Cameco Corporation

2019 First Quarter Results Conference Call Transcript

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Presenter:

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OPERATOR:

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

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

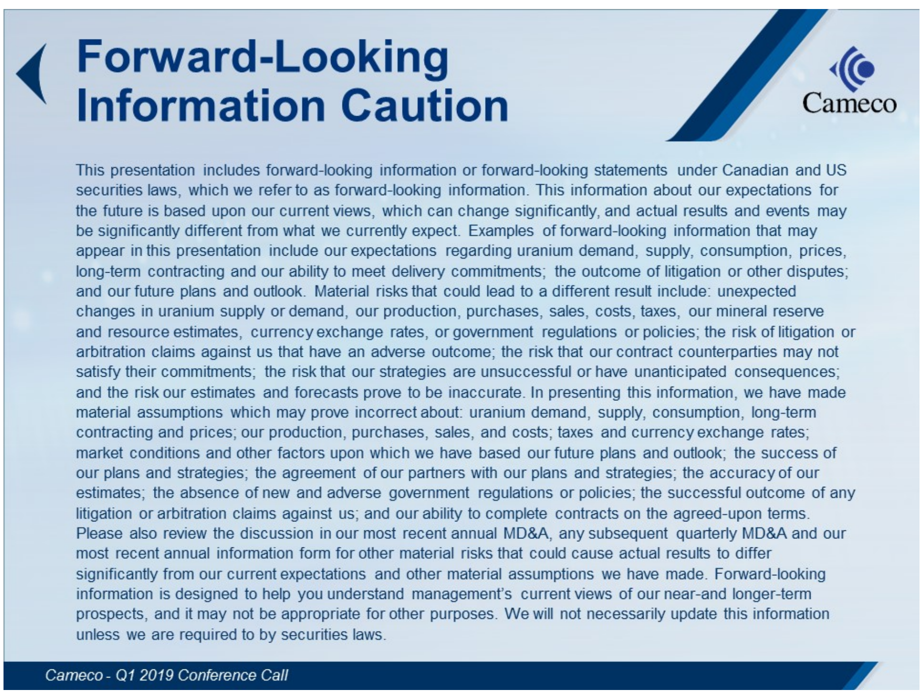
RACHELLE GIRARD:

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

With us today on the call are Tim Gitzel, President and CEO, Grant Isaac, Senior Vice President and CFO, Brian Reilly, Senior Vice President and Chief Operating Officer, and Sean Quinn, Senior Vice President, Chief Legal Officer and Corporate Secretary. Tim will begin with comments on our strategy and the market. After, we will open it up for your questions.

If you joined the conference call through our website Event page, there are slides available, which will be displayed during the call. The slides are also available for download in a PDF file through the Conference Call link at cameco.com.

Today's conference call is open to all members of the investment community, including the media. During the Q&A session, please limit yourself to two questions and then return to the queue.



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

With that, I will turn it over to Tim.

TIM GITZEL:

Thank you, Rachelle, and welcome to everyone on the call today. We appreciate you taking the time to join us. As Rachelle pointed out, it is our intent to use this call to talk about what we're seeing in the market and about our strategy.

Our results reflect the outlook we've provided for 2019, and the normal quarterly variation in contract deliveries which are weighted to the second half of the year. Progress in our business is not measured in weeks and months, but in years. That's how we manage our business; for the long-term, not based on quarterly financial results.

I want to start today's call by acknowledging the good news we announced yesterday. I'm pleased to tell you that we have been awarded $10.25 million for legal fees incurred in our dispute with the CRA for the 2003, 2005, and 2006 tax years. And in addition to these legal fees, the award allows for recovery of an amount for disbursements, which will be determined by an officer of the Tax Court. We are optimistic that we will recover all, or substantially all, of the $17.9 million in disbursements we applied for, and expect the award will be made before the end of this year.

Just to refresh your memory, our total application for cost was for about $38 million, including legal fees and disbursements. Depending on the disbursements awarded, we could recover up to almost 75% of the costs we applied for. While the timing of any payments are uncertain, this is certainly good news for Cameco.

As I said on our last call, 2018 was a year with a lot of moving parts, and with the exception of receiving the cost award I just mentioned, that really hasn't changed through the first quarter of 2019. In fact, it seems a number of additional pieces have been added, which I will come back to a little bit later.

The one consistency through all of this is that we at Cameco have been doing exactly what we said we would do: executing on our strategy to add long-term value. We've taken a three-prong approach in our execution: operational, marketing, and financial.

On the operational front, we decided to preserve the value of our Tier 1 assets for better days in our market. We suspended production at the McArthur River/Key Lake operation, removing 18 million pounds of supply from the market. The suspension was temporary at first, and then, based on continued market weakness, we transitioned to an indefinite suspension. Let me be clear, McArthur River/Key Lake is coming back, supported by the very robust economics shown in the recent Technical Report for this operation, and the significant value we expect it will create when it comes back into production.

However, we do not intend to restart until we are able to commit those valuable pounds under acceptable, long-term contracts, contracts that provide an acceptable rate of return on these assets for our owners, rewarding them for their continued patience and support of our strategy to build long-term value. So for the time being, McArthur River/Key Lake, along with our Rabbit Lake and U.S. operations will remain in care and maintenance, resulting in annual supply reduction of more than 26 million pounds.

Our supply actions require demand action as well. Our inventories in 2018, while significant, were not enough to meet our delivery commitments, so we were required to buy material in the spot market. This requirement not only continues in 2019, it ramps up. In our Uranium segment, we expect to take delivery of between 19 million to 21 million pounds of purchased uranium just to meet our current 2019 delivery commitments. The majority of these volumes, about 60%, are expected to come from the spot market.

In the first quarter, we took delivery of about 7 million pounds of purchased uranium. This material was drawn partially from the spot market, the rest from our long-term purchase commitments, and from Inkai. In addition, we have secured a portion of the remaining material required but have not yet taken delivery. We still have some purchasing activity ahead of us yet this year in order to fulfill our contracted sales.

