Cameco Corporation

2017 Fourth Quarter and Annual Results

Conference Call Transcript

Date: **February 9, 2018**

Time: **11:00 AM EST / 10:00 AM CST**

Presenter: **Tim Gitzel**
Chief Executive Officer

Grant Isaac
Senior Vice President and Chief Financial Officer

Rachelle Girard
Director, Investor Relations

Q4 Conference Call

February 9, 2018

OPERATOR:

Welcome to the Cameco Corporation 2017 Fourth Quarter and Annual 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, then one on your telephone keypad. Should you need assistance during the conference call, you may signal an operator by pressing star and zero.

I would like to turn the conference over to Rachelle Girard, Director of Investor Relations. Ms. Girard, please go ahead.

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 industry. Then, Grant will walk you through how the change to equity accounting for JV Inkai will affect our 2018 outlook and results, starting with Q1 2018. After, we will open it up for your questions.

If you joined the conference call through our website event page, you will notice there will be slides displayed during the remarks portion of this call. These slides are also available for download in a PDF file called Conference Call Slides through the conference call link at cameco.com. Today's conference call is open to all members of the investment community, including the media. During the Q&A session, please limit yourself to two questions and then return to the queue. For those on the webcast, if you have questions, please select the Submit a Question feature to submit your questions by email and we will follow-up after the call.

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Forward-Looking Information Caution

This presentation includes forward-looking information or forward-looking statements under Canadian and US securities laws, which we refer to as forward-looking formation. Forward-looking information is based upon our current views, which can change significantly, and actual results and events may be significantly different from what we currently expect. Examples of forward-looking information include: our expectations about growth in reactor construction and uranium demand, supply, consumption, prices, and long-term contracting; our forecasts relating to our CRA trial and TEPCO dispute; our 2018 plans and outlook; and our views on the impact of change to equity accounting for our Inkai investment and capturing the value of Inkai. Material risks that could lead to a different result include: unexpected changes in uranium supply or demand, our production, purchases, sales, costs, taxes, our mineral reserve and resource estimates, currency exchange rates, and government regulations or policies; the risk of litigation or arbitration claims against us that have an adverse outcome, including lack of success in our dispute with CRA or with TEPCO; the risk that our contract counterparties may not satisfy their commitments; the risk that our cost reduction strategies or other strategies are unsuccessful or have unanticipated consequences; and the risk our estimates and forecasts prove to be inaccurate. In presenting the forward-looking information, we have made material assumptions which may prove incorrect about: uranium demand, supply, consumption, long-term contracting and prices; growth in reactor construction; our production, purchases, sales, and costs; taxes and currency exchange rates; about market conditions and other factors upon which we have based our 2018 plans and outlook; the accuracy of our 2018 outlook and other estimates; the absence of new and adverse government regulations or policies; the successful outcome of any litigation or arbitration claims against us; the timing of the judge's decision in the CRA trial and the TEPCO arbitration hearing and outcomes of those disputes; our ability to complete contracts on the agreed-upon terms; and that our cost reduction strategies and other strategies will successfully achieve their objectives. Please also review the discussion in our annual MD&A and our most recent annual information form for other material risks that could cause actual results to differ significantly from our current expectations, and other material assumptions we have made. Forward-looking information is designed to help you understand management's current views of our near- and longer-term prospects, and it may not be appropriate for other purposes. We will not necessarily update this information unless we are required to by securities laws.

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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:

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.

I'd like to start today by noting the appointment of Ian Bruce as Cameco's next Chair of our Board of Directors, effective at our AGM in May. Ian, as many of you know, has been a member

of Cameco's board since 2012 and has demonstrated the rare blend of character, experience and good judgment needed in an effective board chair. So, we look forward to working with Ian in his new role. I'd also like to thank our current Chair, Neil McMillan, who will be retiring from the Board in May. Neil has made an outstanding contribution to the company in his 16 years as director including the last five as Chair. We will miss him greatly.

Before I get to our financial results, which were largely in line with the outlook we provided, let me quickly walk you through the reasons why we believe the next 12 to 18 months could be interesting for our industry and for Cameco.

Cautious
A challenging market

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Spot Price
15%
2016 annual average
vs. 2017 annual average

US / lb U_3O_8
$140
$120
$100
$80
$60
$40
$20
$0
Spot (weekly)
Long-term (monthly)
'04 '05 '06 '07 '08 '09 '10 '11 '12 '13 '14 '15 '16 '17

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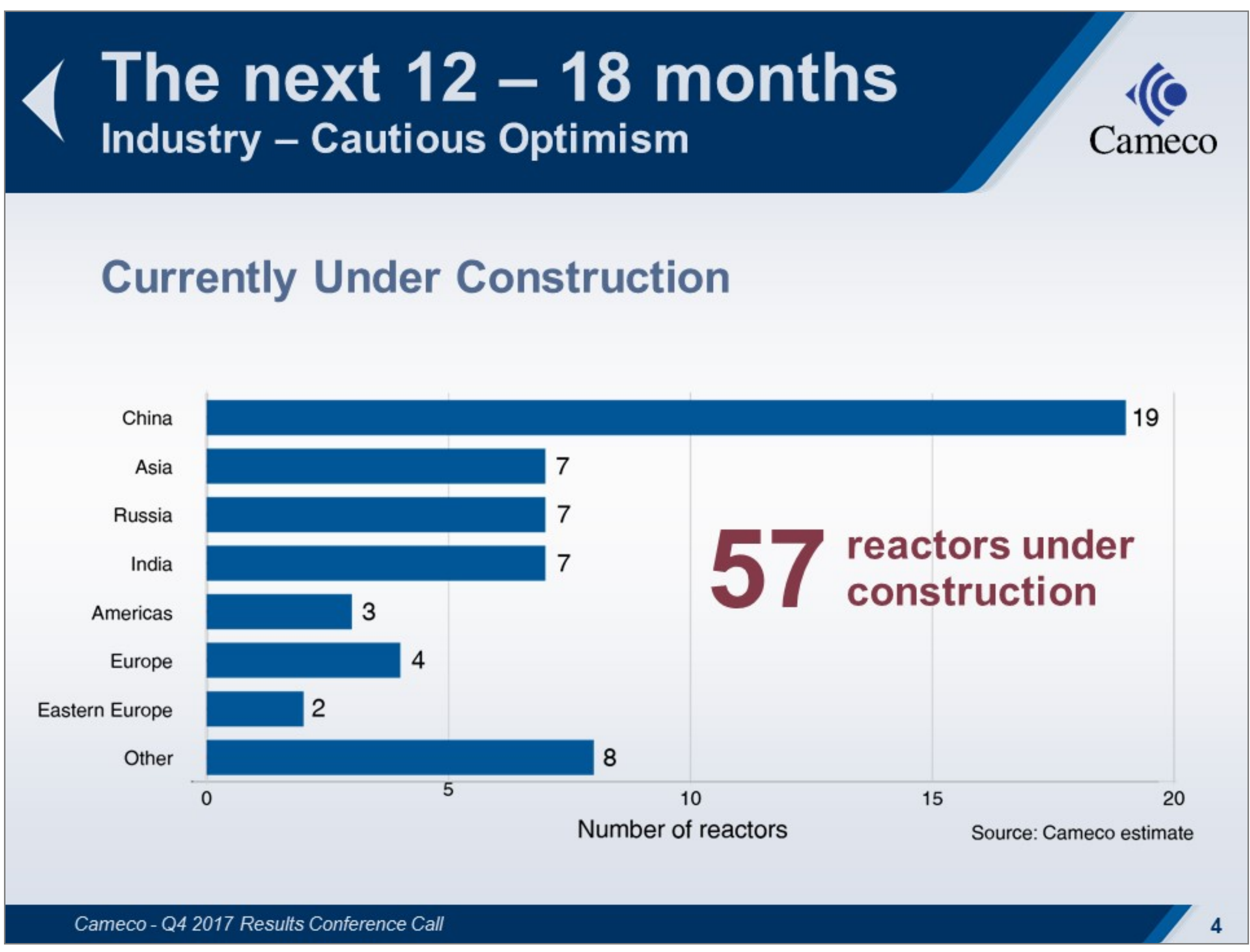
You have heard me say before that we are cautiously optimistic. Today, I would tell you that we are cautiously more optimistic. Let me first speak to the cautious aspect. At the industry level, we have seen a reduction in global demand expectations driven by early reactor retirements,

delays in reactor construction programs, a slower than expected restart process in Japan, and by changes to government administrations that have created additional uncertainty for the nuclear industry, and despite a bit of a lift in uranium prices at the end of 2017, the uranium price still starts with a 2.



This next point may seem somewhat counterintuitive but the fact that the uranium price starts with a 2 is partially where our optimism stems from. Although demand estimates have come down, there is still growth in our industry. Today, there are 57 reactors under construction, the majority of which could be online over the next several years, if start ups occur as planned. Many of the countries that are installing nuclear capacity today are countries where massive segments of the population have little or no access to electricity and are demanding more, and those populations are growing. I'm talking about places like China and India where there is a huge need for baseload electricity and where clean air is a growing concern. With the world's

need for safe, clean, reliable baseload electricity, nuclear remains an important part of the mix and, of course, growth in reactor construction will translate to increased uranium consumption.

However, even with the uptick in the uranium prices in the fourth quarter, prices that start with a 2 are still nowhere near the levels needed to encourage investment in future supply, supply that will be needed to support reactor construction programs, the return of idled reactors to the grid and utilities' uncovered requirements. Higher cost producers, who have been protected from low market prices under long-term contracts are beginning to emerge from that protection. Some are cutting production and others have been recapitalized or are seeking protection from creditors. In fact, even the lowest cost producers like Cameco are deciding to preserve long-term value by suspending production and leaving uranium in the ground. With the queue filled with plenty of idled production capacity and shelved brownfield projects, which benefit from

existing infrastructure, the argument for new greenfield investment is made even more difficult, pushing its prospects even further into the future.

