Cameco Corporation

2020 Third Quarter Results Conference Call Transcript

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Presenter:

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OPERATOR:

Welcome to the Cameco Corporation's Third Quarter 2020 Conference Call.

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

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

RACHELLE GIRARD:

Thank you, Operator, and good morning, everyone. Welcome to Cameco's third quarter conference call.

We will be conducting the call a little differently this quarter than we have the past two quarters. We've had some very positive feedback on the Q&A format of our previous two calls and we'll continue with that, but we also recognize there is benefit in a two-way dialogue. With most of the

Executive team back in the office and more certainty around our phone lines, we will allow time for investor and analyst questions.

During the listen-only portion of the call, we will address the most common questions we've been hearing during our outreach with the investment community. There's been a lot going on, both for the Company and the industry, and we recognize there is significant interest in limited sources of information for investors. Once we have concluded with this portion of the call, we will open the line up for your questions.

As always, our goal is to be open and transparent with our communications; therefore, we'll make ourselves available to speak to you after the call as well. Should your questions not be addressed on this call, there are a few ways to contact us. You can reach out to the contacts provided in our news release. You can submit a question through the contact tab on our website, or you can use the submit question tab on the webcast, and we will be happy to follow up after this call.

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; Sean Quinn, Senior Vice President, Chief Legal Officer and Corporate Secretary; and Alice Wong, Senior Vice President and Chief Corporate Officer.

I'm going to hand it over to Tim to kick off the listen-only portion of the call. Then we will begin the listen-only Q&A portion of the call. After, we will open it up for your questions. If you join the conference call through our website event page, there are slides available which will be displayed during the call.

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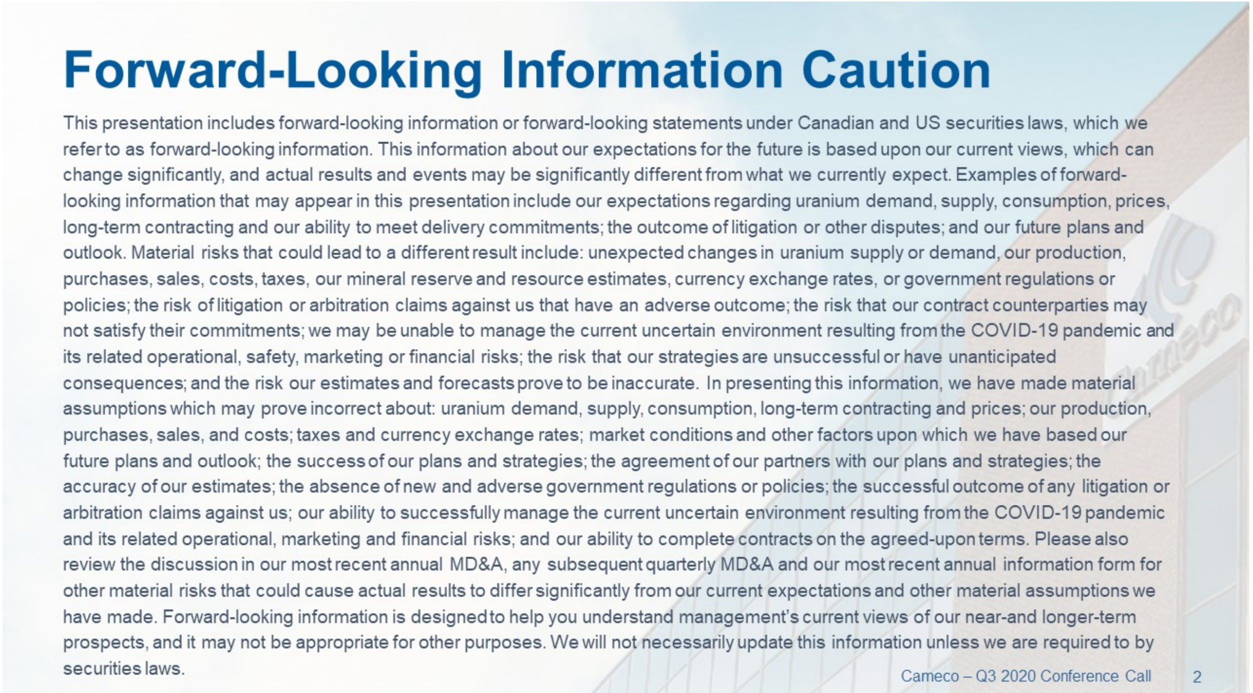

Today's conference call is open to all members of the investment community, including the media. During the Q&A session, please limit yourself to two questions and then return to the queue. Please note that this conference call will include forward-looking information, which is based on a number of assumptions, and actual results could differ materially. Please refer to our annual information form and MD&A for more information about the factors that could cause these different results and the assumptions we have made.

With that, I will turn it over to Tim.

TIM GITZEL:
Well, thank you, Rachelle.

Good morning, everyone. Thanks for taking the time to join us today after what might've been a long night for many of you. I hope you and your families are doing well both physically and mentally.

So here we are. We're now over seven months into this COVID-19 pandemic, and I'm happy to say the Company is in good shape and we're excited about the future of our industry. In fact, I would say that over the course of this year, our belief in a bright future for our industry has strengthened. That's why we remain a pure-play supplier of the uranium fuel needed to produce clean carbon-free base-load electricity.

We also remain very bullish on the uranium market. Why is that? Well, first around the globe, we're seeing an increasing focus on electrification, for various reasons. There are those that are installing baseload power. Then there are those who are looking for a reliable replacement to fossil fuel sources. Finally, there's new demand for things like the electrification of transportation.

This is occurring precisely at the same time countries around the world are focused on decarbonisation. And that has led to the recognition from a policy point of view that nuclear will be needed in the toolbox to sustainably achieve both electrification and decarbonisation at the same time. China, for example, who has a goal to have 25 million electric vehicles on the road by 2030, recently stated that its objective is to become carbon neutral before 2060. The follow-on study from a climate scientist in that country predicted that to achieve this goal will require an estimated quadrupling of nuclear power capacity in that country. That would be about 200 reactors for China alone - double that of the U.S. fleet, which is currently the largest in the world. So demand for nuclear is increasing.

However, on the supply side, there's some big question marks about where uranium will come from to fuel the world's growing nuclear fleet due to persistently low prices, shrinking secondary supplies, and the end-of-reserve life and unplanned disruptions. These are the fundamentals that get us up in the morning and why we remain committed to doing what we said we would do. Let me remind you what it is that we said we would do.

First and foremost, this is where it all starts for us. We are focused on protecting the health and safety of our employees, their families, and their communities, and we're doing that. Every day we make decisions about how best to manage our operations and our workforce through this pandemic. So far, we've been successful, and with what appears to be a second wave of the COVID-19 pandemic, this remains our priority.

