

CAMECO CORPORATION

Enhanced Guidance Disclosures Lead to Upward Rating and Target Price Revisions

EVENT

Cameco released its Q4/16 financial results, 2017 outlook, and detailed guidance on several previously opaque aspects of the business.

BOTTOM LINE

Positive – While the 2017 outlook included production guidance, average costs, and realized prices that were worse than our expectations, these were more than offset by lower than expected guidance on several other cost items. We are upgrading our recommendation to BUY and increasing our target price to \$16.90, from \$15.35/share.

FOCUS POINTS

- **TEPCO** – Hot topic of discussion on the conference call. Cameco remains confident it will win the case. Our discussions with several industry members agree.
- **Enhanced guidance** – While several aspects of the guidance were below our expectations, Cameco has made a concerted effort to provide forecasts for several areas that were previously opaque. As such, we have adjusted our extremely conservative estimates in these areas to the guided ranges.
- **Earnings in line** – Q4 earnings came in at \$0.23/share versus consensus average of \$0.26/share, which was similar to Cantor Fitzgerald Canada Research's estimate of \$0.24/share. Average unit cost of sales came in at \$38.29/lb., which was lower than our estimate of \$39.30/lb. While realized prices of US\$38.04/lb. were higher than our expectation of US\$37.87/lb. for the quarter.

Recommendation:

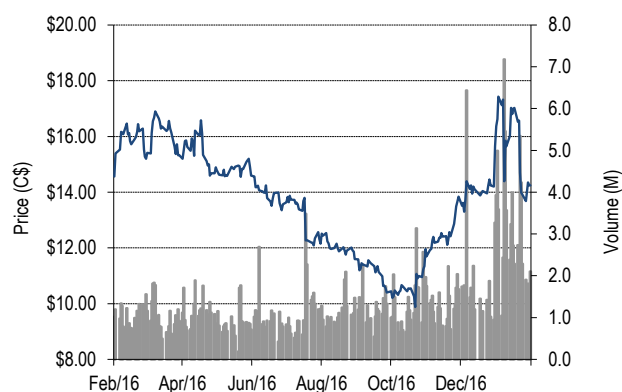
BUY↑

Symbol/Exchange: CCO/TSX; CCJ/NYSE
Sector: Metals and Mining
All dollar values in C\$ unless otherwise noted.
Current price \$14.55; US\$11.13
One year target: \$16.90↑
Return to target 16%
Market Capitalization \$5.7B
Cash on hand \$320M
Yield 2.7%

Company Summary

Shares O/S (M)	395.8	52-week range	\$9.88- 17.43	
Market cap (\$M)	\$5,758.8	Avg. weekly vol. (000)	6.808	
Market float (\$M)	\$5,753.0	Fiscal year-end	31-Dec	
	2015A	2016A	2017E	2018E
Uranium Production (M lbs)	28.4	27.0	25.2	28.0
Revenue (\$M)	2,754.4	2,431.4	2,054.2	2,579.3
Operating Cost (\$M)	2,057.3	1,967.9	1,621.5	1,767.9
Avg Cost (US\$/lb)	\$33.85	\$24.68	\$21.13	\$23.15
EBITDA (\$M)	775.9	581.0	521.6	921.1
EPS	\$0.86	\$0.36	\$0.44	\$1.17
CFPS	\$1.29	\$0.94	\$1.30	\$2.39

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.

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

FOCUS ON TEPCO AND LOWER PRODUCTION GUIDANCE

Much of the post results conference call focused on the ramifications of the Tokyo Electric Power Company Holdings (“TEPCO”) contract cancellation. Management continues to be confident that it will win its case with TEPCO. Our conversations with various members of the fuel cycle and competitors appear to agree that Cameco has an extremely strong case.

Recall that on January 31, 2017 TEPCO issued a termination notice for its uranium supply contract with Cameco. TEPCO cited force majeure as the cause for the termination because the company has not been able to operate its nuclear plants for 18 consecutive months and also due to increased government regulations following the Fukushima accident in 2011. Note that 11% of Cameco’s contract book is with Japanese utilities out of a total of 25% for all of Asia. Cameco currently does business with eight of the eleven Japanese utilities, none of which are expected to follow suit.

