CAMECO CORP
Form 6-K
March 20, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 6-K

Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16 Under
the Securities Exchange Act of 1934
For the month of March, 2007

Cameco Corporation
(Commission file No. 1-14228)
2121-11th Street West
Saskatoon, Saskatchewan, Canada S7M 1J3
(Address of Principal Executive Offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F o Form 40-F þ

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes o No þ

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):

Exhibit Index

Exhibit No.	Description	Page No.
1.	2006 Management Discussion & Analysis	

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 20, 2007

Cameco Corporation

By:

Gary M.S. Chad
Gary M.S. Chad, Q.C.
Senior Vice-President, Governance,
Legal and Regulatory Affairs, and
Corporate Secretary

2006 MANAGEMENT S DISCUSSION & ANALYSIS (MD&A)
MARCH 16, 2007

This management s discussion and analysis (MD&A) is designed to provide investors with an informed discussion of Cameco s business activities and reflects information known to management as at March 16, 2007. This MD&A is intended to supplement and complement our audited consolidated financial statements and notes thereto for the year ended December 31, 2006, prepared in accordance with Canadian generally accepted accounting principles (GAAP), (collectively our financial statements). As required by securities authorities, a reconciliation of our Canadian GAAP financial statements to US GAAP is included in note 28 to the financial statements. You are encouraged to review our financial statements in conjunction with your review of this MD&A. Additional information relating to the company, including our annual information form, is available on SEDAR at sedar.com. All dollar amounts are in Canadian dollars, unless otherwise specified. The financial information in this MD&A has been prepared in accordance with Canadian GAAP, unless otherwise indicated. In addition, we use non-GAAP financial measures as supplemental indicators of our operating performance and financial position. We use these non-GAAP financial measures internally for comparing actual results from one period to another, as well as for planning purposes. We have historically reported non-GAAP financial results, as we believe their use provides more insight into our performance. When non-GAAP measures are used in this MD&A, they are clearly identified as a non-GAAP measure and reconciled to the GAAP measure. All sensitivities in this MD&A noted for 2007 reflect the potential impact for the full year. Statements contained in this MD&A, which are not historical facts, are forward-looking statements that involve risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. For more detail on these factors, see the section titled Caution Regarding Forward-Looking Information in this MD&A.

The following is a list of the key sections of this MD&A.

OVERVIEW

Vision

Cameco will be a dominant nuclear energy company producing uranium fuel and generating clean electricity.

Mission

Our mission is to bring the multiple benefits of nuclear energy to the world. We are a global supplier of uranium fuel and a growing supplier of clean electricity.

We deliver superior shareholder value by combining our extraordinary assets, exceptional employee expertise and unique industry knowledge to meet the world s rising demand for clean, safe and reliable energy.

The key measures of our success are a safe, healthy and rewarding workplace, a clean environment, supportive communities and outstanding financial performance.

Values

Safety and Environment

The safety of people and protection of the environment are the foundations of our work. All of us share in the responsibility of continually improving the safety of our workplace and the quality of our environment.

People

We value the contribution of every employee and we treat people fairly by demonstrating our respect for individual dignity, creativity and cultural diversity. By being open and honest we achieve the strong relationships we seek.

Integrity

Through personal and professional integrity, we lead by example, earn trust, honour our commitments and conduct our business ethically.

Excellence

We pursue excellence in all that we do. Through leadership, collaboration and innovation, we strive to achieve our full potential and inspire others to reach theirs.

CAMECO S BUSINESSES

Cameco is involved in four business segments:

- uranium,
- fuel services,
- nuclear electricity generation, and
- gold.

The only significant commercial use for uranium is to fuel nuclear power plants for the generation of electricity. In recent years, nuclear plants generated about 16% of the world s electricity.

The major stages in the production of nuclear fuel are uranium exploration, mining and milling, refining and conversion, enrichment and fuel fabrication. Once a commercial uranium deposit is discovered and reserves delineated, regulatory approval to mine is sought. Following regulatory approval, the mine is developed, and ore is extracted and processed at a mill to produce uranium concentrates. Mining companies sell uranium concentrates to nuclear electricity generating companies around the world on the basis of the U_3O_8 contained in the concentrates. These utilities then contract with converters, enrichers and fuel fabricators to produce the required reactor fuel.

Uranium

Cameco is the world s largest uranium producer, accounting for 20% of the world s production in 2006 and backed by more than 500 million pounds of proven and probable reserves of uranium. We have controlling ownership of the world s largest high-grade uranium reserves and low-cost operations located in northern Saskatchewan. Cameco operates four mines in Canada and the United States, and has two mines under development, one each in Canada and Central Asia.

Fuel Services

The company is an integrated uranium fuel supplier with refining facilities at Blind River and fuel services facilities (conversion and fuel fabrication) at Port Hope, both located in Ontario, Canada.

The Blind River facility refines uranium concentrates into uranium trioxide (UO_3), an intermediate product in the uranium conversion process. Our Port Hope conversion services plants chemically change the form of the UO_3 to either uranium hexafluoride (UF_6) or uranium dioxide (UO_2). The Port Hope plants have the licensed capacity to produce 18% of the world s annual requirements of UF_6 used in making fuel for light water reactors. In 2005, Cameco signed a toll-conversion agreement to acquire UF_6 conversion services from Springfields Fuels Ltd. (SFL) in Lancashire, United Kingdom. Under the 10-year agreement, SFL will annually convert a base quantity of 5 million kgU as UO_3 to UF_6 for Cameco. This arrangement increases our UF_6 conversion capacity by 40%. In addition, Port Hope is the world s only commercial producer of natural UO_2, the fuel used by all Canadian-designed Candu reactors. During early 2006, Cameco became a nuclear fuel manufacturer by acquiring Zircatec Precision Industries, Inc. (Zircatec) in Port Hope and Cobourg. This company manufactures fuel bundles for use in Candu reactors. With this acquisition, Cameco now participates in all stages of the Candu nuclear fuel cycle.

Nuclear Electricity Generation

Cameco generates clean electricity through its 31.6% interest in the Bruce Power Limited Partnership (BPLP), which operates the four Bruce B nuclear reactors and manages the overall site located in southern Ontario. We are the fuel procurement manager for uranium, conversion services and fuel fabrication for BPLP s four B nuclear reactors. For the Bruce A reactors, Cameco is the fuel procurement manager for conversion services and fuel fabrication. Through the Bruce Power restructuring in 2005, Cameco no longer holds a 31.6% ownership in the four A reactors. BPLP s four B reactors have a combined net generation capacity of about 3,200 megawatts (MW), supplying about 15% of Ontario s electricity.

Gold

Cameco has a 52.7% interest in Centerra Gold Inc. (Centerra), which began trading on the Toronto Stock Exchange in June 2004. Cameco transferred substantially all its gold assets to Centerra as part of the strategy to unlock the value of those assets. Centerra is a growth-orientated Canadian-based gold producer focused on acquiring, exploring and developing gold properties in Central Asia, the former Soviet Union and other emerging markets. Centerra operates two gold mines, located in the Kyrgyz Republic and

Mongolia. Gold is not a core business for Cameco. Centerra was created as a vehicle for Cameco to eventually exit the gold business.

GROWTH STRATEGY

Cameco s goal is to be a dominant nuclear energy company the supplier, partner, investment and employer of choice in the nuclear industry. Cameco will achieve this goal through four main strategies:

- maintain our competitive advantage in uranium and conversion,
- maximize growth in uranium markets,
- continue vertical integration, and
- promote growth in the nuclear energy industry.

Our specific strategies in the uranium and conversion businesses the company s core businesses are discussed under the sections Uranium Strategies and Fuel Services Strategies respectively, in this MD&A.

In pursuing further integration in nuclear fuel supply and nuclear power generation, our goals are to:

- add significantly to shareholder value, through new opportunities within the nuclear fuel cycle,
- secure projects that have an attractive rate of return and provide a basis for long-term profitability,
- supply fuel, engage Cameco s operational and management expertise, and achieve synergies in fuel supply logistics and market position,
- capture the value added to uranium in each step of the fuel cycle, including its enormous energy value in the final generation of electricity,
- strengthen Cameco s foundation for further expansion in the nuclear fuel cycle, and
- ensure each investment has a prudent risk/reward ratio.

The key strategies are to:

- maximize choice by considering acquisition and investment opportunities in all aspects of the nuclear fuel cycle,
- seek opportunities to facilitate change in the nuclear industry by supporting or leading the development, assessment, or licensing of new technology,
- evaluate and encourage BPLP s growth strategy,
- pursue partnering opportunities throughout the nuclear fuel cycle by leveraging fuel-supply relationships, and by enhancing relationships with industry leaders in nuclear technology,
- seek active ownership by structuring each investment to allow participation in management and, where possible, operational involvement, and
- seek to maximize nuclear power s contribution to global energy supply by:
  - promoting industry initiatives to position nuclear power as a major part of the solution in addressing clean air and climate change by providing leadership and resources to key industry associations and by developing government relationships, and
  - diversifying into related technologies that support nuclear energy development.

TRENDS IN THE NUCLEAR POWER INDUSTRY

A number of evolving trends in the nuclear power industry have the potential to affect Cameco s uranium and fuel services businesses.

Reactors Operating, Planned and Under Construction

There are 434 reactors operating worldwide, and a total of 100 new reactors that are under construction or planned for completion within the next 10 years (as of March 2007). This more than offsets 10 anticipated closures for a net increase of 90 reactors during the period. Given that new reactors tend to have higher capacities than older units, this represents a 21% growth in nuclear generating capacity. Highlights include:

59 reactors are scheduled to be built in Asia, as energy demand is driven by rapid economic expansion. More than 65% of this growth will occur in China and India which have plans to build 24 and 15 reactors respectively,

in Russia, Ukraine and several other eastern European countries, it is anticipated that 14 reactors will be built, offset by one closure in Armenia,

in Finland, a new European Pressurized Water Reactor (EPR) is being constructed and when completed, will bring the country s total to five nuclear reactors,

France has announced the construction of a new EPR beginning in 2007, and

in Canada, Bruce Power A Limited Partnership (BALP) is refurbishing two A units which had previously been shutdown, and both Bruce Power and Ontario Power Generation Inc, (OPG) have initiated the regulatory process for new generating units.

Reactors Pending

A number of non-nuclear countries including Kazakhstan, Belarus, Italy, Indonesia, Poland, Turkey and Vietnam are considering nuclear programs. Additionally, South Africa is developing a new type of reactor, called the Pebble Bed reactor that, if successful, will be smaller and targeted at regions requiring electricity, but lacking critical distribution and transmission capability.

