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PRESENTATION

Operator

Good day, ladies and gentlemen and welcome to the Cameco Corporation Third Quarter Results Conference Call. I would now like to turn the meeting over to Ms. Rachelle Girard, Director, Investor Relations. Please go ahead, Ms. Girard.

Rachelle Girard, Director, Investor Relations

Thank you, Melanie, and good morning, everyone. Thanks for joining us. Welcome to Cameco's 2015 third quarter conference call to discuss the financial results.

With us on the call today are Tim Gitzel, President and CEO; Grant Isaac, Senior Vice-President and Chief Financial Officer; Alice Wong, Senior Vice President and Chief Corporate Officer; and Sean Quinn, Senior Vice President, Chief Legal Officer and Corporate Secretary. Tim and Grant will begin with comments on our financial results, the updates to our CRA case, and the industry, then we'll open it up for your questions.

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 that actual results could differ materially. Please refer to our annual information form and MD&A for more information about the factors that could cause these different results and the assumptions we have made.

With that, I'll turn it over to Tim.

Tim Gitzel, President & Chief Executive Officer

Well, thank you, Rachelle, and welcome to everyone who has joined us on the call today to discuss Cameco's third quarter results. We appreciate you taking the time to join us today.

I think the most important news for Cameco this quarter is just how well Cigar Lake is performing. As you all know, this is a project that was a long time in the making, and the challenges to bringing in on have been significant. We also know that the challenges don't end with start-up. Since beginning production in 2014 we've had to continue learning and adjusting and, most of all, proving that our mine plan and mining technology work. I think we can now say with confidence that they do. This quarter and year to date, the operation has performed even better than expected. As of the end of October the operation has produced over 8 million pounds of packaged uranium, which was the upper end of our annual forecast. We have revised our target upward as a result of this success and now expect 10 million packaged pounds from the McClean Lake mill and possibly more if current production rates continue. Half of this is our share, and overall we remained firmly on track to achieve 18 million pounds by 2018. The rest of our operations have also performed well in the third quarter and throughout the year. McArthur River, Key Lake, Rabbit Lake, and Inkai were up compared to last year, and our U.S. operations have continued to produce according to their mine plans.

I'm going to take a pause here for a moment and turn things over to Grant to give you a brief update on the CRA case. Grant?

Grant Isaac, Senior Vice-President & Chief Financial Officer

Yeah, thanks, Tim. I just wanted to make a few brief remarks about the updated disclosure on our CRA tax case this quarter.

First of all, a court date has been set for our 2003, 2005 and 2006 tax reassessments, and we expect the trial will start the week of September 26, 2016. We expect it will last about four months with a decision six to eighteen months after the trial is complete. Why not 2004 you may ask, or what about 2007, 2008, and 2009? Well, 2004 is not included as the CRA has not responded to our notice of objection for that year and, therefore, the appeal with the tax court has not been filed. In other words, this year is not before the court at this time. For taxation years 2007 to 2009 we have not yet filed an appeal with the tax court. We expect that the decision for the 2003, 2005 and 2006 years will apply to subsequent years.

The other development this quarter is the notice we received from the CRA that they are disallowing the use of tax loss carry-backs for any transfer pricing adjustments starting with the 2008 tax year. This does not change the amount we expect to remit to the CRA while in dispute. To remind you, that is 50 percent of the reassessed amount. However, it does shift the timing of payments. As a result, we have provided an updated schedule of potential payments in our third quarter MD&A. To some extent, this schedule is dependent on receiving the 2010 reassessment in the fourth quarter, which we fully expect will be the case. You will see that we expect to remit these amounts sooner than previously anticipated; however, you will note that we now expect to be able to use letters of credit to secure a portion of the 50 percent we are required to remit while in dispute, which diminishes the cash we will have to put on account with the CRA. If we are successful in our case, as we believe we will be, we expect to recover all amounts remitted to the CRA on account of this case.

It's important to note that there have been no changes to our view of the case since we first disclosed the issue in 2008. I should also point out that the expected payments and timing are estimates only, since actual amounts will depend on the income reassessed in each year, the availability of elective deductions, our ability to use letters of credit as anticipated, and the timing of reassessments. We remain confident that we will be successful in our case but have taken a cumulative tax provision of $92 million for 2003 to September 30th of 2015. I want to emphasize that we do not believe the ultimate resolution of this matter will be material to our financial position, results of operations, and cash flows in the years of resolution

And with that I'll turn it back to Tim.

Tim Gitzel, President & Chief Executive Officer

Well, thanks, Grant.

So, overall, we continue to focus on executing our strategy to remain a competitive low-cost producer. We are on track to deliver on our sales guidance for the year, and thanks to the better than expected ramp-up of Cigar, our overall production guidance is higher as well. However, it's still a challenging time for any uranium producer today. The market has continued to be flat throughout the first nine months of the year. If we look to the catalysts we are watching for, there has not been a lot movement. Uranium prices continued to remain flat and we believe fuel buyers' requirements remain generally well covered for the moment. Following on from that there has not been a significant return to long-term contracting and supply continues to perform well.

The one piece we have been watching that has returned some good news is reactor restarts in Japan. Kyushu's two Sendai reactors started up in the second half of the year, which was a milestone that we were very happy to see. And another reactor is expected to start-up in early 2016, Shikoku's Ikata 3 reactor. Of course there needs to be more restarts to move sentiment in the market so we haven't seen the needle move much in reaction to those events, but another three units have made it through the nuclear regulatory agency's safety review and 20 more reactors have applied for restart. The utilities who own those reactors have invested billions of dollars in safety upgrades required to get their reactors restarted, so we are confident we will see many of Japan's reactors back on line, though the process continues to be slow.

And we know, of course, that the long-term outlook for nuclear and uranium remains strong: as the world population continues to rise, as energy demand continues to increase, as more nuclear reactors come on line, and as uranium demand increases at a time when supply will be diminishing. So we continue to plan with that impending positive future in mind. And we have a lot of advantages going for us: some of the best uranium assets in the world, a solid contract portfolio, strong long-term relationship with customers, and a strategy that sees as focusing on our tier-one properties. Ramping up Cigar Lake is key to that strategy. So when the market does turn we expect to be more than just a price play; we've positioned ourselves to have strong operating leverage, and we plan to meet rising prices, when they happen, with increasing production from our best margin assets, Cigar Lake, McArthur River and Inkai.

