

BBY Company Research		13 November 2014	
Toro Energy Limited			
TOE	A\$0.09	TARGET PRICE	A\$0.10
		BUY	0.0X
Toro Energy Limited (TOE) is a uranium exploration and production company. The Company was formed through the amalgamation of the uranium interests of Oxiana Limited and Minotaur Exploration Limited in South Australia.		Gavin van der Wath +61 407 106 629 gvw@bby.com.au	



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Wiluna Attracts Active Cornerstone Investor

The announcement of the Sentient Group deal will soon establish Toro Energy Limited (TOE) as the most advanced and well-funded uranium exploration and development company listed on the ASX. This will ensure not only its survival, but also crystallise its substantial Wiluna Project development to coincide with the expected upturn in the uranium market.

TOE has announced a cash and asset transaction worth around AUD39M with Sentient. Sentient have agreed to fund AUD20M in TOE and the Wiluna Project, and TOE has agreed to acquire around AUD19M in uranium related assets from Sentient. The cash funding of AUD20M from Sentient and estimated cash balance of AUD5M will enable the company to accelerate final preparations at the Wiluna Project for development at the ideal time.

We upgrade our recommendation to BUY and maintain our 12-month target price of AUD0.10/sh.

- TOE will purchase various uranium assets from the Sentient Group in exchange for 237M shares. This will include a 19% shareholding, convertible notes worth CAD14.1M and a secured loan of CAD3M in TSX listed Strateco Resources Inc., the owner of the Canadian 27Mlb Matoush Uranium Project
- Sentient will also subscribe for a further 125M shares at AUD0.08 raising AUD10m. A further AUD10M will be paid to TOE for a unitisation agreement subject to certain conditions, raising a total of AUD20M from Sentient.
- In addition to the above funding, RealFin Capital Partners has invested an additional AUD1M at AUD0.08/sh and the company will provide existing shareholders the opportunity to participate through a SPP on the same terms.
- The Sentient Group is an independent private equity investment firm based in the Cayman Islands with subsidiary offices and affiliates in Sydney, Montreal and Munich. Sentient manages over US\$2.7B in the development of quality metal, mineral and energy assets through its Cayman-based, 10 year closed-end private equity global funds.
- The TOE / Sentient relationship also offers the possibility of leveraging off the Enirgi Group's revolutionary new process for the extraction of lithium from unprocessed brines, offering significant synergies for the Wiluna Project's metallurgical process. Enirgi is a Sentient investment.

Company Data

Number of shares	1,568M
Market capitalisation	\$136M
Free Float (%)	42.1
12 month high/low	\$0.13/\$0.06
Average monthly turnover	\$2M
% S&P/ASX 200	n/a
% All Ordinaries	n/a
DDM Ranking	n/a
ESG Score (Ranking)	n/a
GICS Industry Group	Energy

BBY vs Consensus

	BBY FY1	Consensus FY1	% Difference
EBITDA (\$m)	0.0		
NPAT (\$m)	0.0		
EPS (c/sh)			

BBY Technical View – as at 10/11/2014

Short Term	Downtrend	Resistance	\$0.10
Long Term	Uptrend	Support	\$0.072

Earnings summary (AUD)

Year end June	2012A	2013F	2014F	2015F
DPS (¢)	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0

TOE Share Price Performance



Transaction Details

TOE has purchased various uranium interests from the Sentient Group for about AUD19M. In exchange for 237M shares TOE will receive:

- 19.8% equity interest in TSX listed Strateco Resources Inc
- CAD14.1M secured convertible note receivable from Strateco
- CAD3M senior secured first ranking loan receivable from Strateco
- 25% equity interest in unlisted SeqUr Exploration Inc.

Sentient will subscribe for a further 125M shares in two tranches at AUD0.08/sh raising AUD10M in cash. Sentient will hold about 19% of TOE issued share capital on completion.

A further non-dilutive investment of AUD10M will be made in the Wiluna Uranium Project for an unitisation agreement based on 2.5% of gross project revenue. The agreement can be terminated after 3 years and the unitisation fee paid out in cash or TOE shares based on fair market value at either TOE or Sentient election.

The deal will be subject to the following approvals but completion is expected in December.

- Foreign Investment Review Board approval

Toro shareholder approval (TOE largest shareholders, Oz Minerals and Mega Uranium, have advised that they support the transaction and to the extent that any shareholder approvals are required that they intend to vote in favour of those resolutions).

