

---

# URANIUM PARTICIPATION CORPORATION

Management's Discussion and Analysis

Three Months Ended May 31, 2015

(Expressed in Canadian Dollars, unless otherwise noted)

---

## INTRODUCTION

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 results with those of the previous year. This MD&A is dated as of June 29, 2015 and should be read in conjunction with the Corporation's unaudited interim consolidated financial statements and related notes for the three months ended May 31, 2015. 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"). Readers are also encouraged to consult the audited consolidated financial statements and the MD&A for the year ended February 28, 2015. All dollar amounts are expressed in Canadian dollars, unless otherwise noted. All uranium prices are based on prices published by Ux Consulting Company LLC ("UxCo").

## 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 of UPC's Annual Information Form dated May 11, 2015, available on SEDAR at [www.sedar.com](http://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.

## OVERVIEW

UPC invests substantially all of its assets in uranium, either in the form of uranium oxide in concentrates ("U<sub>3</sub>O<sub>8</sub>"), or uranium hexafluoride ("UF<sub>6</sub>") (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 the Corporation's Board of Directors, provides general administration and management services to the Corporation. The common shares of the Corporation are listed and trade on the Toronto Stock Exchange under the symbol "U".

Uranium spot prices began the reporting quarter at US\$38.75 per pound U<sub>3</sub>O<sub>8</sub> and traded between US\$39.00 and US\$39.50 through mid-April on above average volumes which were in part attributable to producer buying. As demand retreated during the quarter, spot prices fell sharply reaching a low of US\$35.00 per pound U<sub>3</sub>O<sub>8</sub> by late May and then closing out the reporting quarter at that level. Subsequent to quarter-end, demand has re-emerged, particularly in the form of utility spot, medium and long-term interest. As a result, prices as quoted on June 22, 2015 had recovered to a level of US\$36.50 per pound U<sub>3</sub>O<sub>8</sub>. Longer-term fundamentals appear positive based on emerging market nuclear growth and declining primary and secondary supplies available to the spot market. Reactor re-start progress continues slowly in Japan, with five units now cleared for restart by the federal regulator. On the supply side, continued price weakness has contributed to the decision by one major producer to shelve new mine development at what has been one of the industry's largest and longest running operations in Australia.

# URANIUM PARTICIPATION CORPORATION

Management's Discussion and Analysis

Three Months Ended May 31, 2015

(Expressed in Canadian Dollars, unless otherwise noted)

## SUMMARY OF QUARTERLY FINANCIAL RESULTS

|                                                                     | May 31,<br>2015 | February 28,<br>2015 | November 30,<br>2014 | August 31,<br>2014 |
|---------------------------------------------------------------------|-----------------|----------------------|----------------------|--------------------|
| Total income (loss) (in thousands)                                  | \$ (67,055)     | \$ 36,255            | \$ 179,108           | \$ 39,745          |
| Net gain (loss) for the period (in thousands)                       | \$ (68,371)     | \$ 34,807            | \$ 177,395           | \$ 38,466          |
| Net gain (loss) per common share – basic and diluted                | \$ (0.59)       | \$ 0.30              | \$ 1.52              | \$ 0.33            |
| Net asset value per common share <sup>(i)</sup> – basic and diluted | \$ 5.67         | \$ 6.26              | \$ 5.96              | \$ 4.44            |
| U <sub>3</sub> O <sub>8</sub> spot price (US\$)                     | \$ 35.00        | \$ 38.75             | \$ 40.00             | \$ 31.00           |
| UF <sub>6</sub> spot price (US\$)                                   | \$ 98.50        | \$ 107.00            | \$ 112.50            | \$ 87.00           |
| Foreign exchange noon-rate (US\$ to CAD\$)                          | 1.2465          | 1.2508               | 1.1427               | 1.0858             |

  

|                                                                     | May 31,<br>2014 | February 28,<br>2014 | November 30,<br>2013 | August 31,<br>2013 |
|---------------------------------------------------------------------|-----------------|----------------------|----------------------|--------------------|
| Total income (loss) (in thousands)                                  | \$ (120,144)    | \$ 9,521             | \$ 13,801            | \$ (67,980)        |
| Net gain (loss) for the period (in thousands)                       | \$ (121,988)    | \$ 8,254             | \$ 12,591            | \$ (69,286)        |
| Net gain (loss) per common share – basic and diluted                | \$ (1.04)       | \$ 0.08              | \$ 0.12              | \$ (0.65)          |
| Net asset value per common share <sup>(i)</sup> – basic and diluted | \$ 4.11         | \$ 5.15              | \$ 5.07              | \$ 4.95            |
| U <sub>3</sub> O <sub>8</sub> spot price (US\$)                     | \$ 28.25        | \$ 35.50             | \$ 36.25             | \$ 35.00           |
| UF <sub>6</sub> spot price (US\$)                                   | \$ 81.00        | \$ 99.00             | \$ 102.50            | \$ 100.25          |
| Foreign exchange noon-rate (US\$ to CAD\$)                          | 1.0867          | 1.1075               | 1.0599               | 1.0553             |

