

Uranium Special Alert

DML and FCU To Merge In Friendly Transaction

Unless otherwise denoted, all figures shown in US\$

◆ Denison Mines Corp. (DML-TSX, DNN-AMEX)

Recommendation: **Buy (S)**

Target Price: **C\$2.25**

Current Price	C\$0.84	Shares Outstanding (MM)	
52 Wk High	C\$1.53	Basic	518.4
52 Wk Low	C\$0.83	Diluted	518.9
Cash (MM)	\$32.3	Mngt. & Dir.	4.8
Debt (MM)	\$0.0	Market Cap.	C\$435.5
NAVPS	C\$1.94	Float	C\$431.5
Price/NAV	0.4x	EV	\$403.2
Dividend	\$0.00	Reserves	0 MMLb
Dividend Yield	0%	P&P+M&I+Inf.	244.9 MMLb

◆ Fission Uranium Corp. (FCU-TSX)

Recommendation: **Buy**

Target Price: **C\$2.00**

Current Price	C\$0.99	Shares Outstanding (MM)	
52 Wk High	C\$1.38	Basic	386.2
52 Wk Low	C\$0.65	Diluted	404.8
Cash (MM)	C\$33.0	Mngt. & Dir.	6.1
Total Debt (MM)	C\$0.0	Market Cap.	C\$382.3
NAVPS	C\$1.95	Float	C\$376.3
Price/NAVPS	0.5x	EV	\$273.6
Dividend	\$0.00	P&P Reserves	N/A
Dividend Yield	0%	P&P+M&I+Inf.	105.5 MMLb

Investment Thesis: The combined Denison and Fission (to be renamed Denison Energy) will be the undisputed leader among uranium developers globally, with three highly strategic assets, the 22.5% stake in the McClean Lake mill (DML), 100% of the Triple R project (FCU) and 60% of the Wheeler River project (DML).

Highlights:

Consolidation In The Athabasca Continues: On Monday evening Denison and Fission announced a Binding Letter of Agreement to combine both companies. Fission shareholders will receive 1.26 Denison shares and pro-forma, each company will own approximately 50% of the combined and renamed Denison Energy Corp. The all-share deal equates to a 14% premium to Fission's close on Monday and values the Triple R deposit at \$2.54/lb (existing 43-101 resource only). The market cap of the combined company will total ~C\$900 MM, making Denison Energy the largest pure-play uranium company excluding Cameco (Market Perform – C\$22.00 target).

Other Bidders To Enter?: We would not be surprised if another bidder was to enter the fray given the highly strategic nature of the Triple R deposit, arguably the best uranium discovery over the last several decades. Other potential buyers could include Cameco, Rio Tinto and Areva.

Maintaining Buy Ratings On FCU and DML: We like this deal from both DML and FCU perspectives. That said, our C\$3.00 target on FCU was previously based on an in-situ value of \$7.50/lb, clearly an unrealistic valuation in light of current uranium market conditions and evidenced by the \$2.54/lb valuation implied via the DML merger. We are therefore maintaining our Buy rating on Fission, but are reducing our target to C\$2.00 from C\$3.00, via lowering our in-situ valuation from \$7.50/lb to \$5.00/lb. Our Buy rating and C\$2.25 target on Denison remain unchanged, based on 1.0x NAVPS.

◆ During the past twenty-four months, Cormark Securities Inc., either on its own or as a syndicate member, participated in the underwriting of securities for these companies

Our disclosure statements are located on the second last page of this report

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Figure 1: Valuing High Quality Pounds In The Uranium Space

	Hathor Exploration	Fission Uranium
Project	Roughrider	Triple R
Country	Canada	Canada
Type	Unconformity-related, U/G	Unconformity-related, O/P
Development Stage	Pre-feasibility	Maiden Resource
Ownership	100%	100%
M&I Resource (Kt)	394.2	2291.0
M&I Grade (%)	2.0%	1.6%
M&I Contained (MMlb)	17.2	79.6
Total Resource (Kt)	555.8	3192.0
Average Grade (%)	4.7%	1.5%
Total Contained (MMlb)	57.9	105.5
Date of Acquisition Announcement	August 26, 2011	July 6, 2015
U Price On Date Of Acquisition	\$49.00	\$36.25
Acquired By / Merged With	Rio Tinto	Denison Mines
Final Acquisition Price (MM\$)	\$636	N/A
EV When Acquired (MM\$)	\$610	N/A
EV / M&I Resource (\$/lb)	\$35.42	\$3.36
EV / Total Resource (\$/lb)	\$10.53	\$2.54

