Cameco Corporation

2018 First Quarter Results Conference Call Transcript

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Presenter:

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Cameco

OPERATOR:

Thank you for standing by. This is the conference Operator. Welcome to the Cameco Corporation First Quarter 2018 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.

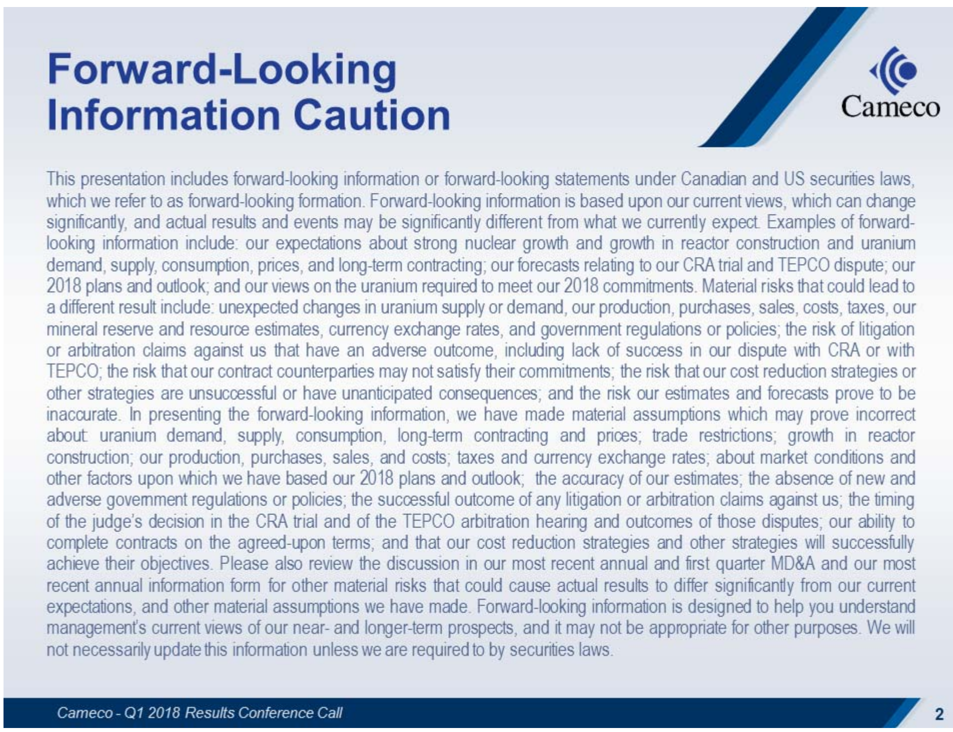
I would now like to turn the conference over to Rachelle Girard, Vice President of Investor Relations. Please go ahead, Ms. Girard.

RACHELLE GIRARD:

Thank you, Operator, and good day, everyone. Thanks for joining us. Welcome to Cameco's conference call to discuss our first quarter financial results. With us today on the call are Tim Gitzel, President and CEO; Grant Isaac, Senior Vice President and CFO; Brian Reilly, 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. After that, we'll 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.



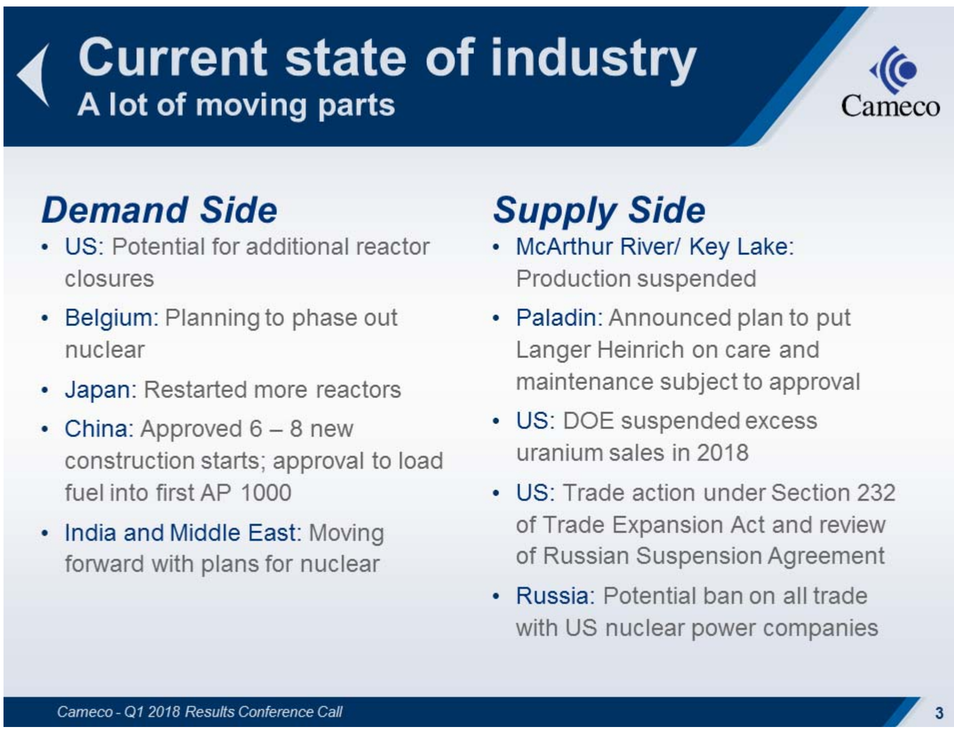
Please note that this conference call will include forward-looking information, which is based on a number of assumptions, and actual results could differ materially. Please refer to our Annual Information Form and MD&A for more information about the factors that could cause these different results and the assumptions we have made.

With that, I will turn it over to Tim.

TIM GITZEL:

Well, thank you, Rachelle, and welcome to everyone on the call today. We appreciate you taking the time to join us to discuss Cameco's first quarter results.

I'm going to start by saying that we remain cautiously more optimistic than we were a year ago. I want to spend the next few minutes providing a brief update on the current state of our industry and the drivers of both our caution and our optimism. I'll then talk about our first quarter results and just how Cameco is navigating through these challenging times we continue to experience.