Second, we have not wavered from the execution of our strategy. Let me remind you that there are three fronts on which we are executing our strategy: operational, marketing, and financial. On the operational side, we've implemented planned supply discipline, which includes the suspension of production at Rabbit Lake, our U.S. assets, and, of course, at McArthur River and Key Lake. This supply discipline has left a lot of pounds in the ground and kept them off the market, almost 87 million pounds in total. On the marketing side, we've been purchasing material on the spot market to meet our committed deliveries. Our purchasing activity has pulled more than 50 million pounds off the spot market and placed that material into long-term contracts. In total, that is almost a 140 million pound swing in the supply fundamentals. So we certainly have done a lot of heavy lifting.

In addition, we've shown sales discipline, sticking to our value strategy. We've shown strategic patience, not committing our tier one pounds under long-term contracts that don't provide an appropriate return, or risking having to deliver them into an oversupplied spot market. And we're seeing our patience pay off. While the on-market activity is modest, it is gaining some momentum. However, it's the off-market activity that gets us excited. We continue to see this area growing, and historically, it has been the leading indicator of a broader market transition.

But remember this is not a subscription based business. Many of these are big, chunky, agreements that take time to negotiate. For example, think of our Bruce Power contract in 2018 or the contract that we signed in 2010 with the Chinese and our 2015 contract with India. All of these agreements took time to negotiate, but the reward was worth the wait.

Finally, on the financial side, we've been very deliberate in shoring up our balance sheet. We have the financial capacity to self-manage risk and maintain our strategic resolve. And we were active on this front in October. We took advantage of favourable debt capital markets and further strengthened our balance sheet. We refinanced $400 million in debt coming due in 2022 with a record low coupon rate for us of 2.95%, and we reset the maturity to 2027.

I'm happy to say that we're performing well on all three fronts. Obviously, our strategy was thrown a bit off course with the unplanned disruption of production at Cigar Lake in March. That was not part of our plan when we started the year. Having Cigar Lake running was always part of our strategy. It contributes to our financial capacity by helping to offset the care and maintenance costs of our supply discipline and the impact of our purchasing activity. So we're pleased to have it safely restarted, returning us to our strategy. It's not without challenges though; there are still risks and we need to be vigilant.

Before we begin the Q&A, I want to highlight a few other items.

First, of course, is related to our announcement last week. As you will have heard, the CRA is seeking leave to appeal to the Supreme Court of Canada, despite two clear decisive rulings in our favour from the Tax Court of Canada and the Federal Court of Appeal that determined we complied with both the letter and the intent of the law. It is incredibly disheartening an affair for our employees and many other stakeholders to be once again thrown into uncertainty. We have prevailed at every stage of the legal process. You've heard me say this before: if the CRA feels the laws aren't accomplishing what they want, then the government should change the laws moving forward, not pursue the same arguments over and over again before a different court and expect a different outcome.

Cameco has consistently worked hard to be a good corporate citizen. We've invested billions of dollars in Canada, contributed considerably to the wellbeing of our communities, and have been recognized as one of Canada's leading partners, employers, and supporters of Indigenous people. As we manage our way through the extraordinary challenges posed by the COVID-19 pandemic, we have not laid off any of our employees and have continued to provide support to our communities. At a time when Canadian businesses are facing unprecedented economic upheaval, challenging global markets and a worldwide pandemic, CRA's actions cast a chill over all companies in Canada trying to compete on the world stage. However, if leave to appeal is granted, we'll remain confident in our position, which has thus far prevailed at every stage of this process, and we will be ready.

I also want to highlight the leadership role Cameco has played in trade policy and market access disputes, including the Section 232 dispute, the Nuclear Fuel Working Group, and the Russian Suspension Agreement renegotiation. These are important issues for us, and we've spent a lot of time on them and are quite pleased with the results, particularly the amendment and extension to the Russian Suspension Agreement. The amended agreement provides greater certainty for the industry and the nuclear fuel market moving forward and establishes a clear set of rules around access to the U.S. nuclear energy sector by Russian nuclear fuel suppliers. We believe it provides us with an opportunity, as a commercial supplier, to help U.S. utilities de-risk their reliance on Russian supply.

Finally, I want to highlight our focus on delivering our products responsibly and addressing the ESG risks and opportunities that we believe will make our business sustainable over the long term. This is super important for us and we believe it is a competitive advantage. We're very proud of our 30-year commitment to protect, engage, and support development of our people, their communities, and to protect the environment. And I want to remind you that 100% of our product goes to producing clean, carbon-free base-load electricity.

Our decisions are deliberate. We are a responsible, commercially motivated supplier with a diversified portfolio of assets, including a tier one production portfolio that is among the best in the world. We are well-positioned to take advantage of a market where we believe the risk to supply is greater than the risk to demand.

So with that, I'm going to now turn things back over to Rachelle for a few questions, and then we will open it up for your questions.

RACHELLE GIRARD:
Thanks, Tim.

Cameco has been on its current strategy, curtailing production and purchasing material on the spot market, for a number of years now. How effective would you say it has been and when do you expect to realize the benefits?

TIM GITZEL:
Well, I have to say, I think it's very effective. Let me start by saying this, that we couldn't continue on the way we were going in the post Fukushima world: over producing pounds that

nobody really wanted or needed. We actually started to exercise discipline back in 2014 in the conversion market when we curtailed our conversion at our Springfield's facility in the U.K. That then started a cascade of other reductions of production in the conversion market, leading to a market and conversion that today I would say is quite healthy.

We did the same with uranium then starting in 2016. It wasn't a real happy day I remember when I flew up to Rabbit Lake and announced that we were taking that facility down. Same day, we took down our U.S. facilities in Wyoming, Nebraska, and we pulled back on our production at McArthur River. Then, of course, we followed that with our 2017 announcement at McArthur River / Key Lake.
As I said in my comments, we've taken about 87 million pounds of uranium off the market. The supply side, we think we've done a lot of heavy lifting on that side. At the same time, we've been purchasing material. Grant and his team have been out purchasing material. I think we've pulled 50 million pounds or more off the spot market there. A hundred and forty million pounds that could have been produced or that have been purchased by us to put into long-term contracts. We think we've done our share and maybe more.

On the financial front, you've heard us talk about the strength of our balance sheet. We've been very conservative in that, and after 10 years of bad highway to be and the shape we're in right now with our balance sheet, we're pretty proud of that. We think the market's improving. We think, as I said in my comments, this whole electrification, de-carbonization, carbon neutral by 2030, 2040, 2050, is playing in our favour. As you've heard from world leaders, we're not going to get there without nuclear. We think we're in the right space on that. We think nuclear has got a role to play. I just want to mention a couple pieces on the supply side that are coming due really quickly. I think of our friends at ERA in the Ranger Mine tapping out in a couple of months. I mean, they've been in the market for decades. We're not going to see that supply coming anymore. Cominak, a mine in Niger that I used to have some responsibility for. Same thing, in March of next year, they too are shutting down their production. We heard from BHP recently that the long anticipated expansion of the Olympic Dam mine not going ahead, at least not at this time.

Some real supply disruptions at a time when I think the demand is growing, not at rocket speed, but growing nonetheless. We think we've done the right things. We think we're in a good space and I can tell you we're super optimistic about the future.

RACHELLE GIRARD:

Thanks, Tim.

Tim, with the increasing cases of COVID-19 and the confirmed cases at Orano's McClean Lake mill, what is the risk that you will have to suspend production at Cigar Lake again?

