

**URANIUM PARTICIPATION CORPORATION**

**FINANCIAL STATEMENTS**

**FEBRUARY 28, 2006**

## Responsibility for Financial Reporting

### **To the Shareholders of Uranium Participation Corporation,**

The Company's management is responsible for the integrity and fairness of presentation of these consolidated financial statements. The consolidated financial statements have been prepared by management, in accordance with Canadian generally accepted accounting principles for review by the Audit Committee and approval by the Board of Directors.

The preparation of financial statements requires the selection of appropriate accounting policies in accordance with generally accepted accounting principles and the use of estimates and judgments by management to present fairly and consistently the consolidated financial position of the Company. Estimates are necessary when transactions affecting the current period cannot be finalized with certainty until future information becomes available. The Company's management is also responsible for maintaining systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide assurance that the financial information is accurate and reliable in all material respects and that the Company's assets are appropriately accounted for and adequately safeguarded. The Company's management believes that such systems are operating effectively and has relied on these systems of internal control in preparing these financial statements.

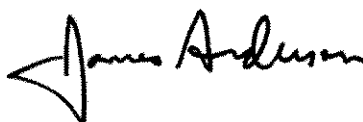
PricewaterhouseCoopers LLP, Chartered Accountants, are independent external auditors appointed by the shareholders to issue a report regarding the consolidated financial statements of the Company. PricewaterhouseCoopers' audit report outlines the extent and nature of their examination and expresses their opinion on the consolidated financial statements.

The Board of Directors of the Company is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements and the accompanying management discussion and analysis. The Board carries out this responsibility principally through its Audit Committee, which is appointed annually and consists of three Directors, none of whom are members of management.

The Audit Committee meets at least twice per year with management, together with the independent auditors, to satisfy itself that management and the independent auditors are each properly discharging their responsibilities. The independent external auditors have full access to the Audit Committee with and without management present. The Committee, among other things, reviews matters related to the quality of internal control, audit and financial reporting issues. The Audit Committee reviews the consolidated financial statements and the independent auditors' report, as well as any public disclosure document that contains financial information, and reports its findings to the Board of Directors, prior to the Board approving such information for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or reappointment of the Company's independent auditors.



E. Peter Farmer  
President  
April 19, 2006



James R. Anderson  
Chief Financial Officer

## **Auditors' Report**

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### **To The Shareholders of Uranium Participation Corporation,**

We have audited the consolidated statement of net assets of Uranium Participation Corporation as at February 28, 2006 and the consolidated statements of operations, changes in net assets and cash flows for the period from March 15, 2005 to February 28, 2006. These financial statements are the responsibility of Uranium Participation Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance as to 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 financial statements present fairly, in all material respects, the consolidated financial position of Uranium Participation Corporation as at February 28, 2006 and the results of its operations, changes in net assets and cash flows for the period from March 15, 2005 to February 28, 2006 in accordance with Canadian generally accepted accounting principles.

**(Signed) "PricewaterhouseCoopers LLP"**

**Chartered Accountants**

Toronto, Canada

March 29, 2006  
(except note 7, which is as at April 19, 2006)

**URANIUM PARTICIPATION CORPORATION  
CONSOLIDATED STATEMENT OF NET ASSETS  
AS AT FEBRUARY 28, 2006**

(in thousands of Canadian dollars, except per share amounts)

<b>Assets</b>	
Investments at market value (at cost-\$139,569)	\$ 166,489
Cash and cash equivalents	13,996
Sundry receivables and other assets	172
Future income taxes (note 3)	4,131
	<b>\$ 184,788</b>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	336
Income taxes payable	324
Future income taxes (note 3)	9,118
<b>Net assets</b>	<b>\$ 175,010</b>
<b>Net assets represented by:</b>	
Common shares (note 4)	155,183
Warrants (note 4)	3,599
Retained earnings	16,228
	<b>\$ 175,010</b>
<b>Common shares:</b>	
Issued and outstanding	30,751,325
<b>Net asset value per common share</b>	
Basic and diluted	<b>\$ 5.69</b>

**Commitments (note 6)**

The accompanying notes are an integral part of these financial statements.

