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Energy Equities, Inc.

Emily Meredith

Nuclear Intelligence Weekly

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PRESENTATION

Rachelle Girard, Director, Investor Relations

Welcome to Cameco's second quarter conference call to discuss the financial results.

With us today on the call are Tim Gitzel, President and CEO; Grant Isaac, Senior Vice-President and Chief Financial Officer; Ken Seitz, Senior VP and Chief Commercial Officer; Bob Steane, Senior VP and Chief Operating Officer; and Alice Wong, Senior VP and Chief Corporate Officer. Tim will begin with comments on Cameco's second quarter results and current industry conditions. After, we will open it up for your questions.

Today's conference call is open to all members of the investment community, including the media. During the Q&A session please limit yourself to two questions and then return to the queue.

Please note that this conference call will include forward-looking information, which is based on a number of assumptions, and 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

Thank you, Rachelle, and welcome to everyone who has joined us on the call today as we discuss Cameco's second quarter results. We certainly appreciate you taking the time to join us today.

Overall I'd characterize our financial and operational results as consistent and as expected. I'm happy to say our financial results were up across the board this quarter with revenue, gross profit, and net earnings all increasing over the second quarter of 2012.

For the first six months of the year our net earnings are below what they were in 2012. That's mainly because of the light first quarter we had in 2013, which, you'll remember, occurred as expected, due to a very light delivery schedule and lower earnings from Bruce Power. You can see that earnings from Bruce Power were low again this quarter, but that was expected as the utility continued with its planned outages. Overall for the year we expect earnings from Bruce Power to be only 5 to 10 percent lower than they were for 2012. And we are on

track to deliver on our outlook in general, as uranium deliveries increase over the next two quarters.

Turning to production, it was down this quarter from 2012. The decrease was a result of some planned maintenance shutdowns at McArthur River, Key Lake and at Rabbit Lake. Both operations are on track to deliver on their production targets for the year. At Cigar Lake we continue our journey toward first production. As we pointed out in our MD&A, our capital expenditures at Cigar will increase by 15 to 25 percent. That's mainly because of scope changes at the mine and at the AREVA mill, as well as the same upward pressure being felt on costs across the mining industry. In addition, the previous estimate only included our expenditures to first ore and not the capitalization of start-up costs. However, Cigar Lake remains an important source of what will be low-cost production and our team keeps making solid progress toward first package pounds in the fourth quarter. I was at Cigar Lake recently and I am consistently impressed with both the quality and the tenacity of our team. They're a talented and enthusiastic bunch who are committed to getting this job done safely and efficiently.

The Cigar Lake project is a big part of our strategy to increase supply to 36 million pounds per year by 2018 and remain a successful low-cost producer. On the subject of remaining a low-cost producer, we took further steps this year to ensure we are continually improving our position over both the near and long term. We made changes that target increased capital efficiency and a sustainable 10 percent reduction in future expenditures. The changes were necessary given the current market environment, which requires us to be leaner and more efficient in order to stay competitive, but they will also help us continue to grow the company profitably over the long term.

Today the importance of increased efficiency cannot be overstated. The uncertainty resulting from the continued shutdown of Japan's reactors and the resulting inventories remains the biggest issue. It's the primary reason we continue to see downward pressure on uranium prices along with discretionary buying from utilities who remain well covered for the time being. There have also been some other unforeseen developments, like the four reactor shutdowns in the U.S. as well as the shutdowns in South Korea for safety reviews.

There's no doubt that the market conditions continue to be challenging, but today I would also say that we're starting to see some tangible movement. In July, Japan's nuclear regulatory authority finalized their new safety regulations and four utilities have applied to restart 12

reactors. The next few months as the reviews progress will be very informative as to what we can expect for Japan's nuclear fleet and should provide some certainty around how the inventories those utilities hold will be managed. Of course we'll be watching that closely but our focus is certainly not limited to the near term. Ours is a long-term business and those long-term fundamentals remain very strong. We're expecting average annual growth in uranium consumption in the order of 3 percent per year out to 2022. That's being driven by the growth in reactors around the world from 430 today to more than 520 by 2022, 67 of which are under construction today. China alone has six reactors planned to come on line this year. One of those has been connected to the grid and the others are getting close.

So this growth is not just something we think will happen, it's happening as we speak. As we've said before, it's just a question of how long it will take for that growth to become the more dominant force in the market than the challenges currently being faced. We know it will happen, we continue to prepare for it, but I can assure you that we also continue to adapt to remain efficient and profitable throughout this period of uncertainty.

So, with that, we'd be pleased to answer any questions.

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 questions and allow one follow-up question. Then, if you have further questions, please return to the queue and we will 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 before making your selection. Please press star one if you have a question. 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 participants register for their questions. Thank you for your patience.

The first question is from Greg Barnes from TD Securities. Please go ahead.

Greg Barnes, TD Securities

Thank you, operator. Good afternoon, everyone. Ken, a question for you: Clearly the uranium spot market is under pressure but my understanding is a lot more volume has been done in the mid-term market now than even the longer-term market. Can you give us some idea of what the dynamics are around spot mid-term and long-term contracting purchases, inventory builds, whatever?

Ken Seitz, Senior Vice-President & Chief Commercial Officer

Absolutely, Greg. Thanks for the question. Yeah, the dynamic at the moment, you're looking at a substantial spread between the term market at around \$55 and the spot price of around \$34.50 and it has a lot to do with the fact that indeed there's very little demand in the long-term market. If I look at year-to-date numbers we're just a little bit below nine million pounds long-term contracted through 2013 and that's well below what we would have seen in previous years. So in terms of exercising the buy and hold, in other words, buying spot volume today at these sort of very low prices and holding it through and delivering it into a \$55 contract, there's just not that many opportunities to do that in a low-demand environment, long-term demand environment that we're seeing today.

There are a few mid-term deals being done, that's true, but there's quite a bit of negotiation around what the mid-term price is today. Is it discounting the long-term price back or is it escalating the spot price forward? So there's a little bit of that being done today but not much because if there were significant volumes you would expect increased pressure on the spot price.

