RealCap Uranium Research Report

Toro Energy Limited

RealFin Capital Partners "REALCAP" Proprietary Limited

Toro Energy – Strong Balance Sheet

RECOMMENDATION: BUY **TARGET PRICE: A$0.16**

Toro Energy has continued to work with The Sentient Group to place them in a position envied by many mining operators. They have reduced their financing costs, deleveraged their balance sheet and ensured they have more than sufficient cash available to enable a cautious approach to their Wiluna project commencement.

Additionally, Toro Energy has a very real opportunity, and the financial firepower, to add to their portfolio of global uranium assets given the distressed current environment. This will ensure a pipeline of uranium supply over the medium to long-term.

While some certainty over Japanese reactor restarts is now in the markets, we maintain our investment thesis that uranium demand is building from current and newly developing nuclear energy operators and that the supply shortfall continues to grow.

A uranium price rerating will enable those mining operators with quality resource assets and the ability to commence production to meet demand with a material tailwind to their equity valuations.

We believe Toro Energy stands to benefit significantly as this scenario plays out.

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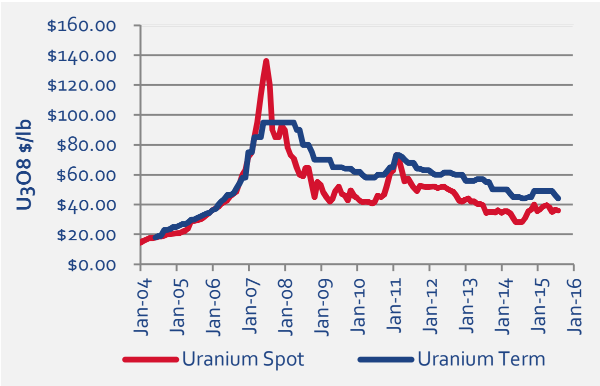
Industry Overview

Uranium price

The Uranium spot price has held relatively steady over the first half of 2015 remaining above $35/lb. The term price has stayed at $44/lb, maintaining a 25-40% premium over spot.



Source: The Ux Consulting Company, LLC; http://www.uxc.com

Uranium demand has been typically lower over the Northern hemisphere summer months, but the Uranium price has remained steady. The WNA Symposium, scheduled for the 9th to the 11th of September 2015 is likely to drive demand and deal-making as members from both sides of the nuclear fuel cycle meet in London.

Japanese Restarts

Four years and five months post-Fukushima, Japan officially returned to nuclear energy on the 11th of August 2015. Reactor No. 1 at Kyushu Electric Power Co.'s Sendai plant was reactivated under new safety standards brought into being after the Fukushima reactor meltdown following a Tsunami. The No. 1 reactor could return to full commercial operation by September 2015 if a variety of operational and safety standards are met and the No. 2 Sendai reactor is expected to restart on a trial basis at that point.

The Japanese Government recently approved the June 2015 draft plan for electricity generation out to 2030. Nuclear energy is very much a part of desired energy mix for Japan with a target being set of 20-22% for generation from nuclear sources. Coal will comprise 26%, LNG 27% and renewables 22-24% as Japan aims to reduce CO2 emissions and improve the energy self-sufficiency rate.

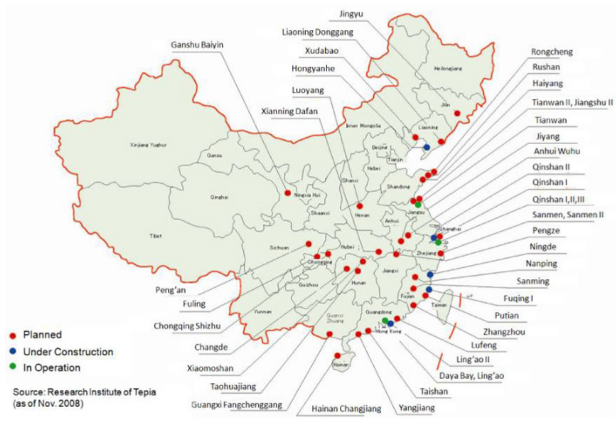
Japan's Energy Whitepaper for the 2014 financial year (which runs to March 2015) showed that over the last four years, power from fossil fuel sources had risen from 62% to 88%. This is an economically unsustainable position for Japan to maintain. The natural resource-poor country simply cannot continue to bear the cost burden of imported fuel. Increased fuel imports are currently running at about $40 billion per year and the price per kilowatt hour of electricity generation has jumped significantly, affected Japanese businesses and consumers.

