

Toro Energy Ltd.

(TOE-AU: A\$0.07)

New Idea

June 10, 2013

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BUY, Speculative Risk
 Dundee target: N/A

Initiating Coverage: Striving to be Australia's Next Producer

TOE-AU	
Rating	Buy
Target	N/A
Risk	Speculative

Company Data	
52-week Range	A\$ 0.06 - A\$ 0.15
Market Cap (\$MM)	A\$ 70.85
Enterprise Value (\$MM)	A\$ 68.67
Shares Outstanding - Basic (MM)	1,041.9
Shares Outstanding - FD (MM)	1,099.0
Avg Volume - 100d (000 shares/day)	907.5
Cash - est. (\$MM)	A\$ 10.18
Debt - est. (\$MM)	A\$ 8.00
Working Capital (31-Dec-12) (\$MM)	A\$ 4.56

Uranium Forecast	2012A	2013E	2014E	LT
Spot (US\$/lb)	49	54	67	65
Term (US\$/lb)	60	65	65	65

All Figures in A\$ Unless Otherwise Noted

Source: See Note 1

Conclusion: We are adding Toro Energy to our Mineral Exploration Watchlist with a BUY rating, Speculative Risk and no target price.

We believe Toro Energy is an advanced uranium developer focused on its 100%-owned Wiluna project in Western Australia (WA). Toro is well positioned to become Australia's next uranium producer, having **received both State and Federal approvals**. It has a well-established technical team and very capable management. It still requires financial de-risking, and this likely hinges on uranium prices, but Toro remains a preeminent choice for uranium developers in Australia. While Dundee has not visited site, we have visited numerous similar calcrete-associated surficial deposits in Australia (Lake Maitland), Africa (Langer Heinrich, Tumas-Tubas) and South America (Luguna Salada, although perhaps not calcrete). We draw comparisons between Wiluna and nearby Lake Maitland of Mega Uranium (MGA-T, Not Rated). Wiluna has JORC compliant resource of 54 MM lbs at 0.04% U3O8 from five deposits. Production as early as H2/2015 is contemplated with plans to mine over a 14 year period.

Pilot plant confirmed technical viability. Extensive trial mining and pilot plant processing was completed as 14t of ore was processed continuously over two 10-day campaigns, achieving recoveries of 83-86% using a relatively coarse grind - 400µm. Almost 1kg of yellowcake was produced. While the five deposits are relatively low grade, they could likely be easily and cheaply mined. Wiluna will essentially be a free digging operation with mining to depths of <15m.

Phase 1 DFS complete. Wiluna has potential for a shallow, open pit operation, producing ~1.7 MM lbs U3O8 pa. Capex is estimated at ~A\$270 MM with operating cash costs (and sustaining capital) estimates of US\$37/lb LOM.

Cash in the bank. Toro has ~A\$10.1 MM cash with another \$4 MM in undrawn facilities, more than sufficient for this year's \$4 MM budget and G&A.

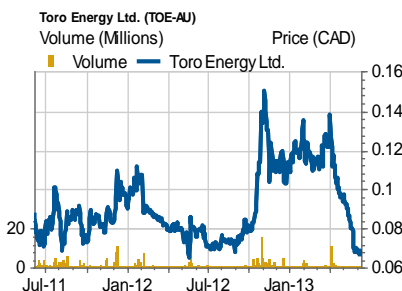
Strong technical management and Board. Dr. Vanessa Guthrie, Managing Director, is a former mine manager of the Huntly bauxite mine for Alcoa. Non-Executive Director Greg Hall has over 24 years' experience in the uranium industry, serving as Toro's MD from 2006 to Feb/13.

Higher prices needed for Wiluna. The company's strategy is clear - de-risk Wiluna for an upturn in uranium prices. The company is already in talks with potential Korean and Chinese partners. Management is realistic; knowing its higher operating costs. Regional acquisition to boost economies of scale may also be considered.

Positive catalysts could drive financing. Over the next 6-8 months we expect further resource and DFS optimization with Phase 2 of the DFS due by year end. Uranium prices willing, we see potential for Toro to finance Wiluna for a late 2014/early 2015 construction date and production mid-2016.

We assign Toro a Speculative risk rating. We feel this is warranted given the financing and operating risk Toro faces, despite an advanced DFS. For the 2015 production timeline to be maintained, we estimate ~\$300 MM will be required before groundbreaking in early 2014. While Toro is about fully permitted and technically advanced, its higher operating cost profile could make it unattractive for both potential strategic partners and investors until we see higher uranium prices. The significant presence of clay impacts strip, operating costs, and processing, however a pilot plant and trial mining campaign has largely de-risked these issues.

TOE-AU: Price/Volume Chart



Source: FactSet

Company Description

Toro Energy is an advanced developer and potentially mid-term uranium producer located in Western Australia (WA). Its flagship is the 100% owned Wiluna project. WA's first approved uranium mine, it has both State and Federal approvals as of Apr-13. Wiluna has a resource of 54 MM lbs U3O8 at 0.04% U3O8. We estimate production for 2016. The Theseus uranium project, also in WA is a grassroots but potentially ISR amenable exploration property, with initial resources of 6.9 MM lbs at 0.05% U3O8.

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Wiluna - Straight-forward, low risk operation

- Five separate, near surface deposits.** The Wiluna uranium project is located in Western Australia, 520km north of Kalgoorlie and 30km south of Wiluna (Figure 1). It is comprised of five surficial calcrete-associated deposits containing a cumulative ~54 MM lbs averaging 0.044% U₃O₈ - Centipede, Lake Way, Millipede, Dawson Hinkler Well and Nowthana (Table 1). We split the total resource base into two categories - Wiluna Main (WM) and Wiluna Regional (WR), with both Centipede and Lake Way in WM. The WM resources are those being considered in the ongoing DFS study, making up just 49% of the total Wiluna resource or 26 MM lbs grading 0.052% U₃O₈ (at a 200 ppm cut-off). These grades are upper quartile when considering calcrete associated deposits (Table 1). Raising the cut-off grade to 500 ppm improves grades by 85% to 0.09% U₃O₈, but is off-set by a 40% drop in pounds to 15.6 MM lbs.

