CAMECO CORP
Form 6-K
March 19, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 6-K
Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16 Under
the Securities Exchange Act of 1934
For the month of March, 2007
Cameco Corporation
(Commission file No. 1-14228)
2121-11th Street West
Saskatoon, Saskatchewan, Canada S7M 1J3
(Address of Principal Executive Offices)

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

Form 20-F o Form 40-F þ

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

Yes o No þ

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

Exhibit Index

Exhibit No.	Description	Page No.
99.1	2006 Annual Consolidated Financial Statements.	

SIGNATURE

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

Date: March 19, 2007

Cameco Corporation

By: *Gary M.S. Chad*

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

Exhibit 99.1

CAMECO CORPORATION
2006 CONSOLIDATED FINANCIAL STATEMENTS
March 16, 2007

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 responsible for ensuring that these statements, which include amounts based upon estimates and judgment, are consistent with other information and operating data contained in the annual report and reflect the corporation s business transactions and financial position.

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.

In addition, management is responsible for establishing and maintaining an adequate system of internal control over financial reporting. The internal control system includes an internal audit function and a code of conduct and ethics, which is communicated to all levels in the organization and requires all employees to maintain high standards in their conduct of the corporation s affairs. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the company s assets are appropriately accounted for and adequately safeguarded. Management conducted an evaluation of the effectiveness of the system of internal control over financial reporting based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the company s system of internal control over financial reporting was effective as at December 31, 2006.

Our shareholders independent auditors, KPMG LLP, whose report on their examination follows, have audited management s assessment of the effectiveness of the company s internal control over financial reporting. In addition, KPMG LLP has 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.

Gerald W. Grandey	*O. Kim Goheen*
President and Chief Executive Officer	Senior Vice-President and Chief Financial Officer
March 16, 2007	March 16, 2007

AUDITORS REPORT

To the Shareholders of Cameco Corporation

We have audited the consolidated balance sheets of Cameco Corporation as at December 31, 2006 and 2005 and the consolidated statements of earnings, retained earnings and cash flows for each of the years in the three-year period ended December 31, 2006. 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. With respect to the consolidated financial statements for the year ended December 31, 2006, we also conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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, 2006 and 2005 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2006 in accordance with Canadian generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the corporation s internal control over financial reporting as of December 31, 2006, based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 16, 2007 expressed an unqualified opinion on management s assessment of, and the effective operation of, internal control over financial reporting.

KPMG LLP

Chartered Accountants

Saskatoon, Canada

March 16, 2007

Consolidated Balance Sheets

As at December 31 ($Cdn thousands)	2006	(As adjusted - note 3(b)) 2005
Assets		
Current assets		
Cash and cash equivalents	$ 334,089	$ 623,193
Accounts receivable	403,280	340,498
Inventories [note 4]	416,479	399,675
Supplies and prepaid expenses	191,831	152,790
Current portion of long-term receivables, investments and other [note 6]	8,745	8,303
	1,354,424	1,524,459
Property, plant and equipment [note 5]	3,312,152	2,871,337
Long-term receivables, investments and other [note 6]	293,714	196,747
Goodwill [note 22]	180,139	180,232
Total assets	**$ 5,140,429**	**$ 4,772,775**
Liabilities and Shareholders Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 402,806	$ 350,398
Dividends payable	14,092	10,487
Current portion of long-term debt [note 7]	7,900	156,699
Current portion of other liabilities [note 9]	30,881	43,725
Future income taxes [note 16]	46,289	73,910
	501,968	635,219
Long-term debt [note 7]	696,691	702,109
Provision for reclamation [note 8]	228,496	167,568
Other liabilities [note 9]	232,370	98,609
Future income taxes [note 16]	339,451	444,942
	1,998,976	2,048,447
Minority interest	400,071	360,697
Shareholders equity		
Share capital [note 10]	812,769	779,035
Contributed surplus [note 10]	540,173	529,245
Retained earnings	1,428,206	1,108,748
Cumulative translation account [note 11]	(39,766)	(53,397)

