Cameco Corporation

2018 Fourth Quarter Results Conference Call Transcript

Date: **February 11, 2019**

Time: **10:00 AM CST**

Presenter: **Tim Gitzel**
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Grant Isaac
Senior Vice President and Chief Financial Officer

Rachelle Girard
Vice President, Investor Relations

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OPERATOR:

Welcome to the Cameco Corporation Fourth Quarter 2018 Results Conference Call. As a reminder, all participants are in listen-only mode and the conference is being recorded. After the presentation, there'll 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.

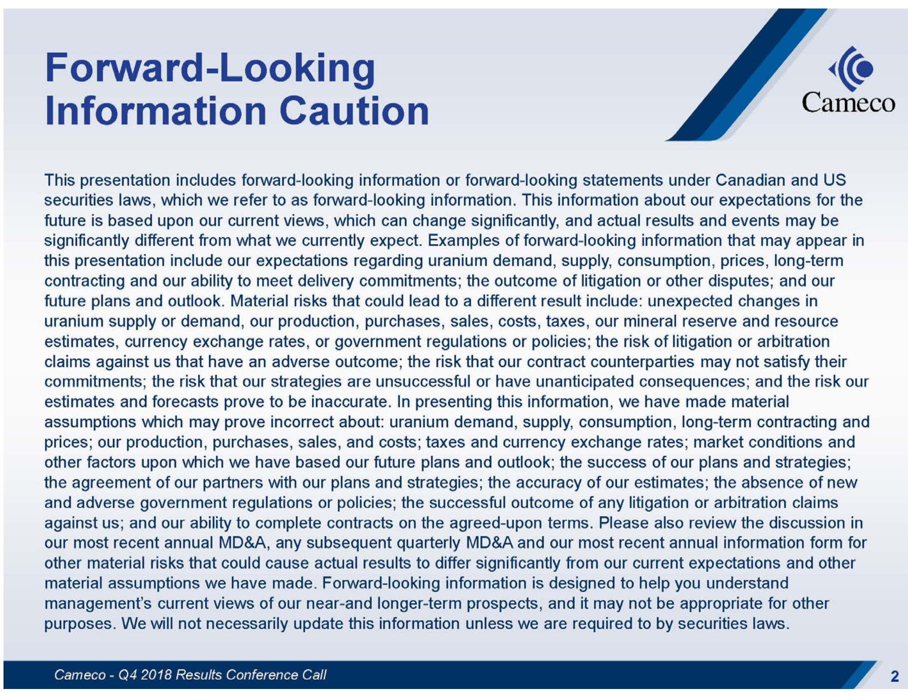
I would now like to turn the conference over to Rachelle Girard, Vice President, Investor Relations. Please go ahead, Ms. Girard.

RACHELLE GIRARD:

Thank you, Operator, and good day everyone. Thanks for joining us. Welcome to Cameco's conference call to discuss our fourth quarter and annual financial results. With us today on the call are Tim Gitzel, President and CEO, Grant Isaac, Senior Vice President and CFO, Brian Reilly, Senior Vice President and Chief Operating Officer, Alice Wong, Senior Vice President and Chief Corporate Officer, and Sean Quinn, Senior Vice President, Chief Legal Officer and Corporate Secretary. Tim will begin with comments on our results and the market. After, we will open it up for your questions.

If you joined the conference call through our website Events 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 to discuss Cameco's fourth quarter and annual results and our outlook for 2019.

You will see from our results that we had a strong finish to 2018. That said, and as we expected, our 2019 outlook points to a weaker performance from a gross profit point of view. Let me be clear. This is not an accident. This is the result of a deliberate strategy on our part to build long-term shareholder value, and this is what I will spend most of my time today discussing.


2018 as expected

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	2018 Actuals	2018 Outlook	2017 Actuals
Delivery volume (m lbs)	35.1	35 – 36	33.6
Average realized price ($/lb)	47.96	47.80	46.80
Production (m lbs)	9.2	9.2	23.8
Purchases (m lbs)	14.0	12 – 15*	6.1
Avg. Unit Cost of Sales (including D&A) ($/lb)	40.33	40 – 42	35.04
Cash from operations (millions)	668	715 – 775	596

* Included committed purchases of 11 – 12 million lbs and required spot purchases of 1 – 3 million lbs

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But before we do that, there were some significant Company developments in 2018 that warrant review, as they contributed to the strong finish, and have strengthened our foundation, setting the course for our future success. The first development was the January 2018 implementation of the 10-month production suspension at our McArthur River/Key Lake operation. Remember, this decision was consistent with our strategy to focus on our tier-one assets and profitably produce at a pace aligned with market signals, and, it was largely motivated by Company specific factors.

The main objectives of our decision were to preserve the value of our tier-one assets; to drawdown our excess inventory under the protection of our contract portfolio, and to build cash on our balance sheet, positioning the Company to self-manage risk. We successfully achieved all of those objectives.

At the end of 2018, we held about 8 million pounds of inventory compared to 27 million at the beginning of the year, and in line with our target working inventory. We also had more than a billion dollars of cash on our balance sheet, and we extended the mine-life at McArthur River.

The next significant development was the decision we made in late July to extend that suspension indefinitely. This decision resulted from the evaluation of our strategy in the context of our marketing framework, and our analysis of the macro factors impacting our business. In other words, we found ourselves in a market where we were unable to commit our tier-one pounds under acceptable long-term contracts. We were unwilling to risk having to sell those pounds into an oversupplied spot market at some point in the future, and, we were unwilling to tie up our financial capacity and create an overhang in the market by producing only to place the pounds in inventory.

The other significant development in 2018 that I would be remiss if I didn't mention is, of course, the unequivocal win in our court case with the CRA, covering the tax years 2003, 2005 and 2006. As you know, the CRA has filed an appeal, which is very disappointing given the thorough and decisive decision in our favour. It is also disappointing because it could be another two years before we have a decision on the appeal. But we expect the original decision will be upheld, and furthermore, see no reason why it should not apply in principle to subsequent tax years.

The CRA has not yet filed its complete written submission on the appeal, so the basis of its arguments is still unclear. We do know that it has dropped the sham argument, which is very good news, and the focus of the the appeal is on the transfer pricing provisions in the Income Tax Act.

In accordance with the decision, we have made a submission to the Tax Court for costs in the amount of about $38 million, and we await Mr. Justice Owen's decision in that regard. So, more to come on that file.

Let's now turn our focus forward.

As I said earlier, based on current uranium prices, from a gross margin perspective 2019 could be a weaker year for us. Our current committed sales volumes are between 5 million and 7 million pounds lower than in 2018, and the average realized price is expected to be about 4% lower.

