

Uranium Participation Corporation



MANAGEMENT'S DISCUSSION & ANALYSIS FOR THE THREE MONTHS ENDED MAY 31, 2018

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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 June 27, 2018 and should be read in conjunction with the Corporation's unaudited condensed interim consolidated financial statements and related notes for the three months ended May 31, 2018.

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, 2018. 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 (“U₃O₈”) or uranium hexafluoride (“UF₆”) (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 first quarter of fiscal 2019, the uranium spot price has reacted to a series of recent developments suggesting improving fundamentals for the uranium market. At the end of May 2018, the spot price for uranium reached a high of US\$22.75 per pound U₃O₈. Subsequent to the end of the quarter, uranium prices continued to rise, reaching a high of US\$23.40 per pound U₃O₈, before retreating to US\$22.55 per pound U₃O₈ as of the date of this MD&A.

The market narrative has turned more positive, in part, based on an acceleration of global production cuts. Based on announcements from uranium producers, upwards of 30 million pounds U₃O₈ in annual uranium supply has been removed from the market since 2016. A growing number of uranium producers have decided to reduce production in light of low prices, which on the spot market remain below the production costs of the large majority of global uranium mines. The expiration of older legacy contracts has contributed to this trend, as production protected by higher price contracts is rolling off. UxC Consulting reports that worldwide production peaked in 2016 at 162 million pounds, fell to 154 million pounds in 2017, and is expected to drop below 135 million pounds in 2018. This is in comparison to projected 2018 uranium demand of 192 million pounds.

Paladin Energy Ltd. is the latest to producer to announce a reduction in supply, declaring that its Langer Heinrich Mine in Namibia, with an annual production level of over 3 million pounds U₃O₈, will go on care and maintenance, in response to prolonged low uranium price levels.

The United States Department of Energy has also contributed to reduced supply by putting a hold on their uranium inventory barter sales, as a result of unrelenting pressure from the domestic uranium industry. This is expected to remove over 3 million pounds of U₃O₈ in supply from the market on an annual basis.

Cameco Corp. (‘Cameco’) recently announced that it had yet to embark on the spot market purchases that will be required to meet its contracted delivery commitments, following the previously announced 10 month shutdown of its MacArthur River Mine/Key Lake Mill complex. Cameco is also expected to make a decision later this year on whether to extend the shutdown of MacArthur River/Key Lake, beyond the originally announced 10 month period ending October 2018.

Also contributing to the rebalancing of the uranium market has been the continued production constraint demonstrated by National Atomic Company Kazatomprom (‘Kazatomprom’) and operations in Kazakhstan, which account for 40% of global uranium supplies. Kazatomprom recently disclosed that its announced 10% production decrease for 2017 proved to be closer to 5.5% given the late implementation of the cuts at various operating centers and joint ventures. Kazatomprom has, however, restated its intention to cut 20% from 2018-2020 planned production levels, and is taking a more consultative approach with its partners to better achieve this objective. In fact, recent Kazakh government and industry announcements are indicating 2018 production targets that are expected to amount to a reduction of 3.4 million pounds compared to 2017 actual production.



SUMMARY OF QUARTERLY FINANCIAL INFORMATION

	May 31, 2018	February 28, 2018	November 30, 2017	August 31, 2017
Uranium related gain (loss) (in thousands)	\$ 38,478	\$ (14,732)	\$ 52,695	\$ (17,459)
Net gain (loss) for the period (in thousands)	\$ 37,593	\$ (16,284)	\$ 52,560	\$ (18,554)
Net gain (loss) per common share – basic and diluted	\$ 0.28	\$ (0.11)	\$ 0.41	\$ (0.15)
NAV⁽¹⁾ per share	\$ 3.79	\$ 3.50	\$ 3.62	\$ 3.22
U ₃ O ₈ spot price (US\$)	\$ 22.75	\$ 21.25	\$ 22.00	\$ 20.00
UF ₆ spot price (US\$)	\$ 67.00	\$ 62.00	\$ 62.00	\$ 56.35
Foreign exchange rate (US\$ to CAD\$)	1.2948	1.2809	1.2888	1.2536

