RealCap Uranium Research Report

Toro Energy Limited

RealFin Capital Partners “REALCAP” Proprietary Limited

Toro Energy – Patiently awaiting the bull

RECOMMENDATION: BUY **TARGET PRICE: A$0.19**

The Uranium market has been depressed for some time in the aftermath of the Fukushima accident. Are we now beginning to see the start of the much anticipated rerating of Uranium prices?

Uranium miners have been constrained by the Uranium price and unable to commence with new exploration or development work as the economic incentive to do so, or to secure financing, has been non-existent.

What is undoubtedly clear is the growing future demand for Uranium as the non-substitutable fuel source in nuclear power plants. While progress has certainly been made in the use of Thorium as a fuel source; the large-scale utility application of this is still many years away. As the emerging world identifies and turns to nuclear energy as a viable clean-air base-load energy solution, suppliers will have to be incentivised to mine, mill and fabricate the fuel.

Those companies who are well positioned to commence development as demand increases will be at the forefront of the Uranium market rerating.

Toro Energy, through careful, consistent and prudent financial management and good strategic decision making are certainly going to be ready to meet those demand requirements. From "just another" junior pre-development miner, Toro Energy has featured prominently in high level talks with India, secured financing through private equity group Sentient and completed a JV deal with Areva Australia. This has taken place while building cash reserves and growing their asset base. Toro Energy should feature in the portfolios of all investors looking for leveraged upside to the potential recovery in the Uranium market.

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. Additionally, RealCap has an Equity Capital Market Services agreement with Toro Energy Limited in terms of which in return for rendering prescribed services, including but not limited to Capital Raising, it receives remuneration.

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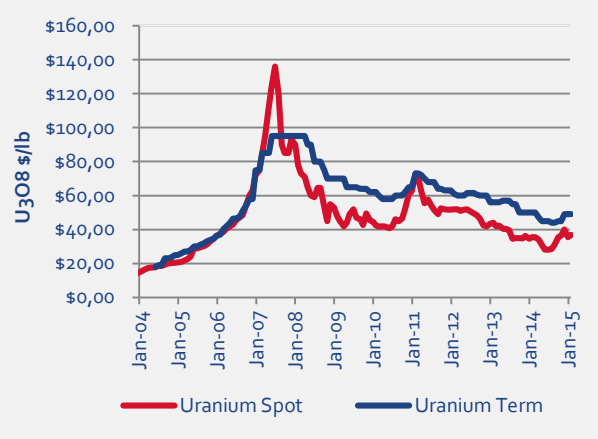
Industry Overview

Uranium price

The Uranium spot price clawed its way back from the $28/lb seen mid-year of 2014 to what some market commentators are now calling the "equilibrium price" of around $38/lb. There was also increased volatility in the daily moves of the price as quoted by UxC, with spot reaching over $44/lb in mid-November 2014 before retracing. While most Uranium contracts negotiated between producers and suppliers are priced at "term" (which is derived from the spot price) rather than spot price; the broad investing public tends to focus on the spot price as an indicator of Uranium market strength.



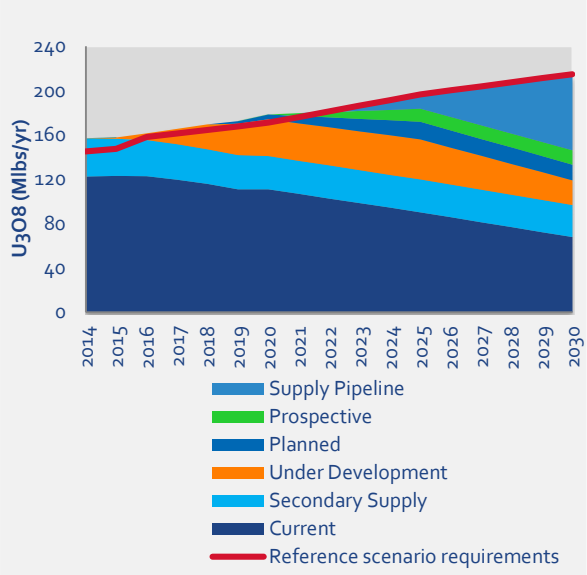
Source: Ux Consulting Company

The key question of course, is whether we are now in a new equilibrium market and Uranium is fairly priced, in other words, demand and supply are balanced. Or, if the recent price action is at last the beginnings of a Uranium price rerating that so many in the industry, suppliers in particular, have been waiting for. UxC reports in their weekly briefing that many market participants attending the NEI winter supply forum in Washington, DC believe there will be more transaction activity seen in 2015. However, it remains to be seen whether this activity will materialise prior to the anxiously awaited Japanese reactor restarts – this is undoubtedly the current key sentiment indicator within the Uranium market.

Demand and Supply

The WNA has a much published chart depicting the demand and supply requirements of the Uranium mining and nuclear energy sector out to 2030. The chart is displayed below and using the WNA's reference case scenario, it is clear that the combination of current mining production and secondary supplies are insufficient to meet the reference case demand requirements beyond 2014.

The WNA assumption is that this demand will be catered for by mines currently under development to 2020 at which point additional supply from planned mines and prospective mines will begin to meet the Uranium output gap.



