

UR-ENERGY

Q4/16 Operational Update: Lost Creek production grade finally drops to PEA average

EVENT

Ur-Energy announced its operational results for Q4/16.

BOTTOM LINE

Though we were initially expecting 142,000 lbs captured during the quarter, the actual figure amounted to 103,558 lbs due to purposely controlled lower production levels given the currently weak uranium pricing environment. After more than three years of continuous operation, as expected, Lost Creek grades have steadily declined to near initial PEA levels. Improvements to header house production processes approvals received for underground injection control wells will allow for increased flow rates going forward.

We are maintaining our Buy recommendation with a target of C\$2.80 per share.

FOCUS POINTS

- **Grades near initial PEA level** – As the Lost Creek mine continues to mature, the head grade trend continues to decline as the 39.0 ppm during the quarter is below the 55.0 ppm from Q3/16 and now closer to the 42.0 ppm envisioned in the initial PEA. A decline is expected but it has taken much longer than the 18-months that it normally takes (it has been about three years)
- **Sales exclusively into contracts** – A total of 100,000 lbs were sold at an average realized price of \$32.70/lb, representing a near 50% premium to the current spot price. There were no spot transactions. Though detailed guidance will be provided towards the end of Q1/17, for FY2017, 600,000 lbs have already been contractually committed to at an approximate price of \$51/lb.

Recommendation:

BUY

Symbol/Exchange:	URE/TSX;URG/NYSE
Sector:	Metals and Mining
<i>All dollar values in C\$ unless otherwise noted.</i>	
Current price	\$0.95; US\$0.73
One year target	\$2.80
Return target	195%
Cash on hand	US\$5.2M

Company Summary

	2015A	2016E	2017E	2018E
Shares O/S (M)	143.61	52-week range	\$0.6 - 0.97	
Market cap (\$M)	\$136.4	Avg. weekly vol. (000)	0.291	
Market float (\$M)	\$124.1	Fiscal year-end	31-Dec	
Uranium Production (lbs)	727,245	561,144	455,771	632,871
Revenue (\$M)	41.9	24.9	21.0	31.0
Operating Cost (\$M)	-29.3	-15.6	-14.3	-19.9
Cash Cost (US\$/lb)	\$18.07	\$21.23	\$21.33	\$21.45
EBITDA (\$M)	-4.6	-6.6	-3.1	1.5
EPS	-\$0.01	-\$0.04	-\$0.02	\$0.01
CFPS	-\$0.01	-\$0.03	\$0.02	-\$0.10

Source: Company Reports and Cantor Fitzgerald Estimates



Company profile: Ur-Energy is a production stage uranium company with primary assets located in Wyoming, USA. Additional exploration stage assets are located in the Thelon Basin and in Canada's Northwest Territories.

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

OVER 2.0M LBS CAPTURED AT LOST CREEK

Ur-Energy announced Q4/16 operating results which amounted to 103,558 lbs of U3O8 captured from Lost Creek as production was controlled at lower levels in light of the current low priced environment. We were initially expecting 142,000 lbs captured. Additionally, during the quarter, 111,049 lbs were packaged in drums and 98,775 lbs of drummed inventory were shipped to the Lost Creek processing plant to the converter.

A total of 100,000 lbs were sold into contracts during the quarter at an average realized price of \$32.70/ lb. This brings the FY2016 figure to 662,000 lbs at an average contracted value of \$47.61/lb. Additionally during the quarter, Ur-Energy will recognize \$2.5M in deferred revenue stemming from a deferred contract. This is the second half of a deferred contract, and follows the \$2.6M in deferred recognized in Q3/16.

Exhibit 1: Lost Creek Operational Performance

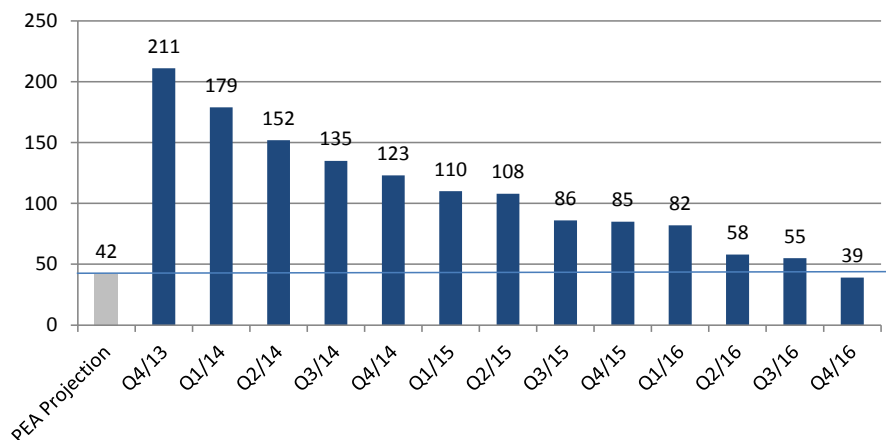
	Reported Q4/16	CF Estimates Q4/16E	Variance with Est. % Change	Reported Q3/16A	Variance Qtr-over-Qtr % Change
U ₃ O ₈ Captured ('000 lbs)	104	142	-27%	142	-27%
U ₃ O ₈ Dried & Drummed ('000 lbs)	111	129	-14%	146	-24%
U ₃ O ₈ Sold ('000 lbs)	100	213	-53%	200	-50%
Average Realized Price	\$32.70	\$57.81	-43%	\$47.36	-31%
Average Flow Rate (gpm)	2,559	2,500	2%	2,469	4%
U ₃ O ₈ Head Grade (mg/l)	39	55	-29%	55	-29%