So, coupled with utilities' growing annual uncovered uranium requirements, we expect things like planned and unplanned risk to existing production and the lack of investment in future supply could increase the pressure for return to long-term contracting at prices that are supportive of a healthy future supply of uranium.

I also want to focus today on some of the Cameco-specific items that could make the next 12 to 18 months interesting. I'm going to start with our disputes. On the Canada Revenue Agency front, we expect to receive a first ruling from the court sometime this year. As you know, this dispute started in 2008, and at times it seemed like we would never get to court. And during the longest tax trial in Canadian history, 16 weeks, it seemed like we would never get to the end of

the trial. Well, we're almost five months now, post trial, so the decision could come any day now, and while we look forward to a favorable ruling for Cameco, I want to remind you of what the path could look like following a decision. The judge's decision is unlikely to be the final chapter in this dispute, and it only impacts three years. The reality is that nothing may change for some time. As we laid out previously, both parties have 30 days from the date of the decision to file an appeal to the Federal Court of Appeal. and we anticipate it could take the Federal Court of Appeal about two years to reach a decision.

The other dispute we could see some resolution to in the next 18 months is, of course, our dispute with TEPCO. This is really only upside for us as we have already removed the revenue at stake from our outlook, but nonetheless, the potential resolution which we expect will be in our favor is material. We are seeking damages of US$682 million plus interest and legal costs. The three arbitrators have been appointed and arbitration is set for the first quarter of next year. So, lot's going on, on the legal front.

A Deliberate Strategy

Navigate by investment-grade rating = self-manage risk

Disciplined actions taken:

- Production suspensions:
  - 2016 – Rabbit Lake and US
  - 2018 – McArthur River/Key Lake
- 2018 dividend reduction
- Operational changes:
  - shift schedules
  - air commuter services
- Organizational changes:
  - reduced workforce
  - restructured global marketing

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I also want to remind you of what we've been doing inside the company over the past few years. We've undertaken a number of disciplined actions which are part of a very deliberate strategy to strengthen the company in the long term. We have suspended production at Rabbit Lake, curtailed production at our U.S. operations, reduced the workforce across all our sites, changed our air services in Saskatchewan, changed work schedules, downsized corporate office functions, including the consolidation of our global marketing activities, and of course, in November of last year, we announced that in 2018 we would temporarily suspend production at our flagship operation, McArthur River/Key Lake, and reduce our annual dividend by $0.32 per share.

Let me expand a bit on our plans for 2018.

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2018 Outlook

Production – Cameco's share

Cigar Lake	9.0
McArthur River/ Key Lake	0.1

9.1m lbs

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It no longer makes sense for us to deplete the world's largest high-grade mine where costs are among the lowest when the market is telling us it doesn't need the pounds. So we spent most of January putting McArthur River/Key Lake into a safe state of care and maintenance. Not easy to turn a mine off and on, and given the significant financial and social impact of our decision to suspend production at McArthur River and Key Lake, we will re-evaluate our decision as we get closer to restarting operations.

During this time, we will look to further optimize our inventory position, taking into consideration our delivery commitments, necessary lead times and delivery locations, and our ability to purchase uranium in the market. Production from this operation is expected to be insignificant this year. As a result, we expect our total 2018 production will be 9.1 million pounds, largely representing our share of Cigar Lake production.

Before I continue, I should remind you that as you look at our outlook, you need to keep in mind that with the restructuring of Inkai, which was effective January 1st, we will now equity account for Inkai. Grant's going to run through the mechanics of this in a minute because it does have a significant impact on how we present our outlook and report our financial results starting with Q1. In particular, our share of Inkai's production will no longer be included with our other production sources. It will show up as a purchase at a discount to spot price and be included in inventory at its purchase cost. We will still realize the benefit from Inkai's low production costs but the benefit will show up in a separate line item called Earnings from Equity Accounted Investee.

In our uranium segment, we have commitments to purchase 8 million to 9 million pounds, which includes the pounds we expect to purchase from Inkai and to deliver between 32 million and 33

million pounds of uranium. So you can see, we'll have to rely on our inventory or make additional purchases to fill almost half of those commitments.

While our plan is to draw down our inventory in 2018, we have three levers we can pull: production, inventory, and purchases. You can expect us to be active buyers in the spot market when it makes sense for us to do so. This activity may mean we give up some margin in the near term. However, our goal is to responsibly manage our supply to meet our sales commitments. We believe this will provide us with the flexibility and opportunities we need to meet our delivery commitments, preserve the value of our tier-one assets, and protect and extend the value of our contract portfolio on terms that recognize the value of our assets and are consistent with our marketing strategy. This means they must provide adequate protection when prices go down and allow us to benefit when prices rise. Rather than be victimized by a weak uranium market, we will take advantage of the opportunities it presents for us to ensure we meet our delivery commitments and for the benefit of our owners.

2018 Outlook

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($ millions)	2017 Actuals	2018 Outlook	Change
Exploration	30	20	↓ 33%
Direct Admin	151	120 - 130	↓ 14-21%
Capex*	118	90	↓ 24%
Avg. Unit Cost of Sales ($/lb)	35.04	38.00 – 40.00	↑ 8-14%

*excludes JV Inkai capex ($25 million – 2017; $24 million – 2018)

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As for the other outlook items, you can see that our cost-cutting measures carry over into 2018. Compared to 2017 expenditures, we expect exploration costs to come down by another 33%, direct admin to be down between 14% and 21%, and capital expenditures to be down by another 24% excluding Inkai's capital expenditures. Inkai's CapEx will be funded from its cash flows and is no longer included in our outlook due to the switch to equity accounting. However, we do expect our average unit cost of sales to be about 8% to 14% higher in 2018 compared to 2017. This is expected to be a temporary increase which, as we noted when we made the announcement, is largely driven by the care and maintenance costs we will be incurring while production is suspended at McArthur River and Key Lake. These costs will be expensed to cost of sales as incurred.

To reduce flight and camp costs at Cigar Lake, we will again take an extended summer shutdown, two weeks for the maintenance work followed by a four-week vacation period. We

expect these additional cost savings measures combined with the suspension of production at McArthur River/Key Lake and the cut to our annual dividend will result in significant cash flow in 2018. Our financial objective continues to focus on maximizing cash flow while maintaining our investment grade rating so we can self-manage risk; risk like a market that remains lower for longer, litigation risk related to our CRA and TEPCO disputes, and refinancing risk. Ultimately, our goal is to remain competitive and to position the Company to maintain exposure to the rewards that will come from having uncommitted low-cost supply to deliver into a strengthening market.

2017 As Expected

Deliveries and prices

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	Q4 2017 Actuals	2017 Actuals
Delivery volume (m lbs)	12.6	33.6
Average realized price ($/lb)	50.04	46.80

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Before I turn it over to Grant, I want to briefly review our financial results, which as I said earlier, were largely as expected. In our uranium segment, we delivered 12.6 million pounds in the quarter at an average realized price of $50.04 per pound, bringing the annual total to 33.6 million pounds at an average realized price of $46.80 per pound, largely in line with our outlook.

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If you'll recall, we undertook some contract optimization which resulted in accelerated delivery of some future contracted volumes into 2017, and I'm happy to say, there were no surprises with our fourth quarter or annual average unit cost of sales, direct administration, exploration costs or capital expenditures.

As Expected
Costs trending down

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($ millions)	2017 Actuals	2016 Actuals	Change
Avg. unit cost of sales ($/lb)	35.04	40.39	↓ 13%
Direct Admin	151	195	↓ 23%
Exploration	30	43	↓ 30%
Capital expenditures	143	217	↓ 34%

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Average unit cost of sales for the year was $35.04 per pound, right in line with the outlook range we provided and 13% lower than in 2016. Direct administration costs were $151 million, a 23% reduction from 2016, and exploration costs were $30 million, 30% lower than the previous year, both in line with our outlook. Capital expenditures were $143 million, 34% lower than in 2016. All of these reductions are the result of the deliberate and disciplined actions we have taken. We did have writedowns of $247 million in the fourth quarter resulting in $358 million for the year. The writedowns were largely the result of the continued weakening of the uranium market during 2017 and the cost cutting measures we have taken to address the market weakness. We

don’t believe these items reflect the underlying financial performance of the Company from period-to-period, so we adjust for them to arrive at our reported 2017 adjusted net earnings of $0.15 per share.

On the operational front, production was 23.8 million pounds, slightly lower than our outlook of 24 million pounds, largely the result of the calciner issues at Key Lake that delayed the mill restart following the extended summer shutdown and the unplanned calciner outage in October. As we have said before, given our inventory position, the ability to buy inexpensive pounds in the market and the current market environment, we are willing to accept some production variability.

Managing for the Long-Term

Focus on what we can control

- ✓ Focused on tier-one strategy
- ✓ Restructuring organization for efficiency
- ✓ Disciplined management of our production, inventory and purchases
- ✓ Protecting and extending value of contract portfolio
- ✓ Maximizing cash flow while maintaining our investment-grade rating
- ✓ Positioning company to self-manage risk and deliver long-term value

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Today, Cameco remains a solid company, financially, generating strong cash flows. Experience has taught us that success in our business requires patience and discipline. Our decisions are deliberate, driven by the goal of increasing long-term shareholder value.

