# MANAGEMENT'S DISCUSSION & ANALYSIS

# FOR THE THREE AND NINE MONTHS ENDED

# NOVEMBER 30, 2017

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This Management's Discussion and Analysis ("MD&A") of Uranium Participation Corporation and its subsidiary (collectively, "UPC" or 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 11, 2018 and should be read in conjunction with the Corporation's unaudited condensed interim consolidated financial statements and related notes for the three and nine months ended November 30, 2017.

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 28, 2017. 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".

# URANIUM INDUSTRY OVERVIEW

During the third quarter of fiscal 2017, the spot price of uranium fell to approximately US$18.00 per pound $U_3O_8$, representing a 13-year low and an approximately 75% drop from the spot price in March 2011 (US$70.00 per pound $U_3O_8$). During the third quarter of fiscal 2018, the spot price increased to US$22.00 per pound $U_3O_8$, following several significant developments related to both the future supply and demand of uranium. The increase in the spot price has continued into the fourth quarter of fiscal 2018, with uranium prices trading over US$26.00 per pound during December 2017. As of December 31, 2017, the spot price of uranium was at US$23.75 per pound $U_3O_8$ – representing a nearly $6.00 per pound $U_3O_8$ increase (or a greater than 30% increase) from the US$18.00 per pound $U_3O_8$ level from approximately a year earlier.

The supply-side catalyst for this price recovery appears to have been the cumulative effects of several uranium production cuts announced during calendar 2017. Despite declining uranium prices in recent years, 2017 was the first year where uranium producers made notable efforts to curtail production to address an oversupply in the uranium market. The production response to low prices has been slow, largely as a result of the large number of long-term supply contracts entered into during a contracting cycle in the mid to late 2000s, when uranium prices were much higher. These legacy contracts served as downside protection for sources of production that would not otherwise have been supported by low uranium spot prices. As per UxC and other industry data, many of these long-term contracts have been expiring and this trend is expected to accelerate over the next couple years. Coincident with the expiration of these higher-priced contracts, uranium producers have begun to announce production cut-backs. According to UxC's Uranium Market Outlook for Q4 2017 ("Q4 2017 Outlook"), released December 1, 2017, uranium output for calendar 2018 is forecasted to be approximately 139 million pounds $U_3O_8$ – which represents a roughly 14% reduction from 2016 production levels. This compares to current forecasted global uranium demand for calendar 2018 of approximately 188 million pounds $U_3O_8$, leading to a primary deficit in 2018 of nearly 50 million pounds $U_3O_8$ – which will have to be made up by a combination of secondary supplies and the drawdown of inventories. Without a meaningful price increase in future years incentivizing new sources of production, this story is expected to continue into the future, while demand continues to increase to as much as 270 million pounds $U_3O_8$ by 2030.

The most notable production cutbacks have been in Canada and Kazakhstan. In November 2017, Cameco Corporation ("Cameco") announced that it will shut down the McArthur River Mine and Key Lake Mill complex in Northern Saskatchewan from January 2018 through to at least October 2018. This reduction is expected, by various measures, to remove approximately 15 million pounds $U_3O_8$ from the uranium market in 2018. In December 2017, subsequent to the release of the Q4 2017 Outlook, National Atomic Company Kazatomprom ("Kazatomprom"), announced that it would reduce its previously planned production for the next three years (2018 to 2020) by 20%. Kazatomprom, the largest uranium producer in Kazakhstan (the source of approximately 40% of the world's uranium production), had previously cut production for calendar year 2017 by 10%. These announcements build on top of other reductions announced by uranium producers – including depressed U.S. mine production, declines in uranium production output from Niger, and unplanned shortfalls from Namibian uranium mining operations.

On the demand side, a number of high profile events in 2017 have illustrated continued global support for nuclear energy and, ultimately, the uranium industry. Amongst the most notable developments were politically motivated calls to reduce reliance on nuclear energy in South Korea and France. In both cases, the situation has proved complex for politicians. In South Korea, a public consultation process provided decisive support for the continuation of construction, which had been halted, for two nuclear power plants. In France, President Macron deferred the decision to reduce that country's 75% reliance on nuclear energy, given the lack of viable alternatives to nuclear and the potential increase in carbon emissions that could occur as a result of the decision to curtail nuclear capacity.

