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Tim Gitzel
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CONFERENCE CALL PARTICIPANTS

Orest Wowkodaw
Scotiabank

Greg Barnes
TD Securities

David Wang
Morningstar

Edward Sterck
BMO Capital Markets

Chelsea Laskowski
MBC News

Graham Tanaka
Tanaka Capital Management

Andre Quail
Goldman Sachs

Fai Lee
Odlum Brown

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Cameco Corporation First 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, John, and good afternoon, everyone. Thanks for joining us. Welcome to Cameco's first quarter conference call to discuss the financial results.

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

If you joined the conference call through our website event page you will notice there will be slides displayed during the remarks portion of this call. These slides are also available for download in a PDF file called "Conference Call Slides" through the conference call link 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. 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 first quarter results. We appreciate you taking the time to join us.

The most significant news this quarter is the announcement we made last week that we are suspending production at our Rabbit Lake operation and that Cameco Resources is deferring further well field development in the U.S. These were difficult decisions to make because of the impact on people and on their communities, but they were necessary to maintain the long-term health of the company in today's challenging market.

It's no secret to anyone that times are tough for uranium producers today. The market has been depressed for over five years now with low uranium prices, very little long-term contracting, and more supply than the market needs. In the years following Fukushima, we had anticipated that things would get better sooner. For a variety of reasons that didn't happened and we are yet to see a recovery and uranium prices. And although we continue to believe there's a bright long-term future for nuclear, we have to prepare for a market that could remain low for even longer.

So far Cameco has remained somewhat insulated from the effects of low market prices thanks to our solid portfolio of contracts. But over the next few years in a world where the timing of a recovery in the uranium market continues to be uncertain and where there's global financial uncertainty, we have to be conservative to maintain a strong balance sheet and focus our resources where they will add the most value.

We believe the decisions we have made are the best way to do that. We expect these changes to help us continue to control costs and to stay competitive in a market that could remain low for longer. The operational changes at Rabbit Lake and in the U.S. will also, not surprisingly, result in decreased production for the year; however, the McArthur/Key Lake operation is also contributing to this decrease. There we decided to reduce our 2016 production target from 20 million pounds to 18 million, equivalent to 12.6 million pounds our share.

We will put the additional downtime at the mill to good use. We plan to do work needed to eventually increase production capacity so that we'll be ready when the market signals more supply is needed. This includes changes to the solvent extraction circuit, bringing work on the crystallization circuit forward from 2017, and transitioning to the new calciner. Overall, our total production outlook has decreased from 30 million pounds to 25.7 million pounds for the year.

For the quarter, our results were reflective of a very quiet quarter in the market and the variability in our delivery schedule. Production volume was higher than the same period last year, which is due to the continued ramp up at Cigar Lake. We're very pleased with the continued strong performance at Cigar Lake, which we will continue to ramp up over the coming months with the expectation of achieving full annual production of 18 million pounds in 2017.

Our sales volumes were down somewhat from this time last year, which is common for us. You've heard us say before that our quarterly deliveries are often what we call lumpy throughout the year. Customers decide when in the year they want their material and, as is often the case, their requirements are generally more heavily weighted to the latter part of the year. So we're seeing that again but we are on track with the annual delivery guidance released last quarter.

We recorded an adjusted net loss for the first quarter compared to adjusted net earnings in the first quarter last year. That's partly to do with foreign exchange continuing to have an effect as well as lower gross profit from our uranium and NUKEM segments tied in part to the lower deliveries. When it comes to NUKEM, we had much lower sales volumes than in the same period last year. That is purely the result of a lack of good opportunities in today's market.

Overall, market activity in general was extremely light during the first quarter this year. We simply didn't see the kind of profitable opportunities that meet our requirements and until we do we won't be selling those pounds. Putting it all together, what we're seeing is a difficult market that has been low for longer than anyone expected and could remain that way for some time yet. We have to prepare for that possibility and we have. We've refined our strategy to focus on assets that return the most value while remaining flexible so we can stay competitive in any market conditions and we've put that flexibility into practice to focus on our tier-one assets.

Of course, over the long term we believe good things are in store for the industry. We know there's a huge amount of growth in reactor construction being led by China, India, and South Korea, all of which have reactors under construction. We know there's going to be growth in uranium demand as these new reactors come online over the next number of years. And we know that supply will struggle to keep up as investment in new projects is just not happening, existing projects are being deferred or cancelled, and existing supply is being curtailed. So over the long term we remain optimistic.

I think with that I'll stop and we would be happy to answer any questions you might have.

QUESTION AND ANSWER SESSION

Operator

Thank you. We will now take questions from the 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 your 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. Our first question is from Orest Wowkodaw of Scotiabank. Please go ahead.

Orest Wowkodaw, Scotiabank

Hi. Good morning. I was wondering if we could get a bit more colour in terms of—there seems like there's a big change in your tone in regards to the near- to medium-term outlook for uranium, just sort of curious in your view what's changed in the last three months to kind of formulate that view.

