



Uranium Production Cost Study



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Table of Contents

Introduction and Overview	6
Introduction	6
Structure of Report	7
1 – Key Factors Affecting Production Costs	9
Ore Grade	9
Reserve Tonnage	10
Deposit Depth	10
Spatial Density	10
Ore Thickness	10
Deposit Composition & Chemical Agents	11
Technical	11
Water Flows and Drainage	12
Life of Project	12
Energy Costs	12
Labor Costs	13
Transportation/Hauling Costs	14
Environmental and Regulatory	14
Political	15
Taxes and Royalties	15
2 – Uranium Mining Methods	19
Open Pit	20
• Issues Related to Handling Uranium Ore in Open Pits	21
Hydrogeology	21
Waste Handling	21
Ore Handling	21
Equipment	21
Scanning	22
Decommissioning – tailings containment	22
Underground Mining	22
• Sedimentary Ores	22
• Vein Type Ores	23
• Issues Related to Handling Uranium Ores in Underground Projects	24
Access to the reserve	24
Primary Mining Equipment	24
Station Area	24
Primary Haulage Development	24
Raises (Manways and Ore Passes)	25
Stope Development (Sub Level Ore Development)	25
Ore Extraction	26
Ventilation	26
Backfill	26
Manpower (Staffing)	26
Mine Equipment	27
Personal Protective Equipment	27
Safety and Health	27
Reclamation	27
Stope Leaching	28
In situ leaching (ISL)	28
• Criteria for Choosing Leaching Chemistry	30
• Principal Processes for ISL	31
Beneficiation	32
• Radiometric Ore Sorting (ROS)	32
• Magnetic Sorting	33
• Gravimetric Sorting	33
• Grain Size Classification	33
• Flotation	34

• Mechanized Shedding.....	34
• Screening.....	34
Ore Processing.....	35
• Mill Processing.....	35
Crushing & Grinding.....	35
Leaching.....	35
Solid-Liquid Separation Process.....	36
Uranium Extraction.....	37
Precipitation.....	38
Separate Solids + Drying.....	39
• Heap Leach (HL) Processing.....	39
HL Pad Construction.....	40
Ore Heaps Building.....	40
Heap Leaching Process.....	41
Heap Leach Time.....	41
Ore Removal.....	41
Future Trends.....	41
Uranium from Phosphoric Acid.....	42
• Wet Process Phosphoric Acid Recovery (WPPA).....	43
• Advanced Technologies for Extracting Uranium from Phosphoric Acid.....	43
3 – Uranium Mining Costs	44
Mine Capital Costs.....	44
• Open Pit.....	44
• Underground.....	44
• In-Situ Recovery (ISR).....	45
4 – Uranium Processing and Milling Costs	47
Milling Capital Costs.....	47
Milling Operating Costs.....	47
• Direct costs.....	47
• Indirect Costs.....	47
• Project Capital Costs (CAPEX).....	48
Acquisition Cost.....	48
Mine Development.....	48
Civil.....	48
Building and Structural Steel.....	49
Equipment Supply Costs.....	49
Equipment Installation Costs.....	49
Instrumentation.....	49
Piping.....	49
Electrical.....	49
Infrastructure Costs.....	49
Indirect Construction Costs.....	50
Engineering Procurement and Construction Management.....	50
Contingency.....	50
• Project Operating Costs (OPEX).....	50
Labor Costs.....	50
Supply Costs.....	51
Power Costs.....	51
Maintenance Costs.....	51
Infrastructure Costs.....	51
Administration Costs.....	51
Head Office Costs.....	51
5 – Financial & Market Considerations on Costs	52
Time Value of Money.....	52
Escalation and Inflation.....	52
Market Conditions.....	53
6 – World Production Costs	54
All Projects.....	54
Operating Projects.....	59

Planned/Advanced Projects	62
Potential Projects	65
Production Cost Curve – 2017	68
Production Cost Curve – 2020	69
Production Cost Curve – 2025	70
Production Cost Curve – 2030	71
7 – World Production Cost Case vs. Demand (2016-2030)	72
8 – Production Costs by Region	75
Africa	75
• Operating	75
• Planned/Advanced.....	76
• Potential.....	78
Australia	79
• Operating	79
• Planned/Advanced.....	80
• Potential.....	81
North America	83
• Operating	83
• Planned/Advanced.....	85
• Potential.....	86
Former Soviet Union and Asia	88
• Operating	88
• Planned/Advanced.....	90
• Potential.....	91
Competitive Cost Comparison – 2016	92
• Africa.....	92
• Australia.....	93
• Canada	94
• U.S.	95
• Kazakhstan & Uzbekistan	96
• Russia	97
9 – Production Costs by Mine Method	98
Overview	98
In-Situ Recovery (ISR)	100
Open Pit	103
Underground	105
10 – A Slow Return to Normal Queuing	108
11 – Financial Implications for Prices	109
Exchange Rates.....	109
• How Exchange Rates Relate to Cost/Price Estimates.....	109
Inflation.....	110
• Specific vs. General Cost Increases	110
12 – Matching Production Costs to Prices	112
Floor Prices	112
Long-Term Contract Prices.....	112
Spot Prices.....	113
• The Linkage and De-Linkage of Spot Prices and Production Costs	114
13 – Issues Affecting Next Generation of Projects	115
Lower Grades.....	115
Smaller Project Size.....	115
More Remote Mine Locations	116
Water/Energy Cost/Conservation.....	116
Exploration	117
Project Financing	118

