Cameco Corporation

Second Quarter 2019 Results

Conference Call Transcript

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Presenter:

Leah Hipperson
Manager, Treasury and Insurance

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

OPERATOR:

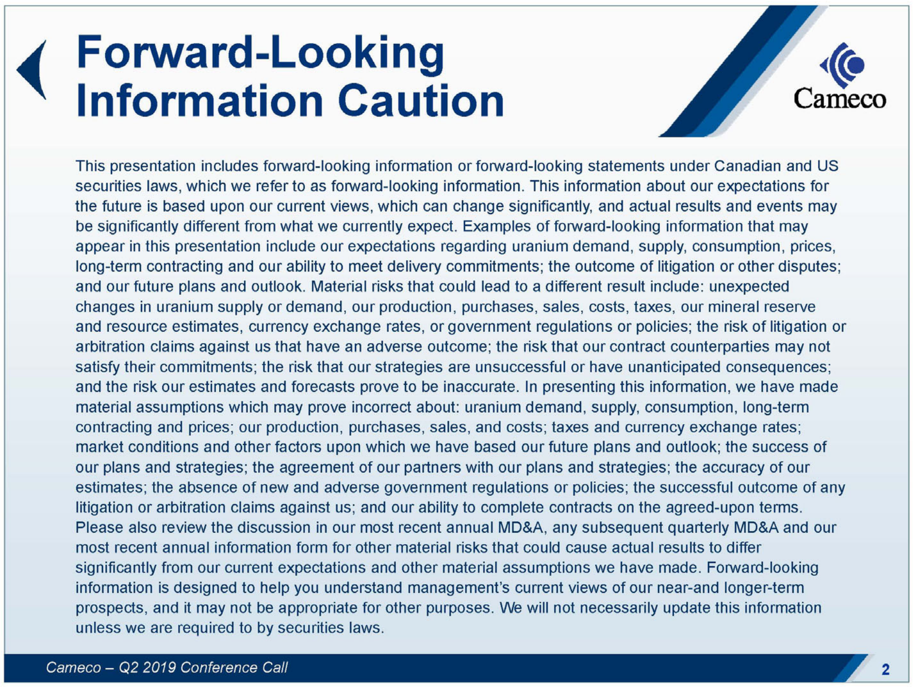
Welcome to the Cameco Corporation Second Quarter 2019 Results Conference Call. As a reminder, all participants are in listen-only mode and the conference is being recorded. After the presentation, there will be an opportunity to ask questions. To join the question queue, you may press star, one on your telephone keypad. Should you need assistance during the conference call, you may signal an Operator by pressing star, zero.

I would now like to turn the conference over to Leah Hipperson, Manager, Treasury and Insurance. Please go ahead, Miss Hipperson.

LEAH HIPPERSON:

Thank you, Operator, and good day everyone. Thanks for joining us. Welcome to Cameco's Second Quarter Conference Call. Today's call will focus on the trends we are seeing in the market and on our strategy, not on the details of our quarterly financial results. If you have detailed questions about our quarterly financial results, please reach out to the contacts provided in our news release and we will be happy to help you with those details.

With us today on the call are Tim Gitzel, President and Chief Executive Officer, Grant Isaac, Senior Vice President and Chief Financial Officer, Alice Wong, Senior Vice President and Chief Corporate Officer, Brian Reilly, Senior Vice President and Chief Operating Officer, and Sean Quinn, Senior Vice President, Chief Legal Officer and Corporate Secretary.



Tim will begin with comments on our strategy and the market. After, we will open the call up for your questions. If you join the conference call through our website event page, there are slides available which will be displayed during the call. The slides are also available for download in a PDF file 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 question-and-answer 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 Leah, and welcome to everyone on the call today. We appreciate you taking the time to join us. As we noted last quarter, it's our intent to use our quarterly calls to talk about what we're seeing in the market and about our strategy. Our results for the quarter and for the six months reflect the outlook we've provided for 2019 and the normal quarterly variation in contract deliveries which are weighted to the second half of the year. While there's a lot of noise in the market, I want to start today's call by reminding you of the key message. We continue to do exactly what we said we would do, executing on our strategy to add long-term value and we remain committed to that strategy. We've taken a three-prong approach in the execution of our strategy, operational, marketing and financial. So why is this our strategy? It's because the current market is very difficult primarily due to other suppliers in the industry who lack conviction or experience, suppliers who are still over-producing their committed sales and using the spot market for surplus disposal at a time when demand is discretionary. Yet, today's low prices creating tomorrow's opportunity for us because investments in future supply are not being made while future demand is growing. With our world-class assets, we are well-positioned to capture that demand that will come to the market.

So, let's turn to the two pieces of good news we announced on July 13. First is the decision in the TEPCO arbitration. We are pleased the arbitrators once again ruled in our favour, agreeing that TEPCO did not have the right to terminate its uranium supply agreement. In other words, it broke the law. However, we find the award of damages in the amount of $40.3 million U.S. very disappointing, and we simply cannot explain the flawed thinking that says TEPCO does not have the right to cancel a contract, but then does not allow us to recover the full value of the contract. What was perhaps even more disappointing, was the market reaction to the news. Let me be very clear, this ruling does not jeopardize our portfolio of contracts. After two international arbitrations the legal result is clear. Cancelling a contract by claiming the Fukushima disaster as an event of force majeure is a breach of contract. The legal clarity is the deterrent to others. Our customers are publicly traded entities, publicly regulated entities, and state-owned enterprises that like Cameco are governed by a code of conduct and ethics. With TEPCO being a rare exception, our customers honor their contracts as we do. We have continued to make deliveries even when the price we were receiving was well below the market because in our world, a contract is a contract.

In addition, we have good relations with our customers and have been able to successfully accommodate the impact of Fukushima and the resulting market weakness on those affected. Further, unlike TEPCO, our customers have reactors operating and require uranium for ongoing operation, reactors that could run for 40 to 60 years and they recognize markets cut both ways. With security of supply being paramount, the premise that you can unilaterally terminate a contract if you don't like the price should be very disturbing for them as well. Like us, there are times when their contracts are in the market and times when they aren't. Keep in mind in our previous arbitration, we recovered the full amount of the contract. At best, the odds are 50/50 and now ongoing commercial supply is put at risk. Let me say it again, our contract portfolio is on stable ground.

