

Toro Energy

A Political Risk Assessment of Australia's Uranium Mining Sector

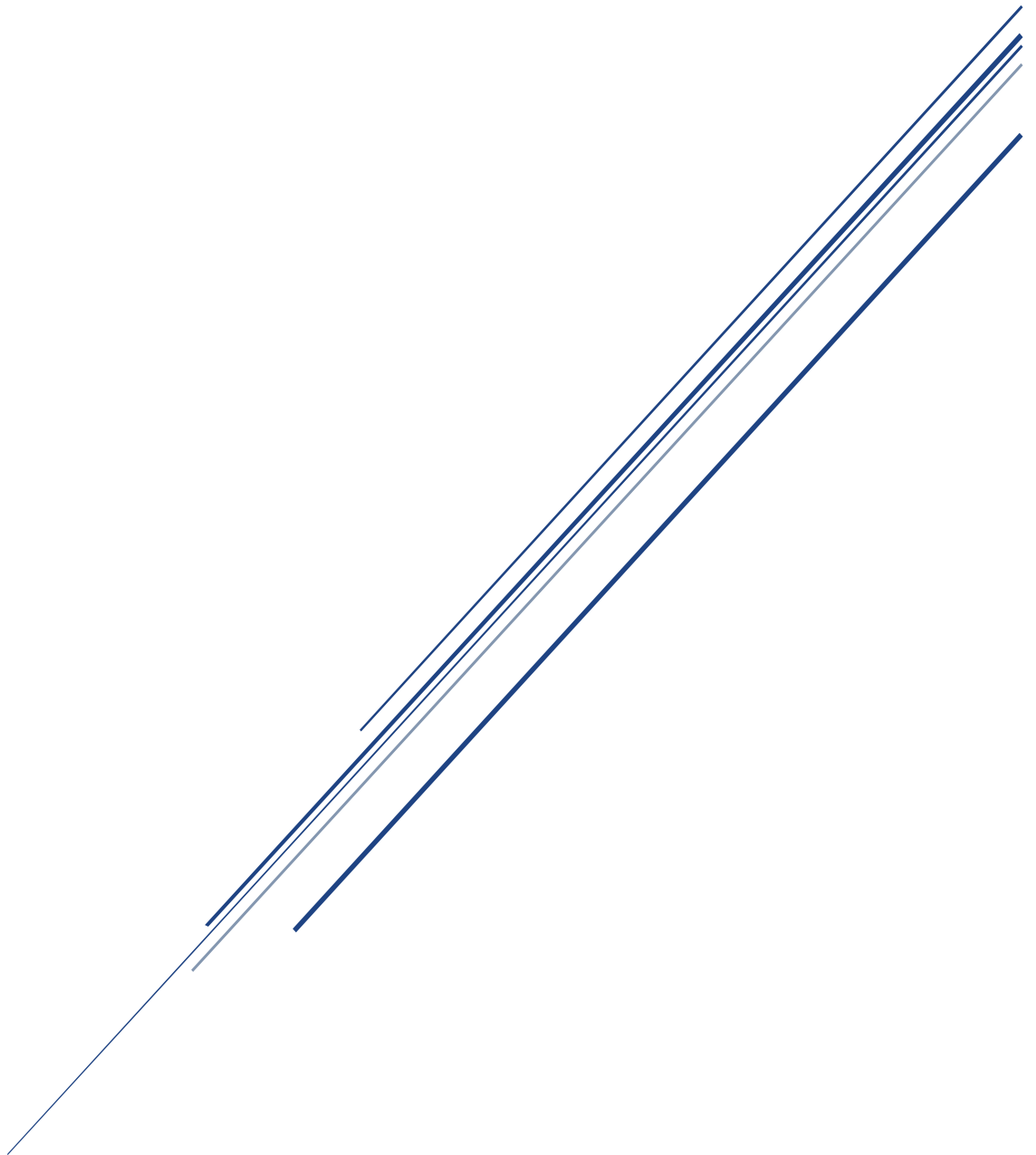


Table of Contents

Executive summary.....	2
Risks in Mining	3
Political and Social Risks.....	4
The Australian Political Landscape.....	5
Focus on Western Australia	6
Western Australia's Mines	7
Current Political Climate.....	7
Election Outcome Implications.....	8
Selection of Offtake Partners.....	11
Focus on Toro Energy	12
Risk Mitigation	12
Offtake Partners.....	12
Conclusion.....	12

Executive summary

Mining, and uranium mining, in particular, is an evocative issue. The real and perceived threat of environmental contamination from the disturbance, processing and disposal of radioactive material means governments and their constituents tends to voice strong opinions and exert much regulatory control.