Then just moving to the spot market, you know, we're in what we call our summer doldrums when a lot of fuel buyers, you know, a lot of people on vacation over the summer coming back to look at their budgets in the fall. So we have that dynamic, we have very little in the way of demand over the summer here, and, yes, some material that people are moving, and we've seen some deals done, traders moving some material as well as a few producers, and hence the drop in the uranium price. As we head into the fall here we'll see how that dynamic unfolds. I will say that just in the last few days we've seen these very low spot prices drop in excess of 1.5 million pounds worth of demand. So, you know, we've hit this \$34.50 and now we're seeing some substantial new spot demand.

So, you know, Greg, it probably doesn't answer the question perfectly. There is that dynamic taking place at

the moment but I think it's all in the context of anyone looking to buy uranium has been in a little bit of a wait-and-see mode. As prices fall the demand somewhat discretionary continuing to stay out of the market and looking for that inflection point when prices turn and then I can expect that we'll see more demand coming into the market.

Greg Barnes, TD Securities

Okay, that's great. Thanks, Ken. Just my follow-up question is around the Cigar Lake CapEx increase. You mentioned scope changes at the mine and mill and I was wondering what exactly that involved.

Tim Gitzel, President & Chief Executive Officer

Thanks, Greg. I'll ask Bob Steane to talk about those scope changes that we referred to. Bob?

Bob Steane, Senior Vice-President & Chief Operating Officer

Yeah, sure. Greg, the two aspects. First I'll say I was at the mine, I'm up at Cigar Lake often, weekly, and I assure everyone that things are progressing on schedule. We will be starting and everything is looking very, very good at the site.

Some of the scope changes at the Cigar Lake mine site, as we've been into this final press and putting things together, we've had, ah, there was some additional piping. We recognized that we had increased our surface freeze area and we needed some additional freeze capacity. We've added that. We've had some different development that we've had to do based upon the ground conditions we've encountered, and that's changed some of the scope at Cigar Lake. And the JEB mill, the mill is related to the expansion, so it's the post 2014, 2015, the expansion of the JEB mill and some of the scope changes. They're in the stages of design, it's still a work in progress, but as they're going into the design they're seeing some changes in some of the equipment sizes, some of the building geometry, perhaps some of the site infrastructure, relocating some ammonia tanks from one location to another, that type of thing. And both sites, I have to say, the biggest cost, one of the biggest cost drivers is escalation. We're seeing it at Cigar and with the mill changes that are farther out in time for the expansion to the JEB mill, the escalation compounding it. But that's the background to that escalation and scope change.

Greg Barnes, TD Securities

Okay. So none of this is going to increase the actual capacity of the mine to produce, I think, 18 million pounds a year though?

Bob Steane, Senior Vice-President & Chief Operating Officer

No, these are all to do the 18 million pounds.

Greg Barnes, TD Securities

Okay, good. Thank you very much.

Tim Gitzel, President & Chief Executive Officer

Thanks Greg.

Operator

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

Ralph Profiti, Credit Suisse

Good afternoon. Thanks for taking my questions. Tim or Ken, in previous pullbacks in the uranium price we've seen producers like Cameco willing to step in as buyers, either to support the price or just for opportunistic purposes. This type of activity seems to be noticeably absent in the recent pullback so I'm just wondering has Cameco been less active than usual and can you discuss how you think your own strategy may evolve over the next three to six months as prices would seemingly want to trend lower from here.

Tim Gitzel, President & Chief Executive Officer

Well, Ralph, we'll see where things go. I'd say, you know, Cameco is always around the market, in and out, sometimes to a greater extent than at other times. We continue to watch the market. We haven't been overly active I would say right now and for all the reasons that Ken gave we've seen the spot price slip. You know, I think throughout the summer it's not surprising to us that things, as Ken described it, are in the summer doldrums.

More interesting for us will be probably the fall around the World Nuclear Association big symposium in London mid-September, when we see how utilities start to react to the market, HEU coming to an end, Chinese build continues, Japanese restarts, we'll have even better information then.

What's maybe a bit encouraging to us I guess is the point Ken made about when the prices hit this level you did see some demand come out of the woodwork, a million plus pounds I think, so, you know, through the summer I'd say we're not overly concerned. We'll wait and see how things turn out. We're more interested in what happens probably in the next quarter and into the end of this year.

Ralph Profiti, Credit Suisse

Thanks for that. My second question is on Cigar Lake and now that we have a more defined capital cost estimate I'm wondering about operating costs. And, as you cite scope and scale changes at the mine and the mill, how you're shaping up to meet the \$18 a pound long-term cash cost target.

Tim Gitzel, President & Chief Executive Officer

Yeah, I think there's been no change from the information we've put out on that. We're sticking to the numbers that we've put out, which is around the \$18 per pound—sorry, Grant's just reminding me it's \$18.60 per pound. No change to that, Ralph.

Ralph Profiti, Credit Suisse

Understood. Great. Thanks for taking my questions.

Tim Gitzel, President & Chief Executive Officer

Thank you.

Operator

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

Edward Sterck, BMO Capital Markets

Good morning or good afternoon. I've got a couple of questions today. The first is just in the likes of the sort of weak uranium price environment. Is there sort of any move to think the Double U strategy and sort of trim production output in the future or expected production output?

Tim Gitzel, President & Chief Executive Officer

So, Ed, you'll recall we did pullback on that in October of last year. At the end of October we rethought our Double U strategy, which had us getting to the 40 million pounds by 2018 and then continuing on up from there, so today we're looking at a revised strategy where we're focused on our brownfields operation, expanding where we're already producing, and getting to 36 million pounds by 2018. So, you know, we're constantly looking at that as well. Right now we still think that's a good strategy. Cigar Lake, of course, is the bulk of that strategy and so we continue on that path and we'll watch very closely as this market evolves.

Edward Sterck, BMO Capital Markets

Okay, thank you. And then just as my follow-up question: Although sort of group CapEx has increased for this year, mainly due to Cigar Lake obviously, it looks as though you've reduced your guidance for next year and the year after. Where is the CapEx being reduced and what are the savings? You know, are there any compromises that are being made through that CapEx reduction?

