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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

# FORM 40-F

**ANNUAL REPORT PURSUANT TO SECTION 13(a) or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended 31 December 2002 Commission file number:1-14228

# CAMECO CORPORATION

(Exact name of Registrant as specified in its charter)

**CANADA**
(Province or other jurisdiction of incorporation or organization)

1090
(Primary Standard Industrial Classification Code Number)

2121 — 11th Street West, Saskatoon, Saskatchewan, Canada, S7M 1J3, Telephone: (306) 956-6200
(Address and telephone number of Registrant's principal executive offices)

Fletcher Newton, Power Resources, Inc., 274 Union Boulevard, Suite 310
Lakewood, Colorado, USA 80228, Telephone: (720) 917-0112
(Name, address, (including zip code) and telephone number (including area code) of agent for service in the United States)

Securities registered pursuant to Section 12(b) of the Act:

Title of Class: Common Shares, no par value; and Preferred Securities

Name of Exchange where Securities are listed: New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Information filed with this form:

þ Annual Information Form þ Audited annual financial statements

Number of outstanding shares of each of the issuer's classes of
capital or common stock as of the close of the period covered by the annual report:

55,985,873 Common Shares outstanding as of 31 December 2002

Indicated 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.

o Yes þ No

Indicated by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act or 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

þ Yes o No

Certain statements in this Form 40-F constitute “forward-looking statements” within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. See “Note Regarding Forward-Looking Statements”.

**UNDERTAKING**

Cameco Corporation undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to: the securities registered pursuant to Form 40-F; the securities in relation to which the obligation to file an annual report on Form 40-F arises; or transactions in said securities.

**CONSENT TO SERVICE OF PROCESS**

Cameco Corporation has previously filed a Form F-X in connection with the class of securities in relation to which the obligation to file this report arises.

Any change to the name or address of the agent for service of process of the registrant shall be communicated promptly to the Securities and Exchange Commission by an amendment to the Form F-X referencing the file number of the relevant registration statement.

**SIGNATURES**

Pursuant to the requirements of the Exchange Act, Cameco Corporation certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereto fully authorized.

DATED this 16th day of April, 2003.

CAMECO CORPORATION

Per: */s/* David M. Petroff

David M. Petroff
Chief Financial Officer

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Consent of Independent Charter Accountants
Certification of Chief Executive Officer
Certification of Chief Financial Officer

**CERTIFICATION**

I, Gerald W. Grandey, certify that:

1. I have reviewed this annual report on Form 40-F of Cameco Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 16, 2003

/s/ Gerald W. Grandey

Gerald W. Grandey
President & Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION**

I, David M. Petroff, certify that:

1. I have reviewed this annual report on Form 40-F of Cameco Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 16, 2003

/s/ David M. Petroff

David M. Petroff
Senior Vice-President, Finance &
Administration & Financial Officer
(Principal Financial Officer)

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| 5. | Consent of Auditors |
| 99.1 | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 99.2 | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

**EXHIBIT 1**

Cameco Corporation

Annual Information Form

April 16, 2003




**Cameco Corporation**

**ANNUAL INFORMATION FORM**

**For the Year Ended December 31, 2002**

**Dated April 16, 2003**

**Cameco Corporation**
**Annual Information Form**
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**REPORTING CURRENCY AND FINANCIAL INFORMATION**

All amounts in this Annual Information Form are expressed in Canadian dollars, unless otherwise indicated. References to $(US) are to United States ("US") dollars.

Financial information is presented in accordance with Canadian generally accepted accounting principles. Differences between generally accepted accounting principles in Canada and the United States, as applicable to Cameco Corporation, are explained in the Consolidated Financial Statements of the Company for the fiscal year ended December 31, 2002 and attached as Appendix "A".

**NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Certain statements in this Annual Information Form and the information incorporated herein are forward-looking statements. Discussions containing forward-looking statements may be found in the material set forth in the "General Development of Business", "The Nuclear Business", "The Gold Business", "Common Risk Factors-Uranium and Gold" and "Management's Discussion and Analysis" sections. In addition, when used in this Annual Information Form, the words "believes", "intends" "anticipates", "expects", "estimates" and words of similar import may indicate forward-looking statements. Statements 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 forward-looking statements. Factors that could cause such differences, without limiting the generality of the following, include: volatility and sensitivity to market prices for uranium, conversion services, electricity in Ontario and gold; the impact of the change in volume of uranium and conversion services sold, electricity generated and gold produced; competition; the impact of change in foreign currency exchange rates and interest rates; imprecision in reserve estimates; environmental and safety risks including increased regulatory burdens and long term hazardous waste disposal; unexpected geological or hydrological conditions; political risks arising from operating in certain developing countries; a possible deterioration in political support for nuclear energy; changes in government regulations and policies, including trade laws and policies; demand for nuclear power; replacement of production and failure to obtain necessary permits and approvals from government authorities; legislative and regulatory initiatives regarding deregulation, regulation, re-regulation or restructuring of the electric utility industry in Ontario; Ontario electricity rate regulations; weather and other natural phenomena; ability to maintain and improve positive labour relations; operating performance of the facilities; success of planned development projects; and other development and operating risks. Although Cameco Corporation believes the assumptions inherent in forward-looking statements are reasonable, undue reliance should not be placed on these statements, which only apply as of the date of this Annual Information Form. Cameco Corporation disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise, except as otherwise required by applicable law.

**INCORPORATION AND SUBSIDIARIES**

*Incorporation*

Cameco Corporation ("Cameco" or the "Company") was incorporated under the Canadian Business Corporations Act ("CBCA") on June 19, 1987 to combine the uranium mining and milling operations of Saskatchewan Mining Development Corporation ("SMDC") with the uranium mining, refining and conversion operations of Eldorado Nuclear Limited ("ENL"), since renamed Canada Eldor Inc. ("CEI") (the "Reorganization"). The Reorganization of SMDC and ENL was accomplished by the Eldorado Nuclear Limited Reorganization and Divestiture Act (Canada) (the "ENL Reorganization Act") and The Saskatchewan Mining Development Corporation Reorganization Act (Saskatchewan). Pursuant to this legislation, in October 1988 CEI and SMDC transferred substantially all of their assets to Cameco in exchange for Cameco assuming substantially all of their current and certain other liabilities and issuing common shares, one Class B Share and promissory notes of the Company.

On June 18, 2001, legislation to amend the ENL Reorganization Act was passed by the federal government. The legislative amendment allowed Cameco to proceed with an amendment to Cameco's articles to increase the individual non-resident share ownership from 5% to 15% and to increase the limit on aggregate non-resident ownership voting rights from 20% to 25%. This amendment was approved by special resolution of Cameco's shareholders at the 2002 annual shareholders meeting.

At its formation, Cameco's share capital was owned 61.5% and 38.5%, respectively, by the province of Saskatchewan and the Government of Canada. The Company became a publicly traded company in Canada after the initial public offering of its common shares in 1991. The province of Saskatchewan and the Government of Canada have sold all of their common shares in Cameco. The province of Saskatchewan retains one Class B share in Cameco.

The province of Saskatchewan, as the holder of the Class B share (the "Class B Share"), is entitled to receive notice of and to attend all meetings of shareholders including meetings of any class or series thereof but does not have the right to vote at any such meeting other than a meeting of the holder of the Class B Share as a class. The holder of the Class B Share does not have the right to vote separately as a class except on any proposal to (i) amend Part I of Schedule B of Cameco's articles, (ii) amalgamate that would effect an amendment to Part I of Schedule B of Cameco's articles, or (iii) amend the articles so as to alter the rights attached to the Class B Share. Part I of Schedule B of Cameco's articles currently provides that (A) the registered office and head office operations of Cameco must be located in the province of Saskatchewan, (B) all of the executive officers (chairman and vice-chairman of the board, chief executive officer, chief operating officer, chief financial officer and president) of the Company and substantially all of the senior officers (vice presidents) of the Company must be ordinarily resident in the province of Saskatchewan, and (C) all annual meetings of shareholders of the Company must be held at a place in the province of Saskatchewan.

At the 2003 annual and special shareholders meeting, shareholders will be asked to approve two amendments to Cameco's articles. First, to permit the board to appoint one or more directors between meetings of shareholders, as permitted by the CBCA, subject to certain limitations. Second, to remove the requirement that the chairman of the board must be ordinarily resident in the province of Saskatchewan. For the first amendment to be effective, it must be approved by shareholders by special resolution. For the second amendment to be effective, it must approved by shareholders by special resolution and by the province of Saskatchewan, the holder of the Class B Share.

Cameco's head office and principal place of business is located at 2121 – 11th Street West, Saskatoon, Saskatchewan, Canada, S7M 1J3, telephone (306) 956-6200.

*Subsidiaries*

Cameco owns a one-half interest in UEM Inc. ("UEM"), a Canadian company.

The Company owns a one-third interest in Kumtor Gold Company ("KGC"), a Kyrgyz company, through its wholly owned Canadian subsidiary Cameco Gold Inc.

Cameco owns a 31.6% limited partnership interest in Bruce Power Limited Partnership ("Bruce Power"), an Ontario limited partnership, through its wholly owned Canadian subsidiaries Cameco Bruce Holdings Inc. and Cameco Bruce Holdings II Inc.

No other subsidiaries are individually or collectively material.

**GENERAL DEVELOPMENT OF THE BUSINESS**

Cameco is the world's largest uranium supplier. The Company's competitive position is based upon its large, high-grade reserves and low-cost operations, significant market position and access to other supplies of uranium. Cameco sells its produced and acquired uranium to electric utilities for use in the nuclear generation of electricity. In addition to uranium mining, Cameco is one of the four commercial converters of uranium concentrates ("$U_3O_8$") to $UF_6$ (uranium hexafluoride) in the western world and the principal supplier of services to convert uranium concentrates to $UO_2$ (uranium dioxide). Cameco, through subsidiaries, has a 31.6% limited partnership interest in Bruce Power, which operates North America's largest nuclear electricity generating facility. Bruce Power operates four, and with plans to

restart two additional reactors will operate six, nuclear reactors at the facility. While Cameco continues its principal focus on the nuclear business, it is also in the gold business. A Cameco subsidiary has brought into commercial production and operates the large Kumtor gold mine in the Kyrgyz Republic in Central Asia. A Cameco majority owned subsidiary is developing the Boroo gold mine in Mongolia. The Company continues to actively explore for uranium and gold in a number of countries.

**Three-Year Highlights**

Major developments in Cameco's business in each of the fiscal years ended December 31, 2000 to December 31, 2002 were as follows:

*2000*

Highlights from 2000 included:

- In July, the Inkai project, which is 60% owned by Cameco, received the Kazakh government approvals necessary to begin test mining as a precursor to preparation of a feasibility study.
- In October, Cameco and British Energy plc ("BE") signed a memorandum of understanding providing for Cameco to acquire a 15% interest in Bruce Power, which had signed an agreement to lease and operate the Bruce "A" and "B" nuclear power plants and related facilities from Ontario Power Generation Inc. ("OPG"), subject to meeting certain conditions.
- In November, Cameco declared that McArthur River mine had achieved commercial levels of production.
- McArthur River reserves were restated to 395 million pounds $U_3O_8$. McArthur River reserves and resources as at December 31, 2000 totaled 540 million pounds $U_3O_8$ of which Cameco's share was 69.805%.

*2001*

Highlights from 2001 included:

- In April, Bruce Power decided to proceed with the restart of two Bruce "A" nuclear reactors whose operation was previously suspended by Ontario Hydro (predecessor to OPG), subject to regulatory approval.
- In May, Bruce Power became the operator of the Bruce "A" and Bruce "B" nuclear power plants, having received operating licenses from the Canadian Nuclear Safety Commission ("CNSC") and finalized and closed its long-term lease with OPG of these nuclear power plants and related facilities.

  At that time a Cameco subsidiary acquired a 15% interest in Bruce Power and Cameco became the exclusive supplier of non-enriched nuclear fuel to the Bruce nuclear plants.
- In June, the joint venture owners approved the Cigar Lake feasibility study and decided to schedule Cigar Lake development for a 2005 production start up, subject to regulatory approval and an improvement in the uranium price.
- In November, an amendment to the Russian highly enriched uranium commercial agreement ("HEU Commercial Agreement") was signed. By year-end, a Cameco subsidiary had exercised options to purchase 63 million pounds $U_3O_8$ under the amended HEU Commercial Agreement.
- In December, production of 18 million pounds $U_3O_8$ was achieved at the McArthur River-Key Lake operations, one year ahead of schedule.
- In December, the government of Saskatchewan announced a new uranium royalty regime, which took effect January 1, 2002.

*2002*

Highlights from 2002 included:

- In February, the province of Saskatchewan sold its remaining common shares (10%) of Cameco.
- In March, a Cameco subsidiary acquired a 52% interest in AGR Limited ("AGR"), which interest increased to 56% in December. AGR, through subsidiaries, has a 95% interest in the Boroo gold deposit in Mongolia, which is under development.
- In June, a Cameco subsidiary purchased the Smith Ranch uranium in situ leach mine located in Wyoming, nearby the subsidiary's Highland mine, making Cameco, through subsidiaries, the sole primary producer of uranium in the United States.
- In July, Cameco signed a memorandum of agreement as an initial step toward entering into a partnership to construct a $1.1 billion (US) enrichment facility in the United States. Under the terms of the agreement, subject to satisfaction of certain conditions, Cameco will obtain, upon entering into the partnership, an initial 20% interest in the partnership. Following receipt of the NRC license and a restructuring of the partnership, Cameco's interest will increase to 24.5%. In March 2003, Cameco announced that it would not enter the partnership.
- In July, a pit wall failure occurred at the Kumtor mine, reducing 2002 gold production from a forecast 700,000 ounces to 528,550 ounces (Cameco's share is one-third).
- In December, Cameco announced an increase in its annual common share dividend from $0.50 to $0.60 per share. The dividend increase takes effect for shareholders of record at the end of the first quarter 2003.
- In December, Cameco signed an agreement, along with others, to collectively purchase 79.82% of Bruce Power from BE. In February 2003, the purchase closed and Cameco's limited partnership interest in Bruce Power, held through subsidiaries, increased from 15% to 31.6%.

**2003 Expected Material Developments in the Business**

Along with the additional interest in Bruce Power acquired in February 2003, the following are the significant trends, events and commitments known to Cameco that could have a material impact in 2003 on Cameco's business, financial condition or results of operations:

- In February 2003, Cameco and the Kyrgyz government agreed in principle to restructure the Kumtor mine ownership. The proposed restructuring envisions that Cameco, through subsidiaries, would hold all of the common shares of KGC, the owner of the Kumtor mine. It is contemplated that KGC would eventually be part of a publicly traded gold company established by Cameco. The restructuring is consistent with Cameco's gold strategy and contingent upon a number of factors including further negotiations leading to final agreements acceptable to Cameco and the Kyrgyz government, approvals by third party institutions and a fairness opinion requested by the Kyrgyz government.
- In 2003 Bruce Power intends to restart two of the four laid-up units of the Bruce "A" station. In April 2003, the CNSC amended Bruce Power's operating licence for this station to allow for the restart of units 3 and 4. This allows Bruce Power to remove these units from their shutdown state once an officer designated by the CNSC is satisfied that the units are ready to operate at full power. Once they are back in service, Bruce Power's net generating capacity will increase from 3160 MW to 4640 MW. An average capacity factor of 88% is planned for the Bruce "A" and "B" stations.
- Cameco's issue of preferred securities ($125 million (US)) is redeemable at par on or after October 14, 2003. Currently, Cameco has not determined whether the securities will be redeemed in 2003.
- The price of gold strengthened considerably in 2002. As of March 31, 2003, approximately 19% of Cameco's production from existing gold reserves is hedged, including about 41% of remaining 2003 estimated production. The remaining 2003 estimated production is hedged at an expected price of $318 (US) per ounce. Cameco intends to reduce its hedge position.

- Production at Cameco's McArthur River mine was temporarily suspended on April 6, 2003, as increased water inflow from an area of collapsed rock in a new development area, located just above the 530-metre level, began to flood non-critical portions of the mine. No one was injured in the rock collapse. As of April 14, 2003, the volume of water being pumped from the McArthur River mine slightly exceeded the total water inflow. The situation continues to be serious and fluctuates frequently as mine personnel closely monitor water levels as well as pumping and water treatment equipment. The most critical area of the mine remains unaffected but water is being stored close to this area and there is only minimal storage left in the mine.

  Since the rock collapse, mine personnel focused on matching the mine's pumping and treatment capacity to the water inflow. Installing extra pumping capacity took longer than anticipated. As a result, the grinding mill, located in one of the lowest areas of the mine, is under water, as water accumulated in the mine. However, mine personnel have successfully added more pump capacity so that, as of April 14, 2003, the mine is currently pumping out slightly more water than is coming in.

  Water treatment capacity, on the surface, has also been substantially increased and is currently capable of matching the pumping capacity. Mine personnel have also improved the method of measuring water inflow and determined that the flow rate is higher than initially estimated.

  Most of the pumping capacity is located on the 530-metre level below surface. The critical area of the mine, located 640 metres below the surface, contains the ore processing equipment and large pumps that will be lost if total mine pumping capacity does not keep up with the water inflow. Based on the inflow rates as of April 14, 2003, if the mine cannot pump water from the 640-metre level, Cameco expects to have about two weeks to install additional pumping capacity before the pumps on the 530-metre level are impacted. Mine personnel continue to focus on increasing pumping and water treatment capacity.

  There has been slow progress constructing the concrete barrier located in the development tunnel just above the 530-metre level. Based on plans and information as of April 14, 2003, it will likely still take about two weeks before the concrete barrier can begin to control the water inflow and another two or three months to permanently seal off the area.

  Although events are still unfolding, Cameco anticipates production restart will be delayed four to six months based on conditions as of April 14, 2003. Annual mine and mill production will be well below the full capacity of 18.7 million pounds of uranium. Given Cameco's inventory position and other supply sources, a production shortfall of this magnitude is not expected to impact deliveries under 2003 sales contracts.

  While the full impact of this situation is still being evaluated, preliminary estimates indicate that 2003 net earnings will decline by about $4 to $5 million for every month that McArthur River is unable to produce. This reduction in estimated net earnings is based on the following assumptions:

  - costs associated with the efforts to bring the mine back into production will be expensed as incurred,
  - McArthur River production will be replaced by drawing down higher-cost inventory,
  - annual forecast sales and delivery volumes remain unchanged, and
  - the uranium spot price does not change.

  The net earnings projection does not include any provision for potential writedown of assets. As of April 14, 2003, it is not expected that a writedown of a material amount would be necessary. However, Cameco will continue to assess the carrying values of its assets as new information becomes available.

  Operating cash flow in 2003 is expected to be relatively unaffected unless Cameco decides to increase uranium product purchases.

**THE NUCLEAR BUSINESS**

**Overview**

The only significant commercial use for uranium is to fuel nuclear power plants for the generation of electricity. In recent years, nuclear plants generated approximately 16% of the world's electricity. According to the World Nuclear Association, nuclear plant electric generating capacity is expected to grow modestly between now and the year 2012, primarily as a result of new reactor construction outside the US and improved reactor operation. The rate of growth is expected to be somewhat below that of the total market for 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 uranium deposit is discovered and reserves delineated, uranium ore is mined and upgraded at a mill to produce uranium concentrates. Mining companies that do not operate conversion service facilities usually sell uranium concentrates to electrical generating companies ("utilities") around the world on the basis of the $U_3O_8$ contained in the uranium concentrates. Utilities then contract with converters, enrichers and fuel fabricators to produce the required reactor fuel.

Cameco's involvement in the nuclear business consists principally of (a) exploring for, developing, mining and milling uranium ore to produce uranium concentrates; (b) supplying uranium refining and conversion services to produce $UO_2$ and $UF_6$; (c) selling produced and acquired uranium to utilities; and (d) its subsidiaries collectively being a 31.6% limited partner in Bruce Power, which operates North America's largest nuclear electricity generating facility.

**Uranium Concentrates Business**

**Market Background**

*Demand*

The demand for $U_3O_8$ is directly linked to the level of electricity generated by nuclear power plants. Western world annual uranium fuel consumption has increased from approximately 56 million pounds $U_3O_8$ in 1980 to about 154 million pounds in 2002. Cameco estimates that annual uranium fuel consumption in the western world will reach 168 million pounds in 2012, reflecting an annual growth rate of 0.9% per year over the period. Demand could be increased slightly by the current trend toward improving plant operating performance or reduced by the premature closing of some nuclear power plants. Demand in the former Soviet Union and Eastern Europe was about 19 million pounds in 2002 and is expected to increase to about 20 million pounds in 2012.

*Supply*

The international uranium supply industry is highly competitive. Uranium supply sources include primary mine production and secondary sources such as excess inventories, uranium made available from the decommissioning of nuclear weapons, re-enriched depleted uranium tails, and used reactor fuel that has been reprocessed. Russia supplies most of the requirements of the former Soviet Union and Eastern Europe from inventories, reprocessing of used reactor fuel, and primary mine production.

*Primary Production*

The uranium production industry is international in scope with a small number of companies operating in relatively few countries. In 2001 (the latest year for which figures are available), approximately 83% of the estimated world production of 93 million pounds $U_3O_8$ was provided by eight producers: Cameco, Cogema, WMC Resources Ltd., Energy Resources of Australia Ltd. and Rossing Uranium Limited in the western world, and NAVOI Mining Metallurgical Kombinat in Uzbekistan, KazAtomprom in Kazakhstan, and Priargunsky Industrial Mining and Chemical Enterprise in Russia. Approximately 95% of estimated world production was sourced from nine countries (in order of production, from greatest to least): Canada, Australia, Niger, Uzbekistan, Namibia, Kazakhstan, Russia, the US and South Africa.

The Canadian uranium industry has, in recent years, been the leading supplier with production of approximately 33 million pounds $U_3O_8$ in 2001, or about 35% of world production. Production from Cameco operated mines in Canada and the US in 2002 was approximately 22 million pounds. Cameco's share of this production was approximately 16 million pounds.

Subject to the restraints described below, all primary production is available to meet the demand of the nuclear power industry in the western world.

*Secondary Sources*

Each year since 1985, western world uranium production has been less than western world utility uranium consumption. The resulting shortfall has been covered by a number of secondary sources. Excess inventories held by utilities, producers, other fuel cycle participants and governments (including Russian government inventories) have been and continue to be a significant source of supply. Utilities in Europe also use reprocessed uranium and plutonium derived from used reactor fuel as a source of supply. In addition, in recent years, another source of supply has been the use of excess Russian enrichment capacity to re-enrich depleted uranium tails held by European enrichers. Cameco estimates these two recycling sources will meet about 6% of western world demand to 2012. Finally, uranium derived from the dismantling of Russian nuclear weapons has become a significant source of supply and could meet about 12% of western world demand to 2012. A limited amount of uranium from the US weapons program has been introduced into the market but this is not expected to become a significant supply source.

*USEC Privatization*

In July 1998, United States Enrichment Corporation ("USEC") was privatized through an initial public offering. In filing documents, USEC disclosed it had a total uranium inventory of approximately 75 million pounds $U_3O_8$ equivalent, including transfers from the United States Department of Energy ("DOE") of 13 million pounds derived from the dismantling of US nuclear weapons. Of the 75 million pounds, sale in the US of approximately 40 million pounds is restricted by the United States Enrichment Corporation Privatization Act ("USEC Privatization Act") to a maximum of four million pounds $U_3O_8$ equivalent per year. Of the 75 million pounds, USEC announced plans to sell 62 million pounds in the market from 2000 to 2005. To the end of 2002, Cameco believes USEC has sold or committed about 80% of its inventory.

*Uranium from Nuclear Disarmament*

In February 1993, the United States and Russia signed an agreement (the "Russian HEU Agreement") to manage the sale of highly enriched uranium ("HEU"). Under this agreement, over a term of 20 years, 500 tonnes of HEU, derived from dismantling nuclear weapons, are to be diluted in Russia and delivered to the United States as low enriched uranium ("Disarmament LEU"), suitable for use in nuclear energy plants. Disarmament LEU scheduled for delivery during the 20-year period represents approximately 400 million pounds of natural uranium as $U_3O_8$ ("Disarmament Uranium").

The USEC Privatization Act, which became law in 1996, regulates the introduction of Disarmament Uranium into the US market. Under the USEC Privatization Act, Disarmament Uranium delivered after 1996 may be sold into the US market beginning in 1998 subject to an annual quota. The quota for 2002 was 10 million pounds $U_3O_8$, and will increase by 2 million pounds per year to 2005, and thereafter by 1 million pounds per year to a maximum of 20 million pounds per year beyond 2008. This material may also be used in the US for matched sales with newly mined US origin $U_3O_8$ under the Russian suspension agreement.

Disarmament Uranium delivered in 1995 and 1996, totaling 14 million pounds $U_3O_8$ equivalent, was purchased by DOE. Under the USEC Privatization Act, 5 million pounds $U_3O_8$ equivalent was subsequently repurchased by Russia for matched sales into the US market. The remaining 9 million pounds $U_3O_8$ equivalent of this material was to be sold by DOE prior to the end of 2003 in quantities not exceeding 3 million pounds per year. As of the end of 2002, DOE had not sold any of this material.

In 1999, DOE purchased 28 million pounds $U_3O_8$ equivalent contained in the Disarmament LEU delivered by Russia in 1997 and 1998. DOE purchased this material pursuant to the bilateral agreement related to the HEU Commercial Agreement. This material, along with an additional 30 million pounds of DOE inventory, is included in a US stockpile to be withheld from the market until March 2009.

In 2003 and each year thereafter, Russia plans to deliver about 24 million pounds $U_3O_8$ equivalent until the Disarmament LEU derived from the entire 500 tonnes of HEU included under the Russian HEU Agreement has been delivered to the United States. To the end of 2002, about 135 million pounds $U_3O_8$ equivalent had been delivered.

*HEU Commercial Agreement*

On March 24 1999, Cameco Europe S.A., a wholly owned subsidiary of Cameco, along with Compagnie Generale des Matieres Nucleaires, RWE Nukem Inc. of the United States and its affiliate RWE Nuklear GmbH of Germany (collectively the “Companies”), signed the HEU Commercial Agreement with AO Techsnabexport (“Tenex”), the commercial arm of the Russian Ministry for Atomic Energy. Under the HEU Commercial Agreement, the Companies were granted options to purchase a majority of the Disarmament Uranium.

On November 16, 2001, Tenex and the Companies signed an amendment to the HEU Commercial Agreement. Under the terms of the amendment, the Companies committed to exercise their options to purchase a quantity of uranium (about 124 million pounds $U_3O_8$) equal to their share of the annual quota under the USEC Privatization Act for the period 2002 to 2013. Cameco Europe S.A.’s share is 53 million pounds. Tenex retained about 82 million pounds to sell under its share of the quota. The Companies have exclusive options to purchase the balance of the Disarmament Uranium. Subsequently in 2001, Cameco Europe S.A. exercised options for an additional 10 million pounds. In late 2002, Cameco Europe Ltd., a Swiss company, assumed the obligations and rights of Cameco Europe S.A., a Luxembourg company, under HEU Commercial Agreement, as amended.

A series of related agreements between the US and Russian governments (collectively, the “Bilateral Agreement”), which are integral to the HEU Commercial Agreement, require Tenex to return to Russia the Disarmament Uranium not purchased by the parties to the HEU Commercial Agreement and allows Russia to use about 7 million pounds $U_3O_8$ equivalent annually for blending down HEU to Disarmament LEU. Pursuant to the Bilateral Agreement, the balance of the returned uranium is to be placed in a monitored stockpile. In the event the monitored stockpile exceeds 58 million pounds $U_3O_8$ equivalent, Russia is permitted to sell the excess into supply contracts in place on March 24, 1999, mainly with utilities in Eastern Europe.

In 2002, all scheduled HEU deliveries were received in the US. A Cameco subsidiary took delivery of its US quota share in 2002. The uranium not purchased by the parties to the HEU Commercial Agreement has been or is being returned to Russia, to be held in a monitored stockpile or used by Russia in blending down additional HEU to Disarmament LEU.

*Trade Restraints and Policies*

The US government and the European Union (“EU”) have limited the access of CIS suppliers to their respective markets. In the US, an ad hoc committee of uranium producers and other companies filed an anti-dumping suit against the former Soviet Union in 1991. The resulting settlement was effected in suspension agreements signed in October 1992 by the US Department of Commerce with Russia, Uzbekistan, Kazakhstan and Kyrgyzstan. The suspension agreements with Uzbekistan, Kazakhstan and Kyrgyzstan have since terminated.

In 2000, the US International Trade Commission ruled that the suspension agreement with Russia would remain in force until March 2004. The Russian suspension agreement allows approximately 4 million pounds of Russian $U_3O_8$ per year to be imported into the US, but only to the extent it is matched in sales with an equal volume of new US production.

The Euratom Supply Agency in Europe, which must approve all uranium-related contracts entered into by members of the EU, has an informal policy limiting the use of Russian uranium to about 20% of annual individual utility requirements.

The US and EU restrictions have no effect on the sales of Russian uranium to other countries. About one-quarter of western world uranium requirements arise from utilities in countries unaffected by the US and EU restrictions. In 2002, approximately 28% of Cameco's sales volume was to countries not subject to US or EU restrictions. Utilities in some of these countries adopt policies which effectively limit the amount of Russian uranium they will purchase. Such policies often relate to security of supply concerns or their country's bilateral relations with Russia.

*Prices*

Utilities secure a substantial percentage of their uranium requirements by entering into medium and long-term contracts with uranium producers. These contracts usually provide for deliveries to begin one to three years after signing and continue for several years thereafter. In awarding medium and long-term contracts, Cameco believes utilities consider the commercial terms offered, including price, as well as the producer's record of performance and uranium reserves.

Prices are established by a number of methods including base 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 which affect the price ultimately paid. Prices under uranium supply contracts are usually confidential.

Utilities also acquire uranium through spot and near-term purchases from producers and traders. Spot market purchases are those which call for delivery within one year. Traders generally source their uranium from organizations holding excess inventory including utilities, producers and governments. Demand in the spot market in 2002 remained essentially the same as 2001, with sales of about 19 million pounds $U_3O_8$.

As reported by TradeTech, the spot market price for $U_3O_8$ increased by approximately 7% in 2002, ending the year at $10.20 (US) per pound compared to $9.50 (US) per pound at the end of 2001. In addition, due to trade restrictions and policies, a two-tier market has existed such that there has been a discount for uranium of Russian origin. In 2001 the two prices largely converged and TradeTech no longer publishes a price that applies to Russian origin uranium; however, Ux Consulting, LLC continues to publish a discount for Russian uranium currently at US $0.20 per pound.

**Marketing**

Cameco markets uranium to utilities in direct competition with supplies available from various sources worldwide. Cameco's marketing strategy is to commit its uranium production under medium-term (three to five years) and long-term (greater than five years) contracts with a diversified mix of pricing mechanisms. Uranium concentrates sold under medium-and-long term contracts may be governed by one of a variety of price determination mechanisms. For concentrates delivered by Cameco in 2002, the following pricing mechanisms applied: negotiated (6%), firm-price (37%) and market-related (57%).

Sales contracts typically contain some quantity flexibility that enables the purchaser to reduce or increase the amount of uranium to be delivered from year to year within a specified range. In general, utilities purchase from multiple suppliers in order to diversify their sources. Cameco sells uranium concentrates to utilities in Argentina, Belgium, Canada, Finland, Germany, Japan, Mexico, Netherlands, South Korea, Spain, Sweden, Taiwan, United Kingdom, and the US.

In 2002, approximately 34% of Cameco's $U_3O_8$ sales were to five customers. For the period 2003 forward, Cameco has commitments in excess of 100 million pounds $U_3O_8$ under 77 medium-term and long-term contracts with more than 40 customers worldwide. Cameco's five largest customers account for approximately 45% of these commitments. Over this period, 66% of Cameco's committed sales volume is to purchasers in North America (US, Canada and Mexico), 21% in the Far East and 13% in Europe.

Cameco generally does not sell into the spot uranium market. Cameco, however, has taken advantage of low spot and long-term market prices to purchase uranium under spot and long-term contracts. Cameco intends to deliver this purchased material into certain long-term contracts and may make additional purchases of this type in the future. At December 31, 2002, Cameco had firm commitments to purchase approximately 96 million pounds $U_3O_8$ over the 2003-2013 period, of which 60 million pounds is the result of Cameco Europe S.A.'s exercise of certain options under the HEU Commercial Agreement.

**Mining Properties**

The Company's uranium production is from two sources in Saskatchewan and two sources in the US. The Saskatchewan sources are the Rabbit Lake mine and mill and the combined McArthur River mine — Key Lake mill. The US sources are Crow Butte and Smith Ranch-Highland in situ leach ("ISL") operations. Cameco has two material uranium properties, McArthur River, which is being mined, and Cigar Lake, which is being developed.

The Key Lake mill processes McArthur River ore and stockpiled ore from the depleted Key Lake mine. Mining at Key Lake ended in 1997. At Rabbit Lake, mining ceased in April 1999 and milling ceased in May 2001 and both activities resumed in 2002.

Except for nominal test mining uranium production from Inkai, the following table shows Cameco's share of uranium production for the past three years from its uranium properties (all in pounds $U_3O_8$):

| | 2000 | 2001 | 2002 |
|---|---|---|---|
| Key Lake (1) | 870,000 | 648,000 | 190,000 |
| Rabbit Lake (2) | 7,253,000 | 4,563,000 | 1,143,000 |
| Crow Butte | 792,000 | 805,000 | 763,000 |
| Smith Ranch-Highland (3) | 881,000 | 695,000 | 887,000 |
| McArthur River (4) (5) | 6,787,000 | 12,048,000 | 12,906,000 |
| Total | 16,583,000 | 18,759,000 | 15,889,000 |

(1) The discrepancy between 2002 Key Lake production and 2002 throughput shown in the "Uranium Reserve Reconciliation" at page 22 is due to the impact of mill recovery and special waste rock.

(2) The discrepancy between 2002 Rabbit Lake production and 2002 throughput shown in the "Uranium Reserve Reconciliation" at page 22 is due to the impact of mill recovery and filling of the mill circuit in July 2002.

(3) A Cameco subsidiary acquired Smith Ranch in June 2002. Smith Ranch-Highland 2002 production figure includes the subsidiary's share of Smith Ranch production after closing of the acquisition. Smith Ranch-Highland 2000 and 2001 production figures do not include Smith Ranch production.

(4) The discrepancy between 2002 McArthur River production and 2002 throughput shown in the "Uranium Reserve Reconciliation" at page 22 is due to the impact of mill recovery, mill inventory and special waste rock.

(5) Milled at Key Lake.

***McArthur River***

McArthur River is an underground uranium mine, in which Cameco has a direct and indirect interest of 69.805%. It contains the world's largest known high-grade uranium deposit. McArthur River is owned by joint venture partners Cameco (55.844%), Cogema (16.234%) and UEM (27.922%), a company equally owned by Cameco and Cogema. Cameco is the operator. At December 31, 2002, the Company's share of reserves are 618,800 tonnes of ore containing 318.8 million pounds $U_3O_8$ with an average grade of 23.4% $U_3O_8$ and its share of resources are 372,000 tonnes of material containing 77.8 million pounds with an average grade of 9.5% $U_3O_8$.

At an assumed annual production of 18 million pounds, Cameco estimates that McArthur River will have a mine life of at least 25 years and a payback period of capital invested of approximately 5 years after 2002.

*Property Description and Environment*

This property is located near Toby Lake in northern Saskatchewan, approximately 620 kilometres north of Saskatoon. The McArthur River mine site is compact, occupying approximately an area of one kilometre in the north/south direction and half a kilometre in the east/west direction. The site consists of an underground mine, one full service shaft and two ventilation shafts along with numerous surface facilities, including inert waste rock stockpiles, a large capacity mine water treatment plant, a pump house, ponds, standby diesel generators as well as maintenance and warehousing facilities. Other major facilities include the orebody freezing plant, the administration/shop complex, the ore slurry handling and truck load-out facility.

The surface facilities and mine shafts for the McArthur River operation are located on lands owned by the province of Saskatchewan. Cameco acquired the right to use and occupy the lands under a surface lease agreement with the province of Saskatchewan. The most recent surface lease agreement was signed in April 1999 and is valid for 33 years. Obligations attached to the surface lease relate primarily to annual reporting regarding the status of the environment, land development and progress on northern employment and business development. The lease is renewable if necessary until full property decommissioning has been achieved. The McArthur River surface lease presently covers 1,425 hectares. However, Cameco is seeking to reduce the size of the surface lease to about 651 hectares.

The mineral property consists of 21 mineral claims and one mineral lease totaling 84,818 hectares.

The McArthur River uranium deposit is located in the area subject to mineral lease ML5516. Under this mineral lease, effective March 8, 1994, Cameco acquired the right to mine this deposit. The mineral lease is for a term of 10 years with the right to renew for successive subsequent 10 year terms absent a default by Cameco.

Surrounding the McArthur River uranium deposit are 21 mineral claims. A mineral claim grants the holder the right to explore for minerals within the claim lands and the right to apply for a mineral lease. Title to the 21 mineral claims is secured until 2017.

All resources and reserves on the property are part of the McArthur River orebody.

For additional information on mineral leases, mineral claims and surface leases, see “Land Tenure-Saskatchewan Operations”.

Uranium produced from this property is subject to Saskatchewan royalties as described in “Government Regulation-Canadian Royalties and Certain Taxes”. Also UEM, with respect to its participating interest in the McArthur River joint venture, is required to pay 5% of net profits, up to a maximum of $1.9 million, to a third party.

The property is subject to decommissioning liabilities. In accordance with regulatory requirements, Cameco has filed with the provincial government a conceptual decommissioning and reclamation plan and has provided a $6.0 million letter of credit as security for decommissioning the property.

Two permits must be maintained to operate the mine. Cameco holds a “Mining Facility Operating Licence” from the Canadian Nuclear Safety Commission (“CNSC”) and an “Approval to Operate Pollutant Control Facilities” from the department of Saskatchewan Environment (“SE”). Both permits are current. The “Mining Facility Operating License” from the CNSC expires on February 28, 2004 and the “Approval to Operate Pollutant Control Facilities” from SE expires on October 31, 2004. Cameco expects regulators will renew these permits.

*Site accessibility, infrastructure and physiography*

The means of access to the property is by an all-weather road and by air. Supplies are transported by truck and can easily be shipped from anywhere in North America through Cameco’s transit warehouse in Saskatoon. McArthur River ore is transported to the Key Lake mill for processing some 80 kilometres to the southwest along a gravel highway. Site operations are carried out all year despite cold winter conditions. The fresh air necessary to ventilate the underground workings is heated during the winter months using propane-fired burners. There is easy access to and sufficient water from nearby Toby Lake to satisfy all industrial and residential water requirements. To minimize fresh water use, most industrial water demands are met by recycling water. The site is connected to the provincial power grid. There are standby generators in case of grid power interruption. Personnel are recruited from the northern area communities and major Saskatchewan population centers such as Saskatoon. Underground work is tendered to a mining contractor. McArthur River is a developed producing property, with surface right holdings that cover all of its mining operation needs as well as requirements for residences, access to water, airport, site roads and other necessary buildings and infrastructures. No tailings management facilities are required as McArthur River ore is milled at the Key Lake mill.

The topography and the environment is typical of the taiga that is common to the Athabasca basin area of northern Saskatchewan. The surface facilities are approximately 550 metres above sea level.

*History*

There have been numerous changes in ownership of participating interests in the joint venture that governs the McArthur River property. The joint venture was formed in 1976 and the joint venture partners at that time were Canadian Kelvin Resources, Asamera Oil Corporation Ltd., and SMDC, a predecessor company to Cameco. Recently, the two most significant changes in ownership were:

- In 1998, Cameco bought all of the shares of Uranerz Exploration and Mining Ltd. (and changed Uranerz's name to UEM), thereby increasing its direct and indirect participating interest in the McArthur River joint venture to 83.766%.

- In 1999, Cogema acquired one-half of the shares of UEM, thereby reducing Cameco's direct and indirect participating interest in the McArthur River joint venture to 69.805%. Cogema's direct and indirect participating interest in the McArthur River joint venture is 30.195%.

Cameco, through its predecessor company SMDC, became operator of the McArthur River project in 1980. Surface exploration programs, ranging from small line cutting crews to large helicopter supported drilling and prospecting camps, were active from 1980 through to 1992. Surface drilling programs delineated an ore zone over 1,700 metres in length, occurring at depths ranging between 530 to 640 metres below surface. Significant mineralizations of potentially economic uranium grades were first discovered as a result of surface drilling in the 1988 and 1989 exploration seasons.

In 1992, an underground exploration program was proposed to gain more accurate information regarding the discovery in order to complete an assessment of the means and feasibility of ore extraction. Upon review by the joint Federal/Provincial Panel, and upon receiving the Panel's positive recommendation, exploration camp construction began in February 1993 and underground exploration proceeded with shaft sinking, level development and definition underground drilling until 1997.

The environment impact statement for the full McArthur River development was submitted to the joint Federal/Provincial Panel in 1995. Public hearings took place and were completed in 1996. A positive recommendation was made by the panel in early 1997. Subsequently, approvals were received from the governments of Canada and Saskatchewan for the project to proceed to licensing for construction. The Atomic Energy Control Board ("AECB") issued construction licences for McArthur River in August 1997 and May 1998.

In October 1999, Cameco received an operating licence from federal authorities and operating approval from provincial authorities.

*Mine Development and Construction*

Construction and development of the McArthur River mine was completed on schedule and mining commenced in December 1999. During the mine startup, also known as mine commissioning, the operation of processing and mining equipment was evaluated and modified as required. Upon completion of mine commissioning, commercial production was achieved on November 1, 2000.

At present, the site includes three shafts. The first shaft is used to move workers, material and waste rock. The second shaft is used for mine exhaust air ventilation and as an emergency exit. The third shaft was completed in November 2000 and is equipped as a third means of egress. This shaft is also used for fresh air ventilation.

The McArthur River mine achieved its monthly design capacity of 1.5 million pounds $U_3O_8$ for most of 2002 and is operating annually at its maximum licensed throughput of 18.7 million pounds.

*Geology and Mineralization*

The McArthur River deposit is located in the southeastern portion of the Athabasca Basin, within the southwest part of the Churchill structural province of the Canadian Shield. The crystalline basement rocks underlying the deposit are members of the Aphebian aged Wollaston Domain, metasedimentary sequence. These rocks are overlain by flat lying, unmetamorphosed sandstones and conglomerates of the Helikian Athabasca Group. These sediments are over 500 metres thick in the deposit area.

The mineralization is situated alongside a northeast trending graphitic fault, close to the unconformity between the basement rock and the overlying Athabasca sandstone.

*Exploration, Drilling and Estimates*

The original McArthur River resource estimates were derived from surface diamond drilling. The drill hole data consists of assay results from 42 drill holes compiled with all relevant geological and technical data. These drill holes did not allow a precise estimate of the resources but the very high grades encountered justified the development of an underground exploration project.

From 1994 to present, several drilling campaigns from underground levels at 530 metres and 640 metres depth were completed. Diamond drilling was followed by systematic radiometric probing of the holes using a high flux probe adapted to the very high radioactivity encountered. Drill holes intersected mineralized zones on a grid spacing of 10 x 10 metres or less. Radiometric probing was at 0.10 metre spacing in the radioactive zones. Where core recovery allows it, sampling and assaying of the cores as well as density measurements are performed to confirm correlations. To date, assays have produced results slightly (8-10%) above the calculated ore grades that were derived from the radiometric probing data.

The data from the 500 underground exploration holes drilled to the end of 2001 have been interpreted and estimates of reserves have been made in four mineralized zones. In addition to this drilling, more than one hundred freeze holes and raisebore pilot holes have provided data confirming the interpretation.

Cameco has developed and implemented procedures for quality control, data verification and security of sampling that it believes will assure the integrity of information resulting from drilling activities at McArthur River.

*Mine Operations*

The sandstones which overlay the basement rocks contain significant water, which is at hydrostatic pressure. Water flow into the mine area is prevented by ground freezing. Ore extraction is performed by the raise boring method with broken ore falling into a line-of-sight remote controlled loader. The loader transports the ore to one of two grizzlies. One grizzly routes ore to one of two ore storage bins while the other grizzly reports directly to the grinding circuit. This circuit grinds the ore to a size that is acceptable for the Key Lake leaching circuit. From the grinding circuit, ore is thickened in two underground thickeners that operate in parallel. Thickened ore is pumped 680 metres up to four surface ore slurry holding tanks. Ore is drawn out of the four surface ore slurry holding tanks into a mixing tank. More water is removed in another thickener. Ore slurry is then pumped into containers on a transport truck for shipment to the Key Lake mill over an 80 kilometer all-weather road. Once a raise has bored through the ore zone, it is backfilled with concrete. The next raise is then bored at a suitable distance away to allow cure time for the concrete fill. 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.

*Milling*

The McArthur River joint venture has entered into a toll milling agreement with the Key Lake joint venture to process all the ore from the McArthur River mine. The terms of the agreement include a provision for processing at cost plus a fixed toll milling fee. The Key Lake joint venture is operated by Cameco and is owned by Cameco (66 2/3%) and UEM (33 1/3%). UEM is owned equally by Cameco and Cogema.

At the Key Lake mill, McArthur River ore is blended with low grade mineralized waste rock down to approximately 4% U $_3O_8$. The uranium is then dissolved in a single stage leaching circuit. Uranium solution is then separated from the remaining ore solids in a counter current decantation circuit. The uranium solution is purified in a solvent extraction circuit. The purified uranium is precipitated out of solution by the addition of ammonia. The ammonium diuranate is thickened and centrifuged before being transferred to a calciner. The calciner dries and calcines the uranium oxide concentrate before it is packed into 200 litre drums. The final product is about 99 % $U_3O_8$.

The Key Lake property is subject to decommissioning liabilities. In accordance with regulatory requirements, Cameco has filed with the provincial government a conceptual decommissioning and reclamation plan and provided a $38 million letter of credit as security for decommissioning the property.

There are two tailings management facilities at the Key Lake site. One is an above-ground impoundment with tailings stored within compacted till embankments. This facility was constructed in 1983, has not received tailings since 1998 and is now almost full. Cameco is reviewing several decommissioning options regarding this facility.

The other tailings management facility ("TMF") is the Deilmann pit. The east-end of the Deilmann pit was mined out in April 1995 and then converted to a TMF that has been in operation since the beginning of 1996. The west-end of the Deilmann pit was mined out in 1997 and then converted to a TMF. The Deilmann TMF uses a staged subaerial/subaqueous tailings deposition mode with a pervious sand envelope constructed around the perimeter of the pit. The sand envelope allows excess water to drain to a drainage blanket underlying the tailings at the bottom of the pit and then to dewatering pumps in a raise well connected by a drift to the drainage blanket. At the end of 1998, approval was received from the CNSC and Saskatchewan Environment Resource Management to convert the mode of tailings deposition from subaerial to subaqueous. Conversion started immediately. Flooding commenced in June 1999. Based upon current reserve estimates, the Deilmann TMF has adequate capacity to hold the tailings from milling all of the McArthur River ore.