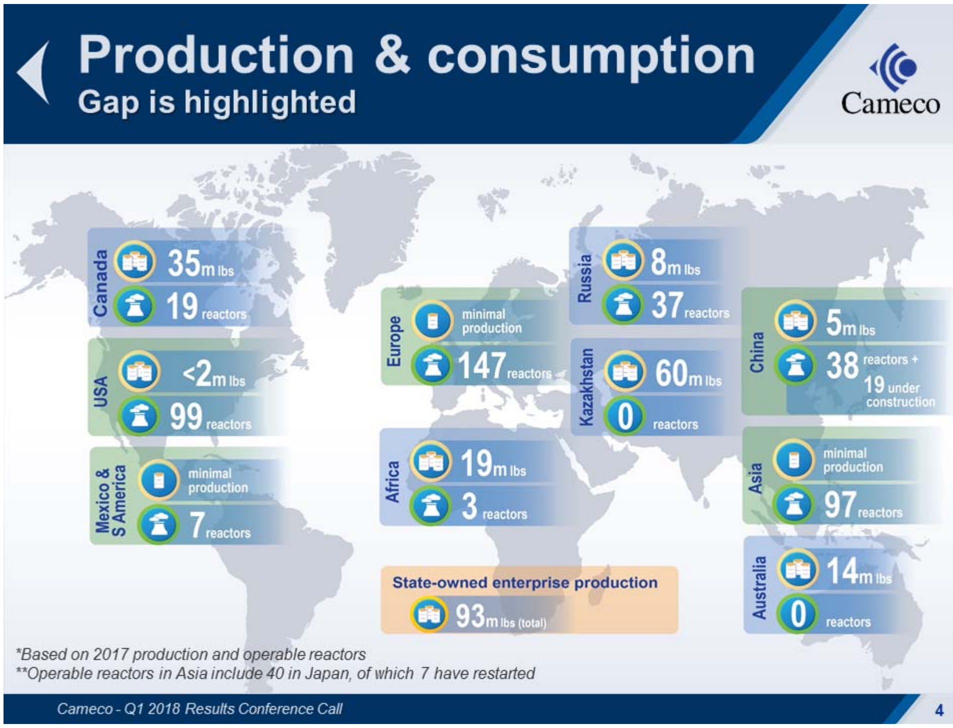


On the demand side of our business, since the beginning of the year, there have been several negative announcements, including in Belgium, where that country has announced its plan to phase out nuclear by 2025. There has also been some negative news recently in the U.S., where additional reactor closures have been announced. This news was offset by more positive news in Japan, where we've seen more reactors starting up. There are now seven reactors that have restarted and another two or three that could potentially restart this year.

Also on the good news front, China recently announced that it had approved the start of construction on another six to eight units this year, adding to the 19 units already under construction in that country. In addition, the Chinese regulator just approved fuel loading at the first Westinghouse AP 1000 nuclear power plant. This is very positive and we think it'll help clear the path for even more new build projects in that country; and India and the Middle East continue to move forward with plans for the construction of more reactors, including Saudi Arabia, where Grant just returned from, which is moving forward with plans for 16 reactors by 2030.

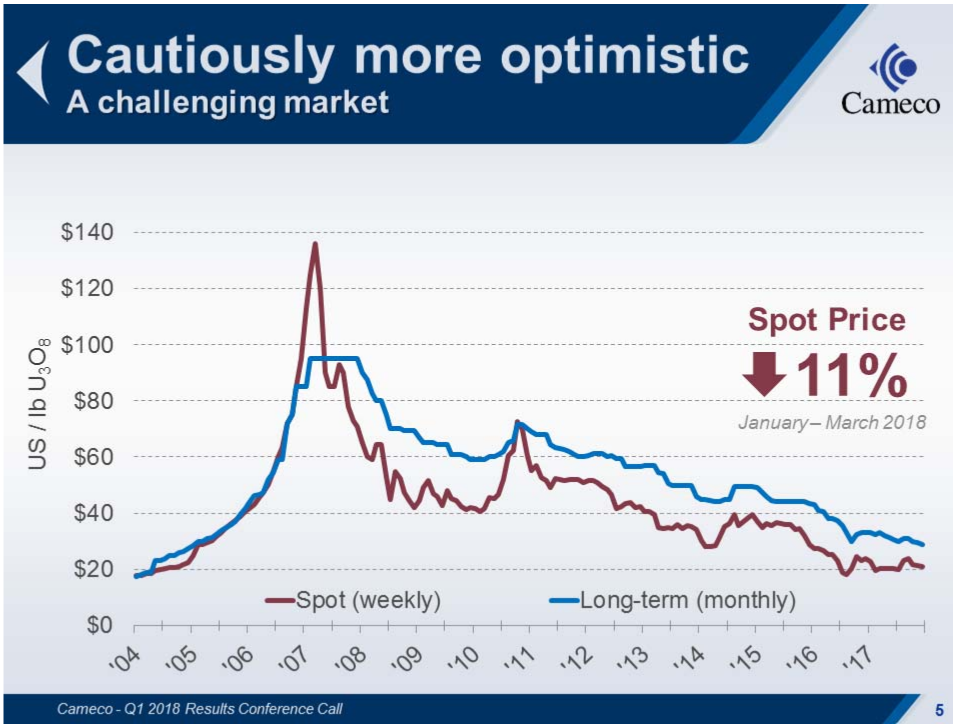
On the supply side, we safely suspended production at our McArthur River/Key Lake operation in February, and including our annual share of the production, 18 million pounds of uranium have been removed from the market this year. Just yesterday, Paladin announced that, subject to approval, it is planning to put its Langer Heinrich mine on care and maintenance and cease all production later this year.

In addition to these supply developments, the U.S. Department of Energy suspended its excess uranium sales for the remainder of 2018, removing another estimated 1.6 million pounds from the market this year, with the possibility for an extension of this suspension. The market is also trying to digest the implications of what is perhaps best described as unprecedented noise in the political economy, things like the possible U.S. trade action under Section 232 of the Trade Expansion Act, the review of the Russian suspension agreement and the potential Russian ban on trade of nuclear fuel products with U.S. utilities. This noise, as we call it, really serves to highlight the gap that exists between where uranium is produced and where it is consumed, so what do I mean by that and why does it matter?

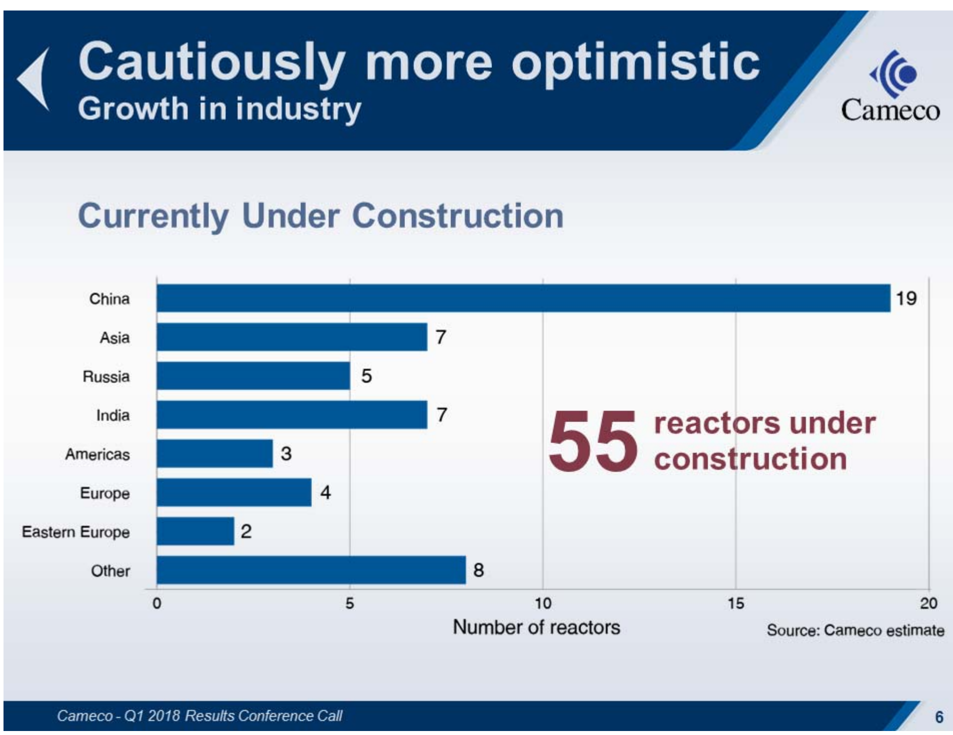


If you look around the world and where uranium's produced, you will notice that almost 90% of mined production comes from countries that consume little or no uranium. The other side of that coin is, of course, that 90% of the uranium consumption is in countries which have little or no mine production. Furthermore, about 60% of primary supply comes from suppliers that are state-owned entities who may not be obligated to make supply decisions driven by the economic goal of creating long-term shareholder value.

