# Cameco Corporation

# 2021 First Quarter Results Conference Call Transcript

**Date:** **May 7, 2021**

**Time:** **8:00 AM ET**

**Presenter:**


**Tim Gitzel**
Chief Executive Officer

**Grant Isaac**
Senior Vice-President and Chief Financial Officer

**Rachelle Girard**
Vice-President, Investor Relations, Treasury & Tax

Cameco


**OPERATOR:**

Welcome to the Cameco Corporation First Quarter 2021 Conference Call.

I would now like to turn the conference over to Rachelle Girard, VP, Investor Relations, Treasury, and Tax. Please go ahead.

**RACHELLE GIRARD:**

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

Today's call will focus in the trends we are seeing in the market and on our strategy, not on the details of our quarterly financial results. As always, our goal is to be open and transparent with our communications; therefore, if you have detailed questions about our quarterly financial results, or should your questions not be addressed on this call, we will be happy to follow up with you after the call.

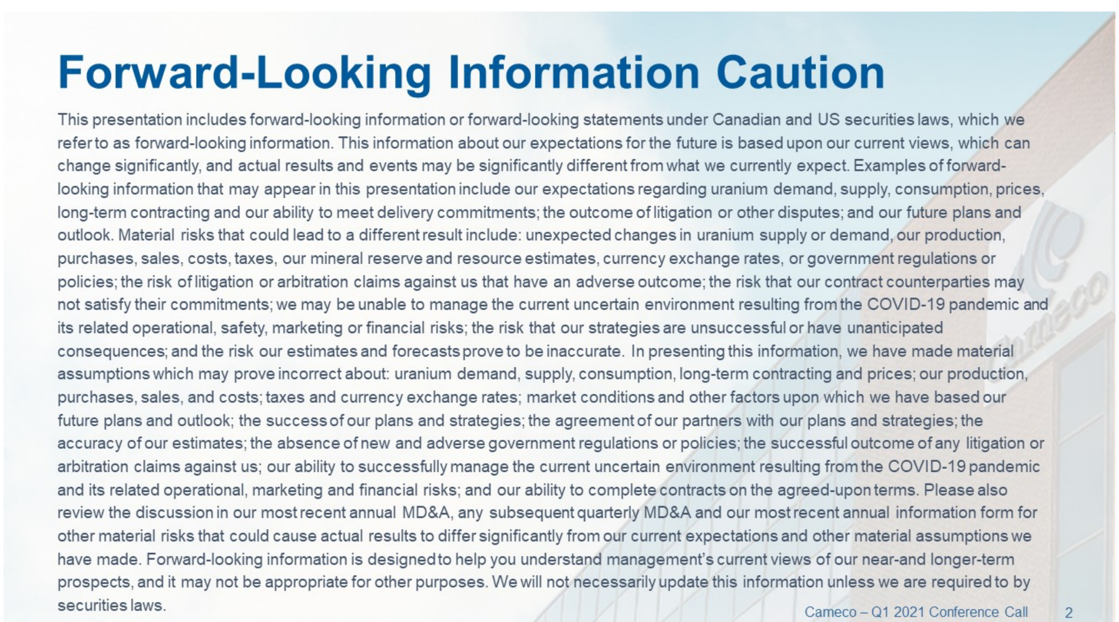
There are a few ways to contact us. You can reach out to the contacts provided in our news release, you can submit a question through the Contact tab on our website, or you can use the Submit a Question tab on the webcast and we will be happy to follow up after.

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 talk about the growing demand for nuclear power, the uranium market fundamentals, and about Cameco's strategy to add long term value. After, we will open it up for your questions.

If you joined the conference call through our website Event page, there are slides available which will be displayed during the call. In addition, for your reference, our quarterly investor handout is available for download in a PDF file on our website at cameco.com.

Today's conference call is open to all members of the investment community, including the media. During the question-and-answer 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'll turn it over to Tim.


**TIM GITZEL:**

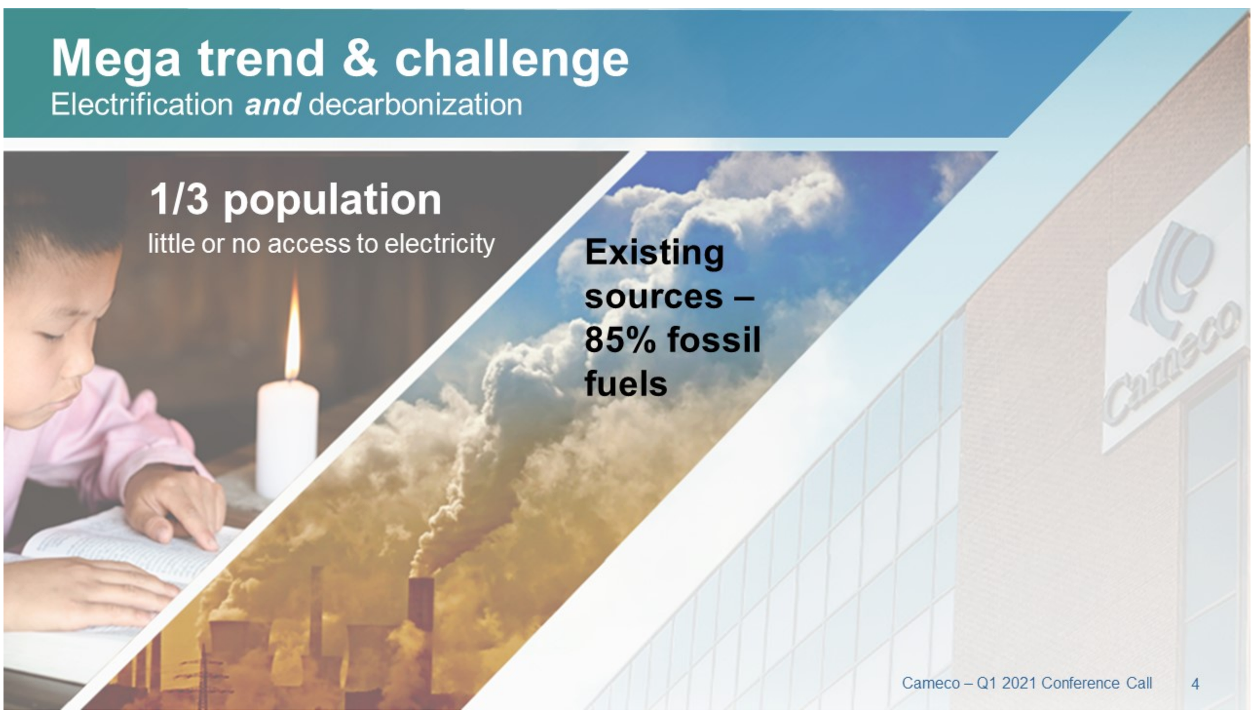
Thank you, Rachelle, and welcome to everyone on the call today. We appreciate you taking the time to join us. I hope you and your families are doing well.

Last quarter, I talked to you about our excitement for the future of our industry and about the opportunity for nuclear power to play a pivotal role in the transition to a net-zero carbon economy through both traditional and non-traditional uses. I also talked about the excitement we have for the role that Cameco can play in that future as we execute on our Tier 1 strategy, which includes production discipline, marketing discipline, and conservative balance sheet management.

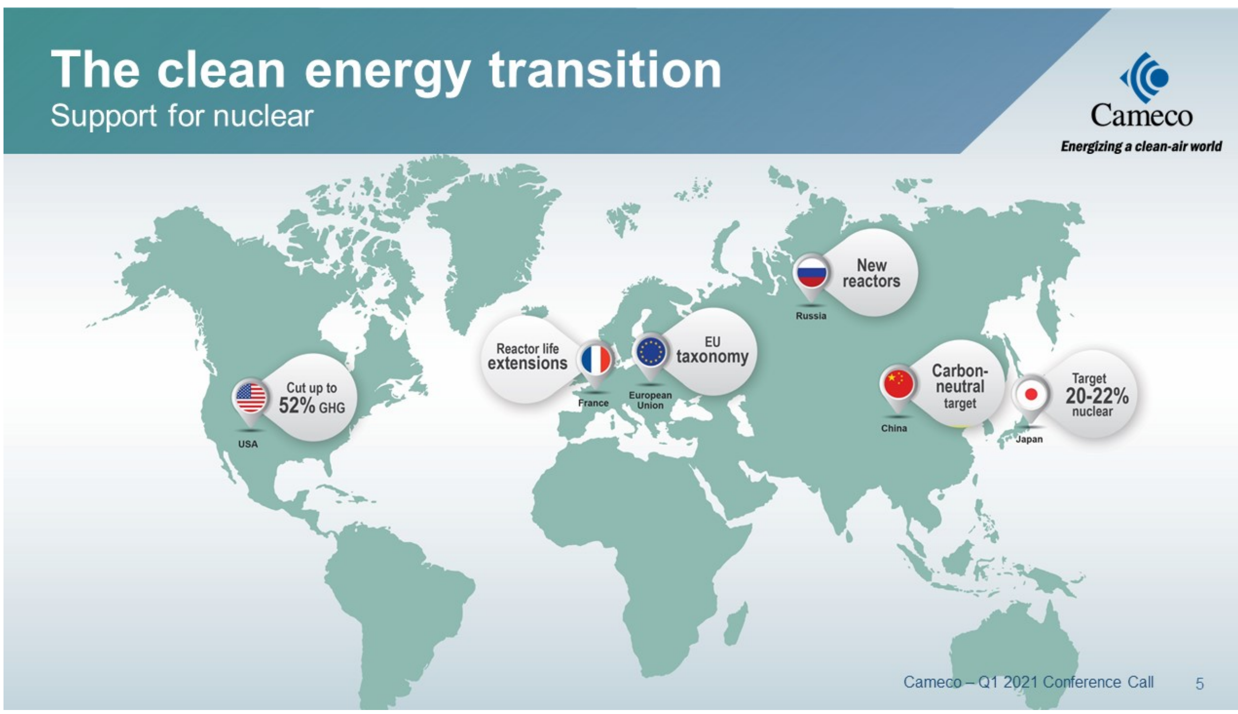
I have to say that over the course of the last few months, there has been nothing to dampen our enthusiasm, and in fact, there have been a number of developments that continue to support our optimism. I'll get into those in a bit, but I'm going to provide a recap of what I said were the three main drivers for our optimism.

First, demand for nuclear power is becoming more certain as the mega-trend of increasing electrification while phasing out carbon intensive sources of energy continues to take hold around the globe. Second, uranium supply is becoming less certain as years of persistently low prices have led to planned production curtailments, lack of investment, the end of reserve life for some mines, shrinking secondary supplies, and trade policy issues; and finally, that our long-term strategy positions us very well to sustainably deliver long term value.




Let's start with the macro view of the fundamentals for energy. As I said previously, we are seeing today a mega-trend focused on increasing electrification while at the same time achieving massive decarbonisation goals. This mega-trend has led to a mega-challenge, that challenge being threefold; first, to bring safe, clean and reliable base load electricity to about one third of the population who currently have no access or limited access to electricity; second, to clean up and replace our existing sources of electricity with a safe, clean, reliable, affordable, and carbon-free option; and finally, to transition away from the current use of thermal sources of energy for things like transportation and heating.

This mega-challenge of increasing electrification is occurring precisely while countries and companies around the world are fixated on reducing their carbon footprint. Many have announced net-zero carbon targets, and many more are expected to follow. Country after country is recognizing that in a world where 85% of our electricity still comes from fossil fuel sources. There is no clear pathway to sustainably achieve both electrification and decarbonisation without nuclear in the toolbox. As I noted earlier, over the last few months, there's been further support for nuclear's role in the clean energy transition.