Strategic Benefits

The deal stabilises TOE financial position for the medium to long term including flexibility with respect to the Macquarie facility. A growth pipeline and geographical diversification is established through the Strateco exploration and development assets.

TOE has Sentient support in creating a regional processing hub at Wiluna to unlock a potential 200-300Mlb uranium province including the Yeelirrie Project. Between Sentient and TOE management we believe that funding will also be deployed in the most effective manner.

TOE proven approach to permitting and stakeholder engagement could be positive for the current state of the troubled relationships in Quebec and therefore represents significant upside potential for both the company and Strateco.

Table 1: Pro-forma Capital Structure And Balance Sheet

Capital Structure	Shares (M)
Current FPO shares on issue	1 567.8
Placement shares to Sentient	125.0
Placement fee to Sentient	3.7
Consideration shares to Sentient	236.5
RealFin placement and SPP estimate	62.5
Total shares on issue	1 995.5
Forecast Balance Sheet Items	Amount (AUDM)
Estimated cash on hand	5.0
Placement proceeds	10.0
Unitization agreement proceeds	10.0
RealFin placement and SPP estimate	5.0
<i>Cash on hand</i>	30.0

Source: TOE, BBY

Use of Funds

We expect the use of the AUD30M to be as follows:

- AUD10M funded for critical Wiluna Project studies over 3 years including:
 - Process flow sheet improvements such as beneficiation, reduced reagent consumption, water balance, tailings management
 - Resource disequilibrium and variability studies.
- AUD25M funded for working capital over 4+ years including:
 - Securing final environmental approvals and traditional owner agreements
 - DFS completion on market recovery
 - Corporate development costs for Australian exploration and Wiluna assets
 - Activities related to project financing for Wiluna
 - Option to refinance current debt facility

Synergies

Sentient has an investment interest in the Enirgi Group Corporation. Enirgi is a private Canadian company, owning 100% of ADY Resources Limited, 100% of Enirgi Metal Group, 100% of Natural Resources USA Corporation and circa 59% of Ivernia Inc. Enirgi is an integrated energy storage company offering lithium and lead based energy solutions along with an exposure to sodium bicarbonate and oil shale resources.

Enirgi recently announced the success of its revolutionary new technology extracting lithium from raw brine at commercial volumes. The technology was developed and validated by Enirgi Group's Applied Innovation Division, in partnership with the Australian Nuclear Science and Technology Organisation Minerals Division (ANSTO Minerals) at demonstration plant scale (1,500 tpa Lithium Carbonate Equivalent).

Enirgi plans to commence construction of an initial 50ktpa LCE plant at Enirgi Group's Salar del Rincon situated in Salta Province, Argentina in 2015 and to be in production in 2017. Although not a requirement of the deal, the TOE / Sentient relationship brings the possibility to leverage off this expertise and deliver significant synergies for optimisation of metallurgical processes at Wiluna.

The Assets

Strateco Resources Inc.

Strateco Resources Inc. main asset is the Matoush Project situated in the Otish Mountains, in northern Quebec and has already had over CAD125M spent on it. The Indicated Resource is estimated to be 2.1Mt @ 0.62% U₃O₈ for 27Mlbs. The camp has been shut down due to the Quebec government's refusal to issue the final permit needed to start the advanced exploration phase of the Matoush Project. The Matoush camp has been on standby for over a year, ever since a moratorium and commission of inquiry on Quebec's uranium industry was announced on 28 March 2013, and will be closed whilst Strateco considers its options going forward.

Strateco is expected to carry out exploration in Saskatchewan in the foreseeable future through its subsidiary, SeqUr Exploration Inc. In December 2013, Strateco entered into an option agreement with Denison Mines Corp. on the Jasper Lake project, on which the company can earn an interest of up to 60% through SeqUr Exploration. The Jasper Lake project, which is comprised of four properties formerly known as Jasper Lake, Minor Bay, Ahenakew Lake and North Wedge, is strategically located on the eastern side of the Athabasca Basin. The non-contiguous 18 active claims cover an area of 45,271 hectares and are located near the prolific uranium deposits of Cigar Lake and Rabbit Lake, both less than 12 km from the project boundary.

The convertible notes have a total face value of CAD14.9M and can be exercised by the holders any time after 1 Jan 2015. The senior secured loan is due 31 Dec2015.

Source: TOE, BBY

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Contact with TOE has been made during the preparation of this report for assistance with verification of facts.

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