TIM GITZEL:

Well, let me restate it, and I'll restate it on every question you ask, that the health and safety of our employees, and their families, and our communities, is number one, especially through these COVID times, and it will be always. We're watching that very closely. We were down for five months at Cigar Lake. We moved quickly in this pandemic. We said we don't want to take the risk that we have an outbreak at our sites and that it could be spread into the communities around our sites, so we moved very proactively and we think responsibly to deal with it.

I was up at the site Cigar Lake about a month ago and I was absolutely shocked at how many safety measures have been put into place. You can't get on an airplane without your temperature being taken, without masks, there's spacing on the planes. You get checked when you arrive. The cafeteria looks like a call centre, there’s so much plexiglass put up in there. Those are the measures we've taken. We will do everything we need to protect our employees.

We certainly hope we don't have an outbreak at our sites or at the McClean site where the Cigar Lake ore is milled. They're doing a great job over there as well, but we'll watch it every day. We come every day. And we have had a few close calls where someone's not feeling well. We quickly isolate them, test them, and make sure they're good. We're taking all the precautions we need. That doesn't guarantee we won't have an issue going forward, but for now I think our people are doing a very good job.

RACHELLE GIRARD:
Great. Thanks, Tim. I'm going to move back to the market now.

Are you disappointed by the lack of term business you've been able to secure, and what will it take to get utilities interested in term contracting?

TIM GITZEL:
Let me turn that over to Grant for an update on that. Grant.

GRANT ISAAC:
Yes. Thanks, Tim.

Given the fundamentals, I think it's reasonable that somebody might expect more term activity has been happening in the industry, and just let's review those fundamentals. I know Tim went through them, but I think it's really important to emphasize. On the demand side, the global outlook for nuclear is improving, due to increasing electrification with decreasing carbonization. And of course the lack of replacement rate contracting for uranium over the past number of years has produced substantial uncovered requirements. That's good news from a demand perspective.

This is occurring while on the supply side. We’ve seen short-term supply be under pressure due to planned and unplanned supply cuts. We've seen longer-term supply under pressure due to a severe lack of investment in future productive capacity that's required. And we've actually seen this occurring within a, if you will, a geopolitical storm that's brewing. Low prices have created significant SOE supply concentration. Low prices have exacerbated the demand supply gap in the global uranium market. You've heard us say before, about 90% of uranium is consumed in countries that have little or no production, or 90% of uranium is supplied by countries that have little or no consumption. It's a highly trade dependent commodity, but the days of seamless globalization appear to be over, replaced by an era of strategic regionalization where origins matter, trade policy, market access issues become dominant.

Tim talked about the critical minerals initiatives between various countries to secure preferential markets. In the U.S. alone, the Section 232, the Nuclear Fuel Working Group, the RSA extension, all contribute to a cloud around the supply that doesn't match the optimism around demand. It's important to kind of start with those fundamentals and conclude, yes, you'd sort of expect to see a little bit more contracting just based upon that.

But there's a couple of really important observations to make when you think about term contracting in our business.

The first point I would make, and I know many are familiar with this, but I want to emphasize that we're talking about new contracts here, not our committed sales portfolio. Our committed sales portfolio are the contracts we signed in the past and they've proven to be extraordinarily resilient through these times, especially during the pandemic. We're talking about the new business that we bring into the market.

The second important point is that this term demand is delayed or it's deferred, but it hasn't disappeared. It will come to the market at some point, because simply put, there's no substitute for uranium. It will have to be procured. And as more demand piles up into the same future period, it will be chasing less supply. We've seen that movie before when that happens.

The third point to remember is that historically, the transition in our markets have been driven by shocks rather than a rational realization that prices need to go higher to incent future supply. We only have to think back to the supply shock of 2006 due to Cigar Lake flooding, or the demand shock of 2010 due to substantial Chinese term contracting coming into the market. When you think about the current demand supply balance, it's as vulnerable to a shock as the 2006 and the 2010 markets were simply because of the lack of investment in productive capacity.

The fourth point I want to make, and this is really important too, there's a difference between the term contracting activity that's happening at the market or industry level, and what's happening for Cameco. You've heard us talk about that we've been enjoying a level of off-market activity that seems to exceed where others are at. In 2019, we did achieve replacement rate contracting. We booked more new future business than we sold in year. As this year began, we had a very full pipeline of uranium and conversion services. You've heard us talk before, COVID has caused some delays, obviously, but the level of activity has actually grown. It hasn't diminished in that pipeline.

As Tim talked about, we've never suggested to anyone that term contracting success should follow a predictable quarterly target. Term contracting in our industry takes time. Consider, for example, that the conversion market price transitioned last year and conversion remains an important off-market for us right now. It just takes time to translate those moves into demand. As Tim said, term contracts are typically chunky. He mentioned the China contract in 2010, India 2015, Bruce Power in 2018.

When we step back and look at this market, and we look at the fundamentals, we continue to be optimistic. We continue to be bullish and we think we're positioned right where we need to be from a term contracting point of view.

RACHELLE GIRARD:
Thanks, Grant. While we're on the market and contracting, can you help us understand why we're seeing a softening in the spot price?

TIM GITZEL:
Grant, go ahead.

GRANT ISAAC:
Sure. It's probably important at the outset to just remind everybody that when we talk about the spot market, it's not to suggest in any way, it's the fundamental market in our business. It isn't the fundamental market. It's supposed to be the market that just reflects a discount to production economics. It's supposed to be a market where the term price is what's telling folks what's required for future production. Since Fukushima, the spot market took on an outsized role, as undisciplined supply, without a term contract home, was dumped into the spot market and it put downward pressure on price. This ultimately triggered the term price down. It brought it down to be essentially the forward carry trade of a surplus spot market.

Largely, the term price signal has failed and it's failed in the last couple of years so no surprise, the investments that are required today to ensure productive capacity in the future are not occurring because of that failure. We do have some broken signalling there. When you think about the spot market, remember we are the largest spot buyer, but it is not our focus from a sales point of view. I'll make some observations as the largest spot buyer.

Here's how we think about spot today. It's important to understand it's not a story of oversupply. It really is a story of under demand. I don't mean that to just be a cute comment, but we've seen a real discretionary demand, fundamental discretionary demand, in the spot market, but yet we've seen willing sellers come in. We've seen a little more supply or a mismatch between supply and demand.

In terms of supply, where's it coming from? The main source coming into the spot market is uncommitted primary production. This is coming from supply centres that don't have a term contract home. It's not inventory mobilization. That might've been a bigger part of the spot market through 2015, 2016, and 2017, but it's not the story of the spot market today. And it's important to understand, this does not include Cigar Lake material, for example. Cigar Lake is produced for term contracts. It's not sold into the spot market.

What we see is uncommitted primary production that just shows up mismatched for when demand is in the market. The uncommitted primary production ends up in the hands of traders who turn the same material around and around the market, creating what I would call the illusion of ample supply, but in reality, I would say about half of the spot market is simply this churn.