World Nuclear Reactors (Cameco estimate, March 2007) [1]

			Outlook to 2016			
	Nuclear Electricity 2005 [2] (%)	**Operating 2007**	**New**	**Shutdown**	**Operating 2016**	**GWe Change**
Argentina	7	2	2	0	4	1.6
Brazil	3	2	1	0	3	1.3
Canada	15	18	3	1	20	2.2
Mexico	5	2	0	0	2	0.0
USA	19	103	6	0	109	6.0
Americas Total		**127**	**12**	**1**	**138**	**11.1**
China	2	9	24	0	33	20.4
India	3	16	15	0	31	7.0
Iran	0	0	2	0	2	1.9
Japan	29	55	5	1	59	5.9
Korea (South)	45	20	8	0	28	9.2
Pakistan	3	2	2	0	4	0.6
Taiwan	20	6	2	0	8	2.6
Turkey	0	0	1	0	1	1.0
Asia Total		**108**	**59**	**1**	**166**	**48.5**
Belgium	56	7	0	0	7	0.0
Czech Republic	31	6	0	0	6	0.0
Finland	33	4	1	0	5	1.6
France	79	59	1	1	59	1.6
Germany	31	17	0	0	17	0.0
Hungary	37	4	0	0	4	0.0
Lithuania	70	1	1	1	1	0.4
Netherlands	4	1	0	0	1	0.0
Romania	9	1	3	0	4	1.3
Slovakia	56	5	2	1	6	0.4
Spain	20	8	0	0	8	0.0
Slovenia	42	1	0	0	1	0.0
Sweden	45	10	0	0	10	0.0
Switzerland	32	5	0	0	5	0.0
UK	20	19	0	4	15	-1.4
Europe Total		**148**	**8**	**7**	**149**	**3.9**
Russia	16	31	9	0	40	7.6
Armenia	43	1	0	1	0	0.0
Bulgaria	44	2	2	0	4	1.9
Ukraine	49	15	3	0	18	2.9

Russia and Eastern Europe Total		**49**	**14**	**1**	**62**	**12.4**
South Africa	6	2	7	0	9	**1.9**
World Total		**434**	**100**	**10**	**524**	**77.8**

[1] Estimated by Cameco, March 2007. Based on public announcements made prior to March 2007.

[2] World Nuclear Association (WNA).

Nuclear Power Share

Nuclear power accounts for about 16% of the world s electricity generation. While the number of reactors and gigawatts produced are expected to increase over the next 10 years, the rate of growth in nuclear generation is expected to be less than the growth in total electricity generation. Therefore, nuclear s share of world electricity is expected to decline over the 10-year period to about 13%.

Plant Performance

Safety

There were no significant safety incidents at nuclear power plants during 2006 and nuclear power continues to be one of the safest forms of electricity production. Nevertheless, the industry is continuously seeking methods to improve its safety record.

Operating Costs

Based on the first ten months of 2006, the direct costs of US nuclear electricity production was the lowest for baseload (non-hydro) electricity production for the eighth consecutive year. US production costs were 1.66 cents per kWh for nuclear, 2.28 cents for coal, 6.60 cents for natural gas and 9.64 cents for petroleum (Source: Nuclear Energy Institute NEI).

Nuclear Acceptance

Positive Trends

North America

Public support for nuclear power in North America is trending higher. In the US, a 2006 survey prepared by Bisconti Research for the NEI, showed that 86% of the public and 88% of college graduate voters agree that nuclear energy will play an important role in meeting future electricity demand. Majorities also support

license renewal for existing nuclear power plants and definitely building new nuclear power plants. The survey also showed 73% of Americans would find it acceptable to add a new reactor at the nearest existing nuclear power plant site.

In Canada, a recent Ipsos Reid survey showed that support for nuclear power in Ontario had increased to 62% from 58%.

In the US, 15 entities are now in the process of preparing applications for either early site permits (ESP) or combined construction and operating license (COL) for a potential new nuclear power plant. Applications from Dominion, Southern, Entergy (NuStart) and Exelon for ESPs are under review by the US Nuclear Regulatory Commission. One ESP has been approved, the first site licensed in the US in over 30 years. As many as 33 units are now being considered for potential new build. Several potential sites and reactor types have been identified with the potential for a new reactor to be completed as early as 2014.

The US has recognized the strategic risk of over-reliance on natural gas and the contribution nuclear energy can make to clean air.

Europe

The UK Prime Minister recently acknowledged that new nuclear construction must be considered in the UK s plans for energy security and Kyoto compliance.

The UK and the European Union have recognized the strategic risk of over-reliance on natural gas.

Germany, Belgium, and the Netherlands continue to back away from a previous anti-nuclear stance. In Germany, many politicians have questioned the planned phase out program for its reactors by 2021 given one-third of the country s electricity is generated by nuclear power and there is no obvious solution for replacing these plants with equally clean sources. In Belgium, the Minister of Energy commissioned a study to review Belgium s future energy challenges. The study recommended that Belgium reconsider its plan to phase out its nuclear reactors by 2025. Over half of the country s electricity is generated by nuclear power and the report warns that due to changing circumstances, it would be very costly to proceed with the phase out program. It noted that climate change action was becoming more urgent and the era of very cheap fuel prices was likely behind them. In the Netherlands, a previous decision to phase out its nuclear program was reversed.

India

In December 2006, US President Bush signed the United States-India Peaceful Atomic Energy Cooperation Act, a major step towards civil nuclear trade with India. The bill on nuclear cooperation between India and the US was passed in the US Senate by a majority of 85 to 12 in November 2006, following passage in the House of Representatives. The two countries now must conclude a bilateral agreement known in the US as the 123 civil nuclear agreement, which essentially codifies their negotiations of the last 18 months. Additional steps before trade can take place include approval from India s Parliament, India s negotiation of a safeguard agreement with the International Atomic Energy Agency (IAEA) and approval from the 45-nation Nuclear Suppliers Group. In addition, each country that wishes to trade with India must negotiate a bilateral agreement.

Negative Trends

While nuclear power has finally been recognized as a non-emitting technology in US energy legislation, it still does not qualify internationally for greenhouse gas emission credits.

Although progress is being made in several countries on the management of radioactive waste from the nuclear fuel cycle, it remains a controversial issue. Concerns about the long-term management of radioactive waste continue to be an impediment to the nuclear renaissance. Certain environmental groups continue to oppose the nuclear power industry.

The first few new nuclear plants will face significant business risks including first-of-a-kind costs, as well as possible delays in financing, licensing and construction.

SUMMARY OF TRENDS

The nuclear industry is experiencing stable growth in the form of capacity factor improvements, refurbishments, life extensions and, in the developing world, aggressive new-build programs. While it is difficult to determine which factors will dominate the outlook for nuclear in the long-term, the demand for nuclear power is expected to accelerate in response to concerns about electricity supply, the need for non-emitting base load power, and security of supply.

URANIUM BUSINESS

Worldwide Uranium Supply and Demand

The uranium market supply and demand fundamentals remained strong in 2006, indicating a need for more primary mine production over the coming decade. During the past 20 years, uranium consumption has exceeded mine production by a wide margin, with the difference being made up by secondary supply sources such as various types of inventory and recycled products.

Uranium Demand

Overall, as discussed above under nuclear power trends, indicators support a trend of moderately growing demand for uranium and conversion services in the next ten years, with the potential for more rapid growth thereafter.

Cameco estimates that the world uranium consumption totalled about 177 million pounds in 2006 and will increase to about 183 million pounds in 2007. We expect annual world uranium consumption will reach 239 million pounds in 2016 reflecting an annual growth rate of about 3%.

Growth in demand could be tempered as uranium price increases encourage utilities to utilize more enrichment services and less uranium. Uranium demand is affected by the enrichment process, which is one of the steps in making most nuclear fuel. Utilities choose the amount of uranium and enrichment services they will use depending on the price of each. In essence, utilities may substitute enrichment for uranium, thereby decreasing the demand for uranium and increasing the demand for enrichment. For example, when uranium prices rise, utilities tend to use more enrichment assuming enrichment prices remain constant. If enrichment prices increase, utilities would likely use less enrichment and more uranium. The tails assay (percentage of uranium left after processing) is an indication of the mix of uranium and enrichment used. At different prices for uranium, conversion and enrichment services there is a combination that minimizes the fuel cost called the optimal tails assay. The lower the tails assay, the less uranium being used.

The uranium price has increased 580% since mid 2003. Over the same time period, enrichment prices have increased by only 25%. Thus, utilities are choosing lower tails assay under their enrichment contracts, using less uranium and more enrichment services.

Based on current demand, a 0.01% decrease in tails assay would decrease uranium requirements by 2% or about 3 million pounds of uranium per year and increase the demand for enrichment services by 2%. It is important to note that there is a limit to the enrichment capacity that is currently available. In addition, enrichment contracts generally limit the ability to substitute enrichment for uranium. In the past, enrichers offered a wide range of tails assay, much like volume flexibilities on uranium contracts. Currently, enrichers are offering tails assay ranging from 0.25 to 0.3%, thus over time, as old enrichment contracts expire, the average tails assay will move to this range.

In 2006, two reactors were connected to the electricity grid, one in India and one in China. India s Tarapur-3 entered commercial operation in August of 2006, while China s Tianwan-1 is expected to begin commercial operation in spring 2007. There were eight reactor closures in 2006, four in the UK, two in Bulgaria, and one each in Slovakia and Spain. There were also nine power uprates. The net result was a 525 megawatt electric (MWe) increase in nuclear capacity.

Uranium Supply

World uranium supply comes from primary mine production and a number of secondary sources.

Mine Production

We estimate world mine production in 2006 was about 103 million pounds U_3O_8, down 5% from 108 million pounds in 2005, largely due to a variety of operating difficulties experienced at a few large production centres. We expect world production to increase to 117 million pounds in 2007.

It is expected that with higher uranium prices, new mines will continue to start up, but the lead-time before they enter commercial production may be lengthy depending on the region. As a result, primary supply cannot significantly increase in the near-term. The level of increase in primary mine production is dependent on a number of factors, including:

- the strength of uranium prices,
- the efficiency of regulatory regimes in various regions,

- currency exchange rates in producer countries compared to the US dollar,
- prices for other mineral commodities produced in association with uranium (i.e. byproduct or co-product producers), and
- the quality and size of the ore reserve.

Secondary Sources

Secondary sources of supply consist of surplus US and Russian military materials, excess commercial inventory and recycled products. Recycled products include reprocessed uranium, mixed oxide fuel and re-enriched tails material. Some utilities use reprocessed uranium and mixed oxide fuel from used reactor fuel. In recent years, another source of supply has been re-enriched depleted uranium tails generated using excess enrichment capacity. We estimate that these recycled products will account for about 7% of world requirements over the next 10 years. With the exception of recycled material, secondary supplies are finite. Currently, most recycled products are a high-cost fuel alternative and are used by utilities in only a few countries.

One of the largest sources of secondary supply is the uranium derived from Russian highly enriched uranium (HEU). As a result of the 1993 HEU agreement between the US and Russia to reduce the number of nuclear weapons, additional supplies of uranium have been available to the market. Under the 20-year agreement, weapons-grade HEU is blended down in Russia to low enriched uranium capable of being used in western world nuclear power plants. Uranium derived from Russian HEU could meet about 7% of world demand over the next 10 years based on the current Russian HEU commercial agreement, which expires in 2013. In parallel, the US has made some of its military inventories available to the market, in quantities much smaller than those derived from the Russian HEU agreement. Another source of potential supply is excess inventory held by the US Department of Energy. We expect about 4% of world demand through 2016 will be met from this source of supply.

