November 3, 2016
**Company Update**

Equity Research

# CAMECO CORPORATION

## Q3/16 results beat on top line while EPS in-line. FY revenue guidance lowered

### EVENT

Cameco released its Q3/16 financial results that exceeded our and consensus revenue estimates and were in-line on the adjusted EPS figure.

### BOTTOM LINE

**Positive** – Revenues of $670M topped both our and consensus estimates ($631M and $635M respectively) and adjusted EPS was in-line at $0.29 per FD share. The revenue variance can be attributed to sales volumes of 9.3M lbs. which exceeded our forecast of 6.6M lbs. for the quarter. In terms of FY16 guidance, production is expected to remain at 25.8M lbs. but consolidated revenue was revised lower to a change of -10 to -15% from 2015 levels (previously -5 to -10%). Capex is expected to total $245M, down from $275M guided previously. We maintain our Buy recommendation but are lowering our target price to C$17.10, or by 5%, to account for the reduced revenue guidance and to revise some previously low expense estimates higher.

### FOCUS POINTS

- **Revenues above, EPS in-line** – Cameco reported fully diluted Q3/16 adjusted EPS of $0.29/share, which was in-line with our and consensus forecasts of $0.29/share. Revenues of $670M was above our estimate of $631M and consensus estimates averaging $635M.
- **FY Guidance adjustments** – Revenues are now expected to decrease by between 10%-15% (previously 5%-10%) versus FY/15 ($2.754B) on a consolidated basis. FY capex has been lowered by 11% (now $245M) but production volumes have been maintained at 25.8m lbs.

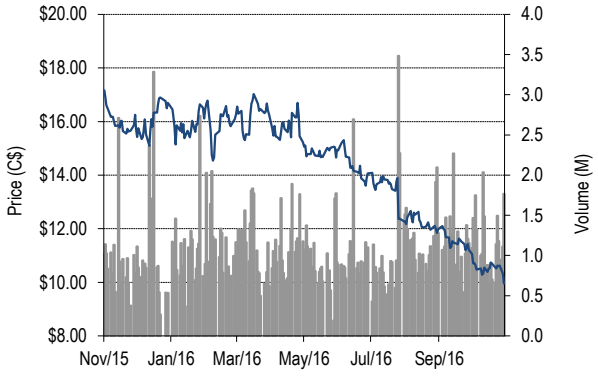
| **Recommendation:** | **BUY** |
|---|---|
| Symbol/Exchange: | CCO/TSX; CCJ/NYSE |
| Sector: | Metals and Mining |
| *All dollar values in C$ unless otherwise noted.* | |
| Current price | $11.15; US$8.32 |
| One year target: | C$17.10↓ |
| Return to target | 43% |
| Market Capitalization | $4.4B |
| Cash on hand | $199M |
| Yield | 3.6% |

### Company Summary

| | | | |
|---|---|---|---|
| Shares O/S (M) | 395.8 | 52-week range | $9.95- 17.17 |
| Market cap ($M) | $4,413.1 | Avg. weekly vol. (000) | 5.310 |
| Market float ($M) | $4,408.7 | Fiscal year-end | 31-Dec |

| | 2015A | 2016E | 2017E | 2018E |
|---|---|---|---|---|
| Uranium Production (M lbs) | 28.4 | 25.8 | 25.6 | 27.3 |
| Revenue ($M) | 2,754.4 | 2,548.8 | 2,263.7 | 2,738.7 |
| Operating Cost ($M) | 2,057.3 | 2,076.1 | 1,909.8 | 2,058.3 |
| Avg Cost (US$/lb) | $33.85 | $25.07 | $18.78 | $20.56 |
| EBITDA ($M) | 775.9 | 603.9 | 469.9 | 814.0 |
| EPS | $0.86 | $0.75 | $0.06 | $0.72 |
| CFPS | $1.29 | $0.74 | $1.20 | $2.05 |

Source: Company Reports and Cantor Fitzgerald Estimates




**Company profile:** Cameco Corporation is a world leader in uranium mining and processing, with additional exposure to fuel trading. Cameco's uranium mines and projects are situated predominantly in Canada, U.S., Kazakhstan, and Australia.


**Rob Chang, MBA**
RChang@cantor.com
(416) 849-5008

**Associate: Michael Wichterle, MBA,CAIA**
MWichterle@cantor.com
(416) 849-5005

***Sales/Trading* — Toronto:** (416) 363-5757, (866) 442-4485


*See disclosure and a description of our recommendation structure at the end of this report.*

## REVENUES BEAT WHILE EPS COMES IN-LINE

Cameco reported a Q3/16 fully diluted adjusted EPS of $0.29/share, which was in-line with our and consensus forecasts of $0.29/share (note the $0.30/share adjusted earnings figure reported by Cameco uses a diluted share count that is the same as the basic share count since none of the options are currently in the money). Revenues of $670M were above our estimate of $631M and consensus estimates averaging $635M.

Though quarterly production from the uranium segment (5.9M lbs.) was in-line with our forecast, sales volume (9.3M lbs.) and average realized pricing (US$43.37/lb.) came in above our estimates (6.6m lbs., and US$41.50/lb., respectively). Sales volumes from the NUKEM division (1.5M lbs.) and from the Fuel Services division (3.5M kgU) were below our forecasts that called for 2.8M lbs. and 3.9M kgU respectively.

The 36% year-over-year increase in uranium revenues was largely due to a 35% increase in sales volume (9.3M lbs. $U_3O_8$), with the average realized price of US$43.37/lb. remaining largely flat when compared to the US$43.61 in Q3/15. Note that in C$ terms, the average realized price for the quarter totaled $56.34/lb. as compared to $56.07/lb. in Q3/15. Net earnings amounted to $142M however after adjusting for forex derivatives (-$27.0M), a Rabbit Lake reclamation provision (-$6.0M), and income tax on adjustments (+$9.0M) a $118M adjusted net earnings figure amounted to adjusted fully diluted EPS of $0.29/share.