	May 31, 2017	February 28, 2017	November 30, 2016	August 31, 2016
Uranium related gain (loss) (in thousands)	\$ (53,727)	\$ 74,078	\$ (127,499)	\$ (35,717)
Net gain (loss) for the period (in thousands)	\$ (54,983)	\$ 73,819	\$ (128,514)	\$ (37,232)
Net gain (loss) per common share – basic and diluted	\$ (0.45)	\$ 0.61	\$ (1.09)	\$ (0.32)
NAV⁽¹⁾ per share	\$ 3.37	\$ 3.83	\$ 3.22	\$ 4.31
U ₃ O ₈ spot price (US\$)	\$ 19.25	\$ 22.25	\$ 18.25	\$ 25.25
UF ₆ spot price (US\$)	\$ 55.55	\$ 64.00	\$ 53.40	\$ 72.25
Foreign exchange rate (US\$ to CAD\$)	1.3500	1.3248	1.3426	1.3124

(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	
	May 31, 2018	May 31, 2017
Unrealized gains (losses) on revaluation of investments in uranium	\$ 38,370	\$ (53,816)
Income from lending and/or relocation of uranium	\$ 108	\$ 89
Operating expenses	\$ (885)	\$ (1,256)
Net gain (loss) for the period	\$ 37,593	\$ (54,983)
Net gain (loss) per common share – basic and diluted	\$ 0.28	\$ (0.45)
	At May 31, 2018	At February 28, 2018
Total Assets	\$ 525,024	\$ 465,711
Total Liabilities	\$ 2,303	\$ 2,382
NAV⁽¹⁾	\$ 522,721	463,329

(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 May 31, 2018 was mainly driven by unrealized net gains on the revaluation of investments in uranium of \$38,370,000, foreign exchange gains of \$311,000 and income from uranium relocation agreements of \$108,000, offset by other operating expenses (excluding foreign exchange gains) of \$1,196,000.

Unrealized net gains on investments in uranium during the three months ended May 31, 2018 were mainly due to the increase in the spot price for uranium. The spot price increased during the quarter to US\$22.75 per pound U₃O₈ and US\$67.00 per KgU as UF₆ at May 31, 2018, from US\$21.25 per pound U₃O₈ and US\$62.00 per KgU as UF₆ at February 28, 2018. The unrealized net gain on investments in uranium was also driven by the 1% increase in the U.S. dollar to Canadian dollar foreign exchange rate in the quarter.

UPC's NAV per share increased to \$3.79 at May 31, 2018, from \$3.50 at February 28, 2018. Total equity increased to \$522,721,000 at May 31, 2018, from \$463,329,000 at February 28, 2018.

The Corporation had an effective tax rate of nil for the three months ended May 31, 2018, 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 \$561,000 during the three months ended May 31, 2018 (May 31, 2017 – \$486,000). The increase in storage fees during the three months ended May 31, 2018, compared to the prior year, was mainly due to the increase in the volume of stored uranium resulting from the purchase of 1,350,000 pounds of U₃O₈ during the second half of fiscal 2018. In addition, storage fees were also impacted by an increase in storage rates at two storage facilities, partially offset by the transfer of certain uranium holdings to lower cost storage facilities.

Management fees were \$435,000 during the three months ended May 31, 2018 (May 31, 2017 – \$374,000). The increase in management fees during the three months ended May 31, 2018 was predominantly due to the award of a \$50,000 discretionary fee to the Manager, which was approved by the Corporation's Board of Directors in recognition of the Manager's efforts in carrying out non-routine activities during the 2018 fiscal year. In addition, the increase in management fees was, in part, due to the increase in the NAV, on which the variable portion of the management fee is based.

Operating expenses of \$1,196,000 (excluding the foreign exchange gain of \$311,000), partially offset by income from the relocation of uranium of \$108,000, for the three months ended May 31, 2018, represents approximately 0.2% of the NAV at May 31, 2018 and 0.2% of the NAV at February 28, 2018.