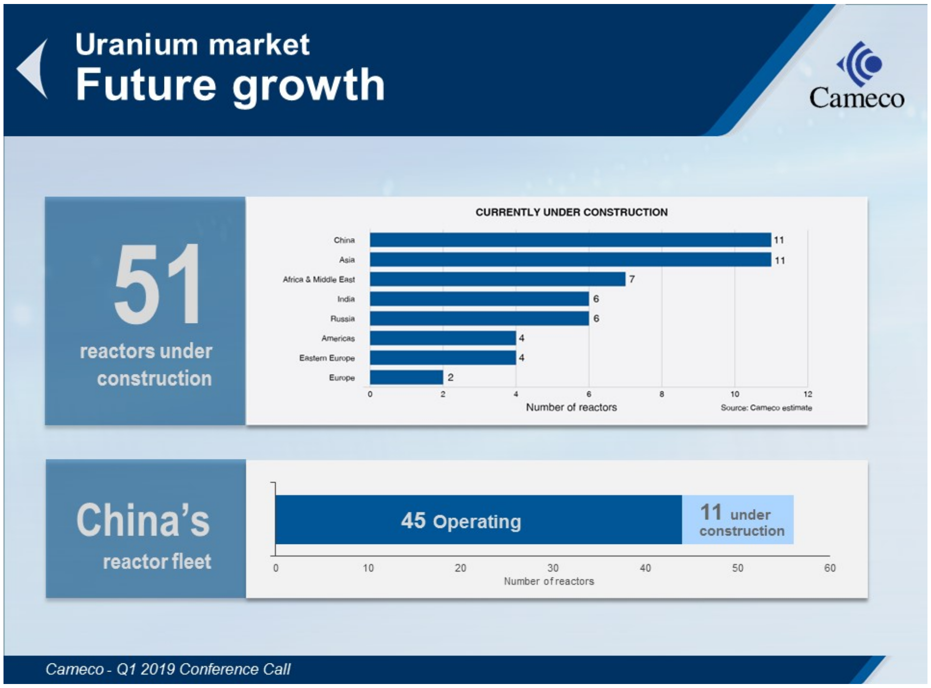
Remember, because our contract book extends beyond 2019, like in 2018, we expect to also begin securing uranium this year to meet next year's delivery commitments. Nineteen million to 21 million pounds really represents the floor for our purchasing activity in 2019.

There are some additional variables to keep your eye on as well that could further accelerate our purchasing in 2019, those being additional sales commitments in either 2019 or 2020, an increase in our target inventory as a result of increased sales or tightening supply, and an unplanned production variance.

Our supply and demand actions are backed up by a financial goal to strengthen our balance sheet and position ourselves to self-manage risk. I'm pleased to say we have successfully achieved this goal. At the end of the first quarter, we are sitting on $1.2 billion in cash, and we expect to continue to maintain a significant cash balance even if we decide to retire the $500 million in debt maturing later this year.

We will also continue to generate cash from operations this year. It won't be as significant as last year, as we won't have the release of working capital associated with the inventory drawdown in 2018, but it will be additive. Our balance sheet is in good shape.

Remember there's also the upside, depending on what uranium prices do for the remainder of the year, the outcome and timing of the TEPCO arbitration decision, and whether resolution of our CRA tax case can be achieved on terms consistent with our unequivocal win. Today, we are batting three for three in terms of the execution on our strategy.



Turning to the market, fundamentally, it's better than it was a year ago. From 30,000 feet, 2018 was a pivotal year for the uranium market. Why do I say that? It's because, from a demand point of view, consumption has returned to pre-2011 levels. We have now filled in the pothole of lost demand, and that demand continues to grow. There are more than 50 reactors under construction and as each one of these reactors gets turned on, it represents net new demand.

In China alone, the fastest-growing nuclear energy market in the world, there are 45 reactors operating and 11 units under construction. They just approved construction of two new reactor complexes, implementing the domestic Chinese Hualong One reactor technology, the Dragon, as they call it, the first newbuild approved in over three years. CNNC's Chairman, Mr. Yu, indicated recently that China expects to be able to build six to eight new reactors each year if the project approval process returns to normal, which would allow it to meet its 2030 target of 120 gigawatts.

In addition, we are beginning to see a number of other countries and organizations come out with some very positive policy messages. There's growing recognition of the role nuclear power must play in ensuring safe, reliable, and affordable electricity while tackling climate change and air quality issues. Recently, in the United States, a bipartisan group of Senators reintroduced legislation, Bill 903, the Nuclear Energy Leadership Act, or NELA, as it's called. The bill is aimed at boosting U.S. nuclear energy innovation and ensuring advanced reactors can provide safe, affordable, and reliable electricity.

In addition, the U.S. Secretary of Energy, Rick Perry, announced a $3.7 billion loan guarantee to support completion of the two reactors currently under construction in the U.S. He indicated that the Vogel Project is critically important to the U.S. Administration's direction to revitalize and expand the U.S. nuclear industry, calling it the real Green New Deal.

In New Jersey, the Board of Public Utilities voted to award zero emission credits to three New Jersey nuclear power plants, and the U.S. Supreme Court said it would not hear an appeal challenging the rights of Illinois and New York to subsidize nuclear power plants.

In India, where they are targeting 12 new reactors, the Secretary of the Department of Atomic Energy recently stated that the Indian government supports nuclear technology as an “irreplaceable source of clean energy”. I can tell you this growing recognition of the benefits of nuclear is not new; I’ve seen this movie twice before. Nuclear falls out of favour politically, and a number of countries announce they’re going to reduce reliance on, or phase out, nuclear. Then the world steps back and examines its options for carbon-free baseload sources of electricity and realizes the options are limited.

There’s hydro, which is an option for some countries but not all, and there’s nuclear. And they realize that nuclear could provide the power they need, not only reliably but also safely and affordably, and in a way that avoids emitting greenhouse gases. There’s no doubt there’s a role for wind and solar, but they aren’t baseload. Our healthcare, education, communication, and transportation systems can’t just “make do” if the sun doesn’t shine and the wind doesn’t blow.

Then consider China and India’s ambitions for increasing the number of electric vehicles on their roads. I can tell you, if they’re powered by carbon-producing sources of electricity, they’ll be doing more harm than good. Clean air concerns and climate change aren’t going away. You can look at the news every day and see an increased sense of urgency to limit the temperature increase of the planet.

