Cameco Corporation

2018 Second Quarter Results Conference Call Transcript

Date: **July 26th, 2018**

Time: **8:00 AM ET**

Presenter:

Tim Gitzel
Chief Executive Officer

Grant Isaac
Senior Vice President and Chief Financial Officer

Brian Reilly
Senior Vice President and Chief Operating Officer

Rachelle Girard
Vice President, Investor Relations

Operator:

Thank you for standing by. This is the conference Operator. Welcome to the Cameco Corporation Second Quarter 2018 Results Conference Call. As a reminder, all participants are in listen-only mode and the conference is being recorded. After the presentation, there will be an opportunity to ask questions. To join the question queue, you may press star, then one on your telephone keypad. Should you need assistance during the conference call, you may signal an Operator by pressing star and zero.

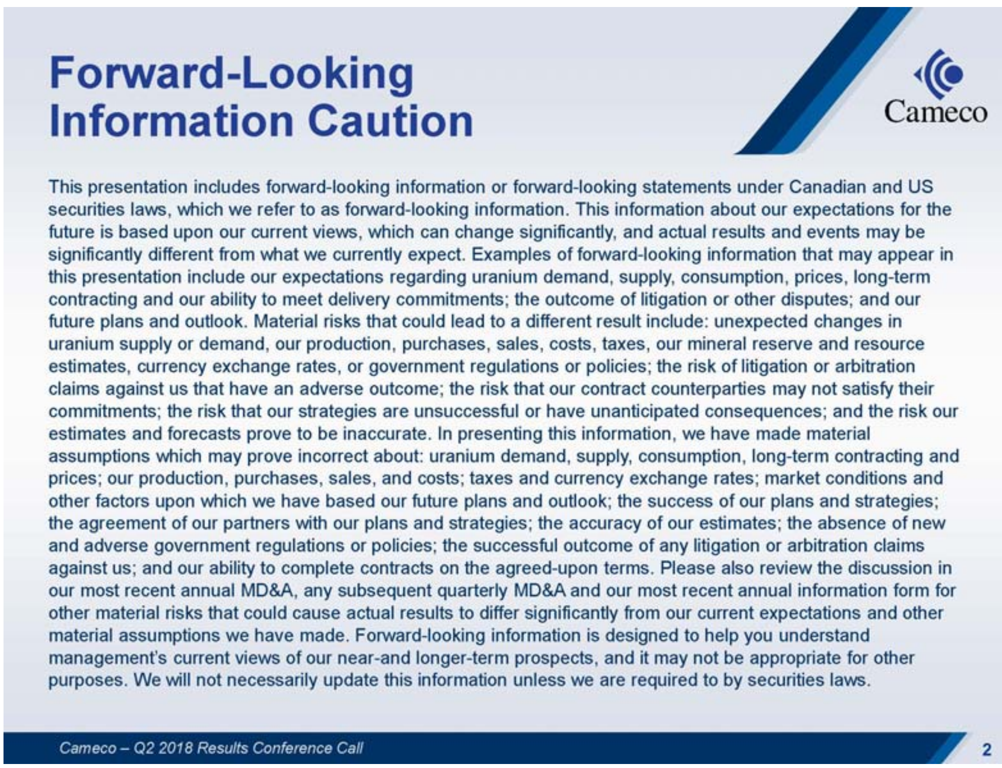
I would now like to turn the conference over to Rachelle Girard, Vice President, Investor Relations. Please go ahead, Ms. Girard.

Rachelle Girard:

Thank you, Operator, and good morning, everyone. Thanks for joining us. Welcome to Cameco's conference call to discuss our second quarter financial results and our decision to suspend production at McArthur River and Key Lake for an indeterminate duration. 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 decision and the results. 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, then return to the queue.

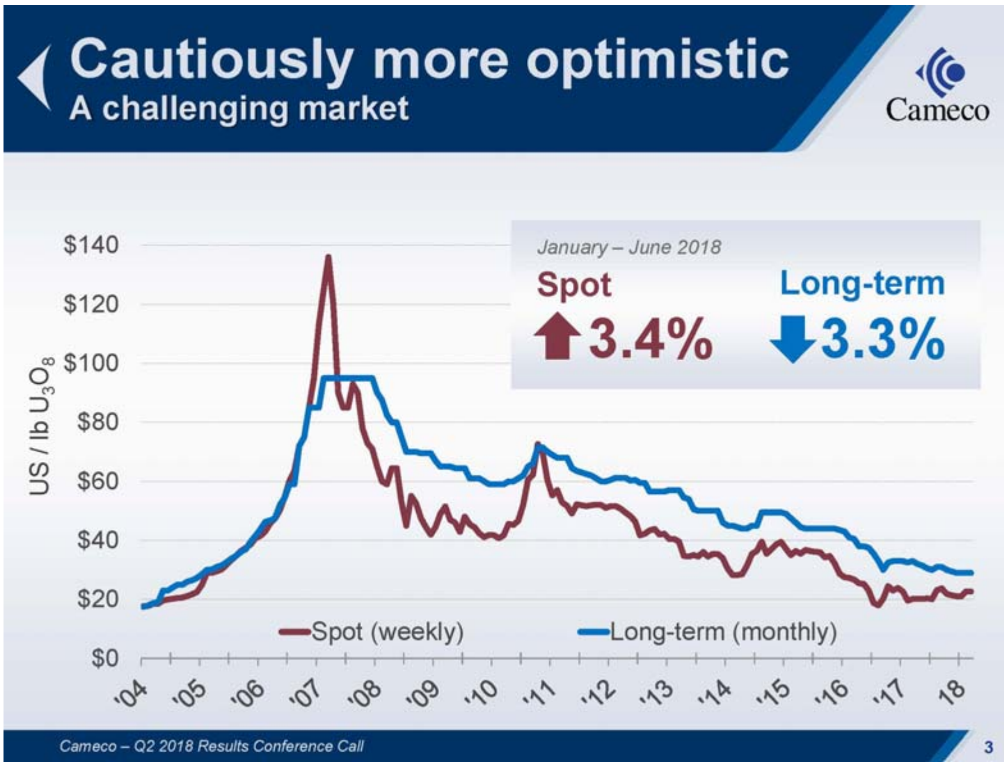


Please note that this conference call will include forward-looking information, which is based on a number of assumptions, and actual results could differ materially. Please refer to our Annual Information Form and MD&A for more information about the factors that could cause these different results and the assumptions we have made.

With that, I will turn it over to Tim.