Historically, the other large source of secondary supply has been excess inventories. Prior to 1985, uranium mine production exceeded reactor requirements due, in large part, to government incentive programs that

anticipated rapid growth of nuclear generated electricity. The result was a buildup of large inventories, both in the commercial and government sectors.

Since 1985, uranium consumption has exceeded mine production by increasingly wide margins, with a large part of the difference being made up by draw down of excess inventories. The company believes that most of these excess inventories have been consumed. In recent years, there has been evidence of this trend reversing, with some utilities purchasing uranium to build strategic inventories.

Over the next 10 years, even with new mines currently under development, such as Cigar Lake and Inkai, this shortfall between demand and production is not expected to change significantly. The production response is expected to remain challenged, while demand is expected to continue growing due to better reactor operations, reactor uprates, life extensions and the construction of new units. However, there are a number of potential new mines and planned mine expansions that are expected to help meet this shortfall, but the timing and production rates are uncertain at this time.

With 2006 uranium production less than 60% of uranium requirements, secondary supplies (such as recycling and blended down HEU) continue to bridge the gap between production and requirements and this is expected to continue in the near future.

Uranium Markets

Utilities secure most of their uranium requirements (80% to 90% in recent years) by entering into long-term contracts with uranium suppliers. These contracts usually provide for deliveries to begin two to five years after contracts are finalized. In awarding contracts, utilities consider the commercial terms offered, including price, and the producer s record of performance and uranium reserves.

There are a number of pricing formulas, including fixed prices adjusted by inflation indices, reference prices (generally spot price indicators, but also long-term reference prices) and annual price negotiations. Many contracts also contain floor prices, ceiling prices and other negotiated provisions that affect the amount ultimately paid.

Utilities acquire the remainder of their uranium requirements through spot purchases from producers and traders. Spot market purchases are those that call for delivery within one year. Traders and investors or hedge funds are active in the market and generally source their uranium from organizations holding excess inventory, including utilities, producers and governments.

Uranium Spot Market

The industry average spot price (TradeTech and Ux) on December 31, 2006 was $72.00 (US) per pound U_3O_8, almost double the $36.38 (US) on December 31, 2005. Spot market volume reported for 2006 was 33 million pounds. This compares to 36 million pounds for 2005.

Discretionary purchases, or purchases not for immediate consumption, hit a record level in 2006 accounting for about 73% of spot market volume. There were continued increases in inventory building by utilities, trader positioning and investment and hedge fund participation. It is expected that spot market demand will remain strong in 2007 while supply remains tight, adding upward pressure to the price.

Long-Term Uranium Market

The industry average long-term price (TradeTech and Ux) on December 31, 2006 was $72.00 (US) per pound U_3O_8, up almost 100% from $36.13 (US) at December 31, 2005.

We estimate long-term contracting in 2006 to have been in excess of 200 million pounds U_3O_8, slightly less than the 240 million pounds contracted in 2005, but well above historic levels.

We expect long-term contracting activity in 2007 will remain quite strong as utilities attempt to mitigate the risk of potential future supply shortfalls by securing long-term contracts with reliable primary suppliers. Currently, we estimate that approximately 200 million pounds will be contracted in the long-term market in 2007.

Uranium Business Key Performance Drivers

The major factors that drive Cameco s uranium business results are:

prices spot and long-term,

volume sales, production and purchases,

costs production and purchases, and

the relationship between the US and Canadian dollars.

Prices Spot/Long-Term

Background

While Cameco generally has not sold uranium in the spot market, about 60% of the company s uranium is sold under its long-term contracts at prices that reference the spot market price near the time of delivery. The remaining 40% is sold at fixed prices escalated by an inflation index. Uranium market price indicators are quoted by the industry in US dollars per pound U_3O_8.

Uranium contract terms generally reflect market conditions at the time the contract is negotiated. Historically, after a contract negotiation was completed, deliveries under that contract typically did not begin for up to three years. For example, a contract that was signed in 2001, when the spot price averaged less than $9.00 (US), could have started deliveries in 2004 and could continue through to 2008. As a result, many of the contracts in our current portfolio reflect market conditions when uranium prices were significantly lower. For example, 2003 was the first year that the spot price averaged over $11.00 (US) since the 1995-1997 period. Before that they were much lower, and only exceeded $11.00 (US) on a sustained basis in 1988 and earlier. To the extent contracts have fixed or low ceiling prices, they will yield prices lower than current market prices.

As a result, Cameco s average realized price for uranium sales in 2006 was $20.62 (US) per pound of uranium compared to an average spot price of $49.60 (US) and average long-term price of $49.90 (US). In 2006, the benefit of improved spot prices was also partially offset by a less favourable foreign exchange rate. Our average realized selling price rose by 34% in US dollars but only 23% in Canadian dollars over 2005.

As in previous years, we are continually in the market signing new contracts. Generally, our current portfolio reflects a 60/40 mix of market-related and fixed pricing (escalated by inflation) mechanisms. In general, most new offers include price mechanisms that are more focused on market-related pricing. Consequently, we expect this ratio to change over time.

In the current market environment of rapidly increasing uranium prices, this strategy has allowed Cameco to add increasingly favourable contracts to its portfolio while maintaining sensitivity to future price movements.

Uranium Price Sensitivity 2007

For 2007, a $1.00 (US) per pound change in the uranium spot price from $85.00 (US) per pound would change revenue by $6 million (Cdn) and net earnings by $3 million (Cdn). This sensitivity is based on an expected effective exchange rate of $1.00 (US) being equivalent to about $1.19 (Cdn) as a result of our currency hedge program.

Volume Sales, Production and Purchases

Sales Volume

In 2006, Cameco delivered 36.1 million pounds of uranium, representing a 6% increase from 2005 deliveries of 34.2 million pounds. The higher delivery volumes were in response to strong market demand.

However, for revenue purposes in 2006, Cameco reported sales of 32.2 million pounds due to the accounting for product loans it has in place. During 2006, Cameco entered into standby product loan agreements with two of our customers. The loans allow Cameco to borrow up to 5.6 million pounds U_3O_8 equivalent over the period 2006 to 2008, with repayment in 2008 and 2009. Of the material available under

the loan, up to 1.4 million kgU can be borrowed in the form of uranium hexafluoride (UF_6). Any borrowings will be secured by letters of credit and be settled in kind.

As of December 31, 2006, Cameco had not borrowed any material under the standby loan agreements. However, regardless of whether any material is borrowed, we defer revenue recognition from sales to the counterparties of the standby product loan agreements, up to the limit of the loans (5.6 million pounds). This is in accordance with accounting standards. Cameco will recognize the deferred revenue and associated costs when the loan agreements are terminated, or if drawn upon, when the loans are repaid and that portion of the facility is terminated. Accordingly, for the year 2006, we have deferred revenue of $80 million and the associated costs on sales of 4.0 million pounds. The gross profit on the deferred sales was $15 million.

In 2007, the reported sales volume and associated revenue may be affected by changes to product loan arrangements. In 2007, we expect uranium deliveries to total 33 million pounds. However, the reported sales volume for revenue purposes depends upon the product loan arrangements. We may terminate a portion or all of the product loan arrangements in 2007. To the extent we terminate the product loan arrangements, revenue that was deferred on up to 4 million pounds in 2006 would be recognized in 2007. If the product loan facilities remain in place unchanged, we would be required to defer revenue on an additional 1.6 million pounds in 2007, regardless if any amount is drawn on the loans.

Cameco sells more uranium than it produces from its mines and meets its contractual delivery commitments through a combination of mine production, long-term purchase arrangements, spot purchases and inventory.

Production Volume

Uranium Operations

Cameco s share of production

(million lbs U_3O_8)	**2007 Planned**	**2006 Actual**	**2005 Actual**
McArthur River/Key Lake	**13.1**	13.1	13.1
Rabbit Lake	**5.5**	5.1	6.0
Smith Ranch/Highland	**1.6**	2.0	1.3
Crow Butte	**0.8**	0.7	0.8
Total	**21.0**	20.9	21.2

McArthur River/Key Lake

Cameco s share of production of U_3O_8 at McArthur River/Key Lake in Saskatchewan was 13.1 million pounds for 2006. Ten days prior to year-end, the operations achieved the licensed annual production limit of 18.7 million pounds (100% basis). Cameco s share of production for 2007 is expected to be 13.1 million pounds for the full year.

In November 2006, unionized employees at the McArthur River and Key Lake operations ratified a new four-year agreement that Cameco and the United Steelworkers of America (USW) had negotiated. The new collective agreement will expire December 31, 2009.

At McArthur River, progress on freeze-hole drilling for two future mining zones improved by year end to near targeted rates. However drilling progress for 2006 was lower than targeted due to technical challenges

with drilling through frozen ground, additional time required to address operational challenges such as improvements to the drill setups, and earlier staffing challenges associated with getting a sufficient number of experienced drillers given the high levels of activity in the exploration diamond drilling industry.

In 2006, we encountered mill process difficulties associated with higher levels of concrete dilution. We have installed sand filters in the mill to improve the clarity of the uranium solution. In addition, further mill process changes are planned for implementation in 2007. We are confident that with these changes, the Key Lake mill will be able to process this ore with high concentrations of concrete at target mill production rates.

The increased concrete concentrations result from the mining process at McArthur River. Once a raise has been bored through the ore zone, it is backfilled with concrete. After all the rows of raises are complete in a chamber, equipment is removed from the area and the chamber is backfilled with concrete. A new chamber is excavated to allow for the next area to be mined and the cycle is repeated.

In order to maximize mining ore recovery the cylindrical raises are deliberately overlapped. Therefore, as we mine ore that is adjacent to previously mined out raises backfilled with concrete, we experience higher concentrations of concrete in the mined ore and resulting uranium ore slurry.

As previously reported, we have applied to increase the annual licensed production capacity at both the McArthur River mine and the Key Lake mill to 22 million pounds U_3O_8 (compared to the current 18.7 million pounds). This application has been undergoing a screening level environmental assessment (EA) as required by the Canadian Environmental Assessment Act with the Canadian Nuclear Safety Commission (CNSC) as the responsible authority. The CNSC has focused on an evaluation of the longer-term environmental impact of low levels of selenium and molybdenum in the Key Lake mill s effluent and the concentration of these substances in the downstream receiving environment.

Cameco has proposed a three-phase action plan to further reduce selenium and molybdenum discharges in the mill effluent, which was subsequently accepted by the CNSC staff. While we believe that the current level of control protects the environment and is consistent with past EAs of the Key Lake operation, we also recognize that improvements can be made to further reduce levels of these two metals.

At a commission level hearing in January 2007, the CNSC considered a proposed licence condition for the Key Lake mill to implement this plan. We expect a CNSC decision shortly and the first phase of the plan to be in place later in 2007. Reducing the current level of these metals discharged to the environment is expected to help advance the EA to increase the annual licensed production limit at the McArthur River mine and the Key Lake mill. While we cannot predict the outcome of this assessment, we expect that the parallel work on effluent reduction will advance consideration of the proposal. We remain confident that we can incrementally increase production levels with minimal environmental effect.

