

CAMECO CORPORATION

Not all misses are created equal: Q1 EPS miss but FY Guidance maintained

EVENT

Cameco released its Q1/16 financial results and maintained its FY/17 outlook.

BOTTOM LINE

Neutral – Cameco missed on the bottom line with a reported $-\$0.07$ /share adjusted loss compared with our estimate of $-\$0.02$ /share and that of consensus of $-\$0.01$ /share. A revenue beat of $\$393M$ topped both our and consensus estimates totaling $\$381M$ and $\$370M$, respectively, on higher than forecast sales volumes although realized prices were lower than forecast. While the market will view the earnings miss as a negative, we point out that Cameco maintained its guidance across the board and sales has historically been back loaded to the last two quarters, a period when it is expected to receive a higher realized price given that this quarter's price is below full year guidance as well. We maintain our BUY recommendation with a $\$16.90$ target price.

FOCUS POINTS

- **EPS miss but not unexpected** – While EPS did miss we note that Cameco's sales are notoriously lumpy and back loaded. The fact that guidance was maintained reveals that the miss will be made up for in the coming quarters.
- **Guidance maintained** – Cameco continues to see production of 25.2M lbs. with total deliveries amounting to 30-32M lbs., at an average realized price of $C\$49.00$ /lb.
- **FX impact on revenues** – Uranium revenues were down by 25% compared to Q1/16 largely due to a 22% decrease in the Canadian dollar average realized price and a decrease in sales volumes of 3%.

Recommendation:

BUY

Symbol/Exchange:	CCO/TSX; CCJ/NYSE
Sector:	Metals and Mining
<i>All dollar values in C\$ unless otherwise noted.</i>	
Current price	$\$13.09$; US $\$9.58$
One year target:	$\$16.90$
Return to target	29%
Market Capitalization	$\$5.1 B$
Cash on hand	$\$246M$
Yield	3.1%

Company Summary

Shares O/S (M)	395.8	52-week range	$\$9.81 - 17.31$	
Market cap (\$M)	$\$5,180.9$	Avg. weekly vol. (000)	7.259	
Market float (\$M)	$\$5,175.7$	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	2,024.5	2,534.7
Operating Cost (\$M)	2,057.3	1,967.9	1,630.5	1,741.3
Avg Cost (US\$/lb)	$\$33.85$	$\$24.68$	$\$20.64$	$\$23.03$
EBITDA (\$M)	775.9	581.0	480.8	903.1
EPS	$\$0.86$	$\$0.36$	$\$0.29$	$\$1.13$
CFPS	$\$1.29$	$\$0.94$	$\$1.11$	$\$2.34$

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.

DESPITE HIGHER REVENUES, EARNINGS DISAPPOINT

A revenue beat of \$393M topped both our and consensus estimates totaling \$381M and \$370M, respectively, on higher than forecast sales volumes although realized prices were lower than forecast. An adjusted net loss amounting to \$29M (after adjustments on forex derivatives, income taxes, and a Rabbit Lake reclamation provision) was largely the result of severance costs related to strategic changes, the TEPCO contract termination, and the strengthening Canadian dollar (realized foreign exchange rate was \$1.32 compared to \$1.38 in 2016). Cameco missed on the bottom line with a reported -\$0.07/share adjusted loss compared with our estimate of -\$0.02/share and that of consensus of -\$0.01/share.

We do note that due to the effects of various cost cutting measures ranging from staff reductions, mine closures to a renewed emphasis on tier 1 assets, not only have direct administration costs dropped by 20% compared to this period last year, but the cash cost of production has dropped by 30%, going from \$20.69/lb in Q1/16 to \$14.54/lb in Q1/17.

Please see Appendix A below for the full Q1/17 variance table.

HIGHER SALES BUT LOWER PRICING

Cameco's Q1 production amounted to 6.7M lbs. at a total production cost of \$24.88/lb., exceeding our initial estimate for 6.3M lbs. at \$26.15/lb. An additional 1.8M lbs. was purchased during the quarter at a cost of \$41.47/lb (these purchases were part of historic purchase agreements that were signed before Cigar Lake was in production). The production figure was 4% lower than that of Q1/16 due to planned lower production coming from Inkai and U.S. operations, along with suspended operations from Rabbit Lake.

