

URANIUM PARTICIPATION CORPORATION

Uranium sentiment still strong as UPC records 3rd consecutive monthly premium

EVENT

Uranium Participation Corp. (“UPC”) has announced its estimated Net Asset Value as at December 31, 2016, which totals \$3.53/share.

BOTTOM LINE

The market is trading UPC at an 8% premium relative to its fair value as of last close. Based on where it is trading, the market is implying a U₃O₈ price of US\$23.33/lb. versus the most recently reported spot U₃O₈ price of US\$21.63/lb. We maintain our buy recommendation and target price of \$5.00/share.

FOCUS POINTS

- **Premium shows confidence** – UPC has traded at a premium for three consecutive months following 25 consecutive months of trading at a discount. UPC has historically been a leading indicator for the uranium market and we view this change as a signal that U₃O₈ prices will head higher in the future.
- **Market implying a higher spot price** – Based on UPC’s last close price of \$4.00, the market is implying a US\$23.33/lb. spot price that is above the most recently quoted U₃O₈ price of US\$21.63/lb. We continue to point out that the current and market implied price are significantly below our US\$40/lb. global marginal cost of production and significantly below our US\$80/lb. long term equilibrium price forecast.

Recommendation:

BUY

Symbol/Exchange:	U/TSX, URPTF/OTC
Sector:	Metals and Mining
<i>All dollar values in C\$ unless otherwise noted.</i>	
Current price	\$4.00
One year target:	\$5.00
Return target	25%
Market Capitalization	\$482M

Company Summary

Shares O/S (M)	120.8	52-week range	\$3.55 - \$5.40
Market cap (\$M)	\$482.2	Avg. weekly vol. (000)	1.444
Market float (\$M)	\$481.7	Fiscal year-end	28-Feb
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Inventry	Quantity (M)	Mkt Price	Mkt Value
U3O8 (lbs)	10.0	\$28.55	286.3
UF6 (kg)	1.9	\$80.51	153.2
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Net Working Capital			6.1
Net Asset Value			\$445.61
NAVPS			\$3.69
Current Premium/Discount to Market NAV			8.2%

Source: Company Reports and Cantor Fitzgerald Canada Estimates



Company profile: Uranium Participation Corp. is a Canadian investment holding company which acquires and stores physical stock of U₃O₈ and UF₆ for investment purposes.

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

UPC'S NET ASSET VALUE

Based on the current U₃O₈ and UF₆ spot prices of US\$21.63/lb. and US\$61.00/KgU, respectively, and factoring in a current USD/CAD exchange rate of \$1.3213, the current fair value for UPC totals \$3.69/share.

Exhibit 1. UPC Current NAV based on current U₃O₈ and UF₆ prices

Fair value based on current U ₃ O ₈ and UF ₆ Price					
	Units	Quantity	Market Price		Market Value
			USD	CAD	CAD
U ₃ O ₈	lb	10,030,024	\$21.63	\$28.58	286,628
UF ₆	kg	1,903,471	\$61.00	\$80.59	153,404
					440,032
Net Working Capital					6,053
NAV					446,085
NAVPS					\$3.69