In addition to obtaining approval for the EA, we need to transition to new mining zones at McArthur River and to implement various mill process modifications at Key Lake in order to sustain increased production levels. Mine planning, development and freeze hole drilling for the McArthur River transition is ongoing. A revitalization pre-feasibility assessment for the Key Lake mill was initiated in October 2006. The mill began production in 1983 and was built as a world-class facility. Revitalization of Key Lake will include upgrading circuits to new technology for simplified operation and increased production capacity.

Reinvesting in this mill will help maintain our leadership position in uranium production for many years into the future.

At McArthur River, work also progressed on the planning of a boxhole boring mining method, which we anticipate using for production from upper zone 4 beginning in 2012. This zone is south of the current zone 2 workings and the Pollock (main) shaft. We completed the mine plan for the boxhole boring test area for development in 2007 to 2008 and placed an order for a boxhole borer for delivery in early 2008. Long-term conceptual planning for resources north of the Pollock shaft was carried out and development of a tunnel for future access and drilling is progressing as planned.

Refer to the section titled Uranium Exploration in this MD&A for information on exploration programs near McArthur River.

Rabbit Lake

Rabbit Lake, located in Saskatchewan, produced 5.1 million pounds of U_3O_8 in 2006. Production in 2006 was lower than 2005 as a result of lower than expected ore grades encountered at Eagle Point underground operations. In 2007, we are expecting to mine areas with higher grades relative to 2006. The outlook for 2007 production is 5.5 million pounds of U_3O_8.

In 2006, the Rabbit Lake operation returned the mined out A-zone open pit to the surrounding Wollaston Lake and completed a mill project that reduces the concentration of uranium in the operation s effluent discharge.

Similar to previous years, the underground diamond-drilling reserve replacement program was successful in 2006. Over 69 kilometres of drilling was completed with excellent results. At the end of 2006, total proven and probable reserves are estimated at 737,000 tonnes at 1.2% U_3O_8 for 19.1 million pounds in areas that are currently being mined and in a new zone that is in close proximity to a newly producing mining area. We now anticipate that the Eagle Point mine life will continue through to 2011.

As previously reported, we have been working on an EA to process a little over one-half of the future uranium production from Cigar Lake ore at the Rabbit Lake mill beginning in the third year of Cigar Lake production, depending on the production rampup. The draft EA study report was submitted to regulatory agencies for review in November 2006. We held a meeting with regulatory reviewers in February 2007 and are now preparing responses to their initial comments and questions. Rabbit Lake began operation in 1975 and is Saskatchewan s longest operating uranium operation. Given we expect to extend the life of this facility by processing a portion of Cigar Lake s ore, we will begin a revitalization assessment of the mill in 2007.

Smith Ranch-Highland and Crow Butte

Smith Ranch-Highland and Crow Butte in situ leach (ISL) mines, located in Wyoming and Nebraska respectively, produced a record 2.7 million pounds in 2006, up from our original target of 2.4 million pounds. Smith Ranch-Highland produced 2.0 million pounds of our ISL production in 2006, which is the highest production achieved in the history of ISL mining in the US.

Uranium Projects

Cigar Lake

Cameco began construction of the Cigar Lake mine on January 1, 2005. On October 23, 2006, Cameco reported that a rock fall causing a water inflow had flooded the underground development.

As previously announced, Cameco intends to complete a technical report for Cigar Lake that meets requirements under Canadian Securities Administrators National Instrument 43-101. In the course of preparing that report, the company finalized material information which was news released on March 18, 2007. More detailed information will be available in the technical report that Cameco plans to file with SEDAR before the end of March 2007. The information contained in news release issued on March 18, 2007 is discussed below.

Cameco is proceeding with a five-phase plan to restore the underground workings at Cigar Lake and complete construction. Each phase requires regulatory approval which has already been received for the work under way in phase one, other than drilling dewatering holes.

Cameco s share of additional capital costs to develop Cigar Lake, including mill modifications at Rabbit Lake and McClean Lake (where the uranium will be processed), is currently estimated at $274 million. Adding this new cost estimate to the $234 million that Cameco has already spent on Cigar Lake construction brings Cameco s share of total construction cost to develop the project to about $508 million. The increase from the last estimate of $330 million, provided on April 30, 2006, is primarily due to site costs during the extended construction period, higher contractor rates driven by the high level of construction activity in western Canada, increased energy costs and several scope additions. Two significant scope additions are increased dewatering capacity and optimized mine plans to freeze more underground areas such as the access tunnels to the production level. In addition to the $234 million of historic construction costs noted above, Cameco s investment in Cigar Lake as of December 31, 2006 included $378 million for expenditures related to test mining, infrastructure development and capitalized interest.

In addition to capital costs, Cameco s share of remediation expenses are expected to total $46 million, of which $5 million was expensed in 2006. In 2007, Cameco anticipates its share of remediation costs will be $32 million that will be expensed and reduce pre-tax earnings accordingly. In 2008, Cameco expects its pre-tax earnings to be reduced by $9 million of remediation expenses for Cigar Lake.

Forecast Cigar Lake Costs (Cameco s share[1])

Capital costs ($ millions)	**Prior construction costs**	**2007**	**2008**	**2009**	**2010**	**2011**	**Total**
Mine	203	68	99	71			441
Mills	31	6	5	9	5	11	67
Total	**234**	**74**	**104**	**80**	**5**	**11**	**508**

Remediation expenses[1] ($ millions)	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**Total**
	5	32	9				**46**

[1] Future costs are in constant 2007 dollars.

Cameco is making good progress on the first phase of remediation. The first phase involves drilling holes down to the source of the inflow and to a nearby tunnel where reinforcement may be needed, pumping concrete through the drill holes, sealing off the inflow with grout and drilling dewatering holes.

As of March 16, 2007, 13 of the 14 drill holes planned for reinforcing and sealing off the water inflow area are complete. Concrete is required in two locations underground one near the rockfall to seal off the inflow area and another in a nearby tunnel to provide reinforcement. More than 1,000 cubic metres of

concrete have been poured through drill holes into the reinforcement area. The concrete mixture is designed to harden under water and is being poured in successive layers.

Cameco now expects to complete the work necessary to seal off the water inflow in the third quarter of 2007 after spending additional time learning the best way to work with concrete in the water underground. This timeline assumes that the current pace of drilling is maintained, and the concrete solidifies as planned to provide reinforcement and prevent or reduce water inflow sufficiently to enable mine dewatering. The integrity of the plug will not be known until dewatering is under way.

Cameco has applied to the regulators for approval to drill an additional four, larger-diameter, holes that would be used to dewater the mine. Cameco has secured access to all drilling equipment required for the remediation work. We will also be making the appropriate application for relicensing since the current Cigar Lake construction licence expires at the end of 2007.

The subsequent four phases of remediation and construction are:

Phase 2	Dewatering the underground development, verifying the water inflow has been sufficiently sealed, and initiating the installation of surface freezing infrastructure expected to be completed by the end of the third quarter 2007.
Phase 3	Completing any additional remedial work identified in phase two such as determining if additional reinforcement is required in higher risk areas expected by the end of 2007.
Phase 4	Completing underground rehabilitation that includes securing areas to prevent ground fall or water inflow, re-establishing mine ventilation, installing pumping capacity and re-establishing the ore freezing program expected to be completed by the summer of 2008.
Phase 5	Resuming construction activities that will lead to scheduled completion of the mine-targeted for 2010.

While these phases are under way, the area around the flooded second shaft will be frozen after the installation of underground freeze pipes from a nearby tunnel. This is anticipated to be completed by the summer of 2008. Shaft sinking will continue with completion scheduled for 2010.

Cameco has hired internationally qualified independent experts to investigate the two water inflow incidents at the Cigar Lake project and provide corrective action recommendations. The company will be carefully reviewing the final reports to identify opportunities for improvement.

After construction is complete, Cameco estimates production startup in 2010, ramping up to the company s share of full production of about 9 million pounds in just over two years. This is subject to regulatory approval and the remediation being completed in a timely fashion.

Following a review of the reserves and resources at Cigar Lake, Cameco s share of proven reserves remains unchanged at 113.2 million pounds. However, a small amount (Cameco s share is 2.6 million pounds) of probable reserves have been reclassified as indicated resources due to a change in the cut-off grade to 5.9% U_3O_8. Additional work is required on the inferred resources to determine if they can be reclassified to a higher category.

Cigar Lake Reserves and Resources at March 16, 2007

Category	Tonnes (thousands)	Grade $\%U_3O_8$	Total lbs U_3O_8 (millions)	Cameco s Share lbs U_3O_8 (millions)
Reserves				
Proven reserves	497	20.7	226.3	113.2
Resources				
Indicated resources	61	4.9	6.6	3.3
Inferred	317	16.9	118.2	59.1

Notes:

1 Cameco reports reserves and resources separately. The amount of reported resources does not include those amounts identified as reserves.

2 Cameco s share is 50.025% of total.

3 Total pounds U_3O_8 for reserves are contained pounds before mill recovery of 98.5 % has been applied.

4 Inferred resources have a great amount of uncertainty as to their existence and as to whether they can be mined legally or economically. It cannot be assumed that all or any part of the

inferred resources will ever be upgraded to a higher category.

5 Mineral reserves have been estimated at a minimum mineralized thickness of 2.5m and a cut-off grade of 5.9 % U_3O_8 applied to the mineral resource block model. Indicated mineral resources have been estimated at a cut-off grade of 1.2 % U_3O_8 and minimum mineralized interval of 2.5m. Inferred mineral resources have been estimated at a cut-off grade of 5.9 % U_3O_8.

6 The geological model employed for Cigar Lake involves geological interpretations on section and plan derived from core drill hole information.

7 Mineral reserves have been estimated assuming an allowance of 0.5 m of dilution above and below the deposit, plus

5% external dilution and 5% backfill dilution at 0% U_3O_8.

8 Mineral reserves have been estimated based on 90% mining recovery. No allowance for mining recovery is included in mineral resources.

9 Mineral reserves and mineral resources were estimated based on the use of the jet boring mining method combined with block freezing of the orebody. Jet boring produces an ore slurry with initial processing consisting of crushing and grinding underground, leaching at the McClean Lake mill and yellowcake production split between the McClean Lake and Rabbit lake mills. Mining rate assumed to vary between 80 and 140 t/d and mill production rate of 18 million pounds of U_3O_8 per year based on 98.5 % mill

recovery.

10 Mineral reserves and resources were estimated using a two-dimensional block model.

11 For the purpose of estimating mineral reserves in accordance with NI 43-101, a uranium price of $38.50 (US)/lb U_3O_8 was used. For the purpose of estimating mineral reserves in accordance with US Securities Commission Industry Guide 7, a uranium price of $32.30 (US)/lb U_3O_8 was used. Estimated mineral reserves are almost identical at either price because of the insensitivity of the mineral reserves to the cut-off grade over the range of these two prices.

12 The key economic parameters underlying the mineral reserves include an exchange rate of $0.91 US=$1.00 Cdn.

13 Environmental, permitting, legal, title, taxation, socio-political, marketing or other issues are not expected to materially affect the above estimate of mineral reserves and resources.