Source: Ur-Energy, Cantor Fitzgerald Canada

GRADES DECLINE AS LOST CREEK MATURES

The Q4/16 production was sourced from a total of 13 header houses in Mine Unit 1. After more than three years of operations, the first mine unit still produced a yearly average head grade of 58 ppm. However, the head grade during the most recent quarter averaged 39 ppm. The declining head grade is a typical result as mines mature. Since the start of production, over 2.0M lbs have been captured from Lost Creek.

Exhibit 2: Quarterly Head Grades (ppm)



Source: Ur-Energy, Cantor Fitzgerald Canada

As can be seen in exhibit 2 above, the most recent quarter's head grades were just under that of those expected (42ppm) in the initial Lost Creek PEA. We note that grade declines are common for these types of operations and declines to expected averages usually occur 18 months after commissioning. This particular mine unit has been exceptional as it has taken nearly three years to reach this point.

Given the weak uranium price environment, Ur-Energy's management plans to assess its production capabilities on a week-to-week basis and will wait for the right market to begin commissioning work on mine unit #2. In the interim, it will continue to produce from the current mine unit. We note that increasing the flow rate would also help maintain production levels despite a declining grade profile should it be necessary.

Additionally, the final operational approvals for Underground Injection Control (UIC) Class V wells at Lost Creek were received during the quarter, following pre-operational testing. These approvals and final pre-commissioning refinements of the system allow for the onsite disposal of clean water into Class V wells. It is expected that these operational procedures (currently being commissioned) will significantly enhance waste water disposal capacity at the site and allow wellfield flow rates to be increased.

Lastly, during the quarter, the last remaining debt facility with RMB Australia Resources Ltd. was retired in December.

FY2017 DETAILED GUIDANCE TO COME LATER IN Q1

For FY2017, the company is contractually obligated to deliver 600,000 lbs. at an approximate price of \$51.00/lb. Additional guidance will be provided later this quarter when the Annual Report on Form 10-K will be filed.

RECOMMENDATION

We maintain our Buy rating with a target price of C\$2.80 per share. Our target is derived by applying a 1.0x multiple to the company-wide net asset value of \$2.73 per share.

Exhibit 3. Ur-Energy Net Asset Value

Projects	UR-Energy		Comment
	NAV	Per Share	
Lost Creek	\$108.7	\$0.74	2016 DCF @ 8% Discount Rate
Shirley Basin	\$87.2	\$0.59	2016 DCF @ 10% Discount Rate
Lost Soldier	\$123.2	\$0.84	2016 DCF @ 10% Discount Rate
Disposal Revenue	\$5.9	\$0.04	2016 DCF @ 8% Discount Rate
Debt	(\$27.4)	(\$0.19)	PV of LT Debt @ 10% Discount Rate
Working Capital	\$6.5	\$0.04	Q3/16 Financials + Cash Proceeds from ITM Options
Total in USD	304.1	\$2.07	
Total in CAD	401.4	\$2.73	

Source: Cantor Fitzgerald Canada Research

Exhibit 4. Uranium Price Forecast

USD	2011A	2012A	2013A	2014A	2015A	2016E	2017E	2018E	2019E	2020E	LT
U308 Spot Price	\$57.01	\$48.86	\$38.53	\$33.48	\$36.59	\$27.09	\$28.63	\$45.00	\$66.25	\$80.00	\$80.00

Source: Cantor Fitzgerald Canada Research, TradeTech

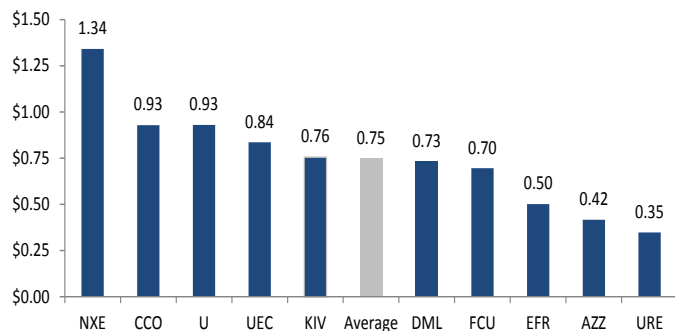
Exhibit 5. Uranium Valuation Comps & P/NAV Universe

