

Consolidated financial statements of

**Fission Energy Corp.**

December 31, 2009

(Unaudited - prepared by management)

# **Fission Energy Corp.**

## **Unaudited Interim Consolidated Financial Statements**

### **Notice**

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited consolidated financial statements for the period ended December 31, 2009.

# **Fission Energy Corp.**

December 31, 2009

(Unaudited - prepared by management)

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# Fission Energy Corp.

Consolidated balance sheets  
(Unaudited - prepared by management)

	December 31 2009	June 30 2009
	\$	\$
<b>Assets</b>		
Current assets		
Cash and cash equivalents	2,457,158	2,724,297
Short-term investments (Note 3)	87,600	32,000
Amounts receivable	665,828	231,809
Prepaid expenses	18,389	378,030
	<b>3,228,975</b>	3,366,136
Property and equipment		
Property and equipment	85,501	83,821
Mineral property interests (Note 4)	19,046,515	18,094,905
	<b>22,360,991</b>	21,544,862
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	335,787	638,132
	<b>335,787</b>	638,132
<b>Shareholders' equity</b>		
Capital stock	31,325,035	30,118,735
Contributed surplus	3,059,817	2,396,412
Deficit	(12,359,648)	(11,608,417)
	<b>22,025,204</b>	20,906,730
	<b>22,360,991</b>	21,544,862

Nature and continuance of operations (Note 1)

Contingencies (Note 10)

Subsequent Events (Note 13)

# Fission Energy Corp.

Consolidated statements of operations and comprehensive loss  
(Unaudited - prepared by management)

	Three Months Ended December 31 2009 \$	Three Months Ended December 31 2008 \$	Six Months Ended December 31 2009 \$	Six Months Ended December 31 2008 \$
<b>Expenses</b>				
Advertising and promotion	1,194	-	2,883	1,370
Amortization	7,128	5,860	13,941	11,455
Business development	24,940	52,996	56,587	69,393
Consulting fees	139,969	197,411	280,553	412,122
Flow-through share tax	-	186,246	-	206,505
Insurance	8,805	6,312	17,609	12,625
Office and miscellaneous	22,666	19,251	48,452	46,748
Professional fees	18,786	49,031	68,914	101,294
Regulatory fees	2,825	3,419	3,025	21,655
Rent	18,472	16,373	38,212	37,389
Shareholder communications	22,774	6,064	25,692	9,278
Stock-based compensation (Note 5)	50,598	52,374	132,573	169,137
Telephone	8,285	7,089	20,333	18,613
Trade shows and conferences	17,891	13,209	48,208	22,874
Transfer agent	2,267	5,668	4,856	7,190
Travel	3,079	14,305	11,681	32,798
Wages and benefits	80,883	33,448	144,051	60,689
	<b>430,562</b>	<b>669,056</b>	<b>917,570</b>	<b>1,241,135</b>
Loss before other items	<b>(430,562)</b>	<b>(669,056)</b>	<b>(917,570)</b>	<b>(1,241,135)</b>
Other items - income/(expense)				
Exploration management fee income	25,582	31,847	147,261	182,024
Interest income	5,467	29,787	13,502	79,813
Foreign exchange gain (loss)	(1,863)	(18,886)	(4,237)	(12,572)
Unrealized gain (loss) on investments	50,400	(70,000)	55,600	(174,000)
Flow-Through Share Settlement	-	(931,319)	-	(931,319)
Mineral property write-down	(30,108)	-	(45,787)	-
	<b>49,478</b>	<b>(958,571)</b>	<b>166,339</b>	<b>(856,054)</b>
Loss before income taxes	<b>(381,084)</b>	<b>(1,627,627)</b>	<b>(751,231)</b>	<b>(2,097,189)</b>
Future income tax recovery	-	314,195	-	369,823
<b>Net loss and comprehensive loss for the period</b>	<b>(381,084)</b>	<b>(1,313,432)</b>	<b>(751,231)</b>	<b>(1,727,366)</b>
<b>Basic and diluted loss per common share</b>	<b>(0.01)</b>	<b>(0.03)</b>	<b>(0.01)</b>	<b>0.04</b>
<b>Weighted average number of common shares outstanding</b>	<b>55,033,806</b>	<b>42,088,554</b>	<b>54,248,235</b>	<b>42,088,554</b>

# Fission Energy Corp.

Consolidated statements of shareholders' equity

Six months ended December 31, 2009

(Unaudited - prepared by management)

	Common shares		Contributed surplus	(Deficit)	Total shareholders' equity
	Shares	Amount			
		\$	\$	\$	\$
<b>Balance, June 30, 2008</b>	42,088,554	28,364,085	1,133,283	(2,226,397)	<b>27,270,971</b>
Reduction of income tax benefits renounced to subscribers of flow-through shares (Note 6)	-	455,718	-	-	<b>455,718</b>
Common share units and flow-through share units issued for cash (Note 5 (a))	6,922,540	1,518,447	770,703	-	<b>2,289,150</b>
Share issue costs, net of future income tax recovery	-	(167,030)	-	-	<b>(167,030)</b>
Income tax benefits renounced to shareholders of flow-through shares	-	(52,485)	-	-	<b>(52,485)</b>
Stock-based compensation (Note 5 (c))	-	-	492,426	-	<b>492,426</b>
Net loss and comprehensive loss	-	-	-	(9,382,020)	<b>(9,382,020)</b>
<b>Balance, June 30, 2009</b>	49,011,094	30,118,735	2,396,412	(11,608,417)	<b>20,906,730</b>
Common share units and flow-through share units issued for cash (Note 5 (a))	6,022,712	1,353,649	530,832	-	<b>1,884,481</b>
Share issue costs	-	(147,349)	-	-	<b>(147,349)</b>
Stock-based compensation (Note 5 (c))	-	-	132,573	-	<b>132,573</b>
Net loss and comprehensive loss	-	-	-	(751,231)	<b>(751,231)</b>
<b>Balance, December 31, 2009</b>	<b>55,033,806</b>	<b>31,325,035</b>	<b>3,059,817</b>	<b>(12,359,648)</b>	<b>22,025,204</b>