14 Mineral resources that are not mineral reserves do not have demonstrated economic viability.

At a mill recovery rate of 98.5%, Cameco anticipates that its share of proven reserves will produce 111.5 million recoverable pounds of U_3O_8 over 14.8 years of production. The first five years of planned production are as follows:

Cameco s share of Cigar Lake production	**2010**	**2011**	**2012**	**2013**	**2014**
(million pounds U_3O_8)	1.5	4.5	8.8	9.0	9.0

Cigar Lake will produce less than Cameco s share of full production of 9 million pounds in the early and late years resulting in an average total recovery of 7.5 million pounds annually over the reserve life.

The above discussion regarding Cigar Lake should take into consideration the following risk factors:

Cigar Lake is a challenging deposit to develop and mine. These challenges include control of groundwater, weak ground formations, and radiation protection. The sandstone overlying the basement rocks contains significant water at hydrostatic pressure. Freezing the ground is expected to result in several enhancements to the ground conditions, including: (1) minimizing the risk of water inflows from saturated rock above the unconformity; (2) reducing radiation exposure from radon dissolved in the ground water; and (3) increasing rock stability. However, freezing will only reduce, not eliminate, these challenges. There is also the possibility of a water inflow during the drilling of holes to freeze the ground. Therefore, the risk of water inflows at Cigar Lake remains. The consequences of another water inflow will depend upon the magnitude, location and timing of any such event, but could include a significant delay in Cigar Lake s remediation, development or production, a material increase in costs, a loss of mineral reserves or require Cameco to give notice to many of its customers that it is declaring an interruption in planned uranium supply. Such consequences could have a material adverse impact on Cameco. Water inflows are generally not insurable.

Cigar Lake s remediation and production schedules are based upon certain assumptions regarding the condition of the underground infrastructure at the mine. The condition of this underground infrastructure, however, will not be known until the mine is dewatered. If the underground infrastructure has been impaired, this could adversely impact our schedules and cost estimates.

The outcome of each phase of remediation will impact the schedule of each subsequent phase of remediation and the planned commencement of production in 2010. For example, if the plug is not successful in securing the inflow area, then ground freezing, already incorporated in the remediation plan, will be utilized to secure the inflow area. If this situation occurs, there could be a delay in the remediation schedule and the commencement of production.

Remediation and production schedules will be impacted by regulatory approvals. We have not yet received regulatory approval to drill four drill holes for dewatering the mine during the first phase of the remediation plan. This approval is required to move forward with our planned dewatering strategy. We believe that each phase of remediation falls within the scope of the environment assessment of the Cigar Lake project. If regulatory authorities do not agree, this could impact our remediation and production schedules. In addition, working with the regulatory authorities to receive approvals for additional corrective actions which may result from current inflow investigations may impact our remediation and production schedules. Readers are cautioned that conclusions, projections and estimates set out in the section above under the heading Cigar Lake are subject to the qualifications, assumptions and exclusions which are detailed in the technical report. To fully understand the summary information set out above, the technical report that will be filed on SEDAR should be read in its entirety.

The scientific and technical information in this news release was prepared under the supervision of:

Alain G. Mainville, a professional geoscientist employed by Cameco as director, mineral resources management.

Barry W. Schmitke, a professional engineer employed by Cameco as the general manager of the Cigar Lake project.

The individuals noted above are qualified persons for the purpose of National Instrument 43-101.

Inkai

At the Inkai ISL project in Kazakhstan, there are two production areas currently in development (blocks 1 and 2). At block 1, construction is under way for the commercial processing facility. In 2007, we expect to complete construction and begin commissioning the commercial facility, subject to regulatory approvals. We expect startup of production in late 2007 with commercial production to follow in 2008 after a rampup period.

At block 2, the test mine produced about 0.8 million pounds U_3O_8 during 2006. Production from the expanded facility started in the second quarter of 2006. Assuming that resources are converted to reserves this year, we would apply for a mining licence in 2007 for block 2. Commercial development of block 2 could start in 2008. As previously reported, production from blocks 1 and 2 is expected to total 5.2 million pounds per year by 2010.

The total cost to bring Inkai to commercial production (100% basis) is now projected to be about $200 million (US). The capital expenditures for Inkai in 2007 are expected to total $90 million (US). The production obtained from the Inkai test mine is being sold and proceeds from the sales are used to fund the construction and operation of the project. Including the recoveries related to these sales, the net cost of development at Inkai is expected to be about $95 million (US).

Inkai will be subject to taxes in Kazakhstan at statutory rates fixed at the signing of the Resource Use Contract in 2000. Inkai will also be subject to Excess Profits Tax. Excess profits tax becomes payable when the internal rate of return of the project (as defined in the applicable tax code) exceeds 20%. Excess profits tax is levied at rates scaled from 4% to 30%, depending on the internal rate of return. The excess profits tax rate is applied to pre-tax net income less income tax. Inkai will not pay excess profits tax in 2007. The timing of excess profits tax in the future, after Inkai reaches commercial production will be dependent on the internal rate of return of the project.

Purchase Volumes

Cameco also has purchase commitments for uranium products and services from various sources. Most of these purchase commitments are in the form of UF_6. At the end of 2006, these purchase commitments totalled 51 million pounds uranium equivalent from 2007 to 2013. Of this, 46 million pounds are from exercising options under our agreement to purchase uranium from dismantled Russian weapons (the Russian HEU commercial agreement). At December 31, 2006, these purchase commitments totalled $598 million (US). Refer to note 24 in the notes to consolidated financial statements.

Costs

Cameco s cost of supply is influenced by its mix of produced mine material and uranium purchases.

Production costs at our Saskatchewan uranium mines, our largest source of production, are primarily fixed, with almost one-third attributable to labour. The largest variable operating cost is production supplies (25%), followed by maintenance materials (10%). Another large component of production costs is contracted services which is 23% of the total. Contracted services include items such as mining, maintenance, air charters, security and ground freight. These four components make up 90% of the production costs at our Saskatchewan uranium mines.

Uranium mine production costs are driven mostly by the complexity of the operation. Unit costs of production are driven primarily by the grade and size of the reserves. McArthur River is the world s largest, high-grade uranium mine. Its ore grade averages 21% U_3O_8 which means it can produce more than 18

million pounds per year by extracting only 100 to 120 tonnes of ore per day. While Rabbit Lake s average ore grade of 1% U_3O_8 is much lower, it compares favourably to other operating mines in the world where ore grades are generally below 0.5%.

ISL extraction methods can make even lower-grade orebodies commercially attractive. Worldwide, ISL mines typically recover uranium from orebodies with an average grade in the range of 0.1% U_3O_8. Cameco s cost of supply is influenced only modestly by the two US ISL operations. In 2006, US ISL production accounted for about 13% of the company s primary output.

Purchased product also affects Cameco s cost of supply. Most of Cameco s purchase commitments are under long-term, fixed-price arrangements reflecting prices significantly lower than the current published spot and long-term prices. These purchase commitments totalled $599 million (US) at December 31, 2006. Refer to note 24 in the notes to the consolidated financial statements. A significant portion of these purchased pounds will be delivered into existing sales contracts.

Foreign Exchange

The relationship between the Canadian and US dollars affects financial results of the uranium business as well as the fuel services business. For that reason, the effect on both businesses will be discussed in this section.

Sales of uranium and fuel services are routinely denominated in US dollars while production costs are largely denominated in Canadian dollars. We attempt to provide some protection against exchange rate fluctuations by planned hedging activity designed to smooth volatility. Hedging activities partly shelter our uranium and fuel services revenues against declines in the US dollar in the shorter term.

Cameco also has a natural hedge against US currency fluctuations as a portion of its annual cash outlays, including purchases of uranium and fuel services, is denominated in US dollars. The influence on earnings from purchased material in inventory is likely to be dispersed over several fiscal periods and is more difficult to identify.

At each balance sheet date, Cameco calculates the mark-to-market value of all foreign exchange contracts with that value representing the gain or loss that would have occurred if the contracts had been closed at that point in time. We account for foreign exchange contracts that meet certain defined criteria (specified by generally accepted accounting principles) using hedge accounting. Under hedge accounting, mark-to-market gains or losses are included in earnings only at the point in time that the contract is designated for use. In all other circumstances, mark-to-market gains or losses are reported in earnings as they occur.

At December 31, 2006, the Canadian/US dollar exchange rate was $1.17, unchanged from December 31, 2005. Over the course of the year, the exchange rate averaged $1.13.

At December 31, 2006, we had foreign currency contracts of $1,237 million (US) and EUR 58 million that were accounted for using hedge accounting and foreign currency contracts of $127 million (US) that did not meet the criteria for hedge accounting. The foreign currency contracts are scheduled for use as follows:

	2007	**2008**	**2009**	**2010**
$ millions (US)	584	375	270	135
EUR millions	32	13	10	3

The US currency contracts have an average effective exchange rate of $1.17 (Cdn) per $1.00 (US), which reflects the original foreign exchange spot prices at the time contracts were entered into and includes net deferred gains.
At December 31, 2006, the mark-to-market loss on all foreign exchange contracts designated as hedges was $34 million compared to a $37 million gain at December 31, 2005. For those contracts not designated as hedges, the mark-to-market loss of $2 million has been included in earnings for 2006.
Timing differences between the maturity dates and designation dates on previously closed hedge contracts may result in deferred revenue or deferred charges. At December 31, 2006, net deferred gains totalled $26 million. The schedule for net deferred gains to be released to earnings, by year, is as follows:

Deferred Gains (Charges)	**2007**	**2008**	**2009**	**2010**
$ millions (Cdn)	15	9	2	0

In 2006, most of the net inflows of US dollars were hedged with currency derivatives. Net inflows represent uranium and fuel services sales less US dollar cash expenses and US dollar product purchases. For the uranium and fuel services businesses in 2006, the effective exchange rate, after allowing for hedging, was about $1.20 compared to $1.30 in 2005.
For 2007, every one-cent increase/decrease in the US to Canadian dollar exchange rate would result in a corresponding increase/decrease in net earnings of about $6 million (Cdn).

Uranium Strategies

Cameco s overall objective is to build on and leverage our competitive advantage in uranium. In doing so, we strive to meet three major goals:

- remain one of the low-cost producers,
- expand our market position, and
- increase supply flexibility.

There are a number of key strategies the company uses to achieve these goals. We strive to maintain our low-cost position by adding economically attractive reserves and improving our margins. We look to expand our low-cost reserves through acquisition, exploration around existing operations and by identifying geological regions that will provide the next tier of low-cost production.
We improve our margins by optimizing production to yield the highest rate of return, gaining cost efficiencies through quality and business process improvements, and pursuing fundamental productivity gains through technological development.
We seek to grow our market position by acquisition, seeking to accelerate production from existing operations, and participating in new uranium opportunities at exploration and development stages.
To increase our supply flexibility, we are building a geographically diverse production base. This includes accelerating the production at Inkai, bringing Cigar Lake into production, and continuing to pursue a global exploration program. This program identifies the most prospective regions and maximizes options to access and/or control land positions for future business advantage. To ensure we have adequate production, we

identify the optimal resource mix (i.e. different types of deposits such as unconformity versus in situ leach), and replace reserves through exploration and acquisition.