Source: Cormark Securities

Other Bidders To Enter?: We would not be surprised if another bidder was to enter the fray given the highly strategic nature of the Triple R deposit. Other potential buyers for Fission include Cameco, Rio Tinto and Areva. The break-fee is set at C\$14 MM. We note that in August 2011, Rio Tinto paid \$10.53/lb for Hathor (when spot uranium prices were \$49.00/lb) in a bidding war with Cameco. The Roughrider deposit is the best takeover comp relative to Triple R.

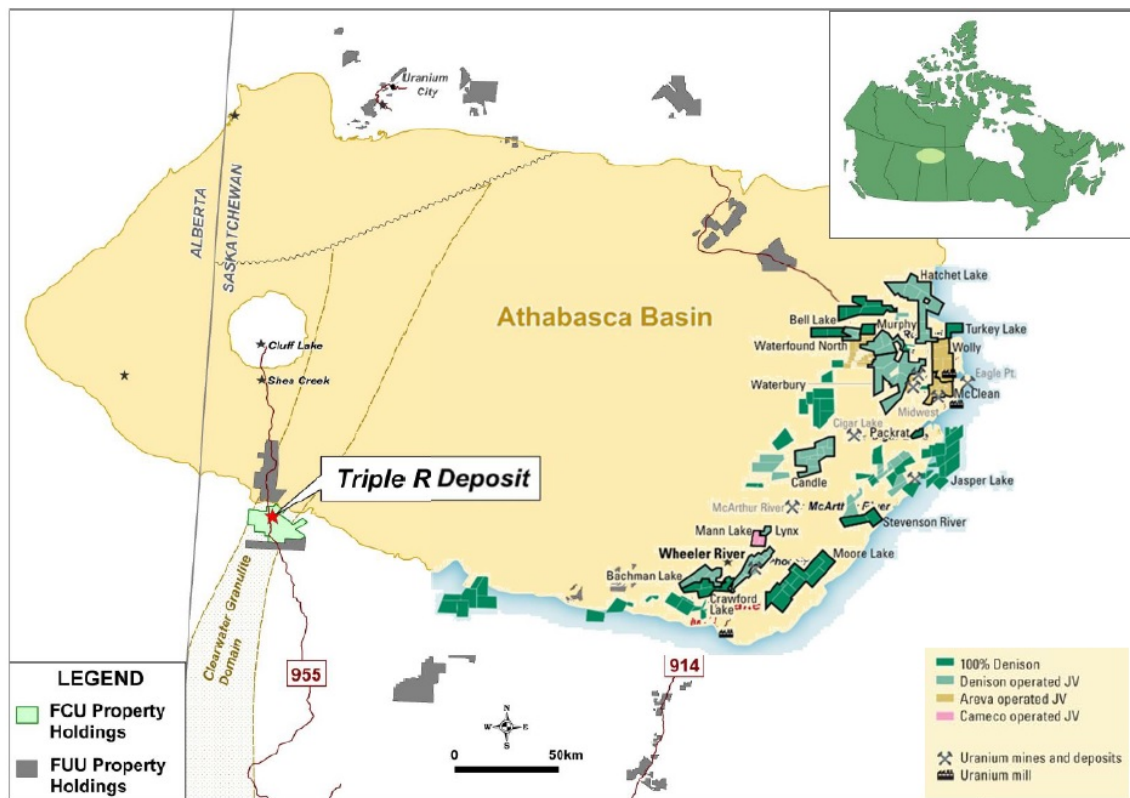
Read Through For Neighbouring ♦NexGen Energy (Spec Buy – C\$2.00 target): While much earlier stage than Fission (~45 holes into discovery relative to Fission's ~450) NexGen's Arrow project lies only 2.1 km along strike from, and directly adjacent to Fission's Triple R project. As such, NXE and Arrow may see a lot more interest from investors on the back of the DML-FCU merger announcement; given that Triple R is the key component of the transaction. We note that this merger of equals clearly indicates that Denison has no problem with the west side of the Athabasca basin, despite the fact that there is no