Tim Gitzel, President & Chief Executive Officer

You know, Orest, I don't think there has been really. If it sounded like that it might have had to do with the difficult decisions we had to take last week. That was tough for us, for all of us. Anything that involves our people is a tough thing to do. But I don't think our view has changed. We still see it tight in the short to medium term. Longer term looks good. We're watching the usual things, Japan, China. I was just over there a couple weeks ago. Really nice story over there. Good growth. I think there's about 32 reactors operating now, which is up from last time, 22 under construction. Japan still slower than we'd hoped. We're waiting for a return to long-term contracting. That's probably the biggest story over the last couple of years. So I don't think there's a change in our tone, just that last week maybe was tougher, a tougher week for us and one that we had to do.

Orest Wowkodaw, Scotiabank

And with your Japanese customers, I mean since they're sitting on a lot of inventory, are you seeing them take a pause from re-contracting as those current contracts run off? Is that fair?

Tim Gitzel, President & Chief Executive Officer

Yeah, clearly. Clearly, Orest, they've been sitting it out. We've been seeing them continue to respect contracts that were signed in the past, which is good but nothing new coming out of Japan.

Orest Wowkodaw, Scotiabank

I see. And are you still expecting to buy nine million pounds this year from a purchase perspective or is that... I mean I guess you did five million in Q1 alone; is it possible that number could even be higher than that?

Tim Gitzel, President & Chief Executive Officer

I think we talked about nine and there's no change from that, Orest.

Orest Wowkodaw, Scotiabank

Okay. Thank you very much.

Tim Gitzel, President & Chief Executive Officer

Thank you.

Operator

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

Greg Barnes, TD Securities

Thank you. Tim or Grant, can you put the production curtailments you've announced into some kind of context relative to where the oversupply sits in the market currently?

Tim Gitzel, President & Chief Executive Officer

Well, Greg, I'd just say that, you know, this is going to take us a few months. We've stopped the mining activities at Rabbit. Our plans were to produce around four million pounds there. U.S., it's a little bit of a different story. We have to gradually wean that off. And so, you know, you're talking about taking four or five million pounds of production, steady reliable production out of the market. We'll see what effect that has.

It was just the right decision for Cameco. We, with the ramp up of Cigar Lake, McArthur is running well, our Kazak operation is running well, we had access to pounds there, low-cost pounds, and in connection with the inventories we're carrying and some of the purchase pounds we can fill our supply requirements with those pounds, and so that's the move we made. We'll see what happens going forward but it was the right call for Cameco.

Greg Barnes, TD Securities

So the various industry consultants seem to suggest that the oversupply annually right now is somewhere around 25 million to 30 million pounds. So your curtailments of seven million pounds of total capacity still is a long way away from enabling the market to rebalance. Is that fair?

Tim Gitzel, President & Chief Executive Officer

You know, it's something that, as I say, you can probably do your analysis on that. What you'd have to count in there is the growing demand as well. You know, demand is going up. We see it going from around 165 million, 170 million pounds today to 220 million pounds. So that's going up by 2 percent, 3 percent a year. Supply has been flat.

We've made a move now that was the right move for Cameco so we'll see where things go. We know there's pent up demand in the system but we just don't know the timing of when that's going to come forward. So we like the supply/demand fundamentals over time but right now, yeah, it's still an oversupplied market and we're preparing for the low for longer scenario. If it's not as long then good for us, we'll do very well.

Greg Barnes, TD Securities

Okay. Thanks, Tim.

Operator

Thank you. The next question is from David Wang of Morningstar. Please go ahead.

David Wang, Morningstar

Hi. Thank you for taking my question. Just a question on the costs. So you're taking out what some of what we would consider to be maybe higher cost tonnage from the U.S. and the other operation but you haven't changed your guidance for average unit cost of sales per uranium unit. Is there something that's offsetting those higher cost tonnes coming offline or is something else going on?

Tim Gitzel, President & Chief Executive Officer

David, I'll let Grant speak to that.

Grant Isaac, Senior Vice-President & Chief Financial Officer

Yeah, it's a great question, and obviously over time replacing higher cost pounds with lower cost pounds will have a positive effect. Right now you see our average unit cost of sales guidance for the year remain where it was. The key driver there is, yes, we'll be replacing some pounds from those tier-two production sites, but we have purchase material in there. It's not just produced material that gets into that average unit cost of sale or that overall inventory cost that we have there for it. So, on balance, not enough to shift that cost of sales profile, but to the extent that the market remains soft and to the extent we continue to produce for our committed volumes but produce exclusively from tier one assets, then you would see a positive effect there.

David Wang, Morningstar

Great. And what sort of pricing environment will we need to see before you think about bringing back Rabbit Lake and the U.S. operations to where they were before? We will just have to get back to what we saw last year or would things need to be even better than that?

Tim Gitzel, President & Chief Executive Officer

David, it's Tim again. We said, I think the word we used was significantly, and you can start that with a capital S probably, significantly higher prices than you're seeing certainly on the spot market today even on the term market. We've seen others speculate that you're going to need a price that starts with a seven in there. We saw with some of our Australian assets a few years ago where there was a $67 price. Like I say, that was a few years ago. So you're talking in that range. We wouldn't quibble with any of those numbers. It has to be significantly higher than it is today.

David Wang, Morningstar

All right, great. Thank you.

Tim Gitzel, President & Chief Executive Officer

Thank you.

Operator

Thank you. As a reminder, we ask that you please limit yourself to one question and one follow-up.