# Fission Energy Corp.

Consolidated statements of cash flows  
(Unaudited - prepared by management)

	Three Months Ended December 31 2009	Three Months Ended December 31 2008	Six Months Ended December 31 2009	Six Months Ended December 31 2008
	\$	\$	\$	\$
<b>Operating activities</b>				
Net loss for the period	(381,084)	(1,313,432)	(751,231)	(1,727,366)
Items not involving cash:				
Amortization	7,128	5,860	13,941	11,455
Future income tax recovery	-	(314,195)	-	(369,823)
Unrealized (gain) loss on investments	(50,400)	70,000	(55,600)	174,000
Stock-based compensation	50,598	52,374	132,573	169,137
Write-down of mineral properties	30,108	-	45,787	-
	<b>(343,650)</b>	<b>(1,499,393)</b>	<b>(614,530)</b>	<b>(1,742,597)</b>
Change in non-cash working capital	-			
(Increase) decrease in amounts receivable	69,760	266,912	(25,030)	762,201
(Increase) decrease in prepaid expenses	359,787	6,312	359,641	12,625
Decrease in accounts payable and accrued liabilities	(425,505)	1,075,802	(431,220)	1,063,776
	<b>(339,608)</b>	<b>(150,367)</b>	<b>(711,139)</b>	<b>96,005</b>
<b>Investing activities</b>				
Mineral property additions	(758,440)	(1,660,059)	(2,146,778)	(4,287,820)
Mineral property cost recoveries	86,927	896,020	869,267	1,664,786
Property and equipment additions	-	(4,107)	(15,621)	(11,208)
	<b>(671,513)</b>	<b>(768,146)</b>	<b>(1,293,132)</b>	<b>(2,634,242)</b>
<b>Financing activities</b>				
Proceeds from issuance of share units, net of share issuance costs	(16,173)	-	1,737,132	-
	<b>(16,173)</b>	<b>-</b>	<b>1,737,132</b>	<b>-</b>
Change in cash and cash equivalents during the period	(1,027,294)	(918,513)	(267,139)	(2,538,237)
Cash and cash equivalents, beginning of period	3,484,452	3,579,947	2,724,297	5,199,671
<b>Cash and cash equivalents, end of period</b>	<b>2,457,158</b>	<b>2,661,434</b>	<b>2,457,158</b>	<b>2,661,434</b>

Supplemental disclosure with respect to cash flows (Note 7)

# Fission Energy Corp.

Notes to the consolidated financial statements

December 31, 2009

(Unaudited – prepared by management)

## 1. Nature and continuance of operations

The Company was formed on July 17, 2007 under the laws of the Canada Business Corporations Act as a result of a plan of arrangement undertaken to reorganize Strathmore Minerals Corp. ("Strathmore"). The Company's principal business activity is the acquisition and exploration of mineral property interests. To date, the Company has not generated significant revenues from operations and is considered to be in the exploration stage.

The Company has not yet determined whether its mineral properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for mineral properties, including acquisition costs and related exploration costs, is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. Continued operations of the Company are dependent on its ability to develop its mineral properties, receive continued financial support, complete equity financings, or generate profitable operations in the future. The financial statements do not include any adjustments to assets and liabilities should the Company be unable to continue as a going concern.

The following table highlights the Company's history of losses and limited working capital:

	<b>December 31</b>	June 30
	<b>2009</b>	2009
	\$	\$
Deficit	<b>(12,359,648)</b>	(11,608,417)
Working Capital	<b>2,893,188</b>	2,728,004

## 2. Basis of presentation

The consolidated financial statements contained herein include the accounts of Fission Energy Corp. (the "Company") and its wholly owned subsidiaries, Fission Energy Peru S.A.C. and Minera Peruran S.A.C. Significant inter-company balances and transactions are eliminated on consolidation.

The interim period consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles. All financial summaries included are presented on a comparative and consistent basis showing the figures for the corresponding period in the preceding year. The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of annual consolidated financial statements. Certain information and footnote disclosure normally included in financial statements prepared in accordance with Canadian generally accepted accounting principles has been condensed or omitted. These interim period statements should be read together with the audited financial statements and accompanying notes included in the Company's latest annual filing. In the opinion of the Company, its unaudited interim consolidated financial statements contain all adjustments necessary in order to present a fair statement of the results of the interim periods presented.

# Fission Energy Corp.

Notes to the consolidated financial statements

December 31, 2009

(Unaudited – prepared by management)

## 2. Basis of presentation (continued)

### *Recent accounting pronouncements*

#### (a) International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. In February 2008 the AcSB announced that fiscal 2012 is the changeover date for non-calendar year end publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date for the Company is July 1, 2011 and will require the restatement for comparative purposes of amounts reported by the Company for the year ended June 30, 2011.

The Company has completed its IFRS diagnostic regarding the adoption of IFRS for fiscal 2012. Management is confident that the presentation and financial impact of the transition from GAAP to IFRS will have been addressed by mid 2010.

#### (b) *CICA Sections 1582, 1601, 1602 Business Combinations, Consolidations, and Non-Controlling Interests*

In January 2009, the AcSB issued the following Handbook sections: 1582 – Business Combinations, 1601 – Consolidations, and 1602 – Non-Controlling Interests. These new Sections will be applicable to financial statements beginning on or after January 1, 2011. Early adoption is permitted. The Company has determined that there will be no impact on its consolidated financial statements from the adoption of these new sections.