In the United States of America, the advancement of two nuclear construction projects experienced significant setbacks when their constructor, Westinghouse Electric Company LLC ("Westinghouse"), entered into Chapter 11 bankruptcy protection and a subsequent restructuring during calendar 2017. While the future of one of the projects remains in doubt, in December 2017 it was announced that the twin Vogtle units in Georgia have resumed construction under new project management and a renewed Public Utility Commission mandate, and are expected to be completed. On January 4, 2018, Brookfield Business Partners L.P. announced that it will acquire 100% of Westinghouse. The transaction is expected to close in the third quarter of calendar 2018 and is subject to Bankruptcy Court approval and customary closing conditions.

Also in the United States, the Department of Energy has highlighted the need to enhance the reliability and resiliency of the American electricity grid and a number of state legislatures have passed laws to properly value and preserve their critical nuclear generating capacity, with other states considering similar legislation.

Finally, in Japan, where the slow recovery of the nuclear industry has advanced in fits and starts following the Fukushima nuclear incident in 2011, 5 nuclear reactors have been brought back online and a further 4 units are expected to come online in calendar 2018. While at times slow, the path to recovery in Japan remains generally on track, particularly with the re-election of pro-nuclear Prime Minister Abe in late calendar 2017.

Globally, the use of nuclear power continues to grow at a healthy rate, with calendar years 2015 and 2016 representing the best years in the past 25 years for new nuclear capacity additions to the global electricity grid. Currently, according to the World Nuclear Association, nuclear power is utilized in 30 countries through 447 operable reactors (392.04 gigawatts of installed capacity) with an additional 57 reactors under construction and another 158 reactors ordered or planned. When translated into uranium demand, UxC projects that uranium requirements will increase from approximately 189 million pounds $U_3O_8$ in 2017 to over 202 million pounds $U_3O_8$ per year by 2027 (UxC base case), representing a 7% increase, and as much as 270 million pounds $U_3O_8$ per year by 2030 (UxC high case), representing a 42% increase.

## SUMMARY OF QUARTERLY FINANCIAL INFORMATION

| | November 30, 2017 | August 31, 2017 | May 31, 2017 | February 28, 2017 |
|---|---|---|---|---|
| Uranium related gain (loss) (in thousands) | $ 52,695 | $ (17,459) | $ (53,727) | $ 74,078 |
| Net gain (loss) for the period (in thousands) | $ 52,560 | $ (18,554) | $ (54,983) | $ 73,819 |
| Net gain (loss) per common share – basic and diluted | $ 0.41 | $ (0.15) | $ (0.45) | $ 0.61 |
| **NAV(1) per share** | **$ 3.62** | **$ 3.22** | **$ 3.37** | **$ 3.83** |
| $U_3O_8$ spot price (US$) | $ 22.00 | $ 20.00 | $ 19.25 | $ 22.25 |
| $UF_6$ spot price (US$) | $ 62.00 | $ 56.35 | $ 55.55 | $ 64.00 |
| Foreign exchange rate (US$ to CAD$) | 1.2888 | 1.2536 | 1.3500 | 1.3248 |

| | 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 rate (US$ to CAD$) | 1.3426 | 1.3124 | 1.3100 | 1.3523 |

(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 quarterly net gain or loss of the Corporation is primarily driven by unrealized net gains or losses on investments in uranium that are recognized in the period. Unrealized net gains or losses 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, 2017 | Three Months Ended November 30, 2016 | Nine Months Ended November 30, 2017 | Nine Months Ended November 30, 2016 |
|---|---|---|---|---|
| Unrealized gains (losses) on investments in uranium | $ 52,664 | $ (127,599) | $ (18,665) | $ (276,680) |
| Income from lending and/or relocation of uranium | $ 31 | $ 100 | $ 174 | $ 720 |
| Operating expenses | $ (135) | $ (1,015) | $ (2,486) | $ (3,893) |
| Net gain (loss) for the period | $ 52,560 | $ (128,514) | $ (20,977) | $ (279,853 |
| Net gain (loss) per common share – basic and diluted | $ 0.41 | $ (1.09) | $ (0.17) | $ (2.41) |

| | At November 30, 2017 | At February 28, 2017 |
|---|---|---|
| Total Assets | $ 481,567 | $ 464,109 |
| Total Liabilities | $ (1,950) | $ (1,764) |
| **NAV(1)** | **$ 479,617** | $ 462,345 |

