

# TOE.AU

24 June 2010  
Uranium  
Australia (WA,NT,SA), Namibia  
BFS and Exploration  
Exchanges: ASX:TOE

## Toro Energy Limited

A\$ 0.07

**Cashed up Toro (5.5c/share cash) now looks oversold due to the concerns over a super profits tax. The current share price implies its 24.4mlb Wiluna (WA) calcrete uranium project resource (BFS underway) is currently valued at no more than US\$0.50/lb.**

### Capital Profile

Share price (A\$)	0.07	
52 week range (A\$/share)	0.07	to 0.26
Number of shares (m)	965	
Options and warrants (m)	22	
Convertible notes (m)	0	
Fully diluted (m)	987	
Market capitalisation (undiluted) (A\$m)	66.6	
Debt (A\$m) - Jun 10F	0.0	
Enterprise value (A\$m)	66.6	
Major shareholders: OZ Minerals Ltd (42.5%), ANZ Nominees (5.0%) Allarow Pty Ltd (1.8%)		
Avg monthly volume (m)	43	
Cash (A\$m) - Jun 10F	53.3	
Price/Cash (x)	1.3	
Price/Book (x)	0.5	
Listed company options:	No	

### Investment Points

100% uranium focus. Expl. + eval. budget –A\$16m pa,

Cashed up (est. A\$53m Jun '10) to fund Wiluna BFS, Wiluna resource expansion and exploration.

Potential Wiluna production early 2013: Heap leach 1.6mlbpa - capex A\$162m; opex A\$39.70/lb, head grades 653ppm.

Wiluna BFS underway, mining & heap leach trial test pit.

TOE's regional resource consolidation strategy for Wiluna could greatly enhance Wiluna Project value.

Napperby project (NT) returned to DYL.

A\$4.5mpa exploration program starting to bear fruit - greenfields Lake Mackay palaeochannel discovery.

RSPT concerns mean Wiluna resource valued at ~US\$0.50/lb versus our base case NPV of US\$1.63/lb.

Our assessed NAV is A\$0.16/share (US\$60/lb U price).



### Production and Financial Forecasts

YEAR END: June	Mar-10a	Jun-10F	2009a	2010F	2011F
Exploration and evaluation (A\$m)	2.13	5.90	6.59	11.84	16.50
Corporate (A\$m)	0.72	0.75	2.50	3.03	3.05
Exploration/(Expl.+ Corporate) (%)	75	89	72	80	93
Funding duration at current burn (years)	20.8	8.0	1.0	3.6	1.8
Shares on issue (pr end) (m shares)	964.9	964.9	555.8	964.9	964.9
Drilling - RAB (m)	2,500	2,500	12,500	10,000	10,000
Drilling - Other/Diamond (m)	4,000	4,000	19,500	15,500	16,000
Land holding ('000 ha)*	4,216	4,216	3,799	4,216	4,216
Tenement costs (\$k per year)	-	-	-	-	-
Capital raisings (A\$m)**	0.0	0.0	12.2	60.6	0.0
Funding from JV partners (A\$m)	0	0	0	0	0
Cash (A\$m)	59.2	53.3	8.9	53.3	36.1
Cash backing (Ac/share)	6.1	5.5	1.6	5.5	4.1
Net asset backing (Ac/share)	13.8	13.8	13.7	13.8	15.1

\*Uranium prospective tenements only, both held and under application.

### 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.

**Wiluna Optimisation Study:** A PFS was completed Sep '08, followed by Optimisation Study ("OS") (GRD Minproc) released in Sep '09. Alkaline heap leach/direct precipitation route was chosen. The OS delivered improvements in all areas, particularly mined head grades increased to 653ppm, capex reduced to A\$162m, opex A\$39.70/lb, production 1.6mlbpa. Recoveries are ~70%, mine life 8 years.

**Wiluna BFS:** BFS is underway. A 45,000t resource evaluation test pit and a heap leach trial recently commenced. Environmental approvals process has commenced – key stage will be 2H10 public comment phase. BFS should be completed 1Q11, production target date is early 2013.

**Wiluna Regional Resource Consolidation:** The NPV of the Wiluna project (8 year mine life) is strongly geared to resource size. We see potential for TOE to increase its Wiluna resource base to >30mlb U<sub>3</sub>O<sub>8</sub> in a 40km radius of Wiluna, with strategic acquisitions/alliances. This could increase forecast project NPV by net ~A\$25m (~2.6cps). This process has commenced with the Firestrike acquisition.

**Napperby Project (NT):** With the A\$57m option payment due to DYL, TOE has decided to relinquish its rights to this project after extensive resource drilling and a Scoping Study. This project always looked marginal, so this could be positive for TOE to focus on potentially bigger targets (e.g. Lake Mackay).

**Lake Mackay Discovery (WA):** This remote greenfields exploration area is TOE's best chance for a major 50-100mlb discovery. TOE has found a buried palaeochannel in a 2.5km open-ended zone. An airborne geophysical survey has commenced to generate further targets for drilling in 3Q10.

**Other Exploration:** Extensive U exploration portfolio in SA, NT, WA and Namibia (~43,000km<sup>2</sup>). **Cameco JV:** Farm-in agreement with Cameco Australia (earning 50.1%) in the highly prospective Birrindudu Project in NE WA. **Namibia JV:** (DYL earning 65%) DYL actively exploring TOE's Namibian tenements. **Mount Woods (SA):** TOE has 100% U rights for OZL's exploration for IOCGU targets.

