February 2, 2017
Research Update

Equity Research

DENISON MINES CORP.

Financing arrangement with Anglo Pacific Group PLC; Target Increased

EVENT

Denison Mines has announced that it has entered into a financing agreement with Anglo Pacific Group PLC for $43.5M.

BOTTOM LINE

Positive – This non-dilutive financing only involves Denison's 22.5% share of toll milling revenues from Cameco's Cigar Lake Toll Milling Agreement and will provide the financial flexibility to take Wheeler River towards an eventual production decision. We maintain our BUY recommendation on Denison Mines and are increasing our target price to $1.80 per share (+3%).

FOCUS POINTS

- **Ideal time to monetize:** It is an opportune time for Denison to engage in this type of deal as it is entering into the "fat" portion of its expected cash flows from the McClean Lake Joint Venture. Cigar Lake feed is expected to hit max production of over 18M lbs annual production in 2017 and the toll milling rate declines over time.
- **Accretive deal:** We calculate the value of the cash flows being transferred to Anglo Pacific to be worth $39.8M. As such, the $43.5M transaction is accretive to Denison.
- **De-risked cash flows:** By entering into this contract, Denison monetizes the cash flow from its 22.5% ownership position the joint venture. There are no warranties regarding the future rate of production from Cigar Lake or processing at the McClean Lake Mill. Nor are there guarantees pertaining to the collectability of proceeds.

Recommendation:	**BUY**
Symbol/Exchange:	DML-TSX / DNN-NYSE
Sector:	Metals & Mining
All dollar values in C$ unless otherwise noted.	
Current price:	$0.91; US$0.69
One-year target:	$1.80↑
Return Target:	98%
Cash on hand:	$55.3M

Company Summary

Shares O/S (M)	540.6	52-week range	$0.49 - $1.05
Market cap ($M)	$485.4	Avg. weekly vol. (M)	3.1
Market float ($M)	$421.3	Fiscal year-end	31-Dec
Revenue Generating Assets			
McLean Lake Mill			
Uranium Participation Management Contract			
Measured & Indicated Resource	**Tonnes**	**U_3O_8 Grade**	**Attrib Resource**
McClean Lake Deposits	778,700	2.44%	4.06 M lbs
Midwest	818,000	4.91%	12.26 M lbs
Waterbury Lake	307,000	1.39%	6.17 M lbs
Wheeler River	166,000	19.13%	42.12 M lbs
Inferred Resource		**U_3O_8 Grade**	**Resource**
McClean Lake Deposits	510,900	0.68%	1.70 M lbs
Midwest	34,200	6.25%	1.18 M lbs
Waterbury Lake	0	0.90%	1.65 M lbs
Wheeler River	843,000	2.30%	26.48 M lbs

(1) Corporate adjustments are as of last reported Financial Statements

Source: Company reports and Cantor Fitzgerald estimates

Company profile: Denison Mines is a uranium exploration company with interests primarily focused in the Athabasca Basin, but also located in Zambia, Mali and Namibia.

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See disclosure and a description of our recommendation structure at the end of this report.

LOAN AND STREAM DETAILS

The financing itself has been structured between Denison Mines Inc. ("DMI") and 9373721 Canada Inc. ("SPV"), both wholly owned subsidiaries of Denison, and Anglo Pacific Group ("APG") and its wholly owned subsidiary, Centaurus Royalties Ltd. ("Centaurus"). This non-dilutive financing only involves Denison's 22.5% share of toll milling revenues from Cameco's Cigar Lake Toll Milling Agreement and will provide the financial flexibility to take Wheeler River towards an eventual production decision.

The $43.5M financing will comprise:

1. A $40.8M, 13 year Limited Recourse Loan arrangement involving APG and two wholly owned subsidiaries of Denison (DMI and SPV), and
2. A $2.7M stream where payments will equal Denison's 22.5% share of the proceeds from the toll milling certain Cigar Lake ore at McClean.

