Cameco Corporation

Second Quarter 2023 Conference Call

Transcript

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OPERATOR:

Welcome to the Cameco Corporation Second Quarter 2023 Conference Call.

As a reminder, all participants are in listen-only mode, and the conference is being recorded. After the presentation, there will be an opportunity to ask questions. To join the question queue, you may press star, then one on your telephone keypad. Should you need assistance during the conference call, you may signal an Operator by pressing star, and zero. Webcast participants are asked to wait until the Q&A session is started before submitting their questions as the information they are looking for may be provided during the presentation.

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 second 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.

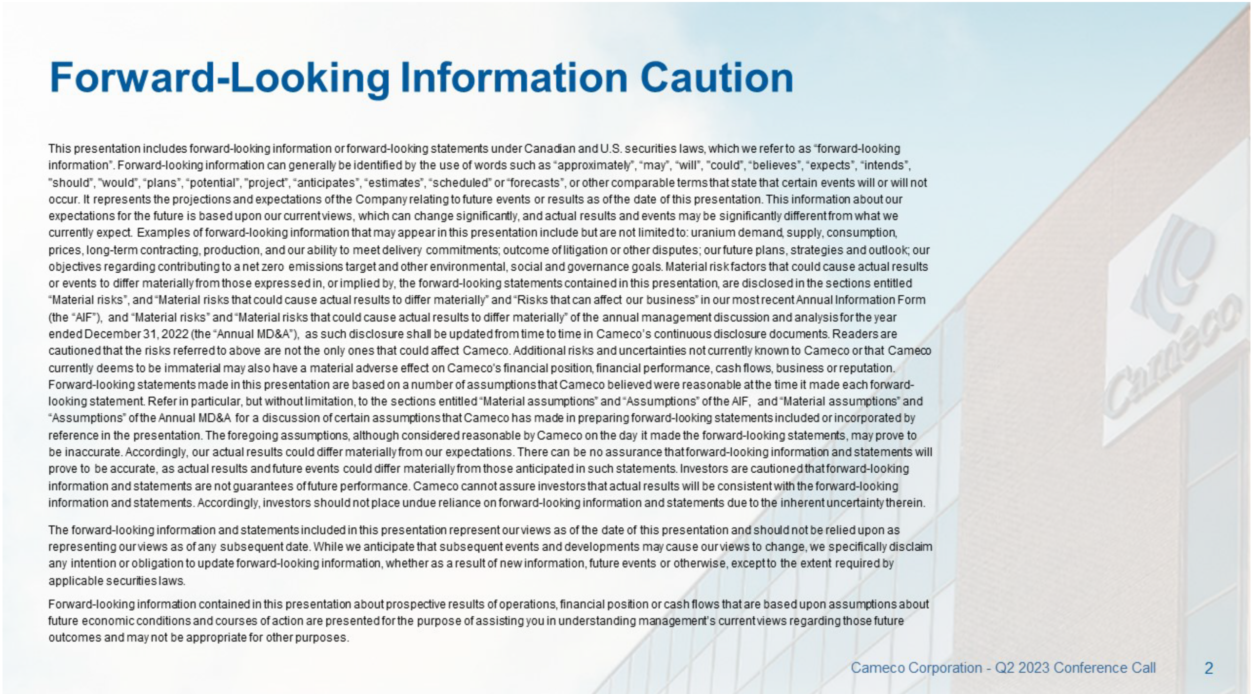
With us today on the call are Tim Gitzel, President and CEO, Grant Isaac, Executive Vice-President and CFO, Heidi Shockey, Senior Vice-President and Deputy CFO, Brian Reilly, Senior Vice-President and Chief Operating Officer, and Sean Quinn, Senior Vice-President, Chief Legal Officer and Corporate Secretary.

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

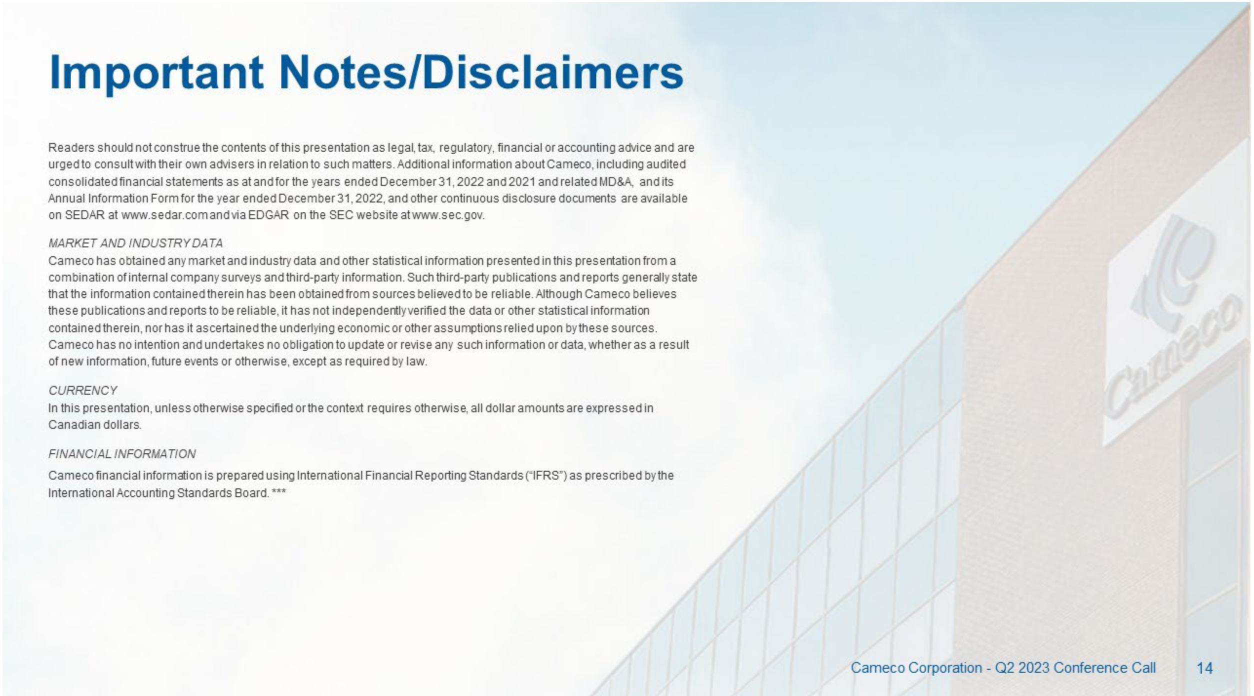
As always, our goal is to be open and transparent with our communication. Therefore, if you have detailed questions about our quarterly financial results, or should your questions not be addressed on this call, we will be happy to follow-up with you after the call. There are a few ways to contact us. 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 ask a question form at the bottom of the webcast screen, and we will be happy to follow-up after this call.