Sales amounted to 5.7M lbs. at an average realized price of US\$34.43/lb. (or \$45.51/lb.). We were forecasting sales of 5.0M lbs. at an average realized price of US\$37.01/lb. (or \$49.00/lb.). Uranium revenues were down by 25% compared to Q1/16 largely due to a 22% decrease in the Canadian dollar average realized price and a decrease in sales volumes of 3%. Moreover, note that pricing under Cameco's contract portfolio was impacted by the disputed TEPCO agreement and uranium prices which were 25% weaker than the previous year. On the conference call, it was noted that pricing for Q2 and Q3 will be similar to that with Q1. As such, we have adjusted our price realization estimates for these quarters in line with Q1 at \$45.51/lb and have increased Q4 price realization to \$55.31/lb for the full year total to average the guided figure of \$49.00/lb.

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. Approximately 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 previously 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.

2017 GUIDANCE MAINTAINED

FY/17 guidance has been maintained both financially and operationally. Cameco continues to see production of 25.2M lbs. with total deliveries amounting to 30-32M lbs., at an average realized price of \$49.00/lb.

- 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 \$200-\$250M each year (unchanged).
- A tax recovery of \$10-\$20M is expected in 2017.
- Capital expenditures of \$190M is expected during the year.

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

(M lbs)	CF			Guidance	
	Q1/17a	Q1/17e	Q1/16a	FY 2017e	FY 2017e
McArthur River/Key Lake	3.6	3.1	2.9	12.6	12.6
Cigar Lake	2.3	2.3	2.2	9.0	9.0
Inkai	0.7	0.8	1.1	3.1	3.1
Rabbit Lake	0.0	0.0	0.4	0.0	0.0
Smith Ranch-Highland	0.1	0.1	0.3	0.4	0.4
Crow Butte	0.0	0.0	0.1	0.1	0.1
Total	6.7	6.3	7.0	25.2	25.2

Source: Cameco Corporation, Cantor Fitzgerald Canada estimates

NUKEM & FUEL SERVICES

The NUKEM division had a notable increase in transactions compared to the same quarter in 2016. A total of 2.3M lbs. was delivered during the quarter, compared to virtually none delivered during this period last year. With an average realized price of C\$33.57/lb., revenues amounted to \$78.0M.

From the Fuel Services division, production volumes during the quarter amounted to 2.6M kgU, below last year's 3.3M kgU. On sales volume of 1.6M kgU at an average realized price of \$33.22/kgU, revenues amounted to \$54.0M, a decrease of 8% from last year. This variance was primarily due to a 30% decrease in sales volumes partially offset by a 27% increase in average realized price compared to 2016.

Exhibit 2. FY/17 Guidance

	CONSOLIDATED	URANIUM	FUEL SERVICES	NUKEM
EXPECTED CONTRIBUTION TO GROSS PROFIT	100%	85%	14%	1%
Production	-	25.2 million lbs	8 to 9 million kgU	-
Sales/delivery 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/delivery volume does not include sales between our uranium, fuel services and NUKEM segments.
² Our uranium sales/delivery volume is based on the volumes we currently have commitments to deliver under contract in 2017.
³ Based on a uranium spot price of \$24.50 (US) per pound (the Ux spot price as of March 31, 2017), a long-term price indicator of \$31.00 (US) per pound (the Ux long-term indicator on March 31, 2017) and an exchange rate of \$1.00 (US) for \$1.30 (Cdn).
⁴ Based on the expected unit cost of sale for produced material and committed long-term purchases. If we make discretionary purchases in the remainder of 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 8 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 first unveiled in Q4/16, Cameco provided sensitivity analysis to approximate how the portfolio of long term contracts (valid as of March 31, 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	47	32	38
	\$5(US)/lb decrease	(33)	(22)	(25)
Value of Canadian dollar vs US dollar	One cent decrease in CAD	11	6	5
	One cent increase in CAD	(11)	(6)	(5)

¹ Assuming change in both Ux spot price (\$24.50 (US) per pound on March 31, 2017) and the Ux long-term price indicator (\$31.00 (US) per pound on March 31, 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 in financial outlook table and in revenue, adjusted net earnings, and cash flow sensitivity analysis						
2018	37	45	56	67	77	85	93
2019	34	44	56	66	75	82	89
2020	36	45	57	66	74	81	87
2021	32	43	56	66	75	84	91

Source: Cameco Corporation

CANADA REVENUE AGENCY & I.R.S. UPDATE

There was no material 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. Cameco has concluded presenting its case, while the Crown is now presenting theirs. A decision is still expected between 6-18 months after the trial concludes (final arguments are scheduled for September 2017). No other news items or changes have been announced and none of the parties involved have requested a court mediated decision.

