Cameco Corporation

2016 Fourth Quarter and Annual Results

Conference Call Transcript

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OPERATOR:

Welcome to the Cameco Corporation's 2016 Fourth Quarter and Annual Results Conference Call. As a reminder, all participants are in listen-only mode and the conference is being recorded. After the presentation there will be an opportunity to ask questions. To join the question queue, you may press star, then one on your telephone keypad. Should you need assistance during the conference call, you may signal an Operator by pressing star and zero.

I would now like to turn the call over Rachelle Girard, Director, Investor Relations. Please go ahead, Ms. Girard.

RACHELLE GIRARD:

Thank you, Operator. Good morning, everyone. Thanks for joining us. Welcome to Cameco's conference call to discuss the fourth quarter and 2016 financial results. With us today on the call are Tim Gitzel, President and CEO; Grant Isaac, Senior Vice President and Chief Financial Officer; Bob Steane, Senior Vice President and Chief Operating Officer; Alice Wong, Senior Vice President and Chief Corporate Officer; and Sean Quinn, Senior Vice President, Chief Legal Officer and Corporate Secretary. Tim will begin with comments on our results and the industry, followed by Grant who will discuss the changes made to the outlook we've provided for 2017 to help investors better understand our business and improve the alignment of expectations. Then we will open it up for your questions.

If you joined the conference call through our website event page, you will notice there will be slides displayed during the remarks portion of this call. These slides are also available for download in a PDF file called Conference Call Slides through the Conference Call link at Cameco.com.

Today's conference call is open to all members of the investment community including the media. During the Q&A session, please limit yourself to two questions and then return to the queue. For those on the webcast, if you have questions, please select the Submit A Question feature to submit your questions by email, and we will follow up after the call.

Please note that this conference call will include forward-looking information which is based on a number of assumptions and actual results could differ materially. Please refer to our Annual

Information Form and MD&A for more information about the factors that could cause these different results and the assumptions we have made.

With that, I will turn it over to Tim.

TIM GITZEL:

Thank you, Rachelle, and welcome to everyone on the call today. As usual, we will start this morning with some brief remarks and after that we will be happy to take your questions.

We've been saying for some time that uranium prices are neither rationale nor sustainable. The current prices are failing to incent the investment decisions required to ensure a reliable supply is available to meet growing demand out into the future. Indeed, I would have to say that market conditions in 2016 were as tough as I have seen them in 30 years.

In response to these tough conditions, Cameco led the way in terms of supply discipline. We curtailed our Rabbit Lake and U.S. mining operations, and reduced our production at McArthur River. Now, the world's largest uranium producing country with almost 40% of world supply - Kazakhstan - has announced that it intends to cut its 2017 production by 10%. In addition, ConverDyn has announced cuts to better align its UF_6 production capacity with customer demand. These announcements certainly represent positive developments around the supply performance signposts that we've been watching. They strengthen our view that the low prices are not sustainable and further bolster our optimism about the long-term fundamentals for our industry.

We've seen some uptick in uranium prices with these supply announcements as the average spot price is up over 40% and the average term price is up about 8% since the lows of December 2016. But let me be clear: our optimism is best described as cautious optimism. We are far from a true incentive price for sustainable production. In fact, we are far from declaring that even Tier-one production is free from the pressure of further reductions, and obviously, we are very far from requiring any new greenfield uranium projects. There's still a long way to go.

Ultimately, it will be the return of term contracting in meaningful quantities that will signal a transition to a more positive market environment. Until that time, we must manage our business as if difficult market conditions will persist.

Looking back at 2016, we did what we said we would do, and more. We were the first to show real supply discipline, and in addition, we took significant steps to reduce costs and streamline our business. Why? Because 2016 proved to be another difficult year for the uranium market. At the end of December, the spot price was US$20.25 per pound, and the term price was $US30. That's about 40% and 30% lower than the beginning of 2016 and about 70% and 60% lower than March of 2011.

I think it's fair to say that no one, including me by the way, expected the market would go this low and for this long, even with Fukushima taken into account. However, despite the uranium spot price hitting a 12-year low of US$18 per pound in early December, the performance of our core business uranium was solid and in line with the outlook we provided.

We delivered 31.5 million pounds of uranium at an average realized price of $54.46 per pound, about 60% higher than the average uranium spot price for 2016. However, our earnings for 2016 reflect the consequences of a weak uranium market and our resolve to take the necessary steps to ensure the strength of our core business for the long-term benefit of our shareholders. These steps are expected to benefit our performance over time but came with a number of upfront costs in 2016, which totalled about $120 million with another $362 million in impairment charges for Rabbit Lake and Kintyre.

On the operational front, our performance was strong. Uranium production for the year was about 5% higher than expected with all sites meeting or exceeding our expectations, particularly Cigar Lake. As a result, our unit cost of production continued to decline, evidence of our ripening Tier-one strategy.

The financial objective of our strategy during this period of low uranium demand is to maximize cash flow while maintaining our investment grade rating, so that we have the tools to self-manage risk. Risks like a market that remains lower for longer, litigation risk related to the CRA and TEPCO disputes, and refinancing risks.

On the cash flow front, we continue to have good visibility into our cash generating capacity thanks to a combination of our contract portfolio and the restructuring and cost-cutting measures we have taken and continue to take.

In terms of financial capacity, we have been getting questions about the sustainability of our dividend in this environment. You will see that our Board approved a quarterly dividend based on the priority they place on shareholders and their confidence in the Company's ability to deliver long-term value. As they always do, the Board will continue to assess the dividend and will take the action they deem necessary based on the circumstances, including the TEPCO contract cancellation and to ensure long-term value creation.

As I said earlier, our outlook for 2017 and beyond is cautiously optimistic. Optimistic, because it appears that the pain of low prices is driving meaningful supply discipline and this discipline is now provoking a strengthening uranium price. Cautious, because market challenges continue, challenges that might frustrate recent increases in the uranium price. As a result, we will take all necessary decisions to remain a competitive, low-cost producer in the face of continuing market challenges. At the same time, we are positioning the Company to maintain exposure to the rewards that come from having uncommitted low-cost supply to accompany the return of meaningful term demand.

We were recently reminded of one of those potential challenges that could frustrate the progress we have seen in the market. Last week, we announced our surprise and disappointment at the notice we received from TEPCO stating that they were terminating our uranium supply contract signed in 2009. We have been down this road before and have successfully defended the strength of our contracts. As such, we strongly disagree with their position and we will vigorously pursue remedies to recover value for our shareholders. However, until that dispute is settled, our results will be impacted. You can see this in our outlook for 2017 delivery volumes, realized price and revenue in our uranium segment.

We also know there is concern over the risk of contagion from the TEPCO announcement, but I want to be very clear. We do not believe there is any contractual basis for TEPCO's claims, nor do we believe our other customers can make similar claims. This has been tested previously and the strength of our contracts has been validated.

I want to remind you that we fulfilled contractual commitments to our customers even when it meant we faced harsh criticism as a result of taking low prices under our contract portfolio when market prices were higher. We expect our customers to fulfill their contracts just as we do. A contract is a contract. It's obviously early days in the process of working our way through the implications of TEPCO's actions, but I can tell you it will invoke a re-evaluation of the optimal mix of our sources of uranium supply to feed into our contract portfolio, and could see us make changes to our inventory position, our production profile or our purchasing activity.

Until that work is complete, we will move into 2017 with a plan to produce about 7% less than we did in 2016, largely due to the production changes we made last year, and we will continue to hold McArthur River production at 18 million pounds. In addition, in alignment with the announcement in January by GazAtomProm, Inkai's production is expected to be about 10% less than it was in 2016.

We know it is difficult to see beyond the market weakness that has persisted for almost six years, but as we look to the future, the bottom line is we see continued growth in reactor construction and, consequently, uranium consumption. In 2016, 10 new reactors came online and there are 58 reactors under construction today, the majority of which are scheduled to come online over the next three years if start-ups occur as planned.

Many of the countries building new reactors are installing baseload electricity. China represents about a third of that growth. You only need to look at the news in January about the choking air pollution in China to understand why nuclear is so important in that country. India and South Korea are also significant contributors to the demand outlook. Of course, more reactors means more uranium and we know that some of this demand is coming to Cameco as utilities pursue safe, reliable supply from long-lived Tier-one uranium assets. We believe we are well-placed to seize this demand.

We have a strategy focused on our Tier-one assets, those that are the lowest cost and provide us with the most value. The quality of our assets combined with the action we have taken over the past five years to curtail higher-cost sources of production to protect and extend the value of our contract portfolio and reduce costs and streamline our business have allowed us to remain competitive in a challenging market.