2019 financial outlook

* see slide 16 for assumptions used in this table

Expected contribution to gross profit	Consolidated 100%	Uranium 70%	Fuel services 30%
Production (owned and operated properties)	-	9.0 m lbs	12 to 13 m kgU
Purchases - committed	-	11 to 12 m lbs	-
Purchases - required for sales commitments	-	7 to 9 m lbs	-
Total Purchases		18 to 21 m lbs	
Sales/delivery volume	-	28 to 30 m lbs	11 to 12 m kgU
Revenue	$1,650 - 1,800 m	$1,290 - 1,380 m	$280 to 310 m
Avg. realized price	-	$46.10/lb	-
Avg. unit cost of sales (including D&A)	-	$41.00 - 43.00/lb	$20.20 - 21.20/kgU
Direct administration costs	$110 - 120 m	-	-
Exploration costs	-	$13 m	-
Expected loss on derivatives-ANE basis	$5 - 15 m	-	-
Tax expense-ANE basis	$0 - 10 m	-	-
Capital expenditures	$95 m	-	-

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On the cost side, our average unit cost of sales is expected to be between 2% and 7% higher than in 2018. The increased costs are not unexpected, and are largely driven by the greater proportion of purchased material making up our uranium supply. In addition, the average unit cost of sales will continue to be impacted by care and maintenance costs associated with our extended shutdown at McArthur River/Key Lake, and our idled Rabbit Lake and U.S. operations.

Somewhat offsetting the care and maintenance costs are lower expected exploration and admin costs. These costs are lower as a result of the additional cost cutting measures taken in 2018.

Our capital expenditures in 2019 and 2020 have also come down from where they were, and in 2021 will be in a similar range, assuming production at McArthur River/Key Lake remains suspended.

From a cash perspective, we expect to continue to maintain a significant cash balance, even if we decide to retire the $500 million in debt maturing later this year.

I want to be clear, we will continue to generate cash from operations in this difficult time. However, the cash generated will not be as robust as in 2018 given the weaker outlook, and without the release of working capital associated with the inventory drawdown in 2018.

I also want to remind you that we report our results and outlook based on a calendar year basis, at a point in time. However, as I have pointed out before, under our marketing framework, this is not how we plan our business. We plan on a rolling 12-month basis. Therefore, you should think about our sales, inventory and purchases all as variables, and shouldn't be surprised to see, as the year progresses, variances from the outlook we provided in our MD&A.

Of course, in mining, production always comes with the potential for variability, but this year the potential is a bit greater given the expiring union contract at Orano's McClean Lake Mill where our Cigar Lake ore is treated.

So this is not a static recipe we are following, it is a dynamic market and we will adapt our activities accordingly.

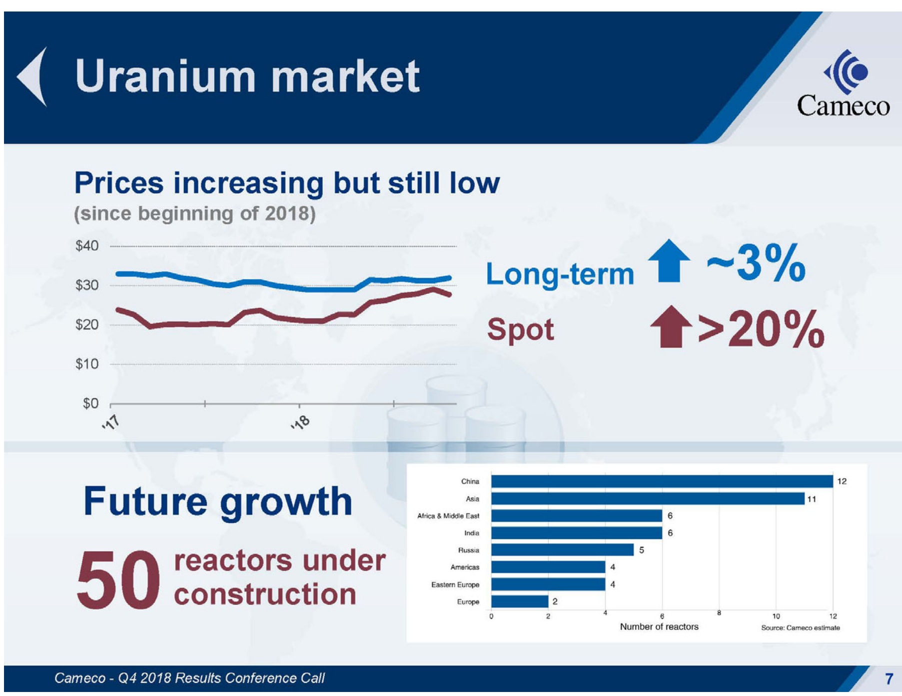
Also, keep in mind there is some potential upside to our outlook. Our current outlook does not factor in any award of costs from our CRA case, and recall, I said we have applied to recover about $38 million. In addition, our outlook does not factor in any potential award for damages in the arbitration of our dispute with TEPCO. You will recall our claim for damages in the TEPCO dispute is about US$700 million plus interest and legal costs. The arbitration hearing for this dispute has just wrapped up. There are a number of post hearing steps, and we expect they will be completed by mid-May. The timing of the final decision will depend on how long the arbitrators deliberate following receipt of the post-hearing submissions. I should also tell you that we are limited with respect to the information we are able to disclose in this matter due to a confidentiality order.

Before I move on, I want to come back to the point I made earlier. Our 2019 outlook and the diminishing sales commitments in our portfolio are the result of a deliberate strategy. We will make decisions that have a cost in the near term, while we expect the benefit over the long term will far outweigh those costs. It was a careful analysis that led us to our decision not to produce from our tier-one assets to deliver into an oversupplied spot market, and it was a carefully considered decision not to commit our tier-one pounds under contract that do not reflect the future value of those pounds.

Our decisions meant that in 2018 we incurred about $168 million in severance, and care and maintenance costs, to maintain the operations we have on standby. In 2019, we expect we will incur between $130 million and $160 million in care and maintenance costs. Those costs go straight to the bottom line as part of our cost of sales. Had we kept producing at full capacity, we would have minimized our unit costs of production, and would not have incurred any care and maintenance or severance costs. However, we would still have a significant amount of cash tied up in inventory, and that inventory would be an overhang on a market that would still be in oversupply situation.

In that scenario, we would have successfully achieved a volume strategy at the expense of long-term value creation.

To better understand our strategy, the actions we are taking, our results, and the future prospects for Cameco, you need to examine them in the market context in which we are operating, both near term and longer term. I will start with the near-term market dynamics, but I also want to spend some time on the bigger picture for nuclear energy, as that is ultimately what we are focused on.