The second piece of good news is of course the President's decision in the section 232 trade investigation. We are pleased that President Trump found that no new trade restrictions are required on the import of foreign uranium in to the U.S. at this time. As a commercial supplier, Cameco's uranium has never been a threat to U.S. national security, a distinction we worked very hard to emphasize. I'll come back to this a bit later.

So, a couple more of the big outstanding issues have been resolved which is good news. As I emphasized at the beginning of the call, we have a deliberate strategy based on value and we remain committed to that strategy. On the operational front, we decided to preserve the value of our tier 1 assets for better days in the market. We suspended production at the McArthur River Key Lake operation removing 18 million pounds of supply from the market. The suspension was temporary at first, then based on continued market weakness, we transitioned to an indefinite suspension. Make no mistake, McArthur River Key Lake is coming back, supported by the very robust economics and the significant value we expect it will create when it comes back in to production. However, we do not intend to restart until we are able to commit those valuable pounds under acceptable 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. For the time being, McArthur River Key Lake along with our Rabbit Lake and U.S. operations will remain in care and maintenance resulting in annual supply reduction of more than 26 million pounds.

In terms of the market aspect of our strategy, our supply actions require that we take demand action as well. Our inventories in 2018 while significant were not enough to meet our delivery commitment, so we were required to buy material in the spot market. This requirement not only continues in 2019, it ramps up. In the second quarter, our sales commitments increased. We now have sales commitments of between 30 million and 32 million pounds in our uranium segment. That means we now need to take delivery of between 21 million to 23 million pounds of purchased uranium just to meet our current 2019 delivery commitments. The majority of these volumes, more than 70%, are expected to come from the spot market.

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Over the first six months of the year, we've taken delivery of about 12.7 million pounds of purchased uranium. This material was drawn partially from our long-term purchase commitments and from Inkai with the majority coming from the spot market. In addition, we have secured a portion of the remaining spot material required but have not yet taken delivery. We still have purchasing activity ahead of us this year in order to fulfil our contracted sales. Remember, because our contract book extends beyond 2019, like in 2018 we expect to also begin securing uranium this year to meet next year's delivery commitments. So 21 million to 23 million pounds really represents the floor for our purchasing activity in 2019.

There are some additional variables to keep your eye on as well that could further accelerate our purchasing in 2019, those being additional sales commitments in either 2019 or 2020, an increase in our target inventory as a result of increased sales or tightening supply, and any unplanned production variance. When we make purchases, our goal is always to buy uranium as cheaply as possible in order to maximize our gross profit. Therefore, if the market sentiment points to lower prices tomorrow, we will wait to buy. However, if we see a change in sentiment that suggests prices will be higher tomorrow, we will purchase today. Let me be very clear, we will not be the buyer of last resort. We are not here to assist others to achieve their profit targets.

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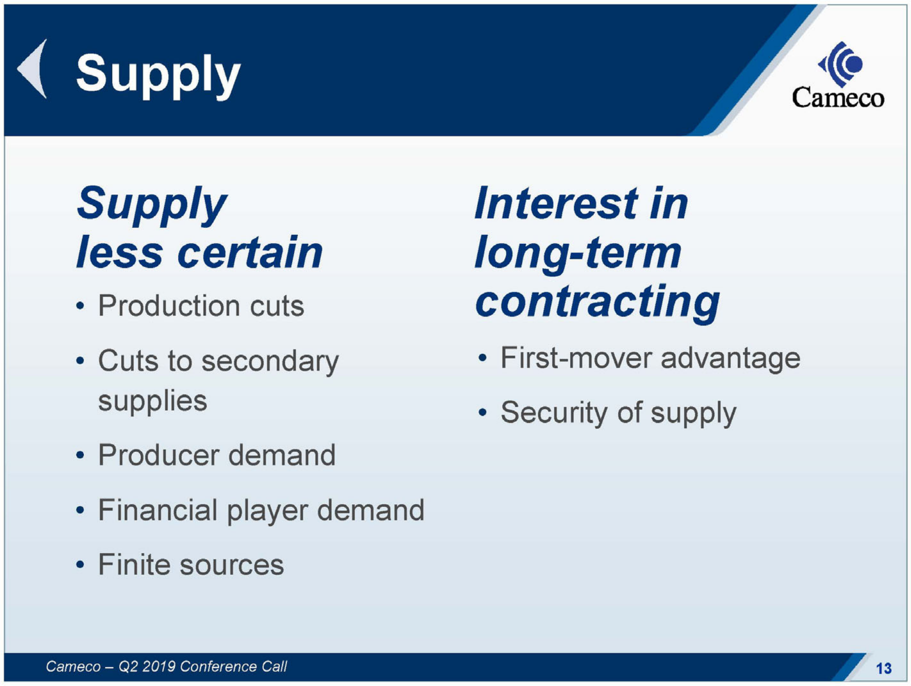
When you combine our expected sport purchases for 2018 and 2019 and include the production we have taken out of the market since 2016, we will have removed more than 70 million pounds of uranium from the market with the potential for more to come. Our supply and demand actions are backed up by a financial goal to strengthen our balance sheet and position ourselves to self-manage risk, and I can confidently say we have successfully achieved this goal. At the end of the second quarter, we held $1.1 billion in cash. We will also continue to generate cash from operations this year. Even with our decision to retire the $500 million in debt that matures in September, we expect to maintain a significant cash balance. Today, our balance sheet is in good shape. Once we collect them, the cost award for our CRA trial and the damages under the TEPCO contract will also help. There also remains some upside depending on what uranium prices do for the remainder of the year and whether a final resolution of our CRA tax case can be achieved on terms consistent with our unequivocal win in tax court. I am happy to report that we are batting three for three in terms of the execution on our strategy.