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

Edward Sterck, BMO Capital Markets

Hi there. Thanks very much. So I'm going to ask, well, I'll start with a starting question. The CRA dispute has been, in terms of going to court, has been delayed by a month. Can you provide any colour around that?

Tim Gitzel, President & Chief Executive Officer

Yeah, Ed, it's Tim. I'm going to pass that over to Sean. Maybe you can just give a bit of an update to Ed on where the CRA piece is at, the litigation.

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

Sure. There was modest delay ordered by the court in when the trial starts, Ed. I think we went from September 26th to the first full week in October. So it's not a full month by any stretch. The trial is still scheduled to run throughout the fall with closing arguments now scheduled for March of next year. So no significant changes in the trial schedule overall. And, just as an addendum to that, we continue to prepare for trial and that's where our efforts are concentrated right now.

Edward Sterck, BMO Capital Markets

Thank you very much. And then just a follow-up question on the CRA dispute: Can you give us an indication of how the timeline comes out between now and then going to court in terms of events? And then, you know, I guess it's fairly open after that but possibly how long things will take thereafter.

Tim Gitzel, President & Chief Executive Officer

Sean?

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

Sure. Well, as I mentioned already, we continue to work to prepare for trial. A significant effort is required with that in connection with preparing expert reports and testimony and all the other stuff that goes along with that. The trial will run, as I said already, from October through March of next year and then we await a court decision. And it's a bit speculative but we're guessing anywhere 6 to 18 months for a court decision, but we really have no control over that.

Edward Sterck, BMO Capital Markets

Okay, thank you.

Tim Gitzel, President & Chief Executive Officer

Thanks, Ed.

Operator

Thank you. The next question is from Chelsea Laskowski of MBC. Please go ahead.

Chelsea Laskowski, MBC News

Hi. All right. So first question is a two-parter. First of all, I talked to a supplier, the trucking company that works with

Cameco's Rabbit Lake and your other mines in the area earlier and they'd said that you usually do a five-month shutdown at this time of year. Can you confirm that?

Tim Gitzel, President & Chief Executive Officer

Well, Chelsea, it's Tim. We have four different sites that we operate in northern Saskatchewan and each one of them takes different maintenance shutdowns, so it wouldn't be unusual for us to have a shutdown at one of the sites during this time period. So that would be normal.

Chelsea Laskowski, MBC News

Okay. And I guess, just as a follow-up to that, with that in mind do you see that Rabbit Lake closure making a big change in the next quarter?

Tim Gitzel, President & Chief Executive Officer

Well, it's going to take us a while at Rabbit Lake to wind things down. We think over the next several months that we'll—we want to put the assets into safe care and maintenance mode. We're going to need our people to help us do that.

I was up there last week Thursday talking with them and just explaining what the process looked like going forward. So that will take us some months to do.

Chelsea Laskowski, MBC News

Okay. Thank you very much.

Tim Gitzel, President & Chief Executive Officer

Thank you very much.

Operator

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

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

Graham Tanaka, Tanaka Capital Management

Hello. A couple questions. First off, I just want to try to get a bit of a read or a fix for next year, so with the wind down of the operations it appears that the cost per pound would be going down. Is that correct? And roughly by how much?

Tim Gitzel, President & Chief Executive Officer

Grant, do you want to talk to that?

Grant Isaac, Senior Vice-President & Chief Financial Officer

Well, we don't have any guidance for the costs for next year. We'll put out guidance for next year in our average unit cost of sales line of our outlook table but, yeah, we haven't put anything out there for the 2017 period.

Graham Tanaka, Tanaka Capital Management

The other thing sort of related to that is the maintenance cost to keep operations for Rabbit Lake and even in the U.S. What is that annual? I saw a number of $40 million. Does it cost that much to maintain the operations while not producing?

Tim Gitzel, President & Chief Executive Officer

Yeah, Graham, that's our estimate at Rabbit right now. I think we said $45 million. We'll see. We're going to need, I think, about 150 people. Obviously we will try to reduce those to the extent we can while keeping the assets, as I said, in a safe care and maintenance mode. So we'll do what we can to reduce those costs.

Graham Tanaka, Tanaka Capital Management

I guess I was wondering if the contracts, the long-term contracts, and then with the lower cost tier-one assets producing if that benefit of lower cost per pound being produced is going to be more than absorbed or more than offset by the maintenance cost with no associated revenues. In other words, everything being equal next year, assuming no price change, would profit be, roughly be flat.

Grant Isaac, Senior Vice-President & Chief Financial Officer

Graham, it's Grant. Sorry to be evasive on this. We don't have guidance out for 2017, which is, in part, the problem of not being able to answer this question. I mean when you step back and you think about our flex strategy, what we were up to here with focusing on the tier-one assets and being able to replace tier-two costs with tier-one costs, it was to focus on that gross margin and try to improve that. Obviously taking assets off is not costless. If it was you'd see probably more production come off right around the commodity space. But it does cost to do that so you have to, careful analysis obviously has to go into that. When it comes time to put out our 2017 guidance, we absolutely will, but at the moment we just don't have numbers out there for you.

Graham Tanaka, Tanaka Capital Management

Thank you.

Tim Gitzel, President & Chief Executive Officer

Thanks, Graham.

