Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Business Overview

The following discussion is designed to provide information that we believe necessary for an understanding of our financial condition, changes in financial condition and results of our operations. The following discussion and analysis should be read in conjunction with the accompanying audited consolidated financial statements and related notes. The financial statements have been prepared in accordance with US GAAP.

Industry Update and Trends

The uranium industry continues to be characterized by persistently low pricing, and threats to pricing and market stability created by foreign state-sponsored producers. Over the past several years, uranium miners, including our Company at our Lost Creek Project, have implemented decisions to halt planned development activities as well as to operate at lower rates of production. As a result, reductions in workforces continue to be implemented throughout the industry. As discussed elsewhere in this report, we continued in 2019 to restrict annual production rates and conducted no further development activities. Production at Lost Creek in 2019 totaled 47,957 pounds captured in the plant. While these constraints by U.S. miners ensure near-term production will remain lower, imports continued to dominate the U.S. market in 2019. Recently, 2019 uranium production results were published by the U.S. Energy Information Administration, showing that the 173,875 pounds produced is the lowest in U.S. history (and, nearly 90% lower than 2018).

In response to the challenges of the market conditions, primary among them foreign imports into the U.S. emanating from state-sponsored producers in Russia, Kazakhstan and Uzbekistan, in early 2018 Ur-Energy USA and Energy Fuels Resources (USA) Inc. ("Energy Fuels") initiated a trade action with the U.S. Department of Commerce ("DOC") pursuant to Section 232 of the Trade Expansion Act. The petition for relief filed with the DOC described how uranium and nuclear fuel from state-owned and state-subsidized enterprises in Russia, Kazakhstan, Uzbekistan, and China represent a threat to U.S. national security. The petition sought modest remedies to limit imports of uranium into the U.S. by reserving 25% of the U.S. nuclear market for U.S. uranium production through a quota.

In July 2018, DOC announced it initiated an "investigation into whether the present quantity and circumstances of uranium ore and product imports into the United States threaten to impair national security." Following the DOC statutorily-mandated investigation, DOC timely submitted its report to the White House. On July 12, 2019, the White House issued a "Memorandum on the Effect of Uranium Imports on the National Security and Establishment of the United States Nuclear Fuel Working Group" (the "President's Memorandum"), through which it announced it would take no trade action in response to the DOC report.

The President's Memorandum cites the DOC finding that "…uranium is being imported in such quantities and under such circumstances as to threaten to impair the national security of the United States...." The President found that "…the United States uranium industry faces significant challenges in producing uranium domestically and that this is an issue of national security [and that] a fuller analysis of national security considerations with respect to the entire nuclear fuel supply chain is necessary at this time."

Through the President's Memorandum, President Trump established the United States Nuclear Fuel Working Group (the "Working Group") to develop recommendations for reviving and expanding domestic uranium production. The Working Group was required to report its recommendations back to the President within 90 days. As the Trump Administration broadened its review of ways to revive and expand domestic uranium production, we have continued our work alongside the Administration and other stakeholders to find solutions to correct the dysfunctional market. We have continued to examine all alternatives and possible remedies and will continue to do so on an ongoing basis. On or about October 10, 2019, the Working Group sought and received an additional 30 days to complete its work and to submit its recommendations to the President. There are credible reports in the media which indicate that the report has been submitted to the Chair(s) of the Working Group. On February 10, 2020, the President's FY2021 budget was made public, and includes a budget item of $150 million per year from FY2021 to FY2030 to support the creation and fulfillment of a new national uranium reserve to be supplied by domestically-mined uranium.

The recent budget announcement is understood to be the result of the Working Group's recommendations. There can be no certainty of the final outcome of the Working Group's findings and recommendations, or the impact of any actions taken in response to those findings and recommendation or the President's Memorandum, including the budget appropriations process related to the national uranium reserve, and therefore the outcome of this continuing process and its effects on the U.S. uranium market is uncertain.

2019 Developments

<u>Lost Creek Property – Great Divide Basin, Wyoming</u>

The original planned wells and HHs in MU1 and the first three HHs and the related wells in MU2 were available for operation throughout 2019. The first of the three HHs in MU2 began operations in 2017-2018. MU2 also has all appropriate operating permits. The main trunk-line which has been installed services the first five MU2 HHs, and the entirety of MU2 has been fenced. All of these development activities will allow for a quick turn-around to ramp up production once market fundamentals change. Through December 31, 2019, 2,723,604 pounds of U_3O_8 have been captured at Lost Creek in the original 13 planned MU1 HHs and the first three MU2 HHs.

During 2019, the Company sold 665,000 pounds under term contracts at an average price of $48.50 per pound. There were no spot sales in 2019. The 2019 sales consisted of 451,250 purchased pounds at an average selling price of $49.56 per pound and 213,750 produced pounds at an average price of $46.26 per pound. The Company purchased 500,000 pounds during 2019 at an average price of $26.36 per pound. During 2019, 47,957 pounds of U_3O_8 were captured within the Lost Creek plant with an average head grade of 13 ppm. The lower head grade is a typical result as a mine and its wellfields mature and older operating patterns remain in the flow regime. Lost Creek packaged 50,794 pounds in drums and 58,353 pounds of drummed inventory were shipped from the Lost Creek processing plant to the converter. At December 31, 2019, inventory at the conversion facility was approximately 268,803 pounds.

Lost Creek Regulatory Proceedings

Subsequent to final approvals being received for initial operations at Lost Creek, in 2012-2013, we have made necessary additional filings for and received approvals for ongoing operations at Lost Creek (*e.g.,* wellfield development; authorizations related to a new deep disposal well; permits and authority for new Class V wells). In September 2014, we filed applications for amendment of all Lost Creek permits and licenses to include recovery from LC East operations. In 2015, the BLM issued a notice of intent to complete an environmental impact statement for the application. The NRC has participated in this review as a cooperating agency. A permit amendment requesting similar approvals to mine was also submitted to the WDEQ. Approval will include an aquifer exemption. The BLM issued its Final Environmental Impact Statement ("FEIS") and related Record of Decision on the LC East Project in Q1 2019. We anticipate that all permits and authorizations for the amendment will be complete in 2020.

Shirley Basin Project

Baseline studies necessary for the permitting and licensing of the Shirley Basin project were completed in 2014. Subsequently, in December 2015, our application for a permit to mine was submitted to the WDEQ. While the Shirley Basin PEA contemplates that the Lost Creek processing facility may be utilized for the drying and packaging of uranium from Shirley Basin, which would mean we would only anticipate the need for a satellite plant, the Shirley Basin permit application contemplates the construction of a full processing facility, providing greater construction and operating flexibility as may be dictated by market conditions. WDEQ continues with its technical review of our application for a permit to mine at Shirley Basin. Our application for a source material license for Shirley Basin is proceeding through its review with the State URP. We anticipate the state process to be complete, with necessary permits and authorizations received, in H1 2020. The BLM initiated its review of the Plan of Operations for Shirley Basin in Q2 2019 and has proceeded with its NEPA process since that time; we expect this process will be concluded in H1 2020. Additional permits and authorizations are well in process for the construction and operation of Shirley Basin and are also expected to be completed in 2020. Engineering evaluations, designs and studies are also underway in anticipation of the construction at Shirley Basin.