Tim Gitzel, President & Chief Executive Officer

You know, Ed, that was part of our exercise to really look at the organization in these challenging times and look at our costs, our G&A, our administrative costs, our operating costs, and our capital costs, and so it's pretty much across the spectrum that we've tried to pullback our costs or defer capital where we could in this difficult environment. So I think it's pretty much across the board.

Edward Sterck, BMO Capital Markets

Okay. Thank you very much.

Tim Gitzel, President & Chief Executive Officer

Thank you.

Operator

Thank you. The next question is from Oscar Cabrera from Merrill Lynch. Please go ahead.

Oscar Cabrera, Bank of America Merrill Lynch

Good morning, everyone or good afternoon. Just following up on Cigar Lake, could you please provide us the capital spend to date in the project and then what should we expect for this CapEx to be over the next, I don't know, two to three years, you know, once you have all the 15 percent increase that you describe in your release?

Tim Gitzel, President & Chief Executive Officer

Okay, Oscar, thank you very much, and I'm going to ask Grant Isaac to comment on that.

Grant Isaac, Senior Vice-President & Chief Financial Officer

Yeah, thank you, Oscar. The cost as at December 31, 2012, so of course we have some additions to that, Cameco has invested about \$911 million in our share of the construction cost to that point. We also did have some remediation expenses as part of reclaiming the mine after the flood. So that was \$86 million. And then we did have some standby costs as well which were also expensed to \$63. You'll recall from the technical report, the last technical report that we put out on Cigar Lake, our share of the construction cost was \$1.1 billion, and of course with what Tim was talking about earlier, based upon our view of potential scope changes and anticipated escalation at both Cigar Lake and AREVA's McClean Lake mill, and this takes us out to 2015, we put out a range of an additional 15 to 25 percent. So that really takes us from that \$1.1 billion to \$1.3—sorry, \$1.27 billion to \$1.38 billion for the Cigar Lake project, for the construction phase of it, taking us out to 2015. And, as I said, that's mine and mill.

Oscar Cabrera, Bank of America Merrill Lynch

That's mine and mill, okay, great. Thank you. That's very helpful. And then my follow up on this is, you know, the expansion at McArthur River, are you seeing similar type of increases in CapEx?

Tim Gitzel, President & Chief Executive Officer

Oscar, we're seeing some cost pressure in Saskatchewan in general. I think we have been to date. Other industries have been busy. The oil sands, potash, at least to date have been busy as well. So there are those cost pressures. But for McArthur we haven't changed any forecast that we've put out or any of the information in our technical report that we put out about one year ago.

Oscar Cabrera, Bank of America Merrill Lynch

Are we to imply that there hasn't been any material change to, you know, despite the cost pressures that you see?

Tim Gitzel, President & Chief Executive Officer

Not to date there hasn't.

Oscar Cabrera, Bank of America Merrill Lynch

Okay, thank you.

Operator

Thank you. Our next question is from Peter Homans from Arthur Wood. Please go ahead.

Peter Homans, Arthur W. Wood Company

Good afternoon. Thanks for taking my call. I have two questions. I'll ask them both at the beginning and you can take them as you wish. First is can you describe sort of the mechanics of Russia ending their HEU contract? In other words, on December 31st, if the contract expires on that date, is there still production in the conversion pipeline which continues to flow into the market in 2014 or does it stop there, etcetera? In other words, is it going to provide incremental inventory beyond the date of the

expiration? And it's important because, you know, that amount, annual amount as a percentage of worldwide consumption is a meaningful percentage and it's, if I understand it correctly, equal to or slightly more than your annual production. Secondly, you are, your goal now is 36 million pounds per year by 2018 and I'm not familiar, perhaps you said it on a previous call, but in fact between 24 million pounds and 36 million pounds how much of that 12 million pound differential increase is Cigar Lake meant to provide?

Tim Gitzel, President & Chief Executive Officer

Peter, thanks very much. It's Tim. Maybe I'll start with the second question first. So, of our increase to 36 million pounds, 9 million pounds will be from Cigar Lake. The project, once up at full speed, will produce 18 million pounds and our share of Cigar Lake is 50 percent, so 9 million pounds. Then there's some increased production we're expecting from McArthur River, a little bit from the U.S., we've got some product coming out of Finland, Talvivaara, so those things will get us up to the 36 million pound mark by 2018.

I'm going to turn the first question on the Russian HEU piece over to Ken, just to say that, you're right, that has provided about 24 million pounds of product onto the market every year. It does end this year. Our last delivery is this year. But, Ken, you may want to just give us a bit of the details of how that's going to wind up.

Ken Seitz, Senior Vice-President & Chief Commercial Officer

Yeah, it's certainly relevant, Peter. So I can tell you that some of the closing celebrations have been planned around the HEU agreement, one of which is actually a delegation going over to the Port of St. Petersburg to watch the last HEU cylinder loaded on a boat and coming west.

Peter Homans, Arthur W. Wood Company

Do you have an attendee?

Ken Seitz, Senior Vice-President & Chief Commercial Officer

Yeah, well, yeah, it's gelling. So, in any event, you know, it's relevant, and I can tell you that source of uranium is ending this year. It doesn't continue into next year and

those sorts of things. Now could there be HEU related material, could there be Russian origin material finding its way into the market in 2014? That's possible. But that's a case of inventory policy and what people are holding as inventory. We've long said we hold five and a half to six months' worth of inventory that would be various origins of material, of some of that could be HEU, but I think to your question it ends this year.

Peter Homans, Arthur W. Wood Company

So, just to be certain that I understand, the expectations on the part of utilities who currently are receiving from your other folks some portion of the supply from this source, they're looking at sort of a hard cut-off more or less on January 1.

Ken Seitz, Senior Vice-President & Chief Commercial Officer

That's right, Peter.

Peter Homans, Arthur W. Wood Company

And why does that, in your opinion, not affect the spot market given the expectations for this year's worldwide consumption?