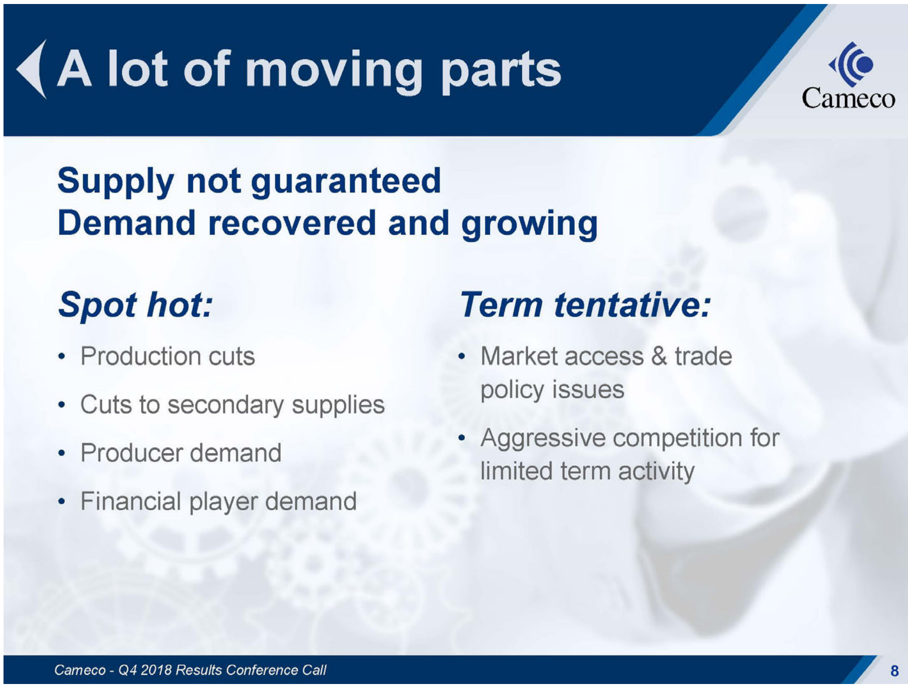
In 2018, we began to see the revival of the spot market. Today, the spot price is more than 20% higher than it was at the beginning of 2018, so “spot is hot” as we like to say. This improvement was largely driven by two important market factors. One of those factors was on the supply side and the other was on the demand side.

On the supply side, there were significant supply curtailments. We saw meaningful production cuts and reductions in producer inventories, which led to an increase in demand for uranium in the spot market from producers and financial players. We saw a number of producers abandon a failed volume strategy in favour of a value strategy.

In the uranium business, real value comes from term contracting. Selling material into an oversupplied spot market just delays a market recovery. These actions have helped remove excess material from the spot market. Our suspension of production at McArthur River/Key Lake, the drawdown in our inventory, and the resulting demand we have for uranium to meet delivery commitments, have clearly played a role in that cleanup. So, that was the first market factor contributing to the improvement.

As I said, the second factor was on the demand side. In 2018, the market finally reached the point where, on an annual basis, consumption returned to pre-2011 levels. We filled in the pothole of lost demand, and that demand continues to grow, not at a rocket ship rate, but with 50 reactors under construction, there is steady growth. I will come back to this growth a bit later. Despite these improvements in the spot market, we will continue to proceed cautiously.

In contrast to the spot market, the long-term market is best described as tentative. While we are beginning to see some interest in long-term contracting, uranium prices and acceptable contracting opportunities are still not where we need them to be, and there are a couple of reasons for that. The first reason for the lack of acceptable contracting opportunities is a direct result of a number of moving parts in our market. 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, at least 70% of primary production is in the hands of state-owned enterprises, and as a country, Kazakhstan accounts for at least 40%. That is why, from a security of supply perspective, origin matters, in a world where geopolitics are creating trade distortions.

And of course, the most significant trade issue today is the investigation under Section 232 of the Trade Expansion Act in the United States. The investigation has no immediate impact on our existing contracts, with deliveries continuing as usual. Meanwhile, we are heavily involved in the investigation process, trying to help find a commercial solution that makes sense for all parties. 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, but 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.

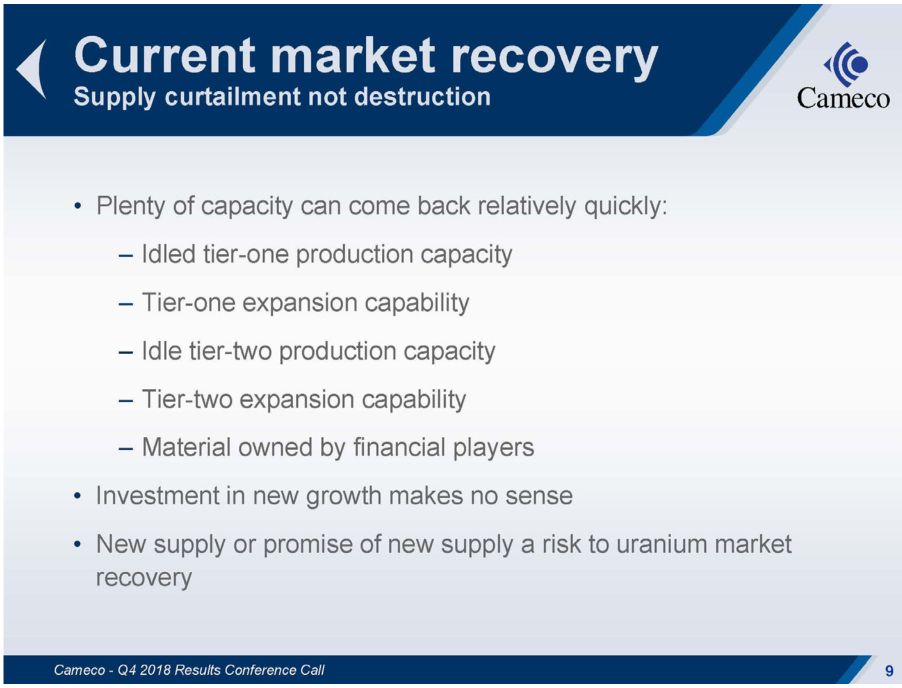
I have highlighted many of the other moving parts in previous quarters. Some of the more significant issues being the supply curtailments by a few of the larger producers, including the indefinite suspension of production at our McArthur River/Key Lake operation; Kazatomprom’s actions, including its supply reductions; the sequestering of more than 8 million pounds of its inventory in an investment fund, and its initial public offering, accompanied by its stated market-centric production and sales strategy, shifting away from a focus on volume, to a focus on value.

There is also the role of financial players, who Ux estimates purchased almost 15 million pounds in 2018, and that are expected to continue to purchase material in 2019.

I touched on the second reason for the tentative term market a bit earlier when I talked about some producers abandoning failed volume strategies. The limited long-term contracting activity we are seeing is being aggressively pursued by these producers in an attempt to win business and build or rebuild a long-term contract portfolio. Ultimately, this is good news for the uranium market longer term. It will help keep material out of the spot market, but in the near term, it is delaying the recovery of the long-term uranium price.

All this makes for interesting times in our industry. So, despite some signs of green shoots, today we find ourselves in a tentative market lacking an adequate level of acceptable long-term contracting opportunities.

There are a couple of other risks to keep an eye on in 2019, each of which could have the opposite effect. Much of the supply that has been removed from the market is a result of supply curtailments, not supply destruction. This is capacity that can come back online relatively quickly with the right market signals. Remember, 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.