(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 gain for the three months ended November 30, 2017 was mainly driven by unrealized net gains on investments in uranium of $52,664,000 and foreign exchange income of $1,092,000, offset by other operating expenses (excluding foreign exchange gains) of $1,227,000.

Unrealized net gains on investments in uranium during the three months ended November 30, 2017 were mainly due to the increase in the spot price for uranium. The spot price during the quarter increased from US$20.00 per pound $U_3O_8$ and US$56.35 per KgU as $UF_6$ at August 31, 2017 to US$22.00 per pound $U_3O_8$ and US$62.00 per KgU as $UF_6$ at November 30, 2017. The unrealized net gain on investments in uranium was also driven by the increase in the U.S. dollar to Canadian dollar foreign exchange rate in the quarter from 1.2536 at August 31, 2017 to 1.2888 at November 30, 2017.

Unrealized net losses on investments in uranium during the nine months ended November 30, 2017 were due to both the decrease in the spot price of uranium as well as the decrease in the U.S. dollar to Canadian dollar exchange rate. The spot price of uranium decreased to US$22.00 per pound $U_3O_8$ and US$62.00 per KgU as $UF_6$ at November 30, 2017, from US$22.25 per pound $U_3O_8$ and US$64.00 per KgU as $UF_6$ at February 28, 2017, while the U.S. dollar to Canadian dollar exchange rate decreased from 1.3248 to 1.2888.

UPC's NAV per share decreased to $3.62 at November 30, 2017, from $3.83 at February 28, 2017. Total equity increased to $479,617,000 at November 30, 2017, from $462,345,000 at February 28, 2017.

The Corporation had an effective tax rate of nil for the nine months ended November 30, 2017, primarily due to the low tax rate in the jurisdiction of its subsidiary as well as the fact that the Corporation's available tax shelter and cost basis related to its investments in uranium 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 were $506,000 and $1,483,000 during the three and nine months ended November 30, 2017 (November 30, 2016 - $445,000 and $1,673,000). The increase in storage fees during the three months ended November 30, 2017 compared to the prior year was mainly due to the increase in the volume of stored uranium due to the purchase of 720,000 pounds of $U_3O_8$ during the third quarter of fiscal 2018. The decrease in storage fees during the nine months ended November 30, 2017 compared to the prior year was due to the transfer of uranium holdings to lower cost storage facilities, partially offset by the increase in the volume of stored uranium due to the 610,000 pounds of $U_3O_8$ purchased in the second half of fiscal 2017 and the purchase of 720,000 pounds of $U_3O_8$ during the current third quarter of fiscal 2018.

Management fees were $536,000 and $1,232,000 during the three and nine months ended November 30, 2017 (November 30, 2016 - $495,000 and $1,422,000). The increase in management fees during the three months ended November 30, 2017 was predominantly due to the purchase commissions paid to the Manager during the quarter. During the third quarter of fiscal 2018, the Corporation purchased 720,000 pounds $U_3O_8$ at an average price of US$20.29 (November 30, 2016 - 560,000 pounds $U_3O_8$ at an average price of US$20.57). The decrease in management fees during the nine months ended November 30, 2017 was due to the decrease in the NAV, on which the variable portion of the management fee is based, as well as a reduction in discretionary fees. During the nine months ended November 30, 2016, the Company recorded a one-time management fee of $100,000 paid to the manager for work associated with the completion of the migration of the Corporation's subsidiary.