Tim Gitzel, President & Chief Executive Officer

That's a great question, Peter. You know, we think it's one of the factors, one of the catalysts that, you know, I think utilities are probably pretty well covered. They've seen this coming. This has been telegraphed pretty well and so they've seen it coming. I think they're covered for the next few years. But this is one of the catalysts I think along with China, Japanese restarts, you know, some of the supply deferral and destruction we're seeing that are going to have to have some impact on the price going forward.

Peter Homans, Arthur W. Wood Company

Okay, thanks very much. I appreciate it.

Tim Gitzel, President & Chief Executive Officer

Thank you.

Operator

Thank you. Once again, if you have a question, please press star one at this time. And, as a reminder, we will take one question and allow one follow-up question.

Our next question is from Tyler Langton from JP Morgan. Please go ahead.

Tyler Langton, JP Morgan

Thanks for taking my question. I just had a follow-up on Cigar Lake. Can you talk a little bit how much of the remaining CapEx is fixed versus variable and sort of just any commentary where there is a risk to see additional inflation at this point?

Tim Gitzel, President & Chief Executive Officer

Tyler, we're not quite sure we understand between fixed and variable. Grant, do you have any comment on that?

Grant Isaac, Senior Vice-President & Chief Financial Officer

Yeah, well, on the construction CapEx, so the new range we put out, so think of it as going from \$1.1 billion to \$1.27 billion to \$1.38 billion to encompass mine and mill completion, construction completion out to 2015. That's based on packages of work obviously. Those are packages that we deemed are required in order to bring these assets into full capacity. And so I guess from that point of view you might think of them as fixed.

Once it's in commercial production then we will have more typical categorizations of sustaining replacement and growth capital at that Cigar Lake project like we would have at any mine asset, but of course we're not in that commercial production phase yet. So I guess, if I understand your question right, I would just sort of think of those work packages as we've deemed them as required in order to get the assets into full production, so think of them as fixed.

Tyler Langton, JP Morgan

Okay, yeah, I guess I was wondering, so I mean there's (inaudible) where there's sort of labour cost where you can't control it from this point where that could see inflation or something like that I guess is what I was getting at.

Grant Isaac, Senior Vice-President & Chief Financial Officer

Oh, I'm sorry. Certainly there's the productivity impact that might happen because you have a hot labour environment and you're competing with other projects for trades or you may have worker turnover affecting productivity, absolutely. That's, in part, captured in the escalation that we're signalling with this guidance of 15 percent to 25 percent increase. Of course we'll work very hard to make sure that that's the appropriate range. And do even better than that, quite frankly. But you're right; those are some of the pressures that we could see.

Tyler Langton, JP Morgan

Okay. Then just the follow-up: In Japan, I was just wondering, you know, over the last quarter, whether they've seen any increase or decrease in either deferrals or requests to buyback inventories.

Tim Gitzel, President & Chief Executive Officer

Ken, have you seen anything?

Ken Seitz, Senior Vice-President & Chief Commercial Officer

No, we haven't. And I think it's just a lot of clarity coming out of the country now in terms of the political process and of course the regulatory process and so any utility with the fleet that's on the restart schedule, it's growing confidence that they're going to need that volume, so no, we haven't had additional discussions.

Tyler Langton, JP Morgan

Okay, great. Thanks a lot.

Tim Gitzel, President & Chief Executive Officer

Thanks Tyler.

Operator

Thank you. The next question is from David Snow from Energy Equities, Inc. Please go ahead.

David Snow, Energy Equities, Inc.

Hi. This could have just been asked but I'm trying to see if you have any more possible deferrals of contracts to future years at a higher price, as you've done in the past, and also if you are likely to hold back on some of the spot sales that you normally do in this weak environment. That's my first question.

And the second one is in your release you mentioned other projects have been reaffirmed, especially sovereign, I'm wondering if you could tell us a little bit more about who that is, what that is. Is it Kazakhstan or what are you referring—who could be included in those as well as who might still drop some volumes in this weakening market?

Tim Gitzel, President & Chief Executive Officer

David, certainly again, I'll start with the second question, is producers, we did mention the Husab project that the Chinese appear to be moving forward. We're watching to see how that's going to progress. Those are not easy projects to move forward and we'll see, I think they've put some timelines out we'll see. But we assume if they say they're going forward they'll go forward with that. I can tell you on the other side there's probably a larger list. We think that some of the other pieces, including our own Kintyre piece that we've said just in this price environment don't make any sense and we've seen from our competitors the same type of language. So it's a bit of a mix as to who's moving ahead but I can tell you at \$34.50 I think you won't see a whole lot of projects moving ahead in that environment.

On the other piece I'll just ask Ken to comment.

Ken Seitz, Senior Vice-President & Chief Commercial Officer

Right. So I think there were two questions there on deferrals and spot sales. So on deferrals, you know, I

think it's fair to say that the ones that we've done in the past, as we've said, they make sense for Cameco and for Cameco's shareholders, and while we're not receiving those requests today, would we entertain them? Well, only to the extent that they make sense and they make sense for our shareholders. And that could mean something like deferring out, as you said, at higher prices, recognizing you take on a little bit of risk with later deliveries, and so we need to be compensated for that. So those are the kinds of things that we would look at but, again, we're not in those discussions today.

With respect to spot sales in this environment, I'll just say that we do have a portion of our long-term portfolios being deliberate reference of the spot price, so we have no interest in seeing the spot price go lower. We make sales fortunately where we have a contract portfolio that we can lean back on today that's giving us average realized prices well above the current spot market and we are in no way backed into a corner having to make spot sales. So, you know, you probably won't see Cameco making a bunch of spot sales in this market.

David Snow, Energy Equities, Inc.

Would that mean that roughly half of the total sales could be subject to some downward discretionary curtailment then?

Ken Seitz, Senior Vice-President & Chief Commercial Officer

Well, I'd just refer you to our price table in our MD&A, which actually delineates that all very well, and it is true that we have some exposure to spot prices but that's all subject to those market-related contracts bumping into floors for example and I'd also say our market-related contract is not just subject to spot prices. Half of those market-related volumes are delivered at long-term prices, which today is at \$55. So there are some simplifying conservative assumptions in our price table but it generally reflects how our portfolio performs.

David Snow, Energy Equities, Inc.