Tim Gitzel:

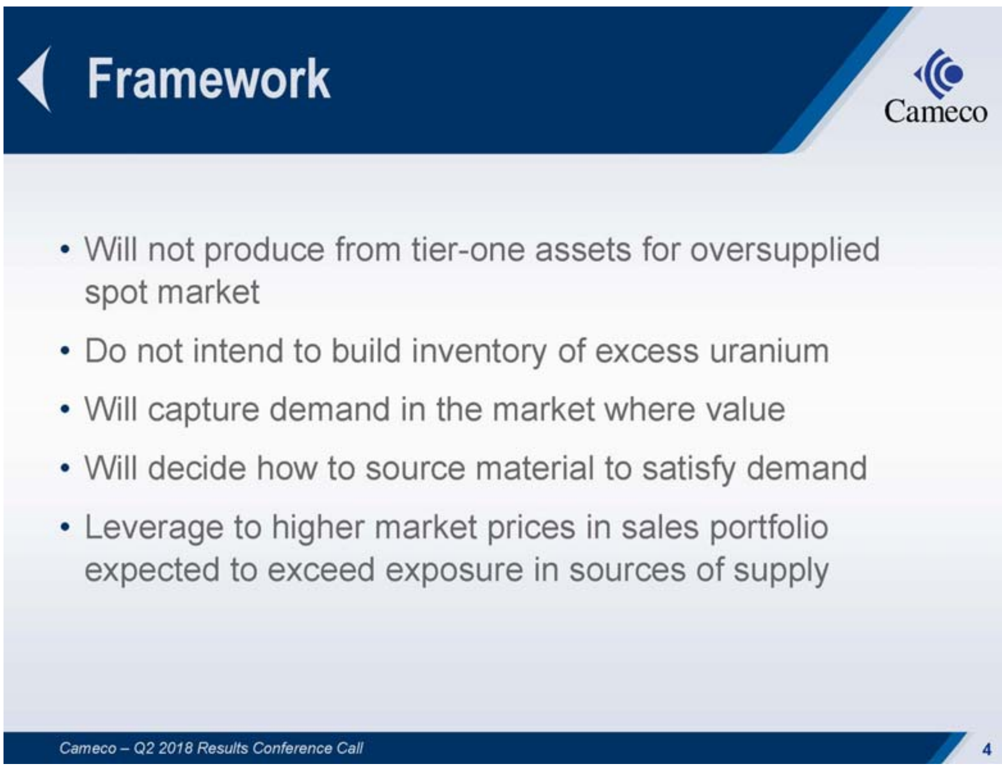
Well, thank you, Rachelle, and welcome to everyone on the call today. We appreciate you taking the time to join us to discuss Cameco's second quarter results and our decision to extend the production suspension at our McArthur River/Key Lake operation for an indeterminate duration, or, in other words, indefinitely. I'm going to start with the latter.



You heard me say earlier this year that we are cautiously more optimistic than we were in 2017, and I would say that that sentiment prevails. While we are seeing some positive developments, the reason for our continued caution is that we have not yet seen the type of response we need to see from the uranium market. Prices remain unsustainably low, and with about 16 million pounds placed under long-term contracts industrywide so far this year, there have clearly been very few acceptable long-term contracting opportunities. As a result, we have decided to extend the suspension of production at McArthur and Key Lake indefinitely. That is a decision our partner Orano fully supports.

In addition, to further reduce costs we will downsize our corporate office workforce in accordance with the decreased level of activity at our operations. These were difficult decisions to make because of the impact they will have on our employees, their families and other stakeholders, but we must take these actions to ensure the long-term sustainability of the Company. We thank our workforce for their hard work and dedication.

We believe our assets are among the best in the world and we will continue to show the type of leadership needed to position the Company to add significant value over the long term, and we will continually evaluate our strategy in the context of our market environment.



In response to changes in our environment, we adjust our actions using a marketing framework that we believe supports our strategy to build long-term shareholder value. The framework is not new and you can expect we will continue to use it to manage our business, not just in a weak market but in general. Let me outline it for you.

First and foremost, we will not produce from our Tier 1 assets to sell into an oversupplied spot market. Second, we do not intend to build up an inventory of excess uranium. Third, in addition to our current committed sales, Cameco will capture demand in the market where we think we can obtain value. Fourth, once we capture demand, we will decide how best to source material to satisfy that demand. Finally, over a rolling 12-month period, our leverage to higher market prices in our sales portfolio is expected to exceed any exposure we have in our sources of supply.

So what does all this mean? It means there is not a particular spot price we can point to that will incentivize us to turn our operations back on. McArthur River/Key Lake is either producing at 18 million pounds per year or it is not producing. Given the high fixed cost component, it does not make economic sense to run it at lower volumes. Therefore, we do not plan to restart until we see an acceptable long-term business in our market; business that allows us to commit those pounds under long-term contracts; contracts that provide an acceptable rate of return on these assets for our owners and rewards them for their continued patience and support of our strategy to build long-term value.

In the meantime, we will leave these pounds in the ground and preserve the long-term value of one of the world's best assets for a time when it's needed and its value is recognized. We know when the signal to restart comes. As a Tier-1 asset, the McArthur River/Key Lake project will be among the first and most economic to bring back online. Second, we will not build inventory of uranium in excess of our actual needs. Excess inventory only serves to contribute to the sense that uranium is abundant and creates an overhang in the market, and it ties up working capital on our balance sheet.

Based on a rolling 12-month planning cycle, we have determined that it is appropriate to target about 4.5 months of forward sales in inventory. This allows us to have the material where we need it, when we need it, and in the right form.

Third, it means that the outlook we provide for committed sales will not necessarily reflect all of our sales activity in any given period. We will take advantage of the opportunities the market provides us where it makes sense from an economic, logistical and strategic point of view. Those opportunities may come in the form of spot, midterm, or long-term demand. The demand may come from utilities, financial players, producers, or from traders or intermediaries. We prefer long-term business with market-related prices and with downside protection, and we prefer to see uranium being consumed in reactors, but we will not preclude other demand opportunities.

Of course, we will continue to target a portfolio of long-term contracts with a ratio of 40% fixed prices and 60% market-related prices, and we will include mechanisms to protect us when prices decline and allow us to benefit when prices rise.

Fourth, it means depending on our production volumes, inventory levels and any purchase commitments we already have, we will be actively buying material to meet our demand obligations. I will get into more specifics about how this may impact us in 2018 and 2019 a bit later. Remember, however, that we don't operate just in time; we have to plan on a 12-month rolling basis. Therefore, our first thing we'll have to precede the timing of our demand obligations, so in some quarters it may appear we are building inventory, but it will more closely reflect our target inventory level when all demand for the 12-month period has been met.

Finally, it means that, in general, if we choose to purchase material to meet demand we expect the price of that material will be more than offset by the leverage to market prices in our sales portfolio over a rolling 12-month period. Should the market move away from us and we are unable to find the pounds we need in the market, we do have ways to mitigate that risk. Keep in mind, our 4.5 month inventory target is just that, a target. We do have flexibility and can go lower on a temporary basis.