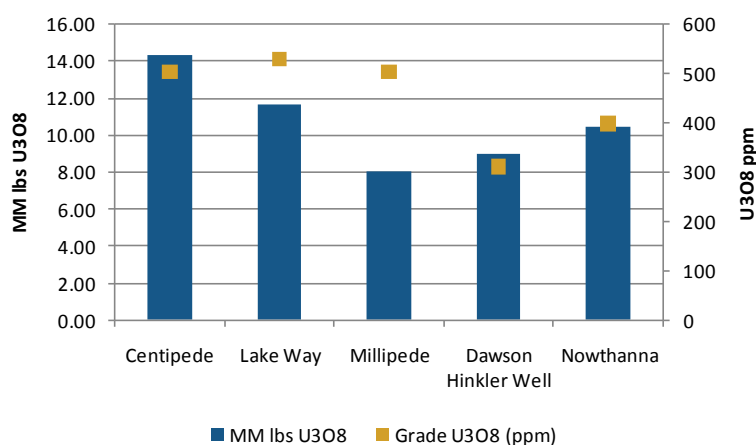
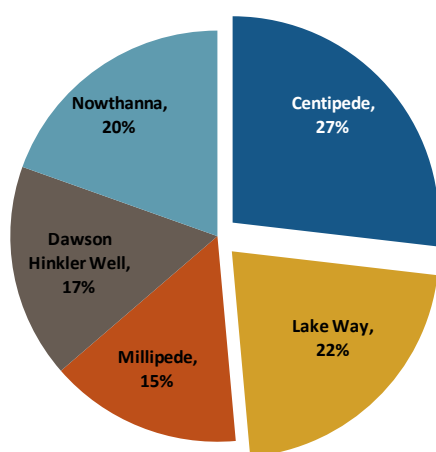
Table 1: Toro Energy resource base breakdown for both Wiluna (WM and WR) and Theseus projects; and a calcrete deposit grade comparison table.

Project	Category	Resource (MM t)	Grade U ₃ O ₈ (ppm)	MM lbs U ₃ O ₈
Centipede	Measured	3.08	552	3.75
Centipede	Indicated	7.56	555	9.25
Centipede	Inferred	2.30	272	1.38
Lake Way	Indicated	2.57	492	2.79
Lake Way	Inferred	7.38	544	8.85
Total Wiluna Main		22.89	516	26.02
Millipede	Indicated	1.77	412	1.61
Millipede	Inferred	5.51	533	6.47
Dawson Hinkler Well	Inferred	13.09	312	8.99
Nowthanna	Inferred	11.91	399	10.47
Total Wiluna Regional		32.28	387	27.54
Total Wiluna Main & Regional		55.17	441	53.56
Theseus	Inferred	6.3	493	6.9
Toro Total Resources		61.47	446	60.46

Calcrete-Associated Deposits

Deposit	U ₃ O ₈ ppm
Yeelirrie*	1,320
Langer Heinrich	539
Wiluna Main	516
Lake Maitland	497
Tubas-Tumas	374
Aussinanis	240
Trekopje	170
Tubas Sand	150
Marencia	100

*Non Ni 43-101 Compliant



Source: Company Reports, Dundee Capital Markets

- Simple geology.** These are surficial calcium-carbonate deposits (aka calcrete) deposit whose uranium mineral is carnotite. They are relatively clean aside for vanadium which is present but not at economic levels. Lake Way and Centipede are both similar, with mineralization occurring predominantly in calcareous horizons developed at or just below the water table (<15m). Mineralization occurs as coatings on bedding planes within sediments, interstices between sand and silt grains, voids and fissures within calcrete, and blotches in silty clay and clay horizons. The only difference between the two deposits is that Centipede (Figure

2) is predominantly hosted by calcrete (>80%) whereas Lake Way (Figure 3) is more evenly distributed between calcrete, carbonated silty clay and carbonated basal sand ore types. The deposits resemble Paladin's (PDN-T, Buy, High Risk, C\$2.40 Target) Langer Heinrich mine in Namibia, which has successfully mined for almost six years. Although the Wiluna deposits tend to be finer as they were created in a lower energy environmental (distal river or lake as opposed to a higher energy environment such as braided gravel stream channels at Langer Heinrich). We suspect this finer grained nature may make beneficiation of Wiluna ore a little less efficient as the 40-50% success rate at Langer Heinrich. Beneficiation is an important method of increasing head grades.

- Proven yellowcake production.** Toro is one of the few uranium developers that can claim to have produced yellowcake from its own deposit. Toro has completed a full pilot plant, and trial mining during 2010 and 2011, successfully producing 1kg of yellowcake. Using a continuous mining machine and truck mounted GPS/gamma logger - a novel technique to the industry - Toro selectively mined 22,100t of material from its Centipede deposit. Included in that was 3,000t of 900ppm U₃O₈ ore (Figures 4 & 5). We believe that selective mining will play a key role in high grading plant throughput, potentially lowering operating costs. A 14t high grade sample was run through a fully integrated continuous hydrometallurgical circuit, similar to what would actually be constructed (Figure 6). Actual saline groundwater from the mining area was used without a loss in uranium recoveries, which were in the 83-86% range. This saves Toro from having to source low salinity water in the outback of Australia. Leach temperatures and reagent consumption requirements were confirmed. The pilot plant demonstrated that recovery could be maintained with a coarse grind size (400µm), suggesting a smaller mill and lower power requirements.

Table 2: Key quantitative and technical outcomes of the pilot plant study.

Key Criteria	Outcome	Qualitative Description
Particle Size Distribution	P80 400µm	Suitable for optimum uranium dissolution
Uranium Dissolution	>88%	>85% considered excellent.
Vanadium Rejection	40% in leach circuit	Reduce size and cost of uranium purification circuit. Also high rejection during sodium diuranate precipitation.
CCD* Underflow Density	42%-45%	Good but variable underflow densities, especially for calcrete dominant ore.
CCD* Recovery Efficiency	98%	Excellent recovery efficiencies achieved.
Uranium Recovery	83%-86%	Very good recovery for alkaline leach process.

