

Action Note

Equity Research

March 20, 2020

Metals & Minerals

Denison Mines Corp.

(DML-T) C\$0.31

Environmental Assessment Delayed as a Result of COVID-19

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Event

This morning, Denison announced a temporary suspension of activities related to the environmental assessment (EA) for the company's 90%-owned Wheeler River Uranium Project.

Impact: SLIGHTLY NEGATIVE

- Decision to suspend the EA is a result of the COVID-19 pandemic** - The EA process involves extensive in-person engagement and consultation activities with several interested parties and community groups. Given the social and economic disruption due to COVID-19, we agree with the company's view that the decision to temporarily suspend the EA is in the best interest of all parties.
- The duration of suspension is unknown at this time; however, the company does expect it to impact the Wheeler River development schedule outlined in its 2018 pre-feasibility report (PFS). Under the PFS, the company targeted the completion of the EA by the end of 2021, followed by the start-up of production from Phoenix in H2/2024. We currently model production start-up in 2025.
- No change to base case 2020 budget at this time** - As a reminder, Denison was budgeting \$15.5mm in net expenditures in 2020, \$9.0mm of which was towards exploration and evaluation activities, including ~12,300m of drilling at Wheeler River. At this time, we do not anticipate a significant reduction to this budget; however, we do expect some curtailments on spending given COVID-19-related disruptions. Importantly, the costs associated with the EA work and EIS submission (~\$7mm) along with the completion of further ISR field testing work (~\$6.6mm) were both discretionary work programs, which were not included in our financing assumptions.
- We continue to expect the need for additional funding in 2020** — The company ended 2019 with working capital of \$1.6mm, including cash of \$8.2mm. We forecast a requirement of ~\$12.5mm in additional funding in 2020 to maintain a positive cash position.

TD Investment Conclusion

We are lowering our target price to C\$0.50 from C\$0.75 and maintain our HOLD recommendation. Our revised target price reflects a lower NAV multiple that reflects sector-wide multiple compression as a result of COVID-19 and its impact globally. The delays to the EA process add risk to our development schedule; however, our base case development assumptions for Wheeler River remain unchanged for now.

Recommendation:	HOLD
Risk:	SPECULATIVE
12-Month Target Price:	C\$0.50↓ Prior: C\$0.75
12-Month Dividend (Est.):	C\$0.00
12-Month Total Return:	63.9%

Market Data (C\$)

Current Price	C\$0.31
52-Week Range	\$0.24 - \$0.79
Mkt Cap (f.d.) (\$mm)	\$191.8
EV (\$mm)	\$170.6
Current Dividend	\$0.00
Dividend Yield	0.0%
Avg. Daily Trading Vol.	822,660

Financial Data (C\$)

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	628.8
Float Shares (mm)	596.1
Net Debt (\$mm)	\$(8.2)
Net Debt/Total Cap	0.0%
NAVPS	\$0.94
Working Cap (\$mm)	\$1.6

Estimates (C\$)

Year	2018A	2019A	2020E	2021E
EPS (f.d.)	(0.05)	(0.03)	(0.03)	(0.02)
CFPS (f.d.)	(0.04)	(0.04)	(0.03)	(0.02)

EPS (f.d.) Quarterly Estimates (C\$)

Year	2018A	2019A	2020E	2021E
Q1	(0.01)	(0.01)	(0.01)	—
Q2	(0.01)	(0.01)	0.00	—
Q3	(0.01)	(0.01)	(0.01)	—
Q4	(0.02)	0.00	(0.01)	—

Supplemental Data

Year	2018A	2019A	2020E	2021E
U3O8 (US\$/lb)	25	26	25	27

Note: Starting January 1, 2018, the company began reporting its financial results in CAD. 2017 financial results are presented in USD.

All figures in C\$, unless otherwise specified



Company Profile

Denison Mines Corp. has a diversified portfolio of uranium assets, including an interest in the McClean Lake milling operation; development projects; an environmental management division; and exploration properties located in Canada's Athabasca Basin.

