

Damp but not extinguished...will Cigar be relit?

Cameco has experienced a near catastrophic inflow of water at the Cigar Lake Mine. Can it be saved? We believe that the answer is yes.

The Event

Cameco fails to prevent water from entering Cigar Lake mine after a ground fall in an access drift approximately 460 metres below surface on October 22nd.

A ground fall in an access drift under development resulted in a near catastrophic inflow of water (reportedly 1500 m³/hr or 6600 gallons/minute) and flooding of the Cigar Lake mine. Initial water inflow was expected to be stopped by an underground bulkhead door installed as part of the water management program in place at the mine. It was soon discovered that a gasket seal had failed and could not be repaired. Water could not be contained and began to enter all areas of the mine. A decision was made to evacuate all personnel, and to allow the entire mine to flood.

A rehabilitation plan is expected to be developed. Until then, the economic viability of the project is in question.

What we believe happened...

It is our belief that development excavation and freezing activities may not have been properly synchronized and that the ground fall is the result of mine development occurring outside, or on the periphery, of the freezing envelope. This, combined with the inherently poor ground conditions and unknown hydrological conditions, resulted in the ground failure and the resulting inflow of water. It is suggested, though not widely reported, that this was the reason for the McArthur River Mine flood of 2003.

The development of uranium mines in the Athabasca Basin is particularly complex due to difficult ground conditions and the presence of water. The uranium is contained in hyper water-saturated sandstone lying on an altered impermeable basement rock. (Diagram 1) Extensive mine development in the sandstone is difficult and requires most development to occur in the stable and dry basement rock below the unconformity and below the ore horizon. (Diagram 2)

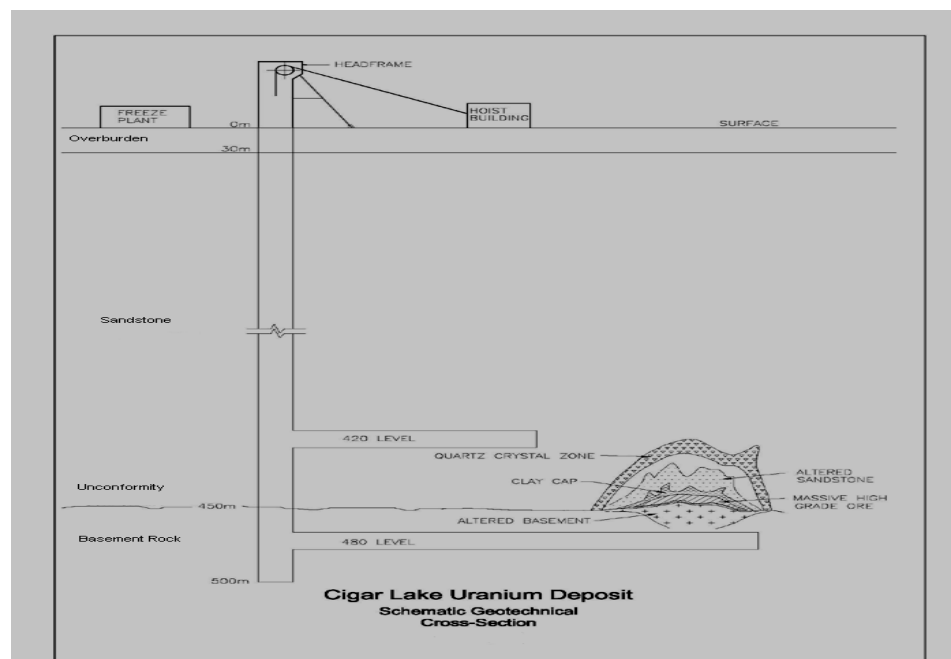


Diagram 1, Schmitke

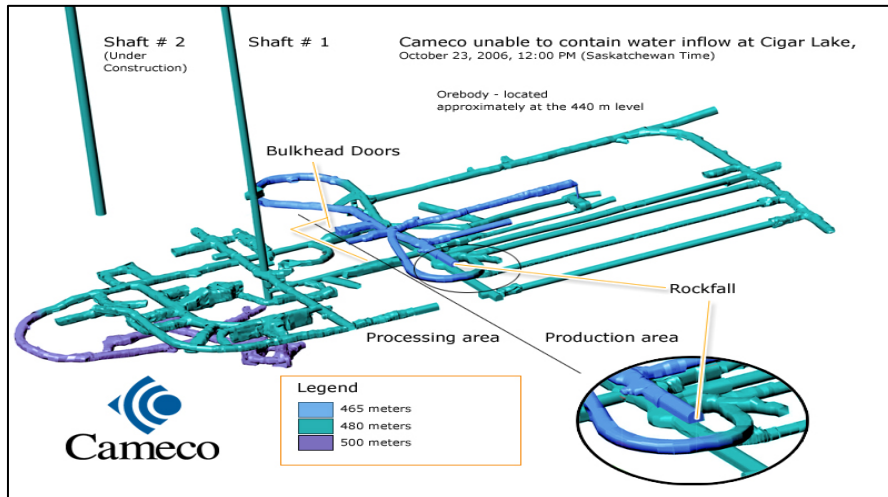


Diagram 2, Cameco Corp.

