

# TOE.AU

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

## Toro Energy Limited

A\$ 0.11

**Cashed up Toro (4.9c/share cash) must look beyond the 24.4mlb Wiluna (WA) calcrite uranium project (BFS underway) to reach its target 220mlb resources by 2015. This aggressive acquisitional stance is likely to be backed by Oz Minerals' chequebook.**

### Capital Profile

Share price (A\$)	0.11
52 week range (A\$/share)	0.06 to 0.21
Number of shares (m)	965
Options and warrants (m)	22
Convertible notes (m)	0
Fully diluted (m)	987
Market capitalisation (undiluted) (A\$m)	101.3
Debt (A\$m) - Sep 10F	0.0
Enterprise value (A\$m)	101.3
Major shareholders: OZ Minerals Ltd (42.5%), ANZ Nominees (5.0%)	
Allarow Pty Ltd (1.8%)	
Avg monthly volume (m)	28
Cash (A\$m) - Sep 10F	47.0
Price/Cash (x)	2.2
Price/Book (x)	0.8
Listed company options:	No

### Investment Points

100% uranium focus. Expl. + eval. budget ~A\$20m pa.

Cashed up (est. A\$47m Sep '10) to fund Wiluna BFS, Wiluna resource expansion and exploration/acquisitions.

Potential Wiluna production early 2013: Heap leach 1.6mlbpa - capex A\$162m; opex A\$39.70/lb. Tank leach higher capex but ~2.2mlbpa output.

Wiluna BFS underway, mining test pit completed.

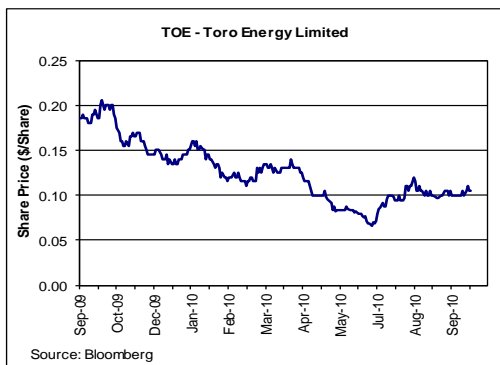
TOE's regional resource consolidation strategy for Wiluna could greatly enhance Wiluna Project value.

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

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

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

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



### Production and Financial Forecasts

YEAR END: June	Jun-10a	Sep-10F	2010a	2011F	2011F
Exploration and evaluation (A\$m)	3.52	7.20	9.46	23.20	24.00
Corporate (A\$m)	1.23	0.98	3.51	3.38	3.20
Exploration/(Expl.+ Corporate) (%)	74	88	73	87	88
Funding duration at current burn (years)	11.5	5.7	4.2	1.1	0.1
Shares on issue (pr end) (m shares)	964.9	964.9	964.9	964.9	964.9
Drilling - RAB (m)	5,000	10,000	20,000	30,000	25,000
Drilling - Other/Diamond (m)	4,000	5,000	15,500	20,000	20,000
Land holding ('000 ha)*	4,225	4,225	4,225	4,225	4,225
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)	54.5	47.0	54.5	30.2	4.0
Cash backing (Ac/share)	5.6	4.9	5.6	3.4	0.5
Net asset backing (Ac/share)	13.7	13.7	13.7	14.9	16.0

\*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 calcrite style uranium projects in Australia - Wiluna (WA) is at the BFS stage.

**Toro's Aspirational Targets:** In a recent presentation TOE confirmed ambitious growth targets - 220mlb U<sub>3</sub>O<sub>8</sub> resources by 2015 (currently 24mlb) and production of 2.2 mlbpa by 2015 and doubling to 5.5mlbpa by 2020. Wiluna, even with resource consolidation as a regional hub, will not come close to meeting the production and particularly resource targets. TOE (and Oz Minerals) undoubtedly see the next 1-2 years of soft U<sub>3</sub>O<sub>8</sub> prices as a window of opportunity for acquisitions in the uranium sector. TOE will be running its ruler over potential acquisitions in Australia and overseas, no doubt given confidence by major shareholder Oz Minerals' ~A\$1.4bn war chest.