Perhaps that’s what’s different this time. It’s that sense of urgency. Even the investment community is concerned. There’s been a significant rise in the focus on environmental, social, and governance, or ESG issues. Many pension funds, mutual funds, and investment firms are developing strategies to measure and address the impact of these ESG issues within their investment portfolios. Not surprisingly, the business and financial risks associated with climate change are front and centre.

While the support for nuclear is growing, and the demand for nuclear fuel is certain and growing, supply is less certain and, in fact, declining. Over the past several years, we've seen meaningful production cuts and reductions in producer inventories, which has led to increased demand for uranium in the spot market from producers and financial players.

With decreasing primary supply as a result of curtailment, and the competition for supply in the spot market from producers and financial players, the interest in long-term contracting is once again starting to pick up. At Cameco, we're having off-market conversations with some of our best and largest customers about what it takes to support the operation of our Tier 1 assets longer-term. These customers are recognizing the risk that overreliance on finite sources of supply poses to the security of their supply longer-term, and they want first-mover advantage.

In light of the market access and trade policy issues affecting our market, they are increasingly looking for stable commercial suppliers with long-lived Tier 1 assets, and a proven operating track record, and there aren't many of us. As a result, you can see in the expected realized price sensitivity table in our MD&A that our average annual delivery volume over the next five years has increased. The terms of our recent contracting activity remain consistent with our overall portfolio goals. However, not surprisingly, for near-term deliveries, there is not much leverage to higher prices because it's still a buyer's market.

While price is a very important factor, we also must take into account who the customer is, the volume being contracted, duration, product form, and regional diversification. Also keep in mind, most of our long-term contracts don't start delivery for two to three years after we sign them.

Overall, including our 2019 deliveries, our total portfolio of sales commitments has increased by about 25 million pounds; the bulk of those commitments occurring after 2023, outside the range of the price sensitivity table. However, while this contracting activity is encouraging, make no mistake, there's still a long way to go before we decide to restart McArthur River/Key Lake.

The reason I say this is because, as I mentioned at the beginning of my remarks, the list of moving pieces in our industry continues to grow, creating uncertainty as market participants are trying to digest the implications of these changing dynamics.

I mentioned earlier, market access and trade policy issues. These are issues that may make the availability of supply where it is needed much less predictable. Of course, the most notable of these issues today is the investigation under Section 232 of the Trade Expansion Act in the United States, which has the largest fleet of nuclear reactors in the world.

On April 24, the Department of Commerce issued its confidential report to the President containing its findings and recommendations. The President now has up to 90 days to decide whether to concur with the DOC findings and what actions, if any, will be taken. Remember, we at Cameco are not a state-owned enterprise, and 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 the quickest to start producing. Of course, the U.S. will remain dependent on foreign supply to keep its reactors running.

As the largest commercial supplier of uranium, we can help them out there too. But until the President makes his decision and the potential impact, positive or negative, can be determined, it’s a moving piece affecting our market.

Another recent event that adds some uncertainty is the announcement on March 19 by the then-President of Kazakhstan, Nursultan Nazarbayev, that he was stepping down immediately. Speaker of the Senate, Kassym Tokayev, assumed the presidency, and subsequently called a snap election for June 9, 2019. I can tell you, with 45% of the world’s supply coming out of Kazakhstan, the leadership transition will be watched closely.

There’s still the uncertainty created by the May 31 expiry of Orano’s collective agreement with unionized employees at the McClean Lake mill where we send our Cigar Lake ore. With Cigar Lake supplying 18 million pounds of uranium, more than 10% of annual consumption, any labour disruption could create a significant swing in supply.

Then let's take a look at what happened in the spot market in the first quarter. In late March, we saw some motivated spot market selling from a number of market participants. It seems these players had built up a uranium position in anticipation of short-term demand in the market. However, they misread the timing of that demand. When it didn't materialize on the timeline they expected, they began to sell material into a very illiquid spot market, also drawing a few other sellers into the market. Yet, once the market had seemed to find a floor, we issued a request for proposal for a million pounds of uranium. Despite price signals to the contrary, we found there was not enough material to meet our specifications.

While there's no doubt we need to purchase material this year, let me be very clear: we will not be the buyer of last resort. Therefore, if we see this type of behaviour, our strategy dictates that we step back from our purchasing activity, and there's a very real possibility we could see this behaviour again. We are hearing that one of the Japanese utilities is looking to sell a modest amount of its inventory, less than 150,000 pounds per year for the next several years. While the volumes sound modest, and we have not seen a broader shift in Japanese utility behaviour, this selling could have an impact on market sentiment.

If you recall, on a previous call I talked about the parameters of our strategy. I discussed our behaviour in a scenario where there is a lot of supply in the spot market. In this scenario, we're buying uranium as cheaply as possible in order to maximize our gross profit, not assist others to achieve their profit targets.

Today, the market dynamics are changing due to a lot of moving pieces. However, what isn't changing is our commitment to our strategy. It's a deliberate strategy that allows us to respond to the changing market dynamics, and it puts long-term value ahead of quarterly results. We are a commercially-motivated supplier with a diversified portfolio of assets, including a Tier 1 production portfolio that is among the best in the world, and we have the ability to restart and expand these assets, should we see the right signals.

Keep in mind these would be among the first and lowest-cost pounds in the market. We believe we have the best global exploration portfolio and are the only producer in Canada with licensing, permitting, and operating experience, and a proven community development track record. Our decisions are deliberate, driven by the goal of increasing long-term shareholder value. Ultimately, our goal is to remain competitive and position the Company to maintain exposure to the rewards that will come from having low-cost supply to deliver into a strengthening market.

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

OPERATOR:

Certainly. We will now begin the question-and-answer session. In the interest of time, we ask you to limit your questions to one, with one supplemental. If you have additional questions, you are welcome to rejoin the queue. To join the question queue, you may press star, one on your telephone keypad. You will hear a tone acknowledging your request. If you are using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star, two. Webcast participants are welcome to click on the Submit Question tab near the top of the webcast frame and type their question. The Cameco Investor Relations team will follow up with you by email after the call. Once again, anyone on the conference call who wishes to ask a question, please press star, one at this time. We will pause for a moment as callers join the queue.

