Cameco Corporation

2018 Third Quarter Results Conference Call Transcript

Date: **November 2nd, 2018**

Time: **1:00 PM Eastern / 11:00 AM CST**

Presenter:

Tim Gitzel
President and Chief Executive Officer

Grant Isaac
Senior Vice President and Chief Financial Officer

Sean Quinn
Senior Vice President, Chief Legal Officer and Corporate Secretary

Brian Reilly
Senior Vice President and Chief Operating

Rachelle Girard
Vice President, Investor Relations

OPERATOR:

Welcome to the Cameco Corporation Third Quarter 2018 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.

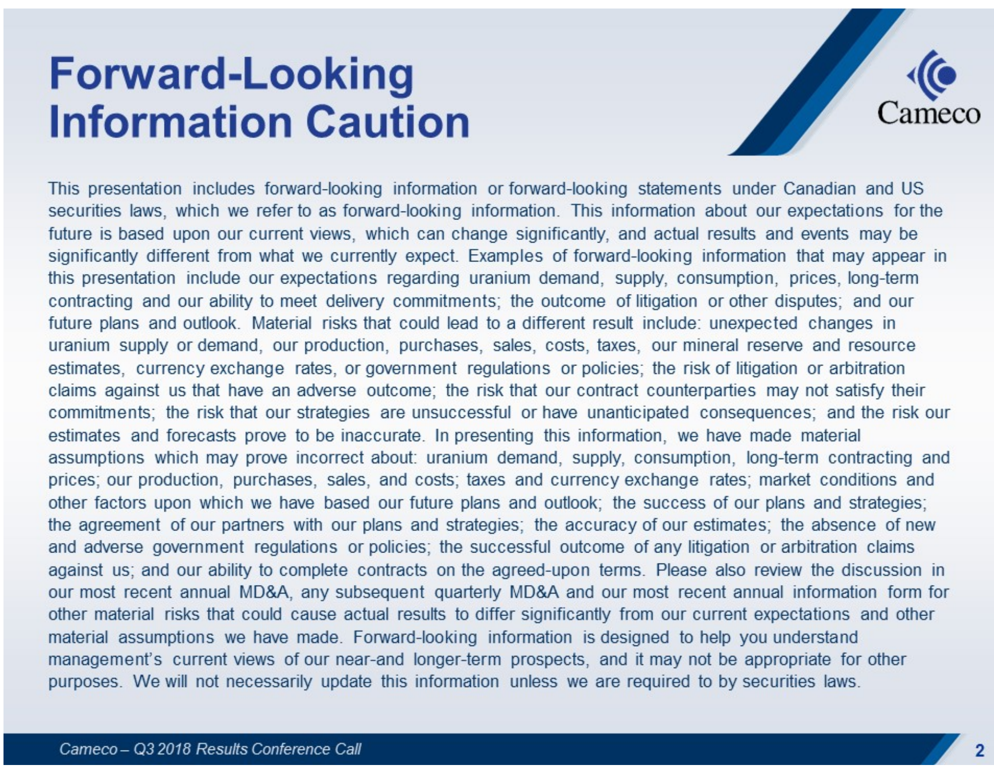
I would now like to turn the conference over to Rachelle Girard, Vice President, Investor Relations. Please go ahead, Ms. Girard.

RACHELLE GIRARD:

Thank you, Operator, and good day, everyone. Thanks for joining us. Welcome to Cameco's conference call to discuss our third 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 some comments, 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.

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.

I want to start the call today by highlighting a few important items from the third quarter. First, our results were as expected and reflect the strategic actions we have taken; second, there were some changes to our 2018 outlook, most of which were positive and point to a strong finish in the fourth quarter; third, and I want to emphasize this, there's the unequivocal win in our tax case with the CRA; and finally, we saw the resuscitation of the spot market in contrast to the tentative nature of the term market.

Q3, 2018 results as expected
Expect strong finish in Q4

	2018 Outlook (revised)	2018 Outlook (previous)
Consolidated revenue ($ millions)	1,990 – 2,190	1,890 – 2,140
Revenue U ($ millions)	1,630 – 1,720	1,550 – 1,640
Delivery Commitments U (m lbs)	35 – 36	34 – 35
Average Realized Price U ($/lb)	47.80	46.10
Exp. loss on derivatives – ANE basis ($ millions)	10 – 20	0 – 10
Tax recovery – ANE basis ($ millions)	80 – 90	40 – 50

Cameco – Q3 2018 Results Conference Call 3

I will spend most of my time on the last two items, but before I do that I want to just highlight a few of the changes to our outlook. Exchange rates, higher uranium prices and additional sales opportunities have increased our outlook for delivery volumes, revenue and the average realized uranium price for 2018, and our expected the tax recovery has increased as a result of the decision in our CRA case. Our outlook for cash from operations is unchanged for 2018. We continue to expect it will be in the range of $715 million to $775 million. As a result, you will see our Board approved an annual dividend of $0.08 per share. We'll get into more detail a bit later about how putting our strategy into action has impacted the rest of our outlook. Right now, I'm going to move into a discussion of our CRA tax case.

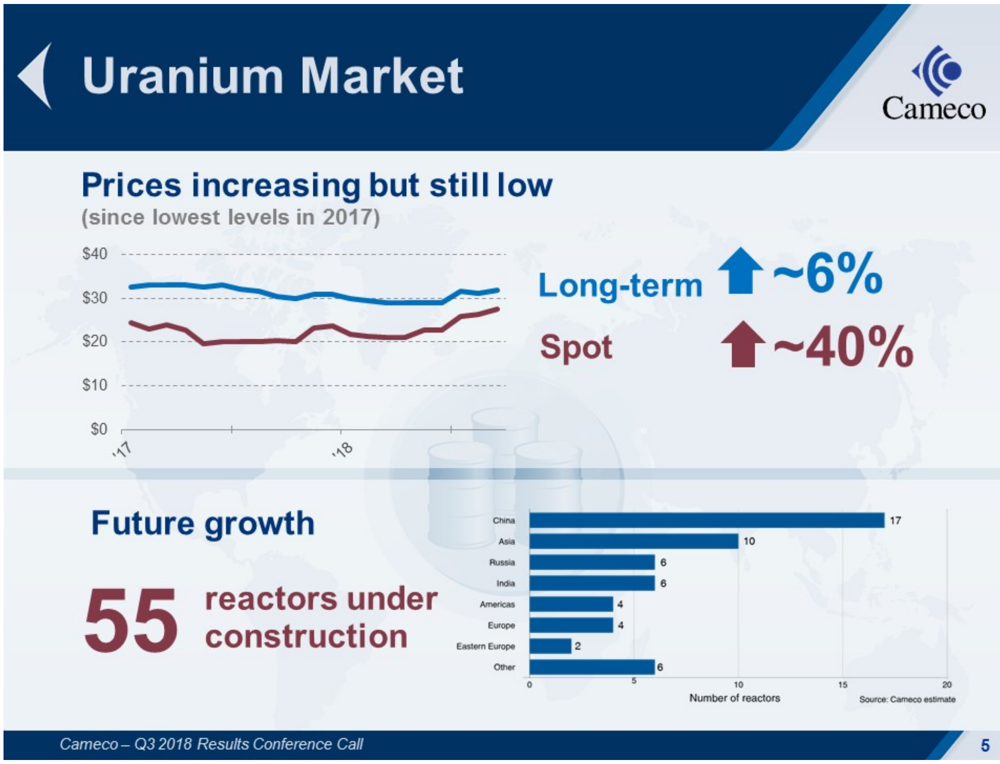
Saying this never gets old for me. Our win in the Tax Court of Canada was unequivocal for the three years at stake. We complied with the tax laws of Canada. As a result of the Tax Court's endorsement of our marketing and trading structure and our transfer pricing methodology, you will see that we have reversed the provision on our balance sheet of $61 million. We no longer believe there is any basis for the provision. This is the reason the expected tax recovery that I noted earlier has increased. And in accordance with the ruling, we will be making an application to the court to recover the significant cost we incurred over the course of defending this case. I would note the actual cost award is at the discretion of the Tax Court.