In Europe, we've seen nuclear move another step closer to being included in the EU sustainable finance taxonomy. A rigorous scientific, full-life cycle assessment from the Joint Research

Centre concluded that there are no scientific arguments supporting the exclusion of nuclear energy from the taxonomy. The European Commission then proposed a supplement to current legislation that, if passed, will confirm nuclear as sustainable.

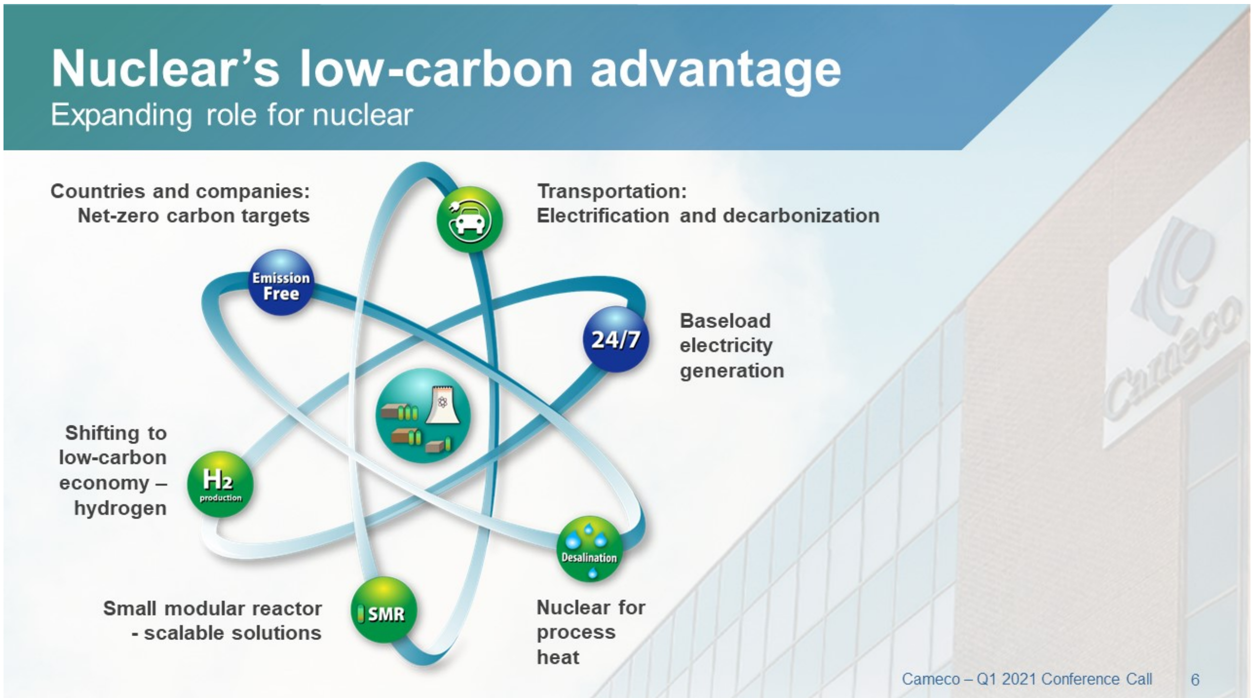
In addition, in France the French Nuclear Safety Authority granted a 10-year extension to the operating lives of 32 of EDF's nuclear power plants. Conservatively, this could equate to at least 100 million pounds of additional uranium demand not previously accounted for.

Over in China, the Nuclear Energy Association confirmed that the country's 14$^{th}$ five-year plan targets 70 gigawatts of nuclear power operating by 2025, an increase of approximately 20 gigawatts from 2020, with another 50 gigawatts under construction.
It also indicated China could reach up to 120 gigawatts in operation by 2030 as part of its plan to be carbon neutral by 2060. This would translate into annual consumption of about 60 million pounds of uranium per year.

In Russia, Rosatom announced a target of 24 new reactors that will be needed by 2045 to increase Russia's share of nuclear to 25% of the energy mix. This would add another 12 million pounds of annual demand to Russia's requirements, and at the recent Global Leaders Summit on Climate hosted by the United States, aggressive plans to reduce carbon emissions and achieve net-zero carbon goals over the next 30 years were discussed, and many commitments were made.

For example, in the U.S. where nuclear energy is increasingly recognized as a major source of carbon-free scalable energy, the President announced a goal to cut up to 52% of U.S. greenhouse gas emissions by 2030, leveraging existing nuclear energy and advanced reactor technology in its clean energy initiatives, and he has promised to make the electricity system fossil fuel-free by 2035.

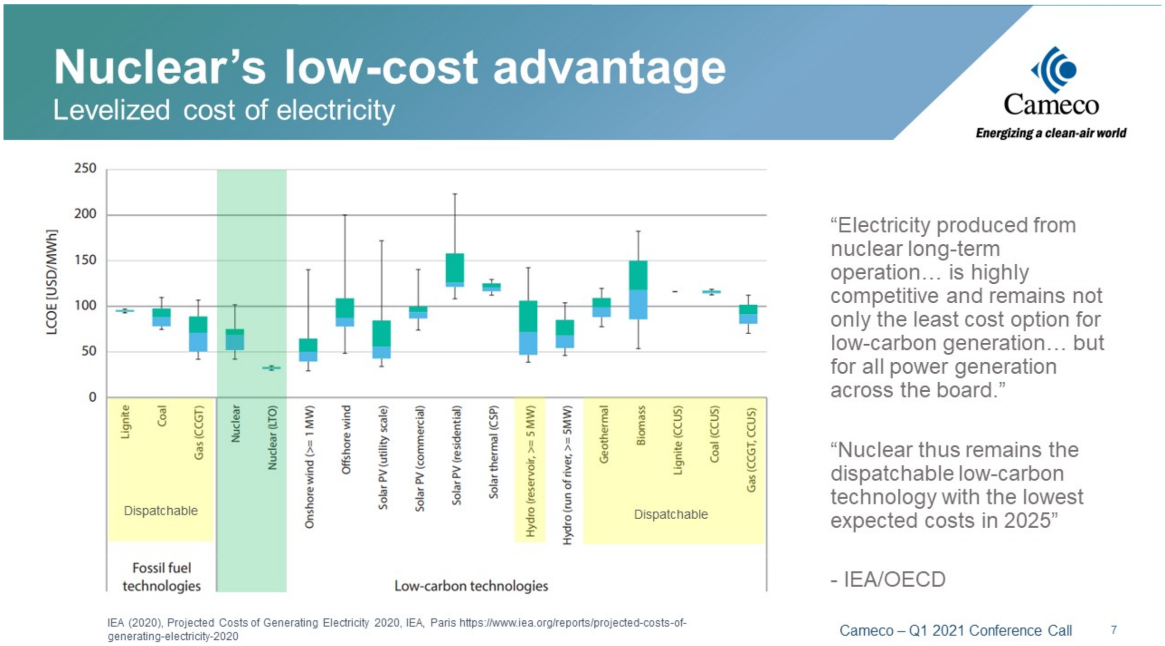
Japan has revealed plans to cut carbon emissions 46% from 2013 levels by 2030, maintaining its target for nuclear to provide 20% to 22% of its generating capacity.




Furthermore, we are seeing momentum building for non-traditional commercial uses of nuclear power, such as the development of small modular reactors and advanced reactors. Nuclear is also the only low-carbon source that can produce low-carbon heat that, along with its traditional uses, can be used to produce clean hydrogen and fresh water.

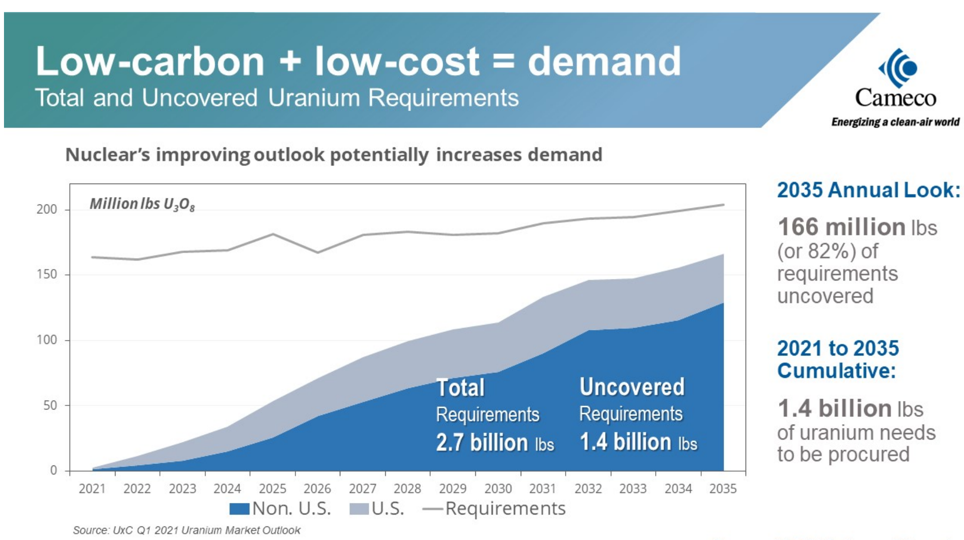
We are also seeing company after company announce net-zero carbon targets. They recognize there is increasing scrutiny on their environmental performance. Investors are beginning to price climate-related risk into their capital allocation decisions.

Investors are not only looking to invest in those companies that can demonstrate improved environmental performance, they will look for those companies that are positioned to do it profitably and sustainably. Unlike in the past, companies will be accountable for where the energy to fuel their operations comes from. We like to think of it as electron accountability, and they will have to make decisions that are economically sound to attract investment.




When you look at levelized costs of nuclear compared to other low carbon sources, nuclear energy is that solution. It's the most cost-effective way to provide low carbon, dispatchable 24/7 electricity, so the outlook for nuclear is very bright.

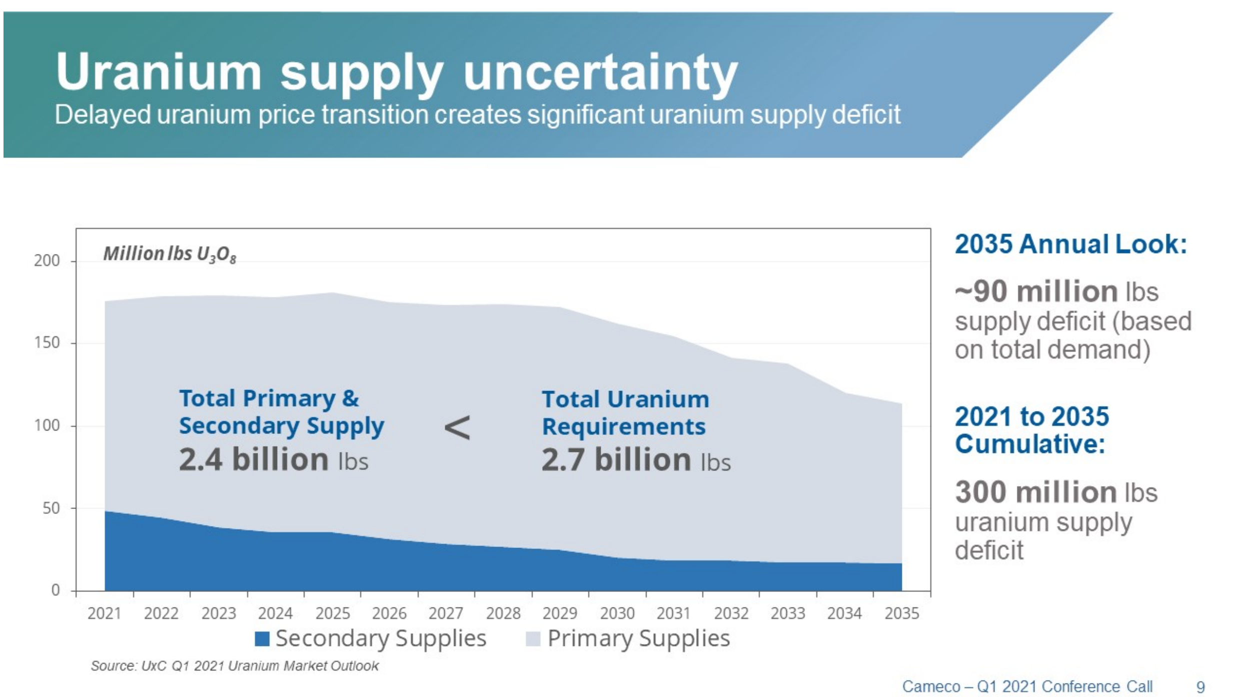
Increasing demand for nuclear means increasing demand for uranium, which brings us to the second factor that I said is driving our growing optimism. Demand for uranium is rising at precisely the same time that supply is becoming less certain.