Operator

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

Orest Wowkodaw, Scotiabank

Hi. Thanks for taking my follow up. Just curious your, sorry, your guidance here for the CRA, the $1.5 billion to $1.7 billion liability, just curious why the bottom end of the guidance actually decreased and if you can give any colour that we'd appreciate it.

Grant Isaac, Senior Vice-President & Chief Financial Officer

Just a bit of context that you know, Orest, but just a reminder I guess, in order to arrive at that number we have a lot of voluntary disclosure out there, because we have actually only been reassessed for 2003 to 2010 with 2004 sitting in a bit of a procedural limbo. And then what we've done to arrive at that number is make assumptions about 2011, 2012, 2013, 2014, and 2015, and it's just going through the process of trying to make sure those assumptions are accurate and figuring out, you know, best estimates on what we think the CRA may or may not do is what affects that end number and it does move around a little bit as we change our assumptions.

So it's nothing substantive, I would say. It doesn't represent a fundamental change in what we think the CRA is doing from a reassessment point of view but just perhaps a bit of a reduced financial exposure in those outer years.

Orest Wowkodaw, Scotiabank

Okay. And just following on that, I think you previously mentioned there could be an option for non-binding arbitration. Is that—can you remind me who has the right to trigger that and whether that's something you're considering? Thank you.

Tim Gitzel, President & Chief Executive Officer

Sean, do you want to answer that please?

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

Sure. I'd love to. I don't think we mentioned non-binding arbitration. There is a provision under the tax court rules where this dispute is being heard where either party, the crown, CRA or us, can invoke a court mediated, not arbitrated but mediated, settlement discussions for a judge, who would be other than the judge who hears the case. So it's kind of a formal mediation process before the judge who listens to both sides and then makes suggestions. It becomes mandatory if either party requests it. It's not imposed on the parties otherwise. We haven't requested that process to date and obviously the crown hasn't. So that process is there but it hasn't been invoked by either side to date.

Orest Wowkodaw, Scotiabank

Thank you very much.

Tim Gitzel, President & Chief Executive Officer

Thanks, Orest.

Operator

Thank you. The next question is from Edward Sterck of BMO. Please go ahead.

Mr. Sterck, your line is open, sir.

Tim Gitzel, President & Chief Executive Officer

Yeah, it's Ed Sterck. You there, Ed?

Edward Sterck, BMO Capital Markets

I am. Sorry, I must have been on mute. Can you hear me now?

Tim Gitzel, President & Chief Executive Officer

Yeah, we can hear you, Ed.

Edward Sterck, BMO Capital Markets

Okay, great. So firstly with NUKEM, obviously the quarter was quite different to previous ones. Is there any change to the market conditions or business model that are making it more challenging than in the past?

Grant Isaac, Senior Vice-President & Chief Financial Officer

No, Ed. You know that we think of NUKEM as being an opportunistic player in the spot market so in order to be that there has to be opportunities. And Q1 was just very quiet. We just didn't see the right opportunities for NUKEM and therefore didn't pursue them and, as a consequence, their quarter ended up very quiet. You will see though that the annual guidance for their sales has remained. In other words, we think we still see some demand opportunities in the remainder of the year and therefore we haven't changed that overall annual guidance, just reinforce that the opportunities weren't there for NUKEM.

Edward Sterck, BMO Capital Markets

Okay, thank you. And then just in terms of a follow-up question, should market conditions allow how quickly can Rabbit Lake be restarted and the U.S. ISL operations be ramped up again and between now and that potential future point should we expect any increase in D&A for the U.S. ISL operations or possible write-downs of Rabbit Lake?

Tim Gitzel, President & Chief Executive Officer

So I'll take the first part and then I'll pass it over to Grant but, you know, when we ramp down and put things in safe care and maintenance it takes us a while. We would estimate—I'm looking at Bob Steane—12 to 18 months probably to bring those assets back into production, something like that. So it's not a—this wasn't a decision we took lightly for sure. We looked long and hard at this and we will put them in safe care and maintenance but it would take us about that long to bring back.

Grant, do you want to talk about the—?

Grant Isaac, Senior Vice-President & Chief Financial Officer

Yeah, absolutely. So obviously the announcements on those assets are subsequent events to Q1, so that gives us some work to do in Q2 here to look at the carrying value of those assets. And with respect to Rabbit, we actually have taken a few impairment charges, one on the mine, one on the mill in the past, so we'll do the work necessary to find out if there's any further impairments there. Similarly for the U.S., we'll have a look at the carrying value and assess the resources that are available and the productive capacity that's available against market expectations and determine if an impairment charge is warranted. So we'll continue to do that work and that will be revealed in Q2.

Edward Sterck, BMO Capital Markets

Great. Thank you very much.

Tim Gitzel, President & Chief Executive Officer

Thanks, Ed.

Operator

Thank you. Once again, if you have a question, please press star one at this time. As a reminder, we ask that you limit yourself to one question and one follow-up. The next question is from Andrew Quail of Goldman Sachs. Please go ahead, sir.

Andrew Quail, Goldman Sachs

Good afternoon, guys. Thanks for taking my question. I've got a couple. I mean I think the action taken last week was prudent and necessary. I think it's the right decision for shareholders. You know, if we see that uranium prices obviously stable at $30, you know, what do you guys think you could do next in terms of capacity cuts if it came to that?