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

ANDREW WONG:

Hey, good morning—well, good afternoon, actually. Thank you for taking my question. Tim, I think I heard you on the prepared remarks say that the 19 million pounds guidance for purchases is more of a floor for this year. If that's the case, can you just talk about the volumes that you may have to purchase in addition to that this year, and maybe just go over some of the different scenarios that might play out and how that might affect the purchases?

TIM GITZEL:

Yes, Andrew, thanks for the question. It's still morning here in Saskatoon, so. Listen, we said 19 million to 21 million pounds, 19 million being a floor. I think we've taken delivery—I'm looking at, Grant, about seven million pounds so far. That's a bit commercially sensitive as to what our program is going forward, but I can tell you we've got a significant amount still to purchase of the 19 million to 21 million. I think we said 60% would come off the spot market, and that's without anything out of the ordinary—us deciding to build our inventory a little more, us going into our 2020 purchasing program and buying some of those pounds, which I'm pretty sure we'll do towards the end of the year.

Yes, that 19 million to 21 million is—the 19 million would be, I would say, the minimum that we'll be looking at taking this year.

ANDREW WONG:

Okay, so maybe a longer-term question here. On China, definitely they've started some of their reactor approvals, and you mentioned some of the comments that they made, six to eight reactors. Could you maybe talk about what kind of pace is realistic in terms of a target for, let's say, 2030, and then maybe more specific to Cameco, some of the trade disputes right now that are going on between Canada and China. Does that worry you in terms of some of the longer-term business potential there? Thanks.

TIM GITZEL:

Yes, thanks, Andrew. We're still very bullish on China. We always have been. I think they have 45 units running now; they've got another 11 that are under construction. That was a good piece of news that we've waited for for a long time when we heard they've got those two new complexes that they're starting to build on now, so it's game on again. I think they were affected like everyone else by a bit of the Fukushima bug. There was a bit of a slowdown.

Then it was that new technology, that first of a kind that they were building over there. They wanted to wait and see if they could get those up and running. These are their own indigenous, if you like, technology that they're building, so we know they're going to move forward with those.

Bullish on China; I think they've been shooting for 58 gigs by 2020—okay, they might miss it by a year or so, but clearly, they're carrying on. Grant and I were over there not too, too long ago, and they're very optimistic about their build-out to 2025, and to 2030 being within—that's not long from now, 10 years. They'll be the largest nuclear electricity producer in the world, by some margin at that point. We're hearing 120 gigawatt type things.

We watch the news every day that it comes out, we spend time over there. Are we watching the trade situation? Yes, we are, between Canada and China. So far, we've seen no business-to-business issues. We continue to deliver in, and we meet with them and talk to them regularly on a lot of different issues. We don't like it; we hope it gets resolved soon. We've been in touch with the acting Ambassador over there who we know very well. The recommendation is to carry on business as usual.

Andrew, we're watching it closely. We hope the Canada-China piece gets resolved real soon.

ANDREW WONG:

Great. Thank you very much.

TIM GITZEL:

Thank you.

OPERATOR:

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

GREGORY BARNES:

Yes, thank you. Tim or Grant, can you characterize the discussions you're having with utilities about these long-term potential contracts? These very early stage discussions, are we talking about base escalated contracts; was it 25 million pounds you've added beyond 2023, is that part of these discussions? How are these discussions coming together and where are they leading?

TIM GITZEL:

Greg, I'll just open and then turn it over to Grant, and Grant, you can talk about it. You're directly involved.

I would just say, we've talked about this in the past, and we've had some parameters that we've set out, that any contract we enter into would have to meet, and we want downside protection on them and want some exposure to the upside. You've seen us—we've mentioned a few of those in the past. So these would fit in that wheelhouse, and we're encouraged that we're seeing some of our biggest and best customers come forward.

Now, looking—I say this in the context of—and I've said this before, and I'm a bit of a broken record or a CD on this one, is that I'm concerned in the next decade about where the uranium's going to come from if the Chinese are on and the Indians continue to build—South Koreans are building units. We're going to need some more uranium. That's the context for the next decade.

Grant, do you want to talk about some of the terms around which we're prepared to contract?

GRANT ISAAC:

Yes, I'm happy to do that. The best example of this type of activity, Greg, was actually our 2017 announcement about Bruce Power. That was an example of a big customer, a large fleet, wanted a reliable supplier coming off-market and having a conversation, and coming to terms that were acceptable to us, acceptable to them, as they need to be. We say, going forward, that we really feel that this is going to be an incumbent's recovery. When you're in a market where demand has now recovered from pre-Fukushima levels, you have a wedge of uncommitted requirements that is quite significant, and idle Tier 1 capacity, no surprise that customers are talking to those that have Tier 1 capacity about their needs going forward.

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Interestingly, from our perspective, the term market is starting to feel more constructive. In the past, having customers come to us off-market at the early stages of a term contracting cycle is a leading indicator that maybe the views about future supply are starting to change. They come to us to talk about our role in their portfolio. Obviously, it's a buyer's market; these are folks that are smart enough to understand there's a first-mover advantage to show up early. Like Bruce Power, we've had some other opportunities to make those commitments going forward.

Now, they're outside the range of that price sensitivity table, by and large, but certainly speak to the interest in that term contracting window out into the future, and really the uncovered requirements. Certainly, I think we can confidently say, more to come.

We have been successful in locking in new sales commitments that are acceptable to us, and remember, we think about this on an overall portfolio basis. Customers themselves very rarely want either 100% base escalated or 100% market-related. Long-term contracts are often some blend of the two, depending on the needs of the particular utility. To the extent that the expected value of any one contract can meet our needs, that's an important criteria for us.

Then of course, we then look at each of these contracts in our overall portfolio to make sure we're meeting our portfolio needs of having downside protection and having market leverage. You can be assured that if we're adding volumes to our committed sales, then that means we're finding those acceptable ranges.

There are a number of criteria we look at, and obviously price is very, very important to us, and the pricing mechanism, whether it's market-related, base escalated, and what those are set at, is very important to us. But there are a number of other things that matter to us, and you always have to keep that in mind as we think about committing our future production.