For the most part, this means supply from these entities has continued to come to the market even though it does not make economic sense, but as we have recently seen, that lack of rational economic behavior cuts both ways. In other words, we have now seen that other drivers such as geopolitics may make the availability of supply where it is needed much less predictable; therefore, in light of the potential trade distortions that could occur, things like this origin disconnect really highlight for me why our market tends to be driven by sentiment rather than purely fundamentals, and I think we're now seeing from a security of supply perspective, origin matters, both geographically and politically. As I said earlier, we remain cautiously more optimistic than a year ago.



The uranium price still starts with a two, which, as I've said before, is both the source of our caution and of our optimism. Let me explain that one. Although demand estimates have come down and the market is at a standstill, there is still growth in our industry, significant growth.



Today, there are 55 reactors under construction, the majority of which will be online over the next several years, and 14 of which are expected to start this year. Of course, growth in reactor construction will translate to increased uranium demand, which will require new production going forward, and we really should be thinking about that now.

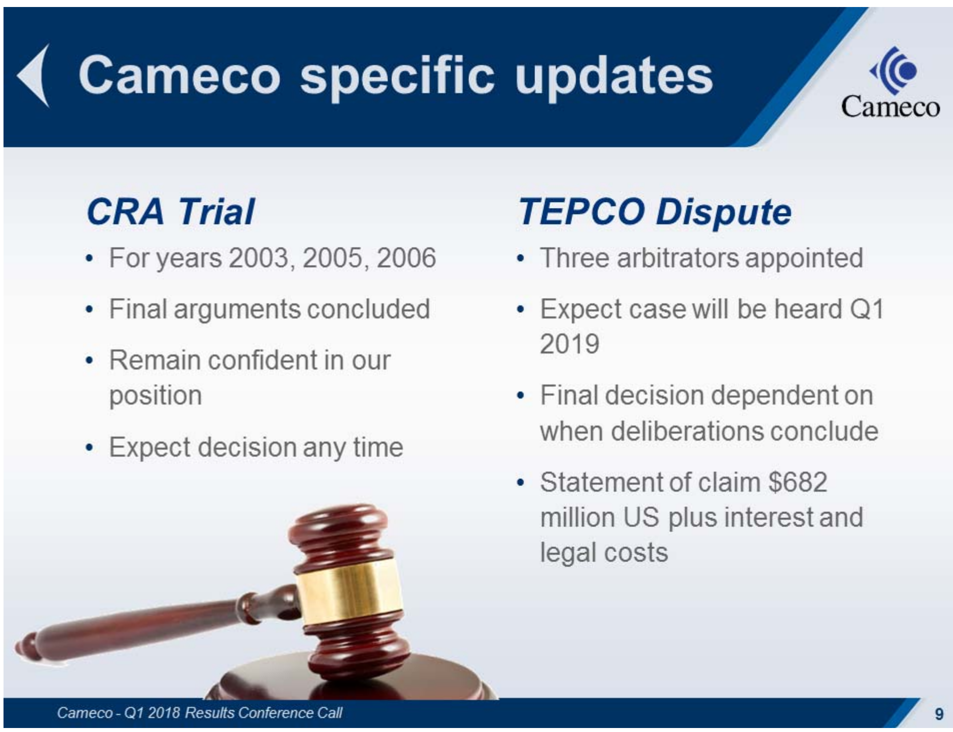
Unfortunately, prices that start with a two are still nowhere near, not even close to the levels needed, as we are increasingly seeing, to sustain existing production, let alone encourage investment in future supply, supply that we know will be needed to support reactor construction programs, support the return of idle reactors to the grid and fill utilities' uncovered requirements.

We also know that many higher cost producers who have been protected from low market prices under long-term contracts are beginning to emerge from that protection. Some are cutting production and others have been recapitalized or have been forced to seek protection from creditors. In fact, even the lowest cost producers like us are deciding to preserve long-term value by suspending production and leaving uranium in the ground; and with the queue now filled with plenty of idle production capacity and shelved the Brownfield projects, the argument for new Greenfield investment is made even more difficult, pushing its prospects even further into the future.

Looking back, if you total our production cuts since 2015, we alone have removed more than 19 million pounds of production from the market, and when you consider some of the other supply developments tied to the weak market conditions, including our partner share of McArthur River/Key Lake production, it totals about 40 million pounds. Looking forward, I can identify several mines that are reaching the end of their reserve life or that will be facing tough economics when coverage under existing contracts expires. Even Cigar Lake that we just ramped up to full production runs out of reserves in 2027. In development terms, that is tomorrow, and with the new environmental regulation and impact assessment legislation, we do not expect the development process to get any easier or any faster. That means that, given the time it takes to permit, construct and ramp up a mine, we should be investing today. However, in this market, we are not spending one dime on growth.

We also know that utilities' annual uncovered uranium requirements are growing, so I can tell you something has to change. We can't continue in this manner and expect production to be there when it's needed. When utilities stop and think about it, things like planned reductions and unplanned risk to existing production, the lack of investment in future supply, the disconnect I talked about earlier between where uranium is produced and where it is used and the role of state-owned enterprises in our industry, utilities should start to get nervous, and this should, we believe, at some point, shift sentiment and increase the interest in long-term contracting at prices that are supportive of a healthy and commercially motivated supply of uranium.

Then there's the really big picture for nuclear. Many of the countries that are installing nuclear capacity today are countries where massive segments of the population have little or no access to electricity and are demanding more, and those populations are growing. I'm talking about places like China, India and those in the Middle East where what is needed is large-scale base load electricity, that 24-hour power that makes things like healthcare, education, communication and transportation systems possible, and when countries consider their options for clean base load, nuclear electricity looks pretty attractive. It's an option that can provide the power they need, not only reliably but also safely and affordably and in a way that avoids emitting greenhouse gases and avoids adding to the air pollution that plagues so many countries with developing economies.