Tim Gitzel, President & Chief Executive Officer

Well, Andrew, we're not looking at that at the moment. I think, as Grant just outlined, we're pretty content where we're at as we move to production from our tier-one assets. These assets some of the lowest cost in the business, with those and the pounds we have we're able to fill our contractual commitments, and so that puts us in a really good space. I would just say I think we are where we want to be. We're filling our sales commitments from tier-one assets, we see demand growing, production being curtailed in some spots, secondary supply hopefully diminishing, we're on a path, as Sean talked about, to resolving the CRA case, and the company is still strong and healthy in a weak uranium market. So we are where we're at. We'll continue every day to watch the market and see where things are at but we're in a pretty stable place at the moment.

Andrew Quail, Goldman Sachs

So no more cuts.

Tim Gitzel, President & Chief Executive Officer

Not at the moment. We had, as I say, a tough week last week. We brought off the production. If we thought we had more we probably would have done it last week. So we're comfortable where we're at. Thanks.

Andrew Quail, Goldman Sachs

Okay. Next one is on M&A. I suppose if you guys, you know, obviously are the big player here, you know, and you mentioned at the start of the call that you've been (inaudible), unlike many of your other peers. Do you sort of see this down market as an opportunity maybe to take advantage of any external opportunities that might present itself?

Tim Gitzel, President & Chief Executive Officer

Well, we're not aggressive on that, Andrew, at the moment. I think we've got a great suite of assets. We're focusing now on our tier one. We've got some room to ramp those up when the time is right and we're preparing for that. So we like the space we're in and, quite frankly, there's nothing out there that really wets our appetite at the moment so we're holding steady to where we're at.

Grant Isaac, Senior Vice-President & Chief Financial Officer

Yeah, I would just add to that as well, Andrew, I mean you've watched Cameco quietly acquire some material in the market in the last couple years, and those are pounds that have come in cheaper than the cost of tier-two production, cheaper pounds than anything we could have bought at the asset level, carry no operating risk with them and are there to deploy when we think the market is going to reward us for those pounds. So in some way that has been our approach there. Those have been very attractive opportunities, especially relative to anything that might have been available in the M&A space.

Andrew Quail, Goldman Sachs

Okay. Thanks, guys.

Tim Gitzel, President & Chief Executive Officer

Thanks, Andrew.

Operator

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

Fai Lee, Odlum Brown

Hi. It's Fai here. I'm just wondering about your foreign exchange hedging strategy. It looks like you've hedged out most of the exposure through this year. Does that go beyond 2016? Just wondering how the strategy works.

Tim Gitzel, President & Chief Executive Officer

Fai, I'll let Grant talk about our long-term hedging strategy.

Grant Isaac, Senior Vice-President & Chief Financial Officer

Yeah, I certainly can. I don't want to, gosh, I don't want to launch into a huge lecture, but you're asking about the strategy so let me just start from kind of the top point, which is, you know, we hedge for cash flow certainty, but obviously one of the challenges we have is trying to tell a cash flow story through an earnings lens. And the reason we take this approach, obviously, is U.S. dollar denominated revenues and mostly Canadian dollar costs and we want to build the certainty around our spending activities on an annual basis, not be caught short because of foreign exchange fluctuations on those spending plans.

So, as a result, from a strategic point of view we employ a smoothing and trailing approach to our FX, which the first majority of the time serves us very well, but in times of rapid changes in FX values like we've seen over the last 12 months there's obviously a divergence and it takes time to kind of catch back up to that divergence, which then results in an IFRS treatment, which is simply marked to market. You just take that entire derivative book and you pretend that it's going to wind up today and you say what's your exposure? Is it a gain or a loss? Of course we don't think that really captures the core performance of that hedging strategy, so we have a few adjustments built in there. So what we do is not explicit hedge accounting but we proxy for it. So in true hedge accounting we would match up every single FX contract with a specific uranium sales contract. We don't do that; instead, we kind of proxy or designate a certain amount of those FX contracts for the current period.

So the current period reflects both the cash settlements of the contracts in that period plus what we would consider realized that we've designated to this period and we've pushed the rest out over time because, as you say, we layer them on over time out as far as three years. In this designation, we do it on a percentage basis, and every current period not only captures the realized for this period but it also has to capture the designations we've made in the past for this period, and so there's this constant roll forward. So if there's a strategy, it's one of cash flow certainty, and if there's a challenge it's telling this cash story through an earnings lens, and that's where we find ourselves.

Fai Lee, Odlum Brown

Okay, great. So that explains why the $0.01 change has a different impact on the cash flow versus earnings then.

Grant Isaac, Senior Vice-President & Chief Financial Officer

Absolutely. Yep.

Fai Lee, Odlum Brown

Okay. Thank you.

Tim Gitzel, President & Chief Executive Officer

Thanks, Fai

Operator

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

Greg Barnes, TD Securities

Thank you. Grant, your response to Andrew's question about M&A and acquiring pounds in the market is interesting. Does it mean you've built up more inventory than you'd normally carry over the last couple of years?

