

**Uranium
Participation
Corporation**



**INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MAY 31, 2016**

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**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(Expressed in thousands of Canadian dollars except for share amounts)	At May 31, 2016	At February 29, 2016
ASSETS		
Current		
Cash and cash equivalents	\$ 8,216	\$ 8,968
Trade and other receivables	321	469
	8,537	9,437
Non-Current		
Investments in uranium (note 4)	528,893	642,113
Total assets	\$ 537,430	\$ 651,550
LIABILITIES		
Current		
Trade and other payables	\$ 2,058	\$ 2,071
Total liabilities	2,058	2,071
EQUITY		
Share capital (note 6)	822,343	822,343
Contributed surplus	6,762	6,762
Deficit	(293,733)	(179,626)
Total equity	535,372	649,479
Total liabilities and equity	\$ 537,430	\$ 651,550
Common shares		
Issued and outstanding (note 6)	115,648,713	115,648,713

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

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

	Three Months Ended	
(Expressed in thousands of Canadian dollars except for share and per share amounts)	May 31, 2016	May 31, 2015
URANIUM RELATED LOSS		
Unrealized losses on investments in uranium (note 4)	\$ (113,329)	\$ (67,061)
Realized loss on sale of conversion components	-	(140)
Income from lending of uranium (note 5)	585	100
	(112,744)	(67,101)
OPERATING EXPENSES		
Management fees (note 7)	(426)	(553)
Storage fees	(502)	(550)
Public company expenses	(174)	(148)
General office and miscellaneous	(141)	(77)
Legal and other professional fees	(42)	(18)
Interest income	16	46
Foreign exchange (loss) gain	(94)	30
	(1,363)	(1,270)
Net loss and comprehensive loss for the period	\$ (114,107)	\$ (68,371)
Net loss per common share		
Basic and diluted	\$ (0.99)	\$ (0.59)
Weighted average number of common shares outstanding		
Basic and diluted	115,648,713	116,578,731

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	(2,535)	536	-	(1,999)
Net loss for the period	-	-	(68,371)	(68,371)
Balance at May 31, 2015	\$ 828,513	\$ 5,100	\$ (172,925)	\$ 660,688
Balance at February 29, 2016	\$ 822,343	\$ 6,762	\$ (179,626)	\$ 649,479
Net loss for the period	-	-	(114,107)	(114,107)
Balance at May 31, 2016	\$ 822,343	\$ 6,762	\$ (293,733)	\$ 535,372

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in thousands of Canadian dollars)	Three Months Ended	
	May 31, 2016	May 31, 2015
Operating Activities		
Net loss for the period	\$ (114,107)	\$ (68,371)
Adjustment for:		
Unrealized losses on investments in uranium (note 4)	113,329	67,061
Realized loss on sale of conversion components	-	140
Changes in non-cash working capital:		
Change in trade and other receivables	148	(72)
Change in trade and other payables	(13)	(409)
Net cash used in operating activities	(643)	(1,651)
Investing Activities		
Costs associated with transfer of uranium (note 4)	(109)	-
Net cash used by investing activities	(109)	-
Financing Activities		
Common shares purchased, including transaction costs	-	(1,999)
Net cash used in financing activities	-	(1,999)
Decrease in cash and cash equivalents	(752)	(3,650)
Cash and cash equivalents – beginning of the period	8,968	17,753
Cash and cash equivalents – end of the period	\$ 8,216	\$ 14,103

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE THREE MONTHS ENDED MAY 31, 2016 AND 2015

(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 June 21, 2016.

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 ⁽¹⁾⁽²⁾
Balance at February 29, 2016	\$ 766,348	\$ (124,235)	\$ 642,113
Unrealized net losses on investments in uranium	-	(113,329)	(113,329)
UF_6 fair value adjustment ⁽²⁾	-	109	109
Balance at May 31, 2016	\$ 766,348	\$ (237,455)	\$ 528,893



The balance of investments in uranium consists of:

(in thousands, except quantity amounts)	Quantity	Cost	Fair Value Adjustment	Fair Value ⁽¹⁾⁽²⁾
U₃O₈	9,470,024 lbs	\$ 454,486	\$ (116,430)	\$ 338,056
UF₆ ⁽²⁾	1,903,471 KgU	311,862	(121,025)	190,837
Balance at May 31, 2016		\$ 766,348	\$ (237,455)	\$ 528,893

(1) Investments in uranium are categorized in Level 2 of the fair value hierarchy. Fair values as at May 31, 2016 reflect spot prices published by UxC of US\$27.25 per pound U₃O₈ and US\$77.00 per KgU as UF₆, translated at the foreign exchange noon-rate of 1.3100.

(2) Included in the fair value of the Corporation's UF₆ holdings at May 31, 2016 is a fair value adjustment of \$1,167,000 reducing the fair value to reflect the risks associated with the Corporation's UF₆ held with the United States Enrichment Facility ("USEC Facility"). During the period, the fair value adjustment was reduced by \$109,000, to reflect the reduction in the remaining material held with the USEC Facility.

Transfer of UF₆ held with the USEC Facility to another storage facility

During the three months ended May 31, 2016, the Corporation transferred a total of 42,290 KgU as UF₆ held with the USEC Facility to another storage facility. The cost associated with the transfer amounted to \$109,000. The transfer reduced the Corporation's UF₆ holdings with the USEC Facility to 336,276 KgU with a fair value of \$33,920,000 before adjustments, as at May 31, 2016.

5. URANIUM LENDING ARRANGEMENTS

In March 2015, the Corporation entered into an agreement to loan 1,300,000 pounds of U₃O₈ 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 U₃O₈ 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.

6. COMMON SHARES

The Corporation is authorized to issue an unlimited number of common shares without par value. A continuity schedule of the issued and outstanding common shares is as follows:

(in thousands, except common share amounts)	Number of Common Shares	Amount
Balance at February 29, 2016 and May 31, 2016	115,648,713	\$ 822,343

On October 31, 2014, the Corporation filed a 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 ending November 30, 2016. As at May 31, 2016, the Corporation has not issued any Securities pursuant to the 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**

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 U₃O₈ or UF₆); and d) a commission of 1.0% of the gross value of any purchases or sales of U₃O₈ or UF₆, 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	
	May 31, 2016	May 31, 2015
Fees incurred with the Manager:		
Management fees	\$ 426	\$ 553
Total fees incurred with the Manager	\$ 426	\$ 553

As at May 31, 2016, trade and other payables included \$176,000 (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 compensation was awarded to key management personnel for the periods ended:

(in thousands)	Three Months Ended	
	May 31, 2016	May 31, 2015
Directors' fees	\$ 63	\$ 58
Total key management personnel compensation	\$ 63	\$ 58