Unfortunately, although the ruling was clear and decisive, the CRA has filed a Notice of Appeal with the Federal Court of Appeal. We are obviously disappointed with this decision, as we see no basis for an appeal. However, we are pleased that the CRA has not appealed the Tax Court's finding that our marketing and trading structure was not a sham. That was an argument I have to tell you we found offensive. The CRA's appeal appears, in general, to be focused on the judge's interpretation and application of the transfer pricing provisions in the Income Tax Act. However, until we receive the CRA's complete written submissions we won't know exactly what aspect of the Tax Court's findings it is challenging. We understand it could take well into 2019 before we have any insight in that regard, so more to come on this.

We anticipate it will take about two years to receive a ruling from the Federal Court of Appeal. Given the thorough and meticulous analysis of the facts and of the law by Mr. Justice Owen, we firmly believe the decision will be upheld at the Federal Court of Appeal. Furthermore, we also believe the decision should apply in principle to subsequent tax years. Therefore, we are prepared to have a reasoned discussion with the CRA to see if we can reach a resolution for all years on a basis that we would consider acceptable in light of the findings in the ruling; those findings being that our intercompany purchase and sale agreements were commercially normal, that the prices agreed to were representative of the market at the time and were what a third-party would have agreed to, and, furthermore, as Mr. Justice Owen noted, reliance on hindsight and a subjective view of the market, as opposed to objective benchmarks, introduces intolerable uncertainty into the transfer pricing rules.

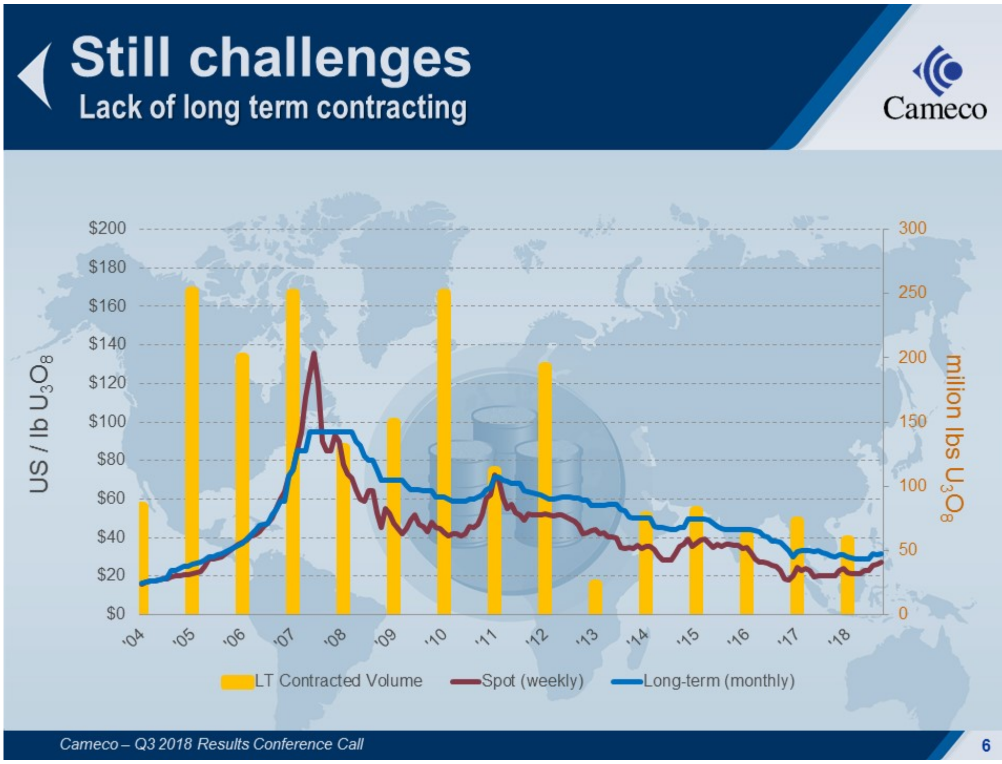
We believe the ruling in our case makes it clear we are obligated to comply with existing laws, not on what the CRA thinks the law ought to be. The CRA's attempt to retroactively change the law through the courts is unacceptable. If the CRA is unhappy with the outcome based on the current laws, we encourage it to do the necessary work to get the laws changed through Parliament, and I can assure you we will comply with those laws once changed.

The ruling made it clear we paid all of the Canadian taxes we owed. Therefore, we are entitled to a refund of the remittances we have made. However, you will notice in our MD&A that we have not changed our disclosure with respect to the potential exposure in any payments we might have to make. That is because we don't know what the CRA intends to do next. It is certainly not our view of the likely outcome, nor do we believe there's any basis for the CRA to continue pursuing this matter, but it is the reality of the process. This is particularly frustrating for us because of the impact it will continue to have on our financial capacity at a tenuous time in our market when we most need the result it provides us.



Let's talk about the market for a bit. There's no question that the uranium spot market is showing a significant improvement compared to a year ago, but make no mistake it has a long way to go. Let me explain both of these statements. What do I mean by significant improvement? The current spot price is up almost 40% from a year ago, while the long-term price is up about 6%. The improvement has been driven by meaningful production cuts, reductions in producer inventories, and an increase in demand for uranium in the spot market from producers and financial players. These actions have helped to remove excess material from the spot market, with the uranium spot price reaching a two-year high in October. We at Cameco have played a big role in the spot market cleanup, a point I will come back to later in my remarks.

Contributing to the improvement on the demand side, we have finally reached the point where on an annual basis consumption has returned to pre-2011 levels. We have filled in the pothole of lost demand, and that demand continues to grow, not at rocketship rate, but with 55 reactors under construction there is steady growth. That all sounds exciting, and don't get me wrong, it is, but then you might ask, "Why do you say there's a long way to go?"



Well, I can tell you the fact that we have the world's best mine and mill shut down indefinitely, it's certainly not because the market is in great shape. Remember last quarter when we announced the extended shutdown at McArthur River/Key Lake, we said that the conditions for a restart would be met when we were able to capture acceptable long-term business in our market, business that allows us to commit those pounds under long-term contracts, contracts that provide an acceptable rate of return on these assets for our owners, rewarding them for their continued patience and support of our strategy to build long-term value.

