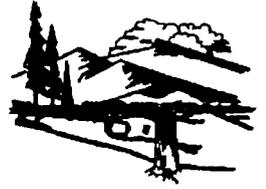




Department of Environmental Quality



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

October 7, 2011

Mr. Josh Leftwich
Cameco Resources, Inc.
20210 Carey Ave., Suite 600
Cheyenne, WY 82001

RE: North Butte ISL Operation, Permit No. 632

Dear Mr. Leftwich:

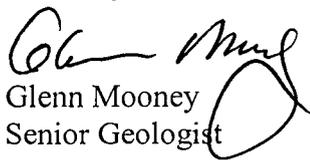
Attached is a copy of my report on the Drill Hole Inspection of the North Butte ISL Operation. This inspection was conducted August 31, 2011, in the presence of Joe Brister and Brian Soliz of Cameco.

As noted in the report, the inspection found that spreading of the topsoil had left areas of subsoil exposed on a number of locations. It is hoped that greater care in topsoil spreading and grading of the locations will reduce this problem in the future. A few locations had exposed bentonite which was called to the attention of the Cameco representatives during the inspection.

Also, as noted, the revised bond estimate will be addressed separately.

Please feel free to call or write if you have any questions.

Sincerely,


Glenn Mooney
Senior Geologist

\gm

Attachment

cc: Cheyenne File
US Nuclear Regulatory Commission, Mail Stop T-7J8, Washington, DC 20555-0001

632dhincvlet1.11gm



Handwritten initials and date:
JJC
10/10/11

BOND RELEASE INSPECTION REPORT

SUBJECT: Cameco Resources' North Butte Project

PERMIT NO.: 632

INSPECTOR: Glenn Mooney, Kris Thompson, Land Quality Division

PERSON CONTACTED: Joe Brister and Bryan Soliz, Cameco Resources, Inc.

DATE OF INSPECTION: August 31, 2011

Introduction

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

This inspection was conducted when, during an inspection of a road corridor, the Cameco representatives requested the Land Quality Division representatives inspect the abandonment of nearly 400 drill hole locations. The road corridor inspection was to confirm the road corridor had not been affected by mining and thus could be dropped from the permit areas during the Chapter 11 permit update process. The road corridor inspection is discussed in a separate report.

Well Field

Since the fall of 2010, PRI has been conducting delineation or in-fill drilling in the Mine Units 1 and 2 areas. Historically, the property was drilled in lines of 50 holes on fences (rows) 200 feet apart. Now the well field areas are being drilled on a 100'X100' pattern. The drilling was completed in Mine Unit 2 by July or August.

Beginning in September or October 2011, some 60-75 monitor wells are planned to be drilled in the Mine Unit 1 area.

The drilling operation and hole abandonment was reviewed during the annual inspection conducted on March 16 of this year. Drilling was carried out using bentonite-based drilling mud. Then, once the hole reached its planned depth, abandonment mud or plug gel was added to the mud in the mud pit and circulated through the total depth of the hole. 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 for at least a week. 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.

MR
10/14

**Cameco Resources
North Butte ISL Project
Permit No. 632
Bond Release Inspection
August 31, 2011
Page 2**

As a result of the annual inspection in March 2011, Cameco was given credit for the sealing of 138,357 feet of drill holes and the capping of 71 separate holes.

In a September 19, 2011, letter, received by the District III Office on September 22, Josh Leftwich of Cameco submitted a formal request for bond reduction on 386 holes, stating Glenn Mooney had given release on 123 holes following his March 2011 inspection. Mr. Leftwich enclosed a table which listed 509 drill holes, showing that all had been properly sealed and capped.

This inspection looked at some 101 hole locations in detail. The results are summarized in Attachment No. 1. The hole locations looked at had all of the holes filled with abandonment mud and chips, capped, the mudpits backfilled and the salvaged topsoil respread over the location. At the time of the August inspection, none of the holes drilled this spring and summer had been drill-seeded.