Turning to the market, as I said last quarter, it is fundamentally better than it was a year ago. In 2018 from a demand point of view, consumption returned to pre 2011 levels. We have now filled in the pothole of lost demand, and that demand continues to grow. There are more than 50 reactors under construction, and as each of these reactors gets turned on, it represents net new demand. In China alone, the fastest growing nuclear energy market in the world, there are 45 reactors operating, 11 units under construction, and they are targeting 120 gigawatts by 2030. Don't forget their aggressive reactor construction plans to build 30 reactors outside of China over the next decade as part of the Belt and Road Initiative.

In addition, there is the growing recognition of the role that nuclear power must play in ensuring safe, reliable, and affordable zero carbon electricity generation. For the first time in nearly two decades, the International Energy Agency released a report on nuclear energy in the hopes of bringing it back in to the global energy debate. The report highlighted that a steep decline in nuclear power would threaten energy, security, and climate goals and result in four billion tonnes of additional carbon emissions by 2040. Adding four billion tonnes of carbon emissions to the atmosphere would mean adding the equivalent of the annual emissions from the United States, the second largest source of greenhouse gas emissions in the world. And as I have said before, this growing recognition of the benefits of nuclear is not new. I've seen this movie twice before. Nuclear falls out of favour politically, and a number of countries announce they are going to reduce reliance on or phase out nuclear. Then the world steps back and examines its options for carbon-free base load sources of electricity and realizes the options are limited. There's hydro which is an option for some countries but not all, and there's nuclear. And they realize that nuclear can provide the power they need not only reliably, but also safely and affordably, and in a way that avoids emitting greenhouse gases. There's no doubt there's a role for wind and solar, but they aren't base load. Our healthcare, education, communication, and transportation systems can't just shut down when the sun doesn't shine and the wind doesn't blow. Then consider the ambitions in China and India for increasing the number of electric vehicles on their roads. I can tell you if they are powered by carbon-producing sources of electricity, they'll be doing more harm than good. So clean air concerns and climate change aren't going away. You can look at the news every day and see an increased sense of urgency to limit the temperature increase of the planet. Perhaps that's what's different this time, it's that sense of urgency.

Even the investment community is concerned. There's been a significant rise recently in the focus on environmental, social, and governance or ESG issues. Many pension funds, mutual funds, and investment firms are developing strategies to measure and address the impact of these ESG issues within their investment portfolios. Not surprisingly, the business and financial risks associated with climate change are front and center. While support for nuclear is growing and demand for nuclear fuel is certain and growing, supply is less certain and in fact declining.



Over the past several years, we have seen meaningful production cuts and reductions in producer inventories. This has lead to increased demand for uranium in the spot market from producers and financial players. With decreasing primary supply as a result of these curtailments and demand in the spot market from producers and financial players, the interest in long-term contracting is once again starting to pick up.

At Cameco, we're having off market conversations with some of our best and largest customers about what it takes to support the operation of our tier 1 assets longer term. These customers, whose uncovered requirements are growing, are recognizing the risk that over-reliance on finite sources of supply poses to the security of their supply longer term, and they want first mover advantage. In light of some of the issues affecting our market, they are increasingly looking for stable commercial suppliers with long-lived tier 1 assets, a proven operating track record, and favourable performance on the ESG factors I mentioned earlier, and there aren't many of us. As you know, in the first quarter we added 25 million pounds to our long-term contract portfolio and we expect more to come, so stay tuned.

However, while we are seeing encouraging signs, make no mistake, there's still a long way to go before we decide to restart McArthur River/Key Lake. While the long-term fundamentals reflect a growing demand story and a market where the uranium price needs to transition, today we still have a uranium price rooted in surplus disposal in the spot market which drags down the long-term price. The long-term price needs to transition to one that will incent existing tier 1 production to restart and ramp up to full capacity with the spot price then reflecting a discount of the long-term price.

However, at the beginning of my remarks, I mentioned that there are some short-term factors driving sentiment in our industry and delaying the transition. Market access and trade policy issues were at the top of that list making the availability of supply where it is needed much less predictable. The most notable of these market access and trade policy issues was the investigation under Section 232 of the Trade Expansion Act in the United States. As I said at the outset of my remarks, we are happy with the President's finding that new trade restrictions are not required on the import of foreign uranium in to the U.S. at this time. However, the President did acknowledge that there are challenges for the industry and is establishing a working group to further analyze the state of U.S. nuclear fuel production. We believe the working group will allow for a broader range of tools to be considered in addressing the industry challenges which go beyond just uranium production encompassing the entire front end of the U.S. fuel cycle. The working group has up to 90 days to report back on its findings and any recommendation it has to enhance U.S. domestic capabilities. We will support the efforts of the working group in any way we can. As a long-time commercial producer, employer, supplier and investor in the U.S. with current idle capacity, we want to see this industry grow and succeed. We expect there may continue to be some uncertainty until the findings and recommendations of the working group are finalized, but we ultimately view the decision as positive.

Some of the other short-term factors include the role of financial players as they build a physical position in uranium and the varying degrees of market conviction and discipline they exhibit. From a supply point of view, there is still uncertainty created by the May 31 expiry of Orano's collective agreement with unionized employees of the McClean Lake Mill where we send our Cigar Lake ore. Cigar Lake supplies 18 million pounds of uranium per year, more than 10% of annual consumption, so any labor disruption could create a significant swing in supply. Until a new agreement is reached, that risk will remain. In the meantime, they continue to operate under the terms of the expired collective agreement.

On the other hand, also from a supply point of view, it is clear that not all value strategies are created equal. We can't lose sight of the fact that while we have taken steps that are helping to clean up the spot market, cutting our production well below our committed sales volumes and purchasing pounds to fulfil our commitments, there are others in our industry who are still over-producing their committed sales volumes and using the spot market for surplus disposal, and there are a number of developers who have not learned the lessons of past producers and are promising new uncontracted supply on very optimistic timelines. Even if those promises were to materialize, it's no mystery as to where those pounds will end up in yet another failed volume strategy.

Today, the market dynamics are changing due to a number of moving pieces. However, what isn't changing is the commitment to our strategy. It's a deliberate strategy that allows us to respond to the 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 portfolio and are the only uranium 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. Ultimately our goal is to remain competitive and position the Company to maintain exposure to the rewards that will come from having low cost supply to deliver in to a strengthening market.

