



Cameco Corporation

Conference Call

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

Grant Isaac
Senior Vice President and Chief Financial Officer

Rachelle Girard
Director, Investor Relations



OPERATOR:

Welcome to the Cameco Corporation Conference Call. As a reminder, all participants are in a 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, Director of Investor Relations. Please go ahead.

RACHELLE GIRARD:

Thank you, Operator, and good morning everyone. Thanks for joining us. Welcome to Cameco's conference call to discuss our announcement regarding the temporary suspension of production at Cameco's McArthur River and Key Lake operations, and the reduction of our annual dividend in 2018.

With us today on the call are Tim Gitzel, President and CEO, and Grant Isaac, Senior Vice President and CFO. Tim will open with some comments, then we'll open it up for your questions.

Today's conference call is open to all members of the investment community, including the media. During the Q&A session, please limit yourself to two questions and then return to the queue. For those on the webcast, if you have questions, please select the Submit a Question feature to submit your questions by email, and we will follow up after the call.

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, MD&A, and November 8, 2017 news release for more information about the factors that could cause these different results and the assumptions we have made.

With that, I will turn it over to Tim.



TIM GITZEL:

Thank you, Rachelle, and welcome to everyone on the call today. We appreciate you taking the time to join us to discuss yesterday's announcement regarding our plan to exercise further supply discipline and temporarily suspend production at our McArthur River/Key Lake operation in January 2018. We have also made the decision to reduce our annual dividend to \$0.08 in 2018.

In the context of the current market, we believe these decisions are prudent and are entirely consistent with, and in fact support, the other disciplined actions Cameco has taken, such as previous supply reductions, not selling into a weak spot market, not locking in long-term commitments at low prices, restructuring our marketing organization, and of course, streamlining our operations and reducing our costs.

As I said a couple of weeks ago, and it remains true today, we are cautiously optimistic about the market. However, today, there are a number of risks we face, risks that we want to be in a position to self-manage: risks like the uncertain timing of a market recovery, which means we continue to see discretionary demand and weak uranium prices; the impact on our financial results of TEPCO attempting to cancel its long-term contract, refusing to take delivery and pay for its contracted volumes, and while we expect the resolution will be in our favour, we now know that the earliest we can expect a resolution is sometime in 2019, so still some uncertainty on timing; risks like the continued uncertainty regarding the timing and magnitude of the draw on our financial capacity, until the CRA case is resolved, which, like the TEPCO case, we expect will be in our favour; and, finally, our desire to be able to self-manage the refinancing of our \$500 million debt maturity in 2019.

Our shareholders have invested in Cameco for the returns that will come from having uncommitted, low-cost supply to deliver into a strengthening market. We recognize that the best way to deliver these returns is ensure we continue to maximize cash flow, while maintaining our investment grade rating, and to ensure we have plenty of low-cost uranium available when the market is ready for it.

Today, with continued discretionary demand resulting in a uranium price of about US\$20 per pound, and in light of industry analysts' deteriorating market outlook, the message is very clear,



that the market does not need more uranium. Behaving in a \$20 market the same way we did when uranium prices were much higher, in our opinion, is neither rational nor sustainable. As a result, we've reached the point where we are not prepared to operate McArthur River/Key Lake at an annual rate of 18 million pounds, depleting the world's largest high-grade mine, where the costs are among the lowest, when the market is telling us it doesn't need the pounds. We will leave our uranium in the ground and preserve the long-term value of one of our best assets for a time when its value is recognized.

In our uranium segment, we have commitments to deliver between 28 and 38 million pounds of uranium in 2018. To help fulfill some of these commitments during the suspension, we will profitably mobilize our inventory and rely on our other sources of supply. Today, our inventory is valued on our balance sheet at about C\$31.50 per pound. In 2017, we expect an average realized price of C\$47.50, thanks to the protection our contract portfolio provides.

With this protection from current spot prices in mind, delivering that material into our contract portfolio makes sense for us. Further reducing production alleviates the risk that the market remains lower for longer, and we find ourselves in an environment where our contract commitments are rolling off and we are sitting on excess inventory valued at more than \$30 per pound on our balance sheet. That is not our expectation, but nonetheless, for the sake of our shareholders, we must address that risk, and, as we have always done, you may see us buying pounds in the market, when it makes sense and it is profitable for us to do so. Rather than be victimized by a weak uranium market, we will take advantage of the opportunities it presents us, for the benefit of our owners. Today, we can purchase for less than our all-in sustaining cost to production, and purchase pounds come without any of the production risks we face.

So, if our tier-one production is better left in the ground today, you can be sure that expanding tier-one production is off the table, resuming production at Rabbit Lake is out of the question, and we, as an industry, are miles away from needing any greenfield uranium projects. The promise of new supply would only serve to frustrate our supply reduction efforts.

As I said earlier, until such time as the market recognizes the value of our tier-one assets, apart from making sure we have uranium to fulfill our contract commitments, we will responsibly manage our supply, which, like today's decision, could mean supply becomes less predictable.



We understand that our actions have a cost in the short term, both human and financial, but they are the right things to do to ensure our tier-one assets are available to us in a market that values them appropriately. We can't quantify all the costs today, as there are a number of things we just won't know until the actual time of the shutdown. However, like in 2016, at Rabbit Lake and in the U.S., the costs will come in various buckets, which will impact margins.