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Outlook

Exhibit 1. Revised Uranium Price and FX Forecasts

US\$/lb	2020E		2021E		2022E		2023E		2024E		LT	
	Old	New	Old	New	Old	New	Old	New	Old	New	Old	New
Uranium	28.00	25.13 ↓	30.00	27.00 ↓	32.50	30.00 ↓	37.50	35.00 ↓	40.00	40.00	45.00	45.00
FX (US\$/C\$)	0.76	0.75 ↓	0.77	0.76 ↓	0.80	0.77 ↓	0.82	0.82	0.82	0.82	0.82	0.82

Source: UxC, TD Securities

COVID-19-related impacts cause uncertainty on uranium demand - Earlier today, we lowered our 2020-2023 uranium price forecasts by an average of 9% (Exhibit 1). Our lower price forecasts reflect the impacts of weaker GDP growth and therefore lower nuclear fuel requirements amid the evolving COVID-19 pandemic. While nuclear power generally serves as base load power and we do not forecast any immediate closures, decreased power demand will lead to lower power prices in deregulated markets, which, in turn, will put pressure on the utilities. The situation could also be compounded by cheap energy alternatives including natural gas, which has seen its price decline significantly since February. For now, our long-term (2025 and beyond) incentive uranium price of US\$45/lb, which forms the basis of our valuation for Denison, remains unchanged.

We continue to expect the non-discretionary expenditures in 2020 to be largely unchanged (Exhibit 2). Total spending on a cash basis is expected to be close to \$16mm in 2020. Management expects that the company will need \$9mm in additional funding to meet its 2020 outlook. We model the company ending 2020 in a net cash position of \$3mm, based on Denison raising \$12.5mm at ~\$0.38/share (20-day VWAP).

Discretionary expenditures to be deferred in 2020 — In addition to the budgetary items highlighted in Exhibit 2, the company highlighted two key discretionary spending items which are not currently in the budget: (1) EIS-related work programs aimed at submitting a draft EIS to federal and provincial regulators (\$7mm); and (2) ISR field work to support detailed wellfield designs for the feasibility study (~6.6mm). We did not formally model these discretionary expenses previously, and now expect these items to be deferred to 2021 given the temporary suspension of activities announced today and the weak market conditions overall.

Exhibit 2. 2020 Outlook

Business Segment	2020 Budget C\$000	Commentary
Canada Mining Segment		
Mineral Sales	\$791	26,000lbs of U3O8 held in inventory
Development and Operations	(\$5,181)	Includes \$3.6mm of costs related to SABRE program
Mineral Property Exploration & Evaluation	(\$8,973)	Includes \$6.4mm budget at Wheeler River
	(\$13,363)	
DES Segment		
DES Environmental Services	\$1,014	\$7.9mm of revenue offset by \$6.9mm of expenses
	\$1,014	
Corporate and Other Segment		
UPC Management Services	\$2,009	Based partly on UPC's NAV. Assumes US\$29.57/lb U3O8 for 2020
Corporate Administration & Other	(\$5,200)	
	(\$3,191)	
Total	(\$15,540)	

Source: Company, TD Securities Inc.



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Exhibit 3 presents our Wheeler River assumptions, which are unchanged. Exhibit 4 presents the company's original timeline based on its 2018 PFS. We model Phoenix beginning production in 2025.

Exhibit 3. Wheeler River Assumptions

		Sep-2018 PFS	TDS
Ownership	%	90.0%	90%
Total Tonnes in the DCF	ktonnes	1,398	1,398
Total Resources Used in DCF, U3O8	mmlb	109.4	109.2
Life of Mine	years	14	13
Production Start-Up		2024	2025
Assumed LT Price, U3O8	US\$/lb	65.00	45.00
Assumed LT CAD/USD Exchange Rate		0.77	0.82
Average Head Grade	%	3.5%	3.5%
Average Recovery	%	100%	97%
Total U3O8 Production (100% basis)	mmlb	109.4	106.0
Annual Avg. Production (100% basis)	mmlb	7.8	8.2
Initial Capex (100% basis)	C\$ mm	323	350
Sustaining Capex & Closure Costs (100%)	C\$ mm	809	887
Total Capex (100% basis)	C\$ mm	1,132	1,237
Total Operating Costs (100% basis)	C\$ mm		1,294
Average Annual Operating Costs	US\$/lb		9.53
Average Annual Operating Costs	C\$/lb		11.62
Post Tax NPV-8% (90%)*	C\$ mm	755.9	523.4
NPV-10% (90%)	C\$ mm		388.3
NPV-11% (90%)	C\$ mm		340.7

* At fiscal 2021. TDS Discounted to 2020

Source: Company, TD Securities Inc.

