



Cameco Corporation

2019 Fourth Quarter Results Conference Call

Transcript

Date: February 7, 2020

Time: 8:00 AM ET

Presenter: **Timothy Gitzel**
President and Chief Executive Officer

Grant Isaac
Senior Vice President and Chief Financial Officer

Rachelle Girard
Vice President, Investor Relations

Sean Quinn
Senior Vice President, Chief Legal Officer and Corporate Secretary

Brian Reilly
Senior Vice President and Chief Operating Officer



OPERATOR:

Welcome to the Cameco Corporation Fourth 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, 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 of Investor Relations. Please go ahead, Ms. Girard.

RACHELLE GIRARD:

Thank you, Operator, and good day, everyone. Thanks for joining us.

Welcome to Cameco's Fourth 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'll 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, 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 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. 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.

Forward-Looking Information Caution

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

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

With that, I will turn it over to Tim.

TIMOTHY GITZEL:

Well, thank you, Rachelle, and welcome to everyone on the call today. We appreciate you taking the time to join us.

Happy New Year, everyone, hard to believe another year has come and gone. In fact, we're into a new decade.

Right vision and strategy


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- Our Vision is aligned with world's growing need for carbon-free energy
- Nuclear power can help avoid some of the worst consequences of climate change
- Our Strategy is successfully positioning Cameco to achieve our Vision


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Despite the challenges the nuclear industry faced in the previous decade, we continue to believe we have the right vision and strategy for our Company.

Just why do we think we have the right vision and strategy? First, it's because our vision, which is to energize a clean air world, is clearly aligned with the world's growing demand for energy, while helping to avoid some of the worst consequences of climate change. Second, it's because our strategy of production discipline, marketing discipline, and patient balance sheet management is working.

A presentation slide with a dark blue header and a light blue background. The header contains the text "Strategy is working" in white, with "Highlights:" below it. A white arrow points left. The Cameco logo and tagline "Energizing a clean-air world" are in the top right. A bulleted list of four items is centered on the slide. At the bottom, the text "We remain committed to our strategy" is displayed in blue. The footer contains "Cameco - Q4 2019 Conference Call" and the number "4".

Strategy is working
Highlights:

- Added 36 million pounds to contract portfolio
- More than \$1 billion in cash
- Negative net-debt
- Other industry segments transitioning

We remain committed to our strategy

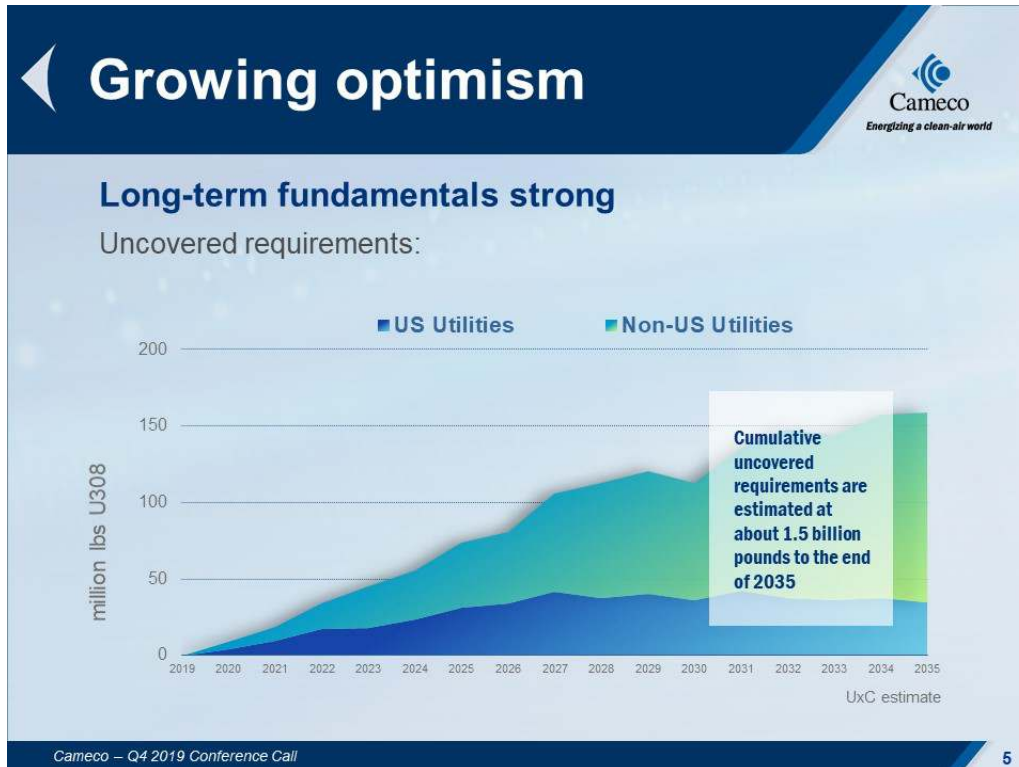
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In 2019, we achieved replacement rate term contracting of 36 million pounds, and we begin 2020 with over \$1 billion in cash, and negative net debt. Also important is that, over the past number of months, we are seeing the other segments of our industry transitioning. As a result, we remain committed to our strategy.