So, with that, I am happy, we're happy as a team, to answer any questions you might have, and I am going to turn it back over to Melanie.

QUESTION AND ANSWER SESSION

Operator

Thank you. We will now take questions from investors, analysts and media. In order to respect everyone's time on the call today, we will take your question and allow one follow-up question. Then, if you have further questions, please return to the queue and we'll get to them after others have had their chance.

If you have a question, please press star one on your telephone keypad. If you are using a speakerphone, please lift the handset and then press star one. To cancel your question, please press the pound. Please press star one at this time if you have a question. There will be a brief pause while participants register for their questions. Thank you for your patience.

Once again, if you have a question, please press star one at this time.

Our first question is from Andrew Quail of Goldman Sachs. Please go ahead.

Andrew Quail, Goldman Sachs

Yes, good morning, Tim and team. Thanks very much for the update. I've just got a couple questions, first on the cash balance. Obviously it fell to around $60 million this quarter and I understand it's due to timing issues with sales versus production. Is there a, you know, an increase in working capital, is there a level of cash that you guys are comfortable with operating the business?

Tim Gitzel, President & Chief Executive Officer

Andrew, let me flip that over to Grant to comment. Grant, do you want to comment?

Grant Isaac, Senior Vice-President & Chief Financial Officer

Yeah. It's a great question, Andrew, and you did see it fall and accurately diagnosed the challenge, and that is, you know, our customers determine when they would like deliveries and we've seen I think four years in a row now that deliveries have been more weighted to the fourth quarter and so as we've been spending on capital programs and everything through the summer months in Northern Saskatchewan but not having the corresponding sales under the contract portfolio we've drawn down that cash balance. We do expect it to recover as we fulfill those Q4 deliveries. Of course that cash follows about a quarter behind when those deliveries come in, so we do expect it to build back up.

In terms of a run rate cash amount, I mean, you know, we look at the main feature being the lumpiness of deliveries, we look at that working capital, swings that we would have. I would say that there are times where, you know, you can have too much cash, but there are times when you can have too little sitting on the balance sheet, and I think a couple hundred million dollars is a comfortable number. I look at it from the point of view that as long as the treasurer is getting a good night's sleep four nights out of seven, that's probably a good cash balance. If he's sleeping sound seven nights of the week then we're probably running a little too heavy. So, you know, 63 is not where we'd want it to be but because of just the delivery pattern we're not concerned and, as I said earlier, it's four years in a row now we've seen this kind of back-end weighting.

Andrew Quail, Goldman Sachs

Okay, thanks. And then I suppose, you know, obviously the highlight was Cigar Lake and the ramp up looks better than expected and you are on track for this year or (inaudible). When we look forward to sort of the ultimately goal of what you guys have said to target sort of 18 million pounds by 2018, you know, do you think that as we head into 2016 that sort of target could be pulled forward?

Tim Gitzel, President & Chief Executive Officer

Andrew, it's Tim. You know, we're trying to be prudent on this. We're obviously delighted with the way Cigar Lake has performed this year, 2015, but I don't have to go back very far, in fact 2014, when I think our total production for the year was 400,000 pounds. And we took some pauses during the year to fix some tanks underground, the mill had some additional equipment that had to be put on it, we were really testing the mining machine at that time, so to go from 400,000 pounds last year to we're at 8 million pounds this year, looking toward 10, we're quite delighted with that. So it's a bit of a game changer for us, the partners of Cigar Lake, in the fact that, you know, we had budgeted 6 to 8 million pounds this year and that's 3 to 4 million our share. It's going to be more than that. I can tell you we'll take pounds from those tier-one assets like Cigar Lake every day because every incremental pound that comes out of there is a good pound for Cameco and our partners. So are we going to be more aggressive going forward? I think we'll, at the end of this year, take a look at where we end up. Our goal, stated goal is still 18 by 18, 18 million pounds by 2018. If we can move that along we will, but right now I'd say we're just going to get through 2015 and we'll take stock of how things are performing, the mine, the mill, the jet boring machines, and then you'll hear from us probably next quarter with an estimate for 2016.

Andrew Quail, Goldman Sachs

Great. And a quick just last one, I don't want to waste time for others, ah, a really good improvement at Rabbit Lake. Is that a production rate we can expect going forward?

Tim Gitzel, President & Chief Executive Officer

Well, I'll tell you that, ah, you know, we give a lot of credit to the other facilities, the big ones, the McArthur, Key, the Cigars, the actual hardcore miners are those folks at Rabbit that don't have the grades and, you know, the ore bodies, if you like. So they've done a good job. I think they're running at a rate, ah, I think, I can't remember what our number is for the year, it's 3.9 or some million pounds for this year, they're on track for that and having a good year this year.

Andrew Quail, Goldman Sachs

Thanks, guys.

Operator

Thank you. The following question is from Orest Wowkodaw of Scotiabank. Please go ahead.

Orest Wowkodaw, Scotiabank

Hi. Good morning. A question for Grant—just back to the CRA payments. When do you expect to find out whether you will be able to use letters of credit to post rather than cash in lieu of some of these payments?

Grant Isaac, Senior Vice-President & Chief Financial Officer

Yeah, great question, and sorry for not being a little more clear on that. We have to wait for the 2010 reassessment to actually arrive and then put the letter of credit against that reassessment. So that's the process that we're waiting on.

We don't anticipate any difficulties but obviously we have to have that reassessment in our hands before we can then proceed with putting a letter of credit against some elements of it.

Orest Wowkodaw, Scotiabank

And if that doesn't arrive by the end of the year, you know, do I understand correctly that you would have to post, you know, you've only posted $17 million in cash this year versus your guidance here updated at kind of 295 to 320 that you'd have to post something in the order of kind of 280 to 300 in cash in the fourth quarter if this letter of assessment doesn't come through.

Grant Isaac, Senior Vice-President & Chief Financial Officer

So we do expect a letter of assessment to come through, because if it doesn't there would be a statute barring to go back. I mean they only have five years. So we do fully expect it, so I don't want to speculate on it not arriving, because that is absolutely not my expectation. So what we've done in the liquidity table is try to give you an idea, assuming the 2010 reassessment comes in, just how it would play out between cash and letters of credit.