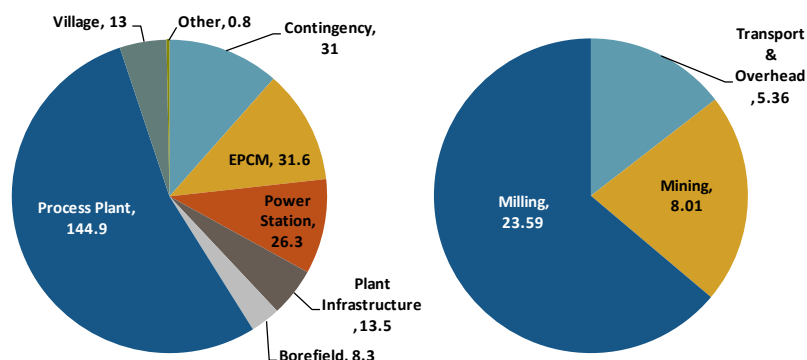
*CCD = Counter Current Decantation

Source: Company Reports

- Shallow strip excavation potential.** Wiluna has the potential to be a simple surface mining operation, with minimal required remediation and land disturbance. These are important factors that have driven the appeal of this project, and helped expedite the permitting process. All mineralization is located within 15m of surface. Neither blasting nor drilling will be required. Instead, as already demonstrated during trial mining, a continuous mining machine, in conjunction with a vehicle mounted gamma probe would selectively mine higher grade areas. Centipede would be mined first followed by Lake Way. The mining voids are to be used as tailing cells, which would be continuously filled then covered by waste rock and topsoil during operations.
- Phase 1 of DFS suggesting alkali process.** Following pilot plant studies and other test work Bateman Engineering completed a DFS Phase 1 in November 2012. This Phase focused on process engineering of the proposed alkaline leach process. The process includes crushing ore, heating it up in a highly alkaline liquid where the uranium is separated from the solid in a multi-step process, and eventually precipitated creating yellowcake (Figure 7).

Table 3: Key parameters from the Nov/12 P1 DFS.

Parameter	Nov-12 Estimate
Strip	3.8:1
Processing throughput	1.3 Mtpa
Head Grade	716 ppm
Recovery (nameplate capacity)	86%
Product (nameplate capacity)	780 tpa U3O8 (1.7 MM lbs pa)
C1 Cash Cost	US\$37/lb
Capital Cost (incl. contingency)	A\$269.3 MM
Mining Duration	14 years



Source: Company Reports, Dundee Capital Markets

- Ore management/blending is important.** Toro plans on applying a high grade blending strategy with the WM ore stockpiles, which would be dependent on the ability to selectively mine high grade material. The company has already demonstrated that it could mine high grades during its test mining phase. Langer Heinrich, for example, has about half a dozen different grade stockpiles that it can selectively pull from to mix with ore that it is directly drawing from its pit. This optimization allows a consistently higher grade to enter the processing plant earlier in the LOM. A situation where Toro Energy sources its ore from various regional mines plays right into this strategy. Economies of scale through future acquisition would also help.
- Expected Optimization during DFS Phase 2.** Capex was estimated at A\$269.3 MM, with 53% of that dedicated to the process plant. This assumes a contract mining scenario that perhaps understated Capex, but over stated Opex. In the final DFS we expect the company to explore an owner-operated situation. Grades impacted C1 operating costs which came in at US\$37/lb U3O8. This includes sustaining Capex and perhaps overly conservative reagent costs which make up 60% of milling costs (36% of total C1 costs).
- Supportive infrastructure in place.** Wiluna is well serviced by local infrastructure, including a township government, the sealed Goldfields Highway, Wiluna airport, Goldfields Gas pipeline, and well water (Figure 8). Toro plans to truck its final yellowcake product from Wiluna to Adelaide (2,700km). By comparison, Paladin trucks into Kayelekera Malawi production over 3,000km to port in Walvis Bay Namibia. Further infrastructure improvements have been included in the DFS including water wells, access and haul roads, on-site power generation facilities, gas pipeline, and septic waste treatment plant.
- State and Federal Approvals in place.** One of Toro's most outstanding features is that it has already received both State and Federal environmental approvals for the project. In October 2012, WA Environmental Minister Bill Marmion granted final environmental approval from the State. And in April 2013 Toro was granted Federal approval from Federal Environmental Minister Tony Burke. Only

standard secondary approvals remain, including water and work safety licenses (among others), and a commercial mining agreement with local indigenous people. Toro has engaged with key stakeholders since it became active in the Wiluna region in 2007 (Figure 9). We don't expect this to be a significant hurdle for Toro given its longstanding and positive relationships with local communities. Toro has already signed a protocol to commence negotiations on a commercial mining agreement, anticipated in 2013.

- **Financing concept in place.** Toro is looking to raise ~\$300 MM for its Wiluna project, but obviously uranium prices are going to dictate timing of its efforts. Toro currently envisions a \$200 MM in equity in conjunction with an off-take agreement from a strategic partner. Equity interest may take place at both the project and corporate levels. The goal is to secure the remaining \$100 MM through some form of debt funding. Toro and Wiluna present a very interesting opportunity for any potential off-take partner, with both Federal and State approvals in hand, a well advanced DFS, technically de-risked, and well defined resource base with expansion potential. Despite all this, we continue to highlight financing as perhaps the leading risk of the project; particularly considering it's a relatively higher cost developer.
- **Management and technical capability.** Toro has both a technically and commercially strong Management team and Board. Dr. Vanessa Guthrie, Managing Director, is a former mine manager of the Huntly bauxite mine for Alcoa. She is also considered one of the foremost resource sector authorities in WA on sustainability, environmental management, carbon emission management and is a Government liaison. Processing Manager John Baines has over 17 years of operational and project design experience, including uranium processing. Non-Executive Director Greg Hall has over 24 years experience in the uranium industry, serving as Toro's Managing Director from 2006 to February 2013. Management also includes: Todd Alder, Finance and Corporate, with over 16 years financial management experience; Richard Yeeles, Approvals and Community Director, who recently worked for BHP's Olympic Dam expansion project team in government and indigenous negotiations; David Rawlings, Exploration Manager, who has past experience with Cameco (CCO-T, Not Rated); Greg Shirtliff, Geology Manager, who has a PdD in uranium geochemistry and 13 years' experience.
- **Theseus deposit brings exploration upside.** Toro's second primary deposit, Theseus, located within the Lake Mackay project in northern WA (Figure 10), is a potentially ISR amenable project located in what could be a new uranium district. Theseus has resource of 6.9 MM lbs grading 493 ppm U₃O₈ at a 200 ppm cut-off (see Table 1 above). Uranium mineralization is roll front hosted, between 100-140m below surface. Exploration will continue during 2013 to help expand the deposit with the hope of eventually expanding it to 28-35 MM lbs. The project remains open in almost all directions, with potential in several zones. The highest intercept to date hit 1.17% U₃O₈ over 0.79m (Figure 11).
- **Other projects.** Toro has exploration interests in WA, Northern Territory and Namibia. It is only focused on its Wiluna and Theseus projects but would consider vending its non-core properties if possible.
- **Corporate.** As of 31-Mar-13 Toro had ~A\$10.1 MM cash, of which \$8 MM represents drawdown from a \$12 MM Bank Debt Facility with Macquarie. The remaining \$4 MM must be drawn down before 30-June-13. That should have Toro sufficiently cashed up until mid-2014 assuming strategic financing is not obtained by that point. About 39.4% of the stock is held by OZ Minerals (OZL-AU, Not Rated), which is an active copper-gold miner in South AUS.
- **Valuation premium.** We do not model or assign any target price to Toro Energy at this time. On an EV/lb basis the company trades at US\$1.10/lb, a premium to its developer peers that average of \$1.00/lb (Figure 12). Based on precedent transaction multiples Toro trades at a discount to the average of US\$4.86/lb, including Cameco's recent purchase of Yeelirrie for \$2.98/lb. We believe Toro's