I want to remind you of the long-term fundamentals in our industry because they are central to both our vision and our strategy. I think it's an important reminder because, as I read analyst and trade reports, and watch the resulting day-to-day volatility, I fear people are losing sight of



the very positive long-term fundamentals for our industry, as they are caught up in the short-term noise. Our Board and our stakeholders, including employees, communities, customers, governments, and shareholders, expect us to manage this Company in a long-term, sustainable fashion. We can't and we won't get distracted by the noise, and we can't and won't lose sight of the underlying long-term fundamentals in our industry.



The fundamentals are really quite simple: demand is on an upswing, and utilities have a growing wedge of uncovered requirements, precisely at the same time that supply is on a downswing, and today's prices are insufficient to reverse this trend. Our optimism and confidence in the uranium market transition is growing. I'll talk more about this later, but first I want to review our strategy.




Our strategy is to take advantage of the long-term growth we see coming by focusing on our Tier 1 assets. It's designed to add long-term value. We've taken a three-prong approach in the execution of our strategy: operational, marketing, and financial. We have cut production far below our committed sales, which requires we purchase material in order to fulfill those commitments, and we have strengthened our balance sheet to ensure we have the financial capacity to execute on our strategy and self-manage risk.

Why is this our strategy? It's because we're optimistic about the drivers of long-term growth in our industry. There is increasing recognition by policymakers and some environmental groups that nuclear power will be an indispensable tool for addressing what is being referred to by many as the climate change crisis. We recognize that today's low price is creating tomorrow's opportunity for us. The fact that we have Tier 1 production shut down tells us this market needs to transition to ensure those pounds will be available to fuel growing demand. The market needs to transition to one where price is set by the production cost curve.

Let's talk more specifically about our strategic actions, including our spot market purchases. First, let me be clear, we continue to do what we said we would do.

Strategy execution:
Operations

Strategic reduction



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Our operational decision to reduce production well below our committed delivery volumes requires us to be active on the demand side. In other words, we have to purchase material on the spot market.

There's a lot of speculation, and in fact, some scepticism and criticism about our activity in the spot market, as some market participants try to capitalize on our need to buy material. This speculation, scepticism, and criticism won't deter us. We won't disclose exactly when and how much we're going to purchase annually. Why? To allow us to be more flexible and nimble in the market, and to allow us to capture more gross margin.

Strategy execution:
Marketing



Strategic Variables:



Goal:

To buy as cheaply as possible to maximize gross profit

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Although we won't tell you exact volumes and timing of our purchases, we will share with you the purchasing framework we're using. Remember, our goal is to buy as cheaply as possible in order to maximize our gross profit. This means we have to adjust our purchasing activity to what we see in the market. Let me use 2019 to illustrate.

Strategy execution:
Marketing



Responsibly managing our supply to meet our sales commitments:

Cameco's market activity

- Sourced from long-term commitments, JV Inkai and spot market
- 19 million pounds of purchases in 2019
- Inventory draw down



Purchases
19
million pounds
(2019)

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In 2019, we said we planned to purchase a total of between 21 million and 23 million pounds to meet our deliveries and maintain our desired inventory. Not all of this purchasing was spot material, but a large portion of it was. In total, we purchased 19 million pounds of uranium, more than double what we produced, but a bit lower than the outlook we provided.

Given we made all of our delivery commitments, you may wonder how we bought less than planned. Well, we drew down our inventory. Why did we wait to buy some material and temporarily draw down on our working inventory? Because it made sense to do that.

As I said earlier, we saw some signals in the market that required us to adjust our approach to purchasing. We are willing to be patient. If others want to go out and sweep the cupboards for material, we will let them bring it to the market, where we will buy it as cheaply as possible. This is entirely consistent with what we said we would do; that is, to responsibly manage our supply to meet our sales commitments. This has not changed the overall quantum of purchasing required, just the timing.

Let me be clear, neither does it represent a departure from our strategy. We have been upfront about the potential for variability in our sales volumes, our production, our purchases, and our inventory. These are planned departures from the outlook we provide because they make sense, and they benefit our margins. We will plan our activities to ensure we meet our delivery commitments, but they are not constrained by quarterly or annual deadlines.

We make business decisions based on our firsthand knowledge and experience. If we start to see end user demand in the spot market and signals point to more expensive pounds tomorrow, we will not only advance our purchasing activity, we may actually build a bit more inventory to ensure we have the material where we need it, when we need it, and in the right form.

Ultimately, with McArthur River/Key Lake on care and maintenance and production well below our sales commitments, we still have a lot more purchasing ahead of us than behind us.