Note as well that during the quarter, Cameco agreed to terminate two long term contracts with two of its utility customers. The contracts were effective for the periods between 2016-2020 and 2016-2021. The resulting gain on contract settlement amounted to $59M. Cameco noted that the termination was driven by risks seen by Cameco with the contracts. While no specifics were given, examples of relevant risks included: customers in unsupportive jurisdictions and those in regions with economic uncertainty due to the competitive landscape of electricity providers. In these situations, management decided to monetize potentially uncertain future cash flows for sure current cash flows. Cameco is not currently in talks with any customer concerning the cancellation of any other outstanding contract.

Please see Appendix A below for the full Q3/16 variance table.

## OPERATIONALLY, AN IN-LINE QUARTER OF LOWER PRODUCTION

Total production volume of 5.9M lbs. $U_3O_8$ during the quarter was in-line with our forecast. Volumes were 28% lower as compared to Q3/15, mainly due to lower production from McArthur River/Key Lake, Inkai, and none from Rabbit Lake which is now on care and maintenance.

The total cost per pound (produced) came in at C$29.38/lb. vs. our estimate of C$31.02/lb. This continues a positive trend when compared to Q2/15 when costs amounted to C$41.17/lb. though the prior quarter figure of C$27.03/lb. was slightly higher. One can clearly see the impact that lower cost Cigar Lake production is having and we expect this figure to continue to improve as the

impact of the curtailments of higher cost operations flow through into the financials of future quarters.

Cameco noted that for the remainder of 2016, an increase of US$5/lb in both the Ux spot price ($18.75/lb on October 31, 2016) and the Ux long-term price indicator ($36.00/lb on October 31, 2016) would increase or decrease revenues by $7M and net earnings by $5M. Moreover, a one-cent change in the value of the C$ versus the US$ would change adjusted net earnings by $3M, with a decrease in the value of the C$ versus the US$ having a positive impact. Cash flow would change by $1M, with a decrease in the value of the C$ versus the US$ having a negative impact.

## OPERATING HIGHLIGHTS FROM CORE ASSETS

Cigar Lake contributed 1.9M lbs. while McArthur River/Key Lake contributed 3.1M lbs., and Inkai added 0.6M lbs. Keep in mind that Cameco's reduced production compared to last year is a function the current low price environment in which Tier 1 assets are the focus, along with flexible production growth, as mentioned on the conference call.

There was some variance in the number of purchased lbs. during the quarter, while we were forecasting 1.1M lbs. at C$33.30/lb., the actual figure totaled 0.5m lbs. at a cash cost of C$39.91/lb. To date 6.2M lbs of the contracted 9.0M lbs has been received - leaving 2.8M lbs for the remainder of the year.

### *McArthur River/Key Lake*

Q3/16 production of 3.1M lbs. was 21% lower compared to the same period last year due to a longer mill maintenance shut down. We were initially forecasting production of 3.4M lbs for the quarter. The FY/16 plan remains for 12.6M lbs. (Cameco's share).

### *Cigar Lake*

Q3/16 production of 1.9M lbs was in-line with our forecast. Total packaged production from Cigar Lake was 6% higher in the third quarter compared to Q3/15. The increase is related to the ramp up of the operation which is progressing as scheduled. Cameco remains on track to produce 16M lbs. (Cameco's share being 8M lbs.) for FY2016.

### *Inkai*

At Inkai, Q3/16 production of 0.6M lbs was above our estimate of 0.4M lbs. Production for the quarter was 40% lower compared to the same period last year due to the timing of new wellfield development in the 2016 mine plan. The operation remains on track to achieve the forecasted 2016 goal of 3.0M lbs.

**Exhibit 1. Quarterly Uranium Production & Guidance (Cameco's share)**

| (M lbs) | Q3/16a | CF Q3/16e | Q3/15a | Guidance FY 2016e | CF FY 2016e |
|---|---|---|---|---|---|
| McArthur River/Key Lake | 3.1 | 3.4 | 3.9 | 12.6 | 12.6 |
| Cigar Lake | 1.9 | 1.9 | 1.8 | 8.0 | 8.0 |
| Inkai | 0.6 | 0.4 | 1.0 | 3.0 | 3.0 |
| Rabbit Lake | 0.0 | 0.0 | 1.1 | 1.1 | 1.1 |
| Smith Ranch-Highland | 0.2 | 0.1 | 0.3 | 0.9 | 0.9 |
| Crow Butte | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 |
| Total | 5.9 | 5.9 | 8.2 | 25.8 | 25.8 |

*Source: Cameco Corporation, Cantor Fitzgerald Canada estimates*

## FUEL SERVICES & NUKEM

Total revenue for Q3/16 decreased to $77M from $83M for the same period last year (our estimate being $97.4M). Sales volumes amounted to 3.5M KgU versus our estimate of 3.9M KgU while the average realized price amounted to C$22.09/KgU versus our estimate of C$25.17/KgU. The year on year differences amounted to an 8% reduction in sales volumes and a flat average realized price.

During Q3/16, NUKEM delivered 1.5M lbs of uranium (our estimate being 2.8M lbs.) representing an increase of 48% from the same period last year due largely to the timing of customer requirements. The majority of the deliveries in the quarter were under existing contracts with utilities. Activity remained light during the quarter, as was the same case in the two previous quarters. NUKEM recorded a gross loss of $15M compared to a $13M gross profit in Q3/15. Included in the 2016 gross loss is a $12M net write-down of inventory. The write-down was a result of a decline in the spot price during the period. NUKEM guidance for 2016 was revised lower, the details can be seen below.

## 2016 GUIDANCE

FY/16 guidance was largely maintained from that which was disclosed in the previous quarter. The notable exceptions affecting: consolidated revenues, expected tax recoveries, capital expenditure estimates, and guidance for the NUKEM division.