Strict regulatory oversight is important, the danger arises when politicians politicise uranium mining and the approval process to suit their own political agenda. This then removes a degree of rationality from the regulatory process and becomes an emotive “rallying cry” within a political campaign. The ability for uranium mining to become politicised introduces a political risk, that while certainly present across the mining industry as a whole, takes centre stage for uranium mining.

This report examines the political risks that accompany uranium mining in Australia, with a focus on Western Australia and assesses the current political backdrop for mining approvals and the selection of offtake partners for the mined yellowcake.

Against this political backdrop, Toro Energy remains well-positioned both in terms of mitigating permitting and regulatory risk, but also as importantly, offtake partner risk.

Risks in Mining

Mining is a risky pursuit. Prior to the actual commencement of mining, mining companies work on surveyed and statistical best estimates of the measure, grade and distribution of the ore body under the ground. Assuming they can overcome the financing, regulatory, environmental and political hurdles, and begin mining operations, company management are then at the mercy of commodity prices, exchange rates, Labor markets and shifting political climates. In the case of Uranium, because of its ability to be enriched far beyond the point required for use as a nuclear fuel source and weaponised, the selection of end destination and purchasing partners also contains a degree of global political risk.

Certainly, some minerals, mining methodologies and favourable mining jurisdictions do much to mitigate the risks inherent in the industry. On an annual basis, the Behre Dolbear Group compiles an annual political risk assessment of the global mining industry. The key metrics they include in their assessment are as follows:

- The country's economic system
- The country's political system
- The degree of social issues affecting the country
- Delays in receiving permits due to bureaucratic and other issues
- The degree of corruption prevalent in the country
- The stability of the country's currency
- The competitiveness of the country's tax policy

Each criterion is ranked and assigned a score with a low score (one) being the worst and a high score (ten) being the best. The maximum score attainable for any one country is 70 points.

The table below reflects the 2014 Ranking of Countries from the Behre Dolbear Group report, "2014 Ranking of Countries for Mining Investment: "Where Not to Invest".

2014 Ranking of Countries: Behre Dolbear Group, 2014

Rank	Country	2014 Rating	2013 Rating	Difference
1	Canada	61.6	54.3	7.3
2	Australia	60.3	56.3	4.0
3	United States	54.6	41.7	12.9
4	Chile	54.1	51.0	3.1
5	Mexico	46.0	43.1	2.9
6	Brazil	42.6	45.6	-3.0
7	Peru	42.3	35.9	6.4
8	Botswana	41.6	36.8	4.8
9	Namibia	38.6	33.6	5.0
10	Ghana	38.2	36.0	2.2
11	Colombia	37.7	40.5	-2.8
12	Zambia	35.0	26.1	8.9
13	Tanzania	34.2	31.9	2.3
14	South Africa	33.9	24.4	9.5
15	Philippines	32.9	30.4	2.5
16	China	29.7	28.7	1.0
17	India	28.5	27.8	0.7
18	Indonesia	28.1	27.5	0.6
19	Kazakhstan	28.1	20.9	7.2
20	Argentina	24.8	29.0	-4.2
21	Papua New Guinea	23.1	21.0	2.1
22	Mozambique	22.9	32.0	-9.1
23	Mongolia	21.5	26.9	-5.4
24	Russia	20.1	17.1	3.0
25	D.R. Congo	18.7	17.7	1.0

Source: Behre Dolbear Group report, "2014 Ranking of Countries for Mining Investment: "Where Not to Invest"

As is perhaps unsurprising, developed world mining jurisdictions (Canada, Australia and the United States) outpace their emerging market counterparts in providing a lower risk environment for mining operations.

Political and Social Risks

When assessing political risk, there are two key components that must be considered. First is an assessment of the democratic process – elections in themselves do not necessarily constitute democracy – and second, is an assessment of the security of tenure. Tenure is the mining company's title to the mineral concession and this must be reviewed in the context of the country's mining law and historic and current political pressure for nationalisation. While the title may be legally upheld, complications can arise from what are social issues or risks.

