

# CAMECO CORPORATION

## Q2/16 results below expectations due to delivery timing; FY/16 Guidance unchanged

### EVENT

Cameco released its Q2/16 financial results that missed consensus and Cantor Fitzgerald forecasts.

### BOTTOM LINE

**Modestly Negative** – Earnings missed both our and consensus estimates as both a quiet market and certain one-off charges influenced the quarter. The underperformance is mostly attributable to delivery timing since Cameco maintained its sales guidance for the year – meaning that deliveries in H2/16 will be even more than previously forecast. However we are concerned with the cancellation of a long-term contract with one of Cameco’s utility customers and whether or not this is the beginning of a trend. We maintain our Buy recommendation with a C\$17.95 target price.

### FOCUS POINTS

- **Revenues & EPS below estimates** – Cameco reported Q2/16 adjusted EPS of -\$0.14/share, which was substantially below our forecast of \$0.06/share and the consensus earnings estimate of \$0.15/share. Revenues of \$466M was below our estimate of \$603M and consensus estimates totalling \$557M.
- **2016 Guidance Intact** – Uranium production and sales revenues have been maintained indicating that the sales miss this quarter will be made up in H2/16.
- **Contract cancellation** - We are concerned that the cancellation of a long term contract may not be a one off event. While Cameco does receive \$46.7M up front to terminate a contract for deliveries from 2016 through 2021, the future cash flows from the terminated contract may have had greater value. If more utilities begin cancelling contracts, Cameco’s future cash flows may not be as well supported as initially thought.

### Recommendation:

### BUY

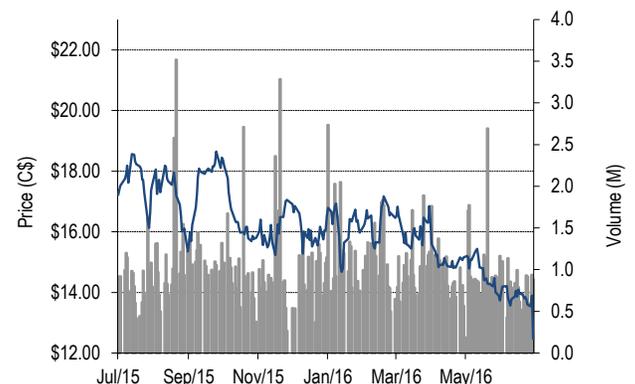
Symbol/Exchange:	CCO/TSX; CCJ/NYSE
Sector:	Metals and Mining
<i>All dollar values in C\$ unless otherwise noted.</i>	
Current price	\$12.47; US\$9.47
One year target:	C\$17.95
Return target	44%
Market Capitalization	\$4.9B
Cash on hand	\$132M
Yield	3.0%

### Company

### Summary

Shares O/S (M)	396.6	52-week range	\$12.47-18.64	
Market cap (\$M)	\$4,946.1	Avg. weekly vol. (000)	5.075	
Market float (\$M)	\$4,941.2	Fiscal year-end	31-Dec	
	<b>2015A</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>
Uranium Production (M lbs)	28.4	25.8	25.6	27.3
Revenue (\$M)	2,754.4	2,509.1	2,457.6	2,971.1
Operating Cost (\$M)	2,057.3	1,972.9	1,876.8	2,021.3
Avg Cost (US\$/lb)	\$33.85	\$26.01	\$23.19	\$24.91
EBITDA (\$M)	775.9	508.7	577.2	957.8
EPS	\$0.86	\$0.83	\$0.49	\$1.24
CFPS	\$1.29	\$0.53	\$1.47	\$2.41

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

**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.

## **TOP AND BOTTOM LINES MISS AS URANIUM SALES, NUKEM, AND FUEL SERVICES DISAPPOINT**

Cameco reported a Q2/16 adjusted EPS loss of \$0.14/share, which was substantially below our forecast of \$0.06/share earnings and the consensus estimate of \$0.15/share earnings. Revenues of \$466M were below our estimate of \$603M and consensus estimates averaging \$557M.

Though quarterly production from the uranium segment (7.0M lbs.), sales volume (4.6m lbs.), and average realized pricing (US\$42.91/lb.) came in above, below, and in-line with our estimates (6.3M lbs., 6.0m lbs., and \$US42.50/lb., respectively), sales volumes from the NUKEM division (2.4M lbs.) and from the Fuel Services division (2.9M kgU) were well below our forecasts that called for 3.2M lbs. and 3.5M kgU respectively.

The 40% year-over-year decrease in uranium revenues was a result of a 37% decrease in sales volume (4.6M lbs. U<sub>3</sub>O<sub>8</sub>), coupled with a 4% decrease in the average realized price of C\$55.70/lb. Sales during the quarter were lower than in 2015 due to the timing of deliveries which are dictated by customers. Note that in C\$ terms, the average realized price for the quarter totaled \$55.70/lb. as compared to \$58.29/lb. in the prior quarter (or \$58.04/lb. in Q2/15). Net losses amounted to \$137M however after adjusting for an impairment charge relating to the Rabbit Lake mine and mill (+\$124.4M) and income tax on adjustments (-\$28M) a \$57M loss resulted in the adjusted EPS loss totaling \$0.14/share.

Please see Appendix A below for the full Q2/16 variance table.

