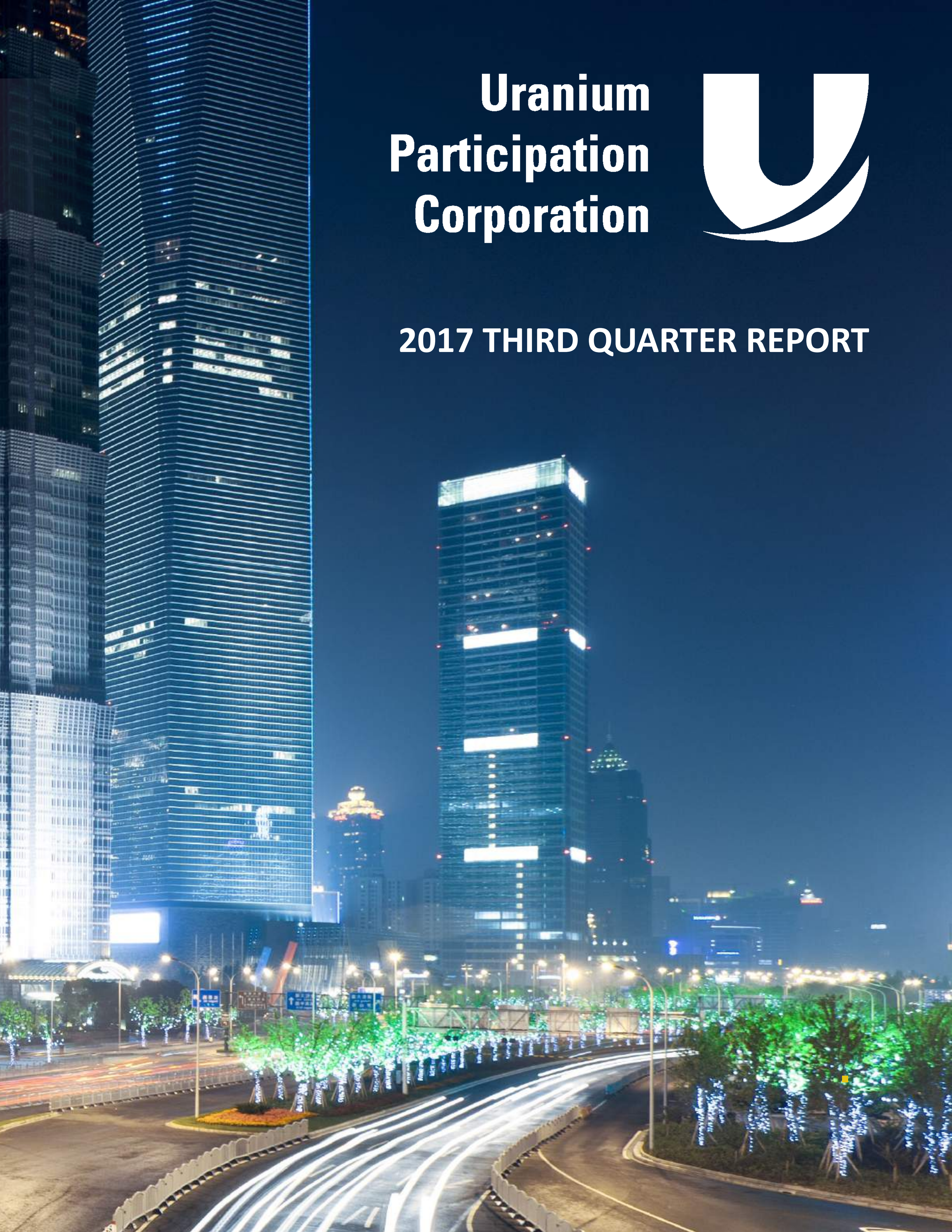
# Uranium Participation Corporation

# 2017 THIRD QUARTER REPORT



# 2017 THIRD QUARTER REPORT

## FOR THE THREE AND NINE MONTHS ENDED NOVEMBER 30, 2016

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This Management's Discussion and Analysis ("MD&A") of Uranium Participation Corporation ("UPC") and its subsidiary (collectively, with UPC, the "Corporation") provides a detailed analysis of the Corporation's business and compares its financial condition and results of operations to those of the previous year. This MD&A is dated as of January 14, 2017 and should be read in conjunction with the Corporation's unaudited interim consolidated financial statements and related notes for the three and nine months ended November 30, 2016.

The unaudited interim consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), applicable to the preparation of the interim financial statements, including International Accounting Standards ("IAS") 34, *Interim Financial Reporting*. Readers are also encouraged to consult the audited consolidated financial statements and the MD&A for the year ended February 29, 2016. All dollar amounts are expressed in Canadian dollars, unless otherwise noted. All uranium prices are based on prices published by Ux Consulting Company LLC ("UxC"). For all references to the net asset value ("NAV"), please refer to the "Non-IFRS Financial Performance Measures" section.

# ABOUT URANIUM PARTICIPATION CORPORATION

The Corporation invests substantially all of its assets in uranium, either in the form of uranium oxide in concentrates ("$U_3O_8$") or uranium hexafluoride ("$UF_6$") (collectively "uranium"), with the primary investment objective of achieving appreciation in the value of its uranium holdings through increases in the uranium price. Denison Mines Inc. (the "Manager"), under the direction of UPC's Board of Directors, provides general administration and management services to the Corporation. The common shares of UPC are listed and trade on the Toronto Stock Exchange ("TSX") under the symbol "U".

### Migration of Subsidiary

At February 29, 2016, the majority of the Corporation's uranium was held directly or indirectly through its wholly owned subsidiary, Uranium Participation Cyprus Limited ("UPCL"). UPCL was incorporated under the laws of the Republic of Cyprus on September 10, 2006. In August 2007, UPCL established a branch office in Luxembourg through which the operations of UPCL were conducted.