But here's the good news. This is not sustainable. Some of the sources of uncommitted, primary production, as Tim mentioned, are ceasing. Think the Ranger mine, think the Cominak mine. For other sources of supply, as the term market demand picks up, primary production will find term contract homes and not be forced through the spot market. In addition, some of the expected future production just simply won't be there. Those who were counting on Olympic Dam expansion, or counting on SOMAIR, or Paladin to restart, they've shown incredible discipline through this. Or the various and sundry advanced exploration projects that are, simply put, a long way from reality.

And ultimately, the traders, the intermediaries, are not backed up with productive capacity so the churn will reduce. And ultimately, the market will transition back to the term price, reflecting production economics. If history is to be our guide, it will initially dramatically overshoot for a period of time. Think uranium in 2006 and 2007. Think uranium in 2010, 2011, and think conversion in 2018, 2019.

RACHELLE GIRARD:
Great. Thanks, Grant. Final question for this portion of the call.

What are the two main improvements coming out of the amended Russian Suspension Agreement, and are the changes driving new demand?

TIM GITZEL:
Well, I'll take that one, Rachelle.

I mean, the biggest value coming out of the Russian Suspension Agreement is the certainty it provides to the market. I mean, we've been talking about this for probably a year or more now, how there's a bit of an overhang on, especially the U.S. market not knowing where it was going to land. The certainty it brings is welcome, I think by everybody. And was everybody delighted? Probably not, but I think they hit a good middle ground.

I have to give credit to a gentleman named Jeff Kessler who's at the Department of Commerce who had the unenviable job of trying to broker an arrangement between all of the disparate parties in this. I think he did an absolutely outstanding job in that we tried to be helpful to him and the Department of Commerce. I know Sean Quinn and others in our shop were trying to provide our views on how we could reach an agreement. The process ended up with an agreement so we're happy about that. What are the main improvements? I think there's probably two.

Number one would be the cap on EUP, as we call it; or translated, it's the cap on the amount of uranium and conversion that can come into the market. That's really important for us. It's at levels that we think are acceptable. That's going to be a huge benefit and allows us access to a good chunk of the U.S. market.

And then there were some rules on return feed. This return feed issue has been an issue that the return feed wasn't actually being returned. It was going out and coming back right away and ending up in the U.S. market. There's some pretty tight rules around that now, and we think that's going to be a big benefit.

Overall, as I say, is anyone ecstatic about the agreement? Probably not, but does everyone say it's a good agreement that's going to work for the next 20 years? I think so. We're very happy about that.

RACHELLE GIRARD:

Are you seeing any new demand as a result of the agreement?

TIM GITZEL:

Well, I think it's one item in a list that we've been talking about that's been holding up demand. The RSUs has caused a bit of confusion. COVID obviously has kept buyers in the background. There's been material in the spot. The utilities are covered. All of those things that we've talked about, but this certainly removes one impediment.

Grant, I'm not sure if you have any further comments on that.

GRANT ISAAC:

Well, certainly can confirm that with the completion of the amendment to the RSA or the extension, we have seen interest in non-Russian supply of uranium and conversion. We expected to see it. We are starting to see it, and very excited about it because it creates a great opportunity for us with our Canadian supply.

RACHELLE GIRARD:

Great, thanks.

So that concludes this portion of our call. I will turn it back to the Operator for the open Q&A session.

OPERATOR:

Thank you. We will now begin the question-and-answer session. In the interest of time, we ask 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, 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, one, at this time.

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

ANDREW WONG:

Hi. Good morning. Thanks for having me on the call.

Maybe we'll just start with the RSA and calculations I've heard about. With the amendments, and there's a pretty significant gap in the quota between EUP and natural uranium and even in

2021, that's a pretty big gap. How much of that gap do you think has already been accounted for with the U.S. utility purchasing non-Russian material? If the utilities have to close that gap relatively quickly because 2021 is coming up pretty soon, does that stimulate any sort of near term spot demand?

TIM GITZEL:
Yes. Andrew, thanks for the question and thanks for joining this morning. I have Sean Quinn here to talk about that.

I think probably a good, healthy chunk of the quota is already used up. The negotiations in the early years were to cover existing contracts that were already in place, I think, and so it's probably used up already.

Sean, do you want to talk about that?

SEAN QUINN:
Yes, for sure, Tim but I think I'm just going to ratify your answer. Our understanding through the negotiation period was that the quota, both for bitumen and EUP, for the first few years is heavily subscribed already under the existing contract portfolio.

ANDREW WONG:
Sorry. Just to be clear: so you're saying that their utilities have already sourced the spot market or the non-Russian material that they would have to return? Is that what you're saying?

GRANT ISAAC:
Yes. Hi, Andrew. It's Grant. I'm just going to jump in here.

Part of the agreement actually included what you'd call grandfathering of some of the contracts that were signed in, perhaps you consider it, a good faith prior to the expiration of the RSA, but for volumes outside 2020. There's been some coverage of that. Some of those contracts have obviously been preserved as part of that grandfathering. That really puts the opportunities for supplying the uranium and the conversion into the enrichment services with the Russians out kind of in the '22, '23 window. When I said earlier that we can confirm that there's been interest for non-Russian uranium and conversion, it's really out in that window, as opposed to the remainder of 2020 and ’21 because of that grandfathering effect.

But to your question of, have we seen those shortfalls covered yet? No, we haven't. That's demand that we're actually expecting to see. Some of it will come off-market. We'll get utilities, U.S. utilities, coming directly to us looking for uranium and conversion. We think some of it we've seen on market with some of the spot and shorter-term interest that has come out from the U.S. utilities just in the past, I would say, couple of weeks, but it is a source of demand in the nearer term that wasn't expected prior to the conclusion of the RSA.

ANDREW WONG:
Okay. Thank you for clarifying that.

Could you just give us an update on your views on the carry trades that happen in the market? I mean the interest rates are pretty low right now. Does that help facilitate some of that activity, or maybe there's an excess material that maybe isn't on the market as much nowadays? Does that maybe limit some of that activity? I'd just be curious to hear your updated thoughts on that. Thank you.

GRANT ISAAC:
Yes. Thanks, Andrew. It's Grant again.

The carry trade part of our business, we're seeing it diminish, and I'm not going to suggest going away, but we are seeing it diminish. It really is a function of the oversupply in the spot market that we'd seen in the last number of years combined with low interest rates, as you say, because then you just carry it out into the near part of a term contract. What we've seen, I think importantly, is a number of changes to the market structure that limits the amount of material that could be grabbed today and fed into carry trade. I mean, just think about some of the sources of supply. The DOE barter program, which came to an end, used to be a source of supply for traders to grab material.

Pre COVID, you probably would have expected more uncommitted primary production to come into the market, but the COVID curtailments, the fact we're 20 million pounds and growing in terms of a shortfall this year alone in the market means there's less material to grab to put into a carry trade. Tim talked about the rules on Russian return feed. That was another important source of material that kind of got - I'd use a pejorative term, but - laundered through Europe in order to come back into the U.S. market. That was another source of material that could be used for carry trade.

Importantly, it's those sources of uncommitted supply that are drying up. Even with interest rates low, you're still seeing limits to how much you can grab, tuck away into the carry trade.