ON BEHALF OF THE BOARD OF URANIUM PARTICIPATION CORPORATION

*"Richard H. McCoy"*

*"Garth A. C. MacRae"*

Richard H. McCoy  
Director

Garth A. C. MacRae  
Director

**URANIUM PARTICIPATION CORPORATION  
CONSOLIDATED STATEMENT OF OPERATIONS  
FOR THE PERIOD MARCH 15, 2005 TO FEBRUARY 28, 2006**

(in thousands of Canadian dollars)

<b>Income</b>	
Interest	\$ 661
Unrealized gains on investments	26,920
	<u>27,581</u>
<b>Operating expenses</b>	
Management fees (note 5)	423
Storage fees	262
Audit fees	30
Directors fees	93
Legal and other professional fees	10
Shareholder information and other compliance	135
General office and miscellaneous	85
Foreign exchange loss	1,766
	<u>2,804</u>
<b>Increase in net assets before income taxes</b>	<b>24,777</b>
Income tax provision (note 3)	8,549
<b>Increase in net assets after income taxes</b>	<b>16,228</b>
<b>Increase in net assets per common share (note 4)</b>	
Basic and diluted	\$ 0.73

**URANIUM PARTICIPATION CORPORATION  
STATEMENT OF CHANGES IN NET ASSETS  
FOR THE PERIOD MARCH 15, 2005 TO FEBRUARY 28, 2006**

(in thousands of Canadian dollars)

Net assets at beginning of period	\$ -
Net proceeds from issue of units and shares, after tax	158,782
Increase in net assets after income taxes	16,228
<b>Net assets at end of period</b>	<b>\$ 175,010</b>

The accompanying notes are an integral part of these financial statements.

**URANIUM PARTICIPATION CORPORATION  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE PERIOD MARCH 15, 2005 TO FEBRUARY 28, 2006**

(in thousands of Canadian dollars)

**Operating Activities**

Increase in net assets after income taxes	\$ 16,228
Adjustments for non-cash items:	
Unrealized gains on investments	(26,920)
Future income tax expense	8,225
Changes in non-cash working capital:	
Change in sundry receivables and other assets	(172)
Change in accounts payable and accrued liabilities	336
Change in income taxes payable	324
<b>Net cash used in operating activities</b>	<b>(1,979)</b>

**Investing Activities**

Purchases of investments	(139,569)
<b>Net cash used in investing activities</b>	<b>(139,569)</b>

**Financing Activities**

Common share and warrant issues net of pre-tax issue costs	155,544
<b>Net cash generated by financing activities</b>	<b>155,544</b>

Increase in cash and cash equivalents	13,996
Cash and cash equivalents - beginning of period	—
<b>Cash and cash equivalents - end of period</b>	<b>\$ 13,996</b>

**URANIUM PARTICIPATION CORPORATION  
STATEMENT OF INVESTMENT PORTFOLIO  
AS AT FEBRUARY 28, 2006**

(in thousands of Canadian dollars, except quantity amounts)	Quantity of Measure	Average Cost	Market Value
<b>Investments in Uranium:</b>			
Uranium oxide in concentrates ("U <sub>3</sub> O <sub>8</sub> ")	3,800,000 lbs	\$ 139,569	\$ 166,489
Average cost and market value per pound of U <sub>3</sub> O <sub>8</sub> :			
- In Canadian dollars		\$ 36.73	\$ 43.81
- In United States dollars		\$ 30.75	\$ 38.50

The accompanying notes are an integral part of these financial statements.

**URANIUM PARTICIPATION CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD MARCH 15, 2005 TO FEBRUARY 28, 2006**

**1. URANIUM PARTICIPATION CORPORATION**

Uranium Participation Corporation ("Uranium Corp") was established under the Business Corporations Act (Ontario) ("OBCA") on March 15, 2005. Uranium Corp is an investment fund as defined by the Canadian securities regulatory authorities in National Instrument 81-106 "Investment Fund Continuous Disclosure". Uranium Corp was created to invest substantially all of its assets in uranium oxide in concentrates ("U<sub>3</sub>O<sub>8</sub>") and uranium hexafluoride ("UF<sub>6</sub>") (collectively "uranium") with the primary investment objective of achieving appreciation in the value of its uranium holdings. Uranium Corp trades publicly on the Toronto Stock Exchange under the symbol U.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The accompanying consolidated financial statements include the assets, liabilities, revenues and expenses of Uranium Corp and its wholly owned subsidiary, Uranium Participation Alberta Corp. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). In the opinion of management, all adjustments considered necessary for fair presentation have been included in these financial statements.

**Use of Estimates**

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ materially from those estimates.

**Significant Accounting Policies**

*(a) Investments*

The fair value of investments in uranium are based on the most recent spot prices for uranium published by Ux Consulting Company, LLC prior to the applicable reporting period converted to Canadian dollars using the month end foreign exchange rate.

The cost of investments in uranium are accounted for on the date that title to the uranium passes to Uranium Corp and are converted to Canadian dollars on the rate of exchange prevailing on that date. Investment cost is determined using the average cost method.

Realized and unrealized gains or losses in uranium represent the difference between the fair value and average cost of uranium investments, in Canadian dollars. Uranium Corp does not separate out the impact on fair value from changes in foreign exchange rates but instead includes the amount in the realized and unrealized gains or losses in uranium.