## **CANCELLED CONTRACT**

Note that earlier this month, Cameco agreed to terminate a long-term take or pay supply contract with one utility customer, which had product deliveries from 2016 through 2021. The resulting gain on contract settlement of \$46.7M will be reflected in the financial results for Q3/16 as other income. Cameco considers this termination to be a one-off event.

We are concerned that the cancellation of a long term contract may not be a one off event. While Cameco does receive cash to be recognized as revenue in Q3/16, it is unlikely that the utility in question paid more up front than what it expected to save by terminating the contract. This means that Cameco may be receiving less value for the cancelled contract than if it were able to deliver the uranium according to the contract's terms. If more utilities begin cancelling contracts, Cameco's future cash flows may not be as well supported as initially thought.

## **OPERATIONALLY, A POSITIVE QUARTER FROM THE URANIUM SEGMENT**

Production volumes this quarter were 30% higher compared to Q2/15, mainly due to higher production from Cigar Lake, Inkai, and Rabbit Lake. Note however that production from Rabbit Lake was limited last year due to the timing of maintenance. Moreover, as previously announced, due to the current depressed market conditions, Rabbit Lake operations are now on care and

maintenance. In general, production volumes during the quarter were in line with Cameco targets, or slightly above.

The total cost per pound (produced) totaled C\$27.03/lb. vs. our estimate of C\$31.09/lb. This continues a positive trend when compared to Q2/15 when costs amounted to C\$41.17/lb. and the prior quarter's figure of C\$33.60/lb. 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 (notably Rabbit Lake) flow through into the financials of future quarters. Note as well that the total cost per lb. reflects certain items which have come from strategic decisions Cameco has put in place to navigate the current low priced environment. Costs to place certain assets on care & maintenance or curtail production (Rabbit Lake and the U.S. ISR assets) along with severance costs and restructuring (NUKEM) have contributed to nearly \$40M being included in total costs this quarter.

Cameco noted that for the remainder of 2016, an increase of US\$5/lb in both the Ux spot price (\$25.00/lb on July 25, 2016) and the Ux long-term price indicator (\$38.00/lb on July 25, 2016) would increase revenues by \$37M and net earnings by \$29M. Conversely, a decrease of US\$5/lb would decrease revenue by \$28M and net earnings by \$21M. Moreover, a one-cent change in the value of the C\$ versus the US\$ would change adjusted net earnings by \$5M, 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**

Operationally, total production volumes of 7.0M lbs. U<sub>3</sub>O<sub>8</sub> during the quarter was slightly ahead our estimate of 6.3M lbs. Cigar Lake contributed 2.0M lbs. while McArthur River/Key Lake contributed 2.8M lbs., and Inkai added 1.1M lbs. There was some variance in the number of purchased lbs. during the quarter. While we were forecasting 1.1M lbs. at C\$30.18, the figure totaled 0.6m lbs. at a cash cost of C\$38.18/lb.

### ***McArthur River/Key Lake***

Q2/16 production of 2.8M lbs. was 3% lower compared to the same period last year due to a longer mill maintenance shut down. A new calciner has been installed at the Key Lake mill to accommodate an annual production increase to 25M lbs. At present, in an effort to reduce costs while waiting for improved market conditions, the commissioning of the new calciner has been suspended until the market signals that more production is needed. The existing calciner has sufficient capacity to meet our 2016 production target of 18M lbs (12.6M lbs. being Cameco's share).

### ***Cigar Lake***

Q2/16 production of 2.0M lbs was slightly above our estimate of 1.9M lbs. Total packaged production from Cigar Lake was 67% higher in the second quarter compared to Q2/15. 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. By 2017, the goal is to produce 18M lbs, with Cameco's share being half that amount.

During the quarter, AREVA’s application to increase the capacity of the McClean Lake mill from 13M to 24M lbs. of annual production was approved by the Canadian Nuclear Safety Commission. Additionally, the unionized employees at AREVA’s McClean Lake mill accepted a new three-year collective agreement during the quarter. The previous contract expired in May, 2016.

***Inkai***

At Inkai, Q2/16 production of 1.1M lbs was above our estimate of 0.6M lbs. Production for the quarter was 83% higher compared to the same period last year due to the timing of new wellfield development in our 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)	CF			Guidance	
	Q2/16a	Q2/16e	Q2/15a	FY 2016e	FY 2016e
McArthur River/Key Lake	2.8	3.2	2.9	12.6	12.6
Cigar Lake	2.0	1.9	1.2	8.0	8.0
Inkai	1.1	0.6	0.6	3.0	3.0
Rabbit Lake	0.7	0.3	0.2	1.1	1.1
Smith Ranch-Highland	0.3	0.3	0.4	0.9	1.1
Crow Butte	0.1	0.0	0.1	0.2	0.0
<b>Total</b>	<b>7.0</b>	<b>6.3</b>	<b>5.4</b>	<b>25.8</b>	<b>25.8</b>

*Source: Cameco Corporation, Cantor Fitzgerald Canada estimates*

**FUEL SERVICES & NUKEM**

Total revenue for Q2/16 increased to \$81M from \$70M for the same period last year (our estimate being \$91.9M). Sales volumes amounted to 2.9M KgU versus our estimate of 3.5M KgU while the average realized price amounted to C\$27.75/KgU versus our estimate of C\$25.85/KgU. The year on year differences amounted to a 21% increase in sales volumes partially offset by a 7% decrease in average realized price. These differences were primarily due to the mix of products sold partially offset by the weakening of the C\$ compared to 2015.

