

Action Note

Equity Research

June 22, 2018

Metals & Minerals

Denison Mines Corp.

(DML-T) C\$0.69

Positive Estimate Revisions Ahead of the Wheeler River PFS

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Event

We have updated our estimates to reflect the company's Q1/18 results, along with changes to our modelling assumptions for Wheeler River ahead of the release of the company's pre-feasibility study (PFS) expected in Q3/18.

Impact: SLIGHTLY POSITIVE

- We continue to expect the next key catalyst for the company will be the completion of its Wheeler River PFS.** We have updated our estimates to reflect an overall 25% increase in the size of the resources being modeled based on resource growth from the Gryphon zone since the release of the company's PEA in April, 2016. As a result, we now model a 17-year mine life producing 115mm1b U₃O₈ at cash costs of \$18.42/lb.
- Summer exploration program** - The company expects the summer drilling program for its 64.22% owned Waterbury Lake project to focus on step-out drilling at the Huskie zone, testing high-priority targets ~2.5km to the northeast. The summer program is expected to include 4,800m of diamond drilling in 12 holes commencing in late-July. The company has also commenced drilling at Wheeler River, which includes 20,500 metres in 28 drill holes.
- Cashed up through 2018** — The company ended Q1/18 with cash of \$35.8mm. We believe that the company will have sufficient liquidity to fund ongoing activities through 2018 based on planned spending levels.
- Positive forward-looking uranium outlook** - There have been numerous positive developments in the uranium market over the past month. These developments include Paladin Energy's announcement it will place its Langer Heinrich mine in care and maintenance; KazAtomProm's official confirmation of lowering national uranium production to 21,600t-U in 2018; and Yellow Cake's planned US\$150mm-US\$200mm IPO in London for July, which it will use to buy 8.1mm1bs U₃O₈. We expect the combination of supply curtailments and significant spot market uranium purchases to provide a boost to uranium prices in the near term, in our view.

TD Investment Conclusion

We are maintaining our **HOLD** rating and increasing our target price to **\$0.95** (previously **\$0.90**) using a **1.0x 11%NAVPS** (previously **0.9x**). We believe the positive events on both uranium supply and demand are material and warrants an increase to our NAVPS multiple.

Recommendation:	HOLD
Risk:	SPECULATIVE
12-Month Target Price:	C\$0.95↑ Prior: C\$0.90
12-Month Dividend (Est.):	C\$0.00
12-Month Total Return:	37.7%

Market Data (C\$)

Current Price	C\$0.69
52-Week Range	\$0.50 - \$0.80
Mkt Cap (f.d.) (\$mm)	\$385.8
EV (\$mm)	\$350.1
Current Dividend	\$0.00
Dividend Yield	0.0%
Avg. Daily Trading Vol.	1,232,605

Financial Data (C\$)

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	559.2
Float Shares (mm)	559.2
Net Debt (\$mm)	\$(35.8)
Net Debt/Total Cap	0.0%
NAVPS	\$0.93
Working Cap (\$mm)	\$34.0

Estimates (C\$)

Year	2016A	2017A	2018E	2019E
EPS (f.d.)	(0.02)	(0.03)	(0.04)	(0.03)
EPS (f.d.) (old)	-	-	(0.03)	(0.02)
CFPS (f.d)	(0.02)	0.02	(0.05)	(0.03)
CFPS (f.d) (old)	-	-	(0.04)	-

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

Year	2016A	2017A	2018E	2019E
Q1	(0.01)	0.00	(0.01)	-
Q2	0.00	(0.01)	(0.01)	-
Q3	0.00	(0.01)	(0.01)	-
Q4	0.00	0.00	(0.01)	-

Supplemental Data

Year	2016A	2017A	2018E	2019E
U3O8 (US\$/lb)	27	22	23	27

Note: Starting January 1, 2018, the company will be reporting its financial results in CAD, 2016 and 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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Details

We updated our estimates to reflect the company's Q1/18 results and the recent bullish outlook on the uranium market. The company ended Q1/18 with working capital of \$34mm, including cash of \$35.8mm. We believe that the company will have sufficient liquidity to fund ongoing activities through 2018. We assume a \$15mm equity financing in late-2019 to fund its operations.