Excel Gold Project

In January 2018, we announced the acquisition of a gold exploration project in west-central Nevada, comprising 102 federal lode mining claims (approximately 2,100 acres). The Excel Project is located within the Excelsior Mountains, in proximity to the Camp Douglas and Candelaria Mining Districts. We became aware of the mineral potential of this project area from exploration data contained within the large geologic database acquired as a part of our 2013 purchase of Pathfinder. Here, we identified a past exploration program in the area of the Excel Project at which Pathfinder had encountered high-grade gold and silver assays from trenching activities. Resulting land acquisition activities were complete in 2018, after which rock sampling and geochemical soil sampling programs were conducted. We conducted additional work at the project in 2018 and 2019. Currently, we do not anticipate further field work at the Excel Project in 2020.

Corporate Organization and Financing Developments

Trade Action

As described above under **Industry Updates and Trends**, we filed a trade action with the DOC in January 2018 in response to the challenges of uranium market conditions, primary among them imports to the U.S. emanating from state-sponsored producers in Russia, Kazakhstan, and Uzbekistan. The trade action was brought to a conclusion when, choosing to not take any direct action on the Section 232 Report from DOC, President Trump established the Working Group and charged it with developing recommendations for reviving and expanding domestic uranium production as well as considering the condition of the rest of the nuclear fuel cycle. The Working Group submitted its report and recommendations back to the White House, and the initial result appears to be the ten-year $150 million annual budget item for the establishment of the national uranium reserve, with funding contemplated until 2030. There can be no certainty of the outcome of the Working Group's report and recommendations, or additional actions to be taken by the President, and therefore the outcome of this process and its effects on the U.S. uranium market remains uncertain.

Additionally, in early 2019, we received and responded to a request from a Congressional committee seeking documents related to our trade action as a part of an investigation of the current administration's actions regarding uranium.

Reductions in Force

In light of the President's decision on the trade action in July 2019, we implemented additional cost reductions, including labor reductions of 12 employees, primarily at Lost Creek. We reduced staffing to minimum levels necessary to maintain our facilities and meet regulatory compliance, while retaining core operational personnel who possess the critical knowledge necessary for the Company to ramp up when conditions warrant. These actions will enable the Company to maintain Lost Creek operations and preserve our ability to react to changing market conditions, while at the same time minimizing our need for additional funding during this protracted period of uncertainty. Additionally, several employees were asked to change job responsibilities and/or team assignments. Production operations at Lost Creek proceeded uninterrupted at controlled levels throughout the year.

Amendment of State Bond Loan

In addition to other cost-cutting measures taken in 2019, we worked with the State of Wyoming and the Board of County Commissioners of Sweetwater County to obtain a six-quarter deferral of principal payments on the Lost Creek State Bond Loan, with all approvals being obtained October 1, 2019. Interest payments will continue during that six-quarter period. The principal payment due on October 1, 2019 was the first deferred payment; principal payments will recommence in April 2021, and the final payment on the State Bond Loan will be due in April 2023.

Changes in Management

Effective September 30, 2019, James Bonner, Ur-Energy Vice President Geology, retired following a several decades long career as a Professional Geologist in uranium exploration and development, the last five years with Ur-Energy.

Off Take Sales Agreements

We continue to have off-take sales agreements with U.S. utilities. These agreements were executed in 2015, and provide for deliveries in 2020 and 2021 as follows:

SUMMARY OF OFF TAKE SALES AGREEMENTS

Production Year	Total Pounds Uranium Concentrates Contractually Committed
2020	200,000 pounds
2021	25,000 pounds

2019 Results of Operations

U_3O_8 Production Costs

During 2019, 47,957 pounds of U_3O_8 were captured within the Lost Creek plant. A total of 50,794 pounds were packaged in drums and 58,353 pounds of the drummed inventory were shipped to the conversion facility where our year-end inventory was approximately 268,803 pounds U_3O_8. The cash cost per pound and non-cash cost per pound for produced uranium presented in the following Production and Production Costs, and Sales and Cost of Sales tables are non-US GAAP measures. These measures do not have a standardized meaning within US GAAP or a defined basis of calculation. These measures are used by management to assess business performance and determine production and pricing strategies. They may also be used by certain investors to evaluate performance. Please see the tables below for reconciliations of these measures to the US GAAP compliant financial measures.

Production and sales figures for the Lost Creek Project are as follows:

Production and Production Costs	Unit	2019 Q4	2019 Q3	2019 Q2	2019 Q1	2019
Pounds captured	lb	5,004	7,256	13,146	22,551	47,957
Ad valorem and severance tax	$000	$ 22	$ (14)	$ 17	$ 57	$ 82
Wellfield cash cost (1)	$000	$ 158	$ 210	$ 264	$ 250	$ 882
Wellfield non-cash cost (2)	$000	$ 611	$ 611	$ 612	$ 612	$ 2,446
Ad valorem and severance tax per pound captured	$/lb	$ 4.40	$ (1.93)	$ 1.29	$ 2.53	$ 1.71
Cash cost per pound captured	$/lb	$ 31.57	$ 28.94	$ 20.08	$ 11.09	$ 18.39
Non-cash cost per pound captured	$/lb	$ 122.10	$ 84.21	$ 46.55	$ 27.14	$ 51.00
Pounds drummed	lb	7,116	9,367	13,296	21,015	50,794
Plant cash cost (3)	$000	$ 898	$ 1,045	$ 1,134	$ 1,318	$ 4,395
Plant non-cash cost (2)	$000	$ 494	$ 490	$ 490	$ 480	$ 1,954
Cash cost per pound drummed	$/lb	$ 126.19	$ 111.56	$ 85.29	$ 62.72	$ 86.53
Non-cash cost per pound drummed	$/lb	$ 69.42	$ 52.31	$ 36.85	$ 22.84	$ 38.47
Pounds shipped to conversion facility	lb	20,643	37,710	—	—	58,353
Distribution cash cost (4)	$000	$ 26	$ 12	$ 27	$ 6	$ 71
Cash cost per pound shipped	$/lb	$ 1.26	$ 0.32	$ -	$ -	$ 1.22
Pounds purchased	lb	180,000	122,500	100,000	97,500	500,000
Purchase costs	$000	$ 4,311	$ 3,391	$ 2,795	$ 2,681	$ 13,178
Cash cost per pound purchased	$/lb	$ 23.95	$ 27.68	$ 27.95	$ 27.50	$ 26.36

Notes:

1. Wellfield cash costs include all wellfield operating costs. Wellfield construction and development costs, which include wellfield drilling, header houses, pipelines, power lines, roads, fences and disposal wells, are treated as development expense and are not included in wellfield operating costs.
2. Non-cash costs include the amortization of the investment in the mineral property acquisition costs and the depreciation of plant equipment, and the depreciation of their related asset retirement obligation costs. The

expenses are calculated on a straight-line basis, so the expenses are typically constant for each quarter. The cost per pound from these costs will therefore typically vary based on production levels only.
3. Plant cash costs include all plant operating costs and site overhead costs.
4. Distribution cash costs include all shipping costs and costs charged by the conversion facility for weighing, sampling, assaying and storing the pounds prior to sale.

In total, wellfield, plant and distribution cash costs were very consistent quarter on quarter during 2019. The respective costs per pound increased overall during the year primarily driven by decreasing levels of production, which is a typical result as a mine and its wellfields mature and older operating patterns remain in the flow regime.