Investment Portfolio

UPC's investment portfolio consists of the following as at May 31, 2018:

(in thousands, except quantity amounts)	Quantity	Cost	Fair Value
Investments in Uranium:			
U ₃ O ₈	13,484,354 lbs	\$ 624,530	\$ 397,205
UF ₆	1,117,230 KgU	\$ 185,437	\$ 96,923
		\$ 809,967	\$ 494,128
U ₃ O ₈ average cost and fair value per pound:			
In Canadian dollars		\$ 46.32	\$ 29.46 ⁽¹⁾
In United States dollars		\$ 41.95	\$ 22.75
UF ₆ average cost and fair value per KgU:			
In Canadian dollars		\$ 165.98	\$ 86.75 ⁽¹⁾
In United States dollars		\$ 153.86	\$ 67.00

(1) Translation to Canadian dollars calculated at period-end indicative foreign exchange rate of 1.2948.



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 UF₆ to an alternate storage facility. The relocations 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 UF₆ back to the original storage facility in May 2020. The fees received under this agreement are recorded as income from relocation of uranium in the statement of comprehensive loss.

In July 2016, the Corporation completed the relocation of the first of the three tranches, transferring a total of 300,000 KgU as UF₆, in exchange for an equivalent amount of KgU as UF₆ 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 UF₆ 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 UF₆ was completed and on April 30, 2018, this material was transferred back to the counterparty in accordance with the terms of the amended agreement.

On January 31, 2018, the Corporation completed the relocation of the second of the three tranches, transferring a total of 200,000 KgU as UF₆, in exchange for an equivalent amount of KgU as UF₆ contained in EUP.

The Corporation continues to hold title to the UF₆ 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 UF₆ to any person.

During the three months ended May 31, 2018, the Corporation recorded \$108,000 in income from the relocation of uranium (May 31, 2017 – \$89,000). As at May 31, 2018, trade and other receivables included \$76,000 of unbilled income related to the relocation of uranium (February 28, 2018 – \$73,000). All amounts that have been invoiced under this agreement have been paid by the counterparty.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents were \$30,451,000 at May 31, 2018 (February 28, 2018 – \$4,836,000). The increase of \$25,615,000 was predominantly due to \$21,990,000 in cash provided by financing activities and \$4,581,000 in cash provided by investing activities, offset by cash used in operations of \$1,308,000. The increase in cash and cash equivalents was also impacted by the favourable foreign exchange movements on cash and cash equivalents of \$352,000. The cash provided by financing activities relates to the net proceeds from the \$23,009,200 equity financing completed in May 2018 ("May 2018 Financing"). The cash provided by investing activities was due to the receipt of cash consideration of US\$3,538,000 related to the fourth quarter fiscal 2018 sale of the conversion components contained in 786,241 KgU as UF₆.

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 generally invested in, or set aside for, purchases of uranium. At May 31, 2018, the Corporation has invested in or committed to purchase uranium with a cost of acquisition of more than 85% of its aggregate gross proceeds of share offerings since incorporation. 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 and May 2018, the Corporation issued common shares for aggregate gross proceeds of \$40,600,000 and \$23,009,200, respectively, pursuant to the 2016 Prospectus.

On 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, which was reclassified 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 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 three months ended:

(in thousands)	May 31, 2018	May 31, 2017
Fees incurred with the Manager:		
Base and variable fees	\$ 385	\$ 374
Discretionary fees	50	-
Total fees incurred with the Manager	\$ 435	\$ 374

Management fees for the three months ended May 31, 2018 included a discretionary fee of \$50,000 for non-routine activities carried out by the Manager during the 2018 fiscal year (May 31, 2017 – \$nil discretionary fees).

As at May 31, 2018, trade and other payables included \$174,000 (February 28, 2018 – \$252,000) 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 three months ended:

(in thousands)	May 31, 2018	May 31, 2017
Directors' fees & expenses	\$ 80	\$ 79
Total key management personnel compensation	\$ 80	\$ 79

SUBSEQUENT EVENT

The Corporation has entered into commitments to purchase 675,000 pounds of uranium at an average price of US\$22.76, for delivery in June and July of 2018.