Some problems were noted on this inspection, most relating to uneven spreading of topsoil. On numerous hole locations, grading and smoothing of the replaced topsoil had resulted in exposure of the subsoil used to backfill the mudpits (Photos Nos. 1, 2, and 6). It appears one reason for this may have been the backfilling of the mudpits with subsoil causing the subsoil to be heaped over the mudpits. Then, before the subsoil had settled into the mudpits completely, topsoil was spread over the subsoil and then graded, sometimes exposing the underlying subsoil.

What effect this will have on future revegetation remains to be seen as revegetation will depend in large part on the ability of the subsoil to support vegetation which is unknown at present. It is important that this situation does not occur again in the future during reclamation of the mudpits used for drilling of the projection and monitor wells during well field installation. The topsoil resource is limited on this permit area, particularly toward the higher portions of the well field area.

There were only a few areas where some remedial work was requested. One was Drill Hole No. 13-692 where a quantity of subsoil had been left covering topsoil at some distance from the location (Photo No. 6). Another was near Drill Hole 13-596's location for some bentonite, either drilling mud or chips, had been left exposed at the surface, possibly from abandonment of an old hole left over from historic drilling operations (Photo No. 14). Cameco was requested to remove the bentonite and bury it properly.

In general, the sealing and abandonment of the holes was found to be satisfactory as was the surface reclamation of the hole locations. Release of the drill holes and locations inspected is recommended.

Bond

The existing bond for Permit No. 632 is Letter of Credit No. 6320/S22017, written by the Royal Bank of Canada in the amount of \$1,745,000.00.

With the acceptance of abandonment of the 509 drill holes listed in Mr. Leftwich's letter of September 19th, the following basic bond liabilities remain or are about to be incurred on the North Butte permit area:

**Cameco Resources
North Butte ISL Project
Permit No. 632
Bond Release Inspection
August 31, 2011
Page 3**

1. 87 Existing wells (87 X 650' av. depth X \$6.28/ft)	= \$355,134.00
2. 1 Deep disposal well (WQD cost of abandonment)	= \$106,691.00
3. 509 Delineation hole locations seeding(509 X \$100.00/location)	= \$ 50,900.00
4. 60 Proposed wells to be drilled in late 2011(60 X 650' av.dep. X \$6.28/ft)	= \$244,920.00
5. Miscellaneous equipment removal (trailers, etc.)	= \$ 10,000.00

	\$857,645.00
25% Contingency	\$214,411.25

Grand Total	\$1,072,056.25
SAY	\$1,072,000.00

From this it appears that the required bond to cover PRI's activities for the remainder of 2011 totals \$1,072,000.00, well under the current bond coverage of \$1,754,000.00.

However, in an August 30, 2011, letter to Glenn Mooney from Mr. Leftwich, submitted in response to his March 3, 2011, comments on the North Butte 2010 annual report and bond estimate, Mr. Leftwich proposed a bond amount of \$8,518,000.00. This increased bond estimate would cover the construction of the plant building, contents, well field, associated piping and one deep disposal well. It also covers the cost of disposal of radiologically contaminated material. As was noted before, this is a very forward-looking estimate as it is unlikely Cameco could incur all of these reclamation liabilities proposed within one year.

Discussion of this bond amount will be done and transmitted under separate cover.

Conclusions

This inspection found delineation drilling activities had been completed and the holes abandoned and the hole locations backfilled and retopsoiled. A few problems were noted regarding exposure of subsoil and bentonite used in the hole sealing operations.

The reclamation bond coverage is adequate at this time and the updated bond estimate will be discussed separately.