◀
Strategy execution:
Financial


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Strong balance sheet and ability to self-manage risk:

- **Debt:** Retired \$500 million; \$1 billion outstanding
- **Revolving Credit Facility:** extended to November 2023 and reduced to \$1 billion
- **Cash position:** \$1.1 billion
- **CRA appeal hearing:** March 4, 2020



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We were also active on the financial front in 2019. In September, we retired \$500 million of debt, or one third of our debt outstanding. In addition, we extended the maturity date of our revolving credit facility to November 2023, while also reducing it by \$250 million. It now sits at \$1 billion and remains undrawn. As well, Inkai repaid its outstanding loan with us, and therefore, began distributing cash dividends. These two items added over US\$100 million to our cash balance.

As a result of the strategic actions we have taken, as I noted earlier, we have about \$1.1 billion in cash on our balance sheet. The debt on our balance sheet sits at about \$1 billion, with maturities in 2022, 2024, and 2042, so our balance sheet is strong. We have the financial resolve to execute on our strategy and the ability to self-manage risk, and we believe the risk related to our CRA tax case has diminished, based on the unequivocal ruling we received from the Tax Court in September of 2018, a decision we believe will be upheld on appeal. The appeal hearing has now been scheduled. It will be held on March 4 this year, 26 days from now.



We believe a decision to come from the Federal Court of Appeal this year. If we are successful on appeal, as we believe we will be, we'll be entitled to a refund of about \$5.5 million, and a payment of the cost award for the legal fees incurred of over \$10 million, plus disbursements of up to \$17.9 million.

Let me remind you, while the decision applies only to the tax years 2003, 2005, and 2006, we believe there is nothing in the decision that would warrant a materially different outcome for subsequent tax years. Therefore, if we can resolve the matter for all years being reassessed, there is about \$300 million of our cash and almost \$500 million in letters of credit that could eventually be freed up, which would further increase our financial capacity.

2020 financial outlook
* see slide 17 for assumptions used in this table



Expected contribution to gross profit	Consolidated 100%	Uranium 36%	Fuel services 64%
Production (owned and operated properties)	-	9.0 m lbs	13 to 14 m kgU
Purchases	-	20 to 22 m lbs	-
Sales/delivery volume	-	28 to 30 m lbs	12 to 13 m kgU
Revenue	\$1,480 - 1,630 m	\$1,120 - 1,210 m	\$340 - 370 m
Avg. realized price	-	\$40.90/lb	-
Avg. unit cost of sales (including D&A)	-	\$38.50 - 40.50/lb	\$19.70 - 20.70/kgU
Direct administration costs	\$110 - 120 m	-	-
Exploration costs	-	\$13 m	-
Expected loss on derivatives - ANE basis	\$0 - 10 m	-	-
Tax expense - ANE basis	\$20 - 30 m	-	-
Capital expenditures	\$120 m	-	-

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You'll see from our outlook for 2020 that, based on current uranium prices, committed delivery volumes, and our planned purchasing activity, from a gross margin perspective, 2020 could be a weaker year for us. This is a direct result of our deliberate value-oriented strategy. We have made some decisions, fully recognizing the cost in the near-term, because we expect, over the long-term, the benefits of those decisions will far outweigh the costs. It's why we've shored up our balance sheet. We have been unwilling to lock in contracts at today's low prices, and as a



result, our current committed sales volumes for 2020 are lower than the deliveries we made in 2019, and our average realized price is expected to be about 9% lower.

However, from a cash perspective, we expect to continue to generate solid cash flow. Exactly how much will depend on the timing and magnitude of our purchasing activity, which, as I previously noted, will depend on market dynamics. Therefore, our cash balances may fluctuate throughout the year, but we do expect to maintain a significant cash balance.

Our total planned purchases for the year are between 20 million and 22 million pounds. On the cost side, our average unit cost of sales is expected to be about the same in 2019. It continues to be impacted by the greater proportion of purchased material compared to production that will make up our supply, and the ongoing care and maintenance costs.

Our expected care and maintenance costs have increased compared to 2019. This is largely tied to an initiative we have underway at McArthur River and Key Lake. We plan to fully assess opportunities to improve operational effectiveness, including the use of digital and automation technologies. It makes sense to look at these opportunities now if it means we can substantially reduce operating costs and increase operational flexibility when it comes time to restart.