During Q2/16, NUKEM delivered 2.4M lbs of uranium (our estimate being 3.2M lbs.) representing an increase of 60% 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 in the spot market continued to be light, as was the case in Q1/16. Recall that in the previous quarter NUKEM delivered virtually no lbs. of uranium as the opportunities did not present themselves during that quarter. NUKEM recorded a gross loss of \$10M compared to an \$11M gross profit in Q2/15. Included in the 2016 gross loss is a \$14M 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

Official FY 2016 guidance was largely maintained from that which was disclosed in the previous quarter. The notable exception being that of expected tax recoveries and downward guidance for the NUKEM division.

- Uranium production is still expected to total approximately 25.8M lbs.
- Revenues are expected to decrease by between 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.
- FY 2016 capital expenditures have been maintained at \$275M.
- Tax recoveries for the year are forecast to amount to recoveries of 175-200% this year, this being the notable change from previous guidance when the figure was forecast to be between 50-55%. 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 cut from 9-10M lbs to 7-8M lbs, while expected revenue has gone from an increase of 5-10% compared to 2015, to a decrease of 5-10%. As such, FY gross profit has been reduced from 4-5% to up to 1% (compared to 2015).

### Exhibit 2. FY 2016 Guidance

	CONSOLIDATED	URANIUM	FUEL SERVICES	NUKEM
Production	-	25.8 million lbs	8 to 9 million kgU	-
Delivery volume <sup>1</sup>	-	30 to 32 million lbs <sup>2</sup>	Decrease up to 5%	7 to 8 million lbs U <sub>3</sub> O <sub>8</sub>
Revenue compared to 2015 <sup>3</sup>	Decrease 5% to 10%	Decrease 5% to 10% <sup>4</sup>	Increase up to 5%	Decrease 5% to 10%
Average unit cost of sales (including D&A)	-	Increase up to 5% <sup>5</sup>	Increase 10% to 15%	-
Direct administration costs compared to 2015 <sup>6</sup>	Increase 10% to 15%	-	-	-
Gross profit	-	-	-	Gross profit up to 1%
Exploration costs compared to 2015	-	Increase 15% to 20%	-	-
Tax rate <sup>7</sup>	Recovery of 175% to 200%	-	-	-
Capital expenditures	\$275 million	-	-	-

<sup>1</sup> Our 2016 outlook for delivery volume does not include sales between our uranium, fuel services and NUKEM segments.

<sup>2</sup> Our uranium delivery volume is based on the volumes we currently have commitments to deliver under contract in 2016.

<sup>3</sup> For comparison of our 2016 outlook and 2015 results for revenue, we do not include sales between our uranium, fuel services and NUKEM segments.

<sup>4</sup> Based on a uranium spot price of \$25.00 (US) per pound (the Ux spot price as of July 25, 2016), a long-term price indicator of \$38.00 (US) per pound (the Ux long-term indicator on July 25, 2016) and an exchange rate of \$1.00 (US) for \$1.30 (Cdn).

<sup>5</sup> 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.

<sup>6</sup> Direct administration costs do not include stock-based compensation expenses.

<sup>7</sup> 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 upcoming tax trial. The trial is still set to begin in mid-October with closing arguments expected by March 2017. 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.

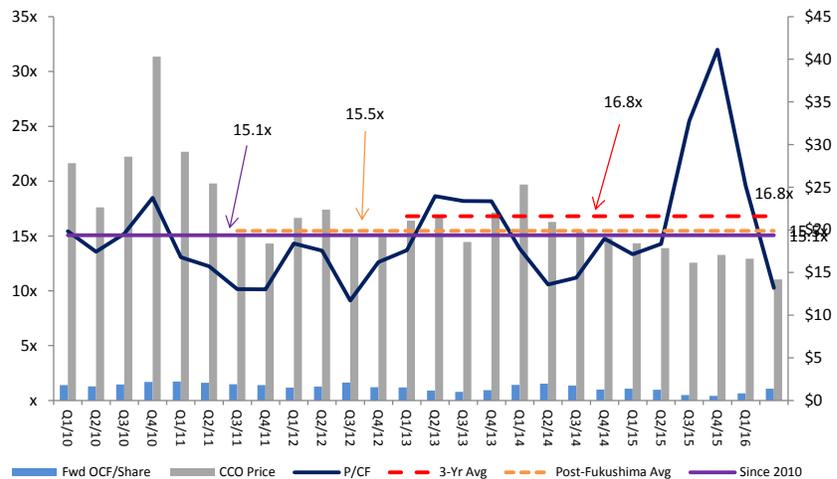
**RECOMMENDATION AND VALUATION**

We are maintaining our buy recommendation and our target price C\$17.95 per share. Our target price is based on a 13x multiple to our forward cash flow estimate of (C\$1.38/share).

Note that historically, Cameco has traded at an average multiple of 15.1x-16.8x with 15.5x being the average post-Fukushima. As of the end of Q2/16, CCO traded at a 10.3x multiple to our revised forward cash flow estimate and trades at a 9.0x multiple as of yesterday’s close.

We would normally move our target price higher to reflect the bottom end of the historical range (15.0x) but have refrained from doing so to reflect our concerns over the cancelled contract and whether or not this will become a trend.