There are five large rock stockpiles at the Key Lake site. Three of the stockpiles contain non-mineralized waste rock and two contain low grade mineralized waste rock. The latter is currently used to lower the grade of McArthur River ore to approximately 4% $U_3O_8$ before entering the milling circuit. Remaining waste rock stockpiles will require decommissioning upon site closure.

*Safety and Radiation Control*

At McArthur River, a key source of radiation exposure during mining results from radon gas that emanates from ore and groundwater. Radon exposure is minimized by effective use of ventilation. Water inflows are collected underground and pumped to the surface for treatment before being released to the environment. Exposure to radiation from the high-grade ore is minimized by containment, shielding and remote handling of the ore during the processing and handling stages.

The radiation levels that workers at McArthur River and Key Lake receive are closely monitored. This includes the use of both personal and area monitoring to measure and control exposures.

Under the Nuclear Safety and Control Act, radiation exposure limits incorporate a formula that combine the doses of gamma radiation, radon and dust intake which an individual receives in a year. Since mine start up and milling of McArthur River ore at Key Lake, radiation exposure levels have been well below applicable standards.

*McArthur River Resource and Reserve Estimates*

The mineral reserve and resource estimates for McArthur River are found at "Uranium Concentrates Business-Reserves and Resources". The key assumptions, parameters and methods used in making these estimates are:

1. Key Assumptions

   - the reserves reported are in situ reserves without provision for dilution or mining recovery for the following reasons:

     (i) the grade of ore zones is so high that some waste or subgrade material that is produced by mining must be blended with ore to comply with the terms of the CNSC operating licence;
     (ii) mining recovery is expected to be almost total in this high-grade ore by means of current and planned mining methods; and
     (iii) mining recoveries since early 2000 to the end of 2002 have exceeded expectations.

   - Uranium prices remaining above their historic lows.

2. Key Parameters

   - grades were obtained from radiometric probing of underground drill holes and converted to percentage $U_3O_8$ on the basis of a correlation between radiometric counts and assay values;

   - densities were determined from regression formulas based on 374 density measurements of drill core and chemical assay grades;

- limits and continuity of the mineralization are structurally controlled; and
- reserves at McArthur River are based on estimated quantities of mineralized material recoverable by established mining methods.

3. Key Methods

- Three-dimensional wireframe models were created from digitized mineralization boundaries interpreted on 10 metre spacing vertical cross-sections and planviews. Estimates of the grade and density of blocks of 1 metre x 5 metre x 1 metre were obtained from ordinary kriging; and
- Reserves are defined as the economically mineable part of the indicated and measured resources. Only reserves have demonstrated economic viability.

Although Cameco believes that McArthur River reserve and resource estimates will not be materially affected by external factors, such as metallurgical, safety and environmental, permitting, legal, title, taxation and political issues, there can be no assurance that they will not be. There are numerous uncertainties inherent in estimating mineral reserves and resources. The accuracy of any reserve and resource estimation is the function of the quality of available data and of engineering and geological interpretation and judgment. Results from drillings, testing and production, as well as a material change in the uranium price, subsequent to the date of the estimate, may justify revision of such estimates.

*Other McArthur River Information*

For information pertaining to:

(a) markets and contracts for sale of uranium produced from McArthur River, see “Uranium Concentrates Business-Marketing”;

(b) taxes and royalties on McArthur River uranium production, see “Government Regulation-Canadian Royalties and Certain Taxes” and “Government Regulation-Canadian Income Taxes”; and

(c) the April 2003 increase in water inflow at McArthur River, see “2003 Expected Material Developments in the Business.”

There are no material exploration or development activities planned for the McArthur River operation in 2003.

***Rabbit Lake***

Rabbit Lake is a uranium mining and milling complex that has been in operation since 1975. It is wholly owned by Cameco. In April 2002, the Eagle Point mine, located on the Rabbit Lake lease, was reopened, ending a care and maintenance period of three years. The Rabbit Lake mill resumed operation at the end of August 2002, following the resumption of Eagle Point ore production in July 2002. The Rabbit Lake mill had been maintained on a care and maintenance shutdown since July 2001, following the depletion of stockpiled ore. Based upon planned production and life of mine plan, Rabbit Lake reserves are forecast to be depleted in early 2005. The mineral reserve and resource estimates for Rabbit Lake are found at “Uranium Concentrates Business-Reserves and Resources”.

The property is subject to decommissioning liabilities. In accordance with regulatory requirements, Cameco has filed with the provincial government a conceptual decommissioning and reclamation plan and has provided a $36 million letter of credit as security for decommissioning the property.

There are two permits that must be maintained to conduct mining and milling activities at Rabbit Lake. Cameco holds a “Uranium Mine Operating Licence” from the CNSC and an “Approval to Operate Pollutant Control Facilities” from SE. Both permits are current and will expire on October 31, 2003. Cameco expects regulators will renew these permits.

Subject to regulatory approval and mutually satisfactory business arrangements among the Cigar Lake owners, it is expected that the Rabbit Lake mill will process approximately one-half of the Cigar Lake uranium for a period of some 9 years. Deliveries of Cigar Lake uranium to the Rabbit Lake mill may commence in 2008. An environmental impact statement for the processing of uranium from the Cigar Lake mine at Rabbit Lake is expected to be filed with regulators in 2004.

Cameco is conducting exploration to determine if there is sufficient mineralization to extend the life of the ore body.

***Crow Butte***

Crow Butte, which has been in production since 1991, is an ISL uranium operation located near Crawford, Nebraska, USA. Cameco holds a 100% interest in Crow Butte indirectly through its wholly owned subsidiary, Crow Butte Land Company. The mineral reserve and resource estimates for Crow Butte are found at "Uranium Concentrates Business-Reserves and Resources".

Crow Butte is subject to decommissioning liabilities. In accordance with regulatory requirements, the operator of the property has provided a $12.8 million (US) letter of credit to the State of Nebraska as security for decommissioning the property.

***Smith Ranch — Highland***

Highland is an ISL uranium operation located near the towns of Glenrock and Douglas, Wyoming, USA. It is owned 100% by Cameco through its wholly owned subsidiary, Power Resources, Inc. ("PRI").

In July 2002, PRI purchased the Smith Ranch ISL uranium operation. It is located in Wyoming, adjacent to PRI's Highland operation. As part of the purchase, PRI assumed decommissioning liabilities, estimated at $9.2 million (US), associated with Smith Ranch and purchased about $6 million (US) in uranium inventory. Cameco guaranteed PRI's assumption of these decommissioning liabilities. In connection with the acquisition, PRI secured forward sales contracts of more than 900,000 pounds of Smith Ranch production at prices substantially above the long-term market indicators at that time.

After the purchase, the two operations were merged. The Smith Ranch mill processes all Smith Ranch and Highland ISL mined uranium. As a result, the Highland mill is being maintained on a care and maintenance basis.

Smith Ranch and Highland are subject to decommissioning liabilities. In accordance with regulatory requirements, PRI has provided letters of credit totaling $32.7 million (US) to the State of Wyoming as security for decommissioning these properties.

The mineral reserve and resource estimates for Smith Ranch — Highland are found at "Uranium Concentrates Business-Reserves and Resources".

**Development Projects**

Cameco has one material uranium development project — Cigar Lake in Saskatchewan. Cameco expects production to begin at Cigar Lake no earlier than 2006. Cameco also has a uranium development project in Kazakhstan called Inkai. Inkai received all necessary government approvals to build and operate its test ISL mine. Construction of the test mine began in November 2000 and testing commenced in early 2002.

Continued development and start up of production at these two projects is subject to market conditions and to the timely receipt of all necessary governmental approvals, permits and licences.

***Cigar Lake***

Cigar Lake is the world's second largest known high-grade uranium deposit. Cigar Lake is owned by joint venture partners Cameco (50.025%), Cogema (37.1%), Idemitsu Uranium Exploration Canada Ltd. (7.875%) and TEPCO Resources Inc. (5.0%). Cameco is the operator. At December 31, 2002, Cameco's share of proven and probable reserves are 276,000 tonnes of ore containing 115.8 million pounds $U_3O_8$ with an average grade of 19% $U_3O_8$ and inferred resources of 159,000 tonnes of material containing 59.1 million pounds with an average grade of 16.9% $U_3O_8$.

From the commencement of production and at an assumed annual production of 18 million pounds, Cameco estimates the first phase of Cigar Lake will have a mine life of approximately 13 years and a payback period of capital invested of approximately 7 years.

*Property Description and Environment*

The Cigar Lake minesite is located near Waterbury Lake, approximately 660 kilometres north of Saskatoon. The Cigar Lake minesite was developed for the activities of test mining. At present, the site consists of an underground development, complete with two main levels and a 500-metre mine shaft and head frame, water treatment ponds, standby generators, freeze plant, office, shop, warehouse, construction residences and support installations.

The surface facilities and mine shaft for the Cigar Lake project are located on lands owned by the province of Saskatchewan. Cameco acquired the right to use and occupy the lands under a surface lease agreement with the province of Saskatchewan. The surface lease was signed in 1987 and is valid for 33 years. Obligations attached to the surface lease agreement primarily relate to annual reporting regarding the status of the environment, the land development and progress made on northern employment and business development. The lease is renewable if necessary until full property decommissioning has been achieved. The Cigar Lake surface lease covers a total of 974 hectares.

The mineral property consists of one mineral lease, totaling 308 hectares, and 25 mineral claims, totaling 92,740 hectares. The mineral lease and mineral claims are contiguous. The Cigar Lake deposit is located in the area subject to mineral lease ML5521. The right to mine this uranium deposit was acquired under this mineral lease, as renewed, effective December 1, 2001. The mineral lease is for a term of 10 years with the right to renew for successive subsequent 10 year terms absent a default by Cameco.

Surrounding the Cigar Lake deposit are 25 mineral claims. A mineral claim grants the holder the right to explore for minerals within the claim lands and the right to apply for a mineral lease. Title to the mineral claims is secured until 2023.

All reserves and resources on the property are part of the Cigar Lake orebody.

For additional information on mineral leases, mineral claims and surface leases, see “Land Tenure-Saskatchewan Operations”.

Uranium produced from this property will be subject to Saskatchewan royalties as described in “Government Regulation-Canadian Royalties and Certain Taxes”.

The property is subject to decommissioning liabilities. In accordance with regulatory requirements, Cigar Lake Mining Corporation (“CLMC”), the prior operator of the project, filed with the provincial government a conceptual decommissioning and reclamation plan for the test mining infrastructure and surface disturbance. Financial assurances were provided by each of the owners for a total amount of $4.2 million to cover their respective portion of the decommissioning work.

The Cigar Lake site has been operated under various permits, licences and leases granted for the purpose of the test mine, all of which are currently in good standing. The “Uranium Mine Site Preparation License” from the CNSC will expire on July 31, 2004 and the “Approval to Operate Pollutant Control Facilities” from SE will expire May 31, 2003. Cameco expects regulators will renew these permits. Cameco applied for a construction licence in 2002. Cameco expects to receive the licence in 2004, subject to confirmation by the regulators of their licensing process.

*Site accessibility, infrastructure and physiography*

Access to the property is by road and by air. Supplies are transported by truck on an all-weather road and can be easily shipped from anywhere in North America through Cameco’s transit warehouse in Saskatoon. Site activities are carried out all year despite the cold weather during the winter months. The fresh air is heated with propane-fired burners before being introduced underground when the air temperature is below freezing. The water for the industrial activities and the camp come from nearby Waterbury Lake. The site is connected to the provincial electricity grid. There are standby generators in case of grid power failures. Personnel are recruited from the northern communities and major population centers such as Saskatoon. The underground work is tendered to a mining contractor.

The surface lease grants sufficient rights, subject to regulatory approvals, for mining operations and the lands subject to the surface lease are sufficient for personal accommodation, access to water, airport, site roads and other necessary buildings and infrastructure. Cameco expects that tailings management facilities will not be required at Cigar Lake, as ore will not be milled at Cigar Lake.

The topography and the environment is typical of the taiga forested lands common to the Athabasca basin area of northern Saskatchewan. The area is covered with thick overburden. The site is approximately 490 metres above sea level.

*History*

The first uranium mineralization discovered at Cigar Lake was in May 1981. Since that time, the deposit has been defined by approximately 200 holes and 92,000 metres of core drilling from surface. CLMC has been operator of the project since 1985. Effective January 1, 2002, Cameco replaced CLMC as operator.

In 1993, a preliminary feasibility study was delivered to the joint venture partners. An environment impact statement was filed with the relevant regulatory agencies in 1995. Technical challenges involving groundwater, rock properties and radiation protection were evaluated and addressed during the test mining phase.

Public hearings on the project environment impact statement were concluded in 1997 and the joint federal-provincial panel recommended to the governments of Canada and Saskatchewan that the project be allowed to proceed, subject to resolution, on terms acceptable to regulatory authorities, of issues with respect to a tailings management facility and waste rock disposal. In April 1998, both levels of government accepted the joint panel recommendations and authorized the project to proceed to the regulatory licensing stage.

*Geology and Mineralization*

The Cigar Lake deposit is located approximately 40 kilometres inside the margin of the eastern part of the Athabasca Basin. It occurs at the unconformity contact between rock of the Athabasca Group and underlying lower Proterozoic Wollaston Group metasedimentary rocks, an analogous setting to the Key Lake, the McClean Lake and Collins Bay deposits. It shares many similarities with these deposits, including general structural setting, mineralogy, geochemistry, host rock association and the age of the mineralization. The Cigar Lake deposit is distinguished from other similar deposits by its size, its very high grade, and the high degree of associated hydrothermal clay alteration. The deposit is flat lying, approximately 1950 metres long, 20 to 100 metres wide, and ranges up to 16 metres thick. It occurs at depths ranging between 410 to 450 metres below the surface.

*Exploration and Estimates*

The exploration of the Cigar Lake deposit was performed by Cogema. A data bank was created from all assay measurement of the various elements. Algorithms were established for the density determination based on the nature of the mineralization and of the surrounding ground.

Cogema produced for CLMC various reserve and resource estimates. These estimates were reviewed in 2000 by a task force from Cogema, CLMC and Cameco. New test reserve and resource estimates were completed both by Cogema and Cameco and the results were compared.

A new definition of the reserves based on the latest technical tests and economics has been implemented. The new definition is based on a minimum uranium content and a minimum grade for each estimated block.

Cameco believes that Cogema developed and implemented acceptable procedures for quality control, data verification and security of information resulting from exploration drilling activities at Cigar Lake.

*Test Mining*

A test mining program was approved in late 1987. Shaft sinking began in 1988, reaching a final depth of 501 metres in early 1990. Horizontal development was advanced on two levels and test mining in frozen ground, using box hole boring and high pressure water jet boring, was successfully carried out in 1991 and 1992.

During 1998, CLMC successfully tested a mechanical mine development system suitable to local underground conditions and at year-end commissioned a freeze hole drilling system. Also, throughout 1998, CLMC produced a number of engineering studies that examined project development and milling options.

In 1999 and 2000, further jet boring tests were completed with improved systems. Information acquired from these tests were used to update the feasibility study, which was later approved by the joint venture partners in June 2001.

Subject to regulatory approval, the jet boring mining method will consist of four metre diameter holes bored with a high pressure water jet in the previously frozen high grade orebody. The ore will be ground and slurried underground, pumped to surface and loaded into specialized containers. All the ore slurry will be shipped to Cogema's McClean Lake mill for processing. Approximately one-half of the resulting pregnant acqueous solution will then be processed at the McClean Lake mill with the other half being transported to the Rabbit Lake mill for further processing. See *"**Rabbit Lake**".*

*Cigar Lake Resource and Reserve Estimates*

The mineral reserve and resource estimates for Cigar Lake are found at "Uranium Concentrates Business-Reserves and Resources". The key assumptions, parameters and methods used in making these estimates are:

1. Key Assumptions

   - The reserves reported include allowances for dilution and mining recovery;
   - No such allowances are applied to mineral resources;
   - The minimum grade for proven reserves is 5.9% $U_3O_8$ and for probable reserves is 1.2% $U_3O_8$; and
   - Uranium prices remaining above their historic lows.

2. Key Parameters

   - grades (percentage $U_3O_8$) were obtained from assaying of drill core and checked against radiometric results. In areas of lost core or poor recovery, reliance was placed on radiometric grade determined from the gamma probing;
   - where density was not directly measured for each sample, a correlation between uranium grade and density was applied; and
   - reserves at Cigar Lake are based on estimated quantities of mineralized material recoverable by established mining methods.

3. Key Methods

   - The geological interpretation of the orebody outline was done on planviews, a two-dimension horizontal block model delineates the deposit with block of size 15 metres x 6 metres;
   - Ordinary kriging served to estimate the grade, thickness and density of the blocks; and
   - Reserves are defined as the economically mineable part of the indicated and measured resources. Only reserves have demonstrated economic viability.

Although Cameco believes Cigar Lake reserve and resource estimates are unlikely to be materially affected by external factors, such as metallurgical, safety and environmental, permitting, legal, title, taxation and political issues, there can be no assurance that they will not be. There are numerous uncertainties inherent in estimating mineral reserves and resources. The accuracy of any reserve and resource estimation is the function of the quality of available data and of engineering and geological interpretation and judgment. Results from drillings, testing and production, as well as a material change the uranium price, subsequent to the date of the estimate, may justify revision of such estimates.

*Other Cigar Lake Information*

For information pertaining to:

(a) markets and contracts for sale of uranium produced from Cigar Lake, see "Uranium Concentrates Business-Marketing"; and

(b) taxes and royalties on Cigar Lake uranium production, see "Government Regulation-Canadian Royalties and Certain Taxes" and "Government Regulation-Canadian Income Taxes".

Material development activities are currently planned for the Cigar Lake project. In June 2001, the joint venture partners approved the feasibility study and the detailed engineering design was initiated and is continuing. A preliminary estimate of the project development costs is $350 million on a 100% basis. Subject to regulatory approvals and market trends, production at the Cigar Lake mine could begin no earlier than 2006.

***Inkai***

Inkai is an ISL project located in the Republic of Kazakhstan and consists of three contiguous license blocks (leases). The project is owned and operated by Joint Venture Inkai, which is owned by Cameco (60%) and KazAtomProm (40%). The latter is a company owned by the Republic of Kazakhstan. Cameco's share of measured and indicated resources is 57.1 million pounds $U_3O_8$ and of inferred resources is 170.5 million pounds.

In April 1999, Inkai received from the government of Kazakhstan a mining (extraction) licence for Block No. 1 and a combined mining and exploration licence for Blocks No. 2 & 3. The associated subsoil use contract, covering both licences, was signed by the government and Joint Venture Inkai in July 2000. Subsequent to signing of the contract, Joint Venture Inkai obtained the permits and authorizations needed to start construction of the test mine at Block No. 2. Construction of the test mine facilities was substantially completed in December 2001. Test mining operations commenced in April 2002 following the federal government's formal inspection and acceptance of the newly constructed facilities. An Environmental Impact Assessment on the planned mining is expected to be completed in 2003. In 2002, an updated feasibility study was initiated, which is scheduled for completion in 2003 and will incorporate data obtained from test mining.

The Inkai ISL project is subject to decommissioning liabilities. Subsequent to commencement of commercial production, Joint Venture Inkai is required to establish a separate bank account and make contributions to the account as security for decommissioning the property. Contributions to such bank account are capped at $500,000 (US).

Cameco has agreed to provide funding to Joint Venture Inkai of up to $40 million (US) for project development. To December 31, 2002, Cameco, through subsidiaries, had advanced $15.5 million (US) ($24.5 million (Cdn)).

**Exploration**

Cameco carries out mineral exploration for new uranium resources on substantial landholdings, principally located in two areas: the Athabasca basin of northern Saskatchewan and the Arnhem Land region in Northern Territory, Australia. Small landholdings are also located in the Thelon Basin of Canada's Northwest Territories. The subdivision of lands (properties in which Cameco holds interests greater than 10%) and uranium exploration expenditures is as follows:

| Area | hectares at Dec. 2002 | 2002 actual expenditures (000') |
|---|---|---|
| Saskatchewan | 623,000 | 6,848 |
| Northwest Territories | 31,000 | 147 |
| Australia | 1,657,000 | 3,852 |
| Other | 21,000 | 1,003 |
| Totals | 2,332,000 | 11,850 |

The majority of Cameco's exploration lands are explored as joint ventures with other mining companies, with Cogema the most common joint venture partner. At year-end 2002, Cameco operated approximately three-quarters 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.

Cameco periodically acquires new exploration land holdings in both Canada and Australia, where the Company perceives the discovery potential to be worth the cost of acquiring and holding the land. At the same time, the Company may decide to reduce its interest in certain projects through farm-out agreements or other arrangements designed to provide exploration funding from sources other than Cameco. One such arrangement, announced in October 2001 and completed in July 2002, resulted in Cameco and Pioneer Metals combining certain exploration assets to form a new junior uranium company, UEX Corporation. Following third party financing and after transferring in one exploration property and subscribing for $500,000 in UEX common shares, Cameco owns a 35.3% interest in this new company and has certain rights related to financing, milling, and marketing future uranium deposits placed into production by UEX.

Since many areas of the world are known to host numerous types of uranium mineralization, Cameco actively investigates the uranium exploration potential of areas other than those described above. No major projects are currently being undertaken in areas outside Canada and Australia.

**Reserves and Resources**

*Uranium Reserves (1)*

The following table shows Cameco's share of estimated uranium reserves as at December 31, 2002:

| | Tonnes | Grade | Content | Mining Method |
|---|---|---|---|---|
| | | (% $U_3O_8$) | (pounds $U_3O_3$) | (2) |
| **Reserves – Proven** | | | | |
| Cigar Lake | 249,000 | 20.67 | 113,222,000 | UG |
| Crow Butte | — | — | 5,345,000 | ISL |
| Gas Hills | — | — | 8,318,000 | ISL |
| Highland | — | — | 2,970,000 | ISL |
| Key Lake | 52,000 | 0.52 | 590,000 | OP |
| McArthur River | 593,800 | 23.70 | 310,331,000 | UG |
| Peach | — | — | 3,170,000 | ISL |
| Rabbit Lake | 637,000 | 1.25 | 17,580,000 | UG |
| Ruby Ranch | — | — | 2,896,000 | ISL |
| Smith Ranch | — | — | 6,681,000 | ISL |
| **Total Proven Reserves** | | | **471,103,000** | |
| **Reserves – Probable** | | | | |
| Cigar Lake | 27,000 | 4.41 | 2,625,000 | UG |
| Crow Butte | — | — | 1,771,000 | ISL |
| Gas Hills | — | — | 5,244,000 | ISL |
| Highland | — | — | 5,059,000 | ISL |
| McArthur River | 25,000 | 15.24 | 8,442,000 | UG |
| North Butte/Brown Ranch | — | — | 9,659,000 | ISL |
| Peach | — | — | 3,792,000 | ISL |
| Ruby Ranch | — | — | 1,424,000 | ISL |
| Smith Ranch | — | — | 13,711,000 | ISL |
| **Total Probable Reserves** | | | **51,727,000** | |
| **Total Reserves** | | | **522,830,000** | |

(1) Canadian Securities Administrators' National Instrument 43-101 requires mining companies to disclose reserves and resources using the subcategories of proven reserves, probable reserves, measured resources, indicated resources and inferred resources. Cameco reports reserves and resources separately. The amount of reported resources does not include amounts identified as reserves.

(2) Mining Method: OP-Open Pit, UG-Underground, ISL-In situ Leaching

*Uranium Resources*

The following table shows Cameco's share of estimated uranium resources as at December 31, 2002:

| | Tonnes | Grade (% $U_3O_8$) | Content (pounds $U_3O_8$) | Mining Method (1) |
|---|---|---|---|---|
| **Measured Resources** | | | | |
| Gas Hills | — | — | 3,665,000 | ISL |
| Highland | — | — | 2,212,000 | ISL |
| Inkai | — | — | 8,245,000 | ISL |
| McArthur River | 9,400 | 5.36 | 1,114,000 | UG |
| Peach | — | — | 997,000 | ISL |
| Reynolds Ranch | — | — | 2,654,000 | ISL |
| Ruby Ranch | — | — | 862,000 | ISL |
| Shirley Basin | — | — | 304,000 | ISL |
| Smith Ranch | — | — | 1,264,000 | ISL |
| **Total Measured Resources** | | | **21,317,000** | |
| **Resources – Indicated** | | | | |
| Crow Butte | — | — | 8,500,000 | ISL |
| Dawn Lake | 199,000 | 1.69 | 7,436,000 | OP+UG |
| Gas Hills | — | — | 2,364,000 | ISL |
| Highland | — | — | 2,972,000 | ISL |
| Inkai | — | — | 48,866,000 | ISL |
| McArthur River | 362,600 | 9.59 | 76,691,000 | UG |
| North Butte/Brown Ranch | — | — | 5,611,000 | ISL |
| Northwest Unit | | — | 2,361,000 | ISL |
| Peach | | — | 1,623,000 | ISL |
| Rabbit Lake | 103,000 | 0.88 | 1,998,000 | UG |
| Reynolds Ranch | — | — | 7,791,000 | ISL |
| Ruby Ranch | — | — | 581,000 | ISL |
| Ruth | — | — | 2,065,000 | ISL |
| Shirley Basin | — | — | 4,085,000 | ISL |
| Smith Ranch | — | — | 133,000 | ISL |
| **Total Indicated Resources** | | | **173,077,000** | |
| **Total Measured & Indicated Resources** | | | **194,394,000** | |
| **Resources – Inferred** | | | | |
| Cigar Lake | 159,000 | 16.92 | 59,105,000 | UG |
| Crow Butte | — | — | 7,333,000 | ISL |
| Highland | — | — | 1,977,000 | ISL |
| Inkai | — | — | 170,520,000 | ISL |
| North Butte/Brown Ranch | — | — | 1,367,000 | ISL |
| Northwest Unit | — | — | 1,093,000 | ISL |
| Reynolds Ranch | — | — | 7,442,000 | ISL |
| Shirley Basin | — | — | 1,132,000 | ISL |
| Smith Ranch | — | — | 4,295,000 | ISL |
| **Total Inferred Resources** | | | **254,264,000** | |

(1) Mining Method: OP-Open Pit, UG-Underground, ISL-In-situ Leaching.

*Uranium Reserve Reconciliation*

The following reconciliation of Cameco's share of uranium reserves reflects the changes in reserves during 2002. The 2002 additions and deletions result from property acquisitions and from additional information provided by mining and milling, analysis of drilling results, and reclassification.

**(in thousands of pounds $U_3O_8$)**

| | Dec. 31 2001 | 2002 Throughput[1] | 2002 Addition (Deletion) | | Dec. 31 2002 |
|---|---|---|---|---|---|
| **Reserves – Proven** | | | | | |
| Cigar Lake | 113,222 | — | 0 | | 113,222 |
| Crow Butte | 4,202 | (763) | 1,906 | (2) | 5,345 |
| Gas Hills | 10,570 | — | (2,252) | (2) | 8,318 |
| Highland | 5,066 | (446) | (1,650) | (2) | 2,970 |
| Key Lake | 782 | (192) | 0 | | 590 |
| McArthur River | 322,320 | (12,762) | 773 | (2) | 310,331 |
| North Butte/Brown Ranch | 8,415 | — | (8,415) | (2) | 0 |
| Peach | 3,635 | — | (465) | (2) | 3,170 |
| Rabbit Lake | 18,943 | (1,641) | 278 | (2) | 17,580 |
| Ruby Ranch | 3,089 | — | (193) | (2) | 2,896 |
| Smith Ranch | 0 | (441) | 7,122 | (3) | 6,681 |
| **Total Proven Reserves** | **490,244** | **(16,245)** | **(2,896)** | | **471,103** |
| **Reserves — Probable** | | | | | |
| Cigar Lake | 2,625 | — | 0 | | 2,625 |
| Crow Butte | 2,978 | — | (1,207) | (2) | 1,771 |
| Gas Hills | 7,570 | — | (2,326) | (2) | 5,244 |
| Highland | 861 | — | 4,198 | (2)(3) | 5,059 |
| McArthur River | 8,442 | — | 0 | | 8,442 |
| North Butte/Brown Ranch | 4,280 | — | 5,379 | (2) | 9,659 |
| Peach | 995 | — | 2,797 | (2) | 3,792 |
| Ruby Ranch | 1,706 | — | (282) | (2) | 1,424 |
| Smith Ranch | 0 | — | 13,711 | (3) | 13,711 |
| **Total Probable Reserves** | **29,457** | — | **22,270** | | **51,727** |
| **Total Proven & Probable Reserves** | **519,701** | **(16,245)** | **19,374** | | **522,830** |

(1) Corresponds to millfeed.

(2) Changes in reserves or resources, as applicable, include reassessment of geological data, results of information provided by mining and milling, and subsequent re-classification of reserves or resources, as applicable.

(3) Change in share ownership or acquisition or surrender of claims.

*Uranium Resource Reconciliation*

The following reconciliation of Cameco's share of uranium resources reflects the changes in resources during 2002. The 2002 additions and deletions result from property acquisition and additional information provided by mining and milling, analysis of drilling results, and reclassification.

| | Dec. 31 2001 | 2002 Throughput[1] | 2002 Addition (Deletion) | | Dec. 31 2002 |
|---|---|---|---|---|---|
| **Measured Resources** | | | | | |
| Gas Hills | 0 | — | 3,665 | (2) | 3,665 |
| Highland | 0 | — | 2,212 | (2) | 2,212 |
| Inkai | 8,245 | — | 0 | | 8,245 |
| McArthur River | 1,114 | — | 0 | | 1,114 |
| Peach | 0 | — | 997 | (2) | 997 |
| Reynolds Ranch | 0 | — | 2,654 | (3) | 2,654 |
| Ruby Ranch | 0 | — | 862 | (2) | 862 |
| Shirley Basin | 0 | — | 304 | (3) | 304 |
| Smith Ranch | 0 | — | 1,264 | (3) | 1,264 |
| **Total Measured Resources** | **9,359** | **0** | **11,958** | | **21,317** |
| **Resources — Indicated** | | | | | |
| Crow Butte | 8,500 | — | 0 | | 8,500 |
| Dawn Lake | 7,436 | — | 0 | | 7,436 |
| Gas Hills | 2,100 | — | 264 | (2) | 2,364 |
| Highland | 2,940 | — | 32 | (2)(3) | 2,972 |
| Inkai | 48,866 | — | 0 | | 48,866 |
| McArthur River | 76,691 | — | 0 | | 76,691 |
| North Butte/Brown Ranch | 6,026 | — | (415) | (2) | 5,611 |
| Northwest Unit | 0 | — | 2,361 | (3) | 2,361 |
| Peach | 0 | — | 1,623 | (2) | 1,623 |
| Rabbit Lake | 1,998 | — | 0 | | 1,998 |
| Reynolds Ranch | 0 | — | 7,791 | (3) | 7,791 |
| Ruby Ranch | 0 | — | 581 | (2) | 581 |
| Ruth | 0 | — | 2,065 | (2) | 2,065 |
| Shirley Basin | 0 | — | 4,085 | (3) | 4,085 |
| Smith Ranch | 0 | — | 133 | (3) | 133 |
| **Total Indicated Resources** | **154,557** | **0** | **18,520** | | **173,077** |
| **Total Measured & Indicated Resources** | **163,916** | **0** | **30,478** | | **194,394** |
| **Resources – Inferred** | | | | | |
| Cigar Lake | 59,105 | — | 0 | | 59,105 |
| Crow Butte | 7,622 | — | (289) | (2) | 7,333 |
| Gas Hills | 19,800 | — | (19,800) | (2) | 0 |
| Highland | 2,530 | — | (553) | (2) | 1,977 |
| Inkai | 170,520 | — | 0 | | 170,520 |
| North Butte/Brown Ranch | 6,118 | — | (4,751) | (2) | 1,367 |
| Northwest Unit | 0 | — | 1,093 | (3) | 1,093 |
| Peach | 4,000 | — | (4,000) | (2) | 0 |
| Reynolds Ranch | 0 | — | 7,442 | (3) | 7,442 |
| Shirley Basin | 0 | — | 1,132 | (3) | 1,132 |
| Smith Ranch | 0 | — | 4,295 | (3) | 4,295 |
| Taylor Ranch | 5,000 | — | (5,000) | (2) | 0 |
| **Total Inferred Resources** | **274,695** | **0** | **(20,431)** | | **254,264** |

(1) Corresponds to millfeed.

(2) Changes in reserves and resources, as applicable, include reassessment of geological data, results of information provided by mining and milling, and subsequent re-classification of reserves or resources, as applicable.

(3) Change in share ownership or acquisition or surrender of claims.

**Uranium Fuel Conversion Services**

**Market Background**

*Demand*

The demand for $UF_6$ conversion services is directly linked to the level of electricity generated by light water moderated nuclear power plants. Western world demand for $UF_6$ conversion services in 2002 was estimated to be approximately 57,000 tonnes of uranium. It is estimated that this demand will increase to approximately 61,000 tonnes of uranium in 2012. Demand in the former Soviet Union and Eastern Europe in 2002 was about 7,300 tonnes of uranium and is expected to increase to about 7,700 tonnes of uranium by 2012.

The demand for $UO_2$ conversion services is linked to the level of electricity generated by heavy water moderated nuclear power plants such as CANDU reactors. Western world demand for $UO_2$ conversion services in 2002 was estimated to be approximately 2,100 tonnes of uranium.

Most utility companies operating nuclear reactors purchase their uranium requirements in the form of concentrates directly from mining and milling operators. The uranium contained in the concentrates is refined and converted to fuel grade $UO_2$, or to $UF_6$ for enrichment, further processing and eventual use in nuclear reactors.

*Supply*

The western world $UF_6$ conversion industry consists of Cameco and three other commercial producers with an annual conversion capacity of about 45,000 tonnes of uranium. Cameco's annual $UF_6$ conversion capacity constitutes approximately 28% of the western world capacity. Cameco is the only commercial supplier of conversion for natural $UO_2$ customers in the western world. Russia supplies most of the requirements of the former Soviet Union and Eastern Europe in the form of low enriched uranium.

On February 9, 2001, British Nuclear Fuels Limited ("BNFL"), with annual conversion capacity of about 6,000 tonnes, announced that it will halt production of $UF_6$ in 2006. With the announcement, BNFL ceased the marketing of $UF_6$ conversion services and sold its uncommitted $UF_6$ production to Cameco.

*Prices*

Cameco competes on the basis of price, location and service with two other full-scale commercial suppliers in the western world. It also competes with additional supplies from excess western inventories available on the secondary or "spot" market, Russian inventory sales in the form of low enriched uranium, Russian re-enriched depleted tails in the form of $UF_6$, and Russian and US uranium derived from dismantling nuclear weapons.

Under the USEC Privatization Act, the conversion component of Disarmament Uranium is not restricted and is therefore available to the market, with the exception of any quantities returned to Russia.

**Marketing**

*$UF_6$*

Cameco's marketing strategy for $UF_6$ conversion services is similar to that for uranium concentrates.

Cameco sells its services directly to utilities located in many different geographic regions of the world primarily through medium — and long — term contracts.

For the period 2003 forward, Cameco has $UF_6$ conversion services commitments in excess of 45,000 tonnes uranium under 66 long-term contracts. Cameco's five largest customers account for approximately 35% of these commitments. Over this period, 40% of Cameco's committed $UF_6$ conversion services volume is to purchasers in North America, 34% in the Far East and 26% in Europe.

*$UO_2$*

Cameco is the only commercial supplier of ceramic grade $UO_2$ for CANDU heavy water moderated nuclear reactors operated in Canada by Bruce Power, OPG, New Brunswick Power Corporation and Hydro Quebec. Cameco also exports $UO_2$ to South Korea for its CANDU reactors.

Volumes of Canadian $UO_2$ sales are anticipated to increase over the next few years as six shut-in reactors (four operated by OPG and two operated by Bruce Power) are planned for restart. Three of these restarts (one OPG and two Bruce Power) are scheduled in 2003.

**Operations**

Cameco owns and operates Canada's only uranium conversion facilities. Cameco has a uranium refining facility that is located approximately eight kilometres west of Blind River, Ontario and within close proximity to Lake Huron. Blind River, with a population of about 4,000 is located approximately 600 kilometres northwest of Toronto, Ontario. Cameco also has two conversion plants within the town of Port Hope, Ontario, approximately 100 kilometres east of Toronto. The town of Port Hope, with a population of about 12,500, is located on the shore of Lake Ontario.

The Blind River facility, commissioned in 1983, has an annual licensed capacity of 18,000 tonnes of uranium. It includes a uranium refinery, a large storage area for uranium concentrates, and weighing and sampling facilities. The Blind River facility refines the concentrates delivered by suppliers from throughout the world into nuclear grade $UO_3$, nearly all of which is shipped to Port Hope for conversion into either $UF_6$ or $UO_2$. A small quantity of $UO_3$ is supplied to others for blending with enriched uranium to produce suitable reactor fuel.

The Port Hope conversion plants produce natural $UO_2$ and natural $UF_6$. The $UO_2$ plant is licensed for 2,800 tonnes of uranium per year and produces ceramic $UO_2$ used as fuel in Canadian and other CANDU heavy water nuclear reactors, as well as blanket fuel for light water nuclear reactors. The $UF_6$ plant, licensed for 12,500 tonnes of uranium per year, converts $UO_3$ to $UF_6$ using hydrogen, hydrogen fluoride and fluorine in a series of process steps. The $UF_6$ is then shipped to enrichment plants in the United States, Europe and Japan for further processing to low enriched uranium prior to conversion to enriched $UO_2$, which is used as reactor fuel for light water nuclear reactors.

In January 2003, Cameco applied to the CNSC for regulatory approval to begin the commercial production at Port Hope of slightly enriched uranium dioxide powder ("SEU"), the primary uranium component of a new type of fuel that is proposed for use in some CANDU reactors. Initially the SEU will be produced for use in the Bruce "B" units as part of a power uprate project which is expected to add about 400 MW to the capacity of the units. (See "Bruce Power — The Generating Facilities".) SEU is also expected to be the basis of the fuel used by the next generation of CANDU reactors designed by Atomic Energy of Canada Ltd. Cameco's Port Hope facility processed enriched uranium between 1966 and 1987. This activity was discontinued when there no longer was commercial demand.

CNSC approval would allow installation and operation at Port Hope of equipment for blending natural $UO_2$ powder and low-enriched $UO_2$ powder to produce SEU. The low-enriched $UO_2$ powder would be acquired from several suppliers. This approval would not lead to an increase in the total volume of $UO_2$ produced, as the SEU would essentially replace some of the natural $UO_2$ currently produced.

Commercial production of SEU will use sufficient volume of low enriched $UO_2$ powder that criticality could potentially be achieved. Due to extensive safeguards that will be put in place, which will be subject to regulatory approval, to prevent this from happening, it is unlikely that criticality will occur. Criticality is a nuclear fission reaction, not a nuclear explosion. The products of criticality are heat and radiation. If a criticality did occur at Port Hope, it is expected there would be little or no impact on the health and safety of the public, as the SEU production area will be designed and engineered to contain the incident. Low enriched fuel is used to power approximately 400 nuclear reactors around the world.

Cameco's conversion facilities are subject to decommissioning liabilities. In accordance with regulatory requirements, Cameco has provided $48.4 million in letters of credit as security for decommissioning these facilities.

**Research and Development**

The activities of all operations are supported by Cameco's technology development group which is actively engaged in supporting new business initiatives as well as developing new processes to maintain and enhance Cameco's position as a competitive and leading supplier of uranium concentrates, refining and conversion services. For 2002, expenditures related to these activities were approximately $ 2.5 million.

**Environment**

For environmental protection, the Blind River refinery operates a monitoring lagoon system for liquid effluents in order to ensure adherence to regulatory standards. Gaseous emissions are filtered, scrubbed and monitored for uranium particulate and certain other deleterious substances. Cooling water is used in a closed loop system with very limited discharge to the environment. Extensive chemical recovery steps are also used to reduce environmental release. In Port Hope, provisions for environmental protection include scrubbing and filtration systems for gaseous emissions and evaporator systems for liquid process effluents. Resulting condensates released to the environment are monitored to ensure compliance with regulatory standards. Extensive chemical recovery steps are also used to reduce environmental release and reduce waste accumulation.

In 1998, Cameco reached an agreement with International Uranium Corporation of Denver, Colorado for the processing of certain uranium-bearing by-products from Blind River and Port Hope at the White Mesa mill in Blanding, Utah. The agreement received regulatory approval in both Canada and US. Shipments to Utah for recycling of all of the by-product inventory was completed in 2000, including by-products accumulated by a predecessor company prior to 1988 that was stored at Blind River and Port Hope. Shipments of newly produced by-products continued throughout 2002. While this program has addressed the accumulated inventory of by-products and is addressing current recycling requirements for these by-products, other outlets are being considered. In 2001, a pilot test program of recycling these by-products at Cameco's Key Lake mill was completed. This test was conducted to develop the information that would be necessary to support an application for regulatory approval to recycle by-products at the Key Lake mill, if and when desired. In 2002, Cameco submitted a proposal to federal and provincial regulatory authorities for approval to recycle these by-products at the Key Lake mill. Provincial regulatory approval was received on February 21, 2003. Federal regulatory approval is still pending.

Both Blind River and Port Hope facilities were re-licensed by the CNSC for a five-year period commencing on February 28, 2002.

**Legal Proceedings**

A complaint was filed in federal court in Denver, Colorado, USA on November 28, 2000 by Mr. Oren Benton claiming damages in excess of $100 million from the Company with respect to each of his claims of breach of contract and tortious interference with contractual relations and business expectations. Cameco's motion to dismiss Mr. Benton's claims was granted and Mr. Benton's claims were dismissed in 2002. Mr. Benton has appealed this decision. Cameco believes, after consultation with legal counsel, this action is completely without merit and will defend it vigorously.

**Environmental Matters**

Cameco's operations are subject to numerous laws and regulations regarding environmental matters and the management of hazardous wastes and materials. Changes in environmental laws and regulations or more stringent application of existing standards could cause additional expense, capital expenditures, restrictions or delays in the exploration, development, operation or decommissioning of the Company's properties.

Cameco estimates total future decommissioning and reclamation costs for its operating assets to be $253 million. In connection with future decommissioning and reclamation costs, Cameco has provided financial assurances of approximately $205 million in the form of letters of credit to satisfy current regulatory requirements. See Note 7 to the Consolidated Financial Statements of the Company for the fiscal year ended December 31, 2002.

***Cameco Initiatives***

Cameco's environmental and safety efforts are both corporate and site-based. Corporate and site-based environmental and safety departments have been created to manage and coordinate the Company's environmental assessment and regulatory compliance and reporting functions. Cameco conducts regular environmental and safety audits of its sites. Annual expenditures of over $16 million have been dedicated to environmental monitoring, protection, assessment and health and safety programs.

Like other large industrial organizations, Cameco utilizes chemicals in its operations that could be hazardous to health and the environment if handled incorrectly. Employees are trained in the proper use of hazardous substances and in emergency response techniques.

Cameco has had a formal environmental and safety policy in place since 1991. In 1999, Cameco revised this environmental policy in support of an initiative to generate a new environmental management system at its operating sites. This system reinforces the Company's commitment to ongoing management of environmental risks and is structured to be compatible with the requirements of the relevant international standard, referred to as ISO 14001. In 2000, the Port Hope operation became the first Cameco managed site to become certified under the new standard. In 2002, the Blind River, Key Lake and McArthur River operations were also ISO 14001 certified. In May 2001, Cameco received a request from the CNSC to develop a corporate quality assurance program in support of re-licensing its Canadian operations. Cameco elected to embark on developing a broader quality management system. This system is to include operational activities at its Canadian operating licensed sites as well as corporate oversight and audit responsibilities for these sites. A plan and implementation schedule for this new management system was filed with the CNSC and accepted in early 2002. At year end, a draft corporate quality management system manual, covering Canadian uranium operations, was also filed with the CNSC, in accordance with the accepted implementation schedule. This schedule calls for site implementation to be completed in the second half of 2004.

The Company has an environmental and safety committee of the board of directors, which regularly reviews environmental and safety aspects of the Company's operations. To promote better communication with communities in northern Saskatchewan on environmental and other matters, the Company organized the Northern Community Liaison Committee in 1990 and the Athabasca Working Group in 1993 (with CLMC and Cogema). The Company also co-operates with the northern community environmental quality committees organized more recently by the province of Saskatchewan. Cameco also conducts regular environment-focused community liaison activities at its fuel services sites in Ontario.

***Canada***

Environmental matters related to Cameco's operations in Canada are the subject of ongoing public scrutiny and regulatory review by the CNSC, Environment Canada, the federal Department of Fisheries and Oceans, SE and the Ontario Ministry of the Environment ("MOE").

*Decommissioning and Reclamation*

Once reserves of a particular deposit in Canada have been exhausted or after processing activities have been permanently suspended, Cameco and its partners are required by law to decommission operating sites, including waste rock and tailings management facilities, and reclaim those areas affected by their activities, to the satisfaction of provincial and federal regulatory authorities. Cameco annually accrues amounts for future reclamation costs based on the estimated life of the facility, units of production and estimates of future decommissioning and reclamation costs. Cameco's estimation of these future costs are based upon the application of reclamation techniques which are believed to be capable of generating reasonable environmental and radiological performance. The annual accrual and total provision is regularly reviewed by the Company, as well as for license renewal applications as required by regulatory agencies. If required, the future accrual rate is then adjusted. The regulatory agencies accept the decommissioning plans in concept, not upon detailed performance forecast which has not yet been generated. As Cameco properties approach or go into decommissioning, further regulatory review of the decommissioning plans may result in additional decommissioning requirements, associated costs and the requirement to provide additional financial assurances. As of December 31, 2002, Cameco had accrued a total accounting provision of approximately $143 million related to nuclear activities. See Note 7 to the Consolidated Financial Statements of the Company for the fiscal year ended December 31, 2002.

Both the CNSC and SE have regulations requiring financial assurances for decommissioning and reclamation of minesites. Financial assurances in the form of letters of credit were first supplied for Rabbit Lake and McArthur River in 1996 and for Key Lake in 1997. Letters of credit for the Port Hope and Blind River facilities were supplied in early 2002 for the first time, in conjunction with general CNSC site relicensing. Throughout late 2001 and 2002, decommissioning and reclamation financial assurances for all Canadian uranium operations, including Cigar Lake, have been re-examined, in accordance with regulatory mandated review schedules. While this work is not yet fully complete, no material changes are anticipated in the amount of financial assurances as a result of this review.

