Cameco Corporation

First Quarter 2023 Conference Call

Transcript

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Presenter:

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President and Chief Executive Officer

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

Brian Reilly
Senior Vice-President and Chief Operating Officer

Operator:
Welcome to the Cameco Corporation First Quarter 2023 Conference Call.

As a reminder, the conference is being recorded. After the presentation, there will be an opportunity to ask questions. (Operator instructions)

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 first quarter conference call. I would like to acknowledge that we are speaking from our corporate office, which is on Treaty 6 territory, the traditional territory of Cree peoples and the homeland of the Métis.

With us today on the call are Tim Gitzel, President and CEO; Grant Isaac, Executive VP and CFO, Heidi Shockey, Senior VP and Deputy CFO; Brian Reilly, Senior VP and Chief Operating Officer; and Sean Quinn, Senior VP, Chief Legal Officer, and Corporate Secretary.

I'm going to hand it over to Tim in just a moment to discuss how the improving growth outlook for nuclear power is translating into an improving growth outlook for Cameco. After this, we'll open it up for your questions.

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 contact provided in our news release, you can submit a question through the Contact tab on our website, or you can use the Ask a Question form at the bottom of the webcast screen and we will be happy to follow up after this call.

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 Q&A session, please limit yourself to two questions and then return to the queue.

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This presentation includes forward-looking information or forward-looking statements under Canadian and U.S. securities laws, which we refer to as “forward-looking information”. Forward-looking information can generally be identified by the use of words such as “approximately”, “may”, “will”, "could”, “believes”, “expects”, “intends”, "should”, "would”, “plans”, “potential”, "project”, “anticipates”, “estimates”, “scheduled” or “forecasts”, or other comparable terms that state that certain events will or will not occur. It represents the projections and expectations of the Company relating to future events or results as of the date of this presentation. This information about our expectations for the future is based upon our current views, which can change significantly, and actual results and events may be significantly different from what we currently expect. Examples of forward-looking information that may appear in this presentation include but are not limited to: uranium demand, supply, consumption, prices, long-term contracting, production, and our ability to meet delivery commitments; outcome of litigation or other disputes; our future plans, strategies and outlook; our objectives regarding contributing to a net zero emissions target and other environmental, social and governance goals. Material risk factors that could cause actual results or events to differ materially from those expressed in, or implied by, the forward-looking statements contained in this presentation, are disclosed in the sections entitled “Material risks”, and “Material risks that could cause actual results to differ materially” and “Risks that can affect our business” in our most recent Annual Information Form (the “AIF”), and “Material risks” and “Material risks that could cause actual results to differ materially” of the annual management discussion and analysis for the year ended December 31, 2022 (the “Annual MD&A”), as such disclosure shall be updated from time to time in Cameco’s continuous disclosure documents. Readers are cautioned that the risks referred to above are not the only ones that could affect Cameco. Additional risks and uncertainties not currently known to Cameco or that Cameco currently deems to be immaterial may also have a material adverse effect on Cameco’s financial position, financial performance, cash flows, business or reputation. Forward-looking statements made in this presentation are based on a number of assumptions that Cameco believed were reasonable at the time it made each forward-looking statement. Refer in particular, but without limitation, to the sections entitled “Material assumptions” and “Assumptions” of the AIF, and “Material assumptions” and “Assumptions” of the Annual MD&A for a discussion of certain assumptions that Cameco has made in preparing forward-looking statements included or incorporated by reference in the presentation. The foregoing assumptions, although considered reasonable by Cameco on the day it made the forward-looking statements, may prove to be inaccurate. Accordingly, our actual results could differ materially from our expectations. There can be no assurance that forward-looking information and statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Investors are cautioned that forward-looking information and statements are not guarantees of future performance. Cameco cannot assure investors that actual results will be consistent with the forward-looking information and statements. Accordingly, investors should not place undue reliance on forward-looking information and statements due to the inherent uncertainty therein.

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Forward-looking information contained in this presentation about prospective results of operations, financial position or cash flows that are based upon assumptions about future economic conditions and courses of action are presented for the purpose of assisting you in understanding management’s current views regarding those future outcomes, and may not be appropriate for other purposes.

Important Notes/Disclaimers

Readers should not construe the contents of this presentation as legal, tax, regulatory, financial or accounting advice and are urged to consult with their own advisers in relation to such matters. Additional information about Cameco, including audited consolidated financial statements as at and for the years ended December 31, 2022 and 2021 and related MD&A, and its Annual Information Form for the year ended December 31, 2022, and other continuous disclosure documents are available on SEDAR at www.sedar.com and via EDGAR on the SEC website at www.sec.gov.

MARKET AND INDUSTRY DATA
Cameco has obtained any market and industry data and other statistical information presented in this presentation from a combination of internal company surveys and third-party information. Such third-party publications and reports generally state that the information contained therein has been obtained from sources believed to be reliable. Although Cameco believes these publications and reports to be reliable, it has not independently verified the data or other statistical information contained therein, nor has it ascertained the underlying economic or other assumptions relied upon by these sources. Cameco has no intention and undertakes no obligation to update or revise any such information or data, whether as a result of new information, future events or otherwise, except as required by law.

CURRENCY
In this presentation, unless otherwise specified or the context requires otherwise, all dollar amounts are expressed in Canadian dollars.

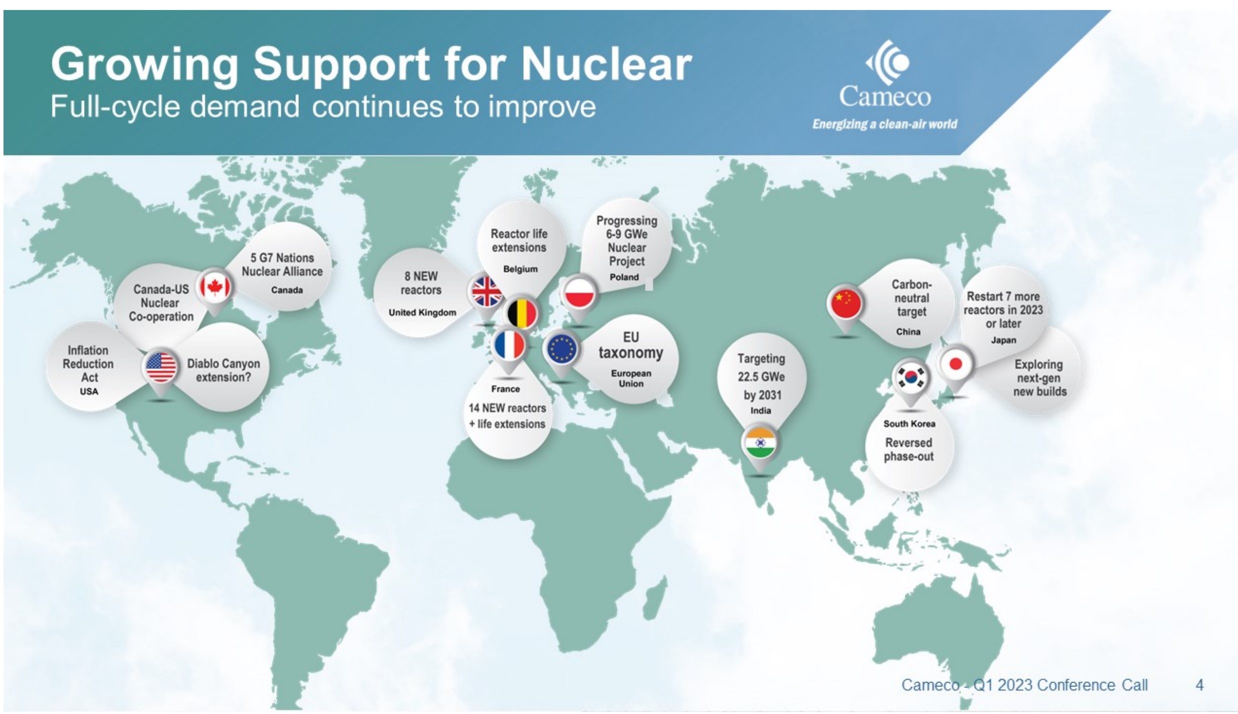
FINANCIAL INFORMATION

Cameco financial information is prepared using International Financial Reporting Standards (“IFRS”) as prescribed by the International Accounting Standards Board. ***