**Exhibit 4. Historical Price to Forward Cash Flow**



Source: Cantor Fitzgerald Canada Research

Our NAV estimate declines to C\$27.94/share from C\$30.08/share, as we adjust our uranium purchase cost estimates to be more in-line with historical trends.

**Exhibit 5. Cameco NAV**

Cameco Corporation			
Projects	NAV (\$ Millions) Per Share		Comment
Uranium, Fuel Services, and Nukem Divisions	7,836.5	\$19.80	2016 DCF @ 8% Discount Rate
Wheeler River/Millennium/Kintyre	1,812.1	\$4.58	In-Situ Valuations
UEX Corp.	8.7	\$0.02	22.58% Ownership at a 20% discount
Working Capital	1,401.5	\$3.54	Q2/16 Financials
<b>Total</b>	<b>11,058.8</b>	<b>\$27.94</b>	

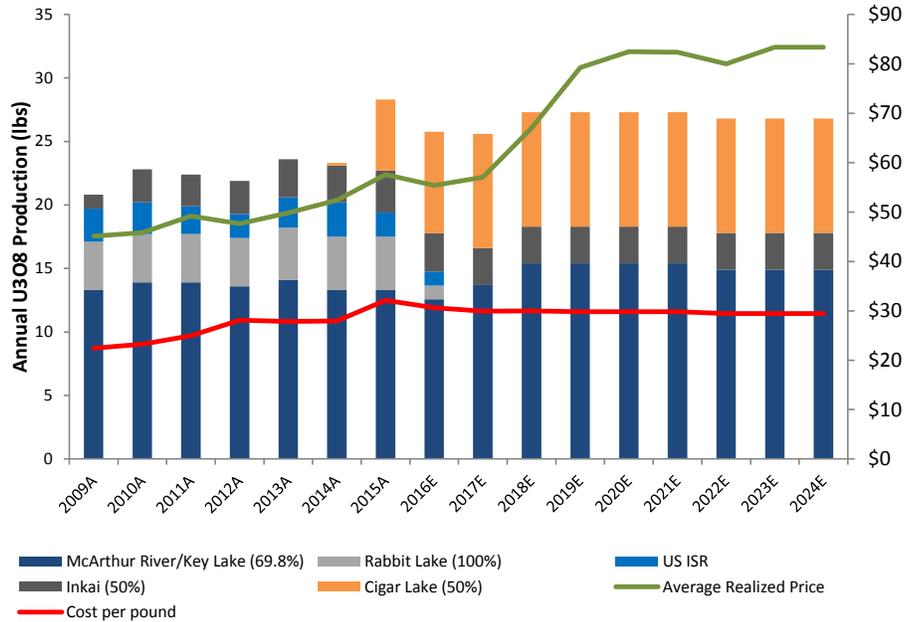
Source: Cantor Fitzgerald Canada Research

**Exhibit 6. Uranium Price History and Forecast**

	2013A	2014A	2015A	2016E	2017E	2018E	2019E	2020E
U3O8 Price	\$38.17	\$33.21	\$36.55	\$29.33	\$37.00	\$53.00	\$72.50	\$80.00

