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UxC Interview with Mr. Tim Gitzel, President and CEO of Cameco Corporation

Ux Price Indicators					
***Weekly* Ux U_3O_8 Price®** *(9/2/19)*			**$25.30** (Unch.)		
Ux 3-Yr U_3O_8 Price $28.25			Ux 5-Yr U_3O_8 Price $32.00		
Month-end *(8/26/19)*			**Calculated values*		
U_3O_8	Spot	**$25.30**	Conversion	NA Spot	**$20.00**
U_3O_8	Spot MAP*	*$25.26*	Conversion	NA Term	**$16.50**
U_3O_8	3-Yr Forward	$28.25	Conversion	EU Spot	**$19.75**
U_3O_8	5-Yr Forward	$32.00	Conversion	EU Term	**$16.50**
U_3O_8	Long-Term	**$32.00**	SWU	Spot	**$45.00**
UF_6 Spot	NA Price	**$86.00**	SWU	Long-Term	**$47.00**
UF_6 Spot	NA Value*	*$86.11*	EUP	NA Spot*	*$1,160*
UF_6 Spot	EU Value*	*$85.86*	EUP	NA Term*	*$1,316*

UxC President, Jonathan Hinze, recently had the opportunity to interview Mr. Tim Gitzel, President and Chief Executive Officer (CEO) of Cameco Corporation. Mr. Gitzel graciously shared with UxC the latest status and plans of his company and his views on the global nuclear markets.

Jonathan Hinze: Thank you very much for the opportunity to discuss Cameco's current situation and your views about the future of your company and the nuclear industry. Can you please provide us a brief history of your years at the helm of Cameco and what have been some of the biggest changes at Cameco over this time?

Tim Gitzel: It is a pleasure to speak with you Jonathan. As you know, I took over as President and CEO in July 2011, just four months after the Fukushima disaster. It hasn't been an easy run since then for any of us in the nuclear industry. At Cameco, we had to adjust our strategy from one of growth to one focused on tier one uranium and fuel service assets while maintaining a strong balance sheet and protecting and extending the value of both our asset base and of our contract portfolio. I am happy to say that the result has been resilient performance in today's difficult market. We think this puts us in the best position to capture the opportunities of tomorrow's improved market. After all, just like Three Mile Island and Chernobyl, we are seeing the fears of Fukushima giving way to the facts of climate change, clean air and the crucial role of nuclear power in ensuring safe, reliable and affordable zero-carbon electricity.

Hinze: The nuclear energy market is constantly evolving. Certainly the 2011 Fukushima accident continues to have impacts being felt today, but there are also many other important developments, both positive and negative, shaping the market. In your view, what is the current state of global nuclear power and where do you see it heading in the next decade or so?

Gitzel: You know, I started in this business in 1979 when I was 17 years old. So, after 40 years, not sure I would use the term evolving. Instead, I think the market is repeating a familiar cycle. Consider first demand. Nuclear falls out of favour and countries abandon new build plans. Electricity is still required and the power largely comes from coal (and other fossil fuels). After some years, concerns about the carbon addiction and its impact upon climate and air quality mount. Nuclear power's role in ensuring safe, reliable and affordable zero-carbon electricity is recognized and demand begins to grow. Yet, during the demand sag, volume strategies and a lack of value discipline by many suppliers results in excess supply. Mines are depleted and sometimes exhausted. Surplus disposal and panicked selling in the spot market pushes prices down. De-linked from the actual production cost curve, the price is set by the most desperate seller, and it falls to levels that destroy supply as investments in growth and sustaining capacity are shelved, and, finally, production is curtailed and idled. With distressed supply in the market, complacency sets in despite the fact that this one-time, finite supply has replaced productive capacity.

Obviously, while the rhythm is familiar there are many specific amplifying factors. Today, two important and interrelated ones are the role of commercial and state-owned entities in the industry and the profound geographical disconnect between the supply of and demand for uranium. Together, these factors raise important national security concerns, they provoke trade policy distortions potentially regionalizing supply and, ultimately, along with low prices they make the availability of future supply even less certain and predictable.

We have seen this before. The good news is that the pot hole of lost demand since 2011 has been filled and there are more than 50 reactors under construction. We see policy initiatives in many countries supporting nuclear power. A vibrant and growing nuclear fleet means, for us, customers who are confident in their future requirements resulting in increased contracting and the prices transitioning up to the actual production cost curve.

I truly believe that nuclear power is emerging from another down cycle and is poised to take its place in a world that needs safe, reliable and affordable zero-emissions electricity.

Hinze: Cameco has been a leading uranium and conversion supplier to the global nuclear fuel markets for many decades. How do you see your company's position in the market currently and what are you doing to maintain Cameco's leadership position for well into the future?