Outlook

We have revised our estimates ahead of the company's Wheeler River PFS planned for Q3/18 – The most material change to our estimates is an overall increase in the size of the resources being modeled. Since announcing the results of the Wheeler River PEA in April 2016, the company has grown its measured and indicated resources significantly to 1,809kt (previously 166kt) grading 3.3% U₃O₈ (previously 19.1%) containing 132mmlbs (previously 70mmlbs).

All of the resource growth in the indicated category has come from the recent exploration work on the Gryphon zone. We expect a large portion of these resources to convert to reserves in the PFS, using a similar 23% external dilution factor, and 95% recovery as in the PEA (Exhibit 1).

Exhibit 1. Wheeler River's Updated Development Assumptions

		March 2016 PEA	TDS Previous	TDS Revised
Ownership	%	60%	66%	66%
Total Tonnes in the DCF	ktonnes	1,215	1,375	1,722
Total Resources Used in DCF, U3O8	mmlb	105.0	112	116.5
Life of Mine	years	16	17	17
Production Start-Up		2025	2025	2025
Assumed LT Price, U3O8	US\$/lb	62.60	55.00	55.00
Assumed LT CAD/USD Exchange Rate		0.74	0.82	0.82
Average Tonnes per Day Milled	tpd		222	280
Average Head Grade	%	3.91%	3.71%	3.12%
Average Recovery	%	97%	97%	97%
Total U3O8 Production (100% basis)	mmlb	102.0	110	115.4
Annual Avg. Production (100% basis)	mmlb	6.4	6.5	6.8
Initial Capex (100% basis)	C\$ mm	560	414	600
Sustaining Capex & Closure Costs (100%)	C\$ mm	543	469	728
Total Capex (100% basis)	C\$ mm	1,103	883	1,328
Total Operating Costs (100% basis)	C\$ mm	2,690	1,366	2,593
Average Annual Operating Costs	US\$/lb	19.09	18.86	18.42
Average Annual Operating Costs	C\$/lb	25.77	22.99	22.47
NPV-8% (66%)**	C\$ mm	548.0	345.1	385.9
NPV-10% (66%)	C\$ mm		256.3	272.6
NPV-11% (66%)	C\$ mm		220.2	226.8

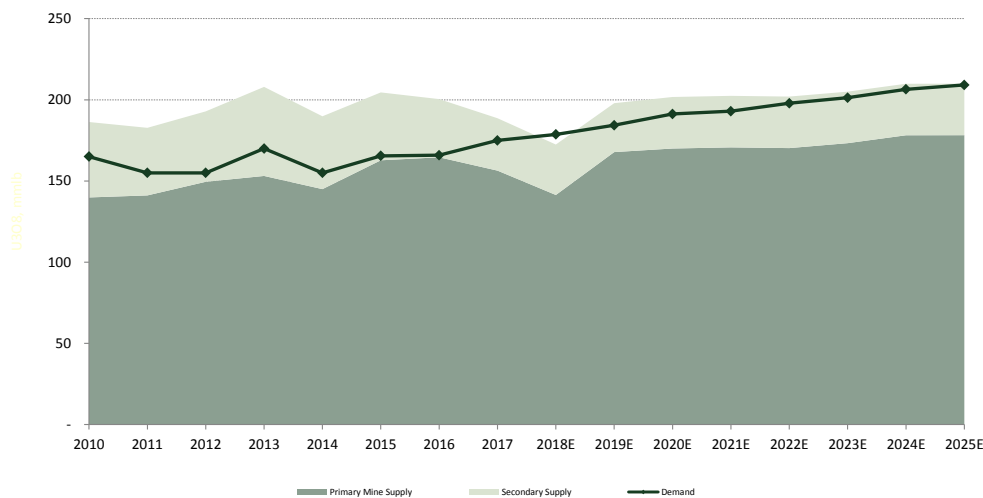
** Denison's 8%NPV reported on a 60% basis in the PEA

