

Toro Energy Limited (TOE)

Update – February 2013

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Investment Profile

Share price (\$) as at 26 February 2013	0.105
Valuation (\$)	0.172
Issued capital:	
Ordinary shares (M)	1,041.9
Options (M)	57.1
Fully Diluted (M)	1,099.0
Market capitalisation (\$M)	109.4
52-week low/high (\$)	0.062/0.145

Board and Management

Directors

Dr. Erica Smyth (Non-Executive Chairman)
 Dr. Vanessa Guthrie (Managing Director)
 Peter Lester (Non-Executive Director)
 Andrew Coles (Non-Executive Director)
 Greg Hall (Non-Executive Director)
 Donald Stephens (Company Secretary)

Management

Simon Mitchell (General Manager - Business Development)
 Mark McGeough (General Manager - Exploration)
 Todd Adler (General Manager - Finance and Corporate)
 Martin James (General Manager - Marketing and Project Finance)
 Richard Yeeles (Approvals and Community Director - Wiluna)

Major Shareholders

	%
OZ Minerals Limited	39.4
Minotaur Resources Investments Pty Ltd	3.4
Allarow Pty Ltd	1.0

Top 20 shareholders own 48.1% of company



WILUNA URANIUM PROJECT APPROVAL DELAYED

- ◆ **Wiluna Uranium Project Approval Delay:** After receiving the long awaited environmental approval from the WA government at the Wiluna Uranium Project, the company has experienced a setback with the Federal Government delaying its final decision on the approval of the Project to 31 March 2013. The company does not expect the delay to have an impact the project delivery date, with the final investment decision expected in the 2H'2013 and production anticipated to commence in 2015.
- ◆ **Uranium Price:** The uranium price remains subdued, with the spot price trading under US\$45/lb. The long-term price also continues to fall, although less dramatically than the spot price, to be trading at ~US\$56/lb. The uranium price is expected to increase over the long-term with supply shortages and demand increases post 2013.
- ◆ **Maiden JORC Resource at Thesus:** On 5 December 2012, the company announced a maiden Inferred JORC Resource at the Thesus Deposit of 6.3Mt at 493ppm for 6.9Mlb U₃O₈ at a cut-off of 200ppm. The exploration target was also revised to 28M to 35M tonnes of uranium at 450ppm to 520ppm for 28Mlb to 40Mlb U₃O₈.
- ◆ **Capital Position:** The company had cash of \$4.7M at 31 December 2012. The capital costs associated with the development of the Wiluna Uranium Project are expected to be \$269M (this includes a contingency of \$31M). Given the cash position, the company will have to raise additional capital to fund the development of the Project. The company is seeking to secure a strategic partner to assist with financing the Project and secure off-take agreements. Securing final government approval will assist with finalising a partnership.
- ◆ **Management Changes:** After seven years as the Managing Director (MD), Greg Hall has stepped down and Dr. Vanessa Guthrie has taken up the position. Dr. Guthrie joined TOE in July 2011 as the Executive General Manager of the Wiluna Project. Dr. Guthrie's previous positions include CEO of the Wellard Group, VP Sustainable Development at Woodside Energy Limited, Sustainability Manager and Mine Manager at Alcoa World Alumina Australia. Mr. Hall will remain on as a Non-Executive Director.
- ◆ **Valuation:** Given the release of a maiden JORC Resource at the Thesus Deposit, we have amended the valuation approach for the Deposit from a cost approach to a peer comparison approach. We have also adjusted our value of the Wiluna Uranium Project, inputting out revised uranium price of US\$70/lb, marginally decreasing the capital costs and increasing the operating costs. Our base case valuation for TOE has increased 5.3 cents to **\$0.172**.

Y/E June	2010A	2011A	2012A	2013F	2014F
Revenue (\$M)	2.2	2.4	0.9	1.4	2.1
EBITDA (\$M)	-2.2	-1.1	-3.9	-2.4	-1.7
Reported NPAT (\$M)	-16.6	-21.7	-10.7	-20.3	-19.6
Normalised NPAT (\$M)	-2.7	-1.6	-4.6	-20.3	-19.6
Reported EPS (A\$)	-0.05	-0.02	-0.01	-0.01	-0.01
Normalised EPS (A\$)	-0.01	0.00	0.00	-0.01	-0.01
PER	n/a	n/a	n/a	n/a	n/a
DPS	n/a	n/a	n/a	n/a	n/a
Price /Cash (x)	n/a	n/a	n/a	n/a	n/a
Price/Book (x)	0.3	0.8	0.7	0.8	1.0