Gitzel: Cameco will continue to be the leading uranium and conversion supplier to the global nuclear fuel market because we honour our commitments and we do what we say we will do. Our competitive advantage begins with our outstanding employees who work every day to deliver value from our world-class, long-life uranium and fuel service operations. As the leading commercial supplier, we are not state-owned, and can be solely focused on helping our customers achieve the diversification needed in their fuel supply. But not just the classic cost and security of supply diversification. We are seeing increasingly stringent environmental, social and governance (ESG) performance standards upon the nuclear industry. As the ESG requirements grow, so will Cameco's competitive advantage as supplier of choice well into the future because not many suppliers can check all of these boxes. This is why we were able to successfully conclude 25 million pounds of new long-term business in early 2019 with more to come. Since this type of contracting has typically been a leading indicator, we are confident that a market transition has begun. I believe it will be an incumbent's recovery with customers focused on suppliers with a proven operating track record and tier-one production either idle or producing less than capacity. As such, we will be able to layer in new contracts that are acceptable to us while meeting the cost – security – ESG requirements of the nuclear industry.

Hinze: I imagine the decision to indefinitely suspend production at the McArthur River mine and Key Lake mill was a very difficult one. I also understand that Cameco has taken several other tough steps to reduce costs, including hundreds of layoffs, in light of the ongoing low uranium price environment. How have these moves changed the way Cameco operates, and what do you think will be the longer term effects of these decisions?

Gitzel: While we will always honour our commitments to our customers, our decision on sourcing our committed supply will always be value based, not volume based. We have cut production well below our committed sales and are purchasing material to fulfill our commitments, backed up by a strong balance sheet that ensures we can self-manage risk while executing this approach. This is what separates commercial suppliers from non-commercial suppliers. Production curtailment decisions are among the most difficult decisions I have ever had to make. And, unfortunately, I have had to make a number of them. But without direct or indirect state-backing, we must make these decisions along with marketing and financial decisions that insulate us from contributing to today's near-term oversupply and that prevent us from having to chase this market down. Also, we preserve the value of one of the world's very best mining assets for the future giving our customers the confidence in our long-term, tier one supply base.

Going forward, there are a number of principles that you can expect us to follow. First, we will not produce from our tier-one assets to sell into an oversupplied spot market. Instead, this material is for acceptable term contracts. Second, we do not intend to build up an inventory of excess uranium because it contributes to a sense that uranium is abundant, and it just ties up our balance sheet. Third, along with meeting our current commitments, we will capture additional utility demand in the market where we think we can add value for ourselves and our customers and this may include spot, mid-term as well as long-term demand. Our contracting decisions always factor in price along with who the customer is, our desire for regional diversification, product form and logistical factors. Finally, once we capture that demand, we will decide how best to source it from production, inventory and our purchases.

These moves have changed us. We are a different company today. We are smaller and we have consolidated at our head office. This translates into a more efficient, more flexible and more nimble Cameco.

Hinze: As you probably are aware, the entire uranium market is anxious to know Cameco's plans for a McArthur River/Key Lake restart and also your approach going forward to covering your contracted supply commitments through alternative means, such as spot purchases, while McArthur River remains idled. What more can you tell us about these plans beyond what you have already publicly stated in your financial filings and investor conference calls?

Gitzel: Make no mistake, McArthur River/Key Lake are coming back but only when the time is right. And, not just coming back at the 18 million pounds per year but potentially ramping up to 25 million pounds per year. They are coming back long before any capital needs to be put at risk licensing, permitting, developing and commissioning any green field development in our industry. In fact, until you see existing producers with committed sales portfolios propose growth capital at existing licensed facilities you can be confident that green field is not required at all.

In terms of timing, we have been very clear about the operational, marketing and financial aspects of our strategy, and what we need to see in order to ensure our tier-one productive capacity is available longer term. As long as prices are being set by surplus disposal in the spot market, our plan is to preserve our assets and purchase spot material to deliver into our committed sales portfolio where there is a permanent home. We will remain disciplined until we can secure new acceptable contracts reflecting a price linked to the actual production cost curve. The contracting success we have had so far this year, and the ongoing off-market conversations we are having, indicates that the transition is underway and that our discipline is being rewarded.

With respect to purchases, well, we have a lot to make. We have more purchasing ahead of us, than behind us. Our number one objective is to purchase as cheaply as possible because purchases are more expensive than production. We determine our purchase volume and timing based upon the underlying trend in the market because the spot price is unreliable due to uneven price reporting practices, the timeframe that determines spot and the judgement used in price reporting. Without a true spot price, what matters to us is the market sentiment. If the market appears deflationary (for example, due to distressed selling), the cheaper material is not today, it is tomorrow. We will wait. If the market appears inflationary (for example, due to active and fundamental demand) the cheaper material is today, not tomorrow. We will be very active securing material to place into our committed sales.