So, although we can't control the timing of a market recovery, we can and will continue to take the tough actions we believe are necessary to ensure we are well protected under our contract portfolio to have the financial capacity to weather an uncertain market and to maintain exposure to the rewards that come from having uncommitted low-cost supply to deliver into a future market where we see demand growing.

Thanks again for joining us today, and with that I'm going to turn it over to Grant. Grant?

GRANT ISAAC:

Thank you, Tim. I want to highlight the changes we have made in our disclosure for 2017, which, coupled with the information provided at our November workshop, we expect will improve the investment community's ability to assess our expected annual performance. If you missed the November workshop, all the materials are available on our website. Let's start with the 2017 Outlook table.

I want to emphasize that the 2017 Outlook table excludes the TEPCO contract. You will notice that at the top of the table we have provided you with the percentage contribution we expect each segment to have on 2017 gross profit. We have done this to really focus you in on the core of our business, the uranium segment. You can see that at more than 80%, it is really what drives our results.

In alignment with this focus, I will start with the uranium segment. We have provided you with an expected average realized price for 2017, which is based on our delivery commitments this year, the pricing terms under those contracts and the following assumptions.

First, we assume that current Ux weekly spot and term uranium prices remain at these levels throughout the year: US$26 a pound spot and US$30 a pound term. We assume that the Canadian dollar / U.S. dollar foreign exchange rate is $1.30 and remains at this level for the entire year. We will update this quarterly based on deliveries, and actual pricing under contracts in the quarter and for changes in uranium prices.

We realize that prices and exchange rates can fluctuate so we also provide you with the sensitivity of our revenue, cash flow and adjusted net earnings to a $5 change in both the spot and term uranium prices, and a $0.01 change in the Canadian/U.S. dollar exchange rate.

Since we have added this more granular disclosure for 2017, you will notice we no longer include the year 2017 in our Average Realized Price Sensitivity table. As a result, of providing the expected average realized price, the revenue range provided for our uranium segment is based purely on the delivery volume range provided. We have also provided you with the expected quarterly delivery pattern for 2017 based on delivery notices received to date. This could change, but it gives you a sense for the pattern of variability in our deliveries.

The next piece that we have changed in the disclosure is the disclosure for the expected average unit cost of sales including depreciation and amortization. We have now provided you with a dollar range instead of a percentage range for both uranium and fuel services. Keep in mind for our uranium segment this is based on our annual average costing method and includes the average of the cost of existing inventory, our expected cash and non-cash operating costs for the year and our expected purchase costs. In addition, it includes our expectations for royalties, care and maintenance and severance costs, and other selling costs. For our fuel services segment the average unit cost of sales includes the cost for UF_6, UO_2 and fuel fabrication. As a result, this is not something you would be able to derive on your own. We have done that math for you, and again, we'll review every quarter and update if necessary.

Not listed in the table but found in the uranium segment information, we have also provided you with the volume of purchase commitments we have in 2017 and the expected average price of those purchases, again, based on the same uranium price and exchange rate assumptions used for the rest of our outlook.

We have also provided significant new disclosure on our hedge portfolio, starting under section in our MD&A called Foreign Exchange. Along with this disclosure, we have calculated and provided in the outlook table, using the methodology discussed at our November workshop, the loss we expect to record in 2017 on the portion of the hedge portfolio that is applicable this year. This reflects the loss on adjusted net earnings, not our IFRS earnings. This disclosure is based on the same foreign exchange assumption that we used for calculating our expected average realize price.

We have also moved away from providing you with a percentage for our tax recovery as we realized that in 2016 it only served to magnify any discrepancies in the investment community's estimates. Therefore, this year we have given you an expected dollar range for the tax recovery. That range is based on the current expected distribution of earnings among jurisdictions, which we recognize is not possible for you to derive. Going forward as we enter new transfer pricing arrangements and our tax rate transitions to a more stable expense as we have described in our MD&A, we will reassess this approach.

Those are the biggest changes. And to help you find this information, we have provided a disclosure reference guide that lists where you can find all of your outlook in the MD&A. The guide is part of the reference material on our website for this call.

And with that, I'll turn it back to Tim.

TIM GITZEL:
Thank you, Grant. With that, we're happy to take any questions you might have.

OPERATOR:
We will now begin the question-and-answer session. In the interest of time, we ask you to limit your questions to one with one supplemental. If you have additional questions, you are welcome to rejoin the queue. To join the question queue, you may press star, then one on your telephone keypad. You will hear a tone acknowledging your request. If you are using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then two. Webcast applicants are welcome to click on the 'Submit Question' tab near the top of the webcast frame and type their question. The Cameco Investor Relations team will follow up with you via email after the call.

Once again, anyone on the call who wishes to ask a question may press star and one at this time.

The first question is from Orest Wowkodaw with Scotiabank. Please go ahead.

OREST WOWKODAW:

Hi. Good morning. I guess if we could start just with the standby costs at Rabbit, should we anticipate that's still going to be around $35 million going forward? Did I hear you say that is in the cost guidance on a per pound basis?

TIM GITZEL:

Hi, Orest, it's Tim. I think we put $35 million to $40 million in the box for Rabbit going forward. We'll keep assessing Rabbit on a year-by-year basis, or even shorter terms than that to see what we're going to do with it, but that's the number we've put out.

GRANT ISAAC:

It is included in the cost guidance that's been provided, Orest.

OREST WOWKODAW:

Okay. What about the severance cost related to the new headcount reductions you announced a few weeks ago?

TIM GITZEL:

So, those will be in our 2017 numbers, Orest.

OREST WOWKODAW:

Is that included in the cost guidance?

GRANT ISAAC:

It is.

TIM GITZEL:

Yes, it is. Sorry. Yes, it is.

OREST WOWKODAW:

It is, okay. In terms of the investment grade rating, which you mentioned earlier, S&P put your rating on negative watch recently. Can you just remind us again what you think your net debt to EBITDA criteria needs to be to maintain investment grade? Also, what are the implications to the $1.5 billion of letters of credit that you have outstanding if the investment grade rating were to be in jeopardy?

TIM GITZEL:

Orest, I'll let Grant deal with that.

GRANT ISAAC:

Right now, Orest, we sit at BBB+, which of course is well into investment grade rating. Obviously the negative watch with S&P is something that we pay particular attention to and we'll be having a discussion with them next week as our normal follow-up coming out of year-end.

I would probably—to put it in really rough terms, when you're at a 2 times net debt to EBITDA, that's probably a pretty comfortable BBB plus. If you're 2.5 times, that's probably BBB flat. If you're 3, that's probably BBB minus, that's probably where a conversation starts to happen. But of course, that conversation is not about a particular point in time. That conversation is about your outlook over the next two to three years and how things are evolving, and of course one of the things that I want to emphasize Tim had mentioned is we are seeing a ripening of our Tier-one strategy and an improving story with respect to the core performance of our business, and that is obviously something that they will factor in. A conversation to be had, for sure.

In terms of the impact on the LCs with respect—I think your question might have been, if investment grade is lost or just if there's a downgrade within the investment grade rating, I would just ask you to clarify.

OREST WOWKODAW:

If you could answer both ways that'd be helpful. Thank you.

GRANT ISAAC:

Yes. I'm not particularly concerned within the investment grade rating; those LCs stand. It's possible to slip outside investment grade rating but still maintain the covenants, the financial covenants, that are behind those, so obviously we would deal with that if we found ourselves there. We don't find ourselves there right now and are not planning for that.

OREST WOWKODAW:

I see. Okay, thank you very much.

TIM GITZEL:

Thanks, Orest.

OPERATOR:

The next question is from Greg Barnes with TD Securities. Please go ahead.

GREG BARNES:

Yes, thank you. First off, thanks for all the additional disclosure. It's a huge help. One thing I couldn't find this time around in the MD&A is your views on the global supply and demand for uranium. The balance you've given in the past is mine supply and your anticipation of demand for the year, 2016 and 2017 if you could.

TIM GITZEL:

Greg, I don't think it's changed much from last year. I think we're on the demand side probably in the 170-ish million pound range supply and the 160. Then, you've got the secondary supply out there. That's going to take some time. We're optimistic going forward with the 58 reactors that are under construction today that are, I think, coming on over the next three or four years, that demand line is going to go up. I know it's about a 2% increase, I think, we're looking at per year going forward.