It is, therefore, no surprise that the Japanese Government and various business forums have been strong advocates for a return to nuclear electricity generation. The restart at Sendai is the first step in bringing Japan's 43 operable reactors back online.

China

While the restart of Japan's nuclear fleet is an important sentiment indicator for nuclear fuel markets, China remains at the forefront of the planned future demand for nuclear fuel.

China has 26 nuclear reactors in operation with 25 currently under construction and more about to commence construction. The figure below gives an indication of just how many reactors are planned as indicated by the red dots.



Source: The World Nuclear Association (WNA)

China's energy consumption continues to outstrip its production and pollution levels remain a primary concern for the Chinese Government and populous. In order to manage their energy import dependency and have any chance of meeting stringent air pollution targets, China has to maintain its ambitious nuclear roll-out programme.

In addition to the domestic programme, China is also pursuing an international nuclear strategy. China is exporting nuclear technology to a number of countries, notably Pakistan where a Chinese designed and financed reactor is currently under construction with another planned. There are also plans for Chinese constructed and financed nuclear projects in Romania, Argentina, the United Kingdom and potentially Turkey and South Africa.

Summary

The uranium market remains a challenging one for all participants in the nuclear fuel cycle. The uranium spot price remains below the break-even cost of production for all but the lowest-cost producers.

On the supply side, at current prices, many uranium producers have continued to curtail current operations and not commence exploration projects. While there have been no recent formally announced production cuts in the market, Rio Tinto/ERA decided to defer the development of Ranger 3 Deeps in Australia. This is evidence that it is not only the smaller or mid-tier mining companies reducing or moth-balling projects, but the large houses as well. Current cost-cutting measures will undoubtedly lead to a future supply-demand mismatch.

In terms of medium to longer-term demand, China and its domestic and global nuclear expansion plans remain highly important.

The restart at Sendai has certainly relieved the pent-up uncertainty surrounding the Japanese nuclear programme but did not materially impact the uranium price.

Uranium has to some degree, been caught up in the global commodity price rout, and the market has not yet priced in the coming demand-supply imbalance. Further, Uranium demand is a lot less sensitive to economic activity than other commodities. In this environment, those supply-side mining companies with strong balance sheets and proven reserves will be well-placed with the anticipated uranium-price re-rating comes to fruition.

Toro Energy Company Overview

Background

Toro Energy (ASX: TOE) is a Western Australia, Perth-based Uranium development and exploration company focussed on being a leading mid-tier global Uranium company. Toro Energy has a suite of development and exploration assets within their business structure – the key flagship project being the Wiluna Project.

Australia

The Wiluna Project is Toro Energy's primary asset situated in Western Australia. Wiluna consists of four core deposits, Centipede, Millipede, Lake Maitland and Lake Way as well as two secondary deposits, Dawson Hinkler and Nowthanna.

In addition to the Wiluna project, Toro Energy has exploration assets in the form of Theseus and Wiso Basin exploration properties.

Namibia

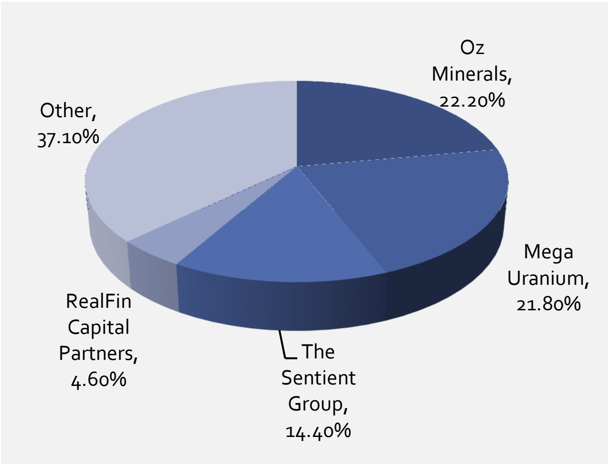
Toro Energy through its Namibian subsidiary Nova Energy (Namibia) (Pty) Ltd has a joint-venture stake with Deep Yellow (ASX: DYL) and a Namibian company, Sixzone Investments (Pty) Ltd. Together they participate in three exploration properties in which Toro Energy has an effective 25% stake. No significant Uranium mineralisation has been identified on the properties to date.