I think it's probably one of the reasons that we've seen traders go and strike deals with some of the uranium funds to borrow material or have the funds loan material, because it's reflecting that they're just not finding those sources of supply available that perhaps had been more ample in the past. It's that combination of ample supply plus low interest rates. While the ample supply part of it is going away, that's part of the underlying fundamentals that make us fairly optimistic.

ANDREW WONG:
That's perfect. Thank you very much.

TIM GITZEL:
Thanks, Andrew.

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

GREG BARNES:
Yes. Thanks. Grant, can you characterize your discussions with the utilities on terms of term contracting? I know you said in the past that your activity is the highest it's been in years, but where does that stand today and how urgent do you find the utilities in actually getting some term contracting done.

GRANT ISAAC:

Yes. Great question, Greg.

The distinction that we often make, and I just want to be maybe a little bit more clear on it than I've been in the past, is this notion of on-market versus off-market. When we say on-market, what we're talking about is when competitive RFPs for term supply come into the market. Those are the ones where we still are seeing quite significant competition for them. Where we're preferring to operate right now is what we call off-market. That's where we have bilateral exclusive discussions with customers on future supply.

When we were talking about our pipeline earlier in the year, we were really talking about these off-market types of conversations. I would say that the common denominator here for these conversations is they tend to be with our bigger customers: the ones who have bigger fleets, more predictable fleets, probably a greater sense of the need for supply going out into the future. These are the utilities that look at the supply discipline decisions and look at the continuing risk of the unplanned disruptions. The fact that COVID is not just a 2020 event, but could have an echo into 2021. They're looking for production.

They recognize that the spot market is not there to satisfy their run rate requirements out into the future, and because they're coming to us off-market, we have an opportunity I think to reset the expectations away from just simply where the price is today, but to where it kind of needs to be out into the future. And you know and we've said this before, we have a high preference, as Cameco, for market-related pricing out into the future. We don't believe today's prices are going to reflect prices out into the future required to make sure supply is there.

And so for us, those off market conversations are a way to kind of tip the balance a little bit back into the type of terms and conditions that we want. In terms of a framework, you know, we're still overall trying to pursue a portfolio that has market-related exposure. We recognize that a lot of utilities also need some base escalated pricing, so we're not prepared to say no to all of that. And oftentimes, where we're successful off market, we can strike kind of a hybrid balance where a portion of the contract—a majority of the contract is market-related. So, it gives us that exposure out into the future and a portion of it is base escalated. But for us, it's important that the expected value out into the future is considerably more profound than it is today, and that for us is far more fruitful than competing on market where we're still seeing some other producers willing to really dig deep to offer uranium at cheap prices.

I just want to mention that without it being an alarming statement, because the fact that the RFPs that are coming on market are largely base escalated is actually a pretty powerful signal, and I think it's a positive signal and people need to think about this. If utilities fundamentally believe the price of uranium wasn't going to go up, we would have no problem negotiating market-related contracts, because their view would be, well Cameco you're taking all the market risk, we don't think the market price is going to go up, so you're going to be taking a lower price out into the future, so, the risk is all on you. Okay, go ahead, let's have a market related contract. But of course that's not the situation. They understand that today's prices do not represent where they need to be to ensure supply is there.

So, what they're doing is coming to the market in a competitive way and trying to get as much base escalated pricing as they can. And so, yes, it would be great if there was a little bit more discipline by some of those that are bidding into those base escalated on market RFPs, but there's a pretty powerful signal in there that this is utilities recognizing that these are low prices and they'd better lock them in as much as possible.

Greg, sorry I wandered between our off market and on market, but I just wanted to be clear of the distinction there because sometimes we see it get confused a little bit.

GREG BARNES:
So, I just want to check, Grant—that was all very helpful, but you're still of the view that going forward you will be able to continue to replace your portfolio and continue to grow that going forward. You're not going to see a decline?

GRANT ISAAC:
Yes. So, we talked about at the beginning of the year, we had a pipeline of uranium and conversion service discussions from origination to negotiation that was as big as it's been I would say since before Fukushima. Happily, none of that demand, if you will, has gone away. We haven't had a utility come to us and say, you know what, this COVID situation or for other

reasons, we don't want to have a discussion, so we haven't seen anything go away. We have seen some delays. I talked about this in Q2.

Our fuel buyers—our customers weren't immune to COVID. And so, we saw a response from them as COVID was within their jurisdictions that they operate. Their focus was really on making sure that the material they bought in the past for delivery and year was going to show up. So they really kind of triaged their activity to making sure they could get the fuel bundles they need for running this year in a COVID environment as opposed to thinking what they need in terms of uranium supply in a few years out, so that's created a delay. But the good news is, it hasn't caused any demand to disappear. And then, I would say things like the unplanned supply disruptions that hit us and that hit in Kazakhstan brought more demand to us, to discuss. And in fact, we just talked about the RSA: the restrictions on Russian uranium and Russian conversion and then the need to replace that has brought more demand. So, that pipeline is very active and we're very happy about that because it's always been a leading indicator that a broader transition in the market is not too far away. But Tim, did also mention in his comments this idea that—and then we've heard it a little bit in the market and we just—we want to be absolutely clear about this.

We have never suggested that that pipeline should result in predictable quarterly, contracting reporting—like, when we negotiate these contracts, they take time, they can be chunky, the reference I made was to conversion. A very active part of our portfolio now is conversion: well, the conversion market transitioned last year, like that's the kind of delay you think about. So, we have never suggested that by Q3, we would hit X amount of term contracting, or by Q4, because that's not the way it works in our industry. I'm not trying to set up a disappointment.

The pipeline is still there, the conversations are still there but making sure we negotiate a quality contract takes priority over negotiating a fast contract.

GREG BARNES:
Okay. Thank you. That's it for me.

TIM GITZEL:
Thanks, Greg.

OPERATOR:

The next question is from Alexander Pearce from BMO. Please go ahead.

ALEXANDER PEARCE:

Great. Morning all.

So, I just wanted to move away from the market a little bit for the moment. Just given Kazatomprom reported some of those positive cases at its operations earlier this week, is the situation there really having any impact on your purchasing ability from Inkai at the moment? And obviously if you add up year-to-date purchases, your attributable purchases from the operation, it's still running a little bit below where we think production is. So, can we expect that to unwind? Is it still just down to timing, or is there anything else we should be thinking at the moment?

TIM GITZEL:

Well, Alex, we're in touch with Kazatomprom on how things are going there on a daily or weekly basis, and of course they're taking the same cautious proactive steps as the rest of us have. They've taken their production down this summer for some months, and now they're starting it back up, and as we've all said in the ISR world, that takes some time. It's all drilling all the time and so to remobilize the drills and get the holes drilled and get the fluids flowing take some time and so, there's been a loss of production there. I think overall, they've talked about 10 million pounds, I think, through the summer and through those months. And so yes, we're all a bit behind I think in Kazakhstan. We're watching to see how quickly they can get back up. I think Riaz Rizvi said the production shortfalls might continue into 2021 depending on how they can ramp production back up again.