Pursuant to the Reorganization of SMDC and ENL (now Canada Eldor Inc.), Cameco assumed the ownership and primary responsibility for the management of wastes existing at the time of the Reorganization ("Historical Waste") at the Port Hope Conversion Facility, the Blind River Refinery, the Port Granby Waste Site and the Welcome Waste Site ("Historical Facilities"), all located in Ontario. The Company assumed liability for the first $2 million of all costs in respect of any claim arising out of or related to the Historical Waste and all decommissioning and reclamation costs at the Historical Facilities and 23/98ths of the next $98 million of such costs. Canada Eldor Inc. retained liability for the balance of the costs up to $100 million and for all the costs in excess of $100 million, effectively capping Cameco's liability at $25 million. See Note 13 to the Consolidated Financial Statements of the Company for the fiscal year ended December 31, 2002.

On October 6, 2000, the government of Canada and certain Port Hope area communities announced the signing of a "Principles of Understanding", establishing the framework for development of a legal agreement for the clean up, storage and long-term management of certain of the Historical Wastes. On June 19, 2001, the government of Canada announced that the legal agreement had been signed and that it would invest about $260 million over 10 years to carry out the work. On July 30, 2002, the government of Canada released the scope document for the environmental assessment of the project to manage low level radioactive waste for long term in the Port Hope area.

*Regulatory Compliance*

Potentially significant regulatory issues relate to the establishment of new criteria for levels of uranium in ambient air in the vicinity of the Company's Ontario operations, establishment of new enhanced environmental monitoring programs in the vicinity of all Canadian operations and decisions arising from the current evaluation of radionuclide releases (including uranium) from nuclear facilities being carried out under the Canadian Environmental Protection Act. Changes to these regulations may require additional response by Cameco in the near term in order to remain in compliance with the relevant regulations and regulatory guidelines.

These new regulatory initiatives and future initiatives have and likely will continue to generate additional environmental studies in the vicinity of these operations. It is unclear if these additional studies will ultimately translate into further regulatory requirements on the Company.

Cameco continues to face challenges from the burden of increasing regulatory demands and costs from the CNSC, Canadian Environmental Assessment Agency and other federal and provincial regulators. In addition to the issues noted above, the lead regulator, the CNSC, intends to increase its fees charged to the nuclear industry, and is increasing the regulatory burden as a result of the implementation of the new Nuclear Safety and Control Act. For instance, Cameco has been directed to implement a formal quality assurance program to manage its Canadian nuclear operations. Lower tier operational changes are increasingly subject to regulatory burden which may include delays due to longer regulatory approval processes. These increasing requirements are expected to continue to result in creeping administration costs and some additional capital expenditures for compliance. As well, the complex regulatory approval process reduces Cameco's flexibility to make operational changes in a timely fashion.

The 1997 Nuclear Safety and Control Act and 2000 Regulations thereunder establish occupational and public radiation exposure limits in accordance with the most recent International Commission on Radiological Protection recommendations. Additional work on internal radiation protection dosimetry (primarily dust inhalation) is being carried out at Cameco's Ontario operations to comply with these new limits in accordance with an agreed to regulatory transition plan. The McArthur River mine, the Key Lake mill, and the Rabbit Lake mine/mill operation are in compliance with the new regulatory requirements.

In recent years, when auditing Cameco, the CNSC has put a priority on auditing specific environmental and safety related programs. These have included such aspects as radiation protection programs, environmental monitoring, fire protection, operational quality assurance, organization and management evaluation, transportation systems, geotechnical monitoring and ventilation systems. These program-specific audits and regular site inspections by regulatory project officers have generated, and are intended to continue to generate, actions to improve environmental and safety performance and ensure that these risks remain well managed. Resulting program modifications are typically procedural and do not incur large capital costs.

In 2001, Cameco successfully renewed its CNSC operating licences for Rabbit Lake, Key Lake and McArthur River for two-year terms. Cameco also received a licence to become the operator of the Cigar Lake project. In 2002, the Port Hope and Blind River CNSC operating licenses were renewed for five-year terms. In 2003, Cameco will seek re-licensing of the Rabbit Lake, Key Lake and McArthur River operations, as well as a construction license for the Cigar Lake project.

***US Environmental Regulation***

Cameco subsidiaries' ISL operations in the US are subject to numerous federal, state and local regulations governing, among other things, air emissions, water discharges, hazardous materials handling and disposal and site reclamation. In 2000, at the Highland operation, PRI self reported to the Wyoming Department of Environmental Quality ("WDEQ") injection well casing leaks, resulting in releases into unauthorized zones. As a result of PRI's report, the Wyoming agency issued a notice of violation (NOV). PRI took the position that there was minimal environmental impact, given the quality of the released water and the geotechnical characteristics of the release zones. Nevertheless, the issue required additional investigation as a potential future decommissioning issue, and necessitated procedural and physical modifications in well construction to better assure injection well integrity. The well casing leaks are not expected to materially increase site decommissioning costs. There was no fine associated with the NOV, largely because of the self-reporting of the issue and its low potential for environmental impact. Arising from the NOV was an Administrative Order on Consent, which specified a compliance schedule and a revision of the regulatory permit to address the casing leak issue. The Order on Consent essentially forms a contract for resolving the issues arising out of the NOV. Changes in well construction have reduced the frequency of well casing leaks. The changes have also been implemented at PRI's Smith Ranch operation.

After mining has been completed, an ISL wellfield must be restored in accordance with regulatory requirements. Generally this involves restoring the groundwater to its pre-mining use using reverse osmosis (ultra filtration technology) and restoration. Restoration of Crow Butte wellfields is regulated by the Nebraska Department of Environmental Quality ("NDEQ") and the Nuclear Regulatory Commission ("NRC") and restoration of Smith Ranch-Highland wellfields is regulated by the WDEQ and NRC.

Crow Butte has three wellfields under restoration. In 2000 Crow Butte Resources Inc., after the NDEQ confirmed that wellfield 1 was restored to its regulatory standards, requested the NRC accept that wellfield 1 was restored to its regulatory standards. The NRC approved the restoration on February 12, 2003.

Smith Ranch-Highland has three wellfields under restoration. In 1999 PRI requested the WDEQ accept that one wellfield was restored to its regulatory standards. The WDEQ has not yet done so.

The delay by regulators to accept restoration of these wellfields is a significant issue for Cameco subsidiaries' US ISL operations. Discussions are ongoing with regulators to establish clear criteria for wellfield restoration. The Company is uncertain when, and at what cost, its US subsidiaries' ISL operations will be able to complete restoration of mined out ISL wellfields to the satisfaction of regulators.

**Government Regulation**

Cameco's business is subject to various levels of extensive governmental controls and regulations which are amended from time to time. The Company is unable to predict what additional legislation or amendments may be proposed that might affect its business or when any proposals, if enacted, might become effective.

Outlined below are some of the more significant government controls and regulations which materially affect the Company's uranium business.

***Canadian Uranium Industry Regulation***

The Canadian federal government has recognized that the uranium industry has special importance in relation to the national interest and therefore regulates the industry through regulations and policy announcements. The regulations and policy announcements apply to any uranium property or plant in Canada which the CNSC may determine to be, or to have the capability of, producing or processing uranium for nuclear fuel application. The regulations require that the property or plant be owned legally and beneficially by a company incorporated in Canada.

*Mine Ownership Restriction*

The latest expression of Canadian government policy on non-resident ownership of uranium mining properties is contained in a letter dated December 23, 1987 from the Minister of State (Forestry and Mines) to the Canadian uranium industry. The basic limit for non-resident ownership of uranium properties at the stage of first production is 49%. Resident ownership levels of less than 51% will be permitted if the property is in fact Canadian-controlled. Exceptions to the policy may be granted subject to Cabinet approval and will be provided only in cases where it is demonstrated that Canadian partners cannot be found.

*Cameco Ownership Restriction*

As part of the Canadian government regulation of the Canadian uranium mining industry, the Eldorado Nuclear Limited Reorganization Act Canada ("ENL Reorganization Act") imposes constraints on the issue, transfer and ownership, including joint ownership, of Cameco shares so as to prevent both residents and non-residents of Canada from owning or controlling more than a specified percentage of shares. The following is a summary of the constraints currently contained Cameco's articles:

(a) No resident alone or together with associates, may hold, beneficially own or control, directly or indirectly, other than by way of security only, shares to which are attached more than 25% of the votes that may ordinarily be cast to elect directors of Cameco.

(b) No non-resident of Canada, alone or together with associates, may hold, beneficially own or control, directly or indirectly, other than by way of security only, shares to which are attached more than 15% of the votes that may ordinarily be cast to elect directors of Cameco.

(c) The votes attaching to shares held, beneficially owned or controlled, directly or indirectly by all non-residents together, and cast at any meeting of shareholders, will be counted or prorated so as to limit the counting of those votes to not more than 25% of the total number of votes cast by shareholders at that meeting.

(d) To give effect to such constraints, Cameco's articles contain provisions for the enforcement of the restrictions relating to ownership and voting by residents of Canada and non-residents of Canada described above, including provisions for suspension of voting rights, forfeiture of dividends, prohibitions against the issue and transfer of shares and suspension of all remaining shareholders' rights.

The provisions of the ENL Reorganization Act allow the board to require the holders or other subscribers for shares and certain other persons to furnish declarations as to residence, ownership of shares and certain other matters relative to the enforcement of the restrictions. Cameco is precluded from issuing or registering a transfer of any shares where contravention of the resident or non-resident ownership restrictions would result. Cameco requires that, prior to each transfer of shares, other than a transfer to a depository, the transferee give a declaration providing information relating to compliance with these ownership restrictions.

Cameco's board is entitled to determine whether contraventions of the ENL Reorganization Act or the articles have occurred. Cameco's board may make such determination whether or not it, or Cameco's transfer agent and registrar, has received such declarations, if the board has reason to believe that contravention of the ownership restrictions has occurred.

If Cameco's board determines that shares are held by a shareholder in contravention of the ownership restrictions, Cameco has the power to suspend all rights of the shareholder in respect of all shares held, other than the right to transfer them, not earlier than 30 days after first sending notice to the shareholder, unless the shares so held have been disposed of by the shareholder and Cameco has been so advised.

*Canadian Nuclear Safety and Control Act*

In Canada, control of the mining, extraction, use and export of uranium was formerly governed by the Atomic Energy Control Act (the "AECA"), a federal statute. The AECA was administered by the AECB. On March 20, 1997, the Nuclear Safety and Control Act (the "NSCA") received royal assent. In the following years, related regulations and key regulatory guidelines were prepared and finalized. On May 31, 2000, the new act and regulations came into force replacing the AECA. The NSCA expands the jurisdiction of the CNSC, which has replaced the AECB, notably expanding its role in environmental regulation.

The NSCA authorizes the CNSC to make regulations governing all aspects of the development and application of nuclear energy, including uranium mining, milling, conversion and transportation. The most significant powers given to the CNSC are in the licensing area. The NSCA grants the CNSC licensing authority for all nuclear activities in Canada, including the issuance of new licences to new operators, the renewal of existing licences, and amendments to existing licences. A person may only possess or dispose of nuclear substances and construct, operate and decommission its nuclear facilities in accordance with the terms of a CNSC licence. The licence specifies conditions that licensees must satisfy in order to maintain the right to operate nuclear facilities.

A fundamental principle in nuclear regulation is that the licensee bears the responsibility for safety, with the CNSC setting safety objectives and auditing licensee's performance against the objectives. The regulations made under NSCA include provisions dealing with facilities licence requirements, radiation protection, physical security for all nuclear facilities and the transport of radioactive materials. The CNSC has also issued guidance documents to assist licensees in complying with regulatory requirements such as decommissioning, emergency planning, and optimization of radiation protection measures.

The NSCA is the product of a recent update of regulatory requirements by the Federal government in relation to the effective regulation of nuclear energy in Canada. The NSCA grants to the CNSC the power to act as a court of record, the right to require financial guarantees for nuclear waste management and decommissioning as a condition of granting a licence, order-making powers which are more flexible than those allowed under the predecessor legislation, the AECA, and the right to impose higher monetary penalties than was allowed under such predecessor legislation. The NSCA also grants the CNSC power to require nuclear power plant operator re-certification and to set requirements for nuclear facility security measures. The NSCA also provides for increased emphasis on environmental matters, including a requirement that licensing applicants make adequate provision for the protection of the environment. Additional regulatory priority is evident in the areas of quality assurance and human factor engineering and assessment.

All of the Canadian operations of the Company are governed primarily by licences granted by the CNSC and are subject to all applicable federal statutes and regulations and to all laws of general application in the province where the operation is located, except to the extent that such laws conflict with the terms and conditions of the licence or applicable federal laws. Failure to comply with licence conditions or applicable statutes and regulations may result in orders being issued which may cause operations to cease or be curtailed or may require installation of additional equipment or other remedial action. The Company may also be subject to prosecution if it fails to comply with such applicable statutes and regulations. Environmental regulation of the uranium mining industry in Saskatchewan and the uranium processing industry in Ontario are also regulated under both provincial and other federal legislation. Progress continued to be made to better harmonize provincial and federal regulatory regimes in Saskatchewan. In February 2003, the federal and provincial governments signed an agreement that is expected to lead to greater administrative efficiency in regulation of the Saskatchewan uranium industry over the next few years.

The CNSC has adopted a plan to aid in the transition from the AECA to the NSCA. The plan defines temporary exemptions covering new radiation and quality assurance programs and new packaging and transportation requirements. Cameco estimates that small, but sustained, capital and operating expenditures will be required, primarily for implementing new radiation and quality assurance programs. In 2003, the CNSC is expected to implement new cost recovery regulations. A fee for service arrangement is proposed, based on a fully absorbed rate of $200 per hour. Preliminary estimates of the impact on the licensing costs for Cameco operated sites is an increase of $0.9 million (a 42% increase) in 2003. With a one year phase-in and prorating from the time of implementation, it is expected that it will take two years to see full transition to the new rates.

New projects must follow the NSCA procedures. Certain properties are deemed to have complied by transition rules from AECA to NSCA. In September 2002, a court held that Cogema's McClean uranium mill in Saskatchewan was not properly licensed under these transition rules. The decision is being appealed. Due to this decision, the licensing process that Cameco is subject to may be longer and more complex.

*Uranium Export Regulation*

The export of uranium is regulated by the Canadian federal government which establishes nuclear energy policy. Cameco's uranium exports are required to have export licences and export permits granted by the CNSC and the Department of Foreign Affairs and International Trade, respectively, and such licences and permits are obtained by Cameco for all such exports.

***US Uranium Industry Regulation***

Uranium recovery in the US is primarily regulated by the NRC pursuant to the Atomic Energy Act of 1954, as amended. Its primary function is to ensure the protection of employees, the public and the environment from radioactive materials and it also regulates most aspects of the uranium recovery process. The NRC regulations pertaining to uranium recovery facilities are codified in Title 10 of the Code of Federal Regulations("10 CFR"). The NRC issues Domestic Source Material Licenses pursuant to 10 CFR Part 40.

The review of a license application is governed by the National Environmental Policy Act ("NEPA") which is implemented through 10 CFR Part 51. Although the NRC voted to support new regulations for uranium recovery operations, which would apply to the Company's US ISL operations, in 2002 the NRC withdrew their support for these regulations.

The NRC is finalizing their approval for an alternative process whereby a state government can regulate groundwater issues through a memorandum of understanding entered into with the NRC. If implemented, this would apply to all groundwater issues, including restoration, and eliminate one area of regulatory duplication pertaining to ISL well fields. The US Environmental Protection Agency ("EPA") and certain states have formally indicated that they are in favour of the proposed process. The NRC is expected to decide later in 2003 whether to proceed with this change in the regulatory process.

The uranium recovery industry in Wyoming is also regulated by the WDEQ, Land Quality Division ("LQD") pursuant to the Wyoming Environmental Quality Act ("WEQA") and the LQD Non-Coal Rules and Regulations arising from the WEQA. Pursuant to WEQA, the WDEQ issues a permit to mine which is administered by the LQD. In addition, the state administers a number of EPA programs under the Clean Air Act and the Clean Water Act, some of which are incorporated into the LQD Non-Coal Rules and Regulations (for example the Underground Injection Control regulations under the Clean Water Act). Currently wellfield decommissioning is required to background water standard in Wyoming. Recently, the Wyoming Environmental Quality Council approved wellfield groundwater restoration to class of use standard, whereby restoration is judged in the context of what the groundwater could be used for. In order for the proposed regulatory change to take effect, the consent of Wyoming's governor will be required.

Similarly, the uranium recovery industry in Nebraska is regulated by the NRC and the NDEQ pursuant to the Nebraska Environmental Protection Act. Pursuant to this act and the regulations made thereunder, the NDEQ issues a permit to mine. In Nebraska wellfield groundwater restoration is required to class of use water standard. The NDEQ and NRC have approved the restoration of wellfield 1 at Crow Butte.

In all cases, failure to comply with NRC license and/or state permit-to-mine conditions, or a failure to comply with other applicable rules and regulations, can bring enforcement action. For the state, this starts with non-cited violations for minor, easily correctable violations (generally through “conference and conciliation”), through notices of violation (“NOV’s”) which can include: fines; supplemental environmental projects; remedial action, additional monitoring and permit changes; and, ultimately, could include orders to cease operations. NRC enforcement policy describes a progression of enforcement starting with an NOV and working through a pre-enforcement conference, fines, imprisonment and the barring of workers or contractors from working in the nuclear industry. Under state and federal law, criminal charges are possible if violations are deemed to be the result of criminal intent or action.

Following a determination by the federal Mine Safety and Health Administration (“MSHA”) that it had no jurisdiction over the Smith Ranch-Highland operation, safety at the operation is regulated by the Wyoming State Mine Inspector’s Office. In January 2003, MSHA advised that it would no longer regulate Crow Butte’s operations. Unless this decision is changed, safety at Crow Butte will be regulated under Nebraska’s Occupational Health and Safety Act. This regulatory change is not expected to have a material impact on the Crow Butte operation.

Other agencies are involved in the regulation of the uranium recovery industry, either directly or indirectly, including the EPA, the Department of Transportation, the Bureau of Land Management, Department of Energy, the Department of Defense, the Army Corps of Engineers, and the US Fish and Wildlife Service.

The export of uranium from the US and the movement of nuclear materials within the US are also regulated by the NRC. “NRC 741 form” reporting is the primary mechanism for tracking physical movements of US or any other origin uranium to foreign and domestic buyers. US government export policies are established and enforced through bilateral agreements for nuclear co-operation and trade with specific countries (or political blocs such as the EU), with the general goal of supporting the peaceful uses of nuclear energy while upholding specific US foreign policy and non-proliferation objectives. While specific sales contracts are not reviewed or approved, export licenses for shipment of uranium outside the US are granted by the NRC.

***Land Tenure***

*Saskatchewan Operations*

Most of the Company’s uranium reserves and resources are located in Saskatchewan. The right to mine minerals is acquired by the Company as a lessee under a mineral lease from the province of Saskatchewan (a “Crown Lease”). A Crown Lease is for a term of 10 years, with a right to renew for successive 10 year terms in the absence of default by the lessee. The lessee is required to expend certain amounts for work during each year of a Crown Lease. A Crown Lease cannot be terminated except in the event of default and for certain environmental concerns as prescribed in The Crown Minerals Act (Saskatchewan). However, Crown Leases may be amended unilaterally by the lessor by an amendment to The Crown Minerals Act (Saskatchewan) or The Mineral Disposition Regulations, 1986 (Saskatchewan).

The right to explore for minerals is acquired by the Company in Saskatchewan under a mineral claim from the province of Saskatchewan (a “Mineral Claim”). The term of a Mineral Claim is two years, with the right to renew for successive one year periods. To maintain a Mineral Claim in good standing, generally, the holder of a Mineral Claim must expend a prescribed amount on exploration. Excess expenditures can be applied to satisfy expenditure requirements for future claim years. Except for exploration purposes, a Mineral Claim does not grant the holder the right to mine minerals. A holder of a Mineral Claim in good standing has the right to convert a Mineral Claim into a Mineral Lease. Surface exploration work of a Mineral Claim requires additional governmental approvals.

The surface facilities and mine shafts are located on lands owned by the province of Saskatchewan. The right to use and occupy the lands is acquired under a surface lease (a “Surface Lease”) from the province of Saskatchewan. A Surface Lease is for a period of time, up to a maximum of 33 years, as is necessary to allow the lessee to operate its mine and plant and thereafter to carry out the reclamation of the lands involved. Surface Leases are also used by the province of Saskatchewan as a mechanism to achieve certain environmental protection, radiation protection and socioeconomic objectives and contain certain undertakings in this regard.

*US Operations*

The Company's uranium reserves and resources in the US are held by subsidiaries and are located in Wyoming and Nebraska. The right to mine or develop minerals is acquired either by leases from the fee simple owners (private parties) or mining claims located on property owned by the US Federal Government. In addition, the Company's subsidiaries acquire surface leases which allow wellfield installation and operation to permit the mining of the uranium reserves by ISL operations.

***Canadian Royalties and Certain Taxes***

Cameco pays royalties to the province of Saskatchewan on the sale of uranium extracted from ore bodies within the province under the terms of Part III of the Crown Mineral Royalty Schedule, 1986 (Saskatchewan) (the "Schedule"), as amended. Royalties include both a basic royalty and a tiered royalty. The basic royalty is equal to 5% of gross sales of uranium and is reduced by the Saskatchewan resource credit equal to 1% of the gross sales of uranium.

The tiered royalty is an additional levy on the gross sales of uranium which applies only when the sales price of uranium exceeds levels prescribed by the Schedule. Uranium sales subject to the tiered royalty are first reduced by capital allowances as permitted by the Schedule for new mine or mill construction and certain mill expansion. When these capital allowances are reduced to zero, tiered royalties become payable. Both the prices and the capital allowances as defined in the Schedule are adjusted annually to reflect changes in the Canadian gross domestic product.

The tiered royalty is calculated on the positive difference between the sales price per pound of $U_3O_8$ and the prescribed prices according to the following:

| | Royalty Rate | Canadian Dollar Sales Price in Excess of: | |
|---|---|---|---|
| | 6% | $ | 14.55 |
| plus | 4% | $ | 21.83 |
| plus | 5% | $ | 29.10 |

The above prices are applicable to 2002 and are in Canadian dollars.

For example, if the sales price realized by Cameco was $25 per pound in Canadian dollars, tiered royalties would be calculated as follows (assuming all capital allowances have been reduced to zero):

[6% x ($25.00 – $14.55) x pounds sold] + [4% x ($25.00 – $21.83) x pounds sold]

Cameco did not pay tiered royalties in 2002. Cameco does not expect to pay tiered royalties in 2003 due to the availability of capital allowances.

Cameco is subject to capital taxes on paid-up capital (as defined for capital tax purposes in the relevant provincial legislation) in respect of its operations in Saskatchewan and in Ontario. In Saskatchewan, it pays at a rate of 0.6% on paid-up capital in excess of $10 million. In addition, a resource corporation in Saskatchewan pays a corporate resource surcharge of 3.6% of the value of resource sales. This surcharge is only payable to the extent that it exceeds the regular capital tax. In Ontario, the Company pays a tax of 0.3% on paid-up capital allocated to Ontario.

***Canadian Income Taxes***

Cameco, certain wholly owned subsidiaries, and UEM are subject to federal and provincial income tax in Canada. Current income tax expense for 2002 was $ 7.9 million.

For income tax purposes, royalties are not deductible. However, Cameco is eligible for the resource allowance (except at Bruce Power) which is a deduction from income tax purposes. The resource allowance deduction is equal to 25% of adjusted resource profits, as defined in the Income Tax (Canada). Bruce Power is eligible for the manufacturing tax credit and processing tax credit.

Cameco, certain wholly owned subsidiaries and UEM are also subject to federal large corporations tax, which is levied on a corporation's taxable capital employed in Canada. This tax is calculated at a rate of 0.225% on taxable capital in excess of $10 million. Total large corporations tax paid in 2002 was $ 4.5 million.

***US Taxes***

The Company, through its US subsidiaries, pays a severance tax to the state of Nebraska in respect of uranium produced at the Crow Butte mine and pays an ad valorem tax to the county and a severance tax to the state of Wyoming in respect of the Smith Ranch-Highland operation. Total severance and ad valorem taxes paid in 2002 were $429,500 (US).

The Company, also through its US subsidiaries, is subject to US federal and state income tax. The income of Cameco's US subsidiaries is currently not subject to US regular income tax due to certain income tax deductions that are available. The Company's US subsidiaries may also be subject to Alternative Minimum Tax (AMT) at a rate of 20%, although no AMT was payable for 2002. AMT paid in prior years may be carried forward indefinitely to be applied as a credit against future regular income taxes.

**Employees**

At December 31, 2002, Cameco had 1,436 employees. Of the total, 559 employees are represented by three separate locals of the United Steelworkers of America trade union with collective agreements for each of the two bargaining units at the Port Hope conversion facility (expiring June 30, 2004) and one for the bargaining unit employees at the McArthur River and Key Lake operations (expired December 31, 2002). Cameco is negotiating a new collective agreement for bargaining unit employees at the McArthur River and Key Lake operations.

**Risk Factors**

The following information pertains to the outlook and conditions currently known to the Company which could have a material impact on the financial condition of the Company. This information, by its nature, is not all inclusive. It is not a guarantee that other factors will not affect the Company in the future. This discussion should be read in conjunction with material in other sections of this Annual Information Form, including Management's Discussion and Analysis (Appendix "B"). As the context requires, the reference to Company or Cameco also includes Cameco's direct and indirect subsidiaries.

**Volatility and Sensitivity to Prices and Costs**

Because the majority of the Company's revenues are derived from the sale of uranium and uranium products, the Company's net earnings and operating cash flow are closely related and sensitive to fluctuations in the long and short term market price of $U_3O_8$ and for uranium conversion services. Historically, these prices have fluctuated and have been and will continue to be affected by numerous factors beyond the Company's control. Such factors include, among others: demand for nuclear power; political and economic conditions in uranium producing and consuming countries, such as Canada, the US and Russia and other republics of the CIS; reprocessing of used reactor fuel and the re-enrichment of depleted uranium tails; sales of excess civilian and military inventories (including from the dismantling of nuclear weapons) by governments and industry participants; and production levels and costs of production in countries such as Russia and other republics of the CIS, Africa and Australia.

The fluctuation of the prices of uranium and $UF_6$ conversion services is illustrated by the following tables, which set forth, for the periods indicated, the highs and lows of the spot price for non-CIS origin $U_3O_8$ and the $UF_6$ conversion services:

**Spot Uranium Prices (1)**

**(US $/lb of $U_3O_8$ )**

| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Spot** | | | | | | | | | | |
| High | 10.20 | 9.60 | 12.20 | 16.50 | 14.30 | 11.80 | 10.90 | 9.40 | 9.50 | 10.20 |
| Low | 9.70 | 9.05 | 9.65 | 13.00 | 10.20 | 8.75 | 9.60 | 7.10 | 7.20 | 9.70 |

(1) Source: The Nuexco Exchange Value, formerly published by Nuexco. Since January 1995, it has been published by TradeTech. Since late 1992 the spot prices reflect the spot price for all uranium other than of CIS origin.

**Range of Nuexco $UF_6$ Conversion Values (1)**

**For Spot and Near-Term Transactions**
**(US$/kg U)**

| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Spot** | | | | | | | | | | |
| High | 5.35 | 5.40 | 5.85 | 6.15 | 6.10 | 5.10 | 3.85 | 3.25 | 5.25 | 5.25 |
| Low | 3.20 | 5.35 | 5.50 | 5.85 | 5.10 | 3.50 | 2.55 | 2.35 | 3.65 | 5.05 |

(1) Source: The Nuexco Conversion Value, formerly published monthly by Nuexco. Since January 1995, it has been published by TradeTech. The conversion value over this period of time is for the provision of conversion services delivered in North America.

Although the Company employs various pricing mechanisms within its sales contracts to manage its exposure to price fluctuations, there can be no assurance that such a program will be successful.

**Competition from Other Energy Sources and Public Acceptance of Nuclear Energy**

Nuclear energy competes with other sources of energy, including oil, natural gas, coal and hydro-electricity. These other energy sources are to some extent interchangeable with nuclear energy, particularly over the longer term. Sustained lower prices of oil, natural gas, coal and hydro-electricity may result in lower demand for uranium concentrates and uranium conversion services. Furthermore, growth of the uranium and nuclear power industry will depend upon continued and increased acceptance of nuclear technology as a means of generating electricity. Because of unique political, technological and environmental factors that affect the nuclear industry, the industry is subject to public opinion risks which could have an adverse impact on the demand for nuclear power and increase the regulation of the nuclear power industry.

**Uranium Industry Competition and International Trade Restrictions**

The international uranium industry, including the supply of uranium concentrates and the provision of uranium conversion services, is highly competitive. The Company markets uranium to utilities in direct competition with supplies available from a relatively small number of western world uranium mining and enrichment companies, from certain republics of the CIS and the People's Republic of China, from excess inventories, including inventories made available from decommissioning of nuclear weapons, from reprocessed uranium and plutonium from used reactor fuel, and from the use of excess Russian enrichment capacity to re-enrich depleted uranium tails held by European enrichers in the form of $UF_6$. The supply of uranium from Russia is, to some extent, impeded by a number of international trade agreements and policies. These agreements and any similar future agreements, governmental policies or trade restrictions are beyond the control of Cameco and may affect the supply of uranium available in the US and Europe, which are the largest markets for uranium in the world.

With respect to $UF_6$ conversion, the Company competes on the basis of price, location and service with two other full scale commercial suppliers in the western world and with additional supplies available from excess inventories, including inventories made available from decommissioning of nuclear weapons, and the use of excess Russian enrichment capacity to re-enrich depleted uranium tails held by European enrichers in the form of $UF_6$.

**Deregulation of the Electrical Utility Industry**

The Company's future prospects are tied directly to the electrical utility industry worldwide. Deregulation of the utility industry, particularly in the US and Europe, is expected to impact the market for nuclear and other fuels for years to come, and may result in the premature shutdown of nuclear reactors. Experience to date with deregulation indicates that utilities are improving the performance of their reactors, achieving record capacity factors. There can be no assurance that this trend will continue.

**Replacement of Reserves**

The McArthur River and Rabbit Lake mines are currently the Company's principal sources of uranium concentrates. Unless the Cigar Lake deposit is placed into production or other reserves are discovered or extensions to existing orebodies are found, the Company's sources of mined uranium concentrates will decrease over time as reserves at these two mines are depleted. The Rabbit Lake mine is expected to be depleted in early 2005. Although in the past the Company (or its predecessors) has successfully replenished its reserves through ongoing exploration, development and acquisition programs, there can be no assurance that Cameco's future exploration, development and acquisition efforts will be successful. In addition, while Cameco believes that the Cigar Lake deposit will be put into production, there can be no assurance that it will be.

Due to the unique nature of the deposits at McArthur River and Cigar Lake, technical challenges exist involving groundwater, rock properties, radiation protection and ore-handling and transport. Failure to resolve technical challenges at McArthur River or Cigar Lake may have a material adverse effect on the Company.

**Decommissioning and Reclamation**

Environmental regulators are increasingly requiring financial assurances to assure that the cost of decommissioning and reclaiming sites are borne by the parties involved, and not by government. Cameco has filed decommissioning plans for certain of its properties with regulators. These regulators have accepted the decommissioning plans in concept, not upon a detailed performance forecast, which has not yet been generated. As Cameco properties approach or go into decommissioning, further regulatory review of the decommissioning plans may result in additional decommissioning requirements, associated costs and the requirement to provide additional financial assurances. It is not possible to predict what level of decommissioning and reclamation (and financial assurances relating thereto) may be required in the future by regulators.

**Dependence on Limited Number of Customers**

The Company's principal business relates to the production and sale of uranium concentrates and the provision of uranium conversion services. The Company relies heavily on a small number of customers to purchase a significant portion of its production of uranium concentrates and its uranium conversion services. For instance, for the period 2003 through 2005, Cameco's five largest customers are anticipated to account for approximately 39% of the Company's contracted supply of $U_3O_8$. For the period 2003 through 2005, Cameco's five largest $UF_6$ conversion customers are anticipated to account for approximately 35% of the Company's contracted supply of $UF_6$ conversion services. Cameco is currently the only commercial supplier of $UO_2$ for use in Canadian CANDU heavy water reactors with sales to its largest customer, OPG, accounting for approximately 39% of the Company's $UO_2$ sales in 2002. The loss of any of the Company's largest customers or curtailment of purchases by such customers could have a material adverse effect on the Company's financial condition and results of operations.

**Technical Obsolescence.**

Requirements for the Company's products and services may be affected by technological changes in nuclear reactors, enrichment and used fuel processing.

**Bruce Power LP – Nuclear Electrical Generation**

**Overview**

***Business***

Bruce Power's business is the generation and sale of electricity into the Ontario wholesale market. Bruce Power generates electricity using the four Bruce "B" nuclear powered units and, subject to regulatory approval, intends to generate additional electricity commencing in 2003 using two Bruce "A" nuclear powered units. The Bruce "B" nuclear units have capacity to supply about 15% of Ontario's electricity needs. Once the two Bruce "A" units are restarted, Bruce Power will have the capacity to supply about 20 % of Ontario's electricity needs. Bruce Power has about 3,300 employees. Beginning in 2003, Bruce Power is expected to contribute significantly to Cameco's earnings.

***2001 Acquisition***

On May 11, 2001, Cameco, through its wholly owned subsidiary, Cameco Bruce Holdings Inc., acquired a 15% limited partnership interest in Bruce Power, an Ontario limited partnership, and directly acquired a 15% interest in Bruce Power Inc., the general partner of Bruce Power. On the same date, Bruce Power signed and closed agreements with OPG and certain of its subsidiaries to lease and operate the Bruce "A" and "B" nuclear powered units and related facilities located in southwestern Ontario.

To obtain its interest in Bruce Power, Cameco committed to invest up to $100 million in Bruce Power and to provide up to approximately $102 million in financial assurances on behalf of Bruce Power. As of December 31, 2002, Cameco had invested approximately $93 million in Bruce Power and had provided about $82 million in financial assurances. In addition, Cameco purchased finished nuclear fuel from OPG for approximately $74 million for resale to Bruce Power, which resale has been completed.

Concurrent with Cameco's acquisition, The Power Workers' Union acquired a 2.0% interest in Bruce Power and The Society of Energy Professionals acquired a 0.6% interest in Bruce Power. They are the two main unions representing workers at Bruce Power. BE indirectly held the balance, being an 82.4% interest in Bruce Power.

***2003 Acquisition***

In early September of 2002, after announcing a weakened financial position, BE received financial support from the British government. As a condition of the agreement to provide its financial support, the British government required and received guarantees from certain BE subsidiaries and related companies, including Bruce Power. BE's weakened financial position resulted in its agreement, in late 2002, to sell 79.8% of Bruce Power to a consortium of Cameco, TransCanada PipeLines Limited ("TransCanada"), and BPC Generation Infrastructure Trust ("BPC"), a trust established by Ontario Municipal Employees Retirement System. The Power Worker's Union and The Society of Energy Professionals agreed to acquire BE's remaining 2.6% interest in Bruce Power.

On February 14, 2003 the agreement closed, with a Cameco wholly owned subsidiary, Cameco Bruce Holdings II Inc., acquiring a 16.6% interest in Bruce Power, bringing Cameco's total indirect interest in Bruce Power to 31.6%. Cameco concurrently increased its interest in Bruce Power Inc. from 15% to 33 1/3%. Cameco acquired these interests from an affiliate of BE and paid approximately $209 million.

Concurrently, TransCanada, through a subsidiary, and BPC each acquired a 31.6% interest in Bruce Power and a 33 1/3% interest in Bruce Power Inc. from the same BE affiliate. The Power Worker's Union and The Society of Energy Professionals increased their collective interest in Bruce Power from 2.6% to 5.2% as part of the same transaction.

As part of the closing of this transaction, a Cameco subsidiary, a TransCanada subsidiary and BPC each advanced $75 million to Bruce Power. Bruce Power used these funds to pay $225 million in deferred rent that it owed to OPG. (see "Overview-*Bruce Power-OPG Lease*");

The Bruce Power limited partnership agreement and certain other related documents were amended to give effect to the new ownership of Bruce Power following closing. Under these new arrangements, among other things, Cameco will continue as Bruce Power's fuel manager. (see "Cameco Fuel Management");

As part of the acquisition of BE's interest in Bruce Power, the consortium acquired a BE affiliate's 50% interest in Huron Wind L.P. (Cameco subsidiary's share is 1/3 of the 50% interest). Located adjacent to the Bruce site, the nine-megawatt Huron Wind L.P. wind farm officially opened on November 29, 2002. OPG owns the other 50% of Huron Wind L.P.

Upon closing, Bruce Power's guarantees in support of the financial support to BE provided by the British government were released.

The acquisition and its share of the OPG deferred rent payments were funded by Cameco with existing cash reserves and short term debt, increasing Cameco's net debt to capitalization ratio to about 19%.

Cameco's total commitment for financial assurances given on behalf of Bruce Power is estimated to be $200 million. These financial assurances include financial assurances given to the CNSC in support of Bruce Power's operating licence, guarantees in favour of OPG under the lease between Bruce Power and OPG for the Bruce site, and guarantees in support of Bruce Power's power purchase agreements with customers. This last commitment is subject to adjustment as the actual amounts of financial assurances in support of power purchase agreements will fluctuate in response to wholesale electricity market changes.

***Bruce Power-OPG Lease***

In May 2001, Bruce Power signed and closed agreements to lease and operate the Bruce "A" and "B" nuclear powered units and related facilities in southwestern Ontario with OPG and certain of its subsidiaries. The initial lease period expires in 2018. Bruce Power has the right to extend the lease and certain related agreements for up to an additional 25 years. The lease was amended in January 2002, and again in 2003 as part of the 2003 Acquisition described above.

Bruce Power paid OPG an initial rental payment of about $552 million, comprised of about $327 million in cash and a $225 million note receivable as deferred rent. As part of the 2003 Acquisition, a Cameco subsidiary, a TransCanada subsidiary and BPC each advanced $75 million to Bruce Power. Bruce Power used these funds to pay the $225 million OPG note receivable.

The lease provides for Bruce Power to pay OPG rent consisting of base rent and supplemental rent. The base rent increases over the term of the lease. The supplemental rent is determined in accordance with a fixed formula, subject to an inflation adjustment. For each year in the period 2004 to 2008, the aggregate of these rents, subject to limited exceptions, cannot be less than $190 million. In 2002, the aggregate of these rent payments was approximately $165 million.

OPG is responsible for nuclear waste and decommissioning liabilities at the Bruce site. OPG is responsible for the plant decommissioning after the reactors have been defuelled and the heavy water drained. (see "Nuclear Waste Management and Decommissioning").

**The Generating Facilities**

The Bruce nuclear generating stations are located approximately 200 kilometres northwest of Toronto on Lake Huron. The Bruce nuclear generating stations consist of eight CANDU reactors. The four Bruce "B" reactors, with a combined net generating capacity of 3,160 megawatts, were commissioned between 1984 and 1987. The four Bruce "A" reactors, with a combined generating capacity of 3,087 megawatts, were commissioned between 1977 and 1979 and removed from service by OPG between 1995 and 1998.

The estimated operating life of a nuclear generating station ends when substantial capital expenditures are required to replace life-limiting components, such as steam generators and fuel channel pressure tubes, and such capital expenditures are not economically justified. Bruce Power estimates that the operating life of the four Bruce "B" nuclear units will end about mid-2018 (based upon 201,000 effective fuel power

hours for fuel channels) and the operating life of the two Bruce “A” units, assuming completion of the restart program by 2003, will end about 2008 for Unit 3 and 2015 for Unit 4 (assuming steam generator replacement for Unit 4 in 2007). An investment by Bruce Power to replace steam generators, fuel channel pressure tubes and other life-limiting components at the end of their useful life will depend, among other things, on prevailing economic, financial and market conditions. If replacement of life-limiting components is not justified, Cameco expects that Bruce Power will continue to operate these units until their shutdown is dictated by safety or economic considerations.

In 2003, Bruce Power’s capital expenditure program, excluding the Bruce “A” restart program, is expected to total about $165 million. In addition to sustaining capital expenditures of about $15 million annually per unit, the main projects in Bruce Power’s business plan include:

- a project to uprate the capacity of the Bruce “B” units (approximate annual expenditures in millions for 2003 to 2005: $15, $185, and $100), and
- the completion of the Bruce “B” environmental qualification program (to be completed in 2003 at an estimated expenditure of $30 million).

Over the next three years, annual capital expenditures, excluding the Bruce “A” restart program, are expected to average about $245 million. Bruce Power’s internal cash flow is expected to be sufficient to fund its 2003 capital programs including the restart of two Bruce “A” units.

Among other things, the project to uprate the capacity of the Bruce “B” units involves the use of SEU. (see “Uranium Fuel Conversion Services” and “Cameco Fuel Management”).

As part of its Bruce “B” power uprate project, Bruce Power plans to refuel the Bruce “B” units with modified fuel containing SEU beginning in 2006. The Bruce “B” units are currently operating at 90% of maximum capacity based upon an operating limitation imposed by the CNSC. This limitation was placed on the reactors when studies revealed that emergency shutdown systems may not provide sufficient safety margins for certain low probability accidents. The derating to 90% of full power ensures that the necessary safety margin is maintained. The use of the modified fuel is intended to improve the safety margins of the reactors and allow them to operate at their design capacity and with the necessary safety margin. Approval is required from the CNSC to operate the Bruce “B” units with the modified fuel. (See “Uranium Fuel Conversion Services” and “Cameco Fuel Management”.)

**Bruce “A” Restart**

One of Bruce Power’s key initiatives is the restart of two of the four laid-up units of the Bruce “A” station (Units 3 and 4), which is planned for 2003. Once back in service, they are expected to have a combined net generating capacity of about 1,500 megawatts. Bruce Power currently has no plans to restart the other two Bruce “A” units. The project costs to restart Units 3 and 4 of the Bruce “A” station in 2002 were estimated to be $400 million. This estimate is under review by Bruce Power and Cameco expects the estimated project costs to increase materially.

A number of hearings have been held by the CNSC as an integral part of the relicensing process. The first held on December 12, 2002 was for consideration of the Environmental Assessment and led to the CNSC accepting that the restart is not likely to cause significant adverse environmental impacts. This was an essential step to allow licence amendment. After their acceptance, the CNSC allowed a designated officer to approve the start of refuelling on January 13, staff certifications were issued by the CNSC on January 14, and fuelling commenced on Unit 4 on January 15. Refuelling of Unit 4 was completed as planned. Refuelling of Unit 3 is commencing.

The next hearing was a part of a two-stage process with dates of January 12 and February 26. The Commission Member Document presented in January defined the CNSC requirements that must be satisfied before operation of the two units at power will be allowed. On April 4, 2003 Bruce Power announced that the CNSC had accepted a recommendation from its staff to amend Bruce Power’s operating licence to restart Bruce “A” Units 3 and 4. This decision means Bruce Power can remove reactors from their current guaranteed shutdown state once an officer designated by the CNSC is satisfied the Units are ready to operate at full power. The actual restart dates will be driven by a variety of factors, including the actual levels of work execution in the field, which in turn can be impacted by the timely availability of materials and resources, and the success in the overall management of a project of this scope and complexity.

**Ontario Deregulation**

The electricity market in the province of Ontario opened (“Market Opening”) to full competition on May 1, 2002. In order to create a competitive market after Market Opening, the Ontario government approved a framework, known as the “market power mitigation” framework, to ensure an orderly and gradual transition to an industry structure in which OPG’s share of generating capacity available to the Ontario market is substantially reduced.

OPG's decontrol targets are specified in terms of Tier 1 and Tier 2 capacity. Tier 1 capacity is defined as all nuclear and hydroelectric generation in Ontario. Tier 2 capacity is defined as that portion of Ontario's generation capacity, including fossil generation, inter-tie capacity and demand-side bidding, that is not part of Tier 1 capacity. Within 42 months after May 1, 2002, OPG is required to reduce its share of in-service Tier 2 generating capacity through transfer of effective control of a minimum of 4,000 MW of in-service Tier 2 capacity. At OPG's discretion, it may substitute the transfer of effective control of up to 1,000 MW of hydroelectric power in place of an equivalent amount of Tier 2 capacity. Within 10 years after May 1, 2002, OPG must reduce its effective control of total Tier 1 and Tier 2 capacity to 35% or less of the supply options in the Ontario market. Forty-two months following May 1, 2002, the Ontario Energy Board ("OEB") will review and publicly report on OPG's success in attaining its decontrol target respecting Tier 2 capacity, as well as its plans for meeting its 10 year decontrol target. In keeping with its decontrol obligations, in May 2001 OPG leased the Bruce nuclear generating stations to Bruce Power.

In the Ontario market, generators, wholesalers and suppliers, both inside and outside Ontario, compete to sell electricity into the real time energy market or spot market administered by an agency established by the Ontario government called the Independent Electricity Market Operator ("IMO"). Both wholesale market participants and retail customers have access to the electricity supplier of their choice. Bruce Power earns revenue through medium- and long-term contracts and spot market sales. Bruce Power uses risk management activities, such as trading of electricity and related contracts, in order to mitigate Bruce Power's exposure to volatile electricity prices.

In November 2002, the Government of Ontario introduced Bill 210 *Electricity Pricing, Conservation and Supply Act, 2002* , reversing, in part, its decision to deregulate the electricity market. The Bill became law on December 9, 2002. The new legislation and related regulations include the following key features:

- Effective December 1, 2002 (but retroactive to Market Opening) and at least until April 30, 2006, the price of electricity paid by "low volume consumers" (consumers using less than 150,000 kWh annually, although this was subsequently increased to 250,000 kWh, as described below) and other "designated consumers" is fixed at 4.3¢/kWh;

- The rates of transmission and distribution and the fees for the operation of the IMO are capped at current levels.

- IMO market uplift charges to distributors and low volume and designated consumers are capped at 0.62¢/kWh.

- The Minister of Energy has been given increased power including the ability to review market rules made by the IMO to ensure that the new rules do not unduly and adversely affect the interests of consumers, with respect to prices or the reliability or quality of electricity service. This Minister has also been given power to control rates approved by the OEB and to require certain orders to be amended.

- Tax incentives are provided to promote conservation, use of alternate fuels and support for clean energy production through a variety of mechanisms.

On March 21, 2003, the Province announced a business protection plan for large electricity consumers in Ontario. Under this plan, consumers using up to 250,000 kWh per year will be included in the fixed price rate of 4.3¢/kWh retroactive to May 1, 2002. Except for certain designated customers, all consumers using above 250,000 kWh per year will remain in the competitive wholesale and retail markets and receive rebates under the terms of the existing market power mitigation agreement arrangements for the 12 months ending April 30, 2003. Effective May 1, 2003, rebates to these customers will be fixed at 50% of the amount by which the average spot price in the IMO-administered market exceeds 3.8¢/kWh, with rebates paid on a quarterly basis.