If you join 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.



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 may 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 will turn it over to Tim.

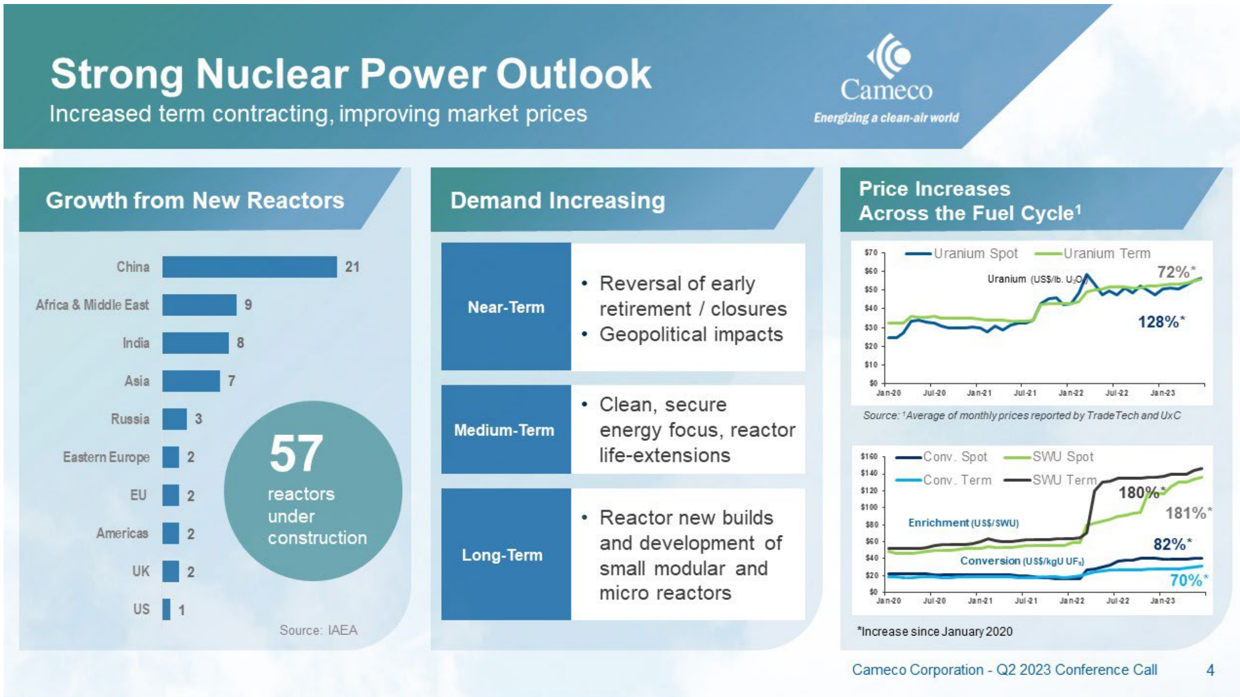
TIM GITZEL:
Well, thank you, Rachelle, and good day to everyone. We appreciate you joining us for today's call.

Hope everyone is enjoying the summer or winter months, depending on where you're tuning in from. With many people vacationing in July and August, it's typically a quieter time in the business community.

However, I can tell you with absolute confidence that business for Cameco has not slowed down nor has interest in the nuclear sector. Momentum that's been building over the past 18 months continues. Our financial performance which reflects the expected quarterly variation in our contract deliveries this year is benefiting from our strategic decisions with gross profit improving as we transition to our tier-one run rate.

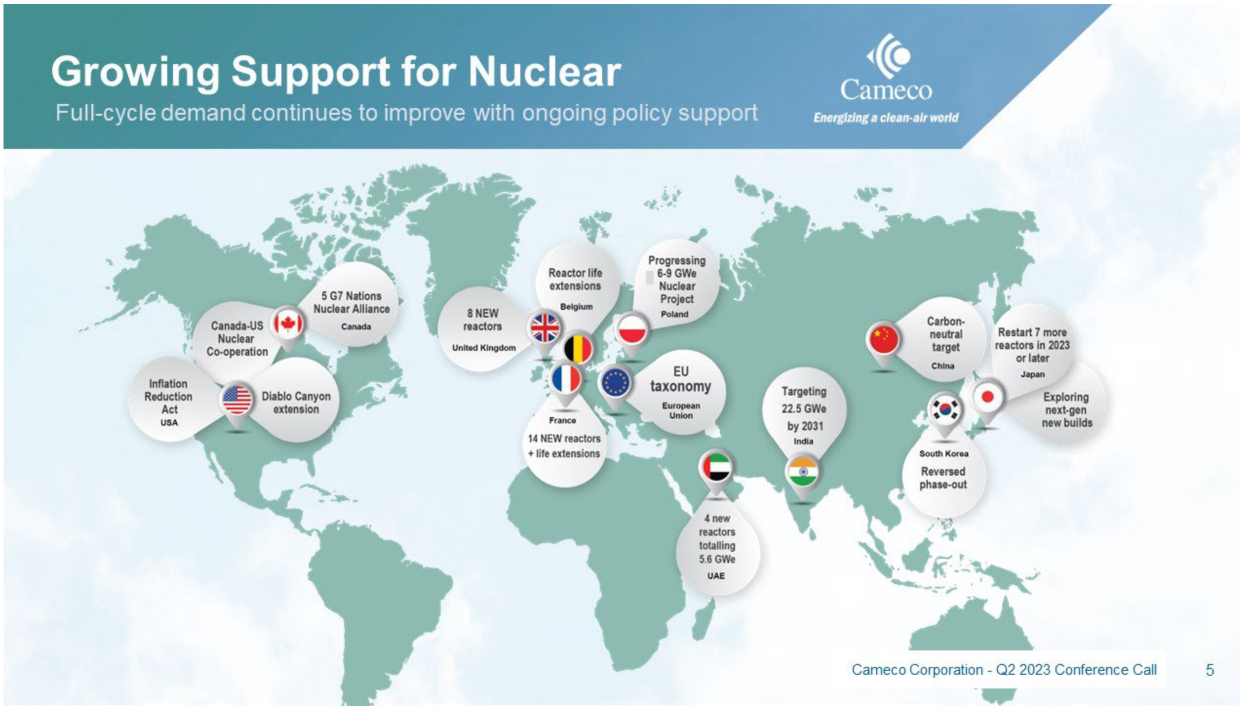
We've seen an uptick in the breadth of new investor interest in Cameco. It really surpasses anything I've seen in my more than 16 years at Cameco. In addition to interest from our traditional resource investors, we're seeing interest from energy investors, clean energy investors, infrastructure investors and generalists. We believe this increased interest reflects the recognition that Cameco is a proven reliable nuclear fuel supplier that supplements tier-one mining assets with critical fuel service capabilities. It is an endorsement of our strategy to capture full cycle value.