Given Cameco s leadership role in the uranium market, the company wants to successfully maximize uranium market growth. Our goals in this regard are to:

- expand market position,
- optimize price realization over time, and
- improve supply flexibility.

To grow our market position, we build on our customer relationships and expand the range of services available to customers while maintaining the company s reputation as a reliable supplier. In addition, we maintain participation in secondary supplies including, enhancing our relationship with Russia, influencing the timing of sales of secondary supplies to the market, and using market intelligence to achieve early notice of new supply sources.

A key element for Cameco is our contracting strategy, which is influenced by the supply and demand outlook for uranium. Since mid-2003, the supply side has experienced significant impacts that caused uranium prices to rise rapidly. This upward trend has been due, in large part, to the realization by market participants that excess secondary supplies will not contribute as much to future uranium supply as they had previously expected. Consequently, a greater volume of new primary mine production will be needed.

The rise in prices has triggered predictable supply side responses. The most notable is the increase in companies exploring for new uranium deposits and the construction of new mines and the proposed expansion of existing ones. However, given the low prices of the last two decades, very little exploration was undertaken on a global basis, and relatively little investment was made in advancing new uranium projects. Producers were operating at close to full capacity to minimize unit costs. Undeveloped deposits, identified in previous exploration cycles, were mostly uneconomic or located in jurisdictions with political challenges. With higher prices, existing projects and newly discovered deposits will be developed, but the lead time before they enter commercial production may be lengthy depending on the region. Consequently, the primary supply industry cannot significantly increase supply in the near-term.

Future market prices will depend on a number of supply and demand factors, the more notable ones being:

- additional production from the successful expansion of existing production, startup of mines currently under construction and development of existing deposits yet to be developed,
- the success of exploration programs in identifying new commercial uranium deposits that can be developed in a reasonable period of time,
- the exchange rate in various producer country currencies relative to the US dollar,
- the timing and extent of expansion of uranium produced as a byproduct or co-product of other commodities, particularly in Australia and South Africa,
- availability of existing and possible new secondary materials, such as blended down uranium from military stock including dismantled weapons,
- the manner in which investment funds liquidate their holdings,
- ultimate sales by the US Department of Energy (DOE),
- the extent enrichment services are substituted for natural uranium feed, and
- the growth rate of nuclear power.

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Given the uncertainty surrounding the foregoing supply/demand factors and the impact on price, we believe it is prudent to continue to target a mix of market-related and fixed price mechanisms.

As we have discussed in the past, our contracting objective is to secure a solid base of earnings and cash flow to allow us to maintain our core asset base and pursue growth opportunities over the long-term. Our contracting strategy focuses on reducing the volatility in our future earnings and cash flow, while providing both protection against decreases in market price and retaining exposure to future market price increases. This is a balanced approach, which we believe delivers the best value to our shareholders over the long-term.

Our current portfolio reflects a 60/40 mix of market-related and fixed pricing (escalated by inflation) mechanisms. Currently, our contracting is more focused on market-related pricing. Consequently, we expect this ratio to change over time.

The overall strategy will continue to focus on achieving longer contract terms of up to 10 years or more, floor prices that provide downside protection, and retaining an adequate level of upside potential. In general, most new offers include price mechanisms with an 80% market-related and 20% fixed component. The fixed-price component generally is equal to or higher than the industry long-term price indicator at the time of offer and is adjusted by inflation. The market-related component will include a floor price (escalated by inflation).

Cameco has a variety of supply sources including primary production, firm commitments for long-term purchases, inventories of six months forward sales (or equivalent to about 17 million pounds, including working inventory) and uranium from opportunistic purchases in the spot market.

Capability to Deliver Results

Cameco will continue to enhance its capabilities in a number of areas to execute our strategies and deliver on our goals to remain one of the low-cost producers, protect and expand our market position and increase supply flexibility. We will achieve these goals by:

transitioning successfully from current mining areas to new ones,

advancing other mining methods and technologies,

proceeding with revitalization plans for our milling operations,

obtaining timely regulatory approvals under an increasingly stringent regulatory regime,

securing adequate human resources to replace an aging workforce, including ensuring skilled tradespeople continue to be available,

ensuring capital is readily available over the longer term given our expansion plans,

allocating adequate resources to exploration, and

evaluating and acting upon opportunities that we expect to add value.

transition to new mining areas

Underground drilling exploration at McArthur River has identified four ore zones (zones 1 to 4). Currently, only zone 2 is being mined. Zone 2 is divided into four panels (panels 1, 2, 3 and 5).

The McArthur River mine schematic above illustrates the location of the four ore zones.

As extraction of zone 2 (panels 1, 2, and 3) progresses, we expect to place zone 1, zone 2 (panel 5) and the lower mining area of zone 4 into production by 2009, subject to regulatory approval. We plan to continue using the raiseboring method to extract ore in these zones.

All tunnels have been developed for zone 1 and we do not expect any technical issues. At zone 2 (panel 5) and lower zone 4, freeze hole drilling and tunnel construction commenced in 2006. Through much of 2006, freeze-hole drilling advanced at a slower than expected rate due to technical challenges with drilling through frozen ground, additional time required to address operational challenges. For example, we made improvements to the drill setups, and addressed earlier staffing challenges associated with getting sufficient experienced drillers given the high levels of activity in the exploration diamond drilling industry. We have modified our freeze-hole drilling technique and equipment and have since achieved our scheduled target drilling rates.

Mining Methods

Currently, McArthur River uses raiseboring to extract ore from the mine. As we expected from the start of mining, other mining methods will be used to maintain or expand production. In 2005, we determined that the boxhole boring method would be better suited for the upper zone 4 at McArthur River, because it would allow development from a preferred location. Production from this zone is scheduled to begin in 2012.

Until Cameco has fully developed and tested the boxhole boring method, there is uncertainty in the estimated productivity. Cameco plans to develop and test the boxhole boring method over the next four years. In 2006, we completed the mine plan for the boxhole boring test area and placed an order for a boxhole borer for delivery in early 2008. Mine development for the test area is planned to take place during 2007 and 2008. During this time, we will continue to further develop detailed plans for this mining method.

At Cigar Lake, we plan to use the jet boring method, which has been examined through extensive test mining programs. Overall, the test mine programs were considered highly successful with all initial objectives fulfilled. However, as the jet boring mining method is new to the uranium mining industry, the potential for technical challenges exist. We are confident that our engineers will be able to solve the challenges that may arise during the initial rampup period.

Revitalization of Mills

The Key Lake and Rabbit Lake mills have been in operation for 24 and 32 years respectively. We plan to renew both these mills to help maintain our leadership position in uranium production. A revitalization pre-feasibility assessment for the Key Lake mill was kicked off in October 2006. We are targeting to complete the final feasibility study in early 2008. A revitalization assessment of the Rabbit Lake mill will begin in 2007.

Regulatory Approval

Cameco s growth plans depend on regulatory approvals such as environmental assessments, and obtaining construction and operating licences in various jurisdictions including Canada, Kazakhstan, and the US. The timing for approvals can be impacted by various factors such as, the regulator s assessment of current performance, the comprehensiveness of the documentation submitted to support the application, assessment of the significance of any anticipated incremental impacts, the number of industry approval applications being assessed at any given time by the regulator, changing regulatory standards and other factors.

Cameco expends significant financial and managerial resources to comply with laws and regulations. We seek to find solutions that best reduce or eliminate our environmental impacts.

Human Resources

Cameco s workforce reflects the national demographics where a significant number of the eligible workforce is nearing retirement age. Approximately 27% of the workforce at our Saskatchewan uranium mines was age 50 or older at December 31, 2006. Cameco s challenge is to compete for the limited number of people entering the workforce to replace retiring employees. We have developed a long-term people strategy that includes workforce planning to meet this challenge. Another challenge we have is securing skilled tradespeople. Cameco is examining various options to accelerate our extensive apprenticeship programs.

Ready Access to Capital

Cameco has an ambitious plan to grow in the nuclear energy industry. Opportunities to invest are unpredictable and often capital intensive. We intend to maintain financial flexibility to pursue opportunities as they arise. For that reason, we maintain a conservative financial structure with a target of no more than 25% net debt to total capital.

Exploration Programs

Cameco continues to pursue a focused exploration program to identify additional uranium reserves for the future to maintain the company s position as the world s largest uranium producer.

Cameco retained an exploration program and its expertise during the depressed market. As uranium prices have risen we have increased our investment in exploration to achieve our goal of expanding our reserve base to grow our uranium market leadership position.

We plan to invest about $45 million in uranium exploration during 2007. This is up 29% compared to the $32 million invested in 2006.

For more information on our exploration activities, see the section titled Uranium Exploration in this MD&A.

Uranium Business Results

Cameco s uranium business consists of the McArthur River, Key Lake and Rabbit Lake mine and mill operations in Saskatchewan, two ISL mines in the US, the Inkai ISL test mine in Kazakhstan, the Cigar Lake development project in Saskatchewan and uranium exploration projects located primarily in Canada and Australia.

Uranium Business Highlights

	2006	**2005**	**% Change**
Revenue ($ millions)	**803**	690	16
Gross profit ($ millions)	**237**	159	49
Gross profit %	**30**	23	30
Earnings before taxes ($ millions) [1]	**181**	134	35
Average realized price			
($US/lb)	**20.62**	15.45	33
($Cdn/lb)	**24.72**	20.14	23
Sales volume (million lbs) [2]	**32.1**	34.2	(6)
Deferred sales volume (million lbs)	**4.0**	0	
Production volume (million lbs)	**20.9**	21.2	(1)

[1] Excludes $69 million in earnings related to the gain on sale of Energy Resources of Australia Ltd shares for the year ended December 31, 2005.

[2] Total delivered volumes for 2006 was 36.2 million pounds. Revenue on 4.0 million pounds was deferred due to standby product loans.

In 2006, we reported that Cameco had entered into standby product loan agreements with two of our customers. The loans allow Cameco to borrow up to 5.6 million pounds U_3O_8 equivalent over the period 2006 to 2008, with repayment in 2008 and 2009. Of the material available under the loan, up to 1.4 million kgU can be borrowed in the form of uranium hexafluoride (UF_6). Any borrowings will be secured by letters of credit and be settled in kind.

As of December 31, 2006, Cameco had not borrowed any material under the standby loan agreements. However, regardless of whether any material is borrowed, we defer revenue recognition from sales to the counterparties of the standby product loan agreements, up to the limit of the loans (5.6 million pounds). This is in accordance with accounting standards. Cameco will recognize the deferred revenue and associated costs when the loan agreements are

terminated, or if drawn upon, when the loans are repaid and that portion of the facility is terminated.

Accordingly, in 2006, Cameco has deferred revenue of $80 million and the associated costs on sales of 4.0 million pounds of U_3O_8. The gross profit on the deferred sales was $15 million.

The timing of cash receipts on the deferred revenue is the same as on any other sale and is unaffected by the accounting treatment for the revenue. As a result, cash flows are not impacted by the deferrals.