Number one is, beyond price, is customer quality. We've seen, since Fukushima, that not all customers are created the same. Some are happy to honour the contracts they've signed, and others, quite frankly, look to wiggle out of the commitments that they've made, and the most notable there is TEPCO. Obviously, not every customer is created the same, so customer quality matters to us, because you need that quality base in your portfolio.

Regional diversification matters to us. There are times in our market where some regions drive the contracting agenda more than others, but we always look to be relatively balanced. Imagine if we had been over-exposed to Japan. That would have been very difficult for us. But we had regional diversification criteria back then, we have regional diversification criteria going forward. The tenor of the contract, the product form that the customer is looking for; all of that is taken together and really comes into this basket of what is acceptable to us.

From our eyes, things are starting to feel a bit more constructive in the term space. We're seeing that demand window opening up, and if history repeats itself, that demand begets demand. Others see that commitments are being layered in, and Tier 1 production's being spoken for, and then that creates a desire for others to say, hey, we want to get in on some of that.

Greg, probably a much longer answer than you wanted, but that's the framework that we approach these types of opportunities with.

GREGORY BARNES:
You were well-prepared for the question, Grant, no question. Just a follow-on, with the recent Technical Report from McArthur, the cash cost came down pretty significantly, by about CAD$4 a pound. Obviously, Cigar is low cost. You've said in the past that you were looking for a price in these long-term contracts of US$40 plus. Has that hurdle rate come down for you? Are you looking—could you be acceptable at a lower price than that $40 mark?

TIM GITZEL:
I don't think we've changed our view on that, Greg. We're certainly delighted that the life of mine operating cost, I think, at McArthur, were $19, $23, Brian, and they're under $15, I think they're $14.97. I can tell you, we're not finished with those—Canadian, yes. We're not finished with that either. Now, we think we've got a wonderful opportunity, while we're down, to see where else we can shave some pennies off the cost.

That continues; I don't think our target has changed as far as long-term contracting goes.

GRANT ISAAC:

Yes, one of the dimensions to add to that, Greg, is that when we look at the pricing dynamic, let's not forget that we're looking at a uranium price today that's based upon surplus disposal in the spot market. It's not based on the fundamentals, and the fundamentals should be based upon what is the price required to get an acceptable return on at least Tier 1 production? The fact that you have Tier 1 producers putting assets in care and maintenance and turning down production tells you very clearly that we're not there yet.

Because we're not there yet, it gives us a little bit of, I would say, optimism that we don't have to settle for these prices. These prices don't make sense from a fundamental point of view, as evidenced by the supply decisions that are being made by us and Kazatomprom and others. It hasn't changed our view that there's a target out there that makes sense for our assets, makes sense for our owners, and now is not the time to settle.

GREGORY BARNES:

Thank you.

TIM GITZEL:

Thanks, Greg.

OPERATOR:

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

TIM GITZEL:

Oscar, are you there? Operator, we can't seem to hear Oscar.

OPERATOR:

All right. Our next question comes from Lawson Winder. Please go ahead.

LAWSON WINDER:

Hi, thanks for taking the question. If I could just follow-up again on the 25 million pounds of contracting you guys did during the quarter—well, first, was it actually in the quarter, or is that something that happened post the quarter? Then second, just more strategically, if those—

those type of contracts, if they were to be available in large, or much larger volumes than the 25 million pounds that you've already contracted, are these the type of contracts that could lead you to restart McArthur?

TIM GITZEL:

Well, Lawson, those contracts, as you know, they take a long time. We've been probably working on them for months if not longer, and they were just mature enough for us in the quarter to report them and put them in our stack. I can tell you there are other ones that we're working on now as well.

We're watching. We're watching to see how much comes, and as Grant just described, those are our parameters for looking at new business. If it comes our way, we'll look hard at it. Our goal for McArthur/Key, we've said it from the start, is not to put material into an oversupplied spot market, it's to—we want to refill our contract portfolio, like we're doing now, to a point where we're comfortable that, when we do restart McArthur/Key, that we're putting those pounds into contracts over the next—I can tell you we're not going to start up and shut down again. That is not fun.

We want to make sure that our portfolio's in good shape, and as you saw, we've added it to it now. We've got some more work to do on that, but we're optimistic about where we're going. We see, as Grant uses the word "constructive", we see the term market as being constructive.

LAWSON WINDER:

Okay, so, if I'm hearing you correctly, then—I mean, the terms of those contracts are very satisfactory, it's just you need them in size before justifying or even considering a restart.

TIM GITZEL:

Yes, that'd be correct.

LAWSON WINDER:

Okay, no, that's great. Thanks for taking the question, guys.

TIM GITZEL:

Yes, thanks, Lawson. Nice to talk to you.

OPERATOR:

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

OSCAR CABRERA:

Thank you, Operator, and good morning and good afternoon, everyone, let's give it another try. I'm technologically challenged here. I'm just wondering if you would be able to disclose the region where these additional 25 million pounds came from?

TIM GITZEL:

Yes, Oscar, unfortunately our contracts don't allow us to disclose that. We disclose where we can, and Grant mentioned the Bruce Power contract. But on these ones, the customers—and because, probably, they're off-market deals, they're there for a reason. They don't really want to know—they don't want others to know what they're up to, so we can't disclose that.

OSCAR CABRERA:

Okay, no, that's understandable, thank you. If I may follow-up with a question on Section 232, the way I understand it, the smaller producers in the U.S. are looking for quotas for 25% of consumption in the U.S., which is about 45 million pounds, so 11 million pounds.

Can you remind me what your capacity in the U.S. is, or could go to, and the price levels that you would need there to satisfy your returns that you talked about?

TIM GITZEL:

That's a great question, we thought the 232 would come up because it's certainly top of mind for everyone, and it's put a bit of paralysis, I think, on the market. I think, I look around the table at my team here, I think we've never spent more time in Washington than we have in the last six months. Just as to where it's at, the Department of Commerce recommendation was handed through the door to the White House on the 14th of April. That was 16 days ago; they have 90 days to respond, or 73 or 74 days away. I think in the other cases it took about 45 days or 50 days. That's moving, and we will have an answer on that, as we say, in the next couple months. Everyone's waiting to see that.