Ad valorem and severance taxes fluctuate based on pounds extracted and the related sales value of those pounds. The $1.71 average cost per pound in 2019 was higher than the previous year's $1.40 per pound due to the higher average sales price per pound received in 2019 as compared to 2018, which included a tax driven 10,000 pound spot sale from production. The decrease in the third quarter was because of a change in the "industry factor" which created an overpayment of the tax in 2018 which was refunded in 2019.

Wellfield cash costs decreased during the year because of reduced staffing levels and the continued slowdown of extraction activities. The average cash cost per pound captured increased to $18.39 for the year compared to $6.84 in 2018. The annual increase was due to lower production levels during 2019, which more than offset the reduction in labor costs in 2019 as we moved to maintenance-focused operations. As previously discussed, production levels were deliberately maintained at levels sufficient to satisfy our expected contract sales in light of the depressed uranium market. Wellfield non-cash costs were fixed in 2019, but higher than 2018 due to additional reclamation liability estimates and the related depreciation on the resulting reclamation assets. The resulting non-cash cost per pound captured averaged $51.00 for the year, as compared to $5.31 in 2018. The increase for the year was significantly impacted by production levels which were much lower than 2018.

Plant cash costs decreased during the year as well as compared to 2018 as a result of less activity at the plant and reduced staffing levels. However, pounds drummed also decreased significantly during the year. The resulting cash cost per pound drummed increased as a result of lower production and averaged $86.53 for the year as compared to $16.48 in 2018. We reduced personnel again in 2019, but plant labor includes most supervisory and maintenance personnel, of which a core staff has been maintained. Plant non-cash costs did not change during the year so the changes in costs per pound were directly tied to production rates.

Distribution costs during the year decreased as compared to 2018 due to fewer pounds shipped in 2019. However, the cost per pound increased due to the receipt of a number of assay invoices in 2019 for 2018 deliveries and the purchase of empty shipping barrels, both of which contributed to a higher cost for fewer pounds delivered.

U3O8 Sales and Cost of sales	Unit	2019 Q4	2019 Q3	2019 Q2	2019 Q1	2019
Pounds sold	lb	180,000	122,500	265,000	97,500	665,000
U_3O_8 sales	$000	$ 10,848	$ 5,115	$ 11,477	$ 4,812	$ 32,252
Average contract price	$/lb	$ 60.26	$ 41.76	$ 43.31	$ 49.35	$ 48.50
Average spot price	$/lb	$ -	$ -	$ -	$ -	$ -
Average price per pound sold	$/lb	$ 60.26	$ 41.76	$ 43.31	$ 49.35	$ 48.50
U_3O_8 cost of sales [1]	$000	$ 4,377	$ 3,428	$ 9,026	$ 3,181	$ 20,012
Ad valorem and severance tax cost per pound sold	$/lb	$ -	$ -	$ 1.52	$ 1.52	$ 1.52
Cash cost per pound sold	$/lb	$ -	$ -	$ 23.95	$ 23.86	$ 23.93
Non-cash cost per pound sold	$/lb	$ -	$ -	$ 12.38	$ 12.36	$ 12.38
Cost per pound sold - produced	$/lb	$ -	$ -	$ 37.85	$ 37.74	$ 37.83
Cost per pound sold - purchased	$/lb	$ 24.31	$ 27.98	$ 27.80	$ 27.50	$ 26.43
Total average cost per pound sold	$/lb	$ 24.31	$ 27.98	$ 34.06	$ 32.63	$ 30.09
U_3O_8 gross profit	$000	$ 6,471	$ 1,687	$ 2,451	$ 1,631	$ 12,240
Gross profit per pound sold	$/lb	$ 35.95	$ 13.78	$ 9.25	$ 16.72	$ 18.41
Gross profit margin	%	59.7%	33.0%	21.4%	33.9%	38.0%
Ending Inventory Balances						
Pounds						
In-process inventory	lb	5,396	8,074	10,221	10,595	
Plant inventory	lb	-	13,526	41,871	28,574	
Conversion facility inventory produced	lb	220,053	199,411	161,700	327,053	
Conversion facility inventory purchased	lb	48,750	48,750	48,750	48,750	
Total inventory	lb	274,199	269,761	262,542	414,972	
Total cost						
In-process inventory	$000	$ -	$ -	$ -	$ -	
Plant inventory	$000	$ -	$ 384	$ 1,638	$ 1,259	
Conversion facility inventory produced	$000	$ 6,250	$ 5,721	$ 6,134	$ 12,352	
Conversion facility inventory purchased	$000	$ 1,176	$ 1,252	$ 1,355	$ 1,341	
Total inventory	$000	$ 7,426	$ 7,357	$ 9,127	$ 14,952	
Cost per pound						
In-process inventory	$/lb	$ -	$ -	$ -	$ -	
Plant inventory	$/lb	$ -	$ 28.39	$ 39.12	$ 44.06	
Conversion facility inventory produced	$/lb	$ 28.40	$ 28.69	$ 37.93	$ 37.77	
Conversion facility inventory purchased	$/lb	$ 24.12	$ 25.68	$ 27.80	$ 27.50	

Note:

1. U_3O_8 costs of sales include all production costs (notes 1, 2, 3 and 4 in the previous Production and Production Costs table) adjusted for changes in inventory values but excludes the lower of cost or NRV adjustments as the adjustments do not correspond with the timing of the sales of produced inventory.

We sold 180,000 pounds under contract in Q4 2019 at an average price of $60.26. For the year, we sold 665,000 pounds which were all sold under term contracts at an average price per pound of $48.50. Total uranium sales were $32.3 million. Of the 665,000 pounds, 213,750 pounds were sold from produced inventory at an average price of $46.26 per pound while 451,250 were sold from purchased inventory at an average price of $49.56 per pound.

For the year, our uranium cost of sales totaled $20.0 million, excluding $10.3 million net realizable value (NRV) adjustments, and was comprised of $11.9 million of purchase costs, and $8.1 million of production costs. In 2019, we purchased 500,000 pounds at an average price of $26.36 per pound. In 2019, the average cost per pound sold from production was $37.83, as compared to $40.80 in 2018.

The gross profit from uranium sales for 2019 was $12.2 million, which represents a gross profit margin of approximately 38%. This compares to a gross profit margin of $11.6 million or 49% in 2018.

At the end of the year, we had approximately 268,803 pounds of U_3O_8 at the conversion facility, which was comprised of 220,053 produced and 48,750 purchased pounds, at an average cost per pound of $28.40 for the produced inventory and $24.12 for the purchased inventory. The following table shows the average cost per pound of the conversion facility inventory. The costs per pound for uranium inventory presented in the following Inventory table are non-US GAAP measures. These measures do not have a standardized meaning within US GAAP or a defined basis of calculation. These measures are used by management to assess business performance.