premium valuation is warranted due to its advanced and de-risked profile, a top notch management team that has successfully progressed Wiluna through a challenging political landscape, to become the first fully permitted uranium project in WA. TOE's share price has reflected this sentiment, outperforming its peers over the past year (Figure 13).

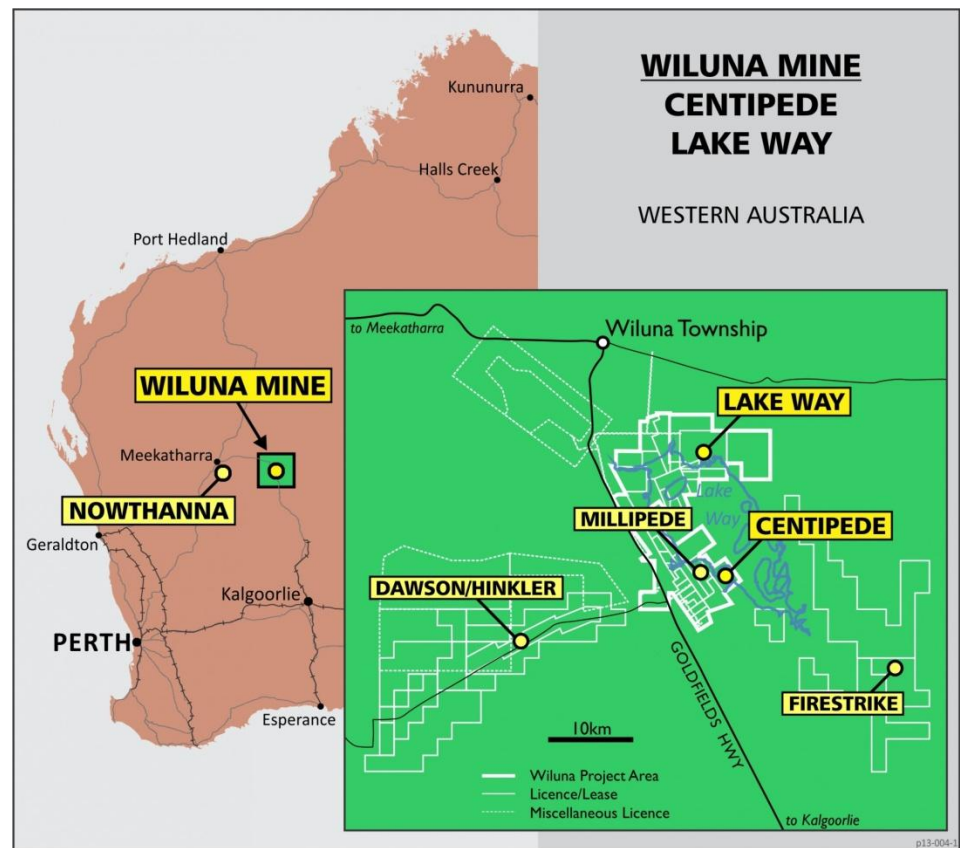
Upcoming Milestones and Catalysts

- **Q3/13** - Additional resource drilling on Wiluna - \$1 MM spending.
- **YE 2013** - Improved Phase 2 DFS (improved head grades, economics) - \$2.5 MM spending.
- **2013/2014** - Gain Strategic partner with potential off-take, upfront payment, and equity stake (project and corporate). The company is seeking ~\$200 MM.
- **Late 2014/Early 2015** - Remainder of financing - ~\$100 MM debt funding.
- **Early 2015** - Construction begins.
- **Mid-Late 2016** - Potential production at Wiluna.

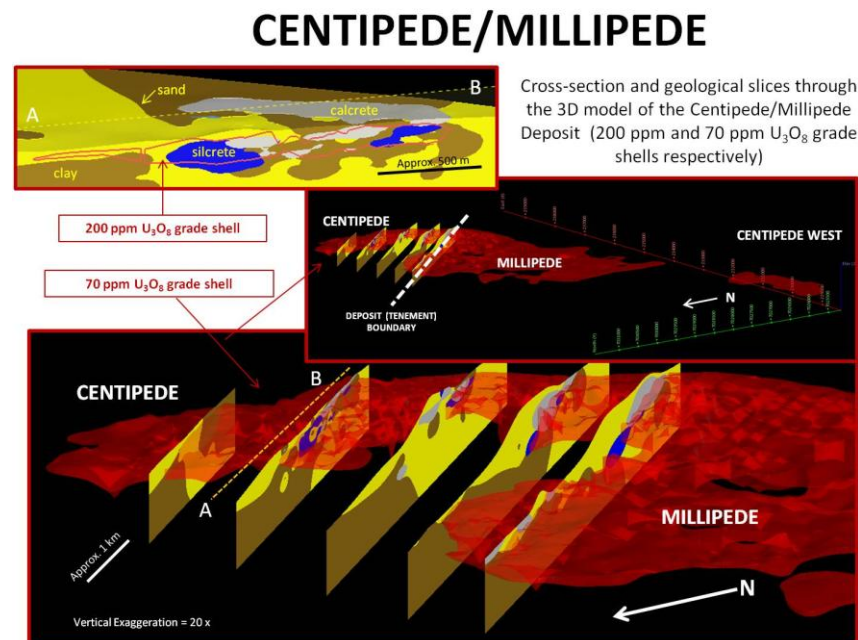
Table 4: Major catalyst timeline (our estimate). Orange represents estimated completion date.