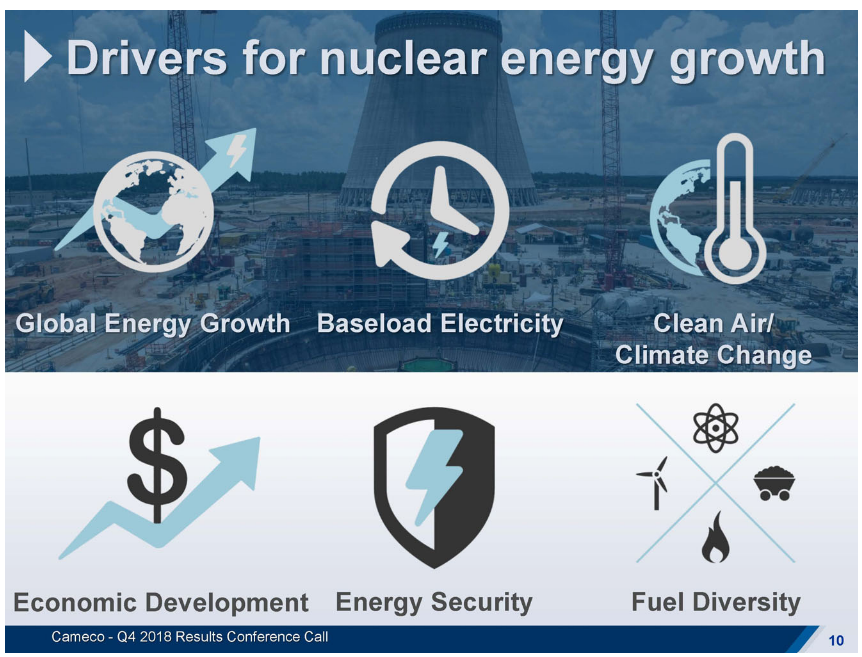
While we are seeing some positive developments, we have not yet seen the type of response needed from the uranium market to restart. Unfortunately, today's prices are still nowhere near, not even close to the levels needed. There is plenty of idle tier-one production and tier-one expansion capability, as well as tier-two production and 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.

That is why, until you see our existing tier-one assets restarted and/or expanded, and a potential home for all of the other near-term sources I just listed, investment in new growth makes zero commercial sense. Any plans or decisions to develop new supply would pose a significant risk to the uranium market recovery. Today, even the promise of supply or new investment in supply could create a headwind, which would put downward pressure on uranium prices.

Earlier, I mentioned the other risk we can't lose sight of in 2019: that is the expiring union contract at Orano's McClean Lake Mill in May. With Cigar Lake supplying 18 million pounds of uranium annually to the market, and our only operating mine, any labour disruption could create a significant swing in supply. Not only would production plans be impacted, there would be additional purchasing required to meet commitments, which would mean additional pressure on the spot market. And I don't raise this because I am expecting a disruption, but really just to illustrate the importance of security of supply and how vulnerable the market could be to a supply shock.

Of course, we shouldn't forget about the really big picture for nuclear either. We operate in a business where progress is not measured in weeks or quarters, but in years, and when you think about the role nuclear power can play in solving some of the world's energy problems, the future for nuclear energy is actually quite exciting.



Today we're seeing many organizations, formerly opposed to nuclear power, starting to recognize that there is no near-term solution to climate change and air quality issues without the use of nuclear power. With a global population of about 7 billion people, of which 2 billion have little or no access to electricity, with another 2 billion expected on the planet by 2050, electricity demand is only going to continue to grow.

Within that context, what is needed is large-scale baseload electricity – that 24-hour power that makes things like health care, education, communication and transportation systems possible, and when countries consider their options for clean, baseload electricity, nuclear looks pretty attractive. It is an option that can provide the power they need, not only reliably, but also safely and affordably, and in a way that avoids emitting greenhouse gases, and avoids adding to the air pollution that plagues so many countries with developing economies. Countries like China, India, and those in the Middle East are figuring that out. That is why we are seeing these countries adding significant amounts of nuclear generation to their grids.

Let's look at China, the fastest growing nuclear energy market in the world. In 2018, China added six new reactors to its electricity grid. It now has 44 reactors in operation with 12 under construction. China continues to target 58 gigawatts of installed nuclear capacity by 2020, with another 30 gigawatts under construction. And while there have been some delays in its new build approvals, in 2018, it hit some important milestones. China successfully connected the world's first new generation of reactors, the EPR and AP1000 reactors, to its electricity grid. This is a significant accomplishment, and one, which we believe, will clear the path for additional new build projects in that country. In fact, just recently, news stories have been coming out of China that the new build program will resume, and that's certainly good news for our industry.

India is also a good news story. The Indian government announced that by 2025 nine reactors under construction would be completed. In addition, it indicated another 12 reactors have received administrative and financial approval, with a target start-up of 2031. That's significant growth.

In the Middle East, the United Arab Emirates have four reactors under construction.

In addition, a number of other countries, such as Bangladesh, Turkey and Saudi Arabia all continue with their nuclear energy construction programs and plans. Every year we're seeing more countries added to that list, which really gives us optimism for the future.

And there is growing acknowledgement that adherence to clean air and global climate change goals requires a material dedication to all non-emitting energy sources, including nuclear. Perhaps the best example of this is right here in Canada with the reactor refurbishments going on in Ontario, extending the lives of the units and their contribution to clean baseload power.

Further, for the first time, the United Nations Economic Commission for Europe has included nuclear on its agenda. The director stated that the search for a solution to climate change must include a discussion of nuclear power.

The Union of Concerned Scientists, who have not traditionally supported nuclear, has also acknowledged that in order to combat climate change, nuclear has to be one of the considerations.

So those are just some of the bigger picture items that will drive demand for nuclear, and therefore uranium, over the longer term.

At Cameco, we are well positioned to respond to changing market dynamics and benefit from the long-term growth, driven by the need for clean, baseload electricity. In today's noisy market, we believe we can distinguish ourselves from other uranium producers. We are a commercially motivated supplier, with a diversified portfolio of assets, including a tier-one 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 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.

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

OPERATOR:

Thank you. We will now begin the question-and-answer session. In the interests of time, we ask you to limit your questions to one with one supplemental. If you had 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 that 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, sir.

RALPH PROFITI:
Good morning everyone. Thanks for taking my questions.

TIM GITZEL:
Hi Ralph.

RALPH PROFITI:
Tim, I seem to recall in the early days of Cigar Lake planning, that there was a strategy to process some of that at the Key Lake Mill. Could you correct me if I'm wrong, and whether or not that's an option for contingency, as you mentioned the McLean Lake potential for disruption a couple of times.

TIM GITZEL:
Yes, Ralph. Never at Key Lake. There's no road access between the two sites, so the thinking was at Rabbit Lake at the time we would send some of the material over there, but that's not an option at the moment either, Ralph.