Ending Conversion Facility Inventory	**Unit**	**31-Dec-19**	**30-Sep-19**	**30-Jun-19**	**31-Mar-19**
Cost Per Pound Summary (Produced)					
Ad valorem and severance tax cost per pound	$/lb	$ 0.77	$ 0.91	$ 1.52	$ 1.52
Cash cost per pound	$/lb	$ 17.95	$ 18.28	$ 24.00	$ 23.87
Non-cash cost per pound	$/lb	$ 9.68	$ 9.50	$ 12.41	$ 12.38
Total cost per pound	$/lb	$ 28.40	$ 28.69	$ 37.77	$ 37.75
Cost Per Pound Summary (Purchased)					
Total cost per pound	$/lb	$ 24.12	$ 25.68	$ 27.80	$ 27.50

Generally, the cost per produced pound in ending inventory at the conversion facility decreased during the year as compared to the ending cost per pound in 2018. The decrease was directly related to the use of lower projected sales prices in the NRV computations which reduces the realizable value of the inventory and the carrying cost per pound.

Annual Results Comparison

The following table presents an annual comparison of a portion of the above information for the years ended December 31, 2019, 2018 and 2017:

Comparison of annual results	**Unit**	**2019**	**2018**	**2017**
Sales				
Sales per financial statements	$000	$ 32,255	$ 23,496	$ 38,371
Less disposal fees	$000	$ (3)	$ (43)	$ (80)
U_3O_8 sales	$000	$ 32,252	$ 23,453	$ 38,291
Cost of sales				
Ad valorem & severance taxes	$000	$ 82	$ 423	$ 747
Wellfield costs	$000	$ 3,328	$ 3,672	$ 5,777
Plant and site costs	$000	$ 6,350	$ 6,673	$ 7,054
Distribution costs	$000	$ 71	$ 136	$ 145
Inventory change	$000	$ (1,744)	$ (10,496)	$ (3,000)
Cost of sales - produced	$000	$ 8,087	$ 408	$ 10,723
Cost of sales - purchased	$000	$ 11,925	$ 11,476	$ 11,081
Total U_3O_8 cost of sales	$000	$ 20,012	$ 11,884	$ 21,804
Gross profit from U_3O_8 sales	$000	$ 12,240	$ 11,569	$ 16,487
Plus disposal fees	$000	$ 3	$ 43	$ 80
Less NRV adjustments	$000	$ (10,263)	$ (319)	$ (2,600)
Gross profit per financial statements	$000	$ 1,980	$ 11,293	$ 13,967
Production				
Pounds extracted	lb	47,957	302,164	265,391
Pounds drummed	lb	50,794	286,358	254,012
Pounds shipped	lb	58,353	287,873	257,213
Pounds sold - produced	lb	213,750	10,000	261,000
Pounds sold - purchased	lb	451,250	470,000	519,000
Per Pound Sold				
Average contract price	$/lb	$ 48.50	$ 49.39	$ 49.09
Average spot price	$/lb	$ -	$ 23.75	$ -
Average price	$/lb	$ 48.50	$ 48.86	$ 49.09
Ad valorem and severance tax	$/lb	$ 1.52	$ 1.66	$ 2.77
Cash cost	$/lb	$ 23.93	$ 25.37	$ 24.41
Non-cash cost	$/lb	$ 12.38	$ 13.77	$ 13.90
Cost - Produced	$/lb	$ 37.83	$ 40.80	$ 41.08
Cost - Purchased	$/lb	$ 26.43	$ 24.42	$ 21.35
Average cost	$/lb	$ 30.09	$ 24.76	$ 27.95
Gross profit [(1)]	$/lb	$ 18.41	$ 24.10	$ 21.14

Note:

1. For comparative purposes, we have excluded NRV adjustments from the above table. NRV adjustments were $10.3 million, $318 thousand and $2.6 million for the years 2019, 2018 and 2017, respectively.

Our production declined during 2019 as we responded to a persistently weak market by choosing again to not develop additional header houses and implemented further cost reductions. The last header houses were brought online in early 2018. Based on existing spot prices, we were able to purchase uranium at favorable prices to deliver into our sales commitments for 2019. Rather than further reducing our resources, we believe it was prudent to purchase pounds to complement our production and preserve our produced inventory to the extent possible. The above analysis shows that we reduced our production costs reflecting the reduced production levels and other cost saving measures.

As we have previously reported, most of our costs are fixed so that when our production increases, our cost per pound declines and when production is scaled back, our cost per pound will increase. Compounding this is the fact that as our cost per pound increases, the carrying cost of our inventories may be subject to lower of cost or net realizable value adjustments which are reflected in our cost of goods sold and gross profit on our financial statements. Additionally, our non-cash costs for depletion and amortization expenses are calculated on a straight-line basis per SEC guidelines so if production is decreased by half, the related cost per pound will double. As many of our costs are fixed costs, we are not able to reduce their impact on the overall cost per pound of our products.

We continue to survey the market for opportunities to create future, long-term, contracts at favorable rates. However, long-term pricing remained weak in 2019 and we did not enter into any new contracts. As previously shown, the Company maintains contracts into 2021.

Reconciliation of Non-GAAP sales and inventory presentation with US GAAP statement presentation

As discussed above, the cash costs, non-cash costs and per pound calculations are non-US GAAP measures we use to assess business performance. To facilitate a better understanding of these measures, the tables below present a reconciliation of these measures to the financial results as presented in our financial statements.

Average Price Per Pound Sold Reconciliation	**Unit**	**2019 Q4**	**2019 Q3**	**2019 Q2**	**2019 Q1**	**2019**
Sales per financial statements	$000	$ 10,849	$ 5,115	$ 11,479	$ 4,812	$ 32,255
Less disposal fees	$000	$ 1	$ -	$ 2	$ -	$ 3
U_3O_8 sales	$000	$ 10,848	$ 5,115	$ 11,477	$ 4,812	$ 32,252
Pounds sold - produced	lb	-	-	165,000	48,750	213,750
Pounds sold - purchased	lb	180,000	122,500	100,000	48,750	451,250
Total pounds sold	lb	180,000	122,500	265,000	97,500	665,000
Average price per pound sold	$/lb	$ 60.26	$ 41.76	$ 43.31	$ 49.35	$ 48.50

The Company delivers U_3O_8 to a conversion facility and receives credit for a specified quantity measured in pounds once the product is confirmed to meet the required specifications. When a delivery is approved, the Company notifies the conversion facility with instruction for a title transfer to the customer. Revenue is recognized once a title transfer of the U_3O_8 is confirmed by the conversion facility.