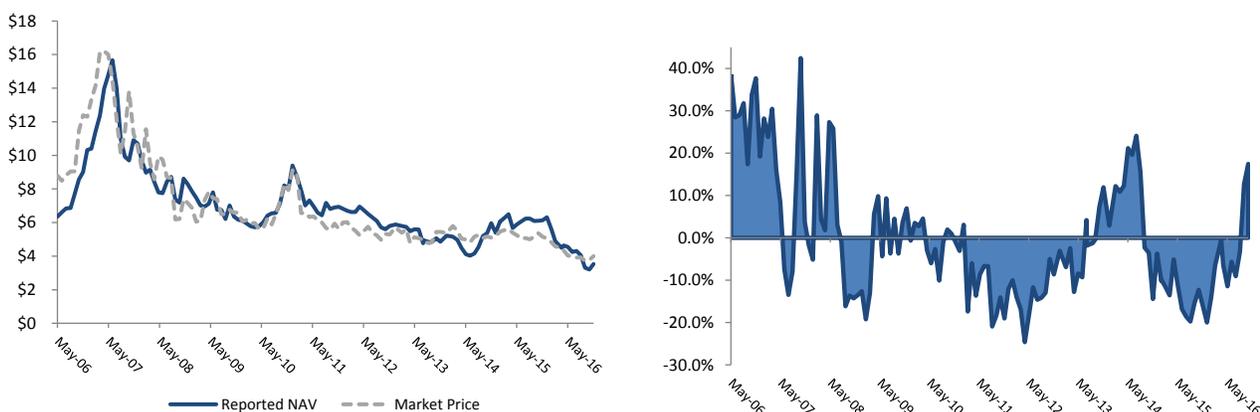
Source: Cantor Fitzgerald Estimates, Uranium Participation Corp.

Since May 2006, UPC has historically traded at its NAVPS on average. It has traded at a high of a 42% premium (Oct 2007) and a low of a 25% discount (May 2012).

Post-Fukushima, UPC has traded at an average discount of 6% with a high of a 24% premium (July 2014) and an aforementioned low of a 25% discount.

As we have noted in earlier reports, UPC tends to trade above its NAV as investors forecast a higher U₃O₈ spot price into the value of UPC's portfolio. This has come to fruition as of the October NAV update. As can be seen below, UPC shares' current 13.3% premium relative to its December 31 NAVPS is the third consecutive month of trading at a premium following 25 months of trading at a discount.

Exhibit 2. Market Price Premium / Discount to NAV Analysis: Now a premium to NAV



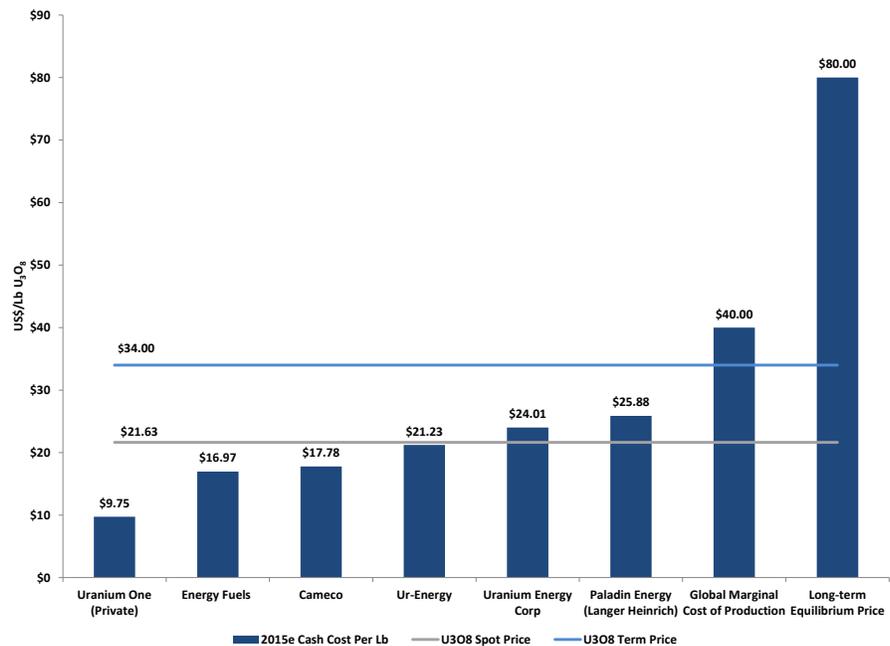
Source: Cantor Fitzgerald Canada Research

MARKET IMPLYING US\$23.33/LB U₃O₈

Based on the January 5 closing price of \$4.00 per share, we calculate that the market is currently implying a spot U₃O₈ price of US\$23.33 per lb. This market implication is 8% above the current spot price of US\$21.63 per lb. This indicates that the market expects U₃O₈ prices to rise as it is implying this value into the portfolio of UPC.