First, there will be an impact on our average unit cost of inventory, which has been trending down as more of the low-cost tier-one pounds flow into the inventory. With fewer pounds of production, our inventory won't fully reflect the benefit of producing only from our tier-one assets until we get back to full production. We will get to the same end point, but instead of a steady decline, like we've been seeing since our decision to curtail production at Rabbit Lake and in the U.S., it will be more of a step change.

The second bucket is care and maintenance costs, which will be temporary and expensed directly to cost of sales as they are incurred. Our preliminary estimate for our share of these costs is a range of between \$6.5 million and \$7.5 million per month while the operations are suspended. Some of the items affecting these costs won't be known until the operations are actually shut down, so there could be some variability.

Like many of the other cost-cutting measures we have taken, we expect there will be some one-time restructuring costs. Again, these costs, we won't know in advance.

So, to be sure, there will be an adverse impact on our 2018 earnings, but from a cash flow perspective it will position us very well to self-manage the uncertainties I talked about earlier. We will provide more details about the expected impact when we release our fourth quarter results in February.

So, with that, I want to turn to the dividend for a minute, as I am sure many of you will have questions. Our Board of Directors has determined that a reduction in the 2018 dividend is appropriate, given the continued weak uranium markets. In 2018, we'll pay an annual dividend of \$0.08 per share, a reduction of \$0.32 per share. The dividend will be paid annually, instead of quarterly. This change does not impact the quarterly dividend of \$0.10 payable on January 15, 2018 to shareholders of record at the close of business on December 29, 2017.



Our Board believes in returning cash to shareholders, but is also focused on protecting the Company and rewarding those shareholders who understand and support Cameco's strategy to build long-term value. Our Board recognized that the best way to do that is to ensure we have the flexibility to secure the best mix of financing and avoid any awkward lurches to the capital market. The current dividend does not make sense for a cyclical company like Cameco, or its shareholders, who have invested for the returns that will come from having uncommitted, low-cost supply to deliver into a strengthening market. The intent of the reduction is to maximize cash flow, while maintaining our investment grade rating, through close management of our balance sheet metrics, which is prudent given the current state of our markets. While we could continue to pay a \$0.40 per share dividend, we want to preserve our financial capacity.

Paying out this level of dividend during the trough of our industry's cycle could limit our flexibility and ability to self-manage the risks I talked about earlier, and it could limit our ability to undertake the actions necessary to preserve the value of our tier-one assets, to maintain the optionality that comes from keeping our Rabbit Lake operation on standby, and to invest in our expansion projects, when that time comes, and we expect it will come, it's just a matter of when.

At the end of 2010, when we increased our annual dividend to \$0.40 per share, our adjusted net earnings were \$1.26 per share, representing a payout ratio of about 32%. At that time, we still had an ownership interest in Bruce Power, which contributed about \$0.43 per share in earnings before taxes. The uranium spot price was about \$62 per pound and the long-term price was about US\$66 per pound. We sold our interest in Bruce Power in January of 2014. In 2013, our final full year of ownership, Bruce Power contributed about \$0.28 per share in earnings before taxes and, despite the corresponding reduction in earnings, we did not adjust the dividend. Fast forward to the end of 2016, the spot uranium price had dropped to about US\$20 per pound, the long-term price was about US\$30 per pound, and our adjusted net earnings were \$0.36 per share, increasing our dividend payout ratio to about 111%. For 2017, we expect adjusted net earnings to be lower than the \$0.36 reported in 2016, which will further increase the dividend payout ratio, and still we see no improvement in the market.

We believe the reduced dividend will position us well to self-manage the risks we face and deliver on our strategy to meet rising demand with increased production from our best margin assets when the market calls for more uranium.



At this time, there's an abundance of uranium in the market, which we believe is why we find ourselves in the trough of the uranium cycle today, and our reaction to this trough, we believe is prudent. We are reducing costs, maximizing cash flow and cutting production to preserve value out into the future. It is the depth of this uranium price cycle and the actions we are taking that keeps us optimistic about the future. After all, if the current market does not support production from one of the world's best uranium operations, then you can be sure that supply destruction is a real feature across the global supply stack, and at some point there will be a realization that the lack of investment is going to result in the lack of adequate supply in the market, supply that's going to be needed to support the reactor construction programs, the return of idled reactors to the grid, and utilities' uncovered requirements.

At Cameco, we believe we are among the few who have shown real discipline and leadership in this market. We have taken action, by curtailing all development and growth, by reducing the work force across all our sites, by changing air commuter services for operations in Saskatchewan, by changing schedules at two Saskatchewan sites, by down-sizing corporate office functions, including a consolidation of our global marketing activities, by cutting production at our higher cost operations, and now we've reduced our dividend and begun to rationalize production from our lowest cost operations, saving our resources for better days in the uranium market. We believe these actions will help to shield the Company from the near-term risks we face and will reward shareholders for their continued patience and support of our strategy to build long-term value.

So, with that, I'm going to stop and I would be happy to answer any questions you might have.

OPERATOR:

We will now begin the question and answer session. In the interest of time, we ask that you 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, then one on your telephone keypad. You will hear a tone acknowledging your request. If you're using a speakerphone, please pick up your handset before pressing any keys. To withdraw from the question queue, please press star, 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, one at this time.

