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Jim Ostroff
Platts Nuclear Publications

Daniel Horner
Nuclear Intelligence Weekly

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Cameco Corporation Second Quarter Results Conference Call. I would now like to turn the meeting over to Mr. Cory Kos, Manager, Investor Relations. Please go ahead, Mr. Kos.

Cory Kos, Manager, Investor Relations

Thank you, Valerie, and good afternoon, everyone. Thanks for joining us and welcome to Cameco's second quarter conference call to discuss the financial results.

With us on the call today we have Tim Gitzel, 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 and then we'll open it up for your questions.

If you joined the conference call through our website events 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 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 will turn it over to Tim.

Tim Gitzel, President & Chief Executive Officer

Well, thank you, Cory, and welcome to everyone on the call today. We appreciate you taking the time to join us to discuss Cameco's second quarter results. I'll start with

some brief remarks and then I'll turn it over to our Chief Financial Officer, Grant Isaac, for additional details on our financial results. After that we'd be happy to take your questions.

I think I can say that Q2 2016 has probably been the toughest quarter in the toughest market we've seen in the last decade and our results for the quarter reflect just how challenging the market environment for our industry continues to be. Uranium demand remains low and uranium prices depressed. In the second quarter the market remained quiet with contracting volumes even lower than last year at this time. As a result, we saw both the spot and long-term uranium prices fall to new ten-year lows. In fact, the spot price for uranium has fallen 66 percent since the Fukushima accident, including a 25 percent decrease since last year at this time. It's not difficult to see why. There's been no real catalyst to kick-start a significant change to the current conditions. Progress on the restart of Japan's reactors remains slow as utilities work their way through the new regulatory framework and also due to the court injunctions imposed on several reactors in the final stages of their restart process. Consequently, there's been no change in the number of operating reactors in Japan since the first quarter. And as long as the bulk of their reactors remain shutdown, uranium inventories continue to grow. This at a time when demand is lower overall and supply continues to perform well. Add to this the announcements of premature reactor shutdowns, mainly in the United States, which is also adding extra pressure to the supply/demand equation.

Within that context, we at Cameco continue to look for ways to remain competitive. Our strategy is to keep our production flexible and focus on our lowest cost assets. That strategy is what led to the production curtailments we announced last quarter. The benefit of those actions will not be evident in our financials this quarter, instead, as was expected, we saw an increase in our unit cost of sales and our administration costs, partly as a result of workforce restructuring and care and maintenance costs. As well we incurred a write-down at Rabbit Lake, which was one of the primary drivers of our net earnings results in the second quarter. But over time we expect these decisions will help us remain competitive in an uncertain market where we simply don't know how long the weak conditions will persist. On the production side I'm happy to say our operations continue to perform well. We had no major operational issues to report for the quarter and production volumes were all on target or slightly better. As a result, we remain on track to meet our target of 25.8 million pounds of production for the year. When it comes to sales volume, our deliveries have been light for the first half of the year, which is normal. We have contracts to

deliver 30 million pounds to 32 million pounds in total this year but just when they are delivered is based on when customers call for them. As usual, those deliveries are heavily weighted to the second half of the year.

For the rest of our outlook, we are on track with our revenue and cost guidance, although there were some changes to NUKEM's outlook for this quarter. We have revised our sales guidance for NUKEM down, which will, of course, affect the segment's revenues. This combined with the write-downs in NUKEM's inventory this quarter will impact gross profit for the year. The reason for the adjustment is the same as we noted for NUKEM's decreased sales volumes last quarter, we're just not seeing opportunities in the market. That's the reality of the market we're in today but over time we believe that will change. China's new build program is going strong, as is South Korea's and India's. So far this year five new reactors have started up, including three in China, one in South Korea, and notably one in the U.S., the first new one in 20 years. Those new reactors and the many more that are expected to come online over the next decade will drive an increasing demand for uranium. So over the long term we remain optimistic. We know that investment in new supply will be needed but at today's uranium prices that investment is just not happening. So we're continuing to focus on our strategy to deal with today's very real challenges, to sustain our business through this extended downturn, and to remain flexible so we can respond when the market improves.

So, with that, I'm going to turn it over to Grant Isaac for a further discussion of our results. Grant?

Grant Isaac, Senior Vice-President & Chief Financial Officer

Thanks, Tim.

I wanted to take a moment to put our financial results into an appropriate context and to disentangle our poor performance from some of the other notable items affecting the quarter. It might be useful to think about two types of notable items, those that are mark-to-market driven by the fall in the uranium price and those that are charges resulting from strategic decisions that we have undertaken, for example, production curtailment and restructuring. As Tim noted, this was probably the toughest quarter in the toughest market that we have seen in the last decade. Market activity was light and uranium prices continued to face downward pressure. Some of the market-related contracts we delivered into during the quarter were affected by the weaker uranium market prices but overall our contract portfolio continued

to provide good protection for us, delivering an average realized price of almost 60 percent higher than the average spot right for the quarter. Our earnings this quarter were affected by our uranium segment sales, but this was more a function of the timing of deliveries, which is dictated by our customers. As we had guided, our contract deliveries were low for the quarter, following the lumpy delivery pattern we expected. Our deliveries are again heavily weighted towards the end of the year and that is when we will deliver the bulk of the 30 to 32 million pounds of uranium specified in our annual guidance. This is uranium that we have under contract to deliver. It is not uranium that we had yet to sell.