Standby fees associated with the loan facilities are reflected in the Interest and Other expense item on the Consolidated Statement of Earnings.

Our reported revenue and costs for U_3O_8 discussed throughout this MD&A have been reduced to reflect the required deferrals. Similarly, the average realized price for U_3O_8 has been adjusted.

Revenue

Compared to 2005, revenue from our uranium business rose in 2006 by 16% to $803 million due to a 33% increase in the realized selling price (in US dollars) partially offset by a 6% decline in reported sales volume. The decline is a function of the deferred sales described above.

The average realized price in Canadian dollars, increased by only 23% due to the stronger Canadian dollar relative to the US dollar. The increase in the average realized price was the result of higher prices under fixed-price contracts and a higher uranium spot price, which averaged $49.60 (US) per pound in 2006 compared to $28.67 (US) in 2005.

Cost of Products and Services Sold

For 2006, the cost of products and services sold was $472 million compared to $429 million in 2005, reflecting increases in the cost of purchased uranium and in the proportion of sales commitments met with purchased material. In 2006, purchased material represented about 45% of sales compared to 35% in 2005. On a per unit basis, the cost of product sold was about 16% higher than in the previous year due to the foregoing factors.

Depreciation, Depletion and Reclamation

In 2006, depreciation, depletion and reclamation (DD&R) charges were $94 million compared to $102 million in 2005, due to the higher proportion of sales of purchased uranium. On a per unit basis, DD&R costs were about 5% lower than in 2005.

Gross Profit

In 2006, our gross profit from the uranium business amounted to $237 million compared to $159 million in 2005, an increase of 49%. This was attributable to the 23% increase in the realized price for uranium and was partially offset by higher unit costs for purchased uranium. Our earnings before taxes from the uranium business improved to $181 million from $134 million last year, while the profit margin rose to 30% from 23% in 2005 again due to the higher realized selling price.

2007 Outlook for Uranium

In 2007, the reported sales volume and associated revenue may be affected by changes to product loan arrangements. Total uranium deliveries amounted to 36 million pounds in 2006, while reported sales volume was 32 million pounds due to the accounting for the product loans.

In 2007, we expect uranium deliveries to total 33 million pounds. However, the reported sales volume for revenue purposes depends upon the product loan arrangements. We may terminate a portion or all of the product loan arrangements in 2007. To the extent we terminate the product loan arrangements, revenue that was deferred on up to 4 million pounds in 2006 would be recognized in 2007. If the product loan facilities remain in place unchanged, we would be required to defer revenue on an additional 1.6 million pounds in 2007, regardless if any amount is drawn on the loans. Assuming the product loans remain in place, we would expect our reported revenues to be about 45% greater than in 2006 due to an increase in our realized price.

Excluding the impact of any deferrals related to the product loans, we would expect our uranium revenue for 2007 to increase by about 50% due primarily to an increase in the realized price. Our average realized uranium price is anticipated to improve due to higher expected prices under our current contracts relative to 2006.

The unit cost of product sold is projected to increase by about 20% as a result of increased costs for purchased material, higher royalty costs due to an increase in the realized price, the impact of tiered royalty charges and increased production costs expected to be incurred in 2007.

As mentioned in the 2006 fourth quarter report, we have included supply interruption language in our contracts, which provides Cameco with the right to reduce, defer or cancel volumes on a pro-rata basis if we experience a shortfall in planned production or deliveries of purchases under the highly enriched uranium agreement. This language protects about three-quarters of currently contracted volumes, and this percentage will rise as old contracts expire. All contracts contain standard force majeure language.

The baseload contracts put in place to support the development of Cigar Lake also contain supply interruption language, which allows Cameco to reduce, defer or cancel deliveries in the event of any delay or shortfall in Cigar Lake production.

Since the Cigar Lake water inflow, we have been in discussions with our customers to address the production delay at the mine and its possible effect on uranium deliveries. Our immediate focus is on customers who will be impacted with uranium deliveries in 2007.

In the case of the Cigar Lake baseload contracts containing deliveries in 2007, we plan to defer the volumes to the end of the various contracts.

For the remainder of the contracts that are impacted by the supply interruption language in 2007, we plan to defer the portion of deliveries impacted by this language for a five to seven-year period.

Contract specific decisions will be made in consultation with each of our customers. We appreciate their understanding and support.

In 2007, Cameco expects its pre-tax earnings will be reduced by $32 million of remediation expenses for Cigar Lake.

Cameco s share of uranium production for 2007 is projected to increase slightly to 21.0 million pounds of U_3O_8 from 20.9 million in 2006. These quantities do not include Inkai as the operation is not yet in commercial production.

Cameco did not pay tiered royalties in 2006 and prior years due to the availability of prescribed capital allowances that reduce uranium sales subject to tiered royalty. Cameco expects its capital allowances to be fully exhausted during 2007 and, therefore, expects to pay tiered royalties in 2007. We currently estimate that tiered royalties will reduce net earnings by approximately $10 million in 2007. We will be eligible for additional capital allowances once Cigar Lake commences production at which time we do not expect to be required to pay tiered royalties until the additional allowances are fully exhausted. The following is an example of how tiered royalties are estimated.

Calculation of Tiered Royalties
(2006 rates; index value to determine rates for 2007 not available until April, 2007)
Assumptions:

based on 100,000 pounds U_3O_8 sold, and

no capital allowance are available

Sales Price Realized ($ Cdn)	**Tier 1 Royalty[1]**	**Tier 2 Royalty[2]**	**Tier 3 Royalty[3]**	**Total Tiered Royalty**
$25.00	$ 53,040	$ 3,040		$ 56,080
$35.00	$113,040	$ 43,040	$ 13,350	$ 169,430
$45.00	$173,040	$ 83,040	$ 63,350	$ 319,430
$55.00	$233,040	$123,040	$113,350	$ 469,430
$65.00	$293,040	$163,040	$163,350	$ 619,430
$75.00	$353,040	$203,040	$213,350	$ 769,430
$85.00	$413,040	$243,040	$263,350	$ 919,430

[1] 6% x (Sales Price $16.16) x 100,000 pounds U_3O_8

[2] 4% x (Sales Price $24.24) x 100,000 pounds U_3O_8

[3] 5% x (Sales Price $32.33) x 100,000 pounds U_3O_8

The outlook for 2007 financial results for the uranium business segment do not include all the expected adjustments for the Cigar Lake water inflow incident as they are being finalized. Also the outlook is based on the following key assumptions:

no significant changes in our estimates for sales volumes, costs, purchases and prices, as discussed above,

no disruption of supply from our mines or third-party sources, and

a US/Canadian dollar spot exchange rate of $1.16.

Uranium Exploration

A significant part of our future production base is expected to result from our global exploration activities. We have maintained an active exploration program even during the bottom of the uranium price cycle, reflecting our long-term commitment to the industry. Over the past five years we have significantly increased our investment in exploration programs. We invested about $32 million in uranium exploration during 2006.

We have skilled and experienced exploration staff with more than 80 professionals searching for the next generation of economic deposits. Our land holdings are substantial, with approximately 4.8 million hectares (11.8 million acres) of Cameco and partner-operated land, primarily in Canada, Australia, the US, Mongolia and Africa. Our activities include both brownfields and greenfields prospects and we monitor potential acquisition targets.

Cameco owns a range of participating interests in its exploration lands, and either owns or has the right to earn a majority interest in most of the company s projects. At year-end 2006, Cameco operated approximately 75% of its exploration projects, including joint ventures. The majority of Cameco s exploration projects are early to middle stage, on which indications of economic grades or quantities of uranium have not yet been identified. The nature of mineral exploration is such that discovery of economic deposits on new projects is uncertain and can take many years.

2006 Exploration Results

Brownfield Exploration

Brownfield exploration refers to uranium exploration activity undertaken near existing operations and advanced projects. In 2006, we made progress on several projects. We continue our drilling programs intended to add resources at the McArthur River and Rabbit Lake operations, which could extend the mine life at both locations.

At Rabbit Lake, the underground diamond-drilling reserve replacement program was successful in 2006, with over 69 kilometres of drilling being completed with excellent results. At the end of 2006, total proven and probable reserves are estimated at 737,000 tonnes at 1.2% U_3O_8 for 19.1 million pounds in areas that are currently being mined and in a new zone that is in close proximity to a newly producing mining area.

In addition, both the Millennium and Collins Creek deposits were advanced in 2006.

Regional Exploration

The Centennial discovery on the Virgin River project was extended with several new mineralized holes, confirming the significance of this new mineralized region.

As part of Cameco s continuing expansion of uranium exploration activities, our land holdings were increased significantly, either directly or under option, with new projects in Nunavut, the Northwest Territories, and Mongolia.

Also in March 2007, Cameco signed additional non-binding memorandums of understanding (MOU) with Joint Stock Company Techsnabexport (Tenex), a leading state-owned Russian nuclear company, to explore in Russia and Canada. Building on the MOU signed in November 2006, Cameco and Tenex have further developed terms on which they would co-operate on joint uranium exploration projects in Russia and Canada and, if warranted, engage in development and production of uranium deposits that are found. Cameco and Tenex have also identified priority projects for possible future joint exploration activities in Russia and Canada that would be disclosed when agreements are finalized. Cameco anticipates that binding agreements will be signed in 2007.

Junior Exploration Companies

Since the recovery of the world uranium market, and corresponding higher prices for uranium, the competitive environment for uranium exploration has changed. There are more than 400 uranium exploration companies listed on stock exchanges and most of these are actively funding new exploration programs in Canada and other regions. In the newly active sector, Cameco maintains an ongoing dialogue with numerous companies, with the objective of positioning the company for future participation in areas with promising results, and leveraging Cameco s recognized position in the sustainable development of uranium resources worldwide. Cameco s approach to future resource replacement is to combine its own exploration activities with partnerships, joint ventures, or equity holdings in other companies with assets that meet the company s investment criteria.

At December 31, 2006, Cameco owned a 21.6% interest in UEX Corporation, a TSX listed junior exploration company formed in 2002 from a combination of exploration assets previously held by Cameco and Pioneer Metals Corporation. Cameco has, as long as it maintains a 20% or higher interest in UEX, certain rights related to financing, and marketing production from future uranium deposits. As well, Cameco

has the right to mill uranium produced from properties it contributed to UEX at the time of its formation in 2002.
In 2006, Cameco completed its acquisition of a 19.5% interest in UNOR Inc. (formerly Hornby Bay Exploration Ltd.). Cameco purchased 22.9 million common shares of UNOR at $0.40 per share through a private placement for $9.2 million. UNOR is a uranium exploration and development company with its head office in Toronto, Ontario. Its principal properties are 226 mineral claims in northwestern Nunavut on the Hornby Basin, a geological formation with similar characteristics to the uranium-rich Athabasca Basin in northern Saskatchewan. The strategic alliance agreement concluded between Cameco and UNOR includes the following terms:

- As long as Cameco continues to hold 10% of UNOR s outstanding common shares, it will have the right to nominate one person for election to UNOR s board of directors, and UNOR will consult with Cameco on its exploration and development programs;

- As long as Cameco continues to hold 16% of UNOR s outstanding common shares, it will have the right to participate in any future equity issues, match equity or debt required for mine development, operate any mine developed on UNOR s properties and market any uranium produced; and

- Cameco and UNOR each have a right of first refusal on each other s uranium projects in a specified area of Nunavut and the Northwest Territories.