Total Cost Per Pound Sold Reconciliation [1]	Unit	2019 Q4	2019 Q3	2019 Q2	2019 Q1	2019
Cost of sales per financial statements		$ 6,451	$ 7,515	$ 11,163	$ 5,146	$ 30,275
Less adjustments reflecting the lower of cost or NRV		$ (2,074)	$ (4,087)	$ (2,137)	$ (1,965)	$ (10,263)
U_3O_8 cost of sales		$ 4,377	$ 3,428	$ 9,026	$ 3,181	$ 20,012
Ad valorem & severance taxes	$000	$ 22	$ (14)	$ 17	$ 57	$ 82
Wellfield costs	$000	$ 769	$ 821	$ 876	$ 862	$ 3,328
Plant and site costs	$000	$ 1,393	$ 1,535	$ 1,624	$ 1,798	$ 6,350
Distribution costs	$000	$ 26	$ 12	$ 27	$ 6	$ 71
Inventory change	$000	$ (2,209)	$ (2,354)	$ 3,702	$ (883)	$ (1,744)
Cost of sales - produced	$000	$ —	$ —	$ 6,246	$ 1,841	$ 8,087
Cost of sales - purchased	$000	$ 4,377	$ 3,428	$ 2,780	$ 1,340	$ 11,925
Total cost of sales	$000	$ 4,377	$ 3,428	$ 9,026	$ 3,181	$ 20,012
Pounds sold produced	lb	—	—	165,000	48,750	213,750
Pounds sold purchased	lb	180,000	122,500	100,000	48,750	451,250
Total pounds sold	lb	180,000	122,500	265,000	97,500	665,000
Average cost per pound sold - produced	$/lb	$ -	$ -	$ 37.85	$ 37.74	$ 37.83
Average cost per pound sold - purchased	$/lb	$ 24.31	$ 27.98	$ 27.80	$ 27.50	$ 26.43
Total average cost per pound sold	$/lb	$ 24.31	$ 27.98	$ 34.06	$ 32.63	$ 30.09

Gross Profit Reconciliation	Unit	2019 Q4	2019 Q3	2019 Q2	2019 Q1	2019
U_3O_8 sales per prior table	$000	$ 10,848	$ 5,115	$ 11,477	$ 4,812	$ 32,252
Less cost of U_3O_8 sales per above	$000	$ (4,377)	$ (3,428)	$ (9,026)	$ (3,181)	$ (20,012)
Gross profit from U_3O_8 sales	$000	$ 6,471	$ 1,687	$ 2,451	$ 1,631	$ 12,240
Plus disposal fees	$000	$ 1	$ -	$ 2	$ -	$ 3
Less lower of cost or NRV adjustment	$000	$ (2,074)	$ (4,087)	$ (2,137)	$ (1,965)	$ (10,263)
Gross profit per financial statements	$000	$ 4,398	$ (2,400)	$ 316	$ (334)	$ 1,980

Note:

1. The cost per pound sold reflects both cash and non-cash costs, which are combined as cost of sales in the statement of operations included in this filing. The cash and non-cash cost components are identified in the above production cost table. It excludes the lower of cost or NRV adjustments as the adjustments do not correspond with the timing of the sales of produced inventory.

The cost of sales includes ad valorem and severance taxes related to the extraction of uranium, all costs of wellfield, plant and site operations including the related depreciation and amortization of capitalized assets, reclamation and mineral property costs, plus product distribution costs. These costs are also used to value inventory and the resulting inventoried cost per pound is compared to the estimated sales prices based on the contracts or spot sales anticipated for the distribution of the product. Any costs in excess of the calculated market value are charged to cost of sales.

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

The following table summarizes the results of operations for the years ended December 31, 2019 and 2018 (in thousands of U.S. dollars):

	Year ended December 31,	
	2019	2018
	$	$
Sales	32,255	23,496
Cost of sales	(30,275)	(12,203)
Gross profit (loss)	1,980	11,293
Exploration and evaluation expense	(2,476)	(2,431)
Development expense	(1,404)	(1,654)
General and administrative expense	(5,801)	(5,393)
Accretion expense	(577)	(508)
Write-off of mineral properties	(11)	-
Net profit from operations	(8,289)	1,307
Net interest expense	(668)	(1,002)
Warrant mark to market gain	524	581
Loss from equity investment	-	(5)
Foreign exchange gain (loss)	(28)	43
Other income	43	3,610
Net income	(8,418)	4,534
Income per share – basic	(0.05)	0.03
Income per share – diluted	(0.05)	0.03
Revenue per pound sold	48.50	48.86
Total cost per pound sold	30.09	24.76
Gross profit per pound sold	18.41	24.10

<u>Sales</u>

We sold a total of 665,000 pounds of U_3O_8 during the year ended December 31, 2019 for an average price of $48.50 per pound as compared to 2018 when we sold 480,000 pounds for an average price of $48.86.

For the year ended December 31, 2019, we recognized $4 thousand from disposal fees compared to $43 thousand during 2018.

Cost of Sales

The cost of sales includes all costs of wellfield operations and maintenance, severance and ad valorem taxes, plant operations and maintenance and mine site overhead including depreciation on the related capital assets, capitalized reclamation costs and amortization of mineral property costs, the cost of inventory purchased for resale and distribution costs. Wellfield costs, plant costs, site overhead costs and distribution costs are included in inventory and the resulting inventoried cost per pound is compared to the estimated sales prices based on the contracts or spot sales anticipated for the distribution of the product. Any costs in excess of the calculated market value are charged to expense.

As compared to 2018, our cost per pound sold increased $5.33 to $30.09 in 2019. The increase for the year was driven by the increase in the sales of produced inventory which were at a higher cost. The cost per pound of produced product was $37.83 and $40.80 in 2019 and 2018, respectively. The cost per pound of purchased product sold was $26.43 and $24.42 in 2019 and 2018, respectively.

Gross Profit

Our gross profit was $12.2 million for the year ended December 31, 2019, which represents a gross profit margin of approximately 38%. Gross profits of $11.3 million in 2018 represents a gross profit margin of approximately 48%. The primary reason for the decrease in the gross profit margin was that we sold more higher-cost produced pounds relative to purchased pounds in 2019 as compared to 2018. As this does not reflect the lower of cost or NRV adjustments which reduce the gross profit on the financial statements to $2.0 million and $11.3 million for 2019 and 2018 respectively. These are reconciled in the preceding charts.

Operating Expenses

Total operating expenses for the year ended December 31, 2019 were $10.3 million. Operating expenses include exploration and evaluation expense, development expense, G&A expense and mineral property write-offs. These expenses increased by $0.3 million compared to 2018.

Exploration and evaluation expense consist of labor and the associated costs of the exploration and evaluation departments as well as land holding and exploration costs including drilling and analysis on properties which have not reached the permitting or operations stage. These expenses changed less than $0.1 million for the year ended December 31, 2019 compared to 2018. All costs associated with the geology and geographic information systems departments as well as the costs incurred on specific projects as described above are reflected in this category.

Development expense totaled $1.4 million and included $0.9 million of costs incurred at the Lost Creek Project not directly attributable to production activities, including wellfield construction, drilling and development costs. Lost Creek development decreased by $0.3 million from 2018. In 2018 the costs were primarily related to the completing of two header houses in Mine Unit 2. There was no header house construction in 2019, but after testing one of the disposal wells for certain possible modifications, we subsequently plugged and abandoned the well. Total development expense also includes $0.5 million of costs associated with the Shirley Basin and Lucky Mc properties which are considered development properties as they previously reached the permitting stage or operations stage. Costs at Shirley Basin and Lucky Mc were similar in 2018.

G&A expense relates to administration, finance, investor relations, land and legal functions and consists principally of personnel, facility and support costs, including all severance costs related to company-wide reductions in force. Expenses increased by $0.4 million for the year ended December 31, 2019 compared to 2018. The increase was due to increased labor costs related to severance payments and obligations.

<u>Other Income and Expenses</u>

Net interest expense declined $0.3 million during 2019 compared to the prior year. The decline was due to principal payments on outstanding debt.

In June 2018, we monetized the present value from portions of agreements with one of our utility customers related to 165,000 pounds of U_3O_8 to be delivered in 2021. We received proceeds of $3.5 million when the transaction was executed, which were included in other income for the year.

