

**Cameco Corporation First Quarter Results Conference Call**  
**Tuesday, April 29, 2014 – 1:00 PM ET**

**CORPORATE PARTICIPANTS**

**Rachelle Girard**

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*President and Chief Executive Officer*

**Grant Isaac**

*Senior Vice-President and Chief Financial Officer*

**Ken Seitz**

*Senior Vice-President and Chief Commercial Officer*

**Bob Steane**

*Senior Vice-President and Chief Operating Officer*

**Alice Wong**

*Senior Vice-President and Chief Corporate Officer*

**Sean Quinn**

*Senior Vice-President, Chief Legal Officer and Corporate Secretary*

**CONFERENCE CALL PARTICIPANTS**

**Ben Isaacson**

*Scotiabank*

**Ralph Profiti**

*Credit Suisse*

**Oscar Cabrera**

*Bank of America Merrill Lynch*

**Greg Barnes**

*TD Securities*

**Edward Sterck**

*BMO Capital Markets*

**Mitch Thakkar**

*FBR Capital Markets*

**David Snow**

*Energy Equities Inc.*

**PRESENTATION**

**Operator**

Good day, ladies and gentlemen. Welcome to the Cameco Corporation First Quarter Results Conference Call. I would now like to turn the meeting over to Ms. Rachelle Girard, Director, Investor Relations. Please go ahead, Ms. Girard.

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**Rachelle Girard, Director, Investor Relations**

Thank you, Mark, and good afternoon, everyone. Thank you for joining us. Welcome to Cameco's first quarter conference call to discuss the financial results.

With us today on the call are Tim Gitzel, President and CEO; Grant Isaac, Senior Vice-President and Chief Financial Officer; Ken Seitz, Senior Vice-President and Chief Commercial Officer; Bob Steane, Senior Vice-President and Chief Operating Officer; Alice Wong, Senior Vice-President and Chief Corporate Officer; and Sean Quinn, Senior Vice-President, Chief Legal Officer and Corporate Secretary

Tim will begin with comments on the quarter and the industry. Grant will comment on the Canada Revenue Agency tax case. Then we'll open it up for your questions.

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 assumptions we have made.

With that I will turn it over to Tim.

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**Tim Gitzel, President and Chief Executive Officer**

Well, thank you, Rachelle, and welcome to everyone who has joined us on the call today as we discuss Cameco's first quarter results. We appreciate you taking the time to join us. And let me add a welcome to Sean Quinn to our senior leadership team and to this call. I'll start today by briefly discussing our results and then before opening up for Q&A I've asked our Chief Financial Officer, Grant

Isaac, to give an update on the Canada Revenue Agency litigation.

Let me start by saying we had a strong quarter to start 2014, driven by increased sales over the same period last year and an average realized price that continues to outperform the spot price. The 35 percent bump in sales is a bit of a change from last year when deliveries in the first quarter were lighter than previous years but the cause is the same, that is that our customers decide when in the year to receive their deliveries, which makes our delivery schedule lumpy. This year we've received more requests for delivery early in the year. For the remainder of 2014, we expect second quarter sales to be higher than the first quarter and remain relatively balanced in the third and fourth quarters.

Our results were also affected by two one-time events, namely the sale of our interest in the Bruce Power Limited partnership and the fee paid for the early termination of our toll conversion agreement with Springfield Fuels. That said, it is primarily the sale of our interest in Bruce that caused such an increase in our net earnings this quarter.

On the operations side, production decreased slightly compared to the same period last year but we are on track to meet our annual guidance. The decrease was primarily a result of lower production at Rabbit Lake due to lower ore grades and the timing of production stopes. That was partially offset by production in McArthur River, which was 9 percent higher than at this time last year. We are happy to report that during the first quarter, McArthur River was approved for a license increase to 21 million pounds, up from the current 18.7 million pounds. This is an important step in achieving our goal of increasing production at the operation in the future; however, a license increase at Key Lake is also required and we're in the process of seeking approval for that increase and expect a decision this year.

At Cigar Lake, I am delighted to say that we announced the start-up of ore production at the mine in March and the operation has continued to run smoothly since then. The jet boring system is performing as expected and six ore cavities have been mined to date. That was a historic event for the company and we're very pleased with the excellent work being done there.

The ore, as you know, is being shipped to AREVA's McClean Lake mill, where it's being stored until the mill is ready to process it. We have been advised that the mill upgrades are progressing well but that processing will not happen in the second quarter. Based on the plan AREVA has in place, the joint venture is still targeting between

two million and three million pounds of production this year; however, that will depend upon when the mill is able to start processing ore, the ramp-up rate they're able to achieve and, of course, the continued success of our own operations at the mine. So, overall, as far as operations and sales are concerned, it was a positive quarter.