\gm

Attachments: Photo pages

Hole summary table

DRILL HOLE SUMMARY TABLE-NORTH BUTTE PROJECT - AUGUST 31, 2011

Drill Hole ID	Status	Photo No.	Comments	Inspector
13-655	Drillhole sealed and capped, location reclaimed, except seeding		Retopsoiling satisfactory	GM
13-667	Drillhole sealed and capped, location reclaimed, except seeding		Good retopsoiling	GM
13-670	Drillhole sealed and capped, location reclaimed, except seeding		Good retopsoiling	GM
13-681	Drillhole sealed and capped, location reclaimed, except seeding	5	Good retopsoiling	GM
13-682	Drillhole sealed and capped, location reclaimed, except seeding		Good retopsoiling, small amount of abandonment chips left on surface	GM
13-686	Drillhole sealed and capped, location reclaimed, except seeding		Retopsoiling marginal with some subsoil exposed	GM
13-687	Drillhole sealed and capped, location reclaimed, except seeding		Some subsoil left exposed.	GM
13-692	Drillhole sealed and capped, location reclaimed, except seeding	6	Subsoil left on surface away from mudpit, location needs additional cleanup	GM
13-694	Drillhole sealed and capped, location reclaimed, except seeding		Some subsoil left exposed.	GM
13-713	Drillhole sealed and capped, location reclaimed, except seeding		Good retopsoiling	GM
13-715	Drillhole sealed and capped, location reclaimed, except seeding		Good retopsoiling	GM
13-718	Drillhole sealed and capped, location reclaimed, except seeding		Good retopsoiling	GM
13-721	Drillhole sealed and capped, location reclaimed, except seeding	3	Good retopsoiling	GM
13-725	Drillhole sealed and capped, location reclaimed, except seeding	2	Good retopsoiling	GM
13-728	Drillhole sealed and capped, location reclaimed, except seeding		Good retopsoiling	GM
13-730	Drillhole sealed and capped, location reclaimed, except seeding		Retopsoiling marginal with some subsoil exposed	GM
13-733	Drillhole sealed and capped, location reclaimed, except seeding	1	Retopsoiling marginal with some subsoil exposed	GM
13-734	Drillhole sealed and capped, location reclaimed, except seeding		Some subsoil left exposed on surface	GM
13-746	Drillhole sealed and capped, location reclaimed, except seeding		Some drilling mud left on surface	GM
13-750	Drillhole sealed and capped, location reclaimed, except seeding		Good retopsoiling	GM
13-753	Drillhole sealed and capped, location reclaimed, except seeding	4	Good retopsoiling	GM
18-187	Drillhole sealed and capped, location reclaimed, except seeding		Good retopsoiling	GM
18-240	Drillhole sealed and capped, location reclaimed, except seeding		Good retopsoiling	GM
18-242	Drillhole sealed and capped, location reclaimed, except seeding	7	Good retopsoiling	GM
18-245	Drillhole sealed and capped, location reclaimed, except seeding		Good retopsoiling	GM
18-246	Drillhole sealed and capped, location reclaimed, except seeding		Good retopsoiling	GM
18-247	Drillhole sealed and capped, location reclaimed, except seeding		Good retopsoiling	GM
18-248	Drillhole sealed and capped, location reclaimed, except seeding		Good retopsoiling	GM
18-265	Drillhole sealed and capped, location reclaimed, except seeding		Good retopsoiling	GM
19-367	Drillhole sealed and capped, location reclaimed, except seeding		Good retopsoiling	GM
19-369	Drillhole sealed and capped, location reclaimed, except seeding		Good retopsoiling	GM
19-370	Drillhole sealed and capped, location reclaimed, except seeding		Good retopsoiling	GM