PROFIT & LOSS (\$M)					
Y/E June	2010	2011	2012	2013	2014
Sales Revenue	0.0	0.0	0.0	0.0	0.0
Other Revenue	2.2	2.4	0.9	1.4	2.1
Total Costs	4.4	3.5	4.8	3.9	3.9
EBITDA	-2.2	-1.1	-3.9	-2.4	-1.7
Depreciation	-0.2	-0.6	-0.7	-10.0	-10.0
EBIT	-2.4	-1.7	-4.6	-12.4	-11.7
Interest	0.0	0.0	0.0	-7.8	-7.8
Pre-Tax Profit	-2.4	-1.6	-4.6	-20.3	-19.6
Tax expense	-0.3	0.0	0.0	0.0	0.0
Net Profit After Tax	-2.7	-1.6	-4.6	-20.3	-19.6
Abnormals	-14.0	-20.1	-6.1	0.0	0.0
Reported Net Profit After Tax	-16.6	-21.7	-10.7	-20.3	-19.6

BALANCE SHEET (\$M)					
Y/E June	2010	2011	2012	2013	2014
Cash	54.5	29.7	24.8	104.5	1.4
Trade and other Receivables	0.5	0.3	0.3	0.1	0.1
Inventories	0.0	0.0	0.0	0.0	0.0
Investments	0.0	0.0	0.0	0.0	0.0
Other	1.3	0.3	0.2	0.1	0.1
Current Assets	56.3	30.9	25.2	104.7	1.6
PPE	1.1	2.6	2.1	91.0	182.0
Investment in Joint Venture	0.0	0.0	0.0	0.0	0.0
Exploration & Evaluation	64.5	67.4	83.7	75.0	80.0
Other	0.0	0.0	0.0	0.0	0.0
Non-current Assets	65.7	70.0	85.8	166.0	262.0
Total Assets	121.9	100.3	111.0	270.7	263.6
Trade and other Payables	1.5	1.2	3.2	1.0	1.0
Short-term Debt	0.0	0.0	0.0	0.0	0.0
Long-term Debt	0.0	0.0	0.0	112.0	112.0
Provisions	0.3	0.3	0.4	0.4	0.4
Other	0.0	0.0	0.0	0.0	0.0
Total Liabilities	1.8	1.5	3.6	113.4	113.4
Net Assets	120.2	98.8	107.4	157.3	150.2
Share Capital	211.6	211.6	217.6	347.6	347.6
Reserves	2.1	2.3	3.3	44.5	32.1
Retained Earnings	-93.5	-115.1	-125.5	-145.8	-165.4
Shareholders' Equity	120.2	98.8	107.4	157.3	150.2
Minorities	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Total Equity	120.2	98.8	107.4	157.3	150.2
Shares on Issue (M)	351.3	964.9	1,041.9	1,741.9	2,191.9
Options Outstanding (M)	21.7	32.8	37.0	53.5	13.3
Fully Diluted (M)	373.0	997.7	1,079.0	1,795.5	2,205.3

CASHFLOW (\$M)					
Y/E June	2010	2011	2012	2013	2014
Receipts from customers	0.0	0.0	0.0	0.0	0.0
Payments to suppliers	-3.3	-2.8	-3.4	-3.3	-3.3
Net interest	1.0	3.3	1.1	1.0	-7.8
Tax Paid	-0.3	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Operating Activities	-2.5	0.5	-2.2	-2.3	-11.1
Capital Expenditure	-0.9	-2.1	-0.1	-140.0	-129.0
Exploration, Development, Evaluation	-9.8	-15.5	-17.8	-8.0	-8.0
Asset Sales/Acquisitions	0.0	-7.3	-1.9	0.0	0.0
Other	0.3	0.0	0.0	0.0	0.0
Investment Activities	-10.4	-25.3	-19.8	-148.0	-137.0
Share Issues /(Buybacks)	60.6	0.0	5.3	130.0	45.0
Debt Drawdown/ (Repaid)	0.0	0.0	12.0	100.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0	0.0
Other	-2.2	0.0	-0.1	0.0	0.0
Financing Activities	58.5	0.0	17.2	230.0	45.0
Net Cash Increase/(Decrease)	45.6	-24.8	-4.9	79.7	-103.1
Cash at beginning	8.9	54.5	29.7	24.8	104.5
Cash at end	54.5	29.7	24.8	104.5	1.4

Key Model Assumptions	
Wiluna Uranium Project	
Resource U ₃ O ₈	54Mlbs
Recovery	86%
Cash Cost	US\$37/lb
Capital Cost	A\$269M
Product	1.8Mlbs/year
WA Royalty as % of revenue	5%
Tax Rate	30%
Uranium Price	US\$70/lb
Depreciation method	Straight line
First production year	2015
Mine Life	20 years
A\$/US\$ rate	0.95
Equity interest	65%