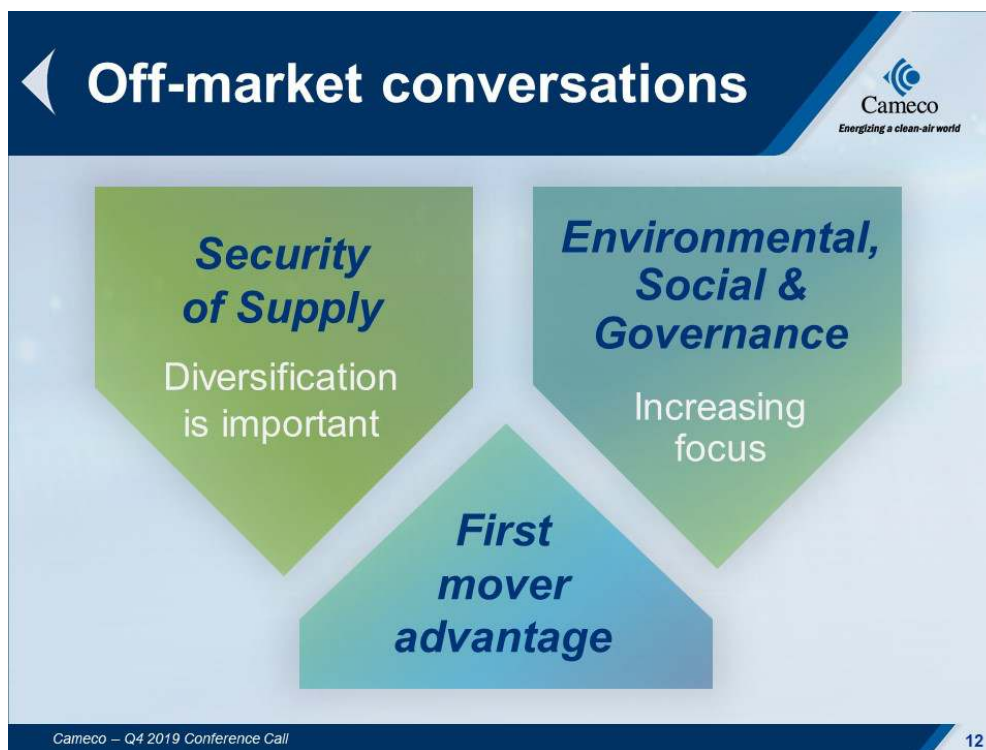
In our efforts to reduce cost, we will also look across the organization for these types of opportunities. Of course, we will rigorously assess any opportunities before an investment moves ahead.

Our planned capital expenditures in 2020 are up a bit compared to 2019 spending, but still in line with the guidance we provided last year. With our continued commitment to a clean environment, we will be investing more in the Vision in Motion project in Port Hope. While the Government of Canada's long-term waste management facility is available to us, we want to take advantage of the opportunity to engage in some clean-up and renewal activities that address the legacy waste that we inherited at Port Hope. In addition, we have rescheduled some of the expenditures we planned at Cigar Lake in 2019 to 2020.

I will also remind you that we report our results and outlook based on a calendar year basis at a point in time. However, as I pointed out earlier, you need to think about our sales, inventory,



purchases, and production all as variables, and shouldn't be surprised to see, as the year progresses, variances from the outlook we provided in our MD&A. We are not following a static recipe. We operate in a dynamic market, and we will adapt our activities accordingly.



We're confident in our ability to transition through this period and capture demand that will provide leverage to higher prices. The off-market conversations we're having with our biggest and best customers bolsters that confidence.

Our Tier 1 customers recognize the long-term fundamentals. They want access to long-lived Tier 1 production capacity from commercial suppliers who have a proven operating track record. They understand that, from a security of supply perspective, today's prices do not reflect production economics. They recognize the first-mover advantage gained from securing their future access to our Tier 1 pounds at the incentive price today, as opposed to where prices might be in the future.



Dynamic market:
Our competitive advantages

Idled tier-one capacity
Fully licensed and permitted

De-risk trade-policy exposure
Substantial Canadian productive capacity

Non state-owned enterprise
Reliable supply diversity for customers

ESG performance
Decades of integrating sustainability principles and practices

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We have some competitive advantages. We have significant idle Tier 1 capacity that's fully licensed and fully permitted that will be among the first pounds to meet growing demand in the market. We are an independent commercial supplier and provide our customers supply diversity from state-owned enterprises. With substantial Canadian productive capacity, we can help de-risk their future from trade policy exposure.

Emerging is the focus on ESG matters. Increasingly, utilities are required to ensure their suppliers adhere to more stringent environmental, social, and governance performance standards. I can tell you; this is great news for us.



We integrate sustainability principles and practices into all stages of our activities, from exploration to decommissioning. We have over 30 years of experience building a comprehensive program aimed at ensuring the support of the stakeholders with whom we work. It's not only to the benefit of our customers; since 100% of our products go to producing clean, carbon-free electricity, we are a growing part of the solution to the clean air and climate change crisis that the world is currently facing.



