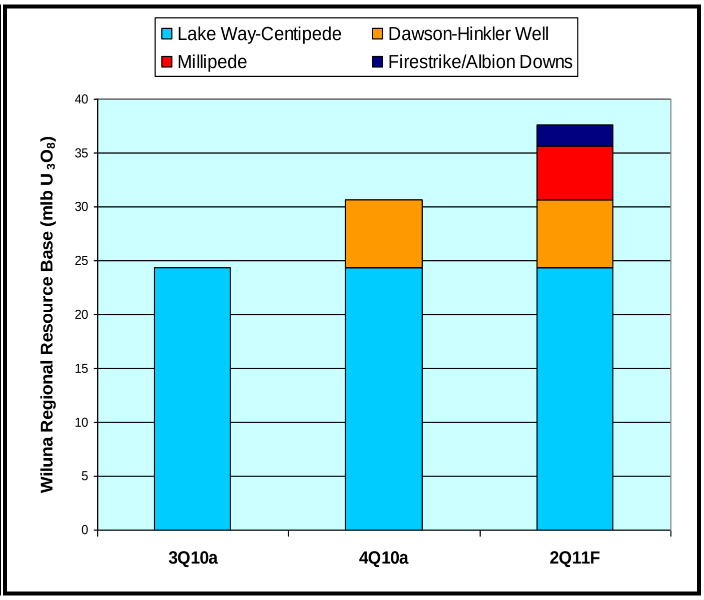
WILUNA URANIUM PROJECT NPV @10% nominal - based on Wiluna resource upgrades (Jun '09) and optimisation study targets

		Equity	NPV Sensitivity			
LONG TERM URANIUM PRICE ^	:US$/lb		**50**	**60**	**70**	**80**
LONG TERM EXCHANGE RATE	:AU/US		0.82	0.82	0.82	0.82
NPV @ 10% NOMINAL**						
Base Case (includes grade upgrades Jun '09)	:A$m	100%	4	47	91	134
Regional Resource Sensitivity: Tonnes +50%	:A$m	100%	21	78	135	192

** Includes a pre prefeasibility study project discount of 30% of the project valuation: 30%
^ Long term uranium price forecasts are from 1Q14, linear transition from current levels.

Toro's value-enhancing strategy of building Wiluna into a significant uranium production hub has taken a further step with the acquisition of the Millipede tenements (red tenements in map below), closing a 'gap' in the Centipede resource. Regional resources targets are now approaching 40mlb (r.h.graph).





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