Social risks comprise of various social impact factors – sustainability, the rights of indigenous people and environmental concerns. According the Behre Dolbear study, Australia is the highest ranked – lowest risk – jurisdiction for political and social risk. Additionally, mining taxes and royalty policies can often be seen as an indirect form of nationalisation. In this regard, Australia has moved away from taxes on mining super-profits from the iron ore and coal sectors through the repeal of the Minerals Resource Rent Tax (MRRT) in September 2014. This shows a desire by the Australian government to encourage and maintain mining investment and investor confidence in the country.

The Australian Political Landscape

Australia is a federation of six States and three self-governing Territories, each of which have their own constitutions, parliaments, governments and laws. While the Federal government has specific duties as defined by the Australian constitution, the regulation and approval process for uranium mining and exploration is largely a State issue. However, there is a degree of complexity and overlap between State Government and Federal agencies and organisations in gaining the necessary permits and approvals.

The primary Federal legislation governing the uranium mining industry is the Environmental Protection and Biodiversity Conservation Act 1999 (EPBC Act). This act principally applies to any activities which impact on matters of “national environmental significance” and includes nuclear actions and the mining of uranium. The EPBC Act allows the Federal government a significant degree of power and control over uranium mining activities.

The Federal government also imposes control on the uranium mining industry through the Australian Radiation Protection and Nuclear Safety Agency under the Australian Radiation Protection and Nuclear Safety Act 1998. This legislation exists to protect the health and safety of people and the environment from the effects of the radioactive material.

The Native Title Act 1993 also requires consultation and approval from the Federal government for the infrastructural elements of a uranium mining operation. These infrastructural items include any roads, railways, water and power supply which are required as part of the operational process and which impact any native title issues.

Uranium mining and exploration is currently allowed in South Australia, the Northern Territory, Western Australia and Queensland. New South Wales currently only permits uranium exploration. These States and Territories have stringent regulatory approval processes in place and prospective uranium mines require a mining lease, approved mining proposals, including closure plans, as well as approved radiation management and radioactive waste management plans prior to the commencement of mining.

In a recent radio interview conducted on the 30th of April 2015, Gary Gray, the Australian Labor Party Shadow Minister for Resources said:

The Australian Labor Party is not looking to nuclear power, but I do think we need to have an open mind on the Royal Commission and on the future possibilities that can come from nuclear technologies...

...I don't think it means nuclear power in Australia at all, but that doesn't mean that we can't participate in a beneficial way in the nuclear cycle either through the production of more uranium or through moving higher through the value-chain to produce fuel materials or to receive materials that have been generated from Australian uranium.

The Australian Labor Party (ALP) are set to debate their stance on the role that Australia plays in the global nuclear fuel cycle at the ALP National Conference held in July and will look at findings from the Royal Commission setup in South Australia to provide answers to some of these questions. This is evidence of certainly a softening stance from the ALP on their anti-uranium mining and nuclear sentiment.

Focus on Western Australia

As Toro Energy's key uranium project, the Wiluna Project lies in Western Australia, the focus of this report will centre on Western Australia's current and future political backdrop. The current government of Western Australia is the pro-uranium mining Liberal Party with Colin Barnett serving as premier. The opposition Labor Party has typically held an anti-uranium mining stance and the concern is that should the Labor Party come to power in the 2017 election, their anti-uranium outlook could increase the political risks for uranium exploration and mining companies in Western Australia.

During 2012, in the run-up to the 2013 election, Western Australia's Labor leader, Mark McGowan, announced what was considered a significant shift in the Labor Party's outlook on uranium exploration and mining. He was quoted in the press as follows:

"Western Australia's Labor's position until now was that it would revoke approvals for uranium mines and not issue operating licences for mines that were under construction if it were successful in the March 2013 election. Today, I am removing any uncertainty in relation to this issue. Under a Labor government, any mines that have been granted final State approval allowing construction would be permitted to proceed to open, operate and export their products in the same manner as other mining ventures. Further, any mines lawfully approved and under construction will be permitted to open, operate and export their product in the same manner as other mining ventures. WA Labor will not grant approvals for any other uranium mines."

The Labor Party proved to be unsuccessful in the 2013 election, but the 2012 statement gives an indication of the stance the Labor Party would take were it to be successful in challenging for power in the 2017 election. The statement was clearly a move by the Labor Party not to alienate its anti-uranium supporters, but also to recognise the economic benefits that would flow to State coffers from mining taxes and royalties paid by operational uranium mines as well as the job creation that comes with a large-scale mining operation.