Source: Cantor Fitzgerald Canada Research and TradeTech

**Exhibit 7. Uranium Production, Realized Price and Cost Profile**



Source: Cantor Fitzgerald Canada Research

## APPENDIX A: VARIANCE TABLE

### Exhibit 8. Q2/16 Variance Table

	Reported Q2/16A	Adjusted Q2/16A	CF Estimates Q2/16E	Variance with Est. % Change	Reported Q1/16A	Variance Qtr-over-Qtr % Change	Reported Q2/15A	Variance Yr-over-Yr % Change
<b>INCOME STATEMENT (in C\$ 000's)</b>								
<b>Total revenue</b>	<b>466,397.0</b>	<b>456,397.0</b>	<b>603,376.6</b>	<b>-22.7%</b>	<b>408,251.0</b>	<b>14.2%</b>	<b>564,521.0</b>	<b>-17.4%</b>
Operating costs	306,401.0	306,401.0	444,110.0	-31.0%	245,826.0	24.6%	346,502.0	-11.6%
<b>Gross margin</b>	<b>159,996.0</b>	<b>149,996.0</b>	<b>159,266.6</b>	<b>0.5%</b>	<b>162,425.0</b>	<b>-1.5%</b>	<b>218,019.0</b>	<b>-26.6%</b>
Gross margin %	34.3%	34.3%	26.4%		39.8%		38.6%	
Depreciation and amortization	117,306.0	117,306.0	65,529.3	79.0%	44,310.0	164.7%	65,044.0	80.3%
General and administrative	60,596.0	60,596.0	50,542.9	19.9%	52,177.0	16.1%	49,441.0	22.6%
Exploration	11,549.0	11,549.0	10,986.6	5.1%	15,351.0	-24.8%	11,494.0	0.5%
Research and development	1,798.0	1,798.0	1,874.7	-4.1%	963.0	86.7%	1,467.0	22.6%
Gain on sale of assets	5,212.0	5,212.0	(1,127.3)	NM	3,382.0	54.1%	462.0	NM
Other expenses	124,368.0	130,368.0	-	NM	-	NM	-	NM
<b>Operating earnings</b>	<b>(160,833.0)</b>	<b>(176,833.0)</b>	<b>31,460.4</b>	<b>NM</b>	<b>46,242.0</b>	<b>NM</b>	<b>90,111.0</b>	<b>NM</b>
Net Finance Expenses	(30,604.0)	(30,604.0)	(17,507.4)	NM	(25,781.0)	NM	(23,537.0)	NM
Share of Earnings (loss) from BPLP	-	-	-	NM	-	NM	-	NM
Other expense	(8,158.0)	115,842.0	-	NM	65,755.0	NM	16,938.0	NM
<b>Net earnings before tax</b>	<b>(199,595.0)</b>	<b>(91,595.0)</b>	<b>13,953.1</b>	<b>NM</b>	<b>86,216.0</b>	<b>NM</b>	<b>83,512.0</b>	<b>NM</b>
Income tax (reversal) expense	(64,546.0)	(36,546.0)	(10,274.7)	NM	8,651.0	NM	(4,524.0)	NM
Tax rate	32.3%	NM	-73.6%	NM	10.0%	222.3%	-5.4%	NM
Non-controlling interest	2,319.0	2,319.0	-	NM	(460.0)	NM	(1.0)	NM
<b>Net earnings (as reported)</b>	<b>(137,368.0)</b>	<b>(57,368.0)</b>	<b>24,227.8</b>	<b>NM</b>	<b>(135,049.0)</b>	<b>NM</b>	<b>(135,049.0)</b>	<b>NM</b>
Adjustments	80,000.0	-	-	NM	(85,000.0)	NM	(42,000.0)	NM
<b>Adjusted earnings</b>	<b>(57,368.0)</b>	<b>(57,368.0)</b>	<b>24,227.8</b>	<b>NM</b>	<b>(7,435.0)</b>	<b>NM</b>	<b>46,036.0</b>	<b>NM</b>
<b>Operating EPS</b>	<b>-\$0.41</b>	<b>-\$0.45</b>	<b>\$0.08</b>	<b>NM</b>	<b>\$0.12</b>	<b>NM</b>	<b>\$0.23</b>	<b>NM</b>
<b>Earnings Per Share - Basic</b>	<b>-\$0.35</b>	<b>-\$0.14</b>	<b>\$0.06</b>	<b>NM</b>	<b>\$0.20</b>	<b>NM</b>	<b>\$0.22</b>	<b>NM</b>
<b>Adjusted Earnings Per Share - Basic</b>	<b>-\$0.14</b>	<b>-\$0.14</b>	<b>\$0.06</b>	<b>NM</b>	<b>-\$0.02</b>	<b>NM</b>	<b>\$0.12</b>	<b>NM</b>
<b>Adjusted Earnings Per Share - Fully Diluted</b>	<b>-\$0.14</b>	<b>-\$0.14</b>	<b>\$0.06</b>	<b>NM</b>	<b>-\$0.02</b>	<b>NM</b>	<b>\$0.11</b>	<b>NM</b>
<i>Source: Cameco and Cantor Fitzgerald Canada Estimates</i>								
<b>REVENUE (in C\$ millions)</b>								
Uranium	256.2	256.2	330.7	-22.5%	346.5	-26.1%	423.6	-39.5%
Fuel/ Conversion Services	80.9	80.9	91.9	-12.0%	59.2	36.5%	69.9	15.7%
NUKEM	129.0	129.0	180.7	-28.6%	2.0	NM	80.8	59.6%
Electricity	-	-	-	NM	-	NM	-	NM
<b>Total</b>	<b>466.0</b>	<b>466.0</b>	<b>603.4</b>	<b>-22.8%</b>	<b>407.7</b>	<b>14.3%</b>	<b>574.3</b>	<b>-18.9%</b>
<b>Costs (in C\$ millions)</b>								
Uranium	165.6	165.6	187.0	-11.4%	203.2	-18.5%	251.2	-34.1%
Fuel/ Conversion Services	53.9	53.9	70.2	-23.3%	40.5	33.1%	44.3	21.7%
NUKEM	86.4	86.4	186.9	-53.8%	2.1	NM	61.3	41.0%
Electricity	-	-	-	NM	-	NM	-	NM
<b>Total</b>	<b>305.9</b>	<b>305.9</b>	<b>444.1</b>	<b>-31.1%</b>	<b>245.8</b>	<b>24.5%</b>	<b>356.8</b>	<b>-14.3%</b>
<b>EBIT</b>								
Uranium	(103.3)	(103.3)	35.3	NM	98.8	NM	113.2	NM
Fuel/ Conversion Services	18.8	18.8	(62.0)	NM	13.1	43.1%	19.4	-3.2%
NUKEM	(14.8)	(14.8)	(6.4)	NM	(12.5)	NM	7.1	NM
Electricity	-	-	-	NM	-	NM	-	NM
<b>Total</b>	<b>(99.3)</b>	<b>(99.3)</b>	<b>(33.1)</b>	<b>NM</b>	<b>99.4</b>	<b>NM</b>	<b>139.7</b>	<b>NM</b>
<b>PRODUCTION (CCO'S SHARE)</b>								
Uranium production (M lbs)	7.0	7.0	6.3	10.7%	7.0	0.0%	5.4	29.6%
Uranium conversion (M kgU)	2.6	2.6	1.7	50.0%	3.3	-21.2%	3.1	-16.1%
<b>SALES (CCO'S SHARE)</b>								
Uranium (M lbs)	4.6	4.6	6.0	-23.8%	5.9	-22.0%	7.3	-37.0%
Fuel/ Conversion Services (M kgU)	2.9	2.9	3.5	-18.1%	2.3	26.1%	2.4	20.8%
NUKEM (M lbs U3O8)	54.9	54.9	59.9	-8.4%	39.4	39.5%	52.0	5.7%
NUKEM (M SWU)	139.0	139.0	185.1	-24.9%	0.1	NM	70.0	98.6%
<b>REALIZED PRICES</b>								
Uranium (US\$/lb)	\$42.91	\$42.91	\$42.50	1.0%	\$42.22	1.6%	\$46.57	-7.9%
Fuel/ Conversion Services (C\$/kgU)	\$27.75	\$27.75	\$25.85	7.4%	\$26.18	6.0%	\$29.70	-6.6%
<b>TOTAL COSTS</b>								
Cash Cost of Uranium (C\$/lb)	\$15.96	\$15.96	\$21.73	-26.6%	\$20.69	-22.9%	\$26.53	-39.8%
Total Production Cost (C\$/lb)	\$27.03	\$27.03	\$31.09	-13.1%	\$33.60	-19.6%	\$41.17	-34.3%
Average Unit Cost of Sales (C\$/lb)	\$47.46	\$47.46	\$40.75	16.5%	\$39.71	19.5%	\$40.71	16.6%
<b>Production (CCO's share)</b>								
McArthur River/Key Lake (69.8%)	2.8	2.8	3.2	-13.1%	3.5	-20.0%	3.8	-26.3%
Rabbit Lake (100%)	0.7	0.7	0.3	133.3%	1.1	-36.4%	0.4	75.0%
Smith Ranch-Highland (100%)	0.3	0.3	0.3	12.5%	0.3	0.0%	0.5	-40.0%
Crow Butte (100%)	0.1	0.1	0.0	NM	0.2	-50.0%	0.2	-50.0%
Inkai (50%)	1.1	1.1	0.6	73.7%	0.8	37.5%	0.9	22.2%
Cigar Lake (50%)	2.0	2.0	1.9	3.4%	0.0	NM	0.0	NM
<b>Total</b>	<b>7.0</b>	<b>7.0</b>	<b>6.3</b>	<b>10.7%</b>	<b>7.0</b>	<b>0.0%</b>	<b>5.4</b>	<b>29.6%</b>