## 3. Short-term investments

Short-term investments are recorded at fair value and are comprised of the following:

Common Shares	Number held	Original cost	Unrealised loss	Fair value
		\$	\$	\$
Great Bear Resources Ltd.	400,000	83,000	11,000	72,000
Tribune Minerals Corp. ("Tribune")	30,000	630,000	614,400	15,600
		713,000	625,400	87,600

The Company has determined the fair value of its investments based on the quoted market prices at December 31, 2009.

# Fission Energy Corp.

Notes to the consolidated financial statements

December 31, 2009

(Unaudited – prepared by management)

## 4. Mineral property interests

6 month period ended December 31, 2009	North Shore Property	Fort McLeod Property	Caribou Mountain and Zoo Bay Properties	Duddridge Lake Property	Waterbury Lake Property	Patterson Lake Property	Davy Lake Property	Dieter Lake Property	Other Canadian Properties	Macusani Property	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Acquisition costs</b>											
Balance, beginning of period	460,422	-	448,814	382,245	467,801	162,502	38,350	619,785	95,765	-	2,675,684
Additions	-	2,500	-	-	77,263	-	-	-	-	-	79,763
Balance, end of period	460,422	2,500	448,814	382,245	545,064	162,502	38,350	619,785	95,765	-	2,755,447
<b>Exploration costs</b>											
Balance, beginning of period	4,592,826	-	258,357	1,223,166	10,067,757	3,557,728	4,224,602	2,073,654	353,161	-	26,351,251
Incurred during the period											
Geology mapping/sampling	175	30	3,000	1,035	28,870	2,995	6,276	690	660	5,723	49,454
Geophysics airborne	-	-	2,665	80	359,322	54,010	335,785	45	6,629	-	758,536
Geophysics ground	-	-	-	-	181,014	600	245	1,307	-	-	183,166
Drilling	25,238	-	-	-	949,403	691	174	-	504	400	976,410
Land retention and permitting	525	3,904	5,877	2,515	22,951	48,287	15,428	1,679	2,826	34	104,026
Reporting	-	-	4,278	-	2,184	44	206	3,048	3,350	-	13,110
Environmental	-	-	-	1,095	3,140	-	-	-	-	-	4,235
Safety	-	-	-	-	211	-	-	-	-	-	211
Community Relations	-	-	-	-	3,873	-	-	-	-	6,021	9,894
General	-	-	-	-	12,532	40	-	14	-	33,609	46,195
Additions	25,938	3,934	15,820	4,725	1,563,500	106,667	358,114	6,783	13,969	45,787	2,145,237
Write-down	-	-	-	-	-	-	-	-	-	(45,787)	(45,787)
Balance, end of period	4,618,764	3,934	274,177	1,227,891	11,631,257	3,664,395	4,582,716	2,080,437	367,130	-	28,450,701
<b>Cumulative cost recoveries</b>											
Balance, beginning of period	(1,538,127)	-	-	(1,038,107)	(8,069,735)	(23,643)	-	(98,064)	(164,354)	-	(10,932,030)
Recoveries	-	-	-	-	(1,180,556)	-	(47,047)	-	-	-	(1,227,603)
Balance, end of period	(1,538,127)	-	-	(1,038,107)	(9,250,291)	(23,643)	(47,047)	(98,064)	(164,354)	-	(12,159,633)
<b>Total costs</b>	<b>3,541,059</b>	<b>6,434</b>	<b>722,991</b>	<b>572,029</b>	<b>2,926,030</b>	<b>3,803,254</b>	<b>4,574,019</b>	<b>2,602,158</b>	<b>298,541</b>	<b>-</b>	<b>19,046,515</b>

# Fission Energy Corp.

Notes to the consolidated financial statements

December 31, 2009

(Unaudited – prepared by management)

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## 4. Mineral property interests (continued)

Title to mineral property interests involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral property interests. The Company has investigated title to all of its mineral property interests and, to the best of its knowledge, title to all of its properties are in good standing.

The Company's assessment of the carrying value of mineral properties and related exploration expenditures is based on management's assessment of potential indicators of impairment and best estimates of likely courses of action by the Company. The fair values were determined using a variety of valuation methods, the selection of which was based on which was considered most applicable to each property. The assessment of the carrying value and determination of these fair values is subject to significant measurement uncertainty and further material write-downs of these assets could occur if actual results differed from the estimates and assumptions used and/or if alternative valuation methods were applied.

### (a) *North Shore Property, Canada*

The Company acquired a 100% interest in a uranium property located in Alberta in fiscal 2008. The property is subject to a 0.75% net smelter returns royalty on certain mineral production and a 4% gross overriding royalty on any diamond production from the property.

In July 2007, Fission Energy completed an option agreement with Tribune Minerals Corp. ("Tribune") whereby Tribune had the right to acquire a 60% interest in the Company's North Shore Athabasca Property. Tribune issued 600,000 common shares to Fission (rolled back to 30,000 on a 20:1 basis in July 2009) and was required to spend \$10 million in exploration over 6 years. On August 18, 2008, Tribune terminated its option agreement on the North Shore Uranium Property.

### (b) *Fort McLeod Property, Canada*

The Company acquired a 100% interest in certain claims located in Alberta in fiscal 2008 and recorded a 100% write-down during fiscal 2009.

The Company re-staked additional ground in the 6 month period ending December 31, 2009.