As for our facilities down in the U.S., we believe we could ramp up to about five million pounds of production per year. It's going to take us some time. We would have to get the green light, and that green light would have to be a lot of assurances on CapEx and prices that we could make a good margin over a period of time, because—it's going to be interesting, because it's going to take some months, even years, to get up to production. If the policy changes, you don't want to be left holding the bag on that one. It's really going to be an interesting dynamic as to how it plays out, but Brian and I were just talking before, and he says we think five million pounds is where we can get up to over several years, and if it goes that direction, and the President of the United States decides that a certain amount, whatever it is, comes out of the U.S., that's where we'd be prepared to go.

We're happy; we've got good assets down there. We had them running, but we just couldn't sustain them in a $20 market. I think if you talked a $50 or $60 market, you might have a different story from us.

OSCAR CABRERA:
Okay, that's great, Tim. Thanks very much.

TIM GITZEL:
Thank you, Oscar.

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

OREST WOWKODAW:
Hi, just following up again on the 25 million of new contracts, long-term. Can we assume these were done at terms that are above kind of the current reported market terms in the market of—which I think is still around a $32 term price? I'm curious why we haven't seen any movement on the market term, if you're starting to see contracts signed at higher levels. Any help would be appreciated.

TIM GITZEL:

Thanks, Orest. I'll ask Grant to take that one.

GRANT ISAAC:

You can assume that they are acceptable contracts within the framework that we've outlined, and that's unfortunately about as far as I can go on that one. As it pertains to the overall term market and the term price reporting, I mean, that's obviously a question for the reporters, and you're obviously welcome to ask them that one.

But perhaps one of the reasons is, there's been base escalated business in the market, 100% base escalated. That's not business we're particularly interested in, nor are we chasing. I would say that others must be. We must be seeing some producers, or intermediaries, chasing some of that 100% base escalated business, and perhaps chasing it at rates that are below the posted price. Maybe, as everything washes out, the term price stays where it is; I'm speculating, but there is some business we haven't pursued because it hasn't been acceptable to us, but it appears others have.

OREST WOWKODAW:

Okay. Then you made a comment earlier about putting in a request to buy a million pounds on the market, but you couldn't find enough material that met your specifications. Can you maybe elaborate on that? Is that because you're only looking for your own produced material on the market, or is it a quality issue? What's the issue?

GRANT ISAAC:

Oh, okay. It's a great question, and sorry for leaving it vague. When we put an RFP into the market, we do put some parameters around it. Remember, our goal is to buy uranium as cheaply as possible, but to buy it from the spot market, to buy from the pool of stuff that's already above the surface of the earth, this apparently infinite pool of material that people say is out there that we don't seem to see. But we target the spot market, which means we have very tight time parameters on our RFPs because we don't want to encourage a primary producer to produce to meet our demand, that wouldn't make very much sense. One of the specifications is time.

Another specification is product form. As we look at our needs for material, we might have a preference for U_3O_8, or we might have a preference for UF_6 at various times, so product form is the second specification, and location. Where is the material sitting at? Is it at our facility, is it at somebody else's facility? Those would be the three main specifications in an RFP, and quite frankly, when we went into a market that had sloughed off pretty good through March, which would have suggested that material was everywhere, we couldn't meet those specifications.

Just in terms of an order of magnitude, we were undersubscribed, and the stuff that actually met our specification was less than half of what we were asking for. It was a bit of a counterintuitive result, given what had just happened in the market. We'll continue to buy, sometimes on market through RFPs, sometimes through the broker, sometimes off-market. That'll just be the package and the approach we continue to use, but Orest, those would be our specifications.

OREST WOWKODAW:
Okay, thanks. It doesn't have to be your own produced material; it could be from anywhere?

GRANT ISAAC:
Yes, absolutely not because our own produced material is getting scarcer and scarcer.

OREST WOWKODAW:
Okay. Thank you.

TIM GITZEL:
Thank you.

OPERATOR:
Our next question is from John Tumazos from John Tumazos Very Independent Research. Please go ahead.

JOHN TUMAZOS:
Tim, I was studying some German electricity data that showed that 59% of their installed capacity is renewable using the green definition; it doesn't count nuclear. Germany has a pretty robust manufacturing economy. It would appear as though renewable fuels have gotten awful

cheap. They're number one and twos are wind and solar. How high can uranium prices rebound before solar and wind are systematically cheaper?

TIM GITZEL:

John, that's an interesting question, and we could probably opine on that for a couple hours. But you need a mix. Wind and solar, as I said in my comments, are necessary. We like them, but we also know that they run at about 20% or 30% capacity, so you are not going to be running the German economy on only wind and solar. You need a complementary, if you like, technology that helps those along, and we think there's a great story here.

Wind and solar, as their costs come down, as the subsidies go away, as they become more efficient and maybe you can store the energy, you're going to need something that goes with them that's green. I was saying to this crowd, see if you can go one day without hearing the word climate change, the phrase, anymore. It's on the table.

We think it's nuclear, and wind and solar, can go together. I'm not sure what Germany's strategy is, quite frankly. I think they're one of the biggest coal burners in Europe. I think their emissions have not gone down. They're gone way up. We know they import good nuclear electricity from their neighbours in France, so their strategy is a bit perplexing. It's a very political strategy.

We know they have—I think there's still nine units running there. I was over in Russia a week or so ago and they were talking about the future, and for the first time, I heard that they may have to rethink what they're going to do with those plants going forward, but it's too early to say.

That's a long answer to a real complicated question, John.

JOHN TUMAZOS:

It surprised me, Tim, because the German profile supports the AOC Green Deal position that some of us make fun of in America.

TIM GITZEL:

Yes, no, that's true. I don't know. We'll wait to see whether…

JOHN TUMAZOS:

I’m trying to figure it out myself.

TIM GITZEL:

Yes, yes. Okay, figure it out and let us know. We’d appreciate that.

JOHN TUMAZOS:

Thank you.

TIM GITZEL:

Thanks.