These regulatory changes have not had a direct impact on the price in the wholesale electricity market into which Bruce Power sells its output. However, the volume of medium- and long-term transactions in the wholesale electricity market has dramatically decreased and the regulatory changes have increased uncertainty for generators like Bruce Power.

**Cameco Fuel Management**

Cameco has overall responsibility to procure nuclear fuel for Bruce Power. This includes the supply by Cameco of all uranium concentrates and $UO_2$ conversion services required for the Bruce nuclear generating stations, making Bruce Power a significant customer for Cameco's core products. The four Bruce "B" units are expected to use at least 1 million pounds of $U_3O_8$ and 400 tonnes of natural $UO_2$ conversion services each year. Volumes will increase by approximately 50% once the two Bruce "A" units are restarted.

In late 2001, on behalf of Bruce Power, Cameco negotiated a fuel manufacturing services agreement with Zircatec Precision Industries Inc. ("ZPI") covering all of Bruce Power's fuel manufacturing requirements through the initial lease period. Under the arrangement, ZPI will manufacture $UO_2$ provided by Cameco into finished nuclear fuel bundles for Bruce Power.

Bruce Power is also pursuing the use of SEU as part of its power uprate project for the four Bruce "B" units. Cameco is working with Bruce Power, ZPI and others in the development of SEU. Cameco does not expect Bruce Power's use of SEU will have a significant impact on the volume of $U_3O_8$ and natural $UO_2$ conversion services sold to Bruce Power. (see "Uranium Fuel Conversion Services")

**OPG Services to Bruce Power**

As part of the OPG-Bruce Power transaction, OPG agreed to provide certain services to Bruce Power. Some of these services are required in order for Bruce Power to comply with terms of its CNSC operating licences. The material short-term OPG services include: nuclear operating support services and steam generation and fuel channel inspection and maintenance services. The initial term of these service arrangements expires December 31, 2003 and thereafter they may be terminated upon 12 months prior notice by either Bruce Power or OPG. The material long-term OPG services include services relating to the supply, delivery and processing of heavy water for use in the Bruce nuclear units, low level and intermediate waste storage and disposal services, and collection and storage of used fuel bundles generated from the operation of the Bruce nuclear units as further described in "Nuclear Waste Management and Decommissioning."

**Nuclear Waste Management and Decommissioning**

As they operate, the Bruce nuclear units generate:

- used nuclear fuel bundles ("high-level radioactive waste");
- other material that has come in close contact with reactors but is less radioactive than used nuclear fuel bundles, such as ion exchange resins and other structural material and reactor equipment, including pressure tubes ("intermediate-level radioactive waste"); and
- material used in connection with station operation that is not highly radioactive ("low-level radioactive waste").

Used nuclear fuel bundles from the Bruce reactors are temporarily stored in water-filled pools ("wet bays") at the Bruce nuclear stations for a cooling off period of at least ten years during which their radioactivity substantially decreases. As the Bruce "B" wet bays will become full in 2003, OPG has constructed a dry storage facility at its radioactive waste operations site that is located on a part of the Bruce site not leased to Bruce Power. After the cooling off period, used nuclear fuel bundles will be transferred to above ground concrete canisters at OPG's dry storage facility. In-station modifications to the Bruce "B" wet bays to support the loading of used nuclear fuel bundles into dry storage containers were completed by Bruce Power in 2002. When originally constructed, the wet bays at Bruce "A" and "B" had sufficient capacity to store used nuclear fuel bundles for up to 15 to 20 years of operation.

Bruce Power pays OPG a fee for OPG to assume title to the used nuclear fuel bundles discharged from the Bruce reactors during the lease period. OPG retains title to all used fuel bundles stored in the wet bays before May 11, 2001. No later than April 2003, OPG is required to commence collection of used nuclear fuel bundles stored in the wet bays for transport to and storage at its dry storage facility at the Bruce site. These shipments have now commenced. While the used nuclear fuel bundles are contained in wet bays, Bruce Power is responsible for their management.

During the term of the lease, OPG has also agreed to take title to, store and dispose of all of Bruce Power's low and intermediate-level radioactive waste at OPG's radioactive waste management facility at the Bruce site. OPG retains title to all low and intermediate-level radioactive waste generated before May 11, 2001.

Under the lease agreement, OPG, as the owner of the Bruce nuclear plants, is responsible for decommissioning of the eight Bruce nuclear units and for funding and meeting other requirements relating thereto that the CNSC may require of Bruce Power as licensed operator of the Bruce nuclear plants. OPG is also responsible to manage radioactive waste associated with decommissioning of the Bruce nuclear plants.

There is no facility in Canada for the permanent disposal of used nuclear fuel. Bill C-27, the *Nuclear Fuel Waste Act*, implementing the federal government's nuclear fuel waste management strategy, received Royal Assent on June 13, 2002. Under this legislation, owners of used nuclear fuel in Canada are required to establish an organization, as a separate legal entity, with a mandate to manage and co-ordinate the full range of activities relating to the long-term management of used nuclear fuel. The organization is to report regularly to the federal government and to make recommendations on long-term management of used nuclear fuel. The legislation also required the owners of used nuclear fuel, including OPG, to establish a trust fund with a Canadian financial institution and make specified deposits. As OPG is the owner of the used nuclear fuel bundles discharged from the Bruce units, it, not Bruce Power, is subject to the financial contribution requirements of this legislation.

**Regulatory Affairs**

The federal government under the Canadian Nuclear Safety and Control Act regulates Bruce Power's nuclear operations. (see "Government Regulation-Canadian Uranium Industry Regulation"). In addition, Bruce Power is subject to the Nuclear Liability Act ("NLA").

All of the construction, equipment, safety systems and operating limits for the Bruce nuclear generation stations are subject to regulation by the CNSC under the Canadian Nuclear Safety and Control Act. Bruce Power is required to regularly report to the CNSC, which monitors the safety performance of the Bruce nuclear generating stations. On May 9, 2001, Bruce Power received a licence to operate the Bruce "B" nuclear units and a licence to operate Bruce "A" nuclear units (but only in a laid up condition), which licences took effect on May 11, 2001. These licences expire on October 31, 2003. On April 4, 2003, Bruce Power announced that the CNSC had accepted a recommendation from its staff to amend Bruce Power's operating licence to restart Bruce "A" Units 3 and 4. This decision means Bruce Power can remove the reactors from their current guaranteed shutdown state once an officer designated by the CNSC is satisfied the Units are ready to operate at full power.

The NLA requires operators of nuclear generating facilities to purchase nuclear liability insurance from the Nuclear Liability Association of Canada in amounts specified in the NLA. Currently, the NLA requires the operator of nuclear stations to maintain, for each of its nuclear stations, insurance up to a limit of $75 million for liability imposed under the NLA. Under Part I of the NLA, an operator is strictly liable for any damage to property of, or personal injury to, the public arising from a nuclear incident (as defined in the NLA), other than damage resulting from sabotage or acts of war. If in the opinion of the Governor in Council, an operator's liability could exceed $75 million in respect of a nuclear incident, or it would be in the public interest to do so, the Governor in Council would proclaim Part II of the NLA in effect. Under Part II of the NLA, an operator's liability would effectively be limited to the amount of such insurance and the Governor in Council may authorize funds to be paid by the federal government for claims in excess of that amount. The NLA is currently under review and this review could require an increase in insurance coverage that Bruce Power must obtain.

**Nuclear Generation – Risk Factors**

Cameco has forecast that Bruce Power will contribute significantly to Cameco's earnings beginning in 2003. However, the following information, known to the Company, pertaining to the outlook and conditions applicable to Bruce Power, could have a material impact on this contribution. This information, by its nature, is not all-inclusive. It is not a guarantee that other factors will not affect Bruce Power and, as a consequence, Cameco. This discussion should be read in conjunction with material in other sections of this Annual Information Form, including Management's Discussion and Analysis. (Appendix "B")

***Restructuring of Ontario's Electricity Industry***

The government of Ontario retains the overall power to regulate and further restructure Ontario's electricity industry. Ontario's electricity market opened to competition May 1, 2002 with the introduction of competition in both the wholesale and retail markets in Ontario. However, the Ontario government in November 2002 and March 2003, as described in "Ontario Deregulation", announced regulatory changes reversing, in part, its decision to deregulate the electricity market. The regulatory authorities responsible for the structuring, development and operation of the new Ontario electricity market, the IMO and OEB, and many of the incumbent participants in the Ontario market, including Bruce Power, have little or no operating experience in a competitive electricity marketplace. Accordingly, it is possible that further changes in the structure of electricity industry may be necessitated based on the experience of regulatory authorities and market participants in the new competitive environment. These changes may be accomplished either through fundamental changes by the government of Ontario to the structure of the Ontario electricity industry, or through changes made by the IMO to the market rules. In addition, it is difficult to predict the effect of these changing market and regulatory conditions on Bruce Power's business, results of operations, financial position or prospects.

In certain jurisdictions where the energy marketplace has been opened to competition, factors such as energy price volatility and episodes of supply shortages have prompted a re-examination of the market framework by governments, regulatory authorities and consumer groups. An example is the November 2002 announcement by the Ontario government of the price cap of 4.3 cents per kilowatt-hour for certain participants in the retail electricity market. Political, regulatory and consumer responses to the competitive wholesale and retail electricity markets in Ontario and the possible development of a trend toward re-regulation in the North American electricity industry, could have a material adverse effect on Bruce Power's business, results of operations, financial position or prospects.

***Government Regulation***

Bruce Power's operations are subject to extensive government regulation that may change from time to time. Matters that are subject to regulation include nuclear operations (including regulation pursuant to Nuclear Safety and Control Act (Canada), the NLA and the Emergency Plans Act (Ontario)), nuclear waste management and decommissioning and environmental matters including air emissions. Operations that are not currently regulated may become subject to regulation. Because legal requirements are frequently changed and are subject to interpretation, Bruce Power is unable to predict the ultimate cost of compliance with these requirements or their effect on operations. Some of Bruce Power's operations are regulated by government agencies that exercise discretionary powers conferred by statute. Because the scope of such authority is uncertain and may be inconsistently applied, Bruce Power is unable to predict the ultimate cost of compliance with these requirements or their effect on operations. Due to, among other things, inadequate safety margins, the CNSC has the power to limit the output from or order the shutdown of one or more of the Bruce "A" and "B" units and to impose additional onerous licence conditions on Bruce Power.

***Bruce A Restart***

There can be no assurance that the designated CNSC staff officer will authorize Bruce Power to proceed with the restart of two Bruce "A" reactors on a timely basis or at all. The regulatory approval process, construction delays, or other factors, may delay the restart of one or both of the Bruce "A" reactors. A delay in the restart of one or both of the Bruce "A" reactors could have a material adverse effect on Bruce Power and, as result, Cameco.

***Nuclear Operations***

Bruce Power is subject to extensive federal regulation with respect to its nuclear operations. Bruce Power's failure to comply with such regulation could have a material adverse effect on Bruce Power.

Risks of substantial liability, as well as the potential for significant increased costs of operations, arise from the management and operation of nuclear generating stations, including, among other things, from structural problems, increasing security requirements to cover factors such as physical security threats, equipment malfunctions, and the storage, handling and disposal of radioactive materials. Bruce Power has implemented risk management strategies, but there can be no assurance that such risks can be minimized or eliminated. An accident at a nuclear installation anywhere in the world or other reasons could cause the CNSC to limit the operation or licensing of the Bruce nuclear generation stations.

OPG undertook a testing and inspection program to ascertain the physical condition of its nuclear generating stations. Under the OPG-Bruce Power lease arrangement, Bruce Power has continued that program for the Bruce nuclear generating stations by contracting with OPG for the supply of steam generation, fuel channel and other inspection services. As a result of this program, OPG identified equipment life cycle issues, such as steam generator tube corrosion, feeder pipe wall thinning and pressure tube/calandria tube contact. Cameco understands these conditions were anticipated in the design but that experience has shown that the rate of degradation is higher than anticipated. In addition, no nuclear generating station utilizing CANDU technology has yet completed a full life cycle. There can be no assurance that Bruce Power will not have to incur significant capital expenditures for repairs or replacements in addition to those currently contemplated. To address these issues, Bruce Power may need to increase preventative maintenance programs and allow for more outage time (a period when a nuclear reactor is not operating) than currently planned. Such additional repairs, replacements and longer outage times could have a material adverse effect on Bruce Power.

The occurrence of any of these events could adversely effect Bruce Power's expected contribution to Cameco's financial results.

***Reliance Upon Single Contractors***

Bruce Power is dependent upon OPG for certain nuclear support services, Cameco for $U_3O_8$ supply and $UO_2$ conversion services, and ZPI for fuel manufacturing services. Reliance by Bruce Power on a single contractor for each of these services is a supply security risk. Failure of any of these suppliers to provide services of adequate quality or in a timely manner, or, in the case of OPG, to agree to extend the term of short-term material service agreements, could have a material adverse effect on Bruce Power and, as a result, Bruce Power's expected contribution to Cameco's financial results.

***Nuclear Waste Management and Decommissioning***

Bruce Power is subject to extensive federal regulation with respect to nuclear waste management. Failure to comply with such regulation could lead to prosecution and could subject Bruce Power to fines and other penalties, including the revocation of operating licences for its nuclear generation facilities. Any release of radioactive material beyond prescribed limits from property leased or occupied by Bruce Power could lead to governmental orders requiring investigation, control and/or remediation of such release and could also lead to claims from third parties for harm caused by such release. Bruce Power incurs substantial costs for nuclear waste management and changes in federal regulation could result in additional costs that could have a material adverse effect on Bruce Power.

The wet bays at Bruce "A" and "B" have limited capacity to store used nuclear fuel. As required by contract with Bruce Power, OPG has commenced collection of used fuel bundles stored in the wet bays for transport to and storage at OPG's dry storage facility at the Bruce site. OPG has title to all used nuclear fuel bundles in the wet bays. Failure of OPG to continue to provide collection services of adequate quality or in a timely manner or problems associated with the instation modifications to the Bruce "B" wet bays to support the loading of used nuclear fuel bundles into dry storage containers, could have a material adverse effect on Bruce Power.

The occurrence of any of these events could adversely effect Bruce Power's expected contribution to Cameco's financial results.

***Competition***

Since Market Opening and the subsequent regulation of the retail electricity market, wholesale prices have been volatile. Increased competition from the restart of other wholesale generation at the Pickering nuclear station and from new construction may result in lower wholesale electricity prices. Cameco believes Bruce Power's ability to compete depends upon many factors within and outside its control. There can be no assurance that Bruce Power will be able to compete successfully or that competitive pressure will not have a material adverse effect on Bruce Power and, as result, Bruce Power's expected contribution to Cameco's financial results.

***Reliance Upon Transmission Systems***

Bruce Power's ability to sell electricity depends on the capacity and reliability of the Ontario electricity transmission system operated by Hydro One under the direction of the IMO and regulated by the OEB. Accordingly, the success of Bruce Power's business is dependent upon Hydro One's operating performance and financial stability, as well as the provincial regulation of Ontario's electricity transmission system. The lack of adequate and reliable electricity transmission capacity would have a material adverse effect on Bruce Power and, as a result, Bruce Power's expected contribution to Cameco's financial results.

***Effects of Weather***

By the nature of its business, Bruce Power's earnings are sensitive to weather variations from time to time. Variations in winter weather affect the demand for electrical heating requirements. Variations in summer weather affect the demand for electrical cooling requirements.

***Credit Risk***

Credit risk is the risk of non-performance by contractual counterparties with respect to payment for services provided. A significant portion of Bruce Power's revenues are derived from sales through the IMO-administered spot market. Participants in the IMO spot market must meet IMO-mandated standards for creditworthiness with the result that Bruce Power's risk for these sales should be effectively managed. To the extent that the credit support provided by purchasers of power to the IMO is inadequate, all market participants are responsible for any shortfall in proportion to their market activity.

A significant portion of Bruce Power's revenues are derived from the sale of electricity under medium-term and long-term power purchase agreements. As a result, Bruce Power is exposed to credit risk. The purchasers and Bruce Power under such agreements must meet certain standards for creditworthiness and, in certain circumstances, must supply financial assurances as security for non-performance. The requirement of purchasers to provide financial assurances should result in Bruce Power's credit risk for these sales being effectively managed. To the extent that financial assurances provided by such purchasers is inadequate, Bruce Power is subject to credit risk, the occurrence of which could have a material adverse impact on Bruce Power's expected contribution to Cameco's financial results. Bruce Power is likewise obligated, in certain circumstances, to provide financial assurances to such purchasers. Depending on the circumstances, this may burden the credit capacity of Bruce Power and Cameco. Cameco has committed to provide a certain amount of financial assurances to Bruce Power.(see "Overview — *2003 Acquisition*")

***Spot Market Electricity Prices***

A significant portion of Bruce Power's revenue is tied, either directly or indirectly, to the spot market price for electricity in Ontario. The price of wholesale electricity may vary depending on, among other variables: the availability of generation and transmission systems, economic growth, economic slowdown, seasonal and weather-based variations in electricity demand, the plans and activities of other market participants, the evolution of newly deregulated electricity markets, regulatory decisions in Ontario and neighbouring jurisdictions (including deregulation), the exchange rate for the Canadian dollar and wholesale market trading rules, mechanisms for maintaining adequate generation reserves and the level of competition. Although Bruce Power engages in risk management activities, including trading of electricity and related contracts, to mitigate these risks, there can be no assurance that these activities will be successful. Electricity prices have proven to be extremely volatile at certain times in certain markets.

**THE GOLD BUSINESS**

**Overview**

Cameco's gold business consists primarily of mining operations and exploration, which is managed by Cameco Gold Inc. ("CGI"). CGI, with its head office in Toronto, Ontario, was established in 1996 as a wholly owned subsidiary of Cameco.

Cameco's material gold mining property is the Kumtor mine in the Kyrgyz Republic. CGI subsidiaries have a one-third (1/3) interest in and operate the Kumtor mine. In 2002, due to a pit wall collapse in July, the Kumtor mine produced 528,550 ounces, compared to forecast production of 700,000 ounces. Mining of higher-grade ore was postponed due to the pit wall failure and is expected to resume in mid-2003 with the completion of the removal of pit wall material.

In February 2003, Cameco and the Kyrgyz government agreed in principle to restructure the Kumtor mine ownership. The proposed restructuring envisions that a Cameco subsidiary would hold all of the common shares of KGC, the owner of the Kumtor mine. The restructuring is contingent upon a number of factors including further negotiations leading to final agreements acceptable to Cameco and the Kyrgyz government, approvals by third party institutions and a fairness opinion requested by the Kyrgyz government.

The Kyrgyz government has issued a decree directing various ministries and agencies to examine all agreements and documents necessary to complete the proposed restructuring and submit them to the government for review. During the same period, the Kyrgyz government will evaluate the independent fairness opinion on the proposed restructuring.

The proposed restructuring currently contemplates an exchange of assets. A Cameco subsidiary would receive KGC common shares without any further cash investment by Cameco and in exchange the government would realize a more predictable and secure revenue stream, obtain additional tax proceeds and benefit from potentially higher gold prices through royalties. JSC Kyrgyzaltyn, a company wholly owned by the Kyrgyz government, would continue to participate in the management of the Kumtor mine.

The restructuring proposal contemplates that the Kumtor mine would eventually be part of a publicly traded gold company established by Cameco.

Boroo Gold Company LLC ("BGC"), a 54 % CGI indirect owned subsidiary, is developing the Boroo mine in Mongolia. In 2002, CGI indirectly acquired its interest in BGC when it acquired majority control of AGR. The project schedule is under review and commercial production from the Boroo mine is not expected until early 2004.

KGC and AGR hedge the price risk of future gold sales. As of December 31, 2002, KGC had in place forward and sales options on 769,400 ounces and AGR had in place forward sales of 200,000 ounces. Combined these hedge positions, at December 31, 2002, represent about 22% of their proven and probable reserves. Cameco's share of these hedge arrangements was 456,500 ounces, consisting of 371,500 ounces in forward contracts and a net position of 85,000 ounces in collars (matched and puts and calls.) In the latter part of 2002, KGC actively decreased its gold hedge position to take advantage of higher spot market prices. As of December 31, 2002, approximately 45% of KGC's estimated gold production is hedged at an expected price of approximately $307 (US) per ounce. Cameco will participate to the extent unhedged in price movements. For example, if the price of gold declines significantly, Cameco, through its indirect one-third share of ownership of KGC, is exposed to a decline in earnings and a potential loss in its gold business.

Increasing gold prices have the effect of increasing the credit support required under hedge agreement obligations. Cameco has agreed to provide credit support to gold hedge agreement counterparties to mitigate the potential of default. At December 31, 2002, Cameco's maximum financial exposure under these support arrangements was $61 million (US). The mark-to-market loss on these hedge positions amounted to $38 million (US) at December 31, 2002, based upon a spot gold price of $347 (US).

CGI also explores for gold. During 2002, exploration was carried out in central Canada, the western US and Central Asia. In 2003, CGI expects to focus its gold exploration activities in Nevada, Mongolia and Central Asia.

In November 2002, CGI reported the discovery of high-grade gold mineralization at its REN project in northern Nevada. Fourteen drill holes drilled over a three-year period have returned high-grade intercepts, including assayed grades ranging from 8.0 grams gold per tonne (g/t) over 28.9 meters to 55.2 g/t over 24.4 meters. Exploration results from five of the holes confirm that the mineralization extends at least 200 meters in length. Mineralization occurs at a depth of 700 meters to 900 meters below the surface. Further drilling is required to define the extent of mineralization that remains open in three directions. As preliminary exploration data, these results are not sufficient to draw conclusions as to the economic significance of the mineralization. CGI, through affiliates, is the operator and majority owner (62.14%) of the REN project.

Cameco's goal is to obtain recognition for the considerable value generated by Cameco's past investments in gold and their future prospects. To achieve this, Cameco plans to consolidate its gold assets. Following the recent rise in gold prices, the evaluation of available options for asset consolidation has taken longer than previously anticipated. In the meantime, Cameco will continue to manage its gold assets to increase their value to Cameco shareholders.

**Kumtor — Gold Producing Property**

The Kumtor gold deposit is located in the Kyrgyz Republic. In 1992, Cameco and the Government of the Kyrgyz Republic entered into an agreement to evaluate and develop the Kumtor gold deposit. Cameco, through its wholly owned subsidiaries CGI and Kumtor Mountain Company ("KMC"), holds a 33 1/3% interest in the operation through its interest in the Kyrgyz joint venture company, KGC. Cameco acquired its interest from the Kyrgyz Republic which, through JSC Kyrgyzaltyn (formerly the State Concern Kyrgyzalytn), holds the other 66 2/3% interest in KGC. Kumtor Operating Company ("KOC"), a wholly owned subsidiary of CGI, acts as operator of the joint venture for which it receives a management fee. The mineral reserve and resource estimates for Kumtor are found at "The Gold Business-Reserves and Resources".

Based upon December 31, 2002 reserve estimates for Kumtor (100% basis), Cameco expects that the Kumtor deposit will be depleted no earlier than 2008. Cameco received payback of its capital invested in 2002.

*Property Description and Environment*

KGC has exclusive mineral rights over an area of approximately 800 hectares of land centered on the Kumtor deposit. In addition, the joint venture has secured surface rights over an area of approximately 10,000 hectares in the vicinity of the Kumtor deposit. This is referred to as the Mining Lease Territory and provides the joint venture with sufficient surface area for the plant, tailings disposal area and all other facilities supporting the mining operation, ore processing and waste rock disposal. The term of KGC's mineral and surface rights for the Kumtor deposit extend beyond 2008, the year when mining is expected to be completed. KGC has all necessary material permits to conduct mining and milling operations at Kumtor. All mineral resources and reserves are part of the Kumtor gold deposit that has been mined by open pit since 1997.

KGC has committed to operate the Kumtor mine in accordance with Canadian, Saskatchewan and applicable Kyrgyz laws and regulations and the Environment Action Plan ("EMAP") for the mine as well as sound international mining practices.

KGC estimates its future decommissioning and reclamation costs for the Kumtor mine to be $20.4 million (US) in current dollars. These estimates were last reviewed by KGC technical personnel in 1999 and are intended to be updated in the future as required. In 1998, a reclamation trust fund (the "fund") was established to cover the future costs of reclamation, net of expected salvage value which was estimated, in 1999, at $14.9 million (US). In order to fund the remaining $5.5 million (US), contributions are made to the fund over the life of the mine on a unit of production method. At December 31, 2002, the balance in the fund was $3.5 million (US), with the remaining $2.2 million (US) to be contributed over the life of the mine.

The site consists of an open pit mine situated at approximately 4,000 metres above sea level along the northwestern slopes of the Akshirak Ridge in the interior of the Tien-Shan Mountains. The mine includes waste and ore stockpile areas as well as an area to dispose of the ice stripped from the top of the deposit. There is a crusher and a mill. Other major facilities include a fresh water system, a camp/residence for the employees on site, a warehouse, shops, offices, a batch plant, two standby diesel generators, and a tailing management facility ("TMF"). An airstrip is 6 kilometres northwest of the open pit.

The TMF is located in the Kumtor river valley. Tails are deposited in this facility via a seven-kilometre pipeline from the mill. In 2001, an additional pipeline was added, twinning the existing one. The tailings dam was designed and constructed to address the permafrost conditions at the minesite. Stored behind the tailings dam are 18.9 million cubic metres of tailings sands and process water. A series of diversion ditches prevent runoff and natural watercourses from entering the tailings basin.

The TMF and the effluent treatment plant ("ETP") were commissioned in 1999, with government approval for the ETP obtained in June and for the TMF in December 1999. There were 5.2 million cubic metres of effluent treated and 5.3 million cubic metres of effluent discharged into the environment during the summer of 2002.

*Site accessibility, infrastructure and physiography*

The site is located near the headwaters of the Kumtor River. It is accessible by an all-weather road constructed in the Ara-Bel-Su valley. Employees are bussed to the mine site from Bishkek and the Issyk-Kul region. Supplies are transported by rail up to Balykchy at the west end of Issyk-Kul Lake and then trucked to the minesite. The industrial and potable fresh water is pumped from Petrov Lake, approximately five kilometres northeast of the mill site. The glacial lake has sufficient water available year around to supply all the anticipated need of the operations. The site is connected to the power grid of the Kyrgyz Republic. Most employees are native to Kyrgyzstan.

The terrain is alpine glaciated with broad flat valleys and moraine mounds along the valley walls. The climate is continental in a zone of permafrost and active glaciers. Vegetation is predominant on the valley floors and sparse on the elevated benches and mountain slopes. Despite cold winter conditions, Kumtor is a 365 day-per-year operation.

*History and Financing*

Although the Kumtor area has a history of intermittent exploration dating to the late 1920's, the actual discovery of the deposit was made in the summer of 1978 in the course of a general survey. Intensive exploration, adit sampling, drilling and geological interpretation work took place between 1979 and 1989. In 1992, Cameco and the government of the Kyrgyz Republic entered into an agreement to evaluate and develop the deposit. KOC retained Kilborn Western Inc. to prepare a feasibility study which was submitted in November 1993.

Construction and development began in 1994 and was completed in early 1997 at a cost of approximately $450 million (US). Commercial production commenced on May 1, 1997 and more than 502,000 ounces were produced during that year.

As an equity investment, Cameco provided the first $45 million (US) of development costs for the project. Additionally, Cameco provided a $107 million (US) subordinated loan to KGC, $61 million (US) of which was outstanding at December 31, 2002.

A consortium of financial institutions advanced $285 million (US) in senior and subordinated loans to the project ("the third party loans"). The third party loans consisted of a senior debt component of $265 million (US) and a third party subordinated debt component of $20 million (US). As of December 31, 2002, payments of $191 million (US) on the senior debt had been made and $77 million (US) of senior debt (US) and $20 million (US) of subordinated third party debt was outstanding.

In April 2002, KGC's senior loan was restructured and resulted in the extension of the term of repayment to June 1, 2006 and the replacement of non-commercial lenders as senior lenders. In November 2002, the senior lenders agreed to defer December 2002 and June 2003 semi-annual principal payments until the period December 2004 to June 2006. An offshore debt reserve account and the shares of KGC secure the senior debt.

The third party loans are a direct obligation of KGC. However, under the terms of the financing agreements, Cameco has agreed to guarantee the payment of all amounts of principal and interest that become due in respect of the senior debt. Cameco has purchased political risk insurance that entitles it to seek full reimbursement from the insurers if Cameco is required to pay on the guarantee due to a political risk event in the Kyrgyz Republic. Cameco has also purchased political risk insurance that covers 90% of the carrying value of its subordinated loan to KGC and 90% of the carrying value of its equity contribution to the project.

In May 1998, a truck accident in Kyrgyzstan resulted in a spill of approximately 1,760 kilograms of sodium cyanide into a small river. The truck was en route to the Kumtor gold mine. Following the accident, a scientific commission of international experts was assembled to assess the impact. The commission released its report to the public in September 1998 and, among other things, concluded that no one died as a result of the spill, that, based on reported cases within the first 72 hours, up to 16 cases of cyanide exposure could have occurred, although none of these has been confirmed and no medical evidence has yet been supplied to support these cases as being cyanide related and that none of these potential cases were likely to experience long term effects. Despite the finding of the international experts, a separate commission established by the prime minister of Kyrgyzstan determined that damages as a result of the accident amounted to $4.6 million (US). Subsequently, KGC reached a formal settlement agreement with the government of Kyrgyzstan. In January 1999, the settlement agreement was submitted to a tribunal of the American Arbitration Association which reviewed the terms of settlement and confirmed them as fair and reasonable. Mine operations were not disturbed by the accident.

This incident resulted in extensive review of the Emergency Response Plan ("ERP") by local authorities, agency lenders and KOC. A revised plan took effect December 1999. The Kumtor site operated, from 2000 through 2002, without an incident necessitating implementation of the ERP.

*Geology and Mineralization*

Two major fault zones delineate the local structural setting of the Kumtor area. The first structure is the Nikolaev Lineament which marks the boundary between the rocks affected by the Caledonian orogen to the west and by the Hercynian orogen. The Kumtor Fault zone, which is parallel to and east of the lineament with a traced strike length of more than 50 kilometres and variable widths up to 400 metres, is the second major structural setting.

The Kumtor deposit is in the zone of sheared, brecciated and hydrothermally altered Precambrian metasediments just south and sub parallel to the Kumtor Fault zone. The southeast dipping zone of alteration and mineralization has a strike length of 1,250 metres, near surface widths up to 400 metres and depths up to 1,000 metres.

*Exploration, Sampling and Analysis*

The exploration work, performed by predecessors of KGC, resulted in the collection of 69,775 samples of which 37,075 were channel samples. The trenches provided 7,250 samples and adits one, two and four provided 14,300, 10,665 and 4,860 samples respectively. The drill core samples totaled 32,700. A total of 22,100 channel samples and 16,900 core samples were used in the evaluation of the reserves by the Soviets.

The results of the investigative work were compiled in a geological report titled “Results of Detailed Exploration of the Kumtor Gold Deposit” issued in 1989. This report included the evaluation of the reserves. It was prepared by the Ministry of Geology of the Union of Soviet Socialist Republics (USSR) and approved by the General Director of Kyrgyz Geology and the Deputy General Director, Chief Geologist of Kyrgyz Geology in his capacity as head of the Uchkoshkon Geological Expedition.

Late in 1992, Kilborn Western Inc. was commissioned to prepare a feasibility study to evaluate and develop the Kumtor deposit. An integral part of the evaluation process was data validation comprising assaying of the original sample rejects, recalculation of the reserves and resources, underground geological and geotechnical remapping and resampling of parts of the higher mineralization grade zones and process testwork of original and fresh metallurgical samples. The recalculation of the reserves and the resources were carried out by Geostat Systems International based on geostatistical methods employing three-dimensional block modelling and kriging to the 3,668 metres elevation in the deposit.

In 1998-1999, additional drilling was carried out by KOC in the planned open pit area as well as at depth to evaluate certain areas of the orebody. Some 67 holes were drilled, assayed with additional check sampling and incorporated into the original data bank.

Cameco’s mining resources department and KOC personnel conducted a reinterpretation of the orebody and a new reserve model was created, providing the base for a new life-of-mine plan. This reserve model is regularly compared to the actual mine production. After more than five years of mining, the number of mined ounces is consistent with expectations based upon the new model.

In 2002, additional drilling was carried out by KOC in the planned open pit area to further evaluate the orebody. Drilling was also performed in the Southwest Zone and Sarytor exploration areas. In the present open pit area 10 holes were drilled totaling 2,119 metres, assayed with additional check sampling and incorporated into the original databank. In the Southwest Zone and Sarytor exploration areas, a total of 50 holes were drilled, totaling 9,292 metres, assayed with additional check sampling and incorporated into the original exploration databank.

KOC has developed and implemented procedures for quality control, data verification and sampling which it believes will assure the integrity of information resulting from its drilling activities at Kumtor.

*Mining*

The Kumtor deposit is developed using conventional open pit mining methods. Initially, part of the orebody was overlaid by a glacial icecap 10-30 metres thick. This icecap was removed during the first three years of operation. Now mining is focused on ore extraction and removal of the surrounding waste rock. Operations began at the 4,300 metre elevation in 1996. Presently, mining is conducted between the 4,100 and 3,950 metre elevations.

Total mine production in 2002 was 19.7 million bank cubic metres, a 6.3% increase over the previous year. Ore is delivered to the mill at a nominal rate of 15,500 tonnes per day. The average strip ratio is 11:1, requiring an average mining rate of 185,000 tonnes per day. The mill feed grade in 2002 was approximately 3.71 grams per tonne, significantly lower than the 5.10 grams per tonne delivered to the mill in 2001. *(see “2002 Pit Wall Failure”)*

Mining benches are 8 metres in height with 3 to 4 benches under development at any given time. Drilling is performed by six rotary-percussion blasthole drill rigs. Holes are drilled on a nominal 5.5 metre x 5.5 metre pattern. 400-500 holes are shot daily using bulk ANFO and emulsion explosives.

Six hydraulic shovels and four front-end loaders load a fleet of twenty-seven haul trucks. The location of the ore and waste rock is determined by assaying drillhole cuttings. Boundaries between material-types are surveyed in and digging is supervised by KGC engineering staff to ensure that ore and waste rock are separated correctly. All mine equipment is monitored by a computer-controlled dispatch system.

*Milling*

The Kumtor mill consists of a nominal 15,500 tonne per day conventional plant, using pyrite flotation and carbon in-leach (CIL) in the process where both the reground pyrite concentrate and the flotation tails are leached in separate circuits. The grinding circuit consists of a semiautogenous mill, a pebble crusher, a ball mill and a regrind mill. High rate thickeners reclaim as much water as possible from the flotation concentrate, flotation tails feed, reground flotation concentrate CIL feed and final tails. In 2002, gold recoveries declined to 78.13% from 83.1% in 2001 due to the processing of stockpiled, lower grade ore. The pit wall failure prevented access to the higher grade that was scheduled for mining and milling in 2002. *(*see *"2002 Pit Wall Failure")*

In 2002, 528,550 ounces of gold were poured compared to 752,000 ounces in 2001. Gold production is expected to increase to about 670,000 ounces in 2003. Approximately 3,709,000 ounces of gold have been poured from startup in 1997 until December 31, 2002. All economic ore is forecast to be milled by 2008.

The cash cost per ounce in 2002 was approximately $216 (US) calculated in accordance with the standards of The Gold Institute. The cash cost per ounce in 2001 was $142 (US). The higher costs are related to the processing of lower grade ore due to the pit wall failure. *(*see *"2002 Pit Wall Failure")*

*2002 Pit Wall Failure*

On July 8, 2002, a pit wall failure occurred at the Kumtor mine, resulting in the temporary suspension of operations. Mine production resumed on July 15, 2002 in an area away from the pit wall failure. A Kyrgyz national employed by KOC died as a result of a rockslide. The rockslide involved approximately 7.5 million tonnes of rock. The rock is expected to be removed by mid-2003 at a projected cost of about $1 (US) per tonne. No gold reserves were believed lost as a result of the rockslide. The three blast hole drills were covered by the slide. One was repaired and returned to service. The other two were damaged beyond repair. Cameco's 2002 net earnings were reduced by approximately $27 million as a result of the pit wall failure. No allowance was made in 2002 for possible proceeds from insurance.

The pit wall failure resulted in a significant revision to the mining plan, including the postponement of mining higher-grade ore. KGC has been milling lower grade ore and achieving lower recovery rates. As a result, gold production at Kumtor in 2002 was 528,550 ounces. Prior to the pit wall failure, Kumtor was forecast to produce 700,000 ounces. Production at Kumtor in 2003 is forecast to be 670,000 ounces.

Technical experts were assembled to assess pit wall stability in the rockslide area as well as options for accessing this ore zone. The preliminary information gathered was used to analyze and assess the revised pit wall slope configurations and develop a revised mining plan. The revised mining plan provides for greater stability and better access to high-grade ore. A geotechnical drilling program was designed and initiated to provide further information on the July rockslide. This information was also used to finalize the design of the pit slopes for the revised mining plan. In addition, revisions were made to the monitoring system and equipment to provide a good degree of "real time" warning should there be further movement.

As a result of the incident, 200,000 ounces of Cameco's share of Kumtor gold hedges were rolled forward to future periods. Although this action will not have a cash impact, such redesignation of hedge contracts reduced Cameco's 2002 net earnings by $2 million (which reduction is included in the approximately $27 million impact on Cameco's net earnings mentioned above.)

*Kumtor Resource and Reserve Estimates*

The mineral reserve and resource estimates for Kumtor are found at "The Gold Business-Reserves and Resources". The key assumptions, parameters and methods used in making these estimates are:

1. Key Assumptions

   - The reserves reported include allowances for dilution and mining recovery; and
   - No such allowances are applied to mineral resources;

2. Key Parameters

   - gold values were obtained from assaying of surface trenches and underground working samples as well as from drill hole cores;
   - cutting of high grade samples was established at 60 grams gold per tonne;
   - density was measured on 200 samples and ranged from 2.51 to 3.23 tonnes per cubic metre. An average density of 2.85 tonnes per cubic metre is used for waste and mineralized rocks;
   - reserves at Kumtor are not only based on grades but also on the volume and location; and
   - reserves are calculating using a gold price of $300 (US) per ounce.

3. Key Methods

   - The geological interpretation of the orebody outlines was done on vertical sections 40 metres apart and on planviews at 24 metre spacing;
   - A three-dimensional block model delineates the reserves and resources;
   - Estimates of the grade of blocks 10 metres x 10 metres x 8 metres were obtained by ordinary kriging; and
   - Reserves are defined as the economically mineable part of the indicated and measured resources. Only reserves have demonstrated economic viability.

Although Cameco believes Kumtor reserve and resource estimates are unlikely to be materially affected by external factors, such as metallurgical, safety and environmental, permitting, legal, title, taxation and political issues, there can be no assurance that they will not be. There are numerous uncertainties inherent in estimating mineral reserves and resources. The accuracy of any reserve and resource estimation is the function of the quality of available data and of engineering and geological interpretation and judgment. Results from drillings, testing and production, as well as a material change in the gold price, subsequent to the date of the estimate, may justify revisions of such estimates.

*Other Kumtor Information*

All gold produced by the Kumtor mine is purchased by JSC Kyrgyzaltyn, the owner of 66 2/3% of KGC, for reprocessing at its refinery in the Kyrgyz Republic. KGC uses derivative financial instruments to mitigate the price risk on a portion of future gold production. See “Gold Business-Risk Factors-Votality and Sensitivity to Prices.”

The Kyrgyz tax regime applicable to the Kumtor operation is governed by an agreement between Cameco, JSC Kyrgyzaltyn and the Kyrgyz government.

There are no material exploration or development activities planned for the Kumtor operation.

**Boroo — Gold Development Property**

BGC, a 54 % CGI indirect owned subsidiary, is developing the Boroo mine in Mongolia, with a planned annual production of 175,000 ounces.

On March 5, 2002, CGI acquired a 52% interest in AGR, a British Virgin Islands company, for $12 million (US) cash and issuance of a $4.8 million (US) promissory note. AGR indirectly owns 95% of BGC, a Mongolian entity. A Mongolian entity indirectly owns the remaining 5% of BGC. BGC has the rights to the Boroo gold deposit located in Mongolia.

Subsequent to the acquisition, CGI increased its interest in AGR to 56% by financing and conducting $3 million (US) of further exploration on Boroo and Gatsuurt. The promissory note was satisfied by CGI transferring to AGR 61% of a subsidiary that owns 100% of Cameco Gold Mongolia LLC, which has rights to the Gatsuurt exploration property in Mongolia.

The Boroo open pit mine and mill is currently under construction, with a planned annual production of 175,000 ounces (CGI's share is 54 %). The project budget to reach commercial production is $63 million (US), an increase of of $23 million (US) from the original estimate of $40 million (US). About half the increase relates to change in the operating plan from a contractor-supplied mine equipment fleet to one in which BGC purchases the fleet. The remainder of the capital cost increase is due to improvements in the processing facilities. About 40% of the capital budget was spent to the end of January 2003. A CGI subsidiary is funding the construction of the Boroo open pit mine and mill through a loan which bears interest at LIBOR plus 4%. The project schedule is under review and commercial production is not expected until early 2004.

At December 31, 2002, AGR's hedge position was 200,000 ounces, which is expected to yield an average price of approximately $315 (US) per ounce.

CGI estimates that the future decommissioning and reclamation costs for the Boroo mine to be approximately $3 million (US) in current dollars. Periodic contributions to an escrow account are planned to cover this future liability.

A stability agreement has been entered into with Mongolian government. It expires in 2013. Among other things, the stability agreement provides for:

- a three-year income tax exemption from the commencement of production, a 20% income tax rate for the following three years and a 40% income tax rate thereafter;
- gold may be freely exported, without the application of value added tax or export charges;
- the payment of a 2.5% net smelter royalty to the Mongolian government;
- any value added tax obligations may be offset against the royalty payable;
- all proceeds resulting from gold sales may be deposited in an offshore account, provided sufficient funds are deposited in a commercial bank in Mongolia to cover fiscal obligations to the Mongolian government;
- Mongolian tax laws in effect in 1998 when the agreement was signed will govern, unless laws more favorable take effect; and
- The Mongolian government may not expropriate BGC assets.

AGR intends to pursue political risk insurance for its investment in Boroo.

**Reserves and Resources**

Cameco's gold reserves and resources are located in the Kyrgyz Republic and Mongolia.

The following table shows Cameco's share of the estimated gold reserves and resources as at December 31, 2002:

| | | Gold | | | |
|---|---|---|---|---|---|
| | Tonnes | g/t | oz//ton | Total Ounces | Mining Method [1] |
| **Reserves-Proven** | | | | | |
| Kumtor Gold | 8,173,000 | 4.29 | 0.13 | 1,127,000 | OP |
| **Reserves-Probable** | | | | | |
| Boroo | 5,015,000 | 3.76 | 0.11 | 606,000 | OP |
| Kumtor Gold | 210,000 | 3.58 | 0.10 | 24,000 | OP |
| **Total Probable Reserves** | **5,225,000** | **3.75** | **0.11** | **630,000** | |
| **Total Reserves** | **13,398,000** | **4.08** | **0.12** | **1,757,000** | |
| **Resources-Indicated** | | | | | |
| Boroo | 3,758,000 | 1.95 | 0.06 | 236,000 | OP |
| **Resources-Inferred** | | | | | |
| Boroo | 2,792,000 | 3.67 | 0.11 | 326,000 | OP |
| Kumtor Gold | 3,455,000 | 5.45 | 0.16 | 606,000 | OP&UG |
| **Total Inferred Resources** | **6,247,000** | **4.64** | **0.14** | **932,000** | |

(1) Mining Method: OP-Open Pit, UG — Underground.

**Gold Reserve and Resource Reconciliation**

The following reconciliation of Cameco's share of gold reserves and resources reflects the changes in gold reserves and resources during 2002. The 2002 additions and deletions at Kumtor result from mining and milling and additional information provided by mining experience, drilling results analysis and reclassifications. The addition of the reserves and resources at the Boroo mine results from acquisition of an interest in AGR.

| | (in troy ounces) | | | | |
|---|---|---|---|---|---|
| | Dec. 31 2001 | 2002 Throughput[1] | 2002 Addition (Deletion) | | Dec 31 2002 |
| **Reserves-Proven** | | | | | |
| Kumtor Gold | 1,108,000 | (221,000) | 240,000 | (2) | 1,127,000 |
| **Reserves-Probable** | | | | | |
| Boroo | 0 | — | 606,000 | (3) | 606,000 |
| Kumtor Gold | 180,000 | — | (156,000) | (2) | 24,000 |
| **Total Probable Reserves** | **180,000** | **0** | **450,000** | | **630,000** |
| **Total Reserves** | **1,288,000** | **(221,000)** | **690,000** | | **1,757,000** |
| **Resources-Indicated** | | | | | |
| Boroo | 0 | — | 236,000 | (3) | 236,000 |
| **Resources-Inferred** | | | | | |
| Boroo | 0 | — | 326,000 | (3) | 326,000 |
| Kumtor Gold | 743,000 | — | (137,000) | (2) | 606,000 |
| **Total Inferred Resources** | **743,000** | **0** | **189,000** | | **932,000** |

(1) Corresponds to millfeed. The discrepancy between the 2002 millfeed and Cameco's share of 2002 ounces produced is due to mill recovery and the processing of low grade material.

(2) Change in reserves or resources, as applicable, include reassessment of geological data, results of information provided by mining and milling, and subsequent re-classification of reserves or resources, as applicable.

(3) Change in share ownership or acquisition or surrender of claims.

**Legal Proceedings**

An action was commenced during 1997 in a Canadian court by certain dependants of nine persons against the Company, CGI, KOC and certain other parties seeking damages, in the amount of $20,700,000 including punitive damages, plus interest and costs in connection with the death of the said nine persons in a helicopter accident in Kyrgyzstan on October 4, 1995. This action is being defended by the insurers of the Company.

**Regulatory Compliance**

Pursuant to the financing agreements related to the Kumtor gold project, the project participants agreed that all construction, development and, once in operation, production activities related to the project must be conducted in accordance with Canadian, Saskatchewan, and applicable Kyrgyz laws and regulations and the accepted Environmental Management Action Plan for the project as well as sound international mining practices. Modifications to the original, pre-operational Environmental Management Action Plan have been approved by appropriate external parties.

**Employees**

KOC had approximately 107 expatriate and 1,450 national employees at December 31, 2002.

**Risk Factors**

The following information pertains to the outlook and conditions currently known to the Company which could have a material impact on the financial condition of the Company. This information, by its nature, is not all inclusive. It is not a guarantee that other factors will not affect the Company in the future. This discussion should be read in conjunction with material in other sections of this Annual Information Form, including Management's Discussion and Analysis (Appendix "B") As the context requires for the following information, the reference to Company or Cameco also includes Cameco's direct and indirect subsidiaries.

