Fundamental Research Corp.

Investment Analysis for Intelligent Investors

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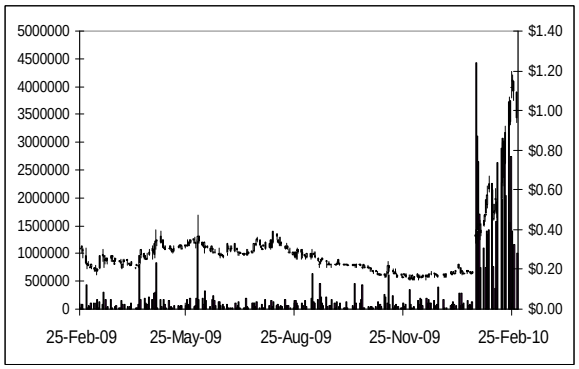
Fission Energy Corp. (TSXV: FIS) – High Grade Uranium Discovery at Waterbury Lake; Potential as Unconformity-Type Uranium Discovery

Sector/Industry: Junior Exploration/Mining **www.fission-energy.com**

Market Data (as of March 4, 2010)

Current Price	**C$0.87**
Fair Value	**N/A**
Rating*	**N/A**
Risk*	**5 (Highly Spec)**
52 Week Range	C$0.15 - C$1.20
Shares O/S	55.36 mm
Market Cap	C$48.17 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	2.19
YoY Return	314.3%
YoY TSXV	85.6%

*see back of report for rating and risk definitions



Investment Highlights

- **J-Zone discovery hole WAT10-063A intersected 10.5m grading 1.91% U_3O_8, from 226.0m to 236.5m downhole, including 1.0m at 13.87% U_3O_8.**
- High grade uranium mineralization has been intersected **at the unconformity** in three holes adjacent to WAT10-063A, and approximately 140m west of Hathor Exploration Limited's (TSXV: HAT) Roughrider discovery zone.
- **Hole WAT10-066 intersected 12m of 3.64% U_3O_8, including 1.5m of 27.38% U_3O_8 (which includes a shorter 0.5m section grading 45.20% U_3O_8).**
- High grade mineralization was projected by handheld scintillometer results which indicated high levels of radioactivity including off scale radioactivity over the 1.5m grading 27.38% U_3O_8 in Hole WAT10-066.
- **Assay results released today for hole WAT10-070B display lateral continuity of high grade mineralization at the unconformity: 17 meters at 3.99% U3O8, including 7 meters at 7.48% U3O8 and 0.50 meters at 20.60% U3O8.**
- Although we are extremely pleased with the results from the Waterbury Lake property, it is still in early stages and therefore, we cannot quantify the impact on value at this time. Therefore, we have decided not to assign a rating or fair value until results from the remaining holes in the current drill program are available.

Key Financial Data (FYE-June 30) - C$	2009 (12 mo ended June 2009)	2010 (6 mo ended Dec 2010)
Cash and Cash Equivalents	2,724,297	2,457,158
Working Capital	2,728,004	2,893,188
Mineral Properties	18,094,905	19,046,515
Total Assets	21,544,862	22,360,991
Net Income	(9,382,020)	(751,231)
EPS	(0.22)	(0.01)

Kelowna, BC based Fission Energy Corp. is headed by a competent management team including President and COO, Ross McElroy, P.Geol., who has a history working in the Athabasca Basin including being a member of the early stage discovery team of the MacArthur River uranium deposit.

PLEASE READ THE IMPORTANT DISCLOSURES AT THE BACK OF THIS REPORT

Waterbury Lake **Since initiating coverage on Fission Energy, the company has made a high grade uranium discovery, now known as the "J-Zone", at its flagship Waterbury Lake exploration property. Although the project is in an early stage of exploration, we believe that the "J-Zone" may represent an exciting new unconformity-type uranium discovery in the Athabasca Basin**

The discovery at Waterbury Lake in the Athabasca Basin came during the ongoing winter drilling program, and identified the J-Zone which lies just west of Hathor Exploration Limited's Roughrider Zone.