Foreign exchange gains were $1,092,000 and $984,000 during the three and nine months ended November 30, 2017 (November 30, 2016 – foreign exchange gain $65,000 and foreign exchange loss $41,000). The increase in foreign exchange gains is predominantly due to the impact of the increase in the U.S. dollar to Canadian dollar exchange rate from 1.2536 at August 31, 2017 to 1.2888 at November 30, 2017 on the Corporation's U.S. dollar cash balance. The Corporation's U.S. dollar cash balance increased significantly during the three months ended November 30, 2017, as a result of the $40,600,000 equity financing that occurred during the quarter. The Corporation used a portion of the proceeds from the financing to purchase U.S. dollars in order to facilitate the purchase of uranium. The cash balance as at November 30, 2017 consists of CAD$5,265,000 and US$13,777,000 (CAD$17,756,000). See LIQUIDITY AND CAPITAL RESOURCES for further details.

Operating expenses of $1,227,000 (excluding the foreign exchange gain of $1,092,000), partially offset by income from lending and/or relocation of uranium of $31,000, for the three months ended November 30, 2017, represents approximately 0.3% of the NAV at November 30, 2017 and 0.3% of the NAV at February 28, 2017.

Operating expenses of $3,470,000 (excluding the foreign exchange gain of $984,000), partially offset by income from lending and/or relocation of uranium of $174,000, for the nine months ended November 30, 2017, represents approximately 0.7% of the NAV at November 30, 2017 and 0.7% of the NAV at February 28, 2017.

## Investment Portfolio

UPC's investment portfolio consists of the following as at November 30, 2017:

| (in thousands, except quantity amounts) | Quantity | | Cost | | Fair Value |
|---|---|---|---|---|---|
| **Investments in Uranium:** | | | | | |
| **$U_3O_8$** | 10,800,024 lbs | $ | 489,962 | $ | 306,220 |
| **$UF_6$** | 1,903,471 KgU | $ | 311,862 | $ | 152,098 |
| | | $ | 801,824 | $ | 458,318 |
| $U_3O_8$ average cost and market value per pound: | | | | | |
| In Canadian dollars | | $ | 45.37 | $ | 28.35(1) |
| In United States dollars | | $ | 41.08 | $ | 22.00 |
| $UF_6$ average cost and fair value per KgU: | | | | | |
| In Canadian dollars | | $ | 163.84 | $ | 79.91(1) |
| In United States dollars | | $ | 151.62 | $ | 62.00 |

(1) Translation to Canadian dollars calculated at period-end foreign exchange rate of 1.2888.

### *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 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 loan was terminated early by mutual agreement. 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 relocations were scheduled to take place over a two year period, in three separate tranches, 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 for the first tranche was recorded as income from relocation of uranium in the statement of comprehensive gain (loss).

In July 2016, the Corporation completed the relocation of the first of the three tranches, transferring a total of 300,000 KgU as $UF_6$, in exchange for an equivalent amount of KgU as $UF_6$ contained in enriched uranium product ("EUP").

On March 29, 2017, the counterparty to the uranium relocation agreement filed for Chapter 11 bankruptcy protection in the United States. Subsequent to the announcement, UPC entered into agreements with the counterparty for the temporary return of 100,000 KgU (of the 300,000 KgU as $UF_6$ previously relocated under the agreement), and to defer the timing of the second and third relocation tranches under the agreement. On April 28, 2017, the return of the 100,000 KgU as $UF_6$ was completed. This material is expected to be re-transferred to the counterparty in the first quarter of fiscal 2019. The Corporation continues to hold title to the remaining $UF_6$ that is stored at this facility and pursuant to the terms of the relocation agreement, the counterparty is not permitted to transfer, sell, or assign the EUP containing the Corporation's $UF_6$ to any person.

During the three and nine months ended November 30 2017, the Corporation recorded $31,000 and $174,000 in income from the relocation of uranium (November 30, 2016 - $100,000 and $135,000). As at November 30, 2017, trade and other receivables included $64,000 of unbilled income related to the relocation of uranium (February 28, 2017 - $64,000).