In the Labor Party's attempt to tread a middle line, they have created a regulatory deadline with regards to approval. The statement has been interpreted by many as: "if you have approval prior to us coming to power, we won't prohibit your operations, but if you do not have approval prior to us coming to power, we won't grant it."

The current regulatory process in Western Australia requires prospective uranium mining companies to hold an exploration licence to permit low-level exploration, a Program of Work approval by the Department of Mines and Petroleum (DMP) for any more rigorous exploratory work which would include detail on environmental management and rehabilitation. The DMP also requires a Radiation Management Plan. Western Australia has an Environmental Protection Agency (EPA) which assesses the environmental impact of any mining operations. There is overlap at this point with the EPBC Act and mining companies require State and Federal environmental approval.

There are also multiple permits and approvals required with respect to native vegetation, water supply, consent from the Aboriginal Cultural Materials Committee for disturbance of any Aboriginal heritage sites considered significant and a licence for the transport of radioactive materials among others.

Western Australia's Mines

On the 2nd of April 2013, the Federal Government gave Toro Energy final environmental approval for its Wiluna Project in Western Australia under the EPBC Act. This represented a key milestone in the Wiluna Project's regulatory approval process and equally a milestone for Western Australia as it moves towards the commencement of uranium mining since the lifting of the 2008 ban.

On the 24th of April 2015, major Canadian uranium mining company Cameco, which produces 16% of global uranium output, received Federal environmental approval for its Kintyre Project in Western Australia. Although Cameco have received environmental approval, they have no immediate plans to develop the mine due to the current low uranium price. However, conditions of their approval include the requirement to commence mining operations within 5 years and make environmental data publicly available as well as undertaking measures to protect indigenous animals in the area.

Western Australia's Uranium Mines - Status

Company	Mines Under Development	Status	Earliest Production
Cameco	Kintyre	Permitted, on hold	2018+
	Yeelirrie	Permitting commenced	2020
Toro Energy	Wiluna	Two mines permitted	2017
Vimy Resources	Mulga Rocks Project	Permitting ongoing	2018+
Paladin	Manyingee	On hold	2020
Energia Minerals	Carley Bore	Non-core	2019+

Source: Toro Energy Limited Investor Presentation – May 2015

As can be seen from the table above, should the Labor Party come to power in 2017 and hold to their 2012 statements, currently only Toro Energy and Cameco will be able to mine uranium in Western Australia. There will be a distinct economic cost through lack of job creation and collection of mining taxes and royalties for the State should the industry be curtailed in this way.

Current Political Climate

The Labor Party statements surrounding uranium mining in Western Australia and their attempt at a middle-ground political approach were made three years ago. Currently, the Liberal Party who is in power in Western Australia are remaining quite vocal in their support of uranium mining in the State. The newly elected Labor Government in Queensland has re-introduced a ban on uranium exploration and mining which led Western Australia's Mines and Petroleum Minister, Bill Marion to state the following in the press on the 19th of March 2015:

"The industry can rest assured we are working to maximise uranium opportunities in Western Australia, as opposed to Queensland Labor's short-sighted approach. It begs questions over where Western Australian Labor sits on the issue. It's certainly not backing the communities and families that will benefit from the responsible development of this industry."

Mark McGowan, the Labor Leader who stated Labor's position on uranium mining in 2012 remains the leader of Western Australia's Labor Party. As the 2017 election draws closer, it remains to be seen whether he holds his position as party political leader. There is considerable dissatisfaction within the Labor Party about his performance and his failure to fully capitalise on the growing financial problems of the State Liberal Government which have resulted in a steep rise in the government's debt and Western Australia losing its AAA credit rating despite revenue windfalls in recent years from record iron ore prices.