While we are seeing some positive developments, we have not yet seen the type of response needed from the uranium market. Unfortunately, today's prices are still nowhere near, not even close, to the levels needed. With about 58 million pounds placed under long-term contracts industrywide so far this year, or about a third of what will be consumed in reactors, there are still not enough acceptable long-term contracting opportunities. So if prices are too low to incent existing, idled tier-1 capacity to restart, they certainly do not support the investment needed to expand those assets, and they're not even close to what is needed to trigger the restart of the idled tier-2 capacity and its expansion capability. Then, you have to consider what price incents the material sitting with financial players to come back to the market, because that material isn't gone forever and it needs to be factored into any supply investment decisions.

So, when you think about it in this context, we are five or six steps away from needing any new greenfield investment. That is why, until you see our existing tier-1 assets restarted and/or expanded, and a potential home for all of the other nearer-term sources I just listed, investment in new growth makes zero sense. Even the promise of new investment would create a headwind and erase any possibility for robust investment returns. We believe our assets are among the best in the world and we will continue to show the type of leadership needed to position the Company to add significant value over the long term.

Despite some signs of green shoots, today we find ourselves in a market where there is still a lack of acceptable long-term contracting opportunities. However, the reason for this lack of contracting has changed from a year ago.

As I talked about last quarter, against a backdrop of growing demand over the long term and shrinking supply, there are a lot of moving parts in our market, and those moving parts have shifted the sentiment from one of complacency and discretion to one of uncertainty and concern, which has led to paralysis. You might say there is an unprecedented level of noise in the market, and a lot of that noise, like in many other commodities today, centres on market access and trade policy issues. These issues are a large factor in why our market tends to be sentiment-driven rather than purely driven by fundamentals. It is both the origin disconnect in our industry, the gap between where supply is produced and where it is needed, and it is the role of state-owned enterprises that raise concerns about security of supply.

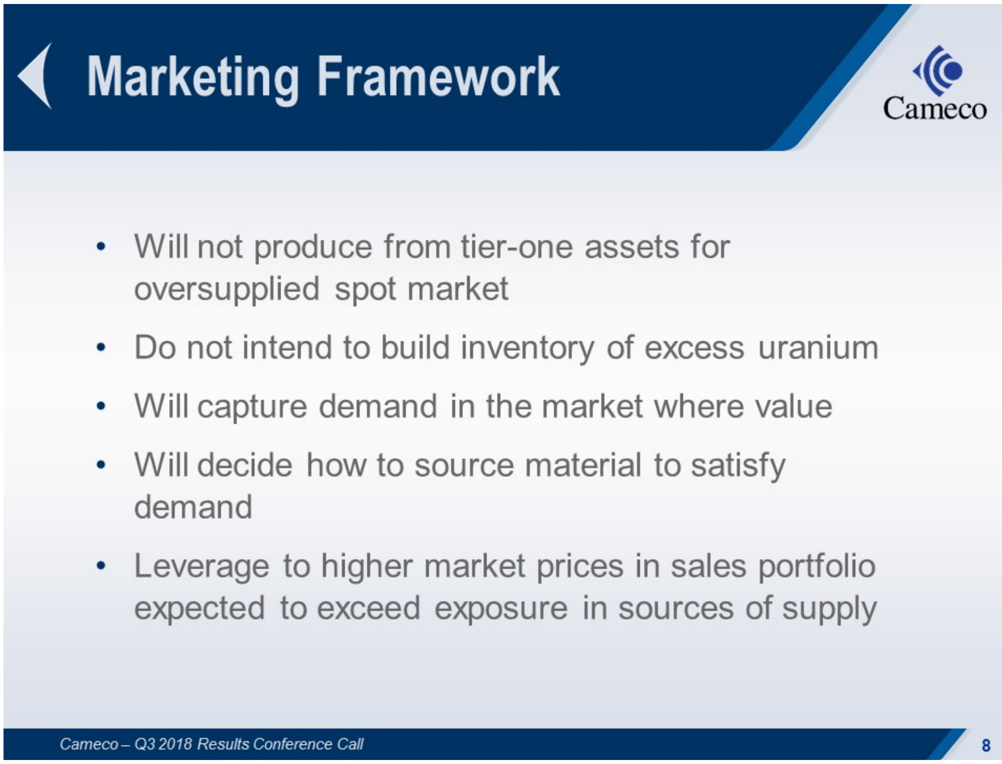
With McArthur River/Key Lake production indefinitely suspended, nearly 70% of primary production is in the hands of state-owned enterprises, about 40% from Kazakhstan alone. It is why, from a security of supply perspective, origin matters in a world where geopolitics are creating trade distortions. Of course, the most significant trade issue today is the investigation under Section 232 of the Trade Expansion Act in the U.S. The investigation has no immediate impact on our existing contracts, with deliveries continuing as usual. Meanwhile, you can be certain we are heavily involved in the investigation process. Remember, we were the largest producer in the U.S. before we put those assets on care and maintenance. If the U.S. is looking for more domestic production, our assets would be among the best and quickest to start producing. Until the investigation is complete and the potential impact, positive or negative, can be determined, it is a moving piece that contributes to the uncertainty I talked about earlier.

I highlighted many of the other issues affecting the market last quarter, so I won't repeat them, but there are a couple of recent developments I want to draw your attention to.

First, there is the role of financial players. In addition to the initial public offering of Yellowcake, a new uranium fund announced earlier this year, there is now the launch of an IPO for a second uranium fund, Uranium Trading Corp. In total, these funds have purchased or are planning to purchase more than 10 million pounds of uranium on the spot market, sequestering it in investment vehicles, and in the case of Yellowcake, there's the option to purchase even more uranium over the next nine years. Also, we know there are plenty of other financial players getting involved or kicking the tires.

The other item is KazAtomProm's Initial Public Offering. KazAtomProm announced its intent to proceed with an Initial Public Offering on the Astana International Exchange and the London

Stock Exchange for securities representing up to 25% of its issued share capital. In its documents, it states that it has transitioned to a market-centric production and sales strategy, shifting away from a focus on volume to a focus on value, which is welcome news indeed.



All this makes for interesting times in our industry. So, what can you expect from Cameco in this environment? As I highlighted last quarter, we will continue to adjust our actions using a marketing framework that we believe supports our strategy to build long-term shareholder value. First and foremost, we will not produce from our tier-1 assets to sell into an oversupplied market. Second, we do not intend to build up an inventory of excess uranium. Third, in addition to our current committed sales, Cameco will capture demand in the market where we think we can obtain value. Fourth, once we capture demand we will decide how best to source material to satisfy that demand. Finally, over a rolling 12-month period, our leverage to higher market prices in our sales portfolio is expected to exceed any exposure we have in our sources of supply. In addition, our contracting decisions always factor in who the customer is, our desire for regional diversification, the product form and logistical factors.

Let's review where things were at when we announced the extended shutdown of McArthur River/Key Lake and just where they sit now, starting with the full calendar year for 2018. In our Uranium segment we now have commitments to deliver between 35 million and 36 million pounds of uranium, leaving 12.5 million to 13.5 million pounds for delivery in the fourth quarter. In addition, we have agreed to provide our partners at Orano up to 5.4 million pounds of uranium this year, the majority of which we have delivered. There are deliveries of less than a million pounds remaining, which we expect to make in Q4.

