

CERTIFIED MAIL

May 11, 2012

Mr. Kenneth Garoutte
Cameco Resources, Inc.
PO Box 1210
Glenrock, WY 82637

**Subject: April 2012 Inspection Report
Cameco Resources, Permits 603 & 633**

Dear Mr. Garoutte:

The Land Quality Division conducted the April 2012 inspection with assistance from you and your staff on April 10 and 13, 2012. Please find the inspection report enclosed.

As a result of this inspection, the LQD is requesting additional information regarding the wells observed off-site **within 10 days** of receipt of this letter. In addition, due to the off-site disturbance identified near the Wellfield 9, header house #1 pattern area a Notice of Violation is under internal LQD review and will be forwarded to you in the near future.

If you have any questions, please do not hesitate to contact me at pam.rothwell@wyo.gov or 777-7048.

Sincerely,

Pam Rothwell
District 1 Assistant Supervisor
Land Quality Division

Enclosure

cc: Cameco Resources, Cheyenne, WY w/att

APRIL 2012 INSPECTION REPORT

PERMITS 603 & 633

COMPANY:	Cameco Resources, Incorporated
LOCATION:	North of Glenrock, Converse County (Smith-Highland Ranch Uranium Project)
DATE OF INSPECTION:	April 10 & 13, 2012
DATE OF REPORT :	April 16, 2012
INSPECTORS:	Pam Rothwell, LQD District 1 Assistant Supervisor
CO. STAFF PRESENT:	Ken Garoutte, Cameco SHEQ Manager Vicky Githins, Cameco SHEQ Coordinator Dave Moody, Cameco, Wellfield Operations Manager Craig Hiser, Wellfield Development Supervisor

INTRODUCTION

Focus of Inspection:

- Review well completion records and conduct a field inspection of the completed wells in MU-K-North, Header Houses (HH) 15 and 16 (under separate report).
- Observe status of wellfields and support facilities.

INSPECTION (April 10)

MU-K-North, HHs 15 & 16 Well Completion Inspection (Chapter 11, Section 11(b))

A records review of the well completion reports, casing reports, mechanical integrity reports and geophysical logs was completed to evaluate the requirements for well construction according to Chapter 11, Section 6. A field inspection was completed of the post well construction status including well placement location, necessary surface and channel stabilization, protection of the well from surface runoff and evaluation of the annulus, i.e., fall back of the seal. The wells were deemed acceptable by LQD with formal authorization to use the wells sent to CR on May 2, 2012. CR plans to install leak detection systems following the well completion inspection. Surface soil protection will follow the leak detection installation.

During the well completions inspection, it was noted that the surface disturbance to ephemeral drainages during well construction is significant. Although the drainages may not require designs for reconstruction (as when mining occurs through a drainage under surface mining of other resources i.e., coal, hard rock mines, etc., a large area of disturbance results from well installation (**Figure 1- 3**).

Evaporation Ponds

The ponds were observed. Both the East and West ponds contained water. CR stated that the East Pond is leaking again and would be discussed in the next monthly report. CR is working on a mitigation plan to address LQD's 90 day deadline. There are two issues that will be addressed:

- 1) the repeated leaks of the ponds
- 2) evaluation of potential groundwater contamination resulting from historical and repeated leakage of the ponds

Wellfield 2

HHs 2-1, 2-2 and 2-4: mining predominately complete; idling, restoration is scheduled to follow MU-1.

Wellfield K

HH K-9 and K-6; in full production. Wellfield surface appears stable in the pattern areas

HH-K-1; mining is predominately complete, idling.

HH-K-10; recently approved in K-North wellfield; in full production

Wellfield D

Two drill rigs were installing offset wells to DM-3, DM-9 and DM-10 to be used to control excursions. DM-3 and DM-10 are on excursion. DM-9 has had problems in the past.

Wellfield E

Drill rigs (6-7) continuing installation of replacement wells for restoration

Wellfield C

Drill rigs (2-3) continuing installation of replacement wells for restoration

INSPECTION (April 13)

Wellfield 15A

HHs 15-20, 15-19, 15-16, 15-14; production ranged from 50% to near full production in these patterns. Random wells were inspected and found to have adequate leak detection.