**Volatility and Sensitivity to Gold Prices**

The Company's share of revenue from its gold business is largely dependent on the world market price of gold. The gold price is subject to volatile price movements over time and is affected by numerous factors beyond the Company's control. Such factors include, among others: global supply and demand; central bank lending, sales and purchases; expectations for the future rate of inflation; the level of interest rates; the strength of, and confidence in, the US dollar; market speculative activities; and global or regional political and economic events.

Fluctuation in gold prices is illustrated by the following table which sets forth for the periods indicated the average closing gold prices in United States dollars per ounce.

**Average London PM Fix**
**(US$)**

| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|
| US$ Average | 360 | 384 | 384 | 388 | 331 | 294 | 279 | 279 | 271 | 310 |

On March 3, 2003 the closing price of gold on the London market (PM Fix) was $345 (US) per ounce.

If the market price for gold falls and remains below variable production costs of a Cameco subsidiary's mining operations for a sustained period, losses may be sustained and, under certain circumstances, there may be a curtailment or suspension of some or all of mining activities. The Company would also have to assess the economic impact of any sustained lower gold prices on recoverability and, therefore, the cut off grade and level of its gold reserves and resources. The Company would have to assess the impact of such an environment on any outstanding guarantees related to its gold activities.

AGR and KGC hedge the price risk for future gold sales. AGR and KGC use derivative financial instruments such as forward sales contracts and collars (matched puts and calls) to mitigate the price risk on a portion of future gold production. AGR and KGC uses these instruments for hedging purposes and do not hold or issue derivative financial instruments for trading purposes. The mix of instruments and the amounts change from time to time with changes in pricing, market conditions and hedging strategies.

Cameco has agreed to provide credit support to KGC's and AGR's counterparties, subject to stipulated per ounce limits, in order to mitigate the potential of default by these companies. At year-end 2002, based upon the number of ounces hedged and the stipulated per ounce limits, Cameco had a maximum financial exposure under its support arrangements of $61 million (US). The mark-to-market loss on these hedge positions amounted to $38 million (US) at December 31, 2002, based upon a spot gold price of $347 (US). As the gold price rises, Cameco may need to increase the stipulated per ounce limits. For a summary of the Company's share of future gold sale and delivery commitments, see Note 25 to the Consolidated Financial Statements of the Company for the fiscal year ended December 31, 2002.

The extent of future gold price hedging by AGR and KGC will depend upon its assessment of gold market factors and other conditions. Although AGR and KGC utilize hedging programs to mitigate the price risk on a portion of future gold production, there can be no assurance that such programs will be successful.

**Replacement of Reserves**

The Kumtor mine is the Company's sole source of gold production, albeit indirectly through its indirect 1/3 equity ownership of KGC. The Boroo deposit is currently being developed by BGC and is expected to provide another source of gold production for the Company. Unless other reserves are discovered or extension to the existing orebodies are found, the Company's total gold reserves will decrease as reserves at Kumtor and Boroo are depleted.

**Decommissioning and Reclamation**

KGC's decommissioning and reclamation plan for the Kumtor mine was last updated in 1999. KGC estimates future decommissioning and reclamation costs to be approximately $20 million (US). To cover this future liability, a reclamation trust fund was established in 1998 to which contributions are made annually. BGC's decommissioning and reclamation plan for the Boroo mine estimates future decommissioning and reclamation costs to be approximately $3 million (US). Periodic contributions to an escrow account are planned to cover this future liability. It is not possible to predict what level of decommissioning and reclamation (and financial assurances relating thereto) may be required in the future by regulators.

**COMMON RISK FACTORS — URANIUM AND GOLD**

In addition to the risk factors referred to under "Nuclear Business-Risk Factors" and "Gold Business-Risk Factors", there are certain risks which are generally applicable to both the uranium and gold mining industries, as outlined in the following. The risks discussed here are not all inclusive. No guarantee is provided that other factors will not affect the Company in the future. This discussion should be read in conjunction with material in other sections of this Annual Information Form, including Management's Discussion and Analysis (Appendix "B"). As the context requires for the following information, reference to the Company or Cameco also includes Cameco's direct and indirect subsidiaries.

**Imprecision of Reserve and Resource Estimates**

Reserve and Resource figures included for uranium and gold are estimates and no assurances can be given that the indicated levels of uranium and gold will be produced or that Cameco will receive the gold price and uranium price assumed in determining its reserves. Such estimates are expressions of judgment based on knowledge, mining experience, analysis of drilling results and industry practices. Valid estimates made at a given time may significantly change when new information becomes available. While the Company believes that the reserve and resource estimates included are well established and reflects management's best estimates, by their nature reserve and resource estimates are imprecise and depend, to a certain extent, upon statistical inferences which may ultimately prove unreliable. Furthermore, market price fluctuations in uranium and gold, as well as increased capital or production costs or reduced recovery rates, may render ore reserves containing lower grades of mineralization uneconomic and may ultimately result in a restatement of reserves. The extent to which resources may ultimately be reclassified as proven or probable reserves is dependent upon the demonstration of their profitable recovery. The evaluation of reserves or resources is always influenced by economic and technological factors, which may change over time.

Resources figures included herein have not been adjusted in consideration of these risks and, therefore, no assurances can be given that any resource estimate will ultimately be reclassified as proven or probable reserves.

**Production Estimates**

Cameco prepares estimates of future production for particular operations. No assurance can be given that production estimates will be achieved. Failure to achieve production estimates could have an adverse impact on Cameco's future cash flows, earnings, results of operations

and financial condition. These production estimates are based on, among other things, the following factors: the accuracy of reserve estimates; the accuracy of assumptions regarding ground conditions and physical characteristics of ores, such as hardness and presence or absence of particular metallurgical characteristics; and the accuracy of estimated rates and costs of mining and processing.

Cameco's actual production may vary from estimates for a variety of reasons, including, among others: actual ore mined varying from estimates of grade, tonnage, dilution and metallurgical and other characteristics; short-term operating factors relating to the ore reserves, such as the need for sequential development of orebodies and the processing of new or different ore grades; risk and hazards associated with mining; natural phenomena, such as inclement weather conditions, underground floods, earthquakes, pit wall failures and cave-ins; and unexpected labour shortages or strikes.

**Mining, Refining and Conversion Risks and Insurance**

Cameco's business is capital intensive and subject to a number of risks and hazards, including environmental pollution, accidents or spills, industrial and transportation accidents, labour disputes, changes in the regulatory environment, natural phenomena (such as inclement weather conditions earthquakes, pit wall failures, cave-ins and underground flooding) and encountering unusual or unexpected geological conditions. The Company also contracts for the transport of its uranium and uranium products to refining, conversion and enrichment facilities in North America and Europe, which exposes the Company to transportation risks. Many of the foregoing risks and hazards could result in damage to, or destruction of, the Company's mineral properties or refining or conversion facilities, personal injury or death, environmental damage, delays in or interruption of or cessation of production from the Company's mines or refining or conversion facilities or in its exploration or development activities, delay in or inability to receive regulatory approvals to transport its uranium and uranium products, or costs, monetary losses and potential legal liability and adverse governmental action. In addition, due to the radioactive nature of the materials handled in uranium mining, refining, conversion and transport, additional costs and risks are incurred by the Company on a regular and ongoing basis.

Although the Company maintains insurance to cover some of these risks and hazards in amounts it believes to be reasonable, such insurance may not provide adequate coverage in the event of certain circumstances. No assurance can be given that such insurance will continue to be available or it will be available at economically feasible premiums or that it will provide sufficient coverage for losses related to these or other risks and hazards.

The Company may be subject to liability or sustain loss for certain risks and hazards against which it cannot insure or which it may elect not to insure because of the cost. This lack of insurance coverage could result in material economic harm to Cameco.

**Nature of Exploration and Development**

Exploration for and development of mineral properties involve significant financial risks which even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of an ore body may result in substantial rewards, few properties which are explored are ultimately developed into producing mines. Major expenses may be required to establish reserves by drilling, constructing mining and processing facilities at a site, developing metallurgical processes and extracting uranium and gold from ore. It is impossible to ensure that the current exploration and development programs of the Company will result in profitable commercial mining operations or replacement of current production at existing mining operations with new reserves.

Cameco's ability to sustain or increase its present levels of uranium and gold production is dependent in part on the successful development of new orebodies and/or expansion of existing mining operations. The economic feasibility of development projects is based upon many factors, including, among others: the accuracy of reserve estimates; metallurgical recoveries; capital and operating costs of such projects; government regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting, and environmental protection; and uranium and gold prices, which are highly cyclical. Development projects are also subject to the successful completion of feasibility studies, issuance of necessary governmental permits and availability of adequate financing.

Development projects have no operating history upon which to base estimates of future cash flow. Cameco's estimates of proven and probable reserves and cash operating costs are, to a large extent, based upon detailed geological and engineering analysis. Cameco also conducts feasibility studies which derive estimates of capital and operating costs based upon many factors, including, among others: anticipated tonnage and grades of ore to be mined and processed; the configuration of the orebody; ground and mining conditions; expected recovery rates of the gold and uranium from the ore; and anticipated environmental and regulatory compliance costs.

It is possible that actual costs and economic returns of current and new mining operations may differ materially from Cameco's best estimates. It is not unusual in the mining industry for new mining operations to experience unexpected problems during the start-up phase and to require more capital than anticipated.

**Governmental Regulation and Policy Risks**

Mining and refining operations and exploration activities, particularly uranium mining, refining, conversion and transport in Canada and the United States, are subject to extensive laws and regulations. Such regulations relate to production, development, exploration, exports, imports, taxes and royalties, labour standards, occupational health, waste disposal, protection and remediation of the environment, mines decommissioning and reclamation, mine safety, toxic substances, transportation safety and emergency response, and other matters. Compliance with such laws and regulations has increased the costs of exploring, drilling, developing, constructing, operating and closing the Company's mines and refining and other facilities. It is possible that, in the future, the costs, delays and other effects associated with such laws and regulations may impact the Company's decision as to whether to operate existing mines, ore refining and other facilities or, with respect to exploration and development properties, whether to proceed with exploration or development. The Company expends significant financial and managerial resources to comply with such laws and regulations. Cameco anticipates it will have to continue to do so as the historic trend toward stricter government regulation may continue. Because legal requirements are frequently changing and subject to interpretation, Cameco is unable to predict the ultimate cost of compliance with these requirements or their effect on operations. Furthermore, future changes in governments, regulations and policies, such as those affecting the Company's mining operations, uranium refining and conversion operations, and uranium transport, could materially and adversely affect the Company's results of operations and financial condition in a particular period or its long term business prospects.

Worldwide demand for uranium is directly tied to the demand for electricity produced by the nuclear power industry, which is also subject to extensive government regulation and policies. The development of mines and related facilities is contingent upon governmental approvals which are complex and time consuming to obtain and which, depending upon the location of the project, involve multiple governmental agencies. The duration and success of such approvals are subject to many variables outside the Company's control. The governments of Canada and the province of Saskatchewan have issued their approvals with respect to the development of the Cigar Lake project. Initially CLMC, and now Cameco and Cogema directly are proceeding to obtain various permits and licenses which are necessary to proceed with the project. In the event a production decision is made for Cigar Lake, any significant delays in obtaining such permits or licences could have a material adverse effect on the Company.

**Environmental Risks**

The Company has expended significant financial and managerial resources to comply with environmental protection laws, regulations and permitting requirements, and anticipates that it will be required to continue to do so in the future as the historical trend toward stricter environmental regulation may continue. The uranium industry is subject to not only the worker health, safety and environmental risks associated with all mining businesses, including potential liabilities to third parties for environmental damage, but also to additional risks uniquely associated with uranium mining and processing. The possibility of more stringent regulations exists in the areas of worker health and safety, the disposition of wastes, the decommissioning and reclamation of mining, milling, refining and conversion sites, and other environmental matters each of which could have a material adverse effect on the costs or the viability of a particular project.

The Company's domestic and foreign facilities operate under various operating and environmental permits, licences and approvals that contain conditions that must be met and the Company's right to continue operating its facilities is, in a number of instances, dependent upon compliance with such conditions. Failure to meet any such condition could have a material adverse affect on the Company's financial condition or results of operations.

**Counterparty/Credit Risk**

AGR and KGC engage in transactions to mitigate the price risk on a portion of future gold production (see "Gold Business-Risk Factors-Volatility and Sensitivity to Gold Prices") and Cameco enters into transactions to reduce the impact of fluctuations in currency exchange rates. These transactions expose the Company to the risk of default by the counterparties to such contracts. The Company manages this risk of default, or credit risk, by dealing only with financial institutions that meet its credit rating standards and by limiting exposures with individual counterparties.

In addition, Cameco's sales of uranium product and conversion services expose the Company to the risk of non-payment. The Company manages this risk by monitoring the credit worthiness of its customers and requiring pre-payment or other forms of payment security from customers with an unacceptable level of credit risk. As of March 31, 2003, 11% of Cameco forecast revenue under contract, for the period 2003 to 2005, were with customers whose creditworthiness did not meet Cameco's standards for unsecured payment terms. Of that percentage, one-half is attributable to Bruce Power, which has not established a credit rating.

Although the Company seeks to manage its credit risk exposure, there can be no assurance that the Company will be successful.

**Currency Fluctuations**

The Company's earnings and operating cash flow may also be affected by changes in the US/Canadian dollar exchange rate since most of its revenues are denominated in US dollars and many of its costs are denominated in Canadian dollars. Although the Company utilizes a hedging program to manage its exchange rate exposure, there can be no assurance that such a program will be successful.

**Political Risk**

See the Company's Management's Discussion and Analysis attached as Appendix "B".

**SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION**

The selected consolidated financial and operating information presented below should be read in conjunction with Management's Discussion and Analysis and the Company's Consolidated Financial Statements for the year ended December 31, 2002, notes thereto and other financial information included elsewhere in this Annual Information Form.

| | Year Ended December 31, | | |
|---|---|---|---|
| (in millions except per common share amounts) | 2002 | 2001 | 2000 |
| Total Revenue | $ 748.30 | $ 700.80 | $ 688.90 |
| Earnings (loss) from operations | $ 88.60 | $ 94.80 | $ (45.70) |
| - per common share | $ 1.59 | $ 1.71 | $ (0.82) |
| Net earnings (loss) | $ 46.10 | $ 55.90 | $ (87.20) |
| - per common share | $ 0.83 | $ 1.01 | $ (1.57) |
| Cash provided by operations | $ 250.80 | $ 116.20 | $ 224.30 |
| - per common share | $ 4.50 | $ 2.10 | $ 4.04 |
| Total Assets | $2,945.20 | $2,947.30 | $2,800.50 |
| Long term debt not maturing within one year | $ 218.30 | $ 327.80 | $ 269.70 |
| Cash dividends declared per common share | $ 0.50 | $ 0.50 | $ 0.50 |

**2002 CONSOLIDATED FINANCIAL STATEMENTS**

The Company's 2002 Consolidated Financial Statements are attached as Appendix "A".

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Company's Management's Discussion and Analysis is attached as Appendix "B".

## MINERAL RESERVES AND RESOURCES – QUALIFIED PERSON

Reserve and resource estimates for Cameco's material mining properties, namely, McArthur River, Cigar Lake and Kumtor, as presented in this Annual Information Form are prepared by or under the supervision of a qualified person, Alain Gaston Mainville, Geologist and Professional Geoscientist, who is Manager, Mining Resources and Methods at Cameco. Cameco's reserve and resource estimates are extracted from internally generated data or audited reports. No independent verification of Cameco's reserve and resource estimates has been performed.

## MARKET FOR SECURITIES

The Company's common shares are listed and traded on The Toronto Stock Exchange (CCO) and the New York Stock Exchange (CCJ).

Also listed and traded on the New York Stock Exchange are the Company's 8.75% Preferred Securities (CCJPR), a series of junior subordinated debentures which are due in 2047.

## DIRECTORS AND OFFICERS

### Directors

| Name, Office held in Corporation and Municipality of Residence | Principal Occupation or Employment | Director Since (1) |
|---|---|---|
| JOHN S. AUSTON (2, 6)<br>West Vancouver, British Columbia | Geologist; Corporate Director 2000 to present; prior: President, Director and Chief Executive Officer, Ashton Mining of Canada Inc. 1996-2000; | 1999 |
| JOE F. COLVIN (2, 4, 6)<br>Kiawah Island, South Carolina, U.S.A. | President and Chief Executive Officer, Nuclear Energy Institute 1996 to present; prior: Executive Vice-President and Chief Operating Officer, Nuclear Energy Institute Inc. 1994 to 1996. | 1999 |
| HARRY D. COOK (4)<br>La Ronge, Saskatchewan | Chief, Lac La Ronge Indian Band 1987 to present; President, Kitsaski Management Limited Partnership, Prince Albert Grand Council Executive Board Member, Federation of Saskatchewan Indian Nations Taxation Commission Board Member and Indian Government Commission member. | 1992 |
| JAMES R. CURTISS (4, 5)<br>Brookeville, Maryland, U.S.A. | Lawyer, Partner, Winston & Strawn 1993 to present; prior: Commissioner US Nuclear Regulatory Commission 1988-1993. | 1994 |

| Name, Office held in Corporation and Municipality of Residence | Principal Occupation or Employment | Director Since (1) |
|---|---|---|
| GEORGE S. DEMBROSKI[2, 5, 6]<br>Toronto, Ontario | Corporate Director 1998 to present; prior: Vice-Chairman and Director, RBC Dominion Securities Limited (investment dealer) 1981-1998. | 1996 |
| GERALD W. GRANDEY[2]<br>President and Chief Executive Officer<br>Saskatoon, Saskatchewan | Assumed current position 2003; prior: President 2000-2002; Executive Vice-President 1997-2000; Senior Vice-President, Marketing and Corporate Development 1993-1997. | 2000 |
| NANCY E. HOPKINS [2, 3]<br>Saskatoon, Saskatchewan | Lawyer, Partner, McDougall Gauley 1984 to present. Effective January 1, 2001 Gauley & Company merged with McDougall Ready to form McDougall Gauley. | 1992 |
| J.W. GEORGE IVANY [3, 5, 6]<br>Kelowna, British Columbia | Corporate Director, 1999 to present; prior: President and Vice-Chancellor, University of Saskatchewan 1989-1999. | 1999 |
| A. NEIL McMILLAN[2, 3, 4]<br>Saskatoon, Saskatchewan | President, Claude Resources Inc. 1996 to present. | 2001 |
| ROBERT W. PETERSON[3, 4, 5]<br>Regina, Saskatchewan | President and Chief Operating Officer Denro Holdings Ltd. 1994 to present. | 1994 |
| VICTOR J. ZALESCHUK [3, 5, 6, 7]<br>Calgary, Alberta | Corporate Director, November 5, 2001 to present; prior: President and Chief Executive Officer, Nexen Inc. (formerly Canadian Occidental Petroleum Ltd.) from June 1, 1997 to June 1, 2001; Senior Vice-President Finance and Chief Financial Officer 1986 to May 31, 1997. | 2001 |

(1) Each director will hold office until the next annual meeting unless such director's office is earlier vacated in accordance with the corporate law requirements applicable to the Company from time to time.
(2) Member of the strategic planning committee.
(3) Member of the audit committee.
(4) Member of the environmental and safety committee.
(5) Member of the compensation and human resources committee.
(6) Member of the nominating and corporate governance committee.
(7) Appointed audit committee financial expert.

**Officers**

| Name, Office and Municipality of Residence | Principal Occupation for Past Five Years |
|---|---|
| BERNARD M. MICHEL<br>Chair<br>Saskatoon, Saskatchewan | Assumed current position 2003; prior: Chair and Chief Executive Officer 2000-2002; Chair, President and Chief Executive Officer 1993-2000; President and Chief Executive Officer 1991-1993, President and Chief Operating Officer 1990-1991. |
| GERALD W. GRANDEY<br>President and Chief Executive Officer<br>Saskatoon, Saskatchewan | Assumed current position 2003; prior: President, 2000-2002; Executive Vice-President 1997-2000; Senior Vice-President, Marketing and Corporate Development 1993-1997. |
| DAVID M. PETROFF<br>Senior Vice-President, Finance and Administration and Chief Financial Officer<br>Saskatoon, Saskatchewan | Assumed current position April 24, 1997; prior: Senior Vice-President, Finance and Administration 1997, Cameco Corporation; Vice-President and Treasurer 1991-1997, Denison Mines Limited. |
| RITA M. MIRWALD<br>Senior Vice-President, Human Resources and Corporate Relations<br>Saskatoon, Saskatchewan | Assumed current position April 24, 1997; prior: Vice-President, Human Resources and Corporate Relations, 1995-1997; Vice-President, Corporate Relations 1994-1995; Director, Corporate Affairs and Investors Relations 1990-1993. |
| GARY M.S. CHAD<br>Senior Vice-President, Law, Regulatory Affairs and Corporate Secretary<br>Saskatoon, Saskatchewan | Assumed current position January 1, 2000; prior: Senior General Counsel and Secretary 1990-1999. |
| GEORGE B. ASSIE<br>Senior Vice-President, Marketing and Business Development<br>Saskatoon, Saskatchewan | Assumed current position January 1, 2003; prior: President Cameco Inc., Eden Prairie, Minnesota. |
| TERRY ROGERS<br>Senior Vice-President and Chief Operating Officer<br>Saskatoon, Saskatchewan | Assumed current position February 1, 2003; prior: President Kumtor Operating Company, Kyrgyzstan. |

The directors and officers of Cameco as a group, beneficially own, directly or indirectly, less than 1% of the issued and outstanding common shares of Cameco.

**ADDITIONAL INFORMATION**

The Company will provide to any person, upon request to the Secretary of the Company:

(1) When the securities of the Company are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus has been filed in respect of a distribution of its securities,

(a) one copy of the Annual Information Form of the Company, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in the Annual Information Form;

(b) one copy of the comparative financial statements of the Company for is most recently completed financial year together with the accompanying report of the auditor and one copy of any interim financial statement of the Company subsequent to the financial statements for its most recently completed financial year;

(c) one copy of the management proxy circular of the Company in respect of its most recent annual meeting of shareholders; and

(d) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not required to be provided under (a) to (c) above; or

(2) any other time, one copy of any document referred to in (1)(a), (b) and (c) above, provided the Company may require the payment of a reasonable charge if the request is made by a person who is not a security holder of the Company.

Additional information, including directors' and officers' remuneration and indebtedness to the Company, principal holders of the Company's securities and options to purchase securities is contained in the Management Proxy Circular dated April 16, 2003 and additional information is provided in the Company's Consolidated Financial Statement for the fiscal year-ended December 31, 2002. Copies of the Management Proxy Circular are available upon request from the Secretary of the Company at 2121-11th Street West, Saskatoon, Saskatchewan, S7M 1J3, telephone: (306) 956-6200.

**EXHIBIT 2**

Cameco Corporation

2002 Consolidated Audited Financial Statements

FINANCIAL INFORMATION

*Subsequent Event at McArthur River see page 31*

# resilient

Cameco continues to demonstrate **financial strength.**

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## Report of Management's Accountability

The accompanying consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

Management is also responsible for the information disclosed in the management's discussion and analysis including responsibility for the existence of appropriate information systems, procedures and controls to ensure that the information used internally by management and disclosed externally is complete and reliable in all material respects.

The integrity and reliability of Cameco's reporting systems are achieved through the use of formal policies and procedures, the careful selection of employees and appropriate delegation of authority and division of responsibilities. Internal accounting controls are monitored by the internal auditor. Cameco's code of ethics, which is communicated to all levels in the organization, requires employees to maintain high standards in their conduct of the corporation's affairs.

Our shareholders' independent auditors, KPMG LLP, whose report on their examination follows, have audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards.

The board of directors annually appoints an audit committee comprised of directors who are not employees of the corporation. This committee meets regularly with management, the internal auditor and the shareholders' auditors to review significant accounting, reporting and internal control matters. Both the internal and shareholders' auditors have unrestricted access to the audit committee. The audit committee reviews the financial statements, the report of the shareholders' auditors, and management's discussion and analysis and submits its report to the board of directors for formal approval.

Original signed by David M. Petroff

Senior Vice-President, Finance and Administration
and Chief Financial Officer

February 14, 2003

## Auditor's Report

**To the Shareholders of Cameco Corporation**

We have audited the consolidated balance sheets of Cameco Corporation as at December 31, 2002 and 2001 and the consolidated statements of earnings (loss), retained earnings and cash flows for each of the years in the three-year period ended December 31, 2002. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 2002 and 2001 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2002 in accordance with Canadian generally accepted accounting principles.

Original signed by $KPMG_{LLP}$

Chartered Accountants
Saskatoon, Canada

February 11, 2003, except as to note 19(c) which is as of February 14, 2003 and note 31 which is as of April 16, 2003

## Consolidated Balance Sheets

| As at December 31 | 2002 | 2001 |
|---|---|---|
| | | (Thousands) |
| **Assets** | | |
| Current assets | | |
| Cash | $ 58,096 | $ 33,737 |
| Accounts receivable | 186,369 | 255,963 |
| Inventories [note 3] | 339,684 | 354,384 |
| Supplies and prepaid expenses | 45,731 | 44,574 |
| Current portion of long-term receivables, investments and other [note 5] | 20,163 | 30,304 |
| | 650,043 | 718,962 |
| Property, plant and equipment [note 4] | 2,037,613 | 1,994,424 |
| Long-term receivables, investments and other [note 5] | 257,523 | 233,961 |
| **Total assets** | **$ 2,945,179** | **$ 2,947,347** |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | $ 131,932 | $ 108,096 |
| Dividends payable | 6,998 | 6,959 |
| Current portion of long-term debt [note 6] | 6,318 | 26,189 |
| Current portion of other liabilities [note 8] | 16,931 | 4,182 |
| Future income taxes [note 15] | 9,198 | 21,311 |
| | 171,377 | 166,737 |
| Long-term debt [note 6] | 218,290 | 327,773 |
| Provision for reclamation [note 7] | 155,036 | 139,583 |
| Other liabilities [note 8] | 9,523 | 9,787 |
| Future income taxes [note 15] | 522,979 | 480,520 |
| | 1,077,205 | 1,124,400 |
| Minority interest | 18,078 | — |
| Shareholders' equity | | |
| Preferred securities [note 9] | 193,763 | 195,229 |
| Share capital [note 10] | 680,934 | 670,031 |
| Contributed surplus | 472,488 | 472,488 |
| Retained earnings | 483,658 | 465,420 |
| Cumulative translation account [note 11] | 19,053 | 19,779 |

| | | | | |
|---|---|---|---|---|
| | | 1,849,896 | | 1,822,947 |
| **Total liabilities and shareholders' equity** | **$** | **2,945,179** | **$** | **2,947,347** |

Commitments and contingencies [notes 6, 7, 18, 19, 24, 25]

See accompanying notes to consolidated financial statements.

**Approved by the board of directors**

**Original signed by Gerald W. Grandey and Nancy E. Hopkins**

## Consolidated Statements of Earnings (Loss)

| For the year ended December 31 | 2002 | 2001 | 2000 |
|---|---|---|---|
| | | (Thousands) | |
| **Revenue from** | | | |
| Products and services | $ 748,334 | $ 700,839 | $ 688,940 |
| **Expenses** | | | |
| Products and services sold | 486,155 | 422,067 | 413,880 |
| Depreciation, depletion and reclamation | 112,755 | 129,387 | 117,005 |
| Administration | 41,693 | 36,644 | 38,232 |
| Exploration | 21,532 | 18,203 | 20,804 |
| Research and development | 2,257 | 2,097 | 2,452 |
| Interest and other [note 12] | (1,957) | (2,366) | (5,657) |
| Gain on property interests [note 23] | (2,670) | — | — |
| Writedown of mineral properties [note 4] | — | — | 127,738 |
| Provision for waste disposal [note 13] | — | — | 20,218 |
| | 659,765 | 606,032 | 734,672 |
| **Earnings (loss) from operations** | 88,569 | 94,807 | (45,732) |
| Earnings from Bruce Power | 15,769 | 12,167 | — |
| Other income (expenses) [note 14] | (878) | 590 | 1,896 |
| **Earnings (loss) before income taxes and minority interest** | 103,460 | 107,564 | (43,836) |
| Income tax expense [note 15] | 48,871 | 42,343 | 34,501 |
| Minority interest | (871) | — | — |
| **Net earnings (loss)** | **55,460** | **65,221** | **(78,337)** |
| Preferred securities charges, net of tax [note 9] | 9,340 | 9,325 | 8,880 |
| **Net earnings (loss) attributable to common shares** | **$ 46,120** | **$ 55,896** | **($87,217)** |
| **Basic earnings (loss) per common share [note 26]** | **$ 0.83** | **$ 1.01** | **$ (1.57)** |
| **Diluted earnings (loss) per common share [note 26]** | **$ 0.83** | **$ 1.01** | **$ (1.57)** |

## Consolidated Statements of Retained Earnings

| For the year ended December 31 | 2002 | 2001 | 2000 |
|---|---|---|---|
| | | (Thousands) | |
| Retained earnings at beginning of year | $ 465,420 | $ 437,328 | $ 552,154 |
| Net earnings (loss) | 55,460 | 65,221 | (78,337) |
| Dividends on common shares | (27,882) | (27,804) | (27,609) |

| | | | |
|---|---|---|---|
| Preferred securities charges, net of tax [note 9] | (9,340) | (9,325) | (8,880) |
| **Retained earnings at end of year** | **$ 483,658** | **$ 465,420** | **$ 437,328** |

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

| For the year ended December 31 | 2002 | 2001 | 2000 |
|---|---|---|---|
| | | (Thousands) | |
| **Operating activities** | | | |
| Net earnings (loss) | $ 55,460 | $ 65,221 | $ (78,337) |
| Items not requiring (providing) cash: | | | |
| Depreciation, depletion and reclamation | 112,755 | 129,387 | 117,005 |
| Provision for future taxes [note 15] | 38,602 | 32,757 | 29,961 |
| Deferred charges (revenue) recognized | 1,375 | (10,373) | (15,727) |
| Earnings from Bruce Power [note 19] | (15,769) | (12,167) | — |
| Equity in (earnings) loss from associated companies [note 14] | 1,083 | — | — |
| Gain on property interests [note 23] | (2,670) | — | — |
| Writedown of mineral properties [note 4] | — | — | 127,738 |
| Provision for waste disposal [note 13] | — | — | 20,218 |
| Minority interest | (871) | — | — |
| Other operating items [note 16] | 60,877 | (88,578) | 23,447 |
| **Cash provided by operations [note 26]** | **250,842** | **116,247** | **224,305** |
| **Investing activities** | | | |
| Additions to property, plant and equipment | (90,226) | (58,275) | (94,977) |
| Increase in long-term receivables, investments and other | (42,597) | (94,808) | (991) |
| Decrease in long-term receivables, investments and other | 58,296 | 21,963 | 10,601 |
| Proceeds on sale of property, plant and equipment | 101 | 403 | 246 |
| **Cash used in investing** | **(74,426)** | **(130,717)** | **(85,121)** |
| **Financing activities** | | | |
| Decrease in debt | (130,295) | (25,485) | (61,561) |
| Increase in debt | 1,379 | 79,932 | — |
| Restricted cash | 11,138 | 409 | 79 |
| Issue of shares, net of issue costs | 10,903 | 5,208 | 911 |
| Shares repurchased | — | — | (46,484) |
| Preferred securities charges | (17,238) | (17,268) | (16,445) |
| Dividends | (27,944) | (27,720) | (28,022) |
| **Cash provided by (used in) financing** | **(152,057)** | **15,076** | **(151,522)** |
| Increase (decrease) in cash during the year | 24,359 | 606 | (12,338) |

| | | | |
|---|---|---|---|
| Cash at beginning of year | 33,737 | 33,131 | 45,469 |
| **Cash at end of year** | **$ 58,096** | **$ 33,737** | **$ 33,131** |
| Supplemental cash flow disclosure | | | |
| Interest paid | $ 16,572 | $ 22,860 | $ 28,601 |
| Income taxes paid | $ 5,309 | $ 3,916 | $ 4,316 |

See accompanying notes to consolidated financial statements.

## Notes to Consolidated Financial Statements

For the years ended December 31, 2002, 2001 and 2000

### 1. Cameco Corporation

Cameco Corporation is incorporated under the Canada Business Corporations Act. Cameco Corporation and its subsidiaries (collectively, Cameco or the company) are primarily engaged in the exploration for and the development, mining, refining and conversion of uranium for sale as fuel for generating electricity in nuclear power reactors in Canada and other countries. The company has an interest in the Bruce Power electrical generation plant in Ontario. Cameco is also involved in the exploration for and the development, mining and sale of gold.

### 2. Accounting Policies

A summary of significant accounting policies follows the notes to the consolidated financial statements.

### 3. Inventories

| | 2002 | 2001 |
|---|---|---|
| | (Thousands) | |
| **Uranium** | | |
| Concentrate | $ 284,052 | $ 305,252 |
| Broken ore | 8,586 | 5,360 |
| | 292,638 | 310,612 |
| **Conversion** | 39,097 | 31,946 |
| **Gold** | | |
| Broken ore | 4,189 | 8,368 |
| Finished | 3,760 | 3,458 |
| | 7,949 | 11,826 |
| **Total** | **$ 339,684** | **$ 354,384** |

### 4. Property, Plant and Equipment

| | Cost | Accumulated Depreciation and Depletion | 2002 Net | 2001 Net |
|---|---|---|---|---|
| | | | (Thousands) | |
| **Uranium** | | | | |
| Mining | $ 2,302,475 | $ 892,652 | $ 1,409,823 | $ 1,436,057 |
| Development | 347,206 | — | 347,206 | 314,602 |
| **Conversion** | 250,862 | 124,577 | 126,285 | 126,898 |
| **Gold** | | | | |
| Mining | 229,612 | 146,071 | 83,541 | 96,999 |
| Development | 55,384 | — | 55,384 | 3,916 |
| **Other** | 47,038 | 31,664 | 15,374 | 15,952 |
| **Total** | **$ 3,232,577** | **$ 1,194,964** | **$ 2,037,613** | **$ 1,994,424** |

In 2000, as a result of depressed uranium prices, Cameco recorded a writedown of $127,738,000 relating to certain of its in situ leach mining assets located in the United States. The amount of the writedown was determined based on estimated future net cash flows and uranium price forecasts.

## 5. Long-Term Receivables, Investments and Other

| | 2002 | 2001 |
|---|---|---|
| | | (Thousands) |
| Kumtor Gold Company | | |
| Subordinated loan — principal [note 18] | $ 64,276 | $ 80,307 |
| Subordinated loan — interest | 292 | 501 |
| Restricted cash — debt reserve | 489 | 11,723 |
| Investments in associated companies | | |
| Investment in Technology Commercialization International, Inc. | 4,017 | 4,703 |
| Investment in UEX Corporation | 3,455 | — |
| Portfolio investments | | |
| Energy Resources of Australia Ltd. (market $18,688) | 17,564 | 17,564 |
| General Hydrogen Corporation | 6,323 | — |
| Interest in Bruce Power L.P. [note 19] | 130,218 | 81,416 |
| Deferred charges | 17,808 | 31,642 |
| Advances receivable | 22,704 | 23,593 |
| Accrued pension benefit asset [note 22] | 1,817 | 3,094 |
| Other | 8,723 | 9,722 |
| | 277,686 | 264,265 |
| Less current portion | (20,163) | (30,304) |
| **Net** | **$ 257,523** | **$ 233,961** |

The security agreement between Kumtor Gold Company (KGC) and its senior debt lenders requires that in order to make certain payments to shareholders and subordinated lenders, funds sufficient to meet those senior debt principal and interest payments scheduled to occur over the ensuing six months to be held in a debt reserve account until paid.

## 6. Long-Term Debt

| | 2002 | 2001 |
|---|---|---|
| | | (Thousands) |
| Debentures | $ 149,079 | $ 148, 830 |
| Commercial paper | 24,455 | 145,498 |
| Kumtor Gold Company [note 18] | | |
| Senior debt | 40,543 | 49,017 |
| Subordinated debt | 10,531 | 10,617 |
| | 224,608 | 353,962 |
| Less current portion | (6,318) | (26,189) |
| **Net** | **$ 218,290** | **$ 327,773** |

Cameco has $50,000,000 outstanding in senior unsecured debentures that bear interest at a rate of 7.0% per annum and will mature July 6, 2006. Cameco also has $100,000,000 outstanding in senior unsecured debentures that bear interest at a rate of 6.9% per annum and will mature July 12, 2006.

Cameco has a $200,000,000 three-year unsecured revolving credit facility that is available until December 4, 2005 and a $225,000,000 364-day unsecured revolving credit facility with a two-year term-out option. Cameco may also borrow directly from investors by issuing commercial paper. Commercial paper outstanding at December 31, 2002 was $15,482,000 (US) (2001 — $62,945,000 (Cdn) and $51,836,000 (US)) and bears interest at an average rate of 1.4% (2001 — 2.1%). These amounts are classified as long-term debt up to the limit available under the revolving credit facility.

Cameco has $293,638,000 ($143,800,000 (Cdn) and $94,858,000 (US)) in letter of credit facilities. Outstanding letters of credit at December 31, 2002 amounted to $208,975,000 (2001 — $147,454,000). The majority of the letters of credit relate to future reclamation and decommissioning liabilities [note 7].

The table below represents currently scheduled maturities of long-term debt over the next five years including Cameco's one-third share of Kumtor Gold Company principal repayments on debt.

| | (Thousands) |
|---|---|
| 2003 | $ 6,318 |
| 2004 | 12,637 |
| 2005 | 39,724 |
| 2006 | 163,296 |
| 2007 | 2,633 |
| **Total** | **$ 224,608** |

Cameco has guaranteed the repayment of KGC senior debt [note 18]. Cameco's contingent obligation under this guarantee exceeds the amount included in the Cameco long-term debt as at December 31, 2002 by $81,086,000 (2001 - $98,034,000).

## 7. Provision for Reclamation

| | 2002 | 2001 |
|---|---|---|
| | (Thousands) | |
| Uranium | $ 70,244 | $ 55,429 |
| Conversion | 72,682 | 73,601 |
| Gold | 12,110 | 10,553 |
| **Total** | **$ 155,036** | **$ 139,583** |

Cameco's estimates of decommissioning and reclamation costs are based on reclamation standards which meet or exceed regulatory requirements and are stated in current dollars. Elements of uncertainty in estimating these amounts include potential changes in regulatory requirements, decommissioning and reclamation alternatives and amounts to be recovered from other parties.

Cameco estimates total future decommissioning and reclamation costs for its operating assets to be $253,000,000. These estimates are formally reviewed by Cameco technical personnel at least every two years or more frequently as required by regulatory agencies. These costs are accrued and charged to operations using the unit-of-production method so that the estimated future liability will be fully provided when decommissioning and reclamation activities are undertaken. In connection with future decommissioning and reclamation costs, Cameco has provided financial assurances of $204,823,000 in the form of letters of credit to satisfy current regulatory requirements.

## 8. Other Liabilities

| | 2002 | 2001 |
|---|---|---|
| | (Thousands) | |
| Borrowed product | $ 12,952 | $ — |
| Accrued post-retirement benefit liability [note 22] | 4,092 | 3,809 |
| Deferred revenue | 2,102 | 2,848 |
| Other | 7,308 | 7,312 |
| | 26,454 | 13,969 |
| Less current portion | (16,931) | (4,182) |
| **Net** | **$ 9,523** | **$ 9,787** |

## 9. Preferred Securities

Cameco issued $125,000,000 (US), 8.75% preferred securities in denominations of $25 (US) each due September 30, 2047, accruing interest from the date of issuance payable quarterly commencing December 31, 1998.

The preferred securities are redeemable, at the option of Cameco, in whole or in part at any time on or after October 14, 2003, at a redemption price equal to 100% of the principal amount of the preferred securities to be redeemed plus any accrued and unpaid interest thereon to the date of redemption.

The principal amounts of the preferred securities, net of after-tax issue costs of $4,330,000 (Cdn) have been classified as equity, and interest payments on an after-tax basis are classified as distributions of equity, as Cameco has the unrestricted ability to settle its obligations by delivering common shares of Cameco.

## 10. Share Capital

Authorized share capital:

Unlimited number of first preferred shares
Unlimited number of second preferred shares
Unlimited number of voting common shares, and
One Class B share

### (a) Common Shares

| **Number Issued** | 2002 | 2001 | 2000 |
|---|---|---|---|
| | | (Number of Shares) | |
| Beginning of year | 55,671,440 | 55,512,440 | 57,238,469 |
| Issued: | | | |
| Shares repurchased | — | — | (2,350,101) |
| Share savings plan | — | — | 607,072 |
| Stock option plan [note 20] | 314,433 | 159,000 | 17,000 |
| **Issued share capital** | **55,985,873** | **55,671,440** | **55,512,440** |

| **Amount** | 2002 | 2001 | 2000 |
|---|---|---|---|
| | | (Thousands) | |
| Beginning of year | $ 676,404 | $ 672,487 | $ 693,560 |
| Issued: | | | |
| Shares repurchased | — | — | (28,201) |
| Share savings plan | — | — | 6,830 |
| Stock option plan [note 20] | 9,087 | 3,917 | 298 |
| **Issued share capital** | **685,491** | **676,404** | **672,487** |
| Less loans receivable [note 20] | (4,557) | (6,373) | (6,836) |
| **End of year** | **$ 680,934** | **$ 670,031** | **$ 665,651** |

Shares repurchased relate to an open market share repurchase program for a one-year period ending September 28, 2000. The difference of $18,283,000 between the share repurchase price and the book value of the Cameco shares acquired during 2000 has been charged to contributed surplus.

On December 31, 1990, Cameco issued 10-year, 11% redeemable and exchangeable bonds registered to subscribing employees under a share savings plan. The plan matured in 2000 and all outstanding bonds were exchanged for Cameco shares or redeemed.

### (b) Class B Share

One Class B share issued during 1988 and assigned $1 of share capital, entitles the shareholder to vote separately as a class in respect of any proposal to locate the head office of Cameco to a place not in the province of Saskatchewan.

**11. Cumulative Translation Account**

The balance of $19,053,000 (2001 — $19,779,000) represents the cumulative unrealized net exchange gain on Cameco's net investments in foreign operations, and on the foreign currency debt and preferred securities designated as hedges of the net investments.

**12. Interest and Other**

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| | | (Thousands) | |
| Interest on long-term debt | $ 14,478 | $ 20,116 | $ 26,521 |
| Other interest and financing charges | 2,039 | 1,616 | 1,792 |
| Interest income | (6,842) | (10,773) | (15,903) |
| Foreign exchange gains | (1,648) | (791) | (2,279) |
| Mark-to-market loss | 1,811 | — | — |
| Capitalized interest | (11,795) | (12,534) | (15,788) |
| **Net** | **$ (1,957)** | **$ (2,366)** | **$ (5,657)** |

As a result of the Kumtor pit wall failure, certain gold contracts designated as hedges of Kumtor's gold production were no longer effective. Mark-to-market losses on these contracts have been expensed.

**13. Provision for Waste Disposal**

The terms of the agreement to transfer assets from Canada Eldor Inc. to Cameco on October 5, 1988 included a formula for sharing any future costs related to certain specified wastes accumulated by Canada Eldor Inc. and transferred to Cameco.

In 2000, an agreement was reached between the government of Canada and the communities of Port Hope, Hope Township and Clarington for the cleanup, storage and long-term management of certain specified wastes covered under the agreement. Accordingly, Cameco recognized a liability of $20,218,000 representing its maximum remaining obligation.

**14. Other Income (Expenses)**

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| | | (Thousands) | |
| Dividends on portfolio investments | $ 205 | $ 590 | $ 1,896 |
| Equity in earnings (loss) of associated companies | (1,083) | — | — |
| **Net** | **$ (878)** | **$ 590** | **$ 1,896** |

## 15. Income Taxes

The significant components of future income tax assets and liabilities at December 31 are as follows:

| | 2002 | 2001 |
|---|---|---|
| | (Thousands) | |
| **Assets** | | |
| Property, plant and equipment | $ 52,638 | $ 40,718 |
| Provision for reclamation | 52,464 | 47,000 |
| Foreign exploration and development | 27,771 | 26,120 |
| Other | 4,634 | 4,989 |
| Future income tax assets before valuation allowance | 137,507 | 118,827 |
| Valuation allowance | (69,505) | (45,790) |
| **Future income tax assets, net of valuation allowance** | **$ 68,002** | **$ 73,037** |
| **Liabilities** | | |
| Property, plant and equipment | $ **584,321** | $ 544,957 |
| Inventories | 9,198 | 21,311 |
| Long-term investments | 6,660 | 8,600 |
| **Future income tax liabilities** | **$ 600,179** | **$ 574,868** |
| **Net future income tax liabilities** | **$ 532,177** | **$ 501,831** |
| Less current portion | (9,198) | (21,311) |
| | **$ 522,979** | **$ 480,520** |

The provision for income taxes differs from the amount computed by applying the combined expected federal and provincial income tax rate to earnings before income taxes. The reasons for these differences are as follows:

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| | | (Thousands) | |
| Earnings (loss) before income taxes and minority interest | $ 103,460 | $ 107,564 | $ (43,836) |
| Combined federal and provincial tax rate | 45.4% | 45.5% | 45.6% |
| Computed income tax expense (recovery) | 46,971 | 48,942 | (20,000) |
| Increase (decrease) in taxes resulting from: | | | |
| Provincial royalties and other taxes | 8,883 | 10,212 | 13,959 |
| Federal resource allowance | (5,918) | (6,710) | (10,152) |
| Difference between Canadian rate and rates applicable to subsidiaries in other countries | (7,379) | (12,895) | (9,045) |
| Writedown of mineral properties | — | — | 52,003 |
| Large corporations and other taxes | 4,521 | 4,558 | 5,303 |
| Other | 1,793 | (1,764) | 2,433 |
| **Income tax expense** | **$ 48,871** | **$ 42,343** | **$ 34,501** |

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| | | (Thousands) | |
| Current income taxes | | | |
| Canada | $ 7,895 | $ 7,704 | $ 3,552 |

| | | | |
|---|---|---|---|
| Other | 2,374 | 1,882 | 988 |
| | **$ 10,269** | **$ 9,586** | **$ 4,540** |
| Future income taxes (recovery) | | | |
| Canada | $ 39,419 | $ 31,047 | $ 33,301 |
| United States | — | — | (4,284) |
| Other | (817) | 1,710 | 944 |
| | **$ 38,602** | **$ 32,757** | **$ 29,961** |
| **Net** | **$ 48,871** | **$ 42,343** | **$ 34,501** |

## 16. Other Operating Items

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| | | (Thousands) | |
| Changes in non-cash working capital: | | | |
| Accounts receivable | $ 27,396 | $ (82,094) | $ (6,162) |
| Interest receivable | 205 | 515 | 10,954 |
| Inventories | 10,932 | 7,469 | 19,709 |
| Supplies and prepaid expenses | (1,157) | (24) | 1,703 |
| Accounts payable and accrued liabilities | 18,342 | 5,992 | 9,654 |
| Other liabilities | 279 | (2,117) | (2,745) |
| Hedge position settlements | 14,794 | (11,328) | (11,746) |
| Reclamation payments | (6,878) | (5,655) | (4,011) |
| Other | (3,036) | (1,336) | 6,091 |
| **Total** | **$ 60,877** | **$ (88,578)** | **$ 23,447** |

## 17. Joint Ventures

Cameco conducts a portion of its development, mining and milling activities through joint ventures.