We can't control the timing of a market recovery, but we are taking actions on the things we can control. We are focused on our tier-one strategy and preserving the value of the assets in our portfolio that are the lowest cost and provide us with the most value. We are restructuring our organization to be as efficient as possible. We are responsibly managing our production, inventory and purchases, protecting and extending the value of our contract portfolio and maximizing cash flow while maintaining our investment grade rating. Ultimately, our goal is to remain competitive and position the Company such that we have the ability to be among the first to respond when the market calls for more uranium.

Thanks again for joining us today, and with that, I'm going to turn it over to Grant.

GRANT ISAAC:

Thank you, Tim. As Tim noted, our 2018 outlook table and our results, starting with Q1 2018, will look different because of the switch to equity accounting for Inkai. To avoid confusion, we thought it might be prudent to briefly walk through some of the mechanics behind equity accounting and the impact on our financial statements.

Equity accounting for JV Inkai

- Effective January 1, 2018
- Our ownership interest is 40%
- Value of each pound of uranium remains the same – benefit show up differently in statements.

- Starting in Q1 our proportionate share of Inkai's assets, liabilities, revenues and expenses recognized as one line item:
  - ***Income from equity-accounted investee*** on statement of earnings
  - ***Investment in equity-accounted investee*** on balance sheet

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As you know, previously, we included our share of Inkai's assets, liabilities, revenues and expenses with those of our other operations. However, now that we are a minority owner, accounting rules no longer allow us to proportionately consolidate; we have to switch to equity accounting. Therefore, our proportionate interest in Inkai's assets, liabilities, revenues and expenses will be recognized as a single line in our consolidated balance sheet and statement of earnings. Ultimately, the value of each pound of uranium remains the same for us, but the benefit shows up differently in our statements and at first look may make it appear that the value is less, which Tim pointed out. The switch to equity accounting will affect all of the items highlighted on this slide. Let's start with production.

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2018 financial outlook

* see slide 23 for assumptions used in this table

Expected contribution to gross profit	Consolidated 100%	Uranium 85%	Fuel services 15%
Production (owned & operated properties)	-	9.1 m lbs	9 to 10 m kgU
Purchases	-	8 to 9 m lbs[1]	-
Sales/delivery volume[2]	-	32 to 33 m lbs[3]	11 to 12 m kgU
Revenue[2]	$1,800 - 1,930 m	$1,460 -1,550 m[4]	$280 to 310
Avg. realized price[3]	-	$46.30/lb[4]	
Avg. unit cost of sales (including D&A)	-	$38.00-40.00/lb[5]	$21.60-22.60/kgU
Direct administration costs[6]	$120-130 m	-	-
Exploration costs	-	$20 m	-
Expected loss on derivatives-ANE basis[4]	$0-10 m	-	-
Tax recovery-ANE basis[7]	$40-50 m	-	-
Capital expenditures (not including $24 m for Inkai)	$90 m		

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Our production outlook will no longer include production volumes from Inkai; these will show up as a purchase in our uranium segment. This change will impact the production costs we report quarterly, the value of inventory on our balance sheet, and the average cost of sales on the statement of earnings. Our share of Inkai's production will no longer be added to our inventory at its production cost, as it was previously. Instead, it will show as a purchase at a discount to the spot price and be added to inventory at that value when it is delivered to us. The purchase itself is not new. This is always how we have acquired our share of production from Inkai. However, previously, for our consolidated statements, the intercompany purchase and sale between Cameco and Inkai was eliminated, ultimately resulting in our share of Inkai's production flowing into our inventory at its lower produced cost. Since we can no longer do this under equity accounting, the purchase cost will increase our average cost of inventory which of course will have an impact on our average unit cost of sales.

The benefit of the lower production cost is not lost, however, but it is captured in the single line item, called Income from Equity Accounted Investees, and our consolidated statement of earnings, which, in essence, captures our share of Inkai's profit on the sale of 100% of its production. We extract this value by way of a dividend which represents our share of the cash generated by Inkai after payment of capital and financing obligations, including our share of capital expenditures and priority repayment of our loan to Inkai. As a result, we will longer include Inkai's capital expenditures, which are funded from its cash flows, in our own outlook. Actual expenditures will be included as part of our investment rather than as part of our additions to property, plant and equipment. The dividend will show up on the cash flow statement under Cash Provided by Operations. Previously, you would not have seen the dividend as it represented only a cash movement between companies that were already consolidated.

Cameco's average unit cost of inventory*

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** Numbers used for demonstration purposes – hypothetical example.*

	Total cost ($ millions)		Volume (M lbs)
Opening inventory	**100**		**10.0**
	Equity	**Proportionate consolidation**	
ADD:			
Cash production cost	N/A	20	2.0
Purchases	50	N/A	
Total inventory	**150**	**120**	**12.0**
Average unit cost ($/lb)	12.50	10.00	

Assumptions:
- All uranium comes from Inkai
- Opening inventory = 10 million lbs
- In the period, Inkai produces 5 million lbs – our share = 2 million lbs
- Inkai's production cost = $10.00/lb
- Discounted spot price = $25/lb

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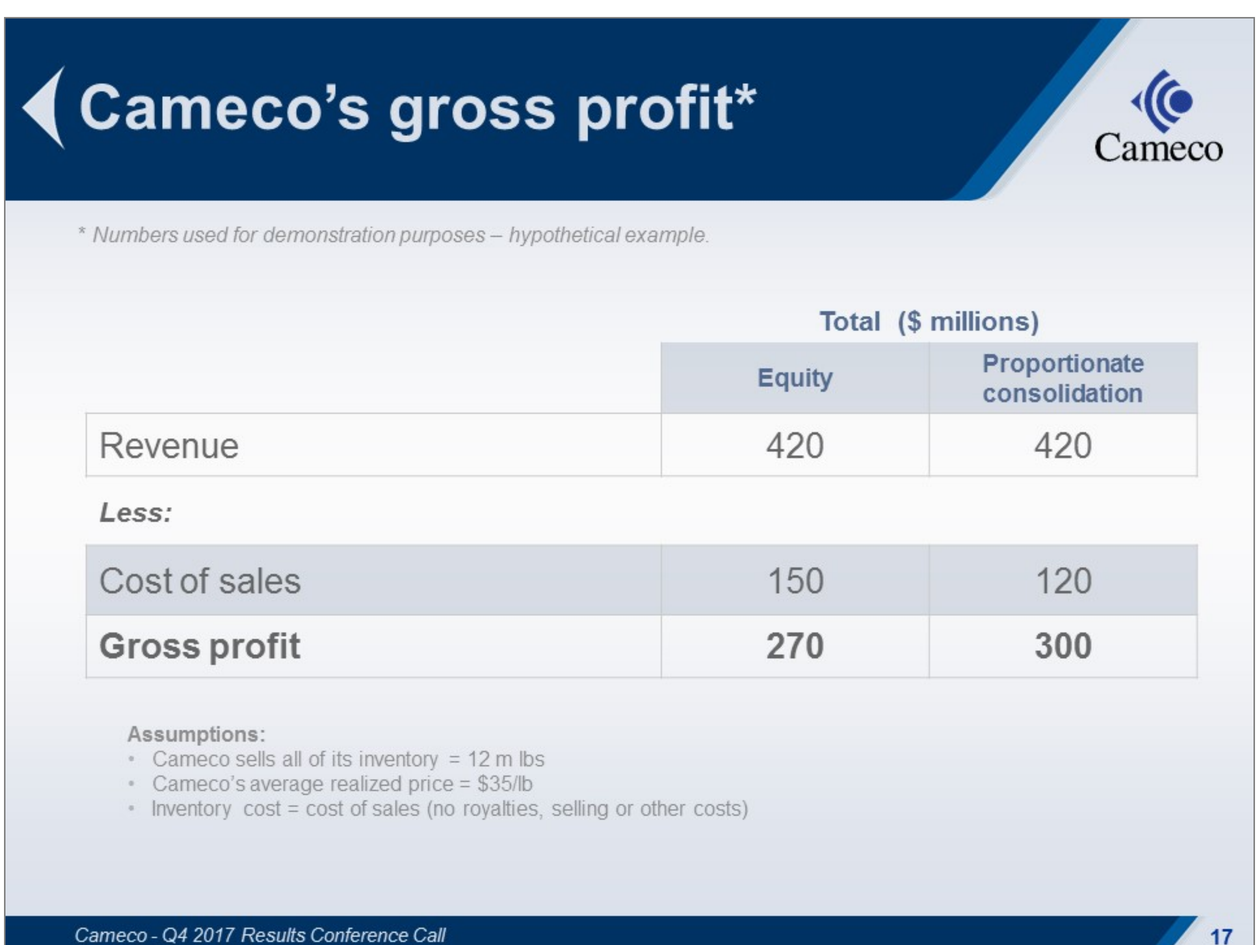
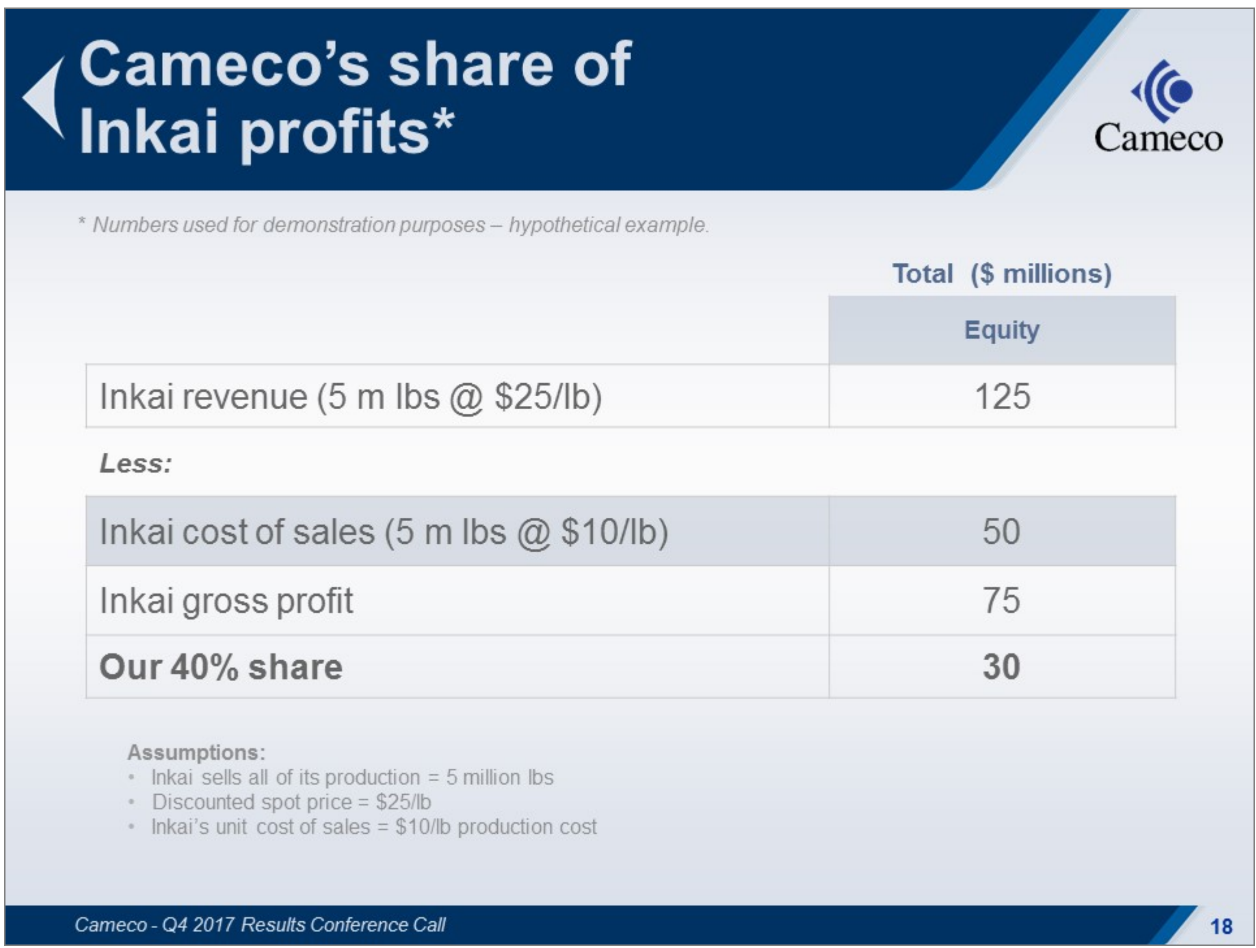
I'm going to use a very simple and hypothetical example to demonstrate how the accounting for the purchase of material from Inkai works and how the benefit shows up on the statement of earnings.