It's also an acknowledgement that Cameco has a deep understanding of how the nuclear fuel market works, and that we have the type of experience that gets us invited into the room when important policy decisions are being made about how best to support the nuclear fuel cycle.



Of course, it's an appreciation of the compelling opportunity to invest in the growing demand for nuclear power, and a clean and secure energy future. In fact, that growing demand has placed security of nuclear fuel supplies at the top of our customers' lists.

With more than 118 million pounds of long-term contracting industry-wide so far this year, we're happy to say we believe there's clear evidence that the broader uranium market is moving toward replacement rate contracting, the type of contracting necessary to promote the price discovery we've already seen in the enrichment and conversion markets, contracting and price discovery that will be needed to incentivize the investments in expanding existing supply and developing the new supply that will be necessary to satisfy growing long-term requirements.



Let's look at the key driver for those growing requirements for nuclear fuel supplies and services, which is the increasing support for more nuclear power. All over the world, we're continuing to see government policies and corporate decisions that are generating positive news flow in support of strong growth for nuclear. Very importantly, those policies and decisions are being followed up with proposals, commitments and actions. These are the type of activities necessary to support the broader nuclear fuel cycle and re-energize nuclear power as a fundamental source of clean, secure, and low-cost energy.

We don't have enough time on our call today to cover all the highlights from around the world, which really says it all in terms of the volume good news. But there have been a few announcements that have caught our interest, especially right here in Canada.

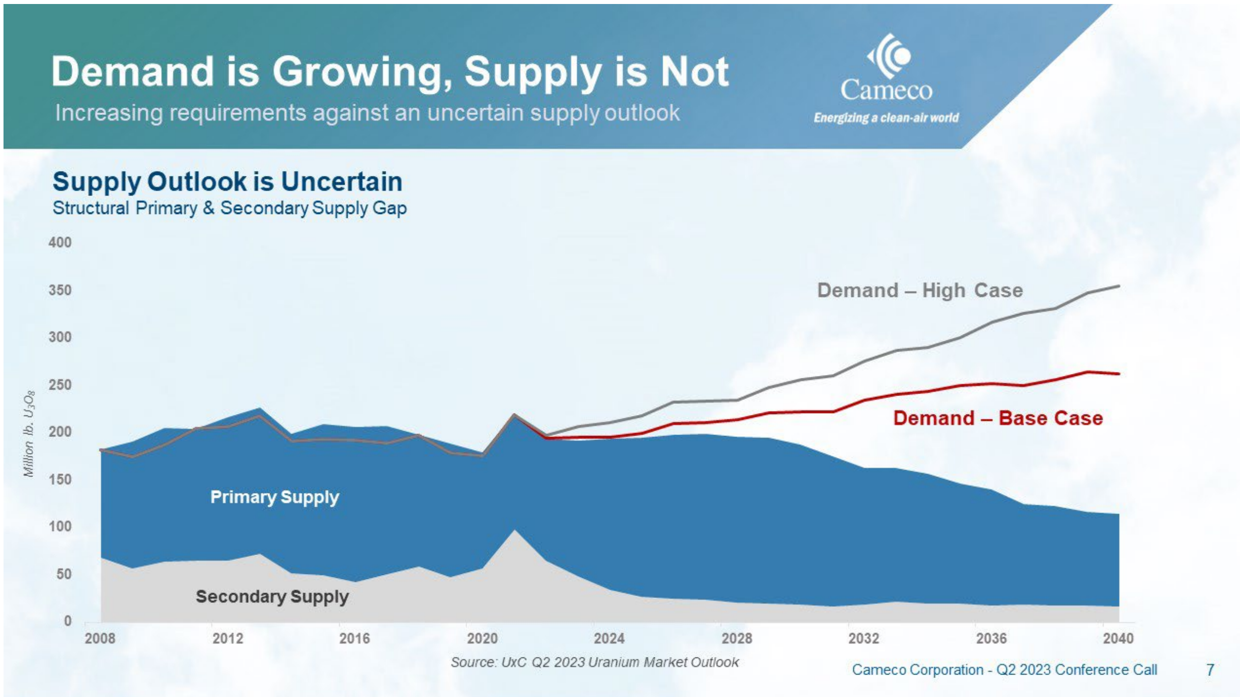
The nuclear power industry is witnessing support for adding new capacity and refurbishing existing capacity in Canada like never before.

Starting with Bruce Power, who with support from the Ontario government, announced it will undertake an environmental assessment to add as much as 4.8 gigawatts of nuclear capacity to the almost 7 gigawatts it already has in place. The added capacity could make the Bruce site the largest nuclear complex in the world. The fact that additional large scale nuclear installations using well established technology are being considered in Canada, speaks to the extraordinary industry and market transition that is underway. With respect to existing nuclear capacity, Ontario Power Generation announced that it applied for and received approval to extend operation of its Pickering reactor until 2026.

In the meantime, at the request of Ontario government, it is now considering a refurbishment project for Pickering to keep safe, clean, and reliable nuclear energy flowing from that facility for another 30 years. That's positive local news on big traditional nuclear power demand. But as many of you listening today would know, small modular reactors, or SMRs, have also been capturing a lot of attention. In Canada, the province of Ontario is leading the way in that regard as well. It's working with Ontario Power Generation to begin planning and licensing three SMRs at the Darlington nuclear site. These SMRs are in addition to the initial SMR project at Darlington, for which site preparation and licensing activities are already underway. Those are just a few of the highlights from right here in Canada.

Internationally and moving faster than policymakers are big commercial consumers of power, who are making firm plans for investments to support carbon free nuclear power to help achieve their net zero commitments. For example, at the end of the second quarter, Microsoft signed an agreement with nuclear energy producer Constellation Energy to bring a data center in Virginia closer to operating 24/7 on 100% carbon free electricity. That's in addition to a previous clean energy credit deal that Microsoft signed with OPG in Canada late last year, which is expected to support those ongoing SMR deployments I mentioned earlier.