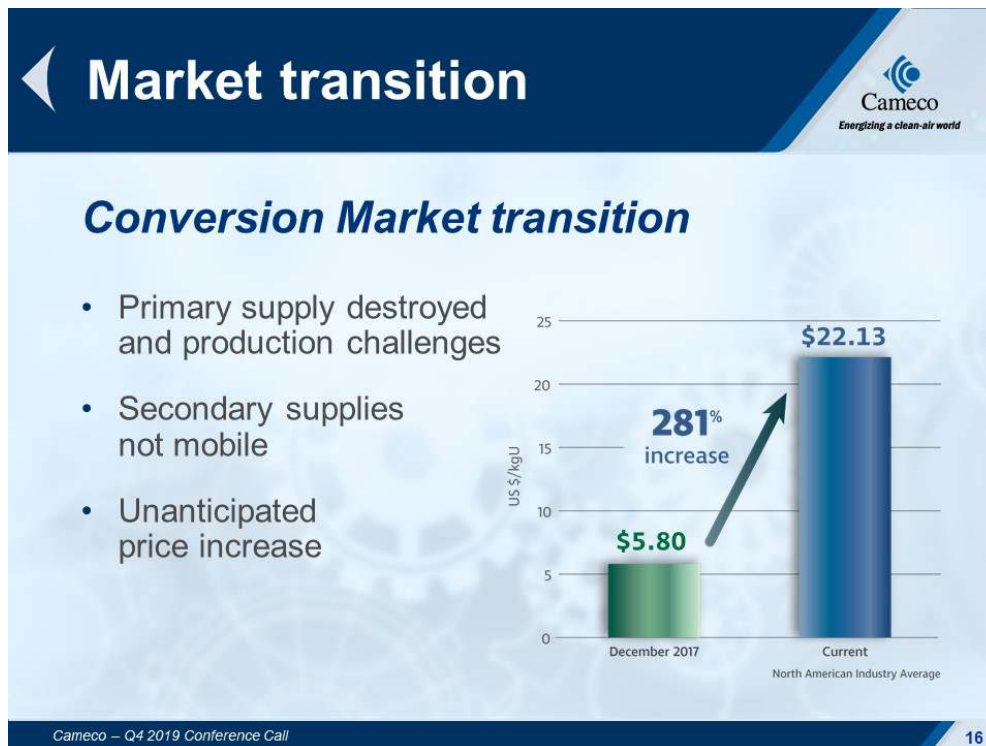


On the sales side, as I said at the outset, I'm pleased to report that, over the course of 2019 and to-date, we have placed just over 36 million pounds under acceptable new long-term contracts. That more than replaces the volumes we delivered in 2019. These contracts provide us with some downside protection while still maintaining exposure to improving prices and are expected to provide an acceptable rate of return on Tier 1 assets for our owners.

Let me be clear. We need more of them before a restart decision is made, but with more prospective business in the contracting pipeline than we've seen since 2011, we are confident those opportunities will come. We expect our conversations will lead to more contracts on the terms we need to support a restart decision. But keep in mind, the contracting process in our business is lengthy, so it may take this activity some time to show up in our committed volumes.

We've been in this business for a long time, and we understand the commitment it takes to deliver long-term value. Current market dynamics are not unfamiliar to us; we have seen them in past cycles. Price is set by the most desperate seller, which leads to productive capacity being replaced by one-time finite supply. This is not sustainable.

We've seen three different reports, WNA, UxC, and TradeTech, all of which point to the growing uncertainty of uranium supply. These reports all recognize that current uranium prices are putting future supply availability at risk. Today, we believe the market is failing to send the appropriate price signals. As a result, we've seen a substantial loss in productive capacity that is not being replaced. We've seen the deferral of substantial productive capacity, and we've seen significant destocking. In fact, UxC's latest analysis shows that most utilities are at or below desired inventory levels.



We need only look to the conversion market to see the implication of these types of faulty price signals. The conversion price dropped so low, it destroyed primary supply, and reliance on finite secondary supply has increased. No one was concerned because we were hearing reports of large inventories, many of which are in the form of UF6.

Then the market encountered some production challenges. While it turns out that it's not the volume of inventory that's important, it's the mobility of that inventory, and in conversion, the higher the price went, the less mobile the inventories became. At the end of 2017, the spot

conversion price was about US\$6 per KgU. Today, it's over US\$20 per KgU, an increase even the trade reporters never anticipated.

As in conversion, it's the end users who will bear the risk of the faulty price signals. The longer the transition takes, the longer it is before the decision to restart idle Tier 1 and Tier 2 production is made. The longer those decisions take, the greater the potential there is for delays in start-up plans and schedules, and if it doesn't make sense to restart existing production capacity, it



certainly isn't rational to invest in new greenfield capacity, which means those projects are pushed out even further.

As a result, there is a greater likelihood that the uranium price will go well beyond what's required to incent Tier 1 production to return to the market, and inventories will become less mobile. When we look at utilities' uncovered requirements and the success we're having on the long-term contracting front, we know there's acceptable business to be done.

In fact, this activity has been a leading indicator in past uranium cycles, which is the reason for our confidence that the uranium market will undergo the transition already seen in the conversion market. I can tell you, we will be more than happy to contract our Tier 1 comps in that market scenario, as we are now doing with conversion.

The discretionary market we see today is not sustainable. As I said earlier, the underlying fact is that the demand cycle is on an upswing while the production cycle has swung down. Like occurred in conversion, the market transition will likely only be recognized once it is in the rearview mirror.

A deliberate strategy
Build long-term shareholder value

- ✓ Well positioned to respond to changing dynamics
- ✓ Diversified portfolio, including tier-one assets
- ✓ Ability to restart and expand existing tier-one assets (when market transitions)
- ✓ Commercially motivated
- ✓ Best global exploration and advanced exploration portfolio
- ✓ Proven track record: licensing, permitting, operating and community development

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However, if the uranium market transition takes longer than expected, thanks to our strategy, we will be positioned to meet the delivery commitments under our contract portfolio, and still generate cash flow while continuing to preserve our Tier 1 assets.