Exhibit 4. Wheeler River Project Timeline

Description	2019 - 2021	2022	2023	2024	2025	2026	2027	2028	2029	2030-2033	2034	2035	2036	2037	2038-2039	2040-2043
Environmental Assessment	█	█														
Phoenix Feasibility Study and Detail Engineering	█	█														
Gryphon Feasibility Study and Detail Engineering			█	█	█	█	█	█	█							
Phoenix Construction		█	█	█												
Phoenix ISR Production				█	█	█	█	█	█	█	█	█	█	█	█	█
Phoenix Restoration											█	█	█	█	█	█
Gryphon Construction					█	█	█	█	█							
Gryphon Production									█	█	█	█	█	█	█	█
Gryphon Restoration and Site Closure															█	█

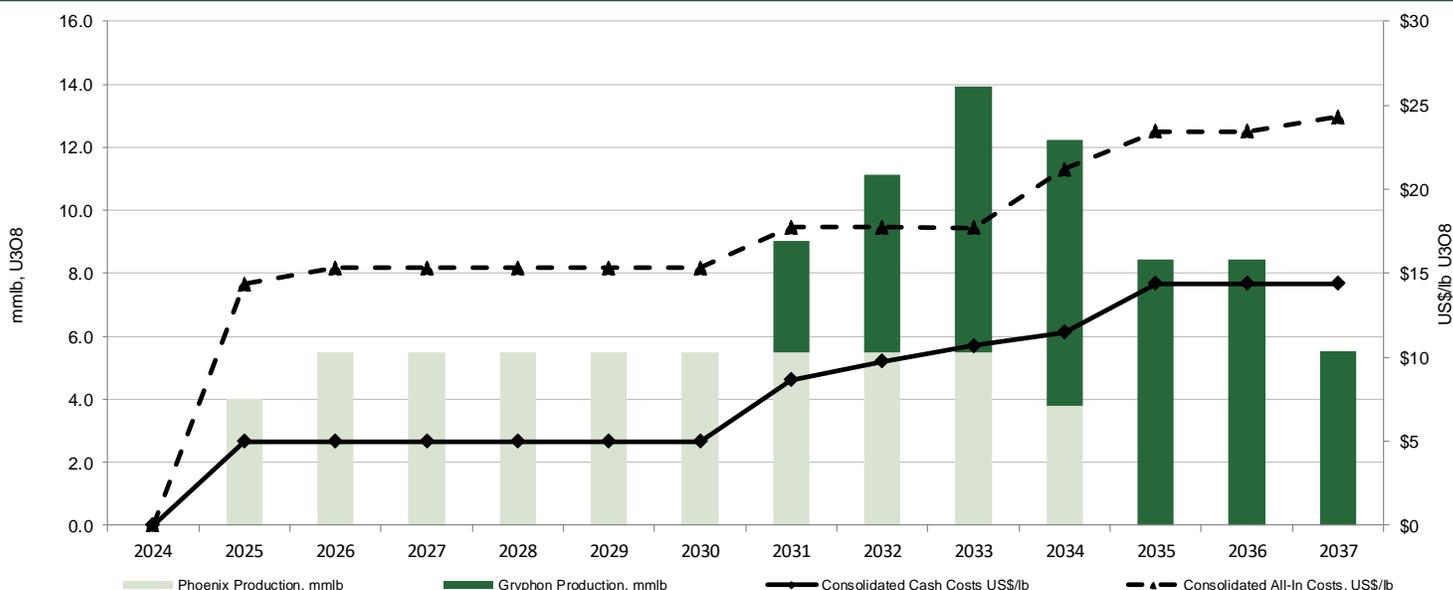
Source: Company

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Exhibit 5. Wheeler River Production and Cost Profile



Source: Company, TD Securities Inc.

Valuation

Denison is trading at 0.32x our 11%NAVPS estimate of \$0.94 (previously \$0.95) versus the base metal developers in our coverage universe, which are trading at 0.34x. Denison is currently trading at an EV/lb of US\$0.84 based on its total resources. This compares to its peer average currently trading at an EV/lb multiple of US\$1.28.

Exhibit 6. Uranium Company Comparisons (EV/lb ratios)

	19-Mar-20	Corporate Resources ¹					EV/Res		
		Share Price (C\$)	EV (US\$mm)	2P (Mlbs)	M+I (Mlbs)	Global Resources (Mlbs)	EV/2P (US\$/lb)	EV/M&I (US\$/lb)	EV/All (US\$/lb)
Cameco Corp.	CCO	8.78	2,362.8	461.2	885.2	1,059.9	5.12	2.67	2.23
Denison Mines Corp.	DML	0.31	120.8	98.6	144.2	156.9	1.22	0.84	0.77
Fission Uranium Corp.	FCU	0.13	37.4	-	87.8	140.6	n/a	0.43	0.27
NexGen Energy Ltd.	NXE	0.87	260.6	234.1	256.6	348.3	1.11	1.02	0.75
UEX Corp.	UEX	0.08	19.1	-	69.8	86.4	n/a	0.27	0.22
Uranium Energy Corp.	UEC	0.82	113.8	-	58.4	103.9	n/a	1.95	1.10
Ur-Energy Corp.	URE	0.49	58.3	-	32.9	41.2	n/a	1.77	1.42
Median							1.22	1.02	0.77
Average							2.49	1.28	0.96

1: Resources are shown inclusive of reserves; M&I+I includes historical resource estimates.