With regard to the market, there was no fundamental change to the current conditions. For the near to medium term demand remains discretionary while supply is performing reasonably well and utilities requirements remain well covered. As a result, uranium prices continue to suffer downward pressure and we do not see any reason to expect improvement soon. There was positive news out of Japan with the approval of the new energy policy, which confirmed nuclear power will remain an important part of the energy mix, and the Nuclear Regulatory Authority further clarified the process for reactor restarts; however, even when restarts occur, there are a number of issues that will take some time to resolve, such as the clearing of excess supply, the return to long-term contracting in meaningful quantities and, on a broader scale, low wholesale power prices, the impact of shale gas and flat electricity demand in the U.S. and in parts of Europe.

But we remain confident in the long-term fundamentals, which indicate a clear progression of growth. Today there are 70 reactors under construction around the world, representing billions of dollars of investment, and significant growth in future uranium consumption. We believe that more than 90 new reactors will start up over the next ten years and significantly more in the ten-year period after that. Nuclear energy continues to be an integral part of the world's energy mix because it is one of the most important tools we have to combat climate change and to provide safe, clean, reliable, and affordable base load energy to rapidly expanding economies. So we remain excited about the future and are prepared as a company to meet it head on. Today we continue to closely monitor market developments and to make decisions we think will ensure the best, most efficient use of our resources so that we can weather the uncertainty and be ready for future growth in the market.

So, with that, I'd like to turn it over to Grant Isaac, our Chief Financial Officer, to give a brief update of the CRA issue. Grant?

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**Grant Isaac, Senior Vice-President and Chief Financial Officer**

Thank you, Tim.

We thought it would be prudent to spend a few minutes on this issue today, because, as we disclosed in our first quarter MD&A, the CRA has indicated that it intends to accelerate the frequency of reassessments related to our transfer pricing case and while the total of estimated payment has not changed from what we reported in February, the expected timing has. CRA has completed their audit of our 2009 tax return and we have received proposed adjustments to 2009 taxable income. We expect the reassessment to be issued in the second quarter of 2014 rather than the fourth quarter, as was the case in previous years. In addition, we believe CRA may complete their audit of 2010 and issue the resulting reassessment this year as well. As we have noted previously, we would have to pay 50 percent of both the reassessed amounts this year, as required under the Canadian Income Tax Act. We have updated the schedule of potential payments in our first quarter MD&A to reflect the acceleration in these payments.

It's important to note that there have been no changes to our view of the case since we first disclosed the issue in 2008. We remain confident that we will be successful in our case but have taken a cumulative tax provision of \$75 million to date; however, based on the reassessments we have received, we have been required to pay a net amount of \$117 million to the CRA. If we are successful in our case, as we believe we will be, we would expect to receive the full amount back, along with any other payments made while this case is in dispute. I should point out that the expected payments and timing are estimates only, since actual amounts will depend upon the income reassessed in each year, the availability of elective deductions and tax loss carryovers, and the timing of the reassessments, but I want to emphasize that we do not believe this will be the likely outcome or that the ultimate resolution of this matter will be material to our financial position, results of operations, and cash flows in the years of resolution. Based on our view of the likely outcome of the case, we expect to recover the amounts paid. We will continue to update as any material changes arise. The 2003 assessment is expected to go to trial in 2015 and we expect to receive a decision in 2016.

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

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**Tim Gitzel, President and Chief Executive Officer**

Okay. Thank you, Grant. And, with that, we would be happy to answer any questions.

## **QUESTION AND ANSWER SESSION**

### **Operator**

Thank you. We will now take questions from investors, analysts, and media. In order to respect everyone's time on the call today, we will take your question and allow one follow-up question. Then, if you have further questions, please return to the queue and we will get to them after others have had their chance.

If you have a question, please press star one on your telephone keypad. If you are using a speakerphone, please lift your handset and then press star one. To cancel your question, please press the pound sign. Please press star one at this time if you have a question. There will be a brief pause while participants register. Thank you for your patience.

Our first question is from Ben Isaacson from Scotiabank. Please go ahead.

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**Ben Isaacson, Scotiabank**

Thank you very much. I have two questions. First one for Tim: You stated in the press release that you expect little improvement over the near to medium term and I just wanted to dig into that a little bit. When you look at the spot price decline in recent weeks can you talk about whether that surprises you? And in your own internal planning how do you think about the sustainability of the current price against the cost curve? And then I guess just kind of by extension of that, what's preventing spot from really heading down to the mid-20s over the near term?