OUTSTANDING SHARE DATA

At June 27, 2018, there were 138,060,713 common shares issued and outstanding. There are no stock options or other equity instruments issued and outstanding.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of the interim consolidated financial statements are consistent with those applied in the Corporation's audited annual consolidated financial statements for the year ended February 28, 2018, except as described below.



New Accounting Policies

The Corporation has changed its accounting policies from those disclosed in its audited annual consolidated financial statements for the year ended February 28, 2018 for "Financial Instruments", "Impairment of Financial Instruments", "Sale of Uranium", "Sale of Conversion Components", and "Relocation of Uranium" in light of the adoption of IFRS 9, *Financial Instruments* ('IFRS 9') and IFRS 15, *Revenue from Contracts with Customers* ('IFRS 15'), effective March 1, 2018. There were no transitional adjustments recorded on the adoption of these standards. The new accounting policies are as follows:

(a) *Financial Instruments*

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligations specified in the contract are discharged, cancelled or expire.

At initial recognition, the Company classifies its financial instruments in the following categories:

(i) Financial assets at amortized cost

A financial asset is classified in this category if it is a debt instrument that is held within a business model whose objective is to hold the asset in order to collect the contractual cash flows that are solely payments of principal and interest. Financial assets in this category are initially recognized at fair value plus transaction costs and subsequently measured at amortized cost using the effective interest method less a provision for impairment. Interest income is recorded in net gain (loss).

(ii) Financial liabilities at amortized cost

All financial liabilities that are not recorded as fair value through profit or loss are classified in this category and are initially recognized at fair value, less any directly attributable transaction costs. Subsequently, financial liabilities are measured at amortized cost using the effective interest method. Interest expense, when applicable, is recorded in net gain (loss).

The Company has designated its financial assets and liabilities as follows: "Cash and cash equivalents", and "Trade and other receivables" are classified as financial assets at amortized cost (previously loans and receivables); and "Accounts payable and accrued liabilities" are classified as financial liabilities at amortized cost (previously financial liabilities at amortized cost).

All financial instruments' fair values approximate their carrying values due to the short-term nature of these instruments.

(b) *Impairment of financial assets*

At each reporting date, the Company assesses the expected credit losses associated with its financial assets at amortized cost. Expected credit losses are calculated based on the difference between the contractual cash flows and the cash flows that the Company expects to receive, discounted, where applicable, based on the assets original effective interest rate.

For "Trade and other receivables", the Company calculates expected credit losses based on historical credit loss experience, adjusted for forward-looking factors specific to debtors and the economic environment. In recording an impairment loss, the carrying amount of the asset is reduced by this computed amount either directly or indirectly through the use of an allowance account.

(c) *Sale of Uranium*

The sale of uranium is recognized when control of the uranium passes to the buyer. The realized gain or loss from the sale of uranium is calculated as the difference between the transaction price (including any variable consideration) and the historical cost of the uranium.

(d) *Sale of Conversion Components*

The sale of conversion components is recognized when control of the conversion components passes to the buyer. The realized gain or loss from the sale of conversion components is calculated as the difference between the transaction price (including any variable consideration) and the historical cost of the conversion components.



(e) *Relocation of Uranium*

IFRS 15 applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards.

At contract inception, the Corporation will estimate the expected total transaction price for the relocation agreement and calculate an average per unit transaction price that applies over the life of the contract. This unit price will be used to recognize income from the relocation agreement over the life of the contract.

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, 2018 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. In particular, this MD&A contains forward-looking information pertaining to uranium spot prices, foreign exchange fluctuations and other market factors and their potential impact on the Corporation's financial results; expectations regarding uranium purchases and the ability to complete the transactions for which commitments have been made; the Corporation's investment objectives; and the Corporation's agreements and relationship with the Manager.

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 14, 2018, 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.