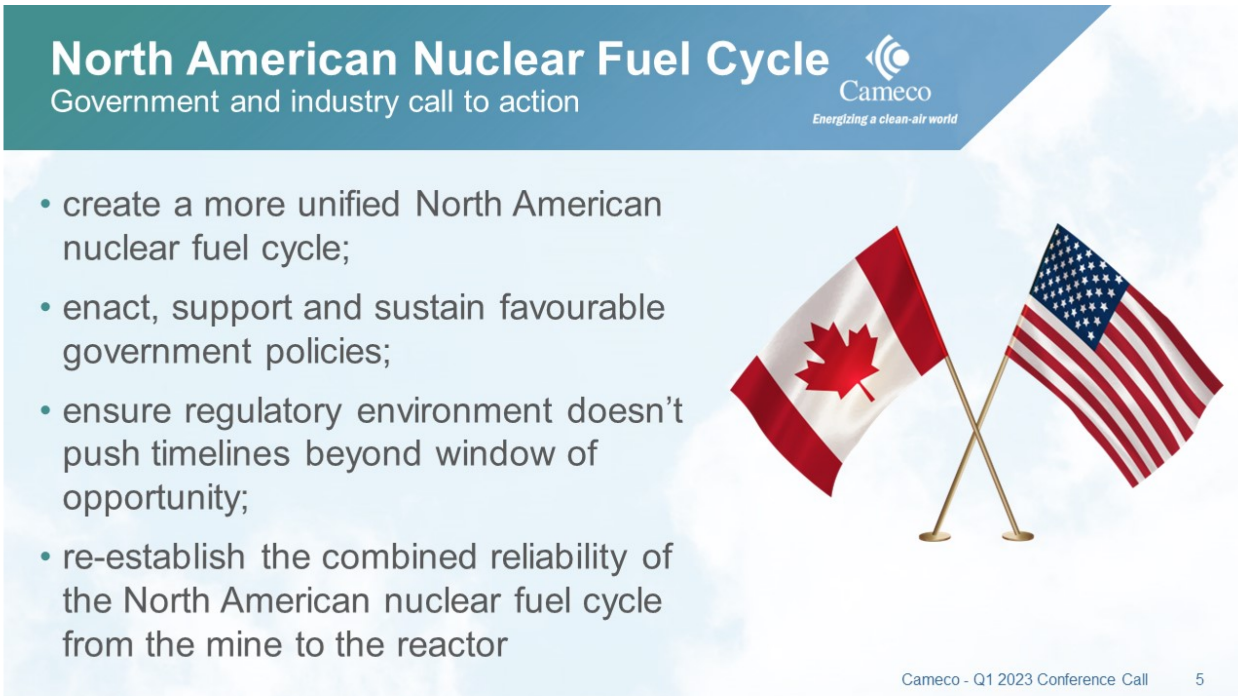
Please note that this conference call will include forward-looking information which is based on a number of assumptions, and actual results could differ materially. You should not place undue reliance on forward-looking statements. Actual results may differ materially from these forward-looking statements and we do not undertake any obligation to update any forward-looking statements we make today except as required by law. Please refer to our most recent 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:
Well, thank you, Rachelle, and good morning everyone. Hope everyone is doing well. We appreciate you joining us on our call today.



Let me start today by saying how excited we are about the opportunities for growth ahead of us with demand for clean, reliable, secure, and affordable baseload electricity coming from across the globe. In fact, I'm not sure there has ever been a better time to be a pure play investment in the growing demand for nuclear energy, and that is exactly how we have positioned Cameco. From the results we published earlier today, which are clearly beginning to demonstrate the strength and purpose of our strategic decisions, to the continued support we see developing for nuclear power around the world, our optimism just continues to grow.

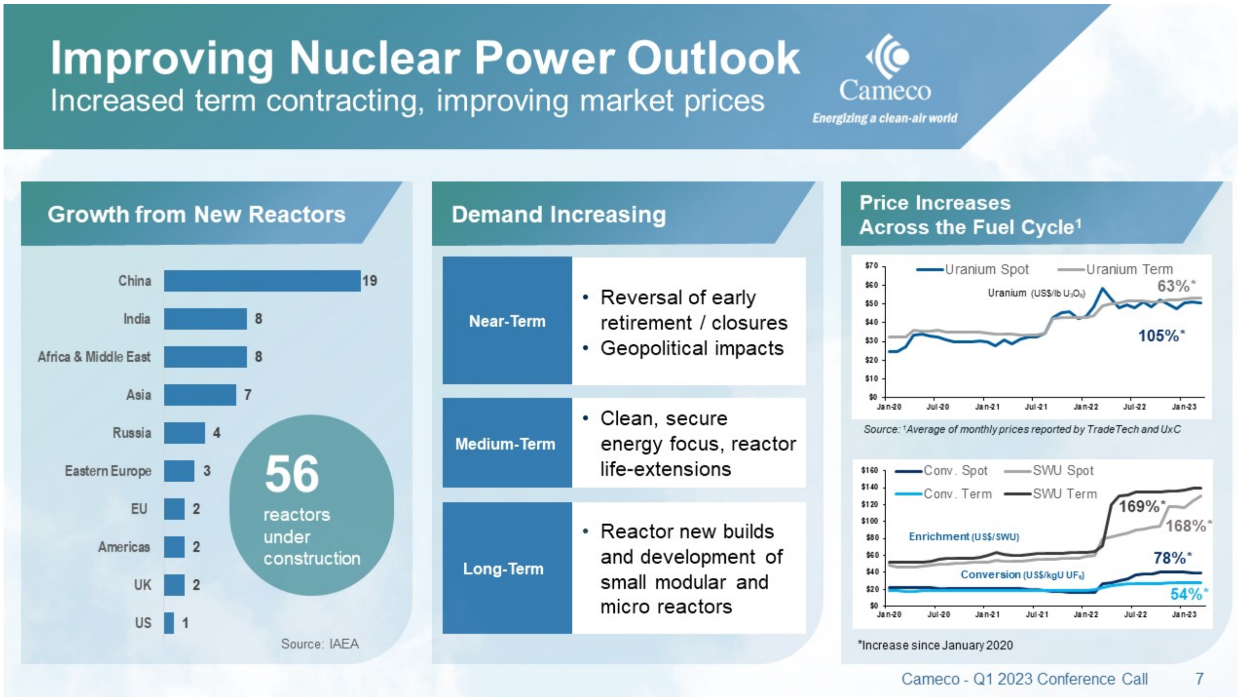


I have to tell you about an event I attended about a month ago, the Prime Minister Trudeau-President Joe Biden dinner, which took place in Ottawa. I think the related meetings and public statements that followed exemplify with little doubt the scale and scope of the opportunity that's in front of us. At the dinner, the two leaders talked about, among other things, the critical role of nuclear energy and the importance of nuclear collaboration between Canada and the U.S. It was almost hard to believe, like a dream come true.

Nuclear energy would never have made top billing at a meeting between our countries even a few years ago, so it gives you a sense of just how important nuclear power and the fuel cycle to support it have become and how critical Cameco's role is to achieving this North American vision. In fact, I sat between Canadian Natural Resources Minister, Jonathan Wilkinson, and U.S. Secretary of Energy, Jennifer Granholm, where we continued the discussion around Cameco's role in North American nuclear energy security.