### (c) *Caribou Mountains and Zoo Bay Properties, Canada*

On November 30, 2007 the Company acquired a 100% interest in the Caribou Mountains and Zoo Bay claims located in Alberta. The Company issued a total of 700,000 common shares for the Caribou Mountains Property and 300,000 common shares for the Zoo Bay Property, together valued at \$620,000. The 700,000 common shares issued for the Caribou Mountains property are subject to a three year escrow agreement and will be released in stages over a three year period. The Company recorded a \$196,811 write-down of acquisition costs and \$156,124 of exploration costs at June 30, 2009 on the Caribou Mountains property

# Fission Energy Corp.

Notes to the consolidated financial statements

December 31, 2009

(Unaudited – prepared by management)

## 4. Mineral property interests (continued)

### (d) Duddridge Lake Property, Canada

The Company acquired a 100% interest in certain claims located in north central Saskatchewan in fiscal 2008.

On July 17, 2007, the Company completed an option agreement with Great Bear Uranium Corp., (now called Great Bear Resources Ltd.) or “Great Bear”, whereby Great Bear may earn up to a 60% undivided interest in the Duddridge Lake Property. To earn its interest, Great Bear must fund \$6,000,000 in exploration expenditures, make payments totaling \$400,000 and issue 400,000 common shares to Fission, as follows:

	Cash	Common shares of the optionee	Minimum exploration commitments	Percent interest earned by optionee
	\$		\$	
On signing	150,000 <sup>(1)</sup>	200,000 <sup>(1)</sup>	-	
Staking costs	100,000 <sup>(1)</sup>			
By March 31, 2008	150,000 <sup>(1)</sup>	200,000 <sup>(1)</sup>	750,000 <sup>(1)</sup>	
By March 31, 2009	-	-	1,000,000	
By March 31, 2010	-	-	1,000,000	35%
By March 31, 2011	-	-	1,250,000	51%
By December 31, 2013	-	-	2,000,000	60%
	400,000	400,000	6,000,000	

(1) Cash was received and the common shares of Great Bear issued in accordance with the agreement terms.

On January 26, 2009 the Company agreed to the extension of the Duddridge Lake option agreement as noted below:

Minimum Exploration Commitments	On or Before (Original Agreement)	As Amended
\$750,000	March 31, 2008	Completed
\$1,000,000	March 31, 2009	March 31, 2010
\$1,000,000	March 31, 2010	March 31, 2011
\$1,250,000	March 31, 2011	March 31, 2012
\$2,000,000	December 31, 2013	December 31, 2014

# Fission Energy Corp.

Notes to the consolidated financial statements

December 31, 2009

(Unaudited – prepared by management)

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## 4. Mineral property interests (continued)

### (e) *Waterbury Lake Property, Canada*

The Company acquired a 100% interest in certain claims located in Saskatchewan in fiscal 2008.

On January 30, 2008 the Company completed an earn-in agreement with the Korean Waterbury Uranium Limited Partnership (the "consortium") led by KEPCO (Korea Electric Power Corporation). Pursuant to the earn-in agreement, the Company has granted the consortium the exclusive right to earn up to a 50% interest in the Waterbury Lake Property by funding \$14,000,000 of expenditures by January 30, 2010.

Pursuant to the earn-in agreement, the consortium may:

- earn an initial 20% interest in the Waterbury Lake Property by subscribing for, on a private placement basis, 1,000,000 common shares of the Company at a price of \$1.00 (which was completed on March 11, 2008) and by incurring, on or prior to January 30, 2009, exploration costs in the amount of \$5,500,000.
- earn an additional 15% (for an aggregate 35% interest) by incurring, on or prior to January 30, 2010, additional exploration costs in the amount of \$4,000,000; and
- earn an additional 15% (for an aggregate 50% interest) by incurring, on or prior to January 30, 2011, additional exploration costs in the amount of \$4,500,000.

The consortium has now met the year one and two requirements and the Company's interest has been reduced to 65%.

In addition, the Company shall be the operator of the project and the Company shall retain an overriding royalty interest in the property of 2% of net smelter returns in yellowcake.

If the consortium earns the 50% interest, the Company may buy back a 10% interest for \$6,000,000.

During fiscal 2009, and following a reduction in claim area, the Company reduced the \$14,000,000 required cash contribution from consortium by approximately \$382,000. In addition, and with the concurrence of the consortium, the Company expended \$677,875 more than was originally budgeted during the first quarter of fiscal 2010. The consortium agreed to reimburse this excess expenditure as part of the cash call made for the quarter beginning January 1, 2010 and this is included in amounts receivable at December 31, 2009.

# Fission Energy Corp.

Notes to the consolidated financial statements

December 31, 2009

(Unaudited – prepared by management)

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## 4. Mineral property interests (continued)

(f) *Patterson Lake Property, Canada*

The Company acquired a 100% interest in various claims located in Saskatchewan in fiscal 2008.

On January 21, 2008, the Company entered into an exploration agreement with ESO Uranium Corporation (“ESO”) to include claims jointly staked in late 2007 on the southern extension of Fission’s 100% owned Patterson Lake claims and ESO’s Hook Lake Property. The 50%-50% exploration project will be known as the Patterson Lake South Joint Venture and the joint venture partners will share costs based on their joint venture interest.

(g) *Davy Lake Property, Canada*

The Company acquired a 100% interest in certain claims located in Saskatchewan in fiscal 2008. The Company recorded a \$380,741 write-down of acquisition costs and \$4,262,829 of exploration costs at June 30, 2009.

(h) *Dieter Lake Property, Canada*

The Company acquired a 100% interest in certain claims located in Quebec during in fiscal 2008. An additional 66,667 shares will be issued in the event a resource of more than 60 million pounds containing U3O8 (Uranium) is confirmed at the property.

(i) *Other Properties, Canada*

The Company acquired a 100% interest in the following uranium properties including Minor Bay and Torwalt Lake located in north-central Saskatchewan in fiscal 2008.

On December 17, 2007 the Company completed an option agreement with Hillcrest Resources Ltd. (“Hillcrest”), to explore and develop Fission’s Torwalt Lake Property.