Assume the following: Our only uranium comes from Inkai. We have 10 million pounds of inventory valued at $100 million at the start of the period. In the period, Inkai's production is 5 million pounds, our share being 2 million pounds. Inkai's production cost is $10 per pound. Inkai sells all of its material at a discount to spot prices, which is required under Kazakhstan's government resolution on uranium pricing regulations. The discounted spot price applicable to sales in the period is $25 per pound. Cameco sells all of its inventory at its average realized price of $35 per pound, which is higher than the average market price. The average unit cost of inventory is equal to the average unit cost of sales.



With those assumptions and under equity accounting, the results would be the following:

We will add $50 million worth of uranium to our inventory. The average unit cost of inventory at the end of the period will be $12.50, and the gross profit will be $22.50 per pound or $270 million when sold. Had we consolidated, we would have added $20 million worth of uranium to our inventory, $30 million lower than under equity accounting, and the average unit cost of inventory at the end of the period would have been $10 per pound and the gross profit would have been $25 per pound or a total of $300 million when sold, $30 million higher than under equity accounting.



So, you can see our cost of sales and gross profit will be adversely affected by the accounting treatment as the unit cost of inventory is higher. However, we will still capture the full benefit of

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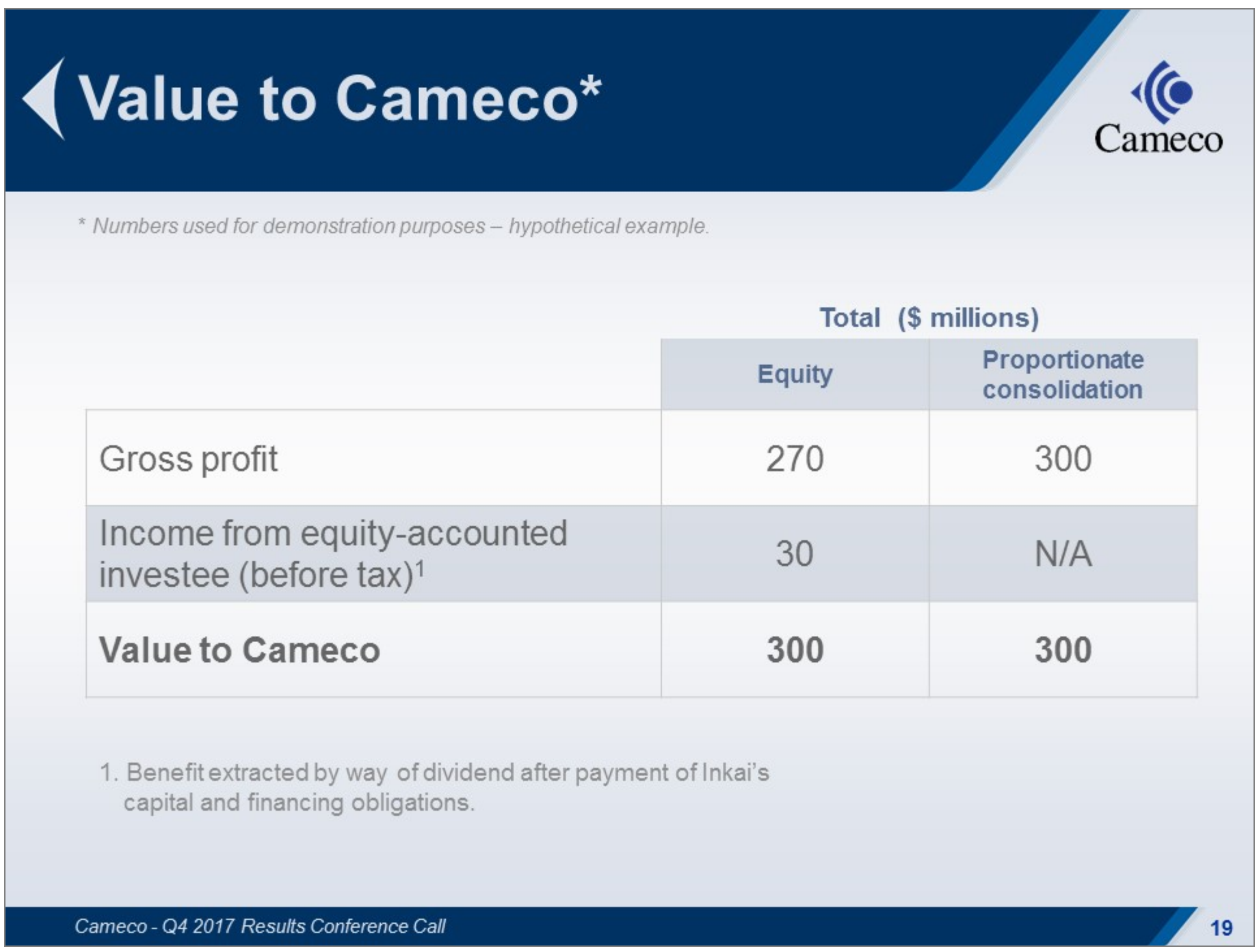
the low production costs in our share of Inkai's earnings on its sales, 40% of $75 million or $30 million. So you can see, ultimately, we still capture the full value of each pound produced.



The other impact on the statement of earnings related to equity accounting that I will mention briefly is the income tax expense. Earnings from equity accounted investee will also include any income tax expense incurred by Inkai, which was previously included as part of our consolidated tax position.

On the balance sheet, I have already talked about the impact on inventory. In addition, you will see an increase in long term receivables as we will record 100% of the loan receivable from Inkai, which is about $147 million today, where currently we only show about $59 million or the 40% owned by Kazatomprom. As I noted earlier, with the restructuring the loan now gets priority

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repayment. All cash generated will be used to pay down the debt prior to any dividend distribution, a very positive cash flow development for us.

Finally, I will point out that accounts payable will increase to reflect our purchases from Inkai.

Those are the items I wanted to highlight for you. For Q1, please keep in mind that our 2017 comparative results will be not be recast to reflect equity accounting, so the items I have highlighted will cause some of the variations you will see on year-over-year comparisons.

Thank you for your patience. With that, I will turn it back over to Tim.

TIM GITZEL:

Thanks, Grant. Before I open it up for questions, I just want to reiterate that today we are, as I noted earlier, cautiously more optimistic.

Managing for the Long-Term

Focus on what we can control

- ✓ Focused on tier-one strategy
- ✓ Restructuring organization for efficiency
- ✓ Disciplined management of our production, inventory and purchases
- ✓ Protecting and extending value of contract portfolio
- ✓ Maximizing cash flow while maintaining our investment-grade rating
- ✓ Positioning company to self-manage risk and deliver long-term value

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We have a number of levers available to us to deal with the current market and we'll take the actions we believe are appropriate to shield the company from the near term risks we face and that we'll reward shareholders for their continued patience and support of our strategy to build long term value.