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**Tim Gitzel, President and Chief Executive Officer**

Well I think, Ben, I would say we're not really surprised. I think we pointed in February to the fact that we thought we were going to see in the near to medium terms things are going to be tough, and they're tough, I can tell you. You've watched the price, you've seen our company really buckle down in 2013 and again in this year we say we're digging deeper, we have to in this market. We think there is a lot of material still splashing around the market that's going to have to be taken up and will be over time. We saw some numbers this morning in one of the publications for fresh production around 150 million pounds, consumption about 10 or 20 million pounds higher than that, but still that gap is being filled by secondary supplies and I think that's going to last for a while yet. I think the good news story in all of this is the

longer term and we remain very excited about that. I think we've put out numbers that by 2023 demand is going to be somewhere in the 240 million pound a year range and if supply stays where it's out today in the 150 million, 160 million pound range, we've got some issues. So that's the future we're building toward. In the meantime the company, Cameco, is in good shape. We have our contract portfolio in place, you see our average realized price so, yeah, it's tough times right now.

Your second part was where do you see it going. I don't know where it'll go. I guess as long as there's a willing seller and willing buyer at a certain price it could go anywhere. But, as I say, for Cameco, we're buckling down. We're happy with our contracting position that we have today and we'll continue to remain as lean as we can until we see things improve.

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**Ben Isaacson, Scotiabank**

That's great. Thank you, Tim. And my second question is for Grant. I understand that the CRA dispute is before the courts but when you talk about 50 percent of cash taxes being due at the time of reassessment when is the other 50 percent due? And would that be when the 2003 assessment trial is complete in 2016, assuming an unfavourable ruling for Cameco?

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**Grant Isaac, Senior Vice-President and Chief Financial Officer**

Yeah, that's exactly what would happen. It would have to go to trial. This is in dispute and we're going through the dispute settlement provisions that are part of the tax court and it would be upon that tax decision that the amounts paid currently would be either returned to us or if it was an unfavourable judgement it would go the other way.

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**Operator**

Thank you. Our next question is from Ralph Profit from Credit Suisse. Please go ahead.

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**Ralph Profit, Credit Suisse**

Good afternoon. Thanks for taking my question. The first one is with respect to Cameco's realized price both in Q1 and 2014. I was just wondering, Tim, if you can discuss with us how much of an influence the contract floor price has played or will play. And if you can maybe quantify or

give us an idea of proportionality that would also be helpful.

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**Tim Gitzel, President and Chief Executive Officer**

I'm not sure I can give you proportionality. It's certainly played a role, as you'll have seen. I'm going to pass it over to Ken. Ken, can you give us an update on that?

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**Ken Seitz, Senior Vice-President and Chief Commercial Officer**

Sure. Clearly we are, in some of our market-related contracts, running into floors and it is playing a significant role in our average realized price. In terms of proportionality, I don't have that exact number with me. I can tell you that about half of our deliveries for this year will be market-related contracts and I can tell you that the bulk of those that have floors would be floors above the current price. So exact numbers, I just don't have it on my fingertips.

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**Ralph Profit, Credit Suisse**

Understood, though thank you for that. And, secondly, with respect to the McArthur River CBA, are these discussions, would you characterize them as active and engaged? Is there a sense of urgency on both sides to get a deal done? Is a framework close? Tim, you talked about, you know, further buckling down; does this include your approach to McArthur River? Thanks.

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**Tim Gitzel, President and Chief Executive Officer**

I'd say very active, very engaged. Clearly normal bargaining process. Those are get people and we count on them every day. So we're in the process. We came out of a four-year agreement and this is exactly what has happened the last few times it's come up for renegotiations, so we're having good discussions with them. I think the bargaining table is very civil and we're trying to advance. So nothing unusual there and we look forward to an agreement at the right time.

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**Operator**

Thank you. Our next question is from Oscar Cabrera from Bank of America. Please go ahead.

**Oscar Cabrera, Bank of America Merrill Lynch**

Thank you, operator. Good morning, everyone. Just, Tim, interested in context around your comments on gas in the U.S. and Europe. Have you, um, is there anything from your existing clients whereby they might be looking to switch out some of their nuclear power in either of those two regions and use gas?

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**Tim Gitzel, President and Chief Executive Officer**

Sorry, you said the U.S. and Europe, Oscar, whether they'd be switching out nuclear for gas? Was that the question?