Source: Cameco Corporation, Cantor Fitzgerald Canada estimates

## APPENDIX B: FINANCIAL STATEMENT ANALYSIS

### Exhibit 9. Cash Flow Analysis

*In C\$ 000s	2014A	2015A	2016E	2017E	2018E	2019E
<b>Cash Flows from Operations</b>						
Net Income	183,413	63,362	417,948	195,203	489,939	809,971
Adjustments	296,769	386,648	-361,593	398,808	484,735	547,765
	<b>480,182</b>	<b>450,010</b>	<b>56,355</b>	<b>594,011</b>	<b>974,674</b>	<b>1,357,736</b>
<b>Cash Flows from Investments</b>						
Additions to property, plant & equipment	-480,108	-358,562	-275,000	-300,000	-250,000	-227,250
Other	459,366	17,775	-16,931	0	0	0
	<b>-20,742</b>	<b>-340,787</b>	<b>-291,931</b>	<b>-300,000</b>	<b>-250,000</b>	<b>-227,250</b>
<b>Cash Flows from Financings</b>						
Change in Debt	145,430	-10	234,745	0	0	-496,152
Issuance of Shares/Stock Option Plan	6,228	0	0	0	0	0
Other	-235,550	-227,820	-193,917	-158,317	-158,317	-158,317
	<b>-83,892</b>	<b>-227,830</b>	<b>40,828</b>	<b>-158,317</b>	<b>-158,317</b>	<b>-654,469</b>
<b>Net Change in Cash</b>	<b>375,548</b>	<b>-118,607</b>	<b>-194,748</b>	<b>135,694</b>	<b>566,357</b>	<b>476,017</b>

Source: Cameco Corporation, Cantor Fitzgerald Canada Estimates

### Exhibit 10. Balance Sheet Analysis

*In C\$ 000s	2014A	2015A	2016E	2017E	2018E	2019E
<b>Current Assets</b>						
Cash & Equivalents	566,583	458,604	257,123	392,817	959,174	1,435,191
Other	1,501,123	1,725,361	1,921,879	1,921,879	1,921,879	1,921,879
	<b>2,067,706</b>	<b>2,183,965</b>	<b>2,179,002</b>	<b>2,314,696</b>	<b>2,881,053</b>	<b>3,357,070</b>
<b>Fixed Assets</b>						
Property, Plant and Equipment	5,291,021	5,228,160	5,113,697	5,156,763	5,136,229	5,092,945
Other	1,113,940	1,382,512	1,467,201	1,467,201	1,467,201	1,467,201
	<b>6,404,961</b>	<b>6,610,672</b>	<b>6,580,898</b>	<b>6,623,964</b>	<b>6,603,430</b>	<b>6,560,146</b>
<b>Total Assets</b>	<b>8,472,667</b>	<b>8,794,637</b>	<b>8,759,900</b>	<b>8,938,660</b>	<b>9,484,483</b>	<b>9,917,216</b>
<b>Current Liabilities</b>						
Accounts Payable	316,258	317,856	245,056	245,056	245,056	245,056
Other	199,556	353,781	406,835	406,835	406,835	406,835
	<b>515,814</b>	<b>671,637</b>	<b>651,891</b>	<b>651,891</b>	<b>651,891</b>	<b>651,891</b>
<b>Non-Current Liabilities</b>						
Long Term Debt	1,491,198	1,492,237	1,492,770	1,492,770	1,492,770	996,618
Other	1,021,851	1,085,484	1,082,232	1,082,232	1,082,232	1,082,232
	<b>2,513,049</b>	<b>2,577,721</b>	<b>2,575,002</b>	<b>2,575,002</b>	<b>2,575,002</b>	<b>2,078,850</b>
<b>Shareholders' Equity</b>						
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	3,670,361	3,849,121	4,394,944	5,323,829
	<b>5,443,804</b>	<b>5,545,279</b>	<b>5,533,007</b>	<b>5,711,767</b>	<b>6,257,590</b>	<b>7,186,475</b>
<b>Total Liabilities and Equity</b>	<b>8,472,667</b>	<b>8,794,637</b>	<b>8,759,900</b>	<b>8,938,660</b>	<b>9,484,483</b>	<b>9,917,216</b>