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

ANDREW WONG:

Hi, good morning, and thanks for taking my questions. So, your timeline on the outage, you say is expected to be 10 months. Is that based on where you expect your uranium inventories will be after that period, and so you're at a more comfortable level, or is that more around you're thinking that, after a 10-month cut, the market could be more balanced and, therefore, it makes more sense if you start McArthur? Basically, is there any flexibility around that 10-month expected cut and how quickly could you restart production at McArthur? Thank you.

TIM GITZEL:

Hi, Andrew. It's Tim. I just want to make a point here this morning, just in case we're cut off or anything. Grant's over in Japan this week. He is on the line and will be available to answer questions, but I just wanted to let you know that.

Listen, the 10 months, there's no particular magic to that. It lines up with the inventory we have. You've seen our inventory, we've been very clear on what that is. You've seen what taking McArthur down for a year, what our normal production rate is there, and those match up pretty well. Obviously, we'll watch the market, to see what it does. As we said very clearly, today, it makes the most sense to leave those pounds in the ground. This works for Cameco. For us to be able to benefit from our portfolio of contracts that we have today, that are above market prices, to use inventory, to turn inventory into cash, it makes sense for us today.

With regard to McArthur/Key, I just want to say very clearly we regret the impact on employees. We will do our best to soften that blow. It's temporary, we know that. That's the best mine in the world, low-cost mine, high-grade. It will come back. There's reserves there till some time in the 2030s, if not longer. So, this is temporary, but we will watch the market, and we will make decisions based on our inventory levels, based on our ability to purchase pounds on the market at these low prices, and our production, as to when we bring it back.



ANDREW WONG:

I'm sorry, how long would it take to restart?

TIM GITZEL:

Oh, sorry. Our plan now is to take it down, we think it'll take us about a month to take it down and about the same amount of time to bring it back up, Andrew. Sorry, I missed that.

ANDREW WONG:

Okay. I'm not going to use that as my follow-up, I'm going to ask another question, if that's okay.

TIM GITZEL:

Go ahead.

ANDREW WONG:

Earlier this year, KazAtomProm did announce a pretty sizeable cut. The spot price jumped up afterwards and it did impact some of the gains. Your production cut here is obviously a lot larger, but may be only temporary. How do you think the market will react now? I mean, Grant's in Japan, I'm sure he'll have some conversation with your customers. Maybe we're closer to the wedge, so utilities are a little bit more nervous. I'd be curious to hear your thoughts.

TIM GITZEL:

Yes, we don't know. We didn't predicate this on a big market jump. We looked at it, that if things stay the same, does it still make sense for Cameco? And it does, for all of the reasons I just outlined; we have a healthy inventory that we want to turn into cash, and so we're going to do that.

You know, we are bit encouraged by some of the signs we're seeing. I think we started the parade back in April of last year, 2016, when we took down Rabbit Lake. We took our Wyoming, Nebraska sites down, as well, January, I think it was 6th, of this year, and then the Kazakhs, Askar Zhumagaliev was still in charge then, announced a reduction, 10% Kazakh, and I think we're seeing that there's some 5 million pounds. We heard rumblings from them again at the WNA, I think the Minister said they were looking at production levels there. We've seen AREVA make some moves in Niger, COMINAK, SOMAÏR. You know, I don't know. We can only control



our company and what we're doing. We just think this is the most prudent measure to take for us right now. It's temporary. We'll watch the market and see how things go.

ANDREW WONG:

Okay. Thank you very much.

TIM GITZEL:

Thanks, Andrew.

OPERATOR:

The next question comes from Rob Chang of Cantor Fitzgerald. Please go ahead.

ROB CHANG:

Good morning, and thanks for taking my call. First off, a bit of a reconciliation question. Tim, you mentioned that the inventory is being carried at C\$31.50. However, when I look at the Q3 financials, it says just under \$1.2 billion worth and 27.6 million pounds. Is that inventory also including other items?

TIM GITZEL:

Yes, it is, Rob. I think that's everything included.

RACHELLE GIRARD:

Robert, it's Rachelle here. If you looked at Note 5 to the financial statements and look at the uranium segment and the uranium portion of that, it's about \$870 million, I think, is what the uranium—that would equate to that 27.6 million pounds that you see.

ROB CHANG:

Perfect, great, thank you. Then, my second question then relates to contracts, sort of a two-part question. What is your 2019 contract book looking like, and do any of the contracts that you have require that the deliveries come from mine production?



TIM GITZEL:

I think we give the five-year window on our contract book, Rob, and I think we've said—I think we're at 26 million pounds per year average sales for the five-year period, more heavily weighted in the nearer term. So, you can probably do the curve on that one. Most of our contracts allow us a lot of freedom as to where our pounds come from, as long as they meet international obligations, non-proliferation requirements, and any bilateral agreements. So, we have pretty good flexibility on that, Rob.

ROB CHANG:

Great. Thank you very much. I'll return to the queue.

TIM GITZEL:

Thank you.

OPERATOR:

The next question is from Ralph Profiti of Eight Capital. Please go ahead.

RALPH PROFITI:

Good morning, and thanks for taking my question. Tim, had you already begun discussions with the McArthur River union in the lead-up to the expiry of the CBA? Will those discussions continue or do they get deferred? How does that work?