DRILL HOLE SUMMARY TABLE - NORTH BUTTE PROJECT - AUGUST 31, 2011

Drill Hole ID	Status	Photo No.	Comments	Inspector
19-371	Drillhole sealed and capped, location reclaimed, except seeding		Good retopsoiling	GM
19-383	Drillhole sealed and capped, location reclaimed, except seeding		Good retopsoiling	GM
19-397	Drillhole sealed and capped, location reclaimed, except seeding		Some subsoil left on the surface	GM
19-399	Drillhole sealed and capped, location reclaimed, except seeding		Good retopsoiling	GM
19-401	Drillhole sealed and capped, location reclaimed, except seeding		Good retopsoiling	GM
19-402	Drillhole sealed and capped, location reclaimed, except seeding		Acceptable retopsoiling	GM
19-407	Drillhole sealed and capped, location reclaimed, except seeding		Good retopsoiling	GM
19-408	Drillhole sealed and capped, location reclaimed, except seeding		Good retopsoiling	GM
19-412	Drillhole sealed and capped, location reclaimed, except seeding		Acceptable retopsoiling	GM
19-459	Drillhole sealed and capped, location reclaimed, except seeding	8	Good retopsoiling	GM
19-461	Drillhole sealed and capped, location reclaimed, except seeding		Acceptable retopsoiling	GM
19-462	Drillhole sealed and capped, location reclaimed, except seeding		Acceptable retopsoiling	GM
19-464	Drillhole sealed and capped, location reclaimed, except seeding		Considerable amount of subsoil left on surface	GM
19-465	Drillhole sealed and capped, location reclaimed, except seeding		Good retopsoiling	GM
19-469	Drillhole sealed and capped, location reclaimed, except seeding		Acceptable retopsoiling	GM
19-472	Drillhole sealed and capped, location reclaimed, except seeding		Acceptable retopsoiling	GM
24-1282	Drillhole sealed and capped, location reclaimed, except seeding		Some subsoil left on surface	GM
24-1287	Drillhole sealed and capped, location reclaimed, except seeding		Acceptable retopsoiling	GM
24-1297	Drillhole sealed and capped, location reclaimed, except seeding		Good retopsoiling	GM
13-248	Drillhole sealed and capped, location reclaimed, except seeding		Grading and retopsoiling acceptable	KT
13-470	Drillhole sealed and capped, location reclaimed, except seeding		Grading and retopsoiling acceptable	KT
13-473	Drillhole sealed and capped, location reclaimed, except seeding		Grading and retopsoiling acceptable	KT
13-484	Drillhole sealed and capped, location reclaimed, except seeding		Grading and retopsoiling acceptable	KT
13-485	Drillhole sealed and capped, location reclaimed, except seeding	15	Grading and retopsoiling acceptable	KT
13-488	Drillhole sealed and capped, location reclaimed, except seeding		Grading and retopsoiling acceptable	KT
13-489	Drillhole sealed and capped, location reclaimed, except seeding		Grading and retopsoiling acceptable	KT
13-491	Drillhole sealed and capped, location reclaimed, except seeding		Grading and retopsoiling acceptable	KT
13-492	Drillhole sealed and capped, location reclaimed, except seeding		Grading and retopsoiling acceptable	KT
13-540	Drillhole sealed and capped, location reclaimed, except seeding		Grading and retopsoiling acceptable	KT
13-545	Drillhole sealed and capped, location reclaimed, except seeding		Grading and retopsoiling acceptable	KT