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**Oscar Cabrera, Bank of America Merrill Lynch**

Yes, Tim, that's, you know, in your comments or in your remarks you alluded to gas and, you know...

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**Tim Gitzel, President and Chief Executive Officer**

Yeah. Yeah, thanks, Oscar.

You know, clearly in the U.S. we're watching gas. It's a really interesting piece. We've been watching it close go from probably \$2 or even under \$2 in 2012 to today. I think it starts with a \$4, maybe \$4.50. We saw numbers double digits, high double digits at Christmas. So we've always said that about gas, it seems to be in abundant supply in the U.S. yet the price variations can be quite significant. And of course if you're running gas-fired electricity that goes right to your bill, to the consumer. So gas is going, let me be clear, gas is going to play an important role in the U.S., especially with the shale gas. If the quantities are there that people say there are it's going to play a role in the U.S.

Europe, you know, it's certainly not the same pricing structure as you're seeing in the U.S. and questioning where it comes from, ah, we don't see today a whole lot of substitution nuclear for gas there but we'll see what the, you know, it's an economic calculation, see what the prices are. The other piece we're watching is Japan and we watch that closely and you've heard us talk in the past about LNG and gas landed on Japanese shores at \$19 or \$20 a million BTUs and, you know that's tough to swallow. You see their trade balance eating that. So I don't think in Asia it's going to have as big an effect as it might in North America.

**Oscar Cabrera, Bank of America Merrill Lynch**

Thanks, that's helpful, Tim. And then with respect to Ken's comments on 50 percent of your sales hitting a floor, um, if prices continue to be weak and, you know, Japan takes a while to come back, have you considered shutting down some of your production?

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**Tim Gitzel, President and Chief Executive Officer**

You know, Oscar, we look at our production all the time. Right now, as you will have seen, we have sales commitments in place. I think we've guided to 31 million to 33 million pounds in sales this year and so we have set our production targets to meet those guidelines and so we'll watch our production very closely going forward.

I'm just going to ask Ken...

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**Ken Seitz, Senior Vice-President and Chief Commercial Officer**

Yeah, just one clarification, Oscar, just the earlier comment, it was 50 percent of our deliveries being market related for the year and the bulk of those deliveries that have floors hitting floors. So just you had mentioned 50 percent hitting floors; that wasn't, that's not the case.

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**Operator**

Thank you. Our next question is from Greg Barnes from TD Securities. Please go ahead.

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**Greg Barnes, TD Securities**

Yes, thank you. Ken, is the market, the spot market, really suffering from the banks that moved out of trading uranium? Is the liquidity really dried up that much and that's why we're seeing this dive in the spot price?

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**Ken Seitz, Senior Vice-President and Chief Commercial Officer**

You know, Greg, I, ah, certainly that is playing a role, but I'd say it's among other things that are going on at the moment. Once again, we're seeing very little demand in the spot market. We have enrichers underfeeding, which, given the situation in the enrichment market, we expect

will continue for a little while yet. We see supply performing reasonably well. We're waiting for restarts in Japan. There have been, as you know, some other shutdowns in the world that have lent to maybe just potential material available for sale. Exactly as you put it, there's a couple financial players that are no longer in the market and doing the carry trade, putting current supply into the mid-term market, and I would also say some producers who are looking at, ah, who in fact are selling at these prices. And so absolutely, Greg, that's part of it, but I would say it's part of a number of things that are going on in the market at the moment.

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**Greg Barnes, TD Securities**

Okay. And, Ken, the underfeeding issue, do you have any estimate or can you guess how much supply they are, the enrichers are generating in terms of actual uranium?

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**Ken Seitz, Senior Vice-President and Chief Commercial Officer**

Yeah, I think we've said in the past maybe four million or five million pounds is what we're seeing. You know, it's difficult to say given what's happening in Russia with respect to the Russian enrichment capacity and ultimately supply coming out of Russia and feeding their own internal requirements because you do have secondary supplies, you have underfeeding, and you also have fresh enrichment supply coming out of that country. So today we look at, maybe, four or five million pounds, could that increase? It probably could increase a little bit. And, again, we're waiting to see things like Japan and the restart of reactors where not only will they be consuming uranium again but also enrichment.

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**Operator**

Thank you. Our next question is from Edward Sterck from BMO. Please go ahead.

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**Edward Sterck, BMO Capital Markets**

Thank you very much and hello, gentlemen. Just a couple of questions here. I'm afraid I'm going back to the CRA dispute again. I was wondering if it would be possible to provide some guidance on what the possible payouts might be under the 50 percent type rule ahead of a judgement when interest and installment penalties are included.