UPCL migrated to Bermuda on March 11, 2016, upon receipt of approval from the Bermuda Monetary Authority, and was registered by the Registrar of Companies in Bermuda under the name of Uranium Participation Bermuda Limited ("UPBL"). Immediately following the migration, the branch office in Luxembourg was closed and all assets and liabilities were transferred to UPBL. UPBL's activities continue to consist of directly investing in, and holding, uranium. The migration to Bermuda is expected to reduce the Corporation's operating costs.

# URANIUM INDUSTRY

### Current Market Conditions

Uranium prices continued to be under downward pressure throughout the reporting period. Prices started the quarter ending November 30 2016, at a high of US$25.25 per pound $U_3O_8$, but fell 29% to reach a low of US$18.25 per pound $U_3O_8$ by the end of November 2016. During the 2017 fiscal year, the uranium price has dropped 43%, from US$32.15 per pound $U_3O_8$ at February 29, 2016 and the price per pound $U_3O_8$, as of November 30, 2016, represents a 13-year low. Subsequent to the end of the reporting period, the spot price per pound $U_3O_8$ increased on renewed utility buying interest at the end of the calendar year, and is now trading back over US$22.00 per pound $U_3O_8$.

Uranium prices prior to the Fukushima events in 2011 were in the range of US$70.00 per pound $U_3O_8$, and analysts continue to point to certain increases in primary mine production (despite the negative price signals) and excess secondary supplies as the reasons for the persistent oversupply in the market. The extended bear market has, however, begun to take its toll on production, with cutbacks, delayed expansions and cancelled projects having been announced in recent months. With respect to demand, the slow pace of reactor restarts in Japan, combined with the relatively low levels of utility contracting during 2016, have failed to provide support for a sustained rally in prices, despite a decline in the spot price to levels not seen since 2004.

The current low level of contracting volume is expected, however, to become a positive driver for price increases going forward, as substantial levels of utility reactor requirements remain uncommitted in future years. UxC tracks the five-year forward uncommitted reactor requirements of global utilities and reported that these relatively near-term needs increased 18% in calendar 2016, with uncommitted needs of global reactors estimated to total 1 billion pounds $U_3O_8$ over the next 10 years. With production curtailments and poor visibility for producers to a uranium price that will incentivize new material sources of future production through the development process, there is potential for a sustained period of supply shortfall to emerge.

The broader fundamentals of the nuclear energy market continue to be positive in contrast to the near term uranium price weakness. According to the World Nuclear Association, as of November 1, 2016, 448 reactors were operable around the world with 58 under construction and an additional 167 units firmly planned or ordered. The ten new reactors connected to the grid globally in calendar 2015 resulted in a net gain of almost 5,000 Megawatt electric (MWe) of installed nuclear capacity – which represents the highest annual growth in capacities in the past 25 years. This growth is being driven largely by the emerging markets of China, India, South Korea and Russia, however, the more traditional, developed markets are also building new reactors. The United Kingdom is advancing major new nuclear power projects on multiple sites and the U.S. added one unit to its fleet in 2016, with four more currently under construction. The need for large amounts of reliable baseload electricity, environmental concerns around carbon emissions, and crisis-level air pollution, are driving decision makers increasingly towards nuclear energy. Even with significant competition from heavily subsidized renewables and low natural gas prices, the need for grid-stabilizing, baseload, nuclear power should continue to be recognized and valued in the global energy mix. This was reinforced recently in the United States, where the New York and Illinois state legislatures both passed bills to ensure nuclear power plants remain an important part of their regional energy mix. Also, in Switzerland, voters defeated a referendum which would have phased out nuclear energy in that country.

With global nuclear energy capacities expected to grow between two and three percent each year for the next decade and beyond, the long term outlook for the uranium market remains positive.

## SUMMARY OF QUARTERLY FINANCIAL INFORMATION

| | November 30, 2016 | August 31, 2016 | May 31, 2016 | February 29, 2016 |
|---|---|---|---|---|
| Uranium related loss (in thousands) | $ (127,499) | $ (35,717) | $ (112,744) | $ (62,263) |
| Net loss for the period (in thousands) | $ (128,514) | $ (37,232) | $ (114,107) | $ (63,467) |
| Net loss per common share – basic and diluted | $ (1.09) | $ (0.32) | $ (0.99) | $ (0.55) |
| **NAV(1) per share** | **$ 3.22** | **$ 4.31** | **$ 4.63** | **$ 5.62** |
| $U_3O_8$ spot price (US$) | $ 18.25 | $ 25.25 | $ 27.25 | $ 32.15 |
| $UF_6$ spot price (US$) | $ 53.40 | $ 72.25 | $ 77.00 | $ 90.00 |
| Foreign exchange noon-rate (US$ to CAD$) | 1.3426 | 1.3124 | 1.3100 | 1.3523 |

| | November 30, 2015 | August 31, 2015 | May 31, 2015 | February 28, 2015 |
|---|---|---|---|---|
| Uranium related (loss) gain (in thousands) | $ (8,563) | $ 68,190 | $ (67,101) | $ 36,178 |
| Net (loss) gain for the period (in thousands) | $ (9,928) | $ 66,694 | $ (68,371) | $ 34,807 |
| Net (loss) gain per common share – basic and diluted | $ (0.09) | $ 0.57 | $ (0.59) | $ 0.30 |
| **NAV(1) per share** | **$ 6.16** | **$ 6.24** | **$ 5.67** | **$ 6.26** |
| $U_3O_8$ spot price (US$) | $ 36.00 | $ 36.75 | $ 35.00 | $ 38.75 |
| $UF_6$ spot price (US$) | $ 99.00 | $ 101.00 | $ 98.50 | $ 107.00 |
| Foreign exchange noon-rate (US$ to CAD$) | 1.3333 | 1.3223 | 1.2465 | 1.2508 |

(1) The Net Asset Value or "NAV" is calculated as the value of total assets less the value of total liabilities. See "Non-IFRS Financial Performance Measures" section below.