Grant Isaac, Senior Vice-President & Chief Financial Officer

We have not made purchases that would be beyond what is normal. If you look at the purchases we've committed to in the last several years and look at that over the past five years, there's nothing unusual about it. What is a bit different obviously is that the HEU material was coming in before and we had sales volumes well above our produced volumes, but with the performance at Cigar Lake, for example, our produced volumes have gone up. Now with the decision we've taken on our tier-two volumes we have the opportunity to replace our term commitments, our contract commitments, you know, with produced material from a lower-cost asset like Cigar Lake but also to replace it from pounds we acquired in the market that are cheaper than what our tier-two costs would have been. So for us it's been a good opportunity to acquire what we think is real value in the market with only cash costs, no non-cash costs, and no operating risk attached to that as well.

Greg Barnes, TD Securities

So you've normally carried about six months of inventory on hand. Is that still the level that you're working with now?

Grant Isaac, Senior Vice-President & Chief Financial Officer

We're above that right now as we've taken advantage of some of these good opportunities but of course our inventory is also subject to the lumpiness that we have in our normal markets. When sales are below production and purchases our inventory goes up and it's working its way through over time. Of course acquiring NUKEM has also added inventory to our balance sheet that we wouldn't have had in the past. So we still have that target of kind of that six months forward inventory. We've seen a few good opportunities to add to that but now that we've made a curtailment decision we see a way to replace some of those pounds under the contract commitment.

Greg Barnes, TD Securities

Okay. Thank you.

Tim Gitzel, President & Chief Executive Officer

Thanks, Greg.

Operator

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

Graham Tanaka, Tanaka Capital Management

Yeah, I just wondered if you could elaborate a little bit on your outlook from the reactors coming on stream and whether there was a change in your outlook for how fast the China and India reactors come on and whether U.S. shutdowns are happening any differently as well as the Japan restarts. I know there's a lot there but wondering if those three things affected your decision. Thanks.

Tim Gitzel, President & Chief Executive Officer

Yeah, not much change, Graham, in that regard. The numbers changed because there's been some new reactor start-ups. I think our numbers show about 441 operable reactors today, 61 under construction, so one's gone up, the other one's come down a bit. As I said, I was just in China a couple weeks ago and good news there, 32 operating, 22 under construction, and the important part was we talked to the big utilities and they're still on track for their 58 units or gigawatt if you like by the end of the decade, by 2020, with another 30 under construction. That's the good news story. So we were just sitting the other day calculating the uranium requirements in China. If you want to, you know, you want to go to those numbers and have several, we're not sure what their inventory policy is but first cores plus inventory, and you keep building, bringing six to eight per year on in China, yeah, they're going to need some inventory and it's going to be obviously a really important place to play. So we're talking a lot, let me say it that way, with the Chinese.

Japan has been slow. You know, they got the first Sendai unit going last August 2015, two of them now, and then had some more units approved and come on and now have backed them off. There's some legal challenges. That's just going slow. We know there's, I think, 26 reactors in the queue to come on. Those are good numbers. Over time, that many come back, we think even a few more, that will be a good news story for Japan, but it's just taking a long time.

And the last piece I think you said was a U.S. flat. We see it flat. 99 reactors today, a lot of them getting 20-year life extensions, in fact just about all of them. A few at risk in merchant markets. Competing with gas is tough in those markets. But also some being built. Some big new units being built down in the southeast corner of the country and so we'd say the U.S. is flat right now.

So, overall, not much change to our picture. It's a growth story, it's a good story. That growth requires more uranium at a time when, well, you've saw some curtailment, you've seen a bit in the past, and not a whole lot of capital going into new projects so we like those fundamentals going forward.

Graham Tanaka, Tanaka Capital Management

Thank you.

Tim Gitzel, President & Chief Executive Officer

Thank you.

Operator

Thank you. As a reminder, we ask that you please limit yourself to one question and one follow-up.

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

Orest Wowkodaw, Scotiabank

Hi. Thank you for taking so many questions today. Just a little bit more clarity on the care and maintenance costs at Rabbit of $40 million to $45 million, what happens, you know, if Rabbit is on care and maintenance for several years? Can you give us a sense of how those maintenance costs trail off over time or do you think they're going to stay at that level indefinitely until this thing restarts?

Tim Gitzel, President & Chief Executive Officer

I'm going to ask Bob Steane, Bob's with us, to answer that question. Bob?

Bob Steane, Senior Vice-President & Chief Operating Officer

Orest, the outlook today is we'll get through the shutdown this year, get into that care and maintenance state and see what the costs are, then they'll probably be fairly stable, and the reason is the state of the mine and the state of the Rabbit Lake operation that we're keeping is, one is there's always water. So our water treatment capability has to keep operating. So we'll always be pumping and treating water. So a portion of the mill is running, which is treating the water. We're keeping the mine dewatered. We're not flooding the mine so we've got water being pumped from the mine. We also need ventilation running in the mine to keep the mine so it's accessible. So those are the leaders and what drives the care and maintenance costs is really keeping a mine dewatered, ventilated, and available, and then treating all the water and so on. So, unlike one would think perhaps, you shut something down and all you're doing is walking around watching it, there's things happening. So once we reach that stable state, is it $45 million, is it $35 million, we need to work that through, but when it gets there it would stay at that level.

Orest Wowkodaw, Scotiabank

So are you suggesting it might stay at that $40 million level indefinitely?