**Grant Isaac, Senior Vice-President and Chief Financial Officer**

Yeah, it's a good question. It's not information we'd put out there because there actually is difficulty with us trying to determine what those amounts should be. You'll recall we disclosed the transfer pricing penalty that was assessed for 2007. That was a bit of a surprise to us as previous years hadn't been disclosed. We need to wait until we actually see those actions taken. So what we're stuck with is just the payment anticipated under the reassessment should they continue to progress in the fashion that we've seen so far. And obviously you'd appreciate it's very significant voluntary disclosure on our part to be out beyond what we've actually been reassessed for and to go any further I think it would just be too far of a stretch.

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**Edward Sterck, BMO Capital Markets**

Okay, fair enough. And just a second question on the CRA dispute: I think I'm correct in saying that the court date, the initial court date has been pushed back a couple of times, and obviously the CRA appears to be accelerating their reassessment activities. Is it, um, am I being perhaps a bit too much falling afoul of the conspiracy theory here to imagine that the CRA is trying to put pressure on Cameco to settle out of court with these sorts of actions?

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**Tim Gitzel, President and Chief Executive Officer**

You'd have to check with them on that, Ed. We're just dealing with the cards as they come in, as Grant said. We think earlier. We think we have a very strong position. We're doing everything necessary to defend our position and we'll see how it turns out.

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**Operator**

Thank you. Our following question is from Mitch Thakkar from FBR Capital Markets. Please go ahead.

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**Mitch Thakkar, FBR Capital Markets**

Good afternoon, everybody. My first question is just on the state of the spot markets. When you see out there how much do you think the supply needs to get rationalized to kind of achieve that balance here a little bit and do you think, you know, there is an opportunity for

you to kind of like, you know, take the leadership and maybe trim some of your un-contracted volumes?

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**Tim Gitzel, President and Chief Executive Officer**

Thank you, Mitch. You know, we, as I said earlier, we have supply obligations in place. We have a portfolio of contracts that we need to feed our production into. We guided for 31 million to 33 million pounds of sales this year and so we adjust our production accordingly for that. And so I think that's our number-one concern is that we, and it always has been, we meet our delivery obligations. We always have and we always will. So, other than that, we're watching the market as well. We think there's a significant material, as I said and as Ken has said, floating around still available in the market, but it's a matter of time before that gets swept up and then you're into more of a production versus consumption arena. And we look forward to that day I can tell you.

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**Mitch Thakkar, FBR Capital Markets**

And do you have kind of an estimate on how much oversupply we are currently in?

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**Tim Gitzel, President and Chief Executive Officer**

I don't have those numbers. As I said, secondary supplies up to the end of last year, I think, were significant. Last year, with the end of the HEU agreement, that took 24 million pounds per year. We said that was one of the most reliable sources of supply in the market off the market. So there still are odds and sods out there but I think those are going to diminish over time and people are going to have to watch really closely the supply situation versus the demand and, as I said, when I look at the numbers going out to 2023, and you can do your own calculations, but just on the number of reactors we see coming on and extrapolating from that, the uranium demand going today from about 170 million pounds to 240 million pounds. Supply today at about 150 million, 155 million pounds flat, and I can tell you there's not a lot of investment in new projects when you see the prices where they are today. Something has to give on that and that's what we're preparing the company for.

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**Operator**

Thank you. Once again, please press star one for any questions. Our next question is from David Snow from Energy Equities Inc. Please go ahead.

**David Snow, Energy Equities Inc.**

Yeah, I don't want to be a radical and put any optimism on this but it seems that when I quickly check the compound growth rate you're looking at a 3.5 percent growth in ten-year consumption, and isn't that a boost in the 1 percent or 2 percent that you'd been using in the past?

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**Tim Gitzel, President and Chief Executive Officer**

David, no, I think we've actually said 4 percent. 3 percent to 4 percent has been our number. So that, I think that's consistent with the growth that we're seeing. About 435 reactors operating, operable in the world today, 93 net new reactors over the next ten years, I think we've done the math on that much more calculated than that but that leads us to believe that the growth in uranium demand will be about 3 percent to 4 percent a year over the next ten years.

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**David Snow, Energy Equities Inc.**

Okay. Well, thank you very much.

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**Tim Gitzel, President and Chief Executive Officer**

Thank you, David.

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**Operator**

Thank you. Ladies and gentlemen, this will conclude today's question-and-answer session. The Cameco Corporation's first quarter results conference call has now ended. Please disconnect your lines at this time. We thank all who participated and have a great day.