*(b) Foreign Exchange Translation*

The financial statements of Uranium Corp are expressed in Canadian dollars. Foreign currency monetary assets and liabilities are translated to Canadian dollars at the rate of exchange prevailing on the date of the applicable reporting period. Foreign currency income and expense transactions are translated into Canadian dollars at the rate of exchange prevailing on the date of the transaction. Changes in the foreign exchange rates between the transaction date and the applicable reporting

period date used to value monetary assets and liabilities are reflected in the statement of income as a foreign exchange gain or loss.

(c) *Cash and Cash Equivalents*

Cash and cash equivalents consist of cash on hand, balance with banks and highly liquid short-term investments in government or investment grade corporate debt. Short-term investments, together with accrued interest, approximates fair value.

(d) *Income Taxes Payable*

The Canadian large corporations tax on capital is classified as an income tax liability and is accordingly included in reported income tax liability and current tax expense amount within the income tax provision.

(e) *Future Income Taxes*

Uranium Corp follows the liability method of accounting for future income taxes. Under this method, current income taxes are recognized from the estimated income taxes payable for the current period. Future income tax assets and liabilities are determined based on temporary differences between financial reporting and tax bases of assets and liabilities, and are measured using the substantively enacted tax rates and laws that are expected to apply when the differences are expected to reverse. The benefit of tax losses which are available to be carried forward are recognized as assets to the extent that they are more likely than not to be recoverable from future taxable income.

**3. INCOME TAXES**

Unlike most investment funds, Uranium Corp does not qualify as a mutual fund trust and, accordingly, follows the general corporate income tax provisions of the Income Tax Act. Uranium Corp operates in two provincial jurisdictions and the related income is subject to varying rates of taxation. The following is a reconciliation of income taxes, calculated at the combined Canadian federal and Ontario provincial rate, to the income tax expense included in the consolidated statement of operations for the period March 15, 2005 to February 28, 2006:

(in thousands of Canadian dollars)	
Increase in net assets before income taxes	\$ 24,777
Combined federal and Ontario provincial income tax rate	36.12%
Computed income tax expense	<u>8,949</u>
Large corporations tax in excess of surtax	212
Difference between combined federal and Ontario provincial income tax rate and rates applicable to subsidiaries in other provinces	<u>(612)</u>
Provision for income taxes	<u>\$ 8,549</u>
Provision for (recovery of) income taxes comprised of:	
Current tax expense	\$ 324
Future tax expense	<u>8,225</u>
	<u>\$ 8,549</u>

The components of the Company's future tax liability as at February 28, 2006 are as follows:

(in thousands of Canadian dollars)	
Future tax assets:	
Tax benefit of share issue costs	\$ 2,590
Tax benefit of loss carryforwards	1,541
	\$ 4,131
Less: valuation allowance	—
	\$ 4,131
Future tax liabilities:	
Unrealized gain on investments	\$ (9,118)
Future income tax liability - net	\$ (4,987)

As at February 28, 2006, Uranium Corp has a net operating loss carry-forward of \$4,265,000 which is scheduled to expire in February 2016.

#### 4. COMMON STOCK, WARRANTS AND INCREASE IN NET ASSETS PER SHARE

##### Common Stock

The movement in common stock for the period March 15, 2005 to February 28, 2006 is as follows:

(in thousands of Canadian dollars, except share numbers)	Shares	Dollars
Common stock – beginning of period	—	\$ —
Shares issued pursuant to:		
Common share financings		
Gross proceeds on new issues	30,750,000	164,500
Less: Allocation of proceeds to issued warrants		(3,600)
Less: Issue costs		(8,964)
Add: Tax effect of issue costs		3,238
Warrant exercises		
Gross proceeds	1,325	8
Add: Fair value transfer from warrants		1
Common stock – end of period	30,751,325	\$155,183

##### *Common share financings*

During May 2005, Uranium Corp issued 20,000,000 equity units at \$5.00 per unit for total gross proceeds of \$100,000,000. Each unit consisted of one common share and one-quarter purchase warrant. Each whole warrant allows the holder to purchase one common share at \$6.25 exercisable prior to May 10, 2007. Approximately \$3,600,000 of the proceeds has been allocated as the value of the issued warrants.

During December 2005, Uranium Corp issued 10,750,000 shares at \$6.00 per share for total gross proceeds of \$64,500,000.