The net loss or gain of the Corporation is primarily driven by unrealized net losses or gains on investments in uranium that are recognized in the period. Unrealized net losses or gains on investments in uranium are generally a result of changes in the spot price of uranium and the U.S. dollar to Canadian dollar exchange rate – both of which can fluctuate significantly between periods.

# OVERALL PERFORMANCE

| (in thousands, except per share amounts) | Three Months Ended November 30, 2016 | Three Months Ended November 30, 2015 | Nine Months Ended November 30, 2016 | Nine Months Ended November 30, 2015 |
|---|---|---|---|---|
| Unrealized losses on investments in uranium | $ (127,599) | $ (9,746) | $ (276,680) | $ (8,768) |
| Income from lending and/or relocation of uranium | $ 100 | $ 156 | $ 720 | $ 407 |
| Operating expenses | $ (1,015) | $ (1,365) | $ (3,893) | $ (4,131) |
| Net loss for the period | $ (128,514) | $ (9,928) | $ (279,853) | $ (11,605) |
| Net loss per common share – basic and diluted | $ (1.09) | $ (0.09) | $ (2.41) | $ (0.10) |

| | At November 30, 2016 | At February 29, 2016 |
|---|---|---|
| Total Assets | $ 393,176 | $ 651,550 |
| Total Liabilities | $ 4,646 | $ 2,071 |
| **NAV(1)** | **$ 388,530** | $ 649,479 |

(1) The Net Asset Value or "NAV" is calculated as the value of total assets less the value of total liabilities. See "Non-IFRS Financial Performance Measures" section below.

The net loss for the three months ended November 30, 2016 was primarily due to unrealized net losses on investments in uranium of $127,599,000 and operating expenses of $1,015,000. The net loss for the three months ended November 30, 2015 was due to unrealized net losses on investments in uranium of $9,746,000 and operating expenses of $1,365,000.

The net loss for the nine months ended November 30, 2016 was due to unrealized net losses on investments in uranium of $276,680,000 and operating expenses of $3,893,000. The net loss for the nine months ended November 30, 2015 was due to unrealized net losses on investments in uranium of $8,768,000 and operating expenses of $4,131,000.

Unrealized net losses on investments in uranium during the three months ended November 30, 2016 were mainly due to the decrease in the spot price for uranium from US$25.25 to US$18.25 per pound $U_3O_8$, partly offset by an increase in the U.S. dollar to Canadian dollar exchange rate. Unrealized losses on investments in uranium during the nine months ended November 30, 2016 were mainly due to the decrease in the spot price for uranium from US$32.15 to US$18.25 per pound $U_3O_8$. Unrealized net losses on investments in uranium during the three and nine months ended November 30, 2015 were caused by a decrease in the spot prices, partly offset by the increase in the U.S. dollar to Canadian dollar exchange rate.

UPC's NAV per share decreased to $3.22 at November 30, 2016, from $5.62 at February 29, 2016. The NAV decreased to $388,530,000 at November 30, 2016, from $649,479,000 at February 29, 2016, while the number of shares outstanding increased from 115,648,713 to 120,848,713. The decrease in NAV was mainly as a result of the decrease in the fair value of investments in uranium. This decrease was partially offset by the gross proceeds received from the completion of a bought deal equity financing in October 2016, which also resulted in an increase in the number of shares outstanding.

The Corporation had an effective tax rate of nil for the nine months ended November 30, 2016, primarily due to the low tax rate in the jurisdiction of its subsidiary, as well as the fact that the Corporation's available tax attributes and cost basis related to its investments in uranium held in Canada, give rise to a net deductible temporary difference – for which the Corporation does not recognize deferred tax assets.

## Operating Expenses

Operating expenses are comprised of storage costs, management fees, public company expenses, and general and administrative expenses.

Storage fees, excluding the costs incurred to transfer $UF_6$ held with the United States Enrichment Facility ("USEC Facility") to other storage facilities, were $442,000 and $1,522,000 during the three and nine months ended November 30, 2016, respectively (November 30, 2015 - $715,000 and $1,915,000). The decrease in storage fees was due the transfer of uranium holdings to lower cost storage facilities, partially offset by the increase in the volume of stored uranium due to the 560,000lbs of $U_3O_8$ purchased in November 2016.

Management fees were $495,000 and $1,422,000 during the three and nine months ended November 30, 2016, respectively (November 30, 2015 - $630,000 and $1,738,000). The decrease in management fees was mainly due to the decrease in the NAV, on which the management fees are based, offset by a one-time fee of $100,000 (November 30, 2015 - $nil) paid to the manager for work associated with the completion of the migration of the Corporation's subsidiary and an increase in commission paid to the Manager on the purchases or sales of uranium ($156,000 for the three and nine months ended November 30, 2016 compared to $71,000 for the three and nine months ended November 30, 2015).

Operating expenses of $1,015,000, partially offset by income from lending and/or relocation of uranium of $100,000, for the three months ended November 30, 2016, represents approximately 0.1% of the NAV at February 29, 2016.

Operating expenses of $3,893,000, partially offset by income from lending and/or relocation of uranium of $720,000, for the nine months ended November 30, 2016, represents approximately 0.5% of the NAV at February 29, 2016.