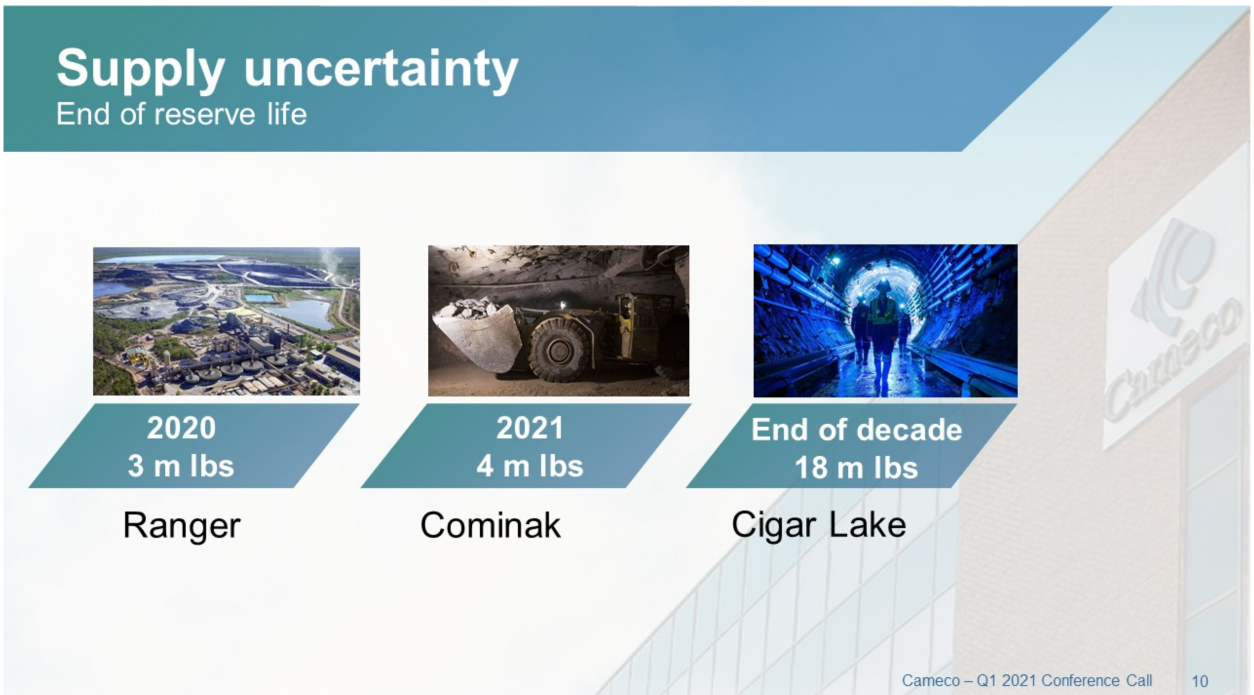
One of the indicators we look at to illustrate the opportunity is uncovered requirements. We know that utilities have not been replacing what they consume annually under long-term contracts. This has led to a growing wedge of uncovered uranium requirements. That wedge is now bigger than it was back in the early 2000s, which was another period of complacency.

There are only a couple of sources for this information, and if we look for example at UXC, which tends to be the most conservative view, they show that global cumulative uncovered uranium requirements are about 1.4 billion pounds to the end of 2035. If we back that up to when it needed to be contracted, produced, and delivered, the challenge is to buy 1.4 billion pounds by 2030. That would require 140 million pounds of long-term contracting per year starting in 2020. Last year, we saw 50 million pounds placed under long term contracts, so that demand is piling up in a future window. Keep in mind, this is just traditional demand we are talking about. It does not consider any of the alternative uses of nuclear I talked about earlier.

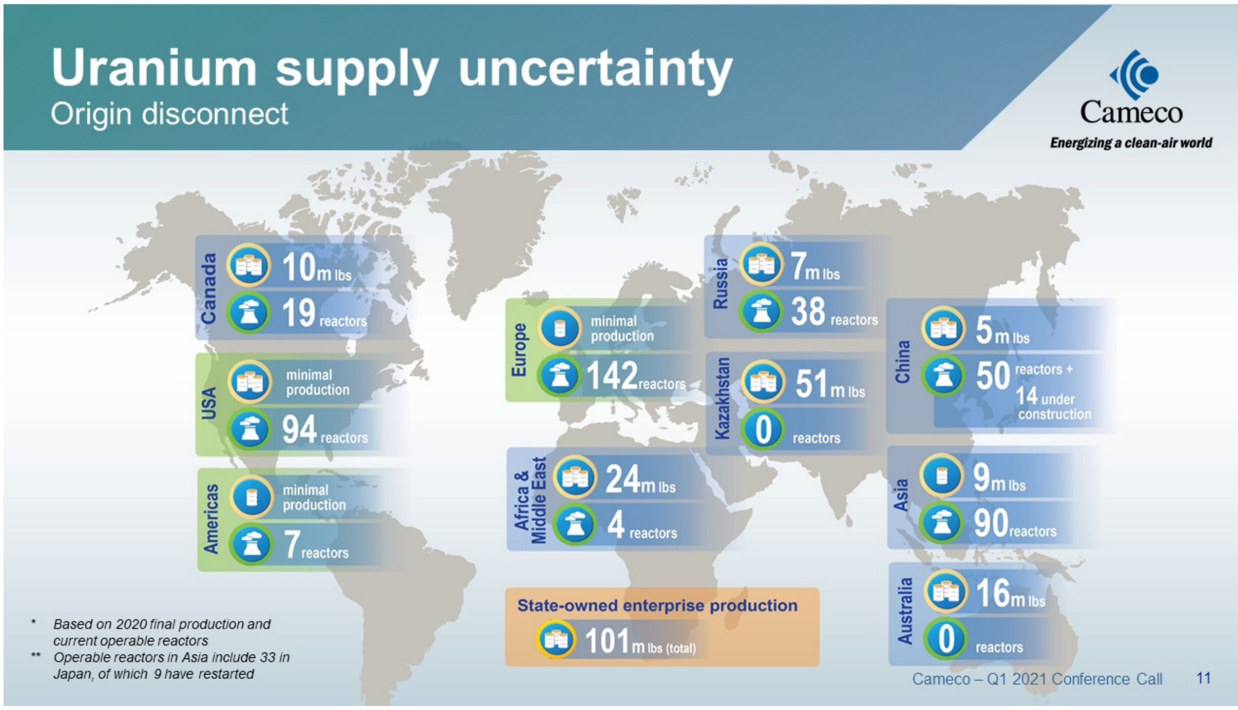
We’re also seeing increased demand for uranium from financial players and junior uranium companies, who recognize that statistically the current uranium price has a much greater likelihood of going up than down, and this view is supported by the fundamentals.



The growing uncovered requirements are occurring at a time when there are some big question marks about where the uranium will come from to fuel the world's expanding nuclear fleet. Cameco's supply curtailments alone, both planned and unplanned, along with our purchasing activity, have resulted in at least a 145 million pound swing in the supply fundamentals since 2016. Since the end of 2020, we have seen two long-term producing mines come to the end of their reserve life.




The loss of the Ranger mine in Australia and the Cominak mine in Niger will further reduce supply by about 7 million pounds per year, and our Cigar Lake mine is done about eight years from now, so right in that 10-year contracting window we are talking about, that's another 18 million pounds per year gone. Given the timelines it takes, we should be investing now to replace that lost production, but at today's prices, that makes zero sense.




In addition, as a highly trade-dependent commodity, government driven policies can be particularly disruptive for the uranium market. Due to persistently low prices, we've seen planned supply curtailments, lack of investment, the end of reserve life for some mines and shrinking secondary supplies, all of which have been amplified more recently by unplanned supply disruptions due to the COVID-19 pandemic.

Consequently, primary supply has become concentrated. It is concentrated geographically with about 80% of primary supply coming from countries that consume little to no uranium, and nearly 90% of consumption occurring in countries that have little to no primary production, and it is highly concentrated by producer with about 70% of primary production in the hands of the top five producers and about 80% in the hands of state-owned entities. So, we believe that in the current market, the risks to uranium supply are far greater than the risks to uranium demand.

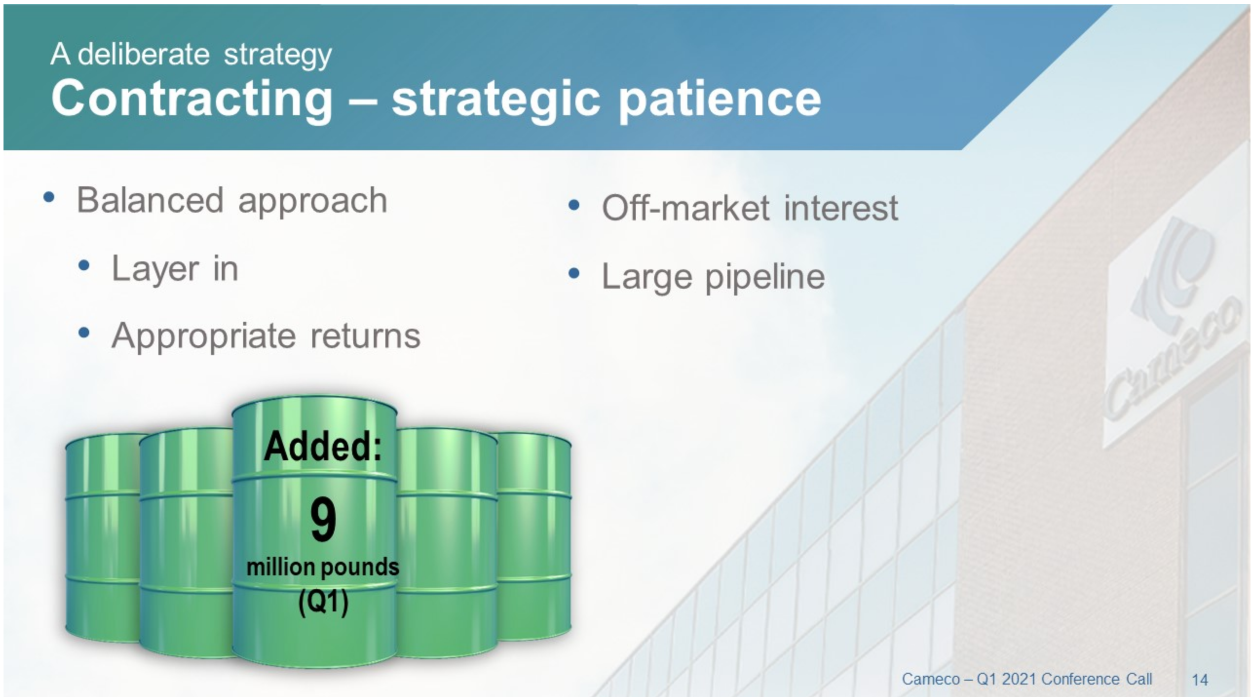
These are the fundamentals that get us up in the morning, and why we remain a pure play supplier of the uranium fuel needed to produce clean, carbon free, baseload electricity, which brings me to the final factor driving our optimism, our strategy, and why we remain committed to doing what we said we would do. Let me remind you what it is that we said we would do.