- Uranium production is still expected to total approximately 25.8M lbs.
- Revenues are expected to decrease by between 10%-15% (previously 5%-10%) versus FY 2015 ($2.754B) on a consolidated basis. The bulk of the contracted uranium deliveries will take place towards the end of the year, historically deliveries have been heavier in the second half.
- FY/16 capital expenditures have been reduced to now total $245M, from $275M previously.
- Tax recoveries for the year are forecast to amount to recoveries of 200% this year, this being a change from previous guidance when the figure was forecast to be between 175-200%. This increase can be largely tied to the continuing successful ramp up in production coming from Cigar Lake and the resulting ability to apply development credits earlier than initially expected.

- Given the lack of opportunities currently presenting themselves in the market, delivery volumes from the NUKEM division have been maintained at a low 7-8M lbs, while expected revenues have been trimmed to a decrease of 20-25% compared to 2015.
- Direct admin costs have been maintained at an increase of between 10%-15% when compared to 2015. We note that admin costs have increased slightly ($1M when compared to last year) due to one off costs involved with cutting production, the initial cost of implementing cost cutting programs, and costs related to the CRA case.

**Exhibit 2. FY/16 Guidance**

| | CONSOLIDATED | URANIUM | FUEL SERVICES | NUKEM |
|---|---|---|---|---|
| Production | - | 25.8 million lbs | 8 to 9 million kgU | - |
| Delivery volume[1] | - | 30 to 32 million lbs[2] | Decrease up to 5% | 7 to 8 million lbs $U_3O_8$ |
| Revenue compared to 2015[3] | Decrease 10% to 15% | Decrease 5% to 10%[4] | Increase up to 5% | Decrease 20% to 25% |
| Average unit cost of sales (including D&A) | - | Increase up to 5% [5] | Increase 5% to 10% | - |
| Direct administration costs compared to 2015[6] | Increase 10% to 15% | - | - | - |
| Gross profit | - | - | - | Gross profit 1% to 2% [7] |
| Exploration costs compared to 2015 | - | Increase 15% to 20% | - | - |
| Tax rate[8] | Recovery of > 200% | - | - | - |
| Capital expenditures | $245 million | - | - | - |

[1] Our 2016 outlook for delivery volume does not include sales between our uranium, fuel services and NUKEM segments.
[2] Our uranium delivery volume is based on the volumes we currently have commitments to deliver under contract in 2016.
[3] For comparison of our 2016 outlook and 2015 results for revenue, we do not include sales between our uranium, fuel services and NUKEM segments.
[4] Based on a uranium spot price of $18.75 (US) per pound (the Ux spot price as of October 31, 2016), a long-term price indicator of $36.00 (US) per pound (the Ux long-term indicator on October 31, 2016) and an exchange rate of $1.00 (US) for $1.30 (Cdn).
[5] This increase is based on the unit cost of sale for produced material and committed long-term purchases. If we make discretionary purchases in the remainder of 2016, then we expect the overall unit cost of sales could be different.
[6] Direct administration costs do not include stock-based compensation expenses. See page 9 for more information.
[7] NUKEM gross profit is net of inventory write-downs.
[8] Our outlook for the tax rate is based on adjusted net earnings.

*Source: Cameco Corporation*

## CANADA REVENUE AGENCY & I.R.S. UPDATE

There has been no update concerning the current trial affecting tax years 2003, 2005 and 2006. The trial has begun earlier in October with closing arguments now expected during the second half of 2017 (previously expected by March 2017). A decision is still expected between 6-18 months after the trial concludes. No other news items or changes have been announced and none of the parties involved have requested a court mediated decision.

A detailed overview of the CRA and IRS issue can be found in Appendix D.

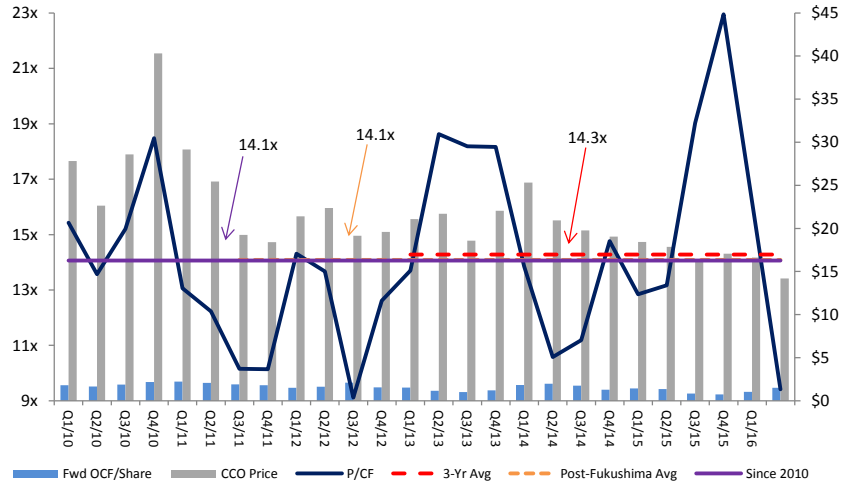
## RECOMMENDATION AND VALUATION

We maintain our Buy recommendation but are lowering our target price to C$17.10, or by 5%, to account for the reduced revenue guidance and to revise some previously low expense estimates higher. Particularly, we have revised our depreciation estimates higher as they were too low previously.

Note that historically, Cameco has traded at an average multiple of 14.1x-14.3x with 13.7x being the average post-Fukushima. As of the end of Q3/16, CCO

traded at a 9.2x multiple to our revised forward cash flow estimate and trades at a 9.1x multiple as of yesterday's close. Our target price reflects a 14x multiple to our forward cash flow estimate of $1.22/share.

**Exhibit 3. Historical Price to Forward Cash Flow**




*Source: Cantor Fitzgerald Canada Research*

Our NAV estimate increases to C$28.68/share from C$27.94/share, as higher depreciation estimates have a positive impact. We also rolled our NAV forecast to account for 2017 cash flows as 2016 draws to a close.