TIM GITZEL:

Yes, Ralph, that's a good question. Our union agreement, CBA, Collective Bargaining Agreement, expires at the end of this year, December 31. Our historical pattern has been to start bargaining sometime after that. Here, we've gone through the normal process, giving notice to each other of an intent to bargain, but we hadn't started any bargaining yet. I just want to be crystal clear. This decision has nothing to do with that. This has to do with a seven-year slump in the uranium market. For all the reasons, the inventory that we have, we needed to take this decision. We will continue to work with the union, bargain in good faith. These are good, solid people, we need them. This place is going to keep running for 20 years. So, this has nothing to do with that.



RALPH PROFITI:

Got it, okay. As a follow-up, and going back to sort of a previous question, can you give us your sense on compliance of the Kazakhstan cuts? Have you been able to vet those numbers? Are we seeing the reductions that they've promised and have they already been done or is there more to do?

TIM GITZEL:

Ralph, I can only speak for our joint venture, and I can tell you that within our joint venture, we are down that amount—in fact, we're down a bit more. We plan to be down exactly that amount, if we can make our production by the end of the year. I've seen comments out of Kazakhstan, again, I think coming from the Minister of Energy, that, indeed, they're compliant with that reduction. So, from what we understand, they're on track for that reduction in production this year.

RALPH PROFITI:

Okay, great. Thanks, Tim.

TIM GITZEL:

Thanks, Ralph.

OPERATOR:

Your next question is from Fai Lee of Odlum Brown. Please go ahead.

FAI LEE:

Thanks, Tim. I know you're going to be drawing down inventory, but you also mentioned that it's potentially cheaper to purchase than produce. If you take advantage of this opportunity, can you provide any colour on how this would work? Like, who would be the potential sellers? Are they producers, secondary sources, the quantities available to you, caveats, and what price you'd be paying?

TIM GITZEL:

Yes, Fai, thanks for the question. So, there's a market out there. There's a spot market that spins about 50 million pounds a year, normally, where pounds are bought and sold in different



quantities, and I think yesterday I looked and they were trading at about \$20.20 or \$20.30, I don't know what the spread was. If that's the case, I can tell you that's about as good as you'll get from any mine, or better, in the world, when you take the all-in sustaining cash cost and all-in cost. So, we'll be—we're always present on the market, always have been, and certainly will be in this context. If the market stays where it is, there are good reasons for us to go out. Grant, I know is in Japan, he's leading our Marketing team. Now, you saw us make some moves. So, we have a Marketing team that's out today talking with our customers, looking at the market, so if there are opportunities for us to purchase pounds, profitability put them into our contract portfolio, we'll do that.

Let me just check with Grant. Grant, are you on the line? Do you want to chip in on that? I just want to make sure you're there, as well.

GRANT ISAAC:

Yes, I am here, and I think you answered it very well. In your opening comments, Tim, you made the point that we're not going to be victimized by this market. In fact, when we see opportunities to take advantage of it, we'll act. So, Fai, sometimes the purchases are in-year, they're classic spot purchases, and sometimes at the company, we look out and we see a very flat forward curve and we say to ourselves that looks like a good price out there, when you're on the buy side of the transaction; not on the sell side, but on the buy side. So, we'll do, probably, a combination of both those things, and look and see how deep the market is. Our experience is it isn't a very deep market, so I'm not sure it's going to take much activity to get some excitement going.

FAI LEE:

If it's cheaper to purchase than produce, what's stopping other producers from doing the same?

TIM GITZEL:

Probably nothing. These are not easy decisions to take. These are big, capital investments, these mines, and there's a lot of regulation around it. We're used to running them pedal to the floor, full steam ahead. They're tough decisions, they obviously have a human effect, financial effect, but nothing stopping anyone else, that I'm aware of.



FAI LEE:

Okay. Thank you.

TIM GITZEL:

Thanks, Fai.

OPERATOR:

The next question is from Greg Barnes of TD Securities. Please go ahead.

GREG BARNES:

So, Tim and Grant, it sounds to me like it makes a whole lot more sense for you to go right into the market today and buy as many pounds as you can, not sell from inventory, and just take advantage of the very low prices.

TIM GITZEL:

That would be one option, Greg, yes.

GREG BARNES:

What about the potential, then, for you to extend the shutdowns, because that would mean that you wouldn't draw down as much inventory, you'd keep a lot of inventory, or more than the six months you'd normally have on hand in inventory, so you could continue this for some time.

TIM GITZEL:

Yes, clearly, we haven't made that decision at all yet. We're anticipating, based on our inventory, our production levels, the purchases we might make, that somewhere in the 10-month range would be where we're at. That's the best information we have to date, but, obviously, we'll watch the market on a daily basis and see how that goes.

GREG BARNES:

Just a quick follow-up. Would you be willing to drop that inventory level below six months of sales?



TIM GITZEL:

In the right circumstances, we might go a bit below that, but we always want to have—the supply chain requires us. We have it at different converters around the piece, and our customers ask for it, so you have to have a fairly healthy inventory just to be able to fulfill your contract commitments. You can go a bit below that for a while, but we—it's historical, perhaps, but that's been our historical level, to have around six months, maybe a little bit less, just so that we can always assure our customers that we can fill their requirements.

GREG BARNES:

Okay, great. Thank you.

TIM GITZEL:

Thank you.

OPERATOR:

The next question comes from Edward Sterck of BMO. Please go ahead.