First and foremost, and this is where it starts for us, we're focused on protecting the health and safety of our workers, their families, and their communities. We're doing that. Every day we make decisions about how best to manage our operations and protect and support our workforce through the pandemic.

In December, the trends we were seeing in the COVID-19 pandemic caused us to proactively pause Cigar Lake production for a second time as concerns about the availability of workers in critical areas was increasing. During the temporary shutdown, we put further COVID-related protocols in place. Combined with our on-site testing facility and the vaccine rollout in the province, we had the confidence to re-start the mine in April with greater certainty that the mine will be able to operate safely and sustainably.

We will continue to monitor the situation in our communities and will have regular dialogue with public health authorities. Pandemic or no pandemic, the health and safety of our workers will always be our priority. We will not hesitate to take further action if we feel our ability to operate safely is compromised.


Second, apart from the COVID-19 disruptions to our operations, we have not wavered from the execution of our strategy. There are three fronts on which we are executing our strategy: operational, marketing, and financial. On the operational side, we have implemented our planned supply discipline, cutting production well below our delivery commitments. This includes the curtailment of production at Rabbit Lake, our U.S. assets, and of course at the McArthur River/Key Lake operation. As I said earlier, these actions have left a lot of pounds in the ground and kept them off the market; consequently, we have been purchasing material on the spot market to meet our committed deliveries. In addition, we have shown sales discipline, sticking to our value strategy. We have been strategically patient.




We take a portfolio approach to building our contract book and, much like building an investment portfolio, it's a balanced approach that manages risk and return. We like to layer in contracts where appropriate. We want to ensure we support the operating costs of our assets while not committing our Tier 1 pounds too far into the future under contracts that won't generate an appropriate portfolio return, and we do not want to exhaust our Tier 1 assets in a low-price environment.

We are seeing our patience pay off. In April, we successfully finalized and executed a number of sales contracts which had been under negotiation, adding 9 million pounds to our long-term contract portfolio which, together with recent long-term contracting totals almost 60 million pounds, and we continue to have a large pipeline of uranium business under negotiation. In fact, we continue to see off-market interest growing and, historically, it has been a leading indicator of broader demand for long-term contracting.

We are having conversations with our biggest and best customers. These customers recognize the long-term fundamentals. They want access to long-lived, Tier 1 productive capacity from commercial suppliers who have a proven operating track record. They understand that from a security of supply perspective, today's prices do not reflect production economics.

They recognize the first mover advantage gained from securing their future access to our Tier 1 pounds today as opposed to in the future.


And we have some competitive advantages. We have significant idled Tier 1 capacity that is fully licensed and fully permitted that will be among the first pounds to meet growing demand in the market. We are an independent, commercial supplier and provide our customers supply diversity from state-owned enterprises. With substantial Canadian productive capacity, we can help de-risk their future supply from trade policy exposure, and emerging is the focus on ESG matters, which is great news for us.


At Cameco, serving the interests of our stakeholders has always been at the heart of what we do, long before there was a focus on ESG issues, because it is the right thing to do and we recognize the significant business value it adds. Our Board, our employees, contractors, communities, suppliers, customers, governments, and our providers of capital expect us to manage this Company in a long-term, sustainable fashion. We're very proud of our over 30-year commitment to protect, engage, and support development of our people and their communities and to protect the environment.

The uranium fuel we supply plays a significant role in contributing to greenhouse gas mitigation efforts in Canada and abroad. In Canada alone, this uranium fuel provides greater than 30% of the Province of Ontario's electricity every year, avoiding more than 5 million tonnes of carbon dioxide from being emitted. Considering only the Canadian emissions avoided resulting from the use of nuclear power in Ontario, we like to think of ourselves as Canada's first net-zero mining company, so we are well-positioned to meet our customer needs.


Finally on the financial side, we have been very deliberate in shoring up our balance sheet. At the end of the first quarter, we had negative net debt with $1 billion in cash and a $1 billion undrawn credit facility. As such, we have the financial capacity to self manage risk and maintain our strategic resolve. Before I move on from the strength of our balance sheet, I do want to address what the Supreme Court of Canada decision means for us.


First and foremost, it means this dispute is fully and finally resolved for 2003, 2005, and 2006, and that Cameco's marketing structure and behaviour through this period were in full compliance with the Income Tax Act; in other words, Cameco followed the law, and it was the CRA and its reassessments that were offside. As stated, many times with this decision, we believe CRA should move quickly to resolve all subsequent years and return to us the $303 million of cash they are holding and release the $482 million in letters of credit that are tied up as security for all years.

While this dispute has been before the courts, we have been accused of not paying our fair share of taxes. Now that this matter is no longer before the courts, it gives me great satisfaction to know that the court system in Canada has unequivocally confirmed that we did pay our fair share of taxes, but there are elements of this that are not fair. It's not fair that we have to continue to wait for an indeterminant period for CRA to make the decision to return our cash and credit capacity, and it's not fair to see Cameco disparaged in the recent federal budget document as engaging in inappropriate profit shifting, in light of what the various court judgments actually say.

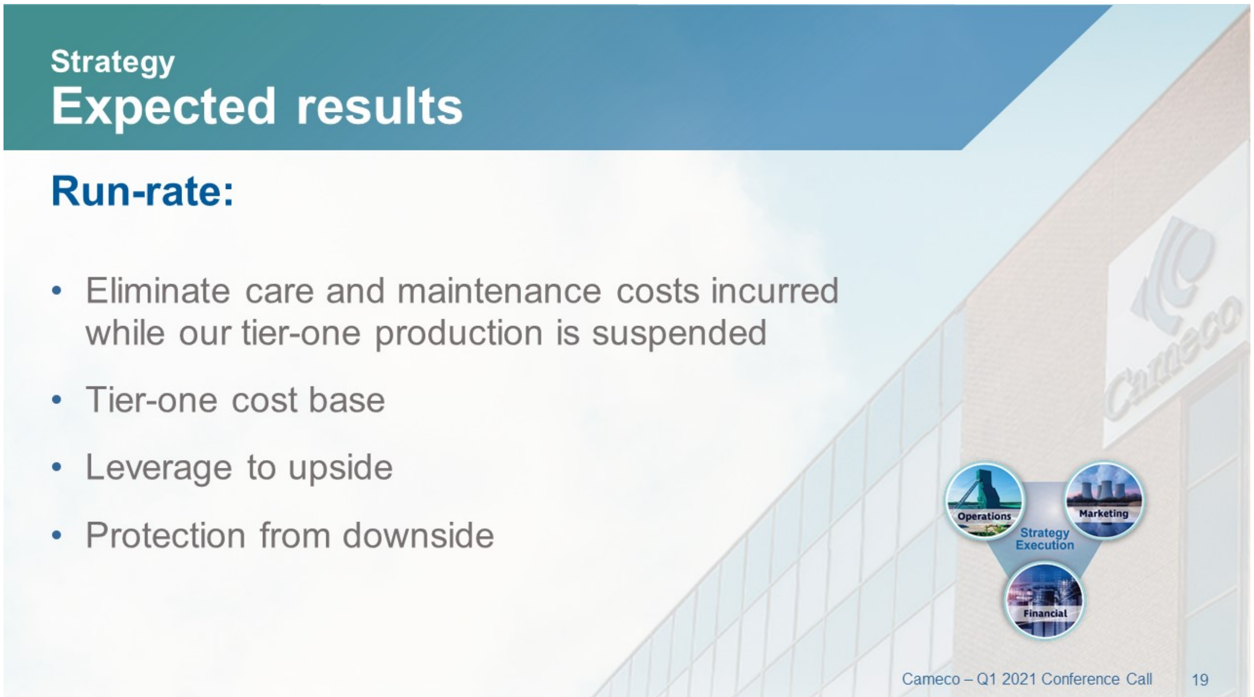
Cameco

Cameco has contributed to the health and safety of individuals around the world. We participated in the “Megatons to Megawatts” program that saw the dismantling of more than 20,000 nuclear weapons, converting 500 metric tonnes of highly enriched uranium into low-enriched uranium for use as fuel in nuclear reactors, and we are proud to be a part of the venture that makes Canada the world’s leading supplier of Cobalt-60 for medical applications and other gamma technologies, demonstrating the tremendous benefits the nuclear industry delivers to Canadians and others around the world.

Cameco has contributed millions of dollars for community and infrastructure projects in northern Saskatchewan, including schools, housing, and recreation facilities. Since 2009, we have invested nearly $10.5 million in support of infrastructure improvement projects in local communities, which have been targeted at youth, health and wellness including mental health, education and literacy, and community development. We are a leading industrial employer of Indigenous peoples in Canada, providing well paying jobs in northern Saskatchewan for over 30 years, and we’ve helped establish and grow businesses in northern Saskatchewan by procuring almost $4 billion in services since 2004.

We have reinvested billions of dollars in Canada, building mines, and mills, and filling voids in programs for some communities, so we take exception to any claim that what we have done is in any way unfair when it is in accordance with the law. The facts show that Canada has benefitted greatly from the profits we have generated, and this distraction should be resolved immediately.

Setting this issue to the side, I’m happy to say that we’re performing well on all three strategic fronts; however, there are costs to our strategic decisions which are reflected in our financial results.

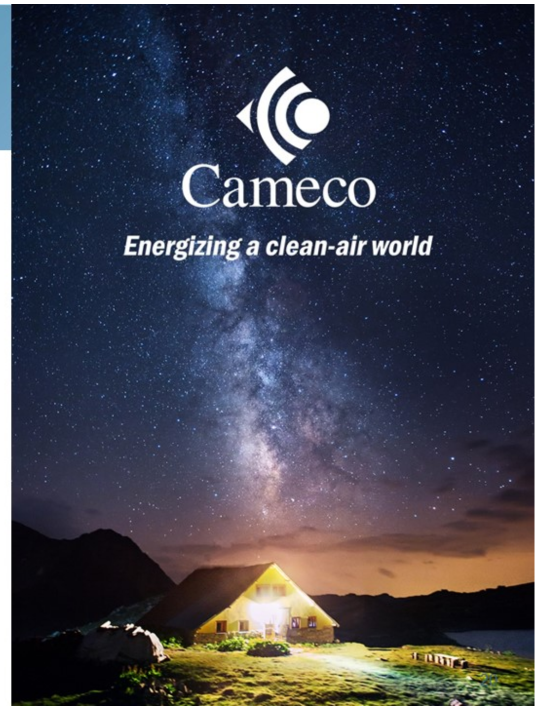



But the good news is, this does not represent the run rate of our business and we expect much better days ahead once we return to a Tier 1 cost structure. We are taking the steps today and incurring the costs we expect will allow us to re-start our Tier 1 assets with more flexibility in the production rate, to eliminate the care and maintenance costs incurred while our Tier 1 production is suspended, and to benefit from the very favourable life of mine economics they provide. We are confident in our ability to transition through this period and capture demand that will provide leverage to higher prices, and we have concluded that we have the right vision, strategy, and values to deliver long-term sustainable value.