DRILLHOLE SUMMARY TABLE - NORTH BUTTE PROJECT - AUGUST 31, 2011

Drill Hole ID	Status	Photo No:	Comments	Inspector
13-567	Drillhole sealed and capped, location reclaimed, except seeding		Grading and retopsoiling acceptable	KT
13-569	Drillhole sealed and capped, location reclaimed, except seeding		Grading and retopsoiling acceptable	KT
13-595	Drillhole sealed and capped, location reclaimed, except seeding		Grading and retopsoiling acceptable	KT
13-596	Drillhole sealed and capped, location reclaimed, except seeding	14	Bentonite left on surface - cleanup needed	KT
13-600	Drillhole sealed and capped, location reclaimed, except seeding		Grading and retopsoiling acceptable	KT
13-601	Drillhole sealed and capped, location reclaimed, except seeding		Grading and retopsoiling acceptable	KT
13-603	Drillhole sealed and capped, location reclaimed, except seeding		Grading and retopsoiling acceptable	KT
13-604	Drillhole sealed and capped, location reclaimed, except seeding		Grading and retopsoiling acceptable	KT
13-631	Drillhole sealed and capped, location reclaimed, except seeding		Grading and retopsoiling acceptable	KT
13-632	Drillhole sealed and capped, location reclaimed, except seeding		Grading and retopsoiling acceptable	KT
13-634	Drillhole sealed and capped, location reclaimed, except seeding	13	Grading and retopsoiling acceptable	KT
13-635	Drillhole sealed and capped, location reclaimed, except seeding		Grading and retopsoiling acceptable	KT
13-639	Drillhole sealed and capped, location reclaimed, except seeding	11	Topsoil replacement has left much susoil exposed at the surface	KT
13-646	Drillhole sealed and capped, location reclaimed, except seeding		Grading and retopsoiling acceptable	KT
13-646	Drillhole sealed and capped, location reclaimed, except seeding	9	Grading and retopsoiling acceptable	KT
13-649	Drillhole sealed and capped, location reclaimed, except seeding	12	Grading and retopsoiling acceptable	KT
13-666	Drillhole sealed and capped, location reclaimed, except seeding		Grading and retopsoiling acceptable	KT
13-668	Drillhole sealed and capped, location reclaimed, except seeding		Grading and retopsoiling acceptable	KT
13-73	Drillhole sealed and capped, location reclaimed, except seeding		Grading and retopsoiling acceptable	KT
13-737	Drillhole sealed and capped, location reclaimed, except seeding		Grading and retopsoiling acceptable	KT
13-738	Drillhole sealed and capped, location reclaimed, except seeding		Grading and retopsoiling acceptable	KT
18-243	Drillhole sealed and capped, location reclaimed, except seeding		Grading and retopsoiling acceptable	KT
18-244	Drillhole sealed and capped, location reclaimed, except seeding		Grading and retopsoiling acceptable	KT
18-262	Drillhole sealed and capped, location reclaimed, except seeding		Grading and retopsoiling acceptable	KT
18-263	Drillhole sealed and capped, location reclaimed, except seeding		Grading and retopsoiling acceptable	KT
19-345	Drillhole sealed and capped, location reclaimed, except seeding		Grading and retopsoiling acceptable	KT
19-396	Drillhole sealed and capped, location reclaimed, except seeding		Grading and retopsoiling acceptable	KT
19-407	Drillhole sealed and capped, location reclaimed, except seeding		Grading and retopsoiling acceptable	KT
19-409	Drillhole sealed and capped, location reclaimed, except seeding		Grading and retopsoiling acceptable	KT
19-410	Drillhole sealed and capped, location reclaimed, except seeding		Grading and retopsoiling acceptable	KT
19-416	Drillhole sealed and capped, location reclaimed, except seeding		Grading and retopsoiling acceptable	KT
19-436	Drillhole sealed and capped, location reclaimed, except seeding		Grading and retopsoiling acceptable	KT

DRILL HOLE SUMMARY TABLE - NORTH BUTTE PROJECT - AUGUST 31, 2011

Drill Hole ID	Status	Photo No.	Comments	Inspector
19-437	Drillhole sealed and capped, location reclaimed, except seeding		Grading and retopsoiling acceptable	KT
19-439	Drillhole sealed and capped, location reclaimed, except seeding		Grading and retopsoiling acceptable	KT
19-456	Drillhole sealed and capped, location reclaimed, except seeding		Grading and retopsoiling acceptable	KT
24-1282	Drillhole sealed and capped, location reclaimed, except seeding		Grading and retopsoiling acceptable	KT
24-1286	Drillhole sealed and capped, location reclaimed, except seeding		Grading and retopsoiling acceptable	KT
24-1291	Drillhole sealed and capped, location reclaimed, except seeding		Grading and retopsoiling acceptable	KT
24-1299	Drillhole sealed and capped, location reclaimed, except seeding		Grading and retopsoiling acceptable	KT



Photo No. 1

Looking southeast at Drill Hole No. 13-733 showing area of abandoned drill hole where mudpit has been backfilled and the topsoil replaced and spread over the mudpit area. Process has left some subsoil exposed at the surface.



Photo No. 2

Looking southeast of location of Drill Hole 13-725 which has been abandoned and the mudpit backfilled and the topsoil respread over the mudpit. Grading of the topsoil has exposed some subsoil.



Photo No. 3

Looking east at location of Drill Hole No. 13-721 in foreground and 13-722 in background. As in holes above, drill holes have been abandoned and mudpits backfilled and topsoiled. Topsoiling of these and nearby hole locations was good.



Photo No. 4
Looking east at location of Drill Hole No. 13-753 where hole has been abandoned and mudpit backfilled and topsoiled. Good topsoil replacement has been achieved here.



Photo No. 5
Looking south at Drill Hole No. 13-681 where topsoil replacement has been good.



Photo No. 6
Looking west at Drill Hole 13-692. Some cleanup is needed here as subsoil was left on the surface covering topsoil at some distance from the mudpit area.



Photo No. 7
Looking north at location of Drill Hole No. 18-242. There has been good, even topsoil redistribution over this location.