Fission had granted Hillcrest the exclusive right to earn-in a total 60% undivided interest in the Torwalt Lake exploration project. Hillcrest did not meet the minimum expenditure requirement at December 17, 2009 and the agreement was terminated in January 2010.

(j) *Macusani Property, Peru*

The Company has a 100% interest in certain uranium properties located in Peru. The company recorded a 100% write-down in the amount of \$1,509,232 at June 30, 2009 and an additional write-down of \$45,787 for the 6 months ended December 31, 2009.

# Fission Energy Corp.

Notes to the consolidated financial statements

December 31, 2009

(Unaudited – prepared by management)

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## 5. Capital stock and contributed surplus

The Company is authorized to issue an unlimited number of common shares, without par value.

### (a) *Private placements*

On May 13, 2009, the Company completed a non-brokered private placement of 583,166 flow-through shares at \$0.36 per share for gross proceeds of \$209,940 and incurred additional costs in the amount of \$1,900.

On June 30, 2009, the Company completed the first tranche of a non-brokered private placement of common and flow-through units. The Company issued 4,198,000 common share units at a price of \$0.30 per unit, and 2,141,374 flow-through units at a price of \$0.35 per unit for aggregate gross proceeds of \$2,008,881. Each common share unit consists of one common share and one common share purchase warrant that entitles the holder to purchase one common share of the Company at a price of \$0.40 for a period of 2 years. A value of \$512,582 was attributed to the non flow-through warrants based on the Black-Scholes pricing model and was included in contributed surplus. Each flow-through share unit consists of one flow-through common share and one half of one common share purchase warrant that entitles the holder to purchase one common share of the Company at a price of \$0.45 for a period of 2 years. A value of \$187,792 was attributed to the flow-through warrants based on the Black-Scholes pricing model and was included in contributed surplus. The Company paid agents' commissions of \$101,310, plus \$25,725 of expenses and issued 311,817 broker warrants. A value of \$70,329 was attributed to the broker warrants based on the Black-Scholes pricing model and was included in contributed surplus. Each broker warrant entitles the holder to purchase one common share of the Company at a price of \$0.30 for a period of 2 years following the closing date of the private placement. The assumptions used in the Black-Scholes option pricing model included a volatility of 153%, risk free interest rate of 1.20%, expected life of 2 years, and a dividend rate of 0%. All warrants vested immediately on the date of grant.

On July 21, 2009, the Company completed the second tranche of a non-brokered private placement of common and flow-through units on identical terms to the first tranche. The Company issued 3,702,000 common share units and 2,320,712 flow-through units for aggregate gross proceeds of \$1,922,849. A value of \$396,493 has been attributed to the non flow-through warrants based on the Black-Scholes pricing model and has been included in contributed surplus. A value of \$172,709 has been attributed to the flow-through warrants based on the Black-Scholes pricing model and has been included in contributed surplus. The Company paid agents' commissions of \$146,628 plus \$22,917 of expenses and issued 457,817 broker warrants. A value of \$98,561 was attributed to the broker warrants based on the Black-Scholes pricing model and was included in contributed surplus. The assumptions used in the Black-Scholes option pricing model included a volatility of 151%, risk free interest rate of 1.19%, expected life of 2 years, and a dividend rate of 0%. All warrants vested immediately on the date of grant.

# Fission Energy Corp.

Notes to the consolidated financial statements

December 31, 2009

(Unaudited – prepared by management)

## 5. Capital stock and contributed surplus (continued)

### (b) Stock options and warrants

The Company has a stock option plan which allows the Board of Directors to grant stock options to employees, directors and consultants. The exercise price of each option is based on the market price of the Company's common stock at the date of grant less any applicable discount. The options can be granted for a maximum term of five years; vesting terms are determined by the Board of Directors at the date of grant.

Stock option and share purchase warrant transactions are summarized as follows:

	Stock options		Warrants	
	Number	Weighted average exercise price	Number	Weighted average exercise price
		\$		\$
Balance July 1, 2008	3,113,500	0.82	700,600	0.70
Granted	3,351,000	0.29	5,580,502	0.40
Cancelled/Forfeited	<u>(2,763,500)</u>	0.81	<u>(700,600)</u>	0.70
Outstanding, June 30, 2009	3,701,000	0.35	5,580,502	0.40
Granted	300,000	0.31	5,320,172	0.40
Outstanding, December 31, 2009	<u>4,001,000</u>	0.35	<u>10,900,674</u>	0.40

As at December 31, 2009, incentive stock options and share purchase warrants were outstanding as follows:

### Options

Number outstanding	Exercise price	Number exercisable	Expiry date
	\$		
150,000	1.00	100,000	March 14, 2011
150,000	0.85	90,000	March 7, 2013
50,000	1.05	30,000	March 31, 2013
450,000	0.20	180,000	November 28, 2013
2,901,000	0.30	1,450,500	January 13, 2014
175,000	0.31	43,750	August 6, 2014
125,000	0.30	-	September 28, 2014
<u>4,001,000</u>		<u>1,894,250</u>	

# Fission Energy Corp.

Notes to the consolidated financial statements

December 31, 2009

(Unaudited – prepared by management)

## 5. Capital stock and contributed surplus (continued)

### (b) Stock options and warrants (continued)

<i>Warrants</i>	Number of	Exercise	
Date issued	shares issuable	price	Expiry date
	upon exercise		
		\$	
June 30, 2009	1,070,685	0.45	June 30, 2011
June 30, 2009	4,198,000	0.40	June 30, 2011
June 30, 2009	311,817	0.30	June 30, 2011
July 21, 2009	1,160,355	0.45	July 21, 2011
July 21, 2010	3,702,000	0.40	July 21, 2011
July 21, 2011	457,817	0.30	July 21, 2011
	10,900,674		

### (c) Stock-based compensation

During the 6 month period ended December 31, 2009, the Company granted 300,000 (2008 – 450,000) options to officers and consultants and repriced 75,000 options granted to a consultant. Pursuant to the granting and vesting of options issued, total stock-based compensation recognized in the statement of operations during the six months ended December 31, 2009 was \$132,573 (2008 - \$169,137). This amount was also recorded as contributed surplus on the balance sheet. All options are recorded at fair value using the Black-Scholes option pricing model.