The dinner was followed up by the joint statement between the U.S. Department of Energy and Natural Resources Canada on nuclear energy cooperation. I don't know if you've read it yet, but I can tell you it is really positive and puts nuclear power front and centre. It's the kind of signal from government that our industry has been waiting for, for a long time, and while the statement was largely focused on North America, it went even further. It addressed the need to work together globally as the world grapples with providing clean, reliable, affordable, and secure energy.

Furthermore, at the recent G7 meeting in Japan, five of the G7 nations – Canada, the United States, United Kingdom, Japan and France – have created an alliance to leverage their respective civil nuclear sectors. This agreement will support the stable supply of nuclear fuels as well as the nuclear fuel needs of future advanced reactors. Almost every day in the news, you will find more examples of that same sentiment being expressed.



Whether it's the improving public opinion for nuclear power, changing policy decisions in support of nuclear, or market-based solutions being pursued, there's increasing evidence of a strong momentum for nuclear, evidence that supports full cycle demand growth for nuclear power and the uranium fuel required to run the reactors, so the positive fundamentals you've heard us talking about for nearly a decade are no longer just a long-term story. They're right in front of us, and the picture is stronger than ever.

We're seeing the reversal of early reactor retirement decisions, which represents unexpected near-term demand, and as some utilities look to replace Russian fuel in their supply chains, we're seeing new markets opening up, markets where our Company was previously unable to compete such as Central and Eastern Europe. This is adding further pressure to the already tightening near-term market. In the medium term, additional demand is coming from life extensions for existing reactor fleets.

Although today's focus is on energy security and fuel diversity, governments are not losing sight of their clean air and net zero carbon targets. Those who are lucky enough to count operating and fully depreciated nuclear plants as part of their base load generation are recognizing that those assets are more valuable than ever.

Then there is growth in the long-term, which is coming in the form of new builds, expansions to existing reactor programs and higher nuclear energy policy targets, and construction plans for small and advanced nuclear reactors, plans that are becoming more concrete every day, all of which is pointing to what we believe are truly transformative tailwinds for our industry, tailwinds driven by the focus on clean energy, by an energy crisis, and by the geopolitical realignment of energy markets.

In the past quarters, we've spent a lot of time focusing on the vital aspect of supply and demand because about 95% of the questions we have been getting were focused on the market. There seemed to be little interest in what Cameco was up to because we had almost everything shut down; however, those fundamentals, characterized by durable full cycle demand growth against a backdrop of an uncertain supply picture, are now pretty well understood.

Now that we are restarting some of our operations and expanding at others, we're seeing the interest shift back to understanding how we're positioning Cameco to benefit from the tailwinds that are developing.

What a difference a year has made. The question on everyone's mind now seems to be, how quickly can you respond with more production? However, I think we've been very clear. For us it's not about volume, it's about maximizing value. The key to our production planning and potential future growth decisions is long-term utility procurement. Contracting comes first in all segments of our business.

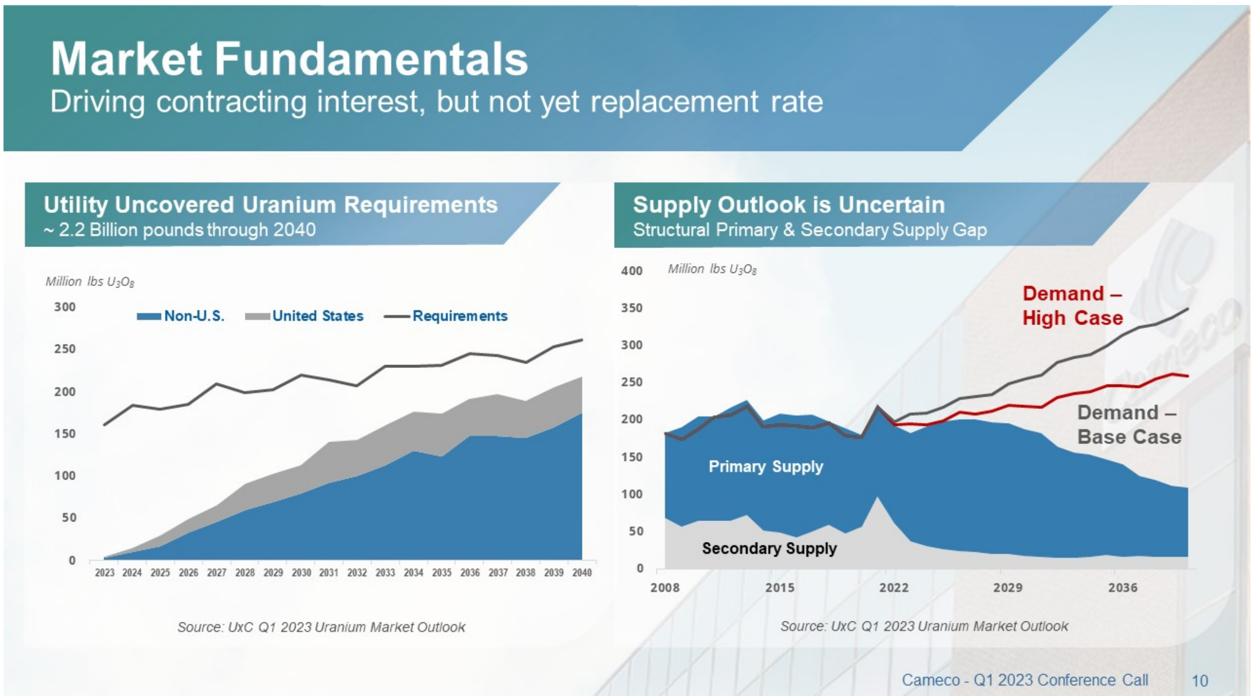
As we've said time and time again, nuclear is a long-term market and spot activity is discretionary. That said, price and availability of uranium products and services in the near term does have an impact on the market's assessment of how much uranium is available across all time horizons, and near-term scarcity makes everyone think longer term, setting the right context for a new contracting cycle which is now well underway.

Once we have finalized contracts in hand and know when and where our material is needed, we will then make the appropriate sourcing decisions to satisfy those delivery commitments. We have over three decades of experience operating in this industry. We understand that to create long-term value and provide supply reliability for our customers, we must build homes for our production under long-term contracts before we pull it out of the ground, a bit unusual for a mining company but then again, we're more than mining, and a bit unusual for a commodity, but then again uranium is unlike most other commodities.

We continue to be balanced and disciplined in layering in contract volumes where it makes sense for us, while building a diversified customer base. For the past couple years, the volumes we have placed under long-term agreements have exceeded our annual delivery volumes. The most recent supply agreements we finalized in new markets in Eastern Europe are great examples of the type of contracting opportunities we are seeing. We are incredibly proud of the pivotal role that we at Cameco will be able to play in helping these countries gain energy independence.