Looking at costs, we were able to lower our unit cost of inventory primarily as a result of lower production costs. The decrease in production costs can be attributed to our strategy to focus on the lowest-cost operations, which saw us curtail production at our higher-cost operations last quarter. Of course, the remarkable progress at Cigar Lake is also a significant contributor to the reduction in production costs; however, that good news was hard to distinguish since curtailment does carry with it some costs. Those costs are accounted for in the cost of goods sold for the quarter, which increased. We charged almost \$39 million in care and maintenance and severance costs directly to cost of sales. So despite what looks like deteriorating results, at the core our uranium segment remains solid. Our contract commitments for the remainder of the year will see us deliver between 19.5 and 21.5 million pounds of uranium. Our contract portfolio will continue to provide price protection from weak market prices and our annual cost guidance remains intact, despite the noise in this quarter. So once we work our way through these restructuring activities, the strength of our core business will be more apparent.

I also want to touch on NUKEM's core performance, as well as other notable items impacting the NUKEM segment in the quarter. Like our uranium segment, NUKEM sales are affected by the variability in customer requirements. In addition, the ongoing weakness in the uranium market has meant fewer profitable opportunities available to them. As a result, sales revenue and gross profit to the end of June are lower than a year ago, reflective of the weaker market conditions. This has led us to reduce our sales and revenue guidance in that segment. If we look at NUKEM's gross margin, cost of product sold is up for a couple of notable reasons that fall into the mark-to-market category. As we sell inventory acquired when we purchased NUKEM in 2012 we have to allocate a portion of the premium we paid to acquire those pounds to cost of sales. There is no cash impact from doing this but it does impact the reported margin in the quarter in which those sales occur. The other item

affecting cost of sales was the mark-to-market adjustment of NUKEM inventory in the quarter as a result of the weakening uranium price.

I want to cover a number of other notable items as well. These remaining notable items are best characterized as charges that impact this quarter as a result of strategic decisions that we have undertaken. While admin costs appeared to increase, both for the quarter and year to date, if we back out a number of these notable items the actual run rate of our administration spend has decreased as a result of the cost-cutting measures we have implemented. These notable items are related to the signing of a collaboration agreement, which provides us with ongoing support from the communities closest to our operations; the restructuring of NUKEM; legal costs as our CRA dispute progresses toward trial; the consolidation of corporate office space; and corporate office changes resulting from the curtailment of production at Rabbit Lake and in the U.S. These decisions will benefit our costs over time and we are continuing to evaluate corporate office functions to look for further cost saving opportunities. Combining our mark-to-market related notable items with the strategic notable items results in approximately \$0.25 per share of negative impacts to our earnings. As such, our core quarterly performance may be thought of as approximately \$0.11 per share of earnings, which is in fact a performance consistent with a quarter that saw low deliveries of 4.6 million pounds, as guided.

Finally, I'll quickly touch on the CRA tax case. As our MD&A demonstrates, there is really not much change. We are continuing to prepare for trial starting in October. To date neither party has requested a court mediated settlement discussion although we continue to anticipate that such discussions will take place before the trial begins. Our view of the case has not changed. We continue to be confident that we will be successful and look forward to presenting our case at trial.

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

Tim Gitzel, President & Chief Executive Officer

Thank you, Grant, for that update.

Operator, we're delighted to take any questions that anyone might have.

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

Our first question is from Rob Chang with Cantor Fitzgerald. Please go ahead.

Rob Chang, Cantor Fitzgerald

Good afternoon, everyone. Two questions. First off, details on the cancelled contract. I haven't seen many of these and I was just wondering what the details on that are and would we be expecting to see more of things of that nature. And the second question being could I get a little more detail on the increase in the tax recovery guidance. It's jumped quite a bit and I saw a small note on it but I was wondering if there could be more detail provided on that as well. Thanks.

Tim Gitzel, President & Chief Executive Officer

Rob, it's Tim. I'll take the first one and then pass it over to Grant. So that was a customer that we had that decided they didn't want future delivery under their contract and I think it shows the strength of our portfolio, they came to us to crystallize it in the near term and paid it out in cash. So a good-news story for us.

Grant?

Grant Isaac, Senior Vice-President & Chief Financial Officer

Yeah, absolutely. On the tax recovery guidance, it really is, as the note says, and I don't have much more detail other than it's just a function of where our earnings occur. In a year where we have Canadian production ramping up with Cigar Lake and in a year where we're taking

significant cost curtailing another Canadian production at Rabbit Lake we end up with some losses, if you will, that we book against our Canadian filing position, and then that ends up translating into a recovery for us. So that's what's changing that recovery outlook, Rob.

Operator

Thank you. Our next question is from Edward Sterck with BMO. Please go ahead.

Edward Sterck, BMO Capital Markets

Hello, everyone. So I've got a few questions. Just starting on the termination of contracts and the payout from those, I'm just wondering is that revenue going to be reported as an exceptional item or is it just considered normal course revenues? I guess in that case it would be paid out before contract. And what would the impact on future delivery commitments be then? And also, in terms of the utility, is this a Japanese utility we're talking about?

Tim Gitzel, President & Chief Executive Officer

Grant, do you want to answer that?