Thanks again for joining us today, and with that we would be pleased to take your questions regarding the market and our strategy.

OPERATOR:

Certainly. We will now begin the question-and-answer session. In the interest of time, we ask you to limit your questions to one with one supplemental. If you have additional questions, you are welcome to rejoin the queue. To join the question queue, you may press star, 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, please press star, 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 a question may press star, one at this time. We will pause for a moment as callers join the queue.

Our first question comes from Ralph Profiti with Eight Capital. Please go ahead.

RALPH PROFITI:

Hi there, thanks for taking my questions. Tim, I'm looking at your increased guidance for deliveries in 2019 and the commensurate purchases guidance. Is that due to increased demand? I'm hoping you can talk a little bit about the drivers of that updated guidance.

TIM GITZEL:

Yes, Ralph, thanks for the question, nice to talk to you today. Yes, it is. Indeed, we've got some customers, clients if you like that are looking for a bit more material and have come to us for that. We're happy to supply them. We're happy any time we can take pounds off the spot market and find a nice stable long-term home for them and get them off that merry-go-round. That's really what's behind that. It's customers that have come out and need a bit more material this year.

GRANT ISAAC:

Yes, I would just add Ralph—it's Grant—that we consider that fundamental demand and we actually consider it to be very positive, fundamental in the sense that it's utilities. As Tim said, once we sell to them that material is gone. It's not demand from intermediaries, we're not interested in that demand because that's just going to add to churn in to the market, it actually goes hand in glove if you will with the broader good news in the market that we put out in Q1, and that was that we are seeing those off market conversations with our customers about term business. So, no surprise when they're thinking about term business they're also thinking about spot business as well. We actually view this as a very positive development.

RALPH PROFITI:

Good. Thanks for that. A follow up, in the Section 232 decision, it wasn't really clear to me on the nature of the working group's focus, okay. Specifically, the role of say sovereign entities and operating uranium assets in foreign countries, and how the U.S. was going to treat that. Do you think that this is something that they're going to look at?

TIM GITZEL:

Good question Ralph. We were heavily involved in the task force that the NEI put together to help inform, if you like, the White House when they made their decision, and so obviously thrilled when the decision came out. We weren't maybe anticipating this additional working group 90-day period review. I think the good news in all of this is that through the 232, there were some pretty blunt instruments that the President could have employed, there's tariffs and quotas that we never really understood how they would in practice be deployed. So, those seem to be gone, and now I think that rather lengthy group that's been put together and weighty, is going to be looking at things like their policy adjustments, legislative changes that can be made to help the front end of the fuel cycle if it's needed, things like tax abatement subsidies, things like that. I think that piece is going to be looked at. I didn't see any specific points regarding state-owned enterprises or any specific direction to that committee to look at that, but I wouldn't be surprised if it comes up.

RALPH PROFITI:
Okay, great. Thanks for that.

TIM GITZEL:
Thank you.

OPERATOR:
Our next question comes from Brian MacArthur with Raymond James. Please go ahead.

BRIAN MACARTHUR:
Good morning. I just thought I'd ask a little bit about Japan. I think you mentioned last quarter that when you put our RFQs out you saw some interest from Japanese utilities selling. Has there been a change in behavior especially post the TEPCO decision?

TIM GITZEL:
No, we haven't seen any change in behavior, Brian. We thought we were fairly transparent last quarter when we said that we saw some material potentially trickling out of Japan, not very much, but there was a bit and we've always said we'd be clear with what we were seeing from Japan. I can tell you from a Cameco point of view we're seeing a bit of a net inflow in to Japan. There are three utilities running some units there, more to come, and we've been having discussions with some of the Japanese utilities on—very positive discussions on inflow in to Japan, so if there's anything new it's that.

BRIAN MACARTHUR:

And, would they be looking for long-term contracts?

TIM GITZEL:

Yes.

BRIAN MACARTHUR:

Great. Thank you very much.

TIM GITZEL:

Thanks Brian.

OPERATOR:

Our next question comes from Greg Barnes with TD Securities. Please go ahead.

GREG BARNES:

Thank you, Tim or Grant. Have you seen any earlier reaction from utilities in the U.S. post the 232 decision or are they waiting for this working group process to be concluded?

TIM GITZEL:

Greg, I'll just say that we saw anticipatory movement in the U.S. actually the day before the news came out. I think we saw some transactions, some quick transactions with the price moving, I think it was Grant, $1.00 or $1.50 on the Friday and then in to the Monday, and it's kind of slowed down since then. Not much more. Everyone was waiting for the 232 response to come out, and as I said I don't think anybody was anticipating there'd be kind of a 90 hanger on that, and so I think that's muted things a bit. While we're in to the 90 days, we're probably 10 days in to that, I think that expires about the 14th of October. I can tell you we're busy on that, as busy as we can be either as a company or through the Trade Association, so more to come on that one.

GRANT ISAAC:

Yes, and we could report, Greg, that there is increased interest not turning in to transactions yet, but with 232 set aside, yes there's the working group and some issues to work through, but with

232 set aside the temptation to use those border measures seems to be removed which I think is giving utilities a little more confidence that they can buy with less concern about the origin of the material. It's not going to be a surprise to see we're heading into a normal contracting cycle here into September with the WNA anyway, and with a little more clarity that they don't have to worry so much about the origins, we do expect that to pick up. Don't forget we're going to be a buyer as well, we got a lot of buying left to do. It's going to be an active fall for sure.

GREG BARNES:

I just want to talk to you a little bit about the longer-term strategy too. Your portfolio does roll off most significantly post 2020, and if you don't get the recovery in the uranium price that you're looking for, what do you intend to do with respect to potential margin contraction if you have to contract in to lower pricing?

GRANT ISAAC:

Greg, it's a great question and it is the question at the heart of our strategy. We were looking at a market that really quite frankly doesn't make sense today. We've talked about it over and over again, we'll mention it again today that the spot price is being set by surplus disposal as opposed to being set by the production cost curve, and it's not there yet. That transition has to occur. We know it has to occur because this market has actually led to tier 1 production being shut down, tier 1 production being curtailed. That doesn't make any sense. We know a transition has to occur.