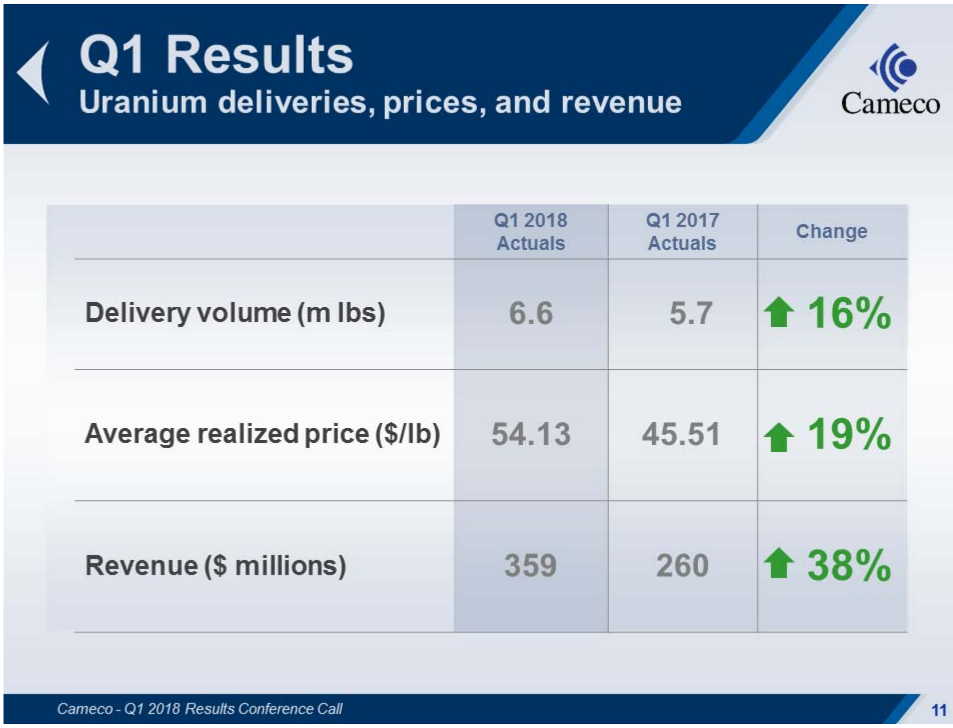
I'm now going to briefly touch on some of the Cameco-specific items that we know you're all watching closely, those being our legal disputes. I'll start by saying that there's really not a lot to update. It's a bit of a waiting game on the legal front. Starting with our CRA dispute, you will see from our MD&A that we did receive a reassessment for the 2012 tax year and have secured 50% of the amount owing, $57 million, with letters of credit. We are now more than seven months' post trial, so the decision in our case for the tax years 2003, 2005 and 2006 could come any time now. In fact, we get up every morning and look at our phones to see if there's any news from the federal tax court. While we continue to look forward to a favourable ruling for

Cameco, the judge's decision is unlikely to be the final chapter in this dispute and it only impacts three years. The reality is that nothing may change for some time. As we laid out previously, both parties have 30 days from the date of the decision to file an appeal to the Federal Court of Appeal, and we anticipate it would take the Federal Court of Appeal about two years then to reach a decision.

On our TEPCO dispute, which is really only upside for us, we are working our way through the pre-hearing process, with the hearing planned for the first quarter of 2019. At stake are damages of US$682 million, plus interest and legal costs, obviously not insignificant.

I also want to remind you of what we've been doing inside the Company over the past few years. We've undertaken a number of disciplined actions, which are part of a very deliberate strategy to strengthen the Company in the long term. We have suspended production at Rabbit Lake, ceased production at our U.S. operations, significantly reduced the workforce across all our sites, changed our air services in Saskatchewan, changed work schedules, downsized corporate office functions, including the consolidation of our global marketing activities, reduced our dividend and, of course, in February, we suspended production at our flagship operation, McArthur River/Key Lake.

I know many of you are wondering what our plans are for McArthur River and Key Lake later this year. I would just tell you that, as of today, we have made no decisions regarding the timing of a restart. This is a matter that will be reviewed with our Board and with our partner in the days to come. Right now, the sites are in safe shutdown and will remain so until a decision is made.



	Q1 2018 Actuals	Q1 2017 Actuals	Change
Delivery volume (m lbs)	6.6	5.7	↑ 16%
Average realized price ($/lb)	54.13	45.51	↑ 19%
Revenue ($ millions)	359	260	↑ 38%

Turning to our own performance now, our quarterly results continue to reflect the impact of decisions we have made with production, admin costs and exploration costs, all down from this time last year. In our uranium segment, we delivered 6.6 million pounds in the quarter at an average realized price of CA$54.13 per pound. Deliveries and the average realized price were 16% and 19% higher than Q1 last year, resulting in revenue for the quarter being 38% higher than a year ago. These increases were largely driven by a contract optimization opportunity we took advantage of during the quarter, which accelerated the delivery of future contracted volumes into the first quarter. You will notice these types of activities also impact our realized price sensitivity table, particularly in the outer years, increasing our market exposure. We like to take advantage of these opportunities. In the context of our overall contract portfolio, they are small and we only undertake them when they are net present value positive. They bring cash flow forward, converting uncertain future value to present value, providing us with more certainty and capacity to self manage risk. We don’t mind the increased exposure to the market it creates in the outer years. It provides us with added flexibility in determining how best to utilize our production, inventory and purchase levers. We also think it positions us well to take advantage of future opportunities. Opportunities that we think will arise at a time when we believe the market will need to transition to ensure a steady reliable supply of uranium to fuel the growth in our industry. Also keep in mind the table is reported to the nearest dollar. That means, in some cases, a change measured in cents can move the reported sensitivity up or down by a dollar. We still expect the deliveries in the second half to be heavier than in the first half of the year, in particular the fourth quarter.

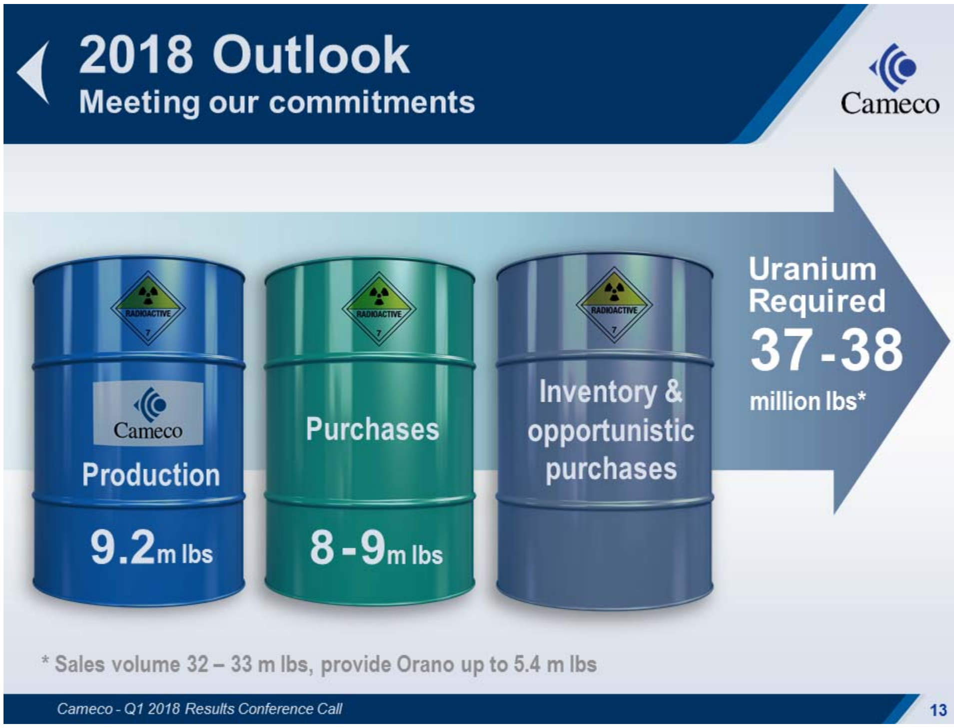
From a cash perspective, cash from operations was $283 million higher in the first quarter, driven by larger delivery volumes, higher realized prices, lower production and the resulting drawdown of inventory. We continue to expect to generate significant cash this year as we drawdown our inventory, and, based on our current outlook and assuming uranium prices remain stable at current rates and an exchange rate of CA$1.25 for US$1.00, we expect 2018 cash flow to be similar to 2017.