Just one follow-up, do you see any indication that Kazakhstan might slow down its rate of ISR well field additions?

Tim Gitzel, President & Chief Executive Officer

I clearly think, it's Tim, they'll slow down the rate of growth that they've had. The last—we talk to them all the time and the last numbers that we saw come out were that they would go from the 20,900 tonne they produced last year, I think they were looking to increase to about 25,000 tonnes over the next, I think, four or five years. So those were the numbers. We'll see. They're very prudent, very market savvy and good partners and so we'll see where they take that, but that was the last we'd heard.

David Snow, Energy Equities, Inc.

Okay. Thank you very much.

Tim Gitzel, President & Chief Executive Officer

Thank you.

Operator

Thank you. Our next question is from Emily Meredith from Nuclear Intelligence Weekly. Please go ahead.

Emily Meredith, Nuclear Intelligence Weekly

Hi. Thanks. I just was wondering if you could talk a little bit about the Cigar Lake ramp-up and if there are any conceivable price scenarios where perhaps you would adjust the ramp-up there.

Tim Gitzel, President & Chief Executive Officer

No, the ramp-up, as Bob Steane said, or the construction at least, is going very well. We're on schedule, on track. We have a ramp-up schedule that we plan to stick to. This is material that we need, at least Cameco needs and we know our partners need, replacing some of the HEU that is ending this year. You know, we've been beneficiaries of that HEU for many years and so we need to replace that and the Cigar Lake, our share of the Cigar Lake product is a great replacement for that, so we plan to ramp up as planned.

Emily Meredith, Nuclear Intelligence Weekly

Okay. And then just in regards to NUKEM and revising down the sales volumes to 8 to 10 million, can you just talk a little bit about that decision and whether or not that means anything for your inventories?

Tim Gitzel, President & Chief Executive Officer

We just thought that in this market environment it was prudent not to put inventory pounds onto the market at that price. That's our thinking there. We put in our MD&A the effect of that and we, I think, will just hang on until the market improves before we put some of those inventory pounds on the market.

Emily Meredith, Nuclear Intelligence Weekly

Thank you.

Tim Gitzel, President & Chief Executive Officer

Thank you.

Operator

Thank you. As a reminder, we will take your question and allow one follow-up question. Our next question is from Edward Sterck from BMO. Please go ahead.

Edward Sterck, BMO Capital Markets

Hello again. So I've got two questions again. The first is just regarding the 10 percent cost reduction from next year and onward. Is that a target or is that a sort of definitely achievable—is it a definitely achievable target or is it an aspirational target?

Tim Gitzel, President & Chief Executive Officer

Well, it's achievable. I can tell you we've worked very hard over the last six months and taken some really, I'd say difficult, Ed, decisions here in the house, but decisions that we're required to take to remain, as we say, streamlined and lean, and so we very much believe we will achieve those goals.

Edward Sterck, BMO Capital Markets

Okay, thank you. And then just as a follow-up question, if the uranium price continues or the spot uranium price continues to slide at all, I mean is there any level at which you would need to look at impairing some of your assets? I mean I guess some of the acquisitions like Kintyre that occurred when uranium prices were substantially higher, in sort of a bull market acquisition type scenario.

Tim Gitzel, President & Chief Executive Officer

Thanks, Ed. Grant, you run that all the time.

Grant Isaac, Senior Vice-President & Chief Financial Officer

Yeah, that of course is an annual exercise, to go through your asset portfolio and see how it shakes out compared to where the current market is at. We saw, not just for Cameco but for a lot of mining companies, one of the effects of International Financial Reporting Standards, you saw us take an impairment charge on our Kintyre asset because as an advanced exploration project you have to use the fair value less cost to sell approach, which, if we think about it conceptually, you're pounding a for-sale sign into the ground and trying to sell the asset today, so you are really rooted in today's price and today's price dynamic and quite delinked from your strategic intent. So we'll go through that process again as part of our annual review. I don't want to prejudice what those valuations might turn out to be but that is work that we'll certainly do through year end.

Edward Sterck, BMO Capital Markets

Okay, great. Thank you very much.

Tim Gitzel, President & Chief Executive Officer

Thanks Ed.

Operator

Thank you. Our next question is from Blair Veenema from Manning & Napier. Please go ahead.

Blair Veenema, Manning & Napier

Thanks for taking a question. I wanted to get a little language from you guys on the conversations that you're having out in the market right now with non-Japanese based utilities specifically given the clarity or the improvement in clarity that we're starting to see in the path towards restarts and just HEU falling off and in general seeing the potential for the supply and demand dynamics to tighten a little. Is it utilities sitting there actually waiting still for some form of inventory liquidation or is there more that you're hearing from your counterparties? Thanks.

Tim Gitzel, President & Chief Executive Officer

Thank you very much, Blair. We talk to them all the time. We're always out with our customers talking to them. Right now, as Ken mentioned, not a lot of long-term contracting going on, because they may be looking to where the market is going and thinking it might be going lower. We certainly have perhaps an opposite view. So not a lot of contracting going on but, Ken, do you have any comments on that?

Ken Seitz, Senior Vice-President & Chief Commercial Officer

Yeah and fair question. I think there are a number of utilities who are watching Japan quite closely and with a little bit of clarity and, you know, demand being, I'll say somewhat discretionary, it could be that if someone is looking to layer on volumes they may do it, you know, sooner rather than later, and this is this inflection point that I talk about in terms of seeing that additional demand and prices turning.

I'll also say though, you know, it has been our experience that in the past, in a low-price environment, utilities in terms of inventories tend to feel quite comfortable and there's a sense that there's a lot of cheap uranium around, and in a rising price environment tend to layer on additional inventories, you know, with the sense that there's not as much uranium around. So at the moment I think utilities somewhat discretionary demand, waiting to see what happens in Japan, and comfortable with inventory levels in a low price environment, again, haven't seen those large demand numbers coming out. So it's just, in my mind, a question of when.

Blair Veenema, Manning & Napier

Okay, great. Thanks. And one follow-up: The recent move that we had down from kind of that line of support at 40 down, you know, breaking 35, I'm not sure where we're at today actually, but other mines beyond just your own out there, from a cash cost or from an all-in cash cost and maintenance CapEx standpoint are you seeing, what do you see in terms of global supply that potentially is operating at a loss or moving towards operating at a loss and the potential for any mine closures or curtailments. Thank you.