SWU Substitution and Depleted Tails	118
Appendix A – Worldwide Production Costs by Project	120

List of Figures

Figure 1. Swakop Uranium's Husab Open Pit Mine	20
Figure 2. Cigar Lake Underground Mine	24
Figure 3. ISL Process	31
Figure 4. Conventional Acid Leach Flow Chart	36
Figure 5. Typical Uranium Acid Heap Leaching Flowsheet	41
Figure 6. Production Cost Curve – All Projects	56
Figure 7. Production Cost Curve – First Tier.....	57
Figure 8. Production Cost Curve – Second Tier.....	57
Figure 9. Production Cost Curve – Third Tier.....	58
Figure 10. Production Cost Curve – Fourth Tier	58
Figure 11. Production Cost Curve – Operating Projects	59
Figure 12. Production Cost Curve – Planned/Advanced Projects.....	62
Figure 13. Production Cost Curve – Potential Projects	67
Figure 14. 2017 Production Cost Curve	68
Figure 15. 2020 Production Cost Curve	69
Figure 16. 2025 Production Cost Curve	70
Figure 17. 2030 Production Cost Curve	71
Figure 18. Production by Cost vs. Demand.....	72
Figure 19. Production by Cost – Africa.....	75
Figure 20. Production Cost Curve – Africa.....	77
Figure 21. Production by Cost – Australia.....	79
Figure 22. Production Cost Curve – Australia	80
Figure 23. Production By Cost – North America	83
Figure 24. Production Cost Curve – North America.....	84
Figure 25. Production By Cost – Former Soviet Union & Asia.....	88
Figure 26. Production Cost Curve – Former Soviet Union & Asia	90
Figure 27. Production by Mine Method	98
Figure 28. Production by Cost – ISR.....	100
Figure 29. Production Cost Curve – ISR	101
Figure 30. Production By Cost – Open Pit	103
Figure 31. Production Cost Curve – Open Pit.....	104
Figure 32. Production By Cost – Underground	105
Figure 33. Production Cost Curve – Underground.....	106
Figure 34. Movements in Uranium Prices in Terms of Different Currencies	109
Figure 35. UxC Spot vs. Long-Term Contract Price Indicators, 2004-2017.....	113

List of Tables

Table 1. Energy Costs – Mine(s)/Company.....	13
Table 2. U.S. Uranium Tax Rates.....	17
Table 3. Australian and Canadian Uranium Tax Rates	17
Table 4. African and Kazakhstan Uranium Tax Rates	18
Table 5. World Uranium Production by Mining Method.....	19
Table 6. IX vs. SX	38
Table 7. Uranium Content of Selected World Phosphate Rock	42
Table 8. Typical Operating Costs – Recent Projects.....	48
Table 9. Uranium Production Costs – Africa	92
Table 10. Uranium Production Costs – Australia.....	93
Table 11. Uranium Production Costs – Canada	94
Table 12. Uranium Production Costs – U.S.....	95
Table 13. Uranium Production Costs – Kazakhstan & Uzbekistan	96
Table 14. Uranium Production Costs – Russia.....	97
Table 15. World Uranium Production by Mining Method, 2000-2016.....	99
Table 16. Worldwide Production Costs (Ranked) by Project	120

Introduction and Overview

Introduction

Given the move toward cleaner energy, reduced carbon emissions, and more secure long-term energy sources, uranium supply is becoming more important to utilities worldwide. In the 2015 UPCS, our post-Fukushima demand forecast was more positive, as we projected it to increase by 53% through 2030. In the current forecast, base case demand is projected to only increase by 9% through 2030, which is a major reduction from two years ago. The majority of the increased demand is still expected to come from Southeast Asia – China and India in particular.

Although the end of the U.S.-Russia HEU Agreement in 2013 was certainly a positive event for producers seeking to bring online new production, the reduction in demand stemming from the Fukushima accident has essentially negated the loss of 24 million pounds U_3O_8 per year resulting from the end of the HEU deal.

Secondary supply sources also continue to be a huge factor impacting uranium prices and the viability of new and existing uranium projects. Enricher underfeeding has become a very important part of secondary supply in the post-Fukushima environment. Even though underfeeding is less profitable given the current low price of uranium, spare enrichment capacity resulting from lower than expected demand (as noted above) is being utilized by enrichers to yield uranium totaling up to 18 million pounds U_3O_8 per year. Furthermore, U.S. Government inventories and the use of MOX/Reprocessing meet a comparable amount of demand in the near term. Add to this inventory build-up from shuttered reactors in the wake of the Fukushima disaster, and secondary supplies total between 42-45 million pounds U_3O_8 per annum for the next few years.