Numbers haven't changed too much. Obviously on the supply side we're watching that close. We pulled off 7 million pounds last year, some of it made up by Cigar and a little bit by Inkai, and then our friends at KazAtomProm, Mr. Zhumagaliyev made his announcement in early January to drop production by 10%, which was a fairly—a very significant move.

That's where we are. We're still watching to see what's going to happen this year but I think we're cautiously optimistic that supply is becoming more disciplined, if you like, and there's still growth, so that's a good news story.

GREG BARNES:

Taking all that into account, Tim, what do you see as the surplus this year? Or deficit, but I'm assuming it's a surplus with the Kazakh announcement and your curtailments taken into account.

TIM GITZEL:

Yes, hard to say. We think there probably is still a surplus. Obviously with the secondary material out there, it could be in the range of 20 million pounds that might be excess. Grant and I were talking this morning. We said that it could be 10, it could be 20, so 15 might be your number, but of course nobody knows because there's a few black boxes out there as Stuart said, but I think the good news is that it's tightening up and we see it tightening up over the next few years.

GREG BARNES:

Okay, great. Thank you.

TIM GITZEL:

Thanks, Greg.

OPERATOR:

The next question is from Sam Leeds, a Private Investor. Please go ahead.

TIM GITZEL:

Hello. Sam? Sam, it's Tim Gitzel. Can you hear us? I think we'll have to move on, Operator. Do we have another question, Operator?

OPERATOR:

David, can you hear us?

DAVID:

Yes.

OPERATOR:

David, you're up.

TIM GITZEL:

Hi, David.

DAVID:

Hi. I was wondering, Tim, if you can discuss your expectations for pace of Japanese restarts going forward.

TIM GITZEL:

Yes, I would have been really disappointed if somebody hadn't asked that one, David. I guess where we are today, you've got three operating, I think. That's three more that we had about year and a half ago. I think there are about seven that have made it fully through the regulatory process; some tied up in litigation, others need some more time. I think 10 have made it through at least the first stages. Twenty-six total are progressing through the restart process.

So, you know I hate to guess on this. I was over in Japan just at the end of last year, meeting with all the utilities. If those seven could make it through the process and through litigation and get started this year, that would be real good. If there was a few more, that'd be even better.

What we want to see is kind of a steady start-up pace. If those Takahami units can get through the legal process with a good decision, we think that'll be helpful to a more regular rate of restart, if you like. We'll see. Like I say, we're happy that there's 7, 8, 9 or 10 that are partially or fully through the process. We're happy that there's 26 that are going through the process.

Talking to all of those utilities, they've spent billions of dollars on their units, getting them ready. As we say, they're still involved in exploration, some companies in the production of uranium, so they're certainly behaving like the units are coming back on. I've been wrong four or five now, six years in a row, as to how quickly they'll come back on, but we're optimistic that it might pick up a little pace in 2017.

David:

Great, thanks. As a follow-up, is there a way for us to get a sense of sensitivity for 2017 average realized prices, if they end up a little bit higher than the numbers that you guys have baked into the guidance?

Grant Isaac:

There's a couple of ways to do that. We have that price sensitivity table. Over the of course for 2017 we've collapsed that down to an estimated number based upon the assumptions under that table with respect to where the price is and where FX is. And then, you can see through into the sensitivity analysis from a cash flow and an earnings point of view how you might think about that with changing price assumptions. So, we've given you those tools to work with and it's kind of a 'pick-a-price', where you think it could go and then it would subject to the outlook table.

David:

Okay, great. Thank you.

Tim Gitzel:

Thanks, David.

Operator:

The next question comes from Chelsea Laskowski with MBC Radio. Please go ahead.

Chelsea Laskoski:

Hi. I wanted to check, with the TEPCO announcement, that kind of adds on top of the, I suppose, financial things that you guys need to consider for 2017 and that came after the 10% workforce decrease for Cameco. For you guys, is it on the table to potentially take that 10% and increase it in 2017?

TIM GITZEL:

Chelsea, thanks for the question. Obviously we're always looking at our costs, our cost structure. We'll never stop doing that in this difficult market, but for now the announcement we made a couple of weeks ago is what we're planning to do, and so we're working our way through that now. I think we announced some 120 positions at the northern mine sites in Saskatchewan. We've announced a proposed change, upcoming change to our work schedule and some pick-up point changes, so that's what we're working on right now and we haven't anything new to announce from that.

CHELSEA LASKOSKI:

So, when you say for now, do you mean all of 2017, or is that within a limited time-period?

TIM GITZEL:

Chelsea, you know that really depends on how thing are going. How the market goes going forward for us, how our production schedule goes, so it's really hard to say. It's been a tough six years for us. Now, we're one month and one day away from six years post Fukushima and we've had to unfortunately make some really tough decisions in the Company.

We've done that, watching what the market would do. I don't think, as I said in my comments, we ever expected that things would be so tough for so long, post-Fukushima, but they are, and so we'll continue to make whatever decisions we have to, but for now the announcement we made two weeks ago is all we have to announce on that.

CHELSEA LASKOSKI:

All right. Thank you very much.

TIM GITZEL:

Thank you, Chelsea.

OPERATOR:

The next question is from Robert Sinn with CEO.ca. Please go ahead.

ROBERT SINN:

Hey, guys, there's a lot of analysis that's out there now showing a turn in the market possibly two to three years down the road as we have new reactors come online and some of the oversupply has worked through. Do you see the same thing? What risks are there to the supply maybe not being worked off as fast, and maybe that turn being moved out a bit farther than, let's say, three years out?

TIM GITZEL:

Well, Robert, that's a big question. We go back to the fundamentals of the business that we're watching for. We talked about the supply side. I think we led the charge back in 2016 in April when we made our announcement on Rabbit Lake and then on Wyoming and Nebraska operations pulling back production 7 million pounds. We pulled back 2 million pounds at McArthur River. Then we saw the Kazakhs pull back their production as well in January of this year, so we're seeing that discipline being applied to the supply side.

The demand side, we're optimistic. I mean 58 reactors under construction, that's a good number, and you see China confirming their numbers. You see India moving forward, South Korea, other countries, so we see the supply/demand fundamentals going in the right direction. We talked a little earlier, there's still secondary supply in the market. I think in the timeframe you mentioned we will see a better market and in the meantime we're preparing for the lower for longer. That's what we have to do in this industry and in this company, but we will be ready. I can tell you we'll have operating leverage and we'll be ready to go when the market does improve.

ROBERT SINN:

One follow-up question regarding the situation with the utility, the Japanese utility contract dispute. Does that affect the market at all in the short term? There's some speculation that now they won't sell those pounds into the spot market and that's a positive. Is that true? Does it have any effect at all in the spot market?

TIM GITZEL:

Well, Robert, those are our pounds, so we will determine what we're going to do, and that hasn't been our practice, so we'll be very disciplined in the market, I can assure you.

ROBERT SINN:

Thank you.

TIM GITZEL:

Thank you.

OPERATOR:

The next question is from Daniel Horner with Nuclear Intelligence Weekly. Please go ahead.

DANIEL HORNER:

Hi. Thank you for taking my questions. First of all, I wanted to ask about your future purchase commitment. In the outlook for 2016 you had commitments to purchase 38 million from 2016 to 2028. Now the commitment is 21 million pounds. I believe you said you'd purchased 8.4 million in 2016 so that still leaves 8.6 million, if I'm looking at this right. Can you talk about that and what accounts for that difference and just explain that a little? Then, I have another question on a slightly different topic, but if you could go ahead with that.

TIM GITZEL:

Daniel, I'm going to pass the first question over to Grant. He's got information on that one.

GRANT ISAAC:

Yes. There's a difference between what you're picking up in sales and purchases in the uranium segment versus what you're seeing in the Purchase Commitment table which also includes NUKEM, so that explains the difference between the two. The uranium segment doesn't include NUKEM volumes.

DANIEL HORNER:

Okay. Then, earlier when you were talking about the impact of the TEPCO proceeding you said just constant evaluation of the inventory position, production profile or purchasing activity. Can you give a little more detail on what you're considering under those rubrics?

TIM GITZEL:

Those are things we always look at, and given the news from TEPCO last week we'll obviously look at our inventory position. We'll look at production, where that's at, and any new purchasing we might have had in mind. So, those are just three levers that we wanted to mention that we're constantly looking at, and we will take a re-look at in light of the TEPCO situation.

DANIEL HORNER:

Okay. Thank you.

TIM GITZEL:

Thank you.

OPERATOR:

The next question is from David Snow with Energies Equity. Please go ahead.