Grant Isaac, Senior Vice-President & Chief Financial Officer

Yeah. Well, let me start with the last. As part of the settlement we committed to not disclosing who the utility was and so we won't be doing that, nor will the utility be. It will be reported in our Q3 earnings and the precise segment that it will appear in is yet to be determined but it will be a benefit to that segment. And what I mean there is whether it's uranium or our fuel services division. And the impact on future deliveries, effectively it's a take or pay, so they're out from under the obligation to take those future volumes but we're okay with that given the value that were able to get in the near term. So, yeah, it will open up a bit of our contract commitments, but not materially, as you've seen in our disclosures.

Edward Sterck, BMO Capital Markets

Okay, thank you. And then just to ask a follow-up question, the unit cost of sales guidance for the uranium division for the year, which is obviously unchanged, I'm just wondering if that guidance includes the \$38-odd

million of care and maintenance costs that were included in cost of sales in the current quarter.

Grant Isaac, Senior Vice-President & Chief Financial Officer

Yeah, it does. Yep. So that's the average unit cost of sales guidance so it would include care and maintenance cost. That's one of the things that gets added back above just the run rate production costs, and on an annual basis that guidance has remained, so we're looking to that up to 5 percent increase over last year's average unit cost of sales and holding to that at this point.

Edward Sterck, BMO Capital Markets

Okay. Thank you very much.

Tim Gitzel, President & Chief Executive Officer

Thanks, Ed.

Operator

Thank you. Our next question is from Orest Wowkodaw with Scotiabank. Please go ahead.

Orest Wowkodaw, Scotiabank

Hi. Good afternoon. I guess, you know, getting back to the same issue, the contract termination for \$47 million, have you had—does this open up kind of Pandora's box now? Have you had other inquiries from your customers to try to, I guess, cancel these take-or-pay contracts? And what—do the utilities have any ability to defer their deliveries beyond this year? Obviously it looks like they've deferred them to late this year but is there anything that allows them just to defer those deliveries into next year or the year after given how weak the market is?

Tim Gitzel, President & Chief Executive Officer

Orest, it's Tim. This is a bit of a one-off. This certainly isn't any pattern that we're seeing. As Grant explained, we were able to crystallize it, which worked pretty well for us. You know, we talked about in the past on calls the Japanese, in the early days we did some deferrals, but

we haven't seen anything lately in that regard, so just a bit of a one-off.

Grant Isaac, Senior Vice-President & Chief Financial Officer

Yeah, there would be, it wouldn't be unusual in a uranium contract to have some flex where customers can defer a bit of the commitment out to future years, but ultimately over the end of that contract they have to take that full volume typically and so, yeah, there might be some in-year movement but the overall effect on our contract portfolio tends to be negligible. You know, it's not a surprise that there are some utilities out there that are either delayed in construction programs or maybe early shutdowns of their reactors might find themselves in a position where they want to talk about those volumes, but I think ultimately you're seeing the strength of our contract portfolio that it doesn't turn into a conversation about cancellation. And we would only defer if it made sense for us, if we were able to see the value for it and it made sense, and in this case it did.

Orest Wowkodaw, Scotiabank

But, you know, just following up on that, how do you get comfortable that you can still maintain that guidance of 30 million pounds to 32 million pounds deliveries if there is some wiggle room in terms of contract delivery timing?

Grant Isaac, Senior Vice-President & Chief Financial Officer

Well, in fact you're actually hitting on the reason why it is a range. It is a range because there is that wiggle room, if you will, on an annual basis. But as we look at what's left in this year, the 10.5 that we've delivered so far and the remainder for the rest of the year that's under contract, that guidance hasn't changed because we remain confident that we will deliver those volumes. And just to emphasize the point, to achieve that level of sales does not require us to go out and sell a bunch of material. This is already under contract for delivery.

Orest Wowkodaw, Scotiabank

So this guidance assumes no spot sales.

Grant Isaac, Senior Vice-President & Chief Financial Officer

Yeah. So if we made discretionary end-year sales it would be additive to that, it's just in a market like we see today we're not desperate to jam material into it.

Orest Wowkodaw, Scotiabank

Okay. And can you comment on what you're seeing in terms of re-contracting? You know, it seems like there's a bit of a stalemate in the market right now between producers and utilities. Any comments you could provide? Thank you.

Grant Isaac, Senior Vice-President & Chief Financial Officer

Yeah, it continues to be a very quiet market, Orest, as Tim had mentioned. So far year to date you're looking about 21 million pounds contracted in the term market and about 18 million pounds in the spot market, so tracking to another particularly low year. And you use the term stalemate, it is a good one. I think we're still facing a fuel buying community that really believes there's a price-off bias and, quite frankly, they've been right, if you watch the fall in the uranium price. Tim had mentioned 66 percent down since Fukushima, 25 percent just since last year. So we do see this sense of a price-off bias. We, on the other hand, look at the long-term fundamentals and we say new supply has to be incented. We've got a contract portfolio that protects us, we're taking steps to ensure Cameco's profitability through these difficult markets, and we just are not ready to part with our uranium at today's prices.

Orest Wowkodaw, Scotiabank

Thanks very much.

Tim Gitzel, President & Chief Executive Officer

Thanks, Orest.

Operator

Thank you. Our next question is from Paul Luther with Bank of America Merrill Lynch. Please go ahead.

PT Luther, Bank of America Merrill Lynch

Hi, Tim and Grant. Thanks for taking my questions. Can we start—I wanted to get a sense of uranium held in inventory, how it's changed in the past quarter and if there's a risk of an inventory write-down there.