Source: World Nuclear Association

The WNA scenario will undoubtedly be correct as there is certainly no scarcity of Uranium globally, it is a ubiquitous metal. However, the cost of bringing it out of the ground, processing it to the point at which it is enriched fuel rather than yellowcake and transporting that fuel to where it is required, is far from frictionless. At current Uranium prices, it is simply not economically feasible for many producers to bring Uranium out of the ground and undertake the enrichment process.

This means the supply that is so neatly assumed to match the increasing Uranium demand will still be in the ground. Basic economics dictates that planned and prospective mines will only become operational when mining operations are not loss making and the corporate and institutional financiers that mining operations rely on, are comfortable with the credit-worthiness and payback probability of their financing.

The cost of mining can be broken into various components, the cost of capital for the business itself, construction, operation and maintenance of the mine and decommissioning costs. Uranium mines currently in operation are low cost producers who have focussed their efforts on those assets which remain economically viable in the current market conditions.

In a recent paper titled "A Mine-Based Uranium Market Clearing Model [1]" published by Energies – an Open Access Energy Research, Engineering and Policy Journal – the authors demonstrate that as existing Uranium mines close and exhaust their resources, new mines open and push the marginal costs upward. The authors suggest that at a Uranium spot price of over $120/kg or $55/lb, it will become economically worthwhile for new mines to come online, but even at those prices, only the lowest cost producers will be incentivised to do so. Based on the current Uranium spot price, the market has some way to go before achieving these prices levels.

China

Any examination of nuclear power plant building and future Uranium demand tends to focus on China. With 27 reactors under construction and a further 64 planned, the scale of their nuclear programme dwarfs that of any other country.

As an attendee of the 10th Annual China Nuclear Energy Congress in Beijing in 2014, this report author was struck by a number of points raised by various speakers.

Commitment to nuclear

There is undoubtedly commitment by the Chinese State Government to include nuclear energy as a key component of the country's energy mix. According to the Medium and Long-term Development Plan for Nuclear Power (2010-2020) – installed capacity should be 58 GWe by 2020 with a further 30 GWe under construction. A total of 40 GWe needs to be newly built by 2020. The Chief Engineer from the China Institute of Atomic Energy, Xu Mi, stated that nuclear energy should be the first choice for the reduction of carbon dioxide emissions in China. There is a realisation that although "green technologies" of solar and wind generated electricity are important, they cannot be relied upon for large-scale, base-load supply.

Securing supply

In order to fuel the nuclear energy capacity China intends to bring online, a supply of Uranium must be secured. Within Northern China, 2mT of Uranium resource have been identified and a large-scale mine is to be built there as a strategic base. However, this domestic source is expected to supply around a third of Chinese requirements with another third being secured on the "open" market and the additional coming from foreign suppliers. Kazakhstan is likely to continue to supply most of the foreign-sourced Uranium – the low production costs coupled with geographic location will ensure the Kazakh mines retain their primary supplier status. China has excessive and currently redundant enrichment ability based on Russian technology and it is unlikely they will need to rely on any enrichment capabilities outside of China.

Challenges

While the message from China is pro-nuclear, the fast paced expansion is not without its challenges. "Localisation" is very important for China which is the production and usage of a high percentage of Chinese components wherever possible.

[1] (Auzans, Schneider, Flanagan, & Tkaczyk, 2014)

China is also pursuing multiple reactor technologies which means the standardisation of production and operation is not possible, reducing build and operational efficiency.

Engineering problems have been encountered with reactor builds and technical challenges remain. China remains reluctant to allow the establishment of inland nuclear power plants and therefore all planned construction remains restricted to coastal zones.

Convoluted ownership structures of the nuclear operators, who are essentially owned by the State, create companies running in parallel with competing agendas, technologies and objectives. These multiple agendas seem to create confusion at the State level and have certainly slowed the adoption of standard technologies and reactor builds in realistic time frames.

These challenges create doubt in the Uranium market about the likelihood of China meeting its ambitious nuclear roll-out plan. A "slower" China will dampen Uranium demand thus effecting Uranium prices. Given China's opaque operating style, it is difficult for external observers to come away with a true picture; at best, Chinese actions in the Uranium market can and must be closely watched.

Japan

Post-Fukushima, Japan's nuclear programme has been viewed anxiously by participants within the nuclear industry, particularly those on the supply side. Japan's political will seems in favour of reactor restarts, but the cautious and slower approach that has been taken has caught some by surprise.

On the 24th of February 2014, the Japanese government released its draft energy bill which clearly defined nuclear energy as an important base-load energy source. In July 2014, the Japanese Nuclear Authority approved the restart of the two Sendai reactors. However, eight months on, the market still awaits an official "switch-on" date.

"Switch-on" makes light of the significant cost and process involved in restarting a nuclear reactor, the WNA indicates the implementation costs range from $700m to $1bn. Japan's Nuclear Regulation Authority (NRA) is the body responsible for the safety review and implementation of safety guidelines in consultation with affected local governments prior to reactor restart. These guidelines largely follow standards set by the IAEA, Finland, France and the US. The NRA is on a recruiting drive to ensure they have sufficient staff to actually conduct and handle the necessary reviews, which under ideal conditions, should be a six month process. Assuming rapid processing and approval of all reactors which have applied for restart, there will still be a five year period to get 35 reactors operational.

The Japanese economy, which is particularly energy dependent, is facing an ongoing and steep bill as it imports fossil fuels in order to keep up with energy demands not supplemented by nuclear sources. This cannot continue indefinitely and the political will coupled with the economic cost burden of imported energy must translate into the restart and adoption of nuclear energy once more, even at a measured pace.