Orest Wowkodaw, Scotiabank

So in terms of your confidence level then, if you expect the assessment, um, what's your confidence level that you're actually able to use the letters of credit?

Grant Isaac, Senior Vice-President & Chief Financial Officer

Well, it is, we are allowed to under the rules. We've followed those rules and so we just think it's, ah, it should just be a procedural step here.

Orest Wowkodaw, Scotiabank

Okay. Thank you very much.

Tim Gitzel, President & Chief Executive Officer

Thanks, Orest.

Operator

Thank you. The following question is from Steve Bristo of RBC Capital Markets. Please go ahead.

Steve Bristo, RBC Capital Markets

Hi. Good morning and thanks for taking my question. I just have a couple here. First, are your $1 billion letters of credit part of the $2.4 billion lines of credit, reducing the total available amount on the lines of credit?

Grant Isaac, Senior Vice-President & Chief Financial Officer

I'll start with that one, Steve. The $2.4 billion includes all our letters of credit, which also includes the amounts that are put against, decommissioning for example. The one we often highlight is the revolving credit facility, which we just renewed, for $1.25 billion. It has the accordion feature to go up to $1.75 billion. That one is undrawn.

Steve Bristo, RBC Capital Markets

So how much do you actually have available under all your letters of credit, sorry, lines of credit right now?

Grant Isaac, Senior Vice-President & Chief Financial Officer

Well, probably the one you want to think about is the $1.25 billion undrawn revolving credit facility, because, as I mentioned, the other letters of credit pertain to decommissioning obligation.

Steve Bristo, RBC Capital Markets

Okay. And would it be possible to share the covenants you have on those credit lines?

Grant Isaac, Senior Vice-President & Chief Financial Officer

Oh, ah, yeah, but we can follow up on that. I mean there's a lot of detail in there. Nothing surprising actually but rather than take the time here why don't we follow-up on that, Steve.

Steve Bristo, RBC Capital Markets

Okay. And then just on the CRA payments, why for 2016 and 2017 are those not all using letters of credit? You still have some cash in those years.

Grant Isaac, Senior Vice-President & Chief Financial Officer

Yeah, because the letters of credit only apply to the income tax reassessment as well as the interest payment. The transfer price and penalties you cannot secure with a letter of credit and that's just a function of the rules.

Operator

Thank you.

Tim Gitzel, President & Chief Executive Officer

Thanks, Steve.

Operator

The following question is from Edward Sterck of BMO. Please go ahead.

Edward Sterck, BMO Capital Markets

Good morning, gentlemen. Thanks very much. A couple of questions, firstly on Cigar Lake. Is the performance, the better than expected performance, driven more by the sort of mine-level operations or is it the mill that's exceeding expectations here? And can you comment on the grade reconciliation to the reserve model?

Tim Gitzel, President & Chief Executive Officer

So, Ed, I would say the performance is very good at both, at both the mine, I know you've visited and others have visited, they've seen the jet boring machines with some modifications that have been going on throughout the year, they're just performing better and better. So easily able to keep up with the mill that itself has been performing extremely well. So I think last month we had about 1.5 million pounds a month at the mill, the mine easily able to keep up, so good performance from both.

Grade reconciliation, I'm not sure I have that right now. We'll certainly, in the next quarter at the end of the year, be putting that information out to show how we made out for 2015. Like I say, it's a bit of a game changer, Ed, for us, going from relatively few pounds in 2014 to, you know, I think we'll be somewhere around the 10 million mark. So, yeah, we'll do that reconciliation and put it out.

Edward Sterck, BMO Capital Markets

Okay, thank you. And then just a follow-up question, I'm sorry, going back to the CRA again. How long after receiving the 2010 reassessment do you have to make the payments? Or post letters of credit.

Grant Isaac, Senior Vice-President & Chief Financial Officer

Yeah, you know, Ed, sorry, I should have the detail. Is it 10 days? Is it 20 days? It's something like that. It's just, it's a quick turnaround time. I'm sorry; I can get the exact number and get back to you. Suffice it to say we're prepared, obviously, whatever that window is.

Edward Sterck, BMO Capital Markets

Okay, no, that's great. That's all I needed. Thank you.

Tim Gitzel, President & Chief Executive Officer

Thanks, Ed.

Operator

Thank you. The following question is from Greg Barnes of TD Securities. Please go ahead.

Greg Barnes, TD Securities

Yes, thank you. I guess, Tim, with the mine performing as well as it is and the mill, are costs are Cigar Lake tracking where you'd expect them to be at this point? Operating costs and CapEx?

Tim Gitzel, President & Chief Executive Officer

Sorry, Greg, yeah, they are. And, you know, with each incremental pound we produce it just gets better. And so those big tier-one assets like that, you want to run them at full speed. You've seen our technical report that set out some time ago we thought we could do it at full production under $20 cash unit costs and we think we can get there, and so that's, yeah, it's tracking to what we thought, Greg.

Greg Barnes, TD Securities

Okay, good. And secondly on the CRA, Grant, given you now have a date for the court hearing is there any suggestion or any discussions underway about settling ahead of that? Or do you think that can even happen?

Grant Isaac, Senior Vice-President & Chief Financial Officer

Well, not at the moment, Greg. You know, one of the challenges, and I think we've been really clear about this from day one, is that we just reject this view that there's something wrong with our overall governance structure, our overall intercompany structure, so we just challenge that notion, and as long as we're facing that kind of argument it just, it makes it difficult to figure out, you know, where there might be a saw off. If we see a softening of that argument, if we see a migration to more of a classic transfer pricing challenge like the IRS has presented to us, then I think it increases the chances we can have that kind of constructive conversation, but right now it just looks like a difficult prospect and we believe in our case and we think our case is very strong. We would obviously welcome an opportunity to have that kind of conversation but we just don't see it before us at the moment.

Greg Barnes, TD Securities

Okay. Thank you.

Operator

Thank you. The following question is from Oscar Cabrera of Bank of America Merrill Lynch. Please go ahead.

Oscar Cabrera, Bank of America Merrill Lynch

Thank you, operator. Good morning, everyone. Guys, I wonder if the changing in the federal government has any possible impact on the CRA. And I'm not going to ask you any questions on that.