Grant Isaac, Senior Vice-President & Chief Financial Officer

So, PT, when we think about inventory, obviously you see and have seen over the last little while NUKEM's inventory is sensitive, is quite sensitive to the uranium price and so we have seen some NRVs associated with that. And of course they get reversed when the uranium price increases. But I suspect you're talking about the overall uranium bucket. We have a different accounting approach. So NUKEM has specific identification and therefore has that vulnerability to the uranium price. On the Cameco side we have single-bucket inventory and so all our purchases and all our production go into the same bucket. When we focus on tier-one production obviously we end up with some attractively costed pounds going into that bucket, helping keeping that level or that value in the bucket, even in a good position in today's market. So from a risk point of view, no, that's not a risk that we'd be prepared to identify.

PT Luther, Bank of America Merrill Lynch

Great, thanks for explaining that. And then you showed a grade of cash production drop, right, this year, year over year of 40 percent. I just want to get a sense, is that really from Cigar Lake coming on and the mix shift in terms of where production is? Is that level, do you think, sustainable?

Tim Gitzel, President & Chief Executive Officer

Yeah, absolutely. That's Cigar ramping up to the levels it is, performing very well, and taking Rabbit Lake out of the mix. The combination of those two is going to put us on a good path and, yes, we believe it is sustainable going forward.

PT Luther, Bank of America Merrill Lynch

Great. Thanks for taking my questions.

Tim Gitzel, President & Chief Executive Officer

Thanks, Paul.

Operator

Thank you. Our next question is from Ralph Profiti with Credit Suisse. Please go ahead.

Ralph Profiti, Credit Suisse

Good afternoon. Thank you. Grant, based on six months of sales in inventory as kind of the long-term goal, you know, the carrying value that we're seeing on the balance sheet on inventories, the revised guidance and seasonality, how long would it take for you to return those inventory levels to what you would consider kind of long-term optimal levels?

Grant Isaac, Senior Vice-President & Chief Financial Officer

It's a great question and it's absolutely tied to market evolution. I mean this is not a market where we're interested in mobilizing those inventories. They arose from a couple of different things, as you'll recall. I mean in 2014 when we saw some attractively priced pounds in the market, that was a time when I think Cigar Lake was at about 400,000 pounds of production and of course the following year it hit 11 and then this year just excellent performance. So we were thinking about material back in those days differently, and also knowing that curtailment was something that was possibly coming to Rabbit Lake and U.S. ISR. We saw pounds that we thought were priced cheaper than the tier-two cost of production and carried no operating risk. We acquired those pounds. We still think they're attractive. They're a key part of operating leverage when the market starts to be demand driven, and that's exciting for us. At the moment we have no plans to mobilize it until the market starts to incent us to do so. So when you say how long, it really is all eyes on the market, watching those factors that are going to turn around and make this a demand-driven industry.

Ralph Profiti, Credit Suisse

Grant, second question: Would you venture to sort of take an estimate? Because when we think about inventory leakage and this inventory flow back into the market, how much uranium do you think is sitting in the hands of, you know, less long-term oriented players, be it

traders and hedge funds and whatnot, financial players? Do you have a sense of that amount?

Grant Isaac, Senior Vice-President & Chief Financial Officer

You know, Ralph, I wouldn't have a good number. If I made a few general comments they would be along the lines of, and you see it with NUKEM, you know, you might have some of the intermediaries in the market actually being slightly longer than they're comfortable with being and, you know, that's just a reflection of folks believing that there would be a turnaround and a transition to a demand-driven industry a bit sooner. But these are small amounts in the hands of those types of groups. We're not talking about massive inventories. I think the sentiment, if you will, really points to Japan. As long as those Japanese reactors aren't running it's creating real material in the market through differed demand and through enricher underfeeding and then it's creating the sentiment overhang because we know that they have a big inventory and I think folks are just wanting to know a little bit more about that restart process and a little bit more about how long it takes to get up to a reasonable run rate number and until then it looks like they're really long on uranium. So that's probably more of the sentiment-driven piece than the intermediaries at this point in the market.

Ralph Profiti, Credit Suisse

Got it. Thanks, Grant.

Tim Gitzel, President & Chief Executive Officer

Thanks, Ralph.

Operator

Thank you. Our next question is from David Wang with Morningstar. Please go ahead.

David Wang, Morningstar

Hi. Thank you for taking my question. I have another one on the contract. So you guys mentioned it was a take-or-pay. Would your profit still have been higher if the contract was fulfilled? I'm just trying to get a sense of if

that contract pricing was higher or lower than the average in your portfolio.

Tim Gitzel, President & Chief Executive Officer

David, that's not something we would disclose. Obviously there was a negotiation associated with it. We looked at what the value would have been had it run out and we wanted to make sure we retained that value and we did and so that's what I can tell you on that contract.

David Wang, Morningstar

Okay. And then on the secondary markets, I was wondering if you could give us some details on what you're seeing there in terms of volumes and supply. It seems like the market is still a little bit oversupplied currently, maybe in part due to secondary volumes. Do you see that continuing at the current pace going forward or do you see those volumes sort of coming down a bit in the coming years?