Also, Brookfield Properties announced its plan to power its portfolio of U.S office space, totaling about 70 million square feet, utilizing only zero emissions electricity by 2026. Set to begin the transition to clean electricity supply in 2024, Brookfield's plans include an evolution to direct purchasing of clean power, including from nuclear. Those are just a handful of examples of the ongoing positive sentiment being publicly expressed through both government policy announcements, and private sector initiatives that are driving full cycle demand growth. You can find several more in our MD&A.



This full cycle demand growth is driving increased requirements for the uranium and various services required to fabricate fuel and run reactors. However, it's important to remember that demand doesn't drive just in time spot purchasing interest from customers, as is often seen in other commodities. As always, in the nuclear industry, customers are looking to secure supply on a much longer-term time horizon. They're seeking supply solutions today that guarantee their reactors run well into the next decade without a costly risk of interruption.

The risk that the required supplies and services might not be available when they are needed is becoming more significant every day. With demand growth looking more robust than ever and with the industry expectation that by 2030 both primary and secondary supplies will not be sufficient, the industry needs to invest in more capacity. But expanding or building new capacity across the fuel cycle will take time.

In May, at the World Nuclear Fuel markets meeting in the Hague, it was clear that all of the major producers across the fuel cycle have learned the lessons of the past. Presentation after presentation expressed a similar sentiment that in order to solve the urgency of supply, there needs to be urgency and demand.

It was clear the major suppliers are not prepared to take the risk of expanding or bringing on new capacity without long-term contracts to support their investments.

I've been around this industry for a long time and involved in every one of the new uranium projects developed in the Athabasca Basin in Northern Saskatchewan since the late 1970s. Let me tell you from experience, bringing on a new project anywhere is not easy, despite some of the promises being made by those who have never done it. Today, the calls to increase uranium conversion and enrichment capacity are happening in a complex global environment.

An environment where supply chain issues, general inflation, skilled labour limitations, rising interest rates, and increasing regulations and ESG standards are not making it easier or cheaper to build new assets or even operate existing assets.

In addition to production challenges, let's not forget the geopolitical uncertainties are leading to concerns about origin of supply. Some utilities are seeking to exclude Russia in their future contracting decisions, and there's always the ongoing risk of formal sanctions. Then tied to the origin risk, there was a recent reminder that moving nuclear material around the globe to various points in the fuel cycle is also more difficult than it once was.

Concerns with the ability to obtain insurance coverage for shipments out of Russia surfaced. While the issue appears to have been resolved for now, these are shipments that are absolutely required. Any delays could be very impactful on the market. Depending on the magnitude and length of delay, we believe it could be a shock event akin to the Cigar Lake flood in 2006.

Let's not forget that the Trans-Caspian corridor still isn't a reliable delivery route for uranium from Central Asia to the West. After one shipment earlier this year, which was actually a delayed shipment from last year, we have not received any further uranium via this route in 2023. However, we expect transit of our 2023 production from JV Inkai to begin in Q3. Delays are a small problem for Cameco as we have other sources of supply to meet our commitments, but transportation could be a much bigger issue for the industry if these supplies can't make their way West.

Cameco strategy of contracting discipline, production discipline, and risk managed financial discipline is set within the context of the transitioning market environment we are currently in. A market that is expected to durably strengthen the long-term fundamentals for nuclear power and uranium supplies and services, while emphasizing energy security and sustainability. At Cameco, we recognize that to capture value from the opportunities that are in front of us, we must get two things right: volume and timing of our production. In terms of volume, we have to bring on production to meet growing demand, and we have to do it on time and on budget. Then, with respect to timing, we understand that it would be a strategic mistake to bring on production before we have contracts to deliver those pounds into.