We remain on track to produce about 9 million pounds of uranium this year. Since the end of July, we have secured about 2.9 million pounds through off-market activity and through request for proposals in the spot market. As a result, our purchase commitments for 2018 are now between 11 million and 12 million pounds, including our share of Inkai production. In addition, given the increase in delivery commitments for both 2018 and 2019, which I will speak to in a minute, we expect we may still need to purchase an additional 1 million to 3 million pounds in the spot market for delivery in 2018 to meet our commitments and maintain our desired inventory.

Looking at 2019, we've been successful in capturing additional demand. We are now committed to deliver between 27 million and 29 million pounds, an increase of about 2 million pounds from last quarter. To fulfill these commitments, we now have only two levers we can pool, production and purchases. We won't have any excess inventory in 2019. We expect to produce 9 million pounds at Cigar Lake and we have long-term purchase commitments which will require us to take delivery of between 5 million and 6 million pounds, including Inkai purchases. That means for 2019, we now need to purchase between 10 million and 12 million pounds to meet our delivery commitments and maintain our desired inventory levels, and we have already started entering spot transactions to secure this material for delivery in 2019.

In addition to the spot purchasing we have done, we have also been successful in securing long-term purchase arrangements for future delivery of more than 7 million pounds of uranium concentrates. The delivery under these arrangements are heavily weighted to the years 2025 through 2028. You might ask why we are purchasing material for delivery in the future when we need material while McArthur River production is suspended. Let me explain.

As we have reported, we have long-term commitments to deliver about 150 million pounds of uranium concentrates. Securing materials today for delivery in the future provides us with added flexibility in making future sourcing decisions to fulfill our delivery commitments without the need to build inventory today. Inventory only serves to create an overhang in the market and ties up our cash. These purchase commitments also allow us to defer capital investment decisions while still meeting demand in the market. We can lock in pounds today and take advantage of lower current low prices with the price escalation based on today's low interest rates. However, we do not have to pay until delivery is made and therefore our cash isn't tied up. In the meantime, these pounds are removed from the spot market and are held by intermediaries for our account. Finally, they are another form of risk mitigation. In the event we are unable to find material we need to meet our committed sales while McArthur River is shut down, or if the market price rises rapidly, we believe we can advance the timing of delivery under these arrangements.

Before I move on, I want to provide a bit of colour on what we are seeing in the market based on our spot activity. Although it's too early to determine if any trends are emerging, in general, the volume of material on offer has not been surprising and appears to be decreasing. In terms of pricing, we have seen some offers with aggressive discounting and others with premium pricing. However, we're starting to see a bias now for premium pricing. Our goal is to responsibly manage our supply by preserving the value of our tier-1 assets and protecting and extending the value of our contract portfolio on terms that recognize the value of our assets and are consistent with our marketing framework.

I mentioned risk mitigation a moment ago and it’s an important perspective to examine. Let me explain. We ask ourselves what happens if the market doesn’t transition. The answer, of course, is that it means there’s a lot of cleanup needed in the market and we are buying a lot of cheap uranium. In this scenario, extending the shutdown at McArthur River/Key Lake and preserving its value was the right thing to do. Then we ask ourselves what happens if the price runs away from us and we are unable to find enough cheap pounds to satisfy our commitments. That is actually a bit of a Hollywood problem. Let me explain.

I already talked about our ability to advance delivery under our long-term purchase commitments. Then you need to keep in mind that our 4.5-month inventory target is just that, a target. We may decide to hold higher inventories or temporarily lower them, depending on what we see in the market. Also remember uranium has to be stored at a licensed facility. As a result, our licensed facilities hold a lot of material for others who may not have any immediate consumption requirements, and product loans are not uncommon in our industry. If we have to pay $50 or $60 to purchase material, those higher prices are also probably allowing us to layer in new long-term commitments, which means we have now met the conditions necessary to restart McArthur River/Key Lake. The restart would probably take us a number of months, depending how long we are down for, but there will be ample delivery lead time in the new contracts being signed. In addition, given the significant higher leverage to market prices in our committed sales portfolio, the higher prices are floating the value of the portfolio, more than compensating us for the purchase of a few expensive pounds. In either case, the decision to extend the shutdown was the right one, but rest assured none of this activity will change or jeopardize our financial navigation points.

There are three principles we will follow in allocating our capital: First, we will continue to navigate by our investment grade rating, second, our decisions will be based on the run rate of our business, not one-time events; and finally, we are not the savings account of our owners. Our capital allocation decisions will continue to pivot on what the market is providing us with. So, while we are beginning to get more clarity on some of our litigation risks and the market appears to be moving in the right direction, it is too soon to change course.

In today's noisy market, we believe we can distinguish ourselves from other uranium producers and are well positioned to respond to changing market dynamics. We are a commercially-motivated supplier with a diversified portfolio of assets, including a tier-1 production portfolio that is among the best in the world, and we have the ability to restart and expand these assets should we see the right signals. Keep in mind these would be among the first and lowest cost pounds in the market. We believe we have the best global exploration and advanced exploration portfolio, and are the only producer in Canada with licensing, permitting and operating experience, and a proven community development track record. 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. 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 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 from the question queue, you may 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 e-mail after the call. Once again, anyone on the conference call who wishes to ask a question may press star, one at this time.

The first question comes from Ralph Profiti with Eight Capital.

RALPH PROFITI:

Hey, Tim. Thanks for taking my questions. This is the second consecutive quarter that we've seen upward revisions to committed sales for both 2018 and 2019, and from your comments, it doesn't seem like this is new contracting, but I'm guessing it's more customers bringing deliveries forward. Would you say this is something that you expected when you went with the indefinite shutdown at McArthur River, and how much more flexibility to these existing contracts have? Maybe, could this be sort of an added pinch point in the market as opposed to thinking about contracting in terms of uncovered requirements?

TIM GITZEL:

Well, Ralph, nice to talk to you, and thanks for the question, it's a bit complicated, I'm looking at Grant to chip in here, but, I mean, this is really normal business for us. We're always in the market. We've always said that we'll be in the market when it makes sense to do so. I would say we have a preference for term demand with utilities on market-related terms with floors in the contracts, and so that's what we would look for in these contracts. These are not out of the ordinary. There are a few more players in the market now looking for some material; I think of the intermediaries and financial players and some producers. So, pretty normal business for us.

Grant, I don't know if you have anything to add to that.

GRANT ISAAC:

Well, just to the question, Ralph, about it, the flex up under existing contracts. It's really not that, we're not seeing a dramatic flex up that's accounting for the revisions upward of our committed Sales portfolio. You'll remember back in Q2—and, again, just to reinforce with the comments at the outset—that our marketing framework, one of the elements of it is we will step in and grab the demand in the market that makes sense for us. Now, as Tim said, our preference is for term demand that's market-related, but we will grab spot and midterm demand if it makes sense for us, and then we will choose how to source that demand. So, this is reflecting us looking at our portfolio, looking at the customers that are in the market, looking at how it lines up with the other factors we talked about, regional diversification, who the customer is, the product form, and we will make the sales decisions at that time and then we will figure out how to source it. All of that has just added to the leverage we've had in the market in terms of grabbing some demand and also then having to go and get the material to satisfy it either from production, from inventory or from purchases. So, really, what it reflects is us just taking a bigger chunk of the market, Ralph.