DAVID SNOW:

Hi. Just doing the math, it looks like TEPCO is priced at about nearly $140 a pound and is the price lower in the near term and then it escalates higher, or is it flat? How does that go over time?

GRANT ISAAC:

Hi, David. You're asking for some questions that we typically don't reveal about our contract portfolio but I can confirm, because we kind of already have, it is a high-price contract and it's one that we are really reluctant to let go of as a result, and it's probably the reason why TEPCO was interested in making the move that they made.

In terms of how it's priced and the terms and conditions, we don't typically reveal that stuff. Sorry, David.

DAVID SNOW:

Even though this is a significant factor in the current outlook?

GRANT ISAAC:

Well, right now the current outlook doesn't include the TEPCO contract.

DAVID SNOW:

Oh, okay. Thank you.

TIM GITZEL:

Thanks, David.

OPERATOR:

The next question is from Fai Lee with Odlum Brown. Please go ahead.

FAI LEE:

Thank you. I just wanted to talk about the sales volume of 30 million to 32 million pounds. Does that include or not include the resale of the TEPCO volumes?

TIM GITZEL:

That does not include anything to do with TEPCO.

FAI LEE:

Okay, so if you had the TEPCO volumes your guidance would be approximately, I guess call it, rounding up a million pounds higher? Is that the way to look at it?

TIM GITZEL:

Yes, that would be about right. I think it was about 887,000 pounds, something like that.

FAI LEE:

Yes, just rounded. Now, the guidance for 2017, it's not that much different than your actual sales volumes in 2016. Has there been a bump up in sales commitments or are you expecting increased sales somewhere versus 2016 given that TEPCO is out of the sales volume guidance?

TIM GITZEL:

Well, I don't—yes, those are committed sales that we've had in place. Probably signed those contracts some years ago, so there's no sales to be made in those numbers. Those are the sales commitments. Those need to be delivered.

FAI LEE:

Right, but are there some deliveries in some areas like China or some place else that you've increased on a year-over-year basis that you're spending based on those previous commitments?

TIM GITZEL:

That's possible. It might have changed. It almost changes from year to year depending on which customers are in or out, and that would be made up of—Grant, how many contracts would be involved in that 30 to 32? There'd 30 customers, so there's variation all the time. It might mean a little bit more Asian and less U.S. I don't have those numbers in front of me, Fai, but yes, there's variation every year.

FAI LEE:

Okay. All right. Thanks. Just as a follow-up, TEPCO, a couple of years ago was talking about drawing down their inventories back to pre-Fukushima levels, but I guess presumably reselling some of the volumes that they purchased from you. Did that actually happen, do you know? I'm just trying to understand the dynamics, maybe that was part of the pressure?

TIM GITZEL:

Yeah. Fai, we have no information on that. I can't even answer you. I don't know.

FAI LEE:

Okay. Thank you.

TIM GITZEL:

Thank you. Yes, thanks a lot.

OPERATOR:

Just a reminder, in the interest of time we would ask you to limit your questions to one with one supplemental. The next question comes from Greg Barnes with TD Securities. Please go ahead.

GREG BARNES:

Thank you. I just want to talk a little bit about Cigar Lake. You mentioned in the MD&A you're doing some drilling and feasibility work on Phase II at Cigar. I wonder if you could give us some color around that? What you…

TIM GITZEL:

Yes. Thanks, Greg. We are indeed, and I'm looking to Bob Stein here to supply an answer. Bob?

ROBERT STEANE:

Yes. Good morning, Greg. We're in an exploration phase. Last year, in 2016, we drilled off about 29,000 metres of drilling out of 65,000-metre program. The intent there is, we have had Cigar Lake Phase 2, we've known about it for a long time, but while we were busy getting Cigar Lake Phase 1 up and going, we left that. Now, Cigar Phase 1 is up and going. It's a deposit. It's associated with a very—near the Cigar Lake Phase 1 deposit. It's about 300 to 400 metres on the western edge of the Cigar Lake Phase 1 deposit to the Cigar Lake Phase 2 deposit.

We had limited information but now we're drilling it out to understand the deposit and get the information and do a pre-feasibility study on can we turn that to deposit? Can it turn into a mine, extending Cigar Lake's life? That's what we need to know.

You may note, if you look at our reserve statement, what's happened this past year is we've changed some. In the past at Cigar Lake, there was about 102 or 103 or somewhere in there, inferred resources at Cigar. Most of that was in Phase 2. With the drilling that we've accomplished so far, we've moved roughly around 80 million pounds of those inferred into indicated class, and as we go forward we'll carry on with the drilling program. So, that's what we're about and what we're doing at Cigar Lake Phase 2.

GREG BARNES:

Are grades similar to Phase 1?

ROBERT STEANE:

It varies. It's a bit early to pin a grade on it. It's a higher grade. The grades are good, but we haven't assigned a total grade to it. Yes, it's similar but not quite as good.

GREG BARNES:

Okay, great. Thank you.

TIM GITZEL:

Thank you, Greg.

OPERATOR:

The next question is from PT Luther with Bank of America. Please go ahead.

PT LUTHER:

Hi, Tim and Grant. How are you?

TIM GITZEL:

Good. Good, good. How are you, PT?

PT LUTHER:

I'm good, thanks. I just want to talk a little bit more about the Japanese utilities and the TEPCO contract termination. I was wondering if there's any more colour you could share on why now? The timing of the TEPCO cancellation seemed a bit puzzling to me.

Then, Tim, in your prepared comments, you talked about risk of contagion out of TEPCO. I was curious if you've seen any reaction out of other Japanese utilities following TEPCO or if there any other new discussions taking place?

TIM GITZEL:

Well, I'll answer the first part and then Grant has been working hard with his team and the marketing team on the second part, but why now? Great question, which is why we used the words surprise and disappointment, I think, in our call and in our press release last week.

We've known these folks for a long time. They've been good customers. I've known them for many, many years and so Fukushima happened, as I say, one year—sorry, one month away from six years ago, and so we've been working with them all the way through that. We've had contracts with them. We've been on the other side of contracts that—I heard some numbers put out on this call. We were on the other side of that, back in '07, '08, '09, those type of years, but we worked our way through that.

Under this contract, we delivered 14, 15, 16, took delivery, paid for it. So, we were surprised and disappointed, as I say, to get that notice in January on this contract. So, I don't know their timing, I have no idea. Obviously there's a process now that they were going to launch into very soon with them, so hopefully we'll get some more information from them, but I'm going to ask Grant to comment on the other—that contagion piece.

GRANT ISAAC:

Yes. So, just a bit of context, of course, because this isn't the new risk for us. We've been dealing with the general risk of contract non-performance due to Fukushima for nearly six years now. If we think about that there's three things that are notable. First, that for five full delivery years, we've met our expected sales guidance. Second, when we have faced a similar challenge to a contract, we successfully defended the contract in international arbitration; and third, we've actually settled with two other utilities on that same net pay term that really reinforces how strong our contracts are.

We kind of view this general contract non-performance or this contagion as being—as managed as well as it could possibly be. And, we also believe that the further we get away from the event, the lower is the risk that that event can be legitimately used to justify contract non-performance. So, in some sense, it's a bit of a declining risk, as well.

Now, we've been talking about—this doesn't mean our contract portfolio is risk-free. We've never said that. We've talked about how, when our average realized price is substantially above the market, this does create pressure from some of our customers who want to be more in the market, but in all but this one case with TEPCO, these are commercial negotiations of price. They're not price negotiations disguised as force majeure.

You asked the question specifically about the other Japanese utilities and I would just say that what's happened here with TEPCO really is a departure from the successful commercial relationships we've had with the others, including TEPCO, post-Fukushima. We've worked with 8 of the 11 Japanese utilities on a number of things to help them with their circumstances, but, of course, always when it's beneficial to us. All of that's generated goodwill. It's enhanced our commercial relationships and, as I say, been beneficial. There's a few utilities who we haven't had to work with either because their contracts were shorter terms or because they just weren't interested; they were content with the terms and conditions of their contract.

I mean, it's certainly possible. We can't rule out that other fuel teams will be asked to review their contracts in light of TEPCO's actions. But given the standardized nature of our contracts, we will approach any other force majeure claim in exactly the same manner, especially if it's with a customer who has a nuclear power plant approved for restart. On balance, we just think we'll continue to manage this risk well like we have in the past. We put out guidance for delivery for 2017 in our Outlook table and that's the guidance we're sticking to.

PT LUTHER:
Got it. Thanks. That's really helpful.