There's nothing secret about what's going on there. I think they're just like the rest of us being cautious, and now we're all watching for whatever the second or third wave. We're seeing some increased cases here in Saskatchewan again, so we're being super cautious, and I know Kazakhstan is not out of the woods by any stretch. So, nothing special - I look to Sean - that we're aware of, and we hope our production will catch up in the months to come.

SEAN QUINN:

Yes. They're still on track to produce the—kind of reduced level that they estimated earlier this year, 2,600 tons, so that's down from the 3,200 tons. But they're still on track to that, yes.

TIM GITZEL:

Yes.

ALEXANDER PEARCE:

Okay. Thank you.

TIM GITZEL:

Thanks, Alex.

OPERATOR:

The next question is from Gordon Lawson from Paradigm Capital. Please go ahead.

GORDON LAWSON:

Hi. Good morning.

I understand you're hesitant to provide specific numbers to justify restarts, but is there any relative data with respect to term prices and supply demand balance that you could comment on related to production from McArthur River, Rabbit Lake, and others?

TIM GITZEL:

Well, I think we've been really clear on McArthur Key, that we're keeping it down until we can - just the conversation Grant just had with Greg - refill our contract portfolio at levels that are acceptable to us and our shareholders, and we're not there yet. We've got some good leads, and we made some great progress last year. I think we've sold in 2019 about 36 million pounds under long-term contracts; we continue to work on those. It's been a bit delayed by COVID, but we have no doubt we will be able to refill our contract basket going forward.

While Grant was talking, I was just looking again, I think it's TradeTech or Ux numbers, 716 million pounds uncovered to 2030, and if you go to another five years, you're talking about over

1 billion pounds, 1.5 billion or something like that. The material is out there to be sold and we've been in a bit of a hiatus here due to COVID and RSAs and other matters, but we expect that to pick up again, and we don't have a firm date. It'll depend on the contracting and utilities that want production from a mine that they can go and visit and see the production coming out of. Once we have that in place, then we would make the move to restart McArthur, of course, in consultation with our partners there.

And then, of course, it's not the flick the switch and it comes on: then there's months to go back, and we haven't been in there since, it's coming on three years now that we've been down. So, we've got some work to do to bring it back on, so it's going to take us some months to maybe a year to even bring it back up and get it going.

No, we don't give out specific numbers, other than we need the contract portfolio. We don't need to sell every last pound out of there, but we certainly want a healthy dose of the pounds that would come out of McArthur—we want them to have a home before we restart it.

GORDON LAWSON:
Okay. Thank you.

TIM GITZEL:
Thank you.

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

BRIAN MACARTHUR:
Good morning.

So, I kind of want to follow up, I guess on that question, Greg's question. So the whole expected value of contracts and obviously I never will be able to check this from the outside, but are you actually going to utilities and saying whatever you thought the base case would be for a restart at McArthur and EV going forward, say 12 months ago because the longer this stays down, there's an additional cost to keeping it down, the chemical bears. Are you actually pricing that in going forward, the longer it takes to get everything back into the market? Because there is a cost as you keep everything shut down, and as a shareholder I kind of want a rate of return. So, you actually say you could have got it contracted at 45 base a year ago, you'll go to them and say because it's taken longer because you've waited so longer I now want a base of 48? I get all the part of it, the market related thing but what I'm trying to do is figure out whether you're trying to capture that additional cost for the strategy as time goes by.

TIM GITZEL:

Yes. Thanks, Brian. Grant, why don't you take that one on.

GRANT ISAAC:

Yes. Well, absolutely, Brian. We're trying to make sure that we're capturing as much value for the production that comes out of our assets as we possibly can. So, what has been an important development - and you will have noticed it - one of the trade reporters in our business, TradeTech, came out with what they call their production cost indicator and this was an important, I think, attempt to correct the signal failure that I talked about earlier, whereby the term price no longer has any link to production economics. The term price has been dragged down to be nothing more than the carry trade on the spot price and what has been an oversupplied spot price.

And so, a very positive development in our industry is a trade reporter coming out and recognizing this broken signal and then doing their part to help change it; and suggest that, if you want idled capacity that's already licensed and already permitted to restart, there's a cost to it. And that cost is, according to them, it's in the mid-40s, and that kind of resets the expectations, and that's on the heels of, I would say, a reset in the spot market as well, Brian. I mean, this time last year, pre-COVID and all of that, if you asked a credible market participant what they thought a cheap price of uranium would be, they'd probably say $20 a pound, and that same person today is probably saying $30 a pound. So, it's a very significant change from where the price expectations are at spot and the shift over to production economics.

So, absolutely, we're trying to capture as much of that value as we can and do that obviously before there's any signalling about bringing supply back.

BRIAN MACARTHUR:

But conceptually, will you try and capture that? Like, I mean, you can capture—more guaranteed rate of return depending on how much base function there is versus how much, as you said market related in the future is because that's just—I mean, that's option value—you want to retain that. Has your thinking your balance of that change as you go forward as you effectively incur more costs as you wait, if you see what I'm saying?

GRANT ISAAC:

If you're suggesting that we're looking essentially to baseload at fixed prices, I would say no. We're actually looking to maintain that portfolio balance because remember, we've been on the other side of the trade before when we fixed in a lot of prices, the late—the late 1990s or early 2000s and missed a lot of uranium price upside because of that and were I think criticized mightily in the market by probably you and others, and we look at the fundamentals today and we say boy, they have an eerie similarity to that period of time, in terms of a very complacent period where prices got so low they started destroying supply, kind of feels very similar to today.

We want to maintain that upside to the extent that those off market conversations do contain a utility that, that really wants a base escalated portion. Well, that would be our opportunity to lock in some of that value, but we don't want to just simply base escalate to restart McArthur and then have no leverage to the upside with that wonderful asset. That—we've seen that movie before and that wasn't particularly attractive to us either. So, it's trying to strike that balance, Brian.

BRIAN MACARTHUR:

Great. Thanks very much.

TIM GITZEL:

Thank you, Brian.

OPERATOR:

The next question is from Lawson Winder of BofA Securities. Please go ahead.

LAWSON WINDER:

Hi, thanks for taking the question, guys.

Just your commentary on churn, I mean, you stated that you think 50% of the market that you've seen this year is coming from churn, and I'd be very curious to get some context on that in terms of where that's come from. So, how high has that been in the past, and have you—have you seen any deterioration in the amount of the spot market that is churn?

TIM GITZEL:

Grant?

GRANT ISAAC:

Overall, I think the spot market has always had a fairly significant amount of churn, and in fact, I don't know that saying 50% of the market is just traders to traders, back and forth. That's probably roughly where it's always been. When we had our stand-alone trading arm NUKEM, we lived in that space and saw it every day and came to recognize just how much of it was actually the same pound or kgU of UF_6 going around and around and around and being counted separately each time, which is why I say, created this illusion of ample supply. So, I don't think it's the proportion of the market that's churned—that's changed it's the size of the market that's changed. And of course, the reason that the spot market got so big is because, and you know this very well, but let me just kind of go through a bit of history again.