India

As mentioned previously, any commentary about nuclear energy tends to focus exclusively on China's programme. However, other parts of the world are making steady progress in the adoption of nuclear energy as a key part of the energy mix and India is one such country with 6 reactor units under construction.

Currently, nuclear energy provides only 3% of India's total electricity generation but the government has stated it intends to lift this to 25% by 2050. At this time 22 reactor units are planned with construction due to start on two reactors in 2015 and a further 35 units are proposed. These are fairly ambitious targets by 2011's fourth largest global energy consumer (behind China, the US and Russia). Given the increasing population size and rapid urbanisation, these energy demands are likely to continue increasing.

As India has been outside the Nuclear Non-Proliferation Treaty due to its weapons programme, its civil nuclear power industry stagnated. However, this is now changing with a recent spate of international deal-making, including deals with the US, France, Russia, Kazakhstan and Australia.

Due to India's previous exclusion from the Uranium market, there has been an internal focus on Thorium fuelled reactor technology as India has abundant Thorium reserves. However, according to the WNA country briefing on India, Indian utilities are still 15-20 years away from using Thorium to a major extent as a fuel source. India is therefore dependent on strategic partners to secure a supply of Uranium and their recent deal with Australia in particular builds on the Civil Nuclear Co-operation Agreement between the two countries that has been two years in the making. In addition to securing Uranium, Australian coal and gas are also to be supplied to India.

India is establishing itself as an important partner to the Uranium mining industry and further co-operation deals and strategic partnerships seem likely in the future.

Energy Markets

The price of Brent Crude oil reached a six year low of under $46 per barrel but has subsequently recovered slightly to $60.53 per barrel. The principle reason for the plummet in prices from a northern hemisphere summer peak of $115 has been oversupply.

There continues to be an excess supply of oil despite the number of US rigs drilling for oil falling to levels seen in 2011, as recently reported by oil services firm Baker Hughes Inc.

LNG prices, particularly in Asia have also fallen dramatically. This is partly in response to the global reduction in energy prices, but also in response to the slower energy demand from Asian countries.

Weakening fossil fuel prices and thus cheaper fossil fuel energy supply make the relative economic argument for other forms of energy generation more difficult. The nuclear energy industry in particular is criticised for high capital costs – it is an expensive and long process to build a nuclear power plant.

However, once the plant is operational, the Localised Cost of Energy is extremely competitive. Additionally, nuclear energy provides the type of base load supply that other clean-air energy sources, like wind and solar generation, are unable to supply.

While the current outlook in energy markets may affect short term investor sentiment towards nuclear energy and thus Uranium mining, over the longer term, these price effects will be muted.

Summary

For Uranium industry members, particularly those on the supply side, there is some feeling of light at the end of the tunnel. The Uranium spot price has moved off its low and continues to steadily tick upwards on a daily basis.

Demand pressure and a long-term demand pipeline is building, not only from China, but also from other emerging market economies. There is increasing industry, political and public recognition that nuclear energy must and will feature as an important clean-air energy source capable of meeting growing global energy demand.

Those companies, who have been sensible in their utilisation and allocation of cash reserves during what has been a protracted downturn, will be well-poised to benefit as the Uranium cycle turns.

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 company structure – the key focus 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 are recent acquisitions (see section on recent company developments) and comprise of an equity and secured debt stake in Toronto-listed Strateco Resources Limited (TSX: RSC). Strateco owns the Matoush Uranium project which has indicated resources of 12.33Mlbs and inferred resources of 16.44Mlbs of U_3O_8. In addition to a holding in Strateco Resources, Toro Energy also holds a 25% direct stake in SeqUR Exploration which has recently spun out of Strateco Resources.

SeqUr has obtained conditional approval to list on the Canadian Stock Exchange and it is anticipated trading will commence in 2015. SeqUr intends to conduct further exploration work on its four properties located in Quebec.

Management and Governance

The management team of any mining industry participant is faced with a difficult challenge of answering to several masters often with conflicting objectives.

Government interaction is key in securing permits and approvals and government themselves needs to balance the potential for mining tax and royalty income with the political climate of their constituents. This can mean governments are motivated to ensure mining companies jump through multiple hoops ensuring any ultimate approval (or not) is backed by documentation that passes the "drop test" for those on whose votes they depend.

Mining operations are by their very nature environmentally destructive and community leaders want to be sure the actions of a mine do not irreparably damage land that has health, economic and potentially cultural significance to their community. Thus, mining management needs to invest in community and environmental relations and incorporate the needs of the community into their planning process.

Mining management also needs to assure those who financially support operations that investor or financier objectives are a key focus. Investors want upside from growth and acquisition strategies, and lenders want to know there will be revenues to service and pay back debt.

It is a difficult task to keep government, community and investors satisfied with progress and engaged with the company whilst taking care of the day job of development, exploration and ultimately mining operations.

It is in managing these conflicting objectives that the management team of Toro Energy excels.

Permitting and approvals

Toro Energy management have demonstrated successful progress in navigating the permitting and approvals process with Australian government. Mining leases are secured for 3 out of the 4 core deposits at Wiluna. The table below reflects the progress made on the various Wiluna properties.