Source: Company, CapIQ, TD Securities Inc.

Justification of Target Price

Our \$0.50 target price (\$0.75 previously) is based on 0.50x our 11%NAVPS estimate (0.75x–0.80x previously) weighted 100% using a 0.76 Canadian dollar/U.S. dollar exchange ratio. Our lower target price multiples reflect industry-wide multiple compression amid the uncertainty caused by COVID-19.



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Key Risks to Target Price

Relative to the other companies in our equity coverage universe, we believe that an investment in Denison Mines is subject to a SPECULATIVE level of risk. Our recommendation is subject to forecast, financial, technical, political, and deposit-size risks. These include risks related to uranium prices; fuel cost; the governing fiscal and legislative regimes in the countries it operates in; the timing of key developments; market conditions; capital and operating costs; foreign exchange rates; resources; access to capital; operating parameters; permitting; environment; indigenous people; and staffing and key personnel retention.

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Exhibit 7. Company Snapshot

Financial Data	2018A*	2019A	2020E	2021E
Average share price (C\$)	0.67	0.59	0.31	0.31
Wt. Avg. S/O (mm)	562.9	592.6	612.4	628.8
EPS (f.d.) (C\$/sh)	(0.05)	(0.03)	(0.03)	(0.02)
CFPS bf WC (C\$/sh)	(0.04)	(0.04)	(0.03)	(0.02)

Income Statement (C\$mm)	2018A*	2019A	2020E	2021E
Revenues	15.6	15.5	15.7	15.7
Operating Costs	15.9	14.4	14.2	12.4
Royalty	0.0	0.0	0.0	0.0
Depreciation	3.7	3.7	5.2	4.0
Exploration	15.5	15.2	9.0	9.0
Reclamation	0.0	0.0	0.0	0.0
G & A	5.4	2.6	4.0	4.0
Interest Expense	3.7	4.1	0.0	0.0
Realized Hedge Gain (loss)	0.0	0.0	0.0	0.0
UnRealized Hedge Gain (loss)	0.0	0.0	0.0	0.0
Other	(13.5)	1.0	0.0	0.0
EBITDA	(29.8)	(10.7)	(11.4)	(9.7)
EBIT	(33.5)	(14.4)	(16.6)	(13.7)
EBT	(37.2)	(18.5)	(16.6)	(13.7)
Taxes (recovery)	(8.3)	(5.4)	0.0	(4.1)
Effective tax rate	na	na	na	na
Minority interest	-	-	-	-
Reported net earnings	(33.8)	(18.1)	(16.6)	(9.6)
Adjusted net earnings	(27.7)	(18.1)	(16.6)	(9.6)
EPS Reported (C\$/sh.)	(0.06)	(0.03)	(0.03)	(0.02)
EPS (Adjusted) (C\$/sh.)	(0.05)	(0.03)	(0.03)	(0.02)

Revenues By Metal (C\$mm)	2018A*	2019A	2020E	2021E
Uranium/Tolling	4.2	4.2	5.8	5.8
Vanadium	0.0	0.0	0.0	0.0

Cash Flow Statement (C\$mm)	2018A*	2019A	2020E	2021E
Operating CF bf. ch. in WC	(21.3)	(21.1)	(17.3)	(11.4)
CF from operating activities	(21.0)	(18.8)	(17.3)	(11.4)
CF from financing activities	4.5	4.7	12.5	0.0
CF from investing activities	36.0	(0.9)	0.0	0.0
CAPEX	(1.6)	(0.9)	0.0	0.0
CFPS bf. ch. in WC (C\$/sh)	(0.04)	(0.04)	(0.03)	(0.02)

Balance Sheet (C\$mm)	2018A*	2019A	2020E	2021E
Cash	23.2	8.2	3.4	(8.0)
Current assets	31.7	16.5	11.8	0.4
Total assets	312.2	300.0	290.0	274.6
Current liabilities	12.5	14.9	14.9	14.9
Long term debt	0.0	0.0	0.0	0.0
Total liabilities	89.9	89.8	84.0	78.2
Non Controlling Interest	0.0	0.0	0.0	0.0
Working Capital	19.2	1.6	(3.2)	(14.6)
Shareholders' equity	222.2	210.1	206.0	196.4

*Historic financial results (prior to January 1, 2018) are presented in U.S. dollars.