## Uranium Investment Portfolio

UPC's uranium investment portfolio consists of the following at period end:

| (in thousands, except quantity amounts) | Quantity | | Cost | | Fair Value |
|---|---|---|---|---|---|
| **Investments in Uranium:** | | | | | |
| **$U_3O_8$** | 10,030,024 lbs | $ | 470,006 | $ | 245,760 |
| **$UF_6$** | 1,903,471 KgU | $ | 311,862 | $ | 136,469 |
| | | $ | 781,868 | $ | 382,229 |
| $U_3O_8$ average cost and fair value per pound: | | | | | |
| In Canadian dollars | | $ | 46.86 | $ | 24.50 |
| In United States dollars | | $ | 42.67 | $ | 18.25 |
| $UF_6$ average cost and fair value per KgU: | | | | | |
| In Canadian dollars | | $ | 163.84 | $ | 71.69 |
| In United States dollars | | $ | 151.62 | $ | 53.40 |

The fair value of $UF_6$ holdings reported at February 29, 2016 included a fair value adjustment loss of $1,276,000 to reflect the risks associated with the Corporation's material held with the USEC Facility. During the nine months ended November 30, 2016, the fair value adjustment was reduced to $nil, to reflect the transfer of all the remaining material from the USEC Facility.

*Transfer of $UF_6$ held with the USEC Facility to an alternate storage facility*

During the nine months ended November 30, 2016, the Corporation transferred a total of 378,566 KgU as $UF_6$ held with the USEC Facility to an alternate storage facility. The cost associated with the transfer amounted to $1,427,000, of which $1,276,000 was applied against the fair value adjustment loss recorded as at February 29, 2016, as described above, and the remaining $151,000 was recorded to storage fees in the consolidated statement of comprehensive loss for the current period. The transfers reduced the Corporation's holdings of $UF_6$ with the USEC Facility to nil.

*Uranium Lending Arrangement*

In March 2015, the Corporation entered into an agreement to loan 1,300,000 pounds of $U_3O_8$ to an independent third party with a return date in April 2017. The loan was subject to a loan fee of 1.0% per annum, with payments to be calculated quarterly based on the average of the $U_3O_8$ spot price per pound, as defined and published by UxC at the end of each month, for the previous three months. A bank guarantee was provided as collateral for the loan.

In March 2016, the Corporation and borrower agreed to terminate the loan one year before the original return date. As a result of the early termination, the Corporation received cash consideration of $559,000 (US$435,000) in April 2016 and the related bank guarantee was cancelled and returned to the borrower.

*Uranium Relocation Agreement*

In July 2016, the Corporation entered into an agreement with an independent third party to relocate a total of 700,000 KgU as $UF_6$ to an alternate storage facility. The transfers are expected to be made over the next two years, in three separate tranches, and will be completed in exchange for a fee payable to the Corporation of US$1.00 per KgU for the initial 12 months of each transfer and US$0.50 per KgU for each subsequent year after the end of the initial 12 month period. The term of the agreement requires the return and transfer of the 700,000 KgU as $UF_6$ back to the original storage facility in May 2020. The fee received is recorded as income from relocation of uranium in the statement of comprehensive loss.

In July 2016, the Corporation completed the first of the three tranches, for a transfer of 300,000 KgU as $UF_6$. During the nine months ended November 30, 2016, the Company recorded $135,000 in income from the relocation of uranium.

*Uranium Purchases*

During November 2016, the Corporation purchased 560,000 pounds of $U_3O_8$ at an average price of US$20.57 per pound $U_3O_8$, for a total cash consideration of $15,511,000 (US$11,521,000) of which $12,738,000 was paid prior to November 30, 2016, and $2,773,000 remains recorded within trade and other payables. The purchases in the quarter were or will be funded by the proceeds from the bought-deal equity financing completed by the Company in October 2016.

## LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents were $10,674,000 at November 30, 2016, compared with $8,968,000 at February 29, 2016. The increase of $1,706,000 is due to $18,904,000 in cash provided by financing activities, arising from the net proceeds of the $20,020,000 equity financing completed in October 2016, offset by $12,738,000 in cash used in investing activities to purchase 560,000 pounds of $U_3O_8$ and $4,451,000 in cash used in operations. Cash used in operations includes $1,427,000 in costs associated with the transfers of $UF_6$ held with the USEC Facility to an alternate storage facility.

The Corporation's capital structure consists of share capital and contributed surplus. Uranium purchases are normally funded through common share offerings with at least 85% of the gross proceeds of share offerings invested in, or set aside for, future purchases of uranium. At November 30, 2016, the Corporation has invested more than 85% of its aggregate gross proceeds of share offerings in uranium. In strictly limited circumstances, the Corporation can enter into short-term borrowing arrangements for up to 15% of its net asset value to facilitate the purchases of uranium. To date, the Corporation has not entered into any short-term borrowing arrangements.

On October 31, 2014, the Corporation filed a short form base shelf prospectus ("2014 Prospectus") with the securities regulatory authorities in each of the provinces of Canada, other than Québec. Accordingly, the Corporation could issue common shares or warrants or any combination of such securities as units ("Securities"), in amounts, at prices, and on terms to be determined based on market conditions at the time of sale and as set forth in the 2014 Prospectus, for an aggregate offering amount of up to $200,000,000 during the 25 month period ending November 30, 2016. The Corporation issued $20,020,000 in Securities pursuant to the 2014 Prospectus. See Subsequent Events for discussion on the base shelf prospectus filed subsequent to November 30, 2016.

In January 2016, the Corporation filed a normal course issuer bid ("2016 NCIB") with the TSX, authorizing the Corporation to purchase up to 10,192,641 of the Corporation's common shares during a 12 month period commencing January 18, 2016 and ending on January 17, 2017. To date, the Corporation has not made any purchases of its outstanding shares under the 2016 NCIB.