Tim Gitzel, President & Chief Executive Officer

Thanks, Oscar.

Oscar Cabrera, Bank of America Merrill Lynch

On your CapEx disclosure for this quarter reducing from 405 to 385, these comments here that some of it has to do with timing, can you provide more colour on that? Because when we were in Cigar Lake there were comments about there's still spending to be done at McClean Lake and just wondering how should we think about the capital expenditures going forward for that and for McArthur.

Grant Isaac, Senior Vice-President & Chief Financial Officer

Yeah, Oscar, with respect to McClean Lake, you know, we've been talking about, I think since Q2, the requirement for a bit more capital to be spent at McClean Lake in 2016 to complete the mill. But what's interesting is a point that Tim made earlier that the run rate for McClean Lake in October was 1.5 million pounds in that month. So that's an 18 million pound production rate on an annualized basis, so obviously the good folks at AREVA are doing the work to figure out exactly what capital would be required for 2016 because the mill is performing very well. So, you know, I hate to put it in such a context but we're just still waiting for them to do that evaluation given the great performance of the mill.

The timing issues as they pertain to McArthur just around some of the work that's going on there for a surface freeze plant, for example, hitting milestones, everything's working to our plan it's just we're now at a phase now where some of that work can flip to an indoor mode. We've got the—the shell of the building is ready to go and so some of that activity is just going to flip into the next year, but it's not critical path or anything, just part of the overall spend at McArthur River. So no real, no real notable pieces in there in that CapEx change other than it's just come off a bit.

Oscar Cabrera, Bank of America Merrill Lynch

Okay, great. Thank you. And then could you provide colour on the long-term contracting market for uranium after the start-up of the first nuclear reactor in Japan? Have you seen any changes in behaviour from utilities or still looking at wait-and-see from their part?

Tim Gitzel, President & Chief Executive Officer

Yeah, Oscar, still a bit early obviously, as we said, as I said in the opening comments, you know, when I look back a year or even six months, we've talked about

Japan restarting their reactors since, probably since they went down in 2012, 2011/2012, and so to have the first Sendai unit come on and then the second was good news, but I think we need to see more. We've got another one coming—looks like just in the new year—a couple more approved that are in legal morass right now and hopefully will get out, 20 more lined up after that going through the NRA process. So that's going to take some time. So we didn't see a big needle move, if you like, after that, but that's just one piece of it. We needed that to happen. We need utilities to get a little bit less comfortable with the supply that's out there and just paying kind of bottom prices for near-term pounds and start thinking about the longer term, because I can tell you when you start looking at that it's a bit of a different story, bit of a different movie. We know there's 64, 65 reactors under construction today that are going to be coming on at a regular pace over the next years, in addition to what's going now. On the supply side, I still think that's the story and is going to be going forward is that, yes, Husab, the Chinese are moving that ahead, but after that not a whole lot. So we look out into the future and see ten years from now needs for 230 million pounds a year. Maybe we're wrong, maybe it's 220, 210, maybe it's a little bit more, I don't know, but that's more than today and I can tell you not all the producing properties that are producing today are going to be producing then. So that's what gets us up, I think as Grant says, that's what gets us up in the morning and brings us in here saying we can see the supply/demand fundamentals of this business are good going out a ways. Yeah, they're tight now, but they look pretty good going forward.

Oscar Cabrera, Bank of America Merrill Lynch

Great. Thank you, guys.

Tim Gitzel, President & Chief Executive Officer

Thanks, Oscar.

Operator

Thank you. The following question is from Daniel Rohr of Morningstar. Please go ahead.

Daniel Rohr, Morningstar

Good morning. How do you expect the uranium segment's purchase volumes to trend over the next several years? Should we expect any trend or would it be wholly depending on sort of what market opportunities might present themselves to you?

Tim Gitzel, President & Chief Executive Officer

Maybe I'll ask Grant to answer that. Grant, do you want to—?

Grant Isaac, Senior Vice-President & Chief Financial Officer

Yeah, you know, it's really your latter point. We're very opportunistic with any purchase opportunities. We like to sell uranium when the price is high. We like to actually buy a little uranium when the price is low. When you can look at a uranium price such that, you know, material that's already been explored for, already mined, already milled, sitting in a can somewhere in the mid-30s U.S. dollar, well, that's quite attractive. It's quite attractive relative to tier-two and tier-three cost of production. But we always look at it opportunistically. We look at it in the context of our sales commitments. So to say that there's a forecast number out there, I wouldn't go that far. Obviously having Cigar Lake performing so well, you know, 6 to 8 million pounds was our guidance at the outset of the year and it's 10 now and so that's a change for us as well. You replace purchases perhaps with those tier-one pounds. So that's very attractive for us so we're just going to watch that. And it's just all part of this tier-one strategy that we have to bring pounds from the best market assets.

Daniel Rohr, Morningstar

Great. And then could you refresh us a bit on your free cash flow priorities over the medium term? So as we see Cigar Lake ramp up and as hopefully we see some recovery in the uranium price what are the priorities for cash?

Grant Isaac, Senior Vice-President & Chief Financial Officer

Yeah, the priorities are kind of set out in that opening strategy statement that we have at the beginning of every MD&A. I mean we talk about ensuring our continued reliable low-cost production from McArthur River/Key Lake. And keep in mind we have the ability now to take McArthur River up to 25 million pounds a year on a 100 percent basis. So of course that remains an investing priority for us when we think about our free cash flow. We also want to ensure our continued reliable production at Inkai. Not so much from the point of view of pushing that Kazakh asset for higher production but making sure it's positioned for when the Kazakhs themselves recognize that there's new production that needs to come to the market and being part of that game. Obviously the ramp-up at Cigar Lake will still consume some of our time, some of our intention, and probably some of our investment to optimize, to make sure that that mine is really producing as well as it could be.

Then after that we're very patient with our capital. We've parked a number of our projects in what we call the bullpen. We're waiting for market signals to tell us that it's time to invest. It's kept us in a mode where we're living within our means. We're being very disciplined. Trying on one hand to be prudent to make it through this fog of Fukushima, as we've called it, but on the other hand position ourselves for the operating leverage that Tim was describing and we just look at it very simply as that operating leverage is best coming from leveraging our brownfield infrastructure, and those are those tier-one assets. Those are our priorities.