Deposit	Government & Environmental Approvals	Mining Leases Granted	Traditional Owner Agreement
Centipede	Approved	Approved	2014
Lake Way	Approved	Application	2014
Millipede	Anticipated 2016	Approved	2014
Lake Maitland	Anticipated 2016	Approved	2014
Dawson Hinkler	Post 2016	Application	Negotiations 2016
Nowthanna	Post 2016	Post 2016	Negotiations 2016

Source: Toro Energy; September 2014

Toro Energy has also received approval from the Board of the Western Australian Environmental Protection Authority for the Environmental Scoping Document submitted in respect of the plan to integrate the Millipede and Lake Maitland properties into the extended Wiluna project. This approval was announced to the ASX on the 18th of February 2015. The approval allows Toro Energy to continue with the preparation of the Public Environmental Review which they intend to finalise and release in mid-2015.

This is another positive step forward in the permitting and approvals process for Toro Energy.

Community engagement

The Wiluna Martu Peoples are the traditional owners of the land proposed for the Toro Energy Wiluna Uranium Mine.

In 2009, Toro Energy began the engagement process with the Senior Lawmen of the Martu People in order to discuss health and cultural concerns. In a statement issued by the Senior Lawmen of the Martu People via the Central Desert Native Title Services, they assert: "The Senior Lawmen believe Toro have listened to their concerns. By modifying their mine planning and agreeing to a private regulator, Toro have recognised the Martu People's cultural responsibilities and unique position as traditional land users."

The Martu People are ready to move forward with Toro Energy in formal discussions and this reflects that they have been pleased and encouraged by the approach Toro Energy have taken in addressing their concerns and collaborating with them.

Investor relations

Small or junior mining companies are not renowned in the investment community for good investor relations or corporate governance – "the Wild West" is a phrase often applied to juniors the world over.

Toro Energy however, is an exception to the junior generalisation and their level of engagement and provision of timely and transparent financial and geological information to investors is notable. While obviously compliant with that requirements of the Australian Stock Exchange, through their interactions with the global investment community they have built a reputation for "doing things properly".

This is testament to the strong management team and an indication of the ethics, principles and conscientiousness with which they operate. If a company does not cut-corners during an arguably difficult period in which to have been a junior miner, it provides comfort to investors that as and when production commences, that same level of integrity and perfectionism will be applied to mining operations.

Recent Company Developments

Corporate Announcements

Toro Energy has been through a busy corporate phase and there are a number of recent developments worth reviewing.

Sentient deal

Toro Energy received a cash and asset injection from The Sentient Group, an independent private equity firm specialising in the global resources industry. The Sentient Group manages $2.7bn in global resource assets.

In terms of the deal, Toro Energy will receive A$10m in placement proceeds (A$7.5m reflecting tranche 1 received in December) and A$10m in unitisation proceeds as a result of direct investment into the Wiluna project.

In addition to the cash injection, Toro Energy now holds a 19.8% equity interest in Toronto listed Strateco Resources Inc (TSX: RSC). In addition to the common shares, Toro Energy holds C$3m senior secured loan and C$14.1m in a convertible note.

Also as part of the deal, Toro Energy has a 25% equity participation in SeqUr Exploration – a Canadian exploration company spun-out of Strateco.

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 arising from the 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 alleging a "lack of social acceptability" – not a concept defined in Quebec legislation.

At first glance, it would seem Toro Energy should have steered clear from a deal where their first inroads into the Canadian Uranium mining market sees them indirectly at odds with the Quebec government. Toro Energy however, have in many senses, been here before. In Western Australia, they were faced with a government which had disallowed Uranium mining and indigenous people who had never been engaged in the Uranium mining process and were anti-mining companies in general. However, Toro Energy have proven themselves capable of navigating political and community issues successfully and this is a process they will attempt to repeat and influence in Canada.

Should the litigation process look likely to succeed, Toro Energy will be able to exercise their convertible note and participate as a significant shareholder in the claim proceeds.

In the event that the litigation outcome does not look favourable, Toro Energy will also be able to exercise their option, mostly likely at a very low price at that point, and have the opportunity to come into Strateco and the Matoush project as a "fresh team". Toro Energy management will be well positioned to engage with the Quebec government relatively untainted by historic events.

In the interim, Toro Energy will focus on extracting value out of the debt assets which are secured over the Matoush project and work with Strateco management to seek a positive resolution with the Quebec government and community.

SeqUR exploration

Having spun-out of Strateco Resources, SeqUR, which has been granted conditional approval to list on the Canadian Stock Exchange, is a Greenfields exploration company which houses four properties under the Jasper Lake project located on the Eastern side of the Athabasca basin. Airborne geophysical surveys need to be undertaken to assess the potential of the properties.

Other benefits

Toro Energy has the opportunity to derive other benefits aside from the cash and assets invested by The Sentient Group.

One of the members of Sentient's portfolio is Enirgi Group Corporation, a private Canadian company. Enirgi own and operate a fairly diverse portfolio of energy related assets and technologies and are particularly innovative in their approach to metallurgical processing. Enirgi are active in Australia through their division Enirgi Metal Group or EMG. EMG operates Rosslyn Hill Mining, an open-cut lead carbonate operation (Paroo Station Mine) just outside of Wiluna. They also operate a recycling operation which collects end-of-life junk batteries and converts these used batteries into soft lead or lead alloy. Enirgi's technological advances and world-leading approach to metallurgical processing offer Toro Energy an ability to technically enhance their mining process by collaborating and leveraging off the relationship with Enirgi via their mutual investor Sentient.