Canada

Toro Energy's Canadian assets comprise an equity and secured debt stake in Strateco Resources Limited. Strateco owns the Matoush Uranium project that has indicated resources of 12.33Mlbs and inferred resources of 16.44Mlbs of U_3O_8. Strateco Resources filed for court protection on the 9th of June 2015 while it attempts to refinance and continue operating. It cited that the Quebec government's refusal to grant a certificate of authorisation to proceed with the company's Matoush uranium project had placed it in an untenable position. This report will discuss the implications for Toro Energy in light of these recent developments.

Key Shareholders

The shareholding of Toro Energy is provided in the chart below.



Source: Toro Energy Investor Presentation – June 2015

The Sentient Group is Toro Energy's most recently acquired material shareholder. The Sentient Group is an independent private equity firm specialising in the global resources industry and managing of $2.7bn in global resource assets.

The Sentient Group investment strategy is to seek potential high return projects with companies that have committed and talented management. They tend to hold their investments for the medium to longer term and look to have a significant but minority position in each of their direct investments.

That a firm such as Sentient identified the investment potential and quality of management team of Toro Energy is extremely positive. With the financial backing of such a partner, Toro Energy is well-poised to realise their corporate strategy of becoming the "go-to" mid-tier Australian uranium mining and exploration company.

The details of the Sentient Deal are discussed below.

Phase 1: Sentient Deal

On the 4th of November 2014, Toro Energy received a cash and asset injection from The Sentient Group.

In terms of the deal, Toro Energy received A$10m in placement proceeds (A$7.5m reflecting tranche 1 received in December 2014 and an additional A$2.5m as a tranche 2 payment received in June 2015). Also received were A$10m in unitisation funds earmarked for further development of the Wiluna project.

In addition to the cash injection, Toro Energy received Sentient's Canadian-based uranium assets, namely a 19.8% equity interest in Strateco Resources Inc together with the common shares Toro Energy received C$3m senior secured loan and C$14.1m in a convertible note into Strateco Resources and secured over Strateco's assets, namely the Matoush Uranium Project.

Strateco Resources

Strateco Resources owns the Matoush Uranium project which as mentioned above, has indicated resources of 12.33Mlbs and inferred resources of 16.44Mlbs of U_3O_8. Strateco is however in litigation with the Quebec Government and has instituted a claim of C$190m for damages resulting from a loss of investment in the Matoush project. This claim arises from the alleged wrongful actions of the Minister of Sustainable Development, Environment and the Fight against Climate Change.

In September of 2013, the Minister refused to grant Strateco the certificate of authorisation required to commence the advanced exploration phase of the Matoush project. The Minister alleged a "lack of social acceptability" – not a concept defined in Quebec legislation.

On the 9th of June 2015, Strateco Resources filed for protection against insolvency or a Petition for the Issuance of an Initial Order under the Companies' Creditors Arrangement Act (CCAA).

This cash flow crisis is an unfortunate turn of events for the Strateco Resources team, but in many ways, is potentially a positive occurrence for Toro Energy.

Strateco Resources faces a liquidity crisis. They have insufficient cash to meet their day-to-day operating requirements; however, their immovable mining assets remain intact. Toro Energy is the senior secured creditor for Strateco Resources, via both the loan agreement and the convertible note.

Toro Energy's Strateco Assets

Strateco Resources lists its secured debt obligations in its Petition for the Issuance of an Initial Order as follows:

Creditor	Description	Amount (C$)
Toro Energy	Loan	3 000 000
Toro Energy	Convertible Notes	14 105 000
Strateco Employees	Secured Claims	1 184 164
Total		18 289 164

Source: Strateco Resources Petition under CCAA - 2015

As can be discerned from the table, the majority of the secured debt outstanding is due to Toro Energy. The Loan asset is attracting interest and matures on the 20th of December 2015. Strateco granted a first-ranking hypothec on all of the present and future immovable and movable property of Strateco Resources as a guarantee of the loan. There are also unsecured creditors, largely in the form of Revenue Quebec who are owed C$3.7M for unpaid taxes. This debt is currently due.

The convertible notes are senior secured convertible equity notes secured by a second-ranking hypothec on of the present and future immovable and movable property of Strateco Resources. Additionally, Toro Energy has three consecutive options to extend the maturity dates of the notes for one year for a cumulative maximum of three years to the 27th of February 2019.

The secured claims by the former employees of Strateco Resources are for full and final settlement of their respective unpaid departure allocations. The payment of these employee claim amounts is conditional on Strateco Resources receiving money from a settlement or a favourable judgment in the legal proceedings against the Quebec Government.