I will stop there, and with that we would be pleased to take your questions.

OPERATOR:

Thank you. We will now begin the question and answer session. To join the question queue, you may press star, then one on your telephone keypad. You will hear a tone acknowledging your request. If you are using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then two. We will pause for a moment as callers join the queue.

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

ANDREW WONG:

Hi. Good morning. So, Tim, you've talked about what could happen in 12 to 18 months. So, let's say you do get some favorable outcomes in the CRA and the TEPCO case. It looks like Cameco in that scenario will likely have a very sizable cash balance. So, what would you expect to do with that cash? Would you keep it in on hand for just in case, or something else?

TIM GITZEL:

Yes. That's a great question and one we sure hope we have to tackle in the next few months, Andrew. We're strong cash now, as we've said to you and other in our visits. I think we ended the year with almost $600 million in cash. CRA case, as we just said, we get up in the morning and look at our phone to see if there's any notice. We're going to get 24 hours notice from the court as to when that decision is coming out. We won't get the guts of it, but we will get the notice. You'll be hearing from us that day or soon after when that comes, and we're expecting a positive decision.

TEPCO is a little farther out at this time. In fact, it will probably be done, I think it's the last week of January, first week of February of 2019. That piece will be heard by the arbitration panel. So, yes, lots of moving parts out there. Strong cash, we're going to liquidate some inventory this year which will turn into cash. We'll get back to you on that one. Right now, we're playing it pretty prudently until we see, especially the CRA, see how that turns out. There are days here when we look and say a positive decision on the CRA case, market to show some improvement, and we win the TEPCO piece, we're in a different movie then, Andrew, but we're not there yet. We have refinancing in 2019, we've got—I'm looking at Grant—$500 million maturing in September, and so we want to be in a position to take that out if we want. So, lots of pieces out there. It could look a lot different in 12 months from now, Andrew.

ANDREW WONG:

Okay. I appreciate that. Then, maybe just a little bit on the equity accounting side. That was very helpful, Grant. But just a question around the tax impacts. Could you maybe elaborate a little bit more on how that affects and how that flows through?

GRANT ISAAC:

The tax for Inkai, so the Kazakh tax will be netted out at the joint venture level. So, it won't impact our consolidated tax rate that we show as Cameco Corporation. So, the net income that comes across to us, will have already taken care of the Kazakh tax piece.

ANDREW WONG:

Okay. Understood, thanks.

OPERATOR:

Our next question comes from Ralph Profiti of Eight Capital.

RALPH PROFITI:

Thanks for taking my question, everyone. Tim, I'm assuming that the final decision in the TEPCO arbitration will include some disclosure around timing of payment requirements. Should we be thinking about that as sort of a one-time windfall payment shortly thereafter or is there a separate negotiation? Could we see some installments, or is there even room for reinstatement of the original contract terms?

TIM GITZEL:

Ralph, that is an excellent question and one we just dealt with this week, while our Board was in town. Sean Quinn, Chief Legal Officer, is sitting right beside me and I'm going to ask him to tackle that one.

SEAN QUINN:

Sure. Thanks, Tim. We'll get an award from the arbitrators that we hope and expect will say how much is owed to us by TEPCO and we've released that number. The collection on that award will be a separate matter to be dealt with, and there are processes for recovering that that we will follow. We do expect to engage in fairly complex commercial discussions as to turning that award into cash.

TIM GITZEL:

There is, I think, the possibility as well that if you go back to catching up on what was lost on the contract and then just abiding by the terms of the contract. Is that correct?

SEAN QUINN:

That is the possibility, and if TEPCO wanted to resolve it in that way we would consider it.

TIM GITZEL:

Yes. So, there's a few options for us there, Ralph.

RALPH PROFITI:

Yes, thanks for that. Helpful.

Tim, you just answered sort of in the previous question about this $500 million payment due. It may not seem that the alignment of the TEPCO and the CRA outcome will occur until after that comes due; I mean that's a possibility. Is there a strategy now, if it is the case, that either of those Cameco specific issues are not resolved, how are you shaping up to tackle that balance sheet item?

TIM GITZEL:

Yes, great question. Ralph, we just want to be in a position to take it out. We'll watch the market and see where the market's going at that time. If we see a constructive market, we may want to turn that over and keep going. If not, we want to be in a position to be able to have the cash on hand to retire that debt. That's what we're gearing for now. As I said, we I think—I'm looking at Grant—we had just under $600 million at the end of the quarter in cash, which we hope to add to this year, so we should be in a very strong cash position this year.

RALPH PROFITI:

Thanks. That's great.

TIM GITZEL:

Thank you.

OPERATOR:

Our next question comes from Orest Wowkodaw of Scotiabank.

OREST WOWKODAW:

Hi. Good morning, guys. A couple of questions from my side. First of all, in terms of the Inkai expansion, the new technical report would suggest that you're already—I guess the partners are already increasing production this year and that the expansion will be kind of fully ramped up over the next two or three years. Is that the right way to think about it or is there still flex to delay that expansion?

TIM GITZEL:

Yes, Orest, there's still flex delay that expansion. This year you saw our technical report, and I think we're looking at about 1.4 million pounds more production this year. That's the plan. But I can tell you, that's subject to agreement of the joint venture, and every year, we look at that number and see if that's the right number and whether to go up or down. So, that is flexible.

OREST WOWKODAW:

Okay, perfect. In terms of McArthur River, how do you read the fact that the spot market hasn't really reacted much to the shutdown announcement? Then, secondly, I mean, so far, you've only committed to keeping McArthur offline till approximately the end of the year. When would the decision need to come to extend that? Can you give us some parameters around, say uranium price and that we should think about in terms of whether that stays down or restarts?

TIM GITZEL:

Yes. Orest, that's the good question. We get it a lot. I just have to say that we're early in the game. When we announced it back in November, we were looking at a 10-month period, which seemed to correspond with our inventory position. But, we're down, I think—I'm looking at Brian Reilly—we just safely shut the two sites down this week. We're looking after the employees. In the meantime, we've announced 10 months but it's really going to be a function of how the market reacts to it during the year. We're going to watch it very closely. We talk about the three levers we have. We can use up our inventory. You'll see us out on the market doing some purchasing, especially if the price is in the $21 range that you see today, we're better off buying

pounds. Then, of course, we have our big lever which is the production lever. So, we're going to read that during the year, we'll be day-by-day. We'll certainly update the market as we go along, and as we get further through the year we'll have to take some decisions as to what we're going to do, whether we're going to stay with the 10 months or go longer.

That decision certainly hasn't been taken yet. Today, our intention is 10 months, but we'll be playing that through the year, we'll be watching very closely. More to come on that from us on a quarterly basis.

OREST WOWKODAW:
Okay. Then finally, just with Grant, a few years ago I think you guided to a long term tax rate of 20%. Obviously, that would have included Inkai at the time. How should we think about that now?

GRANT ISAAC:
Yes. Over time, we do expect to see that longer term tax rate go up to something more consistent with the Canadian rate. That's a function of—where we'll have a lot of production, it's a function of the restructuring that we've undertaken and looking at different tax policies and the potential for change going forward all suggested that that was prudent, but in the meantime, we've had some changes. The Inkai restructuring comes out of that consolidated number. Also for this year, having McArthur River down and paying us care and maintenance costs doesn't make that a profit centre for taxes. We're looking instead at a recovery, even though we had been guiding to a tax expense, and that's just a function of the decisions we've made on this disciplined path that we're on, Orest. But the longer term goal of a consolidated tax rate getting closer to a Canadian statutory rate, that still holds; it's just the transition is taking longer.

OREST WOWKODAW:
Okay. Does that mean we should take more like a 30% long term rate, when you say Canadian statutory rate?

GRANT ISAAC:

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No. We will still have a global structure and that global structure will still be a function of the expenses and the credits available in all the jurisdictions that we operate, and all those jurisdictions don't have the same tax rate. As it's evolving, Canada is turning out to be one of the higher-end tax rates in that entire structure, so we don't expect it to be the Canadian number, but we do expect it to gravitate to an expense, an expense probably somewhere up around the 20% rate as opposed to 26.5% or wherever Canada is going to be out to the future, but shifting from a recovery.

OREST WOWKODAW:
Thanks very much.

OPERATOR:
Our next question comes from PT Luther of Bank of America Merrill Lynch.

PT LUTHER:
Hi, Tim and Grant. Thanks for taking my question. I wanted to start just by following on Orest's first question related to Inkai. I was hoping to get your perspective, right, because Kazatomprom had announced extended supply discipline for the next couple of years, yet guiding to Inkai production up this year. I'm just trying to understand if that raises some questions about discipline on Kazakhstan's part or if there was some different circumstance with Inkai.

TIM GITZEL:
PT, that's a good question. We've got a lot of inquiries on that one. I think we too were watching closely. I think the first announcement was the first week of December last year. Mr. Pirmatov came out and said that reduction would be down 20% for three years, '18, '19 and '20. I think everyone including us did the math on it, and said, wow, that's 10% that was announced for 2017 and then add 20 to that for the next three years, and did some math in that regard. Then just before the end of the year, I think it was 23rd, he came back out and said to clarify that's 20% down from proposed production rates, which was a little bit higher, and so, math now being holding at 23,000 tonne for three years, and so that's about 59 million pounds per year.

You can see that as a bad news story. I tell you we see it as a not so bad news story. If they indeed—and we believe them; we know them well—can hold production at that level or even

decrease a bit from there over the next three years, that gives us some certainty as to what's coming out of there. As you've seen in the past 10 years, it's been growing very rapidly; to hold for three years would be a good story. We have our hands on some other levers. That's the way we read it now. I think we're putting it in our forecast as 23,000 tonne for the next three years and then working from there.