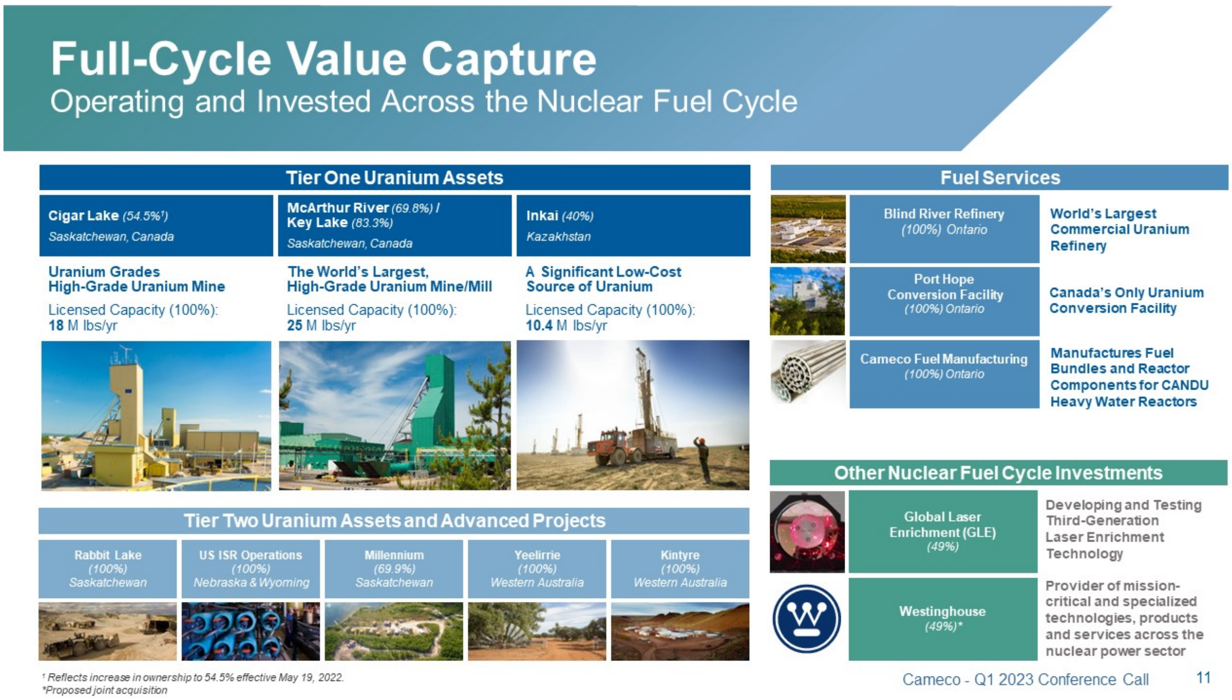
As a result of our contracting success, today we have about 215 million pounds of uranium and more than 70,000 tonnes of UF6 conversion under long-term contracts. Delivery under these contracts spans more than a decade, some contracts up to 2040. The average annual delivery volume in our uranium segment over the next five years is 26 million pounds, and many of these contracts are market-related, provided us with exposure to an improving market.

In addition, we have a large and growing pipeline of business under discussion, which we expect will help further build our long-term contract portfolio and guide our future production planning. This contracting success is expected to allow us to sustainably operate our assets and generate full cycle value for Cameco, providing our customers with access to the fuel they need to operate their reactors.



However, while Cameco is enjoying replacement-rate contracting, the nuclear industry overall has not yet achieved that milestone, so utilities' uncovered requirements continue to grow. With our experience in every commercial cycle, we believe this indicates we are still in the early stages of the market transition that is underway, and we know that additional demand must come to the market; therefore, we are remaining patient in order to capture as much long-term value as possible. We remain very selective in committing our unencumbered tier-one in-ground uranium inventory and UF6 conversion capacity under long-term contracts. We want to maintain additional exposure to future improvements in the market.

As a commercial supplier, our decisions have uniquely positioned the Company to capitalize on the increasingly undeniable conclusion that nuclear power must be an essential part of the clean and secure energy transition, and with heightened security of supply concerns and geopolitical uncertainty stemming from Russia's ongoing war in Ukraine, Cameco's nuclear fuel supplies are highly coveted.



With demonstrated tier-one assets, strategic tier-two assets, and investments across the fuel cycle, we have taken a balanced and disciplined approach to our strategy of full cycle value capture. We believe there is significant opportunity for Cameco to grow as we help new and existing customers de-risk their fuel supply needs, but what's really exciting for us is that we do not have to build new capacity to compete for this business. We have brownfield expansion capacity. We just need to turn up the best-in-class assets we already have, a position we have not enjoyed in previous price cycles.

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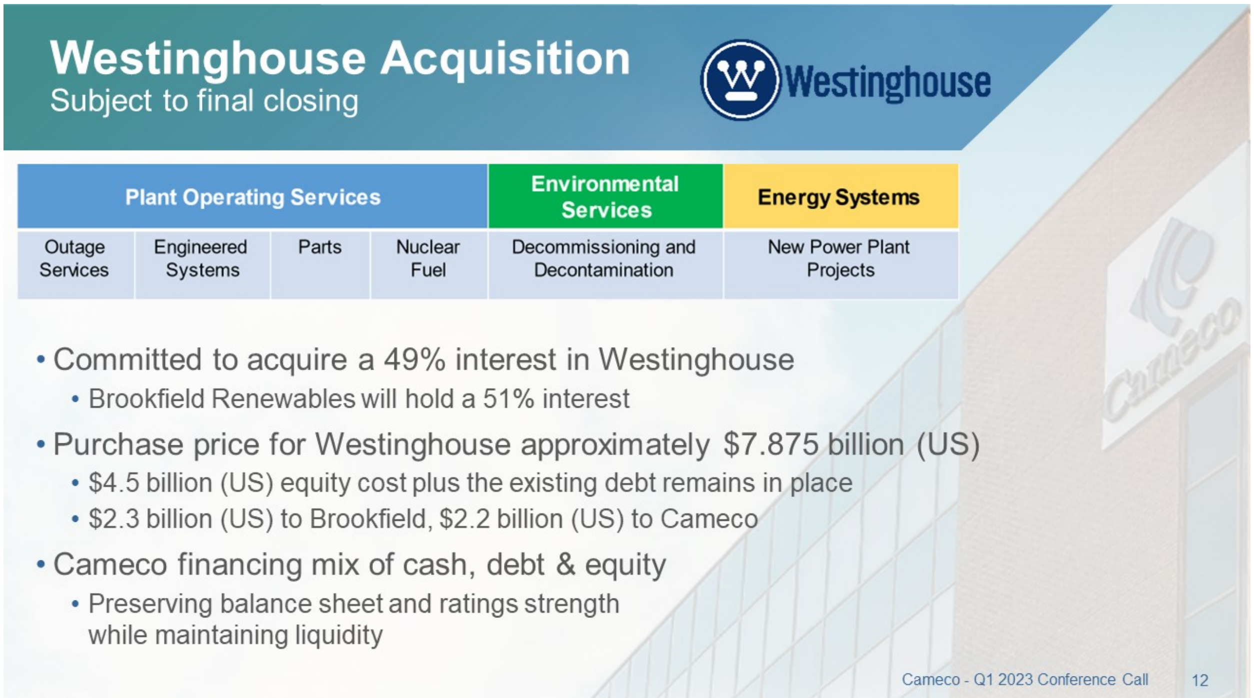


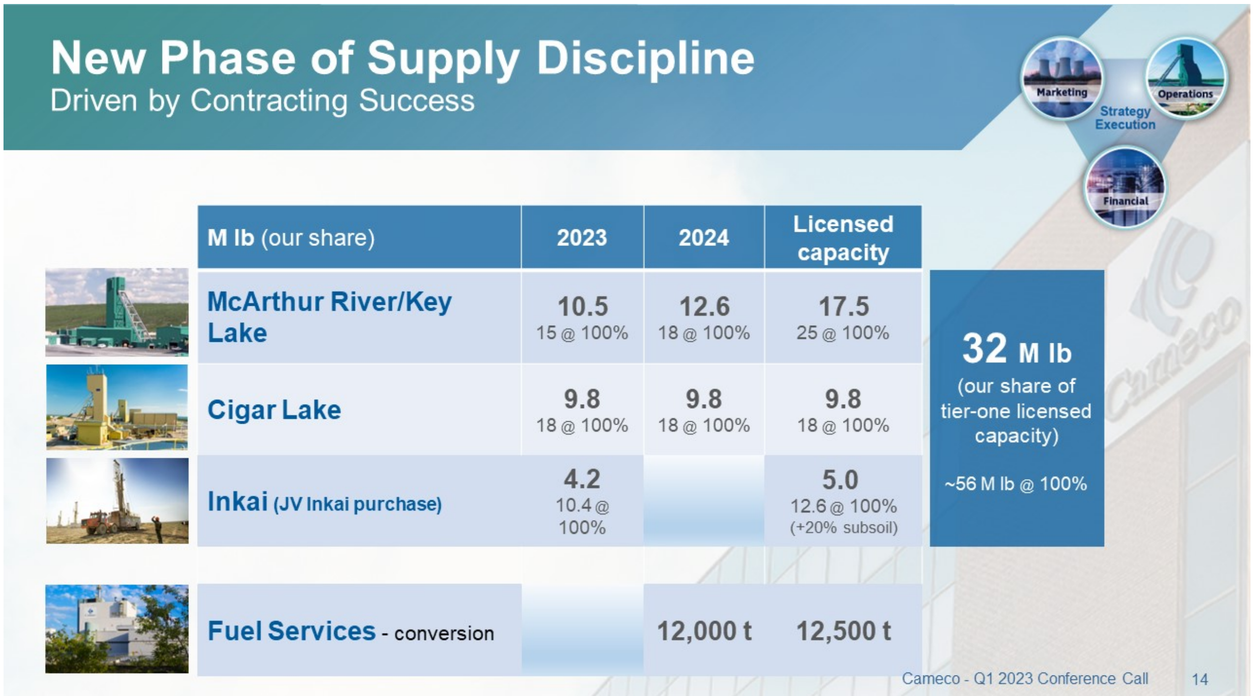
In the context of significant growth opportunities for nuclear power, we're also excited about our strategic partnership with Brookfield Renewable to jointly acquire Westinghouse Electric Company. Our excitement stems from being able to extend our reach in the nuclear fuel cycle at a time when there is tremendous growth on the horizon.