On the cost side as we expected, average unit cost of sales, including D&A in our uranium segment, was up 12% over the same period last year. This increase is expected to be temporary, and as we had noted when we made the announcement, the increase is largely driven by the care and maintenance costs incurred at McArthur River and Key Lake while production is suspended.

Our cash costs of production were also up compared to a year ago, and that is largely the result of two things. The first and probably the biggest driver of the increase was the lower production in the quarter from McArthur River/Key Lake as the operations moved into care and maintenance. This impact is really isolated to Q1. The other item is the switch to equity accounting for our interest in JV Inkai, which removes its low production costs from the mix. Remember, the benefit of the estimated CA$10 per pound life of mine operating costs are expected to be reflected in the line item on our statement of earnings called share of earnings from equity accounted investee. Grant provided an overview of the mechanics of equity accounting on our Q4 call, and the transcript is available for review if you are interested in a refresher. The result is that, while McArthur River and Key Lake are shut down, our cash cost of production is expected to reflect Cigar Lake's estimated CA$15 per pound life of mine operating cost.

Direct administration costs were down about 17% compared to this time last year, and exploration costs were down 20% as a result of the cost reductions and restructuring activities we have undertaken. With the restructuring of our joint venture Inkai and corresponding change in ownership, we recognized a $49 million gain in the quarter. Since we don't believe this gain reflects the underlying financial performance of the Company from period to period, we adjusted for it to arrive at our first quarter adjusted net earnings.

On the operational front, as expected, our production is down significantly from last year at this time, reflecting our decision to suspend production at McArthur River/Key Lake and the switch to equity accounting for our interest in Inkai. Our financial outlook remains largely unchanged from what we disclosed in our 2017 annual and fourth quarter MD&A.



In our uranium segment, we still expect to produce about 9 million pounds of uranium and to purchase 8 million to 9 million pounds, which includes the pounds we expect to purchase from Inkai. We expect to deliver between 32 million and 33 million pounds of uranium at an average realized price of CA$46.30 per pound. In addition, you will see in our MD&A that as a result of the suspension of production at McArthur River and Key Lake, we have agreed to provide our partners at Orano 5.4 million pounds of uranium this year. Therefore, to fulfill our delivery commitments and to meet our obligation to Orano, we will need between 37 million and 38 million pounds of uranium this year.

To obtain that uranium, we have three levers we can pull: production, inventory and purchases. You can see our production and purchases are expected to cover 17 million to 18 million pounds. After that, we will have to source somewhere between 19 million and 22 million pounds of uranium for this year alone. That is a lot of uranium. While our plan is to draw down our inventory in 2018, our excess inventory will not be enough. As a result, you can expect us to be active buyers in the spot market when it makes sense for us to do so.

This activity may mean we give up some margin at times. Our goal is to responsibly manage our supply. We believe this will provide us with the flexibility and opportunities we need to meet our delivery commitments. It will help preserve the value of our Tier 1 assets and protect and extend the value of our contract portfolio on terms that recognized the value of our assets and are consistent with our marketing strategy. This means that any new contracts we sign must provide adequate protection when prices go down and allow us to benefit when prices rise. Rather than be victimized by a weak uranium market, we will take advantage of the opportunities it presents for us to ensure we meet our delivery commitments and for the benefit of our owners.

Our financial objective continues to focus on maximizing cash flow, while maintaining our investment grade rating so we can self manage risk, risks like a market that remains lower for longer, litigation risk related to our CRA and TEPCO disputes and refinancing risk. Today, Cameco remains a solid company financially, generating strong cash flows. Experience has taught us that success in our business requires patience and discipline. Our decisions are deliberate, driven by the goal of increasing long-term shareholder value.

We can't control the timing of a market recovery, but we are taking action on the things we can control. We are focused on our Tier 1 strategy and preserving the value of the assets in our portfolio that are the lowest cost and provide us with the most value. We are restructuring our organization to be as efficient as possible and to reflect the scope of our current operations. We are responsibly managing our production inventory and purchases, protecting and extending the value of our contract portfolio and maximizing cash flow, while maintaining our investment-grade rating. Ultimately, our goal is to remain competitive and position the Company to maintain exposure to the rewards that will come from having uncommitted low-cost supply to deliver into a strengthening market.

Thanks again for joining us today, and with that, we would be pleased to take your questions.

OPERATOR:

Thank you. We will now begin the question-and-answer session. In the interest of time, we ask you 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 participants 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 by email after the call. Once again, anyone on the conference call who wishes to ask questions may press star, then one now.

Our first question comes from Greg Barnes of TD Securities.

GREG BARNES:

Tim, I just want to understand this Orano agreement that you've reached to supply the uranium concentrate, understand why you had to do that and potential for that to be extended.

TIM GITZEL:

Hi, Greg. Nice to hear from you. Of course, McArthur is co-owned by both Cameco, 70%, and our friends at Orano, 30%, so their share is about 5 million and little over 5 million pounds, and so when we together took the decision to take down production at McArthur and Key, they asked if we could lend them some of our inventory. They obviously have a sales portfolio like we do, and we agreed to do that, so it equates to their—pretty much their share of production from McArthur for the year.

GREG BARNES:

Okay, and what about the potential to extend it beyond this year?

TIM GITZEL:

Well, today, our announcement back in November was to take down McArthur for 10 months. We haven't changed off of that and so that's what that was based on, so I guess we'll see, going forward, but right now, there's no discussions to extend.

GREG BARNES:

The follow-up question, just on your uranium balance, when I look at production purchases, plus the 21 million pounds you have in inventory, that effectively matches your required uranium deliveries, I guess, this year. What kind of inventory level do you want to maintain?

TIM GITZEL:

Well, I think actually, we were a little light for the year given that agreement we have with Orano, so we're going to have to get out to the market at some point. Our policy has been, over the last many, many years, to have kind of six months' forward sales in inventory, and so we'll see whether we maintain that, but it'll certainly have to be just for logistical purposes, something like that. Don't be surprised to see us holding 13 million, 14 million pounds in inventory at any given time, just because we need it located around the globe to fill our contracts.

GREG BARNES:

Okay, great. Thank you.

TIM GITZEL:

Yes, thanks.

OPERATOR:

Our next question comes from Andrew Wong of RBC Capital Markets.

ANDREW WONG:

Hi, good morning. Just going back to the Orano agreement, is there any payment that's associated with that lending agreement or — I understand that it helps them with their shipments, but obviously, it means you have to drawdown your inventories faster which means you might have to go and purchase product, and from a cash flow perspective, it's a little bit less favourable than using your own inventory.

