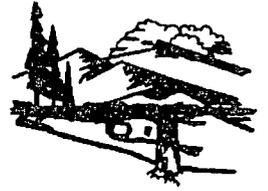




Department of Environmental Quality



To protect, conserve and enhance the quality of Wyoming's environment for the benefit of current and future generations.

Matthew H. Mead, Governor

John Corra, Director

March 31, 2011

Ms. Jean Lawlor
Cameco Resources, Inc.
550 North Poplar Street, Suite 100
Casper, WY 82601

RE: North Butte ISL Operation, Permit No. 632

Dear Ms. Lawlor:

Attached is a copy of my report on the 2011 Annual Inspection of the North Butte ISL Operation. This inspection was conducted March 16, 2011, in your presence and that of others of Cameco.

One item needing follow-up was the need for some kind of topsoil identification signs for the mud pit topsoil stockpiles.

My report also contains a review of the 2010 Annual Report for Permit No. 632. My review of this report did not turn up any issues for which responses are needed. This closes out my review of the Annual Report.

I have reviewed the reclamation bond and propose to recommend to the Director that it be kept at the \$1,745,000.00 level based on information provided by Cameco for the drilling program to be conducted this summer. However, my review contains a number of comments on the expanded bond estimate which must be resolved prior to the bond being increased to the \$5.6 million range to cover mine construction and mining operations

Please feel free to call if you have any questions.

Sincerely,


Glenn Mooney
Senior Geologist

MSZ
4/1/11



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Attachment

cc: Cheyenne File
NRC-MD w/attach.

632ANcvlet11.11gm

ANNUAL INSPECTION REPORT

SUBJECT: Cameco Resources' North Butte Project

PERMIT NO.: 632

INSPECTOR:  Glenn Mooney, Land Quality Division

PERSON CONTACTED: Jean Lawlor, Bryan Soliz and Aaron Stewart, Cameco Resources, Inc.

DATE OF INSPECTION: March 16, 2011

Introduction

Cameco Resources' North Butte Project lies on the southern slopes of the North Pumpkin Butte in far west-central Campbell County.

PRI purchased the North Butte property from Pathfinder Mines Corporation in 2001 and Permit No. 632 was transferred to PRI on November 29, 2001. On November 26, 2008, the permit and license were transferred into the name of Power Resources Inc. d/b/a Cameco Resources.

Exploration Camp

The old Cleveland-Cliffs exploration camp on the west side of the permit area is nearly gone. Only an old mobile home remains. An existing water well and small water storage lagoon have been used to produce and store water for drilling programs. This site was upgraded during the past year as described below.

The road leading to the trailer area has been upgraded by Anadarko which is developing the area for coal bed methane (CBM) development. The road has been extended up the hill toward North Butte with another branch running off to the east. The borrow ditches along the road and other disturbances have been seeded with good initial results.

Well Field

The old road between the exploration camp and the well field had been replaced by a number of upgraded roads. Power, water and gas lines had been buried along many of the roads. Grass has been seeded along the disturbed areas and is beginning to provide stabilization.

Since last fall, PRI has been conducting delineation or in-fill drilling in the Mine Units 1 and 2 areas. At the time of the inspection, drilling had been completed in the Mine Unit 1 area. Four drill rigs were running.

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Historically, the property was drilled in lines of 50 holes on fences (rows) 200 feet apart (Photo No. 3). Now the well field areas are being drilled on a 100'X100' pattern. With four drill rigs running, they expect to complete drilling in Mine Unit 2 by July or August of this year.

In late summer of 2011, some 75 monitor wells are planned to be drilled in the Mine Unit 1 area.

Currently, drilling is proceeding on 200 holes. Drilling is carried out using bentonite-based drilling mud. Then, once the hole has reached its planned depth, abandonment mud or plug gel is added to the mud in the mud pit and circulated through the total depth of the hole (Photo No. 2). The mud is added until the viscosity reaches the point where it takes sixty seconds to pass through a Marsh funnel. Following that, the hole is logged. A temporary metal cap is placed on the top of the hole and the mud column allowed to settle (Photo No. 1). Following settling, the metal cap is set aside and bentonite chips trickled down the hole. The cap is replaced and the chips allowed to hydrate. If it is found later that the mud and bentonite column has settled further, more chips are added. Then the top of the hole is enlarged down to a depth of two feet below the ground surface and a permanent concrete cap is inserted. Subsoil and topsoil are then spread over the hole area and on the nearby mudpit, if it has not already been backfilled and retopsoiled. The location is then drill-seeded (Photos Nos. 4, 5 and 6).