Tim Gitzel, President & Chief Executive Officer

Thanks, Blair. At \$34.50 we know it's tough out there for a lot of producers. We know our own costs and we have a sense of what some of the other ones are and it is a very tough market. Now, in our case we're fortunate to have the basket of contacts, the strong sales portfolio that we have that is certainly at a much higher level than the spot price, so we're okay. As we say, we're keeping our heads down and our spirits up and trying to really watch our costs here. You know, other producers, I think, would be in a—if they have a nice portfolio they're probably okay. If they don't, then they'd be in a tougher position. And then, you know, as to how long you keep going at that rate, you know, it depends on what it costs you to shut down and a lot of other variables. So it's tough to say. It's tough for us to say for others but we can just speak for Cameco and say that in this market our basket of contracts, our portfolio, is doing us a good service.

Blair Veenema, Manning & Napier

All right, great. Thanks.

Tim Gitzel, President & Chief Executive Officer

Thanks Blair.

Operator

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

Our next question is from Greg Fontana from Convergent Capital Partners. Please go ahead.

Greg Fontana, Convergent Capital Partners

Hi, that's convenient, because my questions related to the one that was just asked, so maybe two questions on that topic. One is if you look at the capacity out there today, at what—what is the sensitivity to, say, another \$3 or \$2 drop in the price of uranium to coming off line? I mean is it in the order of 2 percent or 5 percent or 15 percent? And another question related to this is if you say there are 67 plants under construction, what percentage of their initial load has been purchased to date? When will we see demand coming from that catalyst?

Tim Gitzel, President & Chief Executive Officer

Yeah, those are both tough questions. I would say the sensitivity to a \$3 drop in price, you'd have to go probably company by company or project by project and ask that question. I can just say in our case, again, if you look at our price table you can get some sense as to what price we would receive in a \$20 market, \$40, \$60, and that gives you some of our numbers, and we're not overly sensitive to that \$3 drop. But, again, for the other projects, I'd really hesitate to comment on others.

The 67 units under construction, I think 28 of those, Ken, are in China, 10 in Russia, I think 7 in South Korea, numbers like that and, again, that would be country by country. I'm not sure we have any real precise numbers on initial core. Ken, do you have any more on that?

Ken Seitz, Senior Vice-President & Chief Commercial Officer

Yeah, it's really difficult to say. For example, the 28 units in China I think, you know, we know that the Chinese have been doing a lot of buying obviously over the last five years in anticipation of this large build-out and so it boils down to inventory policy in each of these places, how many pounds they want sitting behind each reactor and so on. I think we fall back to we expect uranium demand to grow in our business at about an average of 3 percent per year. And so, you know, we translate all of these initial core demands and requirements, add it all up, and we get to this 3 percent per year growth average, annual growth in uranium demand.

Tim Gitzel, President & Chief Executive Officer

Thank you.

Operator

Thank you. Our next question is from Oscar Cabrera from Merrill Lynch. Please go ahead.

Oscar Cabrera, Bank of America Merrill Lynch

Thank you for taking my follow-up. I'd just like to focus on the uranium market if I can. In your previous conference calls you had talked about a possible six reactors getting started in Japan. Just curious if you still maintain that view after you've seen so far the Japanese utilities that are looking for their restarts.

Tim Gitzel, President & Chief Executive Officer

Thanks, Oscar. You know, we were speculating at that time. The situation has really started to firm up in Japan and I think back, I was just looking at some notes this morning to last September when different government was planning to phase out nuclear power in Japan by the 2030s. We were pretty glum here, I can tell you, at that time. Today new government in place controlling both houses, pro nuclear, has the NRA, the regulatory authority in place. Standards have been set now and we have four utilities with 12 reactors in the queue or at least have brought their projects forward for restart. So certainly more clarity. I guess the piece we don't know is how long that review or those reviews will take. We know the NRA has three teams set up to look at the different projects being brought forward. We've heard it could take six months to do the reviews. I think the OE reactors that were reviewed were done in much less than that. So I guess we're just, you know, rather than speculating we're just waiting and watching day by day the situation in Japan, but I would say it's certainly a lot better than it looked some months ago.

Oscar Cabrera, Bank of America Merrill Lynch

That's great colour. Thank you. And then as a follow on, with respect to the U.S., you commented on the four reactors being shut; how do you see the market evolving over there? Like I mean based on the numbers I have here the U.S. accounts for about a third of demand in terms of uranium. Do you think the number of reactors that we have in operation right now will decline further or, you know, we have one starting soon so how do you see that market evolving to 2022? I believe that was the number that you gave us.

Tim Gitzel, President & Chief Executive Officer

Yeah, so some of us—I'm certainly heavily involved with the Nuclear Energy Institute, which gives us a chance to meet with all the utility CEOs on a regular basis, and I know Ken was just down, and he can maybe even speak about his visit to the Vogtle site and the Summer site, seeing the new construction there.

We believe that the U.S. will continue to have nuclear energy as an important part of their energy strategy going forward. I do think, and we're seeing it, that some of the merchant plants are under pressure from a cost point of view and, quite frankly, a regulatory point of view as well. The regulatory burden is not light. So I think we'll see, as we've heard, several of the units closing down, but there are also some coming back up. So we think it'll be flat. Clearly I'd be remiss not to mention natural gas in the United States, which today seems to be the answer to everything, but I would say on that, you know, if you build a gas plant the price of gas is very, very important to your electricity price, and so we've even seen, I think in the south, the price go up from \$2-something an MMBtu to \$4-something an MMBtu, so that can swing a bit. So, bottom line, we think nuclear will continue to play an important role in the United States.

Ken, do you want to just saying anything about your visit down there?