PT LUTHER:

Great, thanks. That's really helpful. Then a quick one on McArthur. Where we do see some market improvement and the markets start to in effectively demand the pounds from McArthur, how long do you think it would take to ramp up from its idled status?

TIM GITZEL:

Brian, do you want to answer that one?

BRIAN REILLY:

Yes, sure. Look, we've just been through a successful shutdown period, and it took approximately one month. If we were to remain in care and maintenance for the next 10 months, the anticipation is we would need another month to ramp up again. So, successful on the shutdown. We anticipate to be successful on the ramp up come end of the year if that's the decision.

PT LUTHER:

Got it. Thanks. Last one for me. If I could just get some of your perspective on what's happening in China, right? I think on the slide you noted kind of near term slower pace of reactor development in growth outlook there. I'm just wondering if you could share more perspective on what you're seeing there and what's different?

TIM GITZEL:

Yes. China remains the place to watch. I think today the numbers are 36 reactors are operating, another 19 or 20 under construction. They have announced 58 units or 58 gigs by 2020; they'll probably miss that by a bit, but still a good news story. We were just talking to some people involved over there the other day, and what we're finding is that they're waiting right now on a couple of units, Westinghouse units that they are just in the final throes of starting up. New

units, first of a kind units, and then some EPRs, the big 1,750 meg, 1,650 that are just in the final throes again of starting up.

They want to get those up and running and make sure they can start those up, and then there's a backlog in behind. We heard eight Westinghouse units in behind on the AP1000s and I don't know how many on the Areva side.

We're still dealing a lot with the Chinese. They are still aggressive. We see good growth out to 2025 and 2030. We saw that Bloomberg report that came up the other day that said they'd have 300 plus gigawatt by 2050 and you say, well, that's forever. I mean you have to start building those pretty soon to get there. If you're building all the way along, your uranium requirements go up dramatically.

We are watching closely. And hopefully, I know there's a list of units that are to come into operation in 2018, and we will be watching those come on. Hopefully, they are very successful in that and then can start putting some more shovels in the ground for some new ones.

PT LUTHER:
Thanks very much, Tim.

TIM GITZEL:
Thank you.

OPERATOR:
Our next question comes from Greg Barnes of TD Securities.

GREG BARNES:
Thank you. Grant, you mentioned on your discussion around Inkai that they're going to prioritize debt repayment versus dividends, and that would be positive in terms of cash flow at Cameco. Can you quantify that?

GRANT ISAAC:

Yes. We undertook the funding of Blocks 1 and 2, and 3 as part of our investment in Kazakhstan, and right now we have about C$147 million in debt remaining with our joint venture. As the dividends become available, they go directly to paying down that loan. So while we still book the net income on our statement of earnings from a cash flow point of view, we get that loan repaid. Making it a priority is very positive for us; that was a positive part of that restructuring. It just takes away any uncertainty with that outstanding debt in a country like Kazakhstan. So, a very good outcome for us.

GREG BARNES:

But you can't put a number around what that would be this year, next year in terms of the debt repayment on that $147 million.

GRANT ISAAC:

We expect and of course, it's a function of prices and market, but we expect roughly that debt to be paid down over a three-year period, Greg.

GREG BARNES:

Okay, great. Thank you. To follow up, just on the market in general, it seems to have ground to a complete halt from what I'm reading. I'm not sure whether that's due to people trying to understand the supply situation now with the changes that have happened to the Section 232 filing in the U.S., reactor closures, just trying to understand where the market's head is at, at this point in time?

TIM GITZEL:

I think it's exactly what you said, Greg, wait and see. There's a lot of moving parts out there, a lot of announcements at the end of 2017. Announcement is one thing, action is another thing. We made an announcement and now we've put ours into action and we're down for the foreseeable future. Kazatomprom, I think there was a lot of searching to see what exactly those two announcements were going to be from our friends in Kazakhstan and then whether they'll indeed be implemented. I think, to be fair, our announcement that we're bumping up production slightly in Kazakhstan might have added to the confusion as well.

Then, as you say, in the U.S., well, the U.S. is what it is now, but it's not really clear on the demand side. There's some reactors having issues. Some are finding resolution and then a couple of uranium producers launched that 232 action to say that the U.S. should give priority by America, priority to U.S. production for about 25% of the market. Everyone's trying to figure out how that would work, including us, and what it would mean for everyone. Also in play in the U.S., the Russian suspension agreement that comes to an end, perhaps, in 2020. That's under review now. There's just a lot of moving parts out there and I think everyone's a bit frozen until we get some clarity on some of those issues.

GREG BARNES:
Okay. Thank you.

TIM GITZEL:
Thanks, Greg.

OPERATOR:
Our next question comes from Alex Pearce of BMO.

ALEX PEARCE:
Good morning, all. So, I have a question related to the accounting of Inkai now. It's just related to dividends. And is there a set timing for dividends? Will it be paid quarterly or is it kind of an ad hoc thing? Just so we can kind of think about how it will come through the cash flow forecast?

GRANT ISAAC:
Well, it's not formulaic other than as the cash generates we take it. We don't want a lot of cash sitting with the joint venture, and that's in agreement with our partner. As the cash accumulates, we just retrieve it.

ALEX PEARCE:
Can you let us know maybe a level at which cash accumulates in Inkai that you will take it?

GRANT ISAAC:
No, I can't actually. Sorry, Alex.

ALEX PEARCE:

Okay.

OPERATOR:

Once again, if you have a question, please press star, and then one. Our next question comes from Graham Tanaka of Tanaka Capital Management.

GRAHAM TANAKA:

Thank you. Tim, just wondering if you could give us some more data points or maybe your interpretation of why the spot market did react favourably to the announcements of industry cuts, and then have retreated. Secondly, what kind of general price levels do you think the industry needs to see, not only for Cameco, but for Kazakhstan, et cetera, to bring production back long term? I mean, I'm talking about not just spot, but long term next five years. Thanks.

TIM GITZEL:

Yeah, Graham, thanks for the question. I'd go back to the last answer. Just a lot of moving parts out there.

I just presented to the Board the other day, a view of looking backwards 18 months and then looking forward 18 months. If you look backwards, there has been a lot of announcements and movement, especially on the supply side. I can go back to, we bowed out of the SFL deal that we had for conversion, toll conversion. We shut down in April of '16 Rabbit Lake and our U.S. operations, pulled back on McArthur. That was 7 million pounds came out. Kazatomprom made their announcement in January 2017. Areva—Orano now, new name Orano—has made some moves in Niger and certainly have been great partners with us on our operations. Paladin, in very difficult shape I would say. ConverDyn has now shut down production, conversion in the U.S. and then, the two Kazatomprom announcements that I talked about in December, the 20% cut and then the clarification. So, lots of moving parts out there. But if you bundled that up, we can really quickly get to 40 million pounds of uranium that's staying in the ground that 18 months would have been coming out per year. So, that's a big piece looking backwards.

Then, looking forward, there's a lot of pieces. As I say on the micro level, Cameco level, CRA case, TEPCO case. We've got refinancing. There's other pieces, Husab, we haven't talked

about that yet. We've heard from them finally, haven't heard from them for a while, that I think they were supposed to be at full production in 2017 somewhere around 15 million pounds. I think they produced 2.2 U_3O_8. So, lots of moving parts. I think the market's frozen, watching to see what it's going to look like going forward. I'd say stay tuned, because there's lots of pieces up in the air and we're going to watch and see how they roll out during the year.

GRAHAM TANAKA:

What kind of a price do you think you need longer term for this to come back? I'm wondering if this is just the overhang as the Japan reactors is really more of a longer term problem than we think? Thanks.

TIM GITZEL:

Yes. Right, Graham, you asked that. So, just on the Japan piece, waiting some good news loading fuel in one of the Ohi units, I think 3. So, five approved—five operating sorry, four more approved, so we expect nine running this year; 26 total in the queue either running, ready to run or still being reviewed. So, Japan slowly coming along. That's a good news piece.

Regarding the price level, just to be clear from a Cameco point of view, we're not watching for a spot price peak, just a peak for a week or two and then, "Boy, here we're going to bring back on our production," and away we go, because that peak won't last very long. We want to see a sustained, a bit of a sustained movement of the term price where utilities come back into the term market looking to secure their supply for some years to come at reasonable prices for them and for us, and so that we could enter some long-term contracts, and then our production will go into those term contracts. We're not the spot market violator. We don't sell on the spot market. We're in a little bit on that, but we're a long-term producer into long-term contracts. That's what we're looking to see from the market as we go through the year.

GRAHAM TANAKA:

I guess I'm just trying to get a feeling for what that contract price bump or rise in that level is needed for Cameco to become more optimistic about bringing back major production, because that restart is going to cost money too. Thank you.

TIM GITZEL:

Yes, certainly higher than it is today. I can say that. Both the spot and the term have to move up considerably for us to get excited about it.

GRAHAM TANAKA:

Thank you.

TIM GITZEL:

Thank you very much.

OPERATOR:

Our next question comes from Orest Wowkodaw of Scotiabank.

OREST WOWKODAW:

Hi. Thanks for taking my follow-up. Just with regards to the future of Cigar, thanks for providing I guess CapEx guidance out to 2020 and the disclosure. I'm just curious when you would need to start spending capital on that, and if you can give us a sense of the magnitude of the capital involved in order to ensure that production at Cigar continues?