# RELATED PARTY TRANSACTIONS

## Management Services Agreement with the Manager

A new three year agreement was entered into between the Corporation and the Manager effective April 1, 2016. Under the new management services agreement, the Manager will receive the following fees from the Corporation: a) a base fee of $400,000 per annum, payable in equal quarterly installments; b) a variable fee equal to (i) 0.3% per annum of the Corporation's total assets in excess of $100,000,000 and up to and including $500,000,000, and (ii) 0.2% per annum of the Corporation's total assets in excess of $500,000,000; c) a fee, at the discretion of the Board, for on-going monitoring or work associated with a transaction or arrangement (other than a financing, or the acquisition of or sale of $U_3O_8$ or $UF_6$); and d) a commission of 1.0% of the gross value of any purchases or sales of $U_3O_8$ or $UF_6$, or gross interest fees payable to the Corporation in connection with any uranium loan arrangements.

The following outlines the fees paid to the Manager for the periods ended:

| (in thousands) | Three Months Ended November 30, 2016 | Three Months Ended November 30, 2015 | Nine Months Ended November 30, 2016 | Nine Months Ended November 30, 2015 |
|---|---|---|---|---|
| Management fees | $ 495 | $ 630 | $ 1,422 | $ 1,738 |
| **Total** | **$ 495** | $ 630 | **$ 1,422** | $ 1,738 |

Management fees for the nine months ended November 30, 2016 included a one-time fee of $100,000 for completion of the migration of the Corporation's subsidiary. Management fees for the three and nine months ended November 30, 2016 included commission paid to the Manager on the purchases or sales of uranium of $156,000 (November 30, 2015 - $71,000).

As at November 30, 2016, trade and other payables included $88,000 (February 29, 2016: $260,000) due to the Manager with respect to the fees indicated above.

## Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation, directly or indirectly. The Corporation's key management personnel are the members of its Board of Directors.

The following outlines the compensation and expense reimbursements paid to key management personnel for the periods ending:

| (in thousands) | Three Months Ended November 30, 2016 | Three Months Ended November 30, 2015 | Nine Months Ended November 30, 2016 | Nine Months Ended November 30, 2015 |
|---|---|---|---|---|
| Directors' fees & expenses | $ 74 | $ 55 | $ 209 | $ 113 |
| **Total** | **$ 74** | $ 55 | **$ 209** | $ 113 |

Directors fees increased in the three and nine-months ended November 30, 2016 due to an increase in the number of directors from six to seven and an increase in the U.S. dollar to Canadian dollar exchange rate applicable on directors' fees paid in U.S. Dollars.

# SUBSEQUENT EVENTS

On December 9, 2016, the Corporation filed a short form base shelf prospectus ("2016 Prospectus") with the securities regulatory authorities in each of the provinces of Canada, other than Québec. As a result, the Corporation may issue Securities, in amounts, at prices, and on terms to be determined based on market conditions at the time of sale and as set forth in the 2016 Prospectus, for an aggregate offering amount of up to $200,000,000 during the 25 month period ending January 9, 2019. To date, the corporation has not issued any Securities pursuant to the 2016 Prospectus.

## OUTSTANDING SHARE DATA

At January 12, 2017, there were 120,848,713 common shares issued and outstanding. There are no stock options or other instruments issued and outstanding.

## CONTROLS AND PROCEDURES

The Corporation's management is responsible for establishing and maintaining an adequate system of internal control over financial reporting. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to the financial statement preparation and presentation.

There has not been any change in the Corporation's internal control over financial reporting that occurred during the three and nine months ended November 30, 2016 that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

## NON-IFRS FINANCIAL PERFORMANCE MEASURES

This MD&A contains references to "Net Asset Value" or "NAV", which is a non-IFRS financial performance measure. The NAV is calculated as the value of total assets less the value of total liabilities. To arrive at NAV per share, the NAV is then divided by the total number of common shares outstanding as at a specific date. The term NAV does not have any standardized meaning according to IFRS and therefore may not be comparable to similar measures presented by other companies. The NAV equals the Corporation's total equity balance as reported in the Corporation's consolidated financial statements. NAV per share do not have a comparable IFRS financial measure presented in UPC's consolidated financial statements and thus there is no applicable quantitative reconciliation for such non-IFRS financial performance measures. The Corporation has calculated NAV, NAV per share per share consistently for many years and believes these measures provide information useful to its shareholders in understanding UPC's performance and may assist in the evaluation of the Corporation's business relative to that of its peers.

## ADDITIONAL INFORMATION

Additional information regarding UPC, including the Corporation's press releases, quarterly and annual reports and Annual Information Form, are available under the Corporation's profile at www.sedar.com.

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain information contained or incorporated by reference in this MD&A constitutes forward looking statements or forward looking information. These statements can be identified by the use of forward looking terminology such as "may", "will", "expect", "intend", "estimate", "anticipate", "plan", "should", "believe" or "continue" or the negative thereof or variations thereon or similar terminology.

By their very nature, forward looking statements involve numerous factors, assumptions and estimates. A variety of factors, many of which are beyond the control of UPC, may cause actual results to differ materially from the expectations expressed in the forward looking statements. For a list of the principal risks of an investment in UPC, please refer to the "RISK FACTORS" section in the Corporation's annual information form dated May 11, 2016 available under the Corporation's profile on SEDAR at www.sedar.com.

These and other factors should be considered carefully, and readers are cautioned not to place undue reliance on these forward looking statements. Although management reviews the reasonableness of its assumptions and estimates, unusual and unanticipated events may occur which render them inaccurate. Under such circumstances, future performance may differ materially from those expressed or implied by the forward looking statements. Except where required under applicable securities legislation, UPC does not undertake to update any forward looking information.