APG is also to receive 1.67M Denison warrants (3 year term) with an exercise price of C$1.27 (~30% premium to the 10 day VWAP prior to announcement). If exercised, the warrants would raise an additional $2.1M gross proceeds to Denison. Effectively, the agreement is $43M to Denison in exchange for all Cigar Lake related toll milling revenue from the McClean Lake Joint Venture ("MLJV"). The components listed in parts 1 and 2 above are designed for tax reasons for Denison.

As the name implies, the 13 year Limited Resource Loan is limited in recourse to the extent of Denison's share of the toll milling revenues earned by the MLJV from the processing of the first 215M lbs U_3O_8 of ore received from the Cigar Lake mine on or after July 1, 2016. As such, the only way for APG to recover the amount of interest and principal owing under the loan is through the Cigar Lake tolling revenue that Denison earns under the current tolling agreement interest in the MLJV.

- Specifically, APG loans $40.8M to SPV and then SPV on-loans the $40.8M to DMI.
- The loan will accrue interest at a rate of ~10% per annum and there is no predetermined principal repayment schedule.
- Denison Mines Corp. will guarantee the limited recourse loan repayments under the SPV Loan, and will grant a second ranking pledge of its shares of DMI to secure performance by DMI of its obligations to pay the SPV Loan.
- There is no bullet payment due or conversion feature applicable on maturity. If the debt is unpaid and the tolling revenue earned from the processing of the first 215M lbs U_3O_8 has been paid over to SPV and then on to APG, there will generally be no further recourse against DMI and Denison.
- Effectively, APG gets only the cash flows from the Cigar Lake toll milling agreement attributable to Denison.

Concerning the streaming agreement, the stream entitles Centaurus to receive a stream from DMI equal to the amount of the toll milling revenue received by DMI under the Toll Milling Agreement, once throughput from the McClean

Lake mill exceeds 215M lbs U_3O_8, from ore received from the Cigar Lake mine on or after July 1, 2016.

- Given the 215M lb cut-off, one can see how the Streaming Agreement is meant to pick up from where the Loan Arrangements leaves off.
- As noted above, there is no material change in what occurs with the cash flows. The separation between the loan and the stream is merely for tax purposes.

DE-RISKED CASH FLOWS

Note as well that no warranty is provided by Denison, DMI or SPV to APG or Centaurus regarding the future rate of production at the Cigar Lake Mine and/or the McClean Lake mill, or the amount or collectability of proceeds to be received or receivable by the MLJV in respect of toll milling Cigar Lake ore. This effectively de-risks the transaction for Denison as the company will no-longer be susceptible to variations in cash flow stemming from the operational risks at the Cigar Lake mine or McClean Lake mill. Denison will continue to own its 22.5% strategic interest in the MLJV.

- The agreement between Denison and APG provides the potential for toll milling in excess of the current expected maximum amount of 18M lbs U_3O_8 per year. In the event this occurs, Denison would receive 20% of the excess cash flows above what was provided by the original 18M lbs maximum. This incentivizes Denison to increase the throughput should it have no other use for the 6M lbs of expected annual excess capacity.
- Moreover, Denison maintains ownership so that it has the pole position in the future milling of material from its Wheeler River project in the future.

Also, note that the $24M BNS Facility, which is limited to use for non-financial letters of credit in support of Denison's reclamation obligations, has been amended and extended to January 31, 2018.

IDEAL TIME TO MONETIZE; ACCRETIVE TO DENISON

It is an opportune time for Denison to engage in this type of deal as it is entering into the "fat" portion of its expected cash flows from the MLJV. Cigar Lake feed is expected to hit max production of over 18M lbs (100% basis) annual production in 2017 and be maintained at approximately that rate until 2026, at which point afterwards the toll milling rate declines over time. Revenues are expected to remain consistent at approximately $25M (100% basis) until 2024. See exhibit 1 on the following page.

- Based on our calculations, the value of the Cigar Lake-related processing attributable to Denison is worth $39.8M at a 7% discount rate, which makes the $43.5M deal accretive to Denison.