Cameco revealed that the termination affects about 9.3M lbs. of uranium deliveries through 2028, which is estimated to be worth about \$1.3B in revenue. For 2017, 2018, and 2019 the impact would be 855,000 lbs. of uranium or about \$126M annually. The 2017 loss accounts for 3% of Cantor Fitzgerald Canada Research’s estimated 2017 sales volume and 5% of our 2017 revenue estimate.

Cameco asserts that there was no contractual basis for the cancelation and the Force Majeure claim is questionable since contracts were being honored in all the years following Fukushima and since TEPCO has reactors which have been approved for re-start.

OPERATIONALLY, HIGHER QUARTERLY PRODUCTION WHILE SALES INLINE

Quarterly production from the uranium segment of 7.1M lbs. was above our forecast calling for 6.3M lbs. Sales volume for the quarter of 11.7M lbs. was in-line with our forecast. The company’s average realized pricing of US\$38.07/lb. for the quarter was higher than our forecast of \$37.87/lb. Sales volumes from the NUKEM division (3.2M lbs.) was below our forecast calling for 3.6M lbs. while volumes from the Fuel Services division (4.0M kgU) were below our forecasts that called for 4.2M kgU.

Q4/16 Earnings came in at \$0.23/share versus consensus average of \$0.26/share and Cantor Fitzgerald Canada Research’s estimate of \$0.24/share. Average unit cost of sales came in at \$38.29/lb., which was lower than our estimate of \$39.30/lb.

Please see Appendix A below for the full Q4/16 variance table.

2017 GUIDANCE

Cameco’s 2017 outlook came in weaker than expected on several metrics as guided production, realized price, and costs were on the negative side of our post-TEPCO revisions. Note that prior to the TEPCO announcement,

Cameco's FY/17 revenue guidance was for \$2.1B-\$2.2B. It has since been lowered to \$1.9B-\$2.08B. Other notable items from the outlook include:

- Uranium production is expected to total approximately 25.2M lbs. (exhibit 1)
- Sales volumes for the year are expected to total between 30M-32M lbs.
- Purchase commitments for 2017 amount to \$340M. Committed lbs until 2028 total approximately 21M lbs U3O8 carrying a purchase commitment value of \$991M.
- FY/17 capital expenditures have been reduced to now total \$190M, from \$245M previously. The FY/18 and FY/19 figure is expected to be between \$200-\$250M each year (unchanged).
- A tax recovery of \$10-\$20M is expected in 2017.

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

(M lbs)	CF			Guidance	
	Q4/16a	Q4/16e	Q4/15a	FY 2017e	CF FY 2017e
McArthur River/Key Lake	3.8	3.8	3.8	12.6	12.6
Cigar Lake	2.5	1.9	2.3	8.0	8.0
Inkai	0.7	0.5	1.1	3.0	3.0
Rabbit Lake	0.0	0.0	2.0	1.1	1.1
Smith Ranch-Highland	0.1	0.1	0.3	0.9	0.9
Crow Butte	0.0	0.0	0.1	0.2	0.2
Total	7.1	6.3	9.6	25.8	25.8

Source: Cameco Corporation, Cantor Fitzgerald Canada estimates

The lower production forecast (25.2M lbs versus our initial estimate of 25.8m lbs) is likely attributable to a company decision to not produce the pounds that were earmarked for TEPCO as well as reduced production from JV-Inkai, which is the company's Kazakh uranium mine co-owned by Kazatomprom (who earlier announced production reductions of 10%). The reduction in production from 2016 levels of 1.8M lbs. is positive to the overall uranium market as it contributes less to the near-term oversupplied market. This is good news for other uranium companies in the sector.

Offsetting the negative impact of the above are much lower than expected forecasts on several items that we previously had more conservative estimates for. These items include: foreign exchange derivative losses, capital expenditures, depreciation, administration, exploration, and taxes.

We note that Cameco has taken major steps forward in its disclosure as several areas that were previously opaque have been clarified. Items such as uranium delivery schedules, purchase contract details, foreign exchange derivative contract details, and more concrete tax recovery expectations. This significantly enhances our confidence in the company's financials and in our ability to accurately forecast performance going forward.