In addition to intra-portfolio synergies, an investment by a globally recognised firm such as The Sentient Group, has the intangible benefit of raising the profile of Toro Energy. Private equity firms do not make investments lightly, but would have undertaken a rigorous due diligence assessment of Toro Energy's assets, intended strategy and management team. A private equity firm by its very nature will select assets for its portfolio where it believes the upside and realisable potential of such an asset to be very material. Toro Energy has passed this test.

India relationship building

As outlined in the industry overview above, India is establishing itself as an important player within the nuclear energy arena and has its own ambitious nuclear energy roll out plan and targets.

The Toro Energy managing director, Dr Vanessa Guthrie has played a key role in the establishment of the relationship between India and Australia. She has recently been appointed by the Australian Prime Minister to the Australia-India CEO Forum. The purpose of this forum is to strengthen and drive forward the economic bilateral agreement between India and Australia.

This appointment followed from Dr Guthrie's 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 the Australian Trade and Investment Minister, Dr Guthrie has just participated in the Australia Business Week in India 2015 trade mission held in January 2015.

The ability of Dr Guthrie to represent Toro Energy and Australia's Uranium mining industry in high-level talks with Indian counterparts is extremely positive. Not only is Toro Energy's profile raised once again globally, but more importantly, Toro Energy is at the forefront of the potential supply and collaborative deals with Indian nuclear power utilities.

There are a number of Indian companies who currently have a presence within Australia and Toro Energy is now well poised to begin introductory talks with those parties. This could be very beneficial in securing a stable and long-term partner for an off-take agreement.

Joint Venture with Areva Resources Australia

In what can be considered a lowly publicised deal to date, Toro Energy entered into a Joint Venture agreement with Areva Resources Australia, the subsidiary of Areva (PSE: AREVA) to collaborate on exploration on Toro Energy's Wiso Basin exploration property in Australia's Northern Territory. This was announced on September 29th, 2014.

In terms of the JV, Areva undertakes to commit A$500 000 within two years of the agreement for a 51% interest and has the option to spend an additional A$1.5 million over the following four years for a further 29% interest. This would take Areva's stake to 80%.

There is enormous significance in this JV which was concluded through negotiations with top Areva management in London and Paris that is perhaps underappreciated by the investment community.

Reviewing the deal itself, Toro Energy has de-risked its exploration property by passing off significant exploration costs to Areva. The Wiso Basin is relatively underexplored but Toro Energy conducted a SkyTEM airborne electromagnetic survey covering 1625 square kilometres in July of 2010 together with the NT Department of Resources. From these geophysical surveys, Toro Energy has identified a possible palaeochannel system with the potential to deliver a Uranium mineralising system similar in size and scale to those mines found in Kazakhstan. Significant further exploration studies are required and Toro Energy now has a global brand name partner to share the burden of the exploration costs.

Aside from the benefits of sharing exploration costs, the JV is significant for two other reasons. Firstly, global Uranium companies have shown little to no interest over recent years in initiating or participating in exploration projects. In fact, many have withdrawn from ventures. Areva's decision to enter into an exploration project could be an important signal in the Uranium cycle. Uranium industry participants, including the WNA, build their demand-supply projections on the basis that planned and prospective mines will come on-stream in the coming years but the industry at large has been unwilling and unable to undertake the necessary exploration as the incentive price to do so has been lacking. Areva's decision perhaps reflects a good medium term strategy and anticipation of rising Uranium prices.

The second reason for significance is all about Toro Energy. A relatively small by global standards, pre-production mining company has completed a deal with the big fish of the industry.

For such a deal to have been done, Toro Energy had the opportunity to engage with Areva's management at the highest levels. Toro Energy are no longer an unknown quantity to Areva and while the relationship between the two may still be new and untested, there must surely be open doors in France and a receptiveness to hear about Toro Energy's plans.

The future potential benefit of an alliance with Areva for Toro Energy and the Wiluna Project cannot be understated.

Corporate Strategy

Given all the recent corporate developments, what is Toro Energy's likely strategy for 2015?

Wiluna

The Wiluna Project is certainly a key focus for the company. Wiluna remains the only Australian Uranium mine perfectly positioned to commence operations to meet the supply shortfall anticipated from 2017 onwards.

2015 will see Toro Energy undertake a review of all economics of the Wiluna project and continue with the securing of the necessary permits and approvals and further community engagement. Further, using their substantial war chest, Toro Energy will be focusing on ensuring further efficiency with regard to the capex and opex associated with Wiluna. We believe their endeavours in this area will be successful.

Also under review will be the geological survey results. In September 2014, Toro Energy released the results of a close space drilling programme conducted on the four key Wiluna properties. The results of this programme enabled Toro Energy to release an ASX announcement of "positive disequilibrium".

In three of the four zones, continuous mineralisation with consistent grades of over 1000ppm were found; these confirm the potential for Toro Energy to operate and deliver on the proposed high grade operating strategy as planned in the current project economic model.

Further testing and assessment has commenced and these results will be incorporated in the revised project economic model.

Cash flow management & financing

Toro Energy has an enviable cash position for a pre-development miner and explorer. Following on from the Sentient deal, Toro Energy had a financial year end cash balance of around A$25m with a further $2.5m due from Sentient. At a first glance the Sentient transaction would appear over dilutionary, however, for an Uranium mining company of Toro Energy's size to raise the amount of capital it did places them firmly in the driving seat to not only ride out the current tough environment Uranium explorers find themselves in, but to take maximum advantage of it. In this Uranium market "cash is king" and for this reason we were greatly encouraged by the Sentient transaction.

