

RealCap Uranium Research Update

Toro Energy Limited

Background

Toro Energy (ASX: TOE) is a Perth-based uranium explorer and pre-production miner. Its principle asset, The Wiluna Project located 30 km south of Wiluna in Western Australia has 84 million pounds of U_3O_8 – sufficient resources to mine for 20 years.

The company has received State and Federal Environmental approvals for the Centipede and Lake Way deposits and is currently seeking approval for the Millipede and Lake Maitland deposits which together make up the Wiluna Project resource.

Recent Announcements

On the 7th of July, Toro Energy concluded and signed an agreement with the Wiluna People, the traditional owners of the land on which Toro Energy wants to mine.

The title covers 48 thousand square kilometres in area and encompasses Millipede, Centipede and Lake Way, three of the four deposits making up the Wiluna Project.

By concluding this agreement, which has been seven years in the making, Toro Energy has laid the foundation for a long-term relationship with the Wiluna People. This will not only ensure ongoing communication and consultation between the two groups to safeguard both the environment and cultural heritage but also enable the Wiluna People to conduct radiation monitoring and testing themselves as the project progresses.

Compensation will also be provided to the Wiluna People by Toro Energy as well as funding for other community-based projects.

Toro Energy's share price reacted positively to the announcement, closing above A\$0.05 on the 8th of July.

Toro Energy Share Price (AUD)



Uranium Market Outlook

The uranium market conditions to be challenging for uranium mining companies and investors alike. After nearing \$40 per pound in early 2015, the price has fallen sharply again during the first half of 2016 and is currently \$26.50 per pound.

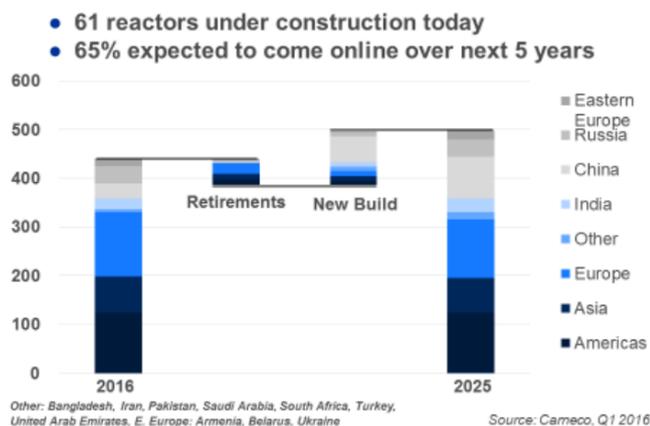
Uranium Spot Price (USD)



At current prices, it is nearly impossible for any pre-production uranium mining company to commence operations, and those miners in production continue to moth-ball higher cost projects and delay any capital expenditure intensive expansion at existing mines. Globally, there is a focus on "Tier 1" assets, those mines that can produce uranium at around \$20 per pound with production at "Tier 2" and "Tier 3" assets being suspended indefinitely.

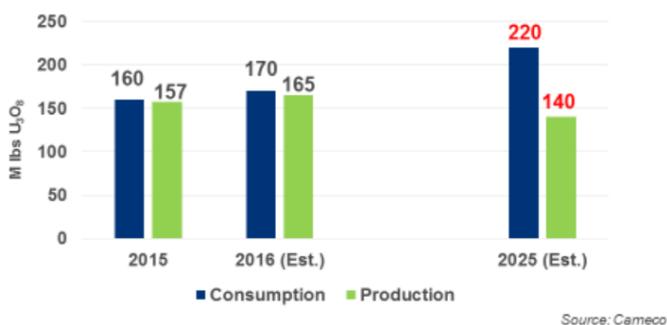
Even as supply-side price uncertainty persists, there has, in fact, been no pause on the demand side of the equation. The growth in new reactors continues at a rapid pace as is demonstrated in the chart below from Cameco Corporation (TSX: CCO).

Substantial Reactor Growth



Also encouraging for producers is that Cameco forecasts that only 35% of uranium consumed over the past three years has been replaced under long-term contracting.

Consumption Outpaces Production



Based on the reactors currently under construction and scheduled to come on-line, the estimated consumption requirement for uranium by 2025 is 220 million pounds. This is significantly more than the level of production seen in 2015 of 157 million pounds (~71 000 tonnes) and more than the forecast level of production in 2025 of 140 million pounds. To put this differential into perspective (a forecast shortfall of 80 million pounds in 2025) it is worth noting that Australia's 2015 national production was about 12.5

million pounds. So, there is a potential future supply shortfall of 6.4x the total annual Australian uranium production. However, given spot current prices, there is simply no supply response in action. Supply is moving in the opposite direct, contracting rather than expanding despite the certain future demand.

Part of the downward pressure on uranium spot prices has undoubtedly come from Japan. While the Japanese nuclear reactor fleet remains largely off-line, a large amount of excess capacity has built up in the enrichment phase of the nuclear fuel cycle. This has led to enrichers selling pre-enriched uranium into the spot market, rather than enriching and this puts downward pressure on the spot price.

Japanese reactors have taken delivery of some of their fuel stocks while being non-operational and this "stockpiling" has impacted on sentiment. It adds to concerns that even if the fleet does become fully operational, they will not need to contract as they have more than sufficient reserves on hand.

While the longer-term fundamental case for the uranium market remains very good, increasingly so, the short-term price is still likely to take its cues from Japan. Five Japanese reactors have been approved for restart, with two currently operational. There is still some opposition in Japan to the restarting of the other three and the process of bringing those on-line may take some time yet.

For those investors who appreciate the economic fundamentals, entry into uranium miners at current prices would seem a particularly asymmetrical trade. It is highly unlikely that there is any downside from these levels and the upside potential from those companies with high-grade, proven reserves is particularly compelling. There have been a number of high-profile investors of late that are accumulating positions in the uranium miners, and they will be rewarded for their ability to look beyond the sentiment.

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