RALPH PROFITI:
Okay. A question for you or Grant. Can you remind us what's happening in the realized price matrix? Because we continue to see quarter-over-quarter lower prices, particularly at the high end of the range for prices in the outer years.

TIM GITZEL:
I'll get Grant to answer that one.

GRANT ISAAC:

Yes, Ralph. Thanks for the question. The realized price table, first of all it rolls over with new years and as contracts have been delivered into, so we updated for that purpose. It's also quite susceptible to changes of pennies rounding to the dollar, so sometimes you see that in the table as well. Ultimately, it is reflecting part of the strategy that Tim outlined in his opening comments, and that strategy is to say that this is not a market where we believe we have to chase business. This is a market where we look at the growing uncovered requirements of utilities, we look at the trade challenges and the potential distortions that are coming from different origins. We like what we're seeing there with that demand profile. We know some of it's coming our way and we prefer to price our pounds in a market that's more attractive.

For the near term, we're well covered. You see our guidance for 2019, and we're just going to take the strategic and deliberate decision not to chase this market down. As a consequence, you're going to see that price sensitivity open up a little bit, but it also has the upside that when the market does start pricing at a higher rate, we'll achieve those prices.

RALPH PROFITI:

Okay. Yes, that's fair. Great. Thanks, guys.

TIM GITZEL:

Thanks, Ralph.

OPERATOR:

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

ANDREW WONG:

Hi. Good morning. Just regarding the McArthur River shutdown and the decision to restart, how do the care and maintenance costs factor into that decision for a restart? Does the hurdle price for a restart go up the longer the mines are shut down and you accumulate more costs? How does that work?

TIM GITZEL:

Thanks, Andrew. I don't think so. I think we know we have a good sense of what the care and maintenance costs are, including noncash. I think we disclosed those at about $7 million to $9 million a month. I can tell you, I'm looking at Brian Reilly; we're working hard to really hone those down as much as we can going forward, but I don't think you'll see those change much.

Obviously, we do an analysis, if not every day, almost, on what our costs are to produce there versus what they are to buy and we've made that strategic decision to leave those low-cost pounds in the ground until the market improves.

So, no change on that front and we'll continue to watch how these go.

ANDREW WONG:

Okay, that's great. Maybe could you just elaborate a little bit around the timing for the labour agreement that McLean Lake Mill, and when would we know a little bit more about the negotiations and what are some of the different actions that you could take based on different scenarios that could come out of it?

TIM GITZEL:

I believe the agreement expires at the end of May this year, and so we know that our partners at Orano have been in discussions. I can't go any further than that. I don't know any more than that, but it's just something we wanted to put on the risk register for everyone to keep their eye on because as I say, or as we said in our comments, it's the only producer at the moment in Saskatchewan here and a significant amount, 18 million pounds coming out of that plant. Something to keep your eye on.

ANDREW WONG:

Okay. Thanks, appreciate it.

TIM GITZEL:

Thank you.

OPERATOR:

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

GREG BARNES:

Thank you. Grant, I had just a question on your unit cost guidance of $41 to $43 a pound. How much of that is the D&A? I know that number is changing as you purchase more pounds. Just trying to get a sense of how you break down that $41 to $43 a pound?

GRANT ISAAC:

Yes. Greg, I'm sorry. I don't have the exact number right at my fingertips. When we think about 2018 relative to 2019, there's a lot of moving pieces in how the D&A factors in and it's amortized over the produced pounds but not the purchased pounds. On balance, we think it's not going to be materially different than the 2018 number, Greg. Then, as we go through the year and we make purchases and those purchases are timed, and that time reflects the prices, and then we produce and those production pounds come into our inventory, we'll just be able to clear that up as we go, but I'm happy to take that one offline a little bit more; I don't have the exact number.

GREG BARNES:

Yes, that would be helpful. Then, secondarily, on the required purchases for 2019, that's come down to 7 million to 9 million pounds, and I know you've rolled that into committed purchases, but it just means you have less, I guess, firepower in the spot market. How do you see that?

GRANT ISAAC:

Well, keep in mind, and I think the comment that Tim made earlier was that our guidance table is really bounded by December 31st, but of course we don't think about the world that way. That's kind of a meaningless date for us.

When we looked at 2019 and we were in late 2018, we started buying the material for 2019 in 2018. We expect to do the same as we go through 2019 here, as we get closer to 2020 we expect to start making purchases. That sliding scale of purchases that we need to make, we expect to be very active in the market. All that guidance table is telling you is that that's the material we'll have to buy for deliveries by December 31st, but as we start to make purchases for early 2020 in 2019, that's going to go up. We'll just be very active in the market again this year; in fact, a lot more active than we were last year.

GREG BARNES:

If I can, those required purchase commitments, are they at a specific price? How does that work? The 10 million to 12 million pounds.

GRANT ISAAC:

The ones that are listed as committed have already reflected a pricing mechanism. Some of them might have been market related, some might have been fixed; we just don't have that—we don't disclose what that breakdown is. The remainder we'll purchase in the market. Some we'll purchase on-market, some we'll purchase off-market. We might go through brokers if that makes sense to us. It'll be the same pattern as 2018 but just a lot more activity than 2018.

GREG BARNES:

Okay. Great, thank you.

TIM GITZEL:

Thanks, Greg.

OPERATOR:

Our next question comes from Lawson Winder with Bank of America Merrill Lynch.

LAWSON WINDER:

Hi guys. Thank you for taking my question here. Just on the CRA, I guess last time you spoke to us in this forum on the Q3 call, you mentioned that you had not yet read the—or seen the actual paperwork of the submission from the CRA to the Tax Court, to the Appeal Court. I'm just curious have you seen that now, and if so, is there anything that you can share with us in terms of the thrust of the argument, if there's any sort of tweak to sort of their view on the transfer pricing in that? Thank you.

TIM GITZEL:

Thanks for the question, Lawson. We haven't seen the paper yet, but I'm just going to pass it over to Sean Quinn to just give a little update on the CRA piece.

SEAN QUINN:

Sure. I guess what I'd add to Tim's comments earlier is that we've arranged a schedule with the Department of Justice on the timing for the appeal, which means we'll be seeing the Crown's submission, their factum, towards the end of May and then have to respond ourselves later in August. That will give us a better view as to what the thrust of their arguments are. As Tim mentioned earlier, we do know that they've dropped sham from their appeal, so that is the one categorical statement I can make about what we know they won't be arguing.

LAWSON WINDER:

Okay. That's very helpful. Then just in terms of—I think somebody asked this on the last call but I guess just sort of to update your view in this respect now that three months have passed. Do you expect that the CRA will continue to pursue audits for the years now that have not yet been named by the CRA in terms of being under audit, or do you think that activity should just sort of dry up at this point in anticipation of what comes out of the appeal? Thank you.

SEAN QUINN:

We would hope that it would dry up pending the outcome of the appeal, but we don't have anything definitive from the CRA on that at this point.