RALPH PROFITI:

Yes, okay, okay. As a follow-up, I have a question on 232. If recent history is any indication, we could be looking at some type of remedial action. Now, from Cameco's standpoint, is there a more manageable, least desirable outcome between tariffs versus quotas?

TIM GITZEL:

Well, Ralph, good question. We've been—let me back up a little bit, because when this first came forward—I think it was in July—we looked at it and said it makes no sense, especially the remedies being proposed. If you look at what the U.S. production capability is, to get 25% of U.S. utility demand out of U.S. assets, is not going to happen. So, we said it doesn't make any sense. If you go the tariff route, you're looking at probably somewhere between 150% and 400% tariff. That didn't make a bunch of sense. Quotas, we're not sure. So, we said all of that, and then we said but let's look at some other sectors, the aluminum sector, the steel industry, automobiles. We're not taking this lightly, I would say it that way.

You've seen our submission probably into the Department of Commerce, along with 834 others that put submissions in. We are very active down in Washington. We don't know which way they'll go, but we are, I would say, working hard to come up with—Plan A would be make the whole thing go away, just make it go away and let's carry on and trade, but we need to have a Plan B, and so what that looks like, we don't know. There's been talk of a Buy America solution where the Government might step in and buy, because what we don't want to do is put utilities in any more jeopardy than they already are and add to their issues in the U.S. of keeping their plants open.

So, long-winded answer just to say we don't know what the solution will be, but we are not taking this lightly, nor is anyone else. We think we could very well see a quota tariff type solution and we want to make sure we've had full input into that and try and help guide the DOC along.

RALPH PROFITI:

Got it, okay. Yes, thanks, Tim.

TIM GITZEL:

Thanks, Ralph.

OPERATOR:

The next question comes from Andrew Wong with RBC Capital Markets.

ANDREW WONG:

Hi, and thanks for having me on. Just regarding the roughly $300 million that's being held in restrictive cash for the CRA disputes—and you mentioned this on the prepared remarks, but is there anything you can give us on the timeline on recovering that cash? I mean, does it get tied up with the appeals process? Could you just help us understand that? Thanks.

TIM GITZEL:

Yes, Andrew, thanks for the question. I think the answer is we don't know yet. I would just say, well, first, we are still delighted with the decision that we got, which was very clear on all of the points, and I'm looking at Sean Quinn, and the work that he and his team did with our external counsel, it was outstanding.

We're in a period now where we know, a week ago, they've launched an appeal. We haven't heard anything yet on that. It was very sparse, what we did see. So, it's going to be some months before we are going to see what the guts of their appeal looks like. In the meantime, we're going to be submitting, within the next three weeks from today, our application for costs, and so that piece will run through, and in the meantime we'll see what happens, whether there's any conversations or not. So, we don't know on that $303 million of cash for now, it's still in their bank account, and as soon as we find out anything further, we'll certainly let you know.

ANDREW WONG:

Okay, that's fair. Maybe just talking about something else, regarding the conversion prices in the market, we've seen a pretty big uptick there. How does that affect your Fuel Services segment, and maybe if you could just help us try to think about that longer-term? I know some of those are fixed contracts and maybe not necessarily conversion services, but other Fuel Services, just maybe help us out there.

TIM GITZEL:

Well, I mean, that's been an interesting segment of the business of the nuclear fuel cycle. For the last 10 or 15 years, it's been uranium, big section of the fuel cycle, a little bit of conversion, and then you jump to enrichment and you almost forgot about conversion on the way through, and we've seen historically low prices. I mean, the price of KgU was touching $5.00 not long ago, and here we go, it's over $10.00 now and moving up, so it's certainly got everybody's attention. Why? Well, you saw a few months ago ConverDyn take their facilities right off, and so that was a big supplier. Comhurex over in France, Comhurex II, as they call it, is just ramping up now and is going to take some time. SFL is off. So, lots of pieces coming off and not many suppliers left out there at the moment to put some pressure on the conversion price. So, yes, I can tell you it certainly puts some spring in the step of our folks out at Port Hope, and so we will see. If we can fill our contract book up there at decent prices going forward, that'll be helpful to us, as well.

ANDREW WONG:

Okay. Thanks.

TIM GITZEL:

Thank you.

OPERATOR:

The next question comes from Orest Wowkodaw with Scotia Bank.

OREST WOWKODAW:

Hi, good morning, or I guess—a couple of questions from me. First of all, Grant, I'm having a bit of trouble reconciling the inventory numbers in the uranium segment. If I'm reading the statements correct, I think your uranium inventory went down 10 million pounds quarter-over-quarter and you exited Q3 with only 9.5 million pounds. Based on the guidance you've given kind of for the implied Q4, my math would suggest your inventory is going to potentially fall all the way to 3 million or 4 million pounds at the end of the year. Is that right?

GRANT ISAAC:

Orest, let me just step back a bit and provide a bit of a higher level explanation, and also just the general comment that I'm not going to reconcile backwards, because when you look at what we're up to from a strategic point of view and you think about our committed sales portfolio—and we already began with a question from Ralph Profiti about how committed sales are going up—and you remember that we satisfy committed sales from three sources, production, purchasing and inventory, you know, that's a very simple equation, committed sales on one side and production, purchases inventory on the other, but it would be incorrect to think of any of those as constants. So, think about it as committed sales going up, our current commitments go up, we have new demand that we need to fulfill, and as a function, well, then our target inventory will go up as well, because we told you it was 4.5 months of committed sales. So, if committed sales are going up, then our run rate inventory level is going up, so that won't be a constant. If our production remains largely on target, then our purchases must increase then. We're in a situation where if our inventory is going up as a function of our committed sales going up, we're going to have to purchase more. But, in addition, then, that guidance on inventory might be a little bit out the window, because if purchases are proving harder to obtain, product form, location, timing, then, actually, we might have a bit more of a precautionary inventory that we would like to build, which will require even further purchasing, which is probably a bit counterintuitive.

So, all of that to say we are going to commit to always looking through the windshield and providing that guidance, like Tim did, on where we are with our committed sales, where we are with our production, our purchases and our inventory, but because they are all moving, you kind of have to keep pace with where they're going rather than where they've been.

In terms of the math, it's laid out in the slides that accompany the presentation, and the comments that Tim gave, and those are the ones we're at at the moment. So, if committed sales change, if we discover that purchases are harder to come by and decide that we need a bit more of a precautionary inventory, all of those are variables yet to come, all part of the general strategy that we are trying to deliver on, which is not one of value, it's one of volume, and we are focusing on saying if this is a market where the price doesn't incent our production, we'll leave it in the ground and choose to buy.

I'm not sure what numbers you're calculating and I'm happy to get on the phone afterward and try to figure it out, but now wouldn't be the time.

OREST WOWKODAW:

Okay, well, we can take that offline. Then, just as a follow-up, it looks like your standby costs for McArthur River increased, I think, from $5 million to $6 million a month to $7 million to $9 million. How much of that $7 million to $9 million is non-cash?