Then, one more follow up if I could. I was curious if, given the nice run up we've seen in spot prices since the lows in December and Kazakhstan's 10% supply cut announcement. Are you starting to have more dialogue with other utilities looking at contracting? Are these things that are starting to maybe create some optimism and maybe start to create some momentum, or do you think we need to see kind of more sustained improvement in spot prices and more proof in the pudding that Kazakhstan is going to do what they said they will do before getting more momentum in the contract discussions?

TIM GITZEL:

It's a good question, PT. I steal a phrase that Grant's been using here. He says there's an upward lean to the market and I think that probably adequately describes what we've seen from the, I think it was December 8 low in the uranium price where it touched off 17 something and has moved up since then.

We're still—and let me be real clear—cautiously optimistic. Cautious in the sense that there's still a lot of material floating around, especially on the secondary side, but optimistic in there's still 58 units. Demand is going up, supply is being tightened up and that's what you want to see on your indicators, on your fundamentals.

So, we'll see. Let's watch as 2017 rolls along to see what happens, but we're optimistic that we're headed toward a better market. We saw some Ux numbers the other day, just showing the pounds to be contracted over the next I think 9 or 10 years, and it's in the hundreds of millions, like 700 million or 800 million pounds that have to be contracted in the next number of years.

How long the utilities will wait? We're seeing a bit of utility. You asked, we're seeing a bit of utility activity out there, but there's a fair bit that's got to come to the market, so it's a question of when. We'll be ready when it does come.

PT LUTHER:

Okay. Tim, Grant, appreciate it. Thank you.

TIM GITZEL:

Thanks a lot.

OPERATOR:

The next question comes from Sam Leeds, a Private Investor. Please go ahead.

SAM LEEDS:

Hi, Tim. Sam, here. Sorry, I must have been on mute earlier. My question is can you speak a bit on Cameco's approach to China and the kind of the rumors that they've been stockpiling uranium, but also they've opened up that fairly large mine in Africa that's supposed to be producing something like 15 million, I think, is their expected output. Can you speak a bit on your strategy around how you're going to penetrate that market and kind of get Cameco kind of more exposure to that part of the world?

TIM GITZEL:
Yes. Thanks, Sam and thanks for the question. Sorry, we missed you on the last round there.

Obviously, China has become a big deal for us and that started, boy, I'm thinking almost a decade ago already when they started their construction program and through the 2000s, everybody watching to see, is it real? Is it real? Then, their big move was back in June of 2010 when they came to the market. About a $42 market and bought about 150 million pounds in a month and shot the market from $42 to $72 a pound, which is where it stayed until Fukushima. So, we've been dealing with them since then.

They've been really good customers. I have to say that we were nervous at the time we entered into such a big commitment to them as to how they would perform. They've been excellent customers. We've done a lot more deals with them since then; not of that magnitude. We talked to them about going beyond a straight uranium supply deal and so, we're in there. We're, I think, in very good shape with our Chinese customers, really excited about their future growth plans. I think today there's about 35 reactors operating. Another 20, 22, 25, I don't even know, under construction. They're talking 58 gigawatts or units by the end of the decade and then I've seen numbers like 100 by 2025, which would make them the biggest in the world. So, yes, you want to be there, you have to be there. We think we're in good shape.

Now, to your second part of your question, obviously, they're very astute at business and we've heard them say that they want to divide up how they get their uranium. They'd like to produce some themselves internally, domestically inside the country. Obviously they're buying externally and then they're producing externally and you mentioned the Husab project, which I think was scheduled for start-up last year and saw some delays. We've read recently that the first drum of yellowcake has come out and over time—I'm not sure what period of time—they would ramp up to as much as 15 million pounds. That's been taken into account. I can tell you when we look at the supply/demand numbers. We've known about that mine for a long time and that's taken into account in our supply/demand forecast.

Yes, it's where they're going. Like I say, we're very close to them and plan to do a lot of business with them in the years and decades to come.

SAM LEEDS:

So, in addition to that, like with your investments in Australia, and of course the government there seems to be a little bit more kind of positive in terms of their opening up the uranium market in Australia, but Cameco also had that—I can't remember the name of that underwater species that prevented one of our mines from being opened up there. What's your percentage of growth and focus on Australia to supply the Chinese market?

TIM GITZEL:

Well, Sam, we had some good news. Just about—I'm looking at Bob—two weeks ago? You're talking about the Yeelirrie project, which we have approval on now to move ahead. The environmental review did identify some of those issues and we were able to work with the government to convince them that we could deal with those issues, and so we have approval to go ahead with that now.

Of course, the market is not in anywhere near the shape to bring a project like that ahead, but it is an excellent project that we now have in our bullpen with the environmental and government approval to move ahead, and I think we have about a 10-year period, Bob, to present a plan to go ahead. So, we'll watch that. Obviously in this market, we're not even close to where a project like that could move ahead but it's a nice one to have in our bullpen.

SAM LEEDS:

Excellent. Thanks very much, Tim.

TIM GITZEL:

Thanks, Sam.

OPERATOR:

The next question is from Cody Sworn with BMO. Please go ahead.

CODY SWORN:

Thank you. Good morning, gentlemen. Is maybe the question, one question maybe for Grant. Thanks for the detailed guidance. On the taxes, now you have moving into a new transfer pricing agreement, so how—can you give us a kind of an indication of guidance towards how much is going to be owing terms of cash taxes? How much is going to be—there are some complications in, for example, like you can set off some of the CRA payments, things like that, but then without taking into consideration of the CRA payments, how we can look forward for the ’17, at least 2017/2018 cash taxes?

GRANT ISAAC:

Yes. Well, it’s actually quite a complicated question. Let me just take a shot at it and this is obviously one that might benefit from a little bit of a deeper dive offline.

What we have in our outlook is guidance for a tax recovery for ’17 based upon the jurisdictions in which we will sell uranium, or we think we're going to sell uranium throughout 2017, so that all consolidates up to this tax recovery position. We also have some disclosure that we've been using for a couple of years now to say that as our underlying transfer price agreements that have kind of underpinned our company structure are renegotiated in a different market, then we will transition to an expense over time.

In terms of the cash tax, we really only have one jurisdiction where we pay cash taxes in, and that's just buried in the overall consolidated number, offset by jurisdictions where we actually have operating losses.

So, it's about as far as I can go right now, but would welcome a chance to dive a little deeper, if we can help out.

CODY SWORN:

Okay. That's fine. So, that tax recovery number that you provided in the guidance for 2017, that’s actually is—you said the P&L tax guidance, isn’t it?

GRANT ISAAC:

Yes. It is, but on an adjusted basis.

CODY SWORN:

Yes. Okay, got it. Okay, thanks.

GRANT ISAAC:

Thank you.

TIM GITZEL:

Thanks, Cody.

OPERATOR:

The next question is from Anang Majmudar with General American Investors. Please go ahead.

ANANG MAJMUDAR:

Good morning. Thank you for taking my question. Given the disclosures provided, it is possible to roughly back into a cost per pound produced for 2017. What I was curious to know is, are there any costs in 2017 that would be one-time in nature or would roll off exiting 2017, looking into 2018, just as we try to think about the cost structure of the company? For instance or conversely, I know there's care and maintenance with respect to Rabbit Lake that would be ongoing, but if there's anything else related to some of the other initiatives that you've taken from a cost savings perspective that are embedded in that number, but would roll off exiting the year, that would be helpful. Thank you.

Then, the second question I had was, is the depreciation and amortization related to Cigar Lake, is that still elevated relative to pounds produced or has that stabilized? Thank you.

TIM GITZEL:

Just on the first one, what comes to mind is similar a bit to 2016. We'll have some severance costs, obviously, in 2017 with the reductions we're making to the workforce now. I'm thinking of tax—looking at Sean as well. There will be some tax costs, litigation costs that we're incurring now. Hopefully that litigation winds up sometime this summer with the final arguments in the fall and then we'll wait for a decision. I can think of those two at the moment. Those are what come to mind and I'll pass it to Grant to give us any other thoughts.

GRANT ISAAC:

Yes. The main one to come out of the cost, the produced cost is the severances. Care and maintenance for Rabbit Lake really will carry on as long as we're assessing Rabbit Lake in terms of its status and whether we continue to hold it in that status, whether we move it to a different status, like shutdown, whether we find a favourable market to bring it back. I mean, all of that to be seen, but in the meantime there are not insignificant costs associated with Rabbit Lake. Those are in the cost guidance as we had said earlier.