In light of that, looking at the demand picture the uncovered requirements of utilities, we think there's business to be done. So we look at a market today, it's not where we want it to be, we look at a market in the future and we say the fundamentals are supportive, we are not going to chase this market down. I think we've been rewarded for that. The fact that we're able to book business in Q1 and report that to you, the fact that we continue those discussions with the teaser there to stay tuned tells us that this is being noticed. It gives us confidence that as we layer in new contracts that are acceptable to us, we don't have to chase this market down, that we have the coverage right now today to manage through the supply discipline that we have and to come out the other end with a tier 1 strategy. We will have McArthur running, we'll have Cigar running, we'll have JV Inkai, we'll have among the best assets on the planet, those will be reflected in our cost base with acceptable new term contracts. Obviously the higher the transition the better, but it tells us that that tier 1 strategy and that focus on those assets only is the right one and it gives us the confidence we'll transition through this period, the market's got to start incenting tier 1 production to come back. That's the environment we want to price our material in.

TIM GITZEL:

Greg, we just were looking at the UX numbers this morning for the next 10-year period, and there's about just under 800 million pounds uncovered over the next 10 years. It's a slope, an upward slope, less in the near-term, but there's a lot of uncovered material coming forward and we think those pounds have got to come to the market soon.

GREG BARNES:

I'm going to squeeze in one more. Don't you think the window is closing a bit on you though? There's an 18 months' timeframe to the end of 2020 is shrinking, obviously.

GRANT ISAAC:

Well, absolutely from that perspective, Greg, we've been very clear that our strategy to curtail production, to have an operating prong to our strategy along with the demand action strategy is actually a direct response to what you just said, that there is a compression there and we want to say if the market isn't pricing uranium right today because there's excess material, well we have a committed sales portfolio and there could be a home for that material. That's what we're going to target. I would be really concerned if we weren't having these off-market conversations, but we are. To me, it suggests that the path we're on is the right one.

GREG BARNES:

Okay. Thanks Grant and Tim.

TIM GITZEL:

Yes, thanks Greg.

OPERATOR:

Our next question is from Andrew Wong with RBC Capital Markets. Please go ahead.

ANDREW WONG:

Hey, thanks and good afternoon. It's encouraging to hear the higher demand from utilities but it also sounds like maybe there's a little bit more undisciplined sellers out there. Could you just talk about is there more than you would have expected at this point in the market, and where is that coming from?

TIM GITZEL:

Yes, I'm not sure there's more than we would have expected, we're just kind of disappointed to see the extra pounds coming in and more production than committed sales. It's not helping the market. We think we've given at the office as we say, you've seen some of our numbers. I think we've taken about 70 million pounds off the market in the last couple of years. We're continuing our supply discipline. I'm not sure there's more coming in, it's just some of the same sources.

GRANT ISAAC:

Yes, and Andrew, there's a dimension to it as well that these are sales that we're seeing driven by folks who are really consumed with quarter end reporting. You've seen it, you saw it at year end, you saw it again at the end of Q1, you just see some panic selling from intermediaries. They've chosen a strategy, that strategy is to go long and wait for the demand, and then when the quarter ends, they panic. That's their strategy but it has consequences. They have to make some panic sales in the market. Our approach is not to protect them from panicking, our approach is we're going to buy material as cheaply as possible. Their behavior's becoming pretty predictive so we'll just wait for them to panic, sell material, we'll buy it and we'll put it with utilities from where it's never coming back. At some point hopefully lessons get learned, so hopefully some of these intermediaries recognize it's probably a lot smarter to sell forward and to buy, but we're not there yet.

What we're trying to explain is a major question we always get—we talk about how optimistic we are about the uranium space, and how we think the fundamental's in our favour, and then the second question is always oh yes, then what's wrong with the spot price. Well, we're telling you what's wrong with the spot price. Right now, we just have some people who are undisciplined in it for whatever reasons, their own drivers, we want to recognize that, be very clear about it and then explain to you how our strategy is actually in part dealing with that.

ANDREW WONG:

Okay. That's helpful. Then maybe just regarding the purchases and tying that in to your sales, how much of that strategy is trying to find those opportunities from utilities side and making those sales versus trying to facilitate that market for some of those excess pounds to find a home where it doesn't disrupt the market so much?

GRANT ISAAC:

Andrew, I think your framework is the right one. In fact, I wish others had that view because to interpret it as we're making spot sales because we're desperate or selling excess supply, well that's a foolish view, it's a foolish view because it's actually orthogonal to everything we've said. We see demand in the market from utilities, they come to us, we'll grab it when it makes sense for us, then we'll go and find the material to put to those utilities, and then it's not coming back again. Every time we do that, hopefully it's one less pound that's in the hands of somebody who's going to panic at quarter end and be a desperate seller and take the market down. But if they're going to do that, we're going to step back, we're going to let them panic, the market will find a floor when utilities believe the price of uranium is cheap again, and when we see that demand in the market then we'll buy as well. We're not going to reward it, so that's a part of it, Andrew. It's fundamental demand we're interested, it's fundamental demand we're focused on.

ANDREW WONG:

Okay. Thank you.

TIM GITZEL:

Thank you.

OPERATOR:

Our next question is from Alex Pearce with BMO Capital Markets. Please go ahead.

ALEX PEARCE:

Great, good afternoon all. Just as far as actually, a little bit further one of the questions earlier about how demand has changed after the Section 232 result. Also with this 90-day working group arrangement. I just wondered whether you've seen any kind of change in a regional premium where there's still a regional premium within the sector given that 90-day hangover as you call it, and whether you can kind of make the most of that in the current situation.