Source: Company, TD Securities

Uranium market overview

- **Two weeks ago, KazAtomProm confirmed that the country's 2018 uranium production target has been lowered to 21,600t U.** The news was made public earlier by the Kazakh Energy Minister two weeks prior to the confirmation, which we believe was met with some skepticism due to prior misinterpretation of Kazakhstan's production announcements in 2017. The reported uranium production from Kazakhstan for the first four months of 2018 was 7,137t U, which prorated leads to annualized production of ~21,400t U and provides some credibility that the announced production cuts will be realized, in our view.
- **We continue to assume Cameco's McArthur River mine (18-19mmlbs of annual production) will restart at the end of 2018 and Kazakh production returns to 23,000t U in 2019 and 2020.** Our supply-demand model forecasts a potential supply deficit in 2018 of ~6mmlbs, with the market returning to surpluses in 2019 and 2020 of 14mmlbs and 10mmlbs, respectively. If the planned curtailment at Cameco is extended past 2018, we believe that the market could be in deficit in 2019.
- **New significant uranium buyer** — Yellow Cake, a new uranium investment vehicle expected to raise \$150mm-\$200mm in a London IPO for July, is planning to acquire 8.1mmlbs U from KazAtomProm (~14.5% of expected 2018 production). Yellow Cake also reportedly has the option to purchase \$100mm of uranium annually over the next nine years from KazAtomProm. With the removal of these pounds from the spot market, we expect that this will help support uranium prices moving forward.

Exhibit 2. TD Uranium Supply/Demand Forecast (mmlbs U3O8)



Notes:

- (1) McArthur River closed for 10-months; production resumes in late-2018
- (2) Kazatomprom cuts production to ~21,400tU in 2018; production increases to 23,000tU in 2019

Source: UxC; World Nuclear Association; TD Securities estimates

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Exhibit 3. Uranium supply/demand model, including Cameco and KazAtomProm 2018 production cuts

	2010	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2023E
Mine Supply - Western World (mm lbs U3O8)														
Total Mine Supply - Western World	85	86	90	93	85	106	103	102	90	113	116	115	115	117
Net Eastern Mine Supply (lbs U3O8)	55	55	59	60	60	57	62	54	51	55	54	56	55	57
Total World Mine Supply (mmlb U3O8)	140	141	150	153	145	163	165	156	141	168	170	171	170	173
YoY % change	5.9%	0.9%	5.9%	2.4%	-5.3%	12.2%	1.1%	-5.0%	-9.6%	18.7%	1.3%	0.4%	-0.3%	1.8%
Secondary Supply														
Global underfeeding and tails re-enrichment*	9	5	5	15	20	20	18	15	15	15	15	15	15	15
Mixed Oxide Fuel (MOX)*	7	8	10	8	8	4	4.7	5	6	6	8	8	8	8
US government sales (DOE Proposed)*	6	5	5	8	8	7.3	4.2	3.1	1.6	0.0	0.0	0.0	0.0	0.0
Additional Russian secondary supply*	24	24	24	24	5	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Other (commercial inventories)					4	8	7	7	7	7	7	7	7	7
Total Secondary Supply (mmlb)	46	42	43	55	45	42	36	32	31	30	32	32	32	32
Total Supply	186	183	193	208	190	205	200	189	172	198	202	202	202	205
Total World Demand														
Total World Nuclear Generating Capacity (MWe)						344,691	353,918	365,217	377,372	392,516	403,578	411,761	423,987	431,739
Uranium requirements per MWe						465	453	460	460	460	460	460	460	460
Uranium demand (mmlb)						160	160	168	174	181	186	189	195	199
First Core Requirement (2 year lead)						5	6	7	5	4	6	4	3	3
Total World Demand	165	155	155	170	155	165	166	175	179	184	191	193	198	201
YoY % change	-2.4%	-6.1%	0.0%	9.7%	-8.8%	6.8%	0.2%	5.5%	2.1%	3.2%	3.8%	0.9%	2.5%	1.7%
Supply / Demand Balance (mmlb)	21	28	38	38	35	39	35	14	-6	14	10	9	4	4
Actual and TD Forecast Price Deck (US\$/lb U3O8)	46.46	57.08	48.73	38.57	33.60	36.89	26.57	22.12	22.63	27.00	30.00	35.00	45.00	55.00

* Source: World Nuclear Association

Note - TD LT price assumption starts in 2023; a flat US\$55/lb price is assumed for 2023 and beyond.

Source: World Nuclear Association; TD Securities estimates

Valuation

Denison is trading at 0.75x our 11%NAVPS estimate of \$0.93 (previously \$1.00) versus the base metal developers in our coverage universe of 0.48x. Denison is currently trading at a pro forma EV/lb of US\$2.33 based on total attributable measured, indicated, and inferred resources of 112.8mmlbs within the Athabasca Basin.