	2011	2012	2013	2014	2015	2016
Federal & State Approval						
DFS						
Indigenous Agreement						
Off-take Agreement/Financing						
Decision to Construct						
Design & Construct						
Commissioning & Production						

Source: Company Reports, Dundee Capital Markets

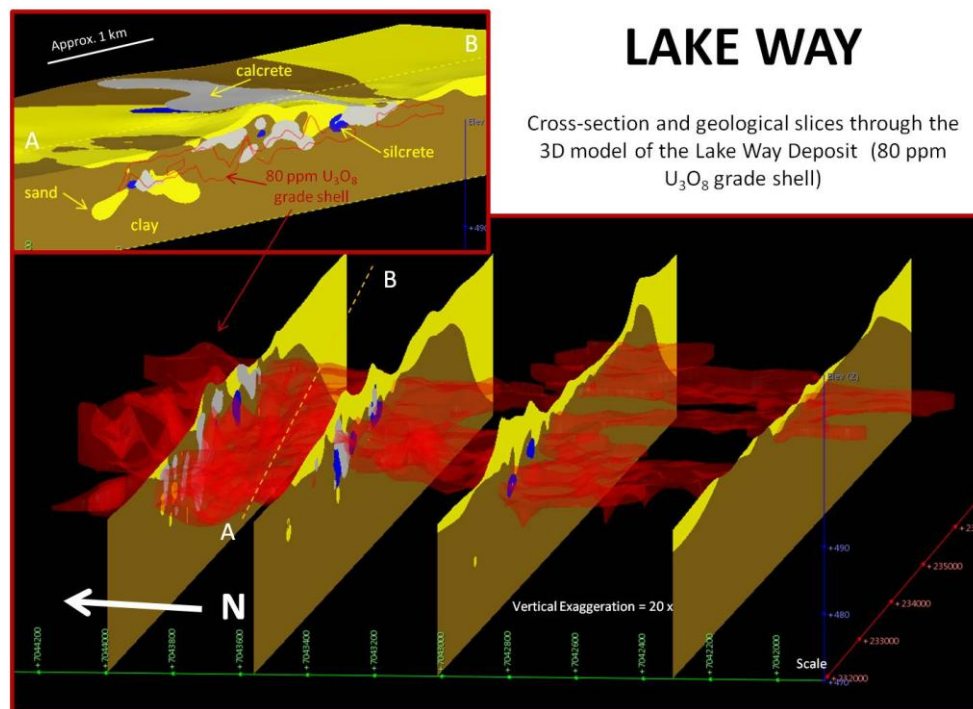
Figure 1: Wiluna project area map.

Source: Company Reports

Figure 2: 3D lithological models of Centipepe and Millipepe deposits at 200 ppm and 70 ppm U₃O₈ cut-off grade, respectively.

Source: Company Reports

Figure 3: 3D lithological model of the Lake Way deposit at an 80 ppm U₃O₈ cut-off grade.



Source: Company Reports

Figure 4: Vermeer continuous mining machine cutting pit floor. The machine successfully mined calcrete hosted mineralized and waste material, cut to ~25-30cm thickness on each pass.



Source: Company Reports

Figure 5: Vehicle mounted gamma logger was used for pit floor grade mapping. This method was able to identify and classify mineralized material and waste prior to cutting.



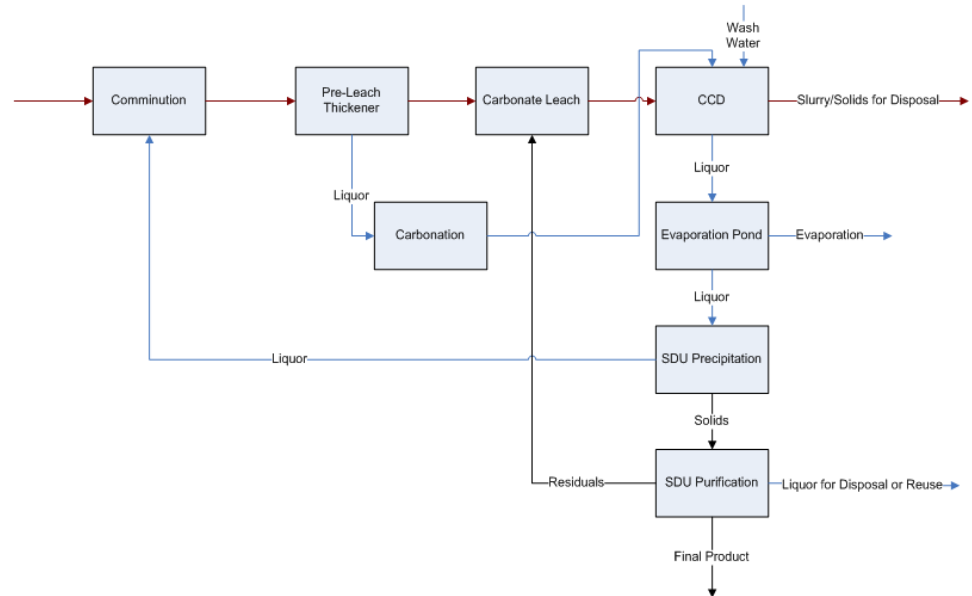
Source: Company Reports

Figure 6: Pilot uranium processing plant at Wiluna.