As a part of the September 2018 public offering, we sold 13,062,878 warrants priced at $0.01 per warrant. Two warrants are redeemable for one Common Share of the Company's stock at a price of $1.00 per full share. As the warrants are priced in US$ and the functional currency of the Ur-Energy Inc. is C$, this created a derivative financial liability. The liability created and adjusted quarterly is a calculated fair value using the Black-Scholes technique described below as there is no active market for the warrants. Any income or loss is reflected in net income for the period. The revaluation as of December 31, 2019 resulted in a gain of $524 for the year ended December 31, 2019 and $581 for the period ended December 31, 2018.

<u>Loss (Income) per Common Share</u>

The basic and diluted loss per common share for the year 2019 was $0.05. The diluted loss per common share for the year ended December 31, 2019 were equal to the basic loss per common share due to the anti-dilutive effect of all convertible securities outstanding given that net losses were experienced. The basic earnings per common share for the year 2018 was $0.03. For the year ended December 30, 2018, there were a net of 578,118 options and 985,496 restricted share units (RSUs) included in the diluted earnings per share calculations using the treasury method. The result was diluted earnings per share of $0.03 for the year 2018. Dilution from warrants was not included as the strike price exceeded the then current market price of the Common Shares.

Material Changes in Financial Condition, Liquidity and Capital Resources

As at December 31, 2019, we had cash resources, consisting of cash and cash equivalents, of $7.8 million, an increase of $1.4 million from the December 31, 2018 balance of $6.4 million. The cash resources consist of Canadian and U.S. dollar denominated deposit accounts and money market funds. We generated $4.0 million from operations during the year ended December 31, 2019. During the same period, we used $0.2 million from investing activities and $2.4 million for financing activities.

On October 23, 2013, we closed a $34.0 million Sweetwater County, State of Wyoming, Taxable Industrial Development Revenue Bond financing program ("State Bond Loan"). The State Bond Loan calls for payments of interest at a fixed rate of 5.75% per annum on a quarterly basis which commenced January 1, 2014. The principal is payable in 28 quarterly installments which commenced January 1, 2015 and continue through October 1, 2021. The State Bond Loan is secured by all the assets at the Lost Creek Project. As of December 31, 2019, the balance of the State Bond Loan was $12.4 million. On October 1, 2019, the Sweetwater County Board of Commissioners and the State of Wyoming approved a six-quarter deferral of principal payments beginning October 1, 2019. The next principal payment is therefore due April 1, 2021 and the final payment is now due in April 2023.

During 2017, we filed a universal shelf registration statement on Form S-3 with the SEC in order that we may offer and sell, from time to time, in one or more offerings, at prices and terms to be determined, up to $100 million of our Common Shares, warrants to purchase our Common Shares, our senior and subordinated debt securities, and rights to purchase our Common Shares and/or our senior and subordinated debt securities. The registration statement became effective August 3, 2017 for a three-year period.

We entered into an At Market Issuance Sales Agreement ("At Market Agreement") with MLV & Co. LLC and B Riley FBR, Inc. (May 27, 2016, as amended August 2017), under which we may, from time to time, issue and sell Common Shares at market prices on the NYSE American or other U.S. market through the distribution agents for aggregate sales proceeds of up to $10,000,000. During 2017, we sold 1,536,169 Common Shares under the At Market Agreement at an average price of $0.76 per share for gross proceeds of $1.2 million. After deducting transaction fees and commissions and all other costs, we received net proceeds of $1.1 million. There were no shares sold under this agreement in 2018 or 2019.

In September 2018, we completed a US$10 million public offering of Common Shares. The offering of 12,195,122 Common Shares and accompanying warrants to purchase up to 6,097,561 Common Shares, at a combined public offering price of $0.82 per common share and accompanying warrant, closed on September 25, 2018. We also granted the underwriters a 30-day option to purchase up to 1,829,268 additional common shares and warrants to purchase up to an aggregate of 914,634 Common Shares on the same terms. The underwriters exercised a portion of their option to purchase additional securities at closing, acquiring 867,756 additional warrants to purchase an aggregate of 433,878 Common Shares. Including the partial exercise of the option, The Company issued a total of 12,195,122 Common Shares and 13,062,878 warrants to purchase up to 6,531,439 Common Shares. Because the warrants are priced in US$ and the functional currency of Ur-Energy Inc. is C$, this created a derivative financial liability. The liability created, and adjusted quarterly, is a calculated fair value using the Black-Scholes technique described below as there is no active market for the warrants. Any income or loss from the quarterly adjustment is reflected in net income for the period. We anticipate that the public offering proceeds will be used to maintain and enhance operational readiness; additionally, proceeds may be used for working capital and general corporate purposes.

Collections for the year from U_3O_8 sales totaled $32.3 million.

Operating activities generated $4.0 million of cash resources in 2019 as compared to 2018, during which we used $5.4 million of cash resources. Net income for 2019 was $12.9 million less than the corresponding income in 2018 but 2018 included a $3.5 million gain from the monetization of 2021 term contracts, which was not considered an operating activity. In addition, $9.8 million was used to increase inventory balances in 2018, primarily at the conversion facility.

Investing activities used $0.2 million in 2019. The Lost Creek Project does not require significant capital expenditures and its sustaining capital expenditures have generally been less than $0.3 million per year.

We used $2.6 million for principal payments on the State Bond Loan which was partially offset by $0.2 million of proceeds from the exercise of stock options.

Liquidity Outlook

As at February 26, 2020, our unrestricted cash position was $6.4 million. We expect that any major capital projects will be funded by operating cash flow, cash on hand and additional financing as required. If these cash sources are not sufficient, certain capital projects could be delayed, or alternatively we may need to pursue additional debt or equity financing and there is no assurance that such financing will be available at all or on terms acceptable to us. We have no immediate plans to issue additional securities or obtain additional funding other than that which may be required due to the uneven nature of cash flows generated from operations; however, we may issue additional debt or equity securities at any time.

Outlook for 2020

In 2019, we delivered 665,000 pounds into term contracts at an average price of $49 per pound. During the year, we purchased 500,000 pounds at an average cost of $26 per pound and delivered 451,250 purchased pounds into the term contracts. The remaining 213,750 pounds were delivered from our produced inventory at an average total cost of $38 per pound, which included cash costs of $24 per pound.

In 2020, we expect to deliver 200,000 pounds into term contracts at an average price of $42 per pound. We have contracts in place to purchase 200,000 pounds at an average cost of $26 per pound, which we intend to deliver into the term contracts. Given what will be very limited production in 2020 (not expected to exceed 5,000 pounds U_3O_8), we are not planning to sell any pounds from this year's production or existing inventories at current spot prices.

The ending spot price decreased from $28 per pound in 2018 to $25 per pound in 2019 and has continued to trade at or below $25 per pound thus far in 2020. As a reminder, the ending spot price has been below $25 per pound three of the last four years.

In response to the persistently weak uranium market, we have taken multiple, aggressive measures over the years to control costs, including reductions in force in each of the last four years.

In 2016, we deliberately slowed development activities at MU2, reduced costs, and focused on enhancing production efficiencies from our operating MU1 header houses

In 2017, we continued to employ this limited-development strategy, implemented further cost reductions, and supplemented existing mine production with cost-effective priced uranium purchases to meet our contractual sales commitments.