Wellfield 9

Sediment controls were observed at the culvert crossing entering SR-2 Satellite Facility. A 12 inch culvert on the north side of the road is plugged and sediment is backed up around the inlet (**Figures 4**). A head cut is advancing downstream of the culvert on the south side of the road.

A second road crossing located north of Satellite SR-2 also has sediment deposition surrounding the culvert inlet. It may be accumulation from the road or the result of poor maintenance of the sediment controls upstream. The culvert is covered with tumble weed (**Figure 5**).

HHs 9-3 and 9-4; production is ongoing in these patterns. The toe ditch surrounding a topsoil stockpile near HH-9-3 is full of sediment.

Pattern Area for HH-1 included many wells installed, however, due to proximity to the permit boundary CR needs to amend lands to complete the pattern. This has not happened due to stalled land acquisition issues to propose an amendment. An improved access road has been constructed which is used to access a water supply pond located outside the permit boundary (**Figures 6, 7 & 8**). In addition, two monitor wells and a third well of unknown usage that had inadequate capping were discovered outside the permit boundary (**Figures 9, 10 & 11**). CR stated the monitor wells were used to establish baseline for Wellfield-9.

COMPLIANCE and ASSESSMENT

- 1 Maintenance is needed on many sediment and erosion control structures, i.e., culverts, toe ditches, etc. CR stated during the inspection that an inventory of topsoil stockpiles will be completed for the annual report due in June 2012. At that time maintenance will be conducted as needed. It was also stated that CR's reclamation specialist Shawn DeGraugh is no longer with the mine and there are no plans to fill the vacated position. This is of concern to the LQD as many improvements were happening as a result of this position with regard to sediment and erosion controls and road/facility disturbances as well as revegetation improvements including weed control. LQD questioned CR's ability to maintain these improvements without the coordination that was managed by Shawn and his staff. The inspection of only four or five sediment control features during the inspection identified three that needed maintenance work as well as a headcut that needs mitigation work. It is recommended that CR maintain reclamation staff to sufficiently address sediment control structures and re-vegetation for the disturbance areas at the mine.

LQD will be paying close attention to the efforts to maintain the accomplishments that were established with the former reclamation specialist position. **Please conduct all required maintenance on sediment controls and topsoil protection features. LQD will continue to conduct inspection for maintenance of these structures.**

- 2 CR will need to provide a summary of the complete history for the three wells identified during the inspection located outside the permit boundary and any other wells that are located outside the permit boundary under Permits 603 or 633. The information should include dates drilled and completed, MIT dates, pump test and/or sampling dates with results, use of the wells, SEO permits, etc. **Please provide the information within 10 days of receipt of this report.**
- 3 Violations in the area of Wellfield-9 header house #1 were identified related to:
 - Monitor wells 901 and 949 are in violation of:
 - Wyoming Environmental Quality Act (WEQA) § 35-11-405(a) for construction activities related to mining outside the permit and,
 - LQD Noncoal Rules and Regulations, Chapter 11, Section 6(b)(ii) for insufficient cover of the wells
 - An improved road to the water supply pond is in violation of:
 - WEQA § 35-11-405(a) for construction activities related to mining outside the permit

A water supply pond outside the permit boundary is in violation of:

- WEQA § 35-11-405(a) for construction activities related to mining outside the permit,
- LQD Noncoal Rules and Regulations, Chapter 11, Section 4(a)(iv) for lack of approved plan and design for the pond in the permit and,
- WEQA § 35-11-406(b)(xiv) for unapproved use of water in mining related activities.

CR was advised that off-site disturbance is not allowed and precautions should be taken to avoid these occurrences. Uncovered wells have been repeatedly discussed and brought to CRs attention as an unacceptable practice. CR has been asked to provide the information in the permit for use of water supply ponds but has failed to do so (see Inspection Reports for April, 2009, July, 2009, and September 2009). Therefore, a Notice of Violation is being recommended.