Photo No. 8 Looking south to southwest across locations of several drill holes including 19-459 in foreground. Topsoil replacement on drill hole locations in this area was generally good.

Photos taken August 31, 2011, by Glenn Mooney



Photo No. 9
Looking south at location of Drill Hole No. 13-646 with good topsoil replacement.

Photo taken August 31, 2011, by Kris Thompsp



Photo No. 11
Looking northwest at location of Drill Hole 13-639 which shows uneven distribution of topsoil over location with much subsoil remaining exposed.



Photo No. 12
Location of Drill Hole No. 13-649 showing good topsoil replacement.

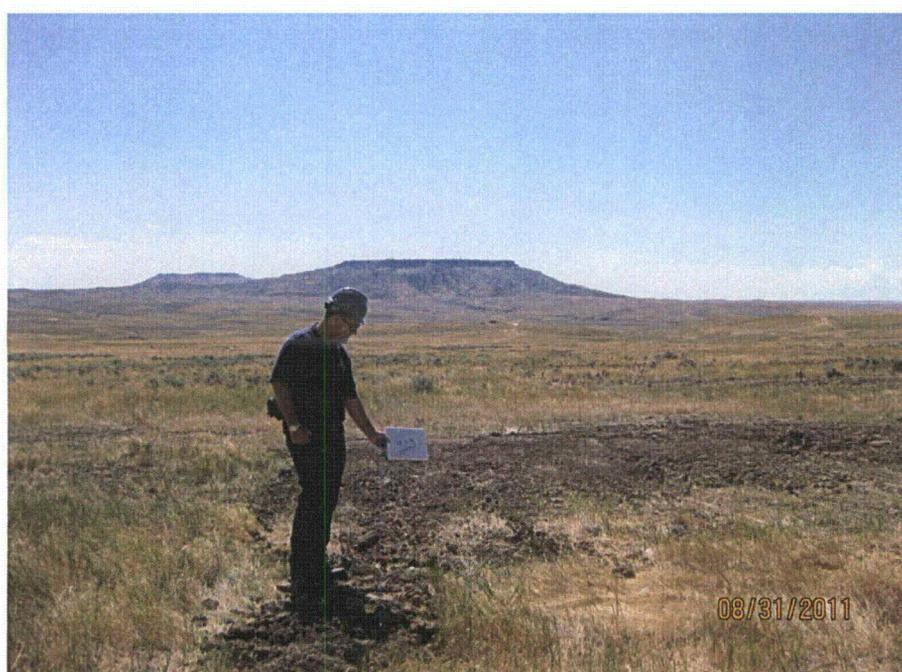


Photo No. 13
Looking south-southeast at location of Drill Hole No. 13-634 where grading and topsoil replacement are good.