Toro Energy also holds an equity stake in Strateco Resources of approximately 43 million shares.

It is important to bear in mind that the acquisition of the Strateco assets had a minimal outward cash flow requirement for Toro Energy. The Strateco assets should be viewed simply as a cost of financing rather than an investment purchase. We believe Toro Energy has a real opportunity to realise upside from these assets as discussed below.

Unlocking Value from Strateco

The first reaction when encountering a distressed asset situation is typically one of gloom, however, as unfortunate as Strateco's financial position is, it presents Toro Energy with a compelling opportunity. As the primary creditor, Toro Energy has become the *de facto* owner of Strateco's uranium mining assets without the legacy of the apparently strained relationship the Strateco management team can only have had with the Quebec Government.

Toro Energy's management team have proven themselves as skilled and sensitive negotiators in navigating what can be a tricky path with various stakeholders in the uranium mining process. These include the rights of the indigenous people and the environmental and regulatory authorities.

Toro Energy is now well placed to adopt a fresh approach in Canada. If Strateco Resources are successful in their litigation against the Quebec Government, and the sentiment of the Quebec Government is positive towards the development of uranium resources in the north of the province, then Toro Energy stands to benefit as an equity participant and as a mining operator. In the event the litigation is unsuccessful, Toro Energy has an opportunity to be a "fresh face" to repair and rebuild relations with the Quebec Government. It can reinvigorate the Strateco Resources mining assets through the securing of permitting and financing as they have successfully done in Australia.

Either outcome will see Toro Energy with a far more meaningful ability to influence and steer the Strateco Resources business and mining assets thus unlocking the real value of the uranium resource.

Phase 2: Sentient Deal

On the 11th of June 2015, Toro Energy announced a key balance sheet restructuring backed by The Sentient Group. In terms of the deal, Toro Energy will pay down the A$12million debt facility currently held with Macquarie Bank (ASX: MQG). The impact on the Toro Energy balance sheet is examined below.

Toro Energy Balance Sheet (Including Post-Sentient Deal Estimates)

	Notes	Post-Deal Estimates	31-Dec-14
Current Assets			
Cash and cash equivalents	1	18 301 000	25 252 776
Trade and other receivables	2	134 845	134 845
Other current assets		25 306	25 306
TOTAL CURRENT ASSETS		**18 461 151**	**25 412 927**
Non-current Assets			
Available for sale investments	3	39 273	2 784 457
Loans and receivables	4	-	-
Property, plant and equipment		1 603 103	1 781 226
Exploration and evaluation assets		135 608 486	130 608 486
TOTAL NON-CURRENT ASSETS		**137 250 862**	**135 174 169**
TOTAL ASSETS		**155 712 013**	**160 587 096**
Current Liabilities			
Trade and other payables		1 351 897	1 351 897
Short-term provisions		130 905	130 905
TOTAL CURRENT LIABILITIES		**1 482 802**	**1 482 802**
Non-current Liabilities			
Borrowings	5	13 003 706	17 176 907
Long-term provisions		58 247	58 247
TOTAL NON-CURRENT LIABILITIES		**13 061 953**	**17 235 154**
TOTAL LIABILITIES		**14 544 755**	**18 717 956**

NET ASSETS			**141 167 258**	**141 869 140**
Equity				
	Issued capital	6	289 017 322	286 521 554
	Reserves		13 174 027	13 174 027
	Accumulated losses	7	-161 971 626	-157 826 442
	Balancing figure	8	947 535	
TOTAL EQUITY			**141 167 258**	**141 167 258**
Notes				
1.	Cash and cash equivalents		22 801 000	25 252 776
	Less: Macquarie Loan Payment - Working Capital		-500 000	
	Less: Macquarie Loan Payment - Unitisation Proceeds		-3 000 000	
	Less: Cash Flow for 2Q15		-1 000 000	
			18 301 000	**25 252 776**
2.	Full impairment of C$3m loan		-	-
3.	Strateco: 43m shares @ mkt value		2 745 184	2 745 184
	Less: Full impairment		-2 745 184	
	Add: SeqUR		39 273	39 273
			39 273	2 784 457
4.	Full impairment of C$14.1m loan		0	0
5.	Macquarie Debt Facility		0	12 000 000
	Less: Transaction Costs			-4 559 090
	Add: Amortised transaction costs			2 732 291
			0	**10 173 201**
	A$10m unitisation deal			10 000 000
	Less: Present value discount of Unitisation Agreement			-2 882 198
	Less: Transaction costs			-114 096
	Add: Amortised transaction costs			
			7 003 706	**7 003 706**
	Sentient Loan Facility		6 000 000	0
	TOTAL BORROWING		**13 003 706**	**17 176 907**
6.	Ordinary shares		1 903 769 581	1 903 769 581
	Add: Sentient Issuance: Unitisation placement		31 250 000	31 250 000
	Add: Deferred Consideration Issuance		59 122 555	
	Total Ordinary Shares		**1 994 142 136**	**1 903 769 581**
	Issued Capital		286 517 322	
	Add: Sentient Issuance: Unitisation placement		2 500 000	
	Total Issued Capital		**289 017 322**	