Source: Cameco Corporation, Cantor Fitzgerald Canada Estimates

### Exhibit 11. Profit and Loss Analysis

*In C\$ 000s	2014A	2015A	2016E	2017E	2018E	2019E
Revenue	2,397,532	2,754,378	2,509,122	2,457,580	2,971,076	3,439,938
Operating Expenses	1,420,768	1,744,815	1,741,742	1,619,849	1,750,794	1,834,687
Depreciation	338,983	312,518	231,119	256,934	270,534	270,534
<b>Gross Profit</b>	<b>637,781</b>	<b>697,045</b>	<b>536,261</b>	<b>580,797</b>	<b>949,748</b>	<b>1,334,717</b>
Exploration	46,565	40,259	48,311	48,311	48,311	48,311
Other	552,884	411,211	296,655	212,262	214,150	216,057
<b>Earnings from Operations</b>	<b>38,332</b>	<b>245,575</b>	<b>191,296</b>	<b>320,224</b>	<b>687,287</b>	<b>1,070,349</b>
Finance Cost	-77,122	-103,615	-98,288	-78,791	-78,791	-67,476
Interest	234,552	428,458	134,394	155,011	153,654	125,361
<b>EBT</b>	<b>-119,098</b>	<b>-79,268</b>	<b>155,190</b>	<b>244,004</b>	<b>612,424</b>	<b>1,012,464</b>
Tax	-175,268	-142,630	-271,583	48,801	122,485	202,493
<b>Net Income</b>	<b>56,170</b>	<b>63,362</b>	<b>426,773</b>	<b>195,203</b>	<b>489,939</b>	<b>809,971</b>
<b>EPS</b>	<b>1.04</b>	<b>0.86</b>	<b>0.83</b>	<b>0.49</b>	<b>1.24</b>	<b>2.05</b>

Source: Cameco Corporation, Cantor Fitzgerald Canada Estimates

**APPENDIX C: RESOURCE INVENTORY**

**Exhibit 12. Cameco Global Resource & Reserve Inventory**

Property	Mining Method	Proven & Probable			Measured & Indicated				Inferred			Totals
		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	
<b>Athabasca Basin</b>		<b>2,971.5</b>		<b>358.3</b>	<b>3,282.5</b>		<b>116.6</b>	<b>4,961.7</b>		<b>213.5</b>	<b>688.4</b>	
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	
<b>US ISR</b>		<b>4,429.3</b>		<b>8.7</b>	<b>32,372.0</b>		<b>65.6</b>	<b>12,162.4</b>		<b>18.3</b>	<b>92.6</b>	
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	
<b>Australia</b>					<b>40,537.7</b>		<b>164.8</b>	<b>517.1</b>		<b>4.2</b>	<b>169.0</b>	
<b>Total</b>		<b>59,016.7</b>		<b>410.1</b>	<b>107,558.3</b>		<b>377.3</b>	<b>268,599.8</b>		<b>380.3</b>	<b>1,167.7</b>	

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 2009 tax returns, and, in Q4/15, received a notice of reassessment for the 2010 tax year. Cameco has recorded a cumulative tax provision of \$52M (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 2015.

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 13. Cameco Payments to the Government of Canada**

YEAR PAID (\$ MILLIONS)	INTEREST AND INSTALMENT		TRANSFER	TOTAL	CASH REMITTANCE	SECURED BY LC
	CASH TAXES	PENALTIES	PRICING PENALTIES			
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
<b>Total</b>	<b>316</b>	<b>142</b>	<b>146</b>	<b>604</b>	<b>264</b>	<b>340</b>

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 \$7.0B of additional taxable income in Canada for the years 2003 through 2015, which would result in a related tax expense of approximately \$2.1B. 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 \$1.65B 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 14. 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	50 - 75	75 - 100	390 - 440
<b>Total paid<sup>1</sup></b>	<b>420</b>	<b>155 - 205</b>	<b>175 - 225</b>	<b>750 - 850</b>

<sup>1</sup> These amounts do not include interest and instalment penalties, which totalled approximately \$142 million to June 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 (\$132M) 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 15. Overview of Disputes**