Election Outcome Implications

The Australian election needs to be held on or before 14 January 2017 in order to ensure compliance with Section 13 of the Australian Constitution. Roy Morgan Research conducts Federal voting polls on an ongoing basis and the latest multi-mode Morgan Poll was conducted via face-to-face and SMS interviewing over the weekends of 25th/26th April 2015 and 2nd/3rd May 2015 over an Australia-wide cross-section of over three thousand potential voters. The results of that poll were made available on a State basis. The table below reflects the polling results on a two-party basis:

Recent Australian Election Poll Results by State		
State	Australian Labor Party (ALP)	Liberal-National Party (L-NP)
New South Wales	51.5%	48.5%
Queensland	49.5%	50.5%
South Australia	58.5%	41.5%
Tasmania	55%	45%
Victoria	57%	43%
Western Australia	49%	51%

Source: Finding No. 6222– Multi-mode Morgan Poll on Federal voting intention; 25/26 April, 2/3 May 2015

Reviewing the results for Western Australia (and indeed the other large mining State Queensland), current polling results suggest that the Liberal Party would have a marginal victory in the State. Polls do, however, suggest that it will be a close contest and there are, therefore, several political scenarios that could play out in Western Australia.

- Scenario 1: The Liberal Party wins the State election and continues to actively support the uranium mining industry.
- Scenario 2: The Labor Party wins the State election – this then introduces another leg of permutations:
 - Part 1: Mark McGowan remains the leader and holds true to his 2012 statements meaning Toro Energy (Wiluna Project) and Cameco (Kintyre Project) are the sole authorised uranium mining operators in Western Australia. It is likely that the currently non-approved miners would legally challenge this decision.
 - Part 2: Mark McGowan remains leader but bows to anti-uranium pressure within his party OR is replaced by an anti-uranium candidate and the 2012 Labor statement is rescinded – the outcome for uranium miners in this instance carries greater uncertainty.

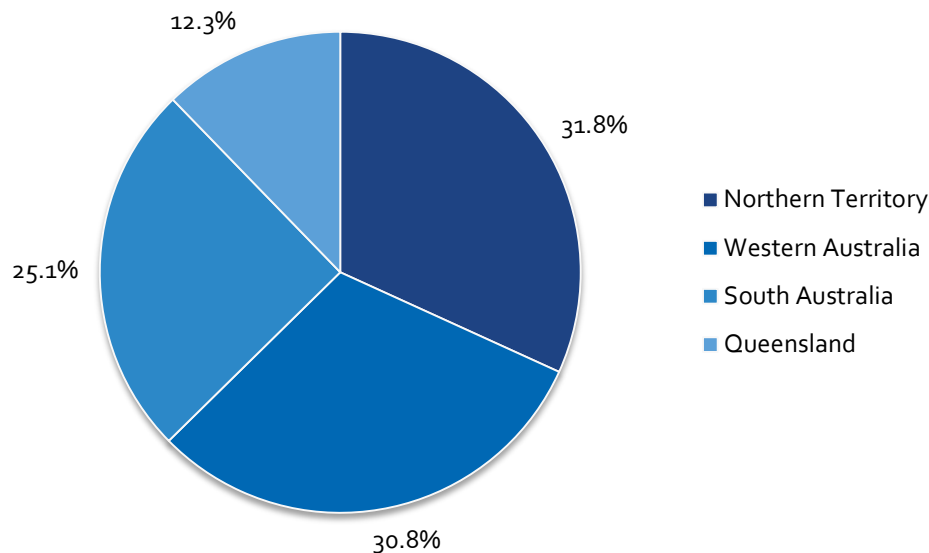
A review of uranium resources including measured, indicated and inferred resources, as measured and compiled by the World Nuclear Association and Geoscience Australia gives the following breakdown across Australia's States.

Summary of Known Uranium Resources Available in Major Deposits and Prospective Mines