## OVERALL PERFORMANCE

| (in thousands, except per share amounts)             | May 31,<br>2015 | May 31,<br>2014 |
|------------------------------------------------------|-----------------|-----------------|
| Unrealized gains (losses) on investments             | \$ (67,061)     | \$ (120,144)    |
| Net gain (loss) for the period                       | \$ (68,371)     | \$ (121,988)    |
| Net gain (loss) per common share – basic and diluted | \$ (0.59)       | \$ (1.04)       |
| Net asset value                                      | \$ 660,688      | \$ 480,390      |

Net loss for the three months ended May 31, 2015 was due to unrealized net losses on investments of \$67,061,000, as well as storage fees of \$550,000 and management fees of \$553,000. This compares to a net loss for the three months ended May 31, 2014 resulting from unrealized net losses on investments of \$120,348,000, storage fees of \$538,000, management fees of \$423,000 and transaction fees of \$547,000.

Unrealized net losses on investments during the three months ended May 31, 2015 and 2014 were caused by a decrease in spot prices, along with a decrease in the U.S. dollar to Canadian dollar foreign exchange noon-rate.

UPC's net asset value per common share ("NAV")<sup>(i)</sup> decreased to \$5.67 at May 31, 2015 from \$6.26 at February 28, 2015. Total equity decreased to \$660,688,000 at May 31, 2015, from \$731,058,000 at February 28, 2015.

(i) See "Non-IFRS Financial Performance Measures".

# URANIUM PARTICIPATION CORPORATION

Management's Discussion and Analysis

Three Months Ended May 31, 2015

(Expressed in Canadian Dollars, unless otherwise noted)

The Corporation had an effective tax rate of nil for the three months ended May 31, 2015, primarily due to substantively enacted current and future tax rates, in UPC's various jurisdictions, ranging from 2.96% to 26.5% and the timing of the recognition of deferred tax assets.

## Investment Portfolio

UPC's investment portfolio consists of the following as at May 31, 2015:

| (in thousands, except quantity amounts) | Quantity      | Cost       | Fair Value                |
|-----------------------------------------|---------------|------------|---------------------------|
| <b>Investments in Uranium:</b>          |               |            |                           |
| U <sub>3</sub> O <sub>8</sub>           | 9,570,024 lbs | \$ 458,202 | \$ 417,516                |
| UF <sub>6</sub>                         | 1,903,471 KgU | \$ 311,862 | \$ 229,722 <sup>(1)</sup> |
|                                         |               | \$ 770,064 | \$ 647,238                |

U<sub>3</sub>O<sub>8</sub> average cost and market value per pound:

|                          |          |                         |
|--------------------------|----------|-------------------------|
| In Canadian dollars      | \$ 47.88 | \$ 43.63 <sup>(2)</sup> |
| In United States dollars | \$ 43.84 | \$ 35.00                |

UF<sub>6</sub> average cost and market value<sup>(1)</sup> per KgU:

|                          |           |                          |
|--------------------------|-----------|--------------------------|
| In Canadian dollars      | \$ 163.84 | \$ 120.69 <sup>(2)</sup> |
| In United States dollars | \$ 151.62 | \$ 96.82                 |

(1) Includes a \$3,987,000 fair value decrease adjustment for UF<sub>6</sub> inventory held with the United States Enrichment Facility ("USEC Facility").

(2) Translation to Canadian dollars calculated at period-end foreign exchange noon-rate.

## Sale of Conversion Components

In May 2015, the Corporation completed the sale of the conversion component contained in 100,000 KgU as UF<sub>6</sub> in return for 261,285 pounds of U<sub>3</sub>O<sub>8</sub> and cash consideration of \$891,000 (US\$715,000). The loss on the sale of the conversion components in May 2015 was \$140,000.

The Corporation has sold the conversion component in UF<sub>6</sub> in order to convert some of its UF<sub>6</sub> holdings to U<sub>3</sub>O<sub>8</sub>.

## Uranium Lending Arrangement

In March 2015, the Corporation entered into an agreement to loan 1,300,000 pounds of U<sub>3</sub>O<sub>8</sub> with a return date in April 2017. The loan is subject to a loan fee of 1.0% per annum, with payments calculated quarterly based on the average of the U<sub>3</sub>O<sub>8</sub> spot price per pound, as defined and published by UxCo at the end of each month for the previous three months. Collateral, in the form of an irrevocable bank guarantee, for the loan is provided in the amount of US\$56,000,000, which can be adjusted based on movements in the uranium price.