Exhibit 2. FY/17 Guidance

	CONSOLIDATED	URANIUM	FUEL SERVICES	NUKEM
EXPECTED CONTRIBUTION TO GROSS PROFIT	100%	84%	15%	1%
Production	-	25.2 million lbs	8 to 9 million kgU	-
Sales volume ¹	-	30 to 32 million lbs ²	11 to 12 million kgU	5 to 6 million lbs U ₃ O ₈
Revenue (\$ million) ¹	1,950 to 2,080	1,470 to 1,570 ³	300 to 330	-
Average realized price ³	-	\$49.00/lb ²	-	-
Average unit cost of sales (including D&A)	-	\$36.00-38.00/lb ⁴	\$21.60-22.60/kgU	-
Gross profit	-	-	-	3% to 4%
Direct administration costs ⁵	\$150-160 million	-	-	-
Exploration costs	-	\$30 million	-	-
Expected loss on derivatives - ANE basis ³	\$45-50 million	-	-	-
Tax recovery - ANE basis ⁶	\$10-20 million	-	-	-
Capital expenditures	\$190 million	-	-	-

¹ Our 2017 outlook for sales volume and revenue does not include sales between our uranium, fuel services and NUKEM segments.

² Based on the volumes we currently have commitments to deliver under contract in 2017.

³ Based on a uranium spot price of \$26.00 (US) per pound (the Ux spot price as of February 6, 2017), a long-term price indicator of \$30.00 (US) per pound (the Ux long-term indicator on January 30, 2017) and an exchange rate of \$1.00 (US) for \$1.30 (Cdn).

⁴ Based on the expected unit cost of sales for produced material and committed long-term purchases. If we make discretionary purchases in 2017, then we expect the overall unit cost of sales may be affected.

⁵ Direct administration costs do not include stock-based compensation expenses. See page 27 for more information.

⁶ Our outlook for the tax recovery is based on adjusted net earnings and the other assumptions listed in the table. If other assumptions change then the expected recovery may be affected.

Source: Cameco Corporation

As part of the re-vamped disclosure policy, Cameco provided sensitivity analysis to approximate how the portfolio of long term contracts (valid as of February 1, 2017) would respond to different spot prices. The price sensitivities are as follows:

Exhibit 3. Revenue, adj. earnings and cash flow sensitivity analysis

FOR 2017 (\$ MILLIONS)	CHANGE	IMPACT ON:		
		REVENUE	ANE	CASH FLOW
Uranium spot and term price ¹	\$5(US)/lb increase	65	46	55
	\$5(US)/lb decrease	(43)	(29)	(33)
Value of Canadian dollar vs US dollar	One cent decrease in CAD	14	6	5
	One cent increase in CAD	(14)	(6)	(5)

¹ Assuming change in both Ux spot price (\$26.00 (US) per pound on February 6, 2017) and the Ux long-term price indicator (\$30.00 (US) per pound on January 30, 2017)

Source: Cameco Corporation

Exhibit 4. Expected realized price sensitivity under various spot prices

SPOT PRICES (\$US/lb U ₃ O ₈)	\$20	\$40	\$60	\$80	\$100	\$120	\$140
2017	Provided above in financial outlook table and in revenue, adjusted net earnings, and cash flow sensitivity analysis						
2018	37	45	57	68	78	87	95
2019	34	44	56	66	75	83	89
2020	36	45	57	66	75	82	88
2021	33	44	58	68	77	86	94