The following assumptions were used for the valuation of stock options and warrants:

December 31	2009	2008
Risk Free interest Rate	1.80%	3.20%
Expected Life	2.7 years	3.92 years
Annualised Volatility	144%	122%
Dividend Rate	0%	0%

## 6. Flow-through share settlement

As part of the flow-through share private placement of November 15, 2007 the Company had agreed to indemnify subscribers for income taxes incurred for any reductions in Canadian Exploration Expenses (CEE) renounced to the subscriber. The Company raised \$6,900,300 and spent \$5,147,538 on CEE. As a result, in fiscal 2009 the Company paid or accrued \$931,319 to settle the requirements of the flow-through share subscription agreements. As a result of the reduced CEE, a reduction of income tax benefits renounced to shareholders of flow-through shares was credited to share capital in the amount of \$455,718.

# Fission Energy Corp.

Notes to the consolidated financial statements

December 31, 2009

(Unaudited – prepared by management)

## 7. Supplemental disclosure with respect to cash flows

	December 31	June 30
	2009	2009
	\$	\$
Cash and cash equivalents		
Cash	2,217,158	2,159,297
Term deposits	240,000	565,000
	<u>2,457,158</u>	<u>2,724,297</u>

There were \$Nil cash payments for interest and income taxes during the 6 months ended December 31, 2009 and December 31, 2008.

Significant non-cash transactions for the 6 months ended December 31, 2009 included:

- (a) Incurring mineral property expenditures of \$233,220 through accounts payable and accrued liabilities;
- (b) Recognizing mineral property recoveries of \$555,778 through receivables;
- (c) Reclassifying \$667,763 from capital stock to contributed surplus for warrants included in share units issued; and
- (d) Reclassifying \$136,930 from share issue cost to contributed surplus for the proportionate share of warrants.

Significant non-cash transactions for the 6 months ended December 31, 2008 included:

- (a) Incurring mineral property expenditures of \$156,672 through accounts payable and accrued liabilities; and
- (b) Recognizing mineral property recoveries of \$273,472 through amounts receivable.
- (c) Reducing income tax benefits renounced to shareholders of flow-through shares by \$1,752,762 resulting in a \$455,718 increase to capital stock.

# Fission Energy Corp.

Notes to the consolidated financial statements

December 31, 2009

(Unaudited – prepared by management)

## 8. Related party transactions

	Three months ended December 31		Six months ended December 31	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>Amounts Paid or Accrued</b>				
Consulting fees to officers and companies controlled by officers	65,750	84,000	130,250	180,000
Directors fees	32,000	37,000	64,000	76,500
Geological consulting fees to companies controlled by a director	555	140,865	12,661	561,985
General and administrative fees to a company controlled by a director	267	41	500	3,380
	<b>98,572</b>	<b>261,906</b>	<b>207,411</b>	<b>821,865</b>
<b>Recoveries Recorded</b>				
Shared costs from companies with common director and management	44,643	-	44,643	-
	<b>44,643</b>	<b>-</b>	<b>44,643</b>	<b>-</b>

Included in accounts payable at December 31, 2009 is \$17,325 (June 30, 2009 - \$Nil) for consulting fees owing to officers and companies controlled by officers and \$273 (June 30, 2009 - \$6,276) for consulting fees, deferred exploration and general/administrative costs owing to a company controlled by a director.

Included in accounts receivable at December 31, 2009 is \$46,875 (June 30, 2009 - \$Nil) for shared costs from companies with common directors and management.

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

# Fission Energy Corp.

Notes to the consolidated financial statements

December 31, 2009

(Unaudited – prepared by management)

## 9. Segmented information

The Company primarily operates in one reportable operating segment, being the exploration of mineral property interests and considers its loss from operations for the period ended December 31, 2009 and December 31, 2008 to relate to this segment.

Long-lived assets by geographic area are as follows:

	December 31, 2009		June 30, 2009	
	Canada	Peru	Canada	Peru
	\$	\$	\$	\$
Property and equipment	53,192	32,309	48,110	35,711
Mineral property interests	19,046,515	-	18,094,905	-
	19,099,707	32,309	18,143,015	35,711

## 10. Contingencies

- In January 2008, the Company received an invoice in the amount of \$182,616 from a Canadian drilling company. The invoice represents amounts for services allegedly performed during 2007. The Company rejects this claim. The party has commenced legal proceedings and the Company will defend itself and will seek reimbursement for all costs associated with the defense from the claim or litigation. No amount has been accrued in these financial statements in respect of the claim as the outcome is not determinable.
- In June 2008, the Company received a statement of claim for approximately \$108,000 plus costs from the Government of Saskatchewan. The basis of the claim relates to one of Strathmore's contractors allegedly performing certain surface exploration work that resulted in a forest fire. Although the Company has not been named in the lawsuit, it assumed all liabilities attached to the property on completion of the Arrangement. The Company rejects the claim. No amount has been accrued in these financial statements in respect of the claim as the outcome is not determinable.

Any costs ultimately assessed against the Company in respect of these claims will be recorded in the period in which the actual determination of the liability, if any, is made.