GRANT ISAAC:

Yes. When you have an asset like McArthur River/Key Lake curtailed—and, really, probably the higher level comment here is you don't see a lot of mining companies taking the kind of decisions we're taking, because they're complicated and they're difficult decisions. McArthur/Key is obviously coming back, it's not an impaired asset, and so there are a number of line items on the physical capital side that you just have straight-line depreciation. The only factor there is time, it doesn't matter whether it's operating or not. All we've done is added the non-cash piece to the standby care and maintenance costs. Those are being driven by straight-line depreciation. The cash costs, they haven't changed, same guidance that we gave out when we made the decision and announced it to indefinitely shut down McArthur River/Key Lake. That would be the explanation there.

OREST WOWKODAW:

Okay. Thank you.

TIM GITZEL:

Thanks, Orest.

OPERATOR:

The next question comes from Greg Barnes with TD Securities.

GREG BARNES:

Yes, thank you. Grant, if I'm reading the trade price right, it sounds like Cameco was in the market again last week buying 500,000 pounds. Can you give us a sense of what the conditions were like? I think last time you said when you're in the market it was only two times oversubscribed, how is it this time, and you said earlier that there's a bias towards premium pricing, can you give us some more colour around how things went last week?

GRANT ISAAC:

Yes, Greg, thank you for the question. When we go to purchase material to fulfill our committed sales portfolio, we will do that on market, we will do that off market, and we will do it through RFPs, and the RFPs give some very interesting information, because they really help take a supply demand point being reflected in a reported price and start to get a sense of what the curves are on the supply and demand side that create that point.

There are three variables that are really important to us with those RFPs: one is how much material is on offer; two is at what prices; and three is who's selling. When we look at those, I would say that, as we are now three RFPs into the market, things are looking positive. Number one, the material on offer is not as robust as you would think. The market appears to be tighter. We don't get offered five times oversubscribed, that's not occurring anymore.

Secondly, with respect to price, we initially saw some pretty desperate selling, which I guess was to be expected given how difficult conditions are for many of the participants in the uranium space, so there was some desperate selling that we were encountering. We're not seeing that as much anymore—in fact, as Tim noted in his comments, on the pricing side, a bias towards premium pricing. Perhaps people are stepping back and they are looking at our disclosures and their concluding Cameco has come into the market to buy, and so why offer them a discount when they have to be in a position to buy. So, that's possibly good news.

Then the third is who's selling. There's been this myth kicking around the market, if all of these pounds held by utilities that will just come flooding into the market if there's any sort of price recovery, and I guess happy to report we are not seeing any of that material, that's not being offered to us.

On those three data points, is that enough to make a trend? No. But, to the extent you want to draw some conclusions, the market appears to not have the depth that some would've been suggesting in the past, and so we will continue working through this purchase program and we will continue updating you and others on what we see.

GREG BARNES:

Great, thank you, Grant. Just a follow-up question on the CRA notice of appeal. If they're not appealing the sham, just focused on the transfer of pricing provisions, I'm having trouble understanding what the appeal then is based on. I know you don't have a lot of information, but if it's not a sham, how can they then appeal on the transfer pricing provisions?

TIM GITZEL:

Yes, Greg, good question, and we're a bit in the dark as to where they're going with that, as well. It will be important to see their documents when they get them out. I think they have 90 days, Sean, to get them out if they don't get an extension, which they normally do. Sean, do you have any comment on Greg's—

SEAN QUINN:

Well, just simply that they're going to focus the appeal. Giving up on sham means they have to focus the appeal on Section 247 of the Act, which is the transfer pricing provisions, and they will have to pursue probably a very legalistic analysis of those sections to try and come up with what they're going to attack, but we really won't know more until we see their appeal books in due course.

TIM GITZEL:

Greg, the important thing is that there's no retrial at the Court of Appeal, there's no calling new evidence, and that's a pretty important piece. They go off the material that's provided in the front of them. We went through a 16-week trial with innumerable witnesses and experts, and that doesn't happen again, they go off of Mr. Justice Owen's decision, and so we'll see. It's a bit of a road to go yet, but I could tell you we're still feeling pretty good about it.

GREG BARNES:

Yes, okay. Thank you.

TIM GITZEL:

Thank you.

OPERATOR:

Our next question comes from Oscar Cabrera with CIBC.

OSCAR CABRERA:

Thank you, Operator, and good morning or afternoon, everyone. Just getting back to the questions you've been getting on the behaviour in the spot market, you—since you closed McArthur or announced that you were closing it for an extended period of time, have you seen any changes in the recycling part of the business, i.e underfeeding, has that slowed down? Is it just material that people are keeping from the spot market in order to increase the spot price?

TIM GITZEL:

Oscar, thanks for the question. No changes that we are seeing on the underfeeding, I think it still continues. Our view is that it's going to diminish over time as the market continues to improve, but it's pretty soon still, we're a couple of months out from our decision that we took in July. We've seen certainly an improvement in the spot price. So, no real change on any of that yet, Oscar, that we've seen.

OSCAR CABRERA:

Okay, thank you, Tim. I also noticed that you lowered your care and maintenance costs for your operations in the U.S. and Rabbit Lake. Can you perhaps provide a little colour around that? What are you looking to do?

TIM GITZEL:

Yes, thanks. I'm going to ask Brian Reilly to comment on that.

BRIAN REILLY:

Yes, look, we're in a restoration stage primarily, so really nothing has changed, Oscar, in terms of the operations. It's just how we allocate our care and maintenance costs. By and large, it's been business as usual in the U.S., Oscar.

OSCAR CABRERA:

All right. Thank you very much.

TIM GITZEL:

Thank you. Have a good day. Thanks.

OPERATOR:

The next question comes from Alexander Pearce with BMO Capital Markets.

ALEXANDER PEARCE:

Good morning all. Just given we're getting towards the end of the current agreement with Orano, I just wonder whether perhaps you could comment on, first of all, the timing, if there was any kind of potential extension of it, and maybe if Orano was keen, what's your appetite for providing more material to them, and given it would probably increase your purchase next year?

TIM GITZEL:

Hi, Alex, thanks for the question. Our agreement with Orano continues as expected. I think we've delivered about 4.1 million pounds out of 5.4 million, in that range, and we'll continue to follow the terms of the agreement, so we'll probably top that up by the end of the year, a repayment out by 2023. So, no change there, it's working very well. Listen, the hypothetical, I better not go there. If they need more material, they'll have to get it from somewhere, I guess, but we haven't had any request in that regard.

ALEXANDER PEARCE:

Okay. Thanks.

TIM GITZEL:

Thanks, Alex.

OPERATOR:

The next question comes from Fai Lee of Odlum Brown.

FAI LEE:

Thank you. Tim, China's National Nuclear Corp. has recently made some comments about investing in overseas uranium mines, becoming a leading uranium company, maybe taking partnerships or acquiring other companies. I guess there's two ways to look at those type of comments, one is it's either a risk to Cameco or an opportunity, and just wanted to get your take on that.

TIM GITZEL:

Yes, Fai, thanks for the question, that's a good one. I was just over there about a month ago with the Premier of Saskatchewan, we actually met with them, and I can tell you China continues to go. They're steaming toward their 58 reactors by 2020, probably won't hit exactly that, but that has not stopped them at all. They've got now a couple of AP1000s going, which they were hoping to do, they've got an EPR up and going. So, China continues unabated. I saw some news report the other day that they need to quicken the pace if they're going to have any chance of meeting any climate change and all of that stuff. So, they're very aggressive, they're going to need lots of uranium going forward, and they've always said that they will be buyers in the market for a percentage, they will be domestic producers— that won't be very much because they don't have very much—and then they want to produce internationally and bring it back. We've been in discussions with them—well, of course, they're a big customer of ours, as well, but I can tell you they'd be very interested in our Saskatchewan assets or any other assets we have, and so they're very aggressive, very aggressive and so we will see.