OPERATOR:

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

GREGORY BARNES:

Thanks again. Just on the Section 232 again, assuming we get some kind of decision within the relatively near-term, whether it be tariffs, quotas, or nothing, is there a case to be made that it really has very little bearing on how the market reacts? I know the narrative has been that that should unlock a lot of long-term contracting demand, but I’m not sure I’m feeling that same pressure on the market, frankly.

TIM GITZEL:

That’s a good question, Greg. We have that debate here as well, what effect, and it really—we’re trying to get any intelligence or information we can as to which way they’re leaning on that, tariffs or quotas or nothing. It’ll really depend what they come out with, I think.

It’s just so hard to say right now what the reaction will be. What we do worry about a little bit is that—and we’re in a unique position because we’ve got assets in many different locations, the U.S., Canada, and around the world. But if they do put a quota of U.S. production, we’d be happy to go after that, but will the other producers stop producing around the world, and will that lead to a bit of a two-tier pricing system in the U.S. and everything else because there’ll be more material available outside of the U.S.?

Really hard to say what it's going to look like until we see it.

GREGORY BARNES:

Yes, I was just reading some of the narrative from UX. Their survey seems to suggest utilities have not actually been that impacted by worrying about the Section 232 outcome, and it hasn't impacted their buying decisions and contracting decisions. Do you agree with that?

TIM GITZEL:

Grant, do you want to…

GRANT ISAAC:

Yes, well, Greg, we know that it's the number one topic with our customers south of the border. I mean, we spend a lot of time talking to them about it and talking about what it might mean for their procurement programs. The scenarios that you outlined, and no policy option, well of course, that's probably—then we're in the market we're in right now, where there still is this surplus disposal happening in the spot market, and that has to be cleaned up before there's a transition.

A tariff world that actually doesn't have a quota for U.S. origin, well, that's just a tax on U.S. power production—you'll still have the supplies coming in, the vast majority of supplies coming in from the rest of the world into the U.S., just at a higher price. That's just a simple tax.

The quota one, though, is interesting because, if it is a quota, and it is required that the U.S. utilities are buying U.S. origin material, it by and large doesn't exist today. That, by definition, will have to start a cycle of contracting to at least get that stuff out of the ground, to get those projects going forward. In our business, contracting begets contracting. If we start to see that kind of activity, we do expect that it is going to create a bit of a procurement cycle. I think the quota scenario is different than the other two, but we'll just have to wait and see. We don't know what the U.S. is going to decide.

GREGORY BARNES:

But if the quota is relatively de minimis, let's say it's 10% of the demand, that wouldn't really have that much of an impact on the market, I wouldn't think. Would you?

TIMOTHY GITZEL:

Probably not, Greg, probably not if it's just a minor amount, but will that satisfy anybody—it certainly won't, probably, satisfy the petitioners, I wouldn't think. It's a good question.

GREGORY BARNES:

Okay, thank you.

TIM GITZEL:

Thank you.

OPERATOR:

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

FAI LEE:

Thank you. I just want to clarify something; Tim, you mentioned that about 60% of your purchases of the 19 million to 21 million that you're planning to purchase this year will be coming from the spot market, but Grant also mentioned that the RFP that you put out for one million, only about half was filled, I think. I'm just wondering, how firm is that 60%? I know you said you've locked in some of it, but you still have some to do, so just trying to understand that.

TIM GITZEL:

Yes, that'd be about 60%. We have lots of options as to where we source the material and how we get it, so that was just what our thinking is, and where we expect it'll be.

FAI LEE:

You're confident on the 60%, even though the RFP you just did wasn't completely filled?

GRANT ISAAC:

Just to clarify, are you asking if we're worried that we can't find 60% of the material this year in the spot market?

FAI LEE:

Well, it's more, is that 60%—can we find out at the end of the year that it's going to be lower, given the results of your RFP?

GRANT ISAAC:

It's not going to be lower because our sales commitments aren't going down. They may, in fact, go up. If our sales commitments go up—so if we find opportunities to place material, either in-year 2019 or earlier into the first half of 2020, and material that we would need to buy to deliver into, well, that's going to have more purchasing in the market.

If we start to get nervous about our inventory position, and you can imagine, when we put out an RFP for a million pounds, and it's undersubscribed, we then wonder, do we have the right inventory position? Do we need to hold a little bit more in order to meet our committed sales? Of course, that has the counterintuitive result that it will require us to buy more material, so there would be even more purchases on top of that.

Then obviously, one of the risks that we flagged for this year is, perhaps, an unplanned production disruption, if there is a labour event at Cigar Lake. We're not planning on it, we don't expect one, but if the jet mill is shut down because of a labour disruption and Cigar Lake isn't sending material there, then that's going to even create more purchases. There's a lot of variables that could affect it, but it won't be less. Really, by definition, it can only be more.

TIM GITZEL:

Yes, that's right.

FAI LEE:

Okay, all right. Thanks.

TIM GITZEL:

Thanks, Fai.

OPERATOR:

Our next question is from Jim Ostroff with Platts Nuclear Publications. Please go ahead.

JIM OSTROFF:

Hi, Tim, two very brief questions. One, you had talked about a situation, perhaps within 10 years, where there is a substantial increase in the need for uranium. I wonder if you could give us, I would call it a back of the napkin estimate here, as to—well, potentially, Cameco's ability to increase production, assuming the price signals are there. But you might say, 10 years hence, what you think the Company may be able to produce on some annual basis?

TIM GITZEL:

Yes, Jim, thanks for that. It's a real interesting position. We think about it all the time because things in our world don't move particularly quickly. If you want to bring on a new mine 10 years from now, you should probably be starting now. As you look around the world, that's not happening anywhere. The capital's completely dried up. The world right now doesn't need it; we need to get our existing production, Tier 1 production, back online. That's the first stuff that's going to come back online.

We know we have McArthur sitting that we could take to 25, we know that Kazakh's have some room to increase, our partners Orano are with us, of course. Then there's money—or sorry, pounds tied up in some of these funds that, at the right price and conditions, will come back onto the market.

That's the first stuff that's going to come back. Obviously, we want to hold our market share going forward, and increase it. We'll be watching that. That's why we're trying to line up these long-term contracts with our great customers into the next decade, well into the next decade. I would just say we've got lots of options. We've got a nice project that we just got approval for over in Australia, that—Brian Reilly's sitting here, that we were very happy to get that approval. That gives us optionality going forward.