Exhibit 4. Uranium Company Comparisons (EV/lb ratios)

Comparable Company Analysis: Uranium Producers & Developers/Explorers										
		Corporate Resources ¹								
		22-Jun-18	EV	Global		Resource	EV/Res			
Ticker	Share	Price (C\$)	(US\$m)	2P	M+I	Resources	Grade	EV/2P	EV/M&I	EV/All
				(Mlbs)	(Mlbs)	(Mlbs)	(%U3O8)	(US\$/lb)	(US\$/lb)	(US\$/lb)
Cameco Corp.	CCO	15.07	4,902.1	414.7	487.0	1,149.6	6.43%	11.82	10.07	4.26
Denison Mines Corp.	DML	0.69	263.0	-	83.6	112.8	2.58%	n/a	3.15	2.33
Fission Uranium Corp.	FCU	0.68	216.0	-	87.8	140.6	1.81%	n/a	2.46	1.54
NexGen Energy Ltd.	NXE	2.63	664.9	-	179.5	301.6	2.51%	n/a	3.70	2.20
UEX Corp.	UEX	0.25	58.6	-	69.8	86.4	0.41%	n/a	0.84	0.68
Uranium Energy Corp.	UEC	2.32	274.9	-	58.0	103.0	0.08%	n/a	4.74	2.67
Median								11.82	3.43	2.27
Average								11.82	4.16	2.28

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

Source: Company Reports; TD Securities; CapitalIQ.

Source: Company, Capital IQ, TD Securities Inc.

Justification of Target Price

Our target price of \$0.95 (previously \$0.90) is based on 1.0x our 11%NAVPS estimate (previously 0.9x) weighted 100% using a 0.80 CAD/USD exchange ratio. The increase to our NAVPS multiple is based on the positive events on both uranium supply and demand, as well as the anticipated de-risking of Wheeler River following the release of the PFS.



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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 5. Company Snapshot

Financial Data	2016A*	2017A*	2018E	2019E
Average share price (C\$)	0.66	0.70	0.67	0.69
Wt. Avg. S/O (mm)	528.7	556.8	559.2	559.2
EPS (f.d.) (C\$/sh)	(0.02)	(0.03)	(0.04)	(0.03)
CFPS bf WC (C\$/sh)	(0.02)	0.02	(0.05)	(0.03)

Income Statement (C\$mm)	2016A*	2017A*	2018E	2019E
Revenues	13.8	11.1	16.1	16.7
Operating Costs	10.6	10.6	13.5	12.5
Royalty	0.0	0.0	0.0	0.0
Depreciation	4.0	4.6	3.9	4.0
Exploration	11.2	12.8	18.8	12.0
Reclamation	0.0	0.0	0.0	0.0
G & A	0.1	0.3	4.1	4.1
Interest Expense	0.8	0.9	0.7	0.0
Realized Hedge Gain (loss)	0.0	0.0	0.0	0.0
Other	(2.8)	0.4	(4.5)	0.0
EBITDA	(10.8)	(12.2)	(23.6)	(11.8)
EBIT	(14.8)	(16.9)	(27.5)	(15.8)
EBT	(15.7)	(17.7)	(28.2)	(15.8)
Taxes (recovery)	(4.0)	(3.6)	(5.9)	0.0
Effective tax rate	na	na	na	na
Minority interest	-	-	-	-
Reported net earnings	(11.7)	(14.1)	(23.5)	(15.8)
Adjusted net earnings	(9.4)	(14.3)	(23.5)	(15.8)
EPS Reported (C\$/sh.)	(0.02)	(0.03)	(0.04)	(0.03)
EPS (Adjusted) (C\$/sh.)	(0.02)	(0.03)	(0.04)	(0.03)

Revenues By Metal (C\$mm)	2016A*	2017A*	2018E	2019E
Uranium/Tolling	4.6	2.6	5.2	5.8
Vanadium	0.0	0.0	0.0	0.0

Cash Flow Statement (C\$mm)	2016A*	2017A*	2018E	2019E
Operating CF bf. ch. in WC	(9.2)	13.5	(25.3)	(17.7)
CF from operating activities	(8.1)	12.4	(22.6)	(17.7)
CF from financing activities	8.8	13.7	0.0	14.3
CF from investing activities	5.8	(35.5)	36.8	0.0
CAPEX	(1.3)	(0.8)	(0.1)	0.0
CFPS bf. ch. in WC (C\$/sh)	(0.02)	0.02	(0.05)	(0.03)