## Right vision and strategy

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




Our vision, which is to "energize a clean air world", recognizes that we have an important role to play in enabling the vast reductions in greenhouse gas emissions required to achieve a resilient, net-zero carbon economy. As we seek to achieve our vision, we are committed to doing it in a manner that reflects our values. Those values have not changed. They have always guided our actions and they place a priority on safety and the environment, on building and supporting a flexible, skilled, stable, and diverse workforce, on behaving with integrity and leading by example, on promoting equality and acting to eliminate racism wherever it exists, and on pursuing excellence in all that we do and inspiring others to do the same.

Our decisions are deliberate. We are a responsible, commercially motivated supplier with a diversified portfolio of assets, including a Tier 1 production portfolio that is among the best in the world. We are well-positioned to take advantage of a market where demand for nuclear power, both traditional and non-traditional, is growing, where we believe the risk to uranium supply is greater than the risk to uranium demand, and where we believe our strategic decisions and strategic patience provide us with resiliency in the face of unprecedented challenges and will result in the rewards that will come from having low-cost supply to deliver into a strengthening market.

Thanks for joining our call today, and, Operator, with that, we would be happy to answer any questions.


**OPERATOR:**

Thank you. We will now begin the question-and-answer session.

The first question is from Orest Wowkodaw from Scotiabank. Please go ahead.

**OREST WOWKODAW:**

Hi, good morning. I'm wondering if we can get some colour on the new contract that you disclosed in the results, the 9 million pounds. I realize some of this information is probably sensitive, but can you give us an idea of perhaps what region the customer's from, what sort of time period the deliveries are over, and also on the pricing mechanism. We haven't seen any movement in the reported term price, call it by UX and others. Can we assume that the contracting price was done at a premium to that, or any colour here would be really helpful? Thank you.

**TIM GITZEL:**

Thanks, Orest. Thanks for the question. I think you said contract. I would say contract with an "s" on the end of it would be a better description of what we've done. I'm going to ask Dr. Grant Isaac, our expert on the market, to just give a bit of an update, Orest, on those pieces, we'll tell you what we can.

Maybe, Grant, a little overview on the market and what we're seeing today.

**GRANT ISAAC:**

Yes, sure. Happy to do that. Thanks for your question, Orest.

As Tim noted in his opening comments that the 9 million pounds that we are announcing now, add to what we announced in 2020 and in 2019, nearing about 60 million pounds under contract now since we started this supply discipline strategy. What I think it reflects is a couple of things we've been saying, and that is, yes, on one hand the term market, especially the on-market RFP side of the business is not at the level it needs to be in terms of the demand coming to deal with that uncovered requirements wedge.

But as we've been saying for a while now, there are some utilities who get it. They see the demand outlook improving, they see the supply outlook becoming more uncertain because today's prices are not incenting the investment in capacity. In the past, they've relied extensively on secondary supply capacity, and they see that falling too through the same cycle.

There are some utilities who get it, and I would say the common denominator there is these are the bigger utilities, the bigger company or country programs, more reactors, and more certainty about how long they're going to run for, so that tends to be the common denominator in this 60 million pounds.

I think it also reflects that there has been an easing, not an elimination, but somewhat of an easing of the COVID concerns that we saw in 2020, that were delaying the completion of some of the negotiations. I think it also reflects the fact that some of the trade policy distractions have been cleared up, utilities have a better sense of the origins that they ought to buying in a world where critical minerals and the role of state-owned enterprises is taking on a bigger role in sourcing decisions. It also reflects the role of ESG in procurement decisions going forward and making sure that supplies have a good chance of meeting the criteria that utilities are also going to be responsible for.

I think for Cameco, this success reflects we're in the pole position when it comes to layering in new contracts, for all the reason we've talked about in the past; the incumbency factors that we have, permitted licensed facilities that are proven and are reliable and meet ESG criteria, that we're a commercial supplier, that we have a high proportion of Canadian origin, which is a sought-after origin in the market for sure at the moment. I think it tends to reflect all of that.

Just a quick reminder about sort of the portfolio, as Tim said also in his comments, we try to build a contract portfolio that isn't dissimilar to our owners trying to build an investment portfolio. We have a number of criteria we try to meet. You asked about price, and of course price is central to us building a contract portfolio, but what is central to us in the pricing discussion right now is the price mechanism.

We look at a market where we believe that today's price is insufficient to generate the supply needed to meet the improving demand outlook, so right now we're not really anxious to lock in today's price. In fact, we would prefer market related price indicators, so those utilities who get it and who are willing to give us more market-related exposure, those are where we're having success in these off-market contracts. For us, it really is a function of getting the pricing mechanism right so we have exposure to what we think is an improving market.

Of course, price matters, but so does volume, certainly volume with respect to the time frame in which we'd be making deliveries and the duration, how long that contract is for. You asked about the window. I would say in that nearly 60 million pounds, some of it is near term, in the next three to five years, some of it is longer term, outside 2025 and beyond, which is really interesting. It's a reminder to all of us that those folks that are planning their supply decisions, believing there's going to be this gap in the market in 2027, 2028 that won't be filled, well, it will be filled. It will be filled by this type of contracting over the next couple years, so if you're not involved in it now, you're going to end with supply that doesn't have a home in the future.

Volume certainly matters to us, and then remember within volume there's flex in deferrals that we build into our contract portfolio to give us opportunity for more value. Product form matters because we're not just a uranium supplier, we have a fuel services group and we'd like to obviously underpin that activity. The customer matters, as I think we discovered with our dispute with TEPCO. Not all customers are the same in terms of their commitment to contracts that they sign, and so making sure that those high-quality Tier 1 customers are well represented in our portfolio, and regions matter to us.

Like our owners, we're building a contract portfolio. The opportunities, the nearly 60 million that we've signed so far since we've embarked on this strategy reflect a balance of those criteria, and very much in our interest when we look at it from a portfolio point of view.

**OREST WOWKODAW:**
Thanks, Grant.

**OPERATOR:**
The next question is from Lawson Winder from Bank of America Securities. Please go ahead.

Lawson Winder, your line is open.

**LAWSON WINDER:**
Oh, shoot. I was muted. I apologize. Good morning, guys, and thank you for the update today. I hope you all are well.

Did the high level of producer buying in late March and early April factor in at all to your decision to re-start Cigar Lake?

**TIM GITZEL:**
Good morning, Lawson. No, Cigar Lake is something we had always planned to run this year. We've been very clear about that. What set us back on that in December was COVID. The COVID that was sweeping the world and Saskatchewan as well, we didn't have a huge problem at Cigar, but we could see a wave coming, and we were having people have to sit out because they were a close contact, for instance, and then we'd be short of operators. Our GM, Lloyd

Rowson, was every day kind of looking to see what his roster looked like and whether he could put a team on the field at Cigar Lake to run the assets.

So, no, that didn't factor into it at all. That was certainly interesting. I think we saw the juniors take about 10 million pounds or a little bit more, maybe 10.5 million pounds off the market in the first quarter, but that was just added pressure on the market and wasn't related to our Cigar Lake decisions.

**LAWSON WINDER:**
Great, thanks for that. Then my follow-up would just be on the first question, on the contracting. You gave us a lot of detail in your answer there, Grant. Thank you for that. Now, I wasn't entirely clear though if those 9 million pounds on average line up with your overall portfolio target of 60% market related and 40% base escalated.

**GRANT ISAAC:**
It's a great question. Yes, they would largely, so when we think about not just the 9 but the overall nearly 60, we're staying consistent with those goals, that framework that we put out. It hasn't changed, and if it does, we'll change the framework for you to reflect that maybe we'll have a different pricing balance going forward.

But the key is to remember that the responsible producers are those that are building homes for their production, and they're building homes now for their production. The idea that somebody is going to sit on a bunch of material, and they're not going to put it into the term contract homes, they're just going to dump it into the spot market at a later date, that's exactly what some fuel buyers want to hear because they understand that the spot market is not capable of absorbing that level of uncommitted primary production, so really, what you want to see is the building of the term contract homes creating a market alignment with the production decisions.

**LAWSON WINDER:**
Thank you very much.

**TIM GITZEL:**
Thanks, Lawson.

**OPERATOR:**
The next question is from Ralph Profiti from Eight Capital. Please go ahead.

**RALPH PROFITI:**
Good morning. Thanks for taking my questions. Tim or Grant, it's been a while since Japan has been sort of top of mind and sort of a topical issue. The pace of re-starts continues to, I guess, lag expectations, but now we've had news recently that they're looking at bringing on or passing critical phase on three new reactors. Where does Japan stand on inventories, and are there material legacy contracts to which they continue to honour? Is that a significant part of the market?

**TIM GITZEL:**
Well, Ralph, I think Japan's becoming a good story. Yes, it's taken way longer than we ever thought it would. I remember back in 2011, them talking about—you know, right after the accident, they talked about reviewing all of the units and them bringing them back on, and here we are 10 years later, and it's slowly coming back.

But I can tell you, they showed up at the Earth Summit last week with President Biden, they're making commitments to carbon reduction that are very aggressive, I would say, and I think their politicians are clear that they're never going to get there without nuclear, so we're seeing it come back.

We haven't seen a whole lot of Japanese material over those 10 years come into the market, and now we think they're holding onto it because they are re-starting. and they are going to need their fuel going forward. We see Japan as an improving story. It's been a long time, but we're pretty positive.

Do they have long term contracts? Well, it's been 10 years, so most of them, at least I can speak for Cameco, have gone away and they haven't signed a whole lot of new ones, but we have seen them in the market from time to time, so.

Grant, I don't know if you have anything to add to that?

**GRANT ISAAC:**

Well, I would just say, Ralph, you're right in that the Japanese fleet was a major theme and narrative in the market quarter to quarter, year to year for a while, but that's kind of died away, and it died away as the new regulatory authority really took root and started making approval decisions. That sort of created the impression that, yes, Japan's got some material that they need to work through, but everybody kind of just lifted up that market and moved it to the side and focused on China and India, and everywhere else.

Japan's kind of over on the side. Nobody expects the Japanese fuel buyers to be at the front of the line in the next buying cycle because of the inventory positions that you've talked about, but we don't see it as a risk of huge amounts of material coming to the market from Japan anymore either because of the re-starts, because there seems to be a pathway and a renewed commitment to that base load power that's absolutely fundamental to an economy that's an export driven, industrial growth economy. It needs cheap base load power and increasingly clean cheap base load power to make that economic model work, so nuclear is kind of back in the toolbox in a really important way.

If we take a one level down look at Japan, remember it's kind of the tale of two worlds. You've got a couple of utilities, Kyushu, Kansai, Chugoku, approved reactors to run and have been running and have been consuming inventory and consuming material, and in fact we've seen some new buying from that group.

Then you have the others primarily with the boiling water reactors, the first generation reactors, there hasn't been one of those re-started yet, there has been a couple now approved. That group is sitting on an excess inventory relative to what they're producing today in terms of power output, but they also have an expectation that their reactors are coming online. It's why they've made the investments that they have to prepare for the new regulatory measures that are required in Japan.

As the largest spot buyer of material in the market, you can imagine we've asked, is there material available from those customers, and we get the same consistent message; why would we sell it today in a low-priced market, only to have to buy it back in a higher priced market, and it will be a higher priced market when their reactors are running. We look at that as probably the most mobile source of utility inventory, but I can tell you we see no indication that it has been mobile.