Exhibit 1. Toll Milling Revenue projections (100% basis)

Year	Toll Milling Revenue 100 per cent. Basis[(1)] C$m	Attributable to Denison (22.5 per cent.) C$m
2016	25.5	5.7
2017	25.8	5.8
2018	25.9	5.8
2019	25.9	5.8
2020	25.9	5.8
2021	25.9	5.8
2022	25.9	5.8
2023	25.9	5.8
2024	24.6	5.5
2025	15.3	3.4
2026	15.3	3.4
2027	14.1	3.1
2028	3.2	0.7

Source: Cameco Corp.

VALUATION & RECOMMENDATION

We are maintaining our BUY recommendation and are increasing our target price to $1.80 per share from $1.75 per share, or by 3%. Our target price continues to be derived by applying a 1.0x multiple to NAV.

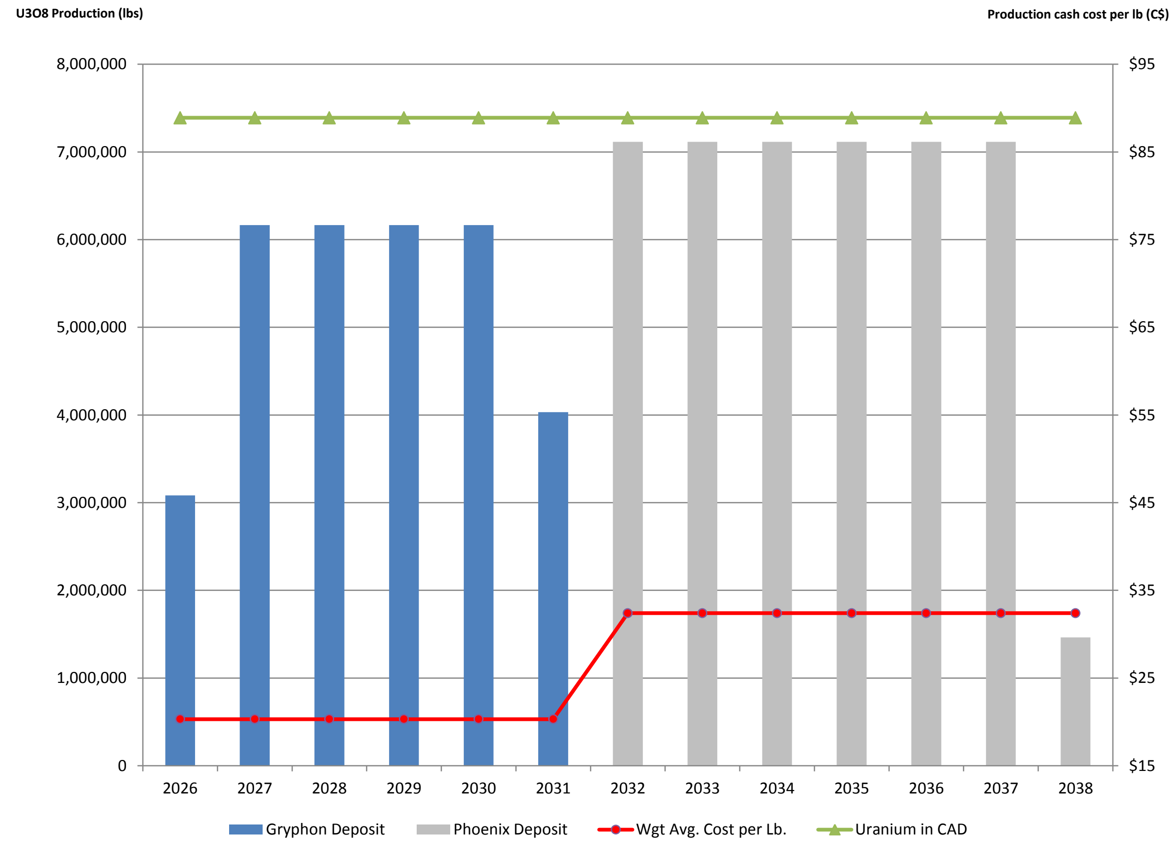
Our NAV for Denison increases to $1.78 per share from $1.74 per share after increasing the company's cash position by $43.5M and reducing the McClean Lake Mill value by $39.8M to $264.2M, or $0.37 per share. The residual value at McClean is comprised of expected cash flows from the toll milling of Wheeler River feed beginning in 2028 as well as a residual mill value of $1B.