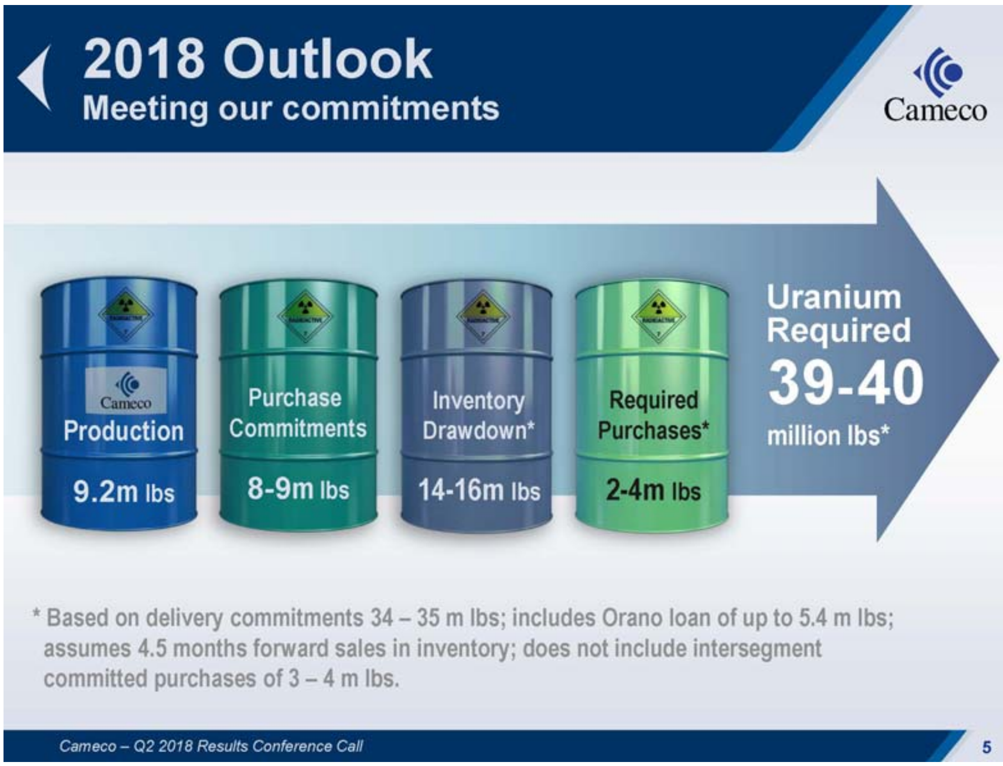
Also, remember, uranium has to be stored at a licensed facility. As a result, we sit on a lot of material for others at our licensed facilities, and product loans are not uncommon in our industry.

Finally, if the market truly is transitioning and we are able to sign acceptable long-term contracts, we always have the option to restart McArthur River/Key Lake. The restart would probably take us a few months, depending on how long we are down for.

In addition to this framework, our contracting decisions always factor in who the customer is, our desire for regional diversification, the product form and logistical factors. So, if you see us taking an action that on a standalone basis doesn't seem to make sense, I encourage you to ask yourself does it make sense when viewed in the context of this broader framework, because that's the lens that we are using.

As I've said before, we operate in a business where progress is not measured in weeks or quarters but in years, and that is how we manage our business for the long term.

Now, let's turn to how this framework may impact what you see from us in 2018 and in 2019. Remember, we look at this on a calendar year basis and don't provide a quarterly outlook.



Starting with the full calendar year for 2018, in our Uranium segment we have commitments to deliver between 34 million and 35 million pounds of uranium. In addition, we have agreed to provide our partners at Orano up to 5.4 million pounds of uranium this year. Since this material gets repaid we have a bit more flexibility in deciding how and when to source material to fulfill that commitment. We expect to produce about 9 million pounds of uranium. We have purchase commitments of between 8 million and 9 million pounds, which includes our share of Inkai production. But our purchase commitments do not include our interest segment purchases of between 3 million and 4 million pounds, and at the start of the year we had about 27 million pounds in inventory.

If you work through all the math on this, and including the Orano loan, you can see we expect to purchase about 2 million to 4 million pounds this year to meet our delivery commitments and maintain our target inventory. This allows us to achieve our inventory reduction plan, assuming we maintain 4.5 months of forward sales in inventory. In the absence of an extended shutdown, that would've been the extent of our required purchases this year. But there are two other factors to consider. The most obvious factor is, of course, that we have extended the suspension; the other factor being our willingness to meet demand in the market, which I talked about earlier. Let me speak to the extended shutdown first.

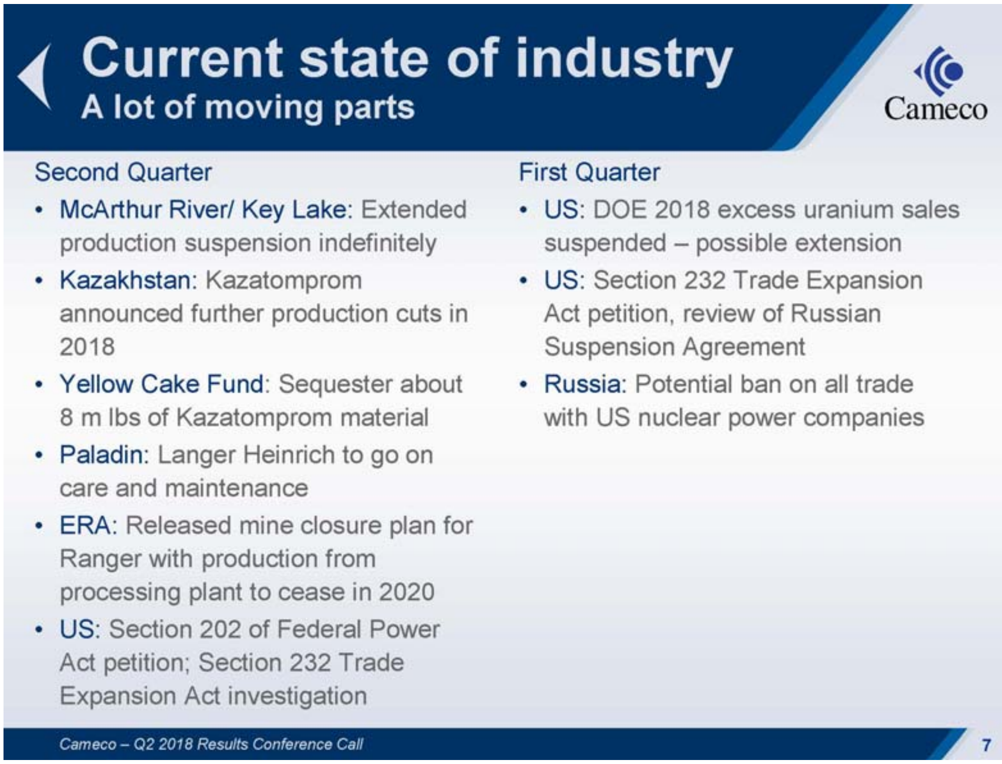
Looking to 2019, we have sales commitments of between 25 million and 27 million pounds. To fulfill these commitments, we have three levers we can pull: production, inventory and purchases. We expect to produce 9 million pounds out of Cigar Lake, and we have purchase commitments of between 5 million and 6 million pounds, including Inkai purchases. We won't really have much in the way of excess inventory, so that means for 2019 we'll need to purchase an additional 9 million to 11 million pounds to meet our commitments. Remember, I said we plan on a rolling 12-month basis, which means that to meet our first quarter deliveries in 2019 we may have to begin purchasing activity in 2018. So, while I've said earlier that we expect to purchase an additional 2 million to 4 million pounds this year, if we decide to make some of our 2019 purchases before the end of this year, our 2018 purchases potentially go up further.