Our strategy is designed to reward those who recognize the fundamentals as we do, and patiently support our strategy to build long-term value. 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. 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 for joining our call today, and Operator, with that, we would be happy to answer any of your questions.

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Q&A



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OPERATOR:

Thank you. 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 re-join 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 are using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, 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 email after the call.

Once again, anyone on the conference call who wishes to ask a question, may press star and one at this time.

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

ANDREW WONG:

Hey, good morning. Thanks for having me on the call. Tim, correct me if I'm wrong, but your prepared commentary sounded much more positive, I think, than maybe the past several calls over the past year or two. Is that a reflection of the conversations you're having with customers; are you seeing a shift in maybe some of the behaviour, or maybe some signal that more demand is actually coming now?

TIMOTHY GITZEL:

Good morning, Andrew. Thanks for the question. Nice to talk to you. You know what? I am. I am growing more optimistic. I think that was our tagline somewhere, "Growing Optimism". If you just look at the long-term supply/demand fundamentals, you have to say that something's got to happen here at some point. I think over the last seven years, consumption's outstripped long-term purchasing by a significant margin, we see—I think, uncovered 800 million pounds in the next 10 years, and I think it's almost double that if you go out another five years past that.

Supply coming off, obviously we've got some suspended supply here at Kazakhstan, but don't forget, our friends in Ranger are in the last 10 months of that mine, and that's gone. I mean,



that's been my whole career that one's been running, COMINAK, used to look after that one in Niger. That's got about 11 or 12, or 13 months, and that's coming off. You've got supply going down and demand going up; 450 reactors running, you've got 50 in the pipeline.

Let me just, at this point, throw in the ESG piece. I mean, we—every meeting we come to with you or others, it's almost the first topic, ESG, and we are on the right side of that one. With our past performance at all of our operations and all of this talk now about climate change and climate crisis and keeping the temperature down and Greta Thunberg, you name it. We're on the right side of that piece, so we're getting invited to parties we haven't been to for a long time. Organizations like United Nations and IEA and IAEA and others are putting nuclear back on the table.

If I sound a bit more optimistic, it's because of those things, Andrew. I am more optimistic. We're patient; if anybody's patient, we are. We've had to be over the past years, but I can tell you, our optimism is growing.

ANDREW WONG:

From the customers, are you noticing a change in the conversations, like the tone that you're having?

TIMOTHY GITZEL:

Yes, I said on my comments, don't get confused by the noise of the spot market, which is a whole lot of churn and not much coming out the end of that. We've focused, as you know, we took down McArthur/Key and said we wanted to refill our term contract portfolio. Once we did that, substantially, we would turn it back on. I can tell you, we've been having some real good conversations with, certainly our bigger long-term loyal customers that don't want to play the game into this new decade, and they see the supply/demand fundamentals as well.

We put, I think, about 36 million pounds on the books last year, which was more than we sold. That's good news, so I can tell you, we've got more in the pipeline, so yes. We're optimistic going forward. We think nuclear's going to play a role, and we're going to be right there.



ANDREW WONG:

Okay, thanks. Then just, the 36 million pounds that were added to the contract portfolio; could you just maybe talk a little bit more about the timing of those deliveries, and maybe what's the exposure on fixed versus market-related terms? Thank you.

TIMOTHY GITZEL:

Yes, thanks, Andrew. On a term contract, obviously, they start a couple years out and they're of different durations, usually in the 5 to 10-year range, so that's good news. We like to have a mix in our pricing and base price escalated in market. We're certainly willing to take market exposure out into the new decade, so that's what those contracts reflect.

ANDREW WONG:

Okay, thank you.

TIMOTHY GITZEL:

Thank you, Andrew.

OPERATOR:

Our next question comes from Gordon Lawson of Paradigm Capital.

GORDON LAWSON:

Hi, good morning. How low are you willing to take your inventory levels, and with inventories as low as they are now, what is your strategy to ensure that the spot market can continue to provide the gap?

TIMOTHY GITZEL:

Yes, thanks, Gordon. I think we've pointed out in our materials that we're pretty much at the bottom of our inventory levels, or the comfortable inventory level, so we'll obviously look at maybe replenishing that during the year. If you see the numbers in our MD&A, you'll know, last year, we just laid off on a few purchases we thought we might make and just went into our inventory and took them out there. But I would say, we're getting close to the bottom of where we want to be on inventory.



Grant?

GRANT ISAAC:

Yes, I would just add, Gordon, to the question of our confidence that the spot market will be there to supply those volumes—actually, I would say, we’re not overly confident. I mean, one of the, a bit counterintuitive reasons why we took down our inventory a little bit as opposed to push ahead with purchases is because, as we’ve said before on our calls, we’re really trying to redefine how people should think about spot. For us, spot should be what’s available in a can or in a canister and can both transfer and financially close in a very tight period of time, not what’s available in the next 6 months, and certainly not the next 12 months. For us, that’s not a spot transaction.