Tim Gitzel, President & Chief Executive Officer

Well, it's hard to say. You know, we watch Japan, again, two reactors running there now. I think we had anticipated quite a few more being up and operating by now, so that's having a big effect. There's good news. China is a good-news story, India is a good-news story, South Korea, so the demand's there and we see that increasing over time. Supply has performed well through this period, I would say. We haven't seen a whole lot of supply come off. And so then you've got the secondary material, you've got enricher underfeeding that's going on, especially while Japan's down. You've got governments putting material into the market, the DOE comes to mind. So right now, you know, there's certainly sufficient supply to fill the demand, but we see over time that demand continues to grow. Supply, I think, stays flat and starts to fall off, just a natural decline, and then we're going to need some new pounds at some point and today we are not investing at all in any new production. And you know it takes us a long time to bring any new production on line and so, you know, we do see better days ahead, but right now I'd say the market is well supplied.

David Wang, Morningstar

Thank you.

Operator

Thank you. Our next question is from Jim Ostroff with Platts Nuclear Publications. Please go ahead.

Jim Ostroff, Platts Nuclear Publications

Hi, there. I do appreciate the time here. I did have a few follow-up questions on that contracting and the settlement. Can you provide any detail as to about how many pounds (inaudible) with this settlement?

Tim Gitzel, President & Chief Executive Officer

No, Jim, unfortunately, under the terms of our agreement and settlement we're not allowed to do that.

Jim Ostroff, Platts Nuclear Publications

Okay. And let me ask you if you can characterize a bit the settlement value, and that is if in any way it is tied to the amount of material that was not sold and therefore income not realized. Or you might say simplistically if that represented the pounds times a certain spot price yielding \$46.7 million. I'm just trying to get some idea about what that represents, that total.

Grant Isaac, Senior Vice-President & Chief Financial Officer

Well, you're going along the right lines there. The methodology for considering something like a contract cancellation is simply to look at the price that you would have achieved under the contract and look at it relative to if you took those pounds and diverted them into the market instead and it's that gap that you need to crystallize. That's a pretty common methodology. It's the one we used here and, as Tim said earlier, that then resulted in a negotiation and we're very happy with the way it resulted and I dare say the counterparty is happy with it as well. So it's not something that would be for, we don't have a lot of other examples of it, but this was a very specific circumstance and a good conclusion.

Jim Ostroff, Platts Nuclear Publications

Right. And one other, if I would, of course Cameco took an impairment for suspension activities at Rabbit Lake and given the outlook as you both have described here,

people might ask as to whether it is likely there will be further curtailments later this year or into next year.

Tim Gitzel, President & Chief Executive Officer

Well, Jim, we obviously took the steps we thought we needed to. Our Rabbit Lake facilities and U.S. facilities were higher-cost operations. We wanted to, in this low for longer scenario that we talk about, focus on our tier-one assets with low cash costs, all of them, the McArthur River / Key Lake facility operating very well, Cigar ramping up nicely. Inkai is outstanding. And so that's our focus and so we have given guidance on our production for the year and we plan to meet that guidance.

Jim Ostroff, Platts Nuclear Publications

Thank you. That should do it.

Tim Gitzel, President & Chief Executive Officer

Thank you, Jim.

Operator

Thank you. Our next question is from Edward Sterck with BMO. Please go ahead.

Edward Sterck, BMO Capital Markets

Thank you very much. Just a couple of follow-up questions from me. The care and maintenance costs going forward for Rabbit Lake and the U.S. ISR operations, I think for the remainder of the year after closure costs you've guided for around \$15 million and I'm just wondering how that might look for 2017 and beyond. And then in terms of a follow-up question, the depreciation charge on NUKEM of \$53 million, I presume that's related specifically to the material sold during the quarter. Or does that also include the \$14 million inventory write-down?

Grant Isaac, Senior Vice-President & Chief Financial Officer

Yeah, Ed, I'm going to do this to you again, I'm going to start with your second question first. You're absolutely right, it is an adjustment under the purchase price

allocation pertaining to the particular stale from NUKEM's historic inventory and that's what's driving it. The mark-to-market write-down on the inventory of NUKEM is the separate charge. All going into that bucket of things that I added up and said are quite notable in impacting the quarter and actually distracting from what the core performance was on that.

Edward Sterck, BMO Capital Markets

Thank you.

Grant Isaac, Senior Vice-President & Chief Financial Officer

And, sorry, you're going to have to remind me of the first question.

Edward Sterck, BMO Capital Markets

Oh, sorry, it was—

Grant Isaac, Senior Vice-President & Chief Financial Officer

The care and...

Edward Sterck, BMO Capital Markets

Yeah.

Grant Isaac, Senior Vice-President & Chief Financial Officer

Yeah, perfect. Thank you. So we don't have guidance for 2017. Rabbit Lake, the status of Rabbit Lake is also tied to market outlook, market view. We'll continue to make sure that that's a secure and safe site. But in terms of what the overall cost would be to put it in that, we're just, we're doing that work now as part of preparing for our 2017 budget targets anyway. So nothing to guide. I don't have any direction to give you other than, you know, Bob's constantly working very hard to make sure those numbers are as low as possible.

Edward Sterck, BMO Capital Markets

Okay, fair enough. Thank you very much.

Tim Gitzel, President & Chief Executive Officer

Thanks, Ed.

Operator

Thank you. Our next question is from Paul Luther with Bank of America Merrill Lynch. Please go ahead.