CORPORATE ACTIVITY

- ◆ After receiving environmental approval from the WA government in October 2012 for the Wiluna Uranium Project, the remaining approval required for development to commence is from the Federal Government. Given the extensive nature of the approval process with the WA government, it was expected that the Federal Government approval was going to be granted. However, the Federal Government has requested further information from the company and has delayed its final decision to 31 March 2013.
- ◆ The company is seeking a strategic partnership to assist with financing the development of the Wiluna Uranium Project and secure an off-take agreement. Approval by the Federal Government will assist in finalising an agreement. Securing a partnership will allow development of the Project to commence and reduce the risks associated with the Project.
- ◆ The company has secured a \$12M debt facility with Macquarie Bank to fund the completion of the DFS. The loan facility has a term of three years from the initial drawdown and will be available in two tranches. The first tranche of \$8M is available to be drawdown before 31 March 2013 with the second tranche of \$4M available after Federal Government approval from the Wiluna Uranium Project is received. TOE will issue three tranches of options with a three year maturity date and an exercise price at a 20% premium to TOE's 30 day VWAP at various stages. The first tranche of options has been issued with the remaining two tranches to be issued upon drawdown of the two tranches of debt. The exercise value of the options will equal the value of the loan (\$12M). The funds raised from the exercise of options will be used to repay the loan. If the options are not exercised, the company will be required to raise the capital to repay the loan.

WILUNA URANIUM PROJECT (100%)

- ◆ The Wiluna Uranium Project is awaiting approval from the Federal Government. After receiving approval from the WA Government, the Federal Government announced that they required further information and are delaying the final approval decision to 31 March 2013. Despite the delay we expect the Federal Government to provide the necessary approval for the Project to continue to a final investment decision, which is anticipated in the second half of 2013.
- ◆ Once government approval is received the company will complete the Definitive Feasibility Study (DFS). At this stage the process engineering phase has been completed but the engineering design, infrastructure and cost estimates are yet to be finalised.
- ◆ The company has undertaken a review of the economic model, which indicates a reduced total capital cost of \$269M, including \$31M contingency, and a \$4/lb increase in operating costs to \$37/lb. The DFS will provide more accurate cost analysis.
- ◆ Despite the delay, the Wiluna Uranium Project is set to be the first operating uranium mine in WA with production expected to commence in 2015.

THEBUS URANIUM PROJECT

- ◆ The company released a maiden Inferred JORC Resource and revised the exploration target at the Thesus Uranium Project located in WA.
- ◆ An estimated Inferred JORC Resource was released at various cut-off grades, tabled below. Initial metallurgical testing has indicated recoveries of 80%.

Cut-off Grade (ppm)	Tonnes (M)	U ₃ O ₈ (ppm)	Contained Uranium (U ₃ O ₈)	
			(tonnes)	(Mlb)
100	8.7	427	3,700	8.2
200	6.3	493	3,100	6.9
300	3.5	609	2,100	4.8

- ◆ Based on the exploration to date, the company has revised its exploration target to 28M to 35M tonnes at 450ppm to 520ppm for 28Mlb to 40Mlb U₃O₈. The tonnage amount has narrowed from the 20M to 40M initial exploration target and the upper grade has increased from 500ppm to 520ppm.

- ◆ Development of the Thesus Uranium Project will be a welcome addition to the Wiluna Uranium Project.

URANIUM MARKET UPDATE

- ◆ The uranium price has remained subdued since the Fukushima disaster in 2011, with the spot price falling 31.2% since the disaster struck and 67.9% since the highs of 2007. At current prices producers are cutting back production output and delaying project development.
- ◆ There is set to be a supply shortage beyond 2013, with the expiration of a treaty from the Cold War between Russia and the US that provides 24Mlbs of uranium per year to the market from decommissioned nuclear weapons. This is a significant portion of the 68Mt of global uranium demand in 2012.
- ◆ The newly elected Japanese Prime Minister, Shinzo Abe, is abandoning the previous governments policy to eliminate the use of nuclear power by 2030. Mr. Abe is seeking to restart reactors once they are declared safe for operation. The Japanese reactors coming online again will increase demand and likely have a positive impact on the uranium price.
- ◆ According to the World Nuclear Association, China, India and Russia currently have 46 new reactors under construction, which is set to increase uranium generation capacity by 13.5%, excluding Japan's nuclear capacity.
- ◆ The Australian government has been in negotiations with India regarding the supply of uranium. Discussions are expected to recommence in 2013 to reach an agreement. India has previously not been a signatory of the UN nuclear non-proliferation treaty which prevented Australia selling uranium to India. Supply to India will depend on the signing of the Civil Nuclear Energy Cooperation Agreement.

Uranium Price (US\$/lb)



Source: UX Consulting Company LLC

INVESTMENT CASE

- ◆ TOE is highly leveraged to the uranium price. Despite the significant decline in the uranium price, supply shortages and new demand is set to see the uranium price rise over the longer-term.
- ◆ The uranium price will likely remain subdued in the coming 12-months given the potential exit of some countries from the use of nuclear power, such as Germany and France. A positive for the uranium market has been the election of Japanese Prime Minister, Shinzo Abe. Mr. Abe is pro nuclear energy and will be seeking to restart reactors in Japan once they are determined to be safe for operation. While this may take some time, it will likely result in an improved uranium price due to increased demand.
- ◆ Despite the delay of approval from the Federal Government, we expect approval to be received and the company to be able to commence development of the Wiluna Uranium Project, given the extensive process undertaken with the WA government to receive approval at the state level.

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