Cameco's significant uranium joint venture interests are comprised of:

| | |
|---|---|
| **Producing:** | |
| McArthur River | 69.81% |
| Key Lake | 83.33% |
| **Non-producing:** | |
| Cigar Lake | 50.03% |

Uranium joint ventures allocate inventory production to each joint venture participant and the joint venture participant derives revenue directly from the sale of such inventory. Mining and milling expenses incurred by the joint venture are included in the cost of inventory. Cameco's share of assets and liabilities held through uranium joint ventures is as follows:

| | 2002 | 2001 |
|---|---|---|
| | | (Thousands) |
| Current assets | $ 16,327 | $ 14,776 |
| Property, plant and equipment, at cost | 1,141,576 | 1,121,915 |
| | **$ 1,157,903** | **$ 1,136,691** |
| Current liabilities | $ 12,693 | $ 11,966 |
| Net investment | 1,145,210 | 1,124,725 |
| | **$ 1,157,903** | **$ 1,136,691** |

Cameco's gold joint venture interests are comprised of a 33.33% participation interest in Kumtor Gold Company. Kumtor Gold Company obtains revenue directly from the sale of products. Cameco's share of the assets and liabilities, revenue and expenses, and cash flows relating to the Kumtor joint venture is as follows:

| | 2002 | 2001 |
|---|---|---|
| | (Thousands) | |
| Current assets | $ 28,933 | $ 41,422 |
| Property, plant and equipment | 89,678 | 104,822 |
| | **$ 118,611** | **$ 146,244** |
| Current liabilities | $ 6,772 | $ 4,742 |
| Long-term liabilities | 85,352 | 104,721 |
| Equity | 26,487 | 36,781 |
| | **$ 118,611** | **$ 146,244** |

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| | | (Thousands) | |
| Revenues | $ 82,361 | $ 110,225 | $ 104,983 |
| Expenses | (91,848) | (81,523) | (101,838) |
| **Net earnings (loss)** | **$ (9,487)** | **$ 28,702** | **$ 3,145** |
| **Cash provided by (used in)** | | | |
| Operating activities | $ 13,142 | $ 39,804 | $ 31,821 |
| Investing activities | (4,716) | (2,492) | (1,242) |
| Financing activities | (16,013) | (44,517) | (29,970) |
| **Increase (decrease) in cash during the year** | **$ (7,587)** | **$ (7,205)** | **$ 609** |

**18. Kumtor Gold Company (KGC) Joint Venture**

On May 26, 1994, Cameco, the Republic of Kyrgyzstan and Kyrgyzaltyn, an instrumentality of the Republic, signed an amended joint venture master agreement that provided for the exploration, development, operation and arrangement of financing, of the Kumtor gold project by Cameco. KGC was formed in the Republic of Kyrgyzstan as a joint stock company to hold the assets of the Kumtor gold project pursuant to a master agreement among the parties. Kyrgyzaltyn holds a two-thirds interest in KGC and Cameco holds a one-third interest.

During 2002, KGC entered into a new credit agreement with commercial banks to refinance its senior debt. The shares and offshore bank accounts of KGC secure the senior debt. Cameco has guaranteed the repayment of KGC senior debt and has purchased political risk insurance to support the guarantee.

Cameco has proportionately consolidated its one-third interest in KGC.

**KGC's long-term debt at December 31, is as follows:**

| | 2002 | 2001 |
|---|---|---|
| | | (Thousands) |
| **Senior debt (US dollar denominated):** | | |
| • Commercial banks $77,000,000 (US) repayable in six semi-annual installments on June 1 and December 1 commencing December 1, 2003. Interest is based on LIBOR plus an applicable percentage based on credit rating ranging from 0.8% to 1.55%. | $ 121,629 | $ — |
| • Commercial banks (2001 - $46,500,000) (US) repayable in three equal semi-annual installments, with interest based on LIBOR plus 0.9% Political risk insurance was purchased separately by KGC. | — | 74,056 |
| • Export Development Corporation (EDC) (2001 - $20,833,333) (US) | — | 33,179 |
| • International Finance Corporation (IFC) (2001 - $12,500,000) (US) | — | 19,908 |
| • European Bank for Reconstruction and Development (EBRD) (2001 - $12,500,000) (US) | — | 19,908 |
| The EDC, IFC and EBRD interest rate was based on LIBOR plus 3% which included a premium for political risk insurance. These loans were repayable in five equal semi-annual installments. | | |
| Total senior debt | $ 121,629 | $ 147,051 |
| **Subordinated debt (US dollar denominated):** | | |
| • Shareholder loan from Cameco $61,037,276 (2001 - $75,637,276) (US) with interest based on LIBOR plus 6%, repayable in 12 equal semi-annual installments commencing on December 2, 1999. In accordance with the terms of the loan agreement, certain installments have been deferred amounting to $16,272,000 (2001 - $12,965,000) (US). | 96,414 | 120,460 |
| • EBRD $10,000,000 (2001 - $10,000,000) (US) | 15,796 | 15,926 |
| • IFC $10,000,000 (2001 - $10,000,000) (US) | 15,796 | 15,926 |
| The IFC and EBRD subordinated debt is repayable in four equal semi-annual installments commencing on December 2, 2005, extendable at the option of EBRD or IFC to commence no later than December 2, 2013. The interest rate applicable to the EBRD and IFC subordinated debt is based on the cash generated by the project subject to a minimum interest rate. The annualized rate for 2002 was approximately 4.6% (2001 - 5.8%). | | |
| **Total KGC debt** | **$ 249,635** | **$ 299,363** |

Cameco's one-third proportionate share of KGC senior debt is $40,543,000 (2001 — $49,017,000) and of KGC's third party subordinated debt is $10,531,000 (2001 — $10,617,000) [note 6].

**19. Investment in Bruce Power L.P. (Bruce Power)**

(a) On May 12, 2001, Bruce Power finalized a long-term lease with Ontario Power Generation Inc. (OPG) to operate the Bruce nuclear power facility. The term of the lease is 18 years with an option to extend the lease for up to an additional 25 years.

Cameco holds a 15% limited partnership interest in Bruce Power and has committed to invest up to an aggregate of $100,000,000 in the project. The equity method is being used to account for this investment.

Under the lease agreement, OPG, as the owner of the Bruce nuclear plants, is responsible to decommission the Bruce facility and to provide funding and meet other requirements that the Canadian Nuclear Safety Commission (CNSC) may require of Bruce Power as licensed operator of the Bruce facility. OPG is also responsible to manage radioactive waste associated with decommissioning of the Bruce nuclear plants.

In addition to investment commitments, Cameco has provided the following guarantees relating to Bruce Power:

(i) Licensing assurances to Canadian Nuclear Safety Commission of $41,686,000.

(ii) Guarantees to customers under power sale agreements of up to $15,790,000.

(iii) Termination payments to OPG pursuant to the lease agreement of $26,250,000.

(b) Cameco has entered into fuel supply agreements with Bruce Power for the procurement of fabricated fuel. Under these agreements, Cameco will supply uranium and conversion services and finance the purchase of fabrication services. Contract terms are at market rates and on normal trade terms. During 2002, sales of uranium and conversion services to Bruce Power amounted to approximately 2% of Cameco's total revenue. At December 31, 2002, amounts receivable under these agreements totalled $18,349,000 (2001 - $39,572,000).

(c) On December 23, 2002, Cameco, TransCanada PipeLines Limited (TransCanada) and BPC Generation Infrastructure Trust (BPC), amongst others, signed a heads of agreement with British Energy plc (British Energy) to purchase its share of Bruce Power. The master purchase agreement with respect to the transaction was completed on January 17, 2003. The transaction closed on February 14, 2003.

Upon closing, Cameco increased its ownership interest in Bruce Power from 15% to 31.6%. Each of Cameco, TransCanada and BPC will hold, directly or indirectly, a 31.6% interest in Bruce Power with the Power Workers' Union Trust holding a 4% interest and the Society of Energy Professionals Trust holding a 1.2% interest. Cameco's purchase price for the additional interest in Bruce Power was approximately $209,000,000 subject to final closing adjustments. The purchase price was financed with cash and debt.

In addition, Cameco, TransCanada and BPC loaned Bruce Power funds to repay $225,000,000, plus accrued interest, in deferred lease payments to OPG. Cameco's share was $75,000,000 plus accrued interest. Cameco, TransCanada and BPC have assumed the obligations to provide financial guarantees required by the operator licences, the lease agreement and the power sales contracts. It is estimated that Cameco's financial assurances to Bruce Power, subsequent to closing, will be approximately $200,000,000.

## 20. Stock Option Plan

Cameco has established a stock option plan under which options to purchase common shares may be granted to directors, officers and other employees of Cameco. Options granted under the stock option plan have an exercise price of not less than the closing price quoted on the Toronto Stock Exchange for the common shares of Cameco on the trading day prior to the date on which the option is granted. The options under the original plan expire 10 years from the date of the grant of the option.

Prior to 1999, participants were eligible to receive loans from Cameco to assist in the purchase of common shares pursuant to the exercise of options. The maximum term of the loans was 10 years from the date of the grant of the related option. The loans bear interest at a rate equivalent to the regular dividends paid on the common shares to which the loans were provided. Common shares purchased by way of a company loan are held in escrow in the account of the option holder and are pledged as security for the respective loan until the loan has been repaid in full.

The aggregate number of common shares that may be issued, after December 5, 1995, pursuant to the Cameco stock option plan shall not exceed 5,243,403, of which 995,729 shares have been issued.

Outstanding loans are shown as a reduction of share capital.

During 1999, Cameco amended the stock option plan and ceased to offer loans to assist in the purchase of common shares pursuant to the exercise of options. The options available under the amended stock option plan vest over three years and expire eight years from the date granted.

Stock option transactions for the respective years were as follows:

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| | | (Number of Shares) | |
| Beginning of year | 2,195,783 | 1,987,883 | 1,763,933 |
| Options granted | 489,050 | 482,850 | 404,800 |
| Options exercised [note 10] | (314,433) | (159,000) | (17,000) |
| Options cancelled | (146,650) | (115,950) | (163,850) |
| **End of year** | **2,223,750** | **2,195,783** | **1,987,883** |
| **Exercisable** | **1,331,550** | **1,362,983** | **1,122,133** |

Upon exercise of certain existing options, additional options in respect of 272,550 shares would be granted.

Weighted average exercise prices were as follows:

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| Beginning of year | $ 37.34 | $ 38.72 | $ 43.12 |
| Options granted | 43.88 | 28.98 | 18.76 |
| Options exercised | 28.90 | 24.64 | 17.51 |
| Options cancelled | 52.33 | 43.52 | 39.06 |
| **End of year** | **$ 38.98** | **$ 37.34** | **$ 38.72** |
| **Exercisable** | **$ 41.41** | **$ 44.09** | **$ 46.66** |

Total options outstanding and exercisable at December 31, 2002 were as follows:

| 2002 | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| **Option Price Per Share** | **Number** | **Weighted Average Remaining Life** | **Weighted Average Exercisable Price** | **Number** | **Weighted Average Exercisable Price** |
| $ 15.00-35.00 | 1,055,000 | 5.7 | $ 26.84 | 632,000 | $ 27.43 |
| 35.01-55.00 | 968,800 | 7.0 | 44.99 | 499,600 | 46.08 |
| 55.01-75.50 | 199,950 | 4.0 | 73.92 | 199,950 | 73.92 |

**21. Stock-Based Compensation**

Effective January 1, 2002, Cameco adopted the new CICA Handbook Section 3870, which requires that a fair value based method of accounting be applied to direct awards of stock to employees. Under the new standard, Cameco is allowed to continue its existing policy of recording no compensation cost on the grant of stock options to employees with the addition of pro forma information. Cameco has applied the pro forma disclosure provisions of the new standard to awards granted on or after January 1, 2002. The pro forma effect of awards granted prior to January 1, 2002, has not been included.

The standard requires the disclosure of pro forma net earnings and earnings per share information as if the entity had accounted for employee stock options under the fair-value method. The fair value of options issued was determined using the Black-Scholes option pricing model with the following assumptions: risk-free rate of 5.0%; dividend yield of 1.2%; a volatility factor of the expected market price of Cameco's shares of 20.0%; and a weighted-average expected option life of five years. On February 26, 2002, Cameco granted 489,050 options at a strike price of $43.84. The fair value of these options was determined to be $10.83 per share. For purposes of pro forma disclosures, the estimated fair value of the options is being amortized to earnings over the vesting period. The total charge has been adjusted for an expected forfeiture rate of 17%. For the year ended December 31, 2002, Cameco's pro forma net earnings attributable to common shares were $43,900,000, basic earnings per share were $0.79 and diluted earnings per share were $0.79.

## 22. Pension and Other Post-Retirement Benefits

Cameco maintains both defined benefit and defined contribution plans providing pension and post-retirement benefits to substantially all of its employees.

**Pension Plans**

The pension expense for Cameco's defined contribution plans was $4,989,000 (2001 — $4,411,000; 2000 — $4,268,000).

The status of defined benefit pension plans are as follows:

| | 2002 | 2001 |
|---|---|---|
| | (Thousands) | |
| Accrued Benefit Obligation | | |
| Balance at beginning of year | $ 13,330 | $ 11,882 |
| Current service cost | 743 | 743 |
| Interest cost | 835 | 998 |
| Benefits paid | (313) | (293) |
| Balance at end of year | $ 14,595 | $ 13,330 |
| Plan Assets | | |
| Fair value at beginning of year | $ 10,915 | $ 10,925 |
| Actual return on plan assets | (528) | (297) |
| Employer contributions | 610 | 580 |
| Benefits paid | (313) | (293) |
| Fair value at end of year | $ 10,684 | $ 10,915 |
| Funded status | $ (3,911) | $ (2,415) |
| Unamortized net actuarial loss | 2,670 | 1,757 |
| Unamortized transitional obligation | 3,058 | 3,752 |
| **Accrued pension benefit asset** | **$ 1,817** | **$ 3,094** |

Significant actuarial assumptions used in calculating the net pension expense for Cameco's funded plans were as follows:

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| Discount rate | 6.0% | 7.5% | 8.0% |
| Long-term rate of return on assets | 8.0% | 8.0% | 8.0% |
| Rate of increase in compensation levels | 4.5% | 4.5% | 4.5% |

Net pension expense for the defined benefit pension plans has been determined as follows:

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| | | (Thousands) | |
| Cost of benefits earned by employees | $ 743 | $ 743 | $ 743 |
| Interest cost on benefits earned | 835 | 998 | 890 |

| | | | |
|---|---|---|---|
| Expected return on pension plan assets, net | (443) | (885) | (774) |
| Net amortization | 752 | 694 | 648 |
| **Net pension expense** | **$ 1,887** | **$ 1,550** | **$ 1,507** |

**Other Post-Retirement Benefits**

Cameco provides post-retirement benefits to substantially all employees. The costs are accrued over the expected service lives of employees. No funding is provided. The status of the plan is as follows:

| Accrued Benefit Obligation | 2002 | 2001 |
|---|---|---|
| | (Thousands) | |
| Balance at beginning of year | $ 3,809 | $ 3,465 |
| Current service cost | 147 | 147 |
| Interest cost | 230 | 263 |
| Benefits paids | (94) | (66) |
| **Accrued post-retirement benefit liability** | **$ 4,092** | **$ 3,809** |

## 23. Property and Business Acquisitions

### (a) AGR Limited

On March 5, 2002, Cameco acquired a 52% interest in AGR Limited (AGR). AGR is an Australia-based exploration company whose principal asset is a 95% interest in the Boroo gold deposit located in Mongolia. The Boroo project is currently in the development stage. The purchase price was financed with $12,000,000 (US) in cash and the contribution of a neighbouring property. In exchange, AGR issued 240 million shares to Cameco. The acquisition was accounted for using the purchase method and the results of operations are included in Cameco's consolidated financial statements from the effective date of the purchase.

The values assigned to the net assets acquired are as follows:

| | (Millions) |
|---|---|
| Cash and other working capital | $ 13.9 |
| Property, plant and equipment | 27.0 |
| Minority interest | (19.0) |
| Net assets acquired | $ 21.9 |
| Financed by: | |
| Cash | $ 19.6 |
| Property, at carrying value | 2.3 |
| | **$ 21.9** |

Subsequent to the acquisition, Cameco provided an additional $3,000,000 (US) of further exploration in the area in exchange for an incremental 4% interest in AGR (43 million shares), increasing its total interest to 56% at December 31, 2002.

### (b) Smith Ranch

On July 22, 2002, Cameco acquired the assets comprising the Smith Ranch in situ leach (ISL) operation and various other ISL properties from Rio Algom Mining LLC. In exchange for these assets, Cameco assumed the decommissioning liabilities associated with the Smith Ranch operation. At the acquisition date, the value of the liabilities was estimated to be $9,157,000 (US). Cameco also secured forward sales commitments for more than 900,000 pounds of uranium concentrates which will yield prices in excess of current long-term indicators. The acquisition was accounted for using the purchase method and the results of operations are included in Cameco's consolidated financial statements from the effective date of the purchase.

**(c) UEX Corporation**

On July 18, 2002, Cameco acquired a 35.3% ownership interest in UEX Corporation (UEX); a company traded on the Toronto Stock Exchange (TSX). The principal assets of UEX consist of several uranium exploration properties located in the Athabasca region of Northern Saskatchewan. In acquiring this interest, Cameco transferred its Hidden Bay exploration properties to UEX in exchange for approximately 31 million shares. In addition, Cameco purchased another 2 million shares at a price of $0.25 per share.

Cameco recorded a gain of $2,670,000 on the transfer of its Hidden Bay properties to UEX. The equity method is being used to account for this investment.

**24. Commitments and Contingencies**

(a) An action against Cameco, Cameco Gold Inc., Kumtor Operating Company and certain other parties commenced in a Canadian court by certain dependants of nine persons seeking damages, in the amount of $20,700,000 plus interest and costs, and punitive damages, in connection with the death of the said nine persons in a helicopter accident in Kyrgyzstan on October 4, 1995, is continuing. This action is being defended by the insurers of Cameco. Management is of the opinion, after review of the facts with counsel, that the outcome of this action will not have a material financial impact on Cameco's financial position, results of operations or liquidity.

(b) An action against Cameco was filed by Oren Benton on November 28, 2000 in the State of Colorado, U.S.A.. The action alleges breach of contract and tortious interference and sets forth a claim for purported damages in excess of $200,000,000 (US). Cameco's motion to dismiss was granted by order filed November 15, 2002 and Mr. Benton's claim was dismissed. Mr. Benton has appealed this decision.

Management is of the opinion, after review of the facts with counsel, that the claim is completely without merit and that the outcome of this action will not have a material financial impact on Cameco's financial position, results of operations or liquidity.

(c) Commitments

At December 31, 2002, Cameco's purchase commitments, the majority of which are fixed-price uranium and conversion purchase arrangements, were as follows:

| | (Millions (US)) |
|---|---|
| 2003 | $ 118 |
| 2004 | 102 |
| 2005 | 114 |
| 2006 | 114 |
| 2007 | 117 |
| thereafter | 561 |
| **Total** | **$ 1,126** |

**25. Financial Instruments**

The majority of revenues are derived from the sale of uranium products. Cameco's financial results are closely related to the long- and short-term market price of uranium sales and conversion services. Prices fluctuate and can be affected by demand for nuclear power, worldwide production and uranium inventory levels, and political and economic conditions in uranium producing and consuming countries. Revenue from gold operations is largely dependent on the market price of gold, which can be affected by political and economic factors, industry activity and the policies of central banks with respect to their levels of gold held as reserves. Financial results are also impacted by changes in foreign currency exchange rates, interest rates and other operating risks.

To hedge risks associated with fluctuations in the market price for uranium, Cameco seeks to maintain a portfolio of uranium sales contracts with a variety of delivery dates and pricing mechanisms that provide a degree of protection from price volatility. Cameco employs a number of financial instruments to hedge risks associated with gold prices and foreign currency exchange rates. Put and call options are used to establish a minimum and maximum price range for gold sales and exchange rates for cash flows denominated in a foreign currency. Cameco also enters into forward sales contracts to establish a price for future deliveries of gold and US dollars. Net realized gains (losses) on contracts designated as hedges are recorded as deferred revenues (deferred charges) and recognized in earnings when the related hedged transactions occur.

Cameco also uses instruments such as swaps, puts and calls and forward rate agreements to manage funding costs and reduce the impact of interest rate volatility.

Financial assets that are subject to credit risks include cash and securities, accounts receivable and commodity and currency instruments. Cameco mitigates credit risk on these financial assets by holding positions with a variety of large creditworthy institutions. Sales of uranium, with short payment terms, are made to customers that management believes are creditworthy.

Except as disclosed below, the fair market value of Cameco's financial assets and financial liabilities approximates net book value as a result of the short-term nature of the instrument or the variable interest rate associated with the instrument.

**Currency**

At December 31, 2002, Cameco had hedged $498,704,000 (US) at an average spot exchange rate of $1.56 designated to various dates through 2006 as follows:

| | (Thousands) |
|---|---|
| 2003 | $ 268,704 |
| 2004 | 110,000 |
| 2005 | 85,000 |
| 2006 | 35,000 |
| **Total** | **$ 498,704** |

These hedge positions consist entirely of spot-deferred forward contracts. The average exchange rate reflects contract prices as at December 31, 2002, to their initial maturity date which is earlier than the designation date in many cases. The realized exchange rate will depend on the forward premium (discount) that is earned (paid) as hedge contracts are extended to their final designation date.

At December 31, 2002, Cameco's net mark-to-market loss on these foreign currency instruments was $10,124,000 (Cdn).

**Interest**

At December 31, 2002, Cameco had in place $40,000,000 (Cdn) of interest rate swaps whereby Cameco receives fixed interest rates ranging from 4.1% to 6.1%. These positions are designated over various dates maturing as follows:

| | (Thousands) |
|---|---|
| 2005 | $ 25,000 |
| 2006 | 15,000 |
| **Total** | **$ 40,000** |

At December 31, 2002, Cameco's net mark-to-market gain on these interest rate swaps was $2,066,000 (Cdn).

**Commodity**

At December 31, 2002, Cameco's share of gold hedging positions consisted of:

| | **Amount Hedged (000s oz)** | **Average Price (US$/oz)** |
|---|---|---|
| Spot deferred forward contracts | 371 | $ 307 |
| Puts | 85 | $ 285 |
| Calls | 85 | $ 310 |

Average prices reflect contract prices as at December 31, 2002, to their initial maturity date which is earlier than the designation date in many cases.

These positions have been designated against deliveries as follows:

| | **Forwards** | | **Puts** | | **Calls** | |
|---|---|---|---|---|---|---|
| | **Ounces** | **Average Price (US$/oz)** | **Ounces** | **Average Price (US$/oz)** | **Ounces** | **Average Price (US$/oz)** |
| 2003 | 105,000 | $ 307 | 30,000 | 281 | 30,000 | $ 300 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 2004 | 110,000 | 311 | 43,000 | 285 | 43,000 | 312 |
| 2005 | 93,000 | 305 | — | — | — | — |
| 2006 | 43,000 | 303 | 12,000 | 294 | 12,000 | 324 |
| 2007 | 20,000 | 307 | — | — | — | — |
| | **371,000** | | **85,000** | | **85,000** | |

From the initial maturity date to the designation date contract prices are expected to accrue contango. The rate of contango earned will depend on the difference between future US interest rates and gold lease rates.

At December 31, 2002, the net mark-to-market loss on the above instruments was $14,491,000 (US).

**Gold Commitment**

As of December 31, 2002, Cameco agreed to provide credit support to a maximum of $70 (US) per ounce to the counter-parties of KGC and AGR. At December 31, 2002, Cameco's maximum financial exposure under these arrangements based on outstanding commitments was $61,000,000 (US) (2001 - $53,000,000 (US)).

At December 31, 2002, Cameco's actual exposure under these arrangements, including its share of the net mark-to-market losses mentioned above, was $37,838,000 (US) (2001 — nil).

## 26. Per Share Amounts

Per share amounts have been calculated based on the weighted average number of common shares outstanding during the year net of shares held as security for employee loans to purchase such shares. The weighted average number of paid shares outstanding in 2002 was 55,780,978 (2001 - 55,398,552; 2000 - 55,522,935).

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| | | (Thousands) | |
| **Basic earnings per share computation** | | | |
| Earnings (loss) available to common shareholders | $ 46,120 | $ 55,896 | $ (87,217) |
| Weighted average common shares outstanding | 55,781 | 55,399 | 55,523 |
| **Basic earnings (loss) per common share** | **$ 0.83** | **$ 1.01** | **$ (1.57)** |
| **Diluted earnings per share computation** | | | |
| Earnings (loss) available to common shareholders | $ 46,120 | $ 55,896 | $ (87,217) |
| Weighted average common shares outstanding | 55,781 | $ 55,399 | $ 55,523 |
| Dilutive effect of: | | | |
| Stock options | 35 | 203 | — |
| Other stock-based arrangements | 24 | 16 | — |
| Weighted average common shares outstanding, assuming dilution | 55,840 | 55,618 | 55,523 |
| **Diluted earnings (loss) per common share** | **$ 0.83** | **$ 1.01** | **$ (1.57)** |

Options whose exercise price was greater than the average market price were excluded from the calculation.

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| | | (Per Share) | |
| **Other per share amounts** | | | |
| Cash provided by operations (basic and diluted) | $ 4.50 | $ 2.10 | $ 4.04 |
| Earnings (loss) from operations (basic and diluted) | $ 1.59 | $ 1.71 | $ (0.82) |

## 27. Segmented Information

Cameco has three reportable segments: uranium, conversion and gold. The uranium segment involves the mining, milling, purchase and sale of uranium concentrate. The conversion segment involves the refining and conversion of uranium concentrate and the purchase and sale of conversion services. The gold segment involves the mining, milling and sale of gold.

Cameco's reportable segments are strategic business units with different products, processes and marketing strategies.

Accounting policies used in each segment are consistent with the policies outlined in the summary of significant accounting policies.

**(a) Business Segments**

| 2002 (Millions) | Uranium | Conversion | Gold | Total |
|---|---|---|---|---|
| Revenue | $ 523.7 | $ 137.4 | $ 87.2 | $ 748.3 |
| Products and services sold | 345.1 | 82.7 | 58.3 | 486.1 |
| Depreciation, depletion and reclamation | 82.7 | 10.2 | 20.0 | 112.9 |
| Exploration | 11.8 | — | 9.7 | 21.5 |
| Research and development | — | 2.3 | — | 2.3 |
| Earnings from Bruce Power | — | — | — | (15.8) |
| Other | (0.2) | — | 1.8 | 1.6 |
| Gain on property interests | (2.7) | — | — | (2.7) |
| Non-segmented expenses | | | | 39.0 |
| **Earnings before income taxes and minority interest** | **87.0** | **42.2** | **(2.6)** | **103.4** |
| Income taxes | | | | 48.9 |
| Minority interest | | | | (0.9) |
| **Net earnings** | | | | **55.4** |
| Preferred securities, net of tax | | | | 9.3 |
| **Net earnings attributable to common shares** | | | | **$ 46.1** |
| **Assets** | **$ 2,427.2** | **$ 173.6** | **$ 344.4** | **$ 2,945.2** |
| **Capital expenditures for the year** | **$ 55.5** | **$ 6.9** | **$ 27.8** | **$ 90.2** |

| 2001 (Millions) | Uranium | Conversion | Gold | Total |
|---|---|---|---|---|
| Revenue | $ 471.4 | $ 114.4 | $ 115.0 | $ 700.8 |
| Products and services sold | 298.0 | 72.0 | 52.1 | 422.1 |
| Depreciation, depletion and reclamation | 85.7 | 14.5 | 29.2 | 129.4 |
| Exploration | 10.1 | — | 8.1 | 18.2 |
| Research and development | — | 2.1 | — | 2.1 |
| Earnings from Bruce Power | — | — | — | (12.2) |
| Other | (0.6) | — | — | (0.6) |
| Non-segmented expenses | | | | 34.3 |
| **Earnings before income taxes and minority interest** | **78.2** | **25.8** | **25.6** | **107.5** |
| Income taxes | | | | 42.3 |
| **Net earnings** | | | | **65.2** |

| | | | | |
|---|---|---|---|---|
| Preferred securities, net of tax | | | | 9.3 |
| **Net earnings attributable to common shares** | | | | **$ 55.9** |
| **Assets** | **$ 2,456.7** | **$ 166.8** | **$ 323.8** | **$ 2,947.3** |
| **Capital expenditures for the year** | **$ 51.1** | **$ 4.8** | **$ 2.4** | **$ 58.3** |

| 2000 (Millions) | Uranium | Conversion | Gold | Total |
|---|---|---|---|---|
| Revenue | $ 464.8 | $ 114.9 | $ 109.2 | $ 688.9 |
| Products and services sold | 298.1 | 66.4 | 49.4 | 413.9 |
| Depreciation, depletion and reclamation | 71.0 | 14.9 | 31.1 | 117.0 |
| Exploration | 11.6 | — | 9.2 | 20.8 |
| Research and development | — | 2.5 | — | 2.5 |
| Writedown of mineral properties | 127.7 | — | — | 127.7 |
| Provision for waste disposal | — | 20.2 | — | 20.2 |
| Other | (1.9) | — | — | (1.9) |
| Non-segmented expenses | | | | 32.5 |
| **Earnings before income taxes and minority interest** | **(41.7)** | **10.9** | **19.5** | **(43.8)** |
| Income taxes | | | | 34.5 |
| **Net earnings** | | | | **(78.3)** |
| Preferred securities, net of tax | | | | 8.9 |
| **Net earnings attributable to common shares** | | | | **$ (87.2)** |
| **Assets** | **$ 2,317.0** | **$ 162.5** | **$ 321.0** | **$ 2,800.5** |
| **Capital expenditures for the year** | **$ 75.3** | **$ 3.4** | **$ 5.4** | **$ 84.1** |

**(b) Geographic Segments**

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| | | (Millions) | |
| **Revenue from products and services** | | | |
| Canada — domestic | $ 62.8 | $ 50.1 | $ 41.1 |
| — export | 381.6 | 413.3 | 474.2 |
| United States | 216.7 | 122.4 | 64.3 |
| Central Asia | 87.2 | 115.0 | 109.3 |
| | **$ 748.3** | **$ 700.8** | **$ 688.9** |
| **Assets** | | | |
| Canada | $ 2,420.4 | $ 2,472.8 | $ 2,365.2 |
| United States | 189.4 | 179.8 | 123.0 |
| Central Asia | 335.4 | 294.7 | 312.3 |
| | **$ 2,945.2** | **$ 2,947.3** | **$ 2,800.5** |

**(c) Major Customers**

Cameco relies on a small number of customers to purchase a significant portion of its uranium concentrates and uranium conversion services. During 2002, revenues from one customer of Cameco's uranium and conversion segments represented approximately $92,000,000 (14%) of Cameco's total revenues. In 2001, revenues from one customer of Cameco's uranium and conversion segments represented approximately $84,000,000 (12%) of Cameco's total revenues. During 2000, sales to any one customer did not exceed 10% of revenue. As customers are relatively few in number, accounts receivable from any individual customer may periodically exceed 10% of accounts receivable depending on delivery schedules.

**28. New Accounting Pronouncements**

(a) Effective January 1, 2004, Cameco will be required to adopt the new Canadian Accounting Guideline, Hedging Relationships that establishes new criteria for hedging relationships in effect on or after January 1, 2004. To qualify for hedge accounting, the hedging relationship must be appropriately documented at the inception of the hedge and there must be reasonable assurance, both at the inception and throughout the term of the hedge, that the hedging relationship will be effective. Effectiveness requires a high degree of correlation of changes in fair values or cash flows between the hedged item and the hedge. Cameco does not believe that the adoption of this accounting guideline will have a material impact on its consolidated financial statements.

(b) In December 2002, the CICA issued Handbook section 3063, Impairment of Long-Lived Assets. Section 3063 establishes standards for the recognition, measurement and disclosure of the impairment of long-lived assets held for use. Under the new standard, an impairment loss is recognized when the carrying amount of an asset held for use exceeds the sum of undiscounted cash flows expected from its use and eventual disposition. An impairment loss is measured as the amount by which the asset's carrying amount exceeds its fair value.

The new accounting recommendations contained in Handbook section 3063 are required to be applied for fiscal years beginning on or after April 1, 2003. Cameco does not believe that adoption of these recommendations will have a material impact on its consolidated financial statements

**29. Comparative Figures**

Certain prior year balances have been reclassified to conform to the current financial statement presentation.

**30. Generally Accepted Accounting Principles in Canada and the United States**

The consolidated financial statements of Cameco are expressed in Canadian dollars in accordance with Canadian generally accepted accounting principles (Canadian GAAP). The following adjustments and disclosures would be required in order to present these consolidated financial statements in accordance with accounting principles generally accepted in the United States (US GAAP).

**(a) Reconciliation of earnings in accordance with Canadian GAAP to earnings determined in accordance with US GAAP.**

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| | | (Thousands) | |
| **Net earnings (loss) under Canadian GAAP** | **$ 55,460** | **$ 65,221** | **$ (78,337)** |
| Add (deduct) adjustments for: | | | |
| Interest on preferred securities (i) | (17,238) | (17,268) | (16,445) |
| Capitalized interest (ii) | 3,768 | — | 3,312 |
| Writedown of mineral properties (iii) | — | — | (35,716) |
| Depreciation and depletion (iii) | 2,579 | 2,895 | 2,579 |
| Mineral property costs (iv) | (6,188) | (6,806) | (2,548) |
| Pre-operating costs (v) | (2,578) | (6,232) | (5,488) |
| Hedges and derivative instruments (vi) | 1,928 | 1,810 | — |
| Realization of cumulative translation account (vii) | (1,585) | (3,273) | (3,725) |
| Earnings from Bruce Power (v)(vi) | (12,481) | — | — |
| Income tax effect of adjustments | 14,116 | 14,542 | 11,424 |
| **Net earnings (loss) under US GAAP** | **37,781** | **50,889** | **(124,944)** |
| Hedges and derivative instruments (vi) | (6,203) | (22,253) | — |
| Foreign currency translation adjustments | 859 | 1,509 | 5,884 |
| Unrealized gain (loss) on available-for-sale securities (viii) | (334) | (8,300) | 469 |
| **Comprehensive income (loss) under US GAAP** | **$ 32,103** | **$ 21,845** | **$ (118,591)** |
| **Net earnings (loss) per share under US GAAP** | **$ 0.68** | **$ 0.92** | **$ (2.25)** |

**(b) Comparison of balance sheet items determined in accordance with Canadian GAAP to balance sheet items determined in accordance with US GAAP.**

**(i) Balance Sheets**

| | 2002 | | 2001 | |
|---|---|---|---|---|
| | **Canadian GAAP** | **US GAAP** | **Canadian GAAP** | **US GAAP** |
| | (Thousands) | | (Thousands) | |
| Current assets | $ 650,043 | $ 644,105 | $ 718,962 | $ 715,402 |
| Property, plant and equipment | 2,037,613 | 2,000,993 | 1,994,424 | 1,955,437 |
| Long-term receivables, investments and other | 257,523 | 237,013 | 233,961 | 228,674 |
| **Total assets** | **$ 2,945,179** | **$ 2,882,111** | **$ 2,947,347** | **$ 2,899,513** |
| Current liabilities | $ 171,377 | $ 167,258 | $ 166,737 | $ 166,737 |
| Long-term debt | 218,290 | 412,053 | 327,773 | 523,002 |
| Provision for reclamation | 155,036 | 155,036 | 139,583 | 139,583 |
| Other liabilities (vi) | 9,523 | 57,999 | 9,787 | 48,809 |
| Deferred income taxes | 522,979 | 485,447 | 480,520 | 450,266 |
| | 1,077,205 | 1,277,793 | 1,124,400 | 1,328,397 |
| Minority interest | 18,078 | 18,078 | — | — |
| Shareholders' equity | | | | |
| Preferred securities | 193,763 | — | 195,229 | — |
| Share capital | 680,934 | 680,934 | 670,031 | 670,031 |
| Contributed surplus | 472,488 | 472,488 | 472,488 | 472,488 |
| Retained earnings | 483,658 | 418,546 | 465,420 | 408,906 |
| Accumulated other comprehensive income | | | | |
| - cumulative translation account | 19,053 | 40,275 | 19,779 | 39,416 |
| - available-for-sale securities | — | 2,454 | — | 2,528 |
| - hedges and derivative instruments (vi) | — | (28,457) | — | (22,253) |
| | 1,849,896 | 1,586,240 | 1,822,947 | 1,571,116 |
| **Total liabilities and shareholders' equity** | **$ 2,945,179** | **$ 2,882,111** | **$ 2,947,347** | **$ 2,899,513** |

**(ii) Components of accounts payable and accrued liabilities are as follows:**

| | 2002 | | 2001 | |
|---|---|---|---|---|
| | **Canadian GAAP** | **US GAAP** | **Canadian GAAP** | **US GAAP** |
| | (Thousands) | | (Thousands) | |
| Accounts payable | $ 84,906 | $ 84,906 | $ 66,310 | $ 66,310 |

| | | | | |
|---|---|---|---|---|
| Taxes and royalties payable | 26,340 | 22,221 | 24,660 | 24,660 |
| Accrued liabilities | 20,686 | 20,686 | 17,126 | 17,126 |
| **Total accounts payable and accrued liabilities** | **$ 131,932** | **$ 127,813** | **$ 108,096** | **$ 108,096** |

**(c) The effects of these adjustments would result in the consolidated statements of cash flows reporting the following under US GAAP:**

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| | | (Thousands) | |
| Cash provided by operations | $ 231,184 | $ 95,568 | $ 221,101 |
| Cash used in investing | $ (72,006) | $ (127,306) | $ (98,362) |
| Cash provided by (used in) financing | $ (134,819) | $ 32,344 | $ (135,077) |

**(d) A description of certain significant differences between Canadian GAAP and US GAAP follows:**

**(i) Preferred Securities**
Preferred securities are classified as equity under Canadian GAAP and interest payments, on an after-tax basis, are classified as distributions of equity. Under US GAAP, the preferred securities are classified as debt and interest payments are included in interest expense.

**(ii) Capitalized Interest**
Cameco's policy under both Canadian GAAP and US GAAP is to capitalize interest on expenditures related to construction of development projects actively being prepared for their intended use. Under US GAAP, a portion of the interest on the preferred securities, classified as debt under US GAAP, would be capitalized to development properties. Also under US GAAP, the carrying value of development projects against which interest is capitalized would be lower (see note (v) below).

**(iii) Writedown of Mineral Properties**
Under both Canadian and US GAAP, property, plant and equipment must be assessed for potential impairment. Under Canadian GAAP, the impairment loss is the difference between the carrying value of the asset and its recoverable amount calculated as undiscounted estimated future net cash flows. Under US GAAP, if the undiscounted estimated future net cash flows are less than the carrying value of the asset, the impairment loss is calculated as the amount by which the carrying value of the asset exceeds its fair value. Fair value has been calculated as the present value of estimated future net cash flows. The resulting difference in the writedown between US and Canadian GAAP also results in a difference in the amount of depreciation and depletion charged to earnings.

**(iv) Mineral Property Costs**
Consistent with Canadian GAAP, Cameco defers costs related to mineral properties once the decision to proceed to development has been made. Under US GAAP, these costs are expensed until such time as a final feasibility study has confirmed the existence of a commercially mineable deposit.

**(v) Pre-Operating Costs**
Under Canadian GAAP, pre-operating costs incurred during the commissioning phase of a new project are deferred until commercial production levels are achieved. After such time, those costs are amortized over the estimated life of the project. Under US GAAP, such costs are expensed as incurred as required by AICPA Statement of Position 98-5, Reporting on the Cost of Start-Up Activities. In 2000, these costs related to the production of uranium concentrates at the McArthur River mine and were charged to product inventory. Portions of this product inventory were sold in 2001 and 2002.

During 2002, $8,628,000 of costs related to the restart of two nuclear reactors at Bruce Power were considered to be startup costs required to be expensed under US GAAP.

**(vi) Hedges and Derivative Instruments**
During 2002, $1,928,000 was excluded from the assessment of hedge effectiveness. For amounts included in the balance sheet as accumulated other comprehensive income as at December 31, 2002, a gain of $277,000 (after tax) relates to the hedging of interest-rate risk, a loss of $18,076,000 (after tax) relates to the hedging of gold-price risk, and a loss of $10,658,000 (after tax) relates to the hedging of foreign-exchange-rate risk. Of these amounts, $15,300,000 (after tax) would be recorded in earnings during 2003 if market conditions remained unchanged. The impact on other comprehensive income for 2002 is $6,203,000 after consideration of the reversal of the 2001 amounts described below. During 2002, no net gains or losses from the hedging of net investments were realized.

During 2001, $16,000 was recognized in earnings for the ineffectiveness of cash flow hedges and $1,794,000 was excluded from the assessment of hedge effectiveness. For amounts included in other comprehensive income as at December 31, 2001, a gain of $81,000 (after tax) relates to the hedging of interest-rate risk, a loss of $743,000 (after tax) relates to the hedging of gold-price risk, and a loss of $21,591,000 (after tax) relates to the hedging of foreign-exchange-rate risk. Of these amounts, $11,402,000 (after tax) would be recorded in earnings during 2002 if market conditions remained unchanged. During 2001, no net gains or losses from the hedging of net investments were realized.

During 2002, $3,853,000 of losses related to Bruce Power energy contracts did not qualify for hedge accounting under US GAAP as the documentation required for hedge accounting was not contemplated at the time of entering into the contracts.

**(vii)Realization of Cumulative Translation Account**
Under Canadian GAAP, a proportionate amount of the cumulative translation account is recognized in earnings when a portion of the net investment in a subsidiary is realized. US GAAP does not allow for any of the cumulative translation account to be taken to earnings unless a portion of the investment has been sold or substantially liquidated.

**(viii) Available-for-Sale Securities**
Under Canadian GAAP, portfolio investments are accounted for using the cost method. Under US GAAP, portfolio investments classified as available-for-sale securities are carried at market values with unrealized gains or losses reflected as a separate component of shareholders' equity and included in comprehensive income. Cameco's investments in Energy Resources of Australia Ltd., Menzies Gold NL and Tenke Mining Corp. are classified as available-for-sale. The fair market value of these investments at December 31, 2002 was $20,018,000 (2001 — $20,352,000). The cumulative unrealized gain at December 31, 2002 was $2,454,000.

**(e) Stock-Based Compensation**

Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation establishes financial accounting and reporting standards for stock-based employee compensation plans. This statement defines a fair value based method of accounting for employee stock options. However, it also allows an entity to continue to measure compensation cost for those plans using the intrinsic value based method of accounting prescribed by APB Opinion No. 25, which is similar to the method applied under Canadian GAAP and followed by Cameco. Companies that continue to follow the intrinsic value based method must disclose pro-forma earnings and earnings per share information under the fair-value method.

If the fair value based method of accounting had been applied, pro-forma net earnings and earnings per share would have been as follows:

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| | | (Thousands) | |
| Net earnings (loss) for the year in accordance with US GAAP as calculated above | $ 37,781 | $ 50,889 | $ (124,944) |
| Effect of recording compensation expense under stock option plans | (3,991) | (4,168) | (1,934) |
| Pro-forma net earnings (loss) after application of SFAS 123 | $ 33,790 | $ 46,721 | $ (126,878) |
| Pro-forma net earnings (loss) per common share after application of SFAS 123 | $ 0.61 | $ 0.84 | $ (2.28) |

In calculating the foregoing pro-forma amounts, the fair value of each option grant was estimated as of the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| Dividend | $ 0.50 | $ 0.50 | $ 0.50 |
| Expected volatility | 20.0% | 39.6% | 44.8% |
| Risk-free interest rate | 5.0% | 5.5% | 6.0% |
| Expected life of option | 5 years | 8 years | 8 years |
| Expected forfeitures | 17.0% | 20.0% | 20.0% |

**(f) New Accounting Pronouncements**

In June 2001, the FASB issued Statement 143, Accounting for Asset Retirement Obligations, which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The standard applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and use of the asset. Statement 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be

made. The fair value is added to the carrying amount of the associated asset. The liability is accreted at the end of each period through charges to operating expenses. Cameco will adopt this standard on a prospective basis beginning January 1, 2003.

In October 2001, the FASB issued Statement 144 Accounting for the Impairment or Disposal of Long-Lived Assets, which retain the fundamental provisions of Statement 121 for recognizing and measuring impairment losses of long-lived assets other than goodwill. Statement 144 also broadens the definition of discontinued operations to include all distinguishable components of an entity that will be eliminated from ongoing operations. This Statement is effective for fiscal years commencing January 1, 2002, to be applied prospectively. Adoption of this standard did not result in any differences between Canadian and US GAAP. In December 2002, the CICA approved new standards for the impairment and disposal of long-lived assets that are substantially equivalent to the US standards. Cameco will adopt these standards for Canadian GAAP on a prospective basis beginning January 1, 2003.

In November 2002, the FASB issued Financial Interpretation 45 (FIN 45) that will require the recognition of a liability for the fair value of certain guarantees that require payments contingent on specified types of future events. The measurement standards of FIN 45 are applicable to guarantees entered into after January 1, 2003. For guarantees that existed at December 31, 2002, FIN 45 requires additional disclosures which have been included in these financial statements to the extent applicable to Cameco.

In January 2003, the FASB issued Financial Interpretation 46 (FIN 46) that will require the consolidation of certain entities that are controlled through financial interests that indicate control (referred to as variable interests). Variable interests are the rights or obligations that convey economic gains or losses from changes in the values of the entity's assets and liabilities. The holder of the majority of an entity's variable interests will be required to consolidate the variable interest entity. Cameco believes it does not have any variable interests that will result in the consolidation of any additional entities that existed at December 31, 2002.

## Summary of Significant Accounting Policies

The consolidated financial statements are prepared by management in accordance with Canadian generally accepted accounting principles and, except as described in note 30, conform in all material respects with accounting principles generally accepted in the United States. Management makes various estimates and assumptions in determining the reported amounts of assets and liabilities, revenues and expenses for each year presented, and in the disclosure of commitments and contingencies. The most significant estimates are related to the lives and recoverability of mineral properties, provisions for decommissioning and reclamation of assets, future income taxes, financial instruments and mineral reserves. Actual results could differ from these estimates. This summary of significant accounting policies is a description of the accounting methods and practices that have been used in the preparation of these consolidated financial statements and is presented to assist the reader in interpreting the statements contained herein.