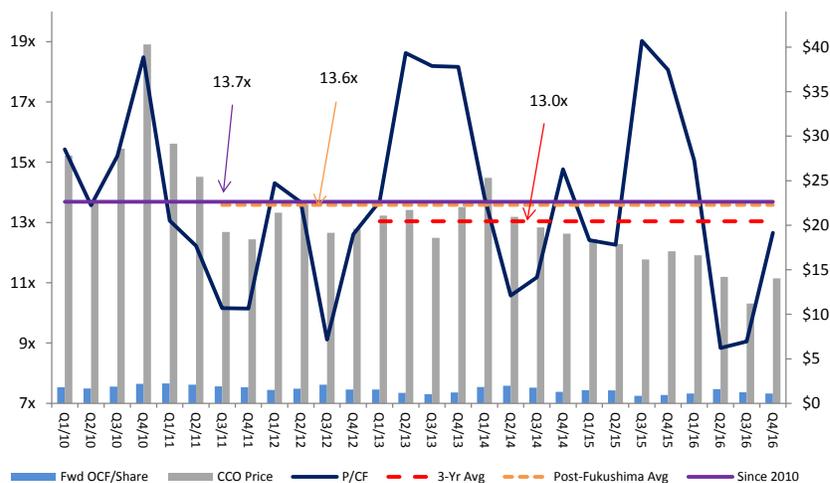
A detailed overview of the CRA and IRS issue can be found in Appendix D.

RECOMMENDATION AND VALUATION

We are maintaining our recommendation of BUY and target price of \$16.90/share for Cameco.

Note that historically, Cameco has traded at an average multiple of 13.0x-13.7x with 13.0x being the average post-Fukushima. It trades at an 11.2x multiple as of last close. Our target price reflects a 50/50 blend of our 13x price to forward cash flow estimate, which at \$1.17/share is \$15.16/share, and our NAV_{8%} of \$18.51/share.

Exhibit 5. Historical Price to Forward Cash Flow



Source: Cantor Fitzgerald Canada Research

Our NAV estimate decreases to \$18.51/share from \$18.99/share, as Cameco provided an updated price realization sensitivity table that had \$1-2 reductions at several points in the future.

Exhibit 6. Cameco NAV

Projects	Cameco Corporation		Comment
	NAV (\$C Millions) Per Share		
Uranium, Fuel Services, and Nukem Divisions	5,539.6	\$14.00	2017 DCF @ 8% Discount Rate
Wheeler River/Millennium/Kintyre	209.4	\$0.53	In-Situ Valuations
UEX Corp.	9.8	\$0.02	22.58% Ownership at a 20% discount
Working Capital	1,566.5	\$3.96	Q1/17 Financials
Total	7,325.3	\$18.51	

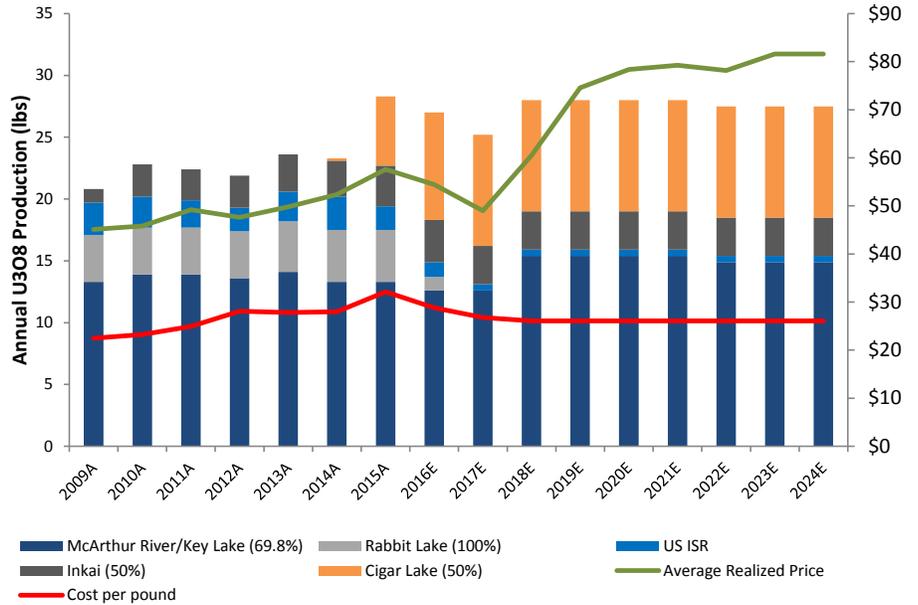
Source: Cantor Fitzgerald Canada Research