I would just say we will want to, in a growing market, hold our market share and obviously look to increase it.

JIM OSTROFF:

Right. One other here, if I could. I'd ask for some help on this final question, help on the math. You had mentioned here that Cameco was looking, at least right now, this point in time, in buying 19 million to 21 million pounds material this year, and taken delivery of seven million pounds, and say that about 60% of what is purchased will be on the spot market. Let me just say, I did the math, and given the seven million purchased so far, with that 60% range, that would indicate, I think, that Cameco would need—as of now, and with no change going forward, that Cameco would need to buy 4.4 million to 5.6 million pounds over the balance of this year. Is that within the ballpark?

TIM GITZEL:

That'd be a bit commercially sensitive. I would just say that we have the spot market that we'll be looking for, off-market requests, or public RFPs. We've got production coming out of Inkai. It'll be a combination of those pieces. We don't want to get too specific on that…

JIM OSTROFF:

Right.

TIM GITZEL:

…if we can, Jim. I think those numbers that we gave, 19 million to 21 million, 19 million being the minimum as Grant just explained. To the end of the queue, we've picked up about—we've had delivered about seven million pounds of that.

JIM OSTROFF:

I'm sorry, if I could. You purchased seven million so far, that's sort of a critical point, is …

TIM GITZEL:

No, we have delivered—we've received deliveries, we have purchased more.

JIM OSTROFF:

Okay, so received deliveries of seven million pounds so far.

TIM GITZEL:

That's right.

JIM OSTROFF:

Okay, that is fine. Thank you all. Appreciate it.

TIM GITZEL:

Yes, thanks, Jim.

OPERATOR:

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

ANDREW WONG:

Hi, thanks for the follow-up. I just want to ask about some of the other uranium prices, like SWU and conversion prices. We've seen a pickup in SWU prices, and conversion prices seem to continue to—actually, looking quite healthy. What should we be reading into with those trends, and I mean, just in general, have you seen any changes in the secondary supply?

TIM GITZEL:

Grant, do you want to talk about—conversion especially has been interesting.

GRANT ISAAC:

Yes, conversion's been a very interesting case, and we hope, quite frankly, it's an analogue for uranium in that conversion is up because capacity is down. You had a situation where, if you go back to 2014, the Springfields facility came offline, and then you've got a facility in the U.S. shut down, the Metropolis facility that ConverDyn markets the material for. You have Orano transitioning to a new plant, so basically, lo and behold, you have one fully operating conversion producer, and that's us, Cameco. The market has reacted accordingly.

Now, obviously, some capacity can come back online just like it can in the uranium space with idle capacity, but the market is reflecting the need to incent that conversion. That's been an interesting space and probably will continue to be an interesting space.

The pricing dynamic on SWU might actually be a completely different dynamic. There seems to be some transactions and some contracting underway, but whether that's because of a recovery of demand, or whether it's because those are lifeline contracts to keep SWU producers in business, we're just not sure. At the moment, the SWU market remains tough, so conversion is a bright light in the front-end. Uranium is still tough; the price isn't there yet, and the SWU price is still a bit tough.

Now, the second part of your question about secondary supplies, secondary supplies are still in the market. We have a primary short right now. Primary production is about 30 million less than demand right now, so we have a primary production short in the market, and the gap is being filled by drawing on savings accounts, by and large. This isn't all this secondary run rate material coming in to fill it, it's—customers are drawing on one-time, finite volumes. When you consume them, they're not backed up by productive capacity, and they don't get replaced. There's enough of it right now that it's continuing to put pressure on the market, it's continuing to discover a spot price that's about surplus disposal as opposed to an incentive price for primary production, and the market just has to work through that.

In terms of the underfeed, we're not seeing the underfeed as a big competitive pressure in the spot market. We know that underfeed was sold into midterm and some longer-term contracts as part of SWU contracts, so that was the uranium that went into SWU, and that seems to be where it's going. We're not confronted with this big volume that seems to be coming from the enrichers.

I think the spot market dynamic is less a secondary supplier and underfeed story and more a—the world's just drawing on the savings account of uranium and not incenting that to be replenished. Of course, you can do that for a while, but you can't escape the laws of supply and demand forever.

ANDREW WONG:
Okay, great. Thanks for that colour.

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

OREST WOWKODAW:

Hi, thanks for the follow-up. I'm just curious if you could give us an update on the TEPCO arbitration, and when you might anticipate a ruling there?

TIM GITZEL:

Yes, thanks, Orest. We have Sean Quinn just waiting to answer that question.

SEAN QUINN:

Sure, thanks, Orest. Yes, the hearing was back in January and wrapped up, as you know. Final arguments have been submitted during the course of April. There are a couple of additional filings that the parties have to exchange with the arbitrators on costs, and then it's just over to the arbitrators to make their decision. We are hopeful of getting that decision before the end of this year.

OREST WOWKODAW:

Okay, thank you. Then just shifting gears to the CRA, I'm just curious if we have any visibility yet on when you might recover the $300 million of cash that's sitting with the CRA and, unfortunately, whether you think the appeals process has to run full course, or whether there's opportunity to get that cash earlier?

SEAN QUINN:

I'll turn this over to Grant, too, to see if he has a view, but right now, I think we're on course to let the appeals process run its course before we can count on seeing any of that cash returned.

GRANT ISAAC:

Yes, I don't have a different view.

TIM GITZEL:

That's our view at the moment.

GRANT ISAAC:

I have a preference, but not a different view.

OREST WOWKODAW:

Yes, okay, thanks, guys.

TIM GITZEL:

Thank you.

OPERATOR:

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

TIM GITZEL:

Thank you, Operator. With that, I just want to say thanks to everybody who's been with us on the call today. We certainly always appreciate your interest and support. As a commercial supplier with a strong balance sheet, long-lived Tier 1 assets and a proven operating track record, we at Cameco believe we're well-positioned to respond to changing market dynamics and benefit from the long-term growth driven by the need for clean, baseload electricity.

With that, I say thanks again for joining us, and have a great day.