Exhibit 2. Denison Mines Net Asset Value

Asset	Attributable M Lbs U_3O_8	EV/Lb	Value US($M)	Per share	Ownership	Notes
Revenue Generating Assets						
Wheeler River Project			$230.2	$0.43	60%	NPV @ 10%. Cameco 30% & JCU 10%
McClean Lake Mill			$199.5	$0.37	22.5%	7% DCF for processing expected Wheeler River feed; C$1B Residual value
UPC Contract Value			$28.4	$0.05		Minimum annual fee at a 5% Discount Rate
In-Situ Valuation						
McClean Lake Deposits	5.9	$7.00	$41.6	$0.08	22.5%	McLean Lake, McLean Lake North, & Sue D; Areva 70% & OURD 7.5%
Midwest	13.4	$7.00	$94.1	$0.17	25.17%	Areva 69.16% & OURD 5.67%; Development on hold reviewed every 6 months
Waterbury Lake	7.8	$7.00	$54.7	$0.10	60%	40% KEPCO
Other Assets						
25% stake in GoviEx Uranium			$9.2	$0.017		80% of the market value for conservatism
18.7% stake in Skyharbour Resources			$4.6	$0.009		80% of the market value for conservatism
Working Capital Net of Cash			$8.7	$0.02		As of Q3/16 Financials
Cash + proceeds from options and warrants			$55.8	$0.10		As of Q3/16 Financials + Anglo Pacific Financing
Valuation			**$726.8**	**$1.34**		
Valuation in CAD			**$962.4**	**$1.78**		in CAD