Bob Steane, Senior Vice-President & Chief Operating Officer

Well, until we make another decision.

Orest Wowkodaw, Scotiabank

Okay. Fair enough. Thank you very much.

Tim Gitzel, President & Chief Executive Officer

Thanks, Orest.

Operator

Thank you. The next question is from Edward Sterck of BMO. Please go ahead.

Edward Sterck, BMO Capital Markets

Thanks very much. I note that Orest got his third question in before me but I think I'm still—

Tim Gitzel, President & Chief Executive Officer

That's a good one.

Edward Sterck, BMO Capital Markets

So I was just asking, ah, I was just interested in a bit more information on the term market. My view here is that price discovery is somewhat limited and also in terms of, you know, transactions when they occur, the information there is somewhat challenging as well. All of this sort of anecdotal evidence is that transaction volumes are declining or at lows in the term market but I was just curious as to whether Cameco is still signing term contracts right now. And I know you probably won't give a price indication but the long-term price is $44. Is that sort of where things are really happening?

Tim Gitzel, President & Chief Executive Officer

So, Ed, Grant's been spending a lot of time on the market side over the last nine months so, Grant, do you want to talk about the term market?

Grant Isaac, Senior Vice-President & Chief Financial Officer

Yeah, happy to. The term market has been quiet. I mean you referenced it and it is a fact over the last three years there's just been enormous amount of deferred demand that would normally have been in the term space. You know, over 450 million pounds of uranium consumed in that period and only about 35 percent of that replaced in the term market. It's just, it's really a function of a strong price off sentiment that fuel buyers continue to have. You know, they look at some of the factors that Tim outlined and they see some of the short-term challenges to the market, which for them are opportunities obviously, they're looking at the other end of the telescope, and they don't feel like there's a need to kick start the term market yet so we've seen this deferred demand be pushed out into the future and we've seen a very quiet market. You asked about price discovery. Are there deals getting done at that price? Well, we can't point to a lot. Certainly none by us. The only term business that we did of any significance was the announcement with the Indians last year. And that was on market-related terms, it wasn't on fixed price terms because we said consistently to our customers these are not prices that we think are indicative of uranium going forward and so we're not willing to part with our uranium. And as long as we have our contract portfolio protection we don't have to chase the market down and that, I think, is reflected in Tim's point that we're where we want to be, meeting our current commitments with tier-one production and not being forced to chase this market down.

Edward Sterck, BMO Capital Markets

Thank you. And so I guess my follow-up question then would be, you know, if we think about those legacy higher-priced contracts, you know, when should we think about those beginning to roll off and, you know, I guess other producers making similar decisions in terms of shuttering production as they don't have the higher-priced contracts to deliver into anymore?

Tim Gitzel, President & Chief Executive Officer

Ed, I think our price table gives a bit of an indication where we're at. I think we're well covered through 2018 into 2019. So, you know, we've got a few years in front of us and we're watching that closely and we think in that period of time we'll see some better days ahead. So that's, as I say, recovered through, certainly through the 2018 period.

Edward Sterck, BMO Capital Markets

Okay. Thank you very much.

Tim Gitzel, President & Chief Executive Officer

Thanks, Ed.

Operator

Thank you. The next question is from David Wang of Morningstar. Please go ahead.

David Wang, Morningstar

Hi. Thank you for taking my follow up. I just wanted to ask another question related to the market. So with the decline in prices have you seen any indication from other producers that they're going to delay or put off projects that would add supply in the future? I'm just trying to get a gauge of when you see the sort of surplus leaving the market. I imagine with lower prices you're probably not the only one that's considering taking some volumes out and how that impacts the market balance in the out years.

Tim Gitzel, President & Chief Executive Officer

Yeah, David, obviously you'd have to check with them to see what their plans are going forward. We took decisions that we thought were in the best interest of Cameco and we're, you know, those are tough decisions. When you're in a company with a lot of people and those affect people, those are tough decisions. So we took those. What other producers will do, you may want to check in with them.

David Wang, Morningstar

Thanks.

Tim Gitzel, President & Chief Executive Officer

Thank you.

Operator

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

Tim Gitzel, President & Chief Executive Officer

Well, thank you, operator, and I'd just close by acknowledging again that times continue to be tough for our industry. These challenges are real and at Cameco we are and we have to remain proactive to remain competitive, and we'll do that. We also think that the positive outlook over the longer term is also real and in some ways each passing year makes that long-term story even more positive. The longer we think investment in new uranium project suffers, the less supply there's going to be to compete with the likes of McArthur, Cigar, and other projects in a rising market, so that's what gets us up and keeps us excited about this business. So we will carry on and I want to say to each of you thank you for your continued interest in Cameco. Have a good day. Thank you.