PT Luther, Bank of America Merrill Lynch

Hi, guys. Thanks for taking my follow up. I just want to talk a little bit more about Rabbit Lake, kind of what your thought process would look like to consider permanent curtailment of that facility or if given your positive long-term view if that's unlikely.

Tim Gitzel, President & Chief Executive Officer

It's Tim. We just made the decision in April, so it's a bit early. Since then we've seen the market deteriorate a bit but that hasn't changed our plans to put it into a care and maintenance mode, and we're working on that. We've got the mine being secured and the mill facilities and, you know, what comes with that is the reduction, a big reduction of the workforce, which I can tell you we're not, ah, we regret, but it's necessary for the long-term viability of the house. So we're taking all of those steps now. We'll watch the market through the course of this year and into next year and see how it performs. There's still a significant resource base there that could be gone after should the market improve but it would have to improve significantly from where it is today before we would think about bringing it up again. Grant, do you have any other comments?

Grant Isaac, Senior Vice-President & Chief Financial Officer

Yeah, PT, I would just add as well that any decision we would make there would be tied to a broader portfolio decision and we would look to say, if the market was incenting us to produce more we would to all of our sources of potential production. That includes McArthur River expansion, that includes Cigar Lake, and so, you

know, there would have to be a process to determine what the best way and most profitable way to meet a market that's incenting that supply would be and Rabbit Lake would be part of that evaluation.

PT Luther, Bank of America Merrill Lynch

Understood. That makes sense, thanks. And then, Grant, if I could, just one housekeeping question. Can you give us a sense for working capital for the balance of 2016? Do you expect to get some relief?

Grant Isaac, Senior Vice-President & Chief Financial Officer

Well, what happens when we have sales heavily weighted to the end of the year you see this build up in our inventory position because we're producing material but we're not placing it into contracts, and then through quarter three and quarter four when we deliver what is going to be the balance of our contract portfolio, you see that come down and then that flows through obviously to the cash position as well. So that annual flow that we've seen for the last, I think it's five years now, is just how we expect 2016 to end up.

PT Luther, Bank of America Merrill Lynch

Perfect. Thanks again, Grant, Tim.

Operator

Thank you. Our next question is from Daniel Horner with Nuclear Intelligence Weekly. Please go ahead.

Daniel Horner, Nuclear Intelligence Weekly

Thank you and thank you for taking my question. Last year you were quite active in buying uranium and I was wondering what the situation was with that this year, if you're continuing that practice or you could tell us a little bit about that with regard to your inventories and future plans. Thanks.

Tim Gitzel, President & Chief Executive Officer

So, Daniel, we do have some purchase commitments in place for this year. I think it's to the tune of about nine

million pounds, just under nine million pounds. Many of these commitments we made some years ago while we were watching Cigar Lake ramp up and wanted to make sure we were well supplied and seeing that there's some real decently priced pounds available in the can without any operational risk. So we have some purchases for this year. I'd say last year and this year were the two big years and it trails off from there. But we're always in and out of the market.

Daniel Horner, Nuclear Intelligence Weekly

Just to clarify, so there were some that had been made previously and some that you made recently. Is that what you said?

Tim Gitzel, President & Chief Executive Officer

Yeah, they're mostly previously, Daniel. We have commitments for, as I say, I think it's just under nine million pounds of purchases this year.

Daniel Horner, Nuclear Intelligence Weekly

Okay. And it trails off after this year.

Tim Gitzel, President & Chief Executive Officer

Yes.

Daniel Horner, Nuclear Intelligence Weekly

Thank you.

Tim Gitzel, President & Chief Executive Officer

Thank you.

Operator

Thank you. Our next question is from Orest Wowkodaw with Scotiabank. Please go ahead.

Orest Wowkodaw, Scotiabank

Hi. Thanks for taking my follow up. Two more things. You've disclosed that you have 469 million of uranium

purchase commitments for the second half of this year. You've already purchased, I think, close to \$6 million pounds. I'm wondering how we should think about that in terms of volume that will show up in the uranium segment as purchased material for the year.

Grant Isaac, Senior Vice-President & Chief Financial Officer

Yeah, in terms of volume, as Tim just said, you know, we were looking at purchase commitments of \$9 million for the year, and so we have a few more of the commitments that we entered into in a prior period that are flowing, that will be flowing in, but it's that remainder of the purchases that are coming. So if I'm looking at the six-month year-to-date number, I mean we're at 5.7 now and so we have 3 and a bit more left to buy. That number that you saw in the purchase commitment table was actually, you know, covered the whole gambit, not just what's remaining, so we don't have 3 million pounds priced at \$469 million.

Orest Wowkodaw, Scotiabank

Oh, sorry, that \$469 million is for the year, not just the back half of the year?

Grant Isaac, Senior Vice-President & Chief Financial Officer

Yeah. Yeah, that's the commitment. Yeah.

Orest Wowkodaw, Scotiabank

Okay. Okay. My mistake. And then in terms of understanding your sensitivity table that you put out for realized price, when we start to move in time, you know, into the, say, 2018 to 2020 period and, you know, for example, if I just look at the \$40 level of price realizations, what does this assume in terms of volume? Like does this only capture what you currently have contracted in those years? Or like are you still assuming something close to 30 million pounds even if it's un-contracted?