In terms of the amortization of the pounds for Cigar Lake, as Cigar Lake is ramping up to full capacity that—it will stabilize then at that. Cigar Lake is commanding some sustaining and a bit of replacement capital as you see on our outlook guidance, but fairly modest, and now that it's stabilizing at a higher rate, we did see the stability in that contribution.

ANANG MAJMUDAR:

Thank you very much.

TIM GITZEL:

Thanks, Anang.

OPERATOR:

Once again, please limit your questions to one with one supplemental. The next question is from Greg Barnes with TD Securities. Please go ahead.

GREG BARNES:

So, I'm back for the third time.

TIM GITZEL:

Good, Greg.

GREG BARNES:

In terms of long-term contracting, if the utilities are beginning to re-engage, what kind of price levels would you even contemplate signing long-term contracts at?

TIM GITZEL:

Grant, do you want to take that one on?

GRANT ISAAC:

Well, I mean, certainly not today's levels. You haven't seen us engage in a lot of term contracting in the market in the last couple of years because we've had the contract portfolio protection and because we've been keeping our eye on this growing wedge of uncommitted requirements. As Tim referenced earlier, some trade press folks saying that between US and non-US utilities that's a wedge that in the next 10 years is some 800 million pounds of uranium that hasn't yet been bought and that's pretty exciting to us because that's a lot of business that has to come into the market.

We look at the supply that needs to be incented in order to meet that demand. That supply, some of it's going to be Tier-one, some of it's going to be Tier-two. It's probably going to have to incent some of that Tier-three stuff as well and that Tier-three stuff is expensive. So, we've never quarreled with those who have talked about $70 uranium price to incent that to Tier-three.

Now, we would obviously find good entry points for capturing value in the market below that, but certainly well above where it is today to be interested, certainly in fixing it in. We have an overall portfolio strategy of wanting to be balanced. We want to have some fixed prices. We also want to have some market exposure. We also want to have regional diversification in our portfolio.

I think the last couple of weeks have demonstrated that not all customers are created the same. So, we want to have a focus on those kind of Tier-one customers in our portfolio. All of that factors in, along with price, to determine when we pick our entry points, but today isn't an exciting entry point, which is I think why Tim's comments began with we are far from seeing a fundamental transition.

GREG BARNES:

Grant, TradeTech picked up their long-term price, their term price to $35 from $30 last week. Is that something you are seeing as well? Is that beginning to become evident in the market, the prices moving higher?

GRANT ISAAC:

It's always interesting for us when you see the kind of gap that there is right now between the two main price reporters, a $5 gap in their term price reference, and really, I think it comes down to there's a bit of sentiment in there. These trade reporters have different access to potential demand, they do different work for different customers on what those fuel buyers are thinking about the market. And clearly I think TradeTech is seeing something with respect to the term market and what the appetite is to maybe come off the sidelines a little bit. I mean, I think last year ended with only about 60 million pounds of term contracting, yet another year way short of replacement rate, so we know there's demand piling up on the sidelines. Are we actively seeing it? Well, nothing we can immediately point to. We haven't seen a spike in RFPs in the market, but when we use the term upward lean it's because we are seeing this momentum.

GREG BARNES:

Great. Thanks, Grant.

OPERATOR:

The next question is from Orest Wowkodaw from Scotiabank. Please go ahead.

OREST WOWKODAW:

Hi. Good morning. Thanks for taking a follow-up. I believe this is the first time you've ever given us the disclosure on your quarterly sales within a calendar year. How much certainty do you have on the delivery schedule and can that change as the year goes by?

TIM GITZEL:

Well, it's certainly closer in the nearer quarters. I think we have more accuracy and we can get some more delivery notice changes, I guess, during the year, but Grant, do you have anything else?

GRANT ISAAC:

We've been actually talking about the variation of our deliveries over the course of the year for quite some time now. This is the first time we've put it in a picture, so I guess we learned a lesson here about actually being a little bit more clear.

It's very helpful for helping you understand kind of the mood in the market because those delivery notices are really a function of when fuel buyers are timing their entry points as well. And so it's not uncommon that when a fuel buyer is sitting there thinking there might be some price-off pressure, they would push out their market related to later in the year to maybe try to take some advantage of that. So, as you look at that picture in the disclosure, there is a familiar pattern. Whether that changes in a market that begins to have an upward lean, we don't know.

The other thing to remember about it is that our delivery notices are usually six months lead time, so this is our best guess. It is subject to change, but right now, that's the guidance that we have for the year and how we think the business is going to unfold. So, we'll have some quarters that will be low and some weighting toward the second half of the year.

OREST WOWKODAW:

Okay. Then, just in terms of the contract portfolio, you disclosed that you've got average—your average book is about 24 million pounds a year between 2017 and 2021, obviously higher in the in the upfront years. Can we assume then, I mean, if you're going to do 30 to 32 this year that by 2020 to 2021 that number would be below the 20-million pound mark in order to average the 24?

GRANT ISAAC:

Well, it does tell you that in order to get an average of 24, the other years have to be less if the earlier years are higher. Remember, that's the kind of exposure that we actually want to have. We look at a market where we see a lot of uncovered demand; a market where we think that that demand has to come. And we think some of that is coming our way and we want to be exposed to it rather than panic a little bit and lock-in a lot of volume today at these prices, which we could do. We would have a portfolio with a lot of volume and then not a lot of value and our goal is to always get that right balance between the two of them. So, we want that exposure in those outer years, looking at the uncovered requirements, but there's no doubt we're protected fairly well in the next couple years and then it starts to fall off, coinciding with when we want to pick our entry points.

OREST WOWKODAW:

I see, and if the contracting market did not pick up, for whatever reason, I assume you wouldn't be taking your production levels down to sub-20 million pounds. Should we anticipate that any kind of shortfall that you might actually look at selling into the spot market or different avenues?

GRANT ISAAC:

That's an interesting question and of course we would have a couple of years to adjust for that. But you remember in Tim's comments, he talked about, we look at things like the TEPCO contract cancellation and the pounds that we thought that were going to them that are now part of our longer term planning, and we then have to factor those plans in on kind of a sales and sources perspective.

So, we have some committed sales; that's a great home for our volumes, it's a great home for our purchases. We have an inventory as well, so we'll just look at how to best navigate through those scenarios; one, obviously where there's a low for longer, but one where there's a demand transition and we hope to grab some operating leverage. So, all part of the assessment.

These are early days post the TEPCO cancellation and more of the work that we have to do, but I can tell you we really have an aversion to being in a position where we're producing from Tier-one assets and having to sell that material into the spot market. That's not something that we particularly lust after, so our planning will have that kind of parameter in mind.

OREST WOWKODAW:

That's great colour. Thank you.

TIM GITZEL:

Thanks, Orest.

OPERATOR:

There no more questions at this time. This concludes the question-and-answer session. I would like to turn the conference back over to the presenters for any closing remarks.

TIM GITZEL:

Thank you, Operator. With that, I just want to say thanks to everybody that's joined us today. We appreciate your interest and your support. We're confident here that our strategy to focus on our best margin assets are going to allow us to really manage effectively through this challenging market and position the company to benefit from a future where additional uranium is required to meet growing demand.

So, we're cautiously optimistic and we'll leave it at that. Thanks, everybody, and have a great day.

OPERATOR:

This concludes today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.