At the time of the inspection, some 122 holes had reportedly been sealed with bentonite chips. Of that number, 69 holes had been permanently capped. The locations of twenty holes out of that number have been drill-seeded.

This inspection looked at twenty holes in detail. The results are summarized in Attachment No. 1. The holes looked at were in all stages of abandonment, from open to completely sealed with surface reclamation completed and the location drill-seeded.

One potential problem noted was that a couple of locations were found where the drill seeding had not been seeded on the contour with the drill tracks running up and down the slope. Experience has found that the grass sprouting in tracks oriented this way is not nearly as effective at retarding erosion as that seeded on the contour.

Other problems noted were the settling of the topsoil over some backfilled mudpits which had continued to settle after contouring. These will require touch-up work.

The surface owner, Patricia Clark of T-Chair Land Company, requires the fencing of all open mudpits. Steel corral panels and steel posts are used for this purpose. Mrs. Clark also does not allow the use of vinyl flagging or pin flags on her property. As a result, PRI cannot use the pin flags used by Cogema and now Uranium One to temporarily identify the topsoil stockpiles.

I requested PRI come up with another method of identifying the topsoil stockpiles that would be acceptable to both Mrs. Clark and the LQD.

Signs

The permit identification sign remains in place along the access road that enters the permit area from the southwest. It contained the necessary information.

Compliance

There are no outstanding violations at the North Butte Project. No new violations were noted as a result of this inspection.

Annual Report

The 2010 Annual Report for Permit No. 632 was received January 28, 2011. The Report stated that the main activities during 2010 were the drilling of 87 boreholes for uranium exploration. The details of the abandonment of these holes were described in the Report. Topsoil was removed from a site that was then leveled for storage of drilling materials. A new pump was installed in the existing site water supply well and two tanks for drilling water storage were installed. Air quality monitoring equipment, including a met station with tower was also installed during the year.

Bond

The existing bond for Permit No. 632 is Letter of Credit No. [REDACTED], written by the Royal Bank of Canada in the amount of \$1,745,000.00.

The current bond of \$1,745,000.00 was posted to cover, among other things, the sealing and reclamation of 87 existing wells and 250 new drill holes to be drilled during 2010. Of the 250 drill holes, 205 had been drilled as of the day of this inspection, according to Mr. Young's March 22, 2011, letter. Also in his letter and detailed on a table, Mr. Young requested credit for the sealing of 138,357 feet of drill holes and the capping of 71 separate holes. This would free up a total of \$869,414.00 for additional drilling to be carried out during 2011.

Review of this table included with Mr. Young's letter found that it corresponded with that found on this inspection and detailed on Attachment No. 1. I propose to accept Mr. Young's numbers and credit of \$869,414.00 for sealing and plugging done as of March 16, 2011.

This would leave 82 holes to be filled with bentonite chips, 134 to be capped, and most of the 205 needing all or some surface reclamation. If an average hole depth of 675 feet is used, 134 holes need capping, three-fourths of the 205 sites need grading and all 205 need seeding or reseeding.

This would result in these approximate costs:

Hole sealing:	82 X 675' X \$6.28/ft. = \$347,598.00
Hole capping:	134 X \$7.50/cap = \$1005.00
Site grading:	.75 X 205 sites X \$30.00 site = \$4612.50
Site vegetation	205 sites X \$100.00/site = \$20,500.00

Total \$373,715.50

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This would leave around \$1,370,000.00 to cover additional drilling in 2011, sealing of the 87 monitor wells and reclamation of the exploration camp and several two-track roads. Costs of sealing the monitor wells, reclamation of the exploration camp and reclamation of the roads were previously estimated at \$286,628.00, without contingencies. Thus, there is more than \$1,000,000 available to cover 2011 drilling reclamation.