	2,741,382	2,363,631
Total liabilities and shareholders equity	$ 5,140,429	$ 4,772,775

Commitments and contingencies [notes 8,24,25]
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

For the years ended December 31 ($Cdn thousands, except per share amounts)	2006	(As adjusted - note 3(b)) 2005	(As adjusted - note 3(b)) 2004
Revenue from			
Products and services	$ 1,831,690	$ 1,312,655	$ 1,048,487
Expenses			
Products and services sold	1,127,772	814,032	623,125
Depreciation, depletion and reclamation	199,665	197,516	180,229
Administration	143,014	110,187	71,844
Exploration	58,152	57,468	35,972
Cigar Lake remediation [note 12]	20,559		
Interest and other [note 13]	(3,708)	12,103	14,264
Research and development	2,682	2,410	1,911
Gain on sale of assets [note 14]	(51,826)	(1,739)	(1,958)
	1,496,310	1,191,977	925,387
Earnings from operations	335,380	120,678	123,100
Earnings from Bruce Power [note 19]		165,775	120,722
Other income (expense) [note 15]	10,046	(13,989)	133,421
Earnings before income taxes and minority interest	345,426	272,464	377,243
Income tax expense (recovery) [note 16]	(68,843)	30,257	73,285
Minority interest	38,554	26,738	27,452
Net earnings	$ 375,715	$ 215,469	$ 276,506
Basic earnings per common share [note 26]	$ 1.07	$ 0.62	$ 0.81
Diluted earnings per common share [note 26]	$ 1.02	$ 0.60	$ 0.77

Consolidated Statements of Retained Earnings

For the years ended December 31 ($Cdn thousands)	2006	(As adjusted - note 3(b)) 2005	(As adjusted - note 3(b)) 2004
Retained earnings at beginning of year			
As previously reported	$ 1,114,693	$ 938,809	$ 694,423
	(5,945)	(3,783)	(1,504)

Change in accounting policy for stock-based compensation [note 3(b)]			
As adjusted	1,108,748	935,026	692,919
Net earnings	375,715	215,469	276,506
Dividends on common shares	(56,257)	(41,747)	(34,399)
Retained earnings at end of year	**$ 1,428,206**	**$ 1,108,748**	**$ 935,026**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended December 31 (Cdn$ thousands)	2006	(As adjusted - note 3(b)) 2005	(As adjusted - note 3(b)) 2004
Operating activities			
Net earnings	$ 375,715	$ 215,469	$ 276,506
Items not requiring (providing) cash:			
Depreciation, depletion and reclamation	199,665	197,516	180,229
Provision for future taxes [note 16]	(184,639)	(51,723)	31,058
Deferred revenue recognized	(43,449)	(25,286)	(19,085)
Unrealized losses (gains) on derivatives	10,400	10,513	(7,217)
Stock-based compensation [note 20]	17,549	16,913	9,485
Gain on sale of assets [note 14]	(51,826)	(1,739)	(1,958)
Cigar Lake remediation [note 12]	15,356		
Earnings from Bruce Power		(165,775)	(120,722)
Equity in (earnings) loss from associated companies [note 15]	5,320	(184)	(990)
Other expense (income)		16,577	(124,050)
Minority interest	38,554	26,738	27,452
Other operating items [note 17]	35,375	38,517	(22,666)
Cash provided by operations	**418,020**	**277,536**	**228,042**
Investing activities			
Acquisition of businesses, net of cash acquired	(83,856)		(3,717)
Additions to property, plant and equipment	(459,559)	(284,929)	(148,273)
Restructuring of Bruce Power		200,000	
Net proceeds on sale of investment in Energy Resources Australia Ltd		101,956	
Increase in long-term receivables, investments and other	(29,687)	(6,077)	(10,466)
Proceeds on sale of property, plant and equipment	46,404	10,532	1,769
Cash provided by (used in) investing	**(526,698)**	**21,482**	**(160,687)**
Financing activities			
Short-term financing		(14,544)	14,544
Decrease in debt	(156,700)	(167,233)	(169,083)
Increase in debt			100,300
Issue of debentures, net of issue costs		297,750	
Issue of shares	27,058	25,199	41,281
Subsidiary issue of shares			101,234
Dividends	(52,660)	(39,970)	(34,262)
Cash provided by (used in) financing	**(182,302)**	**101,202**	**54,014**