LAWSON WINDER:

Okay, thank you. I'll get back in the queue.

TIM GITZEL:

Thanks, Lawson. Yes, thank you.

OPERATOR:

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

FAI LEE:

Thank you. Tim, I'm just wondering about your expectation around the contracting on some of these reactors that China is building. I believe around 2010 they were signing 10-year contracts that might be up in around the next year or two. Just wondering what's your thoughts around when do they come back to market and the timeframe on that.

TIM GITZEL:

Yes. Fai, thanks for the question. In fact, they've never left the market. They're always in the market. You're right about the 2010 date. That was an important period of time. It was June of that month that their program was really ramping up and you could see they had a lot of reactors under construction and coming on, and so they went out to the market and bought about 150 million pounds in almost the period of one month: 50 from us; I think the French sold them 50, and the Kazakhs the same. You saw what the price did to those, the good old days as we call them. I think it ran from about $40 up to $73, $74, and then that was just before the Fukushima piece.

We've seen them constantly in the market since that, as recently as this year already. They never leave. They're building up strategic inventory, we think, for their fleet, which continues to grow, and so they're always around.

GRANT ISAAC:

Tim, the only thing I might add to that is we've actually I think seen a bit of a change in the overall strategy of sourcing out of China. There was a time early on in their buildout of these reactors, which are going to run for 60 or 80 years—they have a very long life in front of them—and it was a sourcing strategy based upon a third, a third, a third where they were going to source a third of their needs from domestic sources of uranium, a third from foreign assets that they owned abroad and a third that they would buy from the market, and what we're seeing, in fact, is it's more like a half, a half because those domestic sources just aren't there. They seem to either not be producing at the rate anticipated perhaps early on, or they have other purposes, perhaps, for fuelling the nuclear navy program and the reactors that are behind those ships. So, we're seeing more dependence upon foreign assets abroad as well as market purchases, and even on the foreign assets abroad, we just—I don't think have seen the performance out of those assets. You think about the Husab project and nameplate capacity at one time being 16 million pounds, and perhaps it's lower than that now, so I think the dependence on those assets has meant that there's going to be more of a reliance upon purchases going forward.

All that to say we do expect them to still be in the market. We expect them to be part of the market buying spot material when they can, but not left out of a contracting cycle. When you're building reactors that are going to run for 60 or 80 years, you might have a big one-time inventory, but you're not going to be left out of the run-rate requirements if other people start locking them up so we do expect that to be part of the dynamic when a term contracting cycle begins.

FAI LEE:
Okay. Just to be clear, when some of those contracts in 2010 expire in the next year or two, you're not expecting a surge in contracting because they've been in the market through this time period? Or, am I interpreting that incorrectly?

GRANT ISAAC:
Well, you know, I don't think we can categorically rule that out. So first of all, those terms contracts that were signed in 2010, because they were term, many of them didn't start delivery until 2012, 2013. That's the normal gap between signing a term contract and delivering into it, so there is a bit of life left on those initial term contracts, but having said that, just because there might be a little bit of life left, we don't expect to see the fuel buyers from China sitting on the sidelines during a contracting cycle because, remember, they'll want their share of that run-rate volume, especially if they're reliant upon market related to a higher degree than they thought they would be. We don't expect to see complacency there.

FAI LEE:
Okay. All right, that's helpful. The 50 reactors under construction that you've got in your forecast, obviously there's some closures. What's your forecast in-year planning for closures in terms of the reactors over the next whatever time period you're looking at?

Tim Gitzel:

Yes, I don't have that number in front of me. It's net growth, but it's you have to—it's net. For sure you are going to see some units going down. I don't have that number in front of me, but we can get that to you, Fai.

Fai Lee:

All right, no problem. Thanks

Tim Gitzel:

Thank you.

Operator:

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

Brian MacArthur:

Good morning. I was just hoping, if you could clarify something. You talk about you've got your inventory levels down to 7.7 million pounds, which is sort of where you want them to be, but then in your forecast you also talk about purchasing excess NUKEM inventory. Is that different inventory, or is that included in the 7.7 million pounds? I thought it was all just one pile now that you kind of used.

Grant Isaac:

Well, Brian, keep in mind that while NUKEM has been wound up as an operating segment for us, NUKEM themselves had some committed purchases that they had to take as part of a going concern as we wound that down. They come into NUKEM and then Cameco sweeps them out. That's the purchase from NUKEM as we sweep out the material that's just going into their kind of run rate going concern business. In the future, they are not layering in new business so this is temporary.

Brian MacArthur:

Okay, but that's still material that's coming out of the market?

GRANT ISAAC:
Yes, absolutely.

BRIAN MACARTHUR:
Like physically, I mean. There's not an extra stockpile sitting around there or something. It's a flow-through.

GRANT ISAAC:
Yes, and the purchase commitment that was discovered awhile back and now we are just continuing to honour that book of business as it winds down, and then the future purchasing we do is through the uranium segment.

BRIAN MACARTHUR:
Got it. Okay, that makes sense.

The second thing, just in the industry, there has been a little more chatter about GLE actually going somewhere. Can you just update us on what's actually going on there?

TIM GITZEL:
Yes. Brian, you'll have seen in the press reports from last week that an arrangement was made with us—Cameco—and Silex to take control of GLE from GE Hitachi. You'll see the contents of the deal; we didn't pay a whole lot upfront. That's a technology that we think has a future. We really do. I'm not sure when in the future, but it was just something that we didn't want to see disappear, and so we were able among the partners to strike a deal to take over the technology. We will be moving it along, not at a rapid pace or not an expensive pace, but we will be moving it along. That's where it's at today.

In a better market, and I joke with Grant that I was around to see enrichment technology move from gaseous diffusion to centrifuge. We think this is the next one that's coming in the future, we just don't know when.

BRIAN MACARTHUR:

But if prices peg up back to 50, and you re-open your tier-one, would it have a higher capital priority than reopening, say, your tier-two assets?

TIM GITZEL:

That's not even in our consideration Brian, not at the moment.

BRIAN MACARTHUR:

Okay, great. Thank you.

TIM GITZEL:

Thank you.

OPERATOR:

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

OSCAR CABRERA:

Thank you, Operator. Good morning everyone. Just wanted to ask you about Inkai. If I look at the technical report that you shared with us a couple of years ago, the production expected in 2019 is 8.3 million pounds, according to your disclosure, which is in line with that technical report except that for 2020 and going forward, you're looking at 10.4 million pounds, so that's effectively a 2 million pound increase. I'm just wondering how you're thinking about these extra pounds with your partners, if it is something that you're thinking of bringing to the market or should we expect that production to be flatter over the next couple of years?

TIM GITZEL:

Yes, Oscar, thanks for the question. We are just complying with Kazakhstan and Kazatomprom where they have directed all of the joint ventures to dial back production at their sites, and so that's what you're seeing in ours. I think we produced both 6.9 million pounds last year total; you'll probably see something similar going forward, a little bit more perhaps this year because our subsurface rights agreement allows us to move up a bit. But, we're following what they are dictating on that one, and so at some point, when the market improves, we would hope to get up to that level up of 10, but right now we're dialled back like everyone else.