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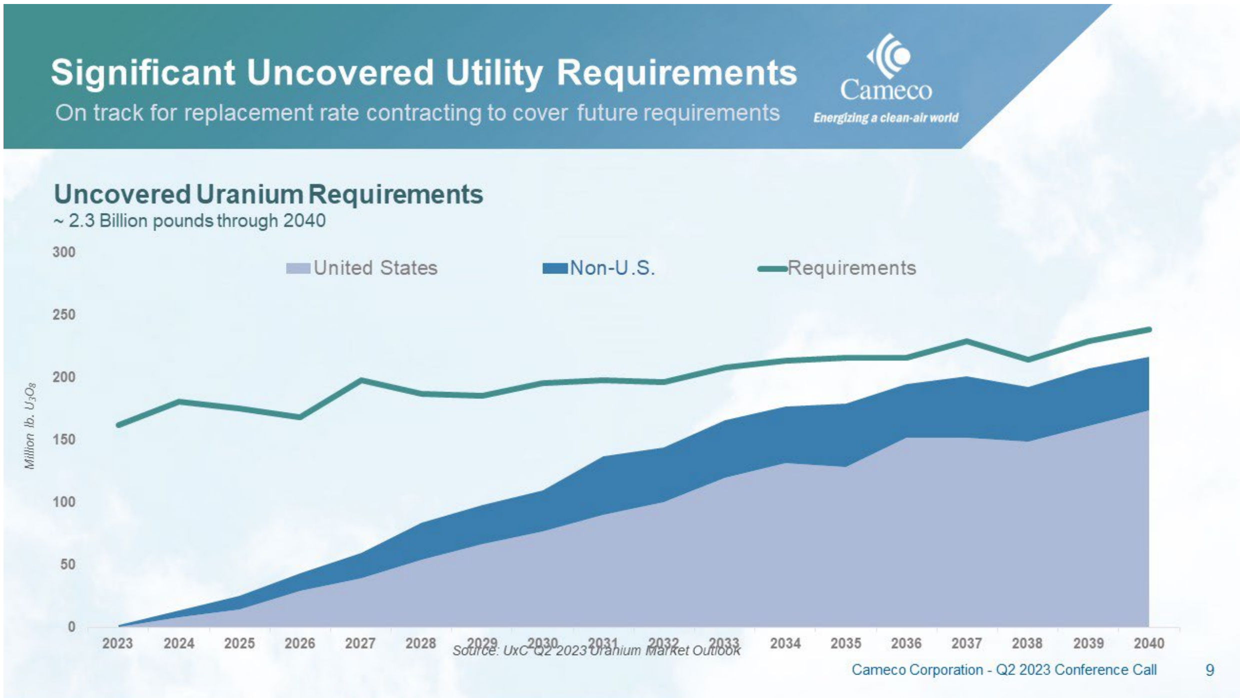
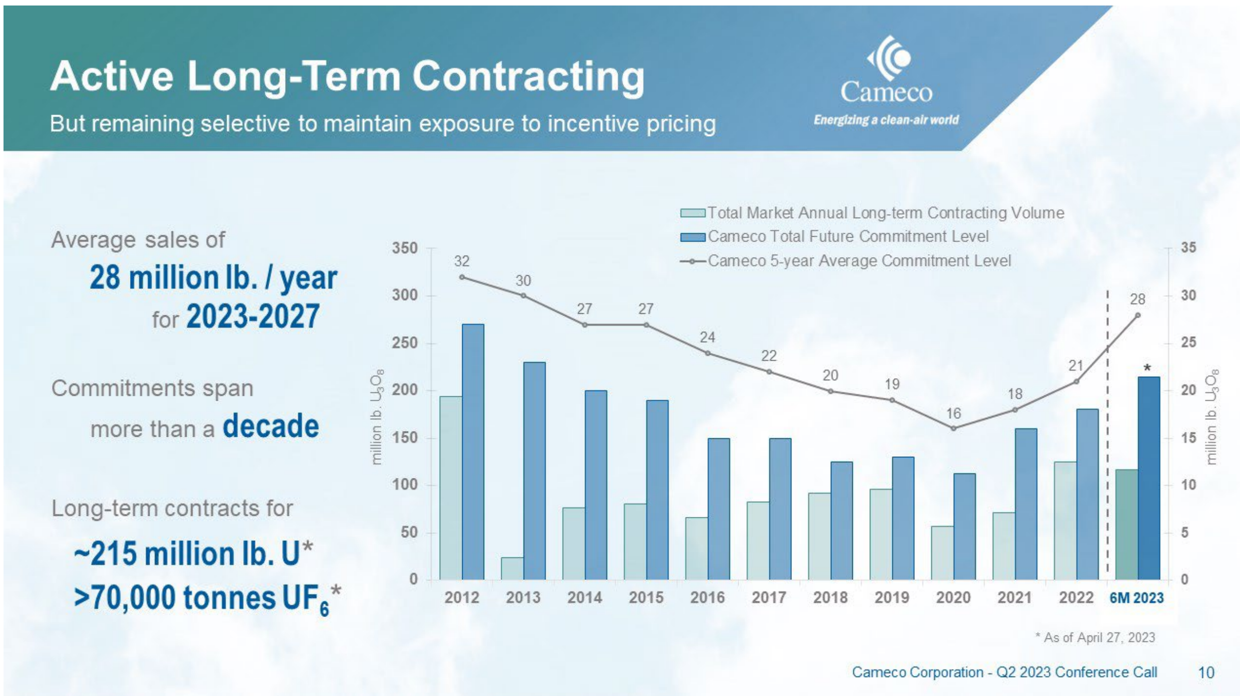


Let's look at the uncovered requirements curve to see why that's the case. It's true when you look out to 2030 and beyond, there are a lot of uncovered requirements and that is what gets us excited about the future. But it's really important to understand the structure of our market and how that demand will come to the market. Uncovered requirements in 2030 does not equate to in-year spot market demand in 2030.

As I said earlier, utilities driven by security of supply want line of sight to the nuclear fuel supplies and services they need to keep their reactors running reliably and without the risk of costly outages. They will not rely on the spot market which is small and discretionary to purchase the run rate requirements of their reactors. Utilities are starting to contract now to cover their requirements 2030 and beyond, which is what we mean when we say we're in a long-term contracting cycle today.

Customers are layering in long-term contracts with reliable suppliers who have supplied with the right origin. What that means is that by the time 2030 rolls around, utilities will have very little in-year requirements that aren't already covered under long-term contracts. Therefore, as has always been the case, we will have little need to participate in the spot market at that time.

In fact, the spot market in 2030 will look similar to in-year spot demand this year, small and discretionary, far from a level that would support a significant volume of uncommitted supply coming out of the ground. Therefore, Cameco will continue to be balanced and disciplined in our contracting activity, layering in contract volumes where it makes sense for us, while building a diversified customer base.



We will remain selective in committing our unencumbered in-ground uranium inventory and UF6 conversion capacity under long-term contracts. But indeed, our book of business is growing.

You can see that our average delivery volume from 2023 through 2027 has increased from 26 million pounds per year to 28 million pounds per year from last quarter as we translate our previously announced accepted volumes into executed contract. That's only within the 5-year window shown in the table. We also have delivery commitments that spanned more than a decade, some out to 2040. And, we continue to have a large and growing pipeline of contracting discussions underway.

Make no mistake though, in our uranium segment, we are not looking to lock in today's prices. We're looking for market-related pricing mechanisms under our long-term contracts. That means that while these contracts support our production planning decisions, they will not be priced today, but rather will be based on the future price of uranium, and in some cases may include floor price protection and ceilings. We want to maintain exposure to the future incentive prices needed to promote investment in new supply to satisfy growing long-term demand.

While our approach to contracting gives us the ability to participate in further price increases, it also provides strong downside protection should headwinds arise in the macro or industry environment. As uncovered requirements translate into additional long-term contract commitments, Cameco retains the flexibility at our existing tier-one assets, including the option to expand and extend production. 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 achieve on our tier-one assets. Our strategic contracting and production decisions are translating into better earnings and cash flow as we return to our tier-one run rate. With $2.5 billion in cash, $1 billion in total debt, and a $1 billion undrawn credit facility, our balance sheet is strong.

We will retain our conservative financial management to support our continued balanced and discipline contracting and supply decisions to provide us with the ability to self manage risk, and to provide us with the capacity to pursue value added investments like Westinghouse. We expect Westinghouse will be able to participate in the growing demand profile for nuclear energy and downstream services from their existing footprint.

The team here continues to work toward closing the Westinghouse investment later this year. Once it closes, we will be able to provide more details on the exciting prospects we see for that business which with the positive momentum in the nuclear industry that I outlined at the beginning of the call are only getting better.

With the market transitioning to what appears to be replacement rate contracting, these are busy and exciting times for Cameco. As a proven and reliable supplier across the fuel cycle, we remain committed to operating sustainably. We will protect, engage and support the development of our people and their communities, and protect the environment something we've been doing for over 30 years. Our vision of energizing a cleaner world keeps us focused on delivering long-term value in a market where demand for safe, secure, reliable and affordable clean nuclear energy is growing.

