

## NEXGEN ENERGY LTD.

### The Monster Grows: Updated Arrow resource totals 301M lbs at 2.54% U<sub>3</sub>O<sub>8</sub>

#### EVENT

NexGen Energy announced an updated resource estimate for the Arrow deposit.

#### BOTTOM LINE

**Modestly Negative** – The revised resource estimate now stands at an impressive 179M lbs Indicated (6.88% U<sub>3</sub>O<sub>8</sub>) along with 122M lbs Inferred (1.30% U<sub>3</sub>O<sub>8</sub>). We were expecting the resource update to total between 350M–400M lbs (street low) while much of the street estimates were over exuberant. We believe it is a mistake to place too much emphasis on a point in time resource estimate as Arrow has clearly shown itself to be a world class asset that will become a mine in the future and as such recommend accumulation on weakness. We are maintaining our BUY recommendation and modestly reducing our target price to \$5.15/share from \$5.50, or by 7% to reflect the revised resource estimate.

#### FOCUS POINTS

- **Market Mistake** – The revised resource estimate will come as a disappointment to over exuberant investors who expected a higher result. We believe those with this view are missing the forest for the trees as a point in time resource estimate does not change the world class nature of Arrow.
- **High conversion to Indicated category** – 89% of last years inferred maiden resource of 201.9M lbs was converted into the indicated resource category.
- **PEA to come & possibly U/G drilling** – A PEA is expected for Q3/17. Moreover, the company is currently assessing whether to commence a drill program underground in order to better understand the deposit when designing a mine plan. The mineralization remains open in most directions.

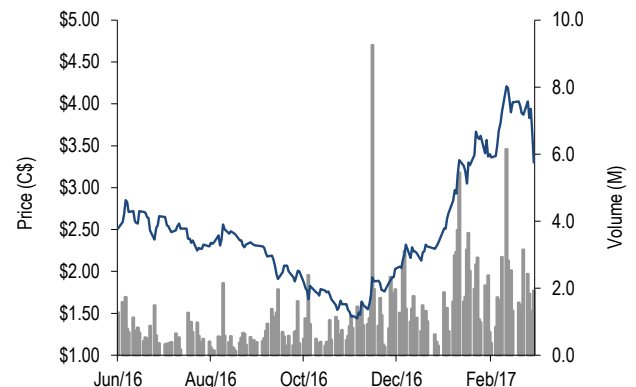
#### Recommendation:

#### BUY

Symbol/Exchange:	NXE/TSX
Sector:	Metals & Mining
<i>All dollar values in C\$ unless otherwise noted.</i>	
Last close price:	\$3.23
One-year target:	\$5.15↓
Return Target:	59%
Cash on hand	\$65M

#### Financial summary

Shares O/S (M)	306.4	52-week range	\$0.44 - \$4.21
Market cap (\$M)	\$983.7	Avg. weekly vol. (M)	6.39
Market float (\$M)	\$839.3	Fiscal year-end	31-Dec
<b>Inferred Resource</b>	<b>U3O8 Grade</b>	<b>Attrib. Resource</b>	<b>Tonnage</b>
Arrow	2.54%	301.6M lbs	5.430Mt
Global Resource	2.54%	301.6M lbs	5.430Mt



**Company profile:** NexGen Energy Ltd. is an Athabasca Basin focused uranium exploration company drilling to advance the Rook 1 Project. Other portfolio assets include the Radio and Thorburn Lake Projects.

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

### 301M LBS AT 2.54% U<sub>3</sub>O<sub>8</sub>

Based on drill holes drilled up until early November 2016 (ranging from AR-14-01 to AR16-113c2), the updated resource comprises an indicated mineral resource of 179.5M lbs contained in 1.18M lbs grading 6.88% U<sub>3</sub>O<sub>8</sub>, including the A2 high grade core of 164.9M lbs contained in 0.40M tonnes grading 18.84% U<sub>3</sub>O<sub>8</sub>, and an inferred mineral resource of 122.1M lbs U<sub>3</sub>O<sub>8</sub> grading 1.30% U<sub>3</sub>O<sub>8</sub>.

Being the low estimate on the street, we were expecting the resource update to total between 350M–400M lbs. while there was over exuberance on the street estimating resources sizes of 400-500M lbs. We believe the market is making a mistake in seeing this result as a negative since it misses the point of the high 89% conversion rate of resources from Inferred to Indicated, which strengthens Arrow's position as a world class asset that will eventually become a mine.