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operating mill there. We also note that DML's offer for NXE equates to valuing Triple R at \$2.54/lb U3O8 in-situ. The same value applied to our 100-120 MMlb U3O8 resource at Arrow would value NexGen at C\$1.28/share. In our view, the next logical step, should the Denison and Fission merger go through as planned, would be to ultimately consolidate NexGen given the significant synergies with Triple R.

Figure 2: Denison And Fission Concession Locations



Source: Fission Uranium, Denison Mines

Maintaining Buy Ratings On FCU and DML: We like this deal from both DML and FCU perspectives though we expect an interloper to come in for FCU and its Triple R project. That said, our C\$3.00 target on FCU was previously based on an in-situ value of \$7.50/lb, clearly an unrealistic valuation in light of current uranium market conditions and evidenced by the \$2.54/lb valuation implied via the DML merger. We are therefore maintaining our Buy rating on Fission, but are reducing our target to C\$2.00 from C\$3.00, via reducing our in-situ valuation from \$7.50/lb to \$5.00/lb. Our Buy rating and C\$2.25 target on Denison remain unchanged, based on 1.0x NAVPS.



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SPECIAL ALERT
JULY 7, 2015

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Denison Mines Corp.

Updated July 06, 2015

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Recommendation / Target Chg	Date	C\$
	13-Aug-12	2.25 (B)

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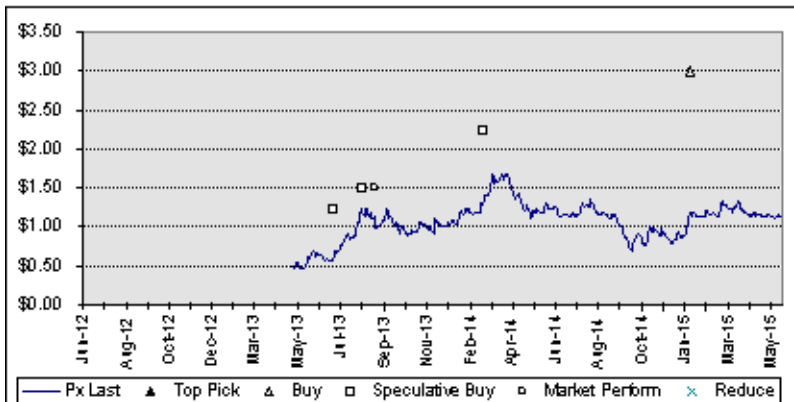
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Fission Uranium Corp.

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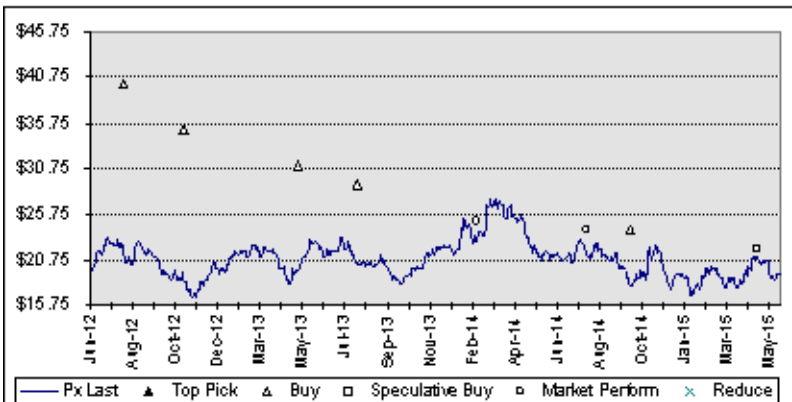
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Recommendation / Target Chg	Date	C\$
	02-Jul-15	2.00 (B-S)
	16-Jun-15	1.75 (B-S)
	24-Apr-15	1.50 (B-S)
	24-Mar-15	1.10 (B-S)
	27-Aug-14	0.80 (B-S)

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