PHOTOS

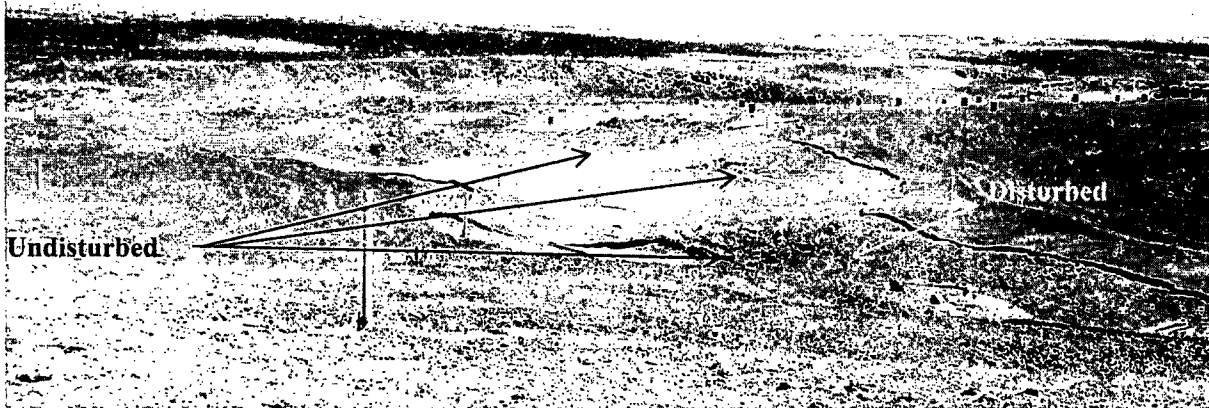


Figure 1 Disturbance to ephemeral drainage during well construction

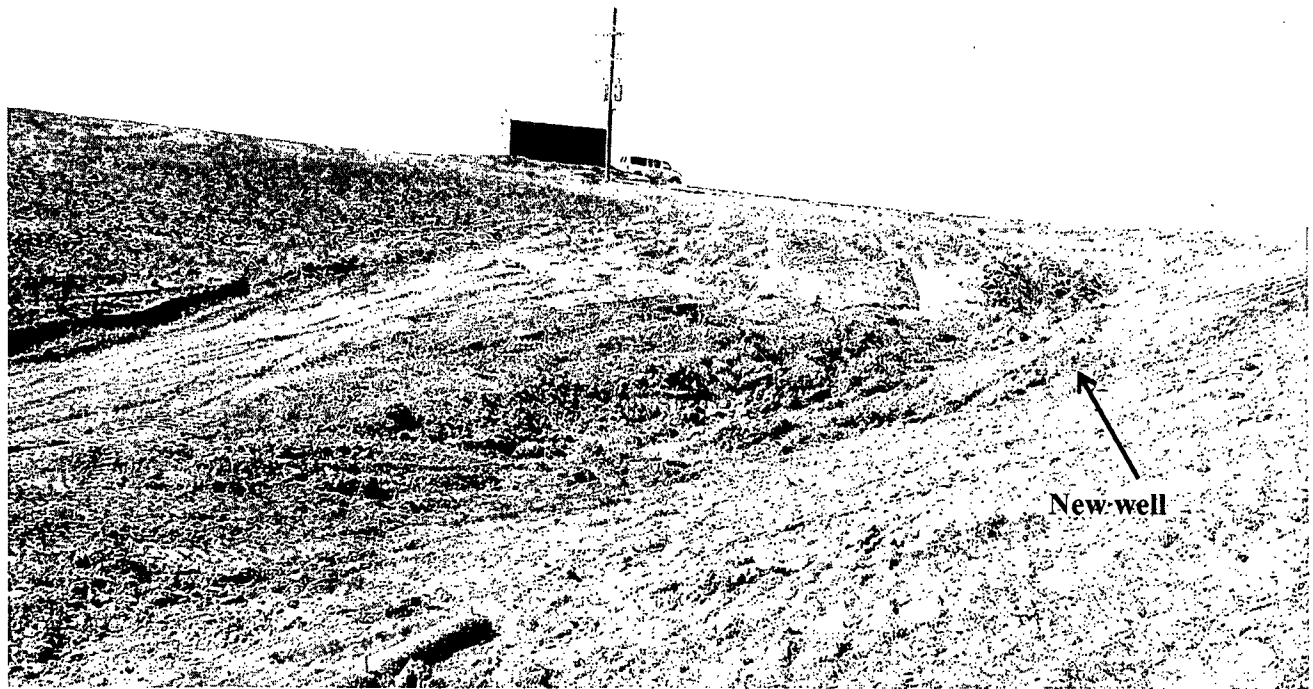