**RALPH PROFITI:**
Right, right. That's good colour, thanks.

I wanted to come back to the 60% market related. What would you need to see in the market to push that higher, right? In previous uranium cycles, Cameco wasn't able to fully capture the uranium price rise because of those legacy fixed price contracts. What are you going to need to see in the market to be able to push that to 70%, 80%, and is that potentially part of the strategy?

**GRANT ISAAC:**
Yes, Ralph, I would say that balance is actually an important learning from exactly the scenario that you described. Since Fukushima, and especially with some folks who are kind of new to the uranium space, people will ask us about, well, why would you have a 60%/40% portfolio split, why wouldn't it all be 100% market related, because the price seems to be low right now. We seem to be at a P10 or a P15 price, it's got a 10% to 15% chance of going down, and not very far, 85% to 90% chance of going up and probably a long way.
But remember that ours is a market that moves more on sentiment than on, I would say, fact, because if our market moved on fact, there would be a lot more contracting today. There would be a much more rational view of, hey, the demand outlook is improving, the supply outlook is far less certain, if price is low, now would be a good time to buy. But instead, we actually see a slightly different psychology.

We see a psychology for some fuel buyers, not the ones that we've signed nearly 60 million pounds worth of new business with, but for others, they look at the low price of uranium and they say, well, uranium price must be low because it must be everywhere, if it's everywhere, I don't need to worry about buying it today, instead of saying a low price is not incenting the investments in the capacity that's needed to match the demand out into the future.

For us, knowing that that psychology hasn't changed, it reminds us that ours is a market that can go through some fairly significant price transitions and go through them quite rapidly. We saw it in 2010 in uranium, we saw in 2016 in uranium, we saw it in the last 18 months in conversion if you want a more recent data point. That psychology is still there.

So, for us it's important to make sure that we have the exposure to those moments where you see a rapid transition in the price, but then at some point you want to lock in some of that value, recognizing that if there is a period of low, below-replacement level contracting followed by an exuberant period of above-replacement level contracting, utilities will then kind of fill up their requirements again, and they'll feel complacent, they'll step out of the market, and the price will consolidate, it will come off. You want to be protected for that.

Right now, we look at a price that it's got to go up to incent future production. We want to be exposed to that. At some point, we then want to lock in value, and when we lock in that value, think about it as giving up the zip line protection that we've enjoyed since Fukushima. That 60%/40% balance is actually the learning from where we were in the 2006 price spike, as you say, uranium gets to $136 a pound, I think our average realized price at the time was $36 a pound, and so 60%/40% has come out that learning to say, we've got to lock in value when we think we're in the right price range, but until then we want to be market exposed. That's the better play for us.

Ralph, I think it actually reflects better the dynamics in the market and reduces the likelihood of the outcome that you were describing, and, hey, we want to learn from that. We've been on that side of the trade, and it was very painful.

**RALPH PROFITI:**
Understood. Well said. Thanks, Tim. Thanks, Grant.

**TIM GITZEL:**
Thanks, Ralph.

**OPERATOR:**

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

**ANDREW WONG:**

Hey, good morning. Thanks for taking my questions.

I just want to ask about Cigar Lake. When would development of Phase 2 need to be accelerated to ensure production, or is Cameco considering other options to maintain production later this decade? I guess also, how does the Cigar longer-term decision factor into some of the contract discussions that you're having with your customers?

**TIM GITZEL:**

Yes, thanks for the question, Andrew. Cigar is an interesting piece, as we said. By the end of the decade, if we continue to run it at nominal rates, we will run out of ore there in Phase 1. Phase 2 is available, but we're in that exact dilemma that I mentioned earlier, that there is no incentive price to be looking at new projects and making that 8-year investment, 10-year investment that you need on—well, that one won't take that long because it's a brownfield. You can imagine on a greenfield, it's 8 to 10 years before you're up and running. But if you walked into your board of directors, I can tell you for ours, and if we said well, we're going to start a new greenfield project today, they'd probably run you out of the boardroom.

There just no incentive pricing there to put the large amounts of capital in to start a new project, so for Cameco, we're looking at Phase 2, we're doing studies on it, and doing the math on it and doing projections, but there's no incentive today to move that forward. I'd say the same with our Yeelirrie and Kintyre and Millennium and some of the other projects we have; they're not at the same level as the McArthurs and the Cigars and some of the Kazakh production. The new projects just aren't there. The unproven ones, you'll see some pretty interesting numbers coming out of some feasibility studies, but I can tell you after more than 30 years here, it's not an easy game building a new project.

That's a concern. I think about that, we think about that all the time. We think about that 1.4 billion pounds that needs to be procured in the next, what, 9 years, 10 years and where that's going to come from, and yet the market is not giving anyone a signal to move ahead on the new projects. It's a dilemma we're going to face, and I think there's got to be a realization of the urgency of this in the market at some time in the near future.

**ANDREW WONG:**
Okay. Maybe I'll just ask about some of the recent purchasing activity. Would Cameco consider making strategic purchases similar to what the juniors have done recently, and what's your view on that kind of strategy that's being employed to purchase excess material to help push prices higher? Thank you.

**TIM GITZEL:**
Andrew, thanks. The first thing we've been doing is to fill contracts that we have in our portfolio. Having shut in most of our production at McArthur, the U.S., Rabbit Lake, Cigar's been due to COVID, we still have a very nice contract portfolio that we have to fill, so our purchasing has been in that regard and not on speculation.

Grant, do you want to chip in?

**GRANT ISAAC:**
Yes, that's absolutely right. We continue to purchase. Andrew, rather than buying on spec or buy to hold, we're the most inelastic buyer in the market if you think about it, because we have to buy to meet a committed sales portfolio. In some ways, and I don't mean to make this a cheeky comment, but we actually owe the trader community in the uranium space a big thank you because instead of restricting pounds and holding them back and watching us chase the price up, because we've got to buy anyway, they've been very willing sellers, so we've been able to help clean up the market to meet our committed sales portfolio, but not at really punitive prices for us under our strategy.

But having others step in like this is an important fact change, you're absolutely right. I won't make a comment about whether it's wise or not for an advanced exploration company to buy material and hold onto it. I've heard the reasons and their reasons are theirs, and their investors seem to by and large agree with it. I think the buying showed what we've been saying, and that is that the spot market, the true spot market, the material that's available in the can or in the canister today is very thin, and the reason I think it proved it is because many of these purchases by the advanced exploration companies were out on the curve, because they simply couldn't find the material available today.

On one hand, that's quite positive, isn't it Andrew, because we've been saying a problem in our market is uncommitted primary production from producers who should be leaving it in the ground because they don't have a home for it, but they haven't been. Buying along the curve basically creates homes for the uncommitted primary production, and that's great because it won't be dumped into the market 6 months out, 9 months out, 12 months out.

On the other hand, I wonder if there's a bit of regret, though, on a missed opportunity, and the missed opportunity is if that 10.5 million pounds stayed dedicated to true price formation in defining what really is a spot market, we'd be in a much different price formation right now. There'd be a much different spot price if folks were holding out for what's available today. So, on one hand, positive; on the other hand, probably a bit of a missed opportunity.

Andrew, just bear with me for a second. I want to take a step and distinguish too between the funds and the advanced exploration companies buying, because I think there's a really important development in our market recently with the folks at Sprott taking over the management of UPC. I think there's just tremendous potential upside there, and it really comes in the form of bringing in an experienced professional manager in the physical metals space to bring active management truly into this. I think they've involved a group, a very credible market liaison, some folks that Cameco knows, used to work for us, and so we think that brings instant market credibility to what they're doing.

I think that that will bring access to a broad base of investors, but in terms of this price formation piece that I was talking about, I think there's real potential upside there too because if you see a very active management from a fund, not a passive fund but an actively managed fund, we could get into a situation very quickly where the spot market isn't five traders offering against one person with a bid to buy. We could see some balance there where the amount of bids equal the amount of offers, and it would really create transparency in the spot price and get us away a little bit from this ability of the intermediaries to offer down the market without actually making a transaction, because there would be this present and persistent bid, so I think there's tremendous upside here, and we'll watch it really closely.

Obviously, we have some views on how to maximize it, and we're going to be happy to share those at every turn, and that would be really to focus on the spot market and not buy out. If there are redemptions, have a very credible and value generated way to deal with the redemptions, and there's very little downside to it as far as I'm concerned because if they acquire it and sit on it, well, that's what it was before. That's no different.

We think that combined with some of the other demand has been a pleasant surprise to the market, and it's proving some of the things we've been saying about just how thin the front end of the sport market actually is.

**ANDREW WONG:**
Okay, thanks for your comments.

**TIM GITZEL:**
Thanks, Andrew.

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

**GREG BARNES:**
Grant, I think you just answered my question, but I was surprised to hear the spot price didn't do more with all that buying coming in, which suggests there is excess supply still out there. I think that's the fundamental question everybody has; how much excess supply truly sits out there willing to meet this demand when it comes in?

**GRANT ISAAC:**
Yes, great question, Greg, and so just to go over the ground again, I think the missed opportunity and the real proof would have been if that buying had stayed restricted to what's truly available today, you would have seen a much greater impact. But I think there was just a

desire to lock in some material to take advantage of these financings, to take advantage of the window that these companies were looking at, and they were willing to buy forward.

As soon as they bought forward, they took the pressure off the spot market, didn't they? They just went out along the forward curve. In fact, I think one of them didn't buy anything within the next 12 months and was actually buying in the beginning of the term market, so that kind of took the pressure off, Greg. Had it been focused on the front end, it really truly would have proven how thin the spot market was.

What it did do, though as I said, and this is good news, is it's created homes for the problem as we've been identifying it, which is those producers who are producing material, and they don't have a home for it, well, now homes are being built. Think of it instead of pushing the near term of the spot price, they've supported the forward price of uranium because now we're not going to see material coming into the market 6 months, 9 months, 12 months with the same weight for the same churn with traders, than just offering the market down ahead of pricing those purchases. It really created a stronger floor, if you will, as opposed to kind of pushing the front end of the spot market.

**GREG BARNES:**
Okay. Just want to investigate your purchases a little bit. You raised the guidance range to 11 million to 13 million pounds, but that includes 5 million pounds you got from Inkai.

**GRANT ISAAC:**
Yes.

**GREG BARNES:**
And you note you're going to buy some material, and I guess it's internally shifting from NUKEM excess inventory into what you require, so how much actual net buying is there from Cameco in the market?

**GRANT ISAAC:**

Yes, we don't have that disclosure out there, so once again, we're in a partial outlook world, and we're in a partial outlook world because of Cigar Lake. So, we have a sense—you know, Cigar Lake was down for the first quarter of the year, and it was ramped up through the first month of the second quarter, but that gives a sense of what we're short because Cigar Lake wasn't producing for us.

Going forward, we have questions markets about Cigar Lake's run rate, so while the date is now clarified of re-start, the run rate isn't. That creates uncertainty about how much production we're going to have to our account, and that uncertainty actually impacts our planned purchasing activity.

Our partial outlook has stayed away from making those determinations, but Greg, it's not just a Cigar Lake story. McArthur is also down, so as long as we have that asset in care and maintenance for strategic reasons, we will be, I think, probably the biggest spot buyer in the market. Once again, timing is something we have more control over, but we will need those pounds, and as I said to Andrew, we are the inelastic buyer in the market, and we will buy, but we just have shied away from guidance at the moment because of this partial outlook scenario.