OSCAR CABRERA:

Thank you, Tim. Your comments on the market are always helpful. Just wondering if you could provide—last time you mentioned the fact that Section 232 was making people hesitant to participate in the contract market. Just wondering if you can provide an update on that, as well as if you have seen many more of that aggressive pricing you described last quarter?

TIM GITZEL:

Yes. Well, 232, we could spend a lot of time on that one because we have been spending a lot of time on that one. I can tell you, been down to Washington more times in the last five or six months than I think in the last 10 years, but we're heavily involved, obviously. Trying to find a solution that might work for everybody. It's really in no one's interest to put the hurt on the utilities. I mean, the U.S. nuclear utilities are fighting against \$2, \$3 gaps right now, trying to keep their plants moving in economic, and we saw some good performance through the polar vortex.

This idea that quotas be put in place or tariffs, we're not in favour of that. We are prepared to compete on the market with anybody, whether it's in the U.S. or anywhere.

The petitioners are still moving ahead. The 232 piece is moving ahead. You have seen a few dust ups in the last few days between the petitioners and the utilities. We're just trying to find a solution that works so that, as I say, the utilities—we're concerned for our customers that they are not put in a more difficult position than they are now, and so, we'll see. I think the process—not I think—the process is still moving ahead. I understand that all comments and surveys and everything that's out there now have to be in by April because they want to stick to the timeline, which is for the Department of Commerce to give their views to the White House by April, and then there is about 90 days after that the President of the United States has to think about it and come up with a decision.

When I say it's frozen the market in the U.S., I think that's true. People don't know what to do, including the many of the utilities we deal with; they're just kind of waiting to see what happens there. That's a real wildcard for 2019 that we'll see how it plays out, probably in the first six months.

OSCAR CABRERA:

Thanks, Tim.

OPERATOR:

Once again, in the interests of time, we ask you to limit your questions to one with one supplemental.

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

OREST WOWKODAW:

Hi, good morning. I was wondering how we should think about the potential timing for the recovery of the $300 million you have with the CRA, and whether it's reasonable to expect that that could come back to you before the appeals process plays out?

TIM GITZEL:

We'd sure like it to, Orest, but I'll let Sean talk to the niceties of that one.

SEAN QUINN:

Sure, and I mentioned on the one question earlier, we don't have any information from the CRA, definitive information from the CRA as to their plans in regards to future reassessment activity or what's happening with cash and letters of credit that have been paid over with respect to prior years.

OREST WOWKODAW:

Okay. Then, secondarily, just a clarification on Greg's earlier question, Grant, with respect to depreciation. When you say it should be similar to 2018, are you talking on a gross dollar basis or on a per pound of production basis?

GRANT ISAAC:

On a total basis, Orest.

OREST WOWKODAW:

Okay, so dollars basis.

GRANT ISAAC:

Yes.

OREST WOWKODAW:

Okay, so then depreciation on a per pound produced then would go way up, I guess, to get to the same number?

GRANT ISAAC:

Well, I think our plan is for the same level of production in 2019 as we had in 2018, so the only change there would be the inventory effect on it.

OREST WOWKODAW:

Yes.

RACHELLE GIRARD:

Orest, he means the same total going into the inventory bucket

OREST WOWKODAW:

Yes, okay. Then finally, just the standby costs of $130 million to $160 million, is that all cash?

GRANT ISAAC:

No. Some of that runs through…

TIM GITZEL:

It’s non cash. Go ahead.

GRANT ISAAC:

Yes. So, some of it is cash but some of it is non-cash. I think we are saying, 7 of it is cash, another 2 is non-cash, and that is straight line depreciation primarily from McArthur Key items that it doesn’t matter that we’re not producing, we still have to depreciate it. It's two buckets there.

Cameco

RACHELLE GIRARD:

Orest, you can see that in the reconciliation table on Page 47 of the MD&A. You can see the non-cash portion.

OREST WOWKODAW:

Okay, great. Thanks a lot.

TIM GITZEL:

Thanks, Orest.

OPERATOR:

Our next question comes from Jim Ostroff with Platts. Please go ahead.

JIM OSTROFF:

I wanted to clarify two quick points. The amount of inventory you expect to have this year and the spot purchase volume you expect this year.

TIM GITZEL:

The amount of inventory we expect to have is what we had at the end of the last year. We're not going to build our inventory and so we keep normal inventory. It's about 4.5 months forward sales, so that's what we…

JIM OSTROFF:

That was 7.7 million. Was that correct?

TIM GITZEL:

I believe that's what we are right now.

RACHELLE GIRARD:

Yes it is.

JIM OSTROFF:

Okay, and the amount of material or raise that you expect to purchase in the stock market this year?

TIM GITZEL:

Well, I think if you read through our documents, you will see we have required pounds of 7 million to 9 million, but as Grant just explained, that's on a calendar year basis. We don't run off the calendar year, so that would be probably the minimum, and then if we want to forward some purchases for next year into this year we will do that as well. Seven to nine…

JIM OSTROFF:

Previously, you would have said maybe 11—would have said 9 to 11 million pounds last year.

TIM GITZEL:

Yes, Jim. Yes, if you look, and as Grant explained, we purchased some of those pounds last year at the end of the year, so our committed number, the pounds we're committed to has gone up from where we announced last year, and the required has gone down.

JIM OSTROFF:

Okay.

TIM GITZEL:

But as I say, it's not a calendar year basis.

JIM OSTROFF:

Right, right. One very quick thing. If the market signals are there with respect to the U.S. facilities, approximately how long would it take to really—to ramp up production to a point they're actually producing?

TIM GITZEL:

Let me ask Brian Reilly, our Chief Operating Officer, to maybe speak to that.

JIM OSTROFF:

Thank you. Thank you.

BRIAN REILLY:

Just to be clear on the question, we're talking about U.S. production?

JIM OSTROFF:

That is correct.

BRIAN REILLY:

All right. We estimate 18 to 24 months to get back to a production rate of about a million pounds a year

JIM OSTROFF:

Okay.

BRIAN REILLY:

That would require bringing back staff, some training and some minor capital investments. To get to something sustainable in the 3 million, 4 million pound annual production, we're probably talking three to five years and some significant…

JIM OSTROFF:

Okay.

BRIAN REILLY:

… capital investments. So right now, the site is in a care and maintenance mode, but…

JIM OSTROFF:

Correct, correct.

BRIAN REILLY:

.. we'd need a couple of years to respond to ramping up production.

JIM OSTROFF:

That is fine. I thank you all. Thank you.

TIM GITZEL:

Thank you, Jim. Yes, have a nice day. Thanks.

OPERATOR:

Our next question comes from John Tumazos with John Tumazos Very Independent Research. Please go ahead.