TIM GITZEL:

Yes. You know what, Orano's a good partner of ours, has been for many, many years, and that's just a back and forth agreement we have with them. You're right. We, Cameco for sure – I can't speak for Orano – but again, I have to go to the market to source some pounds this year and going forward, so that's part of it. But between us, it's just a back and forth agreement.

ANDREW WONG:

Okay, so it builds some goodwill between you guys. I guess my other question would be just, with the spot market today at roughly $20 per pound, is now the right time for Cameco to step into the market? I know you said you might need that sometime this year, but the price looks like it's right now. Is there maybe just no product available that you can source at $20 per pound, or maybe just some thoughts around that? Thanks.

TIM GITZEL:

Yes. Well, we're, as we have always said, we're always in and out of the market. You can probably see by our financials that we've used up some inventory between the end of last year and where we are today. But absolutely, we'll be in the market, $20 pounds in the market, we've said before, are cheaper to buy than produce, and so that is part of what we've been doing and part of the reason we took the major decision, and not an easy decision, to suspend production at McArthur and Key. Yes, you'll see us in the market for sure.

ANDREW WONG:

Okay. Thank you.

TIM GITZEL:

Thank you.

OPERATOR:

Our next question comes from Fai Lee of Odlum Brown.

FAI LEE:

Hi, it's Fai here from Odlum Brown. I'm just wondering about the tax years of 2007, 2008. Would you go to trial before all the appeal process is done on the 2003, 2005 and 2006 years, or would it just be on hold until that's settled?

TIM GITZEL:

Fai, I'm going to just ask Sean Quinn to answer that one.

SEAN QUINN:

Sure. Yes, it's likely that those years will be put on hold pending the final resolution of the years that are currently before the court, so I don't expect anything be done with those years until we get a current decision and then whatever happens on the appeal process.

FAI LEE:

Would you anticipate that—let's say this goes all the way to the Supreme Court and you get a final decision one way or the other, would that ultimately—would there even be a need to go to court for the remaining years, or it just be settled at that point?

SEAN QUINN:

It'll depend on what that decision says. It's not necessarily binding on those subsequent years, but it'll clearly have some bearing on our view though, what to do with those years.

FAI LEE:

Okay. Now, when you say that, is there a chance that you have different arguments if you were to go back to trial for those years if you get a negative decision, or how would that work?

SEAN QUINN:

Potentially. It's hard to speculate. We'll have to see what the decision for the years in question says, see if it's appealed, see what the appeal decisions say and then see how they apply to the future years, so.

FAI LEE:

Okay. All right, thanks.

TIM GITZEL:

Thank, Fai.

OPERATOR:

Our next question comes from Orest Wowkodaw of Scotiabank.

OREST WOWKODAW:

Hi, good morning. I was hoping you'd give us a bit of colour on—start with the criteria with respect to how you're thinking about keeping McArthur down or restarting it, and I'm curious whether it's a certain price point on uranium or what other metrics that's going to drive that decision. Also, given I guess the restart timeline, when we could expect a decision based on the current shutdown and whether that would be extended or not?

TIM GITZEL:

Hi, Orest. Thanks for the question. I'd just caution everybody, we've only been down for three months here so far, and we were able to take the sites down safely and our people, of course, are on the sub-plan that we put in place for them. Obviously, we're watching the market, see what happens. So far, not much of response I would say. You're talking $20 spot price still, no change, if not a slight decrease in the term price. I would just say, as I just said in my comments, that no decision has been taken yet on the restart, something we discuss continuously with our good partner, Orano, and with our Board. Today, we can still buy pounds at $20, which is less than we can produce them, and so we have some time here to decide. I think probably sometime before the fall, we'll have to take a decision as to what we're doing, but for now, we're just in warm standby. The site is safe and we're just continuing to evaluate the market every day.

OREST WOWKODAW:

Are you getting any kind of response from customers in terms of interest level to start re-contracting?

TIM GITZEL:

I'll tell you, it's really an interesting time with customers here in North America. I just came back from Spain and a big world nuclear fuel conference. It's a lot of confusion out there, I would say, just because there's a lot of moving parts. I know we've talked about that in the past, but moving parts, you've got the U.S. situation with that 232 trade expansion action that's going on. Nobody quite knows where that's going. Most people would say, "Well, that doesn't have a hope until you look at what they did with steel and aluminum," and it did have a hope. You've got the Russian suspension agreement being looked at in the U.S., you got the Russian Duma threatening to stop trade of nuclear products into the U.S., you've got our suspension. I think you heard from Paladin yesterday as to what they're thinking; DOE barters are out the window for the time being.

Just lots of moving parts, lots of noise and you see—we were talking this morning; you just see the effect on the term market. I don't think there's been hardly any product moved on the term market; like 10 million pounds in the first quarter, which is just really nothing. Yes, we're talking with our customers all the time. They're trying to understand. We've got our marketing team out there, and I know they were very busy in the Spain meeting with all of the different customers from around the world, trying to figure out this market and just where it's going.

OREST WOWKODAW:

Is it—are you finding is it more of an issue of the price, or just the need for material?

TIM GITZEL:

Well, I'll tell you what, what's really coming to light these days is this disconnect that we talked about between where uranium is produced and where it's needed, which is seems to be a subject of some considerable discussion that—and I know it's been like that, but when you see these trade cases start to come forward, then you start to say, "Well, can the markets that need uranium get it and get it on time?" That's a big piece that everyone's trying to understand right now. Obviously, the supply demand fundamentals, you can count the pounds. There seems to be lots of inventory. Well, I can tell you, I've been doing this for almost 40 years; there's always been lots of inventory. It's where it is and is it available and what's the thinking going forward, is there going to be enough pounds, are there going to be enough pounds going forward in the right place?

I think all of that is under discussion and contemplation at the moment, so it's a really—and then I mean, you could throw in our Cameco-specific issues, of which we have a few, the old CRA case, seven and a half months now post trial and we're waiting and watching for a decision to come out on that. Our TEPCO piece, so we're going to be in front of the arbitration panel in about nine months, Sean, on that one. That's a big ticket item. Lots of moving parts, I would say, in the industry and in the space and we're trying to figure them out just like everyone else.

OREST WOWKODAW:

Okay. Thanks very much.

TIM GITZEL:

Thank you.

OPERATOR:

Our next question comes from Oscar Cabrera of CIBC.

OSCAR CABRERA:

Thank you, Operator, and I guess it is good morning, everyone. Tim, I was interested in your comment on your opening remarks with regards to sovereign entities that are producing uranium, and this relates to the being a little bit more judicious when they overproduce. Have you seen anything out of Kazakhstan that would suggest they are not going to follow their cutbacks in production?