Realized Metal Prices & Costs	2018A*	2019A	2020E	2021E
Uranium, U3O8 (US\$/lb)	24.86	25.94	25.13	27.00
Forex CAD to USD	0.77	0.75	0.75	0.76

Production and Sales	2018A*	2019A	2020E	2021E
Total U3O8 Production (000' lbs)	0	0	0	0

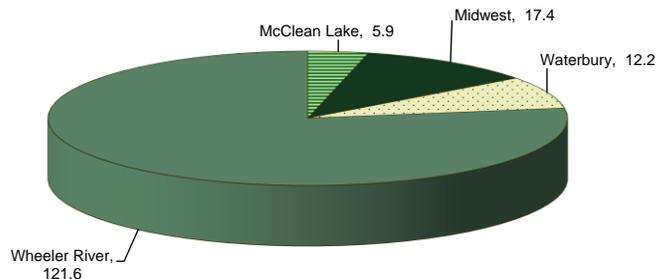
NAV Analysis	10% Discount		11% Discount	
	US\$mm	US\$/sh	US\$mm	US\$/sh
Mining Assets				
McClean Mill Complex (22.5%)	65.7	0.10	65.7	0.10
Athabasca Basin Resources (22.5% to 60%)	166.7	0.27	166.7	0.27
Phoenix (90%)	381.0	0.61	340.7	0.54
Gryphon (90%)	7.3	0.01	0.0	0.00
Hook-Carter Property	3.9	0.01	3.9	0.01
Total Project NAV	624.7	0.99	577.1	0.92
Other Tangible Assets				
Investment - GoviEx	5.5	0.01	5.5	0.01
Skyharbour Resources	1.0	0.00	1.0	0.00
Corporate Adjustments				
Working Capital	1.6	0.00	1.6	0.00
Long Term Debt	0.0	-	0.0	-
In the Money Options/Warrants	0.0	-	0.0	-
Estimated Working Capital Additions	4.7	0.01	4.7	0.01
Estimated Debt Additions	0.0	-	0.0	-
Total Net Asset Value US\$/sh.	485.1	0.77	448.9	0.71
Total Net Asset Value C\$/sh.		1.01		0.94

Asset	Tonnes kt	Grade %	Interest %	Contained mmlb
McClean Lake - Athabasca Basin	977	1.24	22.5	6
Midwest Deposit -Athabasca Basin	1865	1.68	25.17	17
Wheeler River - Athabasca	1891	3.24	90.0	122
Waterbury - Athabasca	291	1.50	65.9	12
Total Resources (all categories, M+I+I)	5,025	2.17		157

US\$ EV/lb Athabasca Basin and categories (M+I+I) **\$0.84**

Resources

Resources by Asset (mm lb U3O8)



Source: Company, TD Securities Inc.



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Company	Ticker	Disclosures
Denison Mines Corp.	DML-T	n/a

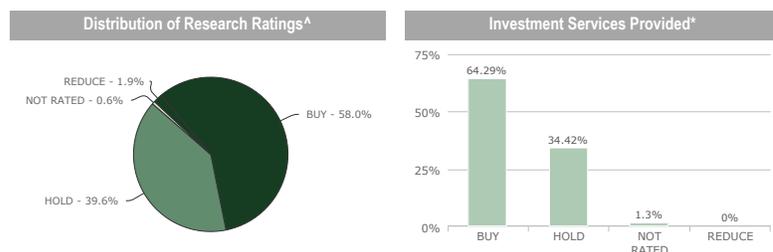
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Additional Important Disclosures

We visited Denison Mine's Wheeler River mine in northern Saskatchewan on August 27, 2019. The Wheeler River mine accounts for 75% of our NAV estimate. The company provided local transportation and meals during this site visit.

Price Graphs

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Current as of: March 20, 2020

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^{*} Percentage of subject companies within each of the three categories (BUY, HOLD, and REDUCE) for which TD Securities Inc. has provided investment banking services within the last 12 months.

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SPECULATIVE BUY: The stock's total return is expected to exceed a minimum of 30% over the next 12 months (with higher thresholds for less liquid securities); however, there is material event risk associated with the investment that could result in a significant loss.

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REDUCE: The stock's total return is expected to be negative over the next 12 months.

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