Any mining activities in the sandstone must be carefully managed to ensure the geotechnical stability of the host rock environment. At Cigar Lake, Cameco elected to proceed with a ground freezing program in an attempt to make the ground more competent. This method, whilst long used in the excavation of shafts in the Athabasca Basin, had not previously been used on such a large scale in actual mine production. Longitudinal ‘freezing’ drifts are excavated in the basement rock, some 25-30 meters below the deposit, from which an array of vertical holes are drilled into the ore body above. These holes are lined with pipes, and a -40°C calcium chloride brine solution is circulated through these pipes, to stabilize the ground and allow for safer extraction.

As the freezing process is initiated from the freeze drifts, the production drifts can be safely driven on a horizon above the freeze drifts and much closer to the orebody. These drifts are driven parallel but laterally offset from the freeze drifts and approximately 15 metres above. Protecting the production drift is an 11 metre thick crown pillar of dry basement rock designed to act as a buffer from the unstable sandstone. (Diagram 3)

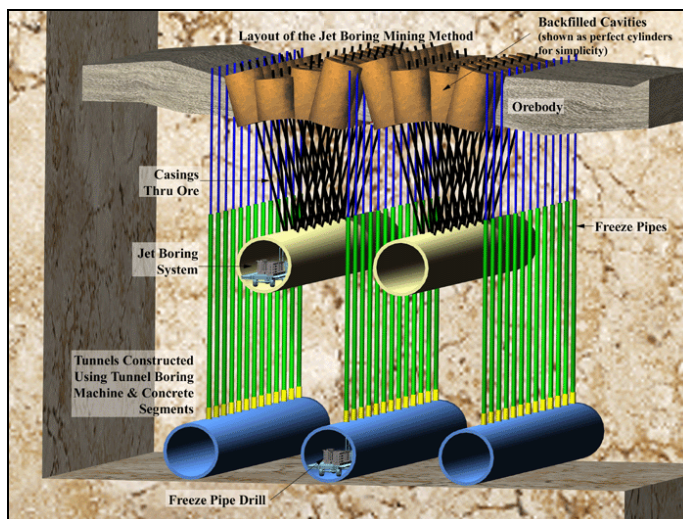


Diagram 3, Schmitke

At the end of August 2006, Cameco had 324 such freeze holes drilled. 8 million pounds of U3O8 were frozen and an additional 30 million pounds were scheduled to be frozen by the end of 2007.

Critical Issues

The critical path items now facing the operating team include the permitting and processing of the water currently contained within the mine, and on a go forward basis, a more significant mine water management program. While 9 million gallons of water a day from an underground mine is a lot of water, there are other Canadian hard rock underground mines that have, and do, manage similarly large amounts of water. This will definitely have a capital and operating cost impact on the asset, but with such exceptionally high grades, the mine should easily be able to carry anticipated costs.

Additionally, as no major processing equipment was located underground at the time of the incident, there is no expected delay in long lead time equipment replacement. There undoubtedly will be some impact on mine development equipment, but this is more easily overcome than extensive replacement of the processing equipment.

Conclusion

The Cigar Lake US\$12.7B in situ reserve (231 million pounds of U3O8 at \$55) will not be left behind.

We are of the opinion that the rock fall and ensuing water problem was *not the result of a systemic failure of the ground freezing program* and was more likely caused by active development ahead of the ground freezing envelope. We believe that the mine engineers should be able to develop a plan to salvage this world class uranium asset. The absence of any major processing equipment loss boosts our belief that if the water management program can be successfully engineered and the ground freezing program continues, the mine should eventually be reopened. We do, however, expect a delay of at least three years.

Corporately, Cameco has declared Force Majeure as it has contract language to delay or cancel future deliveries from Cigar Lake. This has caused utilities to scramble to secure new sources of supply. Although this setback will mainly deepen future supply deficits, it will add significant pressure to an already tight spot market assuring another jump in prices.

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References: Barry W. Schmitke, "Cigar Lake's Jet Boring Mining Method", World Nuclear Association Annual Symposium 2004.

Diagrams: Barry W. Schmitke, "Cigar Lake's Jet Boring Mining Method", World Nuclear Association Annual Symposium 2004.

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