Fukushima was a demand-off event, and demand came down in our industry precisely at a time when supply was still coming on. It was coming on as a result of higher prices; discovered in ’07 and discovered in 2010, which led to investment decisions, which led to supply, and that supply was coming on while demand was falling away in reaction to the Fukushima event, and we ended up with this supply that had no home. And rather than those who control that supply making smart commercial decisions, they just kept producing. And so the spot market became the only option for them. There was no robust term market for them, they had no other place to sell it and it hit the spot market. So, it's the size of the spot market that is unique right now, and I went through, a bit earlier, a bunch of reasons why I don't think that's sustainable.

The first being that some of those uncommitted primary production centres are going away, and I talked about Ranger and Cominak. We also talked about the fact that when you look ahead, some of the uncommitted primary production that you thought might have actually grown like BHP's supply, for example, is not going to. And of course, those who might have thought that there would be a whole bunch of new production, greenfield production from juniors who have said, well, we don't even need a term home for that material. That would have raised an expectation that there would be lots of material in the spot, but that's not a reality; that's not going to happen.

The good news for us is the size of the spot market in the face of the fundamentals is not sustainable, but the churn part of it, I would say it's always kind of been about 50% churn.

LAWSON WINDER:
Okay. That's great. And then, you—just a follow-up. You touched on the potential future supply, unbuilt projects. In the past, you've mentioned that you see these—this unbuilt supply, bidding on contracts in the term market, and I just wanted to ask this question—I've asked it before but have you started to see those unbuilt projects win any term contracting which a lot of them have said once again, of course start-up and not before? Thanks.

GRANT ISAAC:
Yes. Absolutely not. We use a term and we actually are really strong on this point: this will be an incumbent's recovery. If you're a utility and you turn your mind to future supply of uranium, you have a choice. You can either go to somebody who has a licensed, permitted facility with an operating history, or you could take your chance with something that's unlicensed, unpermitted, has no operating history, and you're going to go for the former. That's exactly why we're seeing the off-market activity that we're seeing at Cameco.

It’s an incumbent's recovery. It'll go to Cameco and Kazatomprom and Orano before it goes to these other unproven sources of supply. That’s just a normal, I think, rational transition in the market that will occur. And so, we don't sit every day and live in fear of these projects, because we know what the reality is like.

The comment we have made in the past is, to the extent that there's hyper promotion on some of these projects, that is heard by utilities. And so maybe the ones who aren't worried about future supply yet and are a little more complacent might hear something like these extraordinarily low operating costs, and they might say, well, I'm going to wait for that material because that's going to be in the market. Well, again, we've seen that movie before, we've seen the ’06-’07 period when there were hundreds of uranium companies that were promising supply, and I think only four emerged out of the 400 that were all around the planet at the time. So, we've seen that movie before. It's improving fundamentals, but has us very optimistic because it's going to be an incumbent's recovery.

LAWSON WINDER:
Thanks.

TIM GITZEL:
Thank you, Lawson.

OPERATOR:
The next question is from Fai Lee from Odlum Brown. Please go ahead.

FAI LEE:
We'll get that right one day.

TIM GITZEL:
Yes. I know. We just wait for that every time.

FAI LEE:
Yes. Just a couple of quick questions. First on the inventory, it looks like you're going to be moving into a phase of drawing them down over the next subsequent quarters. Do you have a sense of what—can you maybe talk about that from a cash management perspective of managing the inventories?

TIM GITZEL:
Yes, we can. Grant?

GRANT ISAAC:
Yes. Thanks Fai, that's a great question.

And I'm going to—sorry about this today folks, but I'm going to provide a bit of context again, so that it's very clear how to think about this.

You know, when you look at Q3, we've made a lot of purchases so far this year: 26 million pounds. And we have an inventory of 14.8 million pounds. And so, with the view that folks are going to say, well that might mean there's less purchasing required by Cameco or Cameco is building an inventory, I want to set the record straight. Mcarthur Key are down and they remain down, and as long as McArthur Key are down, purchasing will remain a significant part of Cameco's life. So, anybody who thinks that purchasing is coming to an end for Cameco would be wrong; that would be the wrong conclusion to draw.

As you know, Fai, our inflows between production and purchases and our outflows being sales, they always ebb and flow, and we build inventory ahead of a higher delivery period, for example. So, you've seen that on a quarterly basis, and I would say, that general principle is still at play here. And the example I'll point to is that at year end 2019, our inventory was below target, and so we talked about at the outset of this year we would have to buy to meet our committed sales portfolio, but also to rebuild a bit of an inventory. So, we certainly have fourth quarter deliveries to make under a very resilient contract portfolio, and we have a 2021 contract portfolio that we already have to start thinking about delivering into, and so we'll probably have purchases and inventory to supply into those. So, that takes me to just kind of clarifying some of the points on when we purchase, because I don't want anybody to think that this is an inventory build.

When we purchase, we target the spot market only. We purchase to meet our committed sales portfolio after accounting for our production and inventory. Because we're purchasing for our committed sales portfolio, we have very specific origin, location, product form, and timing requirements that we're targeting, because we know exactly what it's going into. It's feeding fundamental demand, and when we see those criteria met in the market, we buy. So we do not buy to speculate, we do not buy to build an excess inventory. And the other point that's really important when you think about the balance of our inventory is, we buy in the spot market in a disciplined, opportunistic manner as cheaply as possible. So you've heard us say before that we spend a lot of time looking at the market sentiment. When the spot market is tight, we actually buy more as what we saw with COVID curtailments this year.

The market retreated, we needed material for our committed sales. We bought it. We bought a lot of material. We still have a lot of material to buy. But we bought it. It built up our inventory for a period of time, but that inventory has a home in our committed sales portfolio, and so that working capital will be turned into cash. When the market loosens, we step back to buy it as cheaply as possible. So, we've got—we've said we would do that and we've proved this year that's exactly what we do. When the COVID curtailments came and the market tightened, we bought in front of the market, bought what we needed for our committed sales portfolio and bought an eye to securing that material, it built up our inventory a bit. As the spot market started to loosen, as some of the discretionary demand stepped back but supplies kept coming, we stepped back too. Because then, we're going to buy it cheaper.

So, it was—you need to think about it, that cash management all is part of that overall marketing purchasing strategy. So, way more background than you wanted, but I just wanted to be clear of how it all fits together.

FAI LEE:
Oh, no. I appreciate. That's super helpful.

Just a quick follow-up. Tim, I believe you alluded to the importance of origin or supply for uranium that's becoming a bit of a more of a factor these days. With the kind of shift of reactor bills more to Asia and China, can you just maybe talk about how that being Canadian might help or hinder that?

TIM GITZEL:
Yes. Well, you know, the Canadian passport is still good despite some trade issues that Canada might be having with China right now. Our relations on a B2B business with China have not changed at all. We continue to make deliveries in there; our relations with India are very strong; South Korea. So we have customers in all of those countries and we'll continue to—I think Grant mentioned the production versus consumption and the availability of trade routes becoming

more important. We are watching that very closely to say where our production should come from, we've got some coming out of Asia and we've got some coming out of Canada. And so, we're very conscious of that right now; it hasn't affected our business. But it's just something we watch—it's a great question, and we watch it very closely and we work with all of the governments, the Canadian, American, and others to ensure that we can keep our material flowing into our markets.