#### Exhibit 1. Arrow Mineral Resource Estimate

Structure	Tonnage (tonnes)	Grade (U <sub>3</sub> O <sub>8</sub> %)	Metal U <sub>3</sub> O <sub>8</sub> (U <sub>3</sub> O <sub>8</sub> lbs)
<b>Indicated Mineral Resources</b>			
<b>A2 High Grade</b>	<b>400,000</b>	<b>18.84</b>	<b>164,900,000</b>
A2	790,000	0.84	14,500,000
<b>Total</b>	<b>1,180,000</b>	<b>6.88</b>	<b>179,500,000</b>
<b>Inferred Mineral Resources</b>			
A1	860,000	0.76	14,300,000
<b>A2 High Grade</b>	<b>30,000</b>	<b>12.72</b>	<b>8,600,000</b>
A2	1,100,000	0.76	18,500,000
<b>A3 High Grade</b>	<b>150,000</b>	<b>8.74</b>	<b>28,200,000</b>
A3	1,460,000	1.16	37,300,000
A4	550,000	1.07	12,900,000
180 m SW	110,000	0.94	2,300,000
<b>Total</b>	<b>4,250,000</b>	<b>1.30</b>	<b>122,100,000</b>

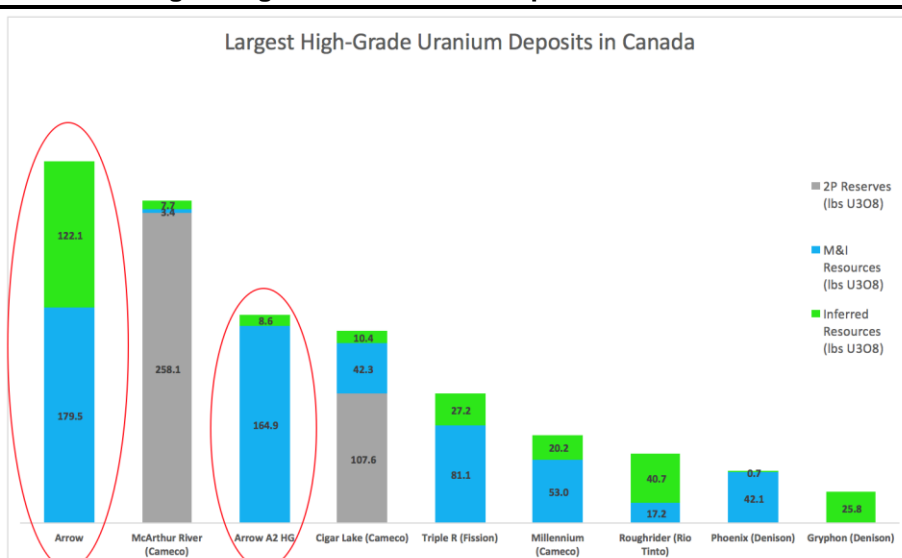
Notes:

1. CIM Definition Standards were followed for Mineral Resources.
2. Mineral Resources are reported at a cut-off grade of 0.25% U<sub>3</sub>O<sub>8</sub> based on a long-term price of US\$65 per lb U<sub>3</sub>O<sub>8</sub> and estimated costs.
3. A minimum mining width of 1.0 m was used.
4. Numbers may not add due to rounding.

Source: NexGen Energy

A Preliminary Economic Assessment is expected for Q3/17. Moreover, the company is currently assessing whether to commence a drill program underground in order to better understand the deposit when designing a mine plan. NexGen Energy currently has \$65M cash on hand which will likely be able to sustain over two full years of exploration drilling.

**Exhibit 2. Largest High Grade Uranium Deposits in Canada**



Source: NexGen Energy

**RECOMMENDATION AND TARGET PRICE**

We are maintaining our BUY recommendation and modestly reducing our target price to \$5.15/share from \$5.50, or by 7% to reflect the revised resource estimate. Our target price is derived from a 1x multiple to our net asset valuation of \$5.17/share using a 10% discount rate and assuming production commences in 2026.

We have adjusted our model to reflect the updated resource estimate by reducing our total global resource estimate in-line with the updated figures and down from our prior estimate of 350M lbs U<sub>3</sub>O<sub>8</sub>. In detail, our mineable resource declines from 314M lbs to 221M lbs. but our average grade rises from 2.63% to 3.16% U<sub>3</sub>O<sub>8</sub>. We assume 90% conversion of M&I material and 50% conversion of Inferred resources to a mineable resource.

**Exhibit 3. Net Asset Value**

Asset	Value C(\$M)	Per share	Ownership	Notes
<b>Development Projects</b>				
Rook I	\$1,720.1	\$4.98	100%	NPV @ 10%, US\$80/lb, US\$0.90/CAD
<b>Other</b>				
Present Value of Debenture	(\$45.7)	(\$0.13)		10% discount rate
Working Capital Net of Cash	\$19.7	\$0.06		As of Q3/16 Financials
Cash + Proceeds from In-the-Money Options and Warrants	\$91.8	\$0.27		As of Q3/16 Financials and most recently reported cash balance
<b>Valuation in CAD</b>	<b>\$1,785.8</b>	<b>\$5.17</b>		in CAD