Balance Sheet (C\$mm)	2016A*	2017A*	2018E	2019E
Cash	11.8	2.9	17.8	14.4
Current assets	17.1	40.1	26.3	22.9
Total assets	217.4	260.1	295.2	287.8
Current liabilities	7.8	11.0	10.3	10.3
Long term debt	0.0	0.0	0.0	0.0
Total liabilities	44.7	76.1	88.6	82.8
Non Controlling Interest	0.0	0.0	0.0	0.0
Working Capital	9.3	29.1	16.0	12.6
Shareholders' equity	172.7	184.0	206.6	205.0

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



Realized Metal Prices & Costs	2016A*	2017A*	2018E	2019E
Uranium, U3O8 (US\$/lb)	26.63	22.12	22.63	27.00
Forex CAD to USD	0.76	0.78	0.79	0.80

Production and Sales	2016A*	2017A*	2018E	2019E
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				
McClellan Mill Complex (22.5%)	106.3	0.19	106.3	0.19
Athabasca Basin Resources (22.5% to 60%)	136.3	0.24	136.3	0.24
Wheeler River	272.6	0.49	226.8	0.41
Hook-Carter Property	3.8	0.01	3.8	0.01
Other Tangible Assets				
Investment - GoviEx	13.5	0.02	13.5	0.02
Skyharbour Resources	3.0	0.01	3.0	0.01
Corporate Adjustments				
Working Capital	28.0	0.05	28.0	0.05
Long Term Debt	0.0	-	0.0	-
In the Money Options/Warrants	0.0	-	0.0	-
Estimated Working Capital Additions	0.0	-	0.0	-
Estimated Debt Additions	0.0	-	0.0	-
Total Net Asset Value US\$/sh.	450.7	0.81	414.0	0.74
Total Net Asset Value C\$/sh.		1.01		0.93

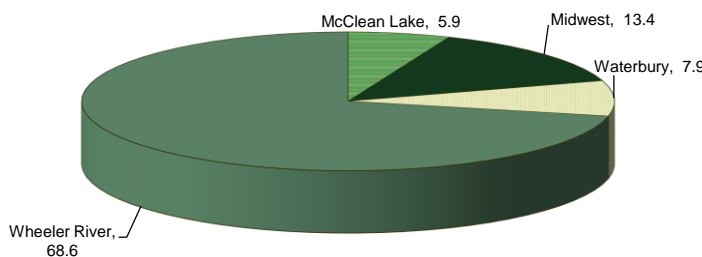
Asset	Tonnes kt	Grade %	Interest %	Contained mmlb
McClellan Lake - Athabasca Basin	969	1.24	22.5	5.9
Midwest Deposit - Athabasca Basin	852	2.85	25.17	13.4
Wheeler River - Athabasca*	1891	3.24	63.3	85.5
Waterbury - Athabasca	291	2.00	61.6	7.9
Total Resources (all categories, M+I+I)	4,004	2.58		112.8

US\$ EV/lb Athabasca Basin and categories (M+I+I) **\$2.33**

* 66% subject to agreement with JV partners

Resources

Proforma Resources by Asset (mm lb U3O8)



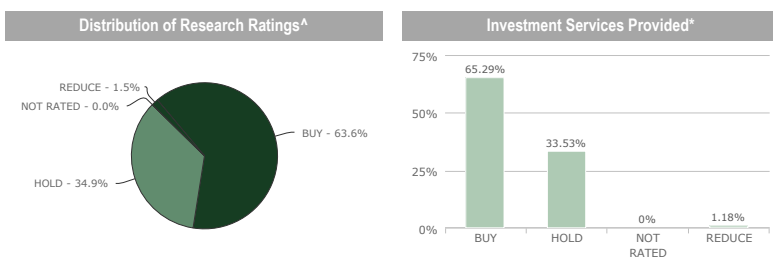
Source: Company, TD Securities Inc.

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TD Securities Equity Research Disclosures



Current as of: June 22, 2018

^A Percentage of subject companies under each rating category: BUY (covering ACTION LIST BUY, BUY and SPECULATIVE BUY ratings), HOLD, and REDUCE (covering TENDER and REDUCE ratings).

^{*} 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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HOLD: The stock's total return is expected to be between 0% and 10%, (with higher thresholds for less liquid, more risky securities) over the next 12 months.

TENDER: Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.

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SUSPENDED: Due to evolving circumstances, we can no longer generate what we consider a defensible target price and rating at the current time.

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Action Note

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