The other factor you need to keep in mind is our willingness to capture demand in the market where we see value. To the extent that there are opportunities to capture demand that fits the criteria I talked about earlier, we may have even greater purchasing needs. As a result, you can expect us to be active buyers in the spot market, not just this year but next year as well. This is not just a temporary measure. This will be an ongoing business activity where it makes sense for us. However, the extent of our purchasing in 2019 will be dependent on how many years the shutdown extends and our purchase and sales commitments in subsequent years. Of course, the trigger for a restart is a return to acceptable long-term contracting in the market.

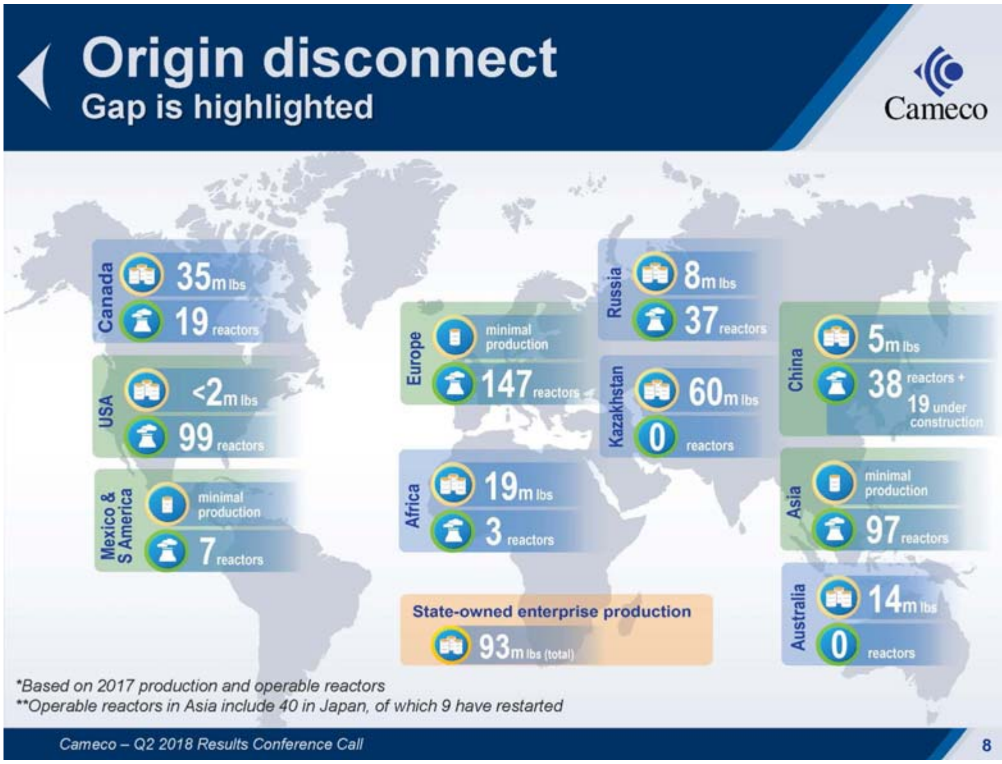
Our purchasing activity may mean that some of our sales are at a lower margin, but as I said earlier, with greater leverage to market prices in our sales portfolio, we expect it will add significant value. Our goal is to responsibly manage our supply. We believe this will provide us with the flexibility and the opportunities we need to meet our delivery commitments. It will help preserve the value of our Tier-1 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 framework. Rest assured none of this activity will change or jeopardize our financial navigation points.

We continue to be focused on maximizing cash flow while maintaining our investment-grade rating. We want to self-manage the risk that the market is low for longer, our litigation risk, and we will position ourselves to retire our 2019 debt when it comes due, if it makes sense to do so.

We've spent some time talking about the micro drivers of our decision to extend the shutdown of McArthur River/Key Lake, those being our desire to draw down inventory and build cash. We have covered the macro drivers, which include the inability to sign long-term contracts on acceptable terms and our unwillingness to produce from Tier-1 assets to sell those pounds into an oversupplied spot market. I now want to take the next few minutes to talk about the current state of our industry.



Against a backdrop of growing demand over the long term, last quarter I talked about a number of moving pieces in our market that have shifted the sentiment from one of complacency and discretion to one of uncertainty and concern, which has led to paralysis. I won't go into a lot of detail on each of these issues, but let me list some of them for you. There was our shutdown of McArthur River/Key Lake in February; the possible U.S. trade action under Section 232 of the Trade Expansion Act; the review of the Russian Suspension Agreement; and the decision by the U.S. Department of Energy to suspend its excess uranium sales for the remainder of 2018 with the possibility of an extension.