TIM GITZEL:

No, haven't seen anything in that regard, and had an opportunity to speak with our Kazakh partners last week, and they're still holding to their position that came out. And I think that Mr. Pirmatov clarified for everyone in December that they're back 20% from the amounts that are in people's subsurface use agreements, which equates to about 23,000 ton per year, or 59 million pounds, for 2018, 2019 and 2020, and so some took that as not great news. I can tell you, if they indeed hold to those levels, I think that is good news, and so we're watching that. To add to the moving parts thesis, just in Kazakhstan, we're watching this IPO that I know Kazatomprom has been instructed by the President to move forward on that, IPOing a portion of the company this year, and so that will be really interesting for everyone. Then we're hearing some noise about a uranium fund that they could be working on to sequester some uranium in a fund, and so we've heard that from different parties. There's some moving parts there too that'll be interesting and that are absolutely relevant to where this market ends up.

OSCAR CABRERA:

Yes, it's interesting, Tim. Then as we are thinking about Inkai and the potential increasing production, the technical report indicates production of 10.4 million pounds by 2020. Do you think in the current environment that's realistic, or should we be looking at getting at that peak production later in the decade?

TIM GITZEL:

Yes, that's a good question, and probably the answer is what you just said, Oscar. I mean, we've been working on this expansion for some time and there's production volumes that are set out in our resource use contract agreement, like for everyone else, so when you see our numbers and in our tech report, we just follow those numbers. But I can tell you budgets are set on a year-by-year basis in discussion with our partner, and the discussion this year was it's not going to be what's in the resource use contract. It's going to be that minus 20%, and that's what we're following. I wouldn't be shocked to see the same discussion held next year when we're setting budgets, so yes, we're preparing for that.

OSCAR CABRERA:

Oh, great. Thank you.

TIM GITZEL:

Thank you.

OPERATOR:

Our next question comes from Jim Ostroff of Platts.

JIM OSTROFF:

Yes, good morning, or good afternoon and thank you, Tim. Because it's important, I would appreciate if you can walk us through, there's an outlook here for this year production purchases and uranium required, run through this rather quickly.

TIM GITZEL:

Yes, Jim, thanks for the question, yes. This year, we have—and it's all in our disclosure documents.

JIM OSTROFF:

Right, okay.

TIM GITZEL:

Obviously is, we have sales commitments, pounds sold, 32 million to 33 million pounds for this year. We just discussed the Orano deal we have, where we're going to send 5.4 million pounds their way, so that leads us to having to come up with, somehow, 37 million to 38 million pounds. How we are going to do that? Well, we have production from Cigar Lake, which is going very well with our partners there, about 9 million pounds from there. We have purchase commitments, including our share of JV Inkai, so about 8 million to 9 million total there. That's about 3 million pound, so if you add the…

JIM OSTROFF:

(Inaudible) your said your share of Inkai is (inaudible) and the Cameco share is—

TIM GITZEL:

I think it's just over 3 million pounds.

JIM OSTROFF:

Oh, thank you. Okay, thank you. Yes, and…

TIM GITZEL:

If you do 37 million or 38 million minus 17 million, so we got to come up with somewhere in that 20-million-pound range. Now, we have the three levers, of course, that we talk about. We have our production lever; we talked about that. We have purchasing capability. We're in a strong cash position if we need to go out and make some purchases. Then, of course, we have our core inventory, which we've been drawing down in Q1. You've seen that come down. I think our inventory at the end of Q1 is in the 21-million-pound range. That will never go to zero, I promise you that. It will stay in the 13 million to 14-million-pound range. Yes, we're going to have to source some pounds for the next months.

JIM OSTROFF:

(Inaudible). Is there—I would say here, is there any public guidance you can offer as to a range, you might say, where Cameco is likely to have to purchase X to Y million pounds?

TIM GITZEL:

No, we don't have that, Jim, no.

JIM OSTROFF:

Okay, I got that. Let me do one quick follow-up here, just to come back to this again. We talked about the issue now at (inaudible) McArthur that the price still has a two on it. If the price remains in the 20s come even early fall, how does that inform Cameco's decision and the partner's decision on McArthur?

TIM GITZEL:
Well, it's certainly one of the factors we would absolutely take into consideration. Jim, we're watching the market very closely.

JIM OSTROFF:
Okay. Thank you.

TIM GITZEL:
Thank you very much.

OPERATOR:
Our next question comes from Graham Tanaka of Tanaka Capital Management.

GRAHAM TANAKA:
Yes, thank you. Just wondering if you could extend that last discussion, it was very helpful, for 2019 and 2020. What kind of contract commitments do you have for those two years in volume? Maybe if you could just sort of help us out with what you think some of the other producers' long-term contract runway is in terms of expirations? Thanks.

TIM GITZEL:
Yes. Thanks, Graham. I can't give you specifics on those years, but I can tell you what we disclosed is that we have average annual sales of 22 million pounds per year over the next five years, and so that we have in place. I am sure our competitors, at least some of them, might have a similar portfolio. We know that some don't and are having to try and live off the spot market, which isn't easy. Yes, we'll see how that goes going forward.

GRAHAM TANAKA:
What is your understanding of what Kazakhstan and Kazatomprom might have in terms of contracts and their—in the out years? Thanks.

TIM GITZEL:

Yes, thanks. Again, we don't have a view on that. That is something you could probably ask Galym Pirmatov or someone there, but we don't have a view on what their contract portfolio looks like.

GRAHAM TANAKA:

Then, in the scenario—hopefully it'll never get to this, but if the Russian Duma does have some sort of a shutdown or restriction, what would be the kind of scenario that you might see in terms of how long there might be response in the markets, either in contract or spot? Thanks.

TIM GITZEL:

Just don't know. It's just one of those moving parts, again, that we don't know what the effect would be. I mean, I can remember back in, boy, it might be the '80s, late '80s, early '90s when there was not the Russians restricting the materials; the Americans restricting the Russian material that could come in and putting limits on that, and we actually had a two-tier pricing system, I'm looking at Sean, for a number of years there. This is kind of the reverse of that, that the U.S. still depends for a significant amount. I think it's 20% of the material flowing into the U.S. to the utilities probably coming from Russian sources, so it's significant for sure. We're watching; I think everyone's watching closely to see if that's a serious threat and, quite frankly, with the players involved, we have a tough time knowing and speculating what is serious and what could happen. But that would be a serious effect on the U.S. nuclear energy suppliers for sure if that source was cut off.

OPERATOR:

Once again, we ask you to limit your questions to one, with one supplemental. If you have additional questions, you are welcome to re-join the queue. Our next question comes from Alexander Pearce of BMO.

ALEXANDER PEARCE:

Hi, all. I just wanted to ask a question on the cash flow. You mentioned you expect a similar amount this year to the last. Does that assume anything for these additional purchases in the market you were just discussing?

TIM GITZEL:

No, it doesn't, Alex. Grant looks after cash. I'll pass it over to Grant to talk to that.

GRANT ISAAC:

Yes. That disclosure, to give you an idea that 2018 cash flow could look like 2017, it's just based upon the numbers that Tim went through, the committed purchases that we have to make, as well as assumptions about the uranium price and the exchange rate as per our outlook table. If we did make discretionary purchases in the market if—in fact, I shouldn't even call them discretionary. If we decide to purchase in order to meet some of our contract commitments instead of source from inventory, yes, there would be a cash impact on that, but of course, that comes back because it's sold back through our portfolio at a margin certainly relative to today's price. That would be one of the factors that would affect that forecast, but yes, we just wanted to get it out there for people to understand what 2018 currently looks like from an outlook point of view.