Our planned investment in Westinghouse is an investment in assets like ours that are strategic, that are proven, that are licensed and permitted, and that are located in geopolitically attractive jurisdictions, assets that we expect will be able to participate in the growing demand profile for nuclear energy and downstream services from their existing footprint. The team here is working toward closing the Westinghouse investment, which is still expected to occur in the second half of this year. Once it closes, we'll be able to provide more details on the exciting prospects we see for that business.

This brings us to our production decisions. Our production plans are balanced with our contract portfolio and where we think the market transition is currently at. We will not front-run demand with uncommitted supply and risk being exposed to a discretionary spot market. We've seen other companies pursue a spot market strategy many times in the past, and every time it failed. It only served to transfer value from shareholders' pockets into the pockets of utilities, traders, or other intermediaries.

Any company that understands our industry has learned the lessons of the past. They understand that in the near term, there is very little uncovered demand – you just have to look at UXE's uncovered requirements in 2023 and 2024; they're very small. Contracts being signed today aren't for in-year demand, they're generally for requirements starting in 2025 and beyond, when uncovered requirements start to grow.

However, if you wait until then to contract, you'll miss the contracting cycle. The demand will already be covered under long-term contracts that are being signed today, and your production will be exposed to a small discretionary spot market, so Cameco won't ramp up production to meet spot demand. We align our production plans with our long-term commitments, and I think we've shown we can be trusted when we say we will maintain our discipline.



Let me just take a minute to discuss where we're at with the next phase of our supply discipline. As we announced last quarter with the contracting success we have had, we've changed our production plans from a year ago. We now plan to ramp up at McArthur River/Key Lake to produce 15 million pounds this year and 18 million pounds in 2024. At Cigar Lake, we plan to produce 18 million pounds this year and to maintain production at 18 million pounds in 2024, but that's not the extent of our tier-one supply growth.

As we see uncovered requirements translate into additional contract commitments, we also maintain the ability to expand and extend production from our existing tier-one assets. If we took advantage of all of these opportunities, our annual share of tier-one uranium supply could be about 32 million pounds. As for our tier-two assets, we plan to keep those on care and maintenance unless we can secure long-term contracts that provide returns similar to what we can currently achieve on our tier-one assets.

In addition to our plans to increase uranium production this year and in 2024, we're also working on expanding production at our Port Hope UF6 conversion facility. To satisfy our growing book of long-term business at a time when conversion prices are near historic highs, we're targeting annual production of 12,000 tonnes by 2024, but as is the case across all industries and jurisdictions right now, there are challenges. Inflation, the availability of personnel with the necessary skills and experience, the impact of supply chain challenges on the availability of materials and reagents, and global transportation challenges all contribute to elevated risks, which we must continue to carefully manage.

With improving market fundamentals plus our growing contract portfolio for both uranium and fuel services and our plans for increased production, our strategy has set us on a path that provides line of sight to a significant improvement in our financial performance as we return to our tier-one cost structure. You can see this is starting to play out in our first quarter results, as we expected it would.

Our strategic decisions are translating into better earnings and cash flow as higher uranium prices flow through our existing market-related contracts and as we begin to deliver into higher priced UF6 conversion contracts. We are no longer incurring care and maintenance costs or operational readiness costs at McArthur River/Key Lake, and as our production increases and our purchased volumes decrease, we're relying more on our lower cost production to meet our delivery commitments. We will retain our conservative financial management to support our continued balanced and disciplined contracting and supply decisions.

As you know, the financial aspect of our strategy is to ensure we have a solid balance sheet and the ability to self manage risk. At the end of the first quarter, including the proceeds from an equity issue to support our planned acquisition of a 49% share of Westinghouse, we had $2.5 billion in cash, about $1 billion in long-term debt, and a $1 billion undrawn credit facility, and this doesn't include the US $79 million dividend we just received from JV Inkai or the $86 million cash refund CRA just sent us on account of its revised reassessments for the 2007 through 2013 tax years.

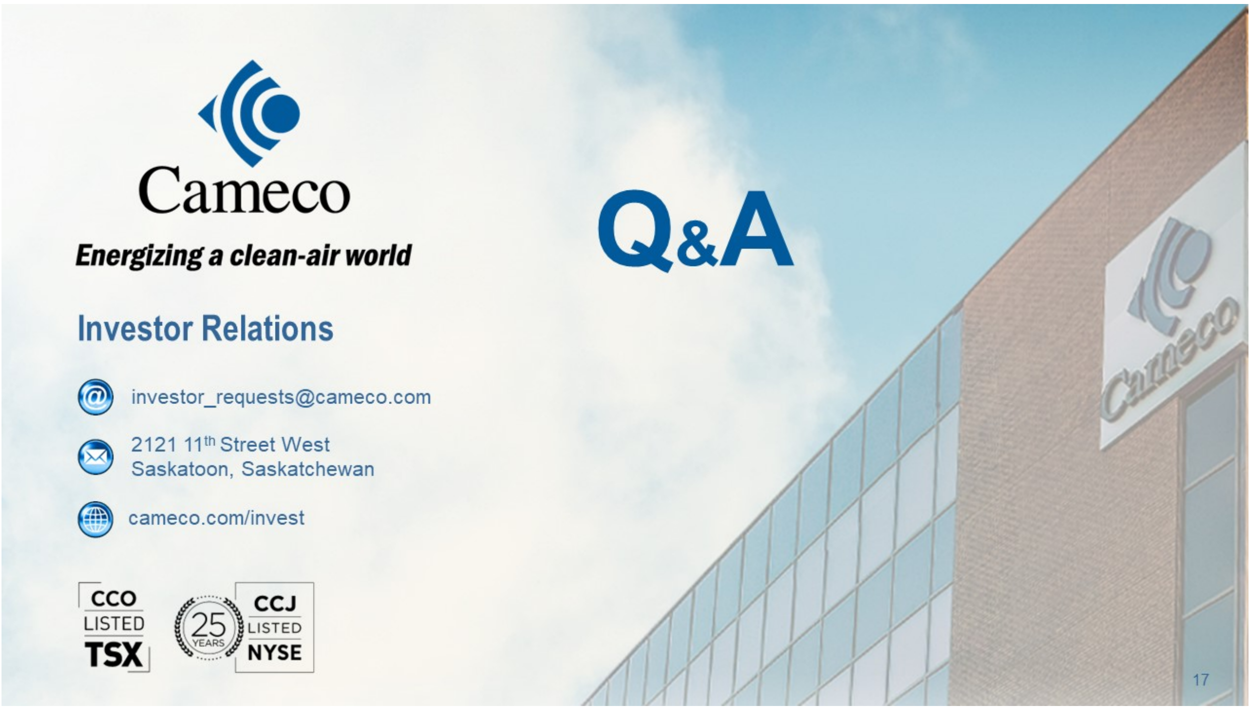
The refund from CRA was cash we had to pay on account of taxes previously reassessed on income earned by our foreign subsidiary from the sale of non-Canadian produced uranium. Based on the information CRA provided to us, we had actually expected to receive $89 million, but nothing surprises us anymore when it comes to the CRA. They informed us that they apparently made an error in their calculations that was not in our favour.