**Exhibit 4. Cameco NAV**

| Cameco Corporation | | | |
|---|---|---|---|
| Projects | NAV ($C Millions) | Per Share | Comment |
| Uranium, Fuel Services, and Nukem Divisions | 7,689.2 | $19.43 | 2017 DCF @ 8% Discount Rate |
| Wheeler River/Millennium/Kintyre | 2,148.0 | $5.43 | In-Situ Valuations |
| UEX Corp. | 7.9 | $0.02 | 22.58% Ownership at a 20% discount |
| Working Capital | 1,506.6 | $3.81 | Q3/16 Financials |
| **Total** | **11,351.6** | **$28.68** | |

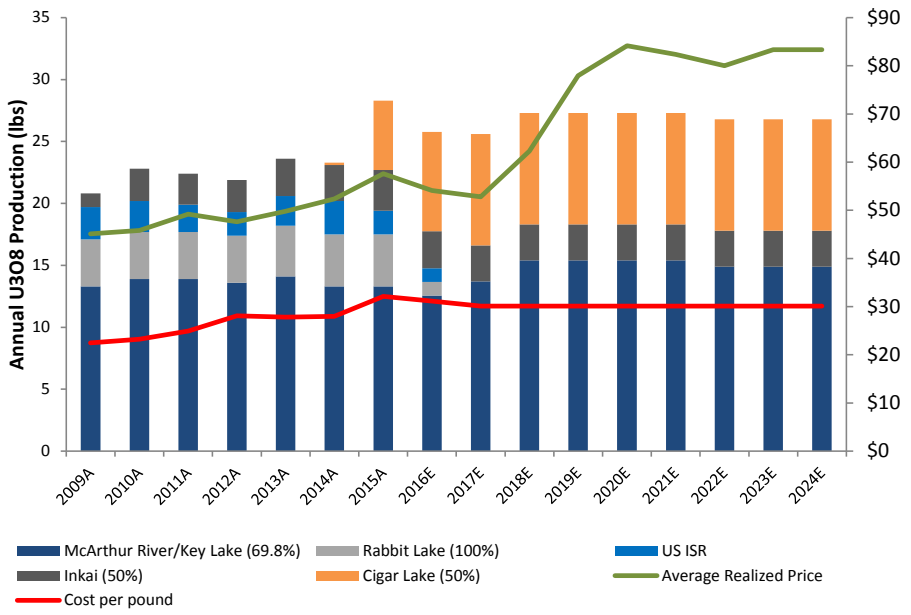
*Source: Cantor Fitzgerald Canada Research*

**Exhibit 5. Uranium Price History and Forecast**

| | 2013A | 2014A | 2015A | 2016E | 2017E | 2018E | 2019E | 2020E |
|---|---|---|---|---|---|---|---|---|
| U3O8 Price | $38.17 | $33.21 | $36.55 | $27.09 | $28.63 | $45.00 | $66.25 | $80.00 |