Source: Cameco Corporation

CANADA REVENUE AGENCY & I.R.S. UPDATE

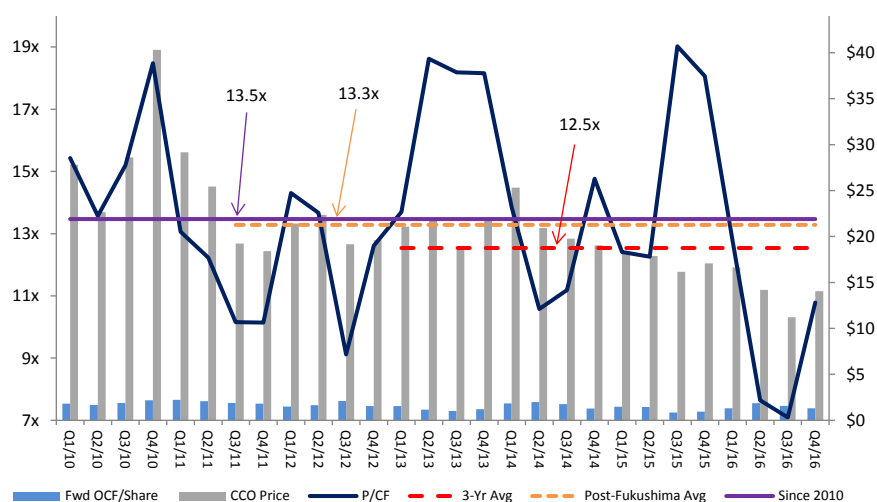
There was no meaningful update concerning the current trial affecting tax years 2003, 2005 and 2006. The trial began in October 2016 with closing arguments expected during the second half of 2017. A decision is still expected between 6-18 months after the trial concludes. No other news items or changes 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 are increasing our recommendation to BUY from HOLD and are increasing our target price to \$16.90/share, or by 10%, to account for the 2017 detailed guidance provided by Cameco.

Note that historically, Cameco has traded at an average multiple of 12.5x-13.5x with 13.3x being the average post-Fukushima. As of the end of Q4/16, CCO traded at a 10.8x multiple to our revised forward cash flow estimate and it trades at a 11.2x multiple as of last close. Our target price reflects a 13x multiple to our forward cash flow estimate of \$1.30/share.

Exhibit 5. 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 6. Cameco NAV

Projects	Cameco Corporation		Comment
	NAV (\$C Millions)	Per Share	
Uranium, Fuel Services, and Nukem Divisions	5,934.6	\$14.99	2017 DCF @ 8% Discount Rate
Wheeler River/Millennium/Kintyre	313.2	\$0.79	In-Situ Valuations
UEX Corp.	16.6	\$0.04	22.58% Ownership at a 20% discount
Working Capital	1,572.6	\$3.97	Q4/16 Financials
Total	7,836.9	\$19.80	

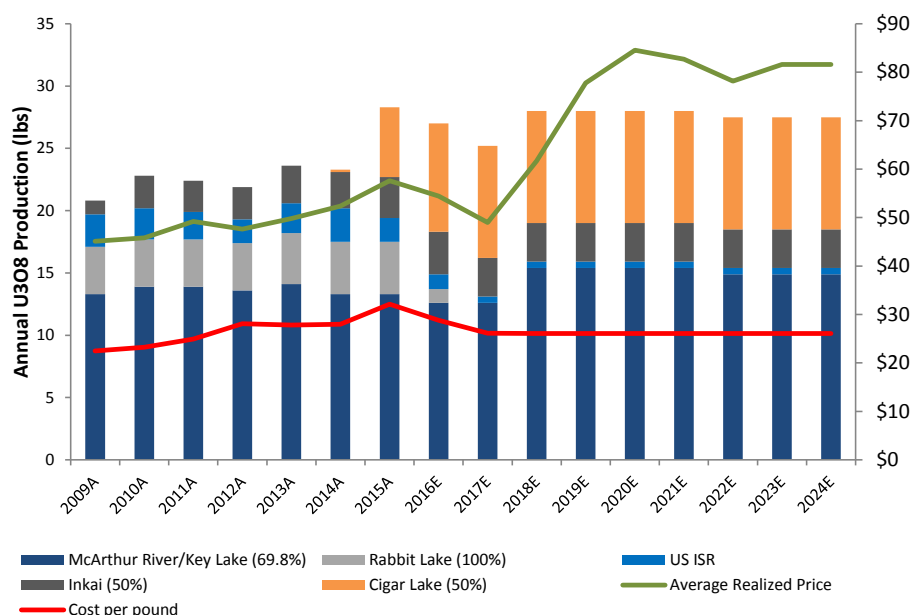
Source: Cantor Fitzgerald Canada Research

Exhibit 7. Uranium Price History and Forecast

	2013A	2014A	2015A	2016A	2017E	2018E	2019E	2020E
U3O8 Price	\$38.17	\$33.21	\$36.55	\$25.64	\$28.63	\$45.00	\$66.25	\$80.00