Deposit	Grade U ₃ O ₈	Contained U ₃ O ₈ (t)	Category & % of Total
Northern Territory		192 557	31.80%
Jabiluka	0.49%	67 700	Reserves
plus:	0.36%	16 440	measured & indicated
	0.53%	57 500	inferred resources
Koongarra	0.80%	14 540	Reserves
Mt Fitch	0.05%	6 600	Resources
Angela	0.10%	10 250	Resources
Bigirlyi/Ngalia	0.08%	12 200	indicated & inferred resources
Nolans Bore	0.02%	3 977	Resources
Napperby	0.04%	3 350	inferred resources
Western Australia		186 746	30.84%
Kintyre	0.49%	25 600	indicated resources
Yeelirrie	0.13%	63 000	measured & indicated
Mulga Rock	0.08%	10 660	indicated resources
Ponton, Double 8	0.03%	7 800	inferred resources
Nyang, Carley Bore	0.03%	7 100	total resources
Manyingee	0.09%	12 000	Resources
Yanrey		7 136	Resources
Oobagooma	0.12%	9 950	inferred resources
Lake Maitland	0.04%	10 800	indicated resources
Wiluna	0.05%	27 800	measured & indicated
Theseus, Lake Mackay	0.05%	3 600	inferred resources
Thatcher Soak	0.03%	4 900	inferred resources
South Australia		152 040	25.11%
Billeroo West (Gould Dam)	0.33%	2 500	indicated resources
Beverley Four Mile	0.33%	32 000	indicated & inferred resources
Samphire	0.03%	19 000	inferred resources
Carapateena	0.03%	55 000	inferred resource
Prominent Hill	0.01%	9 900	inferred resources
Mt Gee	0.06%	26 900	inferred resources
Crocker Well	0.05%	6 740	Resources
Curnamona			
Queensland		74 215	12.26%
Valhalla	0.09%	24 765	measured & indicated
	0.08%	5 860	inferred resources
Skal, Andersons, Bikini,	0.06%	12 800	inferred resources
Westmoreland	0.09%	16 000	indicated resources
		7 000	inferred resources
Ben Lomond	0.27%	3 600	indicated resources
	0.21%	1 250	inferred resources
Maureen	0.12%	2 940	Resources
Total Australia		605 558	

Source: World Nuclear Association and Geoscience Australia

Percentage Contribution to Australian Uranium Resources by State



Reviewing the Uranium Reserve data, if only Toro Energy and Cameco are allowed to commence mining operations following a Labor Party victory in the 2017 elections, this would effectively remove 133 346 tonnes of uranium resource from Australia's mining potential or 22% of Australia's total resource and over 70% of Western Australia's total resource. Should the Labor Party come to power and seek to ban all uranium mining in Western Australia, nearly a third of Australia's uranium resource would effectively be removed from the global uranium supply chain.

Should we arrive at a Scenario 2, Part 2 outcome, the Labor party are going to have to consider very carefully the legal, social and economic implications of closing down a major industry in a rising unemployment environment. There would of course also be far-reaching economic implications for Australia as a whole and its reputation as a go-to supplier for the emerging nuclear powerhouse that is Asia would be severely damaged.

Given the large-scale economic ramifications, we assess the probability of the reinstitution of a complete ban on uranium mining in Western Australia as extremely low.

Selection of Offtake Partners

Uranium mining carries political risk beyond the mining operations process and extends to the ultimate destination of the yellowcake. Uranium has the ability to undergo enrichment far beyond the requirements for a nuclear fuel source in order to be weaponised in nuclear warheads. The ability to weaponise uranium and the psychological fear invoked from an unseen, but deadly threat in the form of radiation exposure means that governments and the public take a very material interest in the selection of offtake partners and logistical operators.

The Australian Government has never produced any nuclear weapons and has been a signatory to all nuclear non-proliferation treaties and export control regimes. Australia ratified the Treaty on the Non-Proliferation of Nuclear Weapons (NPT) in 1973 and the Comprehensive Nuclear Test Ban Treaty (CTBT) in 1998.

Uranium exports to nuclear weapon states which include China, France, and India, have politically controversial. In July 2012, Australia signed a 15-year nuclear cooperation and technical transfer agreement with the United Arab Emirates to provide fuel for its nuclear power plants from 2017.

In September 2014, Australia and India signed a nuclear cooperation agreement allowing Australia to export uranium to India as a nuclear fuel source. India is the first non-nuclear proliferation treaty state to purchase uranium from Australia.

The agreement signed with India is highly significant for the Australian uranium mining industry. By approving trade between Australia and a non-nuclear proliferation treaty state, the Government has clearly signalled its clear support in promoting the growth of the uranium mining industry.

From a geographic perspective, Australia uranium mining companies are also well-located to become an integrated member of India, the Middle-East and South-East Asia's nuclear fuel supply-chain – a clear advantage over their Canadian counterparts.

Focus on Toro Energy

As detailed above, Toro Energy was the first uranium mining operation to receive approval in Western Australia after the lifting of the ban on uranium mining in Western Australia in 2008. Having these approvals in place for Centipede and Lake Maitland – two of the four Wiluna project tenements, puts Toro Energy in an extremely strong position irrespective of the potential for a change in Western Australia's ruling political party in the 2017 election. At the federal level, both the major political parties are committed to supporting uranium mining so see no risk of any revocation of this federal permission.