*Source: Cantor Fitzgerald Canada Research and TradeTech*

**Exhibit 6. Uranium Production, Realized Price and Cost Profile**




*Source: Cantor Fitzgerald Canada Research*

# APPENDIX A: VARIANCE TABLE

## Exhibit 7. Q3/16 Variance Table

| | Reported Q3/16A | Adjusted Q3/16A | CF Estimates Q3/16E | Variance with Est. % Change | Reported Q2/16 | Variance Qtr-over-Qtr % Change | Reported Q3/15A | Variance Yr-over-Yr % Change |
|---|---|---|---|---|---|---|---|---|
| **INCOME STATEMENT (in C$ 000's)** | | | | | | | | |
| **Total revenue** | **669,654.0** | **669,654.0** | **630,539.3** | **6.2%** | **466,397.0** | **43.6%** | **649,050.0** | **3.2%** |
| Operating costs | 411,704.0 | 411,704.0 | 487,861.1 | -15.6% | 306,401.0 | 34.4% | 440,822.0 | -6.6% |
| **Gross margin** | **257,950.0** | **257,950.0** | **142,678.2** | **80.8%** | **159,996.0** | **61.2%** | **208,228.0** | **23.9%** |
| Gross margin % | 38.5% | 38.5% | 22.6% | | 34.3% | | 32.1% | |
| Depreciation and amortization | 111,811.0 | 111,811.0 | 34,751.5 | 221.7% | 117,306.0 | -4.7% | 75,137.0 | 48.8% |
| General and administrative | 38,689.0 | 38,689.0 | 45,516.4 | -15.0% | 60,596.0 | -36.2% | 40,120.0 | -3.6% |
| Exploration | 9,643.0 | 9,643.0 | 10,705.4 | -9.9% | 11,549.0 | -16.5% | 9,681.0 | -0.4% |
| Research and development | 1,347.0 | 1,347.0 | 1,913.0 | -29.6% | 1,798.0 | -25.1% | 1,571.0 | -14.3% |
| Gain on sale of assets | 439.0 | 439.0 | - | NM | 5,212.0 | -91.6% | 2.0 | NM |
| Other expenses | (6,319.0) | 20,681.0 | (46,700.0) | NM | 124,368.0 | NM | - | NM |
| **Operating earnings** | **102,340.0** | **75,340.0** | **96,492.0** | **6.1%** | **(160,833.0)** | **NM** | **81,717.0** | **25.2%** |
| Net Finance Expenses | (25,844.0) | (25,844.0) | (18,658.7) | NM | (30,604.0) | NM | (25,172.0) | NM |
| Other expense | 55,787.0 | 49,787.0 | - | NM | (8,158.0) | NM | (96,019.0) | NM |
| **Net earnings before tax** | **132,283.0** | **99,283.0** | **77,833.3** | **70.0%** | **(199,595.0)** | **NM** | **(39,474.0)** | **NM** |
| Income tax (reversal) expense | (10,407.0) | (19,407.0) | (39,530.4) | NM | (64,546.0) | NM | (35,116.0) | NM |
| Tax rate | -7.9% | -7.9% | -50.8% | NM | 32.3% | NM | 89.0% | NM |
| Non-controlling Interest | 545.0 | 545.0 | - | NM | 2,319.0 | -76.5% | (447.0) | NM |
| **Net earnings (as reported)** | **142,145.0** | **118,145.0** | **117,363.7** | **21.1%** | **(137,368.0)** | **NM** | **(135,049.0)** | **NM** |
| Adjustments | (24,000.0) | | | NM | 80,000.0 | NM | 82,000.0 | NM |
| **Adjusted earnings** | **118,145.0** | **118,145.0** | **46,945.4** | **151.7%** | **(57,368.0)** | **NM** | **77,642.0** | **52.2%** |
| **Operating EPS** | $0.26 | $0.19 | $0.24 | 6.1% | -$0.41 | NM | $0.21 | 25.1% |
| **Earnings Per Share - Basic** | $0.36 | $0.30 | $0.30 | 21.1% | -$0.35 | NM | -$0.01 | NM |
| **Adjusted Earnings Per Share - Basic** | $0.30 | $0.30 | $0.29 | 2.9% | -$0.14 | NM | $0.20 | 52.2% |
| **Adjusted Earnings Per Share - Fully Diluted** | $0.29 | $0.29 | $0.29 | 0.8% | -$0.14 | NM | $0.19 | 52.3% |
| *Source: Cameco and Cantor Fitzgerald Canada Estimates* | | | | | | | | |
| **REVENUE (in C$ millions)** | | | | | | | | |
| Uranium | 526.2 | 526.2 | 355.2 | 48.1% | 256.2 | 105.4% | 387.7 | 35.7% |
| Fuel/ Conversion Services | 77.3 | 77.3 | 97.4 | -20.6% | 80.9 | -4.4% | 83.5 | -7.4% |
| NUKEM | 66.6 | 66.6 | 177.9 | -62.6% | 129.0 | -48.4% | 183.4 | -63.7% |
| Electricity | - | - | - | NM | - | NM | - | NM |
| Total | 670.1 | 670.1 | 630.5 | 6.3% | 466.0 | 43.8% | 654.5 | 2.4% |
| **Costs (in C$ millions)** | | | | | | | | |
| Uranium | 285.7 | 285.7 | 205.9 | 38.8% | 165.6 | 72.5% | 205.5 | 39.0% |
| Fuel/ Conversion Services | 56.3 | 56.3 | 79.0 | -28.8% | 53.9 | 4.4% | 62.0 | -9.3% |
| NUKEM | 70.5 | 70.5 | 203.0 | -65.3% | 86.4 | -18.4% | 179.3 | -60.7% |
| Electricity | - | - | - | NM | - | NM | - | NM |
| Total | 412.5 | 412.5 | 487.9 | -15.4% | 305.9 | 34.9% | 446.7 | -7.7% |
| **EBIT** | | | | | | | | |
| Uranium | 197.8 | 197.8 | 90.2 | 119.2% | (103.3) | NM | 101.1 | 95.7% |
| Fuel/ Conversion Services | 22.5 | 22.5 | (103.0) | NM | 18.8 | 20.0% | 13.0 | 72.6% |
| NUKEM | (15.8) | (15.8) | 1.9 | NM | (14.8) | NM | 8.6 | NM |
| Electricity | - | - | - | NM | - | NM | - | NM |
| Total | 204.5 | 204.5 | (10.8) | NM | (99.3) | NM | 122.8 | 66.6% |
| **PRODUCTION (CCO'S SHARE)** | | | | | | | | |
| Uranium production (M lbs) | 5.9 | 5.9 | 5.9 | 0.3% | 7.0 | -15.7% | 8.2 | -28.0% |
| Uranium conversion (M kgU) | 0.6 | 0.6 | 1.3 | -53.8% | 2.6 | -76.9% | 0.6 | 0.0% |
| **SALES (CCO'S SHARE)** | | | | | | | | |
| Uranium (M lbs) | 9.3 | 9.3 | 6.6 | 41.7% | 4.6 | 102.2% | 6.9 | 34.8% |
| Fuel/ Conversion Services (M kgU) | 3.5 | 3.5 | 3.9 | -9.3% | 2.9 | 20.7% | 3.8 | -7.9% |
| NUKEM (M lbs U3O8) | 45.0 | 45.0 | 66.9 | -32.7% | 54.9 | -18.0% | 55.6 | -19.0% |
| NUKEM (M SWU) | 82.0 | 82.0 | 174.0 | -52.9% | 139.0 | -41.0% | 170.0 | -51.8% |
| **REALIZED PRICES** | | | | | | | | |
| Uranium (US$/lb) | $43.37 | $43.37 | $41.50 | 4.5% | $42.91 | 1.1% | $43.61 | -0.6% |
| Fuel/ Conversion Services (C$/kgU) | $22.09 | $22.09 | $25.17 | -12.2% | $27.75 | -20.4% | $22.22 | -0.6% |
| **TOTAL COSTS** | | | | | | | | |
| Cash Cost of Uranium (C$/lb) | $16.31 | $16.31 | $21.55 | -24.3% | $15.96 | 2.2% | $17.56 | -7.1% |
| Total Production Cost (C$/lb) | $29.38 | $29.38 | $31.02 | -5.3% | $27.03 | 8.7% | $27.09 | 8.5% |
| Average Unit Cost of Sales (C$/lb) | $39.97 | $39.97 | $39.85 | 0.3% | $47.46 | -15.8% | $40.16 | -0.5% |
| **Production (CCO's share)** | | | | | | | | |
| McArthur River/Key Lake (69.8%) | 3.1 | 3.1 | 3.4 | -9.7% | 2.8 | 10.7% | 3.8 | -18.4% |
| Rabbit Lake (100%) | 0.0 | 0.0 | 0.0 | NM | 0.7 | NM | 0.4 | NM |
| Smith Ranch-Highland (100%) | 0.2 | 0.2 | 0.3 | -20.0% | 0.3 | -33.3% | 0.5 | -60.0% |
| Crow Butte (100%) | 0.1 | 0.1 | -0.1 | NM | 0.1 | 0.0% | 0.2 | -50.0% |
| Inkai (50%) | 0.6 | 0.6 | 0.4 | 50.0% | 1.1 | -45.5% | 0.9 | -33.3% |
| Cigar Lake (50%) | 1.9 | 1.9 | 1.9 | 0.0% | 2.0 | -5.0% | 0.0 | NM |
| Total | 5.9 | 5.9 | 5.9 | | 7.0 | | 5.8 | |