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| (Expressed in thousands of Canadian dollars except for share amounts) | At November 30, 2016 | At February 29, 2016 |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash and cash equivalents | $ 10,674 | $ 8,968 |
| Trade and other receivables | 273 | 469 |
| | 10,947 | 9,437 |
| **Non-Current** | | |
| Investments in uranium (note 4) | 382,229 | 642,113 |
| Total assets | **$ 393,176** | $ 651,550 |
| **LIABILITIES** | | |
| **Current** | | |
| Trade and other payables | $ 4,646 | $ 2,071 |
| Total liabilities | 4,646 | 2,071 |
| **EQUITY** | | |
| Share capital (note 6) | 841,247 | 822,343 |
| Contributed surplus | 6,762 | 6,762 |
| Deficit | (459,479) | (179,626) |
| Total equity | 388,530 | 649,479 |
| Total liabilities and equity | **$ 393,176** | $ 651,550 |
| **Common shares** | | |
| Issued and outstanding (note 6) | **120,848,713** | 115,648,713 |

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

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

| (Expressed in thousands of Canadian dollars except for share and per share amounts) | Three Months Ended November 30, 2016 | Three Months Ended November 30, 2015 | Nine Months Ended November 30, 2016 | Nine Months Ended November 30, 2015 |
|---|---|---|---|---|
| **URANIUM RELATED (LOSS) GAIN** | | | | |
| Unrealized (losses) gains on investments in uranium (note 4) | $ (127,599) | $ (9,746) | $ (276,680) | $ (8,768) |
| Income from lending of uranium (note 5) | - | 156 | 585 | 407 |
| Income from relocation of uranium (note 5) | 100 | - | 135 | - |
| Realized gain on sale of uranium | - | 1,027 | - | 1,027 |
| Realized loss on sale of conversion components | - | - | - | (140) |
| | **(127,499)** | (8,563) | **(275,960)** | (7,474) |
| **OPERATING EXPENSES** | | | | |
| Management fees (note 7) | (495) | (630) | (1,422) | (1,738) |
| Storage fees (note 4) | (445) | (715) | (1,673) | (1,915) |
| Public company expenses | (95) | (70) | (450) | (380) |
| General office and miscellaneous | (30) | (81) | (225) | (236) |
| Legal and other professional fees | (35) | (59) | (132) | (106) |
| Transaction fees | - | (14) | - | (14) |
| Interest income | 20 | 26 | 50 | 126 |
| Foreign exchange (loss) gain | 65 | 178 | (41) | 132 |
| | **(1,015)** | (1,365) | **(3,893)** | (4,131) |
| **Net loss and comprehensive loss for the period** | **$ (128,514)** | $ (9,928) | **$ (279,853)** | $ (11,605) |
| **Net loss per common share** | | | | |
| Basic and diluted | **$ (1.09)** | $ (0.09) | **$ (2.41)** | $ (0.10) |
| **Weighted average number of common shares outstanding** | | | | |
| Basic and diluted | **117,591,570** | 116,017,009 | **116,291,622** | 116,372,004 |

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

# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| (Expressed in thousands of Canadian dollars) | Share Capital | Contributed Surplus | Deficit | Total Equity |
|---|---|---|---|---|
| Balance at February 28, 2015 | $ 831,048 | $ 4,564 | $ (104,554) | $ 731,058 |
| Common shares purchased | (8,705) | 2,198 | - | (6,507) |
| Net loss for the period | - | - | (11,605) | (11,605) |
| Balance at November 30, 2015 | $ 822,343 | $ 6,762 | $ (116,159) | $ 712,946 |
| Balance at February 29, 2016 | $ 822,343 | $ 6,762 | $ (179,626) | $ 649,479 |
| Common shares issued (note 6) | 18,904 | - | - | 18,904 |
| Net loss for the period | - | - | (279,853) | (279,853) |
| **Balance at November 30, 2016** | **$ 841,247** | **$ 6,762** | **$ (459,479)** | **$ 388,530** |

# CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Nine Months Ended | |
|---|---|---|
| (Expressed in thousands of Canadian dollars) | **November 30, 2016** | November 30, 2015 |
| **Operating Activities** | | |
| Net loss for the period | $ (279,853) | $ (11,605) |
| Adjustment for: | | |
| Unrealized losses (gains) on investments in uranium (note 4) | 276,680 | 8,768 |
| Realized loss on sale of conversion components | - | 140 |
| Realized gain on sale of uranium | - | (1,027) |
| Costs associated with transfer of uranium (note 4) | (1,276) | (2,252) |
| Changes in non-cash working capital: | | |
| Change in trade and other receivables | 196 | (170) |
| Change in trade and other payables, excluding payables for uranium purchases | (198) | (178) |
| **Net cash used in operating activities** | **(4,451)** | (6,324) |
| **Investing Activities** | | |
| Purchase of uranium investments (note 4) | (12,738) | - |
| Sale of conversion components | - | 891 |
| Sale of uranium investments | - | 4,743 |
| **Net cash (used) generated by investing activities** | **(12,738)** | 5,634 |
| **Financing Activities** | | |
| Common shares issued, net of transaction costs (note 6) | 18,904 | - |
| Common shares purchased, including transaction costs | - | (6,507) |
| **Net cash generated by (used in) financing activities** | **18,904** | (6,507) |
| Increase (decrease) in cash and cash equivalents | 1,715 | (7,197) |
| Cash and cash equivalents – beginning of the period | 8,968 | 17,753 |
| Foreign exchange effects | (9) | - |
| **Cash and cash equivalents – end of the period** | **$ 10,674** | $ 10,556 |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE THREE AND NINE MONTHS ENDED NOVEMBER 30, 2016**

(Expressed in Canadian dollars, unless otherwise noted)

## 1. URANIUM PARTICIPATION CORPORATION

Uranium Participation Corporation ("UPC") was established under the *Business Corporations Act* (Ontario) on March 15, 2005. The address of its registered head office is 40 University Avenue, Suite 1100, Toronto, Ontario, Canada, M5J 1T1. Uranium Participation Bermuda Limited (together with UPC, the "Corporation") is the company's sole and wholly-owned subsidiary.