Despite all of the churn in the market that’s kind of out in that three-month, six-month window, for us when we go in and try to find stuff that’s actually in a can or canister, it becomes a little bit difficult. What we’re not willing to do is baseload somebody else’s foolish production decisions. We’re only looking for the stuff that’s available right now. We couldn’t always find it and had to draw down our inventory a little bit, so we’re actually not overly confident that it’s there, but that’s actually part of the strategy. Because in order to, I think, convince folks that that uncovered wedge of growing requirements is something that they need to pay attention to, we have to remove the sense that the spot market is going to be there to support discretionary buying. One way to do that is to buy in the spot market.

GORDON LAWSON:

Okay, thank you very much.

TIMOTHY GITZEL:

Thanks, Gordon.

OPERATOR:

Our next question comes from Greg Barnes of TD Securities.



GREGORY BARNES:

Yes, thank you. Just, Tim or Grant, on the 36 million pounds that you signed last year under long-term contracts, you said you get an acceptable return on them. Before, you've said you only sign long-term contracts if they were getting you into that US\$40 a pound realized range. Are you going to realize prices close to that on these pounds?

TIMOTHY GITZEL:

Yes, thanks, Greg. Grant, do you want to comment on that?

GRANT ISAAC:

Yes, so from a framework point of view, we've been very consistent with saying that we obviously have a high bias towards market-related; that's our preference. In fact, that for us is an important indicator that folks generally understand the price of uranium is going up. Because if you think about it, we have a bias towards market related. We had signed a lot of term contracts that were market related. If a fuel buyer believed the price was never going to go up, they would have no problem signing market related as well, and just transfer that risk over to us, but of course, that's not what's going on.

Mill buyers are looking to lock in today's price, and you'd do the same if you were in their shoes, but we're not willing to lock in at today's prices, all of those volumes. We need that market leverage. For us, it's about striking that appropriate balance where we have pounds that are going to be priced out into the future, in a market dynamic that we think is going to be very favourable for price formation out there.

To the extent that we'll agree on the fixed portion of it, today's prices are not sufficient. We need a better starting point. One where, by the time you escalate it to first deliveries, combine that with the market leverage—we're hitting that level that we talked about before, which we think is appropriate for Tier 1 production. That's about as far as we'll go, but that framework, I think, we've been successful.

We've talked also about this pipeline that is—we've got more pounds under discussion than we've had since 2011. We're not going to be successful with all of that, of course, because we're trying to say today's indicators are not representative of the future. Some, we'll be able to



bring across the line, not all of it, but as the transition begins, and if we see an acceleration of it like we saw in the conversion market, then we like that opportunity. You know we only like to do contracting in an up cycle, or when it's trending up. We don't like to do contracting in a down cycle.

The fact that we have this off-market activity has been a strong leading indicator in the past, and it gives us confidence.

GREGORY BARNES:

Okay. On the purchases for 2020, the 20 million to 22 million pounds, can you break that down a little bit? How much of that is Inkai, how much of that is prior purchase commitments you already have, and then what is the balance of that?

TIMOTHY GITZEL:

Yes, sorry, Greg, we can't help you out much on that one. We're not disclosing that information. Sorry about that.

GREGORY BARNES:

Can you give us an idea of what the production you expect from Inkai, your share, will be this year?

TIMOTHY GITZEL:

Sean, our production this year?

SEAN QUINN:

Sure. Total Inkai production should be 8.3 million pounds, and we will collect 4.9 million of that because of some adjustments we've made to the purchasing ratio with our partner.

GREGORY BARNES:

Okay, great, that's helpful. Thank you.

TIMOTHY GITZEL:

Good. Thanks, Greg.



OPERATOR:

Our next question comes from Alexander Pearce of BMO.

ALEXANDER PEARCE:

Good morning, all. Just going back to one of the questions earlier on purchases; if, indeed, the spot market doesn't have enough material for you in kind of your defined terms this year, and therefore, you don't have enough inventory to really draw down much more, how flexible are your delivery commitments, in terms of, let's say if you couldn't quite hit the target for this year, can you delay some of those into next year?

GRANT ISAAC:

Yes, Alex, I would just say, obviously, meeting our committed sales is top priority for us. When we think about our inventory, when we think our purchase plan, when we think about access to material, it's always with that in mind. While I would say that we don't think the spot market might always be able to support our buying when we buy on those very tight terms, we're not going to jeopardize those committed deliveries.

You'll probably see us in a market where other demand starts to show up, not just buy for our own account to meet committed sales, but also to restock a little bit if we sense that material's getting a bit scarce. But ultimately, that delivery commitment, we look at that, we're committed to it, it's part of our plans, so we're not worried we're going to miss a delivery, but where we source it from may change, depending on the spot market availability.

ALEXANDER PEARCE:

You'll be more flexible on the purchasing side, potentially?