The bond estimate included with the 2010 Annual Report called for an increase to \$5,590,000.00 which would cover the construction of the plant building, contents, well field, associated piping and two deep disposal wells. It also covers the cost of disposal of radiologically contaminated material. This is a very forward-looking estimate as it is unlikely Cameco could construct the plant and well field, collect data for the first well field data package, submit and gain approval of the first well field, and begin operations to the point radiologically contaminated material starts to accumulate, all in one year.

The following items of concern were noted with the bond estimate:

1. Some of the costs described as Guideline 12 costs are not from Guideline 12.
2. Some of the equipment is described as from Guideline 12 when it is not. For instance, Cat 430D and 416 backhoes are used in the bond estimate when only Cat 430E backhoes are listed in Guideline 12. Please use Cat 430E backhoes consistently through the bond estimate.
3. The labor costs are not from Guideline 12.
4. For well abandonment costs on Page 14 of 29, there are discrepancies in the usage of equipment versus available manpower. There are four pieces of equipment being utilized 100% of the time, three pieces utilized 50% of the time and one 25% of the time. However, only three operators are listed as running this equipment. Five would seem a more appropriate number of operators.
5. On the well abandonment worksheet UC-WA, 12 sacks of cement versus the listed 7.5 sacks per 100 feet of casing would be more appropriate, according to Mark Taylor of this office.
6. In Part IV: Well & Borehole Abandonment, on Page 10 of 29, the costs do not agree with those costs given on the detailed well abandonment costs given on Worksheet UC-WA and are very different from Guideline 12 costs for well abandonment. Please use the Guideline 12 costs.
7. In Appendix B, Part II, Building Demolition and Disposal, please add the costs of a loader to load the concrete rubble onto the trucks. The Cat 980H loader from Guideline 12 would be appropriate.
8. Also in Appendix B, Part II, Building Demolition and Disposal, on Pages 4 of 29 and 5 of 29, the costs of the equipment (Dump Truck) are inaccurately referenced in the description, but the correct costs are used in the calculations. Please remove the misleading cost from the bond estimate.
9. Many of the costs are listed in the Master Costs worksheet, but many of the links between the Master Cost worksheet and other worksheets are broken. This will prevent the overall estimate from being properly updated when costs on the Master Cost worksheet are updated.

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PRI is requested to revise the bond estimate included with the Annual Report in light of the above comments. However, the current bond amount is adequate to cover reclamation of the current disturbances and planned drilling activities for the coming report year.

Conclusions

This inspection found that developmental or delineation drilling activities were in progress on the permit area where the first two well fields are planned. No problems were noted except for the need for temporary topsoil identification signs on the topsoil stockpiles associated with the drilling mud pits.

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Attachments: Photo pages
Hole summary table

632an311.11gm

Summary of Holes Inspected During March 16, 2011, Annual Inspection

Hole Number	Status
13-491	Hole has been filled with bentonite chips but more are needed.
13-492	Hole has been filled with bentonite chips to surface, Mud pit is open and fenced.
24-1293	Hole is open and no bentonite chips have been added.
24-1290	No chips have been placed in hole, mud pit has been filled in
18-162	Hole in Mine Unit 1 has been sealed and area topsoiled and seeded on Nov. 19, 2010 by Circle F
18-161	Hole is open and not chipped, the mudpit has been backfilled and seeded.
18-157	Hole has been sealed and area topsoiled and seeded on Nov. 19, 2010 by Circle F. Seeded on the contour.
18-158	Hole in Mine Unit 1 has been sealed and area topsoiled and seeded on Nov. 19, 2010 by Circle F. Not seeded on the contour.
18-159	Hole has been sealed and area topsoiled and seeded on Nov. 19, 2010 by Circle F. Not seeded on the contour.
19-336	Hole in Mine Unit 1 has been sealed and area topsoiled and seeded on Nov. 19, 2010 by Circle F. Seeded on the contour.
19-334	Hole in Mine Unit 1 has been sealed and area topsoiled and seeded on Nov. 19, 2010 by Circle F. Seeded on the contour.
19-333	Hole in Mine Unit 1 has been sealed and area topsoiled and seeded on Nov. 19, 2010 by Circle F. Seeded on the contour.
19-332	Hole in Mine Unit 1 has been sealed and area topsoiled and seeded on Nov. 19, 2010 by Circle F. Seeded on the contour.
19-331	Hole in Mine Unit 1 has been sealed and area topsoiled and seeded on Nov. 19, 2010 by Circle F. Seeded on the contour. Some erosion.
19-322	Hole in Mine Unit 1 has been sealed and area topsoiled and seeded. Seeded on the contour. Some settling in mudpit.
18-172	Hole in Mine Unit 1 has been sealed and area topsoiled and seeded. Seeded on the contour. Some cleanup around hole needed.
18-171	Hole in Mine Unit 1 has been sealed and area topsoiled and seeded. Seeded on the contour. Some cleanup around hole needed yet.
18-176	Hole in Mine Unit 1 has been sealed and area topsoiled and seeded.
18-168	Hole in Mine Unit 1 has been sealed and area topsoiled and seeded. Settling in mudpit area has caused two holes which need filling.
18-179	Hole in Mine Unit 1 has been sealed and area topsoiled and seeded on Nov. 19, 2010 by Circle F. Seeded on the contour.