**GREG BARNES:**

A quick follow-up, how much will you transfer from NUKEM then, from their excess inventory?

**GRANT ISAAC:**

It's just a couple million pounds, Greg. They're still a going concern in terms of some legacy contracts, so it's just the inter-company management of that.

**GREG BARNES:**

Great, okay. Thank you.

**GRANT ISAAC:**

Thank you.

**OPERATOR:**
The next question is from Ben Hatchett, private shareholder. Please go ahead.

**BEN HATCHETT:**
My question was mainly with Sprott, it was somewhat answered. With the new trust and your knowledge with your relationship with Kazatomprom, do you think that's going to influence you guys to buy your pounds quicker before they establish their trust?

**TIM GITZEL:**
I don't think it changes our behaviour at all. I guess we'll watch to see what they do. I think they have a bit of time in front of them just to set the whole thing up. I don't think it closes for a while yet, and as Grant says, we're pretty inelastic in our buying, and we have to buy to fill contracts that are out there to meet them. We'll watch what they're doing and what happens, but I don't think it will influence our behavior.

**GRANT ISAAC:**
Yes, it's important to remember that because we're buying not to hold uranium, but we're buying to meet a committed sales portfolio, our number one priority is actually making sure we have the product to deliver into the committed sales portfolio, and so we know the product forms we need, we know the origins we need, we know the timing that we need to buy that material.

That's what drives our purchasing decision, so when we think that we can't meet those criteria, we will buy and be a very aggressive buyer, and when we think we can meet those criteria, we can be more opportunistic because, remember, our incentive is to keep the cost of purchasing down as low as possible, but our strategy is one, Ben, where it really doesn't matter to us if the price starts to move away, because if the price starts to move away because buying is in front of us, well, guess what? That's being picked up in our committed sales portfolio, so we get the benefit of the rising price there offsetting the fact that we're buying some material in the market.

Our strategy is designed so that we can tolerate a market that price formation hasn't happened yet, but it's also designed so if the price starts to go up, we're actually celebrating that as opposed to panicking and saying, we need to buy everything before someone else does. We'll watch how this unfolds, we do think it could be a game changer with lots of upside, and then our inelastic demand, I guess, would just be a leverage on that.

**BEN HATCHETT:**

Okay. Also, are you guys going—I know with the Biden administration and their—I don't know if it's going to be uranium reserve or anything, are you guys going to be involved in that, or any of the Canadian producers? Do you know if this is just going to be Americans?

**TIM GITZEL:**

Well, if you're talking about the purchase, the strategic purchase of uranium, that was started even before the Biden administration, and it looks like they're going to carry on with it. I think Secretary Granholm has committed to buy that. Of course, we have several different options. We've got Canadian production, but we also have our U.S. assets that we were running, that we were the largest producer up until a few years ago when the market kind of fell out.

I can tell you, we're in Washington as much as we can. We're talking to the Department of Energy and we'll see. They haven't come clean and clear yet on whether they're going to spend that $150 million or $75 million to build that strategic reserve, but I can tell you we will be right there to offer our assistance in providing those pounds, absolutely.

**BEN HATCHETT:**

Okay, thank you very much.

**TIM GITZEL:**

Thank you, Ben.

**OPERATOR:**

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

**BRIAN MACARTHUR:**

Hi, good morning. Just to follow up on the purchases by junior company discussion, in your strategy, you talk about potential redemptions. Am I to believe as we look forward to next few years, do you worry about some of those pounds that are being bought out in the curve coming back to the market, that is to say maybe they buy them and if price goes up a little bit, they flip it back, so all we've done is delayed some of those pounds out in future? Is that what you're talking about when you go through that thinking process?

**TIM GITZEL:**

Grant, why don't you—we just talked about that this morning.

**GRANT ISAAC:**

Yes, Brian, it would certainly be a worry, and it would be a worry rooted in what we've seen even last year. Let me make a distinction between the advanced exploration companies and the funds, to start with.

Like I said, I think it's an interesting strategy, and I won't comment on it commercially; but it does concern me a little bit from the point of view of conviction. I would be disappointed, for example, if we discovered that when—you know, the uranium price, we think it's got to go up, but it's not going to go up and to the right constantly. It's going to saw tooth, so we may see situations where some of these companies that are holding an asset on their balance sheet, probably accounted for derivatively, may have to take a mark-to-market loss at the end of any one quarter if the price is off a bit, or if we see unusual quarter-end gains from the traders, uranium price comes off, they might have to take a loss.

And what are they going to do in that situation? Are they going to have the conviction and the support from their investors to hold through that? It would be disappointing if it simply came back into the market, or if they said, hey, we made a 20% return on our uranium purchase, we're going to monetize that. Well, all we did then was just play the shell game with uranium.

I have to be mindful of that. I like to believe that there's probably going to be conviction. I like to believe that it's probably linked to making good commercial decisions about funding their projects going forward. I have to believe that they understand how our market works and that if you're going to dispose of material, you should be disposing of it to an end user where it's never going to come back. If you're disposing of it to a trader, they're just going to churn it in your face. But I have to separate what I believe is going to happen from what could happen, and we've got to be mindful of that.

With respect to the funds, we did see the redemption examples last year, and then we saw material coming out from the funds, either being loaned or sold and, again, not meeting, I would say, good criteria. They were being loaned or sold to traders who again just churn it down. Traders make their margins by discounting the market, not by holding back material to get a premium price, so you know what's going to happen if you put the material in the hands of traders.

I raise it as a caution, Brian. It's not my expectation, and it's not what they said they would do, but I just think it would be wise to be aware of it and probably wise, to the best of our ability, to signal to those who support those strategies, how do you sustain the best value going forward.

**BRIAN MACARTHUR:**

Yes, fair enough. My second question, with the re-opening or expected re-opening of capacity of conversion in the United States, have you seen any changes in the conversion market? I mean, as you said, it all tightened up with constrictions, but maybe we're getting back to a little more balanced market. Is there any update there?

**TIM GITZEL:**

I don't think we've seen, Grant, a lot of change in the market. I think it's a little early maybe, Brian, that people are waiting to see. I think they said they'd come back on in 2023 sometime, which is—at the end of '23, which is a while from now. So, so far, we haven't seen much change in the market. We're watching closely, and they're presenting at all the conferences and trying to keep the market updated, but I think they're just getting started, so it might be a little bit early, Brian, to have any views on how that will work.

**BRIAN MACARTHUR:**

No one's forward looking the market that far out, I guess, yet?

**TIM GITZEL:**

It's a ways away yet, Brian, and I think they have a significant amount of capital to put into the plant to get it up to speed, so we'll watch and see how that goes.

**BRIAN MACARTHUR:**

Thank you very much for all the colour. I appreciate it.

**TIM GITZEL:**

Yes, thank you, Brian.

**OPERATOR:**

The next question is from Gordon Johnson from GLJ Research. Please go ahead.

**GORDON JOHNSON:**

Thanks for taking the questions. I guess the first question I have is, and maybe you guys answered this, but I didn't catch it, the ramping back up of Cigar Lake, there's some viewpoints that this is actually a positive, and the thought is that you guys are ramping this back up because you have limited supply from Inkai due to the COVID cases, etc. there, and thus that's suggestive of increased demand for uranium and thus your need to ramp this back up, and that the spot market remains under-supplied. Can you address that, and could you also talk about if you're seeing still excess inventory in the market or not?

Then lastly, I know this was asked, but I didn't catch the answer, on the contract that you guys signed, can you talk about the timing around that, the pricing, and what's geography that's going in? Thank you a lot.

**TIM GITZEL:**
Yes, thanks, Gordon. Let me take the Cigar part and then I'll pass it to Grant on the market question.

Cigar for us, when it's done, it's a double hit for us. We have care and maintenance costs in the $8 million to $10 million a month category while that's down. Those are significant costs for us to have that down, and at the same time we don't have access to a low cost source of production that we need to put into our contract portfolio, so it is expensive for us to keep that down.

As I said before a little bit earlier, we didn't plan to take it down, it was COVID and our super precaution and our concern for employees and the communities, that COVID not be spread around, that caused this and our lack on a day-to-day basis of qualified operators to run some of the circuits. That really kept it down, and it wasn't really a market-related issue.

That's why when we felt it was safe and we have all the protocols and procedures in place to protect the workers, we were able to bring it back up in April, and it's back up running now and producing, and so for Cameco, that's a good story.

Grant, do you want to take the rest of that?

**GRANT ISAAC:**
Yes, Gordon, I think that's an interesting way to describe it, as sort of a positive to bring Cigar Lake back. Really, let me just map it back to our strategy.

The reason we want to run Cigar Lake is for the reasons you talked about, because we have supply discipline going on, we've turned our production down well below our committed sales, and we made the determination that we'll be able to buy some material, but we won't be able to buy all of it, because the market is not that deep.

Cigar Lake coming back, I think you've got an interesting spin on it, is positive because it's a return to our strategy, and our strategy built in the idea that the market isn't deep enough for us to buy everything in it, so I would agree with you from that perspective. Hadn't thought about it that way before, but it's probably a good way to think about it.

In terms of excess inventories, we no longer see the uranium market being an inventory story. This kind of ended about two or three years ago when we saw the enricher underfeed be spoken for. Yes, enrichers still underfeed, but most of that is going into the uranium needs for their longer-term enrichment contracts, so we're not seeing kind of enricher underfeed being dumped into the market, and we aren't seeing inventory come to the market, excess inventory. Where inventory is playing a role is clearly some utilities, they've been consuming off their term contracts, but they haven't been replacing them, so where's that coming from? Well, that's coming from their inventory. You know, mobilizing their own inventory, chewing down a little bit of their strategic inventory position. That defers demand, but it doesn't add to supply. It's not like we can buy that material, that utility has just chosen to consume a little bit more before they start their buying campaign.

So, for us, the issue in the market is not inventory. It really is the last of this uncommitted primary production. Tim mentioned the Cominak mine coming down, the Ranger mine coming down. That's great, because those were two sources of uncommitted primary production, pounds that should have been left in the ground but weren't, they were being produced, and then they had no place to go but to the spot market, and contributed to this notion of the spot market being for surplus disposal.

We've got to work through the last bit of this uncommitted primary production coming into the spot market to tighten that up. I talked about some of the new demand, creating homes for that. That's good news, but for us, it isn't an inventory issue. We don't sit and worry about inventories coming into the market, so I would say that feature of the market has dramatically improved over the last couple of years.

**GORDON JOHNSON:**

Actually, if I could get one more in. Given that you guys are saying there's not an inventory issue, I know you get this question a lot but maybe you if you could talk around it or address it, is there a point at which you guys expect to see some type of price inflection, because I guess the pushback on the comment that inventory hasn't been a problem for two years would be spot prices have been steady to flat, so is there a point at which you guys expect to see an inflection?

Then lastly on the China contracts, right, those contracts are 10 years dated. A lot of people expect imminent renewals. Can you guys address that, discuss that? Do you see anything going on there? Thanks again for the questions.

**GRANT ISAAC:**

Yes, on the spot market, great points. I think our observation would be, remember when we started our supply discipline strategy, especially in earnest with McArthur coming down, we were below $20 in the spot market. In fact, I think for one moment there, it tucked below $18 and was $17.75 a pound. That was inventory. That was inventory coming into the market.

We started our supply discipline strategy. As Tim noted in his comments, having our assets down and our purchasing has led to about a 145 million pound swing in the market dynamics. It's bridged us through that inventory challenge. The spot market is up, what, about 65% since those days, so it's not where it needs to be in terms of incenting primary production and the investment in new capacity, but it has come a long way from those inventory mobilization days.