GRANT ISAAC:

Well, in the scenario you're describing, we will be buying with extreme conviction and then looking for other sources in order to meet those committed sales. Actually, the purchasing conviction goes up, not down, in that scenario.



ALEXANDER PEARCE:

Okay. Then just a second question; I was interested to hear the initiatives in McArthur River, and I was hoping maybe you could give a bit more detail in terms of what you think the opportunities are there that you're looking into?

TIMOTHY GITZEL:

Thanks, Alex. I'm going to pass you over to Brian Reilly, our Chief Operating Officer. He's kind of got that under his control. Brian, do you just want to say a few words about our modernization?

BRIAN REILLY:

Sure. The initiative at McArthur/Key is both strategic and opportunistic. It's strategic because the mining industry has changed over the last 10 years, so we're looking at employing technology and innovation that will help reduce our cost, give us more flexibility, and ultimately produce safer production. It's opportunistic because both sites are in a care and maintenance mode, so this is the time to do that work.

It comes with a certain amount of commitment from the Company, that we've got 20+ years of life of asset for these two facilities, so it's an important project, but both strategic and opportunistic.

ALEXANDER PEARCE:

Okay. Thank you.

TIMOTHY GITZEL:

Thanks, Alex.

OPERATOR:

Our next question comes from Jason Gould of Lifetime Wealth Management.



JASON GOULD:

Hey, guys. Thanks for taking my question. There seems to be a lot of confusion in the market regarding the run rate capacity of secondary supplies. The WNA Report showed secondary supply run rate at less than 30 million pounds a year currently. Can you talk about your view of secondary supplies, and how does that compare to the sub 30-million-pound run rate number from the WNA Report?

TIMOTHY GITZEL:

Right, Grant, do you want to talk about secondary?

GRANT ISAAC:

Yes. Secondary supplies continue to play an important role in our market, but it's the confusion about where they play that role that we think probably contributes to what you're alluding to. For example, folks will look at enricher underfeeding, and they will actually assume that enricher underfeeding is uranium that's available for the spot market. In fact, our experience, as perhaps being the largest spot market buyer, is that that's not where that underfeed material is going. That underfeed material is going into contracts that enrichers were able to sign, perhaps EUP-based, where they provide the uranium as well as the enrichment services.

We do see enricher underfeeding, but we see it largely committed. We do see some reprocessing of some form, as part of the Russian system, but largely committed. Those aren't the materials that we're seeing become available in the spot market. In fact, what I would point to in the spot market is not inventory and secondary supply, per se, it's uncommitted production. It's those who are producing that don't have a home for those pounds that are either directly putting into the market, very small for direct, or passing it through a trader into the market.

Secondary supply often gets blamed for that role in the market, but we actually see it more as an uncommitted production problem in the spot market. Secondary supply is there, it's come down a lot since the HEU agreement. I mean, there was a time secondary supply was 50 million pounds a year of supply into our market—and its role going forward will diminish, especially as demand picks up in the enrichment space and enrichers are able to increase the contract tails levels. Secondary supply is there, but it's playing less and less of a role, and certainly playing less of a role in the spot market than most people, I think, are appreciating.



JASON GOULD:

Okay. Then just, you said it used to be 50 million pounds. I mean, do you all have a ballpark estimate of what you think it is right now?

GRANT ISAAC:

You know what, we wouldn't quarrel a whole lot with the UxC view, but again, a lot of people would take that view and just imagine that's material available for the spot market. We think that's where the confusion comes in.

Probably along the way we're going to see a lot more scrutiny, and maybe clarity on some of the counting of that secondary supply, because we wonder at times if, in fact, there's a bit of a double count going on. For example, within an inventory mobilization where perhaps one utility operator might deem that their target inventory's come down a little bit, and they have some excess material that they choose to consume rather than put demand in the market. But that's not also supply, because it's not available for anybody to buy, so it does have a demand effect.

I already talked about enricher underfeeding. I think sometimes that gets double counted in the market as both contributing to term supply as well as spot, but it can only count once. I think the carry trade business sometimes gets double counted through secondary supply, because carry trade represents past demand and supply that was then brought forward under a financial instrument and being delivered into, but it's certainly not today's supply and demand.

We wouldn't quarrel, I think, with those overall numbers, but we would apply some downward factoring on some of it, just our experience. We just don't see those materials available.

JASON GOULD:

Awesome, great. Thanks, guys.

TIMOTHY GITZEL:

Thanks very much, Jason.



OPERATOR:

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

TIMOTHY GITZEL:

Well, thanks very much, and with that, I just want to say thanks to everybody who joined us today on the call. We certainly, as always, appreciate your interest and your support.

As I said earlier in response to that question, and as we head into the new decade, our confidence in the uranium market transition is growing. The Company's in good shape, we're ready, we're a commercial supplier; strong balance sheet, we've got great assets and a proven operating track record. We are going to continue to do what we said we'd do; we're going to execute on our strategy and navigate through all of the moving pieces in our industry.

Thanks, everybody. Have a great day and have a great weekend.

OPERATOR:

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