Daniel Rohr, Morningstar

Yeah, I'm familiar with the language at the front of the MD&A. Those are largely, as I read them, investing priorities. Is there anything you could offer on disbursement priorities, say to shareholders? Anything along those lines?

Grant Isaac, Senior Vice-President & Chief Financial Officer

Yeah, so you know the capital allocation approach we've taken for the last few years has been to say, you know, our contract portfolio gives us really good line of sight to our revenues. That line of sight to our revenues, as long as we're managing our costs, gives us a pretty good idea where those cash from operations are going to be. We then back out a couple of items. We've got a dividend comment to our shareholders and we have some interest that gets paid on our long-term debt. That leaves us with a residual amount of investible capital. What I was describing is the priorities for that investible capital. To date you've seen that those priorities have really consumed that amount.

If we found ourselves in a position where focusing on those tier-one projects didn't consume that investable residual capital then we would be having a conversation about what to do with it because, let's face it, those types of excess funds can only go in one of two directions. They can go into investing in our portfolio or back to our owners. We have frameworks that we have for the Board to look at the best way to disburse. We haven't had to invoke them yet, obviously, but it would require an analysis to talk about an increase to a dividend perhaps or what that sustainable dividend increase might look like or whether you go down the path of special one-time dividend or whether you actually turn a bit more and do a shareholder buyback. All of that up for negotiation when we find ourselves at that point. But right now we're convinced that investing in our tier-one assets has been a very good, wise decision for us. And, quite frankly, we're starting to see it pay off.

Operator

Thank you. The following question is from Chelsea Laskowski of Missinipi Broadcast. Please go ahead.

Chelsea Laskowski, Missinipi Broadcasting

Hi. I'm wondering on the effect of wildfires. I saw that in the last quarter it was not seen as, I guess, a big impact on the operations. I'm just wondering if there's anything that's come up in the time since kind of residual that's affected anything at your guys' mines in the northern Saskatchewan area.

Tim Gitzel, President & Chief Executive Officer

Hi, Chelsea. Nice to hear from you. Yeah, you were there. You know what we went through, I say we as a province here, especially the north and companies, through the end of June and almost to the end of July. I can tell you with those fires we were having here at our office, right in this room in fact, emergency response meetings every day, 9:00 a.m., 3:00 p.m. to deal with it, so just a great effort with the Government of Saskatchewan, with the northern leaders. So nothing new since then. We're through it obviously now and obviously there was some cost to us but certainly cost that we needed to incur. What was more important was the way the community came together. Our employees were—of course you know 50 percent of our employees are from northern communities, most of which were evacuated, so they were all over the place, and to be able to get them to work and keep the mines running, ah, roads blocked because there were fires on both sides of the road, couldn't get trucks up. We had convoys, 20 trucks, sitting just waiting for a green light to through the fire was quite a production here. But, no, we're through it now and we're very grateful that it wasn't even worse. And it was bad, but it could have been worse. Communities could have been taken down. So there's some rebuilding to do but we're through it and we're grateful for the great cooperation here in Saskatchewan.

Chelsea Laskowski, Missinipi Broadcasting

And I am wondering with the review, wildfire review that the province is doing, how much of a stake do you guys have in that?

Tim Gitzel, President & Chief Executive Officer

Well, we certainly have people involved, but it's being driven by the province, and so I'm sure they'll be consulting with us and we'll provide whatever added value we can to the process.

Chelsea Laskowski, Missinipi Broadcasting

Sorry, I just have one follow-up on that. With them, um, I guess what, as a company, would you want to see the province possibly change to make things more effective on your guys' end?

Tim Gitzel, President & Chief Executive Officer

You know, the province responded very well for us. We were in contact every day with them, whether it was the highways department, whether it was the northern affairs group, just to, you know—we were fortunate in the sense that our mining facilities weren't as directly affected, directly affected by the fires as the northern community. The fires were quite some distance, most times, from our assets. So it was more the northern community. So, you know, it is what it is in northern Saskatchewan. There are fires. I thought the province responded very well, cooperated well. I'm sure the communities would have some input into how that went but from our point of view the province responded well and we would tell them that given the chance.

Chelsea Laskowski, Missinipi Broadcasting

All right. Thank you very much.

Tim Gitzel, President & Chief Executive Officer

Thank you.

Operator

Thank you. The following question is from Fai Lee of Odlum Brown. Please go ahead.

Fai Lee, Odlum Brown

Hi. It's Fai here. Regarding the inventories and the increase this quarter I'm just wondering how should we view it in terms of like whether some of that increase will be reversing in the fourth quarter or how much of it is related to the ramp-up of Cigar Lake.

Tim Gitzel, President & Chief Executive Officer

Grant, do you want to take that?

Grant Isaac, Senior Vice-President & Chief Financial Officer

Yeah. Well, the inventory has built and I think you hit on some good reasons.

Production has been solid. Cigar Lake has been a theme this morning that we've talked about and certainly that contributes to it. The other thing about the inventory too is remember that it's measured in Canadian dollars and so when we made some purchases in U.S. dollars, value it, and this is a value of the inventory, you know, you see that FX effect. But we do have a busy fourth quarter coming up. We have a lot of deliveries to fulfil.

As we deliver into those contracts we do expect the inventory to come back down to a more typical level that you've become accustomed to with Cameco. So a bit of a bulge but I think what makes it a bit notable this quarter is that, you know, there's an FX effect layering on. As I said a bit earlier, having deliveries heavily weighted to the fourth quarter has been common for four years in a row now, but this time we're also seeing an FX effect on top of that, and a bit more production coming in from Cigar Lake, as we've discussed.

Fai Lee, Odlum Brown

Okay. And just as a follow-up, Grant, your commentary about 2004, I didn't quite catch what was going on there. Can you maybe just explain again?

Grant Isaac, Senior Vice-President & Chief Financial Officer

With respect to the CRA dispute?

Fai Lee, Odlum Brown

Yes.

Grant Isaac, Senior Vice-President & Chief Financial Officer

Yeah. Well, you know, I wouldn't be the expert. I'm going to look across the table to our Chief Legal Officer, Sean Quinn, on that. Just the point I made was that there was a notice of objection that needed to be filed by us. We've done that. We typically wait for a response from the CRA. We didn't receive that. And I would just say that 2004 sits in a bit of a legal limbo and I'm just going to ask Sean to add a bit more colour to that.