TIM GITZEL:

Yes, thanks Alex. I don't think we've seen a regional premium. I think as I've said, we saw a little bit of pre-emptive buying. There were a lot of rumors going out that Friday before, and there was from different countries that seemed to have a scoop from the White House as to what was happening so you saw some maybe speculators or people buying in advance. Since then I think things have calmed down. It's been pretty calm and flat, the price of uranium jumped I think about $1.50 over the weekend there and it's held pretty much there. Now, I think everybody's waiting to see well what's the next step, what's this 90-day piece going to bring. Quite frankly, it's end of July, beginning of August, there's not a lot of activity going on in the market, and I don't think there will be until the WNA conference when we come over and see you in September.

GRANT ISAAC:

There has been—Alex, there's been some talk in the industry about a premium and it really is reflecting what the conversion side of our business is going through. So, you see actually backwardation right now in conversion, supply discipline has been so significant on the conversion side that any time you can price UF_6, that's very attractive right now. You're seeing that reflected in the results in our Fuel Services division as well. We're hoping, obviously, that what the conversion market has gone through is a pretty good analog for the uranium market that over supplied, over supplied, real supplied, discipline came in to the market and prices responded. That's where we're seeing the premium when you can price the conversion or the UF_6 part of it.

ALEX PEERS:

Okay, thank you.

TIM GITZEL:

Thank you.

OPERATOR:

Our next question is from Lawson Winder with Bank of America-Merrill Lynch. Please go ahead.

LAWSON WINDER:

Hi, thanks for taking the question. The CRA looks like you have finally had a chance to look at their appeal document. Everything seems to be in line. Have there been any approaches in terms of settlement conversations at all? Thanks.

TIM GITZEL:

Thanks Lawson, it's Tim. No, we have not had any conversations in that regard.

LAWSON WINDER:

Do you have any sense of what their strategy might be in terms of introducing new evidence or—I mean, there was this thing earlier on in the year where they tried to extract oral testimony. Is there more of that going on or are they just kind of sitting on their argument and waiting for a decision?

TIM GITZEL:

Yes, good question Lawson. Let me pass it over to Sean Quinn here who is our resident expert on the matter. Sean.

SEAN QUINN:

Hi Lawson. What's happening now is the appeal to the Federal Court of Appeal, and that takes place on the record from the trial court. So, the Federal Court of Appeal will have the decision of the trial court and all the evidence the trial court looked at and additional submissions but no new evidence of any description.

LAWSON WINDER:

Okay. That's very helpful. And then maybe just on the McClean Lake Mill collective bargaining agreement. That expired May 31. Are you guys involved in that conversation, or is that something that's strictly between Orano and the union?

TIM GITZEL:

Yes, that's Orano's business to deal with and we know they're working hard on that with their workers in the union. Nothing new to report on that, but that's an Orano piece.

LAWSON WINDER:

Okay. Maybe just one last thing from me if you could. As you have very thoroughly stated, in terms of primary supply, there is not enough tier 1 primary supply out there to meet the demand, there's no question. I'm just curious with your activity in the market, what are you seeing this year versus last year in terms of secondary supply? The more details you can provide the better, but I would love to hear your comments on that. Thank you.

TIM GITZEL:

Grant, go ahead.

GRANT ISAAC:

Yes, we'll I'll just make a few observations. As you know, we've been in the market purchasing some times through RFP's, some times off market directly with folks we think are pretty motivated sellers and sometimes through brokers.

I would say on the secondary supply, what is notable is that despite this fear that there's all this secondary supply kicking around the market, it's not being offered to us when we put our RFPs in. Yes, it's true that some of the enrichers have sold under-feating, an under-feat capacity but they've sold it in term contracts actually, generally as part of shoring up their SWU contract to give away uranium on the front end, but it's tied up in to a term commitment. As a consequence, we're not seeing that in the spot market. That's just another piece of the good news story here, we're not confronted with this unrelenting supply of secondary, in fact then we add to that DOE material is not showing up in the market any more because of the determinations from the secretary down there. He's restricted the DOE from doing that. That's very good news. The secondary piece is actually one of the things that gets us pretty excited, it's one of the things driving the conversion price. Remember, secondary material almost always showed up as UF_6, if that material is not showing up, then uranium showing up needs to be converted, it needs to be converted in a space where there's been supply constraints. No surprise, the conversion price goes up. Instead, what we're seeing when offers come in to our RFPs is this more on the concentrate side. The folks that are grabbing some material from a supplier who is producing more than they should and they're grabbing it in anticipation of our demand and then offering us back to that, that's the material we're seeing but happily it's not a secondary supply story.

LAWSON WINDER:
Okay, that's very helpful. Thanks.

TIM GITZEL:
Thank you for the question.

OPERATOR:
Our next question comes from Orest Wowkodaw with Scotiabank. Please go ahead.

OREST WOWKODAW:
Hi, good afternoon. A lot of my questions have been answered, but I didn't catch it earlier, Tim, but did you mention sorry how many pounds you've purchased year-to-date in the spot price? I think you said greater than 70% on that 21 to 23, but can you give us a sense of where you're at?

TIM GITZEL:
We said we needed to purchase 21 million to 23 million pounds this year, and I think we've secured overall about 12.5 million pounds. That's a combination of JV Inkai, some of the long-term commitments we have and some spot purchases, and I think that's about as detailed as we get on that.

GRANT ISAAC:
Yes, we've been pulling back from reconciling those numbers because of the behavior that we spoke to earlier, and that is folks going long on uranium in anticipation of our demand, and then if it doesn't show up before their quarter end, they panic and they sell it. Their behavior should be go find demand of your own and then buy to fill it because you know our purchasing is coming. So we've said 21 to 23 this year, but that's for calendar year 2019. You know we're going to buy more; we're going to begin to buy for 2020 in 2019. I would just say, Orest, it's important to remember we got more purchasing ahead of us than we have behind us.

OREST WOWKODAW:

Okay. So, bottom line, you still need to acquire about 10 million pounds this year via combination of spot, other purchases, and Inkai material. Can you give us a sense of how many pounds you've secured from a purchase perspective for 2020 at this point?