Q4 & Annual Results Conference Call

Q4 & Annual, 2016

February 10, 2017

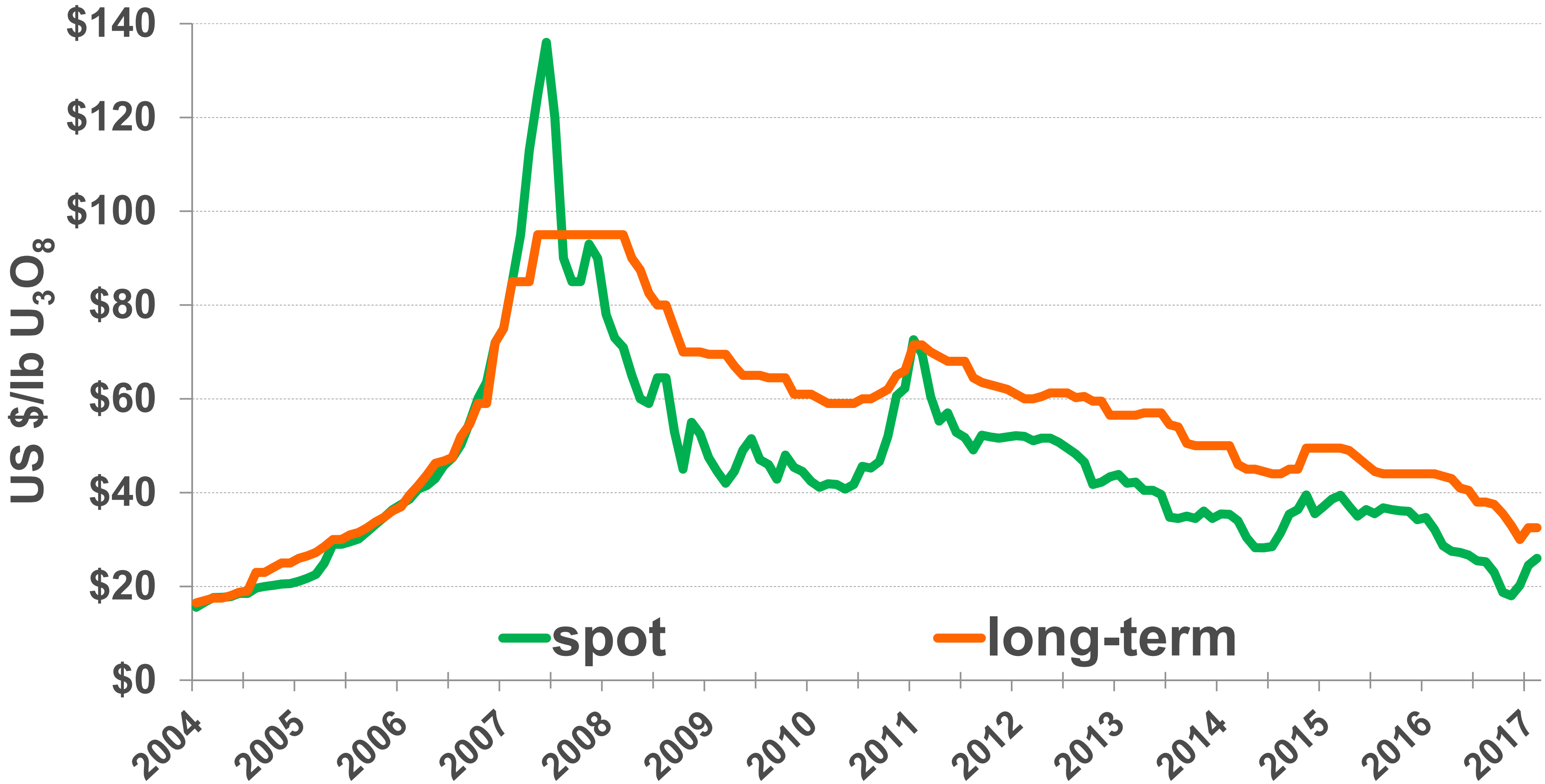
Cameco

Forward-Looking Information Caution

This presentation includes forward-looking information or forward-looking statements under Canadian and U.S. securities laws, which we refer to as forward-looking formation. Forward-looking information is based upon our current views, which can change significantly, and actual results and events may be significantly different from what we currently expect. Examples of forward-looking information include our financial objective, consolidated outlook for 2017, the expected impact of our cost-cutting measures in 2017 and our expectations for uranium deliveries in 2017. Material risks that could lead to different results include: unexpected changes in demand for uranium, our production, our costs, our mineral reserve estimates, and government regulations or policies; our estimates prove to be inaccurate; the risk of litigation or arbitration claims that have an adverse outcome; the risk that our contract counterparties may not satisfy their commitments; and the risk that our cost reduction strategies are unsuccessful, or have unanticipated consequences. In presenting the forward-looking information, we have made material assumptions which may prove incorrect about: uranium demand; our costs; our production; the accuracy of our mineral reserve and other estimates; the absence of new and adverse government regulations or policies; the successful outcome of any litigation or arbitration claims; our ability to complete contracts on the agreed-upon terms; and that our cost reduction strategies will successfully achieve their objectives. Please also review the discussion in our 2016 annual MD&A and our most recent annual information form of other material risks that could cause actual results to differ significantly from our current expectations, and other material assumptions we have made. Forward-looking information is designed to help you understand management’s current views of our near and longer term prospects, and it may not be appropriate for other purposes. We will not necessarily update this information unless we are required to by securities laws.

A Challenging Market

- Prices not rational or sustainable
- Future and existing supply at risk
- Dec. 2016 spot price – a 12-year low



Performance vs Outlook

	Consolidated		Uranium		Fuel services		NUKEM	
	Actual	Plan	Actual	Plan	Actual	Plan	Actual	Plan
Production			27.0 M lbs	25.8 M lbs	8.4 M kgU	8-9 M kgU		
Sales volume			31.5 M lbs	30-32 M lbs	↓7%	↓0-5%	7.1 M lbs	7-8 M lbs
Revenue*	↓12%	↓10-15%	↓8%	↓5-10%	↑1%	↑0-5%	↓29%	↓20-25%
Avg unit cost of sales			↑4%	↑0-5%	↑8%	↑5-10%		
Gross profit							(7)%	1-2%
Direct Admin	↑13%	↑10-15%						
Exploration			↑8%	↑15-20%				
Tax rate	>200% recovery	>200% recovery						
Capital Expenditures	$217 M	$245 M						

**Excludes revenue between segments*

All dollar amounts in Canadian dollars

Financial objective

- **Maximize cash flow while maintaining our investment grade rating**
- **Manage risks like:**
  - Lower for longer market conditions
  - Litigation risk related to CRA and TEPCO disputes
  - Refinancing risks

2017 Outlook

- Remaining cautiously optimistic on market

Expect:

- Uranium segment to contribute 84% total gross profit for year
- Uranium deliveries of 30 million to 32 million lbs
  - Contracted to deliver an average 24 million lbs/yr to end of 2021
- 2017 average realized price $49.00/lb[2,3]*
- Average unit cost of sales $36.00 to $38.00/lb
- Capital expenditures of $190 million

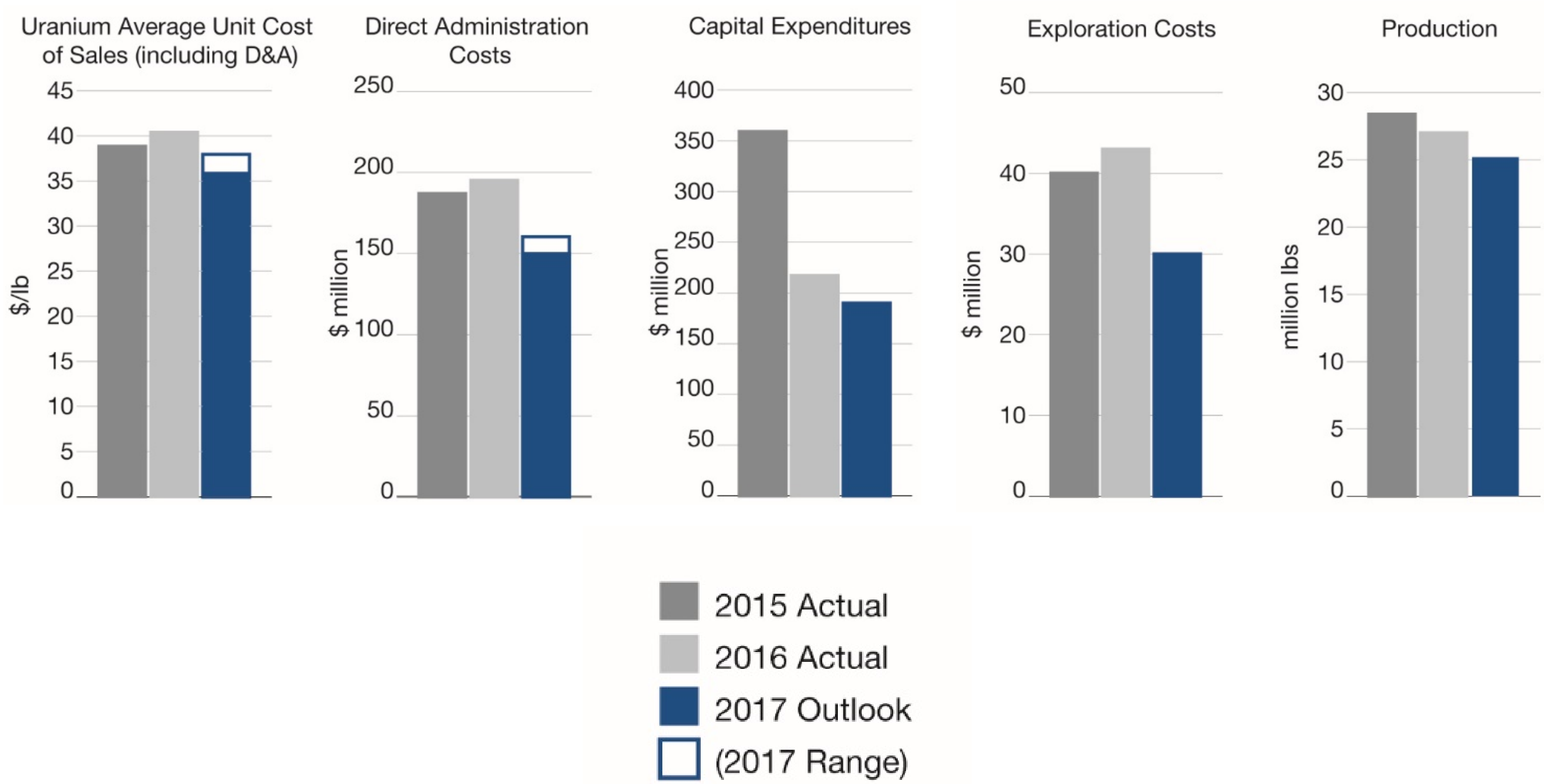
*Footnotes/assumptions provided at end of slide deck