EDWARD STERCK:

Good morning. Thank you. Well, I think everyone else has managed to ask most of my questions very well. I do have a couple more. The first is just in terms of the contract book. A common trend over the last few years has been for Cameco's customers to try and defer deliveries, pushing them from this year into next year, and so on. Do the contracts have the flexibility to allow Cameco's customers to bring deliveries forward, if they need to or want to?

TIM GITZEL:

Ed, yes, indeed, they do, and, in fact, that's happened in a few cases. We've seen both, some brought forward and some deferred.

EDWARD STERCK:

Thank you, and then the next question really is on the balance sheet. Is part of the rationale here to focus on de-gearing? There's \$500 million due in September 2019, if I recall correctly. It looks like that should be very easily met, in terms of repayments, on my numbers, but I guess



what's the right level of debt for Cameco going forward, and is there a net debt to EBITDA target that Cameco would prefer to remain below?

TIM GITZEL:

Grant, do you want to take that?

GRANT ISAAC:

Yes, I'm happy to. Ed, we've been saying for some time that one of our navigating principles or points on the compass here for us is the investment grade rating, and so we look at the contract portfolio and we look at the revenues that come from that contract portfolio, and we manage our costs. That gives us pretty good line of sight to what our cash from operations is, and, of course, we have some commitments to that cash. All of that then factors into an analysis of what that net debt number needs to look like in order to hang into those investment grade metrics. So, that is a priority for us, and investment grade with a cushion, as well, to be two notches above kind of is a comfortable position for us.

When we look at the action that we're taking, both on the dividend side and on the suspension side, it does bolster our cash position; it does put us in a very strong position to retire that 2019 maturity. Why would we do that? Well, we'd do that if the market remained flat and we didn't have the opportunity to be layering in new business. That would make very good sense.

Then , we have a few risks that we have in mind. One of them is the TEPCO dispute, and because of the TEPCO dispute, we know we have the revenue and the earnings that would have accrued under that contract aren't in our financials, and we know that dispute is going to take a while. We know that it's not going to be heard until early Q1, with the decision later in 2019. So, there's a window there of risk that we want to manage, and also the CRA case. So, we have those things in mind looking at what it requires to have that investment grade rating, and that's a good way to think about the framework we're using.

EDWARD STERCK:

Great. Thank you.



TIM GITZEL:

Thanks, Ed.

OPERATOR:

The next question is from Robert Reynolds of Credit Suisse. Please go ahead.

ROBERT REYNOLDS:

Good morning. My question is around, maybe not specific price, but how does Cameco think about a fair value that it would need to see to part with its pounds in the ground, in terms of what could get McArthur back up and running?

TIM GITZEL:

Well, what'll get McArthur back up and running is that we have a contract book that requires us to deliver, I think, as we said, 26 million pounds, on average, per year over the next five years, so we need those pounds going forward. It just happens now that, between our inventory position, the production that we could put out, and the market with \$20 pounds available for purchase, that we have enough that way and we're better off drawing down our inventory, but I can be crystal clear, McArthur will come back on. You've seen our cash costs, we put them out in our materials. I think our last view is they're under CA\$15. So, it's a good project, it'll come back on and hopefully, the market will recognize that pounds at \$20 are not sustainable for the long term. We're going to need more pounds going forward. I can tell you no one is spending capital on any new projects, and it takes us a long time to bring them on. We've just been seven years in the trough, as we say; there has to be a turnaround here, and we'll see what happens with this announcement.

ROBERT REYNOLDS:

Okay. Then, I guess, just to follow up on that, I think over the last couple of quarters you guys, yourself and Grant, have mentioned that from time to time you have been able to layer on some additional business when utility buyers have seen the value of contracting with Cameco, maybe at above current spot and term market indicators. What is that value or price? I'm sure you won't give an exact price that you would view as a fair price to part with your pounds, but just in terms of how you think about it, is it an incentive price for new production to come on? Is it a certain profit that you want to see off of your pounds? Is it a profit that you think is justifiable on the



highest cost producer in the uranium space today? Any sort of colour you can provide on that would be useful.

TIM GITZEL:

Yes, Robert, it's all of those things, but I'll turn that to Grant. Grant, why don't you answer that one?

GRANT ISAAC:

Yes, Robert, you won't extract a price forecast from me, but I can give you a bit of a framework for how we think about it. If you turn to sort of the price required to get that last marginal pound out of the ground, I mean, it's considerably more than today's prices. Some of the people who have those assets talk about a US\$75/80 uranium price in order to make those projects go. But, of course, in our industry, we have to factor in not just that last marginal pound that comes out of the ground, we have to factor in what comes from secondary supplies, whether it's enriched or underfeeding or coming out of a strategic inventory, and that always takes a bit the tailwind, if you will, out of that last marginal cost price forecast. So, for us, we look at the market today and we say this is an unsustainably low uranium price. If we were to enter into a contract, we'd want some market exposure. We'd want to have some floor price protection. We'd be willing to give up some ceiling price protection. If the right circumstances came along, you'd probably think about ceiling protection up around that last marginal cost, and floor protection, which is a modest return factor above our current production cost.