Photo No. 1

Looking southward at Drillhole No. 13-491 which has been filled with hydrated bentonite chips and covered with a temporary cap, concrete in this case. Later, additional chips will be added, the hole enlarged down to a depth of 2 feet, a permanent concrete cap installed and the area around the hole backfilled. The mudpit in the background has already been backfilled.



Photo No. 2

One of the drill rigs in action where abandonment mud is being added to the drilling mud to give it the desired consistency prior to the hole being logged. The gray cuttings piles indicate this hole has been drilled on the reduced side of the roll-front.

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Photo Page No. 3



Photo No. 4 Looking north at sealed drill hole and backfilled and seeded mudpit. In this case the area was not drill-seeded on the contour. Most all other seeding was done on the contour, the preferred method. North Pumpkin Butte is visible in the left distance.

Photos taken March 126, 2011, by Glenn Mooney

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Photo Page No. 2



Photo No. 3 Looking north to east across future Mine Unit No. 1 where delineation or infill drilling has been completed and drill holes and mud pits are in different stages of sealing and reclamation.

Photos taken March 126, 2011, by Glenn Mooney

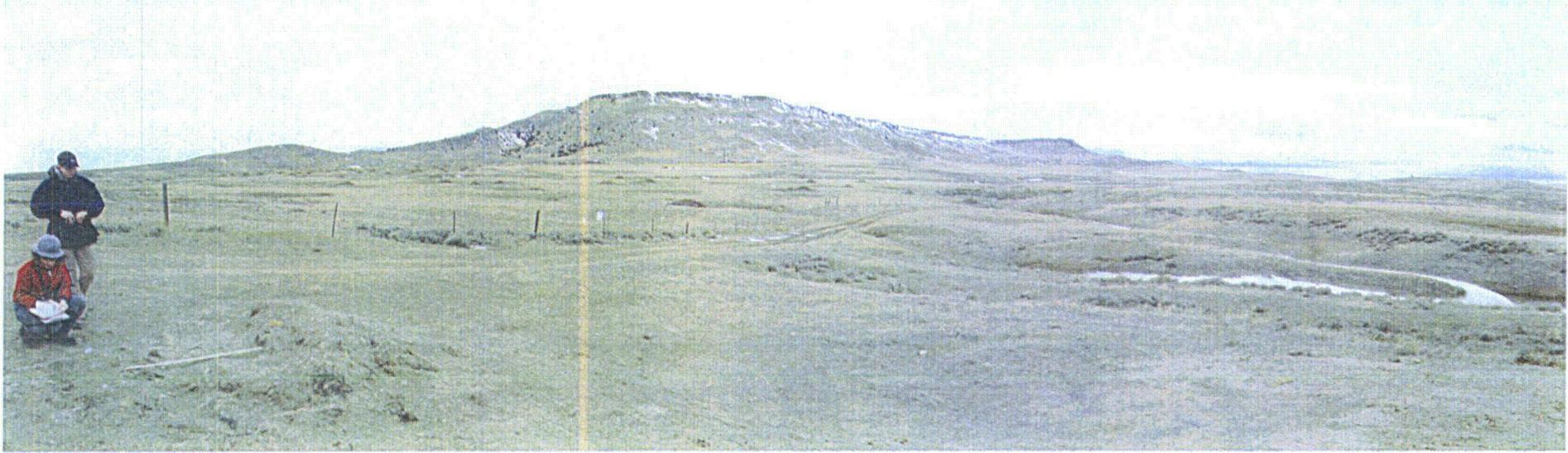


Photo No. 5 Looking north-northwest at reclaimed drill hole in south end of Mine Unit 1.