I would say the first move was to go from a market that was inventory and primary production-driven to one that's just uncommitted primary production-driven at the moment. The next inflection, of course, comes with demand. It comes with enough fuel buyers looking at the improving demand outlook, that we start to see an acceleration of the completion of contracts not just off market but a steady drumbeat of on-market RFPs, and then that demand signal will begin to build more confidence in the producers who right now, when they see an RFP come into the market, they're very aggressive going after it. They'll be able to step back a little bit.

The next leg up, I would say is there's no substitute to end user utility demand, and we're not quite there yet, but that's what creates that inflection point that you talked about. The spot market is no longer inventory-driven. That's why it's kind of hanging around $30 instead of below $20.

The China story is very interesting. Obviously, Tim identified some statistics on just the improvement in their outlook for the role of nuclear power as part of their net carbon zero by 2060. We've seen a bit of an evolution among the customers in China. We no longer think of them as one group anymore, they've behaved very differently.

One of our customers has gone out and acquired assets, is running assets in Namibia for example, and that supply is going back to meet some of their needs. Another customer has, instead of building their own assets, they've taken equity positions in other assets, but they're not running, so we actually see it as being a bit different.

We see one has kind of been more proactive in meeting some of its own needs with some of its own investments, and the other probably be more uncovered and probably will be the first to come to the market in light of these new plans, because when you're building a reactor fleet that's going to run for 60 or 80 years, it's probably an insufficient answer to go back to those that are planning power and saying, yes, but I've only got the fuel procured for another five. There probably is a cycle coming to start to match up the commitment to 60 to 80 years of production with the fuel to supply 60 to 80 years of power production, so we're optimistic on the China situation.

**GORDON JOHNSON:**
Thanks again, guys.

**TIM GITZEL:**
Thanks, Gordon.

**OPERATOR:**

The next question is from John Tumazos from John Tumazos Very Independent Research. Please go ahead.

**JOHN TUMAZOS:**

Thank you very much. I have a first question and then a follow-up from it. At first glance, Tim, it looks really good that the cash balances went up $107 million in the quarter, but there were six one-time benefits to cash without which it would have fallen $135 million; the inventories fell, there was a $49 million credit for long term receivables, you got the legal fees back in the tax dispute, the CapEx was way, way below trend, money came in from stock and you liquidized some short-term investments.

How do you look at the cash flow, first, and then second, does that mean that you need to re-start production to generate cash rather than having holding costs, or else slim down real deep, take your pay in stock or do things to save cash?

**TIM GITZEL:**

Yes, thanks, John, for the question, and you're right, we did have a lot of kind of one-off ins and outs during the quarter on the cash side, with the CRA and some other government payments. Grant, I'll just ask the CFO if there was anything abnormal about it. It's kind of how we operate, so.

**GRANT ISAAC:**

Yes, John, interesting take on it. A couple of clarifications, so for example the cash from the CRA is actually not in that quarter-end number; that was a subsequent event. But of your puts and takes, the main point is we've said all along as part of our strategy, we would take supply discipline, we would embark on market discipline which had both a purchase in the market to meet our committed sales as well as being very strategically patient on layering in new business, which we spent a lot of time talking about today, and it would be backed up by very conservative financial management that gave our owners the confidence that we could self-manage risk.

Whether we're sitting $1 billion or $900 million, we're still achieving that, so for me, there's no danger here about our financial capacity slipping into a zone where we don't have strategic resolve anymore. You raise some interesting points, but I would just counter by saying we're still absolutely on track with the third pillar of our strategy that we've talked about, which is to be financially conservative and be in a position to self-manage the risk of the strategy and the risk of the market transition.

**JOHN TUMAZOS:**

Thank you.

**TIM GITZEL:**

Thanks, John.

**OPERATOR:**

The next question is from Jessica Sondgeroth with Nuclear Intelligence Weekly. Please go ahead.

**JESSICA SONDGEROTH:**

Hi, Tim. Hi, Grant. Thank you for taking this call.

I just wanted to ask about the 9 million pounds in term sales in April and the balance you had, I think 17 million per year for the first quarter for 2021 through 2025. You noted commitments higher in 2021 and '22. I know that doesn't include the 9 million, but I'm wondering if you can add a little colour to what the 9 million adds to that balance. Is this material going to an end user, an intermediary, anything you can kind of share?

**TIM GITZEL:**

Yes, thanks for the question, Jessica. We were happy to get those extra sales and there's more to come, as we've said many, many times. Our pipeline is busy, COVID-related things have slowed down. I think in 2020, it was slow due to that everyone was focused on their own operations and not particularly adding to their long-term contracting portfolio, but now we're seeing a few thing free up. Those 9 million pounds, those are included, by the way, in the 17 million—or they're not included, I'm sorry. Rachelle says they're not included in the 17 million per year over the five-year period.

Yes, I think Grant gave a little bit of colour on those pounds earlier. They fit what we want to see in our portfolio, the ratio of the mix between fixed price and market price at time of delivery. Grant, if you have something to add to…

**GRANT ISAAC:**
Yes, I think there's an important tie here between your question, Jessica, and one that was asked quite a bit earlier by Ralph, and that is there is no doubt that our contract portfolio is opening up in sort of the later years of that five-year window, and I don't want anybody to have the impression that we're not aware of that and in fact that isn't a strategic position. We want to be more exposed to the market that we think that needs to be transitioned.

The situation that Ralph was asking us about, that's the one we've learned from. We've layered in a lot of volumes in the past, we layered them in at indexed pricing such that when the market did transition, we didn't really participate in that. We don't want to do that again, so yes, we have more deliveries; that's 17 million pounds on average per year for five years, it's more heavily weighted to the front end, it's less deliveries in the back end. That's exactly where we want to be, looking at a market that's sitting at a P5 or a P10 price with a much greater chance of going up than going down.

You also asked the question about to whom are we entering into contracts. Not intermediaries at all. I mean, we're not selling to traders. These are end users, these are utility contracts, these are kind of the classic term business, and between '19 - '20 and now, that's nearly 60 million pounds of new business we've added to that pipeline, reflecting that broader portfolio criteria that we have when we layer in contracts.

**JESSICA SONDGEROTH:**
Okay, great. Thank you, Grant. Thank you, Tim.

Just one more follow-up—not a follow-up, but a separate question on the Cigar Lake run rate uncertainty. Can you characterize that a little more? Is that something that requires investment, the issue when we...

**TIM GITZEL:**

No, Jessica, it's just normal operations when you take an operation down like that. We kept all of the workers, and we kept, obviously, the facility in good shape on care and maintenance, and so we just are being ultra-cautious as we ramp back up. The COVID situation isn't gone in Saskatchewan. We've been very fortunate and, I think, managed it quite well at the site, but we just are not sure what kind of production level we can ramp up to this year, and we're just getting started now.

We're just sending some uranium down to the road, over to the McClean Lake facility, and so just lots of question marks, nothing that we're seeing that's out of the ordinary. But we just want to be very prudent in not putting out numbers that we can't back up right now, so we'll see on the next quarter once—you know, hopefully we can get them up and running and running normally, and then we'll be able to give some better guidance going forward, but right now, we're just being cautious.

**JESSICA SONDGEROTH:**

Okay, great. Thank you.

**TIM GITZEL:**

Thank you.

**OPERATOR:**

Next is a follow-up question from Orest Wowkodaw. Please go ahead.

**OREST WOWKODAW:**

Hi, good morning and thanks for taking the follow-up. Grant, just had a question about your uranium inventories. Based on your guidance, updated guidance for purchases and your unchanged sales guidance, my mental math would tell me that you plan to exit this year with markedly lower inventories closer to that 9 million to 10 million pound range versus 15 million exiting 2020. I'm just curious if you think that's a good targeted run rate for inventories, or whether we could actually see Cameco be more opportunistic and buy more purchases than you're guiding?

**GRANT ISAAC:**

Can I answer yes to both, Orest? Just a reminder of how we got there. Go back to last March, last April. COVID starts rolling out around the world, we started to see real supply uncertainty not just in Canada but places like Kazakhstan. You'll remember the actions that Kazatomprom took and countries like Uzbekistan, Namibia, COVID cases in Niger. As the largest buyer in the market and the largest inactive—or inelastic buyer in the market, because we have a committed sales portfolio to deliver into, think of it as we bought some risk material. It wasn't we were building up an inventory to hold, it was as we looked out at our committed sales portfolio and knew what we had to deliver, we bought what we needed when we saw it was available, because of that uncertainty.

But as the COVID situation began to stabilize and we brought Cigar Lake back, and we saw the measures that Kazatomprom were taking, we weren't really in that world anymore of thinking we needed to buy ahead and buy some risk pounds, so we ended 2020 with a higher inventory than we would have otherwise enjoyed.

We've brought it down back more in line with what you've traditionally seen, but for some of the, I would say new factors, not COVID related, but if we do see a piling on, funds start to invest more. We talked quite a bit about the Sprott vehicle and the opportunity for that to be more active, if that vehicle starts buying more pounds, well, guess what? So are we, because we're not going to be completely left out of that because we need it for our committed sales.

Historically, you know what our inventory targets have been. We sort of navigate by those inventory targets, but we've got to deliver in our committed sales portfolios, so it really is going to depend, Orest, on the buying behavior of others and what we see in the market, and we're not going to be left with no material and having to default on a committed sale. That is absolutely not going to happen.

In a really unhelpful way, my answer is yes to both.

**OREST WOWKODAW:**
Thanks, Grant. As a second follow-up, just coming back again to your new contracts that you signed in April, representing 9 million pounds. Do you think that represents in your view some kind of inflection point in the re-contracting market, like, do you think that opens the door now or paves the way for others to now start piling on, or do you view this more as an isolated event?

**GRANT ISAAC:**
Well, again I'm a little tempted to say it's a bit of both. The real inflection point, as I said earlier, it comes when we start to see greater frequency of the on-market RFPs going along with the off-market business. The off-market business has historically been a leading indicator, a necessary condition, but it kind of hasn't been the sufficient condition for a full-blown term contracting cycle.

But here's why we view it as positive. Because utilities, yes, they're watching the supply-demand dynamic, but the other thing we know they're watching is each other. It's tempting to say, well, if my big neighbour here isn't buying, maybe I don't need to be buying; but then when the word gets out that some are starting to buy, and they're starting to buy out in more of that classic term window, you think about the summer of 2010 when the Chinese stepped into the term market for the first time and contracted 150 million pounds basically for 2013, 2014, to 2024. Everybody else who was sitting on the sidelines, feeling they were well-covered for 2011 to 2015, saw the big new entrant come into the market and start gobbling up the pounds that hadn't yet been called for, and that triggered a contracting cycle.

We do think maybe it is a drip in the bucket, but it's a big drip in a bucket that's getting pretty full, Orest.

**OREST WOWKODAW:**

Thanks, Grant.

**TIM GITZEL:**

Thanks for your question, Orest.

**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, thank you very much, Operator, and with that, I just want to say thanks to everybody who was on the call today. We, as always, appreciate your interest and support. I just have to tell you, we're pretty excited about the future and what we're seeing for nuclear power generation. We're excited about the fundamentals of uranium, the supply-demand, and we think our Company is in a great spot.

We continue to be a responsible commercial supplier with strong balance sheet, long lived Tier 1 assets, and a proven operating track record, and I can just assure everyone that we will continue to make the health and safety of our workers, their families, and their communities our priority.

With that, thanks again everybody. Stay safe and healthy, and talk to you again soon. Thank you.

**OPERATOR:**

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