

Cameco Corp. (CCO-TSX)



Cameco reports adjusted net earnings of C\$42 million and provides update on Cigar Lake.

On Wednesday, November 1 2006, Cameco released third quarter results and provided an update on Cigar Lake recovery operations in a morning conference call. Cameco reported net earnings of \$42 million during the quarter ended September, 2006 and indicated that a detailed plan for Cigar Lake will be ready in three months.

Cameco reported:

Financial Highlights (\$ millions except per share amounts)	Three Months Ended Sept. 30		Change %
	2006	2005	
Revenue	363	287	27
Earnings from operations	69	14	393
Cash provided by operations	79	148	(47)
Net earnings	71	78	(9)
Earnings per share – basic (\$)	0.20	0.22	(9)
Earnings per share – diluted (\$)	0.19	0.21	(10)
Adjusted net earnings	42	78	(46)

Net earnings during the quarter excluded one time gains of C\$29 million from the sale of its interest in the Fort à la Corne diamond project. Net earnings are down from the C\$78 million reported during the same period in 2005. The main reason for this change was the drop in cash from operations to C\$79 million compared to the C\$148 million in 2005. This change was related to lower cash flows from the gold and electricity businesses and an increase in working capital during the quarter.

The uranium business generated earnings of C\$14 million down from C\$30 million in the same quarter of 2005. This is a result of a 26% decline in reported uranium sales volumes. Higher uranium prices were partially offset by the increased strength of the Canadian Dollar.

Cigar Lake

Cameco is working as quickly as possible to restart development of the Cigar Lake Mine after last week's flood. In the week since the news originally broke, technical experts have arrived on site and early stage planning has begun. The detailed path forward for salvage and recovery is being devised. Early phase recovery equipment has already been mobilized to the site and Cameco hopes to report Cigar Lake's revised capex forecasts and a timeline for rehabilitation within three months.

The Company is currently working with regulators to achieve permitting for mine rehabilitation work including the treatment of contaminated mine water. Fortunately, language in Cigar Lake's original permitting application should speed the approval process since rehabilitation was initially identified as a possibility and was included in the original application. At this time it is unclear as to how long this additional permitting phase will take to complete.

Engineers must stem water inflow to enable the pumps to begin draining the mine workings. The rehabilitation plan will involve a large diameter drill hole (or holes) drilled from surface to the area affected by the ground fall. Through this hole or holes, Cameco plans to freeze and/or grout the dome area using surface infrastructure. By freezing the affected ground, engineering teams should be able to prevent additional water inflow. Cameco has suggested a timeline of three months to complete this process once the brine solution begins to flow. Although the water level is currently 30 metres below the mine's shaft collar, the actual water volume is relatively small and pumping should be prompt once the inflow has been stopped.

Cameco has stated that the path forward may include rehabilitation of drifts if necessary. It is highly unlikely that underground workings have been irreversibly compromised as a result of the flooding. The majority of development work has taken place in competent, dry and stable basement rock and the dilapidation of these workings would be surprising. The only damage of any consequence will likely involve electrical systems and infrastructure associated with air ventilation and muck handling equipment. Cameco will focus its efforts on restoring the electrical and ventilation systems first so it can restore safe access to the workings.

Cameco may also have to reclassify some uranium reserves from the proven to probable category as a result of NI 43-101 regulations. If this revision does take place, however, it will be a reflection of mining method uncertainty rather than the quality of the deposit itself. This reclassification should not influence the recovery operations and the \$12 billion in-situ value of Cigar Lake will certainly be reaped.

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