The prudent use of their cash balance and the continued assessment of potential off-take agreements and finance options will continue. Toro Energy will also continue to look at potential acquisition properties, exploration companies in particular and will assess them on a case-by-case basis.

Toro Energy's financing deal with Macquarie Bank – a fully utilised A$12m facility becomes due in March 2016. Over the course of this year, Toro Energy will make a determination on how best to pay-down, roll-over or restructure the facility to best serve corporate interests.

The Australian Government introduced a Research and Development Tax Incentive scheme to promote R&D by Australian companies if their aggregated turnover is less than A$20m.

Toro Energy qualifies for this incentive scheme and is eligible for a 45% refundable tax offset on R&D expenditure. In very simplistic terms, this means that for every A$10m spent on R&D, a refundable amount of A$4.5m is due. Utilising this scheme will enable Toro Energy to effectively leverage up on R&D work and maximise the production potential of their cash.

Toro Energy Valuation

Valuation model construction

In order to determine a valuation for Toro Energy, a discounted cash flow model (DCF) approach has been adopted.

Importantly, only the Wiluna project has been attributed any value in the modelling process. While Toro Energy holds other assets in the form of the Theseus Exploration Project in Australia, a JV with Deep Yellow in Namibia, an equity stake in Strateco Resources and an equity stake in SeqUR both in Canada; these properties are still in their infancy when compared with the geological, budgeting, planning and permitting work conducted at Wiluna. As such, we have assumed an equity or asset value of zero for all of the above ventures.

At a balance sheet level, Toro Energy holds two debt assets secured by Strateco's Matoush project. These comprise of a C$3m senior secured loan and a C$14.1m convertible note. Toro Energy's balance sheet reflects just over A$25 million of current assets comprised predominantly of cash and just under A$1 million in current liabilities. A fully utilised long term financing facility of A$12 million is payable to Macquarie Bank in March 2016.

Current Operating Parameters & Estimates - Wiluna

Capital expenditure

Toro Energy's capex budget currently reflects an amount of A$316 million required in order to commence operations at Wiluna.

This capex 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.

Toro Energy are very focussed on assembling 2015/16 cost estimates for this capex budget and plan to utilise a portion of the A$10 million unitisation cash injection from the Sentient deal to facilitate an economic re-analysis. We believe that the ultimate capex number will be lower than current estimates, perhaps as much as 20%. In addition to the upfront capex required, additional capex amounts will be expended as Toro Energy moves through mining on the sequence of properties which make up Wiluna. An amount of A$50 million is estimated for this capex requirement over the life of the Wiluna project.

Based on the above, for the purposes of our valuation we have assumed capex of A$300m - A$250m upfront and A$50m over the life of the project. We believe we are being conservative and that the ultimate capex cost will be lower.

Operating expenditure

Operating expenditure is a function of mining production and is commonly quoted in US$/lb. Toro Energy currently have an average opex cost over the mine life of US$31.1/lb. Again, an economic reassessment is being undertaken as a priority for 2015/16 and we believe opex savings of around 10% are likely. This brings opex costs lower to a likely US$28/lb. It is important to note that opex excludes mining royalty charges (payable to the State government and Traditional Owners), tax, depreciation and other company administrative costs.

The opex figure does however, include post-mining rehabilitation costs. Toro Energy plans to return waste material to the mine pits during mining operations.

Resources and production output

Across the 4 primary Wiluna properties (Centipede, Lake Way, Millipede and Lake Maitland) a total resource of 36.7Mlb's of U_3O_8 at a 500ppm cut-off is reflected on the Project Resource Table which was prepared in accordance with JORC 2012 in November 2013.

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

The disequilibrium results announced in September 2014 provide evidence of an enhancement to the U_3O_8 resources and grade available. Factoring in these results, it seems likely that currently forecast 2Mlb's of annual production is a floor estimate of what actual mining output will be.

Wiluna discounted cash flow model

Using the current and economically improved capex, opex and mining production figures for the Wiluna project, a DCF model has been constructed.

The model also requires 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

By stress testing the above factors, the economic feasibility of the Wiluna Project under different market climates can be determined.

Wiluna Project capex financing

The initial capex requirement to commence mining operations will need to be financed via equity issuance, or debt or a combination of the two. The selection of financing has impact not only on the project cash flows, particularly if there is a debt component which needs to be serviced, but more importantly on the valuation of Toro Energy itself.

If the Wiluna project is financed through equity – assuming there is market appetite for such an equity raise – the new share issuance will be dilutive to existing shareholders. When examining Toro Energy's recent corporate activity, it would seem highly likely and beneficial to Toro Energy shareholders for Toro Energy to enter into substantial long term off-take contracts with an Indian Utility company.

Such a contract with the assured purchase of output could readily be used as security against debt financing. By securitising long-term purchase contracts, we believe Toro Energy will 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 to existing and new shareholders. We are aware that Toro Energy management are keen to explore the option of selling off a portion of the project, however, we do not believe this is the best option and have not considered it for valuation purposes.