Source: Cantor Fitzgerald Canada Research and TradeTech

Exhibit 8. Uranium Production, Realized Price and Cost Profile



Source: Cantor Fitzgerald Canada Research

APPENDIX A: VARIANCE TABLE

Exhibit 9. Q4/16 Variance Table

	Reported Q4/16A	CF Estimates Q4/16E	Variance with Est. % Change	Reported Q3/16A	Variance Qtr-over-Qtr % Change	Reported Q4/15A	Variance Yr-over-Yr % Change
INCOME STATEMENT (in C\$ 000's)							
Total revenue	887,102.0	924,138.0	-4.0%	669,654.0	32.5%	975,040.0	-9.0%
Operating costs	632,304.0	636,349.8	-0.6%	411,704.0	53.6%	581,120.0	8.8%
Gross margin	254,798.0	287,788.2	-11.5%	257,950.0	-1.2%	393,920.0	-35.3%
Gross margin %	28.7%	31.1%		38.5%		40.4%	
Depreciation and amortization	98,262.0	117,869.0	-16.6%	111,811.0	-12.1%	112,103.0	-12.3%
General and administrative	55,190.0	62,541.1	-11.8%	38,689.0	42.7%	55,018.0	0.3%
Exploration	6,036.0	11,767.8	-48.7%	9,643.0	-37.4%	7,307.0	-17.4%
Research and development	844.0	2,479.0	-66.0%	1,347.0	-37.3%	1,722.0	-51.0%
Gain on sale of assets	14,135.0	-	NM	439.0	NM	(446.0)	NM
Other expenses	209,865.0	-	NM	(6,319.0)	NM	212,126.0	-1.1%
Operating earnings	(129,534.0)	93,131.3	NM	102,340.0	NM	6,090.0	NM
Net Finance Expenses	(25,298.0)	(15,914.3)	NM	(25,844.0)	NM	(26,459.0)	NM
Other expense	(18,306.0)	(73,555.8)	NM	55,787.0	NM	(47,710.0)	NM
Net earnings before tax	(173,138.0)	3,661.1	NM	132,283.0	NM	(68,079.0)	NM
Income tax (reversal) expense	(28,053.0)	21,171.7	NM	(10,407.0)	NM	(57,603.0)	NM
Tax rate	16.2%	578.3%	-97.2%	-7.9%	NM	84.6%	-80.9%
Non-controlling Interest	(672.0)	-	NM	545.0	NM	(539.0)	NM
Net earnings (as reported)	(144,413.0)	(17,510.6)	NM	142,145.0	NM	(135,049.0)	NM
Adjustments	234,000.0	-	NM	(24,000.0)	NM	160,714.0	45.6%
Adjusted earnings	89,587.0	93,131.3	-3.8%	118,145.0	-24.2%	150,238.0	-40.4%
Operating EPS	-\$0.33	\$0.24	NM	\$0.26	NM	\$0.02	NM
Earnings Per Share - Basic	-\$0.36	\$0.24	NM	\$0.36	NM	-\$0.03	NM
Adjusted Earnings Per Share - Basic	\$0.23	\$0.24	-3.8%	\$0.30	-24.2%	\$0.38	-40.4%
Adjusted Earnings Per Share - Fully Diluted	\$0.22	\$0.24	-5.2%	\$0.29	-23.7%	\$0.37	-40.0%

Source: Cameco and Cantor Fitzgerald Canada Estimates

Source: Cameco Corporation, Cantor Fitzgerald Canada estimates

APPENDIX B: FINANCIAL STATEMENT ANALYSIS

Exhibit 10. Cash Flow Analysis

*In C\$ 000s	2014A	2015A	2016E	2017E	2018E	2019E
Cash Flows from Operations						
Net Income	183,413	63,362	-59,879	172,813	464,963	800,504
Adjustments	296,769	386,648	372,259	352,853	499,562	577,885
	480,182	450,010	312,380	525,666	964,525	1,378,389
Cash Flows from Investments						
Additions to property, plant & equipment	-480,108	-358,562	-216,908	-190,000	-250,000	-250,000
Other	459,366	17,775	-912	0	0	0
	-20,742	-340,787	-217,820	-190,000	-250,000	-250,000
Cash Flows from Financings						
Change in Debt	145,430	-10	0	0	0	0
Issuance of Shares/Stock Option Plan	6,228	0	0	0	0	0
Other	-235,550	-227,820	-228,756	-158,317	-158,317	-158,317
	-83,892	-227,830	-228,756	-158,317	-158,317	-158,317
Net Change in Cash	375,548	-118,607	-134,196	177,349	556,208	970,072