Uranium Producer Company Name	Stage	Stock Price (Local \$)	Market Cap (\$'000)	Enterprise Value (\$'000)	NI43-101 Resources/JORC (M lbs)				MKT / LB		Est. 2016 Cash Cost / LB	Performance				
					Avg Grade	P&P	M&I	Inferred	Total	EV / LB		1 DAY %	1 MTH %	3 MTH %	YTD %	
Cameco Corporation (TSX:CCO)	Production	16.62	6,578,071.7	7,898,817.7	7.576%	465.1	245.9	288.8	999.8	\$6.58	\$7.90	\$24.01	1.53%	18.28%	56.73%	18.38%
Energy Fuels Inc. (TSX:EFR)	Production	2.82	244,322.9	203,349.8	0.076%	0.0	110.3	61.9	172.2	\$1.42	\$1.18	\$25.88	-6.93%	26.25%	58.64%	27.60%
Paladin Energy Ltd (ASX:PDN)*	Production	0.09	154,984.7	441,273.2	0.079%	174.3	193.6	153.8	521.7	\$0.30	\$0.85	\$24.01	9.52%	24.32%	-42.50%	6.98%
Peninsula Energy Ltd. (ASX:PEN)*	Production	0.85	165,607.1	186,771.2	0.050%	0.0	17.2	30.2	47.4	\$3.49	\$3.94	\$30.00	6.25%	57.41%	55.96%	51.79%
Uranium Energy Corp. (NYSE:UEC)*	Production	1.58	243,991.8	263,909.6	0.062%	0.0	32.4	36.3	68.7	\$3.55	\$3.84	n/a	-4.82%	55.14%	77.33%	41.07%
UR-Energy Inc. (TSX:URE)	Production	0.95	136,425.3	126,984.1	0.080%	0.0	34.5	10.3	44.9	\$3.04	\$2.83	\$16.97	-6.86%	41.67%	61.90%	33.80%
Producer Average			\$1,253,900.6	\$1,520,184.3		106.6	105.7	96.9	309.1	\$3.06	\$3.42	\$24.18	-0.22%	37.18%	44.68%	29.94%

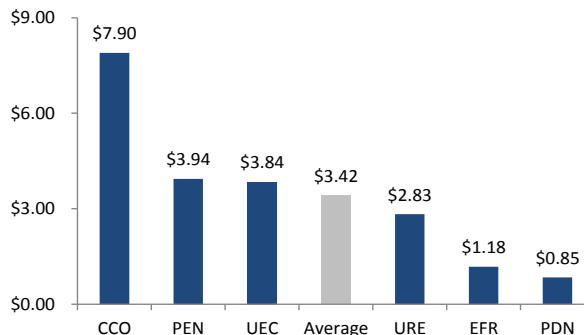
*Market Cap and Enterprise value for Paladin Energy, Peninsula Energy and Uranium Energy Corp. has been converted to SCAD at the prevailing \$AUD/SCAD or \$USD/SCAD market exchange rates
**Performance in local currency

Uranium Explorer/Developer Company Name	Stage	Stock Price (\$Local)	Market Cap (C\$'000)	Enterprise Value (C\$'000)	NI43-101/JORC Resources (M lbs)				MKT / LB		Performance					
					Avg Grade	M&I	Inferred	Total	EV / LB	1 DAY %	1 MTH %	3 MTH %	YTD %			
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	0.97	517,416.4	381,431.9	2.29%	102.0	97.6	199.7	\$2.59	\$1.91		-7.62%	52.17%	75.00%	38.57%	
Fission Uranium Corp. (TSX:FCU)	Exploration	0.79	382,508.5	329,100.0	1.51%	79.6	25.9	105.5	\$3.63	\$3.12		-7.06%	25.00%	44.07%	23.44%	
NexGen Energy (TSX:NXE)	Exploration	3.17	970,623.2	952,308.4	2.63%	0.0	201.9	201.9	\$4.81	\$4.72		8.19%	26.29%	68.39%	36.05%	
Kivalliq Energy Corp. (TSXV:KIV)	Exploration	0.12	26,498.6	25,708.0	0.69%	0.0	43.3	43.3	\$0.61	\$0.59		-7.69%	44.44%	44.44%	41.18%	
UEX Corp. (TSX:UEX)	Exploration	0.27	78,582.8	70,659.4	0.84%	68.2	16.5	84.7	\$0.93	\$0.83		-3.64%	41.03%	44.74%	8.16%	
Azarga Uranium (TSX:AZZ)	Development	0.45	33,299.4	27,257.7	0.17%	18.1	5.7	23.8	\$1.40	\$1.15		18.42%	46.15%	80.95%	25.00%	
Average			\$380,452.7	\$338,243.6		\$40.7	\$61.7	\$102.4	\$3.61	\$3.19		0.10%	39.18%	59.60%	28.73%	

Uranium Coverage P/NAV



Uranium Producer EV/Resource



Source: Cantor Fitzgerald Canada Research, Bloomberg

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