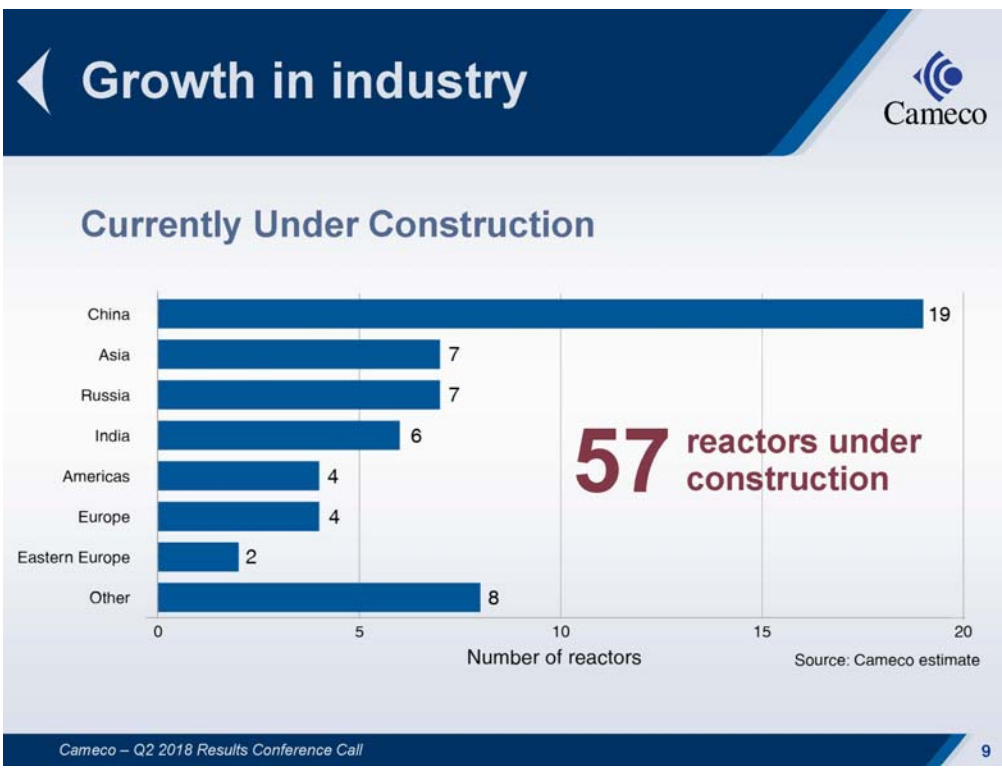


Last quarter I also highlighted why our market tends to be sentiment driven rather than purely driven by fundamentals. I talked about the origin disconnect in our industry, the gap between where supply is produced and where it is needed and the role of state-owned enterprises in our industry. And I spoke about how from a security of supply perspective, origin matters in a world where geopolitics are creating trade distortions.

Since the first quarter, you can now add to this list. Two more reactors were restarted in Japan, bringing total restarts to nine; China connected its first AP1000 and EPR reactors to the electricity grid and started loading fuel in a second AP1000 nuclear reactor; the decision by Paladin to put the Langer Heinrich mine on care and maintenance; the petition filed under Section 202 of the Federal Power Act in the U.S. that would provide assistance to struggling nuclear and coal plants as a matter of national security; the announcement by KazAtomProm that it will further cut 2018 production by almost 4 million pounds; the initial public offering of Yellow Cake, a new uranium fund. The fund has purchased about 8 million pounds from KazAtomProm, sequestering it in an investment vehicle. Yellow Cake has the option to purchase up to $100 million worth of additional material annually from KazAtomProm over the next nine years.

Also, we know there are other financial players kicking the tires. There's also the announcement by the U.S. Department of Commerce that is initiating an investigation under Section 232 of the Trade Expansion Act, an investigation that has no immediate impact on our existing contracts with deliveries continuing as usual. And if the issue in question is the overreliance of the U.S. on uranium supplied by state-owned enterprises, then this clearly does not apply to Cameco. In fact, we were the largest producer in the U.S. before we put those assets on care and maintenance.

If the U.S. is looking for more domestic production, our assets would be among the best and quickest to ramp up production, taking about 18 to 24 months. Of course, that ultimately depends on how long production is down for. But remember, these assets are shut down for a reason: the quality of these assets compared to our other assets makes it uneconomic for us to run them at today's prices and a trade policy cannot improve the quality of the uranium in the ground. However, until the investigation is complete and the potential impact, positive or negative, can be determined, it is another one of those moving pieces that contributes to the uncertainty I talked about earlier. Of course, there's the extension of our McArthur River/Key Lake shutdown.



All of this makes for interesting times in our industry, an industry where there are 57 reactors under construction, the majority of which will be online over the next several years, and 14 or 15 of which are expected to start up this year. That is significant growth which will translate into increased uranium demand. A new production will be needed, something we should really be thinking about.

Unfortunately, today's prices are still nowhere near, not even close, to the levels needed to sustain existing production, let alone encourage investment in future supply, supply that we know will be needed to support reactor construction programs, the return of idled reactors to the grid and utilities uncovered requirements.

So today the queue is filled with plenty of idle production capacity, including Tier-1 capacity that can start up relatively quickly, and shelved brownfield projects. Therefore, the argument for new greenfield investment is made even more difficult, pushing its prospects even further into the future.

Looking back, our production cuts since 2015 totaled more than 19 million pounds annually, all due to the weak uranium market. When you consider some of the other supply developments tied to the weak uranium market conditions, including our partner share of McArthur River/Key Lake production, the cuts total more than 40 million pounds annually.

Looking forward, I can identify several mines that are reaching the end of their reserve life, or that will be facing tough economics when coverage under existing contracts expires. You've heard me say this before, but it bears repeating, even Cigar Lake that we just ramped up to full production, runs out of reserves in 2027. In development terms, that is tomorrow. With the new environmental regulation and impact assessment legislation being proposed, we do not expect the development process to get any easier or any faster. That means that given the time it takes to permit, construct, and ramp up a mine, we should be investing today. However, in this market we are not spending one dime on growth.

We also know that utilities annual uncovered uranium requirements are growing. When you stop to think about it, things like planned reductions and unplanned risks to existing production, the lack of investment in future supply, the origin disconnect I talked about earlier between where uranium is produced and where it is used, and the role of state-owned enterprises in our industry clearly add to supply uncertainty. This should, we believe, at some point, shift sentiment and increase the interest in long-term contracting at prices that are supportive of a healthy and commercially-motivated supply of uranium.

Turning to our own performance now, our results reflect the impact of a weak uranium market than the deliberate actions we've taken, driven by the goal of increasing long-term shareholder value. I'm not going to go into a lot of detail because while we are required to report quarterly, our decisions are driven by the goal of increasing long-term shareholder value. You've probably already read about our Q2 results in our MD&A, but I do want to spend a bit of time talking about how our decision to extend the suspension will impact our expected results for 2018.

2018 Outlook
Updates

	2018 Outlook (revised)	2018 Outlook (previous)
Consolidated revenue ($ millions)	1,890 – 2,140	1,800 - 1,930
Revenue U ($ millions)	1,550 – 1,640	1,460 – 1,550
Delivery Commitments U (m lbs)	34 – 35	32 – 33
Average Realized Price U ($/lb)	46.10	46.30
Avg. Unit Cost of Sales U ($/lb)	40 – 42	38 – 40
Cash From Operations	20% - 30% higher than 2017	Similar to 2017
Capital Expenditures ($ millions)	80	90

Cameco – Q2 2018 Results Conference Call 11

As I said earlier, in our uranium segment we still expect to produce about 9 million pounds of uranium and to purchase 8 million to 9 million pounds, which includes the pounds we expect to purchase from Inkai. However, we now expect to deliver between 34 million and 35 million pounds of uranium at an average realized price of CAD$46.10 per pound. We were able to capture some additional demand opportunities in the market that met the criteria I talked about earlier. However, the pricing on these opportunities reflects the current market and, therefore, brought our expected average realized price down a bit for 2018.