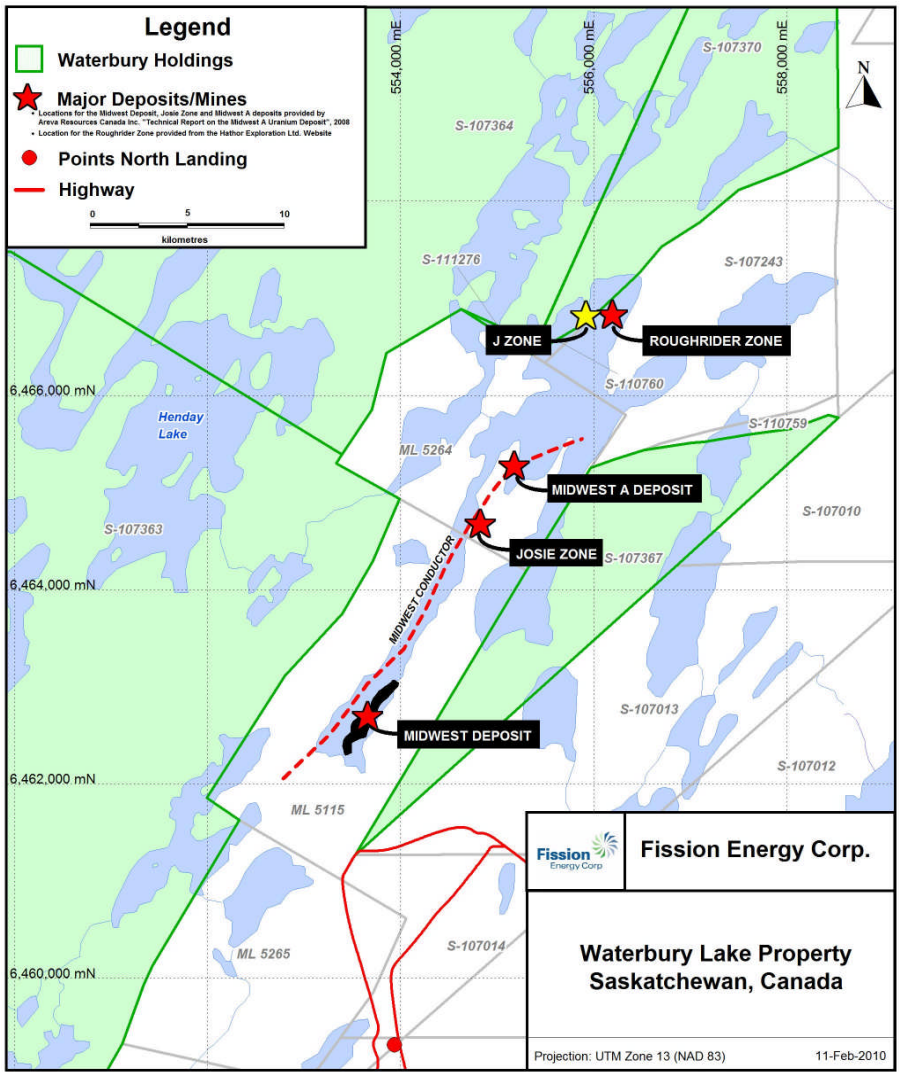


Figure 1: Location of the newly discovered J-Zone relative to other known deposits. (Source: Fission Energy Corp.)

As we noted in our initiating report released on January 15, 2010, we felt that due to geological indicators such as alteration, and increased radioactivity, the probability of a high grade area of uranium mineralization existing on the property was high.

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High Grade Mineralization Proven at J-Zone

The company has received assay results on four holes at the J-Zone. Holes WAT10-065A and WAT10-066 provide the most significant data returning the following results:

Zone	Hole ID	From (m)	To (m)	Interval (m)	U_3O_8 (wt%)
J-Zone	WAT10-064D	211.00	213.50	**2.50**	**0.10**
J-Zone	WAT10-065A	203.50	205.50	**2.00**	**1.62**
	Includes	***204.00***	***205.00***	***1.00***	***3.02***
		212.00	215.50	**3.50**	**0.09**
J-Zone	WAT10-066	202.00	214.00	**12.00**	**3.64**
	Includes	***204.00***	***205.50***	***1.50***	***27.38***
	Includes	***204.00***	***204.50***	***0.50***	***45.20***
		217.00	218.50	**1.50**	**0.18**
		223.00	226.50	**3.50**	**0.19**

Source: Fission Energy Corp.