Both figures are below our FY/17 forecast U₃O₈ price of US\$28.63 per lb. Recall that we view \$40 per lb. as the global marginal cost for uranium production and \$80 per lb. as the long term equilibrium price required for future supply to match upcoming uranium demand.

Exhibit 3. 2016E Global Cost Curve



* Publicly Traded Uranium-Focused Companies only, with the addition of Uranium One

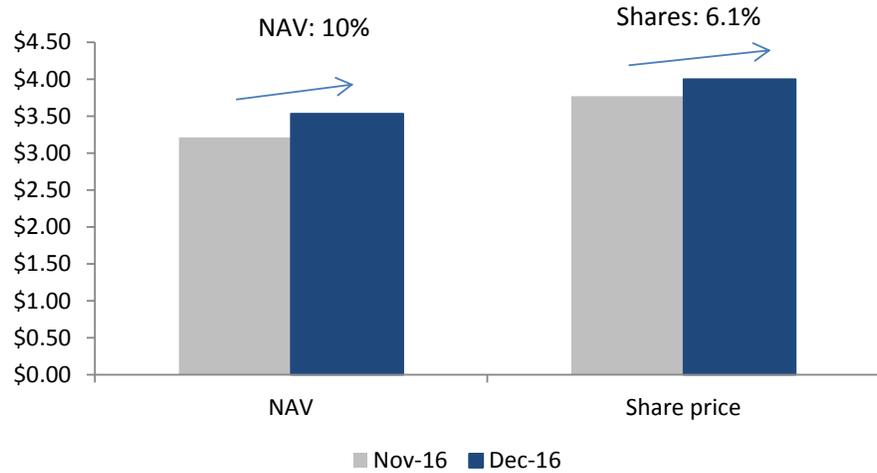
** UEC Cash cost is as of last reported

Source: Cantor Fitzgerald Canada Research, Company Reports

UPC NAV OUTPERFORMS THE SHARE PRICE

The fair value of the inventory increased by 10.0% compared to the previous NAV update for the end of November. UPC’s reported NAV increased from \$3.21 per share to the current \$3.53 per share, while its share price increased by 6.1% from \$3.77 per share to the current \$4.00 in the same monthly timeframe. Additionally, we note that the month-end spot price increased by 10.6% from US\$18.30/lb to US\$20.25/lb.

Exhibit 4. UPC NAV outperforms the share price



Source: Cantor Fitzgerald Canada Research

VALUATION

We are maintaining our Buy recommendation and target price of \$5.00/share.

With a last close share price of \$4.00, we see 25% upside to our target of \$5.00 per share. Our target is based on our rolling four quarter U₃O₈ forecast of US\$28.63/lb. and UF₆ forecast of US\$85.88/KgU, which calculates a valuation of \$4.97 per share (see Exhibit 5 below).

Exhibit 5. Uranium Participation Valuation

Valuation Forecast					
	Units	Quantity	Cantor Forecast USD	Cantor Forecast CAD	Market Value CAD
U ₃ O ₈	lb	10,030,024	\$28.63	\$37.80	379,112
UF ₆	kg	1,903,471	\$85.88	\$113.39	215,841
					594,953
Net Working Capital					6,053
					NAV
Shares O/S	120,848,713				NAVPS
					\$4.97

Source: Cantor Fitzgerald Canada Research

Exhibit 6. Uranium Price Forecast

USD	2011A	2012A	2013A	2014A	2015A	2016E	2017E	2018E	2019E	2020E	LT
U ₃ O ₈ Spot Price	\$57.01	\$48.86	\$38.53	\$33.48	\$36.59	\$27.09	\$28.63	\$45.00	\$66.25	\$80.00	\$80.00

Source: Cantor Fitzgerald Canada Research

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BUY (Speculative): The stock is attractively priced relative to the company's fundamentals, however investment in the security carries a higher degree of risk.

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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