The Corporation invests substantially all of its assets in uranium oxide in concentrates ("$U_3O_8$") and uranium hexafluoride ("$UF_6$") (collectively "uranium") with the primary investment objective of achieving appreciation in the value of its uranium holdings through increases in the uranium price. Denison Mines Inc. (the "Manager"), under the direction of UPC's Board of Directors, provides general administration and management services to the Corporation. The common shares of UPC are listed and trade on the Toronto Stock Exchange ("TSX") under the symbol "U".

## 2. BASIS OF PRESENTATION

These interim consolidated financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34, *Interim Financial Reporting.* These interim consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements for the year ended February 29, 2016.

All dollar amounts are expressed in Canadian dollars, unless otherwise noted.

All uranium prices are based on prices published by Ux Consulting Company LLC ("UxC").

These financial statements were approved by UPC's Board of Directors on January 12, 2017.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these interim consolidated financial statements are consistent with those applied in the Corporation's audited annual consolidated financial statements for the year ended February 29, 2016.

## 4. INVESTMENTS IN URANIUM

The investments continuity summary is as follows:

| (in thousands) | Cost | Fair Value Adjustment | Fair Value |
|---|---|---|---|
| Balance at February 29, 2016 | $ 766,348 | $ (124,235) | $ 642,113 |
| Unrealized net losses on investments in uranium | - | (274,881) | (274,881) |
| Purchase of uranium | 15,520 | (1,799) | 13,721 |
| USEC $UF_6$ fair value adjustment | - | 1,276 | 1,276 |
| **Balance at November 30, 2016** | **$ 781,868** | **$ (399,639)** | **$ 382,229** |

The balance of investments in uranium consists of:

| (in thousands, except quantity amounts) | Quantity | Cost | Fair Value Adjustment | Fair Value |
|---|---|---|---|---|
| **$U_3O_8$** | 10,030,024 lbs | $ 470,006 | $ (224,246) | $ 245,760 |
| **$UF_6$** | 1,903,471 KgU | 311,862 | (175,393) | 136,469 |
| **Balance at November 30, 2016** | | **$ 781,868** | **$ (399,639)** | **$ 382,229** |

Investments in uranium are categorized in Level 2 of the fair value hierarchy. Fair values as at November 30, 2016 reflect spot prices published by UxC of US$18.25 per pound $U_3O_8$ and US$53.40 per KgU as $UF_6$, translated at the foreign exchange noon-rate of 1.3426.

The fair value of $UF_6$ holdings reported at February 29, 2016 included a fair value adjustment loss of $1,276,000 to reflect the risks associated with the Corporation's material held with the United States Enrichment Facility ("USEC Facility"). During the nine months ended November 30, 2016, the fair value adjustment was reduced to $nil, to reflect the transfer of the remaining material from the USEC Facility.

*Transfer of $UF_6$ held with the USEC Facility to an alternate storage facility*

During the nine months ended November 30, 2016, the Corporation transferred a total of 378,566 KgU $UF_6$ (nine months ended November 30, 2015: 570,794 KgU) held with the USEC Facility to an alternate storage facility. The cost associated with the transfer amounted to $1,427,000, of which $1,276,000 was applied against the fair value adjustment loss recorded as at February 29, 2016, as described above (nine months ended November 30, 2015: $2,252,000) and the remaining $151,000 was recorded to storage fees in the consolidated statement of comprehensive loss or the current period (nine months ended November 30, 2015: nil). The transfers reduced the Corporation's holdings of $UF_6$ with the USEC Facility to nil (February 29, 2016:378,566 KgU).

*Purchases of uranium*

During November 2016, the Corporation purchased 560,000 pounds of $U_3O_8$ at an average price of US$20.57 per pound $U_3O_8$, resulting in an increase of $15,520,000 in the Corporation's investments in uranium. The total cash consideration for the purchase was $15,511,000 (US$11,521,000), of which $2,773,000 remains payable as at November 30, 2016.

## 5. URANIUM ARRANGEMENTS

*Lending Agreement*

In March 2015, the Corporation entered into an agreement to loan 1,300,000 pounds of $U_3O_8$ to an independent third party with a return date in April 2017. The loan was subject to a loan fee of 1.0% per annum, with payments to be calculated quarterly based on the average of the $U_3O_8$ spot price per pound, as defined and published by UxC at the end of each month for the previous three months. Collateral for the loan, in the form of an irrevocable bank guarantee, was provided in the amount of US$56,000,000, which allowed for adjustments based on movements in the uranium price.

In March 2016, the Corporation and borrower agreed to terminate the loan one year before the original return date. As a result of the early termination, the Corporation received cash consideration of $559,000 (US$435,000) in April 2016 and the related bank guarantee was cancelled and returned to the borrower. The consideration received was recorded as income from lending of uranium in the statement of comprehensive loss.

*Relocation Agreement*

In July 2016, the Corporation entered into an agreement with an independent third party to relocate a total of 700,000 KgU as $UF_6$ to an alternate storage facility. The transfers are expected to be made over the next two years, in three separate tranches, and will be completed in exchange for a fee payable to the Corporation of US$1.00 per KgU for the initial 12 months of each transfer and US$0.50 per KgU for each subsequent year after the end of the initial 12 month period. The term of the agreement requires the return and transfer of the 700,000 KgU as $UF_6$ back to the original storage facility in May 2020. The fee received is recorded as income from relocation of uranium in the statement of comprehensive loss.