GRANT ISAAC:

No, we haven't put that out there yet, other than to say we haven't been very active yet. When the market started to sell off in March when we saw these intermediaries in particular really start to panic, that triggers for us a response to say we step back because our goal is to buy as cheaply as possible. If the sentiment appears to be deflationary, then that means the cheaper pounds are tomorrow, they're not today. We'll step back, let the market find its own floor, and as a consequence we weren't very active and haven't been very active since that March sell off, but we will have to be this fall. You look at the normal buying cycle that's coming up, you look at the clarity around 232 in terms of less concern about origins, you look at some of the supply issues, and then you add to that the fact that we need to buy and we've been very clear that we're coming to buy and there's more purchases ahead of us than behind us. It should make for a very active fall.

OREST WOWKODAW:

Okay. Just finally, you mentioned you've removed about 70 million pounds from the market via your shutdowns and your purchases. Do you have a sense of how big the potential clean up trade is here in terms of cleaning up that excess supply or distress sellers that we actually go back to more of a supply-demand driven market?

GRANT ISAAC:

Well, believe it or not, Orest, we actually think that the clean up is fairly well underway. Remember, in Q1 we talked about an RFP we put in to the market, and that RFP was for a million pounds. Remember we said we were only offered about a third of that at the spot price. Then if we went up $1.50 that day on the spot price, we could have secured another 300,000 pounds. But the punchline is we were one-third under subscribed on a million-pound RFP and we were two-thirds in spot pricing dynamics. That suggests to us that the transition that we talk about is not as elusive as people think it is, but right now you got a discretionary demand met by some in the market who are being irresponsible with their supply. We're not here to clean that up, we're going to let that work its way through the market and then we'll step in and be very, very active to meet our own needs, tuck that material into our committed sales portfolio, and then it's gone never to come back.

OREST WOWKODAW:

Okay. Thanks for the colour.

TIM GITZEL:

Thanks Orest.

OPERATOR:

Our next question is from Oscar Cabrera with CIBC. Please go ahead.

OSCAR CABRERA:

Thank you, Operator. Good afternoon, good morning everyone. Just looking at the long-term price from UxC, beginning of 2018 we were trading at about $30 a pound and this went up to $32, and has been maintained there. When you talk about undisciplined supply, is there also undisciplined long-term contracting happening now?

TIM GITZEL:

Yes, Oscar, unfortunately there is some of that, some of the suppliers trying to fill a term contract book at pretty aggressive prices and we've been watching that happen throughout the year. I would say, yes, there's some of the same phenomenon as we're seeing in the spot on the term market.

GRANT ISAAC:

It's one of those situations, Oscar, where we see some of our competitors doing the right thing for the right reasons which is to tuck your supply into a term contract portfolio, we might just say you're doing it at the wrong time. Even though we've been successful off market as striking business with our customers that's acceptable to us and acceptable to them, when we report those prices, the trade reporters are quick to tell us yes, well for every one of those we can show you someone who's been very desperate in the market and maybe has only a volume strategy, he needs to put certain volumes under contract. As we want to reinforce, the colour we're providing to the market is not to say we're more negative on the market, it's to help connect the dots between we're quite positive and constructive on our industry, the prices haven't responded. Why haven't they responded yet, and we're just trying to point out those facts.

OSCAR CABRERA:
Yes. I appreciate that Grant, but I think what I'm trying to get at here is that with those volume strategies, and as Greg pointed out with your contracts rolling over in 18 months, do you think that those strategies can be maintained for more than two years, three years?

GRANT ISAAC:
Obviously, they'll run to the end of what they have available to sell. There was a lot of nearly 90 million pounds contracted in the term market last year. So far year-to-date I think we're at close to 40 in the term market. Somebody is selling a material and committing a lot of material. When you look at it relative to all the supply discipline that's happened, you got to believe some people are going to run to the end of how much volumes they have left to sell. Now, unfortunate for them, they're going to be trapped in to future business that's going to be locked into prices that reflect today but those are their decisions. For us, we want the market leveraged that's going to come from a market that transitions. We've got the protection today not to chase that market down so we're taking a different approach, Oscar.

OSCAR CABRERA:
Yes. No, that's what I understood, Grant, and I appreciate that and commend you for your strategy. Then lastly, if I may, on the collective agreement in McClean Lake, if that comes to a strike, what happens then to the U_30_8 or the provision that you would need for Cigar Lake?

TIM GITZEL:
Let me just be clear that they're not there yet and there's a lot of steps that would have to happen before they got there, but if they did there'd just be a disruption of supply. The Cigar Lake, there's only limited storage for the ores that are taken out, so we'd have to take some steps to hold back production until that got resolved.

OSCAR CABRERA:

Thank you very much Tim and Grant. I appreciate it.

TIM GITZEL:

Yes, thanks Oscar. Good to talk to you.

OPERATOR:

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

FAI LEE:

Hi, thanks for taking my questions. The first question I have is regarding to the reference to a temporary increase in inventory this quarter. I'm assuming it's going to reverse in the back half of the year. Is that correct or am I thinking about that correctly or…

TIM GITZEL:

That's correct—we've got some inventory now, but as you know we're always back-end loaded on sales Q3, Q4 and so no change this year.

FAI LEE:

Okay. In light of the TEPCO arbitration decision, as you go forward and sign new long-term contracts, did the decision change your contracting practices and how you word arbitration or damages, or does it change anything in your contracts going forward?

TIM GITZEL:

I'll pass it over to Sean to answer that, but I just want to say this was a unique situation, let's be clear on that. The utility that had numerous reactors running and all of a sudden find themselves with none running, and large inventories, whether they're going to restart their units remains to be seen. We know that probably at least 10 of the I think 17 or so that they had are not going to restart, the other ones we'll see. A really unique situation as compared to other utilities that either have contracts with us today or that we're signing with that do have units running that are buying to keep their units running, they need the material and they're good customers and they abide by the rule of law and take their product. This was a unique circumstance. Sean, do you want to talk to the TEPCO and our contracting?

SEAN QUINN:

Sure. I think that we'll probably have some, call them lessons learned and tweak our portfolio, but it's fundamentally strong. We're not going to see any significant changes in how we write our contracts or anything else.

FAI LEE:

Okay, thanks.

TIM GITZEL:

Thanks Fai.

OPERATOR:

Our next question is from Adam Rodman from Segra Capital Management. Please go ahead.