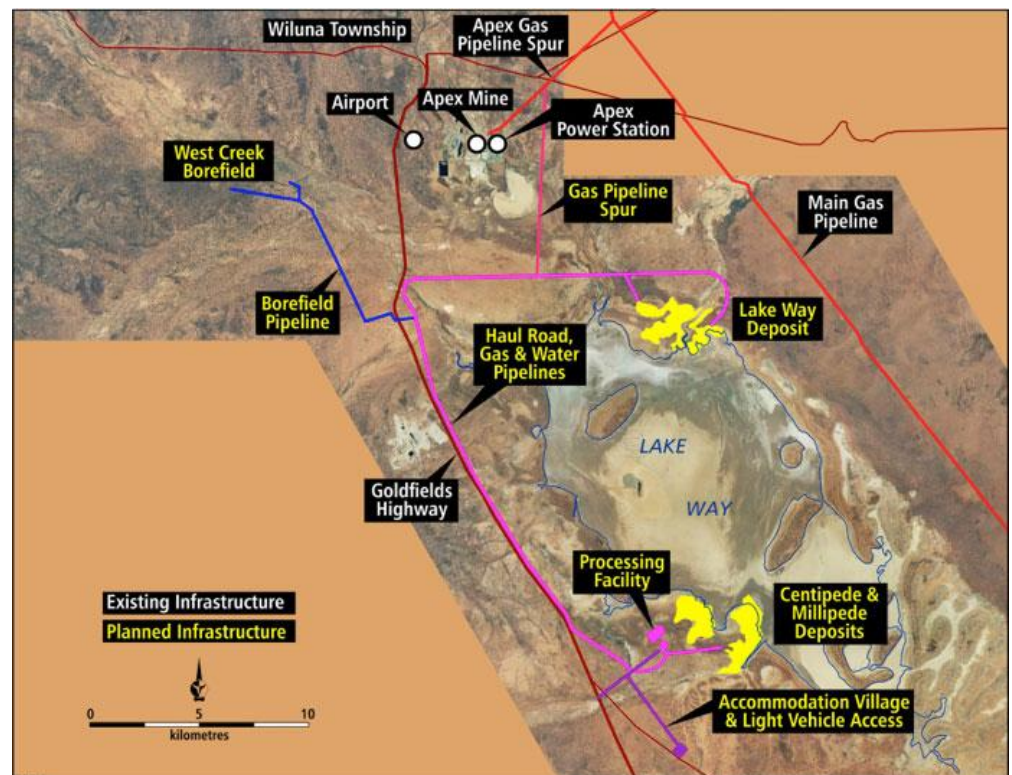
Source: Company Reports

Figure 7: Simplified Wiluna flow sheet showing a process similar to that used in the past at Langer Heinrich.



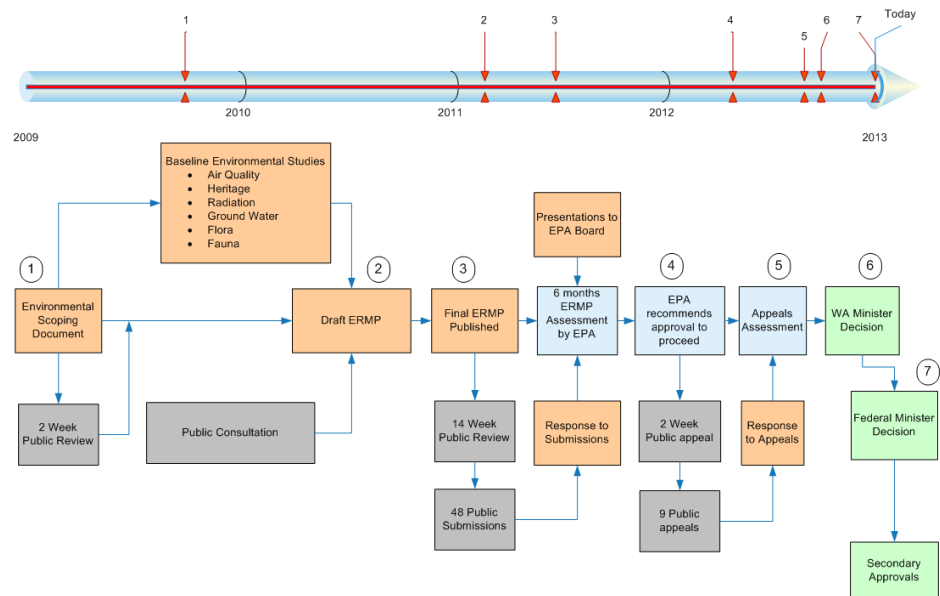
Source: Company Reports

Figure 8: Satellite image of the mine area overlain by existing and planned infrastructure.



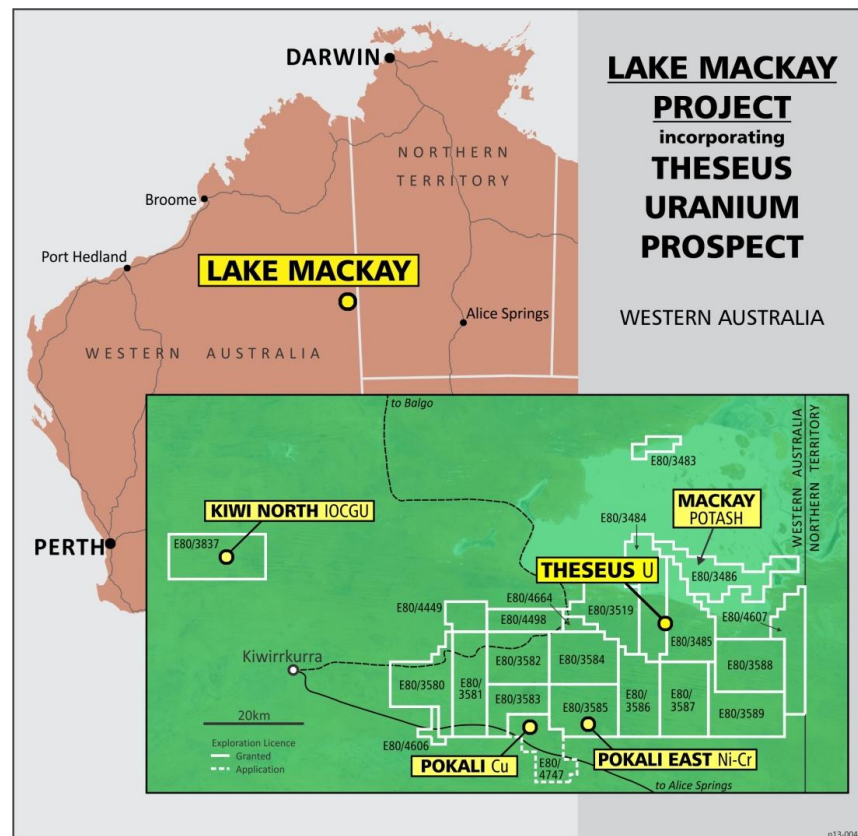
Source: Company Reports

Figure 9: Project approval timeline. The permitting process has largely been completed with State and Federal permits in hand. Toro only has standard secondary approvals remaining.