**Wiluna Project Status:** A PFS was completed Sep '08, followed by Optimisation Study ("OS") (GRD Minproc) released in Sep '09. The OS indicated head grades increased to 653ppm through improved grade control, capex (heap leach) reduced to A\$162m, opex A\$39.70/lb, production 1.6mlbpa, heap leach recoveries ~70%, mine life 8 years. The lower capex alkaline heap leach/direct precipitation route ("Option 1") was the preferred option, although the higher capex (~A\$240m) agitated tank leach with improved recoveries (~85%) and higher output ("Option 2") has recently come back into focus. **Wiluna BFS:** BFS is now underway. A successful one-month 22,000t resource evaluation test pit was recently completed using a Vermeer continuous miner, which confirmed the suitability of the continuous mining method and grade control methodology with mined grades near target levels. The trial provided a bulk mineral sample for further metallurgical testwork to finalise the flowsheet option. 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:** 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). The Firestrike acquisition is the first step.

**Lake Mackay Discovery (WA):** This remote greenfields exploration area is TOE's best chance for a major 50-100mlb discovery, including IOCG potential. TOE has found a buried palaeochannel in a 2.5km open-ended zone (Theseus Project). An airborne geophysical survey was followed by a recent 10,000m aircore program to generate further targets for drilling in 4Q10.

**Other Exploration:** Extensive U exploration portfolio in SA, NT, WA and Namibia (~43,000km<sup>2</sup>). **Mount Woods (SA):** TOE has 100% U rights for OZL's exploration for IOCGU targets.

**Investment Comment:** TOE's stated acquisitory ambitions in the uranium sector beyond Wiluna, taking advantage of a perceived 1-2 year window of opportunity, will undoubtedly be backed by cash rich major shareholder Oz Minerals (ASX:AZL). In this regard, TOE could be seen as OZL's strategic uranium division. We wonder if OZL may look at moving to 100% of TOE in order to more effectively pursue a uranium strategy, with TOE's current uranium resource valued at a meagre ~US\$0.50/lb?

### 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						0.0	0.0	0.0

#### Resources

Wiluna: L. Way & C'pede Meas Ind & Inf.	100%	20.2	0.055	200	11.1	24.4	24.4
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#### Total Resources

11.07 24.4 24.4

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

Total Mineralised (non JORC)						0.0	0.0	0.0
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 G. Hall (MD)  
 P. Lester (Non Exec Dir)  
 D. Carter (Non Exec Dir)  
 J. Nitschke (Non Exec Dir)  
 A Coles (Non Exec Dir)

### Key Projects

Project	Ownership/Option	Metal	JV/ Partner	Target Type	Process Route	Project Status	Location
Wiluna	100%	U	none	Calcrite	Alk. Leach	BFS	Aus (WA)
Lake Mackay	100%	U	none	Palaeo/IOCG	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)
Birindudu	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	US\$/lb	A\$m	A\$/Share	(Low)	(High) **
	mlbs				A\$m	A\$m
<b>Projects</b>						
+ Wiluna Project NPV (Optimisation Study completed, BFS underway) *	24.4	1.76	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 (Sep 10F)			47	0.05	47	47
+ Tax Losses			24	0.02	24	24
- Corporate			15	0.02	15	15
Sub Total			56	0.06	56	56
<b>TOE NET ASSET VALUE</b>			<b>150</b>	<b>0.16</b>	<b>98</b>	<b>225</b>
<b>Capital Structure</b>						
Shares (Sep '09)			964.9		964.9	964.9
Fully Diluted Shares			992.2		992.2	992.2
<b>TOE NET ASSET VALUE PER SHARE :A\$/share</b>			<b>0.16</b>		<b>0.10</b>	<b>0.23</b>
<b>TOE NET ASSET VALUE DILUTED :A\$/share fully diluted</b>			<b>0.16</b>		<b>0.10</b>	<b>0.23</b>
NOTE: * Wiluna Project NPV is based on Sep '09 optimisation study parameters (see below), 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	0.80	0.80	0.80	0.80
<b>NPV @ 10% NOMINAL**</b>					
Base Case (includes grade upgrades Jun '09)	:A\$m	100%	4	47	91
Regional Resource Sensitivity: Tonnes +50%	:A\$m	100%	21	78	135
** Includes a pre feasibility study project discount of 30% of the project valuation:					
^ Long term uranium price forecasts are from 1Q14, linear transition from current levels.					

#### WILUNA URANIUM PROJECT KEY ASSUMPTIONS - BASE CASE FINANCIAL MODELLING USING OPTION 1 - HEAP LEACH

RESOURCE ESTIMATES				
		Uranium		
		Mt	ppm	Mlbs
Uranium Resources				Cut-off ppm
Lake Way		10.5	543	12.6
Centipede		9.7	552	11.8
<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</b>
<b>250</b>				
Mining Method	OPEN CUT			
Process Method	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%		
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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