In the cases of both WAT10-065A and WAT10-066, as well as the original discovery hole WAT10-063A (10.50m grading 1.91% U_3O_8, including 1.00m at 13.87% U_3O_8), high grade mineralization was predicted by high level radioactivity measured by a hand held Mount Sopris 2GHF probe.

Mineralization at the unconformity

What is significant about the results is the fact that the high grade mineralization was intersected at the unconformity. As oxidizing fluids originating in the Athabasca Sandstone (above unconformity), and reducing fluids traveling up through reactivated basement faults (below unconformity) meet, they mix and precipitate uranium. It is the unconformity that provides the optimal location for this solution, mixing by functioning as a trap to contain the mineralization.

While Hathor has shown that significant mineralization can exist below the unconformity at the Roughrider zone, it is a well known fact that mineralization at the major deposits in the Athabasca Basin, such as Cigar Lake, and MacArthur River, are more intimately related to the unconformity.

Extending along the East-West strike

Mineralization at the unconformity also has a higher probability of being laterally continuous which brings us to Hole WAT10-070B seen below in Figure 2 (labeled "70").

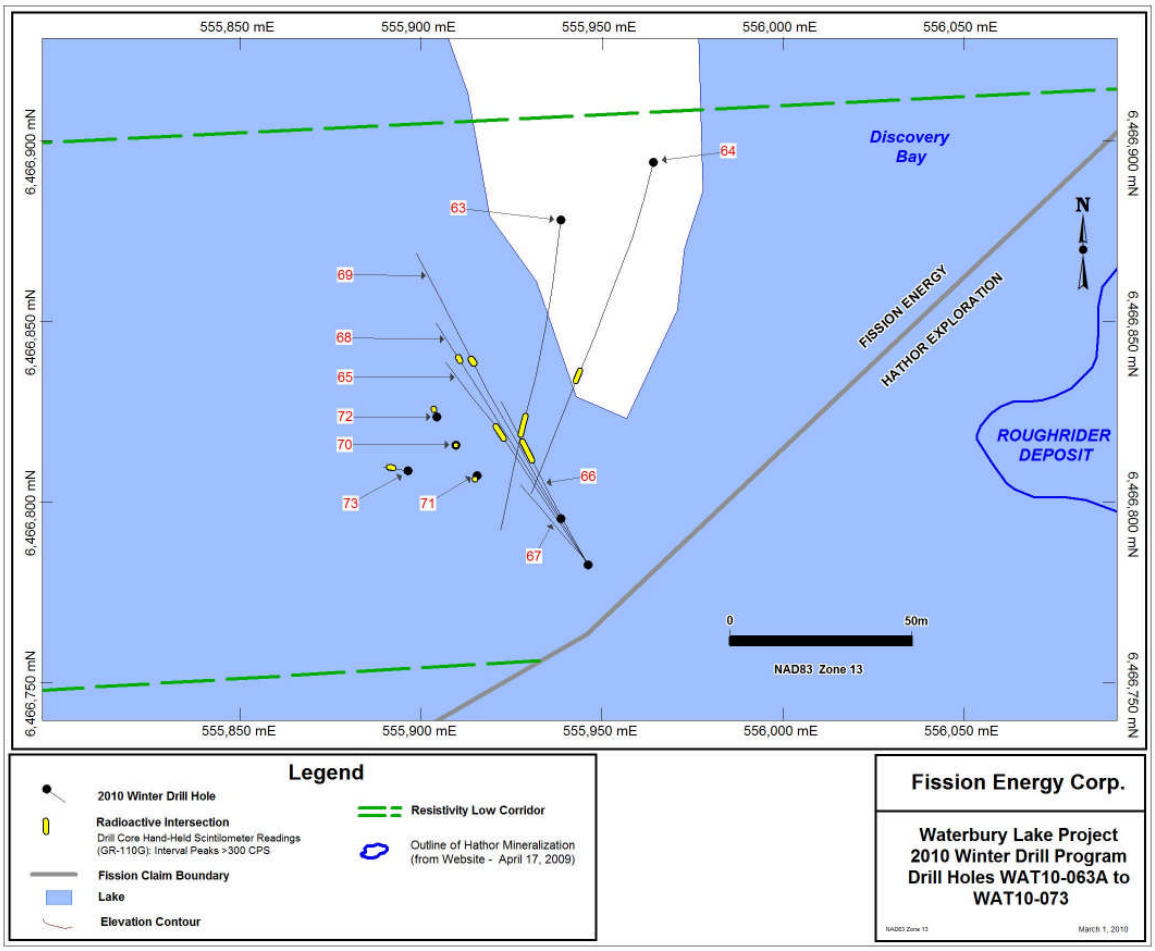

Figure 2: Location of drill holes in the 2010 winter drill program.
(Source: Fission Energy Corp.)

Hole WAT10-070B is a step out to the west (approximately 15m) from the unconformity hosted mineralization intersected by WAT10-065A and WAT10-066. Initial scintillometer results indicated that the vertically oriented core hole intersected a 31.0m section of elevated radioactivity (from 194.5 to 225.5m down-hole). **At the unconformity, 13.5m of continuous high level radioactivity was intersected with various zones of off scale radioactivity (>9999 cps).** These off scale zones total 7.5m, and in previous holes, these high levels of radioactivity have been closely related to high grade mineralization.

Assay results released today by the company on hole WAT10-070B revealed additional high grade mineralization once again reflecting areas of high to off-scale radioactivity. Here are the assay results for hole WAT10-070B:

Composited Mineralized Intervals (Down-hole measurements)

Zone	Hole ID	From (m)	To (m)	Interval (m)	U_3O_8 (wt%)
J-Zone	WAT10-070A	194.50	211.50	17.00	3.99
	Includes	196.50	203.50	7.00	7.48
	Includes	***197.00***	***197.50***	***0.50***	***20.60***

Composite Parameters

1. Minimum Thickness: 1.50m

2. Grade Cut-Off: 0.05 U_3O_8 (wt%)

Source: Fission Energy Corp.

The assay results in hole WAT10-070A are significant because:

- They display lateral continuity of high grade mineralization at the unconformity.
- Mineralization has been intersected at similar depths in several holes implying a near horizontal feature. This vertically oriented hole may then indicate a closer approximation of true thickness (note that actual true thickness is yet to be determined).

Also coming are assay results from holes WAT10-071, WAT10-072C, and WAT10-073, which have all intersected highly radioactive mineralization at the unconformity. **All three holes include various intersections of off-scale radioactivity,** and step out from hole WAT10-070B by 10m south, 10m north, and 15m west, respectively.

The results continue to build on the company's belief that the pocket of high grade mineralization on company property is related to an east west trend that passes through the J-Zone and Hathor's Roughrider Zone, extending all the way to Hathor's Roughrider Zone East situated some 200m east of the original Roughrider Zone. This trend is then also open to the west further into the Waterbury Lake property within the 3km long East-West corridor identified by earlier exploration.

Current Status

In addition to holes WAT10-065A, and WAT10-066, the original discovery hole WAT10-063A, also intersected high grade mineralization. However, it was situated slightly below the unconformity:

Composited Mineralized Intervals (Down-hole measurements)

Zone	Hole ID	From (m)	To (m)	Interval (m)	U_3O_8 (wt%)
J-Zone	WAT10-063A	211.50	215.50	4.00	0.16
		226.00	236.50	10.50	1.91
		230.00	***231.00***	***1.00***	***13.87***

Composite Parameters

1. Minimum Thickness: 3.00m

2. Grade Cut-Off: 0.05 U_3O_8 (wt%)

Source: Fission Energy Corp.

Thus far, the company has delineated an area approximately 50m in strike length by approximately 30m in width. Thickness is approximately 10 to 12m when including anomalous mineralization above 0.1% U_3O_8. High grade cores range anywhere from one to several meters. **The J-Zone remains open in all directions.**

The company's original drill program was to only include four holes in this area, but since the discovery of high grade mineralization, 13 holes – WAT10-063A to WAT10-073 – have been completed, several with assay results still forthcoming. We will be monitoring future results to see that mineralization is on par in terms of grade and continues to appear at the unconformity.

Discussion with management has indicated that the winter drill program may be expanded to 30 holes (including the 13 already completed), the majority of which will test the J-zone. The remaining holes will test regional targets as we have discussed in our initiating report.