Unfortunately, this is serious business, which is what makes it so frustrating. We still expect them to return $211 million in letters of credit – of course, that assumes their calculations were correct, which I'm not sure is a safe assumption, but it's all we have. While we're happy to be getting some of our cash and security back, our broader tax dispute saga with the CRA does continue, and you can dive further into the details on that in the Q1 MD&A.

Our decisions at Cameco are deliberate. We're 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, and we're more than just mining, with investments across the nuclear fuel cycle. We're committed to operating sustainably by protecting, engaging, and supporting the development of our people and their communities, and to protecting the environment, something we've been doing now for over 30 years.

Our strategy, which includes contracting discipline, supply discipline, and financial discipline will allow us to achieve our vision, a vision of energizing a clean air world and thereby delivering long-term value in a market where demand for safe, secure, reliable, and affordable clean nuclear energy is growing.

Thanks for your interest today, and we are happy to take any questions.



Operator:

Thank you. We'll now begin the question-and-answer session. (Operator instructions)
Our first question is from Greg Barnes with TD Securities. Please go ahead.

Greg Barnes:

Thank you, Operator.

Tim and everyone else on the phone, I'm just trying to understand the jump from the 180 million pounds you had under long-term contract that you reported with the Q4 results to the 215 million pounds you're reporting today. Does that include the Ukraine contract and the Bulgarian contract, or what is the composition of that jump from 180 to 215?

Operator:

Pardon me, this is the conference Operator. I have made an error. I just muted the presenters by mistake. I'll rejoin you now. Pardon me, please go ahead.

Tim Gitzel:
Greg, are you there? Can you hear us?

Operator:
Yes, we can hear you now. I apologize.

Tim Gitzel:
Thank you. Sorry about that, Greg. We got your question, and I'm going to ask the market expert, Grant, to answer that on our sales portfolio.

Grant Isaac:
Yes, thanks Greg, great question.

We have added in those contracts, Ukraine at the lower volumes without the Zaporizhzhia unit and the Bulgaria volumes into those volume limits, but going forward, we're going to go back to what we've done in the past, which is wait until there are executed contracts and then it lines up with our disclosure, for example, in our price sensitivity table. That's what's been added to it. It just continues to emphasize the incumbent position that we're in, in this market as security of supply contracting is coming back and there's an interest in contracting with proven tier-one producers with proven tier-one assets.

Tim Gitzel:
Greg, did you catch that?

Operator:
One moment, please. Let me just ensure that his line is open.

Tim Gitzel:
Thank you.

Operator:
Mr. Barnes, I apologize. Your line is open again.

Greg Barnes:
Okay, I think we've sorted it out.

Grant, the 180 million pounds didn't include Ukraine and Bulgaria, but combine those two, that adds up to about 41 million pounds and the jump is only 35, so just trying to understand the…

Rachelle Girard:
Greg, we also pulled off what we've delivered to date.

Greg Barnes:
Okay. Just as a follow-on, can you give us an idea on the approvals that you've actually received on Westinghouse to date, and what's required from this point forward?

Tim Gitzel:
Yes, we sure can, and Sean Quinn has been following this file meticulously—obviously it's a top priority for us—so Sean, can you give Greg an update on that?

Sean Quinn:
Sure, Greg.

There is over 30 approvals required in total. They're in three different buckets: regulatory approvals associated with the nuclear industry, competition law approvals, and then foreign direct investment approvals. All of them are moving along nicely. We have received a number of the nuclear regulatory approvals, including some of the lead U.S. approvals. We're working on the competition law approvals and the foreign direct investment approvals.

I don't have a schedule of the expected receipt dates for each of those in front of me, but they're all on schedule at this point and we're not anticipating any huge difficulties, and we're on track for closing in the second half of this year still.

Greg Barnes:
Okay. Good. Thank you.

Tim Gitzel:
Thanks, Greg.

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

Gordon Lawson:
Hey, good morning everyone. I just have a generic question here. You've got your two keystone assets now running at or near your targeted rates, and the outlook is looking significantly more promising, so what would be the required catalyst for you to start talking about quarterly financial results and providing preview calls similar to before the downturn?

Tim Gitzel:
I'm not sure I understood the question. Let me just take the first part of it. Obviously, you've seen our supply discipline, we've maintained that all the way through. We're now for McArthur ramping up to 15 million pounds this year, on our way to 18 in '24. Cigar is staying at 18 in both of those years, and we'll see what happens going forward.

I think we've been very, very clear that we're not going to front-run any demand. We will wait until we have a contract portfolio that calls for more pounds and then we'll look at our assets to see which ones we'll move forward.

I'm not sure I get the part on the quarterly reporting.

Gordon Lawson:
It's just we're currently not supposed to, or not allowed to talk about, say, your EBITDA results for the quarter, but with things now running much more smoothly and much better positioned than they were a few years ago, I'm just wondering when you expect or what would be a key catalyst for us to start getting back into that.

Rachelle Girard:
Yes, Gordon, I don't think that we've ever really done that. We've always maintained that we don't think about this business on a quarterly basis, it's not how our business operates, and so our focus is really on our performance for the year, not just on a quarterly basis, and that's why if you've got detailed questions on the quarter, we're happy to address those. We just feel that this isn't the right forum for that because we just don't think about our business on a quarterly basis that way.

Gordon Lawson:
Okay. Thank you.

Tim Gitzel:
Good. Thanks, Gordon.

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

Orest Wowkodaw:
Hi, good morning.

I wanted to ask another question about your contract book. I was sort of pleased but surprised to see the jump in your average sales delivery over the next five years, going up from 26 million pounds versus 21 at year end. Does that suggest that the majority of the volume you've added to the book is all front-end loaded if it's showing up in that five-year guidance?

Grant Isaac:
That five-year guidance is an average, and you can always think about it as being more front-end loaded. Think about our leverage to the market coming from two distinct dimensions. The first is what we call our portfolio, so that is we've got planned sales this year, 29 to 31 million pounds, over an average of 26 million pounds per year over five years, so you know it declines over that five-year window. Those committed sales, many of them are market related in the uranium segment, so we get what we call portfolio leverage.

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Then the second piece is actually pipeline leverage, and that's the pounds, Orest, that we haven't sold yet, so as you point out, in the outer years of that five-year average, we wouldn't be at the same level of sales as we are today. It's exactly where we want to be. We see a market where uncovered requirements are growing, and we think we're in the early innings of a contracting cycle. We're far from sold out of our tier-one production. We're not even planning on running out of tier-one production at full capacity at the moment, as we're still in supply discipline, so you're thinking about it the right way because we want to retain that leverage to improving markets. It comes from both our existing portfolio as well as our pipeline, the pounds we haven't sold yet.

Orest Wowkodaw:
Grant, I don't know if I've ever seen a 5 million pound average five-year jump in your book, ever. Just the magnitude of that move is pretty impressive.

Grant Isaac:
Yes, it reflects what we've been talking about, which is the transition in the market to security of supply-driven contracting. For us, there's a couple of dimensions to think about. One obviously is that fundamental story. I always want to point people to the growing uncovered requirements, and then reference the fact that the market is not yet even replacing what it consumes on an annual basis.