*Uranium Purchases*

During October and November 2017, the Corporation purchased 720,000 pounds of $U_3O_8$ at an average price of US$20.29 per pound $U_3O_8$, for total cash consideration of $18,386,000 (US$14,609,000), which was paid prior to November 30, 2017. The purchases in the quarter were funded by the proceeds from the bought-deal equity financing completed by the Corporation in October 2017.

## LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents were $23,021,000 at November 30, 2017 compared with $5,109,000 at February 28, 2017. The increase of $17,912,000 was due to $38,249,000 in cash provided by financing activities, arising from the net proceeds of the $40,600,000 equity financing completed in October 2017 ("October 2017 Financing"), and favourable foreign exchange movements on cash and cash equivalents of $886,000, offset by $18,386,000 in cash used in investing activities to purchase 720,000 pounds of $U_3O_8$, and $2,837,000 in cash used in operations.

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, purchases of uranium. At November 30, 2017, the Corporation has invested or committed 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 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. In October 2017, the Corporation issued $40,600,000 in Securities pursuant to the 2016 Prospectus.

On Thursday June 29, 2017 at the Annual and Special Meeting of Shareholders, a special resolution was passed by the shareholders of UPC, which approved a reduction in the stated capital of the common shares of the Corporation by $641,243,000. As a result, the Corporation reduced its share capital to $200,000,000 and reclassified $641,243,000 to contributed surplus.

## RELATED PARTY TRANSACTIONS

### Management Services Agreement with Denison Mines Inc.

Pursuant to its management services agreement with the Manager dated April 1, 2016, 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 of Directors, 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 three months ended:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| (in thousands) | **November 30, 2017** | November 30, 2016 | **November 30, 2017** | November 30, 2016 |
| Fees incurred with the Manager: | | | | |
| Base and variable fees | $ 350 | $ 339 | $ 1,046 | $ 1,166 |
| Discretionary fees | - | - | - | 100 |
| Commission fees | 186 | 156 | 186 | 156 |
| **Total fees incurred with the Manager** | **$ 536** | $ 495 | **$ 1,232** | $ 1,422 |

As at November 30, 2017, trade and other payables included $137,000 (February 28, 2017: $170,000) 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 compensation was awarded to key management personnel for the periods ended:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| (in thousands) | **November 30, 2017** | November 30, 2016 | **November 30, 2017** | November 30, 2016 |
| Directors' fees & expense | $ 80 | $ 74 | $ 220 | $ 209 |
| **Total key management personnel compensation** | **$ 80** | $ 74 | **$ 220** | $ 209 |

## SUBSEQUENT EVENTS

On December 29, 2017, the Corporation entered into an agreement with a primary $UF_6$ conversion supplier to sell the conversion components contained in 786,241 KgU as $UF_6$.The sale is expected to be completed in January 2018 and result in the exchange of 786,241 KgU as $UF_6$ for 2,054,330 pounds $U_3O_8$ plus cash consideration of US$3,538,000. In connection with this transaction, the Corporation also amended its storage arrangements with the primary supplier to provide for beneficial storage terms that are fixed for the period through December 31, 2028. This transaction will simplify UPC's uranium holdings and, most significantly, will provide storage price certainty on a significant portion of the Corporation's uranium holdings for a period of 11 years.

During the month of December 2017, the Corporation completed the purchase of an additional 630,000 pounds $U_3O_8$ at an average cost of US$20.53 (CAD$26.32) per pound $U_3O_8$. In total, the Corporation has purchased 1,350,000 pounds $U_3O_8$ at an average cost of US$20.40 (CAD$25.90) per pound $U_3O_8$ with the proceeds of the October 2017 Financing.

## OUTSTANDING SHARE DATA

At January 11, 2018, there were 132,448,713 common shares issued and outstanding. There are no stock options or other equity 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, 2017 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 does not have a comparable IFRS financial measure presented in UPC's consolidated financial statements and thus there is no applicable quantitative reconciliation for this non-IFRS financial performance measure. The Corporation has calculated NAV and NAV 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 16, 2017 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.