Of course, this leads to an increase in our revenue expectations for the year as well. Our average unit cost of sales is expected to increase to between $40 and $42 per pound. The increase is largely driven by the severance cost of between 30 million and 35 million for site employees, which will be expensed directly to our cost of sales in the third quarter. Obviously, we will continue to incur care and maintenance costs at McArthur River and Key Lake, but we now expect these calls to be slightly lower, between $5 million and $6 million per month, once the permanent layoffs take effect. There were some monthly costs we incurred to maintain the workforce during what we originally thought would be a temporary 10-month shutdown. Now that the shutdown has been extended beyond 10 months, these costs will no longer be incurred. In addition to the severance costs for site employees, about $10 million will be expensed to admin costs in the third quarter for our workforce reductions at corporate office. Our expected capital expenditures are $10 million lower than we had disclosed previously, or about $80 million, mainly the result of optimizing the development plan at Cigar Lake.

Finally, as we set out to do when we announced the temporary suspension last November, the cash on our balance sheet is growing. At the end of June, we had $837 million in cash, significantly higher than the $320 million at the end of 2017. We now expect our cash from operations to be 20% to 30% higher than the $596 million generated in 2017, which means our cash balance at the end of this year will position us well to self-manage risk. This estimate is based on our current outlook and assumes uranium prices remain stable at current rates and an exchange rate of CAD$1.25 for USD$1.00. In addition to our purchase commitments of between 8 million and 9 million pounds, the estimate also includes our expected purchases of 2 million to 4 million pounds.

Before I leave our results, I will just point out that we are now more than 10 months post-trial and continue to wait for a decision from the judge in our CRA case, and, of course, the TEPCO arbitration is now about six months away.

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 action on things we can control. We are focused on our Tier-1 strategy and preserving the value of the assets in our portfolio that are the lowest cost and provide us with the most value. We're restructuring our organization to be as efficient as possible and to reflect the scope of our current operations. 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 to maintain exposure to the rewards that will come from having uncommitted, low-cost supply to deliver into a strengthening market.

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

Operator:

We will now begin the question-and-answer session. In the interests of time, we ask you to limit your questions to one, with one supplemental. If you have additional questions, you're welcome to rejoin the queue. To join the question queue, you may press star, then one on your telephone keypad. You will hear a tone acknowledging your request. If you're using a speakerphone, please pick up your handset before pressing any keys. To withdraw from the question queue, please press star, then two.

Webcast participants are welcome to click on the Submit Question tab near the top of the webcast frame and type their question. The Cameco Investor Relations Team will follow up with you by e-mail after the call. Once again, anyone on the conference call who wishes to ask a question may press star, one at this time. We will pause for a moment as callers join the queue.

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

Andrew Wong:
Hi. Good morning. Tim, I mean, it sounds like Cameco will be looking to be a lot more active on the spot market, both on the buy and the sell side. That's kind of a departure from your prior strategy, maybe a little bit more on the term and fixed price contracts and that kind of stuff. Can you talk about why the shift just a little bit more? Is it a way for Cameco to help the market get better price discovery given the disconnects? Just lastly, how does this kind of activity differ from the trading activity that the prior NUKEM business conducted? Thanks.

Tim Gitzel:
Well, thanks for the question, Andrew. Yes. We're going to be a bit more active on the buy side because we're going to need some pounds to put into our existing portfolio. Spot prices where they are today, we're going to leave our Tier-1 pounds, as we said in our comments and press release, in the ground for now, and if we can buy pounds on the market to put into our portfolio, we think we're better doing that. We're going to liquidate an inventory we've got at the same time. So, I don't think it's a big change. We're not willing to enter long-term contracts at today's prices. We think that's giving shareholder value away and we're not prepared to do that.

So, pretty dramatic steps we're having to take here. Obviously, a big effect on our workforce, so it's a difficult decision, but it's a difficult market and we think somebody has to show leadership in this regard and that's what we're doing.

Andrew Wong:
Okay. Maybe a different question then. If you look at the sensitivity table, currently it makes a lot of sense. You buy on the spot, you deliver into contracts, you're in a healthy margin there. But then if you look at the table, at $40 you would receive roughly an equivalent contract price. So, how does that math factor into the decision whether to buy on spot versus restarting at McArthur?

Tim Gitzel:
I'm going to ask Grant Isaac just to give us a little bit of an update just on the market and some of the strategy behind that.

Grant Isaac:

Yes. Andrew, it's a great question. Thank you. As Tim said in his opening comments, we look at this and any actions that we take with respect to purchasing and sales on a 12-month rolling basis. We look at the effect that buying might have on our overall contract sales portfolio. We look at the market sensitivity of our overall committed sales portfolio. I think the question you're asking is if we are starting to buy expensive material, doesn't that have a negative impact. I would say there's probably a different way to look at that. If we find ourselves purchasing and the material that we have to buy is more and more expensive, well then the material we're selling under our committed sales portfolio is worth more to us. Not only that; if we're buying expensive material, then we're probably encountering the type of term business that's acceptable to us, the type of term business that we say is required to bring a Tier-1 asset back. It's on that overall balance that we look at, and so one of the points Tim made was just to keep the whole framework in mind rather than looking at any one single transaction. But, being active, understanding where the material is, and obviously we're coming to the market to get some of it for our committed sales portfolio without McArthur production in there. It does have benefits for us.

Andrew Wong:

Okay. Thanks. I'll go back in the queue.

Tim Gitzel:

Thank you.

Operator:

Our next question comes from Ralph Profiti from Eight Capital.

Ralph Profiti:

Good morning. Thanks for taking my question. Two of them, if I may, Tim and Grant. I'm trying to get a better sense of the economics or the cash impact in 2019 of the decision on McArthur River and whether or not you can provide an estimate of the impact to cash flows between a restart scenario an

d a shutdown market purchase scenario.

Tim Gitzel:
Go ahead, Grant.

Grant Isaac:
Ralph, we don't have 2019 disclosure out there yet and we're not prepared to do that. That will be normal course in our Annual that will come out in February. So, no; we're not a position to do that right now.