In 2018, we implemented further cost reductions, suspended all MU2 development activities, purchased 100% of the uranium necessary to meet our 2018 contractual commitments, and increased our ending inventory position from 130,000 pounds to 392,000 pounds.

In 2019, we again chose to conduct no further MU2 development activities, secured purchase contracts for 500,000 pounds of uranium at cost-effective prices, and sold 165,000 pounds related to 2020 obligations under existing term agreements. We again took aggressive cost cutting measures, including additional staffing cuts, and renegotiated the Wyoming State Bond Loan deferring six quarterly principal payments.

As at February 26, 2020, our unrestricted cash position was $6.4 million, and we had nearly 270,000 pounds of finished inventory readily available for sale at our discretion. Given our current cash and inventory position, and our remaining sales and purchase contracts, we do not anticipate the need for additional funding for current operations in the near term unless it is advantageous to do so.

The actions we have taken, together with our current cash, inventory, and contract positions, give the Company the flexibility it needs to react to changing market conditions and quickly re-start development activities in MU2 when warranted. With future development and construction in mind, the staff who were retained had the greatest level of experience and adaptability allowing for an easier transition back to full operations. Lost Creek operations could increase production rates in as little as six months following a go decision simply by developing additional header houses within the fully permitted MU2. Development expenses during this time are estimated to be approximately $14 million and are almost entirely related to MU2 drilling and header house construction costs. Lost Creek does not require any significant capital expenditures in order to increase production. The Lost Creek plant has been routinely maintained to be fully ready to receive additional flows for increased production when warranted. This operating strategy will allow us to control production costs, minimize development expenditures, maximize cash flows and maintain the operational flexibility to respond to market conditions.

We have consistently focused on innovative approaches to enhance production, control costs, and exercise financial restraint in what has become a moribund domestic uranium market. To that end, we initiated in 2018, and subsequently awaited the outcome of, the Section 232 Trade Action. To our great disappointment, however, the President chose to take no direct action regarding the Section 232 Trade Action. Instead, the President did establish a Working Group to develop recommendations for reviving and expanding domestic uranium production, which was slated to report back to the White House in early Q4 2019. At this time, the report has not been made public.

More recently, the President's proposed FY2021 budget included a line item of $150 million per year from 2021 to 2030 to support the creation and fulfillment of a new national uranium reserve to be supplied by domestically mined uranium. While this news is encouraging, there can be no certainty of the approval and implementation of the President's proposed budget, nor of the outcome of the Working Group's long overdue findings and recommendations, and therefore, the outcome of this continuing process and its effects on the U.S. uranium market is uncertain.

The domestic uranium market has been and remains in poor condition. U.S. uranium production in 2020 will be substantially less than 2019 production, which was dismal – 90% less than the record-setting low production of 2018. Imports continue to besiege the domestic uranium fuel cycle and have "undermined U.S. energy security and impacted U.S. fuel supply capabilities." We implore the President, the Working Group, and Congress, to take innovative approaches to "secure energy independence" and "address challenges to the production of domestic uranium."

Table of Contractual Obligations

The following table summarizes our contractual obligations as of December 31, 2019:

	Payments due (by period) in thousands				
	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Notes payable	$ 12,441	$ -	$ 10,979	$ 1,462	$ -
Interest on notes payable	$ 1,627	$ 716	$ 890	$ 21	$ -
Operating leases	$ 12	$ 4	$ 8	$ -	$ -
Environmental remediation	$ 72	$ 72	$ -	$ -	$ -
Asset retirement obligations	$ 30,972	$ -	$ 3,558	$ 3,558	$ 23,856
	$ 45,124	$ 792	$ 15,435	$ 5,041	$ 23,856

Outstanding Share Data

As of December 31, 2019 and 2018, the Company's capital consisted of the following:

	December 31, 2019	December 31, 2018	Change
Common shares	160,478,059	159,729,403	748,656
Warrants [(1)]	6,531,439	6,531,439	-
RSUs	1,155,928	985,496	170,432
Stock options	11,076,583	9,731,612	1,344,971
Fully diluted shares outstanding	179,242,009	176,977,950	2,264,059

Note:

1. The number of warrants reflects the actual number of shares if all 13,062,878 warrants are exercised.

Off Balance Sheet Arrangements

We have not entered into any material off-balance sheet arrangements such as guaranteed contracts, contingent interests in assets transferred to unconsolidated entities, derivative instrument obligations, or with respect to any obligations under a variable interest entity arrangement.

Financial Instruments and Other Instruments

The Company's cash and cash equivalents are composed of:

	As at	
	December 31, 2019 $ (thousands)	December 31, 2018 $ (thousands)
Cash on deposit at banks	1,755	1,936
Money market funds	5,997	4,436
	7,752	6,372

Quarterly financial data (unaudited) (in thousands except for per share data)

	2019 Quarter ended			
	Dec. 31	Sep. 30	Jun. 30	Mar. 31
Revenue	$ 10,850	$ 5,114	$ 11,479	$ 4,812
Net income (loss) for the period	$ 2,115	$ (4,200)	$ (2,031)	$ (4,302)
Income (loss) per share – basic and diluted	$ 0.01	$ (0.03)	$ (0.01)	$ (0.03)

	2018 Quarter ended			
	Dec. 31	Sep. 30	Jun. 30	Mar. 31
Revenue	$ 14	$ 3	$ 3,807	$ 19,672
Net income (loss) for the period	$ (1,666)	$ (2,809)	$ 2,591	$ 6,418
Income (loss) per share – basic and diluted	$ (0.01)	$ (0.02)	$ 0.02	$ 0.04

Credit risk

Financial instruments that potentially subject us to concentrations of credit risk consist of cash and cash equivalents, deposits and restricted cash, which together totaled approximately $15.2 million at December 31, 2019. These assets include Canadian dollar and U.S. dollar denominated certificates of deposit, money market accounts and demand deposits. These instruments are maintained at financial institutions in Canada and the U.S. Of the amount held on deposit, approximately $0.6 million is covered by the Canada Deposit Insurance Corporation, the Securities Investor Protection Corporation or the United States Federal Deposit Insurance Corporation which leaves approximately $14.6 million at risk at December 31, 2019 should the financial institutions with which these amounts are invested be rendered insolvent. We do not consider any of our financial assets to be impaired as of December 31, 2019.

Liquidity risk

Liquidity risk is the risk that we will not be able to meet our financial obligations as they come due.

As at December 31, 2019, the Company’s financial liabilities consisted of trade accounts payable and accrued trade and payroll liabilities of $0.5 million which are due within normal trade terms of generally 30 to 60 days, a note payable which will be payable over 1 to 4 years, and asset retirement obligations with estimated completion dates until 2033.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk

Market risk is the risk to the Company of adverse financial impact due to changes in the fair value or future cash flows of financial instruments as a result of fluctuations in interest rates and foreign currency exchange rates.

Interest rate risk

Financial instruments that expose the Company to interest rate risk are its cash equivalents, deposits, restricted cash and debt financings. Our objectives for managing our cash and cash equivalents are to maintain sufficient funds on hand at all times to meet day to day requirements and to place any amounts which are considered in excess of day to day requirements on short-term deposit with the Company's financial institutions so that they earn interest.

Currency risk

We maintain a balance of less than $0.2 million in foreign currency resulting in a low currency risk.