So, when Tim says "it's all of the above," really, the optimal is that hybrid that gives you that lock-in return at the bottom of the cycle, gives you good participation in an up cycle. You might not capture the very top of the sentiment-driven spike, but those only last a couple of weeks, anyway, so to layer in the value for a longer period of time is, obviously, worth more to us. So, we just look at this market and we say it's got a long way to go before it's adequately pricing uranium, and so we've just stayed out of selling into the spot market and we've stayed out of layering in base-escalated or get into business at this price. We don't think that's where it needs to be to pull those pounds out of our portfolio.

OPERATOR:

The next question is from James Ostroff of Platts. Please go ahead.



JAMES OSTROFF:

Yes, good morning, Tim. I have two questions back-to-back, and it'll be brief. Can you provide any guidance as to what Cameco's production will be in 2018, versus what had been looked at previously; and, it must be asked, whether Cameco is considering, or may consider a sale of some of its ownership stake in the various facilities that it does own and operate in Canada, Kazakhstan, or elsewhere?

TIM GITZEL:

James, thanks for the questions. On the first one, we haven't put out our 2018 production forecast yet, but you could probably do some math with McArthur being down for around 10 months. So, I'd just say that to that question.

Sale of ownership, not a chance. No, we're not looking at that at all. In fact, if some Saskatchewan assets became available that were part of the joint ventures we're in, we'd look at purchasing them, but that's not in the cards at the moment.

JAMES OSTROFF:

Thank you.

TIM GITZEL:

Thank you.

OPERATOR:

The next question is from Anton Hugo of Primaresearch. Please go ahead.

ANTON HUGO:

Hi, good morning. I have two questions. The first one regards the price movements in the SWU markets and its impact on the spot price, if you could perhaps give us a sense as to your reason of that impact, whether it's a fairly direct impact or whether it's broadly and very indirect?

TIM GITZEL:

Grant, do you want to talk about enrichment?



GRANT ISAAC:

I'm sorry Tim, I can't hear that question.

TIM GITZEL:

The SWU market, Anton was asking about the SWU market price and what effect it has on the spot price of uranium.

GRANT ISAAC:

Yes, thank you. The SWU market price is under pressure because of the vast overcapacity in the SWU market. As part of the nuclear renaissance and the excitement around all of the reactors that were going to be built, there was a lot of SWU capacity that was constructed, and once constructed, it's there to be spun, that capacity exists. So, the SWU market is under pressure as folks compete with one another to place that capacity in a market where there's not a lot of demand. Requirements have come off the table quite a bit post Fukushima. One of the ways to utilize that capacity is through underfeeding, and that underfeeding produces uranium, which then goes into our segment of the market and then puts downward pressure on it. The effect is that the SWU market comes down and the price of SWU comes down, it makes the value of the uranium in underfeeding worth more to enricher and, therefore, they turn to the uranium markets, and when they move material through the uranium markets, they'll put downward pressure on the uranium price, and we've seen that. That's been a factor in the price-offs.

ANTON HUGO:

Thank you. Then, on a very different topic, your royalty structure. Obviously, when the market's are under pressure, your royalties are, obviously, very progressive in terms of the fundamental economics in front. To what extent did the tax position and—let's call the flip-flop on taxes in Saskatchewan, impact your decision that you've just made on the temporary closures?

TIM GITZEL:

I'm not sure I understood exactly the question. There's two pieces, the royalty and the tax. On the royalty side, we have a graduated royalty system in Saskatchewan that works very well, and so no effect on our decision, nor did the tax piece here in the province, where there was an



announced reduction of the corporate tax; I think that's being reviewed again in the legislature, but those had no impact on our decisions.

ANTON HUGO:

Thank you.

TIM GITZEL:

Thank you, Anton.

OPERATOR:

The next question is from Bryn Levy of the News Talk 650. Please go ahead.

BRYN LEVY:

Hi, there, Tim. I'm just looking for sort of a sense of scale here, I guess. With these latest job cuts, what percentage of your work force is now laid off, or I guess how many employees are left?

TIM GITZEL:

Well, let me very clear, Bryn, that it's temporary. We regret any kind of a layoff, but it's temporary, while we go through this period. So, that involved about 845 employees that will be on temporary layoff. We're keeping just over 200 to keep the sites in a care-and-maintenance mode. We still have Cigar Lake running. We have over 100 people at Rabbit Lake. Our Kazakh operations are still running. As I say, it's a temporary layoff that involves perhaps 28% of our work force.

BRYN LEVY:

I guess, just to follow-up, how optimistic are you of your 10 months? Yes, it's temporary, but that is still a fairly long time. How optimistic are you of being able to get everyone back once it is tapped to fire back up?

TIM GITZEL:

Well, we're very optimistic on that. This is temporary. We will have what we call a sub-plan in place for our employees. We need them. We need them to come back to restart the mine and



mill, and so we'll put a sub-plan in place that will top up the earnings and benefits that they have while they're off. So, hopefully, we'll make it attractive for them to be ready to come back when we restart.

OPERATOR:

The next question is from Evan Radford of Prince Albert Daily Herald. Please go ahead.

EVAN RADFORD:

Tim, thanks for taking my call. Just to follow up to Bryn's question. You said earlier that you're going to try to soften the impact of shutting down the mine. How will the impact be softened for those in plays that we're talking about, that are laid off?