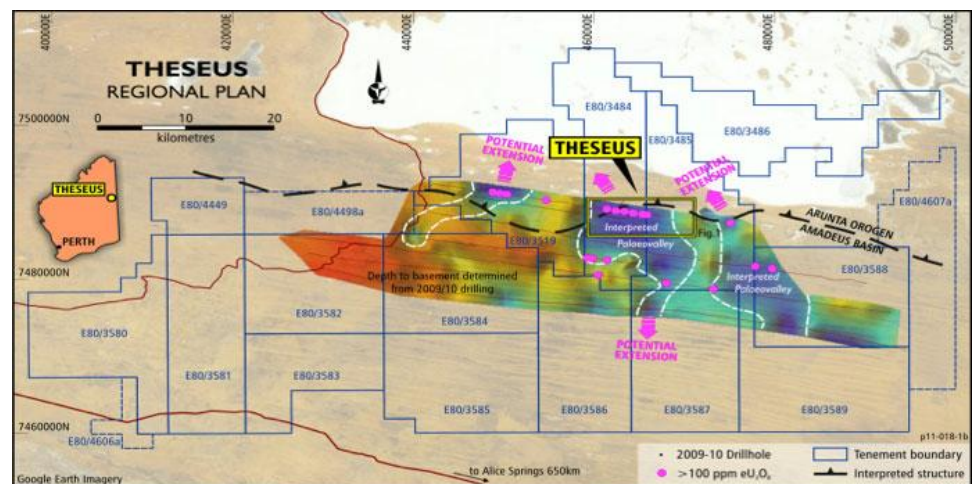


Source: Company Reports

Figure 10: Theseus project location map in northern WA.

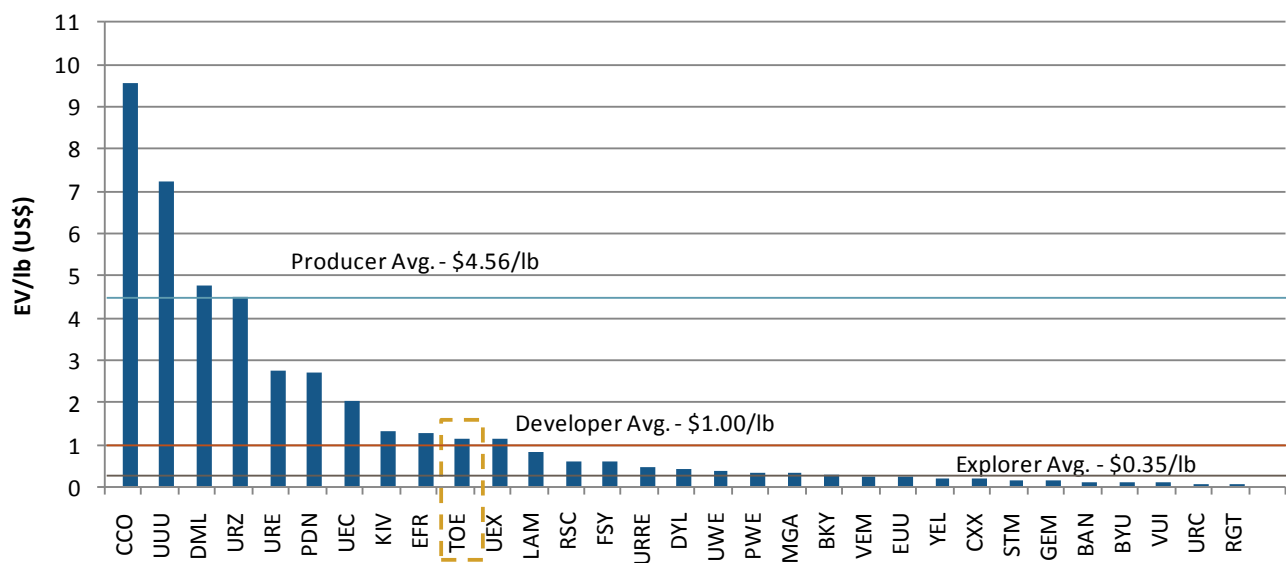


Source: Company Reports

Figure 11: Theseus regional plan map.

Source: Company Reports

Figure 12: EV/lb peer comparison chart as of 7-June-13. Toro is highlighted by the gold dashed box. The company does trade at a premium to several of its peers, but considering its de-risked status, we believe there is further it can go.

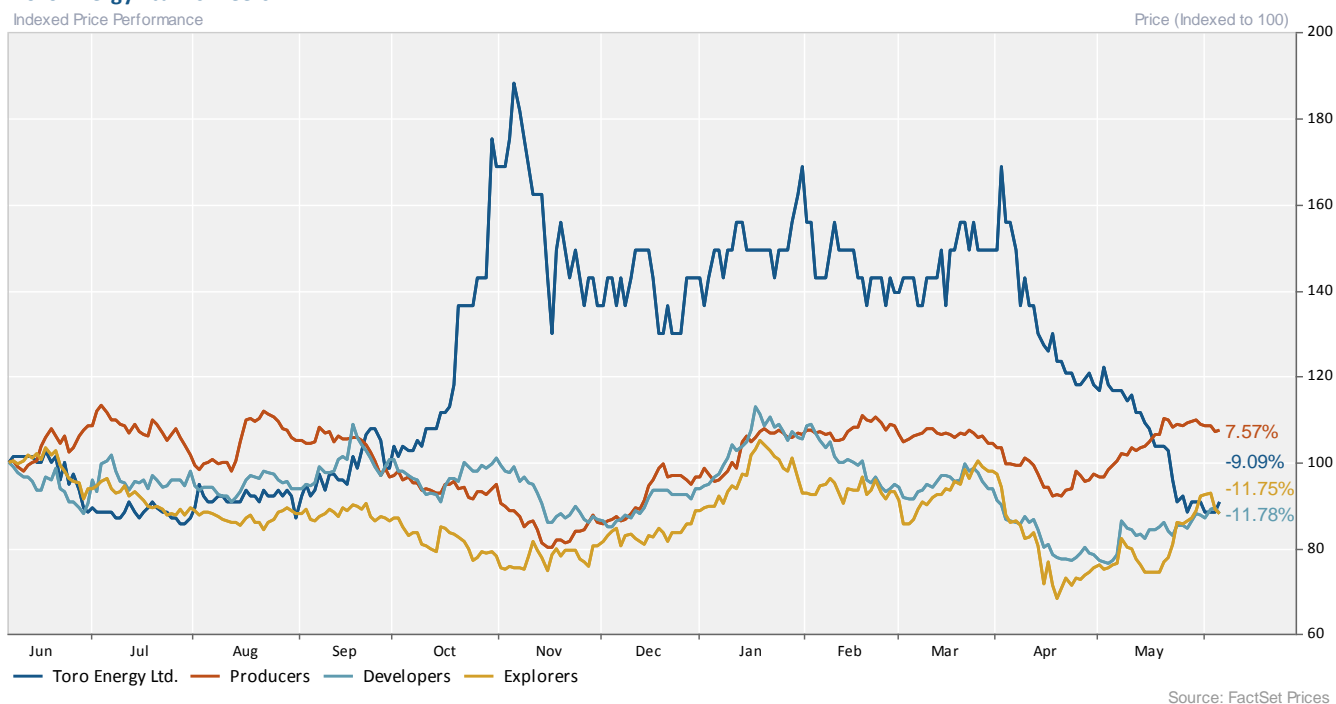


*Calculated as Market Capitalization + Debt - Cash/Total Resources (inclusive of historical resources).