Uranium Participation Corporation

# CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

# FOR THE THREE AND NINE MONTHS ENDED

# NOVEMBER 30, 2017

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# CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| (Expressed in thousands of Canadian dollars except for share amounts) | At November 30, 2017 | At February 28, 2017 |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash and cash equivalents | $ 23,021 | $ 5,109 |
| Trade and other receivables | 228 | 483 |
| | 23,249 | 5,592 |
| **Non-Current** | | |
| Investments in uranium (note 4) | 458,318 | 458,517 |
| Total assets | **$ 481,567** | $ 464,109 |
| **LIABILITIES** | | |
| **Current** | | |
| Trade and other payables | $ 1,950 | $ 1,764 |
| Total liabilities | 1,950 | 1,764 |
| **EQUITY** | | |
| Share capital (note 6) | 238,249 | 841,243 |
| Contributed surplus (note 6) | 648,005 | 6,762 |
| Deficit | (406,637) | (385,660) |
| Total equity | 479,617 | 462,345 |
| Total liabilities and equity | **$ 481,567** | $ 464,109 |
| **Common shares** | | |
| Issued and outstanding (note 6) | **132,448,713** | 120,848,713 |

Subsequent Events (Note 9)

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

# CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE GAIN (LOSS)

| (Expressed in thousands of Canadian dollars except for share and per share amounts) | Three Months Ended November 30, 2017 | Three Months Ended November 30, 2016 | Nine Months Ended November 30, 2017 | Nine Months Ended November 30, 2016 |
|---|---|---|---|---|
| **URANIUM RELATED GAIN (LOSS)** | | | | |
| Unrealized gains (losses) on investments in uranium (note 4) | $ 52,664 | $ (127,599) | $ (18,665) | $ (276,680) |
| Income from lending of uranium (note 5) | - | - | - | 585 |
| Income from relocation of uranium (note 5) | 31 | 100 | 174 | 135 |
| | **52,695** | (127,499) | **(18,491)** | (275,960) |
| **OPERATING EXPENSES** | | | | |
| Management fees (note 7) | (536) | (495) | (1,232) | (1,422) |
| Storage fees | (506) | (445) | (1,483) | (1,673) |
| Public company expenses | (106) | (95) | (434) | (450) |
| General office and miscellaneous | (93) | (30) | (238) | (225) |
| Legal and other professional fees | (43) | (35) | (159) | (132) |
| Interest income | 57 | 20 | 76 | 50 |
| Foreign exchange income (loss) | 1,092 | 65 | 984 | (41) |
| | **(135)** | (1,015) | **(2,486)** | (3,893) |
| **Net gain (loss) and comprehensive gain (loss) for the period** | **$ 52,560** | $ (128,514) | **$ (20,977)** | $ (279,853) |
| **Net gain (loss) per common share** | | | | |
| Basic and diluted | **$ 0.41** | $ (1.09) | **$ (0.17)** | $ (2.41) |
| **Weighted average number of common shares outstanding** | | | | |
| Basic and diluted | **128,114,647** | 117,591,570 | **123,253,077** | 116,291,622 |

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

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| (Expressed in thousands of Canadian dollars) | Share Capital | Contributed Surplus | Deficit | Total Equity |
|---|---|---|---|---|
| Balance at February 29, 2016 | $ 822,343 | $ 6,762 | $ (179,626) | $ 649,479 |
| Common shares issued | 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 |
| Balance at February 28, 2017 | $ 841,243 | $ 6,762 | $ (385,660) | $ 462,345 |
| Stated capital reduction | (641,243) | 641,243 | - | - |
| Common shares issued | 38,249 | - | - | 38,249 |
| Net loss for the period | - | - | (20,977) | (20,977) |
| **Balance at August 31, 2017** | **$ 238,249** | **$ 648,005** | **$ (406,637)** | **$ 479,617** |