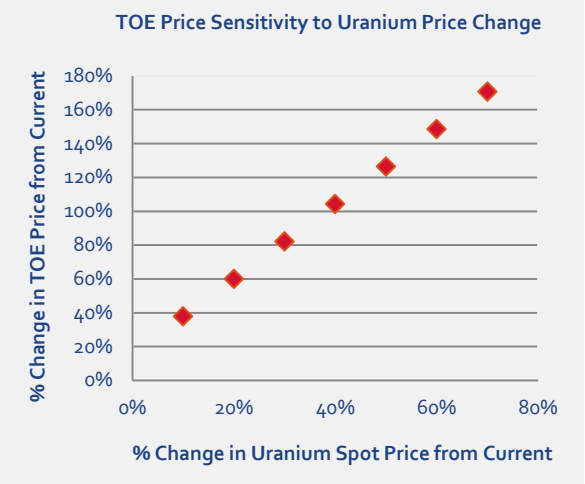
Finally, for the purposes of our valuation we have assumed that mine construction starts at the end of 2016.

Valuation Model Output

The output of the DCF valuation model has two inter-related components. Firstly is the Net Present Value (NPV) of the Wiluna Project itself, and then given that NPV and adjusting for the Wiluna financing structure and other balance sheet items, the second component of a suggested share price for Toro Energy can be derived.

Given the current Uranium price, Toro Energy shares are marginally undervalued relative to the current trading price of A$0.085[2]. At the current share price, it is not efficient for Toro Energy to raise any equity financing and at current Uranium prices securing long term off-take contracts to utilise as security for debt financing would likewise inadvisable (notwithstanding that in current conditions such contracts would be perhaps impossible to secure). However, given the macroeconomic outlook, the clear Uranium supply shortfall pressure building, Toro Energy's growing relationship at very high levels with India; it must surely be feasible for Toro Energy to secure long term delivery contracts with an Indian utility when Uranium prices have recovered further.

On the assumption that a distribution channel is secured and that contract is securitised, the Wiluna Project and Toro Energy exhibits the sought after leveraged upside to the Uranium price recovery exhibiting a beta to Uranium spot price of 2.2.



Source: RealFin Capital Partners Computations

[2] Toro Energy closing price – 18 February 2015

Base case valuation

This base case valuation for Toro Energy relies on the following input parameters.

Parameter	Value
Uranium Spot Price	US$55/lb
Uranium Term Premium over Spot	30%
Discount Rate	10%
Term/Spot Revenue Mix	80%/20%
AUD/USD*	0.80
% Capex Financing from Equity	50%
New Equity Issuance Price	A$0.15
% Capex Financing from Debt	50%
Interest Rate on Debt	8% NACA
Debt Term	12 years
Capex	A$300 million
Opex	US$28/lb
Non-opex Cost	A$4 million pa
Royalties	5.5% of output
Mining Production	2Mlb's pa
Tax	30%
Project Commencement	2016/17
Production Commencement	2018

** Prior to 2019, the respective forward curve rates are used*

This valuation assumes a recovery in the spot price of Uranium to $55/lb from 2016 onwards. We believe that such a price recovery is realistic given the current market environment and building demand-supply imbalance pressure.

Using these base case inputs, suggests an NPV for the Wiluna Project of A$428 million and a Toro Energy share price post-issuance of A$0.19.

It is important to note that Toro Energy is unlikely to pay any tax over the mine life. This is due to the combination of a balance sheet assessed loss of A$100 million plus an immediately usable assessed tax loss of A$350 million that arose out of the issuance of Toro Equity shares through the Nova merger in 2007.

It is also important to reiterate that this valuation assumes a zero value for Toro Energy's exploration properties and also places no value on the potential production output from Dawson Hinkler and Nowthanna.

Upper case valuation

The upper case valuation assumes a future Uranium spot price of $70 from 2016 onwards and an equity issuance price of A$0.26 for new equity. These inputs provide an NPV for Wiluna of A$682 million and a target share price of A$0.33.

We do not believe such a dramatic Uranium spot price rerating is likely to occur in a 12 month time frame, but this valuation serves to provide an upper expectation range to a future share price. The Uranium spot price may well move to $70/lb over a 3 year time horizon.

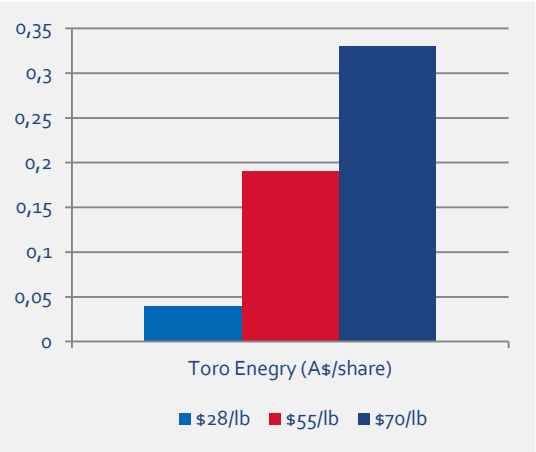
Lower case valuation

The lower case valuation for Toro Energy would mean Uranium prices retest lows of $28/lb for a sustained period of time.

Although we can produce a valuation on this low price basis, it is fair to say without the ability to move from exploration to production, through a Uranium price rerating which allows for the securing of capex, Toro Energy would be simply trying to extract value from their exploration assets. Under these conditions, Toro Energy shares would fail to deliver any upside from current levels and investors would likely see shares fall to A$0.04 – A$0.06.

Summary

The chart below depicts our valuation scenarios for Toro Energy assuming a range of future Uranium spot prices.