Then, we add to that, new market opportunities we haven't seen before. You've seen our press releases about Central and Eastern Europe, a market, a region if you will, looking to pivot away from historic sources, historic dependence on Russia. Cameco is in an incredible position in order to satisfy the UF6 demand in that market, so tie that to our vertical integration, it's our conversion space that allows us to generate that kind of uranium business as well. That's very advantageous for us. We're just seeing that incumbent advantage play out.

The good news is, like I said, we're not even at replacement rate yet, so if you look at it from historical terms, we've never been at this stage of a contracting cycle at this high of a uranium price before. We've seen the enrichment price recover, and we've seen the conversion price hit historic levels. We haven't seen that kind of demand that's gone through those two parts of the fuel cycle fully hit the uranium side yet, and so we're obviously pretty excited about it. Tie that back to my earlier comment, it's why we want to remain leveraged in both our portfolio and our pipeline.

Orest Wowkodaw:
Thanks, Grant.

Just as a quick follow-up, can you give us a flavour of contracting behavior right now with respect to how the floors and ceilings in these market-related contracts are developing? I assume they're both moving up with the market pricing.

Grant Isaac:
Yes, no question. Our preference right now at this point in the cycle is to be market-related because of the demand that we can see that has to come to the market, and because we know that the market isn't even at replacement rate contracting yet. Market-related contracts are very often collared. Utilities will often, for example, ask for a ceiling—they've lived through price spikes before—and if they do, we will want to insert a floor.

It's the collaring that has improved markedly on the market-related contracts over the last year. Not uncommon to see $45, $50 escalated floors, $75, $80 escalated ceilings, so inflation-linked collars that give you a lot of upside participation, incredible downside protection as well. That is very much an improving scenario.

I just want to tie it back to the term price, because what we see often is a misunderstanding where people don't remember that the term price that's posted is only influenced by base escalated prices in the market. Actually, as we sign market-related contracts, we're having less price formation influence than, say, another producer willing to base escalate their contracts.

What we obviously want to see over time is a perhaps improvement to the price reporting in our industry whereby the price reporters will look at their own price forecasts and maybe even take their own base price forecast and say, if you sign a market-related contract, you're really pricing it at these levels, bring that forward to today, what does that mean for the term price.

Think of that term price at $53-ish today, really at the bottom of the market, the absolute floor from which the leverage is possible on top of that. Again, pretty exciting position to be in given the growing uncovered requirements and the fact we haven't even hit replacement rate contracting. That's a pretty good level to be at this stage of the cycle.

Orest Wowkodaw:
Thanks, Grant. I appreciate the colour.

Tim Gitzel:
Thanks for your question, Orest.

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

Lawson Winder:
Hi. Thank you, Operator, and good morning, Tim and Grant. Thanks for the update today.

Just a couple of questions from me. I wanted to ask if you could help us think about the contract with Ukraine and Bulgaria and how that sets up in terms of your targeted 60/40 split market versus fixed price contracting, and generally directionally where the pricing—if there's any fixed price component, where that pricing sits for that contract. Thank you very much.

Tim Gitzel:
Yes, thanks, Lawson, for the question.

First, I'd just say we're delighted on both those fronts, both with the Ukraine—we've been working hard with them. You saw all the details of our contract with them; it's a big ticket item for them and for us. It of course carries a bit of risk with it, but risk that we were prepared to take.

There's more than just the commercial side to that one. We wanted to stand with Ukraine in their efforts on turning away from the Russians, and so that was an important one.

Bulgaria, we were just there last week and signed that up. That's another new market for us – never been there before, never dealt with them before, and there's more of those countries to come for us.

Grant, do you want to talk about how those two contracts fit into our portfolio?

Grant Isaac:
You referenced, Lawson, our 60/40 market-related base escalated balance, and I just would remind everybody that that is not a target per contract, it's not a target per year. It's something we think about full cycle. So you think about an entire commercial cycle of uranium prices, there are times where we want actually a lot more market-related exposure and we would want less base escalating. That time is right now, and the reason we would want more market-related exposure right now is because, again, uncovered requirements wedge is growing.

That's demand that has to come to the market. That's demand that utilities can defer and they can delay, but they ultimately cannot avoid, and that wedge is growing. It's growing because utilities have not even been contracting at a replacement rate yet. They've not even been coming to the market to buy forward what they consume in a given year. For us, that suggests this market still has upward price momentum, and we want to be market exposed to that.

Now, there are times where our market hits replacement rate and goes above, and when we start to get into that zone, we are inclined to think more about the base escalated prices in order to lock those moments in for a long tail of cash flow and earnings, but that's not where we are today. Don't think about 60/40 with respect to any one contract or any one year. Right now, we want to be market-related, so I would just say on a framework level, no surprise. Those contracts are very consistent with the type of preference we have in this market today, which is market-related references for the uranium portion of those UF6 contracts.

For the conversion portion of those contracts, well, conversion is at historic pricing, so we are happy to see some of that locked in and escalated over the life of the deliveries, again taking those moments where you have unique demand points that are pushing one part of our segment above replacement rate and capturing that. But never think about 60/40 as pertaining to any one single contract or even one single year.

Lawson Winder:
Okay. Thanks for those comments.

Tim Gitzel:
Thank you, Lawson.

Lawson Winder:
Could I maybe ask one follow-up, then?

Tim Gitzel:
Yes, sure.

Lawson Winder:
Just with the market purchasing that you've guided to of 9 to 11 million pounds, to kind of help us think about how active Cameco might be in the spot market this year, first of all, have you been active in the spot market and to what extent year-to-date 2023? Then what proportion of that 9 to 11 million pounds would be pre-contracted purchase commitments from yourselves and obviously what proportion do you expect will be Inkai?

Grant Isaac:
Yes, so great set of questions. Let me just unpack it a little bit.

So 9 to 11 million pounds is what we guided for purchases here in 2023. Remember, our planned production or our share from JV Inkai is 4.2, so that means we need somewhere between nearly 5 and nearly 7 million pounds of purchasing.

Cameco

Remember, our purchasing comes from a couple of different sources. We can buy in the spot market today for delivery right away. We could do that; that's at our discretion. We've also entered into contracts to buy in the past when the price was a lot lower. We like to operate like a utility – when we see a low price of uranium, if somebody wants to fix that price, we're willing to enter into a long-term commitment.

We have some of those available that we could bring forward in today's market to source from, and then we always put our purchase requirements against our inventory and against material that, for example, we could borrow. In other words, we have a bunch of different factors that go into those sourcing decisions.

But make no mistake, we're still in supply discipline. We still have a requirement to purchase. We will be buying in the market. To date, we've only bought about 400,000 pounds – you can see that in our quarterly uranium table, so we do have a need to buy and we're watching really closely as we see additional interest in physical funds built, as we see some utilities step into the spot market to support it.

Even in the absence of the very familiar SPUT vehicle that everybody keeps an eye on, that really hasn't done a lot in the last couple of weeks, a little bit over a month. There's been a real resistance to the uranium price, so for us, we're just going to be very opportunistic. We don't telegraph what our purchases are or when we're going to make them, but we will be a buyer in the market for sure.

Lawson Winder:
Thank you both very much.

Tim Gitzel:
Thanks, Lawson.

Operator:
Our next question is from Grace Symes with Energy Intelligence. Please go ahead.

Grace Symes:
Hi, this is Grace Symes with Energy Intelligence.

I have two questions. One is about the expanding conversion at Port Hope. How many tonnes did Port Hope produce in 2022, and do any steps need to be taken or have already been taken to get to 12,000 tonnes by 2024?

Then I know that at the end of 2022, there were potentially some issues with ramping up the Key Lake mill, and I wanted to know if those issues have all been resolved by now.

Tim Gitzel:
Thanks for the question.

There's a few pieces in there. Production at Port Hope in 2022 was just over 10,000 tonnes—10,600 tonnes, I believe, and we are in the process of ramping up to 12,000 by 2024, so that's on track. Nothing really new to report there.

Maybe I'll ask Brian Reilly just to give an update on the Key Lake/McArthur ramp-up and the work that's going on there, and we're excited about that project coming back. Brian?