Sean Quinn, Senior Vice President, Chief Legal Officer & Corporate Secretary

Sure. And I really don't have too much colour to add. We did file our notice of objection. We're waiting for a response. It's held up in a couple of procedural issues within the CRA and so that year is simply not before the courts right now.

Fai Lee, Odlum Brown

So is there like a drop dead date before they have to respond or is it possible it may not even, yeah, where they can't pursue anymore?

Sean Quinn, Senior Vice President, Chief Legal Officer & Corporate Secretary

That possibility is out there but we expect that ultimately the crown will clear its position on that.

Fai Lee, Odlum Brown

Okay, great. Thanks.

Operator

Thank you. The following question is from David Snow of Energy Equity Inc. Please go ahead.

David Snow, Energy Equity Inc.

Yeah, good morning. You had, I think, said that supplies are holding up well but that they'll be coming down over time and I'm wondering ballpark how much, ah, how many pounds, million pounds would they be down in ten years if you saw the current price structure continue for the duration?

Grant Isaac, Senior Vice-President & Chief Financial Officer

Yeah, so we have—sorry, it's Grant. We have some disclosure out there. We do provide a bit of a ten-year market balance view. Our view is that, you know, with the demand that it's actually quite certain and actually quite predictable right now. You've got reactors under construction. Of course that is part of today's problem, under-construction, they're not consuming uranium, but they will be. 65 of them under construction, they'll be commissioning and firing up through this ten-year period. We see annual consumption going to about 230 million pounds. We see production a lot differently. As Tim mentioned earlier, we're in an environment where today's prices are not incenting future production. So we simply look at the production that's going on around the world, we say if it continues to face only sustaining capital and we continue to see a lack of replacement or growth capital, we see production actually trailing off, not hitting 230 million pounds a year but actually trailing off to around 140 million pounds a year. It's quite a big deficit. That's, you know, ten years out, 90 million pounds of uranium. You know, we've talked a lot about Cigar Lake so let's think about it in Cigar Lake terms. The world would need to explore for, discover, ramp up to full production four-and-a-half new Cigar Lakes. And so we ask ourselves is that work being done? Who's making those investments? And we look around and we don't see that happening. And that's part of what, as Tim said earlier, gets us really excited. We see a difficult spot market, we see a challenging mid-term market, but we see a fundamental that's really favourable and really encourages us to focus on these tier-one assets like we've been doing.

David Snow, Energy Equity Inc.

Well, some of that 140 million pounds versus 230 million pounds is supplied by secondary sources. What is the production now versus the 140 you just referenced?

Grant Isaac, Senior Vice-President & Chief Financial Officer

Yeah, so that that graph that we have in there is just primary production. Absolutely there will be secondary supplies but of course one thing about the nature of secondary supplies is they're finite. They only come to the market once. And what we've actually seen over the years is a drawdown of those big volumes. So, for example, we no longer have the HEU material in the market. When we think about it in mine terms, mine life was up in 2013. You know, we do have material we know coming out of strategic inventories, for example the U.S. Department of Energy, but they're working through what are their more fungible materials that come to the market and their secondary supplies beyond that really require them to either down-blend some highly enriched uranium, so additional processing, or to re-enrich tails, so additional processing. So we see some challenges to those secondary supplies. They really come down to at what price do you think they'll be in the market. So certainly we model secondary supplies going forward, you've seen that in our investor presentations, but we still have a gap. There's still a gap there beyond primary production, add in some secondary supplies that we think will be there, you still have a gap that we just don't see being filled today because of today's price environment.

David Snow, Energy Equity Inc.

Okay. Those charts are in your investor presentation?

Grant Isaac, Senior Vice-President & Chief Financial Officer

They are, yeah.

David Snow, Energy Equity Inc.

Yep. Okay, thanks.

Grant Isaac, Senior Vice-President & Chief Financial Officer

Thank you.

Operator

Thank you. The following question is from Graham Tanaka of Tanaka Capital. Please go ahead.

Graham Tanaka, Tanaka Capital Management

Yeah, guys, thank you. Wondering what your estimates are on the Japan overhang. That seemed to be a lingering problem, especially with some of the delayed restarts. How many millions of pounds are really out there? We can't seem to get a good answer. Thanks.

Tim Gitzel, President & Chief Executive Officer

Yeah, thanks, Graham. You know, it is hard to tell because we don't have the exact number. They keep that pretty close. But we knew, ah, we've been dealing with the Japanese for a long time and when things were good there, back before March of 2011, they would hold probably three to four years of inventory, ah, inventory at an annual consumption rate of 20 million pounds would be the 60 to 80 million pound range. We think since then they've probably added a couple years. They kept taking deliveries even through the post-Fukushima years. Now those would be diminishing, obviously, we weren't signing any new contracts with them, but they keep taking deliveries. So if you said somewhere in the neighbourhood of 100 million pounds, something like that, probably wouldn't be far off.

The good news is we haven't seen those pounds come back to the market. And we've said on previous calls and when we talk to you that the Japanese are clearly behaving like they're going to bring the units back on. And now we see solid evidence of that. We see two units, a couple more coming. They've spent billions, tens of billions getting the fleet ready to come back on. There's 20 plus 5, so 25 in the queue. I guess 23 in the queue for restart now. So, yeah, there's a healthy inventory there. I don't think they'll be coming back to the market any time too soon but, you know, the restart, if you can just take the question, the big overhang, if you like, over the last few years has been will the Japanese put inventory on the market, and so far they haven't.

Graham Tanaka, Tanaka Capital Management

The other thing that we've been trying to estimate and it's hard to do, and you of course have much better resources on that, is sort of the cheap incremental production coming from Kazakhstan, the in-situ method, et cetera. What do you think that that supply is and how long can they keep it up at the kind of cheap production?