Grant Isaac, Senior Vice-President & Chief Financial Officer

Yeah, so if you sneak down to the assumptions that are under that price sensitivity table you'll see in there the

first bullet under sales, sales volumes on average 27 million pounds per year with commitment levels in 2016 through 2018 higher than in 2019 and 2022. In other words, that price sensitivity table is following the contract portfolio. It's the known contracts, terms and conditions that we have today. To the extent that, for example, we see a demand-driven industry begin to transition, then we will have the leverage to that higher pricing mechanism and that table would improve, as an example.

Orest Wowkodaw, Scotiabank

Okay. So in the years of 2019 and 2020 this assumes volumes, contracted volumes below 27.

Grant Isaac, Senior Vice-President & Chief Financial Officer

Yeah, it would, because the average for all those years is 27, but it's not like our contract portfolio falls off a cliff at that period. It's a slow transition. So when we say we're well protected to 2019 and in fact into 2020 it's just a reflection that when we look at our tier-one production it has homes in an attractively priced contract portfolio and gives us good protection from this weak market for a period of time still measured in years.

Orest Wowkodaw, Scotiabank

And can you give us a sense of when that contract portfolio will drop below 50 percent? How far in time?

Grant Isaac, Senior Vice-President & Chief Financial Officer

Yeah, you know, we haven't disclosed that, but it's probably fair to say that as we get out into the 2022 window there are a lot of pounds that we would have to place. We're actually okay with that by the way. I mean as we think about the market transitioning, the cumulative demand that's out there that has not yet been procured, the fact that a lot of term demand has been deferred in the last couple years with really low term replacement contracting, that's actually the period where we want some exposure. We want that price and operating leverage to reward our owners. And so that for us is a timing that's consistent with our view on the market outlook.

Orest Wowkodaw, Scotiabank

Okay. Thank you very much.

Operator

Thank you. Our next question is from Jacqueline Morea with Goldman Sachs. Please go ahead.

Andrew Quail, Goldman Sachs

Hi, Tim and Grant. It's Andrew here by the way. Sorry about this; it's a busy day on the conference calls. It's a frantic 24 hours. I just have, I have a whole list of questions, I don't actually know all the questions that have been asked, but it seems to me that the spot price is just in the doldrums because no one's transacting and people are looking at that for future performance, which we know is not true. What my question to you is, Tim, what do, you know, how long do you think this stalemate between, say, the producers and the utilities can last, because I think it's lasting longer than people would have thought. Is this something that might not let up until the end of the year or is this more of a 2017 story? Or could it be even later than that?

Tim Gitzel, President & Chief Executive Officer

Hi, Andrew. You're right; it is a busy day for calls. We know that so we sympathize with all of you that have three phones on the go at the same time. Listen, I wish I knew the answer to that. Here's how we look at it: You know, we look at it, I think we've been consistent in saying, you know, it's tough in the near term. No question about that. We base that on some assumptions and clearly Japan was a big one. We would have said a few years ago that there would have been a lot more reactors operating in Japan today than the two that are going. So we think that has given some comfort to the utilities. There's no pressure to contract, no sense of urgency that there's going to be a shortage in the near term, and so it's just dragged out longer than we ever thought it would, and so we've had to adapt the company into this lower for longer. I think watch Japan. Keep an eye on that, see how that progresses. I think we're looking at another unit starting up this summer; in fact, in the next weeks, which is good. There's a court case going on for another two that had already been going and then back. So if you could get some momentum going in Japan I think that'd be good. China carries on with its aggressive play, South Korea, the Russians, the Indians are building. Supply, as I said, has kept pace. That's something I think, I think I

said a few years ago keep your eye on supply, because I, quite frankly, thought there would be perhaps some other curtailments or supply disruptions. We haven't seen a lot of that. Supply has performed quite well.

So there's a lot of factors out there. It's something we talk about, Grant and I, when we're out on the road, kind of a compass that we're guiding the company by. So, you know, we don't know. I'd say watch those things. When you see those things start to come into play then I would say there has to be an improvement. Demand, again, go back to the fundamentals, the economic fundamentals, demand is growing, supply flat or coming off, there's extra supply today that we think is getting chewed up, but if you looked out ten years even, which in our world isn't that long, you know, we see, these are Cameco numbers, you know, demand in the 220 million pound range and supply something less than that, it could be considerably less than that, so you could make an argument that we should be looking at new projects or investing today and we're not. And so at some point that's going to come to a head and it's going to have to drive some price.

Andrew Quail, Goldman Sachs

And sort of the noise around the shutdowns of power plants in the U.S., I think there's a couple of them, I mean that's small, because they're actually building too. I mean it's not going to have much of an impact long term, is it?

Tim Gitzel, President & Chief Executive Officer

Well, it's not particularly helpful, I'd say. It's been, you know, the U.S. market, there hasn't been a lot of electricity growth, and then you get these single units in merchant markets competing with \$2 gas and heavily subsidized wind and solar and they're having trouble bidding into the auctions and winning. And so it hasn't been helpful, I would say, but there are in fact five new ones in the U.S., one just fired up, two more we just visited, a pair of units at Vogtle with our Board a few months ago, so there's some good news. Those are bigger units, I think about 1,200 megawatt units, and some of them going down are smaller. So it's not a great story but there is an offset there and, you know, we're hoping that the world starts to live up to its commitments, the COP 21, the Kyotos, this keeping the temperature down, increase to two degrees and moving from fossil fuels. We have the answer for that, quite frankly, I say we in the bigger nuclear power sense, have the answer to that and so we're hoping that catches on as it as in some of the Asian countries.