On January 26, 2007, Cameco signed a Letter of Intent with Vena Resources to establish a jointly-owned company to explore and develop Vena s uranium assets in Peru. Subject to signing definitive agreements, the new company will begin by initially exploring and developing the numerous uranium targets held by Vena in southern Perú. Under the terms of the Letter of Intent, Cameco has the option to invest $10 million over the next four years in two stage payments to obtain up to 50% of MINERGIA SAC, the private company that holds Vena s uranium landholdings in Perú. Cameco can increase its stake in MINERGIA to 60% when a feasibility study is completed and to 70% when mine development commences.

2007 Exploration outlook

Cameco plans to invest about $45 million in uranium exploration during 2007 as part of our long-term strategy to maintain our leadership position in uranium production.

Brownfield Exploration

Approximately 28% of the uranium exploration budget will be for brownfield exploration projects in the Athabasca Basin. We will invest $12.5 million on six advanced projects. The largest investment will be at McArthur River, where $3.8 million will be directed towards diamond drilling on the northern extension of the prolific P2 fault. At the Rabbit Lake operation, surface exploration will focus on both regional targets and mine-related targets, principally in the vicinity of the Eagle Point mine.

The Dawn Lake joint venture will continue work on two uranium deposits in 2007. Delineation of the Collins Creek deposit will continue, with additional drilling and a scoping study to examine potential mining scenarios. At the original Dawn Lake deposit, a pre-feasibility study on the 11A Zone will be completed by the second quarter of 2007. Exploration activity at the Cree Zimmer and the Waterbury Lake projects will also increase in 2007. Priority targets on the Cree Zimmer project, which surrounds the historic Key Lake mining operation, include the P-Zone and the area on the main Key Lake fault southwest of the former Gaertner and Deilmann uranium

deposits. In 2007, exploration on the Waterbury Lake project will be focused east of the Cigar Lake orebody.
The partners on the Cree Extension joint venture approved the completion of a feasibility study on the basement rock hosted Millennium deposit in early 2008. Integral to the study will be the completion of a three-dimensional seismic survey over the deposit area. The survey will define the unconformity depth. Several shaft pilot holes will be drilled during the year.

Regional Exploration

The remaining $32.5 million of exploration expenditures in 2007 will be allocated among 44 projects worldwide, the majority of which are at drill target stage. Our largest investment will be in Saskatchewan, where a $3.3 million program will be completed on the Virgin River project as followup on the Centennial zone mineralization. We will also focus on projects in the Northwest Territories and Nunavut regions of northern Canada, where Cameco has a large land position. In addition to our existing land positions in the Northern Territory, Cameco will undertake work on new land positions in Western Australia and South Australia.
In 2007, exploration will also take place in the United States, Mongolia, and Africa, where Cameco is earning an interest in prospective land in Gabon. Cameco continues to evaluate other regions and projects globally, and we will add to our land position as new prospects are confirmed.

FUEL SERVICES BUSINESS

In 2006, the fuel services business added fuel fabrication services for Candu-type reactors as a result of our acquisition of Zircatec to our existing businesses of refining and conversion services. See the following discussion under Fuel Fabrication. Refining is an intermediate step to prepare uranium to be converted into either UF_6 or UO_2.
The industry practice for measuring conversion services is kilograms of uranium (kgU) rather than pounds of U_3O_8. For example, 66 million kgU is equivalent to about 172 million pounds U_3O_8.

Conversion Demand

World demand for UF_6 and natural UO_2 conversion services was estimated to be about 68 million kgU in 2006. Western world demand accounted for almost 60 million kgU with the remaining 8 million kgU coming from the non-western world (Russia, China and eastern Europe).
Over the next 10 years, world demand is expected to increase by 35% to about 92 million kgU. In 2007, total world conversion services demand is expected to increase by 3%.

Conversion Supply

The western world UF_6 conversion industry consists of Cameco and three other significant producers, with an annual conversion capacity of about 46 million kgU. In 2005, Cameco signed a toll-conversion agreement to acquire UF_6 conversion services from one of these other converters, Springfields Fuels Ltd. (SFL) in Lancashire, United Kingdom. Under the 10-year agreement, SFL will annually convert a base quantity of 5 million kgU to UF_6 for Cameco. This new source, coupled with our Canadian UF_6 plant, will account for almost 40% of the western world UF_6 conversion capacity.
In addition, supplies are available from secondary sources including excess western inventories, Russian sales in the form of low enriched uranium, Russian re-enriched depleted tails, and Russian and US uranium

derived from dismantling nuclear weapons. Russia supplies most of the UF_6 conversion requirements of the former Soviet Union and eastern Europe in the form of low enriched uranium.

Conversion Markets

Utilities contract about 90% of their UF_6 conversion services through long-term contracts, purchasing the remainder on the spot market. Cameco is the only commercial supplier in the world of conversion for natural UO_2 customers. In addition to the Canadian requirements, Cameco also exports UO_2 to South Korea for its Candu reactors and to the US and Japan for use as blanket fuel in boiling water reactors. Cameco also sells conversion services packaged with U_3O_8 as a UF_6 or UO_2 product.

Spot/Long-Term Conversion Market

Spot market UF_6 conversion prices remained steady during 2006. Spot prices increased slightly for North American conversion services and 8% for European conversion services year-over-year. Outlined below are the industry average spot market prices (TradeTech and Ux) for North American and European conversion services.

	Dec 31/06	Dec 31/05	% Change
Average spot market price ($US/kgU)			
· North America	11.75	11.50	2
· Europe	12.38	11.50	8

Outlined below are the industry average long-term prices (TradeTech and Ux) for North American and European conversion services.

	Dec 31/06	Dec 31/05	% Change
Average long-term price ($US/kgU)			
· North America	12.25	12.00	2
· Europe	13.75	12.88	7

The industry does not publish UO_2 prices.

Conversion Business Key Performance Drivers

The major factors that drive Cameco s conversion business results are:

prices spot and long-term,

volume sales, production and purchases,

costs production and purchases, and

the relationship between the US and Canadian dollars.

Prices Spot/Long-Term

Cameco sells its conversion services directly to utilities located in many parts of the world, primarily through long-term contracts. Conversion services are priced in US dollars per kgU. The majority of conversion sales are at fixed prices adjusted for inflation. In 2006, most of our conversion sales were made under long-term contracts negotiated in a low price environment and therefore, we did not benefit from the current elevated UF_6 conversion spot prices during the year.

Going forward, the majority of our contract commitments, totalling more than 75 million kgU over more than 10 years, are at fixed prices adjusted for inflation.

We continue to sign new long-term contracts with fixed prices that generally reflect long-term prices at the time of the contract award. Like uranium sales, we begin delivery of conversion services up to four years after the agreement has been finalized. Therefore, in the coming years, Cameco s contract portfolio will benefit from higher fixed-price contracts signed in the more recent higher priced environment.

Volumes Sales, Production, Purchases

Sales Volume

Cameco sold 18.5 million kgU of fuel services in 2006, up 11% from the 16.6 million kgU in 2005. We expect conversion sales volume to total about 20.2 million kgU in 2007, up 9% from 2006.

Production Volume

At our Port Hope conversion facility, we produced 12.5 million kgU in 2006 compared to 11.4 million kgU in 2005. The rise reflects increased fluorine generation capacity and other plant improvements achieved during the year. We anticipate production for 2007 to be 13.8 million kgU as UF_6 and UO_2.

The CNSC has not yet issued the draft scope for the required environmental study for the Vision 2010 project. This project proposes to clean up and modernize the Port Hope conversion facility site. Design and preliminary engineering for the project have been proceeding.

At our Blind River refinery, we produced a record 17.2 million kgU in 2006 compared to 15.1 million kgU for 2005. The increase was due to using the refinery to produce UO_3 for SFL. We anticipate annual production for 2007 to be about 15.8 million kgU to meet both Port Hope and SFL requirements. The CNSC issued Blind River a new 5-year operating licence in late February.

In mid December 2006, we received CNSC approval of the EA for the addition of pollution abatement equipment to the incinerator at our Blind River operation. This equipment is required to meet new Canadian standards for incinerator emissions that came into force in January 2007. The installation of the equipment has begun. The Blind River refinery needs an amendment to its operating licence in order to use this new equipment, which is subject to CNSC approval. We anticipate that the incinerator will be ready to commission late in the first quarter and start receiving material early in the second quarter of 2007.

The draft EA study report for the proposed increase in the Blind River licensed production capacity from 18 to 24 million kgU per year was filed with the CNSC for review late in the fourth quarter of 2007.

Purchase Volume

Cameco also has purchase commitments, which primarily reflect the conversion component of the low enriched uranium from Russian HEU, re-enriched tails product and beginning in 2006, the company s agreement to purchase SFL s conversion services for a 10-year period. Cameco s UF_6 conversion purchase commitments at December 31, 2006 total about 66 million kgU, most as conversion services.

Costs

Cameco s mix of production and purchases influences its cost of sales. Operating costs are primarily fixed with about 45% attributable to labour. The largest variable operating cost is for anhydrous hydrogen fluoride, followed by energy (gas and electricity).

The majority of Cameco s UF6 conversion purchase commitments are under long-term, fixed-price arrangements reflecting prices lower than current spot prices. These purchase commitments totalled $406 million (US) at December 31, 2006. Refer to note 24 in the notes to the financial statements. A significant portion of these purchases has been committed under existing sales contracts.

Foreign Exchange

The majority of the company s conversion services are sold in the US and sales are denominated in US dollars, while production costs are incurred in Canada and denominated in Canadian dollars. A discussion about Cameco s hedging program can be found in the uranium business section under the heading Foreign Exchange.

Fuel Fabrication

Cameco acquired a 100% interest in Zircatec in early 2006. Zircatec s primary business is manufacturing nuclear fuel bundles for sale to companies that generate electricity from Candu reactors.

In Port Hope, Ontario, Zircatec operates a facility that is licensed to handle uranium materials. The plant presses uranium dioxide powder into pellets that are loaded into tubes and then assembled into fuel bundles for Candu utility customers. These bundles are ready to insert into the reactor core as fuel to generate clean electricity. Zircatec supplies these fuel bundles to Candu-style reactors, with sales to BPLP and BALP currently representing a substantial portion of its business. The plant s annual capacity is approximately 1,200 tonnes uranium as finished fuel.

In Cobourg, Ontario, Zircatec also operates a facility where the primary product is zirconium tubing, an integral part of fuel bundles used by nuclear reactors. The plant also manufactures various Candu reactor components and monitoring equipment.

Fuel Services Strategies

Cameco s objective is to build on and leverage its competitive advantage in fuel services. In doing so, we strive to meet three major goals to:

- remain one of the low-cost producers,
- expand market position, and