Ralph Profiti:
Okay. Thanks. Then, Tim, do you have sort of a view on the uranium supply demand balance in 2019 or 2020 or even current, just some context of what this does McArthur River? Of course, your comments on the slide deck with respect to the state of the industry, where do you think we are now?

Tim Gitzel:
Well, Ralph, yes, we've seen-- if you look at some of the UX/TradeTech reports, I think even this year, 2018, before we made our announcement we were in a slight deficit. I guess that would probably continue going forward now that we've made the decision to keep McArthur down for an indeterminate amount of time.

On the demand side, we're quite enthusiastic about what we're seeing: some of the reactors coming back on in Japan; I think there's nine now. People say, well, it's not 50. Well, it's not zero either. That's moving along some, a good support from the Japanese Government. The Chinese, as we said, they're bringing the AP1000s finally on, EPR in China. We heard they've been waiting to bring those on to start some new ones. So, we see demand growth, not rocket ship growth but steady, slow growth. That's a good-news story because if it was going the other way we'd be in a different movie. So, demand steady, I would say, growing slightly and now supply, you're seeing some discipline in the market.

We're making our moves. I know KazAtomProm has made some announcements. You're seeing some other producers struggle. So, where is that inflection point? People are saying it's out in the 2020s. We think we might have moved it back a lot closer to today with some of the announcements we made.

Ralph Profiti:

Okay. Great. Very helpful. Thanks very much.

Operator:

Our next question comes from Greg Barnes from TD Securities.

Greg Barnes:

Yes. Thank you. Grant, what is your strategy to buy the amount of material that you now need to buy? It's upwards of 15 million pounds. Spot market typically does 50 million pounds a year, but we know most of that is just churned between traders. So it isn't that liquid. Where do you think you're going to find this much material?

Grant Isaac:

Yes, that's a great question, Greg. I mean, we will be very active, having a look at what's available on the spot market. If markets are truly efficient, we would suggest that there's a lot of material available at today's prices, but we're going to test that. We will look at what's available on the spot. We have a sense that there are utilities out there that have excess uranium positions; maybe some of that becomes available to us, maybe not. Maybe a utility that thinks that a market might be tightening starts to view that excess position as an asset, not a liability, and therefore might hang on to it. Greg, we don't know yet. That is the test that is underway. Obviously, if there is lots of material that comes off the shelf, we're going to buy it cheaply and we're going to help clean up the market and bring that inflection point forward.

If on the other hand the market is not as deep as current market prices would suggest and there is a real tightening that results from putting our demand into the market, then, yes, purchases will become more expensive. But as I said earlier, that will lever up our existing portfolio and it's probably the conditions that we need to see to start bringing attractive term demand to the market.

Greg Barnes:

Right. Second question—and, Tim, you noted that the CRA decision could come any day—but, Grant, can you clarify when the decision comes down, if it go against you is there a big cash payment required; if it goes for you, do you get that prepayment back immediately? How is this going to play out when that decision comes down?

Grant Isaac:

Yes. Greg, thank you for that question. I think there is a bit of confusion on what that exactly looks like, and we'll take some responsibility for it because remember we have a lot of voluntary disclosure out there on this case. We have put some voluntary disclosure out there that suggests what the worst-case scenario, for example, would look like for '03 all the way to 2017. In that worst-case scenario, we're talking about a potential $2 billion cash liability. But it's important to emphasize there is no outcome where all of that would be due at once, even in an adverse decision. The reason is, that's voluntary disclosure that pertains to years that are well beyond what's before the court and, actually, well beyond what we've actually been reassessed on. What's before the court is '03, '05, and '06 only. What we've actually been reassessed on is '03 to 2012, so there's a number of years in there where they aren't even before the court. A court decision pertaining to '03, '05, and '06 from a financial management point of view is very manageable.

If we had an adverse outcome, an outcome that we are certainly not expecting, we're talking about an immaterial cash impact on us, something less than $10 million to be added to the 50% that we've already parked with them. Then, of course, that decision would have to be appealed if we didn't like it, appealed by the CRA, if they didn't like it, so there will be an appeal process that would apply. Those appeal processes would have to be run through before we were in a position to say what '03, '05 and '06 meant for the years that we've been reassessed - '07 to 2012, let alone 2013 to 2017. So even though we have a lot of voluntary disclosure out there, it is just as important to emphasize there is no moment where that worst-case scenario is due. Instead we see a multiyear process to understand the '03, '05, '06 decisions, to go through the appeals process if that happens, to then determine how that decision applies to the years we've been reassessed - '07 to '12 - and then how that applies to the years that we haven't even been reassessed for.

So, very manageable. It's why we say that the steps we've taken to build cash, maintain our investment-grade rating to put us in a position to self-manage risk, it's with this view that there is a long process that would play out. That would be the—it's not a legal description of it, that's just the financial management description of the liability, Greg.

Greg Barnes:
Okay. Thank you, Grant.

Tim Gitzel:
Thanks, Greg.

Operator:
Our next question comes from Alex Pearce from BMO.

Alex Pearce:
Hi, Tim. You touched on it briefly earlier in the call, but I was hoping I could just press you for a little more detail. If McArthur River is off for, let's say, one to two more years, what do you think the restart time would be? Also, would you expect to pay any additional restart costs on top of your existing care and maintenance costs that you've identified?

Tim Gitzel:
Hi, Alex. Thanks for the question. We don't know how long it's going to be off, so it's hard to speculate. I would just say simply the longer it's off probably the longer it'll take us to restart. We, unfortunately, are severing a good chunk of our workforce soon, and so we would have to go back and re-establish the workforce.

Now, that said, we have a real competitive advantage here in Saskatchewan that about 50% of our workforce at the sites are people from Northern Saskatchewan who have worked with us at many different sites and I believe would probably be available when we restart. We'll be keeping a core of about 200 people, 100 at each site, that are experts in running the place and will help with the restart. Of course, with our good friends and partners at Orano, we're running Cigar Lake still; they're running the McClean Lake mill; and we could borrow some expertise from there as well.

We said a couple of months now after 10 months, so it'll probably stretch out. As we stay down longer, it'll take us a bit longer to restart. Grant, do you have any additional comments?

Grant Isaac:

Yes. Alex, just one thing to add to that as well. It's not that the restart time is irrelevant, but remember we said the trigger for restart is the return of acceptable term contracts that we then produce from McArthur River to satisfy. Remember, a term contract by definition starts two years out and beyond, so we would have plenty of time to react to the new business in the market and then plan our production decisions accordingly. You just need to remember that there's the dimension of a runway to ramp up to satisfying that term demand because it isn't a spot market trigger.

Alex Pearce:

Okay. Great. Thank you.

Tim Gitzel:

Thanks, Alex.

Operator:

Our next question comes from Oscar Cabrera from CIBC.