Source: Company Reports, Thomson One, Dundee Capital Markets

Figure 13: Toro Energy comparative 1-year stock performance relative to its producer, developer, and explorer peers. Indexed to 100. Toro has outperformed both developer and explorer peer groups over the past year.

Toro Energy Ltd. vs. Peers



Source: FactSet, Dundee Capital Markets

Toro Energy Ltd.				TOE-ASX	A\$ 0.08
Rating	BUY	Target	N/A	Shares O/S (MM)	1,041.9
Risk	Speculative			Float (MM)	612.6
12-Month Return	N/A	Close	A\$ 0.08	Fully Diluted Shares (MM)	1,098.1
				Basic Mkt. Capitalization (\$MM)	A\$ 87.5
All figures in A\$, unless stated otherwise				MAIN PROPERTIES	
MANAGEMENT & COMPANY CONTACTS				Wiluna Uranium Mine, Western Australia	
Dr. Vanessa Guthrie				Stage:	Feasibility/Project Financing
Todd Alder				Deposit:	Calcrete hosted surficial deposits
Richard Yeeles				Geology:	Wiluna's two main deposits - Centipede and Lakeway are both calcrete-associated surficial uranium deposits. These are pure carnotite, clean deposits except for some vanadium. The uranium is near surface, formed in shallow sediments typical of old river systems, occurring to depths of 10m at or below the water table. It has been formed through hydro-geological processes, with mineralization appearing as micro to crypto-crystalline coatings. The deposit can be likened to nearby Yeelirrie and Langer Heinrich in Namibia.
Dr. Erica Smyth					
www.toroenergy.com.au					
CAPITAL STRUCTURE					
	Strike	Basic	In-the-	Proceeds	
	(A\$)	(MM)	Money	(\$MM)	
Shares Outstanding		1041.9			
Options	2013	0.35	1.7	-	-
	2014	0.25	1.0	-	-
	2015	0.14	29.9	-	-
	2016	0.18	23.6	-	-
Fully Diluted Shares		1098.1	-	-	
OWNERSHIP (est.)					
* As reported by Thomson				Basic	%
OZ Minerals Ltd.				(MM)	
Allarrow Proprietary				410.3	39%
Middlefield Capital				9.9	1%
Dimensional Fund Advisors				4.0	0%
Vanessa Guthrie				2.3	0%
				1.1	0%
BALANCE SHEET				Dec-12	
Year-end June				(A\$MM)	
Assets					
Cash and Equivalents				4.7	
Other current assets				0.9	
Current Assets				5.6	
PP&E				89.2	
Other Assets				1.1	
Total Assets				95.9	
Liabilities					
Current liabilities				1.0	
Long-term debt				-	
Other				0.1	
Shareholders equity				94.8	
Total Liabilities and Equity				95.9	
PROJECTED BURN RATE (est.)				(C\$MM)	
Fiscal 2012YE cash balance (est.)				4.7	
Exploration Expenditures (est.)				(4.0)	
General and Admin Expense (est.)				(4.0)	
Warrant/Option Exercise (est.)				-	
Project Financing (est.)				12.0	
Capital Expenditures				-	
Fiscal 2013YE Cash Balance (est.)				8.7	
LAST FINANCING					
Date				Mar-13	
Type				Debt Drawdown - Tranche 1	
Total Facility				A\$MM	12.0
Drawn Down				A\$	8.00
Total Cash Post-Draw Down				A\$MM	10.1
Total Mineral Inventory				Uranium	
	t (MM)	% U3O8	MM lbs	Deposits Included	
Wiluna:					
Measured	3.08	0.055	3.75	Centipede	
Indicated	11.9	0.052	13.65	Centipede, Lake Way, Millipede	
				Centipede, Lake Way,	
Inferred	40.19	0.041	36.16	Millipede, Dawson	
				Hinkler Well, Nowthanna	
Wiluna Total	55.2	0.044	53.56		
Theseus:					
Inferred	6.3	0.049	6.90	Theseus	
Total Resources	61.5	0.045	60.46		

Source: Company Reports, FactSet, Dundee Capital Markets

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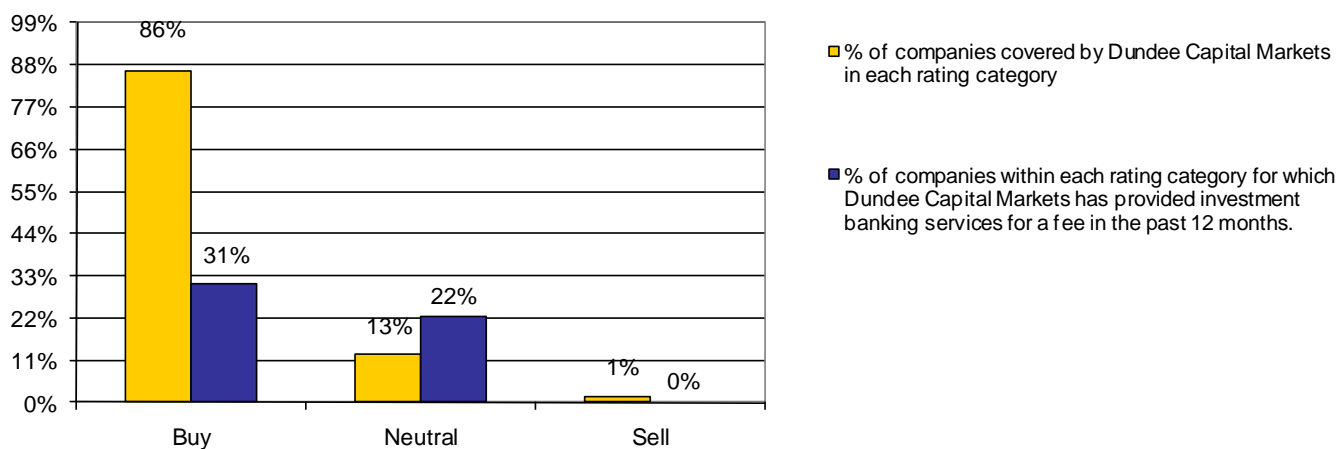
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Dundee Capital Markets Equity Research Ratings

As at March 31, 2013

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