Source: Cameco Corporation, Cantor Fitzgerald Canada Estimates

Exhibit 11. Balance Sheet Analysis

*In C\$ 000s	2014A	2015A	2016E	2017E	2018E	2019E
Current Assets						
Cash & Equivalents	566,583	458,604	320,278	497,627	1,053,835	2,023,907
Other	1,501,123	1,725,361	1,721,555	1,721,555	1,721,555	1,721,555
	2,067,706	2,183,965	2,041,833	2,219,182	2,775,390	3,745,462
Fixed Assets						
Property, Plant and Equipment	5,291,021	5,228,160	4,655,586	4,561,741	4,505,654	4,449,568
Other	1,113,940	1,382,512	1,551,779	1,551,779	1,551,779	1,551,779
	6,404,961	6,610,672	6,207,365	6,113,520	6,057,433	6,001,347
Total Assets	8,472,667	8,794,637	8,249,198	8,332,702	8,832,823	9,746,809
Current Liabilities						
Accounts Payable	316,258	317,856	312,900	312,900	312,900	312,900
Other	199,556	353,781	156,355	156,355	156,355	156,355
	515,814	671,637	469,255	469,255	469,255	469,255
Non-Current Liabilities						
Long Term Debt	1,491,198	1,492,237	1,493,327	1,493,327	1,493,327	1,493,327
Other	1,021,851	1,085,484	1,028,088	1,028,088	1,028,088	1,028,088
	2,513,049	2,577,721	2,521,415	2,521,415	2,521,415	2,521,415
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	3,395,882	3,479,386	3,979,508	4,893,493
	5,443,804	5,545,279	5,258,528	5,342,032	5,842,154	6,756,139
Total Liabilities and Equity	8,472,667	8,794,637	8,249,198	8,332,702	8,832,824	9,746,809

Source: Cameco Corporation, Cantor Fitzgerald Canada Estimates

Exhibit 12. Profit and Loss Analysis

*In C\$ 000s	2014A	2015A	2016E	2017E	2018E	2019E
Revenue	2,397,532	2,754,378	2,431,404	2,054,200	2,579,277	3,177,909
Operating Expenses	1,420,768	1,744,815	1,596,235	1,337,683	1,461,805	1,614,801
Depreciation	338,983	312,518	371,689	283,845	306,087	306,087
Gross Profit	637,781	697,045	463,480	432,672	811,385	1,257,021
Exploration	46,565	40,259	42,579	30,000	30,000	30,000
Other	552,884	411,211	562,686	124,952	126,411	167,885
Earnings from Operations	38,332	245,575	-141,785	277,720	654,974	1,059,136
Finance Cost	-77,122	-103,615	-111,906	-68,110	-68,110	-68,110
Other	-80,308	-221,228	99,457	-46,797	-5,660	9,603
EBT	-119,098	-79,268	-154,234	162,813	581,204	1,000,630
Tax	-175,268	-142,630	-94,355	-10,000	116,241	200,126
Net Income	56,170	63,362	-59,879	172,813	464,963	800,504
EPS	1.04	0.86	0.36	0.44	1.17	2.02

Source: Cameco Corporation, Cantor Fitzgerald Canada Estimates

APPENDIX C: RESOURCE INVENTORY

Exhibit 13. Cameco Global Resource & Reserve Inventory

PROVEN AND PROBABLE

(tonnes in thousands; pounds in millions)