We haven't got anything to announce that them at the moment, but you'll see them. Because their buildout is so rapid and large over time, their needs just continue to grow, and so we see them. We're kind of watching them in Namibia, that's their colleague, CGN, but with that Husab project, it's been pretty radio silent on that one. We assume they're having the same start-up problems that everybody else has and will have with a new project, new country, new owners. It's tough and it's not getting any easier, I can tell you.

So, yes, I'd say both of the Chinese players, CGN and CNNC are aggressive internationally and you'll see—I mean, they have some investments in Saskatchewan already and you'll see them looking for more.

FAI LEE:

Okay. In terms of the CRA, I'm just wondering in terms of—obviously, you're trying to deal with appeal process right now, but I'm just wondering looking beyond that, in terms of, I guess there's still the subsequent years to deal with, and will the transfer pricing in those subsequent years, is that pricing, the transfer prices, would they have all been determined years before, or is there a possibility that in terms of this current appeal, that they're just maybe trying to set it up for the subsequent trial to get themselves in a better position?

TIM GITZEL:

I certainly hope the subsequent trials are with somebody else and not us, but we're not sure what their motivation is on the appeal. As we said, and as I've said opening the thing up, that we're very happy to see the sham piece disappear. That was a big ticket. If the whole structure went down, then that wouldn't have been a good day. In fact, it didn't. In fact, they've dropped that piece. Not only was there a financial burden on that one, there was the reputational piece that I didn't like very much, because I didn't like that they were attacking our house and our people. So, for that to go way is important. We don't know how—we think Mr. Justice Owen's decision should apply to subsequent years. We haven't changed anything going forward. From the years '03, '05 and '06, we haven't changed our structure, and so we're waiting to see and hoping it will apply to those years, as well.

FAI LEE:

Okay. Thank you.

TIM GITZEL:

Thank you.

OPERATOR:

The next question comes from Lawson Winder with Merrill Lynch.

LAWSON WINDER:

Hi, everybody. Thanks for taking my question. The first question would be what would a timeline be to the start of some sort of settlement discussion with the CRA? Then, I'll give you my follow-up right now, which would just be, you know, looking at the current situation that you guys are in with the CRA, in terms of having such an overwhelming ruling from Justice Owen and then having it appealed, are there any relevant precedent cases that you can point to that might hint at how things might go here? Thanks.

TIM GITZEL:

Thanks, Lawson. We don't use the word "settlement" anymore, we talk about a possible resolution of future years, and I can tell you those discussions have not started, we're pretty fresh into this. Like I say, they just filed their appeal a week ago, and so the next, at least legal move is for us to file our application for costs. Sean and his team are busy putting that together and we'll put that in front of Mr. Justice Owen within the timelines required. So, that's the next piece. Look, we're just kind of waiting to see how things play out over time. We don't really know what the process is going forward, we haven't heard a lot from them, and we haven't made any efforts to do so, at least not yet.

Sean, do you want add anything?

SEAN QUINN:

In terms of—I think there was a question in there about do we have precedents …

TIM GITZEL:

Right, sorry. Thank you.

SEAN QUINN:

… that would come to play on this, and I would just come back to saying that we believe Justice Owen's decision was very strong, very sound, very well reasoned, and would expect it to be upheld by the Federal Court of Appeal.

TIM GITZEL:

Thanks.

LAWSON WINDER:

Yes.

OPERATOR:

The next question comes from Orest Wowkodaw with Scotia Bank.

OREST WOWKODAW:

Hi, thanks for taking the follow-up. I just wanted to ask a bit more about the CRA, because I'm just a bit confused on how things go on from here. When do you expect to find out whether you need to keep making these installment payments as potentially laid out over the next couple of years? I understand also the $300 plus million sitting in cash, but do you have to keep making these payments through the whole appeal process? I guess, what's the expected timeline to figure out (a), when the refund is coming, but also the payments?

TIM GITZEL:

Yes, thanks, Orest. I'm going to turn it over to Grant, because pre-decision he was the person that was in touch with the CRA, from our point of view. He and Sean were talking to them, we haven't had a whole lot of conversation since. But, Grant, do you want to talk about our financial capacity and cash?

GRANT ISAAC:

Yes, happy to do that. Orest, these a great questions and they're not easy, so just bear with me a little bit. Remember the decision pertains to '03, '05 and '06. So, when we talk about applying for cost, it was the cost of taking those years to trial, and when we talk about expecting a refund, it's for what we've remitted for those years. Then, there's the other years, as you point out, 2007 to 2012, which they've reassessed us for, and we have the financial capacity tied up for those years, as well, and then there's the years beyond and what they do with '13, '14. Really, we just don't know. We would expect, and I think it's reasonable to expect, the CRA, on the receiving end of such a clear judgment, wouldn't take subsequent action. They would stop their reassessments, they would stop pursuing any transfer of pricing penalties, because they would recognize the decision said that Cameco complied with the law. That would be a reasonable position to take, Orest, but I'm not sure I can assume that right now. So, we just don't know. Of course, if they take further steps on the subsequent years, we'll disclose that, we'll explain it to you as best as we can, but at the moment it is one of those things that it's just uncertain. We certainly would think they shouldn't, but, ultimately, it's quite distinct from the years '03, '05 and '06, and the decision around it.

Let me just finish by saying hopefully, while we're in appeal, there's an armistice, if you will, to use Sean's words, but we just don't know, and I would say that the behavior in the past would suggest we probably will be dealing with subsequent years being reassessed.

OREST WOWKODAW:

Which would require you to keep making payments until there's some resolution then?

GRANT ISAAC:

That would be the requirement, and then, of course, we would look into all our options in face of that appeal.

OREST WOWKODAW:

Okay. Thanks very much.

TIM GITZEL:

Thank you.

OPERATOR:

The next question comes from Patrick Sojecki, a Private Investor.

PATRICK SOJECKI:

Hi, guys. Thanks for taking my question. You mentioned some insights from kind of an inventory perspective, owning the licensed storage facility. I was curious, given some of your relationships with some of the enrichment players globally, like Tenex or URENCO, or the fact that you guys own quite a significant chunk of global conversion capacity at Port Hope, can you comment at all on SWU pricing or conversion pricing going forward and its potential effects on the underfeeding assay?

TIM GITZEL:

Yes, Patrick, thanks.

PATRICK SOJECKI:

Kind of a loaded question, sorry.

TIM GITZEL:

Yes, and I don't know if I will unload it for you, but SWU pricing is outside of our expertise. But, Grant, maybe you have a comment?