Source: RealFin Capital Partners Computations

Conclusions

Outlook

The outlook for the Uranium market as a whole and Toro Energy in particular is beginning to look increasingly positive. There is demand pressure building from nuclear power utilities but given the Uranium price over the last few years, the production, development and exploration activities required in order to meet the end-user demand have been lacking.

The WNA acknowledges that additional Uranium supply will need to come from planned and prospective mines, but the Uranium price needs to be at a level to incentivise this production. The Uranium spot price is now showing signs of a recovery and additionally, the global demand for Uranium fuelled power continues to grow in China and India in particular.

The market has been awaiting the restart of the Japanese nuclear fleet as an indicator of market sentiment towards nuclear energy. It now seems increasingly likely that two Japanese reactors will come online in the coming months.

At a company specific level, Toro Energy has "survived" a very difficult period for a pre-production Uranium mining company. Through prudent financial management and good corporate strategic decision making, it now finds itself extremely well positioned to commence production to meet the demand requirements from the market. A strong cash position and strategic alliances with India and Areva add to the production potential.

Risks

There are undoubtedly risks to investing in a pre-production mining company. 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

Toro Energy requires capex financing in order to commence operations at Wiluna. However, with the Uranium price still below levels that make mining economically attractive, raising sufficient financing to commence production will be unlikely. Additionally, Toro Energy will need to refinance their A$12 million facility from Macquarie in March 2016. They will pay-down, roll-over or restructure the facility to best serve corporate interests.

Toro Energy are not simply waiting for market conditions to improve, they have been actively preparing for a price rerating eventuality and working hard to strengthen their balance sheet and establish key relationships with potential off-take partners and large corporates. The work done thus far in establishing relationships with India through Dr Guthrie's participation in the Australian Trade delegation and her recent appointment to the Australia-India CEO forum will, we believe, ultimately result in an off-take agreement with an Indian utility which will provide the revenue security for Toro Energy to raise the required capex.

The recent deal with Areva Resources Australia, which gives indication of being the first of other potential collaborations with Areva, also provides the corporate credibility and critical mass for Toro Energy to raise financing.

From an economic risk perspective, Toro Energy is actively pursuing a reduction in capex and opex across the Wiluna project. This dedicated focus on project economics and budgets will result in investor upside when production commences.

Permitting risk

Toro Energy has made very strong advances in securing the necessary permits from the Western Australian government and traditional owners. Permitting risk does however remain across the Wiluna property and Toro Energy management needs to continue with the positive progress to date in securing the remaining requirements for Wiluna. This is a strong corporate focus over 2015/16.

Geology and metallurgy

In any mining project, until mining operations actually commence, there cannot be absolute certainty about the size and grade of the mineable portion of the property. This risk will remain for the Wiluna project, despite positive disequilibrium results and a well mapped, contiguous mining property.

In all reporting of project resources, Toro Energy has been compliant with JORC 2012 reporting standards.

Country risk

Australia is a recognised, first-world environment in which to operate. The regulatory oversight of the Australia financial services authority and mining industry bodies provides comfort for investors. However, there is some degree of political, foreign exchange and geographic risk that remains when operating in Australia. From a political perspective, a shift in the political climate could mean the securing of the remaining permits becomes difficult or agreement with Traditional Owners reaches an impasse. Toro Energy's conduct thus far has sought to mitigate this risk, but political events will be outside of management control.

Toro Energy bears a large portion of operating costs in Australian Dollars while selling an end product in United States Dollars. A degree of foreign exchange risk remains for Toro Energy which could affect profitability and cash flows. During actual production, Toro Energy will have the ability to make sensible decisions on exchange rate hedging through the use of currency forward contracts.

From a geographic perspective, Australia does not have the inherent geographical advantage that a Uranium supplier like Kazakhstan has in supplying major future buyers (China, India etc.). The requirement for specialised transportation and logistics of a milled and possibly enriched product will be factored into any potential off-take agreement.

Market risk

The Uranium market has been deeply affected by the Fukushima accident.

While numerous lessons have been learned and new safety measures put into practise across the nuclear power industry, there remains the possibility of another unforeseen nuclear accident.

In the event of another accident, it can be assumed that global governments will face severely negative sentiment to the use of nuclear energy as a key part of the energy mix – this will have a knock on effect through the nuclear industry by removing Uranium demand and likely leading to another Uranium price collapse.

Another potential market scenario is that the Uranium price never actually recovers sufficiently for a pre-production company like Toro Energy to secure an off-take agreement and financing and commence production. In this "non-event" scenario, Toro Energy will be stuck in pre-production and planning mode which will over time erode their currently strong financial position.

Liquidity risk

The traded volume on Toro Energy stock is not particularly high, but adequate for a pre-development mining company. Investing in smaller cap companies always carries with it an inherent liquidity risk that must be considered prior to an investment.

Investor Recommendations

We believe a Uranium price rerating will happen, and that it is simply a matter of "when". Nuclear energy remains an important part of the energy mix, particularly for developing economies. Using this macroeconomic outlook, and factoring in the risks of an investment and potential investment upside, would recommend investors take advantage of current market conditions to purchase a stake in a well governed and perfectly positioned company to take advantage of the expected Uranium industry rerating.

Our recommendation is for investors to begin building a portfolio position at current price levels and we are targeting a base case share price of A$0.19 – approximately 125% upside from current levels.

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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 4.7% of Toro.

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