*Source: Cameco Corporation, Cantor Fitzgerald Canada estimates*

# APPENDIX B: FINANCIAL STATEMENT ANALYSIS

## Exhibit 8. Cash Flow Analysis

| *In C$ 000s | 2014A | 2015A | 2016E | 2017E | 2018E | 2019E |
|---|---|---|---|---|---|---|
| **Cash Flows from Operations** | | | | | | |
| Net Income | 183,413 | 63,362 | 326,597 | 23,315 | 283,214 | 710,060 |
| Adjustments | 296,769 | 386,648 | -47,564 | 463,435 | 547,674 | 638,847 |
| | **480,182** | **450,010** | **279,033** | **486,750** | **830,888** | **1,348,907** |
| **Cash Flows from Investments** | | | | | | |
| Additions to property, plant & equipmei | -480,108 | -358,562 | -245,000 | -300,000 | -250,000 | -227,250 |
| Other | 459,366 | 17,775 | -234 | 0 | 0 | 0 |
| | **-20,742** | **-340,787** | **-245,234** | **-300,000** | **-250,000** | **-227,250** |
| **Cash Flows from Financings** | | | | | | |
| Change in Debt | 145,430 | -10 | 25,988 | 0 | 0 | -496,152 |
| Issuance of Shares/Stock Option Plan | 6,228 | 0 | 0 | 0 | 0 | 0 |
| Other | -235,550 | -227,820 | -208,114 | -158,317 | -158,317 | -158,317 |
| | **-83,892** | **-227,830** | **-182,126** | **-158,317** | **-158,317** | **-654,469** |
| **Net Change in Cash** | **375,548** | **-118,607** | **-148,328** | **28,433** | **422,571** | **467,188** |

*Source: Cameco Corporation, Cantor Fitzgerald Canada Estimates*

## Exhibit 9. Balance Sheet Analysis

| *In C$ 000s | 2014A | 2015A | 2016E | 2017E | 2018E | 2019E |
|---|---|---|---|---|---|---|
| **Current Assets** | | | | | | |
| Cash & Equivalents | 566,583 | 458,604 | 304,023 | 332,456 | 755,027 | 1,222,215 |
| Other | 1,501,123 | 1,725,361 | 1,724,408 | 1,724,408 | 1,724,408 | 1,724,408 |
| | **2,067,706** | **2,183,965** | **2,028,431** | **2,056,864** | **2,479,435** | **2,946,623** |
| **Fixed Assets** | | | | | | |
| Property, Plant and Equipment | 5,291,021 | 5,228,160 | 5,053,178 | 4,978,678 | 4,834,628 | 4,667,828 |
| Other | 1,113,940 | 1,382,512 | 1,494,964 | 1,494,964 | 1,494,964 | 1,494,964 |
| | **6,404,961** | **6,610,672** | **6,548,142** | **6,473,642** | **6,329,592** | **6,162,792** |
| **Total Assets** | **8,472,667** | **8,794,637** | **8,576,573** | **8,530,506** | **8,809,027** | **9,109,415** |
| **Current Liabilities** | | | | | | |
| Accounts Payable | 316,258 | 317,856 | 221,119 | 221,119 | 221,119 | 221,119 |
| Other | 199,556 | 353,781 | 196,042 | 196,042 | 196,042 | 196,042 |
| | **515,814** | **671,637** | **417,161** | **417,161** | **417,161** | **417,161** |
| **Non-Current Liabilities** | | | | | | |
| Long Term Debt | 1,491,198 | 1,492,237 | 1,493,045 | 1,493,045 | 1,493,045 | 996,893 |
| Other | 1,021,851 | 1,085,484 | 1,150,180 | 1,150,180 | 1,150,180 | 1,150,180 |
| | **2,513,049** | **2,577,721** | **2,643,225** | **2,643,225** | **2,643,225** | **2,147,073** |
| **Shareholders' Equity** | | | | | | |
| Share Capital | 1,862,646 | 1,862,646 | 1,862,646 | 1,862,646 | 1,862,646 | 1,862,646 |
| Other | 3,581,158 | 3,682,633 | 3,653,541 | 3,607,474 | 3,885,995 | 4,682,535 |
| | 5,443,804 | 5,545,279 | 5,516,187 | 5,470,120 | 5,748,641 | 6,545,181 |
| **Total Liabilities and Equity** | **8,472,667** | **8,794,637** | **8,576,573** | **8,530,506** | **8,809,027** | **9,109,415** |

*Source: Cameco Corporation, Cantor Fitzgerald Canada Estimates*

## Exhibit 10. Profit and Loss Analysis

| *In C$ 000s | 2014A | 2015A | 2016E | 2017E | 2018E | 2019E |
|---|---|---|---|---|---|---|
| Revenue | 2,397,532 | 2,754,378 | 2,548,846 | 2,263,716 | 2,738,722 | 3,361,615 |
| Operating Expenses | 1,420,768 | 1,744,815 | 1,688,259 | 1,535,259 | 1,664,239 | 1,767,205 |
| Depreciation | 338,983 | 312,518 | 387,846 | 374,500 | 394,050 | 394,050 |
| **Gross Profit** | **637,781** | **697,045** | **472,741** | **353,957** | **680,433** | **1,200,360** |
| Exploration | 46,565 | 40,259 | 46,298 | 46,298 | 46,298 | 46,298 |
| Other | 552,884 | 411,211 | 337,475 | 212,262 | 214,150 | 216,058 |
| **Earnings from Operations** | **38,332** | **245,575** | **88,968** | **95,397** | **419,985** | **938,004** |
| Finance Cost | -77,122 | -103,615 | -102,729 | -69,293 | -69,293 | -57,979 |
| Interest | 234,552 | 428,458 | 87,489 | 135,547 | 135,261 | 108,407 |
| **EBT** | **-119,098** | **-79,268** | **104,209** | **29,144** | **354,017** | **887,575** |
| Tax | -175,268 | -142,630 | -208,418 | 5,829 | 70,803 | 177,515 |
| **Net Income** | **56,170** | **63,362** | **312,627** | **23,315** | **283,214** | **710,060** |
| **EPS** | **1.04** | **0.86** | **0.75** | **0.06** | **0.72** | **1.79** |