At May 31, 2015, the market value of the 1,300,000 pounds of U<sub>3</sub>O<sub>8</sub> loaned was \$56,716,000 (US\$45,500,000).

## Fair Value Adjustment on UF<sub>6</sub>

In May 2013, the USEC Facility announced that it ceased uranium enrichment at its Paducah Gaseous Diffusion Plant in Kentucky. At May 31, 2015, the Corporation has 1,064,000 KgU as UF<sub>6</sub> stored with the USEC Facility with a fair value of \$130,638,000. In addition, the Corporation has recorded a fair value decrease adjustment of \$3,987,000 to reflect the risk associated with its UF<sub>6</sub> stored with the USEC Facility. The Corporation plans to relocate this material to another facility through location swaps over the next 18 months and currently expects the cost of this process to be offset by the above noted fair value adjustment.

# URANIUM PARTICIPATION CORPORATION

Management's Discussion and Analysis

Three Months Ended May 31, 2015

(Expressed in Canadian Dollars, unless otherwise noted)

## LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents were \$14,103,000 at May 31, 2015 compared with \$17,753,000 at February 28, 2015. The decrease of \$3,650,000 was primarily due to the Corporation's purchase of 356,500 of its outstanding shares during March 2015, pursuant to a normal course issuer bid ("2014 NCIB") filed with the Toronto Stock Exchange in November 2014. Shares were purchased pursuant to the 2014 NCIB at an average cost of \$5.60 per share for a total cost of \$1,999,000, including transaction costs. The cash consideration of US\$715,000 for the sale of the conversion component during May 2015 as discussed above is included in trade and other receivables at the end of the quarter and was subsequently received and included in cash and cash equivalents after period end.

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 May 31, 2015, the Corporation has invested more than the required minimum amount of 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 the Short Form Base Shelf Prospectus ("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 Prospectus, for an aggregate offering amount of up to \$200,000,000 during the 25 month period that the Prospectus remains effective until November 30, 2016. As at May 31, 2015, the Corporation has not issued any Securities pursuant to the Prospectus.

Pursuant to the 2014 NCIB, the Corporation is authorized to purchase up to 7,500,000 of the Corporation's common shares during the 12 month period commencing November 24, 2014 and ending November 23, 2015, or on such earlier date as the Corporation completes its purchases. As at May 31, 2015, the Corporation purchased 356,500 of its outstanding shares under the 2014 NCIB during March 2015.

## RELATED PARTY TRANSACTIONS

### Management Services Agreement with Denison Mines Inc.

Pursuant to its management services agreement with the Manager dated April 1, 2013, the Corporation will pay the following fees to the Manager: a) a commission of 1.5% of the gross value of any purchases or sales of uranium completed at the request of the Board of Directors; b) a minimum annual management fee of \$400,000 (plus reasonable out-of-pocket expenses), plus an additional fee of 0.3% per annum based upon the Corporation's net asset value in excess of \$100,000,000; and 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 purchase or sale of uranium).

The management services agreement has a three year term and may be terminated by either party upon the provision of 120 days written notice.

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

| (in thousands)                                      | Three Months Ended |              |
|-----------------------------------------------------|--------------------|--------------|
|                                                     | May 31, 2015       | May 31, 2014 |
| Fees incurred with the Manager:                     |                    |              |
| Management fees                                     | \$ 553             | \$ 423       |
| Transaction fees – commissions on uranium purchases | -                  | 487          |
| Total fees incurred with the Manager                | \$ 553             | \$ 910       |

As at May 31, 2015, trade and other payables included \$194,000 (February 28, 2015: \$250,000) due to the Manager with respect to the fees indicated above.

---

# URANIUM PARTICIPATION CORPORATION

Management's Discussion and Analysis

Three Months Ended May 31, 2015

(Expressed in Canadian Dollars, unless otherwise noted)

---

## 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 noted:

| (in thousands)                              | Three Months Ended |              |
|---------------------------------------------|--------------------|--------------|
|                                             | May 31, 2015       | May 31, 2014 |
| Directors' fees                             | \$ 58              | \$ 46        |
| Total key management personnel compensation | \$ 58              | \$ 46        |

## OUTSTANDING SHARE DATA

At June 29, 2015, there were 116,516,413 common shares 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 months ended May 31, 2015 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 NAV and "diluted NAV", which are non-IFRS financial performance measures. The NAV is calculated as the value of total assets less the value of total liabilities, divided by the total number of common shares outstanding as at a specific date. Diluted NAV is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included is computed using the treasury stock method. The term NAV or diluted NAV does not have any standardized meaning according to IFRS and therefore may not be comparable to similar measures presented by other companies. There is no comparable IFRS financial measure presented in UPC's consolidated financial statements and thus no applicable quantitative reconciliation for such non-IFRS financial performance measure. The Corporation has calculated NAV and diluted NAV 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.