Ken Seitz, Senior Vice-President & Chief Commercial Officer

Absolutely. So, as Tim mentioned, just a few weeks ago I was at both the Summer sites and the Vogtle sites in the southern U.S. and obviously very encouraged to see a couple really substantial new nuclear projects in the U.S. and by every measure I think things are going quite well at those sites. And I think, importantly, if we look at the U.S., I like to talk about gigawatts as opposed to units because, as Tim mentioned, there are these, and we've seen, smaller merchant plants and often single units but smaller and so you have, in terms of gigawatts, these thousand megawatt units that are being built at Summer and Vogtle, a total of four of them, and so on a net basis, as Tim said, we're looking at the U.S. and saying they're going to be in this for a long time and sort of on a net basis maintaining their gigawatts.

Oscar Cabrera, Bank of America Merrill Lynch

Great. Thank you very much.

Tim Gitzel, President & Chief Executive Officer

Thank you Oscar.

Operator

Thank you. Our next question is from Peter Homans from Arthur Wood. Please go ahead.

Peter Homans, Arthur W. Wood Company

Thank you for my follow up. As a follow-up to my previous questions on demand, etcetera, do you have either, do you have reasonably hard estimates of what worldwide production versus worldwide consumption will be this year and what, production including or not including HEU, and what worldwide production versus consumption will be in estimated terms for next year. And then, secondarily to that, you mentioned, Tim, I think, that the utilities were, quote, pretty well covered for the next couple of years. Does that mean that they have two year's worth of inventory and therefore have absolutely no reason to buy anything for two years or...? I would think that they want to be in a position of, you know, just as you do, you have inventories to cover five or six months, I would think that a utility would also have something that is sort of a base case inventory level. So the question is if they're covered does that mean they're not buyers under any circumstances until two years passes?

Tim Gitzel, President & Chief Executive Officer

So, Peter, thanks for the question. Just back to the first piece, our forecast production numbers for this year, about 158 million pounds. That's not with the HEU. And then the consumption we see around 170 million. So then you see with the HEU the market is probably well supplied for this year. Now if you take the 24 million pounds out of the market and your consumption is growing by 3 percent a year over the next ten years, you can see that clearly fresh production is going to be needed in order to fill the gap. And, as I said, utilities foresaw this to some extent.

And so that blends into the next question, and that is inventory policies of the utilities, and as we go from maybe west to east I think we've often said that in the U.S. we see utilities holding inventories a year and a half to two years, Europe maybe two to three, and then the Far East three to four years of inventory, just as a really

general rule of thumb. So the piece maybe to answer your question is that utilities will not wait until months before they need the material to come to the market, unless it's just a small piece that they'll get on the (inaudible) market. The big utilities will normally come three to four years in advance of needing big quantities. If they're coming to us we'll say we'd like to put a ten-year contact on the table starting deliveries in about 2017 if they came today, because we're sold down to the end of 2016, and then that contract would run from 2017 to 2027, something in that order.

So that's, Ken, I think a typical contracting situation for us, so we're expecting, you know, as we see that our portfolio, we're heavily committed, as we say, to the end of 2016, so we know we have utilities committed as well, but we know their needs open up in the 2017 period going forward and so we expect that they won't wait too long now to start coming back to the market to sign new long-term contracts.

Peter Homans, Arthur W. Wood Company

So, as a follow-up to that, isn't what's going on with utilities and the departure of the Russian contract sort of, and given their inventory policies as you've described them, isn't what's happening sort of a game of chicken? You're going to be in sort of a balanced supply/demand situation once HEU is gone and given these lead times that you're talking about someone interested in acquiring product for 2017 would like not to have to have the spot price go up because to the extent the contracts are written on that, related to that, that would hurt them. So is there some sense in which everybody is kind of waiting with bated breath to see who moves first?

Tim Gitzel, President & Chief Executive Officer

Yeah, I think that's the case. I would just say this, that in the market that today consumes about 170 million pounds, going to 220 million pounds by 2022 in a market that produce fresh production from the mines of 158 million pounds that is not rising very quickly going forward, new production has to be brought on. Today we are not, as one of the producers, getting signals from the market to invest in new production. Unfortunately, we're not very good at bringing on new production in a hurry. It takes us seven, eight, nine years. So the longer we have to wait to get that signal to bring on new production the longer it's going to be at the other end when we bring it on. So that's the, you know, those are the fundamentals of the market that we are encouraged by and here we are today in the doldrums just waiting to see what's going to

happen with the market but something has to happen going forward.

Peter Homans, Arthur W. Wood Company

But even next year you're going to have a supply/demand either equality or imbalance.

Rachelle Girard, Director, Investor Relations

Peter, I'm going to have to ask you to get back into the queue.

Peter Homans, Arthur W. Wood Company

I'm happy to do so. Thank you.

Operator

Thank you. Our next question is from David Snow of Energy Equities, Inc. Please go ahead.

David Snow, Energy Equities, Inc.

Hi. The 158 million pounds of mine production this year, do you have an estimate for what it may look like next year?

Tim Gitzel, President & Chief Executive Officer

I'm not sure if we put those numbers out. I'm looking at Rachelle. I don't think we do. I think it probably, well, we'll see what happens with the existing mines and what decisions are being taken, but it might be a similar nature next year.

David Snow, Energy Equities, Inc.

Even with your Cigar Lake expansion?

Tim Gitzel, President & Chief Executive Officer

Yeah. Well, you know, David, it's going to take us several years, about four years, a little over four years to ramp up to full production, so there will be a bit more coming from Cigar but that'll take us some time to ramp up.

David Snow, Energy Equities, Inc.

And then I'm wondering can you tell us in pounds of U₃O₈, ah, how much HEU deliveries you're getting this year?

Tim Gitzel, President & Chief Executive Officer

In any normal year we would get about seven million pounds of HEU. This year the number is closer to ten million pounds.

David Snow, Energy Equities, Inc.

Okay. And then just—

Rachelle Girard, Director, Investor Relations

Sorry, David, we're really going to have to try to limit it to two questions.

David Snow, Energy Equities, Inc.

Okay. All right.

Operator

Thank you. The next question is from David Stadlin from PCO Capital. Please go ahead.