ALEXANDER PEARCE:

Okay. Thank you.

OPERATOR:

Our next question comes from Greg Barnes with a follow-up from TD Securities.

GREG BARNES:

Yes, thank you. Grant, there's been a lot of talk about uranium inventories and the sizable volume that's out there, but in your estimation, how much of that is actually transactable or purchasable by players in the market?

GRANT ISAAC:

Well, Greg, that is a great question, and I think we're going to be finding out. With the actions taken, we will be in a position—looking at our inventory, looking at purchases, we will be in the market; we're coming. When we do, we'll see how deep that market actually is, and if it turns out it's deep, we're buying material very, very cheaply. If the market's not deep, guess that's what's happening? A very favourable circumstance is arising for us, so we're going to find out. That'll be a test this year and I'll let you know.

GREG BARNES:

By that statement, Grant, you said we're coming. You haven't actually come yet then into the market, is that fair to say, in any sizable way?

GRANT ISAAC:

Well, no, not in any sizable way. We're in and out of the market all the time in small ways, testing how deep it is. You hear stories about the supply of uranium that's ready to be unleashed from Japan, so for example, we might go and poke around and see if we can find any; haven't. We hear about all this uranium that's going to come from enrichers underfeeding, so we might approach an enricher and say, "Do you have any material?" and turns out we can't find any. Now, maybe it's just not them wanting to sell to us, but we're just not finding these volumes. We haven't gone in a big way, but we will have to in order to meet our sales commitments, so it'll be interesting to see how the market responds.

GREG BARNES:

Okay. Thank you.

TIM GITZEL:

Thanks, Greg.

OPERATOR:

Our next question comes from Umang Majmudar of General American Investments.

UMANG MAJMUDAR:

Good morning. Thanks for taking my question. Often on these calls, there's a lot of discussion as pertains to the customers and the flexibility the customers have under the contracts. Looking at it from the other perspective, broadly speaking, how are the contracts structured with respect to flexibility Cameco may have, and this is somewhat piggybacking off the back of the prior question, Greg's question with respect to what if Cameco were unable to procure pounds that were necessary, what sort of flexibility does Cameco have? Then, related, with respect to something like the 232, potential 232 or oppression action, if those were to come to pass, are those events that would constitute a force majeure? Thank you.

TIM GITZEL:

Umang, thanks for your questions. We don't anticipate not being able to deliver. Cameco hasn't missed a delivery, I don't think, in its history and we don't plan to start now. We have three levers that we can pull to have pounds available to us, production purchasing and inventory, and so that's what we're going to be doing. Just as Grant mentioned on the purchasing side, you'll see us out there; we're going to be purchasing. We have an inventory to drawdown and we've drawn it down a bit but it still has a ways to go. We still have production. We have production at Cigar Lake, which is operating very well. We have some production in Kazakhstan, same thing, and we have McArthur River/Key Lake that can produce pounds for us when we need them. Right now it's down, and we plan to keep it down for now, but we'll see how things go, and so we have—we think we're in a good position to deliver on our contracts.

The 232 piece, boy, I don't know. We've been sitting around here talking about what effect that could have. The remedies to us being requested are a bit out there in that the U.S. consumes about 50 million pounds per year. The applicants are asking that 25% of that be retained for U.S. producers, so that equates to about 12 or 12.5 million pounds. I think production in the U.S. today is, like, one million pounds, something like that, so—and not like a bunch of sites are sitting there ready to turn on production in a hurry, and even those that could, it won't be in a hurry and it'll be expensive. We know that from experience. We just shuttered two of our operations down there, Crow Butte in Nebraska and our Smith Ranch operation. We'll see how that turns out.

I don't know. Like I say, in normal circumstances, with the normal players, you would think that wouldn't go very far, but we saw a similar action with steel and aluminum just recently that they got traction and restricted. Now, there were some exemptions for certain countries, but we can't say where that's going. I just don't know.

UMANG MAJMUDAR:

Understood. Well, I appreciate the discussion.

TIM GITZEL:

Yes, yes, thank you.

UMANG MAJMUDAR:

The question was really just driven around the fact that there are various metrics or levers, as you pointed out, and involved here that are not necessarily just Cameco-specific. Obviously, you wouldn't be interested in doing something uneconomic in order to meet a purchase commitment vis-à-vis whatever may or may not be the depth of the spot market, so that's all of us. That's all that was.

TIM GITZEL:

Yes. No, and you're absolutely right. We don't have the option of doing things uneconomic here. We are in business to build value for our Shareholders by making profit, and so we are very conscious of that and that's what we're going to do.

UMANG MAJMUDAR:

Thank you.

TIM GITZEL:

Thank you.

OPERATOR:

Once again, we have a follow-up question from Graham Tanaka of Tanaka Capital Management.

GRAHAM TANAKA:

Yes, hi, thank you, again. Just wanted to get a feel for what kind of conditions you need to see in the marketplace to bring back McArthur River/Key Lake and for how long, and relative to that, what would be the cost and the time to bring the production back on? I'm just saying after this, hopefully, you get a successful hiatus here and a recovery in prices. What kind of prices would you need to see, and what kind of a time period before you are confident that you're not back to square one again?

TIM GITZEL:

Yes, Graham, thanks for your follow-up question. Obviously, we didn't take the shutting down of our McArthur/Key facilities lightly. That's a huge decision to take, but we just—in the circumstances that we've seen over the last number of years, we took the decision to leave our low-cost pounds in the ground for better days, and when you can buy pounds on the market at $20, we'll do that all day, especially when you have a nice portfolio to sell them into. We're watching the market. I wouldn't say the spot prices are a leading indicator on that. The spot prices are going to move around, hopefully, maybe, and could go up. But if the spot price went up significantly and we said we're bringing McArthur back on, I think it would go down just about as fast, and so we're cognizant of that.

What we're looking for is a change to the term price where companies, suppliers can go and perhaps refill their portfolio basket with some better priced long-term contracts and then that would be the way we would operate, bringing McArthur back in to feed into those contracts. We are not bringing McArthur to feed on to the spot market. We never have. We have never done that with any of our operations, and we're not going to start now. We're going to need to see a bit of a sustained improvement in the term price in order for us to take that decision.

GRAHAM TANAKA:

I'm just wondering, in terms of expectations, what kind of term price level might be needed to see for multiple customers, not just one or two? I mean, are we talking 50 or 60? I've heard many people talk about that, but what kind of levels?

TIM GITZEL:

I would just say higher than today.

GRAHAM TANAKA:

Okay. Thank you.

TIM GITZEL:

Thank you very much, yes, Graham.

OPERATOR:

This concludes the question-and-answer session. I'd like to turn the conference back over to Tim Gitzel for any closing remarks.

TIM GITZEL:

Well, thank you, Ariel (operator), and with that, I just want to say thanks to everybody who has been on the call with us today. We certainly appreciate, as always, your interest and your support, and just to confirm as we always do, that we are doing our best to manage through this challenging market and really to position the Company to benefit from a future where we know more uranium's going to be required to meet growing demand. With that, have a great day and have a great weekend. Thank you.

OPERATOR:

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