Figure 2 Top of ephemeral drainage with well construction disturbance



Figure 3 Disturbance to drainage following well construction

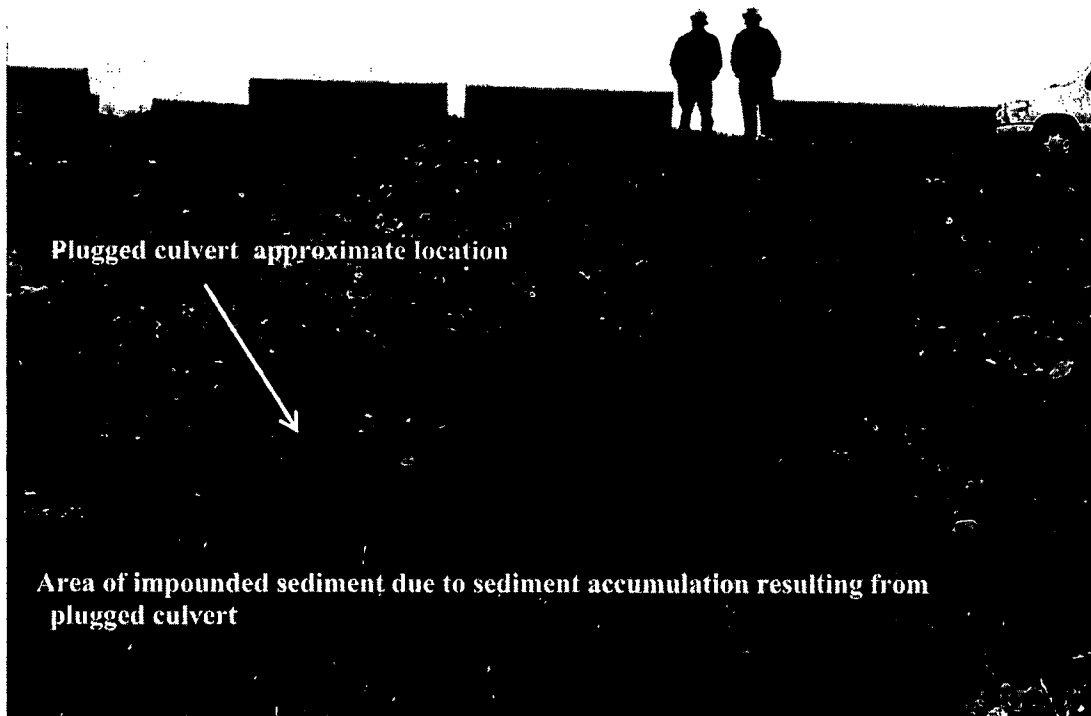