Increase (decrease) in cash during the year	(290,980)	400,220	121,369
Exchange rate changes on foreign currency cash balances	1,876	(9,662)	(15,906)
Increase in cash due to accounting change [note 19]		43,103	
Cash at beginning of year	623,193	189,532	84,069
Cash at end of year	**$ 334,089**	**$ 623,193**	**$ 189,532**
Supplemental cash flow disclosure			
Interest paid	$ 53,551	$ 26,610	$ 35,968
Income taxes paid	$ 115,352	$ 48,429	$ 18,262

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements
For the years ended December 31, 2006, 2005 and 2004
($Cdn thousands except per share amounts and as noted)

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, conversion and fabrication of uranium for sale as fuel for generating electricity in nuclear power reactors in Canada and other countries. The company has a 31.6% interest in Bruce Power L.P. (BPLP), which operates the four Bruce B nuclear reactors in Ontario. The company wholly owns Zircatec Precision Industries, Inc., whose primary business is the fabrication of nuclear fuel bundles. Cameco s 52.7% subsidiary Centerra Gold Inc. (Centerra) is involved in the exploration for and the development, mining and sale of gold.

2. Significant Accounting Policies

(a) 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.

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

(b) 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 at time of purchase.

(c) Inventories

Inventories of broken ore, uranium concentrates, refined and converted products and gold are valued at the lower of average cost and net realizable value. Average cost includes direct materials, direct labour, operational overhead expenses and depreciation, depletion and reclamation.

(d) Supplies

Consumable supplies and spares are valued at the lower of cost or replacement value.

(e) 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.

(f) 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.

(g) 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.

(h) 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 and capital costs. An impairment loss is recognized when the carrying value of an asset held for use exceeds the sum of undiscounted future net cash flows. An impairment loss is measured as the amount by which the asset s carrying amount exceeds its fair value.

(i) Goodwill

Acquisitions are accounted for using the purchase method whereby acquired assets and liabilities are recorded at fair value as of the date of acquisition. The excess of the purchase price over such fair value is recorded as goodwill. Goodwill is assigned to assets and is not amortized.

(j) 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 or substantively 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.

(k) 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.

(l) 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.

Nuclear generating plants are depreciated according to the straight-line method based on the lower of useful life and remaining lease term.

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

(m) Research and Development and Exploration Costs

Expenditures for research and technology related to the products and processes and expenditures for geological exploration programs are charged against earnings as incurred.

(n) Environmental Protection and Reclamation Costs

The fair value of the liability for an asset retirement obligation is recognized in the period incurred. The fair value is added to the carrying amount of the associated asset and depreciated over the asset s useful life. The liability is accreted over time through periodic charges to earnings and it is reduced by actual costs of decommissioning and reclamation. 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.

(o) 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 pro-rated 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. Cameco measures the plan assets and the accrued benefit obligations on December 31 each year.

On both the Cameco-specific and BPLP-specific defined benefit pension plans, past service costs arising from plan amendments are amortized on a straight-line basis over the expected average remaining service life of the plan participants. Net actuarial gains, which exceed 10% of the greater of the accrued benefit obligation and the fair value of plan assets, are amortized on a straight-line basis over the expected average remaining service life of the plan participants.