TIM GITZEL:

Probably last year, we should have started spending. No, and I'm serious about that to the extent that we're 2018 now and you see our CapEx going forward is bare minimum, including Cigar, including any kind of growth capital. Cigar is maybe not the best example to use as to how you bring a mine forward because that took us decades and hopefully it wouldn't be that. But if you look at any new project, whether it's our Yeelirrie or Millennium or any, pretty much any new one, Cigar Phase 2, you're looking at and you can tell me now because we're trying to read the new environmental assessment laws that have come in—I can't remember what the name is, IA, Impact Assessment, something. Is that going to be faster or more efficient, we'll see that. I'm not sure I'm optimistic on that but we'll see. But that in any event, takes three years, four years to get through that process, if you get through. Construction, if it's in Northern Saskatchewan is going to take three or four years. So, you're six to eight already and then our ramp up, we thought we were pretty efficient at Cigar Lake. Our ramp up was three years to get to full production. You can do the math. I mean, you're talking 8, 9, 10 years just on a normal

basis. That's when I say when we're running out of ore in 2027, we should have probably been in business already, and so that worries me a bit. I'd say worries me in the sense I've been doing this for many decades, three, almost four decades now. I just see coming at -- yes, there is uranium around 2018, 2019, we get that, everybody gets that, but we're still building reactors. I think there is 57 under construction; we're expecting growth 1% to 1.5% a year. That's more uranium needed at a time when you are seeing mines come off. We'll see what happens to Ranger in 2020. I think that one runs out; our shiny new Cigar Lake, same thing. So, we're going to need some more pounds at some point, but certainly where the market is today doesn't incentivize anybody to spend anything. Something has to move. All the variables can't stay the same going forward, and we think we're going to need a healthy price bump to incentivize any new production.

OREST WOWKODAW:

Okay. Can you give us a sense of a magnitude of the required investment if you decide—when and if you decide to move forward with it? Like are we talking $1 billion, $0.5 billion?

TIM GITZEL:

We're not quite there yet. We're still in the prefeasibility work on that I think in the next—obviously, we're not rushing it along in a $21 market. We don't have those numbers to put out yet, but I can tell you, you've seen what the last Cigar Lake was, and we've been pretty clear on that, that you don't build a whole lot of uranium mines. Fortunately there, I think we're ahead of others in that we have all the infrastructure there. We have a great relationship with Areva and the milling. So, we have the infrastructure that we can use there, so that would be a mine piece. It would be better and faster than anything else that would have to start a new mine, new greenfield, put in all the infrastructure, roads, power, communications, build facilities. That is a big, big endeavour, and we think we're ahead in that regard.

OREST WOWKODAW:

Okay. But are you also suggesting that we should think about Cigar, that it's already—in terms of the production profile that, if you are not including it even in your 2020 CapEx then we're likely going to see a shutdown of production for a couple of years before the new Phase 2 would even come online because you've kind of missed that bridge point?

TIM GITZEL:

No decision there. No decision there yet at all. As I say, we're just really early in the game here with some McArthur/Key piece just gone down this week. We'll continue, we need production from somewhere. So, Cigar is going to provide us about 9 million pounds this year our share. As we get farther into the year, we'll determine which lever—we got the three, we got inventory, we got purchases and production; we'll decide which levers we're going to pull.

OREST WOWKODAW:

Thank you.

TIM GITZEL:

Thank you.

OPERATOR:

Our next question comes from Pete Enderlin of MAZ Partners.

PETE ENDERLIN:

Thank you. Some questions on the Bruce Power extension. Why did they undertake that 10-year extension when here we are 10 months later and almost nobody else seems to be inclined to do the same thing?

TIM GITZEL:

Well, I can tell you, we've had a great relationship with Bruce, in fact, we used to be an owner for many, many years of part of the Bruce B units; had a great relationship with them. I think, they are ahead of the curve. They came out. They know that they are going to be spending some billions—12, 13, I'm not sure what the number is—on component replacement to refresh their units so that they can run another 25 years. As part of that, they were looking for a reliable, sustainable source of uranium to make sure they've got that in place for the period 2020 to 2030. We got together with them. It was a tough, tough negotiation, obviously, but came to an agreement and extended our contract for 10 years, so we're very, very pleased about that.

PETE ENDERLIN:

Other than the close historical relationship, is there anything significantly different about their position than all the other utilities in U.S., Canada or rest of the world?

TIM GITZEL:

We provide a unique service to them in that, for one thing, we're located like really close to them. In Ontario, they are running Candu units; we happen to produce uranium. We produce the fuel that they use for the Candu units, which is a little bit different than some of the light water reactors used. We fabricate the fuel for them at our Cameco fuel manufacturing facilities in Ontario. So we were able to provide a full package for them that they couldn't get from anyone else, and so that was the unique feature.

PETE ENDERLIN:

If you take the $2 billion expected value of that over the additional period, sort of adjusting, or reflecting what they need in annual requirements, does that come out about $50 or $60 price per pound? Have I calculated that properly?

TIM GITZEL:

Yes. I don't think we disclose that. That's not something that we can disclose under the terms of our contract.

PETE ENDERLIN:

There's a statement in the MD&A about risks of that arrangement, including the contract, the term of the deal, the requirements, I guess how many pounds and the pricing, which could all be less than anticipated. What risks are there really involved in that as far the contract is structured?

TIM GITZEL:

I'll let Grant to talk about that.

GRANT ISAAC:

Yes. We're not flagging any risks in particular, but that is what we put into the forward-looking information. Just as we go through and look at all of the risks we can possibly imagine and are

required to catalog in that front end piece, we flagged that, but I tell you our expectation, and quite frankly the history of our relationship with Bruce Power suggests that this was the right decision for us to make. Quite frankly, the right decision for them to make as well. So, we're very pleased with that contract and don't see it as risky.

PETE ENDERLIN:
Thank you very much.

TIM GITZEL:
Thanks, Pete.

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

ANDREW WONG:
Hey, thanks for taking couple of follow-up questions. The Section 232 petition has been brought up a couple of times today. Could you just maybe talk more specifically about your thoughts on that petition and how it might impact the market?

TIM GITZEL:
I will let our in-house expert, Sean Quinn answer that one.

SEAN QUINN:
Using the term expert loosely because we are just trying to get our minds wrapped around this now. The petition is only two weeks old. It's been brought underneath a rarely used piece of legislation called the Trade Enhancement Act of 1952. We're just studying the petition now and trying to figure out exactly where it will go and make sure we understand the process. As Tim has already mentioned, it is one of the things in the marketplace that is leading to uncertainty, and clearly we have different irons in the fire on it. I don't think we can say anything more definitive on it than that at this time.

ANDREW WONG:

Okay. I appreciate that. On the royalty payments, it looks like they're down quite a lot this year relative to last year—sorry, in 2017 relative to 2016 so I'm sure some of that's due to lower prices, but is there something else going on there and what should we be doing with that going forward?

GRANT ISAAC:

It certainly is lower prices, but also, it's just cashing in the pools. You'll remember that when the royalty structure was changed, we were able to carry forward basically capital credits and exploration credits, and it's just optimizing those against our royalty payments in an environment where we're trying to conserve cash, that's what you're seeing there, just the cashing in some of those pools.

ANDREW WONG:

Okay. How much is there remaining in the pools? Do we know?

GRANT ISAAC:

I'm sure somebody does, Andrew. I don't have it at my fingertips. Let me get back to you on that.

ANDREW WONG:

Okay. That's fair. Then just one last one on the uranium price sensitivity table, it looks like there's a little bit more flex in the bottom and the top end. Is that because the contracts that you have now are a little bit more spot-based terms, or is there something else there as well?

GRANT ISAAC:

At the outset of every year, there is a little bit more variability in the price sensitivity table across all years because it captures all the market-related and all the fixed price contracts. What we've seen over the last number of years, as fuel buyers have kind of delayed taking delivery, they've tended to push out, especially their fixed price contracts. So as the market related or delivered, you see a tightening in that range across all years. It's kind of the wide open nature of the price sensitivity table when all market related and all fixed price contracts haven't been delivered into yet.

ANDREW WONG:

Okay. That's perfect. Thank you.

TIM GITZEL:

Thanks, Andrew.

OPERATOR:

Our next question comes from John Tumazos of John Tumazos Very Independent Research

JOHN TUMAZOS:

Thank you. If your good customers in China decided today that they want to build an extra five or so reactors and their construction crews work day and night 24/7, how many months or years would it take for them to power it up and consume more uranium? I'm particularly, impressed at the seasonal deindustrialization this winter in China where many factories and many sectors were shut down for four months or so to cut pollution. It sure makes a strong argument in favour of your product.

TIM GITZEL:

John, thanks for the question. It's a good one. We're seeing construction times now in China, especially for the Chinese reactors, somewhere in the four-year range. They've got a strategy now, they have the French in building some reactors, they've got Westinghouse building some, we've got some Candu's that were built there. But really, now, they have the technology to build reactors. Based on Western technology, they build their own CAP 1000s, and they build these Hualong the Dragon 1000s, not only in China, now they're building outside of the China. Keep your eye on that. You're going to see them very dominant in the world. I think they're looking at building a reactor in the U.K. now. You know, when they take something on they're usually pretty serious about it. The bottom line, I think around four years to construct and then turn on the reactor.

JOHN TUMAZOS:

Do you make marketing calls to particular end-user energy consumer companies? For example, there are aluminum smelters that were six factories in a row, coal mines, coal utility, bauxite mine, alumina refinery, smelter, rolling mills, fabrication, can plants, where now they can't burn

the coal. Do you go to China and call on aluminum companies and say we can solve your problem?

TIM GITZEL:

You know what? When we deal with China, we have two customers there. Those are the electricity companies, the ones that are building and running nuclear reactors, CGN and CNNC are the two customers. So, unlike the U.S., where there might be 25, 29 different utilities, in China there are two and we deal directly with them. Then it's them that go to and talk to the smelters and other factories.