7.	Accumulated Losses	-157 826 442	-157 826 442
	Less: 1Q15 loss	-1 000 000	
	Less: 2Q15 loss	-400 000	
	Less: Strateco equity impairment	-2 745 184	
		-161 971 626	**-157 826 442**
8.	Balancing amount due to estimates	947 535	

On examination of the balance sheet a few key items must be noted:

- Toro Energy fully impaired the Strateco loan and the Strateco convertible notes as at 31 December 2014
- Toro Energy will need to write down the value of the Strateco equity which was reflected at the closing price on balance sheet date as listed on the Toronto Stock Exchange. This write down will create an accounting loss of approximately A$2.7 million in this financial period
- Toro Energy has extended their debt repayment date from March 2016 to August 2018 and reduced total debt from A$22 million (A$10 million unitisation plus A$12 million interest-bearing from Macquarie) to A$16 million
- Toro Energy have replaced their interest bearing debt to Macquarie of A$12 million, due March 2016, with an interest-free debt to Sentient of A$6 million due August 2018
- The effective interest rate on the Macquarie debt was 7.6% whereas the A$6 million facility from Sentient is interest-free. Toro Energy has therefore reduced their financing cash flow requirements substantially
- If we include the unitisation proceeds within the debt computation, then post deal, Toro Energy have deleveraged their balance sheet by 24% (Debt/Equity ratio from 12% to 9%)
- If the unitisation proceeds are excluded from the debt computation, then we see deleveraging benefits of 41% (Debt/Equity ratio from 7% to 4%)

The key takeaway from Phase 2 of the Sentient deal is a reduction in financing costs and a deleveraging of the Toro Energy balance sheet. There is also an important sentiment indicator to consider – Sentient did not have to step in as the financing partner beyond the Phase 1 deal contribution, but they have elected to do so. This provides an indication that the Sentient team is satisfied with their investment in Toro Energy. They were willing and able to provide a further capital contribution tied to the upside of Toro Energy's equity. This is another indication that the "smart money" is backing Toro Energy's medium-term vision and positioning.

Toro Energy Valuation

In a previous report, published in February 2015, we provided our methodology of a discounted cash flow (DCF) model to attach a value to the shares of Toro Energy under different future uranium market scenarios.

Importantly, only the Wiluna project was been attributed any value in the modelling process. We made various assumptions about the CapEx requirements to bring the Wiluna project to an operational state. Toro Energy's currently budgeted CapEx figure is A$316 million. It will be spent on creating the mine infrastructure – the processing plant, power station, worker accommodation and other vehicles and equipment required as well as provision for contingencies.

As stated previously, we continue to believe that the ultimate CapEx number will be lower than current estimates, perhaps as much as 20%.

For the purposes of our valuation, we assumed CapEx of A$300m - A$250m upfront and A$50m over the life of the project. We believe we are conservative in this estimate and that the ultimate CapEx cost will be lower.

We forecast an Opex cost of approximately US$28/lb that excludes mining royalty charges (payable to the State Government and Traditional Owners), tax, depreciation and other company administrative costs.

Toro Energy currently estimates a production output of 2Mlb's per year on average over the mine life.

The model required the following time varying inputs:

- Uranium future spot price
- USD/AUD future exchange rate
- Estimation of the blend between term and spot revenue
- Royalties payable
- Tax payable
- Non-Opex costs
- A discount rate for future cash flows
- CapEx financing structure
  - New equity issue price
  - Interest payable

Also, a factor in the model was the assumed commencement date of mining operations along with assumptions about the Wiluna project financing structure.

If the Wiluna project is financed through equity – assuming there is the market appetite for such a capital raise – the new share issuance will be dilutive to existing shareholders.

We assumed Toro Energy would have the ability to finance the Wiluna Project in part through debt and part through a new equity issuance. Such a financing mechanism would be to the benefit of existing and new shareholders. Our assumed mine construction date was the end of 2016.