Given the impact of secondary supplies on the ultimate need for primary production, there is enough prospective production at a full cost below \$40 per pound to meet UxC's post-Fukushima base case demand through 2020. Accordingly, planned or potential projects with production costs at or above \$40 per pound will be forced to delay or defer production until higher demand necessitates this higher cost production. Currently, production at a cost above \$40 per pound is seen being more critical in the years from 2021 to 2025 when some existing uranium mines become depleted and demand shows greater growth.

While uranium exploration experienced a revival in the last price run-up, exploration expenditures since the Fukushima accident have fallen off as many suppliers now find it more difficult to obtain project financing in a flat market. As a result, the current menu of worldwide projects is not all that exhaustive because most of the recent exploration has been on brownfield sites that were discovered 20, 30, or even 40 years ago. Although uranium resources within the widely known IAEA "Red Book" are extensive, the vast majority of these are neither delineated nor developed. As the

nuclear industry transforms itself into a safer and more robust industry, one of the challenges will be for the supply side of the industry to expand and bring new production to a market that is still reeling from the effects of Fukushima.

This study complements UxC's *Uranium Supplier's Annual* in identifying where expanded and new uranium supply will come from among 110 worldwide projects to meet future demand through 2030. Cost curves for operational, planned, and potential projects are developed to identify those projects most likely to produce in the future, as well as present a long-run cost structure for the industry. Additionally, the study identifies key factors impacting how production costs are calculated as well as their weight in a supplier's decision of whether to advance a project to production.

Structure of Report

The *Uranium Production Cost Study* is organized as follows: **Chapter 1 – Key Factors Affecting Production Costs** reviews factors that impact production costs, including ore grade, reserve tonnage, deposit depth, spatial density, ore thickness, deposit composition and chemical agents, various technical factors, water flows and drainage, energy costs, labor costs, transportation/hauling costs, etc. **Chapter 2 – Uranium Mining Methods** covers the three key mining methods (open pit, underground, and in-situ recovery) in uranium mining and highlights the positives and negatives of each method.

In **Chapter 3 – Uranium Mining Costs**, we discuss uranium mining costs for conventional (open pit and underground) and in-situ recovery deposits, specifically focusing on the breakdown of capital costs for each mining method. Specific variables impacting capital mining costs for each mining method are discussed in detail. **Chapter 4 – Uranium Processing and Milling Costs** identifies the capital and operating costs associated with uranium processing plants. This chapter specifically looks at the direct and indirect costs related to total milling operating expenses. **Chapter 5 – Financial & Market Considerations on Costs** discusses the time value of money and how this works in calculating the present value of a project. This chapter also discusses the difference between escalation and inflation and how each can impact the economics of a deposit. Lastly, this chapter focuses on how important market conditions are accounted for in deciding whether to make an investment and development decision.

In the following four chapters, we detail estimated production costs for prospective world uranium deposits. **Chapter 6 – World Production Costs** presents a production cost curve for all worldwide uranium projects, breaking the cost curve down by four tiers. Additionally, the production cost curve is broken down by operating, planned, and potential projects. Production cost curves for 2017, 2020, 2025, and 2030 are also presented. **Chapter 7 – World Production Cost Case vs. Demand (2016-2030)** compares UxC's URM High and Base Demand Cases to potential world production stacked by cost range for the 2016-2030 period. **Chapter 8 – Production Costs by Region** shows production costs for Africa, Australia, North America, and

the Former Soviet Union and Asia. In addition, a competitive cost comparison of 2016 production by countries/regions is presented. **Chapter 9 – Production Costs by Mine Method** illustrates potential production from all three mining methods in the 2016-2030 period, providing costs curves and production by cost for each method.

Chapter 10 – A Slow Return to Normal Queuing details how the market is slowly moving back to being production-driven, but still faces the challenge of high utility inventory levels and demand growth hindered by the slow return of Japanese reactors. Accordingly, even low-cost producers are struggling to survive until enough inventories are depleted and/or until enough higher-cost supply is eliminated while prices stay artificially low.

Chapter 11 – Financial Implications on Prices analyzes how financial implications not only affect uranium production costs directly, but also indirectly impact the sales price of uranium through variations in country exchange rates. Furthermore, inflation impacts uranium price formation, as increasing cost pressures on uranium prices then result in similar upward price pressure on the factor inputs for uranium production.

Chapter 12 – Matching Production Costs to Prices analyzes why prices are currently lower than our marginal-cost pricing picture, with a broad discussion of floor prices, term contract prices, and spot prices.

Lastly, **Chapter 13 – Issues Affecting Next Generation of Projects** identifies key issues mostly likely to affect the development of new uranium projects over the next 15-20 years.