## Warrants

The movement in the fair value allocated to warrants for the period March 15, 2005 to February 28, 2006 is as follows:

(in thousands of Canadian dollars, except warrant numbers)	Warrants	Dollars
Warrants – beginning of period	—	\$ —
Warrants issued during the period		
May 2005 equity unit financing	5,000,000	3,600
Warrants exercised during the period		
May 2005 equity unit financing	(1,325)	(1)
Warrants – end of period	4,998,675	\$ 3,599

The \$3,600,000 allocation of fair value to the warrants was calculated using the Black-Scholes model using the following assumptions:

Dividend yield	- nil
Risk-free interest rate	- 4 %
Expected life of the warrants	- 2 years
Expected volatility factor of future expected market prices	- 35 %

As at February 28, 2006, the warrants are not dilutive to the net asset value of the fund. When the net asset value per common share of Uranium Corp exceeds \$6.25, the warrants will have a dilutive impact.

### Increase in Net Assets per Share

The calculation of the basic increase in net assets per common share is based on the weighted average number of shares outstanding of 22,239,774 for the period ending February 28, 2006.

The calculation of the diluted increase in net assets per common share is based on the weighted average number of shares outstanding of 22,287,305 for the period ending February 28, 2006.

## 5. RELATED PARTY TRANSACTIONS

Uranium Corp is a party to a management services agreement with Denison Mines Inc. (the "Manager") and, Uranium Corp and the Manager are considered to be related parties. Under the terms of the agreement, Uranium Corp will pay the following fees to the Manager: a) a commission of 1.5% of the gross value of any purchases or sales of uranium completed at the request of the Board of Directors; b) a minimum annual management fee of \$400,000 (plus reasonable out-of-pocket expenses) plus an additional fee of 0.3% per annum based upon Uranium Corp's net asset value between \$100,000,000 and \$200,000,000 and 0.2% per annum based upon Uranium Corp's net asset value in excess of \$200,000,000; c) a fee of \$200,000 upon the completion of each equity financing where proceeds payable to Uranium Corp exceed \$20,000,000; d) a fee of \$200,000 for each transaction or arrangement (other than the purchase or sale of uranium) of business where the gross value of such transaction exceeds \$20,000,000 ("an initiative"); and e) an annual fee up to a maximum of \$200,000, at the discretion of the Board, for on-going maintenance or work associated with an initiative.

The following transactions were incurred with related parties during the period March 15, 2005 to February 28, 2006:

(in thousands of Canadian dollars)	
Fees incurred with the Manager:	
Management fees	\$ 423
General office and miscellaneous	34
Commissions on purchases of uranium <sup>(1)</sup>	2,063
<b>Total fees incurred with related parties</b>	<b>\$ 2,520</b>

(1) Purchase commissions incurred with the Manager have been capitalized and are included in the cost of the investments in uranium.

At February 28, 2006, accounts payable and accrued liabilities includes \$62,000 of amounts due to the Manager with respect to the fees indicated above.

## 6. COMMITMENTS

At February 28, 2006, the Manager has agreed to purchase, for and on behalf of Uranium Corp, and subject to certain conditions, 150,000 pounds of U<sub>3</sub>O<sub>8</sub> on April 7, 2006. The total purchase commitment and average price amounts are shown below:

(in thousands of dollars, except per pound amounts)		
	US \$	\$ Cdn <sup>(1)</sup>
Total purchase commitments, including commissions:		
150,000 pounds of U <sub>3</sub> O <sub>8</sub>	\$ 5,169	\$ 5,927
	<b>\$ 5,169</b>	<b>\$ 5,927</b>
<b>Average price per pound for U<sub>3</sub>O<sub>8</sub> purchase commitments</b>	<b>\$ 34.46</b>	<b>\$ 39.51</b>

(1) The purchase commitment amount has been translated to Canadian dollars using the April 7, 2006 closing foreign exchange rate of 1.1467.

## 7. SUBSEQUENT EVENTS

Subsequent to February 28, 2006, the Manager has agreed to purchase, for and on behalf of Uranium Corp, 50,000 pounds of U<sub>3</sub>O<sub>8</sub> at US\$40.75 per pound totaling US\$2,037,500 (excluding commissions), for delivery on April 6, 2006.

The Manager has also committed to the purchase of 100,000 KgU of UF<sub>6</sub> at US\$118.00 per KgU totaling US\$11,800,000 (excluding commissions) for delivery April, 2006.

Uranium Corp has entered into a credit agreement with the Manager for a revolving facility not to exceed \$25,000,000, subsequently reduced to \$10,000,000, in order to ensure adequate cash on hand to meet its purchase commitments. The credit facility expires on June 28, 2006 and is fully secured by the uranium investments of Uranium Corp. Interest under the credit facility is based on Canadian bank prime plus 2%. Standby fees also apply at a rate of 1% of the committed facility amount. As at April 19, 2006, Uranium Corp has drawn and has outstanding \$10,000,000 under the facility.