GRANT ISAAC:

Yes, I think the high-level comment on SWU pricing is that that remains a market that has a lot of excess capacity and there would have to be a lot more uranium demand that would come to the market to tie up that excess capacity. It's that excess capacity which has led to the ability to underfeed and see that material, instead of being deployed for enriched uranium, being put into the uranium market. I think that the green shoots that you're seeing in uranium, you're not quite seeing in SWU yet, but, of course, we know that momentum goes hand-in-hand. If we begin to see meaningful term demand occur in the uranium space, it will also carry with it term demand in conversion and it will also carry with it term demand in SWU, so there could be kind of a rising tide floating all boats, but at the moment the SWU market does have a lot of excess capacity.

When it comes to conversion in particular, it's important to remember Tim's words, and that is conversion, like uranium is, right now, undergoing some price appreciation because of curtailed supply. So, you've got ConverDyn down, you've got the Springfield facility in the U.K. has been down for a couple of years, you had our production back to certainly not optimal levels, and you had Orano going through a transition from an old facility to a new facility. So, all of that to say conversion price is not driven by a scarcity due to supply destruction, it's being driven by supply discipline.

Right now, conversion is doing well, but there is capacity and it's idle, but could come back to the market, and so that should temper any view that conversion is on its way to a $30 or $40 of KgU. That's just not going happen, because that will bring back idled capacity. But, it is indicative of the fact that as we come out from under significant secondary supplies, significant secondary supplies that have historically showed up as UF_6, and we replace it with uranium concentrates, they then have to be converted, and so that is buoying for the conversion segment of the industry.

Those would be the high level observations on SWU and conversion.

PATRICK SOJECKI:

Great. Thank you.

TIM GITZEL:

Thanks, Patrick.

OPERATOR:

The next question comes from Ismuru Sen with Radiant.

ISMURU SEN:

Hey, guys. Thanks for the update. Quick question on Kazakhstan. I know you have some production there. The production curtailments that were announced by the government to clean up the excess supply, how is that conveyed? I believe half of that comes from the government online and half of it comes from private. How is that translated through to the private players and what's the progress been on that front?

TIM GITZEL:

Thank you for the question. You're right, it is—the reductions that they've put in place do come from all parties, because they're joint venture partners with all of us, whether it's the French or us or the Russian partners. They, at the state level, can make a decision as to what the production level should be and that translates through to KazAtomProm. This year, they're holding it down, we've heard 21,600 tonne for this year, which is down, it's down from previous years, and certainly down from where they could be producing. That just gets translated through to the joint ventures, including ours, and so our production levels will be coherent and consistent with that.

ISMURU SEN:

The government versus the private, how is that proportioned out and who's been doing more of the work versus the other?

TIM GITZEL:

Yes, well, it's really proportioned out through the joint venture, so it depends what your equity interest is in the joint venture is. It's across the board. I don't know exactly what the proportion of, as you say, government and private interests are in Kazakh joint ventures, not a lot of private, private in the sense of publicly traded like us, but it's across the board for all of the joint ventures that they have, and so they're all reduced proportionately.

ISMURU SEN:

Got it. Any other sense if that production is actually going down, because the last I heard it was actually not?

TIM GITZEL:

Well, you have to understand that we were in the process of increasing our production through agreements we've made, a deal we made with the Kazakh's about a year ago, a year-and-a-half ago, Sean. We're not getting to the levels we should be at because of the decision in Kazakhstan to reduce all production proportionately, so we're hit by that, as well.

ISMURU SEN:

Great, thanks, and congrats again.

TIM GITZEL:

Yes, thank you very much.

OPERATOR:

The next question comes from John Tumazos with John Tumazos Very Independent Research.

JOHN TUMAZOS:

Thank you. Excuse my question, I'm not fully familiar with uranium practice. Whenever a customer shuts down, such as Belgium decided to phase out their nuclear reactors in the past year, or FirstEnergy shut a reactor in south Jersey a few weeks ago and plans to phase out Shippingport PA and two in Ohio, and in other industries, there's takeback agreements, like titanium suppliers or high nickel alloy suppliers might take back the high-value scrap for unsold product, how are the inventories of a departed customer typically liquidated?

TIM GITZEL:

Absolutely on a commercial basis. I mean, we expect them to honour the contracts we have with them, they've usually planned that out in advance as to how much they need, and any kind of a solution would have to be on the commercial basis. There's no real rule for that and we haven't seen a whole lot of that, but it's dealt with commercially.

JOHN TUMAZOS:

Do you retain the right to buy back at market the inventories of one of these shutting down entities?

TIM GITZEL:

Yes, in some cases we do, and in some cases, others that we don't have dealings with, might come to us to see what we might do, but it's such a minor amount it wouldn't even hit the radar screen for us.

JOHN TUMAZOS:

Thank you.

TIM GITZEL:

Thank you very much.

OPERATOR:

The next question comes from Jim Ostroff with Platts.

JIM OSTROFF:

Yes, hi, and thank you. I'm hoping you can provide a little bit of clarification here. You had issued an estimate that Cameco this year hereon will need to buy 1 million to 3 million pounds of material. Reference was made a little earlier in this conversation here about the 0.5 million pound RFP. Can I ask, can you say whether that has closed?

TIM GITZEL:

Yes, that has closed, Jim, yes.

JIM OSTROFF:

Okay. So, just then to clarify, the need to buy 1 million to 3 million pounds takes that into account?

TIM GITZEL:

Yes, Jim, it does. We need 1 million to 3 million in addition to that. We're just looking through that one now. As Grant was pointing out, it provided us some really good information on who's out there, who might be selling, what are the quantities and what's the price spread, and we're certainly seeing that tighten up. So, that one is in and we still have 1 million to 3 million pounds to purchase this year.

JIM OSTROFF:

Okay, and if I could put one other very briefly. In the full presentation here, there was a statement of that over time, financially (inaudible), we believe some of the material currently sequestered in these funds will make its way back into the market, potentially temporarily oversupplying the spot market and putting downward pressure on prices. I would appreciate it if you could provide any additional information as to how significant a potential risk this may be.

TIM GITZEL:

Well, Jim, you and I have both been in the industry a long time, we've seen that happen in the past. You remember in the '06, '07, '08, '09 time period, financial players were like lighter fluid on a market that was moving up, they really moved it up fast, and then when things started to move they went the other way and liquidated. I don't think it's a big risk at the moment. I think there's a lot of interest. We see a lot of interest from financial players, some of them you know and others that you might be surprised to know, that are looking at the uranium space now, see the supply demand fundamentals. There's always that risk. Most of these funds, I think Yellowcake and some of the others that are—UPC, that have put their funds together are buy-and-hold, they plan to hold for a long time and play the commodity over time, but there is always that risk at some point they could put some back into the market, but we certainly see it going the other way at the moment.

JIM OSTROFF:

Okay. Therefore, at the moment you see them buying?

TIM GITZEL:

Yes, absolutely. I think Yellowcake was the biggest ticket. I think they've got 8.441 million pounds now in—well, with us actually—in their control, and we know there's others out looking. So, yes, it's going the other way at the moment.

JIM OSTROFF:

Okay. Thank you.

TIM GITZEL:

Yes, thank you, Jim.

OPERATOR:

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

TIM GITZEL:

Well, thank you, Shianney. With that, I just want to say thanks to everybody who's been on the call with us today. We always appreciate your interest and support. I'd just say that we're managing this Company through this noisy market and we will always make the decisions necessary to keep Cameco strong and viable for the long term. So, thanks for joining us today. Have a great day and 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.