JOHN TUMAZOS:

Thank you. I'd love to be your salesman.

TIM GITZEL:

Yes. Well, you're welcome to it. We'd love to have you.

OPERATOR:

Our next question comes from Orest Wowkodaw of Scotiabank.

OREST WOWKODAW:

Hi. Sorry. I promise last question. Just given the magnitude of the planned inventory reduction this year with McArthur being down, can you give us a sense of what kind of operating cash flow we could expect? Is it reasonable that could be near enough to a $1 billion this year from the inventory destocking?

TIM GITZEL:

I have to let the guy that counts the money answer that one.

GRANT ISAAC:

Orest, as you know, we don't guide to that number. I would say that when you look at our outlook table and you see an average realized price very similar to last year's on sales volumes that are very similar to last year's, it would probably suggest that the expectation of a cash from

operation number very similar to 2017 is probably the right way to think about it. I'm getting kicked under the table by Rachelle here.

OREST WOWKODAW:

The number last year doesn't have the inventory destocking. I think, last year, you call it around about $0.5 billion plus the planned inventory destocking?

GRANT ISAAC:

Because it's really going into committed sales, and those sales would have been there if we were delivering it out of inventory or delivering it out of production from McArthur. It's if 2018 presents discretionary opportunities for us to move additional information, that's when you would see a real significant benefit to the cash flow.

OREST WOWKODAW:

Okay. Maybe I'll take that offline. Thanks very much, Grant.

TIM GITZEL:

Anytime.

OPERATOR:

Our next question comes from Jim Ostroff of Platts.

JIM OSTROFF:

Yes. Hello?

TIM GITZEL:

Are you there, Jim?

JIM OSTROFF:

Hi. Yes. Sorry, technical difficulties.

TIM GITZEL:

No problem.

JIM OSTROFF:

Thank you. A number of questions have already been asked and answered but let me just follow up here on a few things. One, with respect to McArthur, as you said if the price remains somewhere near $21 that's not great. It's an incentive really to go out and buy material out in the market. Is there any sort of guidance you could provide here, and that is, say, for instance that you would not even consider restarting McArthur unless the spot price was above $30. Is there any number you could mention?

TIM GITZEL:

Jim, I appreciate the question, but we're just not prepared to do that yet. It's just too early for us. I will tell you it has to be significantly higher than it is today. So, if that gives you any guidance. But we just want to see how things play out, what the Kazakhstan production levels look like this year. We know what ours are going to be. We've taken some real dramatic steps that were not easy to do in this company and in this province, and so, that's down. You see our production levels way down, so we're going to be using up inventory. We just have to see how the market reacts. Whether there is some recognition that there's a lot of hurt out there right now, and we get there's hurt in the utility side as well and we're conscious of that. But, there is a hurt on the supplier side so we're going to have to find some healthy mix where we can all move forward together. But, we're not prepared today to put a pin in a certain number, and it won't be the spot price, as I said; it's more the term price that we're looking for.

JIM OSTROFF:

Okay, more term price. I have one other over here. As you've just mentioned that Cameco made very difficult decision to shut down the cost McArthur. As you say, it is just one of the very lowest cost most productive mines that you operate. You also mentioned here, Kazatomprom had talked about additional 20% reduction over three years and in late December its top executive said. "Our production this year in '18 and '19, '20 will be about 23,000 metric tons," meaning they're—then they said, "Well, we could have produced more but we're not." But the bottom line here is that you're continuing to produce at a high rate. Does that not affect supply and therefore the outlook for spot prices and long term prices?

TIM GITZEL:

Well, I think the good news part of that is that they're holding firm, and we believe them. We know them very well. They are great partners of ours. and when he says, Mr. Pirmatov says something, we know he is going to deliver on that. And so that—would we like it to be lower? That's a different conversation, but the fact that they've agreed to hold it at 23,000 tonnes, we're doing what we can and others are involved. So, I don't think it's total bad news story. At the same time, demand is still there and growing. We get some new reactors on again this year and we are just looking for better things. But we are going to be watching day-by-day as this year rolls on to see where the market goes.

JIM OSTROFF:

Okay. Finally, over here you did say that Cameco will be assessing its situation going forward in terms of meeting contractual demands, drawing down inventory, potentially being in the spot market. With production down so substantially here, is there anything you can say that to the extent that—for instance most contractual obligations will be met through spot purchase or inventory or both?

TIM GITZEL:

Yes. I would say, both. We will be in and out of the market as we need to. We have inventory but it's not endless. You see just our taking McArthur / Key offline for this year eats into what would normally be 13 and change million pounds that we would produce. Well that corresponds about with maybe our excess inventory, maybe our excess inventory isn't even enough, and so we'll be in the market looking for pounds, for sure. We just think that if Cameco puts a shoulder into the market and is buying pounds off the market, we're not sure the price will stay where it is today, and so that's part of our thinking. I'll keep referring to our three levers. We are going to pull them as we see fit.

JIM OSTROFF:

Thank you.

TIM GITZEL:

Thank you very much, Jim.

OPERATOR:

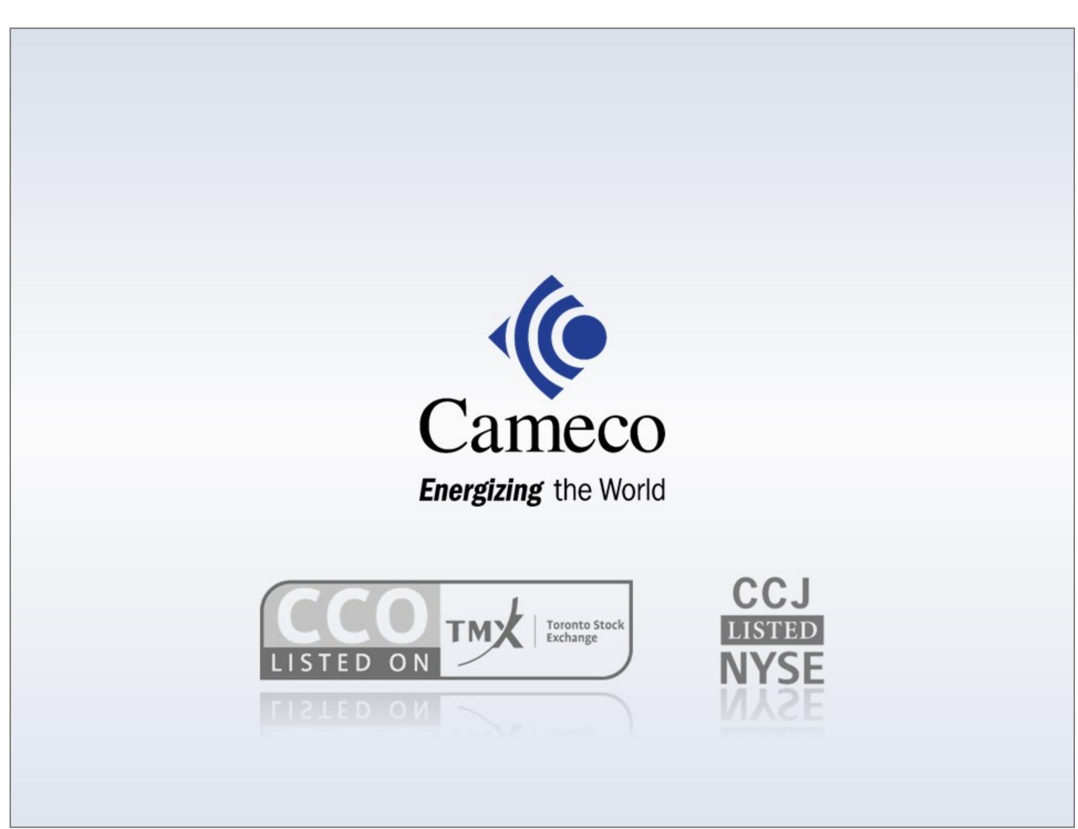
This concludes the question-and-answer session. I would like to turn the conference back over to the presenters for any closing remarks.

TIM GITZEL:

Thank you, Operator. With that, I just want to say thanks to everybody who joined us on the call today. We certainly, as always, appreciate your interest and your support. We're certainly doing our best to manage through this challenging market and we're positioning the Company to benefit from what we think is a future where additional uranium is going to be required, and better days ahead. So, thank you everybody. Have a great day.

OPERATOR:

This concludes today's conference call. You may disconnect your lines. Thanks for participating and have a great day.



Assumptions made in our 2018 Outlook table

1. Based on the volumes we currently have commitments to acquire under contract in 2018. This includes our JV Inkai purchases.
2. Our 2018 outlook for sales volume and revenue does not include sales between our uranium, fuel services and NUKEM segments.
3. Based on the volumes we currently have commitments to deliver under contract in 2018.
4. Based on a uranium spot price of $22.00 (US) per pound (the Ux spot price as of January 31, 2018), a long-term price indicator of $30.00 (US) per pound (the Ux long-term indicator on January 31, 2018) and an exchange rate of $1.00 (US) for $1.25 (Cdn).
5. Based on the expected unit cost of sales for produced material and committed long-term purchases including our JV Inkai purchases. If we make discretionary purchases in 2018, then we expect the overall unit cost of sales may be affected.
6. Direct administration costs do not include stock-based compensation expenses. See page 28 of 2017 Annual MD&A for more information.
7. Our outlook for the tax recovery is based on adjusted net earnings and the other assumptions listed in the table. The outlook does not include our share of taxes on JV Inkai profits as the income from JV Inkai is net of taxes. If other assumptions change then the expected recovery may be affected.

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