Brian Reilly:
Thanks, Tim and thanks, Grace for the question.

Good quarter for McArthur River mine and Key Lake mill, and our objective was and is very clear: ramp-up our production in a safe, orderly fashion to achieve our production targets. Today, we have over 800 workers at the sites, and that includes our Cameco employees and long-term contractors. The mine is in good shape. There are over 100 million pounds behind three walls available for mining, and we have five active headings. I would share that we commenced underground mine development and freeze drilling in the quarter as well, preparing new mining areas for future production.

Cameco

Specific to your question about the Key Lake mill, production is ramping up as planned. We made significant changes to the site, and I think you referenced that, and I can tell you the new operating system and the various digital and automation projects, they're all working well. Normal commissioning challenges, they're fewer in number, so we expect to achieve our target of 15 million pounds in 2023.

Tim Gitzel:
Thanks, Brian.

Grace Symes:
All right. Thank you.

Tim Gitzel:
Thank you.

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

Orest Wowkodaw:
Thanks for taking the follow-up.

Just curious, if you continue to see good demand in terms of filling up the contract book, should we assume that the expansion of McArthur River is likely the next source of your supply growth, taking it up to the 25 million pounds licensed capacity? Then, I was also wondering on when we could anticipate getting—the market could get details on what's entailed with respect to the Cigar Lake extension project?

Tim Gitzel:
Yes, clearly McArthur is a tier-one asset that we are just delighted with our partners to have, and so our first move is to 15 this year and then to 18 next year, and then we'll see what the contract book looks like after that. We do have room to go up to 25—we've got licensing

approval—so yes, that would be our first and best source of additional production. It's unbelievable that we've got that capacity.

Cigar, we're looking at that going forward, and Brian, do you want to give an update on Cigar?

Brian Reilly:
Yes, sure.

In terms of extension beyond the current life of mine at Cigar, we have reserves in the ground that will carry us to 2031, but look, first and foremost, no decision has been made yet but we know there are additional measured and indicated mineral resources located to the west of the existing pods, and this defines the Cigar Lake ore body.

We would have to do some work. We would have to do surface delineation drilling, we would have to do underground geotechnical drilling, and that would be required to convert those resources to reserves, so that work has not been completed and the final investment decision hasn't been made, but that's the optionality that would extend production beyond 2031.

Orest Wowkodaw:
Just as a follow-up, when would that decision have to be made in order to secure continuous production at Cigar?

Tim Gitzel:
Brian?

Brian Reilly:
Yes, we've got a runway out till 2032. We have time but given the feasibility studies required and long lead procurement, that's a decision we would have to take sooner than later, but we have time at the moment because our runway is out until 2031.

Orest Wowkodaw:
Okay, and—go ahead?

Grant Isaac:
Orest, sorry to jump in.

I would just tie it to our contracting as well because remember the decisions on the production side follow the procurement, follow the success we have in building the contract portfolio, and just as we've said in the past, we enter into a new term contract today but we typically don't start delivering into that term contract for two years, so that actually gives us an enormous amount of time to plan the production and to line up the studies and line up the work that Brian was talking about.

It's a very advantageous position for us. We don't have to try to turn on production rapidly to jam it into a spot market. We get this long lead signal so that we can very responsibly, rationally develop up the production. As you mentioned in the outset, as the procurement starts to build, as we layer in more contracts, we then have a runway to plan these decisions, and then that obviously means lots of time to signal to you and to others about where our thinking is with that. But at the moment, while there is contracting cycle underway, it's not at a level that would justify those types of decisions. We remain in supply discipline. We remain very deliberate and strategic.

Orest Wowkodaw:
Okay, and just a quick follow-up, if I could, Grant.

Is there much capital required to take McArthur from 18 to 25?

Grant Isaac:
The really exciting part of our story is the ability to benefit from an improving market with those points of leverage that you asked about earlier, so we have leverage to rising prices against a falling cost structure. As we bring on assets we already have licensed, already have permitted, already have built, and run them at a higher unit cost, we get OpEx improvements, and then on top of that, as Tim mentioned, a lot of brownfield leverage.

That brownfield leverage means what we're really talking about is replacement and maintenance capital, not greenfield capital. We have a very steady capital profile. It's not the type of capital that you would expect to see if somebody was building a mine and a mill, especially in today's market of supply chain challenges and inflationary pressures. So, I would say no, it's not a lot of capital relative to the extra pounds because it is brownfield expansion, so you'll see a very steady capital profile in our forward guidance. We're very excited about that—that's margin improvement, that's return for our owners.

Orest Wowkodaw:
Thank you very much.

Tim Gitzel:
Thanks, Orest.

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

Lawson Winder:
Hi, thank you for taking the follow-up.

I wanted to ask about Silex and whether Cameco is in the running for the several hundred million dollars of money from the DOE for HALEU, and also ask, in your conversations with your customers when you're talking contracting on conversion and natural uranium, are they also asking for Silex enrichment capacity and could there be increased involvement from your customers to sort of help accelerate the rollout? Thanks.

Tim Gitzel:
Yes, thanks, Lawson, for the question.

We're obviously quite excited about the GLE project and its potential going forward. Sean is overseeing that one from our side, so Sean Quinn, maybe I'll ask you to answer.

Sean Quinn:
Sure.

I'll take the first question about the IRA funding in the U.S., the $700 million that was referenced. Yes, GLE is poised to pursue that money when and if the programs are formally announced by the DOE, and we're excited about the opportunities to try and capture some of that funding. We have been waiting for the DOE to come out with its request for proposals and are still waiting, but it's imminent is what we're told.

Then on the marketing question, what you're hearing from your customers, maybe I'll turn that over to you, Grant?

Grant Isaac:
Yes, absolutely.

Just like in the uranium segment or the conversion segment, you don't build productive capacity and then start knocking on people's doors and saying, do you want to buy it, because that will be value destructive. The support case needs to be made, just like it does for a mining investment in the uranium space. That support case for GLE would include the type of government support that Sean is talking about, but it would also include customer support.

You've seen GLE have success signing some MOUs with some fairly large U.S. utilities who are excited about that as both a supplier diversification and a technology diversification, two really important pillars in a world where enrichment is so scarce. We have experience as Cameco actually contingently contracting production from laser enrichment, back prior to the Fukushima cycle, so we would have to build up that support case.

The best way to bring on a uranium asset, of course, is to stream it into a well-developed contract portfolio. The same would go for an enrichment asset, so we would treat it with the same strategic discipline that we would developing a new mine, but ultimately, we're very excited about that project and the supply source it can be and the solution it can be to global utilities looking for more enrichment.

Lawson Winder:
Okay. Thank you very much.

Tim Gitzel:
Have a great day, Lawson. Thanks.

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

Tim Gitzel:
Okay, well thank you very much, Operator.

With that, I just want to say thanks to everybody who joined us on the call today. As always, we appreciate your interest and your support.

Just a couple of comments. You know, our world today is facing some pretty significant challenges, including decarbonisation, electrification, while trying to ensure energy affordability and security without jeopardizing the ambitious net zero targets that have been set. These are exciting times for Cameco. We're excited about the increasing recognition of the critical role nuclear power is going to play in helping address these challenges.

We're excited about the fundamentals in the nuclear fuel market, and we're excited about the prospects for Cameco as we continue to build our long-term contract portfolio which will allow us to further expand production from our brownfield capacity and to invest in opportunities across the fuel cycle.

We, as you know, are a responsible commercial supplier with a strong balance sheet, long-lived tier-one assets and a proven operating track record, and line of sight to return to our tier-one cost structure. We will continue to do what we said we would do: executing on our strategy and, consistent with our values, we will do in a manner we believe will make our business sustainable over the long-term. As always, we'll continue to make the health and safety of our workers, their families and their communities our top priority.

Thank you everybody. Stay safe and stay healthy. Thank you.

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