Nuclear growth – 2016 reactor startups

Focusing on what we can control

- Streamlining and efficiencies
- Managing our production responsibly
- Controlling costs
- Protecting and extending value of contract portfolio
- Maintaining investment grade rating
- Positioning the company for future growth

Expected impact of cost-cutting measures



Changes to outlook table for 2017*

- Focus on uranium segment
- Removed percentage ranges

2017 FINANCIAL OUTLOOK	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_3O_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	-	-	-

*Footnotes/assumptions provided at end of slide deck

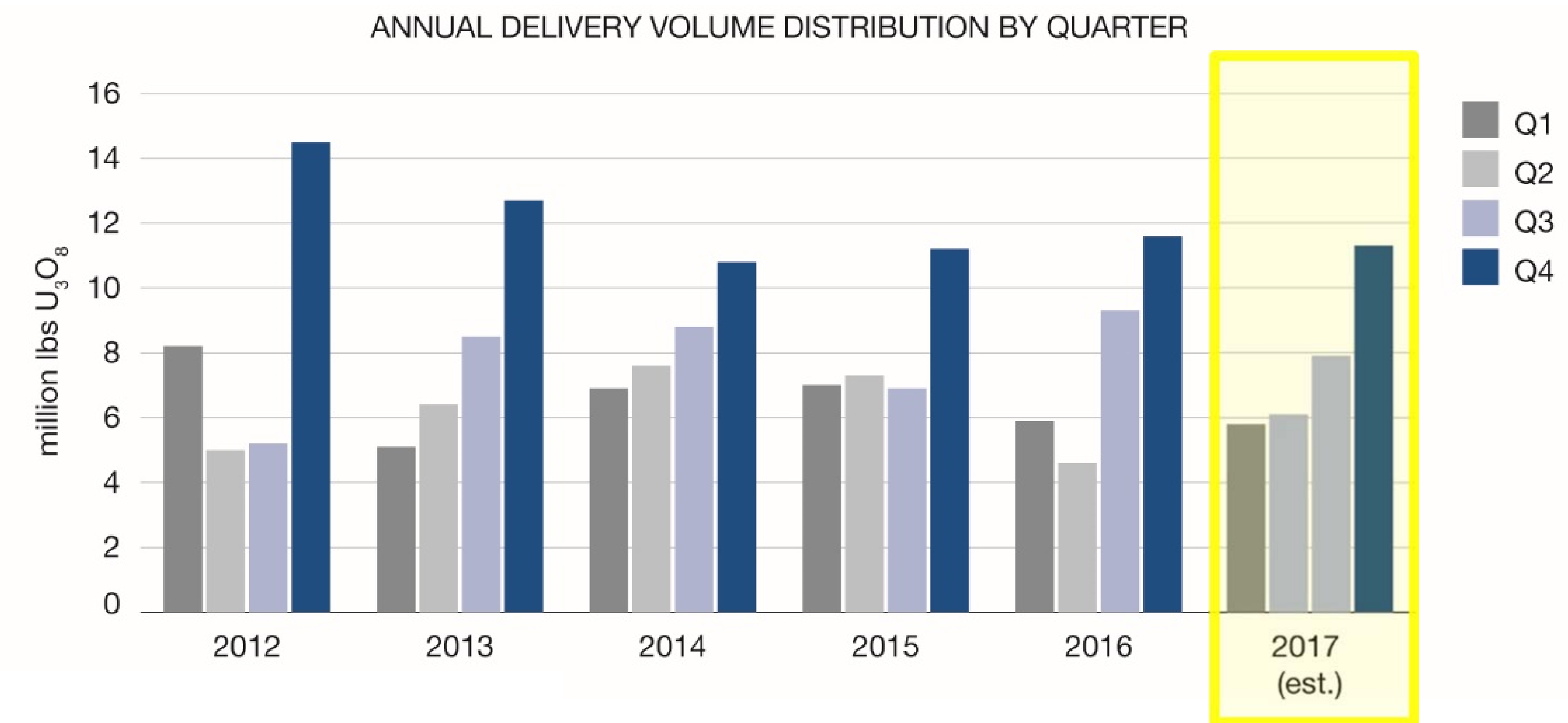
Changes to outlook table for 2017*

- Average realized price (based on assumptions)
- Eliminates one variable

2017 FINANCIAL OUTLOOK	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_3O_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	-	-	-

*Footnotes/assumptions provided at end of slide deck

Delivery distribution expectations



Changes to outlook table for 2017*

- Average unit cost of sales
- Dollar ranges

2017 FINANCIAL OUTLOOK	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_3O_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	-	-	-

*Footnotes/assumptions provided at end of slide deck

Changes to FX disclosure

- Net earnings impact vs. ANE impact explained
  - Breakdown of designations in portfolio
  - Average effective rate range on designated contracts – can estimate expected gain or loss on derivatives – ANE basis
  - Hedge ratio provided – can estimate remaining net exposure subject to changes in exchange rate

DECEMBER 31, 2016 ($ MILLIONS)		2017	2018	2019	AFTER 2019	TOTAL
US dollar forward contacts	($ millions)	403	290	50	-	743
Average contract rate [1]	(US/Cdn dollar)	1.31	1.31	1.31	-	1.31
US dollar option contacts	($ millions)	50	20	40	-	110
Average contract rate range[1]	(US/Cdn dollar)	1.30 to 1.35	1.29 to 1.34	1.28 to 1.35	-	1.29 to 1.35
Total US dollar hedge contracts	**($ millions)**	**453**	**310**	**90**	**-**	**853**
Effective Hedge Rate range[2]	**(US/Cdn dollar)**	**1.19 to 1.20**	**1.20 to 1.21**	**1.20 to 1.21**	**-**	**1.20 to 1.21**
Hedge ratio[3]		**50%**	**32%**	**11%**	**0%**	**21%**

[1] The average contract rate is the average of the rates stipulated in the outstanding contracts.

[2] The effective hedge rate is the exchange rate on the original hedge contract at the time it was established and designated for use. Therefore the effective hedge rate range shown reflects an average of contract exchange rates at the time of designation.

[3] Hedge ratio is calculated by dividing the amount (in foreign currency) of outstanding derivative contracts by estimated future net exposures.

Changes to outlook table for 2017*

- Expected loss on derivatives – ANE basis
- Based on new disclosure in FX section

2017 FINANCIAL OUTLOOK	CONSOLIDATED	URANIUM	FUEL SERVICES	NUKEM
EXPECTED CONTRIBUTION TO GROSS PROFIT	100%	84%	15%	1%
Production	-	25.2 million lbs	8 to 9 million kgU	-
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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	-	-	-

*Footnotes/assumptions provided at end of slide deck

Changes to outlook table for 2017*

- Tax recovery – ANE basis
  - Dollar range, reassess when tax rate more stable

2017 FINANCIAL OUTLOOK	CONSOLIDATED	URANIUM	FUEL SERVICES	NUKEM
EXPECTED CONTRIBUTION TO GROSS PROFIT	100%	84%	15%	1%
Production	-	25.2 million lbs	8 to 9 million kgU	-
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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	-	-	-

*Footnotes/assumptions provided at end of slide deck

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*Footnotes/assumptions pertaining to outlook table slides

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