*Source: Cameco Corporation, Cantor Fitzgerald Canada Estimates*

## APPENDIX C: RESOURCE INVENTORY

### Exhibit 11. Cameco Global Resource & Reserve Inventory

| | | Proven & Probable | | | Measured & Indicated | | | Inferred | | | Totals |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Property | Mining Method | Tonnes (x1000) | % U3O8 | lbs (M) U3O8 Attributable | Tonnes (x1000) | % U3O8 | lbs (M) U3O8 Attributable | Tonnes (x1000) | % U3O8 | lbs (M) U3O8 Attributable | Global lbs (M) Attributable |
| McArthur River | underground | 1,395.1 | 10.94 | 234.9 | 66.8 | 3.77 | 3.9 | 344.2 | 7.72 | 40.9 | 279.7 |
| Cigar Lake | underground | 601.8 | 16.70 | 110.9 | 20.2 | 7.39 | 1.6 | 284.7 | 16.43 | 51.6 | 164.1 |
| Rabbit Lake | underground | 913.5 | 0.59 | 11.9 | 1,402.7 | 0.86 | 26.7 | 2,645.6 | 0.57 | 33.7 | 72.3 |
| Key Lake | open pit | 61.1 | 0.52 | 0.6 | | | | | | | 0.6 |
| Millennium | underground | | | | 1,442.6 | 2.39 | 53.0 | 412.4 | 3.19 | 20.2 | 73.2 |
| Wheeler River | underground | | | | 166.4 | 19.13 | 21.1 | 842.5 | 2.38 | 13.2 | 34.3 |
| Fox Lake | underground | | | | | | | 386.7 | 7.99 | 53.3 | 53.3 |
| Tamarack | underground | | | | 183.8 | 4.42 | 10.3 | 45.6 | 1.02 | 0.6 | 10.9 |
| Athabasca Basin | | 2,971.5 | | 358.3 | 3,282.5 | | 116.6 | 4,961.7 | | 213.5 | 688.4 |
| Inkai | ISR | 51,615.9 | 0.07 | 43.1 | 31,366.1 | 0.08 | 30.3 | 250,958.6 | 0.05 | 144.3 | 217.7 |
| Gas Hills-Peach | ISR | | | | 4,313.3 | 0.14 | 13.3 | 3,307.5 | 0.08 | 6.0 | 19.3 |
| North Butte-Brown Ranch | ISR | 1,018.0 | 0.08 | 1.8 | 5,762.9 | 0.07 | 8.8 | 294.5 | 0.07 | 0.4 | 11.0 |
| Smith Ranch-Highland | ISR | 2,998.8 | 0.09 | 6.2 | 15,580.0 | 0.05 | 19.8 | 6,861.0 | 0.05 | 7.7 | 33.7 |
| Crow Butte | ISR | 412.5 | 0.08 | 0.7 | 2,773.1 | 0.25 | 15.2 | 1,135.2 | 0.12 | 2.9 | 18.8 |
| Ruby Ranch | ISR | | | | 2,215.3 | 0.08 | 4.1 | 56.2 | 0.14 | 0.2 | 4.3 |
| Shirley Basin | ISR | | | | 1,727.4 | 0.12 | 4.4 | 508.0 | 0.10 | 1.1 | 5.5 |
| US ISR | | 4,429.3 | | 8.7 | 32,372.0 | | 65.6 | 12,162.4 | | 18.3 | 92.6 |
| Yeelirrie | open pit | | | | 36,640.0 | 0.02 | 127.3 | 0.0 | 0.00 | 0.0 | 127.3 |
| Kintyre | open pit | | | | 3,897.7 | 0.62 | 37.5 | 517.1 | 0.53 | 4.2 | 41.7 |
| Australia | | | | | 40,537.7 | | 164.8 | 517.1 | | 4.2 | 169.0 |
| Total | | 59,016.7 | | 410.1 | 107,558.3 | | 377.3 | 268,599.8 | | 380.3 | 1,167.7 |

*Source: Cameco Corporation*

## APPENDIX D: CRA AND IRS OVERVIEW

Since 2008, the Canada revenue Agency ("CRA") has disputed Cameco's corporate structure and the related transfer pricing methodology used for certain intercompany uranium sale and purchase agreements. To the end of 2014, Cameco has received notices of reassessment for the years 2003 through 2010 tax returns. Cameco has recorded a cumulative tax provision of $54M (September 30, 2015 - $92M), where an argument could be made that its transfer price may have fallen outside of an appropriate range of pricing in uranium contracts for the period from 2003 through September 30, 2016.

Note that the provision amount was reduced in Q4/15 to reflect management's revised estimate, which takes into account additional contract information. Cameco remains confident that it will be successful in the case and that the ultimate resolution of this matter will not be material to the company's financial position. We view this move positively as it underscores the confidence management has in its case.

For the years 2003 through 2010, the CRA issued notices of reassessment for approximately $3.4B of additional income for Canadian tax purposes, which would result in a related tax expense of about $1.1B. CRA has also issued notices of reassessment for transfer pricing penalties for the years 2007 through 2009 in the amount of $292M. The Canadian income tax rules include provisions that require larger companies such as Cameco to remit 50% of the cash tax plus related interest and penalties at the time of reassessment. To date, under these provisions, after applying elective deductions, Cameco has paid a net amount of $264M cash. Additionally, Cameco has provided $340M in letters of credit to secure 50% of the cash taxes and related interest amounts reassessed in 2015 (exhibit 13).