Source: Cantor Fitzgerald Canada Research

**Exhibit 4. Production, Costs and Cash Flow Projections**



Source: Cantor Fitzgerald Canada Research

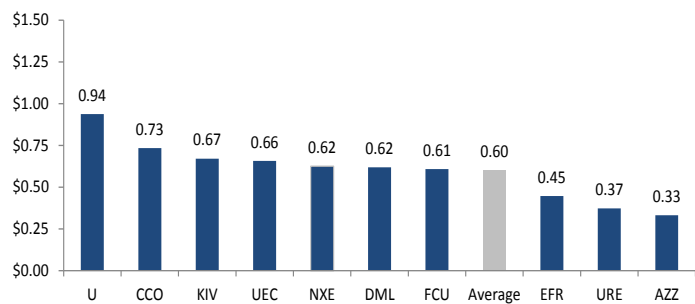
**Exhibit 5. Uranium Comps**

Uranium Producer	Stock Price	Market	Enterprise	NI43-101 Resources/JORC (M lbs)				MKT / LB	EV / LB		
Company Name	Stage	(Local \$)	Cap (\$'000)	Value (\$'000)	Avg Grade	P&P	M&I	Inferred	Total		
Cameco Corporation (TSX:CCO)	Production	14.55	5,758,781.2	6,931,987.2	6.089%	416.7	471.2	243.4	1,131.3	\$5.09	\$6.13
Energy Fuels Inc. (TSX:EFR)	Production	2.52	167,931.1	142,599.6	0.076%	0.0	110.3	61.9	172.2	\$0.98	\$0.83
Paladin Energy Ltd (ASX:PDN)*	Production	0.11	182,833.2	476,249.0	0.079%	174.3	193.6	153.8	521.7	\$0.35	\$0.91
Peninsula Energy Ltd. (ASX:PEN)*	Production	0.67	133,920.3	155,796.2	0.050%	0.0	17.2	30.2	47.4	\$2.83	\$3.29
Uranium Energy Corp. (NYSE:UEC)*	Production	1.29	232,985.7	253,323.6	0.062%	0.0	32.4	36.3	68.7	\$3.39	\$3.69
UR-Energy Inc. (TSX:URE)	Production	0.89	129,598.5	119,782.4	0.080%	0.0	34.5	10.3	44.9	\$2.89	\$2.67
<b>Producer Average</b>			<b>\$1,101,008.3</b>	<b>\$1,346,623.0</b>	<b>98.5</b>	<b>143.2</b>	<b>89.3</b>	<b>331.0</b>		<b>\$2.59</b>	<b>\$2.92</b>

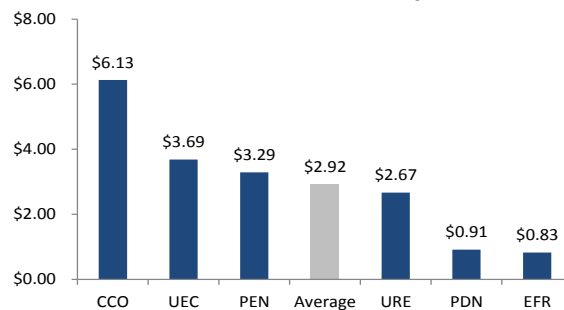
\*Market Cap and Enterprise value for Paladin Energy, Peninsula Energy and Uranium Energy Corp. has been converted to \$CAD at the prevailing SAUD/\$CAD or \$USD/\$CAD market exchange rates, P/NAV for Kivalliq Energy Corp. (TSXV:KIV)  
 \*\*Performance in local currency

Uranium Explorer/Developer	Stock Price	Market	Enterprise	NI43-101/JORC Resources (M lbs)				MKT / LB	EV / LB		
Company Name	Stage	(\$Local)	Cap (C\$'000)	Value (C\$'000)	Avg Grade	M&I	Inferred	Total			
Hathor Exploration (Acquired)	Exploration	4.70	654,240.0	581,240.0	8.63%	17.2	40.7	57.9		\$11.29	\$10.03
Denison Mines (TSX:DML)	Exploration	0.84	454,206.8	326,287.8	2.29%	102.0	97.6	199.7		\$2.27	\$1.63
Fission Uranium Corp. (TSX:FCU)	Exploration	0.73	353,457.2	300,048.7	1.51%	79.6	25.9	105.5		\$3.35	\$2.84
NexGen Energy (TSX:NXE)	Exploration	3.23	989,667.5	971,352.8	2.54%	179.5	122.1	301.6		\$3.28	\$3.22
Kivalliq Energy Corp. (TSXV:KIV)	Exploration	0.11	25,908.4	25,134.2	0.69%	0.0	43.3	43.3		\$0.60	\$0.58
UEX Corp. (TSX:UEX)	Exploration	0.32	95,633.8	87,710.4	0.84%	68.2	16.5	84.7		\$1.13	\$1.04
Azarga Uranium (TSX:AZZ)	Development	0.37	27,663.4	22,539.4	0.17%	18.1	5.7	23.8		\$1.16	\$0.95
<b>Average</b>			<b>\$371,539.6</b>	<b>\$330,616.2</b>		<b>\$66.4</b>	<b>\$50.3</b>	<b>\$116.7</b>		<b>\$3.30</b>	<b>\$2.90</b>

**Uranium Coverage P/NAV**



**Uranium Producer EV/Resource**



Source: Cantor Fitzgerald Canada

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**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.

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