Figure 4 View of north side of culvert crossing located east of SR-2

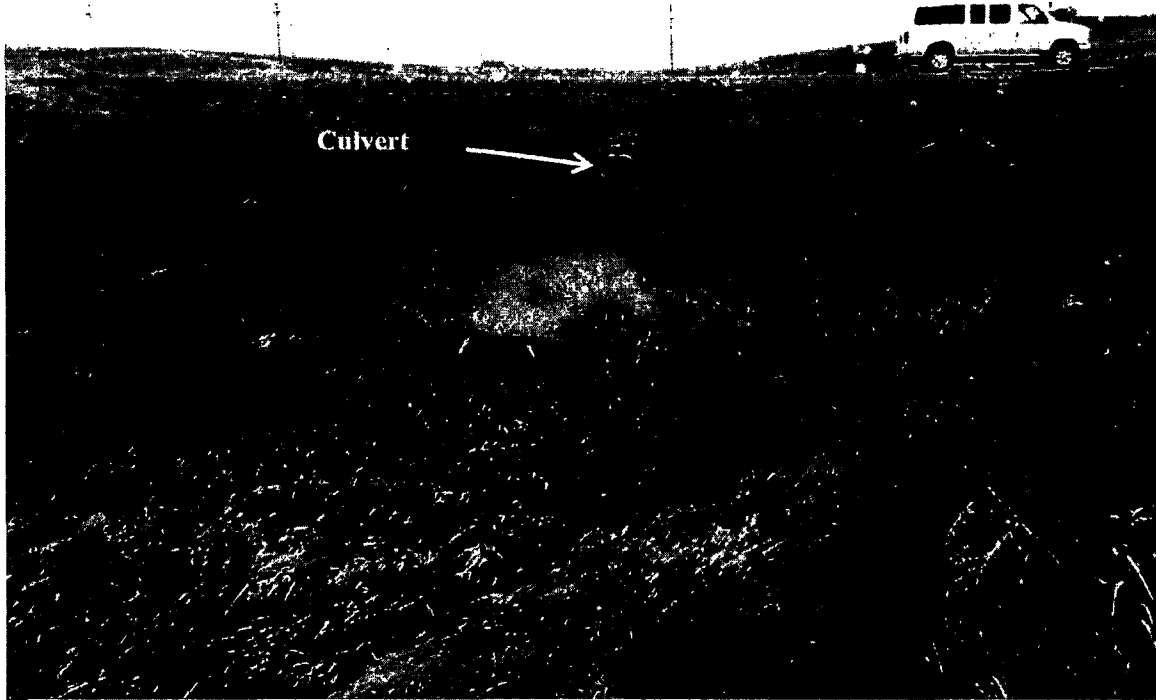


Figure 5 Sediment accumulation in front of culvert covered with tumbleweed.