Before I conclude, I want to recognize some upcoming changes to our Board of Directors. Joining our Board as of September 1, are Chief Tammy Cook-Searson, who currently serves as Chief of the Lac La Ronge Indian Band and is the President of Kitsaki Management Limited Partnership. And Dominique Minière, who was the Executive Vice-President in charge of new nuclear and international development for Ontario Power Generation prior to his retirement. The depth of knowledge of these two individuals will further strengthen our Board and provide new and diverse perspectives. We look forward to the contributions that these two individuals will make to our Board and to Cameco.

One last thing before we get to your questions. Over the last several days, we've been closely following the evolving situation in Niger in Central Africa. As the former Vice-President of the Mining Business unit for Areva now Orano, I was responsible for the uranium mines in Niger for a number of years and during that time grew very fond of the country and its people. We find the situation in Niger today to be very concerning for the people of Niger and are certainly hoping for a peaceful resolution of the situation in the very near future.

With that, I will say thank you for your interest today, and we are happy to take your questions.

OPERATOR:

Thank you. We will now begin the question-and-answer session. In the interest of time, we ask you to limit your questions to one with one supplemental. If you have additional question, you're welcomed to rejoin the queue. To join the question queue, you may press star, then one on your telephone keypad. You will hear a tone acknowledging your request. If you're using speaker phone, please pick up your handset before pressing any keys. To withdraw from the question queue, please press star, then two. Webcast participants are welcomed to submit questions through the box at the bottom at the webcast frame. The Cameco Investor Relations team will follow up with you by e-mail after the call. Once again, anyone on the conference call who wishes to ask a question may press star then one at this time.

Our first question comes from Ralph Profiti of Eight Capital. Please go ahead.

RALPH PROFITI:

Thanks, Operator, and good morning, Tim and Grant. Tim, you talked about this move to 100% replacement rate contracting and greater, and it seems as though you're also potentially speaking to this having a finite life where at some point it's followed by a quiet period. Just wondering how you reconcile this replacement ratio with the wedge of unfilled requirements in the context of how long you think this contracting cycle may last.

TIM GITZEL:

Well, Ralph, thanks for the question. Yes, we are, as you say, moving into the era of replacement rate contracting, we haven't been in for granted 10 years or so. How long will it last? I guess you just have to look at the uncovered requirements going forward. There's a significant chunk of material yet to be covered over the next few years.

But I'll move it over to Grant, our expert to—Grant, why don't you answer Ralph's question.

GRANT ISAAC:

Yes. Ralph, we would absolutely characterize the term market as very constructive right now, for the reasons that Tim was articulating. You've got a durable demand profile, a demand that is reactors being saved, reactors going through life extensions, obviously, new builds. Now the real prospect of adding to the uncovered requirements, of course, small modular reactors and micro modular reactors. This is all creating a very durable demand outlook. We are just growing the uncovered requirements.

No surprise, we are starting to see more contracting. To date, year-to-date, we are already at more term contracting in the uranium business than we've seen in at annual rates in the last decade. You have to go back to 2012 to see a number higher than this. Obviously, the security of supply urgency of demand cycle is underway, we would still call it early because despite all that contracting, it isn't making a marginal dent in that uncovered requirements curve. We are adding more demand to the curve faster than we're taking it away through contracting across the industry.

To your question, when this security of supply cycle set in, they typically last several years. If you go back and you look at the various points of strong contracting through the decades of the commercial uranium cycle, when these cycle set in, they do last a number of years. Utilities cover their run rate requirements, but it is true that then at some point, a bit of complacency steps assess and they step back, they don't have as much immediate demand. We think there's more demand coming, and this is going to be the feature of the market for a while. We're not even contemplating what that step back looks like yet, because of the growth of the uncovered requirements curve.

RALPH PROFITI:

Quite helpful, very, very much. Thanks. Tim, does any of the Niger source material get processed in any of the downstream conversion facilities of Cameco operations, where now you're sort of faced with a sources and uses of supply decisions where you may have to move material around?

TIM GITZEL:

Yes, that won't affect us, Ralph. There might be a bit that comes in, but mostly it goes into France, as you can imagine through the French entities, yes.

RALPH PROFITI:

Okay. Thanks. Understood. Thanks, everyone.

TIM GITZEL:

Yes, thanks, Ralph.

RALPH PROFITI:

Appreciate it.

TIM GITZEL:

Yes, thanks, Ralph.

OPERATOR:

Our next question comes from Orest Wowkodaw of Scotiabank. Please go ahead.

OREST WOWKODAW:

Hi, good morning, and nice to see the continued momentum here. For the past several quarters, you've disclosed the amount of pounds that you added to the long-term contract book. I didn't see that disclosure this quarter. Can you give us any update there?

TIM GITZEL:
Yes, Orest, I think we said we weren't going to be reporting on a quarterly basis. But Grant, you can speak to the (multiple speakers 27:02).

GRANT ISAAC:
Our normal process, Orest, you've been around this story for a long time. So you know that we would just add on an annual basis, talk about the uranium and conversion services that we had brought into our portfolio. We do that in sort of February in Q4. We undertook the practice of doing it quarterly, because we were seeing demand before others were and we just thought it was important for as we talked about demand coming to the market, we had to prove it. We were proving it by talking about our accepted and executed contracts.

But now we're seeing more broadly across the industry, and I just referenced it to Ralph, the 118 million pounds that have been contracted already across the industry in the term market. The proof is out there. It no longer requires us to be showing that leading indicator and the market is in a very constructive spot. We think that demand is only going to continue to grow. We just stepped back from being the ones who were constantly showing what the demand formation was because the evidence is now there for everybody to see.

OREST WOWKODAW:
Okay. But clearly your book has increased again, just given that your 5-year average sales was increased to 28 million pounds from 26.

GRANT ISAAC:
Yes, absolutely. We always think about it, as you know, with respect to our portfolio, which is the committed sales we've already captured and our pipeline, which is the negotiations we have underway to capture value out into the future. I've been saying for some time now that pipeline is big. Despite the fact we've taken a lot of demand, translated into executed contracts, we still have a big pipeline. The replenishment of the demand into the pipeline continues to be very strong. That's what our marketing team is focused on. Those folks just do an incredible job negotiating the type of contracts that provide us with great upside participation in the market, really strong downside protection, should there be any macro headwinds, and that long tail of cash flow and

earnings that come from having such a robust contracting portfolio, which we can then serve as we resume our tier-one costs from our tier-one infrastructure, so that margin improvement flows through to our owners. We're very excited about how constructive it is.