Tim Gitzel, President & Chief Executive Officer

Well, you know, they've, of course their buildup of production has been astounding over the last 10 years, 10 to 12 years, going from basically nothing to, you know, they're in the 22,000 tonne range now. Certainly capable of incremental production. We think they could get to kind of 25,000 tonnes maybe by in the next couple years, 2016, 2017. But then, ah, it's not obvious that they can double that. First you've got depleting resources in some of the better ore bodies. We're in a good one. Our other friends, French and Japanese and Chinese and others, are in other ones. You know, it's a continuous drilling program. And so technically I think the better ore bodies are already being worked. And so can they increase production? I think they can to some extent. But it's not obvious that it would be a dramatic increase. You know, we see that... I mean the other piece is they're very savvy. We just met with them last week, very savvy marketers on the market. Now have 10, 15 years of experience in the market. And so they've held their production at the 22,000, 23,000 tonne range and I don't have any reason to think they wouldn't do that going forward.

Graham Tanaka, Tanaka Capital Management

Just curious why Cameco increased purchasing it looked like at an incremental cost of $47 a pound. Is that likely to continue at that purchasing level in terms of volume and at price? Because it seems to be above market. Thanks.

Grant Isaac, Senior Vice-President & Chief Financial Officer

Yeah, hi, Graham. It's Grant. Just with respect, first of all, to the volume, you know, our purchase program was set out driven by obviously opportunity, we thought we were seeing a market that actually had some pretty cheap pounds in it, but also at a time when we were guiding on a 100 percent basis 6 to 8 million pounds from Cigar Lake. So with that in mind we set out on some purchases. And of course Cigar Lake is performing very well, which will offset our need to make purchases. But also there's a bit of a hold problem, if you will, when you think about those purchases. You know, we make those purchases in U.S. dollars, we hold them in Canadian dollars, and we're going to sell them in U.S. dollars, but what you're seeing is the Canadian dollar value of those purchases. It's just an FX effect. We're not buying at $10, $12 above the market. I can assure you of that.

Operator

Thank you. The following question is from John Tumazos of John Tumazos Very Independent Research. Please go ahead.

John Tumazos, John Tumazos Very Independent Research

Do you anticipate changing your long run uranium price assumptions that you might use for, or discount rates, in evaluating projects or in terms of reserves or balance sheet? It's notable in the last quarter or so here in New Jersey the federal government auctioned 343,000 acres for a 3,400-megawatt windfarm on the South Jersey Shore seven miles offshore. In West Texas there's a 1,200-megawatt windfarm of First Solar near Fort Stockton, over 400,000 panels by one company with three or four or five other companies studying it. And three weeks ago Toyota proposed phasing out their gasoline engines prior to 2050 where there's all these renewable climate change environmental actions, even though natural gas is almost $2 and coal is almost free, et cetera. It's a difficult time to plan with all this climate change philosophic stuff. Even though it should play into nuclear, these other forms of energy, sun and wind, gain, et cetera.

Tim Gitzel, President & Chief Executive Officer

Yeah, John, thanks for the question, and it's a real good one, because that is something we watch closely. Clearly in the U.S. I'd say gas is probably the biggest competitor to nuclear. $2, $3 gas is, you know, you can bring on electricity production in less time, less upfront capital for sure, so we've seen over the last year or two lots of electricity generating facilities based on gas being built. A little bit cleaner than coal. Doesn't emit quite as much CO_2. And of course everyone is on the solar and wind search, parade if you like. That is intermittent power that operates normally at about 30 percent of the time, which you can't run a hospital or school, as we've said, on that, so you've got to have backup power for that, and in the

U.S. that seems to be gas and coal and others. For us, going forward, the U.S. remains a big customer. I think they have 99 or 100 plants still operating there. Looking at closures of maybe five or six but also five big new ones under construction and coming on. So it's pretty flat right now in the U.S.

The game for us and the game for the nuclear industry is certainly over in the Middle East and the Far East. Now China, India, South Korea, United Arab Emirates. Massive population growth, massive needs for electricity. I'm not sure they can answer that with some of the renewables, wind and solar, and so turning to nuclear. We see in China, a country ten years ago had basically no nuclear, today 50 plants either operating or under construction and lots more to come. And so, yeah, it's really, it's dependent on your situation. If you've got lots of options like America, I say America including us here in Canada, have now, you can make choices like that. Other countries don't have the suite of choices and opportunity that North America might have. We saw $20 million gas in Japan not long ago and in Asia, so that's a little trickier economics on that. So our focus and, you know, you see where the reactors are being built, countries, like I say, with large growing populations. They all want fridges and air-conditioning and stoves and iPads and iPods like the rest have and that requires a lot of power and governments have to provide that and that's where we see the market being going forward.

John Tumazos, John Tumazos Very Independent Research

Thank you very much.

Tim Gitzel, President & Chief Executive Officer

Thank you.

Operator

Thank you. The following question is from Steve Bristo of RBC Capital Markets. Please go ahead.

Steve Bristo, RBC Capital Markets

Yeah, thanks for taking my follow-up question. Just on the Cigar Lake target of 18 million pounds by 2018, should we look for production in the year 2018 to be that full 18 million pounds or is that like a run rate that's going to be reached by the end of 2018?

Tim Gitzel, President & Chief Executive Officer

I think the plan would be 18 million produced during the calendar year 2018. So, yeah, you can put that on your books.

Steve Bristo, RBC Capital Markets

Okay. And then just a quick follow up on costs. The top in your guidance in the uranium segment points to costs of C$38.10. You're currently running at C$39 a pound with costs in the last two quarters being in the 40s due to Cigar Lake. Are you still comfortable with the annual guidance which would require substantially lower costs in Q4?

Tim Gitzel, President & Chief Executive Officer

Yes, we are. Yep.

Steve Bristo, RBC Capital Markets

Okay. That's it for me. Thank you.

Operator

Thank you.

Tim Gitzel, President & Chief Executive Officer

Thank you.

Operator

The following question is from Orest Wowkodaw of Scotiabank. Please go ahead.

Orest Wowkodaw, Scotiabank

Hi. Thanks for taking my follow-up as well. Just given your comments on focusing on your big assets, um, has there been any thought about curtailing some of your smaller assets, say the ones in the U.S. that would not benefit from currency devaluation to kind of support the uranium market just given, you know, it's great that Cigar Lake is ramping up ahead of schedule but, you know, the last thing the market needs short term is more uranium pounds. Just curious on your thoughts.