**Exhibit 12. Cameco Payments to the Government of Canada**

| YEAR PAID ($ MILLIONS) | CASH TAXES | INTEREST AND INSTALMENT PENALTIES | TRANSFER PRICING PENALTIES | TOTAL | CASH REMITTANCE | SECURED BY LC |
|---|---|---|---|---|---|---|
| Prior to 2013 | - | 13 | - | 13 | 13 | - |
| 2013 | 1 | 9 | 36 | 46 | 46 | - |
| 2014 | 106 | 47 | - | 153 | 153 | - |
| 2015 | 202 | 71 | 79 | 352 | 20 | 332 |
| 2016 | 7 | 2 | 31 | 40 | 32 | 8 |
| **Total** | **316** | **142** | **146** | **604** | **264** | **340** |

*Source: Cameco Corporation*

Using this methodology that Cameco believes CRA will continue to apply, and including the $3.4B already reassessed, Cameco continues to expect notices of assessment for a total of approximately $7.4B of additional taxable income in Canada for the years 2003 through 2015, which would result in a related tax expense of approximately $2.2B. Additionally, the CRA may continue to apply transfer pricing penalties to subsequent taxation years beyond 2009. As a result, Cameco estimates that cash taxes and transfer pricing penalties for these years would be between $1.5B and $1.70B. Lastly, Cameco estimates there would be interest and instalment penalties applied that would be material. While in dispute, Cameco would be responsible for remitting or otherwise providing security for 50% of the cash taxes and transfer pricing penalties (between

$750M and $850M), plus related interest and instalment penalties assessed which are material to Cameco.

**Exhibit 13. Actual amounts paid and estimated potential amounts owing**

| $ MILLIONS | 2003-2015 | 2016-2017 | 2018-2023 | TOTAL |
|---|---|---|---|---|
| 50% of cash taxes and transfer pricing penalties paid, secured or owing in the period | | | | |
| Cash payments | 156 | 105 - 130 | 100 - 125 | 360 - 410 |
| Secured by letters of credit | 264 | 40 - 65 | 85 - 110 | 390 - 440 |
| **Total paid[1]** | **420** | **145 - 195** | **185 - 235** | **750 - 850** |

[1] These amounts do not include interest and instalment penalties, which totalled approximately $142 million to September 30, 2016.

*Source: Cameco Corporation*

Secondly, in Q4/15 Cameco received a Revenue Agents Report (RAR) from the IRS for the tax years 2010 to 2012. Similar to the 2009 RAR received in Q1/15, the IRS is challenging the transfer pricing used under certain intercompany transactions pertaining to the 2010 to 2012 tax years for certain of Cameco's US subsidiaries. The 2009 and 2010 to 2012 RAR's list the adjustments proposed by the IRS and calculate the tax and any penalties owing based on the proposed adjustments. The current position of the IRS is that a portion of the non-US income reported under Cameco's corporate structure and taxed in non US jurisdictions should be recognized and taxed in the US.

The proposed adjustments result in an increase in taxable income in the US of approximately USD$419M and a corresponding increased income tax expense of approximately USD$122M for the 2009 through 2012 taxation years, with interest being charged thereon. In addition, the IRS proposed cumulative penalties of approximately USD$8M in respect of the adjustment.

Cameco management earlier pointed out that the IRS' interpretation of Cameco's transfer pricing situation is different from the CRA's in that the IRS does not dispute the mechanism itself but the prices used. This highlights the different interpretations that two tax authorities have on the same issue – one where there are OECD guidelines to help unify situations such as these. This is one of the key items supporting Cameco's view that the CRA is incorrect in its re-assessments.

We note that Cameco currently has low leverage, cash ($199M) on its balance sheet, has access to multiple undrawn credit facilities and has the ability to reduce capital expenditures if an unfavourable ruling causes it to pay a meaningful penalty amount.

**Exhibit 14. Overview of Disputes**

| | CRA | IRS |
|---|---|---|
| **Basis for dispute** | • Corporate structure/governance<br>• Transfer pricing methodology used for certain intercompany uranium sale and purchase agreements<br>• Allocates Cameco Europe Ltd. (CEL) income (as adjusted) for 2003 through 2010 to Canada (same income we paid tax on in foreign jurisdictions and includes income that IRS is proposing to tax) | • Income earned on sales of uranium by the US mines to CEL is inadequate<br>• Compensation earned by Cameco Inc., one of our US subsidiaries, is inadequate<br>• Allocates a portion of CEL's income for the years 2009 through 2012 to the US (a portion of the same income we paid tax on in foreign jurisdictions and which the CRA is proposing to tax) |
| **Years under consideration** | • CRA reassessed 2003 to 2010<br>• Auditing 2011 to 2012 | • IRS has proposed adjustments for 2009 through 2012 |
| **Timing of resolution** | • Expect our appeal of the 2003, 2005 and 2006 reassessments to commence during the week of September 26, 2016, with final arguments expected in April 2017<br>• Expect Tax Court decision six to 18 months after completion of trial | • Contesting proposed adjustments in an administrative appeal<br>• We cannot yet provide an estimate as to the timeline for resolution |
| **Required payments** | • Expect to provide security in form of letters of credit and/or make cash payments for 50% of cash taxes, interest and penalties as reassessed<br>• Paid $232 million in cash to date<br>• Secured $332 million using letters of credit | • No security or cash payments required while under administrative appeal |

*Source: Cameco Corporation*

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The analysts responsible for this research report *have*, either directly or indirectly, a long or short position in the shares or options of Cameco.

The analyst responsible for this report *has* visited the material operations of Cameco. Assets visited include: McArthur River, Cigar Lake, and the Key Lake Mill. No payment or reimbursement was received for the related travel costs.

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**BUY (Speculative):** The stock is attractively priced relative to the company's fundamentals, however investment in the security carries a higher degree of risk.

**HOLD:** The stock is fairly valued, lacks a near term catalyst, or its execution risk is such that we expect it to trade within a narrow range of the current price in the next 6 to 12 months. The longer term fundamental value of the company may be materially higher, but certain milestones/catalysts have yet to be fully realized.

**SELL:** The stock is overpriced relative to the company's fundamentals, and we expect it to decline from the current price over the next 6 to 12 months.

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