Andrew Quail, Goldman Sachs

Yeah. Okay, thanks, mate.

Tim Gitzel, President & Chief Executive Officer

Have a nice day.

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

Well, thank you very much, operator, and thanks to everyone who called in today; obviously a busy day for a lot of you. Here, we're in challenging times, there's no doubt about that; however, at Cameco we remain confident that we have the strategy, the assets, and the talent to deal with this, and we're going to do that. And we're going to be able to sustain our business through a market that could stay lower for longer.

So, again, I want to say thanks to all of you. Enjoy your summer, be safe, and we'll talk to you sometime in the fall and have a great day. Thank you.

Operator

Thank you. The Cameco Corporation second 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.

The background of the slide is a blue-tinted photograph of a large tunnel. The tunnel walls are lined with corrugated metal. In the distance, a person wearing a hard hat and safety vest is walking away from the camera. The lighting is dramatic, with a bright light source behind the person, creating a silhouette effect and lens flare.

▶ Q2 Results Conference Call

Q2, 2016



cameco.com

Forward-Looking Information Caution

This presentation includes forward-looking information or forward-looking statements under Canadian and U.S. securities laws, including our expectations regarding future world electricity consumption, the number of net new reactors we expect to be built, our expectations regarding future uranium supply and demand, our future uranium production targets and forecasts, and our forecasts relating to mining, mine life, production, development and other activities. This information involves risk and uncertainty, including the risk that we face unexpected development and operating risks, the risk of disruption of our operations, and the risk of changes in regulation or public perception of the safety of nuclear power plants. In addition, we have made assumptions in drawing the conclusions contained in these statements, including assumptions regarding future demand for uranium, production levels and costs, mining conditions and our ability to continue our operations without any significant disruptions. Additional information about the material factors that could cause the results to differ materially, and the material assumptions we have made, are contained in our current Annual Information Form and our current annual and quarterly MD&A, which are available on SEDAR. Forward-looking information is designed to help you understand management's current views of our near and longer-term prospects, and it may not be appropriate for other purposes. We will not necessarily update this information unless we are required to by securities laws.

Qualified Persons

Information of a scientific and technical nature concerning McArthur River was prepared under the supervision of David Bronkhorst, P. Eng., vice-president, mining and technology, concerning Cigar Lake was prepared under the supervision of Les Yesnik, general manager, Cigar Lake, and concerning Inkai was prepared under the supervision of Darryl Clark, general director, JV Inkai. Each of these individuals is a qualified person for the purpose of NI 43-101.

► Market Challenges Persist

- U demand low
- Spot and long-term U prices at 10-year lows
- No further progress on Japanese reactor restarts
- Premature reactor shutdowns in US
- U inventories growing
- Primary supply remains strong

► **Cameco's Strategy**

- **Flexible production**
- **Focus on tier-one assets**
- **Control costs**
- **Decisions driven by profitability**



▶ Cameco's Performance and Outlook

- Contracted to deliver 19.5 – 21.5 M lbs in second half
- Production guidance on target
- Maintaining revenue and cost guidance
- Revising NUKEM guidance down

► Positive long-term fundamentals

Growth regions – units under construction



▶ Results (\$ millions)

	Q2	Q1&Q2
Adjusted net earnings* – 2015	46	115
Change in gross profit by segment (revenue minus the cost of products and services sold and D&A)		
Uranium	(89)	(92)
Fuel Services	-	5
NUKEM	(27)	(35)
Other changes to ANE	13	(57)
Adjusted net earnings* – 2016	(57)	(64)

*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 June 30, 2016 Management's Discussion and Analysis.

All dollar amounts in Canadian dollars

► Uranium Segment (\$ millions)

	Q2	Q1&Q2
Uranium gross profit – 2015	127	240
Lower sales volume (customer requirements heavily weighted to Q4)	(47)	(63)
Lower realized prices (\$US) (lower prices under market-related contracts)	(17)	(27)
FX impact on realized prices	6	45
Lower (higher) unit cost of inventory (including D&A) (lower production costs, higher purchase costs)	8	(8)
Care and maintenance and severance (production changes at Rabbit Lake and in US)	(39)	(39)
Uranium gross profit – 2016	38	148

▶ **NUKEM Segment** (\$ millions)

	Q2	Q1&Q2
NUKEM gross profit – 2015	11	22
Higher (lower) sales volume (timing of customer requirements, and a quiet market)	6	(8)
Lower gross profit % (purchase price allocation)	(13)	(7)
Write-down of inventory (decline in spot price)	(14)	(17)
NUKEM gross profit – 2016	(10)	(10)

Note: the changes to gross profit in the above table are before adjustment for the purchase price inventory recovery of \$6 million in Q2, 2016 and \$3 million for the six months ended June 30, 2015.

► Other Changes

	Q2	Q1&Q2
Higher admin (one-time collaboration agreement payments, office space consolidation, legal costs (CRA-related), restructuring - NUKEM & Corporate)	(12)	(21)
Higher exploration (planned increase)	(1)	(4)
Higher income tax recovery (distribution of earnings between jurisdictions)	17	20
Higher loss on disposal of assets	(5)	(8)
Lower loss on derivatives	3	16
Foreign exchange gains (losses)	18	(53)
Other	(7)	(7)
Total other	13	(57)



Cameco

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▶ Conclusion

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