Risk Mitigation

While the Centipede and Lake Maitland approvals are in place, Toro Energy is still in the process of securing approval for Millipede and Lake Way. To make application for a mining lease, the Traditional Owner Agreement (TOA) needs to be finalised, a process currently in progress with an anticipated completion in the second half of 2015. Toro Energy's management have shown themselves to be both sensitive and adept at engaging with local communities to ensure the community concerns are appropriately addressed. Once the TOA is in place, the securing of a mining lease is a two month administrative process. The State and Federal Government Environmental Assessment Process does expose Toro Energy to potential political risk in the event that approval is not secured prior to a potential change of governing party and outlook on uranium mining. Toro Energy must go through the necessary due process, but because of their positive and established relationships with State and Federal Government, they are able to closely manage the process together with government to ensure any potential bottlenecks are swiftly resolved.

Offtake Partners

Toro Energy's Chief Executive Officer, Dr Vanessa Guthrie has been very effective at elevating Toro Energy's profile internationally. She was appointed by the Australian Prime Minister to the Australia-India CEO Forum following on from participation in the trade delegation to India in September 2014 where she was present for the signing of the Australia-India Nuclear Civil Cooperation Agreement. Together with Australian Trade and Investment Minister, Dr Guthrie also participated in the Australia Business Week in India 2015 trade mission held in January 2015.

The building of strong relationships with Indian utilities – a country where the Australia Government is actively seeking and promoting strong economic and trade ties – places Toro Energy in the enviable position for a pre-production mining company. Toro Energy has a potential offtake partner, not only approved at the highest levels of Australian Government, but encouraged. The political risk arising out of the offtake partner selection process for Toro Energy has been very materially reduced.

Conclusion

Against this political backdrop, Toro Energy remains well-positioned both in terms of mitigating permitting and regulatory risk, but also as importantly, offtake partner risk. Should the Labor Party win the Western Australia election in 2017 and follow through on its stance stated in 2012, that is, only approved projects would be able to proceed, this should be net positive for Toro Energy.

Given Toro Energy's anticipated production timeline and favourable approvals profile to commence mining operations, a "removal" of approximately 22% of Australia's currently identified uranium resource (the non-permitted and non-approved uranium resource in Western Australia) would leave Toro Energy with a far less competitive environment with materially reduced mining operators trying to secure the same export market, finance providers and offtake partners.

RealFin Capital Partners

FSP Licence No. 43784

Steve Doidge

Chief Executive Officer

Tel: +27 21 709 0114

Email: sdoidge@realcap.co.za

Abdullah Solomons

Investment Consultant

Tel: +27 21 709 0954

Email: asolomons@realcap.co.za

CONTACT US

Tel: +27 21 709 0954 • Fax: +27 21 709 0461 • Email: enquiries@realcap.co.za • Website: www.realcap.co.za

Physical Address: 19 Braemar Road, St James, Cape Town, South Africa, 7945

Postal Address: Suite 762 Private Bag X16 Constantia Cape Town South Africa 7848

DISCLAIMER

The author of this publication, RealFin Capital Partners Proprietary Limited ("RealCap"), its Directors and their Associates from time to time may hold shares in the security/securities mentioned in this Research document and therefore may benefit from any increase in the price of those securities. RealCap and its Advisers may earn brokerage, fees, commissions, other benefits or advantages as a result of a transaction arising from any advice mentioned in publications to clients.

RealCap has provided corporate advice to Toro Energy Limited ("Toro") and continues to provide corporate advice to Toro for which it has earned fees and continues to earn fees. The Company paid all costs for the analyst to travel to site.

Any financial product advice contained in this document is unsolicited general information only. Do not act on this advice without first consulting your investment adviser to determine whether the advice is appropriate for your investment objectives, financial situation and particular needs.

RealCap believes that any information contained in this document is accurate when issued. RealCap however, does not warrant its accuracy or reliability. RealCap, its officers, agents and employees exclude all liability whatsoever, in negligence or otherwise, for any loss or damage relating to this document to the full extent permitted by law.

NOTE

RealCap is part of the RealFin Group, a specialist asset manager with assets under its control in excess of US\$1,7bn. RealCap has indirect exposure to Toro Energy by virtue of the fact that certain portfolios it manages own Toro shares. Collectively such portfolios hold around 4.7% of Toro.