OREST WOWKODAW:

Thank you. Can you give us maybe just a quick flavor of where current floors and ceilings are on new contracts?

GRANT ISAAC:

Yes, I can sort of speak to what our experience is, I don't know where others are. But our preference right now in the term contract space is for market-related volume. We're willing to commit volumes out into the future, but we just want to price them out into the future, we're not looking to price them today. Those would be called fixed contracts or base escalated contracts.

On market related, they're often collared. They’re collared in part because utilities have lived through price cycles before and they've seen spikes. They'll ask for ceilings and if they ask for ceilings, we'll ask for floors, both floors and ceilings are escalated. That's another important dimension to remember. For Cameco, in today's market, mid 50 spot, we can drive $50 escalated floors, and we can drive $80 escalated ceilings. I'm assuming others would be somewhat close to that, but probably not quite as attractive.

Then with each contract, we just like to turn those indicators higher with every contract that comes to the market and secures future supply, well there's less future supply for the next slice of demand, which then makes for an even more constructive conversation. That's how we go and build that contract portfolio with good upside protection and incredible downside protection.

OREST WOWKODAW:

Thank you, Grant.

TIM GITZEL:

Thanks, Orest.

OPERATOR:

Our next question comes from Greg Barnes of TD Securities. Please go ahead.

GREG BARNES:

Yes, thank you. I'm wondering if at this point you can get a little more granular on the timing of the closing of the Westinghouse deal. Any comments on the U.K. comment period they announced today on their regulatory approval process would be helpful too.

TIM GITZEL:

Yes. Greg, thanks for the question. Nice to hear from you. Bruce as you know tends standard practice. I think we've—we had 30 to start over. Looking at Sean and we're down to just a couple. One of what you've mentioned that I don't know if we have timing, I think we're still looking at Q3 before the end of the year for the closing on Westinghouse. We're working, I can tell you we've got a team of many working on it. We're hoping this fall to be able to close that, Greg, but I don't have a whole lot more detail for you right now.

GREG BARNES:

Okay. Is the fact that U.K. launched a contract now so far in this process unusual or is this standard practice for them?

TIM GITZEL:

No, we started them all off on the same foot and some reacted really quickly. I think we got the U.S. and China right off the bat. That's one of the ones we still have to get in the U.K. So pretty normal practice, Greg.

GREG BARNES:

Okay, thank you. That's it for me.

TIM GITZEL:

Yes. Thanks a lot, Greg.

OPERATOR:

Our next question comes from Grace Symes of Energy Intelligence. Please go ahead.

GRACE SYMES:

Hi, Grant. My question is (audio interference 32:26) delay, and I was wondering if you could give any reason or detail on that?

TIM GITZEL:

Grace, you are cutting in and out on us, but I think you asked about the transportation routes out of Kazakhstan. As you saw from our—the information we published in the MD&A that we're still working on that, we haven't had any shipments come through that passage way yet. This year we're hoping Q3 we'll be able to get one through. Again, we're working on that day-to-day. We're in touch with the different countries and governments involved. Kazatomprom, obviously is leading the charge on that. We're hopeful that we'll see some deliveries come through there sometime this year.

GRACE SYMES:

All right. Thank you. And just one quick follow-up. Does Cameco ship all of its material from Inkai through the Trans-Caspian route now, or does any of it gets sent to China?

TIM GITZEL:

We are sending it all, if we can through the Trans-Caspian route at this point.

GRACE SYMES:

All right. Thank you.

TIM GITZEL:

Yes, thank you. Thanks, Grace.

OPERATOR:

Our next question is a follow-up from Greg Barnes of TD Securities. Please go ahead.

GREG BARNES:

Yes, thank you. Just for you Grant, the 118 million pounds contracted year-to-date, what kind of line of sight do you have on what the rest of the year holds in terms of long-term contracting for the industry as a whole, not just for Cameco?

GRANT ISAAC:

Yes, great question. When we look at our own pipeline of negotiations, and I said earlier that it remains quite large. We've got a lot of pounds under negotiation, a lot of conversion service under negotiation. If I then sort of reflect that as it must be indicative of what others are seeing, I think we can expect quite a bit of demand to come to the market in the second half of the year. I'm not prepared to say we can just simply annualize 118 million pounds to simply double it. I don't know for sure. But I think this is a year where we can expect to see a material increase over last year's contracting rate.

As we know, in our industry, contracting begets contracting. I mean, as more and more of the known production is spoken for under long-term contract, it'll just increase pressure on those who have not contracted yet to get their hands on an even smaller slice of certain supply. And then obviously, attention will turn to the contracting and prices required to get real Greenfield moving. That's all in front of us, and that's all value we intend to capture. But we are expecting a constructive term market to continue through this year. If past is prologue, these last several years.

GREG BARNES:

Great. Just a follow-up question regarding the operations themselves, McArthur and Cigar. The cash cost there in the last, Cameco reports was $16 to $18 a pound depending on which operation talking about. We've had inflation and other cost pressures and supply chain issues in the rest of it. What do you think the cost profiles look like now at each operation from this point?

GRANT ISAAC:

Yes, it's a great question, Greg. There are two things going on simultaneously moving in different directions. Obviously, as we ramp up production at something like McArthur and Key, we're going to have the unit cost effect, and that'll be very positive, more production, lower unit costs, that will be offsetting. But then, of course, when you look at just the challenges that have been in the market, the challenges on supply chains, the challenges on inflation, the challenges on finding skilled labour and appropriate contractors at the right time, that kind of offsets that improvement.

But on balance, we would just kind of go back to our annual information form numbers. That's the update to our technical reports. We're looking at that $16 to $18 cash cost. That's what we're negotiating towards. We're very excited obviously about meeting the growth in this market, meeting the new demand, meeting our contract from already licensed already permitted existing facilities that we simply just have to get back up and running.

GREG BARNES:
Okay, great. Thanks, Grant.

OPERATOR:
Our next question is a follow-up from Orest Wowkodaw of Scotiabank. Please go ahead.

OREST WOWKODAW:
Hi, thanks for taking the follow-up. Just, Grant, on the same lines as Greg's question, but maybe a little bit different. At what point do you need to see the contract book? Or, I guess at what level do you need to see the long-term contract book before we start hearing more about life extensions at Cigar Lake, for example, and even potentially taking McArthur up to the full license capacity of 25 million pounds?