**Consolidation Principles**
The consolidated financial statements include the accounts of Cameco and its subsidiaries. Interests in joint ventures are accounted for by the proportionate consolidation method. Under this method, Cameco includes in its accounts its proportionate share of assets, liabilities, revenues and expenses.

**Cash**
Cash consists of balances with financial institutions and investments in money market instruments which have a term to maturity of three months or less.

**Inventories**
Inventories of broken ore, uranium concentrates and refined and converted products are valued at the lower of average cost and net realizable value.

**Supplies**
Consumable supplies and spares are valued at the lower of weighted average cost or replacement value.

**Investments**
Investments in associated companies over which Cameco has the ability to exercise significant influence are accounted for by the equity method. Under this method, Cameco includes in earnings its share of earnings or losses of the associated company. Portfolio investments are carried at cost or at cost less amounts written off to reflect a decline in value that is other than temporary.

**Property, Plant and Equipment**
Assets are carried at cost. Costs of additions and improvements are capitalized. When assets are retired or sold, the resulting gains or losses are reflected in current earnings. Maintenance and repair expenditures are charged to cost of production. The carrying values of property, plant and equipment are periodically assessed by management and if management determines that the carrying values cannot be recovered, the unrecoverable amounts are written off against current earnings.

**Non-Producing Properties**
The decision to develop a mine property within a project area is based on an assessment of the commercial viability of the property, the availability of financing and the existence of markets for the product. Once the decision to proceed to development is made, development and other expenditures relating to the project area are deferred and carried at cost with the intention that these will be depleted by charges against earnings from future mining operations. No depreciation or depletion is charged against the property until commercial production commences. After a mine property has been brought into commercial production, costs of any additional work on that property are expensed as incurred, except for large development programs, which will be deferred and depleted over the remaining life of the related assets.

The carrying values of non-producing properties are periodically assessed by management and if management determines that the carrying values cannot be recovered, the unrecoverable amounts are written off against current earnings.

**Property Evaluations**
Cameco reviews the carrying values of its properties when changes in circumstances indicate that those carrying values may not be recoverable. Estimated future net cash flows are calculated using estimated recoverable reserves, estimated future commodity prices and the expected future operating, capital and reclamation costs. The carrying value of a property is written down to the extent that the estimated future net cash flows, on an undiscounted basis, are less than the carrying value of the property.

**Future Income Taxes**
Future income taxes are recognized for the future income tax consequences attributable to differences between the carrying values of assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in rates is included in earnings in the period which includes the enactment date.

Future income tax assets are recorded in the financial statements if realization is considered more likely than not.

**Capitalization of Interest**
Interest is capitalized on expenditures related to construction or development projects actively being prepared for their intended use. Capitalization is discontinued when the asset enters commercial operation or development ceases.

**Depreciation and Depletion**
Conversion services assets, mine buildings, equipment and mineral properties are depreciated or depleted according to the unit-of-production method. This method allocates the costs of these assets to each accounting period. For conversion services, the amount of depreciation is measured by the portion of the facilities' total estimated lifetime production that is produced in that period. For mining, the amount of depreciation or depletion is measured by the portion of the mines' economically recoverable proven and probable ore reserves which are recovered during the period.

Other assets are depreciated according to the straight-line method based on estimated useful lives, which generally range from three to 10 years.

**Research and Development and Exploration Costs**
Expenditures for applied research and technology related to the products and processes of Cameco and expenditures for geological exploration programs are charged against earnings as incurred.

**Environmental Protection and Reclamation Costs**
The estimated costs for decommissioning and reclaiming producing resource properties are accrued and charged to operations according to the unit-of-production method. Actual costs of decommissioning and reclamation are deducted against this accrual. Cameco's estimates of reclamation costs could change as a result of changes in regulatory requirements and cost estimates. Expenditures relating to ongoing environmental programs are charged against earnings as incurred or capitalized and depreciated depending on their relationship to future earnings.

**Employee Future Benefits**
Cameco accrues its obligations under employee benefit plans. The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health-care costs. For the purpose of calculating the expected return on plan assets, those assets are measured at fair value. Past service costs

arising from plan amendments and net actuarial gains and losses are amortized on a straight-line basis over the expected average remaining service life of the plan participants.

**Stock-Based Compensation**
Cameco has a stock option plan that is described in note 20. No compensation expense is recognized for this plan when qualifying stock options are granted to employees. Any consideration paid by employees on exercise of stock options is credited to share capital. Cameco accounts for other stock-based compensation arrangements in accordance with the fair value based method of accounting.

**Revenue Recognition**
Cameco supplies uranium concentrates and uranium conversion services to utility customers. Third-party fabricators process Cameco's products into fuel for use in nuclear reactors.

Cameco records revenue on the sale of its nuclear products to utility customers when title to the product transfers and delivery is effected through book transfer. Since nuclear products must be stored at licensed storage facilities, Cameco may hold customer owned product at its premises prior to shipment of the product to third parties for further processing.

Cameco records revenue on the sale of gold when title passes and delivery is effected.

**Amortization of Financing Costs**
Debt discounts and issue expenses associated with long-term financing are deferred and amortized over the term of the issues to which they relate.

**Foreign Currency Translation**
Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at year-end rates of exchange. Revenue and expense transactions denominated in foreign currencies are translated into Canadian dollars at rates in effect at the time of the transactions. The applicable exchange gains and losses arising on these transactions are reflected in earnings.

Foreign currency gains or losses arising on translation of long-term monetary items with a fixed or ascertainable life beyond the end of the following fiscal year are deferred and amortized to earnings over the remaining life of the item.

The United States dollar is considered the functional currency of most of Cameco's uranium and gold operations outside of Canada. The financial statements of these operations are translated into Canadian dollars using the current-rate method whereby all assets and liabilities are translated at the year-end rate of exchange and all revenue and expense items are translated at the average rate of exchange prevailing during the year. Exchange gains and losses arising from this translation, representing the net unrealized foreign currency translation gain (loss) on Cameco's net investment in these foreign operations, are recorded in the cumulative translation account component of shareholders' equity. Exchange gains or losses arising from the translation of foreign debt and preferred securities designated as hedges of a net investment in foreign operations are also recorded in the cumulative translation account component of shareholders' equity. These adjustments are not included in earnings until realized through a reduction in Cameco's net investment in such operations.

**Derivative Financial Instruments and Hedging Transactions**
Cameco uses derivative financial and commodity instruments to reduce exposure to fluctuations in foreign currency exchange rates, interest rates and commodity prices. Cameco formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. Cameco also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Gains and losses related to hedging items are deferred and recognized in the same period as the corresponding hedged items. If derivative financial instruments are closed before planned delivery, gains or losses are recorded as deferred revenue or deferred charges and recognized on the planned delivery date. In the event a hedged item is sold, extinguished or matures prior to the termination of the related hedging instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in earnings.

**Per Share Amounts**
Per share amounts are calculated using the weighted average number of paid common shares outstanding.

**31. Subsequent Event**

On April 6, 2003, production at McArthur River was suspended due to an increase in water inflow caused by the collapse of a section of rock in a development area of the mine. All personnel were temporarily evacuated and no one was injured. Shortly thereafter, mine personnel reentered the mine to assess the situation and begin remedial measures. As of April 16, 2003, it was estimated that production would be suspended for four to six months. However, events were still unfolding leaving some uncertainty as to the duration of the shutdown. It is not expected that a material writedown of assets will be required.

**EXHIBIT 3**

Cameco Corporation

2002 Management's Discussion and Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS

*Subsequent Event at McArthur River see page 23*

# confident

This **management's discussion and analysis** (MD&A) is designed to provide investors with an informed discussion of Cameco's business activities.

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***Overview***
This section includes the company's vision and mission statements. The nature of Cameco's business lines are described including the types and locations of operations and the key financial drivers.

***Corporate Strategy***
This section discusses how management plans to generate value by leveraging the company's strengths and competencies in its business environment.

***The Year in Review***
The important corporate developments for the year are discussed. A review of the consolidated financial highlights completes the section.

***Business Segments and Corporate Expenses***
This section provides a detailed explanation of the financial results achieved by Cameco during the year in its four business segments. Corporate expenses (administration expenses, interest costs and income taxes) incurred to support the company's operations are also reviewed.

***Cash and Liquidity***
This discussion provides insight into the company's ability to generate cash flow and the areas to which cash is directed to achieve business objectives.

***Markets***
To facilitate understanding of Cameco's business environment, this section provides a review of conditions and trends in the uranium and gold markets into which the company sells its products and services. Also a review of the Ontario electricity market discusses trends and their potential impact on Bruce Power.

***Business Risks***
This section outlines certain risks in the company's business environment and how Cameco manages those risks.

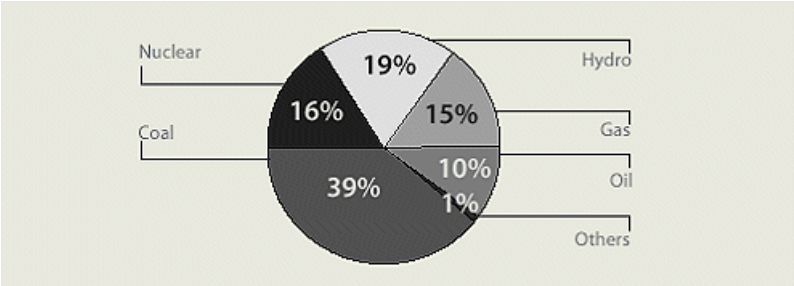
***The Future***
This section outlines current key business conditions, trends and risks that are expected to affect the operating results and the financial health of the company.

## Introduction

This MD&A complements the company's consolidated financial statements which have been prepared in accordance with Canadian GAAP and stated in Canadian dollars, unless otherwise noted.

**World Electricity Generation**

Nuclear energy accounts for 16% of the world's electricity generation avoiding the emission of up to 2.3 billion tonnes of carbon dioxide annually.




## Overview

### *Cameco's Vision*

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

### *Cameco's Mission*

Our core business is uranium fuel supply. Through our nuclear investments we participate in the generation of clean energy, and we achieve diversity through gold.

Sustainable growth is realized by building upon our core business strengths through socially, environmentally and economically responsible conduct. In doing so, we will enhance our status as an investment, supplier and employer of choice, and continue to earn the support of the communities where we interact.

The key measures of our success will be a healthy workplace, a clean environment and supportive communities wherever we operate, together with solid financial performance, all reflected in a growing return to shareholders.

### *Cameco's Business*

Cameco's core business is uranium fuel supply. The company is a leading supplier of uranium concentrates and uranium conversion services and is a limited partner in North America's largest nuclear electricity generating facility, Bruce Power. Cameco also operates a large gold mine in Central Asia and is developing another gold mine in Mongolia.

Cameco is the world's largest uranium concentrates supplier. The company's competitive position is based upon its large high-grade reserves and low-cost operations. Cameco mines uranium in Canada and the United States, has a test mine in Kazakhstan, and sells uranium concentrates ($U_3O_8$) from these and other sources. Cameco's uranium concentrates are undifferentiated from those sold by its competitors. Cameco's $U_3O_8$ is sold primarily through long-term contracts negotiated between the company and its electric utility customers. Uranium is not traded on any commodities exchange.

The company operates two uranium conversion plants in Canada. Conversion is a process whereby $U_3O_8$ is purified and converted into uranium hexafluoride ($UF_6$), an intermediate compound in the production of fuel for light water reactors, or into natural uranium dioxide ($UO_2$), which is used as fuel for heavy water reactors.

The company is also a producer of gold.

The most significant factors affecting the financial performance of Cameco are:

- the market prices for $U_3O_8$, conversion services, gold and electricity,
- sales volumes for uranium and conversion services, gold and electricity,
- foreign exchange rates between the Canadian and US dollars, and
- the unit costs of production.

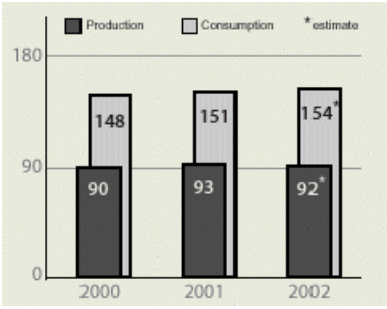
Uranium is the fuel used by nuclear reactors to generate electricity. More than 430 reactors operate in 31 countries and account for about

16% of the world's electricity. The US, which generates about 20% of its electricity using nuclear reactors, is the world's largest market for nuclear products and services and accounts for about 35% of the western world's uranium consumption.

The International Energy Agency in its "World Energy Outlook 2002" forecasts global demand for electricity to grow at an annual rate of 2.4%, faster than the total demand for energy. Annual growth in uranium demand is expected to remain at about 1% over the next 10 years as capacity uprates, improvements in existing reactors and new reactor startups are offset by closures of older generating units.

**Western World Market (million lbs $U_3O_8$)**

In each of the last three years, world mine production supplied only about 60% of the uranium required by western world reactors.



Supplies of uranium are provided by primary production centres such as Cameco's mines, and secondary sources such as excess utility and government inventories including material derived from the dismantling of Russian nuclear weapons. The western world consumes about 154 million pounds of $U_3O_8$ annually and, in 2002, approximately 60% of this consumption came from world primary mine production, continuing the trend of underproduction and inventory drawdown that has persisted for more than a decade.

## Corporate Strategy

### *Management's Strategy*

**Strengths and core competencies**
Cameco's strategies are built upon strengths and core competencies that it believes are significant and sustainable.

These include:

**Large, low-cost diversified reserves, and prime exploration properties and expertise**
The Saskatchewan uranium deposits at McArthur River and Cigar Lake are unique with their large reserves and high grades. Combined, these reserves contain more energy than all of Canada's established conventional oil reserves.

New uranium deposits will be required to satisfy forecast demand. Cameco has a significant land position in both Saskatchewan's Athabasca Basin and Australia's Arnhem Land, two very prospective areas for uranium. Coupled with this land position, the company has years of exploration expertise and is well placed to discover significant new resources.

**An ability to offer integrated fuel supply**
Utilities often contract for their uranium requirements at each stage of the fuel supply chain. Unlike most of its competitors, Cameco has the ability to deliver a combination of uranium concentrates and uranium conversion services. Strategic alliances also allow us to participate in offers of enriched uranium and, in the case of Bruce Power, to provide fuel procurement services. This vertical integration and diversity of sources makes Cameco a preferred supplier with an advantage over non-integrated competitors.

**A significant market position**
Cameco supplies about 20% of the western world's uranium and conversion requirements. This allows Cameco to assess evolving market conditions in most regions of the world; serve our customers' changing requirements through inventories and flexible production sources; and influence the market through intervention strategies, which involve the use of our market position to purchase significant quantities of uranium from others at favourable prices.

**A low-cost producer of nuclear electricity**
Cameco's 31.6% interest in Bruce Power Limited Partnership (Bruce Power) allows the company to expand its uranium and conversion market share and add value through the use of the energy content of this fuel to produce low-cost electricity for about 15% of the Ontario market.

**Superior financial position**
Cameco enjoys consistently strong cash flows, a conservative financial structure and an investment-grade credit rating.

### *Key Strategies*

With these core competencies, Cameco sees a number of opportunities to create value with acceptable levels of risk.

### *Uranium and Conversion Growth Strategies*

**Cameco intends to continue optimizing its production at the lowest cost.** Cameco is one of the lowest cost uranium producers in the world. The company and its employees continually seek ways to reduce costs to maintain Cameco's competitive advantage over the long term.

**Cameco intends to increase its supply flexibility,** to support its market leadership role. Diversity of supply is an important consideration for many customers. In 2002, Cameco acquired the Smith Ranch in situ leach (ISL) operation in Wyoming and merged

it with its nearby Highland operation. During 2003, test mining will continue at the Inkai ISL development project in Kazakhstan. Cameco and its partners have been pursuing a construction licence for the Cigar Lake mine located in Saskatchewan. Further diversity of supply is available through Cameco's access to highly enriched uranium (HEU) material under the US/Russia HEU weapons dismantling agreement and through purchases and co-operative marketing arrangements with others.

**Cameco plans to increase its reserves.** This strategy is being pursued through exploration programs, currently focused in Canada and Australia, and through the acquisition of attractive properties. Since reserves take up to 20 years to bring into production, it is essential to plan for the long term.

**Customer Countries**

Cameco sells uranium and conversion services to companies located in 17 countries around the globe.



**Cameco intends to continue to strategically manage its product supply to the market.** This is achieved through production management, tactical market purchases and the exercise of options to purchase uranium from HEU.

**Cameco plans to maximize $UF_6$ production capability.** In 2001, a British competitor ceased marketing conversion services and announced its intention to stop production and deliveries in 2006. As the number of conversion suppliers decreases, Cameco plans to improve its refining and conversion capacity utilization and looks to increase plant capacity and market share.

**Cameco intends to actively serve the $UO_2$ market.** Cameco plans to maintain and enhance its role as a reliable supplier of $UO_2$ to Candu reactors in Canada, Korea and elsewhere.

To summarize, in the area of uranium mining and conversion, Cameco intends to expand market share where profitable and lower costs to increase value from its market-leading assets.

### *Vertical Integration Strategies*

With the cash flows generated from its assets supplemented by accessing capital markets, as appropriate, Cameco will focus on achieving profitable vertical integration in areas related to its core business.

**Cameco intends to build upon its partnership in Bruce Power.** In February 2003, Cameco closed an agreement, along with its partners, to purchase 79.8% of Bruce Power from British Energy plc. This expanded Cameco's ownership in Bruce Power to 31.6% from 15%.

Cameco believes its experience with Bruce Power can be applied to other situations where partnering with customers presents attractive opportunities. Quality projects and partners will be essential to any potential Cameco participation.

**Cameco plans to examine other fuel-cycle opportunities.** The company plans to pursue opportunities along the nuclear fuel supply chain that may arise downstream in enrichment or fuel fabrication.

### *Gold Strategies*

**Cameco intends to obtain full value from its gold assets.** Cameco believes these assets are under-valued in a nuclear energy company. Cameco's goal is to obtain recognition for the considerable value generated by its investments in gold and their future prospects. To this end, the company acquired a majority interest in AGR Limited (AGR) in 2002. The company is seeking to consolidate its gold assets. Following the recent rise in gold prices, the evaluation of available options for asset consolidation has taken longer than previously anticipated.

In February 2003, Cameco announced that the company and the Kyrgyz government had agreed in principle to restructure the Kumtor mine ownership. The proposed restructuring envisions an exchange of assets between the parties wherein Cameco would ultimately hold all common shares of Kumtor Gold Company (KGC), the owner of the Kumtor mine. The government would realize a more predictable revenue stream, obtain additional tax proceeds, and benefit from higher gold prices through royalties. This proposal also contemplates that the Kumtor mine would eventually be part of a publicly traded gold company established by Cameco.

### *Conclusion to Management Strategies*

Cameco will use its strong cash flows to pursue growth of shareholder value in areas related to its core business. If Cameco cannot deploy these funds in businesses with attractive risk/reward profiles, it will return cash to its shareholders by means that may include share buybacks and/or increased dividends. In 2002, Cameco announced a 20% increase in its annual dividend beginning in 2003.

## The Year in Review

### *Operating Highlights*

A number of operational events and developments in 2002 were significant in the ongoing implementation of Cameco's strategic plan.

**Uranium**
A strategic goal of Cameco is to reduce its uranium production costs and to diversify its sources of supply. The acquisition of the Smith Ranch ISL uranium mine and various other ISL properties in Wyoming from Rio Algom Mining LLC in July 2002 was beneficial in both respects. Cameco merged the Smith Ranch mine with its adjacent Highland mining operation, achieving cost savings and increasing its production presence in the company's largest market, the US.

In Kazakhstan, test mining on the company's large Inkai deposit continued successfully. The company's experience with its US-based ISL mines is being utilized at Inkai.

The restart of mining at Cameco's Rabbit Lake uranium operation in northern Saskatchewan did not go as smoothly as planned due to equipment problems and poor ground conditions. By year-end, most major difficulties had been overcome.

The majority of Cameco's uranium was mined and milled at McArthur River and Key Lake. At these important sites, continued productivity improvements, cost reductions and ISO 14001 certification, one of the most internationally recognized standards for environmental management systems, were attained. Maximum production permitted by licence was achieved.

**Conversion**
Cameco's uranium conversion business showed significant productivity and cost improvements, primarily due to volume increases. In March 2002, the company's Blind River uranium refinery received certification under ISO 14001.

**Electricity**
In February 2003, Cameco, along with others, purchased 79.8% of Bruce Power from British Energy plc, which held an 82.4% interest. The Power Workers' Union and The Society of Energy Professionals obtained the remaining 2.6%.

As part of the agreement, Cameco invested approximately $209 million, to purchase an additional 16.6% interest in Bruce Power, bringing its total interest to 31.6%. Also at the closing, Cameco paid $75 million representing its one-third share of $225 million in deferred Bruce Power rental payments to Ontario Power Generation Inc. (OPG). Following the closing, Cameco's total commitment in financial assurances is estimated to be approximately $200 million, related to the operating licence from the Canadian Nuclear Safety Commission (CNSC), the lease with OPG, and the power purchase agreements with large industrial customers. Discussion of the operations and prospects of Bruce Power are included elsewhere in this MD&A.

the discovery of high-grade gold mineralization at its REN project in northern Nevada. These developments add to the scale and potential value of Cameco's gold holdings.

The failure of a pit wall in July 2002 at the Kumtor mine in Kyrgyzstan severely curtailed production, but this reduction is temporary and no reserves were believed lost as a result of the accident.

Net earnings for 2002 were reduced by $27 million as a result of the incident at Kumtor.

**Management Transition**
Cameco management underwent an important transition at year-end, with the appointment of Gerald Grandey as CEO succeeding Bernard Michel. Mr. Michel has guided Cameco for nearly 14 years and will remain as chair of Cameco until March 31, 2003. Mr. Grandey has been a senior officer of Cameco since 1993. In addition, Terry Rogers was appointed senior vice-president and chief operating officer, and George Assie was named senior vice-president, marketing and business development. Mr. Assie has been with Cameco since 1981 and Mr. Rogers has been with Cameco's subsidiary, Kumtor Operating Company, since 1999.

**Dividends**
In December, the company announced its first dividend increase, to $0.60 per share annually from $0.50. Cameco has never missed a dividend payment since it went public in 1991.

**Safety**
Cameco, along with its subsidiaries and long-term contractors, achieved a combined accident frequency of 0.27 lost-time accidents per 200,000 person hours worked, which was slightly higher than last year's company record of 0.22. This accident frequency compares favourably to the 1.3 and 1.6 frequencies recorded by the Ontario and Saskatchewan mining industries respectively. Unfortunately, the life of a mineworker was lost in the July Kumtor pit wall failure in Kyrgyzstan.

## *Consolidated Financial Highlights*

**Consolidated Earnings**
In 2002, net earnings attributable to common shares were $46 million ($0.83 per share), a decrease of $10 million compared to $56 million ($1.01 per share) in 2001. The decline was attributable to the gold business where after-tax earnings declined by $27

million due to the failure of the pit wall at Kumtor in July 2002. Earnings

The four Bruce B reactors were all in service entering 2003. Together with the scheduled restart of two Bruce A reactors before mid-2003, Cameco expects a significant financial contribution this year from the generation of nuclear electricity. The additional investment in Bruce Power has allowed Cameco to expand its presence in the nuclear generation market more quickly than it had expected.

**Gold**

In the gold business, Cameco acquired a majority interest in March 2002 in AGR which owns 95% of the Boroo gold deposit located in Mongolia. The Boroo property is currently being developed by Cameco. In November, the company announced

**Consolidated Financial Highlights**

| ($ millions except where otherwise noted) | **2002** | 2001 | % change |
|---|---|---|---|
| Revenue | **748** | 701 | 7 |
| Earnings from operations | **89** | 95 | (6) |
| Net earnings[1] | **46** | 56 | (18) |
| Cash provided by operations | **251** | 116 | 116 |
| **Production** | | | |
| Uranium concentrates (million lbs $U_3O_8$) | **15.9** | 18.8 | (15) |
| Uranium conversion (million kgU) | **12.4** | 11.0 | 13 |
| Electricity generation (terawatt hours) | **3.1** | 2.3[2] | 34 |
| Gold (thousand oz) | **176** | 251 | (30) |

1 Attributable to common shares.

2 For period May 12, 2001 to December 31, 2001.

were also impacted by higher costs for administration, exploration and income taxes. These unfavourable factors were partially offset by improved results in the uranium and conversion businesses where gross profits rose due primarily to increased volumes. In 2002, Cameco achieved record delivery levels for its uranium products and conversion services. Cameco's share of earnings from Bruce Power also improved, rising to $16 million from $12 million in 2001. For 2002, the effective tax rate increased to 47% from 39% in 2001 as a higher proportion of pre-tax income was earned in the uranium and conversion businesses and there was minimal tax relief from the pre-tax loss in the gold segment.

Earnings from operations were $89 million for 2002 compared to $95 million in 2001. The aggregate gross profit margin declined to 20% from 21% in 2001.

### *Cash Flow*

In 2002, cash provided by operating activities was a record $251 million, representing an increase of $135 million compared to $116 million in 2001. This increase largely reflects reduction of accounts receivable, higher sales volumes, and a reduction in uranium inventories.

### *Inventories*

At the end of 2002, total product inventories amounted to $340 million, $14 million or 4% lower than the previous year-end. There was a reduction in the quantity of uranium inventory during the year as record deliveries exceeded production and purchases.

acquisition of an additional interest in Bruce Power this ratio rose to 19%.

## Business Segments and Corporate Expenses

### *Uranium Business*

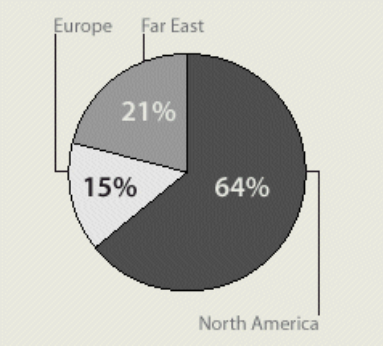
Cameco's uranium business consists of the McArthur River, Key Lake and Rabbit Lake mine/mill operations in Saskatchewan, two ISL mines in the US, the Inkai ISL test mine in Kazakhstan, the Cigar Lake development project in Saskatchewan (currently in the licensing phase) and uranium exploration, primarily in Canada and Australia.

**Revenue**
In 2002, revenue from the uranium business rose by 11% to $524 million from $471 million in 2001 due to an 11% increase in sales volume. During the year, Cameco delivered a record quantity of uranium concentrates. Compared to 2001, the average realized selling price for uranium concentrates increased only marginally even though the spot price averaged $9.86 (US) compared to $8.77 (US) in 2001. The positive influence of the spot market increase was offset by a lower average realized price on fixed-price contracts.

**Cost of products and services sold**
In 2002, the cost of products and services sold was $345 million compared to $298 million in 2001, an increase of

**Nuclear Revenue (by market region)**

The US, Cameco's largest customer region, accounts for 52% of the company's total nuclear revenue.




16% due to the higher sales volume and a 5% increase in the average unit cost of product sold. The unit cost rose due to a higher proportion of sales of purchased material and

higher care and maintenance expenses at Rabbit Lake, which were $8 million compared to $6 million in 2001. Partially offsetting these increases was a reduced unit cost for McArthur River production which benefited from increased mine and mill operating efficiencies.

**Depreciation, depletion and reclamation**
In 2002, depreciation, depletion and reclamation (DD&R) charges were $83 million, a decrease of $3 million compared to $86 million in 2001. In spite of higher sales volume, total DD&R declined due to the higher proportion of sales of

### *Debt*

At the end of 2002, total outstanding debt amounted to $225 million, a decrease of $129 million compared to $354 million at the end of 2001. The net debt to capitalization ratio declined to 8% from 15% in 2001. In February 2003, with the

**Uranium Business Financial Highlights**

| | **2002** | 2001 | % change |
|---|---|---|---|
| Production (million lbs $U_3O_8$) | **15.9** | 18.8 | (15) |
| Revenue ($ millions) | **524** | 471 | 11 |
| Gross profit ($ millions) | **96** | 88 | 9 |
| Gross profit (%) | **18** | 19 | (5) |
| Earnings before taxes ($ millions) | **87** | 78 | 12 |

## Uranium Operating Highlights

(100% basis except where noted otherwise)

| | McArthur River/Key Lake* | | Rabbit Lake | | Smith Ranch/Highland | | Crow Butte | |
|---|---|---|---|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 | **2002** | 2001 | **2002** | 2001 |
| Tonnes milled | **211,263** | 197,717 | **98,227** | 139,288 | **n/a** | n/a | **n/a** | n/a |
| Production (million lbs $U_3O_8$) | **18.7** | 18.0 | **1.1** | 4.6 | **0.9** | 0.8 | **0.8** | 0.7 |
| Cameco's share | **13.1** | 12.6 | **1.1** | 4.6 | **0.9** | 0.8 | **0.8** | 0.7 |
| Recovery (%) | **98.9** | 98.3 | **96.8** | 97.2 | **n/a** | n/a | **n/a** | n/a |
| Average mill head grade (% $U_3O_8$) | **4.06** | 4.31 | **0.76** | 1.35 | **n/a** | n/a | **n/a** | n/a |

* McArthur River ore is milled at Key Lake. Due to licence conditions, stockpiled low-grade ore at Key Lake is used to dilute the grade of McArthur River ore.

purchased material. In addition, the unit cost for McArthur River production declined in comparison to 2001 as the result of higher reported reserves.

**Gross profit**
In 2002, gross profit from the uranium business amounted to $96 million compared to $88 million in 2001, an increase of $8 million or 9%. This improvement was mainly attributable to the 11% increase in deliveries of uranium concentrates. The gross profit margin for the uranium business fell marginally to 18% from 19% due to a higher average unit cost.

**Uranium exploration**
In 2002, uranium exploration expenditures were $12 million, up $2 million compared to 2001. Exploration efforts continue to be focused on prospects in Canada and Australia which are considered to have the best potential for economically attractive discoveries.

15.9 million pounds $U_3O_8$, Cameco's share of production declined almost 3 million pounds or 15% in 2002 due to lower than planned production at Rabbit Lake.

### *Conversion Business*

Cameco's conversion business consists of the uranium refining and conversion facilities located in Ontario.

**Revenue**
In 2002, revenue from the conversion business rose by 20% to $137 million from $114 million in 2001 due to a 17% increase in sales volume and a 3% improvement in the realized price. In 2002, Cameco sold a record quantity of conversion services.

**Cost of products and services sold**
In 2002, the cost of products and services sold was $83 million compared to $72 million in 2001, an increase of 15%. This increase was attributable to the higher sales volume and was partially offset by a 2% decrease in the unit cost of product sold. Lower conversion costs in 2002 were the result of a 13% increase in production and more favourable costs for purchased conversion services.

**Depreciation, depletion and reclamation**
In 2002, depreciation, depletion and reclamation (DD&R) charges were $10 million, a decrease of $4 million compared to $14 million in 2001. In spite of the higher deliveries, total DD&R declined due to selling a higher proportion of purchased conversion and an increase in the estimated life of the

conversion facilities. Late in 2001, the company conducted an assessment of the estimated useful lives of its conversion facilities and concluded that it was appropriate to extend previous estimates by 10 years.

**Gross profit**
In 2002, gross profit from the conversion business was $45 million compared to

**Gain on property interests**
In July of 2002, Cameco acquired a 35.3% interest in UEX Corporation (UEX) in exchange for the transfer to UEX of certain Saskatchewan-based exploration properties. In so doing, Cameco recognized a gain of $3 million.

**Uranium production**
The schedule (see top of page) summarizes the 2002 milling statistics for Cameco's uranium production centres. At

**Conversion Business Highlights**

| | **2002** | 2001 | % change |
|---|---|---|---|
| Production (million kgU) | **12.4** | 11.0 | 13 |
| Revenue ($ millions) | **137** | 114 | 20 |
| Gross profit ($ millions) | **45** | 28 | 61 |
| Gross profit (%) | **32** | 25 | 28 |
| Earnings before taxes ($ millions) | **42** | 26 | 61 |

$28 million in 2001, an increase of $17 million.

## *Electricity Business*

The operating year included a series of major planned outages to prepare the four Bruce B reactors for better long-term service. As a result, power generation by the B reactors was limited to 20.8 terawatt hours, reflecting a capacity factor of 75%. The average realized price was approximately $44/MWh compared to about $38/MWh in 2001. Interest cost of $63 million included interest on the long-term lease and the deferred lease payments due to OPG.

In 2002, Cameco recorded earnings before taxes of $16 million from its 15% limited partnership interest in Bruce Power.

**Electricity Business Financial Highlights**

| Bruce Power Limited Partnership (100% basis) | **2002** | 2001[1] | % change |
|---|---|---|---|
| Output (terawatt hours) | **20.8** | 15.5 | 34 |
| Capacity factor (%)[2] | **75** | 87 | (14) |
| **($ millions)** | | | |
| Revenue | **919** | 599 | 53 |
| Operating costs | **750** | 471 | 59 |
| Earnings before interest & taxes | **169** | 128 | 32 |
| Interest | **63** | 41 | 54 |
| Earnings before taxes | **106** | 87 | 22 |
| Cameco's 15% interest | **16** | 13 | 23 |
| Adjustments | **—** | (1) | — |
| Cameco's share of earnings before taxes | **16** | 12 | 33 |

1 The comparative data in 2001 is for a 7.5-month period from May 12 to December 31.

2 Capacity factor for a given period represents the amount of electricity actually produced for sale as a percentage of the amount of electricity the plants are capable of producing for sale.

## *Gold Business*

Cameco's gold business consists of one operating mine, one mine in development and several exploration properties. Through wholly owned subsidiaries, Cameco owns a one-third interest in and operates the Kumtor gold mine located in Kyrgyzstan, Central Asia. The Republic of Kyrgyzstan, through Kyrgyzaltyn, owns the remaining two-thirds.

Cameco acquired in 2002 majority ownership of AGR, which holds a controlling interest in the Boroo development project located in Mongolia. Commercial production at Boroo is not expected until early 2004. Cameco's exploration interests are located in North America and Central Asia.

**Significant Event**
In July 2002, there was a failure of the pit wall at the Kumtor mine site. This event brought about a significant revision to the mining plan for 2002. Since July, Kumtor has been milling lower grades and experiencing lower recovery rates, with production reduced by about 172,000 ounces (100% basis) from the 2002 plan. The production decline also caused a significant increase in the unit cash cost which is expected to continue until mid-2003 when higher grade ore, buried by the pit wall failure, is expected to become accessible.

**Revenue**
In 2002, revenue from the gold business declined 24% to $87 million from $115 million in 2001, reflecting a 28% decrease in sales volume which more than offset an increase in the average realized selling price. Cameco's realized price for gold was $300 (US) per ounce in 2002 compared to $292 (US) in 2001.

The average spot market price for gold during 2002 was $310 (US) per ounce, up 14% from the average price of $271 (US) for 2001. KGC's hedge position at December 31, 2002 was 769,400 ounces. It is expected that these hedges will yield average prices in the range of $310 (US) to $317 (US) per ounce. The mark-to-market loss on these hedge positions is fully guaranteed by Cameco and amounted to $38 million (US) at December 31, 2002, based on a spot gold price of $347 (US).

**Cost of products and services sold**
In 2002, the cost of products and services sold was $58 million compared to $52

| Gold Business Financial Highlights | | | |
|---|---|---|---|
| | **2002** | 2001 | % change |
| Revenue ($ millions) | **87** | 115 | (24) |
| Gross profit ($ millions) | **9** | 34 | (74) |
| Gross profit (%) | **10** | 29 | (66) |
| Earnings before taxes ($ millions) | **(3)** | 26 | (112) |
| Sales volume (Cameco's share in 000 oz) | **174** | 243 | (28) |
| Selling price ($US/oz) | **300** | 292 | 3 |
| Cash cost* ($US/oz) | **216** | 142 | 52 |

* As defined by the Gold Institute.

**Gold Operating Highlights**

| | 2002 | 2001 | % change |
|---|---|---|---|
| Reserves — proven and probable (000 tonnes) | **34,514** | 31,222 | 11 |
| Average grade (g/t) | **4.13** | 3.85 | 7 |
| Contained gold (000 oz) | **4,588** | 3,864 | 19 |
| Tonnes milled (000 tonnes) | **5,611** | 5,470 | 3 |
| Grade (g/t) | **3.71** | 5.14 | (28) |
| Mill recovery (%) | **78.1** | 83.1 | (6) |
| Production (000 oz) | **528.6** | 752.7 | (30) |
| Production (Cameco's share in 000 oz) | **176.2** | 250.9 | (30) |
| Cash cost ($US/oz)* | **216** | 142 | 52 |

* As defined by the Gold Institute.

million in 2001, an increase of $6 million. The higher costs were largely attributable to addressing the pit wall failure and partial reconfiguration of the pit. Mill production at Kumtor was 30% lower than in 2001 due mainly to lower grade ore which averaged 3.7 grams per tonne (g/t) in 2002 compared to 5.1 g/t the year before. Production was also influenced by a reduced recovery rate which decreased to 78% from 83% in the prior year.

The cash cost* per ounce increased to $216 (US) from $142 (US) in 2001 as the result of the lower production. The reported cash cost per ounce was also impacted by the conclusion of a five-year tax indemnification period in May of 2002. Income taxes paid by Kumtor are included in the cash cost as defined by the Gold Institute. Since May 2002, under an agreement with the government of Kyrgyzstan, Cameco has been reimbursed for its share of these taxes. In 2002, the indemnified tax amounted to $13 (US) per ounce.

**Depreciation, depletion and reclamation**
In 2002, depreciation, depletion and reclamation (DD&R) charges were $20 million, a decline of $9 million compared to $29 million in 2001 due mainly to the lower production. On a unit basis, the DD&R rate fell to $73 (US) per ounce from $77 (US) in 2001 as the result of higher reserves.

**Gross profit**
In 2002, gross profit from the gold business amounted to $9 million compared to $34 million in 2001, a decrease of $25 million or 74%. The gross profit margin for gold was 10% compared to 29% in 2001. On a unit basis, the higher cash costs* more than offset higher prices and the reduced DD&R rate.

**Gold exploration**
In 2002, gold exploration expenditures increased to $10 million from $8 million in the prior year with about 65% of the total exploration expenditures incurred in North America.

### *Corporate Expenses*

**Administration**
In 2002, administration costs of $42 million increased by $5 million compared to 2001 due primarily to the addition of the administration costs of AGR, control of which was acquired in March of 2002.

**Income Taxes**
In 2002, income tax expense was $49 million compared to $42 million in 2001, an increase of $7 million. Compared to 2001, the effective tax rate increased to 47% from 39% due to a higher proportion of pre-tax income being earned in the uranium and conversion businesses and minimal tax relief from the pre-tax loss in the gold business. Earnings from the gold business generally occur in lower tax jurisdictions than earnings from the uranium and conversion businesses.

The effective tax rate includes the large corporation tax which amounted to $5 million in each of 2002 and 2001. See note 15 to the consolidated financial statements.

## Cash and Liquidity

### *Cash Resources*

**Operating Activities**
In 2002, Cameco generated cash from operations of $251 million ($4.50 per share) compared to $116 million ($2.10 per share) in 2001.

This increase of $135 million largely reflects a reduction of accounts receivable, higher sales

volumes and the reduction in uranium inventories. Due to the high volume of uranium deliveries late in 2001, accounts receivable were higher than usual at the end of that year. These were collected early in 2002.

**Investing Activities**
In 2002, cash used in investing activities was $74 million compared to $131 million in the prior year. Significant investments included the Boroo project ($24 million) and an additional $33 million to Bruce Power for the A restart program bringing Cameco's total cash investment in Bruce Power to $93 million.

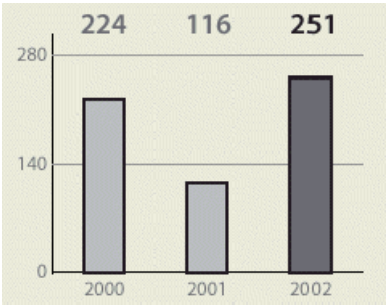
In 2001, the investment in Bruce Power ($88 million), including fabricated fuel inventory, was made.

During 2002, Cameco received $15 million (US) in repayment of principal on

* As defined by the Gold Institute.

**Cash From Operations ($ millions)**

In 2002, Cameco used record cash flow to pay down $130 million in debt as well as fund capital expenditures, dividends and preferred security charges.




the subordinated loan to KGC compared to $21 million (US) in 2001. The failure of the pit wall at Kumtor limited the amount of cash available for repayment. In accordance with the terms of the loan agreement, a shortfall of $6 million (US) in principal repayment has been deferred. At December 31, 2002, the outstanding balance on this loan was $61 million (US). The cash shortfall also necessitated the rescheduling of senior debt for which the December 2002 and June 2003 principal repayments have been deferred.

**Financing Activities**
During the year, cash provided by operating activities exceeded the cash used in investing activities by $176 million. After meeting its obligations for dividends and preferred securities charges, Cameco was able to reduce its debt by $129 million.

In February 2003, Cameco increased its debt to about $400 million upon closing of the Bruce Power transaction.

**Quarterly Financial Results**
Cameco's uranium deliveries vary significantly from quarter to quarter with the fourth quarter typically having the heaviest volume during the year. Accordingly, the company's quarterly earnings and cash flow fluctuate as well.

In 2002, the company achieved records in revenues at $748 million and cash provided by operations at $251 million.

## *Liquidity and Capital Resources*

**Overview**
Financial liquidity represents the company's ability to fund future operating activities and investments. Some important measures of liquidity are summarized in the table on the next page.

Access to capital in the future will be dependent upon the prevailing conditions in the markets and upon the extent to which investors support the company's business plan. Cameco last issued common equity in the capital markets in 1997 and last issued debt in the capital markets in 2001. The company renewed its revolving credit facility in December 2002.

**Indicators Defined**
Cash provided by operations reflects the net cash flow generated by operating activities after consideration for changes in other operating items including working capital.

Cash provided by operations to net debt indicates the company's ability to meet debt obligations from internally generated funds.

Net debt to total capitalization measures the company's use of financial leverage. A lower percentage means less reliance upon debt as a source of financing. Although debt is a lower cost method of financing compared to equity, a lower percentage of debt also represents less exposure to fixed payment obligations.

**Credit Ratings**
As of February 2003, the company has the following ratings from third-party rating agencies:

- Standard & Poor's
  "A-" with a stable outlook.
- Moody's
  "Baa1" following Cameco's announcement to increase its interest in Bruce Power from 15% to 31.6%.
- DBRS
  "A (low)" with a stable outlook.

**Debt**
After cash flow from operations, debt is used to provide liquidity. Cameco has access to about $719 million in unsecured lines of credit.

Commercial lenders have provided a $425-million unsecured revolving credit facility that

was negotiated in December 2002 and is available in two tranches. The first tranche is a three-year, $200-million revolving facility. The second tranche is a $225-million revolving facility available for 364 days with a two-year term-out option. (This means, as long as the company is not in default, Cameco has the option to extend the repayment date on the balance outstanding at maturity of the tranche for an additional two years.) Up to $100 million of this facility can be used to support letters of credit. The facility ranks pari passu (or equal ranking) with all other senior debt of the company. The company may borrow directly from investors by issuing commercial paper up to $400 million. To the extent necessary, Cameco uses the revolving credit facility to provide liquidity support for its commercial paper program.

Cameco also has agreements with various financial institutions to provide up to $294 million in short-term borrowing and letter of credit facilities. These arrangements are predominantly used to fulfill regulatory requirements to provide financial assurance for future reclamation of the company's operating sites. See note 6 to the consolidated financial statements.

Cameco operates within the investment-grade segment (high-credit quality) of the market when obtaining credit. The cost, terms and conditions under which financing is available vary over time. While

## Quarterly Financial Results

| | 2002 | | | | | 2001 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| ($ millions except per share amounts) | Q1 | Q2 | Q3 | Q4 | **Year** | Q1 | Q2 | Q3 | Q4 | Year |
| Revenue | 124 | 195 | 158 | 271 | **748** | 70 | 139 | 170 | 322 | 701 |
| Net earnings* | 5 | 12 | 7 | 22 | **46** | 1 | 12 | 15 | 28 | 56 |
| -per share* | 0.09 | 0.22 | 0.12 | 0.40 | **0.83** | 0.01 | 0.23 | 0.27 | 0.50 | 1.01 |
| Cash provided by operations | 134 | 80 | 22 | 15 | **251** | 28 | 11 | 14 | 63 | 116 |
| -per share | 2.41 | 1.44 | 0.40 | 0.25 | **4.50** | 0.50 | 0.22 | 0.25 | 1.13 | 2.10 |
| Cash dividends | 0.125 | 0.125 | 0.125 | 0.125 | **0.50** | 0.125 | 0.125 | 0.125 | 0.125 | 0.50 |

* Attributable to common shares.

## Liquidity Indicators

| | **2002** | 2001 | 2000 | 1999 | 1998 | 1997 |
|---|---|---|---|---|---|---|
| Cash provided by operations ($ millions) | **251** | 116[1] | 224 | 249 | 237 | 162 |
| Cash provided by operations/net debt[2] (%) | **151** | 36[1] | 86 | 80 | 42 | 92 |
| Net debt[2]/total capitalization (%) | **8** | 15 | 13 | 14 | 23 | 9 |

1 Unusually low due to large amounts of deliveries late in the fourth quarter for which payment was received in early 2002.

2 Total debt less cash and cash equivalents.

future access to credit cannot be assured, it was readily available during 2002.

**Preferred Securities**
Cameco's issue of preferred securities ($125 million (US)) is redeemable at par on or after October 14, 2003. Currently, the company has not determined whether the issue will be redeemed in 2003.

**Kumtor Gold Company**
To finance the Kumtor gold project, a consortium of financial institutions advanced $285 million (US) in senior and subordinated loans to the project in 1996. During 2002, principal at the end of 2002 was $61 million (US) compared to $76 million (US) at year-end 2001. Scheduled interest payments were made when due during 2002. At the end of each year, accrued interest was not a material amount. Cameco also invested $45 million (US) as an equity contribution in 1996.

Effective April 29, 2002, KGC entered into a new credit agreement to refinance its senior debt. The term was extended to June 1, 2006 and a group of noncommercial lenders was replaced with a consortium of commercial banks. In November 2002, the credit agreement was amended to defer the December 2002 and June 2003 semi-annual principal payments until the period December 2004 to June 2006. The senior debt is the direct obligation of KGC, although Cameco has guaranteed the payment of principal and interest owing. See note 18 to the consolidated financial statements. Under

## Kumtor Gold Company Capital Structure

| ($US millions) | Initial Funding | Balance at Dec. 31, 2002 |
|---|---|---|
| Debt | | |
| Third party | | |

KGC repaid $15 million (US) of these third-party loans. After these repayments, the outstanding balances were $77 million (US) in senior debt and $20 million (US) in subordinated debt. Since Cameco proportionately consolidates its interest in KGC, $32 million (US) ($51 million (Cdn)) of the remaining loans were included in Cameco's long-term debt. See note 6 to the consolidated financial statements.