On the Cameco-specific retirement benefit plans that do not vest or accumulate, past service costs arising from plan amendments, and net actuarial gains and losses, are recognized in the period they arise. Conversely, the BPLP-specific amounts are amortized on a straight-line basis over the expected average remaining service life of the plan participants.

(p) Stock-Based Compensation

Cameco has four stock-based compensation plans that are described in note 20. These encompass a stock option plan, a performance share unit plan, a deferred share unit plan and a phantom stock option plan.

Options granted under the stock option plan on or after January 1, 2003 are accounted for using the fair value method. Under this method, the compensation cost of options granted is measured at estimated fair value at the grant date and recognized over the shorter of, the period to eligible retirement, or the vesting period. For options granted prior to January 1, 2003, no compensation expense was recognized when the stock options were granted. Any consideration received on exercise of stock options is credited to share capital.

Deferred share units, performance share units and phantom stock options are amortized over their vesting periods and re-measured at each reporting period, until settlement, using the quoted market value.

(q) Revenue Recognition

Cameco supplies uranium concentrates and uranium conversion services to utility customers.

Cameco recognizes revenue on the sale of its nuclear products when persuasive evidence of an arrangement exists, delivery occurs, the related revenue is fixed or determinable and collection is reasonably assured.

Cameco has three types of sales arrangements with its customers in its uranium and fuel services businesses. These arrangements include uranium supply, toll conversion services and conversion supply (converted uranium), which is a combination of uranium supply and toll conversion services.

Uranium Supply

In a uranium supply arrangement, Cameco is contractually obligated to provide uranium concentrates to its customers. Cameco-owned uranium is physically delivered to conversion facilities (Converters) where the Converter will credit Cameco s account for the volume of accepted uranium. Based on delivery terms in a sales contract with its customer, Cameco instructs the Converter to transfer title of a contractually-specified quantity of uranium to the customer s account at the Converter s facility. At this point, Cameco invoices the customer and recognizes revenue for the uranium supply.

Toll Conversion Services

In a toll conversion arrangement, Cameco is contractually obligated to convert customer-owned uranium to a chemical state suitable for enrichment. The customer delivers uranium to Cameco s conversion facilities. Once conversion is complete, Cameco physically delivers converted uranium to enrichment facilities (Enrichers) where the Enricher will credit Cameco s account for the volume of accepted processed uranium. Based on delivery terms in a sales contract with its customer, Cameco instructs the Enricher to transfer title of a contractually-specified quantity of converted uranium to the customer s account at the Enricher s facility. At this point, Cameco invoices the customer and recognizes revenue for the toll conversion services.

Conversion Supply

In a conversion supply arrangement, Cameco is contractually obligated to provide uranium concentrates and conversion services to its customers. Cameco-owned uranium is converted and physically delivered to an Enricher as described in the toll conversion services arrangement. Based on delivery terms in a sales contract with its customer, Cameco instructs the Enricher to transfer title of a contractually-specified quantity of converted uranium to the customer s account at the Enricher s facility. At this point, Cameco invoices the customer and recognizes revenue for both the uranium supplied and the conversion service provided. It is rare for Cameco to enter into back-to-back arrangements for uranium supply and toll conversion services. However, in the event that a customer requires such an arrangement, revenue from uranium supply is deferred until the toll conversion service has been rendered.

Revenue from deliveries to counterparties with whom Cameco has arranged a standby product loan facility (up to the limit of the loan facilities) and the related cost of sales are deferred until the loan arrangements have been terminated, or if drawn upon, when the loans are repaid and that portion of the facility is terminated.

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

Electricity sales are recognized at the time of generation, and delivery to the purchasing utility is metered at the point of interconnection with the transmission system. Revenues are recognized on an accrual basis, which includes an estimate of the value of electricity produced during the period but not yet billed.

(r) 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.

(s) 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.

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.

(t) 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 gains 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.