**RSPT Effect:** The announcement of a proposed 40% Resource Super Profits Tax (RSPT), in (May 2010) has coincided in a ~40% fall in the TOE share price from A\$0.13 to A\$0.08. The tax in its originally mooted form is not new-project friendly, and could severely impact the financeability of Wiluna. The difficulty is that the final form of the tax, if it survives, is still a total unknown.

**Investment Comment:** As a result of the RSPT debacle, TOE now looks oversold, particularly given our expectation that the final form of the profits tax, if it survives, may well be much more new-project friendly. TOE's current cash backing is A\$0.055/share, which means the 24.4mlb Wiluna resource is valued at only US\$0.50/lb contained U<sub>3</sub>O<sub>8</sub>, if a reduced value of A\$10m is ascribed to TOE's extensive exploration ground (our base case is A\$25m). Given the likely direction of the RSPT debate in coming months, there would seem to be little downside and plenty of upside in TOE at current levels.

### Reserves and Resources/Mineralised Material

Code for reporting mineral resources - Australian: (JORC)

Uranium	Classification	Project	Ore	U <sub>3</sub> O <sub>8</sub>	Cut Off	U <sub>3</sub> O <sub>8</sub>	U <sub>3</sub> O <sub>8</sub>	Eqty
U <sub>3</sub> O <sub>8</sub>		Equity	Mt	%	ppm	Kt	Mlb	Mlb

**Reserves**

<b>Resources</b>								
Wiluna: L. Way & C'pede Meas Ind & Inf.	100%	20.2	0.055	200	11.1	24.4	24.4	

**Total Resources**

**Mineralised Material (est., non compliant with JORC)**

**Total Mineralised (non JORC)**

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A Coles (Non Exec Dir)

### 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	Palaeochannel	na	Early Expl.	Aus (WA)
Namibia	100%/25%	U	DYL	Calc/Alask	na	Early Expl.	Namibia
Mount Woods	100% U rights	U	OZL/MNT	IOCGU	na	Early Expl.	Aus (SA)
Birrindudu	0/50.1%	U	Cameco	Unc+S'stone	na	Early Expl.	Aus (SA)

Our valuation indicates a net asset value of A\$0.16/share, after applying a 30% discount to the Wiluna Project NPV (pre BFS status) and allowing for the nominal cost to expand the Wiluna regional resource.

#### TORO ENERGY VALUATION

	Uranium		Target Price		Valuation Range	
	Resource/Mineralisation		A\$m	A\$/Share	(Low)	(High) **
	mlbs	US\$/lb			A\$m	A\$m
<b>Projects</b>						
+ Wiluna Project NPV (PFS stage development project, BFS underway)*	24.4	1.63	47	0.05	19	91
+ Wiluna regional resource potential NPV (regional resource acquisition)			22	0.02	10	40
+ Lake Mackay - (grassroots palaeochannel discovery)			7	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			94	0.10	42	169
+ Cash (Jun 10F)			53	0.06	53	53
+ Tax Losses			23	0.02	23	23
- Corporate			14	0.01	14	14
Sub Total			62	0.06	62	62
<b>TOE NET ASSET VALUE</b>			<b>156</b>	<b>0.16</b>	<b>104</b>	<b>231</b>
<b>Capital Structure</b>						
Shares (Jun '09)			964.9		964.9	964.9
Fully Diluted Shares			986.6		986.6	986.6
<b>TOE NET ASSET VALUE PER SHARE :A\$/share</b>			<b>0.16</b>		<b>0.11</b>	<b>0.24</b>
<b>TOE NET ASSET VALUE DILUTED :A\$/share fully diluted</b>			<b>0.16</b>		<b>0.11</b>	<b>0.24</b>
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 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		0.80	0.80	0.80	0.80		
<b>NPV @ 10% NOMINAL**</b>								
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.								

#### WILUNA URANIUM PROJECT KEY ASSUMPTIONS - BASE CASE FINANCIAL MODELLING

RESOURCE ESTIMATES				
		Uranium		
		Mt	ppm	Mlbs Cut-off ppm
Uranium Resources				
Lake Way		10.5	543	12.6 200
Centipede		9.7	552	11.8 200
<b>Total</b>		<b>20.2</b>	<b>548</b>	<b>24.4</b>
RESOURCE CONVERSION: 65%				
<b>TOTAL MINEABLE RESERVE</b>		<b>13</b>	<b>653</b>	<b>18.7 250</b>
MINING METHOD	OPEN CUT			
PROCESS METHOD	Free digging, continuous miner, 0.25m cuts, radiometric ore sorting			
	DEDICATED URANIUM PLANT			
	Alkaline heap leach followed by direct precipitation			
MILL THROUGHPUT	:mtpa	2		
AVERAGE ANNUAL PRODUCTION RATE	:tpa U3O8	730		
	:mlbspa U3O8	1.61		
CAPITAL COSTS	:A\$m	161	Plus sustaining capex	A\$2mpa (US\$1.25/t).
RECOVERY - URANIUM	:%	70		
OPERATING COSTS	:A\$/t	37.50		
	:US\$/lb	32.00		
TAX	:%	30%	No RSPT assumed in current modelling.	
MINE LIFE	:Years	8.1		
TARGET COMMISSION DATE	:	2H12		

\* These figures are preliminary in nature and are intended to provide only a general indication of project potential scale and economic robustness. Considerable refinement may result from the bankable feasibility study, expected to be completed in 1Q11.

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