Commodity Price Risk

The Company is subject to market risk related to the market price of uranium. We have multiple uranium supply contracts with pricing fixed or based on inflation factors applied to a fixed base. Additional future sales would be impacted by both spot and long-term uranium price fluctuations. Historically, uranium prices have been subject to fluctuation, and the price of uranium has been and will continue to be affected by numerous factors beyond our control, including the demand for nuclear power, political and economic conditions, and governmental legislation in uranium producing and consuming countries and production levels and costs of production of other producing companies. The spot market price for uranium has demonstrated a large range since January 2001. Prices have risen from $7.10 per pound at January 2001 to a high of $136.00 per pound as of June 2007. The spot market price was $24.80 per pound as of February 26, 2020.

Transactions with Related Parties

During the fiscal year ended December 31, 2019, we did not participate in any reportable transactions with related parties.

Proposed Transactions

As is typical of the mineral exploration and development industry, we will consider and review potential merger, acquisition, investment and venture transactions and opportunities that could enhance shareholder value.

New accounting pronouncements which were implemented this year

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which requires lessees to recognize all leases on the balance sheet, including operating leases, unless the lease is a short-term lease. ASU 2016-02 also requires additional disclosures regarding leasing arrangements. ASU 2016-02 became effective for the Company as of January 1, 2019. At January 1, 2019, we had two office equipment leases, and the office lease in Casper which expired in July 2019 and was extended for less than one year. As a result of adoption of ASC 2016-02, we recognized a liability of $83 with a corresponding Right-Of-Use ("ROU") assets of the same amount based on present value of the remaining minimum rental payments of the leases which are included in non-current assets and other liabilities in the consolidated balance sheet. The discount rates used for leases are based on either the Company's borrowing rate or the imputed interest rate based on the price of the equipment and the lease terms.

Critical Accounting Policies and Estimates

We have established the existence of mineral resources at the Lost Creek Project, but because of the unique nature of in situ recovery mines, we have not established, and have no plans to establish the existence of proven and probable reserves at this project.

<u>Mineral Properties</u>

Acquisition costs of mineral properties are capitalized. When production is attained at a property, these costs will be amortized over a period of estimated benefit.

As of December 31, 2019, the current and long-term prices of uranium were $24.93 and $32.50, respectively. This compares to prices of $27.75 and $32.00 as of December 31, 2018. Senior management updates production, revenue and cash projections on a regular basis, in some cases weekly, but at least monthly. The Company reviews the impairment indicators outlined in US GAAP guidance.

Our remaining properties, which have no established mineral resource, continue to be carried at their acquisition cost.

Development costs including, but not limited to, production wells, header houses, piping and power will be expensed as incurred as we have no proven and probable reserves.

<u>Exploration, evaluation and development costs</u>

Exploration and evaluation expenses consist of labor, annual exploration lease and maintenance fees and associated costs of the exploration geology department as well as land holding and exploration costs including drilling and analysis on properties which have not reached the permitting or operations stage. Development expense relates to the Company's Lost Creek, LC East and Shirley Basin projects, which are more advanced in terms of permitting and preliminary economic assessments. Development expenses include all costs associated with exploring, delineating and permitting new or expanded mine units, the costs associated with the construction and development of permitted mine units including wells, pumps, piping, header houses, roads and other infrastructure related to the preparation of a mine unit to begin extraction operations as well as the cost of drilling and completing disposal wells.

Capital assets

Property, plant and equipment assets, including machinery, processing equipment, enclosures, vehicles and expenditures that extend the life of such assets, are recorded at cost including acquisition and installation costs. The enclosure costs include both the building housing and the processing equipment necessary for the extraction of uranium from impregnated water pumped in from the wellfield to the packaging of uranium yellowcake for delivery into sales. These enclosure costs are combined as the equipment and related installation associated with the equipment is an integral part of the structure itself. The costs of self-constructed assets include direct construction costs, direct overhead and allocated interest during the construction phase. Depreciation is calculated using a declining balance method for most assets with the exception of the plant enclosure and related equipment. Depreciation on the plant enclosure and related equipment is calculated on a straight-line basis. Estimated lives for depreciation purposes range from three years for computer equipment and software to 20 years for the plant enclosure and the name plate life of the related equipment.

Depreciation

The depreciable life of the Lost Creek plant, equipment and enclosure was determined to be the nameplate life of the equipment housed in the processing plant as plans exist to continue to process materials from other sources such as Shirley Basin beyond the estimated production at the Lost Creek Project.

Inventory and Cost of Sales

Our inventories are measured at the lower of cost or net realizable value based on projected revenues from the sale of that product. We are allocating all costs of operations of the Lost Creek facility to the inventory valuation at various stages of production with the exception of wellfield construction and disposal well costs which are treated as development expenses when incurred. Depreciation of facility enclosures, equipment and asset retirement obligations as well as amortization of the acquisition cost of the related property is also included in the inventory valuation. We do not allocate any administrative or other overhead to the cost of the product.

Because of the nature of in situ operations, it is not technically feasible to accurately measure the amount of in-process inventory at any given time. We use a combination of calculating estimated uranium captured per sampling applied to total water processing flow to determine the estimated pounds captured.

Asset Retirement Obligations

For mining properties, various federal and state mining laws and regulations require the Company to reclaim the surface areas and restore groundwater quality to the pre-existing quality or class of use after the completion of mining. The Company records the fair value of an asset retirement obligation as a liability in the period in which it incurs an obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of the assets.

Asset retirement obligations consist of estimated final well closures, plant closure and removal and associated reclamation and restoration costs to be incurred by the Company in the future. The estimated fair value of the asset retirement obligation is based on the current cost escalated at an inflation rate and discounted at a credit adjusted risk-free rate. This liability is capitalized as part of the cost of the related asset and amortized over its remaining productive life. The liability accretes until the Company settles the obligation.

Share-Based Compensation

We are required to initially record all equity instruments including warrants, restricted share units and stock options at fair value in the financial statements.

Management utilizes the Black-Scholes model to calculate the fair value of the warrants and stock options at the time they are issued. Use of the Black-Scholes model requires management to make estimates regarding the expected volatility of the Company's stock over the future life of the equity instrument, the estimate of the expected life of the equity instrument and the number of options that are expected to be forfeited. Determination of these estimates requires significant judgment and requires management to formulate estimates of future events based on a limited history of actual results.

Income taxes

The Company accounts for income taxes under the asset and liability method which requires the recognition of future income tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities. The Company provides a valuation allowance on future tax assets unless it is more likely than not that such assets will be realized.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Consolidated Financial Statements following the signature page of this Form 10-K.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

As of the fiscal year ended December 31, 2019, under the supervision of the Chief Executive Officer and the Chief Financial Officer, the Company evaluated the effectiveness of its disclosure controls and procedures, as such term is defined in Rule 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"). Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective to ensure that information the Company is required to disclose in reports that are filed or submitted under the Exchange Act: (1) is recorded, processed and summarized effectively and reported within the time periods specified in SEC rules and forms, and (2) is accumulated and communicated to Company management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. The Company's disclosure controls and procedures include components of internal control over financial reporting. No matter how well designed and operated, internal controls over financial reporting can provide only reasonable, but not absolute, assurance that the control system's objectives will be met.