In addition, Cameco provided a subordinated loan of $107 million (US) to the project. The outstanding

| | | |
|---|---|---|
| Senior * | 265 | 77 |
| Subordinated | 20 | 20 |
| Total third party | 285 | 97 |
| Cameco subordinated loan | 107 | 61 |
| Total debt | 392 | 158 |
| Equity | 45 | 45 |
| Total Capital | 437 | 203 |

* Cameco has guaranteed the payment of all principal and interest that becomes due on the senior debt.

current production plans, the guarantee is not expected to be called upon so long as the remaining unhedged production is sold at prices of at least $190 (US) per ounce.

As part of the Kumtor financing arrangements, KGC must maintain a debt reserve bank account as described in note 5 to the consolidated financial statements.

**Debt Covenants**
Cameco is bound by certain covenants in its general credit facilities and in those of Kumtor. The financially related covenants place restrictions on total debt, including guarantees, and set minimum levels for net worth. As of December 31, 2002, Cameco met these financial covenants and does not expect its operating and investment activities in 2003 to be constrained by them.

## Markets

### *Uranium Market Review*

**Spot Uranium Market**

Cameco observed that spot market demand in 2002 was steady through the year, however some aggressive sellers of uranium inventory in the form of $UF_6$ (that is, combined $U_3O_8$ and conversion services) caused the $U_3O_8$ price to remain relatively flat. Over the year the spot price experienced a modest 7% increase, closing the year at $10.20 (US) per pound $U_3O_8$. As in recent years, the spot market represented only about 12% of the western world's uranium consumption.

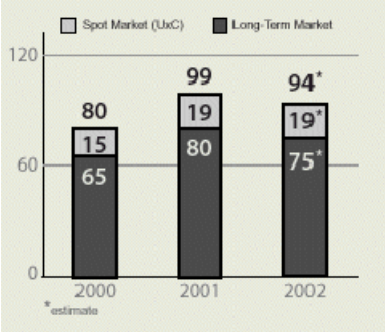
with estimated spot market sales of about 19 million pounds, represented only about 60% of western consumption during the year.

**Spot Conversion Market**
Spot prices for $UF_6$ conversion services in the US market declined by 4% during 2002 to $5.03 (US) per kgU. Management believes this decline resulted from aggressively priced $UF_6$ inventory sales as previously mentioned, in addition to the presence of ample supplies of $UF_6$ conversion services. In contrast, supplies in the European market are tight and the spot price rose by 10%, closing the year at $6.13 (US).

**Market Significance to Cameco**
Cameco does not generally sell uranium and conversion services in the spot markets. However, it has been an active buyer in both spot markets. About 60% of Cameco's uranium under long-term contract is sold at prices which reference the spot market price near the time of delivery, and a significantly lower percentage of the company's conversion contracts reference the spot market price near the time the service is provided.

**Western World Contract Volumes (million lbs $U_3O_8$)**

During the past three years about 80% of the western world's contracting took place in the long-term market.




The company has more than 100 million pounds $U_3O_8$ and over 60,000 tonnes of uranium conversion services under contract for delivery during the next 10 years. Cameco also has purchase commitments, the majority of which are under long-term, fixed-price arrangements, for uranium products and services from various sources totalling $1.1 billion (US) at December 31, 2002. See note 24 to the consolidated financial statements.

**Long-Term Uranium Market**
The published long-term contract price indicator closed the year at $10.75 (US), only a 2% increase during 2002, reflecting continued inventory draw-down and the adequacy of competitive supplies.

Analysts believe that long-term contracting in 2002 by western world utilities was about 70 million pounds. This, combined

## Uranium Market Review

| Market | Year-End Prices $ US/lb $U_3O_8$ 2002 | 2001 | % change |
|---|---|---|---|
| Spot uranium* | **10.20** | 9.53 | 7 |
| Long-term uranium | **10.75** | 10.50 | 2 |

* Spot prices are industry averages.

## Spot Conversion Market Review

| Spot $UF_6$ conversion market | Year-End Prices* $ US/kgU as $UF_6$ 2002 | 2001 | % change |
|---|---|---|---|
| North America | **5.03** | 5.25 | (4) |
| Europe | **6.13** | 5.55 | 10 |

* All prices are industry averages.

## *Trends in the Nuclear Power Industry*

A number of important trends continue to evolve which have the potential to affect Cameco's business environment.

**Nuclear Utilities Consolidate**
Electric utilities in the US and Europe continued to restructure in 2002, albeit at a slower pace than in the previous five years. Consolidation can be expected to continue in response to market deregulation resulting in more concentrated customer buying power.

**Nuclear Plants Operate Better**
Utilities continue to upgrade the performance of their nuclear reactors, generating more electricity at lower costs. In the US, capacity factors, which are expected to continue their steady improvement, averaged nearly 92% in 2002, about 1% higher than in 2001. (Capacity factor measures how efficiently reactors operate.) Non-US generators also increased 2002 capacity factors, including Switzerland and Mexico where capacity factors increased by 1% and 5% respectively.

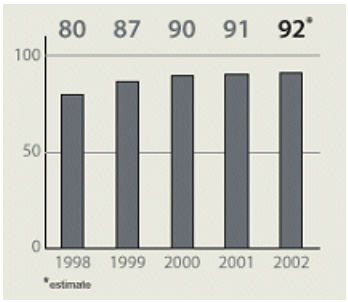
European countries maintained their high levels of nuclear generation performance. In Sweden, nuclear's share of overall domestic electricity production increased 2% to 46%, and in France, the nuclear generated share of electricity also rose 2%, accounting for 78% of total electricity generated in 2002.

demand for uranium concentrates and conversion services.

In 2002, US regulators authorized uprates at 18 of the nation's 104 reactors, resulting in an increase in capacity of about 700 megawatts (equivalent to the capacity of one average size nuclear reactor). Nuclear reactors in other countries have also increased capacity in the past through uprates, a trend that Cameco expects to continue.

**US Capacity Factor (%)**

US nuclear utilities have increased output from existing reactors enough to add the equivalent of 13 new 1,000-megawatt power plants in the last five years.




**Nuclear Plant Licence Extensions**
In 2002, four US nuclear units received 20-year licence extensions, joining the six that received extensions in 2001 and 2000. Operators of an additional 40 units have applied or are expected to apply for extensions in the next few years. In total, this represents about 50% of the US nuclear generating capacity.

The Russian government has implemented a program of safety and equipment upgrades to extend the lives of most of its nuclear reactors.

**New Nuclear Construction**
Six new reactors began commercial operation around the world in 2002, three in China, two in South Korea, and one in Japan. In addition, construction began on a further six units in India and four in South Korea.

In Finland, the government approved the construction of a fifth reactor, expected to commence operations later in the decade. In the US, Tennessee Valley Authority announced that it would spend some $1.8 billion (US) to return the Brown's Ferry 1

unit to operation by 2007. Russia has announced that it would complete the construction of four partially built units by 2006. Financing has been secured to complete two units in Ukraine and one in Romania.

In Canada, six units mothballed in the latter part of the 1990s are expected to return to service in the course of the next few years.

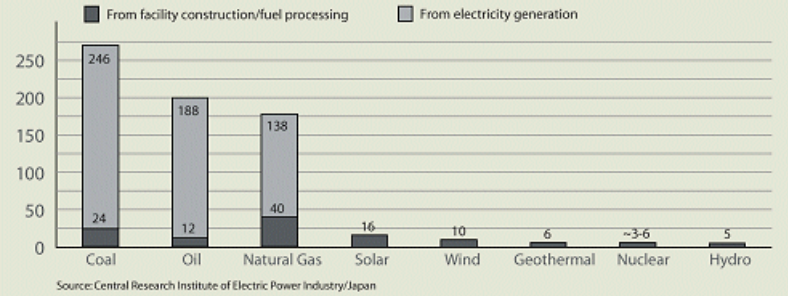
In 2003, Brazil and Bulgaria are expected to approve and begin construction of two units that were halted in the 1990s. In the

**Existing Nuclear Plants Increase Capacity**

Nuclear plants continue to increase generating capacity through uprates, that is, increasing the nominal level of output through installation of more efficient equipment and/or improved instrumentation. These uprates can increase a power plant's capacity by 2% to 20%. In most cases, an increase in capacity translates into increased

**$CO_2$ Emission by Fuel Type ($g\ CO_2/kWh$)**

Nuclear power provides countries around the world with the opportunity to reduce carbon dioxide emissions in order to achieve Kyoto targets.



US, three utilities are expected to submit applications to the Nuclear Regulatory Commission (NRC) for approval of sites where new reactors could be built.

**Nuclear Power and Politics**
In Europe, reactors in some countries are scheduled to close in the short term as a result of political decisions. However, the policies of these countries may change to address economic and environmental realities as well as the need to expand electricity supply to meet demand growth.

In Sweden, the government is expected to decide whether or not to close one reactor at the end of 2003. At least two reports to the government have recommended against closure, citing the lack of emission-free replacement power and the potential for power shortages. A recent Swedish opinion poll shows that 83% favour keeping the reactor operating along with Sweden's other reactors, conditional only upon continued safe operation.

The Belgian government has voted to limit the operation of the country's nuclear reactors to 40 years, effectively calling for a phase-out of nuclear by 2025. However, the government stated that the phase-out will be delayed if clean replacement power is not available. Nuclear generated electricity accounts for about 60% of Belgium's electricity supply.

As a condition of joining the European Union (EU), Lithuania, Slovakia and Bulgaria have agreed to close eight old Soviet-era reactors which the EU believes fail to meet western safety standards.

In the US, a public opinion survey conducted in late 2002 for the Nuclear Energy Institute, indicated that 65% of Americans supported the construction of new nuclear power plants.

One of the characteristics of the nuclear industry is stringent regulation. In 2002, the Japanese regulator severely penalized its largest nuclear operator, Tokyo Electric Power Company, for falsifying certain documentation. All 17 of its reactors will shut down in 2003 on a temporary basis for inspection while one unit will be removed from service for one year as a penalty.

**Cost of Energy Supply**
In 2001, the latest year for which data is available, the direct costs of US nuclear electricity production continued, for the third consecutive year, to be lower than the cost of electricity from coal plants. Other than hydro, nuclear energy is the cheapest source of electricity. This is largely attributable to improved performance of US nuclear power plants.

**Impact on the Global Nuclear Industry**
The foregoing trends are generally positive for nuclear energy. However, it is difficult to know whether these trends and the national debates on the long-term future of nuclear power will eventually result in more or less favourable conditions for the nuclear industry. Of note, however, is that the two most populous countries, China and India, representing over one-half of the world's population, are committed to increasing their share of nuclear generated electricity.

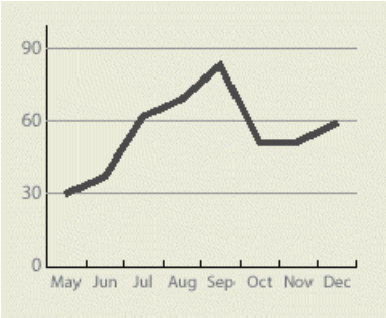
New construction, improved reactor operations, uprates and the extension of reactor lives make it highly likely that, at least, the current demand for uranium and conversion services will continue for many years. In the shorter term, perceptions that there are ample uranium supplies are likely to change as excess inventories continue to decline. This change should favourably impact future uranium prices. The cost of secondary supplies continues to exert a negative influence on market prices. In the future, as inventories dwindle, it is expected that uranium prices will more closely reflect the cost of primary mine production.

The increased attention to the risks associated with international terrorist organizations does not appear to have had an adverse impact on public acceptance of nuclear power. Also, recent independent studies indicate that nuclear plants remain the most robust of industrial facilities, adequately protected against natural disasters and terrorist attacks, including direct land assaults and airplane crashes.

**Ontario Electricity Spot Price (Monthly Weighted Average $/MWh)**

Following market deregulation in May 2002, the average spot price was $56

per MWh for the year.




### *Ontario Electricity Market Review*

In Ontario, the retail and wholesale power markets were deregulated on May 1, 2002. Due to a number of factors, including an unusually hot, dry summer, spot power prices climbed to unexpectedly high levels. Prices in September averaged $83/megawatt hour (MWh) compared to an average price before deregulation of about $38/MWh. In response, the Ontario government froze retail market prices at $43/MWh until 2006 for smaller consumers.

**Impact on Bruce Power**
This has had no direct impact on spot prices in the wholesale electricity market into which Bruce Power sells its production. However, the level of activity in the forward wholesale market

dramatically diminished for the duration of 2002 and early 2003. The government's reversal of policy has increased market uncertainty for Ontario generators like Bruce Power.

## *Update on Uranium Supplies*

**Inventory Drawdown Continues**
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 build up of large inventories, both in the commercial and government sectors. Over the past 17 years, production has fallen short of annual requirements and a large portion of these inventories has been consumed.

The drawdown in 2002 of excess inventory held by western world utilities, producers, governments and others was estimated by Cameco to be in the order of 35 million pounds $U_3O_8$. Inventory drawdown in 2003 is expected to be somewhat lower than in 2002, reflecting increases in the US quota for HEU and world production, as noted below.

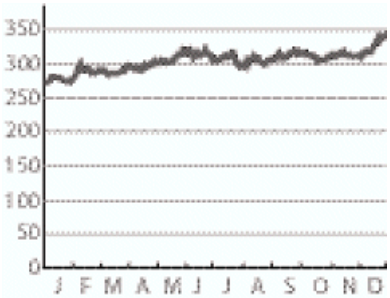
**World Uranium Production Update**
World production in 2002 was estimated at about 92 million pounds $U_3O_8$, down slightly from 2001. Western world production decreased 7% to about 69 million pounds, but is expected to increase to about 74 million pounds in 2003.

**Russian Uranium from Highly Enriched Uranium (HEU)**
As a result of a 1994 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 (LEU) capable of being used in western world nuclear power plants. Cameco, together with three other companies, annually purchases an increasing quota of the uranium feed component of the Russian LEU and sells it to customers. Uranium not purchased is returned to Russia and held in a special stockpile for use in blending additional HEU or, to the extent the stockpile exceeds 58 million pounds $U_3O_8$, is sold. Cameco and its partners also have options to purchase uranium from this stockpile.

In 2002, all scheduled LEU deliveries (24 million pounds $U_3O_8$ equivalent) were received in the US from Russia. For the year, the aggregate US sales quota of uranium derived from Russian HEU was 10 million pounds and Cameco purchased its prescribed share. Russian HEU is a significant supply source expanding over the next six years to 12% of the western world market. Due to the decline in mine production, the weapons-derived uranium has become a necessary source of supply.

**Daily Gold Prices — 2002 ($US/oz)**

In response to higher gold prices, Kumtor Gold Company actively decreased its hedge positions in the latter part of 2002 to take advantage of higher spot market prices.

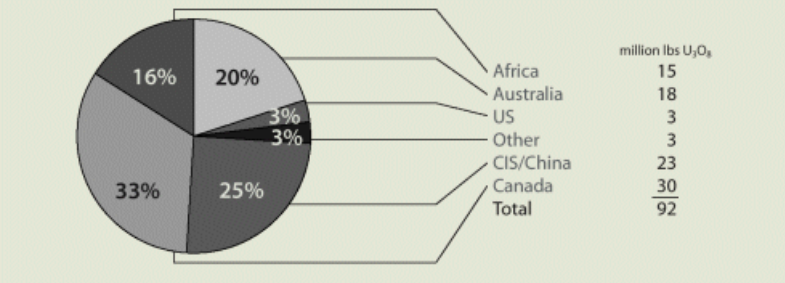



## *Gold Market Review*

Gold prices began the year at $277 (US) per ounce and ended 2002 significantly higher at $347 (US), a price not seen since April 1997. The average spot price for the year was $310 (US) per ounce.

**World Uranium Production**

In 2002, Cameco's 16 million pounds of production represented 17% of the world's output. The company plans to produce more than 20 million pounds in 2003.




Since the events of September 11, 2001, the gold price has trended upward with the spot price of gold above $300 (US) per ounce for most of 2002. A number of factors appear to be supporting the strengthening gold price, including ongoing global economic and geopolitical uncertainty, recent US dollar weakness, bearish financial markets, and reductions in producer hedging. These same factors have carried over to early 2003 and continue to influence gold market activity.

**Significance to Cameco**

Cameco's gold operating companies, KGC and AGR, hedge price risk for future gold sales. In the latter part of 2002, KGC actively decreased its gold hedge positions to take advantage of the higher spot market gold prices. For 2003, about 46% of Cameco's gold production is hedged at a price range of $302 (US) to $307 (US). If the price of gold maintains its current

level, Cameco will be able to participate in upward price movements to the extent it is unhedged. Rising gold prices also increase the credit support required under KGC's hedge obligations. Cameco has agreed to provide credit support to the counterparties of KGC and AGR to mitigate the potential of default. At December 31, 2002, Cameco's maximum financial exposure under these support arrangements was $61 million (US). See note 25 to the consolidated financial statements. On the other hand, should the price of gold decline, Cameco could incur a lost opportunity due to less protection from hedge positions.

## Business Risks

### *Risks and Uncertainties*

The following discussion reviews a number of important risks which management believes could impact Cameco's business. There are other risks, not identified below, which currently, or may in the future, exist in the company's operating environment. For a discussion of these other risks, see the company's most recent annual information form filed on www.sedar.com and posted on www.cameco.com

**Financial Risk**
Cameco's financial condition is influenced by operational performance and by a number of market risks. The most significant of these are fluctuations in market prices and sales volumes of uranium, conversion, gold and electricity prices, foreign exchange rates and unit costs of production. Risk management strategies are employed to assist in identifying and mitigating these risks.

**Contingent Commitments and Guarantees**
**As at December 31, 2002**

| ($ Cdn millions) | Total amounts committed |
|---|---|
| Contingent Commitments: | |
| Standby letters of credit [1] | 209 |
| Guarantees: | |
| KGC senior debt [2, 4] | 81 |
| Gold hedge program [3, 4, 7] | 96 |
| Bruce Power investment [5, 8] | 7 |
| Bruce Power guarantees [6, 8] | 84 |
| Total commercial commitments | 268 |

1 The standby letters of credit maturing in 2003 were issued with a one-year term and will be automatically renewed on a year-by-year basis until the underlying obligations are resolved. These obligations are primarily the decommissioning and reclamation of Cameco's mining and conversion facilities. As such, the letters of credit are expected to remain outstanding well into the future.

2 See note 18 to the consolidated financial statements.

3 See note 24 to the consolidated financial statements.

4 Denominated in US dollars. Converted to Canadian dollars at the year-end rate of 1.5796.

**Uranium Prices**
The company reduces its exposure to volatility in uranium prices by maintaining a long-term contract portfolio which is diversified by price mechanism, delivery date and customer. About 60% of Cameco's contract portfolio has been priced in relation to the spot market price in effect at or near the time of delivery. The remaining 40% has been sold at a fixed price (usually adjusted for inflation) over the term of the contract. The company's sensitivity to changes in the uranium spot price is noted in the outlook for 2003 section below.

**Limited Number of Customers**
Cameco relies on a small number of customers that purchase a significant portion of the company's uranium concentrates and conversion services. For example, Cameco's five largest customers are expected to account for 39% of the

5 Under its 15% partnership interest, Cameco agreed to invest up to $100 million in Bruce Power. To the end of 2002, Cameco had invested $93 million in the partnership.

6 Under its 15% partnership interest, Cameco agreed to guarantee up to $102 million in respect of contingent obligations of Bruce Power and at the end of 2002, $84 million of such guarantees had been provided by Cameco. See note 19 to the consolidated financial statements.

7 See discussion below under gold prices in the section titled Business Risks — Risks and Uncertainties.

8 As noted elsewhere in this MD&A, Cameco acquired an increased interest in Bruce Power in February 2003 which increased its investment and contingent obligations.

**Contractual Cash Obligations**
**As at December 31, 2002**

| ($ Cdn millions) | Total | Less than 1 year | 1-3 years | 4-5 years | After 5 years |
|---|---|---|---|---|---|
| Long-term debt | 225 | 6 | 53 | 166 | — |
| Unconditional product purchase obligations* | 1,778 | 186 | 341 | 365 | 886 |
| Total contractual cash obligations | 2,003 | 192 | 394 | 531 | 886 |

* Denominated in US dollars. Converted to Canadian dollars at the year-end rate of 1.5796.

company's contracted supply of $U_3O_8$ for 2003 through 2005. This compares to 37% of the contracted supply of $U_3O_8$ for 2002 through 2004. The loss of any of these large customers, or any significant curtailment of purchases or lack of timely payments could have a material adverse effect on Cameco's financial performance.

**Use of Derivatives**
Cameco uses financial derivatives to mitigate market risks in connection with gold price and foreign exchange. A derivative is entered into as a hedge against specific economic and transactional exposures. However, derivatives bring with them an exposure to counterparty default*. As of December 31, 2002, Cameco's exposure is predominantly with counterparties that had credit ratings of A+ or higher. Accordingly, Cameco believes the risks of default are low and the benefits derived from using derivatives outweigh the risks.

**Gold Prices**
KGC and AGR hedge the price risk for future gold sales. At December 31, 2002, KGC had in place forward sales and option agreements on 769,400 ounces and AGR had in place forward sales on 200,000 ounces. Combined, these hedge positions represented about 22% of proven and probable reserves. Cameco's share of these hedging agreements was 456,500 ounces, consisting of 371,500 ounces in forward contracts, and a net position of 85,000 ounces in collars (matched puts and calls). These hedges are expected to yield average prices in the range of $310 (US) to $317 (US) per ounce.

As of December 31, 2002, Cameco agreed to provide credit support to a maximum of $70 (US) per ounce to the counterparties of KGC and AGR. Cameco's maximum financial exposure under these arrangements based on outstanding commitments was $61 million (US).

Timing differences between the usage and designation of hedge contracts may result in deferred revenue or deferred charges. At the end of 2002, Cameco's share of deferred charges to be recognized in future years totalled $4 million (US). See note 25 to the consolidated financial statements.

**Foreign Exchange Risk**
The US/Canadian foreign exchange rate started the year at $1.5926 and averaged $1.5703 during the year. Most of the company's revenues are in US dollars with a majority of its costs in Canadian dollars. To reduce its currency risk, at December 31, 2002, Cameco had sold forward $499 million (US). These hedges are expected to yield an average exchange rate of $1.5870. The mark-to-market loss on these positions was $10 million (Cdn) at December 31, 2002, based on a year-end exchange rate of $1.5796.

Timing differences between the usage and designation of hedge contracts may result in deferred revenue or deferred charges. At the end of 2002, deferred charges to be recognized in future years totalled $12 million (Cdn).

**Political Risk**
The company has diversified its political risk internationally. The Kumtor gold mine is located in the Kyrgyz Republic, a country that was part of the former Soviet Union. The mine is the largest foreign investment in the country and represented about 9% of the country's gross domestic product, 47% of export earnings and 35% of total industrial production in 2001, the latest date for which information is available. The importance of Kumtor in relation to the rest of the Kyrgyz economy has meant that Kumtor has maintained a very high profile within the country. This level of attention is not without risk; however, it has also been of benefit in ensuring continued efficient operations.

Cameco also owns a 60% interest in Joint Venture Inkai (JVI) which is developing a uranium mine in the Republic of Kazakhstan. Through KazAtomProm, the Republic of Kazakhstan owns the remaining 40% of JVI. Cameco has agreed to provide funding of up to $40 million (US) to JVI for project development of which $16 million (US) has been funded to the end of 2002. Test mining was started in 2002 and will continue for most of 2003. To date, the Kazakhstan government

has supported the project, but there is no assurance that such support will continue for the project's duration.

Cameco also owns a 56% interest in AGR, which owns 95% of the Boroo gold project in Mongolia. The mine is currently under construction. AGR's investment in Boroo may be exposed to adverse political developments that could affect the economics of the project. The Mongolian government has supported the project to date, but there is no assurance that this support will continue for the project's duration. Cameco's investment in these operations may be exposed to adverse political developments that could affect the economics of each operation. The company has made an assessment of the political risk associated with each of its foreign investments and has purchased political risk insurance to mitigate losses as deemed appropriate.

**Operations Risk**
The mining of uranium and gold and the conversion of uranium are subject to a number of risks including environmental spills, industrial accidents, and unexpected or uncontrolled events from geological conditions. At each operating site,

* Counterparty default means that the other party in a derivative contract is unable to perform its obligations at the time of contract maturity, resulting in the intended hedge being of no value. This concern is addressed by dealing with a variety of counterparties, ensuring they have high credit quality, and limiting the amount and duration of the exposure. A measure of default risk is the mark-to-market value of a hedge position. This value is the difference between the price at which a derivative contract was entered into and its current market value. A positive number indicates that the company has that amount of value at risk should its counterparties default. A negative number, such as the mark-to-market loss mentioned for gold and foreign exchange hedges, represents the amount of value Cameco would have to pay should the hedge position need to be settled immediately.

comprehensive programs in plant and equipment maintenance, quality assurance, environmental protection and worker safety have been implemented and oriented to manage operations risk. Emergency response plans are in place at each site.

At McArthur River, the mine's regulatory-approved capacity of 18.7 million pounds $U_3O_8$ per year (100% basis) was achieved in 2002. Based on experience, there is confidence that the mining method works effectively and that the operating risks are acceptable. However, the high ore grade, the critical need to control ground water and radiation exposure, as well as the innovative applications of technology employed, means that some measure of operating risk will continue throughout the life of the mine.

At Cigar Lake, technical challenges exist regarding ground water control, rock stability and radiation protection. In addition, the application of the unique jet boring mining method and the extended time to obtain construction and operating licences, are expected to delay commercial production into 2006. This combination of factors could have an adverse effect on Cameco's future results.

**Environmental and Safety Risk**
Cameco is subject not only to the normal worker health, safety and environmental risks associated with all mining and chemical processing, but also to additional risks uniquely associated with uranium mining, milling and conversion operations.

In 2001, to better manage these risks and to enhance its quality culture, Cameco embarked upon the design and implementation of an integrated quality management system (QMS). Program development continued in 2002. The QMS is to be fully implemented at Cameco's Canadian uranium sites by the end of 2004 and is based upon ISO 9001-2000 principles. The related program, to implement an environmental management system, also continued. In 2002, the company received ISO 14001 certification at its Blind River refining facility, the McArthur River mine and the Key Lake milling operation. The Port Hope conversion facility received this certification in 2000.

Also in conjunction with the QMS program, Cameco is introducing a new health and safety management system, based upon principles similar to those in the ISO series of quality assurance programs. For the year, on a combined basis, Cameco, its subsidiaries and long-term contractors achieved an accident frequency of 0.27 lost-time accidents per 200,000 person hours worked, which was up slightly from last year's best overall record of 0.22.

Regulators must approve the startup, continued operation and decommissioning of many of Cameco's facilities. These facilities are subject to numerous laws and regulations regarding safety and environmental matters and the management of hazardous wastes and materials. Significant economic value is dependent on the company's ability to obtain and renew licences necessary to operate. In 2002, the CNSC renewed the Port Hope and Blind River licences for five-year terms. The current two-year licences for the Canadian uranium mines will require renewal in 2003.

Cameco continues to face challenges from the burden of increasing regulatory demands and costs from the CNSC, Canadian Environmental Assessment Agency, and other federal and provincial regulators. In particular, the lead regulator, CNSC, intends to increase its fees charged to the nuclear industry, and is increasing the regulatory burden as a result of the implementation of the new Canadian Nuclear Safety Control Act. In addition the CNSC and Environment Canada are calling for more stringent environmental monitoring of uranium mining and milling. Operational changes are increasingly subject to regulatory approval which may include delays due to longer regulatory approval processes. These increasing requirements are expected to continue to result in creeping administration costs and some capital expenditures for compliance. As well, the complex regulatory approval process reduces the flexibility of the company to make operational changes in a timely fashion.

**Insurance**
Cameco purchases insurance to mitigate losses that may arise from certain liability and property risks. The cost of this insurance and

the specific protection provided by the policies varies from year to year depending on conditions in the insurance market. In 2002, market conditions were difficult across all lines of insurance. This resulted in significantly increased premiums along with more restrictive policy terms and conditions.

Cameco believes that the insurance program it has in place continues to prudently address its major liability and property risk exposures.

The pit wall failure that occurred at the Kumtor mine site in July 2002 resulted in significant losses. The extent to which insurance coverage will apply to the damages suffered has yet to be fully determined with the insurers and is expected to take some time to resolve.

Uncertainty in the insurance market is expected to continue. As a result, the availability of certain types of coverage that Cameco has purchased in the past may be significantly reduced and/or the cost to acquire insurance may significantly increase.

**Reclamation and Decommissioning**
The company plans for the closure, reclamation and decommissioning of its operating sites. Decommissioning and reclamation costs may increase over time

due to increasingly stringent regulatory requirements. At least bi-annually, Cameco estimates its total future decommissioning and reclamation costs for its operating assets. At the end of 2002, the estimate was $253 million. The majority of such expenditures are typically incurred at the end of the useful lives of the operations to which they relate and, therefore, only a very small percentage of the total estimated costs is expected to be incurred over the next five years. See note seven to the consolidated financial statements.

At the end of 2002, Cameco's accounting provision for future reclamation costs totalled $155 million. To provide financial assurances for these costs, Cameco has provided letters of credit (LOCs), where required. Cameco's LOCs totalled $209 million at the end of 2002, of which $205 million was related to reclamation and decommissioning activities.

In 2002, LOCs totalling $48 million were issued for the first time for the Port Hope and Blind River facilities, in conjunction with their CNSC re-licensing. Therefore, all North American operations now have in place letters of credit providing financial assurance that future reclamation activities will be performed. Beginning in mid-2001, the company has conducted regulatory-required reviews of its decommissioning plans for all Canadian sites. These periodic reviews are generally related to the licence renewal process previously described. Reclamation and decommissioning obligations represent unfunded liabilities of the company.

**Electricity Business Risks**

Through its interest in Bruce Power, Cameco is exposed to various business risks associated with the generation and marketing of electricity. The following discusses some, but not all, risks associated with this business.

In Ontario, political risk results from uncertainty over the future direction of government energy policies. This risk was amplified in late 2002 when the Ontario government abandoned the deregulation of the retail electricity market. Thus far, the wholesale market remains unregulated, but there can be no assurance that this will continue. Political risk is beyond the control of Bruce Power.

Of the remaining risks, the most significant is directly related to the operating performance of Bruce Power's generating assets. Bruce Power manages this risk through preventive maintenance to improve overall equipment reliability, by adopting simple operational processes and by improving employee performance at all levels.

Another category of risk is electricity price. Bruce Power has mitigated this risk by entering into long-term, fixed-price supply contracts with reliable customers for the delivery of a significant portion of its annual generation. Electricity generated, but not covered by such contracts, is sold on the wholesale spot market and is subject to prices in effect at the time of delivery.

Most long-term supply agreements obligate Bruce Power to deliver electricity at a predetermined contractual price. Credit risk arises from these contracts. On the one hand, the counterparty must have the financial resources to take delivery and pay for contracted electricity. On the other hand, if quoted forward market prices exceed contracted prices, then the counterparty has the right, in most cases, to request financial assurance to mitigate the possibility that Bruce Power does not deliver the electricity as contracted. In such circumstances, Cameco's contingent obligations may increase if it is called upon to guarantee its share of Bruce Power's obligation. To maintain the economic benefit of the electricity supply contracts, Cameco and its partners must have the financial ability to address this credit risk.

A final risk category relates to the transmission grid. The ability of Bruce Power to deliver electricity to its customers is dependent on the provincial transmission grid, owned and maintained by Hydro One, an Ontario provincial Crown corporation. Any adverse conditions such as severe weather or inadequate maintenance that results in unreliable performance by the grid could cause significant financial loss to Bruce Power. Transmission grid risks are beyond

Bruce Power's control.

## The Future

### *Outlook for 2003*

Total mine production is expected to rise to 20.9 million pounds $U_3O_8$, up 5.0 million pounds over 2002 levels, due largely to a full year's operation at Rabbit Lake.

At McArthur River/Key Lake, production of 13.0 million pounds $U_3O_8$ is planned for 2003. McArthur River high-grade ore will continue to be blended with special waste rock at Key Lake to achieve an average mill feed of approximately 4% $U_3O_8$.

At Rabbit Lake, the Eagle Point underground mine is expected to produce 6.0 million pounds in 2003, from its remaining reserves of about 17.6 million pounds $U_3O_8$. Prospects for additional reserves are being explored both from the surface as well as underground, where extensions to known ore have been identified.

In the US ISL operations, the Smith Ranch and Highland mines, which merged operations during 2002, have planned production of 1.1 million pounds while Crow Butte is expected to package 0.8 million pounds in 2003. At the Inkai

## Uranium Production Outlook

(Cameco's share 000 lbs $U_3O_8$)

| | 2003 Plan | 2002 Actual |
|---|---|---|
| McArthur River/Key Lake | 13,000 | 13,095 |
| Rabbit Lake | 6,000 | 1,143 |
| Smith Ranch/Highland | 1,100 | 887 |
| Crow Butte | 800 | 768 |
| Total | 20,900 | 15,893 |

development project in Kazakhstan, nominal production is expected as test mining continues through 2003.

**Uranium Market**
In 2002, long-term contracting in the western world market is reported to have been approximately 70 million pounds. In 2003, long-term market demand is expected to be similar to 2002.

**Uranium Revenue and Margins**
In 2003, Cameco's uranium revenue is expected to rise nominally over the 2002 level as the result of a modest improvement in price. Although market prices have risen over the past two years, Cameco expects its average realized price will increase by only 2% in 2003. For scheduled deliveries in 2003, about 60% of Cameco's long-term contracts contain pricing terms that reference the spot price at or near the time of delivery. The remaining 40% of the contracts include fixed pricing (usually adjusted for inflation). In 2003, the average price realized from these fixed-price contracts is expected to be lower than in 2002 due to the expiration of more favourably priced contracts. At approximately 20% of western world requirements, Cameco's sales volumes are projected to be similar to those for 2002. As well, uranium margins are expected to be similar to 2002.

For 2003 deliveries, a $1.00 (US) change in the $U_3O_8$ spot price from current levels would change revenue by about $27 million (Cdn), net earnings by about $15 million (Cdn) and cash flow by about $21 million (Cdn).

**Conversion Business**
At Port Hope, conversion production is expected to be about 12,200 tonnes, similar to 2002.

Revenue from the conversion business is likely to be slightly lower than in 2002 as a change in the mix of contracts is expected to result in a decline in realized price and lower profit margins.

**Electricity Business (Bruce Power)**

***Acquisition of Additional Interest***
As previously discussed, Cameco and its new partners completed the acquisition of British Energy's interest in Bruce Power on February 14, 2003.

***Bruce A Restart***
An important milestone in the Bruce A restart program was achieved in early January 2003 when Bruce Power's environmental assessment report was accepted by the CNSC. The final hearing on the Bruce A restart program was held February 26. Bruce Power expected to receive regulatory approval to operate units 3 and 4 possibly by the end of March.

On January 14, 2003, Bruce Power received permission from the CNSC to begin refuelling unit 4. The refuelling of unit 4 is now complete and fuelling of unit 3 is expected to begin in early April. The overall project remains on schedule for the restart of unit 4 in April and unit 3 in June 2003.

***Operations***
For the year, an average Bruce Power site-capacity factor of about 88% is planned, slightly below the long-term target of over 90%.

***Capital Expenditures***
In 2003, Bruce Power's capital expenditure program, excluding the Bruce A restart, is expected to total about $165 million. In addition to sustaining capital expenditures of about $15 million annually per reactor, the main projects, which were in Bruce Power's original business plan, include:

- a project to uprate the capacity of the B reactors (approximate annual expenditures in millions for 2003 to 2005: $15, $185, and $100), and

- the completion of the Bruce B environmental qualification program (to be completed in 2003 at an estimated expenditure of $30 million).

Over the next three years, annual capital expenditures, excluding the Bruce A restart program, are expected to average about $245 million.

Bruce Power's internal cash flow is expected to be sufficient to fund its 2003 capital programs including the restart of two Bruce A reactors.

**Gold Business**

***Acquisition of Additional Interest***
As discussed above, Cameco and the Kyrgyz government are involved in discussions to restructure the various interests in KGC.

For 2003, production at Kumtor is expected to be 670,000 ounces (Cameco's share is one-third), with 35% of the production anticipated to occur in the first half of the year. This represents a 25% increase over 2002 due to an increase in average ore grade to 5.4 grams per tonne. The improvement in the grade assumes access to the high-grade ore buried when the pit wall failed in July 2002. The unit

**Capital and Development Expenditures***

(Cameco's share in $ millions)

| | Planned 2003 | Actual 2002 |
|---|---|---|
| **Sustaining Capital** | | |
| Uranium and conversion | 47 | 26 |
| Gold | 5 | 4 |
| Other | 13 | 10 |
| **Total Sustaining** | **65** | **40** |
| **Development** | | |
| Uranium | 12 | 14 |
| Gold | 70 | 24 |
| Other | 4 | — |
| Capitalized Interest | 11 | 12 |
| **Total Development** | **97** | **50** |
| **Total** | **162** | **90** |

* On its 31.6% interest, Cameco's share of Bruce Power's 2003 capital expenditures program is $52 million.

cash cost is expected to decline from the 2002 average by about 15% to $180 (US) per ounce due to the higher production volume. A change of $10 (US) per ounce in the spot market price for gold from the year-end price of $347 (US) would change Cameco's one-third share of revenue by about $2 million (Cdn).

At Boroo, mine construction is proceeding at a slower than expected pace with some construction and procurement activities behind schedule. Development cost to commercial production is estimated to be $63 million (US), an increase from the original estimate of $40 million (US). About half of the increase relates to a change in the operating plan from a contractor-supplied mine equipment fleet to one where AGR purchases the fleet. Therefore mine operating costs are expected to be lower. The remainder of the capital cost increase is due to improvements in the processing facilities. To the end of January 2003 about 40% of the budget was spent which was funded by Cameco. The remaining development costs will be funded internally or possibly with funds raised through an equity offering if Cameco's gold business becomes publicly traded.

The project schedule is under review and commercial production is expected in early 2004.

***Tax Rate***

Cameco's effective tax rate is expected to be in the 30% to 35% range in 2003.

***Capital Expenditures***

In 2003, total capital expenditures, excluding the additional investment in Bruce Power, are expected to amount to $162 million, an increase of $72 million over 2002. In 2003, most site-sustaining capital expenditures are expected to be higher than normal due to mill modifications at Key Lake, the acquisition of Smith Ranch, and the volume of projects at Fuel Services.

For development projects, Cameco's share of expenditures at Cigar Lake is estimated at $9 million. CNSC approval of the construction licence is not expected before October 2003. After receipt of the licence, the partners are expected to make a decision on when to proceed with mine development.

At Inkai, reserve data collection and analysis and test mining are expected to continue through most of the year. A feasibility study has begun and is expected to be completed by the end of 2003.

**First Quarter of 2003**

Earnings from the uranium and conversion segments are projected to show an improvement over the first quarter of 2002 due to higher realized prices. As well, earnings from Bruce Power are expected to be higher than in the first quarter of 2002 due to increased output and improved prices along with an increased ownership interest. On the other hand, earnings from the gold business are projected to decline, compared to the same quarter in 2002, due to lower production. Consolidated earnings for the first quarter of 2003 are expected to be higher than those recorded in the same period last year.

**Liquidity**

During 2003, the company's operating and capital expenditure programs, the additional investment in Bruce Power and the company's growth strategy are expected to be funded by internal cash flow and the company's existing debt capacity. There are no requirements foreseen at this time that cannot be met by these sources.

## Supplementary Information

### *Critical Accounting Policies*

Cameco prepares its consolidated financial statements in accordance with Canadian GAAP. In doing so, management is required to make various estimates and judgments in determining the reported amounts of assets and liabilities, revenues and expenses for each year presented, and in the disclosure of commitments and contingencies. Management bases its estimates and judgments on its own experience, guidelines established by the

Canadian Institute of Mining, Metallurgy and Petroleum and various other factors believed to be reasonable under the circumstances. Management believes the following critical accounting policies reflect its more significant estimates and judgments used in the preparation of the consolidated financial statements.

Depreciation and depletion on property, plant and equipment is primarily calculated using the unit of production method. This method allocates the cost of an asset to each period based on current period production as a portion of total lifetime production or a portion of estimated recoverable ore reserves. Estimates of lifetime production and amounts of recoverable reserves are subject to judgment and significant change over time. If actual reserves prove to be significantly different than the estimates, there could be a material impact on the amounts of depreciation and depletion charged to earnings.

Significant decommissioning activities are often not undertaken until substantial completion of the useful lives of productive assets. Future decommissioning and reclamation costs are estimated and accrued using the unit of production method so that the estimated future liability will be fully provided when decommissioning and reclamation activities are undertaken. Regulatory requirements and alternatives with respect to decommissioning and reclamation activities are subject to change over time. The amount of reclamation charged to earnings is also dependent upon estimated recoverable reserves. A significant change to either the estimated costs or recoverable reserves may result in a material change in the amount of reclamation charged to earnings.

If it is determined that carrying values of assets cannot be recovered, the unrecoverable amounts are written off against current earnings. Recoverability is dependent upon assumptions and judgments regarding future prices, costs of production, sustaining capital requirements and economically recoverable ore reserves. A material change in assumptions may significantly impact the potential impairment of these assets.

Cameco uses derivative financial and commodity instruments to reduce exposure to fluctuations in foreign currency exchange rates, interest rates and commodity prices. As long as these instruments are effective, they have the effect of offsetting future changes in these underlying rates and prices. Future earnings may be adversely impacted should these instruments become ineffective over time.

## Caution Regarding Forward-Looking Information

Statements contained in this document 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. Factors that could cause such differences, without limiting the generality of the following, include: volatility and sensitivity to market prices for uranium, electricity in Ontario and gold; the impact of the sales volume of uranium, conversion services, electricity generated and gold; competition; the impact of change in foreign currency exchange rates and interest rates; imprecision in reserve estimates; environmental and safety risks including increased regulatory burdens; unexpected geological or hydrological conditions; political risks arising from operating in certain developing countries; a possible deterioration in political support for nuclear energy; changes in government regulations and policies, including trade laws and policies; demand for nuclear power; replacement of production and failure to obtain necessary permits and approvals from government authorities; legislative and regulatory initiatives regarding deregulation, regulation or restructuring of the electric utility industry in Ontario; Ontario electricity rate regulations; weather and other natural phenomena; ability to maintain and further improve positive labour relations; operating performance of the facilities; success of planned development projects; and other development and operating risks. Although Cameco believes that the assumptions inherent in the forward-looking statements are reasonable, undue reliance should not be

placed on these statements, which only apply as of the date of this document. Cameco disclaims any intention or obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

**ADDENDUM (dated April 16, 2003) TO 2002 MANAGEMENT'S DISCUSSION AND ANALYSIS OF CAMECO CORPORATION**

# Subsequent Event

The preceding statements in the MD&A are modified in their entirety to the extent that they are inconsistent or conflict with the following information which is current as of April 16, 2003:

On April 6, 2003, production at McArthur River was suspended due to increased water inflow into the mine. As of April 16, 2003, it was estimated that production at the McArthur River mine would be suspended for four to six months. However, events were still unfolding leaving some uncertainty as to the duration of the shutdown. Management is assessing the operational implications of the event. A description of financial implications of the event on the outlook for 2003 is provided below. For additional information, see the company's 2002 annual information form filed at www.sedar.com and posted on www.cameco.com.

**Uranium Production**

As a result of this event, the total uranium production for 2003 will be lower than the previous estimate of 20.9 million pounds U3O8. Compared to the previous estimate, Cameco's share of production is expected to decline by approximately 1.1 million pounds for each month that McArthur River does not produce.

**Uranium Revenue and Margins**

The water inflow problem will also have an adverse effect on uranium margins which are expected to be lower than in 2002 due to the reduced production. Deliveries of uranium are not expected to be impacted but the cost of product sold will be higher than previously expected. Costs associated with the efforts to bring the mine back into production will be expensed as incurred and McArthur River production will be replaced by drawing down higher-cost inventory.

**Consolidated Earnings**

Preliminary estimates of the impact of this event indicate that 2003 net earnings will decline by about $4 to $5 million for each month that McArthur River does not produce at design capacity. This net earnings projection does not include any provision for potential writedown of assets. At this time, it is not expected that a writedown of a material amount would be necessary. However, the company will continue to assess the carrying values of its assets as new information becomes available.

**Credit Ratings**

As a result of the water inflow problem at McArthur River, Standard & Poor's, Moody's and DBRS have placed the company's debt on credit watch with negative implications pending resolution to the situation.

**EXHIBIT 4**

**CONTROLS AND PROCEDURES**

(a) ***Evaluation of disclosure controls and procedures***. As of a date within the 90-day period prior to the filing of this report, an evaluation of the effectiveness of Cameco Corporation's "disclosure controls and procedures" (as such term is defined in Rules 13a-14(c) and 15d-14(c) of the United States Securities Exchange Act of 1934 (the "Exchange Act")) was carried out by Cameco Corporation's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). Based on that evaluation, the CEO and CFO have concluded that as of such date Cameco Corporation's disclosure controls and procedures are effective to ensure that information required to be disclosed by Cameco Corporation in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in United States Securities and Exchange Commission rules and forms.

(b) ***Changes in Internal Controls***. Subsequent to the completion of their evaluation, there have been no significant changes in Cameco Corporation's internal controls or in other factors that could significantly affect the internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

**EXHIBIT 5**

**CONSENT OF INDEPENDENT CHARTERED ACCOUNTANTS**

We consent to the inclusion in the Annual Report on Form 40-F of our report dated February 11, 2003, except as to Note 19(c) which is as of February 14, 2003 and Note 31 which is as of April 16, 2003, with respect to the consolidated balance sheets of Cameco Corporation as at December 31, 2002 and 2001 and the related consolidated statements of earnings (loss), retained earnings and cash flows for each of the years in the three-year period ended December 31, 2002, which report appears in the Annual Report on Form 40-F of Cameco Corporation for the year ended December 31, 2002.

/s/ KPMG LLP

Saskatoon, Saskatchewan
16 April, 2003

Chartered Accountants

**EXHIBIT 99.1**

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Cameco Corporation (the "Company") on Form 40-F for the year ended December 31, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gerald W. Grandey, President & Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Gerald W. Grandey

Gerald W. Grandey
President & Chief Executive Officer

April 16, 2003

**EXHIBIT 99.2**

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Cameco Corporation (the "Company") on Form 40-F for the year ended December 31, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David M. Petroff, Senior Vice-President, Finance & Administration & Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ David M. Petroff

David M. Petroff
Senior Vice-President, Finance & Administration
& Chief Financial Officer

April 16, 2003