GRANT ISAAC:
Yes, great question. It is one where we would say, whether it's the excellent work done by TradeTech, for example, Treva and her our team, where there is very clear urgency of supply building in the market, we just simply respond to that by saying, we need to see an urgency of demand. Yes, 118 million pounds year-to-date in the term market is a good indicator of urgency of demand. Yes, a $55 U.S price is a much better price than the $17.75 per pound that it was when we brought McArthur and Key Lake into supply discipline.

But it's not at the level, from a pricing point of view that is required to make serious investment in expansion, or quite frankly, in Greenfield. We would need to see more urgency of demand as evidenced by more term contracting coming into the market and stronger price formation and then we would capture that in our contract portfolio. Those are the milestones to watch for. Those are what will determine our production decisions, the expansion decisions at McArthur River, the extension decisions at Cigar Lake. The market is constructive right now. It has to be more constructive to incent us to grow that base of production.

OREST WOWKODAW:
Okay. Just as a quick follow-up, do you think are you happy with your current portfolio of growth options within uranium? Or, do you see any opportunity for M&A in terms of adding undeveloped deposits?

TIM GITZEL:
We're really happy, Orest, with what we've got. We've got assets that are built and licensed and ready to go. We're just as you know, in the process of wrapping them up, and as Grant just said, looking at whether we need to extend and expand those, we've got tier-two assets that are licensed and permitted on standby, but under the right conditions could go ahead. We're not looking too far afield, and then our own house here, and we've got some great assets that we want to bring back in.

GRANT ISAAC:
Orest, we might just juxtapose that a little bit with the last price cycle. People reflect on that '06, '07 window, a lot of contracting was done, a lot of strong price formation. But at that time, Cameco was looking to add a new mine, the Cigar Lake mine as a supply source in order to fulfill those contracts. This time around because of our supply discipline, we left a lot of pounds in the ground, in a low price environment. Those pounds are now available in a much higher price environment. We're meeting this new contracting cycle from, we think an extraordinarily strong Brownfield leverage position, which gives us a very attractive capital profile. We're only talking replacement and maintenance capital; we're not talking Greenfield capital in order to meet it. We just think it's a much different value proposition for investors in Cameco, in this contracting cycle than it was in past cycles. This is our deliberate execution of our strategy.

OREST WOWKODAW:

Thank you.

OPERATOR:

Our next question is a follow-up from Ralph Profiti of Eight Capital. Please go ahead.

RALPH PROFITI:

Thanks, Tim and Grant, for the follow-up. We have seen a little bit of volatility in the Inkai pounds, both from deliveries and a shipments perspective. Just wondering when it comes to delivering those pounds in this sort of uncertain market, are you making up those pounds in the spot market because the actual inventory situation at Cameco has been relatively stable, and the purchase commitments have actually moved lockstep with the sales guidance. Just wondering how you make up for that volatility.

GRANT ISAAC:

Ralph, I'm just going to go backwards a little bit and provide some context because we just have to set our purchasing to meet our committed sales in the proper context of our strategy. As you know, and a lot of callers—a lot of folks on this call know, what we do is we build the homes first through the contracting cycle. Then we source those commitments and we source them obviously from production, we've got production increasing with the ramp up of McArthur River, Key Lake. We've got production from Cigar, production from Inkai.

We sourced through inventory, and we source through purchases, and occasionally we'll source through loans. But let's focus on the big three, the production, inventory and purchases. With respect to purchases, if we have a delay in production, remember, we set kind of quarterly and annual guidance on production. But if we missed that the pounds are still there, we get them a little bit later. Occasionally, we might have to go into the market and supplement with some purchases.

When we purchase and say for example, if we had to purchase to replace Inkai pounds, just think about those in the proper context. We can purchase either in the spot market today and we'll do that occasionally. It's a very thin market and our presence, our demand would be noted and would probably create upward price pressure if Cameco showed up in the spot market. Sometimes we also purchase under long-term purchase commitments. Somebody might be offering pounds at a fixed price out into the future, and when we look at the dynamics in the construction, in the market, we might say those are cheap pounds today. We always retain the right to harvest those contracts whenever we want, we don't have to wait until the to the terminal date in the contract. We can purchase in the spot market, or we can purchase long-term and just retain the option of when we pull that source in.

Then when you think about those spot purchases, the final thing I would make is they have both a cost, but they also have a benefit. The cost of us purchasing obviously is, it costs more to purchase it than it does to produce. There's a margin impact, that's definitely a cost. The benefit, though, is when our demand is in the market, it tends to thin out the spot market, it tends to be priced constructive. Now our portfolio of committed sales that are market-related, are also capturing that higher price, and it's capturing it over our true margin. Then of course, anything we're negotiating, is now negotiating at higher price references.

We always look at that short-term in-year costs against the in-year and multiyear benefits when we make purchases, never something we fear, always something we do strategically and deliberately. That's how we would replace any shortfalls or timing shortfalls with respect to either production from our Canadian assets, or arrival of material from JV Inkai.

RACHELLE GIRARD:

Orest, I might just add to that purchase volume does include our expected Inkai deliveries. It gets moved out mainly because of the increase in the in-year sales and our desire for working inventory. I would just note that as well.

RALPH PROFITI:

Yes, got it. Thank you for that clarity, Grant and Rachelle.

OPERATOR:

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

TIM GITZEL:

Okay. Well, thank you, Operator. With that, I just want to say thanks to everybody who's joined us on the call today. We certainly appreciate your interest and your support. I just say we were excited to see the positive momentum building for nuclear around the world. We, at Cameco, expect to play an important role in providing the solution for the existential problems of decarbonization, electrification and energy security.

More than ever, we're being asked by countries, leaders and government officials to participate in discussions on where that world energy picture is going. I can tell you that we, at Cameco, work hard to gain that kind of standing on the world stage to be recognized as a global company, making a difference on a global scale and providing something the world desperately needs.

As the interest continues to grow, last month we hosted a tour of our Cigar Lake operation for Ambassador Kirsten Hillman, the Canadian Ambassador to the U.S., and just last week, Ambassador David Cohen, the U.S. Ambassador to Canada toured McArthur River. I could tell you the positive feedback from these officials and their teams following the tours was nothing short of flattering. That's of course, thanks to the hard work of our people over the years.

We built a reputation as a proven and reliable producer with key assets and stable jurisdiction with a long history of strong environmental, social and governance performance. We believe our vision of energizing a clean air world will allow future generations to thrive and to enjoy this beautiful planet. We'll continue to do what we said we would do, executing on our strategy and consistent with our values. We'll do so in a manner we believe will make our business sustainable over the long-term.

Thanks, everybody, enjoy the summer. Stay safe and healthy.

OPERATOR:

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