TIM GITZEL:

Yes, thanks, Evan. So, as I said, we'll look at a top-up plan, or a sub-plan it's called, of the insurable earnings, unemployment earnings they would get; we'll keep their benefits going, and we'll put it at a level that'll make it quite attractive, I think, for them to be ready to come back. With respect to our in-scope, our unionized employees, that's something that we have to negotiate and discuss with the union, so that's to be done yet, but I can tell you we want all of our employees to come back when we're ready to restart.

EVAN RADFORD:

Right, and of that approximate 500 number that you had in the press release there, of that number, how many are unionized and how many are non-unionized?

TIM GITZEL:

I think about two-thirds of the group would be unionized.

EVAN RADFORD:

Okay. Thanks.

OPERATOR:

The next question is from Brian MacArthur of Raymond James. Please go ahead.



BRIAN MACARTHUR:

Good morning. Two questions. First of all, was your partner at McArthur on side with this? And second, are you required to give them any pounds to cover their lost production out of McArthur?

TIM GITZEL:

So, Brian, obviously, our partner is AREVA at McArthur and we spoke to them. I would say they were a willing partner. They have made some of their own moves on their Niger assets, as you probably read in the press, at SOMAÏR and COMINAK. We required their approval to move ahead and we got it. With respect to how they're filling their contract portfolio going forward, Brian, you'd probably have to check in with AREVA on that.

OPERATOR:

The next question is from Andrew Wong of RBC Capital Markets. Please go ahead.

ANDREW WONG:

Hi, and thanks for taking the follow-up. Just a question on the inventories that you do have on hand. Could you tell us what form they're in and where they're stored, and do any of the inventories, are they stored at enrichers, and could that help tighten up some of the availability for those secondary suppliers?

TIM GITZEL:

So, Andrew, we have our materials strategically stored at probably just about all of the different converters, especially converters, around the world. There might be some at enrichment facilities. We still have some, probably, sitting at our mine sites that haven't been moved to a refiner or a converter. So, we have it placed all around the world.

ANDREW WONG:

Okay. I want to clarify on the costs. So, aside from the monthly spend to maintain McArthur and Key Lake, are there any other associated costs that we would have to run through the COGS? Basically, in other words, if I'm trying to calculate COGS for next year, do I just run through production costs from Cigar and Kazakhstan, plus the care and maintenance, royalties and purchases? Is there anything else?



TIM GITZEL:

Grant, do you want to talk about the cost of goods sold?

GRANT ISAAC:

Yes, if that's the approach you're using, you can use that number for the care and maintenance and apply it to the cost of sales. The additional impacts could be if we have some one-time restructuring charges that come with these actions, but we don't know those yet, so we don't have any guidance for you on that, Andrew. Of course, that wouldn't run through your cost of sales, but it would come off the bottom line earnings because it would be a cash-settled item at that point. That's the type of information we're going to be able to provide an outlook for with our 2018 outlook that will coincide with our February Q4.

ANDREW WONG:

Okay, and CapEx, you guys haven't provided anything on that, but I'm assuming it should be lower than this year with the reduction.

TIM GITZEL:

Andrew, we have a forecast in our Q3 material, and I think we talked about that on the last conference call, and we're certainly—and I'm thinking of our COO, Brian Reilly. I know they're looking diligently at that to see where that's going to end up, but we'll do our best to bring that down as low as we can.

ANDREW WONG:

Okay, that's great. Thank you.

OPERATOR:

The next question is from Fai Lee of Odium Brown. Please go ahead.

FAI LEE:

Thanks. Tim, you had mentioned that the current dividend doesn't make sense due to the cyclical nature of your business. Looking ahead to better days ahead, has the Board discussed using special dividends or share buybacks to return cash to shareholders in the future, instead



of raising the dividend? I'm just wondering if there's a shift change in how the Board thinks about the dividend policy going forward.

TIM GITZEL:

I'm not sure I'll be here very long if I tell you what the Board discusses at the Board meetings, but I'd just say that the Board looks at the dividend every quarter. It looks at all the options for the dividend. We'll watch the market, we'll watch and see how things are going. This is a cash-maximization project to deal with the risks that Grant talked about, TEPCO, CRA, lower for longer, debt that's coming due in 2019. So, all of those hanging out there. I know we always look at the down side on those and that's how we have to run, we have to look at lower for longer, and if all of those other things go south on us. There's also the other side, that some of them don't go south, and what things might look like in a year or so from now, if we get some positive news on that CRA or the TEPCO piece. That said, that's all in the—I can tell you our Board is very diligent, looking at those things all the time, and makes decisions based on the latest available information.

FAI LEE:

Okay. So, you're not ruling out possibly returning the dividend back to the current level going forward, or all options are still on the table, then?

TIM GITZEL:

Yes Fai, we'll see how those things turn out. Probably, those big four, the market, the CRA, TEPCO, and then—well, we know what our debt is in 2019. We want to be able to self-manage that debt and we will be in a good position to do that.

FAI LEE:

Thank you.

TIM GITZEL:

Thank you.

OPERATOR:

The next question is from Edward Sterck of BMO. Please go ahead.



EDWARD STERCK:

Thanks very much. I've got a couple of follow-ups here. Continuing with the dividend policy, I'm just wondering why you stick with a fixed dividend, rather than, say, going to a payout ratio, or something along those sort of lines, that's linked to your profitability.

TIM GITZEL:

Thanks, Ed. We were involved in lots of discussion on that. Grant, do you want to answer Ed's question on that one?