	CRA	IRS
<b>Basis for dispute</b>	<ul style="list-style-type: none"> <li>• Corporate structure/governance</li> <li>• Transfer pricing methodology used for certain intercompany uranium sale and purchase agreements</li> <li>• 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)</li> </ul>	<ul style="list-style-type: none"> <li>• Income earned on sales of uranium by the US mines to CEL is inadequate</li> <li>• Compensation earned by Cameco Inc., one of our US subsidiaries, is inadequate</li> <li>• 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)</li> </ul>
<b>Years under consideration</b>	<ul style="list-style-type: none"> <li>• CRA reassessed 2003 to 2010</li> <li>• Auditing 2011 to 2012</li> </ul>	<ul style="list-style-type: none"> <li>• IRS has proposed adjustments for 2009 through 2012</li> </ul>
<b>Timing of resolution</b>	<ul style="list-style-type: none"> <li>• 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</li> <li>• Expect Tax Court decision six to 18 months after completion of trial</li> </ul>	<ul style="list-style-type: none"> <li>• Contesting proposed adjustments in an administrative appeal</li> <li>• We cannot yet provide an estimate as to the timeline for resolution</li> </ul>
<b>Required payments</b>	<ul style="list-style-type: none"> <li>• 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</li> <li>• Paid \$232 million in cash to date</li> <li>• Secured \$332 million using letters of credit</li> </ul>	<ul style="list-style-type: none"> <li>• No security or cash payments required while under administrative appeal</li> </ul>

*Source: Cameco Corporation*

## DISCLAIMERS AND DISCLOSURES

### *Disclaimers*

The opinions, estimates and projections contained in this report are those of Cantor Fitzgerald Canada Corporation. ("CFCC") as of the date hereof and are subject to change without notice. CFCC makes every effort to ensure that the contents have been compiled or derived from sources believed to be reliable and that contain information and opinions that are accurate and complete; however, CFCC makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions which may be contained herein and accepts no liability whatsoever for any loss arising from any use of or reliance on this report or its contents. Information may be available to Cantor that is not herein.

This report is provided, for informational purposes only, to institutional investor clients of CFCC, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This report is issued and approved for distribution in Canada, CFCC, a member of the Investment Industry Regulatory Organization of Canada ("IIROC"), the Toronto Stock Exchange, the TSX Venture Exchange and the CIPF. This report is has not been reviewed or approved by Cantor Fitzgerald USA., a member of FINRA. This report is intended for distribution in the United States only to Major Institutional Investors (as such term is defined in SEC 15a-6 and Section 15 of the Securities Exchange Act of 1934, as amended) and is not intended for the use of any person or entity that is not a major institutional investor. Major Institutional Investors receiving this report should effect transactions in securities discussed in the report through Cantor Fitzgerald USA.

**Non US Broker Dealer 15a-6 disclosure:** This report is being distributed by (CF Canada/CF Europe/CF Hong Kong) in the United States and is intended for distribution in the United States solely to "major U.S. institutional investors" (as such term is defined in Rule15a-6 of the U.S. Securities Exchange Act of 1934 and applicable interpretations relating thereto) and is not intended for the use of any person or entity that is not a major institutional investor. This material is intended solely for institutional investors and investors who CFCC reasonably believes are institutional investors. It is prohibited for distribution to non-institutional clients including retail clients, private clients and individual investors. Major Institutional Investors receiving this report should effect transactions in securities discussed in this report through Cantor Fitzgerald & Co. This report has been prepared in whole or in part by research analysts employed by non-US affiliates of Cantor Fitzgerald & Co that are not registered as broker-dealers in the United States. These non-US research analysts are not registered as associated persons of Cantor Fitzgerald & Co. and are not licensed or qualified as research analysts with FINRA or any other US regulatory authority and, accordingly, may not be subject (among other things) to FINRA's restrictions regarding communications by a research analyst with a subject company, public appearances by research analysts, and trading securities held by a research analyst account.

### *Potential conflicts of interest*

The author of this report is compensated based in part on the overall revenues of CFCC, a portion of which are generated by investment banking activities. CFCC may have had, or seek to have, an investment banking relationship with companies mentioned in this report. CFCC and/or its officers, directors and employees may from time to time acquire, hold or sell securities mentioned herein as principal or agent. Although CFCC makes every effort possible to avoid conflicts of interest, readers should assume that a conflict might exist, and therefore not rely solely on this report when evaluating whether or not to buy or sell the securities of subject companies.

### *Disclosures as of July 29, 2016*

CFCC *has not* provided investment banking services or received investment banking related compensation from Cameco within the past 12 months.

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. No payment or reimbursement was received for the related travel costs.

### *Analyst certification*

The research analyst whose name appears on this report hereby certifies that the opinions and recommendations expressed herein accurately reflect his personal views about the securities, issuers or industries discussed herein.

### *Definitions of recommendations*

**BUY:** The stock is attractively priced relative to the company's fundamentals and we expect it to appreciate significantly from the current price over the next 6 to 12 months.

**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.

**TENDER:** We believe the offer price by the acquirer is fair and thus recommend investors tender their shares to the offer.

**UNDER REVIEW:** We are temporarily placing our recommendation under review until further information is disclosed.

### **Member-Canadian Investor Protection Fund.**

Customers' accounts are protected by the Canadian Investor Protection Fund within specified limits. A brochure describing the nature and limits of coverage is available upon request.