Photos taken March 126, 2011, by Glenn Mooney

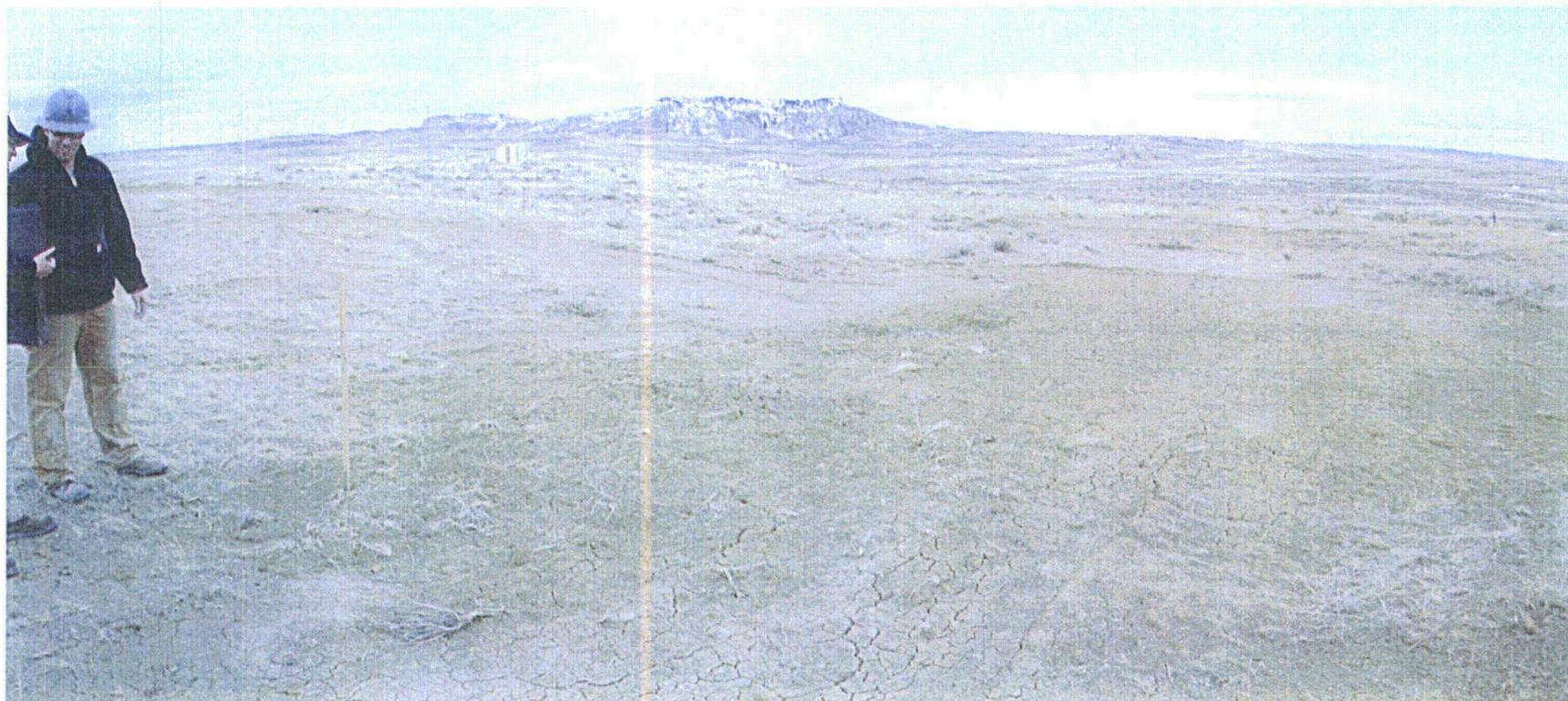


Photo No. 6 Looking south at reclaimed drill hole 19-336 in Mine Unit 1.

Photos taken March 16, 2011, by Glenn Mooney