## 11. Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development and exploration of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company depends on external financing to fund its activities. The capital structure of the Company currently consists of common shares, stock options and share purchase warrants. Changes in the equity accounts of the Company are disclosed in the statement of shareholders' equity. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, acquire or dispose of assets or adjust the amount of cash, cash equivalents, and short-term investments. The issuance of common shares requires approval of the Board of Directors.

# Fission Energy Corp.

Notes to the consolidated financial statements

December 31, 2009

(Unaudited – prepared by management)

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## 11. Capital management (continued)

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets, which are approved by the Board of Directors and updated as necessary depending on various factors, including capital deployment and general industry conditions.

The Company anticipates continuing to access equity markets to fund continued exploration of its mineral properties and the future growth of the business.

## 12. Financial instruments and risk management

The Company's financial instruments consist of cash and cash equivalents, short-term investments, amounts receivable and accounts payable and accrued liabilities. For cash and cash equivalents, amounts receivable and accounts payable and accrued liabilities, carrying value is considered to be a reasonable approximation of fair value due to the short-term nature of these instruments. The fair value of short term investments represents their quoted market price.

Cash and cash equivalents and short-term investments are designated as held for trading and therefore carried at fair value, with the unrealized gain or loss recorded on the statement of operations.

The Company's financial instruments are exposed to a number of financial and market risks, including credit, liquidity and foreign exchange risks. The Company does not currently have in place any active hedging or derivative trading policies to manage these risks since the Company's management does not believe that the current size, scale and pattern of its operations would warrant such hedging activities.

### (a) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will not discharge its obligations, resulting in a financial loss to the Company. The Company has procedures in place to minimize its exposure to credit risk. Company management evaluate credit risk on an ongoing basis, including evaluation of counterparty credit rating, monitoring activities related to trade and other receivables and counterparty concentrations measured by amount and percentage.

The primary sources of credit risk for the Company arise from the following financial assets: (1) cash and cash equivalents; (2) short-term investments; and (3) amounts receivable. The Company has not had any credit losses in the past, nor does it expect to have any credit losses in the future. At December 31, 2009, the Company has no financial assets that are past due or impaired due to credit risk defaults.

# Fission Energy Corp.

Notes to the consolidated financial statements

December 31, 2009

(Unaudited – prepared by management)

## 12. Financial instruments and risk management (continued)

### (a) Credit risk (continued)

The Company's maximum exposure to credit risk at the reporting date is as follows:

	December 31	June 30
	2009	2009
	\$	\$
Cash and cash equivalents	2,457,158	2,724,297
Short-term investments	87,600	32,000
Amounts receivable	665,828	231,809
	<b>3,210,586</b>	2,988,106

### (b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations with respect to financial liabilities as they fall due. The Company's financial liabilities are comprised of accounts payable and accrued liabilities. The Company frequently assesses its liquidity position by reviewing the timing of amounts due and the Company's current cash flow position to meet its obligations. The Company manages its liquidity risk by maintaining sufficient cash and cash equivalents and short-term investment balances to meet its anticipated operational needs.

The Company's financial liabilities, consisting of accounts payable and accrued liabilities, arose as a result of exploration of its mineral property interests and other corporate expenses. Payment terms on these liabilities are typically 30 to 60 days from receipt of invoice and do not generally bear interest. The following table summarizes the remaining contractual maturities of the Company's financial liabilities:

	December 31	June 30
	2009	2009
	\$	\$
Accounts payable and accrued liabilities	335,787	638,132

### (c) Market risk

Market risk is the risk that the fair value for assets classified as held-for-trading and available-for-sale or future cash flows for assets or liabilities considered to be held-to-maturity, other financial liabilities, and loans or receivables of a financial instrument will fluctuate because of changes in market conditions. The Company evaluates market risk on an ongoing basis and has established policies and procedures for mitigating its exposure to foreign exchange fluctuations. The Company is not exposed to interest rate risk, as it does not hold debt balances and is not charged interest on its accounts payable balances.

# Fission Energy Corp.

Notes to the consolidated financial statements

December 31, 2009

(Unaudited – prepared by management)

## 12. Financial instruments and risk management (continued)

### (d) Foreign exchange risk

The Company operates on an international basis and therefore, foreign exchange risk exposures arise from transactions denominated in foreign currencies. Although the functional currency of the Company is Canadian dollars, the Company also conducts business in US Dollars (“US”) and Peruvian New Soles (“PEN”). The Company does not use any derivative instruments to reduce its exposure to fluctuations in foreign currency exchange rates.

Exchange rate fluctuations may affect the costs that the Company incurs in its operations. The Company’s costs however, are incurred primarily in Canadian dollars. The appreciation of PEN and US against the Canadian dollar can increase the costs of operations and capital expenditures in PEN and US terms. The Company maintains its cash balances in Canadian dollars and exchanges currency to meet its PEN and US obligations on an as needed basis, thereby reducing the exchange risk on cash balances.

The Company is exposed to currency risk through the following Canadian dollar equivalent of financial assets and liabilities denominated in currencies other than Canadian dollars:

	December 31, 2009		June 30, 2009	
	PEN S/.	US\$	PEN S/.	US\$
Cash and cash equivalents	378	21,715	1,652	22,940
Accounts payable and accrued liabilities	-	(574)	-	-
	<b>378</b>	<b>21,141</b>	<b>1,652</b>	<b>22,940</b>

Based on the above net exposures at December 31, 2009, a 10% change in U.S. dollars against the Canadian dollar would result in a \$2,114 (June 30, 2009 \$2,294) increase or decrease in the Company’s net loss; similarly a 10% change in the PEN against the Canadian dollar would result in a \$38 (June 30, 2009 - \$165) increase or decrease in the Company’s net loss.

## 13. Subsequent Events

- (a) The Company granted 1,350,000 stock options exercisable at \$0.55 per share to Directors, Officers, employees and consultants. These were announced by the Company on February 4, 2010 and expire on February 3, 2015.
- (b) Subsequent to December 31, 2009, 330,473 stock options were exercised.