FAI LEE:
Got it. Okay. Thank you.

TIM GITZEL:
Thanks, Fai.

OPERATOR:
The next question is from Memathem Sahler, a Private Investor. Please go ahead.

MEMATHEM SAHLER:
Hi. Good morning.

Do you have any new big picture visibility on major shifts in demand strength and weakness, which might include particularly Japanese restart or Germany showing signs of learning their lesson or maybe acceleration on Russian SMR roll out or how the U.S. fleet is aging?

TIM GITZEL:
Thanks, Memathem, that's a big question. That's kind of the world demand picture, and it's a good one. And we're bullish, we're positive. Today, 442 reactors running in the world, there's 54 under construction. Chinese are building—I think they've got 49 or 50 running now, with another 10 under construction. I watched the trade press and some of them saying, well, you know, they said they'd have 58 running by 2020 and there's only 51. Well, I say OK. Well, building a nuclear reactor is not a simple feat, but we're certainly watching China very closely for that. I think it's the 14th five-year plan and if they're going to get anywhere near this net zero carbon by 2060, I think Grant mentioned it, they're going to have to quadruple their nuclear. And so that—we think that's positive.

You mentioned Japan. Japan, I think, has nine units that have been approved and have started and I think they're up and down now as they're putting some more safety features in to comply with the new laws. But, I think I saw, for Japan, that they have another 18 that are in the hopper, so nine and 18 being 27 that they're working on, they're trying to bring them back on. Prime Minister Suga is bullish on nuclear. I realize that they've got all these assets there and it has to be part of the picture going forward. So, I think Asia is the story for sure, at least in the near term.

What we're really watching closely and watching to see where Cameco can play is on the SMR front that you mentioned, and that's—boy, I'll tell you there's a lot of excitement in that area. I know, in Canada alone, there's 12 different models of SMR sitting in front of the regulator right now that are looking for approval, which is a lot. There's funding coming from the Canadian Government, we've got some provincial governments excited. We know the U.S. Government, whatever that looks like going forward, has put some money and backing behind SMRs.

And so, I still come back to the fundamentals of this COVID has put our attention elsewhere for the last seven or eight months, but the day before that, we were talking carbon reduction, CO2 reduction, climate change, keeping the temperature down, Greta Thunberg. That has not gone away and it's still out there and everybody committing now to—like I say, net zero carbon by whatever, 2030, ’40, or ’50, there has to be a role for nuclear and so that's the field we're playing in. So, thank you for the question, it's a good one.

MEMATHEM SAHLER:
Thank you.

TIM GITZEL:
Thank you.

OPERATOR:
The next question is from Carrie Tatineau, a Retail Investor. Please go ahead.

CARRIE TATINEAU:
Thank you for taking my question.

Last year, I think it was Q3, you announced that you had added pounds to your term contracting book. And during this conference call, you've mentioned a few times that you've had off-market discussions with utilities and customers. Can you explain to us, does that mean that you've added pounds to your contracting off-market that you can't report? And just give us a bit of information regarding that, please.

TIM GITZEL:
Grant, do you want to talk about our book I mean.

GRANT ISAAC:
Yes. Sure. It was our Q4 disclosure, our 2019 year-end where we talked about our success in 2019, 36 million pounds of uranium, a couple thousand tonnes of conversion entered into new long-term contracts. When we say off market, what we're talking about there is that's the business that we're pursuing on an exclusive bilateral basis. It's not generated through competitive RFP. So customers come directly to us for a variety of reasons. They could be coming to us because they're—they see the McArthur shut down and they say, okay, this is serious, I need to know what it's going to take to get McArthur production in the future. Or maybe they're coming to us reluctantly, because in their own portfolio, maybe they've already filled up with Kazakh material, or Uzbek, or material from state-owned enterprises, and they want more commercial material or maybe their procurement requirements require them to have more ESG criteria met in their supply.

So there's a variety of reasons why they come to us off-market, but these are these bilateral exclusive negotiations. We don't book them until the negotiations are complete and the contracts are executed. But that can be a long wait, as we said earlier. So what we've been doing is just also reflecting that we have this pipeline between origination and when we actually book it and add it to our contract portfolio for disclosure, to give you a sense that there is demand there. That even though you're not seeing it on the market level, you're not seeing competitive RFPs that are at replacement rate, we just want to assure folks that there are utilities out there that see the long-term fundamentals that Tim is talking about, that are concerned about where supply is going to be, that recognize that today's prices are not incenting the production decisions out into the future. And they're recognizing that some of the solutions they might have been counting on, like some of the new developments, just simply won't be there in the timeframe.

And they find their way to us off-market in these bilateral discussions. The fact that we haven't announced any in Q3 here doesn't mean they're not going on. It just means they're not at the point of being executed or signed. So that's the distinction that we're trying to draw. The reference to the pipeline is just to, kind of, give you an insight into that there's lots of activity out there.

CARRIE TATINEAU:

Thanks. And just as a follow-up, I'd like to—you've talked about this already, but I'd like to press you a little more on your statements in different conference calls: that you were looking for prices in the mid-40s to be able to sign new contracts, and - as the gentleman asked already, looking for a specific answer here - a year later as a retail investor, with conditions having, in my mind, improved for the uranium sector, are you looking for higher prices than in the mid-40s?

GRANT ISAAC:

Well, always looking for higher prices, there's absolutely no doubt about that. I would just make two observations. One is, on balance, it's still a buyer's market, not a seller's market. And then obviously the data point there is McArthur Key are still down. Kazatomprom is still operating at less than 20% of its subsoil use limit. So clearly, we're not at the point yet where the market has recognized the need to price a term, the average term price, between the two price reporters sitting about $35 a pound spot sitting at about $30. So it is moved, it is not moved enough, not moved enough to generate the type of price discovery where it needs to be to have McArthur up and running at full capacity, or to have Kazatomprom running at their subsoil use. So it's still a buyer's market more than a seller's market and that's why we find our most fruitful place to occupy right now is off-market, when utilities find their way into an exclusive bilateral discussion. In those discussions, we squeeze for every penny that we can get on pricing our future production with—within the reality that there still is more power in the hands of the buyers at the moment than there is in the hands of the sellers because we just haven't seen that replacement rate demand level. The fundamentals tell us we're not too far away from it, but it's transitioning to that space that—in which we're negotiating off-market.

CARRIE TATINEAU:

Thank you. And keep up the good work.

TIM GITZEL:

Thank you, Carrie. Thanks for your question. And thanks for calling in.

OPERATOR:

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

TIM GITZEL:

Well, thanks Operator, and I want to just say thanks to everybody that joined us today. We, as always, appreciate your interest and support.

These aren't easy times. They're challenging and unprecedented, but I can just assure you that during this period, we're going to continue to execute on our strategy and we'll do so in a manner that we believe will make our business sustainable over the long term. And I also promise you that we'll look after our people.

So, thanks, everybody. Stay safe and healthy. Have a great day. Thanks.

OPERATOR:

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