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	\$28.32	\$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. Q1/17 Variance Table

	Reported	Adjusted	CF Estimates	Variance	Reported	Variance	Reported	Variance
	Q1/17A	Q1/17A	Q1/17E	with Est. % Change	Q4/16A	Qtr-over-Qtr % Change	Q1/16A	Yr-over-Yr % Change
INCOME STATEMENT (in C\$ 000's)								
Total revenue	392,546.0	370,546.0	381,250.0	3.0%	887,102.0	-55.7%	408,251.0	-3.8%
Operating costs	294,950.0	294,950.0	255,929.4	15.2%	632,304.0	-53.4%	245,826.0	20.0%
Gross margin	97,596.0	75,596.0	125,320.6	-22.1%	254,798.0	-61.7%	162,425.0	-39.9%
Gross margin %	24.9%	24.9%	32.9%		28.7%		39.8%	
Depreciation and amortization	42,230.0	42,230.0	70,961.2	-40.5%	98,262.0	-57.0%	44,310.0	-4.7%
General and administrative	40,711.0	40,711.0	40,000.0	1.8%	55,190.0	-26.2%	52,177.0	-22.0%
Exploration	10,351.0	10,351.0	7,500.0	38.0%	6,036.0	71.5%	15,351.0	-32.6%
Research and development	1,999.0	1,999.0	1,238.0	61.5%	844.0	136.8%	963.0	107.6%
Gain on sale of assets	(630.0)	(630.0)	-	NM	14,135.0	NM	3,382.0	NM
Other expenses	5,569.0	(431.0)	(10,000.0)	NM	209,865.0	-97.3%	-	NM
Operating earnings	(2,634.0)	(18,634.0)	15,621.5	NM	(129,534.0)	NM	46,242.0	NM
Net Finance Expenses	(26,486.0)	(26,486.0)	(16,226.7)	NM	(25,298.0)	NM	(25,781.0)	NM
Other expense	15,094.0	15,094.0	(8,116.9)	NM	(18,306.0)	NM	65,755.0	-77.0%
Net earnings before tax	(14,026.0)	(30,026.0)	(8,722.2)	NM	(173,138.0)	NM	86,216.0	NM
Income tax (reversal) expense	4,080.0	(854.0)	535.7	NM	(28,053.0)	NM	8,651.0	-52.8%
Tax rate	-29.1%	-29.1%	-6.1%	NM	16.2%	NM	10.0%	NM
Non-controlling Interest	(66.0)	(66.0)	-	NM	(672.0)	NM	(460.0)	NM
Net earnings (as reported)	(18,106.0)	(29,106.0)	(9,257.9)	NM	(144,413.0)	NM	(135,049.0)	NM
Adjustments	(11,000.0)	-	-	NM	234,000.0	NM	(85,000.0)	NM
Adjusted earnings	(29,106.0)	(29,106.0)	(9,257.9)	NM	89,587.0	NM	(6,975.0)	NM
Operating EPS	-\$0.01	-\$0.05	\$0.04	NM	-\$0.33	NM	\$0.12	NM
Earnings Per Share - Basic	-\$0.05	-\$0.07	-\$0.02	NM	-\$0.36	NM	\$0.20	NM
Adjusted Earnings Per Share - Basic	-\$0.07	-\$0.07	-\$0.02	NM	\$0.23	NM	-\$0.02	NM
Adjusted Earnings Per Share - Fully Diluted	-\$0.07	-\$0.07	-\$0.02	NM	\$0.22	NM	-\$0.02	NM

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	2016A	2017E	2018E	2019E
Cash Flows from Operations						
Net Income	183,413	63,362	-59,879	126,880	449,114	737,782
Adjustments	296,769	386,648	372,259	294,292	496,697	563,489
	480,182	450,010	312,380	421,172	945,811	1,301,271
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	7,662	0	0
	-20,742	-340,787	-217,820	-182,338	-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	5	0	0
Other	-235,550	-227,820	-228,756	-172,472	-158,317	-158,317
	-83,892	-227,830	-228,756	-172,467	-158,317	-158,317
Net Change in Cash	375,548	-118,607	-134,196	66,367	537,494	892,954