ADAM RODMAN:

Hi Tim, Grant, and team. I know you've spoken at length on several quarterly calls now about the criteria for McArthur and other care and maintenance restarts. I have to ask again given how consensus forecasting has taken shape. When McArthur was originally put on temporary shut down, most consultants and analysts decided that the restart of that operation was a function of time and not so much a function of price. As a result the supply discipline that you've worked hard to achieve the last 18 months, again based on forecast would come back in just a little bit more than a year while those same consensus sources forecast a price with a $30 handle on them. I think the consequence of this is that the market believes we have a significant amount of care and maintenance pounds returning to the market in a low price environment. Can you clarify for me, all things equal, how care and maintenance assets will be treated should the market not respect your strategy, I guess talking about the time and price elements involved in your restart decisions?

GRANT ISAAC:

Adam, just a couple of observations there. First of all, I would separate the market's view on who's disciplined and who's not from our decision on McArthur River. When folks look and say oh, well there will be lots of supply at $30, for example, they're not looking to us. They're in fact looking to Kazakhstan. That's what they're saying. They're looking at the joint ventures there, the public disclosures that we've all now seen, and they're saying oh look, they do pretty good at $30 so they're not going to have any discipline. That obviously is a question for them to ask, and I would say their actions to date have shown some commercial discipline, some supply discipline. I'm not sure that's the proper assumption to make when people look and say $30, they'll be fine. It's certainly not us. Our resolve to wait and save our assets for better times is strong. It is part of our strategy, it's the financial element to our strategy, it's why we've protected the balance sheet we have so that we can self-manage risk and execute on the strategy we're on. Folks shouldn't look to us to say oh yes, $30 is good enough. We don't think that's good enough for an asset as good as McArthur River.

ADAM RODMAN:

That's a fair point, Grant. Maybe I should clarify. Directly speaking, some sources have McArthur coming back in 2021, which is again just not even a year and a half away. So commenting on that in this price environment, and then also maybe how you consider your other tier 1 assets like Cigar Lake in the current price environment.

TIM GITZEL:

Adam, it's clear we've made no decision at all yet on the McArthur/Key, we've said and we've been very strong as Grant said, we're a patient lot if nothing else. We said we want to refill our contract basket at prices that are acceptable to us before we bring it back, and then there's the fact that bringing it back isn't overnight, it takes us a period of time to get it back up and running. So, I would just say I can tell you right now no decision has been made to move on that, and we'll wait to see better times before we do.

ADAM RODMAN:

Thank you, Tim, thanks Grant.

TIM GITZEL:

Thanks.

OPERATOR:

Our next question is from Terry Patineau, a private investor. Please go ahead.

TERRY PATINEAU:

Hi everyone, my questions have been answered so thanks for the great job. Keep it up.

OPERATOR:

Our next question is from Brian McArthur with Raymond James. Please go ahead.

BRIAN MCARTHUR:

Sorry, most of my questions are related more to SWU and UF_6 which you sort of talked about. Just a quick philosophical question. As they go through this working group in the United States, there's concern about reliability in the U.S. and we all assume it's just related to U_30_8 production. Is there also under your understanding, are they concerned about having local UF_6 production again and SWU production, or is it just at the U_30_8 level?

OPERATOR:

Please standby while we attempt to reconnect with our speakers. Our next speaker is Brian McArthur with Raymond James. Brian, please repeat your question.

BRIAN MCARTHUR:

Sorry, I guess we got cut off. I'm just following up on UF_6 and SWU markets, but I think you gave us some over there. I'm just curious, this whole working group in the U.S., from your perspective is that just related to maybe helping out the U_30_8 industry, or is it also going to involve looking at SWU and UF_6 down there too?

TIM GITZEL:

Yes, thanks for the question Brian, and Grant said make sure you tell Brian we didn't hang up on you, we just got cut off for a bit. I guess we're still waiting to see, Brian. In the paperwork we've got, it said the fuel cycle, you know, the front end of the fuel cycle, so we're assuming that looks through uranium to conversion enrichment, I don't know about fabrication. I think it's the whole piece that they want to have a peak at. We welcome that and we'll—as I said, we'll be involved both through the trade associations we belong to and as Cameco and as we learn a bit more we'll let everyone know.

GRANT ISAAC:

I think, Brian, it's fair to say as well, we're optimistic that the nuclear fuel working group starts with the premise that the best thing for the nuclear fuel cycle is a healthy nuclear fleet in the U.S. Therefore, we'll be looking at other measures that support the operations of our customers, maybe looking at stopping measures that are a deterrent to their customers, and really making that the focus because if there is a healthy and stable nuclear fleet in the U.S. with lots of certainty, then the fuel cycle almost takes care of itself. That's where we're absolutely aligned with the U.S. utilities on this working group.

BRIAN MCARTHUR:

But. you're also seeing, as you said, tightening in the UF_6 business, are you seeing big tightening in the SWU business as well globally?

GRANT ISAAC:

The SWU price is starting to improve, but like uranium it just has a long way to go, still suffering from over capacity, and it's an industry that doesn't turn off capacity the way you leave ore in the ground. I think an enricher will tell you if they shut off capacity, they never get it back again, whereas if you shut down a mine the ore stays in the ground, it's just a timing issue. You can always go back and get it. I think the bigger issue is probably things—there is still a trade action, market access action in the U.S. and that's the Russian Suspension Agreement. That's going through an administrative review. The U.S. relies quite significantly on Russian SWU, so that probably has more to do than the capacity side of it.

BRIAN MCARTHUR:

Great. Thanks very much for the colour.

TIM GITZEL:

Thanks Brian.

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:

Thanks very much, and with that I just want to say thanks to everybody who was on the call today. We, as always, appreciate your interest and your support. As a commercial supplier with a strong balance sheet, long live tier 1 assets and a proven operating track record, we are I believe well positioned to respond to the changing market dynamics and benefit from the long-term growth driven by the need for clean baseload electricity. I promise you we will continue to do what we said we were going to do, executing on our strategy as we navigate through all the moving pieces in our industry.

With that, I'd just say thanks everyone and have a great day.

OPERATOR:

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