GRANT ISAAC:

Yes. Ed, we certainly looked at that and looked at various options, whether it was a payout ratio and a proportion of earnings. What we did in this instance is we simply said there are some risks, it is a market that the outlook is deteriorating, according to some third-party price forecasts. It's one where we thought it probably made really good sense for us to be in a cash-build position to manage the risks that we see. We had no desire to take it to zero, and so we came up with a number that we think that we can then build from. Whether we build from based upon a policy or based upon market factors that come along and allow you one-time actions, as Fai was getting at, we're going to have to deal with that market as it presents itself, but at the moment we've gone from a high static dividend to a lower static dividend, but we have not signaled that it's connected to a payout ratio or anything like that.

EDWARD STERCK:

Thank you, and then my next question is—I actually joined the call a little bit late, so you may have answered this already, but why McArthur River and not Cigar Lake, in terms of deciding to curtail production?

TIM GITZEL:

Ed, it has a lot to do with our percentage interest in McArthur/Key and the fact that we have one partner, and so those were some of the considerations—those were the considerations to look at McArthur/Key.

EDWARD STERCK:

Okay. Thank you.



TIM GITZEL:

Thank you.

OPERATOR:

The next question is from Russell Fryer of Baobab Asset Management. Please go ahead.

RUSSELL FRYER:

Good morning everyone. Thanks for having the call. I guess everybody's seen the markets and they're up probably 20% or so, and I commend you on what you've done. Isn't the reality, though, that supply is really not being taken out of the market, because supply is being shifted from extraction to inventory, and the deal is there's still oversupply in the market, enrichers are still supplying, and look at the MERA, are still producing flat out. What happens if the price is still in the low 20s in 12 months, which is a very real possibility? And if it's to your lower for longer, you know, WNA 2025 type thesis. What is the world going to look like for Cameco in 12 months if this all continues?

TIM GITZEL:

Russell, I'll say this. Somebody had to step up and show some leadership on this and some discipline, and we did. Our Board did. Our Management team did. I don't know what the market's going to look like a year from now, two years from now. We're in a position as a company where we have a portfolio of contracts that are priced above market, we have an inventory that we can move into those contracts profitability, liquidate some inventory, turn it into cash, and save our low-cost McArthur/Key pounds for either a better market, a rising market, or lower for longer, and we can be profitable in either case. So, that's our strategy.

Can't predict the market going forward. I've been doing this gig for about three decades now, seen the highs and the lows. Shouldn't get too excited on either side because at some point they come up and go down. But we're clearly scraping along the bottom, have been for almost seven years now, not sustainable in the long term. This was a decision that made sense for Cameco to do. We'll see what effect it has on the overall picture.



RUSSELL FRYER:

I guess then my follow-on is in the mining sector, we're always seeing technological improvements. If it's a lower for longer environment, at what point does thorium start to replace some of the uranium feedstocks, and pretty soon that marginal cost that people are talking about, \$60, \$65, \$70, whatever that marginal cost of production is, actually is reset to \$30, \$35, or \$40?

TIM GITZEL:

Good question, Russell. That's a great question. The thorium piece, I would just say that today the 441 reactors that are operating and the 57 under construction are all light-water reactors, BWRs, that run—PWR, BWR, that run on uranium, and so turning that ship around to thorium is like, probably, turning the Titanic a bit; it takes some time, and so we don't see that now. India, I would say is the most advanced on thorium reactors, they're looking at them, but even they are building their own indigenous reactors, based on some Canadian technology. They've got the Russians building some. The French are planning to build some. So, we don't see that as a threat to our business in the near term.

RUSSELL FRYER:

Thank you very much, and thanks again for having the call.

TIM GITZEL:

Yes, thank you.

OPERATOR:

The next question is from James Ostroff of Platts. Please go ahead.

JAMES OSTROFF:

Yes, thank you for taking the follow-up. One thing, re McArthur, I'm just trying to get some idea here as to the differential, and that is the production rate that had been envisioned before—the annual operating rate, the annual production rate at McArthur versus what it will produce being down for around 10 months. I'm just trying to see how much less—how much material is likely not to be produced.



TIM GITZEL:

Well, James, for the last several years, we produced at a rate of 18 million pounds per year.

JAMES OSTROFF:

Right, okay, per year, and what could you—what you say then about the rate of production should McArthur be down for 10 months? Is there anything you can say about that specifically?

TIM GITZEL:

Not really. As I say, for the last few years, we've produced at a rate of about of 18 million pounds—

JAMES OSTROFF:

Per year, okay.

TIM GITZEL:

It's not exactly linear. We did have a summer shutdown this year, and so we produced more in the front end and more in the back end and had a break in between, but the site is capable of producing 18 million pounds over a 12-month period. So, that's about what I can say there.

JAMES OSTROFF:

That is fine. Thank you, again, Tim.

TIM GITZEL:

Thank you very much, James.

OPERATOR:

There are no further questions at this time. I would now like to turn the conference over to your presenters for any closing remarks.

TIM GITZEL:

Well, thanks, Brock, and thanks to all of you today for—some of you, I know, getting up real early that are to the west of us. Thanks for joining us on the call. We certainly appreciate your interest and support. I can tell you we're doing everything we can to manage effectively through



this challenging market and we'll do what we have to do to keep this company strong and viable long into the future. So, thanks everybody for joining and have a great day.