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

| (Expressed in thousands of Canadian dollars) | Nine Months Ended November 30, 2017 | Nine Months Ended November 30, 2016 |
|---|---|---|
| **Operating Activities** | | |
| Net loss for the period | $ (20,977) | $ (279,853) |
| Adjustment for: | | |
| Unrealized losses on investments in uranium (note 4) | 18,665 | 276,680 |
| Costs associated with transfer of uranium | - | (1,276) |
| Foreign exchange losses (gains) | (984) | 41 |
| Changes in non-cash working capital: | | |
| Change in trade and other receivables | 258 | 195 |
| Change in trade and other payables, excluding payables for uranium purchases | 201 | (88) |
| **Net cash used in operating activities** | **(2,837)** | (4,301) |
| **Investing Activities** | | |
| Purchase of uranium investments | (18,386) | (12,738) |
| **Net cash used in investing activities** | **(18,386)** | (12,738) |
| **Financing Activities** | | |
| Common shares issued, net of transaction costs | 38,249 | 18,904 |
| **Net cash generated by financing activities** | **38,249** | 18,904 |
| Increase in cash and cash equivalents | 17,026 | 1,865 |
| Cash and cash equivalents – beginning of the period | 5,109 | 8,968 |
| Foreign exchange effects on cash and cash equivalents | 886 | (159) |
| **Cash and cash equivalents – end of the period** | **$ 23,021** | $ 10,674 |

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

# NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE THREE AND NINE MONTHS ENDED NOVEMBER 30, 2017**

(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 condensed 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 condensed interim consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements for the year ended February 28, 2017.

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 11, 2018.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these condensed interim consolidated financial statements are consistent with those applied in the Corporation's audited annual consolidated financial statements for the year ended February 28, 2017.

### Accounting Standards Issued But Not Yet Applied

An update on the Corporation's progress in evaluating the impact of the new standards required for fiscal 2019 is as follows:

*IFRS 9, Financial Instruments and IFRS 15, Revenue from Contracts with Customers*

The Corporation has completed its preliminary assessment of the impact of the adoption of these standards and does not expect the adoption of either to have a material impact on its financial results. However, the Corporation is still completing its assessment and it may identify other matters in advance of the adoption of these standards.

## 4. INVESTMENTS IN URANIUM

The investments continuity summary is as follows:

| (in thousands) | | Cost | | Fair Value Adjustment | | Fair Value |
|---|---|---|---|---|---|---|
| Balance at February 28, 2017 | $ | 783,358 | $ | (324,841) | $ | 458,517 |
| Unrealized net losses on investments in uranium | | - | | (20,614) | | (20,614) |
| Purchase of uranium | | 18,466 | | 1,949 | | 20,415 |
| **Balance at November 30, 2017** | **$** | **801,824** | **$** | **(343,506)** | **$** | **458,318** |

The balance of investments in uranium consists of:

| (in thousands, except quantity amounts) | Quantity | | Cost | | Fair Value Adjustment | | Fair Value |
|---|---|---|---|---|---|---|---|
| **$U_3O_8$** | 10,800,024 lbs | $ | 489,962 | $ | (183,742) | $ | 306,220 |
| **$UF_6$** | 1,903,471 KgU | | 311,862 | | (159,764) | | 152,098 |
| **Balance at August 31, 2017** | | **$** | **801,824** | **$** | **(343,506)** | **$** | **458,318** |

Investments in uranium are categorized in Level 2 of the fair value hierarchy. Fair values as at November 30, 2017 reflect spot prices published by UxC of US$22.00 per pound $U_3O_8$ and US$62.00 per KgU as $UF_6$, translated at the foreign exchange indicative rate of CAD$1.2888.

## 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 relocations were scheduled to take place 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 gain (loss).

In July 2016, the Corporation completed the relocation of the first of the three tranches, transferring a total of 300,000 KgU as $UF_6$, in exchange for an equivalent amount of KgU as $UF_6$ contained in enriched uranium product (“EUP”).

On March 29, 2017, the counterparty to the relocation agreement filed for Chapter 11 bankruptcy protection in the United States of America. Subsequent to the announcement, UPC entered into agreements with the counterparty for the temporary return of 100,000 KgU (of the 300,000 KgU as $UF_6$ previously relocated under the agreement), and to defer the timing of the second and third relocation tranches under the agreement. On April 28, 2017, the return of the 100,000 KgU as $UF_6$ was completed. This material is expected to be re-transferred to the counterparty in the first quarter of fiscal 2019. The Corporation continues to hold title to the remaining $UF_6$ that is stored at this facility and pursuant to the terms of the relocation agreement, the counterparty is not permitted to transfer, sell, or assign the EUP containing the Corporation's $UF_6$ to any person.