Tim Gitzel, President & Chief Executive Officer

Yeah, Orest, obviously this management team I'm looking at sitting around the table a couple of years ago said we need to have flexibility in our operations. Flexibility can mean up or down. And so, you know, 2015 has been a bit of a game changer for us in the sense that, as I said, one year ago if we were sitting at this time we had almost no production out of Cigar Lake and didn't know what the future looked like. Today we have 8 million pounds, half our share, looking at 10 million pounds, and so when you have a contract portfolio in place that looks at 31 to 33 million pounds in sales a year and your production is 25 or 24, whatever our number was this year prior to revising it, then, you know, you need production from a lot of sources. And you need some of these pounds purchased that we're talking about today. We're re-evaluating almost daily or weekly now as Cigar continues to ramp up. We want those pounds in our portfolio. We want, ah, obviously the Inkai and the McArthur pounds are the low-priced pounds. We need Rabbit, we need the U.S. at this point, but it's something we evaluate clearly on a continuous basis and, as I say, we need to have flexibility up and down. We're watching the market to see when the improvement is coming, when the return to long-term contracting is coming, and then we'll make decisions on our assets.

Orest Wowkodaw, Scotiabank

Just as a follow-up, are all the mines free cash flow breakeven or better at kind of today's price and currency environment? Including sustaining capital?

Grant Isaac, Senior Vice-President & Chief Financial Officer

Yeah, Orest, it's Grant. Keep in mind we would do that analysis from our average realized price, not today's market prices. And when we do that analysis we still see good performance. We still see room for those pounds. But, as Tim was saying, with Cigar Lake performing so well there's a bit of a displacement opportunity there and it accelerates a conversation and analysis around flexibility. And, you know, I think Tim used the term game changer earlier and I don't think it's an understatement. I think the focus on the tier-one strategy is really starting to pay off for Cameco.

Orest Wowkodaw, Scotiabank

Thanks very much.

Operator

Thank you. The following question is from Greg Barnes of TD Securities. Please go ahead.

Greg Barnes, TD Securities

Thank you. Is your view on when uncovered requirements start to become more pressing for the utilities, I know it's always been on like a three-year rolling view, is that beginning to stretch out? Because some numbers out recently, I guess it's from Ux, about the inventories held at the utility levels. They seem to be expanding quite significantly.

Tim Gitzel, President & Chief Executive Officer

You know, Greg, I guess there's been a few factors. I know you get the sense that it's rolling out, I think we have that sense too, and the reason for it, I think, is Japan. We probably overestimated how quickly Japan or underestimated how long it would take to bring the Japanese units back on.

I guess one benchmark that we use, and I think we've talked to you and others before about it, is our own portfolio of contracts that we have in place where we say we're heavily committed through 2018 but then it opens up after that. We see that as a bit of a proxy that, you know, the utilities would be, and since we're involved with most of them, would be in similar shape and that there's some uncovered requirements out in the 2017, 2018 and going forward period, and so that's where we see it now. We continue to read the tea leaves and watch Japan. As I say, if we can kind of freeze that situation and move it aside there's some, you know, some good construction going on, new reactors coming on monthly or quarterly at least that are going to be requiring uranium in addition to the existing fleet, so see demand going up and so at some point I think there's going to be a switch from discomfort in the short-term market, the spot or even this mid-term market, to where utilities that want to run their machinery for the next 20 or 30 years are saying, you know, I better start looking at security of supply going forward, because if Cameco is right in 2024 and the consumption is 240 million pounds and there's only something significantly less than that coming on, we better lock up some pounds. So we wait for that day to come. I wish I knew when that day was but I think it's not too far out in the future.

Greg Barnes, TD Securities

Okay. I just look at some of these numbers, the EU utilities hold 41 months of inventory according to these numbers and that's well above the 24 to 30 months they've previous held. And the U.S. holds 30 months, above the 12 to 18 months they normally hold. So are those numbers that you would agree with?

Tim Gitzel, President & Chief Executive Officer

Grant, do you want to speak to...?

Grant Isaac, Senior Vice-President & Chief Financial Officer

Yeah. Greg, we obviously look at that a lot. I mean really it's consistent with the message that we've been giving for some time now, which is it's a discretionary market. We have an opportunity, utilities have an opportunity here. They feel well covered over the next couple years. They go into the spot market when they think they see cheap uranium and they buy a bit and if it starts to put some price pressure on, they back out of the market and all along they're just tucking a little bit more of that finite spot material. But really what matters for us is where that run rate volume is coming from. Not that inventory number but where is your annual supply of uranium coming from. That's what's derived from the uncommitted requirements line that Ux Consulting and others put out. We think that that really starts to open up, you know, in the 2020 window you should have a world that's consuming somewhere between 180 and 200 million pounds of uranium and only about 60 percent of that is currently contracted for, according to Ux's own numbers. Those are big volumes and they're not going to be satisfied by a couple million pounds here and there that you've tucked into your inventory and it's that look that gets us pretty excited. We look at our contract portfolio and we say, you know, we can wait it out. We can wait for that return to term, fundamental term contracting, at a real replacement rate. I mean we haven't seen that since Fukushima. And so the spot market is just consistent with that message we've been delivering, that it's near to term, it's a buyer's market, it's a discretionary market, and we just see that continuing.

Greg Barnes, TD Securities

Okay. Good. Thanks very much.

Tim Gitzel, President & Chief Executive Officer

Thanks, Greg.

Operator

Thank you. This will conclude the questions from the telephone lines. I would like to turn the meeting back over to Mr. Tim Gitzel for his closing remarks.

Tim Gitzel, President & Chief Executive Officer

Thank you, operator. I have to say that as excited as we are to see the good progress being made at Cigar Lake, we're also excited to see dates for the CRA litigation being fixed now so that we have some, perhaps, end in sight, I'm looking at Sean Quinn, to the CRA litigation. We'd love to put that behind us.

So thank you, operator. I'll just close by noting that we are patiently waiting for the industry to recovery but that doesn't mean that we're being complacent. We remain focused on keeping our costs down and running our operations safely and efficiently in order to maintain the flexibility needed to respond quickly when the market improves. Our strong production and continued success are indicative of our ability to continue to achieve those goals.

So, with that, I'll say thank you to all of you for your continued interest in Cameco and have a great day.

Operator

Thank you. The Cameco Corporation third quarter results conference call has now ended. Please disconnect your lines at this time. We thank you for participation and have a great day.