In July 2016, the Corporation completed the first of the three tranches, for a transfer of 300,000 KgU as $UF_6$.

## 6. COMMON SHARES

The Corporation is authorized to issue an unlimited number of common shares without par value. Issued and outstanding common shares are as follows:

| (in thousands, except common share amounts) | Number of Common Shares | | Amount |
|---|---|---|---|
| **Balance at February 29, 2016** | **115,648,713** | **$** | **822,343** |
| Common shares issued | 5,200,000 | | 20,020 |
| Share issue costs | - | | (1,116) |
| **Balance at November 30, 2016** | **120,848,713** | **$** | **841,247** |

In October 2016, the Corporation completed a bought-deal equity financing and issued 5,200,000 common shares, at a price of $3.85 per share, for gross proceeds of $20,020,000. The Corporation also incurred share issue costs of $1,116,000. The majority of the net proceeds will be used to fund the purchase of uranium, with the balance to be used to fund the operating expenses of the Corporation.

On October 31, 2014, the Corporation filed a short form base shelf prospectus ("2014 Prospectus") with the securities regulatory authorities in each of the provinces of Canada, other than Québec. Accordingly, the Corporation could issue common shares or warrants or any combination of such securities as units ("Securities"), in amounts, at prices, and on terms to be determined based on market conditions at the time of sale and as set forth in the 2014 Prospectus, for an aggregate offering amount of up to $200,000,000 during the 25 month period ending November 30, 2016. The Corporation issued $20,020,000 in Securities pursuant to the 2014 Prospectus.

In January 2016, the Corporation filed a normal course issuer bid ("2016 NCIB") with the TSX, authorizing the Corporation to purchase up to 10,192,641 of the Corporation's common shares during a 12 month period commencing January 18, 2016 and ending on January 17, 2017. To date, the Corporation has not made any purchase of its outstanding shares under the 2016 NCIB.

## 7. RELATED PARTY TRANSACTIONS

### Management Services Agreement with the Manager

The following outlines the fees paid to the Manager for the periods ended:

| | Three Months Ended | | | | Nine Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| (in thousands) | **November 30, 2016** | | November 30, 2015 | | **November 30, 2016** | | November 30, 2015 | |
| Management fees | $ | 495 | $ | 630 | $ | 1,422 | $ | 1,738 |
| **Total** | **$** | **495** | $ | 630 | **$** | **1,422** | $ | 1,738 |

Management fees for the nine months ended November 30, 2016 included a one-time fee of $100,000 for completion of the migration of the Corporation's subsidiary. Management fees for the three and nine months ended November 30, 2016 included commission paid to the Manager on the purchases or sales of uranium of $156,000 (November 30, 2015 - $71,000).

As at November 30, 2016, trade and other payables included $88,000 (February 29, 2016: $260,000) due to the Manager with respect to the fees indicated above.

### Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation, directly or indirectly. The Corporation's key management personnel are the members of its Board of Directors.

The following outlines the compensation and expense reimbursements paid to key management personnel for the periods ending:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| (in thousands) | **November 30, 2016** | November 30, 2015 | **November 30, 2016** | November 30, 2015 |
| Directors' fees & expenses | $ 74 | $ 55 | $ 209 | $ 113 |
| **Total** | **$ 74** | $ 55 | **$ 209** | $ 113 |

## 8. SUBSEQUENT EVENT

On December 9, 2016, the Corporation filed a short form base shelf prospectus ("2016 Prospectus") with the securities regulatory authorities in each of the provinces of Canada, other than Québec. The Corporation may issue Securities, in amounts, at prices, and on terms to be determined based on market conditions at the time of sale and as set forth in the 2016 Prospectus, for an aggregate offering amount of up to $200,000,000 during the 25 month period ending January 9, 2019. To date, the corporation has not issued any Securities pursuant to the 2016 Prospectus.

## 9. COMPARATIVE FINANCIAL STATEMENTS

Certain balances in the comparative interim consolidated financial statements have been reclassified from the interim consolidated financial statements previously presented to conform to the presentation of the 2017 interim consolidated financial statements in accordance with IFRS.

Uranium Participation Corporation

## BOARD OF DIRECTORS

Paul J. Bennett
President and Chief Executive Officer
Energus Resources Ltd.

Thomas Hayslett
Independent Consultant; formerly Senior Consultant
The Ux Consulting Company, LLC.

Jeff Kennedy
Chief Financial Officer, Managing Director of Equity Capital Markets
Cormark Securities Inc.

Garth A. C. MacRae
Independent Financial Consultant

Ganpat Mani
Independent Consultant; formerly Chief Executive Officer and President, ConverDyn Corp.

Richard H. McCoy
Chairman of the Board
Corporate Director; formerly Vice Chairman
Investment Banking, TD Securities Inc.

Dorothy Sanford
President, MFDA Investor Protection Corporation

## OFFICERS

David Cates
President and Chief Executive Officer

Mac McDonald
Chief Financial Officer

Scott Melbye
Vice President, Commercial

Amanda Willett
Corporate Secretary

## MANAGER

Denison Mines Inc.
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Website: www.uraniumparticipation.com

## AUDITORS

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Toronto

## REGISTRAR AND TRANSFER AGENT

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100 University Avenue, 8th Floor
Toronto, Ontario M5J 2Y1

Telephone:
Canada and U.S.: 1-800-564-6253
Overseas: 1-514-982-7555

## STOCK EXCHANGE LISTING

The Toronto Stock Exchange
Trading Symbol: U

Website: www.tmx.com

Managed by:

Denison Mines

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