During the three and nine months ended November 30, 2017, the Corporation recorded $31,000 and $174,000 respectively, in income from the relocation of uranium (November 30, 2016 - $100,000 and $135,000). As at November 30, 2017, trade and other receivables included $64,000 related to the relocation of uranium (February 28, 2017 - $64,000).

*Uranium Purchases*

During October and November 2017, the Corporation purchased 720,000 pounds of $U_3O_8$ at an average price of US$20.29 per pound $U_3O_8$, for total cash consideration of $18,386,000 (US$14,609,000), which was paid prior to November 30, 2017. The purchases in the quarter were funded by the proceeds from the bought-deal equity financing completed by the Corporation in October 2017 ("October 2017 Financing").

## 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 28, 2017 | 120,848,713 | $ | 841,243 |
| Stated capital reduction | | | ( 641,243) |
| Common shares issued | 11,600,000 | | 40,600 |
| Share issue costs | | | (2,351) |
| **Balance at November 30, 2017** | **132,448,713** | **$** | **238,249** |

In October 2017, the Corporation completed a bought-deal equity financing and issued 11,600,000 common shares at a price of $3.50 per share, for gross proceeds of $40,600,000. The Corporation also incurred share issue costs of $2,351,000. 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 Thursday June 29, 2017 at the Annual and Special Meeting of Shareholders, a special resolution was passed by the shareholders of UPC, which approved a reduction in the stated capital of the common shares of the Corporation by $641,243,000. As a result, the Corporation reduced its share capital to $200,000,000 and reclassified $641,243,000 to contributed surplus.

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 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 2016 Prospectus, for an aggregate offering amount of up to $200,000,000 during the 25 month period ending January 9, 2019. The Corporation issued $40,600,000 in Securities pursuant to the 2016 Prospectus.

## 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, 2017** | November 30, 2016 | **November 30, 2017** | November 30, 2016 |
| Fees incurred with the Manager: | | | | |
| Base and variable fees | $ 350 | $ 339 | $ 1,046 | $ 1,166 |
| Discretionary fees | - | - | - | 100 |
| Commission fees | 186 | 156 | 186 | 156 |
| **Total fees incurred with the Manager** | **$ 536** | $ 495 | **$ 1,232** | $ 1,422 |

As at November 30, 2017, trade and other payables include $137,000 (February 28, 2017 - $170,000) 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, 2017** | November 30, 2016 | **November 30, 2017** | November 30, 2016 |
| Directors' fees & expenses | $ 80 | $ 74 | $ 220 | $ 209 |
| **Total key management personnel compensation** | **$ 80** | $ 74 | **$ 220** | $ 209 |

## 8. COMPARATIVE FINANCIAL STATEMENTS

Certain balances in the comparative condensed interim consolidated financial statements have been reclassified from the condensed interim consolidated financial statements previously presented to conform to the presentation of the 2018 condensed interim consolidated financial statements in accordance with IFRS.

## 9. SUBSEQUENT EVENT

On December 29, 2017, the Corporation entered into an agreement with a primary $UF_6$ conversion supplier to sell the conversion components contained in 786,241 KgU as $UF_6$. The sale is expected to be completed in January 2018 and result in the exchange of 786,241 KgU as $UF_6$ for 2,054,330 pounds $U_3O_8$ plus cash consideration of US$3,538,000. In connection with this transaction, the Corporation also amended its storage arrangements with the primary supplier to provide for beneficial storage terms that are fixed for the period through December 31, 2028.

During the month of December 2017, the Corporation completed the purchase of an additional 630,000 pounds $U_3O_8$ at an average cost of US$20.53 (CAD$26.32) per pound $U_3O_8$. In total, the Corporation has purchased 1,350,000 pounds $U_3O_8$ at an average cost of US$20.40 (CAD$25.90) per pound $U_3O_8$ from the proceeds of the October 2017 Financing.