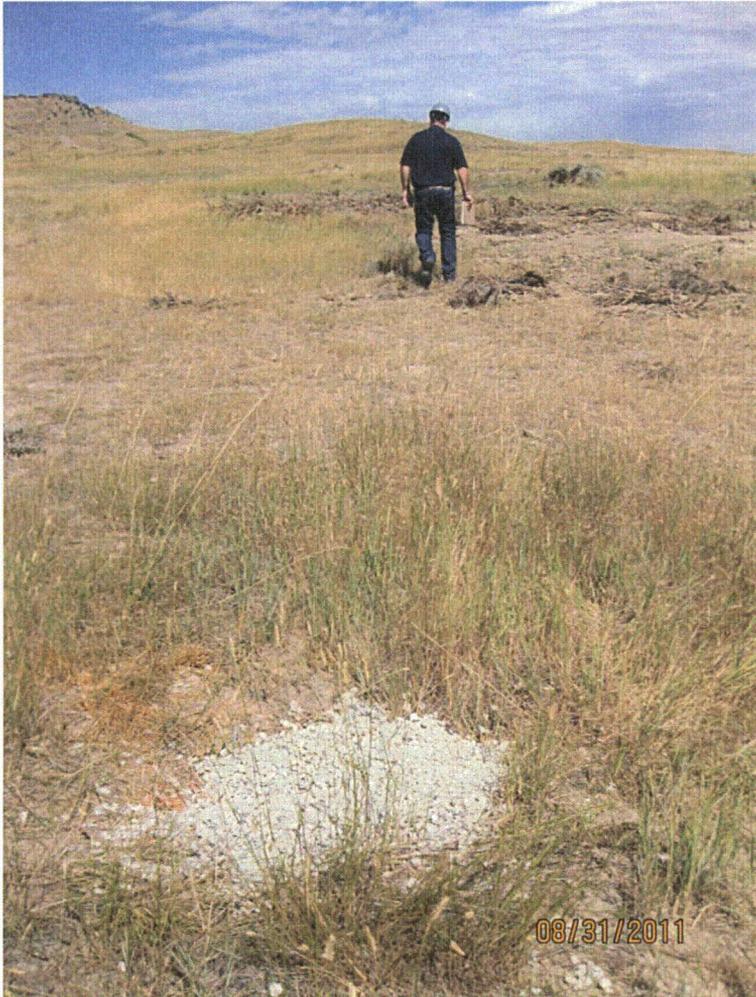


Photo No. 14

Looking north at bentonite left on surface near location of Drill Hole 13-596. PRI has agreed to clean up area which may be related to filling of an earlier abandoned drill hole.

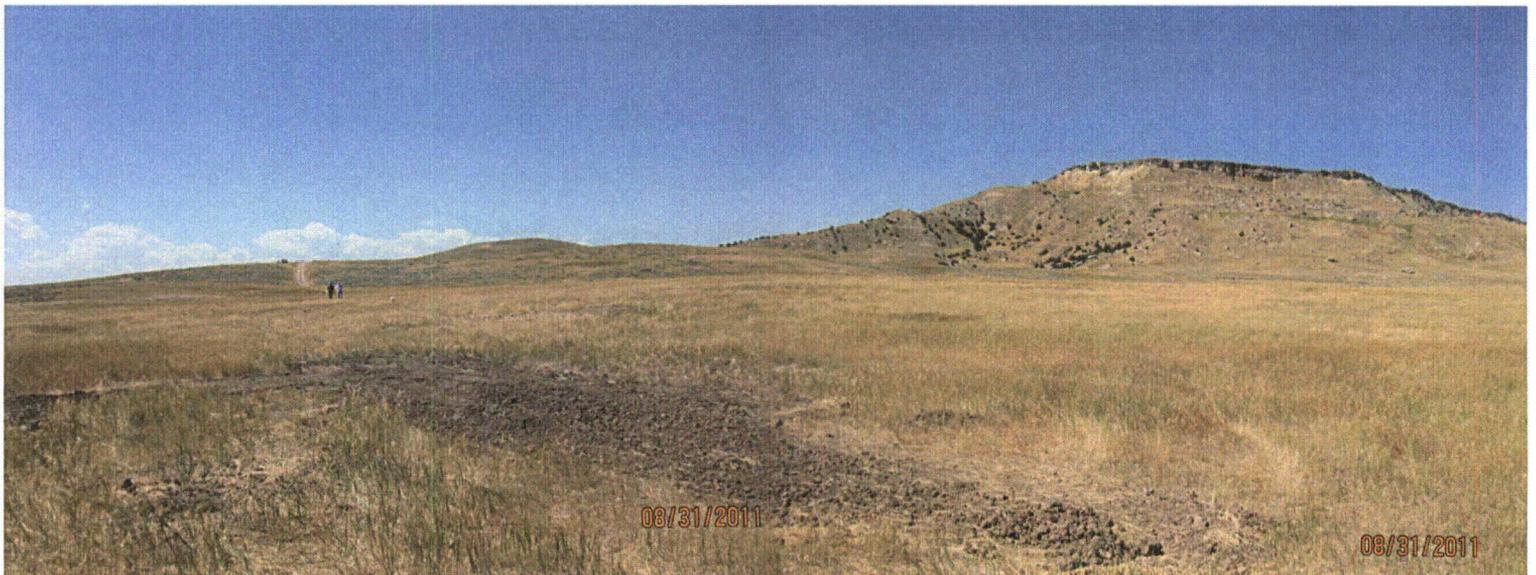


Photo No. 15

Looking west to northwest at Location of Drill Hole 13-485 where topsoil replacement is good.