Waterbury Lake Joint Venture

The Waterbury Lake property involves an earn-in agreement with a group ("Waterbury Consortium") led by Korea Electric Power Corporation (NYSE: KEP) whereby the **group may earn a 50% interest in the property by, among other things, incurring total exploration costs in the amount of $14 million**. The agreement was closed on January 31, 2008, and the Waterbury Consortium may complete the 50% earn in under the following terms (sourced from Fission Energy news release *Fission Energy Closes Earn-In Agreement with Korean Consortium for Waterbury Lake, Athabasca Basin – January 31, 2008)*:

- Earn an initial 20% interest in the Waterbury Lake property by subscribing for, on a private placement basis, on or prior to the date that is 45 days from the execution date, 1 million common shares of Fission at a price per share of $1.00, and by incurring, on or prior to the first anniversary of the execution date, exploration costs in the amount of $5.5 million;
- Earn an additional 15% interest (for an aggregate 35% interest) by incurring, on or prior to the second anniversary of the execution date, additional exploration costs in the amount of $4.0 million; and
- Earn an additional 15% interest (for an aggregate 50% interest) by incurring, on or prior to the third anniversary of the execution date, additional costs in the amount of $4.5 million.

In addition:

- Fission shall be the operator of the project.
- Fission shall retain an overriding royalty interest in the property of 2% of Net Smelter Returns in yellowcake.
- Fission retains an exclusive and irrevocable "back-in option" to reacquire a 10% interest in the property for $6 million.

The Korean Consortium has so far earned in 35%, and is currently working on the remaining 15%.

Financials

In the first six months of FY2010 (ended December 31, 2009), FIS recorded a net loss of $0.75 million (EPS: -$0.01). We estimate the company had a burn rate (cash spent on operating and investing activities) of $0.33 million per month in the first six months of FY2010, compared to $0.38 million per month in FY2009 (12-month period). The table below shows the company's cash and liquidity position.

(in C$)	2009	2010 (6 mo)
Cash and Cash Equivalents	2,724,297	2,457,158
Working Capital	2,728,004	2,893,188
LT Debt/ Assets	-	-
Burn Rate (per month)	(380,438)	(334,045)
Cash Flows from Financing	2,089,886	1,737,132

At the end of December 2009, the company had $2.46 million in cash and cash equivalents. Working capital was $2.89 million, or $0.05 per share. Assuming the company maintains its burn rate (as the first six months of FY2009) going forward, we believe cash will easily last for another seven months.

Stocks and Warrants: At the end of December 2009, the company had 4 million options (weighted average exercise price of $0.35), and 10.90 million warrants (weighted average exercise price of $0.40) outstanding. In February 2010, the company announced it granted 1.35 million options (exercise price of $0.55) to directors, officers, employees and consultants. **The company can raise up to $6.32 million if all 'in-the-money' options and warrants are exercised.**

Valuation & Rating

Our fair value estimate on the company at the time of our initiating report was $0.80 per share. However, our valuation was purely based on the known resource estimates on the company's Deiter Lake and Duddridge Lake properties, and the book value of the other projects. Considering the highly encouraging results from the Waterbury Lake property since our initiating report, we believe its book value does not reflect the true potential of the project. However, considering the early stage nature of the discovery, we are not in a position to quantify its impact on the value of the company. As it is not possible to quantify the potential of the company's key project, we have decided not to assign a rating or fair value on the company at this time. We will continue to monitor the company, and will assign a rating and valuation as soon as we have sufficient information to value the Waterbury Lake project. We believe results from the remaining holes in the current drill program will enable us to quantify the value of the project.

Risks

The following risks, though not exhaustive, may cause our estimates to differ from actual results:

- The value of the company is dependent on uranium prices.
- The company has not defined any mineable NI 43-101 reserves and does not have any operating mines
- The success of drilling, project development and resource expansion are important long-term success factors early stage projects.
- Access to capital and share dilution.

We rate the company's shares a RISK of 5 (Highly Speculative).

Fundamental Research Corp. Equity Rating Scale:
Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk
Hold – Annual expected rate of return is between 5% and 12%
Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk
Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:
1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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