Source: Cantor Fitzgerald Research

Exhibit 3. Wheeler River Production Schedule



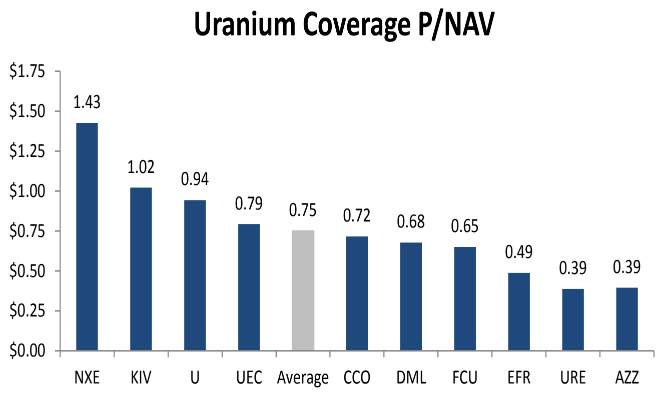
Source: Cantor Fitzgerald Research

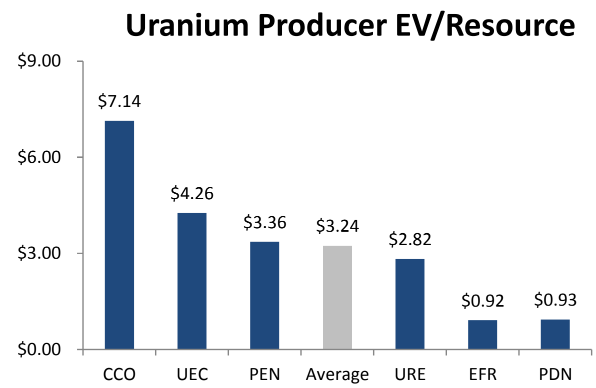
Exhibit 4. Peer Comparables

Uranium Producer Company Name	Stage	Stock Price (Local $)	Market Cap ($'000)	Enterprise Value ($'000)	NI43-101 Resources/JORC (M lbs) Avg Grade	P&P	M&I	Inferred	Total	MKT / LB	EV / LB	Est. 2016 Cash Cost / LB
Cameco Corporation (TSX:CCO)	Production	14.70	5,818,150.1	7,138,896.1	7.576%	465.1	245.9	288.8	999.8	$5.82	$7.14	$21.23
Energy Fuels Inc. (TSX:EFR)	Production	2.75	183,258.1	157,875.8	0.076%	0.0	110.3	61.9	172.2	$1.06	$0.92	$24.01
Paladin Energy Ltd (ASX:PDN)*	Production	0.13	211,834.9	487,772.9	0.079%	174.3	193.6	153.8	521.7	$0.41	$0.93	$21.23
Peninsula Energy Ltd. (ASX:PEN)*	Production	0.71	138,177.0	159,467.5	0.050%	0.0	17.2	30.2	47.4	$2.92	$3.36	$30.00
Uranium Energy Corp. (NYSE:UEC)*	Production	1.55	273,364.4	293,147.4	0.062%	0.0	32.4	36.3	68.7	$3.98	$4.26	n/a
UR-Energy Inc. (TSX:URE)	Production	0.94	135,055.8	126,686.5	0.080%	0.0	34.5	10.3	44.9	$3.01	$2.82	$15.39
Producer Average			**$1,126,640.0**	**$1,393,974.4**		**106.6**	**105.7**	**96.9**	**309.1**	**$2.87**	**$3.24**	**$22.37**

*Market Cap and Enterprise value for Paladin Energy, Peninsula Energy and Uranium Energy Corp. has been converted to $CAD at the prevailing $AUD/$CAD or $USD/$CAD market exchange rates

Uranium Explorer/Developer Company Name	Stage	Stock Price ($Local)	Market Cap (C$'000)	Enterprise Value (C$'000)	NI43-101/JORC Resources (M lbs) Avg Grade	M&I	Inferred	Total	MKT / LB	EV / LB
Hathor Exploration (Acquired)	Exploration	4.70	654,240.0	581,240.0	8.63%	17.2	40.7	57.9	$11.29	$10.03
Denison Mines (TSX:DML)	Exploration	0.91	485,411.3	359,745.8	2.29%	102.0	97.6	199.7	$2.43	$1.80
Fission Uranium Corp. (TSX:FCU)	Exploration	0.78	377,666.6	324,258.1	1.51%	79.6	25.9	105.5	$3.58	$3.07
NexGen Energy (TSX:NXE)	Exploration	3.37	1,031,861.3	1,013,546.5	2.63%	0.0	201.9	201.9	$5.11	$5.02
Kivalliq Energy Corp. (TSXV:KIV)	Exploration	0.16	39,479.5	38,705.2	0.69%	0.0	43.3	43.3	$0.91	$0.89
UEX Corp. (TSX:UEX)	Exploration	0.30	88,961.7	81,038.3	0.84%	68.2	16.5	84.7	$1.05	$0.96
Azarga Uranium (TSX:AZZ)	Development	0.44	32,559.5	26,874.0	0.17%	18.1	5.7	23.8	$1.37	$1.13
Average			**$387,168.5**	**$346,486.9**		**$40.7**	**$61.7**	**$102.4**	**$3.68**	**$3.27**





Source: Cantor Fitzgerald Research; Bloomberg

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The analyst responsible for this report *has* visited the material operations of Denison. No payment or reimbursement was received for the related travel costs.

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HOLD: The stock is fairly valued, lacks a near term catalyst, or its execution risk is such that we expect it to trade within a narrow range of the current price in the next 6 to 12 months. The longer term fundamental value of the company may be materially higher, but certain milestones/catalysts have yet to be fully realized.

SELL: The stock is overpriced relative to the company's fundamentals, and we expect it to decline from the current price over the next 6 to 12 months.

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