BPLP uses various energy and related sales contracts to reduce exposure to fluctuations in the price of electricity in Ontario. Gains or losses on hedging instruments are recognized in earnings over the term of the contract when the underlying hedged transactions occur. All energy contracts are designated as hedges of BPLP s electricity sales.

(u) Earnings Per Share

Earnings per share are calculated using the weighted average number of paid common shares outstanding.

The calculation of diluted earnings per share assumes that outstanding options and warrants are exercised and the proceeds are used to repurchase shares of the company at the average market price of the shares for the period. The effect is to increase the number of shares used to calculate diluted earnings per share.

3. New Accounting Pronouncements

(a) Financial Instruments Recognition and Measurement, Hedges and Comprehensive Income

In January 2005, the CICA issued three new standards: Financial Instruments Recognition and Measurement , Hedges and Comprehensive Income . The main consequences of implementing these standards are described below.

All financial assets and liabilities will be carried at fair value in the Consolidated Balance Sheets, except for items classified in the following categories, which will be carried at amortized cost: loans and receivables, held-to-maturity securities and financial liabilities not held for trading. Realized and unrealized gains and losses on financial assets and liabilities that are held for trading will be recorded in the Consolidated Statements of Earnings. Unrealized gains and losses on financial assets that are available for sale will be reported in other comprehensive income until realized, at which time they will be recorded in the Consolidated Statements of Earnings. All derivatives, including embedded derivatives that must be accounted for separately, will be recorded at fair value in the Consolidated Balance Sheets.

For fair value hedges, changes in the fair value of the derivatives and corresponding changes in fair value of the hedged items attributed to the risk being hedged will be recognized in the Consolidated Statements of Earnings. For cash flow hedges, the effective portion of the changes in the fair values of the derivative instruments will be recorded in other comprehensive income until the hedged items are recognized in the Consolidated Statements of Earnings.

Other comprehensive income, which comprises the above items as well as unrealized exchange gains and losses on self-sustaining foreign operations (net of hedging activities), will be included as a separate component of the new statement entitled Statement of Shareholders Equity that will be added to the consolidated financial statements.

These new standards will apply to Cameco effective January 1, 2007. As at January 1, 2007, Cameco will recognize all of its financial assets and liabilities in the Consolidated Balance Sheets according to their classification. Any adjustment made to a previous carrying amount will be recognized as an adjustment to the balance of retained earnings at that date or as the opening balance of a separate item in accumulated other comprehensive income net of taxes. Cameco is completing its assessment of the impact these new standards will have on its consolidated financial statements.

(b) Stock-Based Compensation

In July 2006, the Emerging Issues Committee (EIC) issued abstract No. 162, Stock-Based Compensation for Employees Eligible to Retire Before the Vesting Date. This EIC clarifies that the compensation cost attributable to options and awards, granted to employees who are eligible to retire or will become eligible to retire during the vesting period, should be recognized immediately if the employee is eligible to retire on the grant date or over the period between the grant date to the date the employee becomes eligible to retire. This EIC requires retroactive application to all stock-based compensation awards accounted for in accordance with the CICA Handbook Section 3870, Stock-Based Compensation and Other Stock-Based Payments. This differs from the current practice that recognizes the expense over the period from the grant date to the vesting date.

The cumulative effect of the change in policy on the balance sheet at December 31, 2005 is to increase contributed surplus by $5,945,000, and decrease retained earnings by $5,945,000. The effect of the change in policy on the statement of earnings for the year ended December 31, 2005 was a $2,162,000 (2004 $2,279,000) reduction in earnings (2005 $0.01 per share; 2004 $0.01 per share). The impact on 2006 financial results was negligible.

4. Inventories

	2006	**2005**
Uranium		
Concentrate	$ 280,650	$ 292,099
Broken ore	12,946	9,661
	293,596	301,760
Fuel Services	98,485	63,492
Gold		
Finished	5,513	14,311
Broken ore	18,885	20,112
	24,398	34,423
Total	**$ 416,479**	**$ 399,675**

5. P