Hinze: I would like to ask specifically regarding the future of your Canadian mines. Given that McArthur River is lower cost than Cigar Lake, what is the rationale behind keeping Cigar Lake operating and not restarting McArthur River? Has Cameco and its joint venture partners considered restarting McArthur River and placing Cigar Lake on standby?

Gitzel: The cash costs at the two operations are actually very similar. At the time we decided to take productive capacity off the market, McArthur River and Key Lake (MR/KL) made sense for us for a number of reasons. We own a greater share of the mine and we control the mill. Our share of production corresponded closely with the excess inventory we needed to work down over the initial 10-month period. We have only one partner in that joint venture, and our partner agreed to the suspension of production at first 10-months and then for an indeterminate duration. Taking MR/KL off actually removes more productive capacity from the market than does Cigar Lake since MR/KL has licensed capacity that would allow it to expand up to 25 million pounds of annual production while Cigar Lake is licensed for 18 million pounds per year.

Any decision on production at Cigar Lake mine involves a broader joint venture. And, the ore is milled at Orano's JEB Mill, which is a joint venture of its own with different partners than the mine. As such, any decision must involve an alignment of commercial interests across two joint ventures which would be more complicated. However, since phase one of Cigar Lake is exhausted in early 2029, it is not inconceivable that others might wish to delay this date.

Hinze: Looking out beyond 2030, how do you foresee the uranium supply situation changing? What do you think has to occur in the market in the near- to medium-term to ensure the long-term sustainability of uranium supply? Do you agree with the view among some in the industry that uranium supply will always be plentiful, or do you think utilities should be concerned about surety of supply over the long-term?

Gitzel: It is no secret that today's prices are under pressure because of a lack of discipline in terms of some producing more than they should and some distressed sellers succumbing to various pressures and both selling into a discretionary market. Yet, this is neither fundamental nor sustainable. It is indeed unfortunate that a thinly traded spot market is distracting many from the underlying fact that the demand cycle has swung up while the production cycle has swung down.

There are many great assets that have sustainable, long-term supply. But, clearly, more will be needed once tier-one assets are producing at capacity. Complacency today about future supply that is based upon the exuberant promises of untested, unproven, unlicensed and unpermitted new production will simply result in a supply crisis when those promises are not fulfilled rather than an orderly transition to a price linked to the actual production cost curve. And, if trade policies create market access distortions, the shortfall could be pronounced for some markets. Moreover, it would not take much of an unplanned supply disruption to expose the dependency of today's market upon finite, non-productive capacity. We have all seen this happen before. As in the past, our customers can be confident that Cameco will deliver on supply commitments.

Hinze: The conversion market has seen dramatic price increases and diminishing supplies, especially following Honeywell's decision to take the Metropolis plant offline in late 2017. I understand that Cameco has increased UF_6 production significantly at your Port Hope plant. What can you tell utility customers to reassure them about your conversion operations and how Cameco plans to deal with these new conversion market conditions going forward?

Gitzel: Jonathan, I think every supplier, customer, investor and reporter should be paying real close attention to what has happened to the conversion market because while the market is different, I believe it is somewhat analogous to the uranium market. Just a few short years ago, too much capacity combined with too much secondary, one-time and finite supply resulted in an absurdly low conversion price. A price that was set by surplus disposal, de-linked from the actual production cost curve. Production curtailments began and then production challenges have been experienced in the industry. So what has happened? The price has rapidly increased over four-fold to a price linked to the actual production cost curve and, notably, the recent conversion price transition was not anticipated by fuel cycle reporters. In other words, conversion has already gone through the transition that uranium is starting to go through, and, like conversion, fuel cycle reporting has clearly not yet recognized this transition and, once again, may only see it in the rear-view mirror.

In response to the increased customer demand our production has increased. The clear message is that if prices link to the actual production cost curve, then the market can be confident in a reliable supply from productive assets.

Hinze: Is there anything else that I have not asked that you would like to address? Also, what final message do you have for our readers regarding Cameco and the nuclear market in general?

Gitzel: Nuclear power plays a crucial role in ensuring safe, reliable and affordable zero-carbon electricity. As populations grow and so do electricity needs, the demand for uranium will grow. Cameco has a unique position as the largest commercial supplier of uranium and fuel services to run nuclear reactors around the world. We have taken the necessary actions to ensure that our future remains secure and we are well-positioned for the market transition.

Hinze: Tim, thank you again for agreeing to this interview and taking the time to provide thorough responses to my questions. On behalf of our Ux Weekly readers, I am certain that everyone in the global nuclear market has found your insights to be extremely valuable and enlightening.