Given the current uranium price and market outlook we have made the following revisions to our DCF valuation model:

- Estimate the project commencement date is towards the end of 2017 rather than the end of 2016
- Estimate the mining start date is 2019 rather than 2018
- Revise the estimated new equity issuance under future uranium price scenarios

The net result of these revisions is a change in our valuation scenarios as reflected in the table below:

	Equity Issuance Price per Share	Future Uranium Spot Price	Toro Energy Valuation per Share
Prior Base Case	A\$0.15	US\$55/lb	**A\$0.19**
Current Base Case	A\$0.134	US\$55/lb	**A\$0.16**
Prior Upper Case	A\$0.26	US\$70/lb	**A\$0.33**
Current Upper Case	A\$0.22	US\$70/lb	**A\$0.28**

The revised valuation indicates a very meaningful upside potential in the share price of Toro Equity shares currently trading at A\$0.060[1].

Reiterating our DCF input assumptions, this estimate is based on the development and mining of the Wiluna Project only. No assumptions are made about the realisation of value from Toro Energy's Canadian assets. We feel that over time, Toro Energy will unlock value from its Strateco holdings. This potential revenue stream, along with the potential revenue from Toro Energy's other exploration assets will begin to be priced into the share price providing downside support and significant upside potential.

Recent Announcements

Following a 6-week new resource, sonic drilling process to drill and investigate samples from 130 holes across Lake Maitland, Centipede, Millipede and Nowthanna, Toro Energy announced that early results were encouraging.

The sonic drilling process uses the high-frequency vibration of the drill head to cause a thin layer of soil particles around the drill to behave more like a fluid or paste rather than a solid mass. This dramatically reduces friction and enables the collection of very long continuous samples.

These core samples can be subjected to detailed analysis to evaluate the potential mineralisation of the

[1] As at close on 21 August 2015

subsurface. This will significantly improve Toro Energy's understanding of the relationship of uranium grade to mineralogy. Toro Energy is likely to release a new mineral resource estimate based on the results in the fourth quarter of 2015.

Toro Energy has also undertaken a metallurgical programme with Marencia Energy (ASX: MEY). Marencia Energy have developed U-grade, a processing technology that reportedly significantly improves uranium concentration in leach feed while reducing operating expenses. Such technological developments add further to project efficiencies and realisable upside.

Toro Energy Corporate Strategy

Toro Energy is in an enviable position for a pre-development uranium miner. With strong and supportive shareholders and meaningful cash reserves, Toro Energy is in a position to take advantage of some of the distress in the uranium mining market.

Toro Energy needs to "fill the pipeline" to ensure they are in a position to negotiate uranium supply deals over the medium and long-term. A global portfolio of assets across the mining and exploration life cycle would allow Toro Energy to enter into meaningful offtake arrangements with utility companies to become the uranium supplier of choice.

Toro Energy has experience in identifying and securing such deals, having acquired Lake Maitland from Mega uranium in November 2013. That acquisition improved the Wiluna Project resource grade and allowed for improved optimisation and efficiency in the planned mining and milling schedule.

It is our view that the Toro Energy management team are actively seeking out additional uranium mining assets to enter into at favourable prices.

Conclusions

Outlook

While sentiment in the uranium market remains cautious, future demand pressure from nuclear power utilities continues to build as supply is curtailed.

The market has been awaiting the restart of the Japanese nuclear fleet as an indicator of market sentiment towards nuclear energy. The restart now having happened, will allow the market to focus on medium-term supply and demand storey for uranium, rather than remaining fixated on events in Japan.

At a company-specific level, Toro Energy continues with prudent financial management and good corporate strategic decision making. It is clear that the partnership with The Sentient Group is a positive one for the company. The financing support and firepower that Sentient brings to the relationship enables Toro Energy to bolster their balance sheet and make tactically savvy acquisitions in a distressed market environment.

Risks

There are undoubtedly risks to investing in a pre-production mining company that we presented in full in a prior publication. We give a summary of the key risks below. Where possible, Toro Energy management has sought to mitigate those risks, but investors must be aware that certain risks are inherent to uranium mining.

- Financing and economic risk
- Permitting risk
- Geology and Metallurgy
- Country risk
- Liquidity risk

Investor Recommendations

We continue to hold a buy recommendation for Toro Energy and would encourage investors to build a position at current attractive price levels.

RealFin Capital Partners

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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 4.6% of Toro Energy.