Oscar Cabrera:

Thank you, Operator. Good morning, everyone. With respect to your 2019 outlook, you stated that deliveries are expected to be between 25 million and 27 million pounds. If McArthur were to stay shut a little bit longer, based on your contracted sales volume, would you maintain those levels of deliveries, 25 million to 27 million pounds, or would these come down in the outer years if McArthur stays shut down for, say, two to three years?

Tim Gitzel:

Oscar, those are commitments we have made to our customers. We will honor those commitments. We said we were going to produce about 9 million pounds from Cigar Lake. We have purchase commitments of 5 million to 6 million more pounds, so we're going to have to go out into the market and source somewhere in the 9 million to 11-million-pound range to fill those contracts. That's what we will do. I can tell you we will be looking for other opportunities if they come around with terms that are acceptable to us. We'll be looking to add to that.

So, yes, we will fill those commitments.

Oscar Cabrera:
Okay. Then secondly, I know that forecasting U.S. policy currently or foreign policy at the moment is like trying to forecast the size of snowflakes, but how are you guys thinking about Section 232 and the potential impact on the Company?

Tim Gitzel:
Oscar, too early to say. As you saw us put out a note about a week ago, I think, when the news came down, that it's officially 232, the piece has officially been launched. We said that we just don't know what the effect will be, positive or negative for us. It depends where it goes. When we look at the remedies proposed by the proponents, that 25% of U.S. demand come from U.S. production, we find that a bit aggressive given that there's about a million pounds or so being produced now and you'd have to ramp up to about 12 to meet that requirement.

Now, we have U.S. assets, don't forget, that we have on standby. I think - I'm looking at Brian Reilly here - but we could probably ramp those up around over 18 months, 24-month period, to produce, I'm not sure, in the 4-million-pound range. I mean, there's that side for us as well. But if there's some kind of tariff put on, as we've seen with the steel and aluminum business, that's probably not good, so probably not good for U.S. utilities especially.

It certainly has added to the confusion in the market, I would say. We have to see a few more cards as to where the Department of Commerce is going with it, what the recommendations to the President of the United States are going to be. So we are going to be active on it. We will be in there playing our cards down in Washington, making sure they know how it affects or could affect a lot of the supply that utilities get from Canada. We are not a state-owned enterprise, we are a publicly-traded company and we've had great relations and great sales into the U.S. for many, many years and we hope that continues.

Oscar Cabrera:

Okay. Thank you, Tim.

Tim Gitzel:

Thanks.

Operator:

Our next question comes from Orest Wowkodaw from Scotiabank.

Orest Wowkodaw:

Hi. Good morning. I apologize if this question has already come up. I've joined the call late today. In your guidance for uranium purchases in the market of 9 million to 11 million pounds next year and 2 million to 4 million this year, what does that assume around the Orano loans? Does that incorporate sort of the full exhaustion of those loans with respect to Orano drawing the material, and is that additive to these purchase commitments, or not commitments but requirements?

Grant Isaac:

Yes. Orest, great question. The 2 million to 4 million, 9 million to 11 million, so the 11 million to 15 million pounds for '18 and for 2019 is to meet our committed sales volumes relative to our ideal inventory position. We just assume that the Orano material will come back to us, that we've loaned to them will come back to us because that is the condition repayment in kind, but it's not out until 2023. So, you're absolutely right in thinking about that as flexible additional demand for us. We could just wait for those pounds to come back or we can decide to buy them because perhaps we have some opportunities for sales or new business comes along that makes sense to us. So, that is flexibility. In one way you might want to add it and say it's 16.4 million to 20.4 million pounds of potential Cameco demand in the next 18 months.

Orest Wowkodaw:

Right because Orano, they don't have to repay your uranium in kind until 2023, so I mean, given that, I would think that you're going to need to purchase that amount, the 5 million pounds in the market if it's drawn to meet your inventory levels for next year.

Grant Isaac:

That's right, but we'll just—think about that as the flexible portion. Think about the 11 million to 15 million in the next 18 months as—well, those are required purchases. We're coming to the market for those. What we do in addition with respect to the Orano loan, how we cover it in the meantime, we'll just retain some flexibility there.

Orest Wowkodaw:

Okay. You mentioned that the restart of McArthur was contingent on a recovery, I believe, in the term price. Have you given any indication of what term price you're looking for in terms of starting to think about restarting it; is it $35, $40; is that something you'd be willing to disclose?

Tim Gitzel:

I could tell you it's higher than it is today; that would be of course, that would be the broad—we're looking for terms higher than today obviously, but a long-term commitment, we have some customers that have done that. I'll use Bruce Power as an example. They're spending a lot of money, billions, I think $13 billion on component replacement, refurbing their units for the future. So they came looking for uranium in the 2020 to 2030 window. They were prepared to arrive at prices that were acceptable, of course, that were acceptable to us. Of course, we then have to commit to a ceiling. But long-term contracts like that, we are interested in and we said that a four would be nice on the number, but it's not where it is today. It's just too loaded for us to lock-in any long-term contracts.

Orest Wowkodaw:

Okay. Then just finally, you're making significant layoffs obviously at the mines, but the head office layoffs too struck me as quite large. I'm just curious, as painful as that is, what kind of annual sort of savings you might see there from an SG&A perspective.

Tim Gitzel:

Yes. I'm not sure if we've disclosed that amount. It is significant. I can tell you that. I just say, again, I hope you never have to do that in your business; it is tough to do. We have great employees, but we had to right-size the Corporation to fit with the assets we are running now. We took Rabbit down back in 2016 and we had a reduction then, and now McArthur being down for an indeterminate amount of time. We had to right-size this house in our Corporate operations as well.

So, it’s a significant chunk out of our operations. We’ll still fulfill all of the requirements of running a big corporation like we do, but that’s what we had to do.

Orest Wowkodaw:
Okay. What percent of your head office workforce then does this impact?

Tim Gitzel:
That was probably about a 20% to 25% cut in our corporate staffing.

Orest Wowkodaw:
Okay. Thank you very much.

Tim Gitzel:
Yes. Thank you.

Operator:
Our next question comes from Russell Fryer from Baobab Asset Management.

Russell Fryer:
Good morning. Thank you for the call. I want to switch to Smith Ranch-Highland and Crow Butte. What term price of uranium do you need to restart those operations and what are the reclamation environmental, I guess, costs, when they finally shut down?

Tim Gitzel:
Well, our U.S. assets all of a sudden became more interesting again, certainly after last week and this 232 piece. If the U.S. is going to follow the recommendation of the proponent and require 25% of U.S. consumption to come from U.S. assets, I can tell you those assets aren’t going to come at less than $50 or $60 a pound and probably going up from there. That’s why we’re interested to see how this is going to turn out.