PROPERTY	MINING METHOD	PROVEN			PROBABLE			TOTAL MINERAL RESERVES			OUR SHARE RESERVES CONTENT (LBS U ₃ O ₈)	METALLURGICAL RECOVERY (%)
		TONNES	GRADE % U ₃ O ₈	CONTENT (LBS U ₃ O ₈)	TONNES	GRADE % U ₃ O ₈	CONTENT (LBS U ₃ O ₈)	TONNES	GRADE % U ₃ O ₈	CONTENT (LBS U ₃ O ₈)		
Cigar Lake	UG	209.6	19.86	91.8	403.8	13.84	123.2	613.4	15.90	215.0	107.6	98.5
Key Lake	OP	61.1	0.52	0.7	-	-	-	61.1	0.52	0.7	0.6	98.7
McArthur River	UG	1,184.9	9.57	250.1	562.5	9.64	119.5	1,747.4	9.60	369.7	258.1	98.7
Crow Butte	ISR	583.0	0.03	0.4	-	-	-	583.0	0.03	0.4	0.4	85
Inkai	ISR	33,193.4	0.07	48.6	30,717.0	0.05	32.0	63,910.3	0.06	80.6	46.3	85
North Butte - Brown Ranch	ISR	364.5	0.08	0.7	-	-	-	364.5	0.08	0.7	0.7	60
Smith Ranch - Highland	ISR	444.7	0.10	1.0	34.2	0.13	0.1	478.9	0.10	1.1	1.1	80
Total		36,041.2	-	393.3	31,717.5	-	274.8	67,758.7	-	668.1	414.7	-

(UG – underground, OP – open pit, ISR – in situ recovery, totals may not add up due to rounding.)

Note that the estimates in the above table:

- use constant dollar average uranium prices, varying over time, from \$40 to \$50 (US)/lb U₃O₈
- are based on an average exchange rate of \$1.00 US=\$1.20 to \$1.25 Cdn

MEASURED, INDICATED AND INFERRED

(tonnes in thousands; pounds in millions)

PROPERTY	MEASURED RESOURCES (M)			INDICATED RESOURCES (I)			TOTAL M+I CONTENT (LBS U ₃ O ₈)	OUR SHARE TOTAL M+I CONTENT (LBS U ₃ O ₈)	INFERRED RESOURCES			OUR SHARE INFERRED CONTENT (LBS U ₃ O ₈)
	TONNES	GRADE % U ₃ O ₈	CONTENT (LBS U ₃ O ₈)	TONNES	GRADE % U ₃ O ₈	CONTENT (LBS U ₃ O ₈)			TONNES	GRADE % U ₃ O ₈	CONTENT (LBS U ₃ O ₈)	
Cigar Lake	1.3	4.71	0.1	235.7	16.24	84.4	84.5	42.3	128.4	7.36	20.8	10.4
Fox Lake	-	-	-	-	-	-	-	-	386.7	7.99	68.1	53.3
Kintyre	-	-	-	3,897.7	0.62	53.5	53.5	37.5	517.1	0.53	6.0	4.2
McArthur River	43.4	4.36	4.2	16.8	1.79	0.7	4.8	3.4	95.9	5.20	11.0	7.7
Millennium	-	-	-	1,442.6	2.39	75.9	75.9	53.0	412.4	3.19	29.0	20.2
Wheeler River	-	-	-	166.4	19.13	70.2	70.2	21.1	842.5	2.38	44.1	13.2
Rabbit Lake	-	-	-	2,281.5	0.79	39.7	39.7	39.7	2,631.4	0.58	33.6	33.6
Tamarack	-	-	-	183.8	4.42	17.9	17.9	10.3	45.6	1.02	1.0	0.6
Yeellirrie	27,172.9	0.16	95.9	12,178.3	0.12	32.2	128.1	128.1	-	-	-	-
Crow Butte	1,418.2	0.21	6.6	1,354.9	0.29	8.6	15.2	15.2	1,135.2	0.12	2.9	2.9
Gas Hills-Peach	687.2	0.11	1.7	3,626.1	0.15	11.6	13.3	13.3	3,307.5	0.08	6.0	6.0
Inkai	34,855.4	0.07	55.3	77,914.4	0.05	86.0	141.3	81.3	151,583.1	0.05	149.9	86.2
North Butte-Brown Ranch	604.2	0.08	1.1	5,530.3	0.07	8.4	9.4	9.4	294.5	0.07	0.4	0.4
Ruby Ranch	-	-	-	2,215.3	0.08	4.1	4.1	4.1	56.2	0.14	0.2	0.2
Shirley Basin	89.2	0.16	0.3	1,638.2	0.11	4.1	4.4	4.4	508.0	0.10	1.1	1.1
Smith Ranch-Highland	3,354.0	0.10	7.1	14,338.1	0.05	16.9	24.0	24.0	6,861.0	0.05	7.7	7.7
Total	68,225.8	-	172.3	127,020.2	-	514.1	686.4	487.0	168,805.5	-	382.0	247.9