Operator

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

Q1 Results Conference Call

Q1, 2016

Cameco

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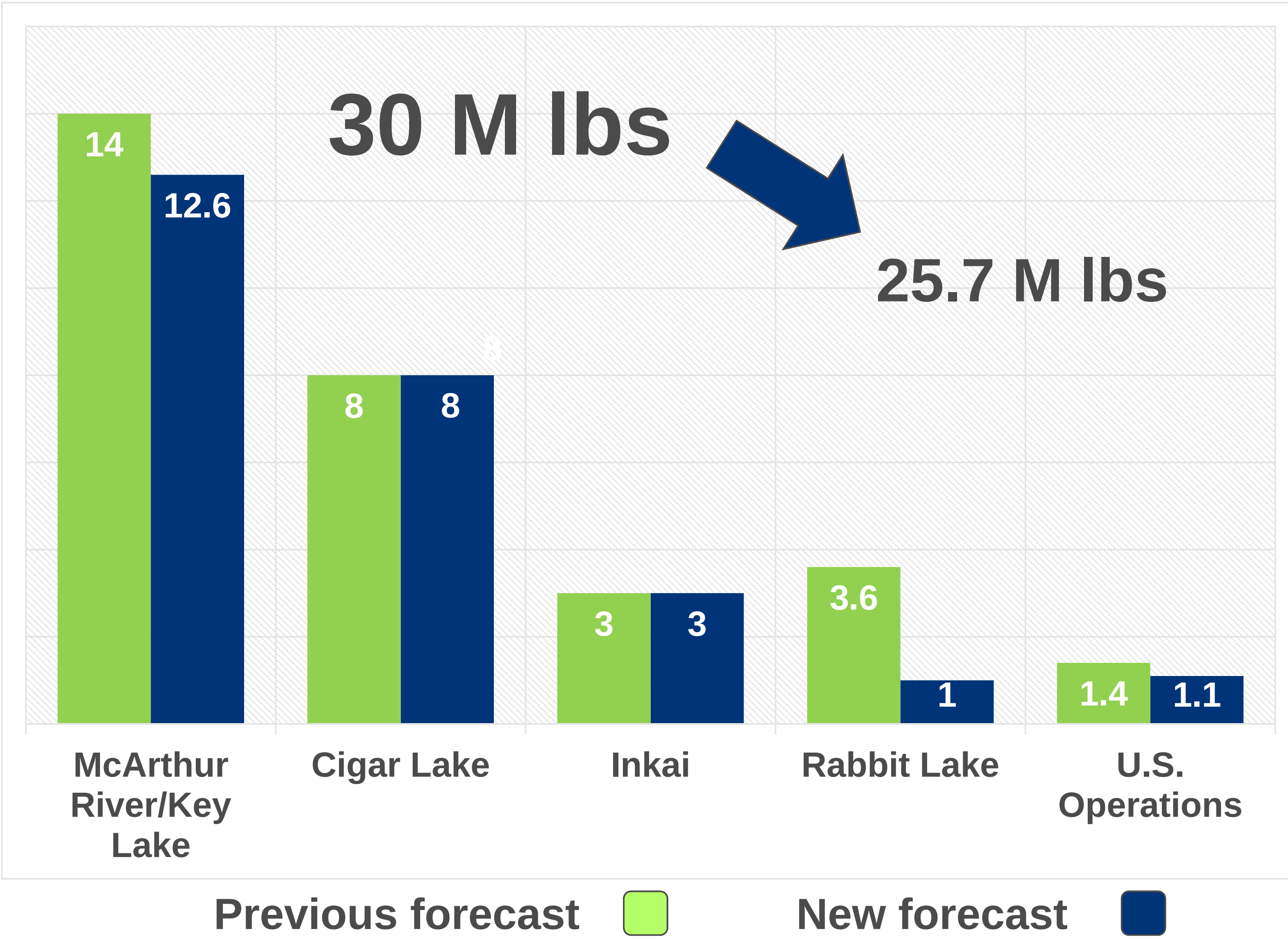
Production Outlook (M lbs)



Quarterly Results

	Consolidated		Uranium		Fuel services		NUKEM	
	Q1 2016	Q1 2015	Q1 2016	Q1 2015	Q1 2016	Q1 2015	Q1 2016	Q1 2015
Production	-	-	7 M lbs	5.1 M lbs	3.3 M kgU	2.6 M kgU	-	-
Sales volume	-	-	5.9 M lbs	7 M lbs	2.3 KgU	3 Kg U	0.05 M lbs	2.5 M lbs
Revenue	$408 M	$566 M	$347 M	$368 M	$59 M	$66 M	$2 M	$97 M
Average realized price	-	-	$58.29	$52.74	$26.18	$22.11	$39.32	$38.14
Net earnings	$78 M	$(9) M						
Adjusted net earnings*	$(7) M	$69 M						

*Adjusted net earnings, a non-IFRS measure, should be considered supplemental in nature and not a substitute for related information prepared in accordance with IFRS. Other companies may calculate this measure differently. A reconciliation of adjusted net earnings to net earnings is available in Cameco's March 31, 2016 Annual Discussion and Analysis.

All dollar amounts in Canadian dollars

Tier-one Strategy

- **Focus on assets that return the most value**
- **Retain flexibility to weather and respond to market conditions**
- **Expect more stability in unit cost of sales**
- **Mitigates risk in event of prolonged uncertainty**

Positive Long-Term Fundamentals

- Increasing energy demand
- Substantial rector growth
- China and India – fast paced growth
- More reactors means more uranium needed
- Supply being deferred and cancelled

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Conclusion

- Market uncertainty continues
- Strong long-term fundamentals remain
- Cameco focused on tier-one strategy

Cameco