JOHN TUMAZOS:

Thank you. There is some indications of slower economic growth in some places in the world. European auto sales were down about 8% late last year, Chinese 12% in the second half. China was exporting LNG or reselling it to Japan in the last few months and they ended up not cutting output in a lot of industries as they had last winter; they increased steel and aluminum 10%. Are you concerned that the macroeconomic picture will impact the uranium market?

TIM GITZEL:

That's a great question, John. This is a long-term game, as we've always talked about, and if you want to talk from 30,000 foot level, we're talking about 7 billion people on the planet, 2 billion no electricity, 2 billion more coming in rapidly growing economies that are going to need electricity in a now world that's pretty concerned I think with global warming and climate change, and especially clean air. You see out of the U.S. and these new deal green plans, and everybody has got a plan and they all involve, I think, wind and solar which is wonderful, but I think you've got to have something to back it up, and we really believe that there's a role for nuclear. We're seeing countries that have recognized that – China, India, South Korea, now in the Arab states. Nuclear is both growth and replacement. If we’re moving off of coal and other carbon, there is a role for nuclear.

We try not to go by the quarter-by-quarter growth stats in any country. We look at the long-term picture and we think there is a big role to play for nuclear.

John Tumazos:

Thank you.

Tim Gitzel:

Thank you.

Operator:

Our next question comes from Philip Chaffee with Energy Intelligence. Please go ahead.

Philip Chaffee:

Hi, Tim. Thanks for taking my questions. I just had quick follow-ups on those GLE questions. The first, I'm just curious if you see this as an enrichment play or as a uranium play, particularly this prospect of the tails re-enrichment plant at Paducah. Then secondly, as part of that deal, it sounds like there's this option for Cameco to increase its stake to 75% in GLE. I'm just curious what you would be looking to see before you did something like that?

Tim Gitzel:

Thanks, Phil, and I thought your article nailed it pretty good, quite frankly, on February 8th. It's both an enrichment and a U play for us. We're quite interested in those DoE tails and they are quite interested in our technology, and two together could make for a happy marriage, we think, some day. So, that piece is out there.

Then, as I said, we think this is next-generation technology on enrichment. Are we there yet? No, we don't have the plant yet, but when we were doing the gaseous diffusion, nobody thought about centrifuge and now it's all centrifuge, and we think laser beams are going to be the way of the future. So, it's both for us.

Now, we wanted to keep an option to move a little higher in the equity part, if the conditions were right. Right now, if this deal goes ahead—we have a term sheet, but if it went ahead it's a 51/49 split, but we do have the optionality to go up to 75% if the conditions are right. That's where we're at. We'll see. I can't tell you what those conditions are at the moment but that's where we are today.

PHILIP CHAFFEE:
Thanks.

TIM GITZEL:
Thank you.

OPERATOR:
Our next question comes from Lawson Winder with Bank of America Merrill Lynch. Please go ahead.

LAWSON WINDER:
A couple of follow-ups from me. I appreciate you taking the two follow-ups. One just on the CRA thing again, just on the attempt to recover the $38 million. Can you help us at all on a timeline on when that might happen, first?

TIM GITZEL:
Sean?

SEAN QUINN:
The applications to Justice Owen are in. He has got both of them, including a short rebuttal from us, and he will make up his mind when it works with his schedule. I'm anticipating a three- to four- to five-month window on that but I can't give you anything more precise on that.

LAWSON WINDER:
Okay, great. Then just one other question on this, on the cost guidance there, on the COGS per pound guidance, just to be abundantly clear. Any guidance that you can provide us whether now or after the call would be very helpful just on what that depreciation component is and then what the rest of it, just to help us getting to an EBITDA number. I don't know if there's anything you had right now, but just sort of along the lines of you mentioned something along the inventory, but yes. If there's nothing you can provide right now then just it would be great to have a follow-up I think for all of us on that. Thank you.

GRANT ISAAC:

Thanks, Lawson. We hear you and others loud and clear about your interest in something you've never expressed an interest in before, so we'll absolutely go back and provide some answers, but we're not going to get into it right now.

LAWSON WINDER:

Okay, great. Thank you.

TIM GITZEL:

Thanks, Lawson.

OPERATOR:

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

FAI LEE:

Thanks for taking the follow up. The $500 million of debt that's coming due in September, are you planning on terming that out or are you going to pay it down with the cash or short-term investments you have on the balance sheet?

TIM GITZEL:

That's the great question, and, Grant, we have a great answer for that. Go ahead.

GRANT ISAAC:

We've been looking at the maturity that's coming up, $500 million in 2019, for some time now, and we've been looking at it from the framework that we operate under which is we navigate by our investment grade rating—that matters for us—and so what matters then is net debt to EBITDA is an important metric for us. When we think about our debt load, it really comes down to what is the run-rate of the business? Our guidance table, as Tim talked about, is structured to say today's prices exist for the rest of the year.

If we assume that kind of scenario, that the guidance and the outlook that we provided is what prevails, then we probably will move to a position to retire that 2019 maturity because that would make sense for us. We've got a strong cash position. Deployment of it would be to de-lever and that would help keep our investment grade metrics in a good range for us.

If, on the other hand, we start to see a market that begins to improve, a market that starts to recognize the need to incent uranium, and we start to see better prices which are not only flowing through our committed sales portfolio, and therefore we're getting the earnings and the cash flow uptick from that, but also prices that are sufficient to layer in new business, the type of new acceptable term contracts that we need in order to contemplate or restart of McArthur, and if those two things are happening between now and middle of the year when we'll have to make that final decision, well, then maybe we won't have the same view to de-lever and in fact, we would just roll over the 2019 maturity at that point.

It really is going to come down to what the market is offering us through the first half of this year, what we're seeing, what the prospects are, and really based upon the run rate. Things like—and they've come up the few times in this call—things like if we ever saw a way to have the CRA release the $300 million, well that's a one-time time event, that's not a run-rate event, and a positive decision on TEPCO, that's a one-time event not a run-rate. So it really will come down to the run rate of the business. Watch that. We'll update it again in Q1, what our plans are. We'll have a good sense of how the market is evolving through the year.

That's the framework that we look at and it really pivots around this view that we self-manage risk and we navigate by our investment grade rating.

FAI LEE:
Okay, that's helpful. If you do decide to pay it down, are the short-term investments available to pay—can you use those proceeds to pay off the debt, or partially pay it off?

GRANT ISAAC:
Yes.

FAI LEE:
Okay. Thank you.

TIM GITZEL:

Thanks, Fai.

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:

Okay. Well, thank you very much, Operator. With that, I just want to say thanks to everybody who joined us today. Twenty eighteen was an eventful year and we expect nothing less in 2019. We appreciate your interest and your support, and let me assure you that we will continue to manage effectively through this, what we call a noisy market, and make the decisions necessary to keep the Company strong and viable for the long term.

With that, thank you everybody and have a great day.