David Stadlin, PCO Capital

Hello. I have a question, just trying to go through your MD&A amongst all the earnings reports today. You talked about inventories going up \$369 million but production volumes were up 4.4 million pounds or were 4.4 million pounds and sales volumes were 6.4 million pounds, so I'm just trying to understand how I square the production versus sales and the inventory increase that you saw in the quarter.

Grant Isaac, Senior Vice-President & Chief Financial Officer

Yeah, the way to just think about that is, we can have significant swings from quarter to quarter in our sales volumes. As we do note in our MD&A that our customers

determine when they want deliveries and so at the beginning of the year we wait for those delivery notices to come in, but we continue to produce on our mine plans on an annual basis. So we have periods where the inventories build up and then we'll have a period where we make a lot of deliveries and the inventory will come back down. In addition, if you're comparing year-on-year numbers, you'll also detect that there's higher values driven by the NUKEM inventory as well, and as we said at the outset, we made the decision not to sell down some NUKEM pounds, just because the price isn't there to support it. So, all of that is baked into those numbers, which kind of disassociates them, if you will, from the production number.

David Stadlin, PCO Capital

Okay. And then, just so I understand it, did NUKEM close in the first quarter or in the second quarter?

Grant Isaac, Senior Vice-President & Chief Financial Officer

First quarter. January 9th.

David Stadlin, PCO Capital

Okay. Thank you.

Operator

Thank you. As a reminder, we ask that you ask one question and one follow-up question. The next question is from Emily Meredith from Nuclear Intelligence Weekly. Please go ahead.

Emily Meredith, Nuclear Intelligence Weekly

Hi. Just quickly, this is the follow-up from last time, to see if you all have seen any effects to your own deliveries because of the issues with licensing uranium imports into China, and, if not, if you've seen those issues sort of resolved.

Tim Gitzel, President & Chief Executive Officer

Thanks, Emily. It's a good question. Ken is going to answer that.

Ken Seitz, Senior Vice-President & Chief Commercial Officer

Thanks, Emily. As you may know, the material is flowing into China again, and it's true that we were facing some delays, but with the material flowing both from Kazakhstan and Uzbekistan we expect to actually deliver for the first time Canadian origin uranium this fall. We fully expect that we will be within our guidance of 31 to 33 million pounds of deliveries for the year.

Emily Meredith, Nuclear Intelligence Weekly

Okay. So the licensing issues, you don't expect those to be a problem (inaudible)?

Ken Seitz, Senior Vice-President & Chief Commercial Officer

We don't expect those to impact our guidance, no.

Emily Meredith, Nuclear Intelligence Weekly

Okay. Thank you.

Operator

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

Edward Sterck, BMO Capital Markets

Thank you very much for taking my second round of follow-up questions. Just regarding China, and I apologize if this has already been asked and answered, I understand that aside from the imports issues the Chinese have been somewhat absent, especially from the spot market. Do they seem to be returning any time soon in your view and could you also comment on levels of inventory in China at present?

Ken Seitz, Senior Vice-President & Chief Commercial Officer

Yes, thanks, Ed. So I think a couple things going on in China. One, we all know that they hit the pause button post Fukushima and assessed their greenfield program and now have restarted all of that and so sort of a

revisiting inventory policy in China and questions about layering on new volumes. I can tell you that we have sold material to China this year and I can tell you that there are discussions about longer-term volumes with China at the moment, and so, you know, question on inventory policy, we believe that the Chinese are taking a view that they want to have sufficient inventories, multiple years of inventories behind each new unit, along with initial cores and all those things for these 28 units that are under construction, so we just continue to see them in the market and, you know, with an eventual 50 million pounds a year being consumed in that part of the world we expect to just, on an ongoing basis, see them in the market.

Edward Sterck, BMO Capital Markets

Thank you. And then just a final follow-up question regarding Bruce Power and the second quarter contract sales, in the MD&A it didn't define what percentage of Bruce Power's output was sold into financial contracts, could you just give me that percentage?

Tim Gitzel, President & Chief Executive Officer

Edward, I'm not sure we have that, but we will follow up on that with you.

Edward Sterck, BMO Capital Markets

Super. Thank you very much indeed.

Tim Gitzel, President & Chief Executive Officer

Thank you Edward.

Operator

Thank you. Our next question is from David Snow from Energy Equities, Inc. Please go ahead.

David Snow, Energy Equities, Inc.

Yes, I think you just answered that but I was thinking when you mentioned the number of years of inventories in the different regions, that's beyond the inventory that's bought a little bit in advance to fabricate the initial fuel loading. Is that right?

Tim Gitzel, President & Chief Executive Officer

Yeah, David, that would normally be the case. We use as rule of thumb that for initial cores on a new unit the utility would come to the market probably three or four years before. If it as a 1,000-megawatt unit they'd probably looking for about 1.5 million pounds to get it fired up. So that's, you know, that's pretty general, but that's what we use.

David Snow, Energy Equities, Inc.

And so beyond that is what you're talking about. Is it two years did you say for the west and three to four for China?

Tim Gitzel, President & Chief Executive Officer

Well, China, that's a little bit of a different bird, because we don't know that one so well yet. You know, they're just really getting started. We were thinking more the Japanese/Korean situation.

David Snow, Energy Equities, Inc.

Okay. Terrific. Thank you.

Tim Gitzel, President & Chief Executive Officer

Thank you.

Operator

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

Tim Gitzel, President & Chief Executive Officer

Thank you, operator, and thank you to everyone who has joined us on the call today.

As you can see from the many topics we went over today and the questions we discussed, there's a lot going on in our market, but still not a lot of clarity. It's difficult to know what to expect next, when Japanese reactors might start, when the uranium price might increase, when long-term contracting might pick up, and while no one can tell you

exactly when those things will occur I can tell you what you can expect from Cameco. You can expect us to take the kinds of actions you've seen us taking over the past two years, monitoring the market and adapting as needed in order to stay competitive and stay profitable. That has meant adjusting our growth plans when the market called for it, making acquisitions when they made sense, and restructuring the business when it was needed. Our decision making, we believe, has been thoughtful, strategic and disciplined, and will continue to be during times of uncertainty, as is the case now, and during the times of growth we see ahead for the industry.

So, again, thank you for joining us and have a great day everyone.