West

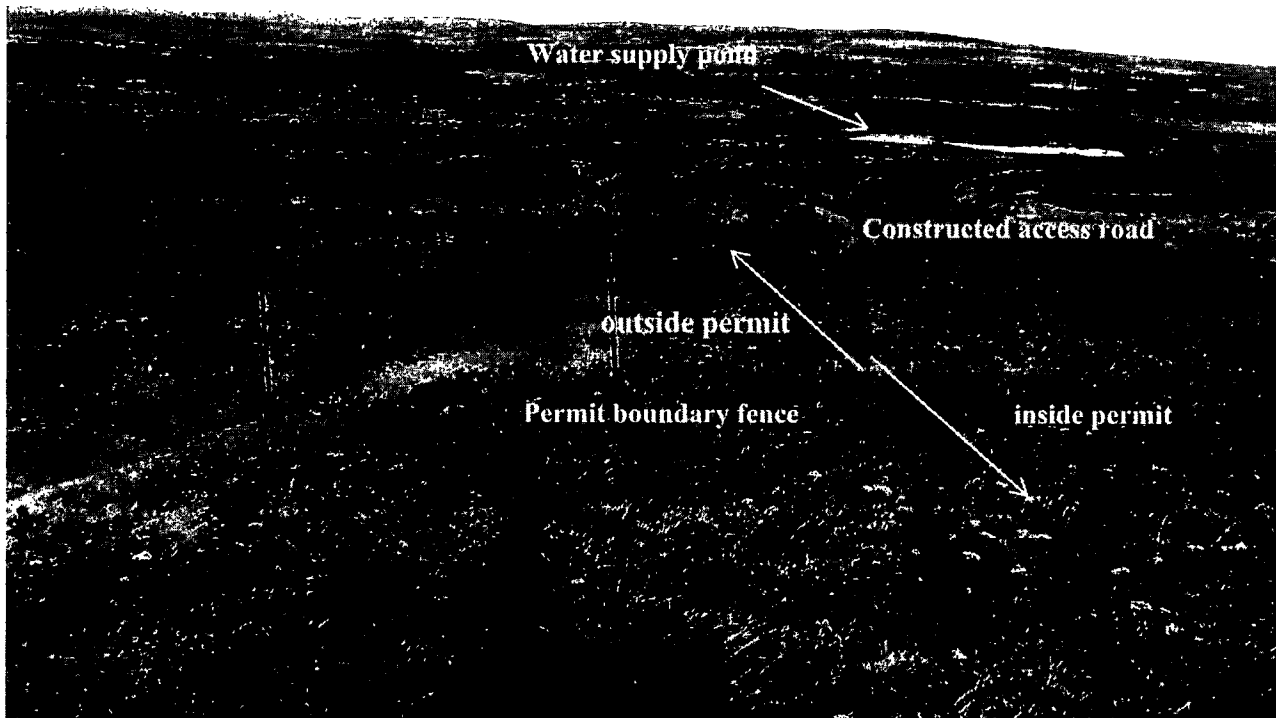


Figure 6 View of constructed road access to water supply pond outside the permit boundary

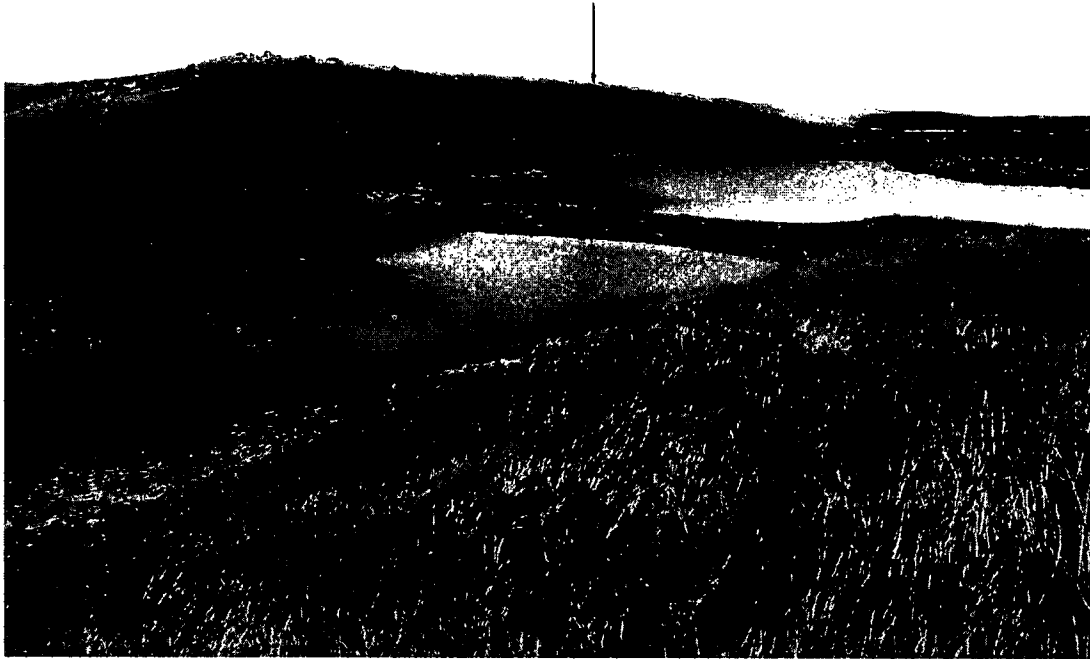


Figure 7 View of water supply pond



Figure 8 View of water supply access with sump hoses lying on the ground



Figure 9 Monitor well outside the permit boundary, M-901



Figure 10 Unknown well with broken cap; located outside the permit boundary



Figure 11 View of second monitor well outside permit boundary; M-949