Source: Cameco Corporation, Cantor Fitzgerald Canada Estimates

Exhibit 11. Balance Sheet Analysis

*In C\$ 000s	2014A	2015A	2016A	2017E	2018E	2019E
Current Assets						
Cash & Equivalents	566,583	458,604	320,278	389,217	926,711	1,819,665
Other	1,501,123	1,725,361	1,721,555	1,679,072	1,679,072	1,679,072
	2,067,706	2,183,965	2,041,833	2,068,289	2,605,783	3,498,737
Fixed Assets						
Property, Plant and Equipment	5,291,021	5,228,160	4,655,586	4,576,293	4,520,206	4,464,119
Other	1,113,940	1,382,512	1,551,779	1,541,872	1,541,872	1,541,872
	6,404,961	6,610,672	6,207,365	6,118,165	6,062,078	6,005,991
Total Assets	8,472,667	8,794,637	8,249,198	8,186,454	8,667,861	9,504,728
Current Liabilities						
Accounts Payable	316,258	317,856	312,900	215,955	215,955	215,955
Other	199,556	353,781	156,355	142,815	142,815	142,815
	515,814	671,637	469,255	358,770	358,770	358,770
Non-Current Liabilities						
Long Term Debt	1,491,198	1,492,237	1,493,327	1,493,605	1,493,605	1,493,605
Other	1,021,851	1,085,484	1,028,088	1,040,788	1,040,788	1,040,788
	2,513,049	2,577,721	2,521,415	2,534,393	2,534,393	2,534,393
Shareholders' Equity						
Share Capital	1,862,646	1,862,646	1,862,646	1,862,652	1,862,652	1,862,652
Other	3,581,158	3,682,633	3,395,882	3,430,639	3,912,046	4,748,913
	5,443,804	5,545,279	5,258,528	5,293,291	5,774,698	6,611,565
Total Liabilities and Equity	8,472,667	8,794,637	8,249,198	8,186,454	8,667,861	9,504,728

Source: Cameco Corporation, Cantor Fitzgerald Canada Estimates

Exhibit 12. Profit and Loss Analysis

*In C\$ 000s	2014A	2015A	2016A	2017E	2018E	2019E
Revenue	2,397,532	2,754,378	2,431,404	2,024,455	2,534,713	3,057,792
Operating Expenses	1,420,768	1,744,815	1,596,235	1,348,660	1,435,252	1,572,738
Depreciation	338,983	312,518	371,689	281,841	306,087	306,087
Gross Profit	637,781	697,045	463,480	393,954	793,374	1,178,967
Exploration	46,565	40,259	42,579	30,000	30,000	30,000
Other	552,884	411,211	562,686	124,952	126,411	167,884
Earnings from Operations	38,332	245,575	-141,785	239,002	636,963	981,083
Finance Cost	-77,122	-103,615	-111,906	-78,847	-68,122	-68,122
Other	-80,308	-221,228	99,457	-43,275	-7,448	9,267
EBT	-119,098	-79,268	-154,234	116,880	561,393	922,228
Tax	-175,268	-142,630	-94,355	-10,000	112,279	184,446
Net Income	56,170	63,362	-59,879	126,880	449,114	737,782
EPS	1.04	0.86	0.36	0.29	1.13	1.86

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
Yeelirrie	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 2011 tax returns. Cameco has recorded a cumulative tax provision of \$58M 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 March 31, 2017.

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 \$421M in letters of credit to secure 50% of the cash taxes and related interest amounts reassessed after 2014 (exhibit 14).

Exhibit 14. Cameco Payments to the Government of Canada

YEAR PAID (\$ MILLIONS)	CASH TAXES	INTEREST	TRANSFER	TOTAL	CASH REMITTANCE	SECURED BY LC
		AND INSTALMENT PENALTIES	PRICING PENALTIES			
Prior to 2014	1	22	36	59	59	-
2014	106	47	-	153	153	-
2015	202	71	79	352	20	332
2016	51	38	31	120	32	88
2017	-	1	-	1	-	1
Total	360	179	146	685	264	421

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 \$1.95B. 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 \$179 million to March 31, 2017.

Source: Cameco Corporation

Secondly, Cameco received Revenue Agents Reports (RAR) from the IRS for the tax years 2009 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 2009 to 2012 tax years for certain of Cameco’s US subsidiaries. The 2009 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 (\$246M) 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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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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