Totals may not add up due to rounding.

Note that mineral resources:

- do not include amounts that have been identified as mineral reserves
- do not have demonstrated economic viability

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 2015, Cameco has received notices of reassessment for the years 2003 through 2010 tax returns. A notice of reassessment for 2011 was received in Q4/16. Cameco has recorded a cumulative tax provision of \$58M (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 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 2011, the CRA issued notices of reassessment for approximately \$4.1B of additional income for Canadian tax purposes, which would result in a related tax expense of about \$1.2B. CRA has also issued notices of reassessment for transfer pricing penalties for the years 2007 through 2010 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 \$420M in letters of credit to secure 50% of the cash taxes and related interest amounts reassessed in 2015 (exhibit 14).

Exhibit 14. 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	51	38	31	120	32	88
Total	360	178	146	684	264	420

Source: Cameco Corporation

Using this methodology that Cameco believes CRA will continue to apply, and including the \$4.1B already reassessed, Cameco continues to expect notices of assessment for a total of approximately \$8.1B of additional taxable income in Canada for the years 2003 through 2016, which would result in a related tax expense of approximately \$2.4B. Additionally, the CRA may continue to apply transfer pricing penalties to subsequent taxation years beyond 2010. As a result, Cameco estimates that cash taxes and transfer pricing penalties for these years would be between \$1.75B and \$1.90B. 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 \$875M and \$975M), plus related interest and instalment penalties assessed which are material to Cameco.

Exhibit 15. Actual amounts paid and estimated potential amounts owing

\$ MILLIONS	2003-2016	2017-2018	2019-2023	TOTAL
50% of cash taxes and transfer pricing penalties paid, secured or owing in the period				
Cash payments	187	65 - 90	145 - 170	390 - 445
Secured by letters of credit	319	10 - 35	150 - 175	480 - 530
Total paid¹	506	75 - 125	295 - 345	875 - 975

¹ These amounts do not include interest and instalment penalties, which totaled approximately \$178 million to December 31, 2016.

Source: Cameco Corporation

Secondly, Cameco received Revenue Agents Reports (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 (\$320M) 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 16. Overview of Disputes

	CRA	IRS
Basis for dispute	<ul style="list-style-type: none"> • Corporate structure/governance • Transfer pricing methodology used for certain intercompany uranium sale and purchase agreements • Allocates Cameco Europe Ltd. (CEL) income (as adjusted) for 2003 through 2011 to Canada (same income we paid tax on in foreign jurisdictions and includes income that IRS is proposing to tax) 	<ul style="list-style-type: none"> • Income earned on sales of uranium by the US mines to CEL is inadequate • Compensation earned by Cameco Inc., one of our US subsidiaries, is inadequate • 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	<ul style="list-style-type: none"> • CRA reassessed 2003 to 2011 • Auditing 2012 to 2014 	<ul style="list-style-type: none"> • IRS has proposed adjustments for 2009 through 2012 • Auditing 2013 to 2015
Timing of resolution	<ul style="list-style-type: none"> • The trial related to the 2003, 2005 and 2006 reassessments commenced in October 2016, with final arguments expected in the second half of 2017 • Expect Tax Court decision six to 18 months after completion of trial 	<ul style="list-style-type: none"> • Contesting proposed adjustments in an administrative appeal • We cannot yet provide an estimate as to the timeline for resolution
Required payments	<ul style="list-style-type: none"> • 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 • Paid \$264 million in cash to date • Secured \$420 million using letters of credit 	<ul style="list-style-type: none"> • No security or cash payments required while under administrative appeal

Source: Cameco Corporation

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