**FISSION ENERGY CORP.**  
**FORM 51-102F2**  
**MANAGEMENT'S DISCUSSION & ANALYSIS**  
**FOR THE SIX MONTH PERIOD ENDED DECEMBER 31, 2009**

The following discussion and analysis, prepared as of February 16, 2010 should be read in conjunction with the unaudited consolidated financial statements of Fission Energy Corp. (the "Company" or "Fission") for the six months ended December 31, 2009 and related notes, which are prepared in accordance Canadian generally accepted accounting principles (GAAP).

The reader should also refer to the audited consolidated financial statements for the year ended June 30, 2009 as well as the Management Discussion and Analysis for that year.

Additional information related to the Company is available for viewing on SEDAR at [www.sedar.com](http://www.sedar.com) and the Company's website at [www.fission-energy.com](http://www.fission-energy.com), or by requesting further information from the Company's head office located in Kelowna, BC, Canada.

### **Forward Looking Statements**

Statements in this report that are not historical based facts are forward looking statements involving known and unknown risks and uncertainties, which could cause actual results to vary considerably from these statements. Readers are cautioned not to put undue reliance on forward looking statements.

### **Description of Business**

Fission Energy Corp. is a junior resource issuer primarily engaged in the acquisition, exploration, and development of uranium resource properties in Canada and Peru. The Company's primary objective is to locate, evaluate and acquire uranium properties and to finance their exploration and potential development by way of equity financing, joint venture, option agreements or other means.

Fission Energy Corp. was formed on July 17, 2007 as a result of a plan of arrangement undertaken to reorganize Strathmore Minerals Corp. ("Strathmore") into two separate operating companies.

Under the terms of the arrangement, all of Strathmore's Canadian and Peruvian mineral property interests were transferred to the Company. A future tax liability was recorded relating to the difference between the cost base and the elected values for tax purposes. Under the terms of the arrangement, Strathmore's shareholders received one new common share in the capital of Strathmore (a "Strathmore New Share") and one-third of one common share in the capital of Fission (a "Fission Energy Share") for each Strathmore common share ("Strathmore Share") for a total of 24,168,911 Fission common shares.

Fission began trading as a new public company on July 25, 2007 under the symbol FIS.V (TSX Venture Exchange).

Management believes that the exploration and development of uranium properties presents an opportunity for the following reasons:

- Increased long-term worldwide energy demand
- Increased long-term demand for uranium
- Uranium demand/supply imbalance

This potential increase in demand has stimulated new exploration and development of both new and previously explored uranium properties. In Saskatchewan, the entire Athabasca Basin and areas beyond have been staked by mining exploration companies, including Fission, which controls a substantial number of prospective exploration projects.

## Performance Summary and Update

During the quarter ended December 31, 2009, the Company continued to receive support from the KEPCO led consortium on its Waterbury Lake program which is funded by them as part of their earn-in agreement. This project continues to have the highest priority. Other important projects including Duddridge Lake, Patterson Lake, Zoo Bay, and the Alberta North Shore have had sufficient exploration expenditures to keep them in current good standing. Further exploration has been deferred with future funding and operational capabilities to be reviewed and evaluated on an on-going basis.

Most of the uranium properties currently held by Fission Energy Corp. were originally staked or acquired by Strathmore after 2003, with the exception of the Macusani Property in Peru, which was acquired in 1997. The majority of the properties are located in Saskatchewan's Athabasca Basin. Fission continues to hold one of the largest portfolios of early stage exploration properties in the Basin. Other properties outside the Athabasca Basin include: Dieter Lake in Quebec, the Fort McLeod property in southern Alberta, and the Caribou Mountains project in Northern Alberta. While Management believes its properties have the potential for hosting an economic uranium deposit, exploration carries considerable risk and there is no guarantee that an economic mineral deposit will be discovered. A list of the Company's uranium exploration projects is shown below.

PROJECT	LOCATION	OWNERSHIP
North Shore	Athabasca Basin, AB	100% Fission <sup>*1</sup>
Fort McLeod	Southwestern AB	100 % Fission
Caribou Mountains	Caribou Mountains, Northern AB	100% Fission
Duddridge Lake	Central SK	J V - Great Bear Resources
Waterbury Lake	Athabasca Basin, SK	J V – KEPCO
Patterson Lake	Athabasca Basin, SK	100% Fission
Patterson Lake South	South margin of Athabasca Basin, SK	J V – ESO Uranium Corp
Davy Lake	Athabasca Basin, SK	100% Fission
Torwalt Lake	Athabasca Basin, SK	JV Hillcrest <sup>*2</sup>
Minor Bay	East margin of Athabasca Basin, SK	100% Fission
Dieter Lake	North-Central Quebec, Canada	100 % Fission
Zoo Bay	Athabasca Basin, SK	100 % Fission
Macusani	Peru, South America	100 % Fission

\*1 - JV with Tribune Resources was terminated on August 18<sup>th</sup>, 2008.

\*2 - Hillcrest did not meet minimum expenditure requirements by December 17, 2009 and the agreement was terminated in January 2010.

## Private Placements

On May 13, 2009, the Company completed a non-brokered private placement of 583,166 flow-through shares at \$0.36 per share for gross proceeds of \$209,940 and incurred additional costs in the amount of \$1,900.

On June 30, 2009, and as more completely described in the Interim financial statements, the Company completed the first tranche of a non-brokered private placement of common and flow-through units. The Company issued 4,198,000 common share units at a price of \$0.30 per unit, and 2,141,374 flow-through units at a price of \$0.35 per unit for gross proceeds of \$2,008,881. The Company paid agent's commissions of \$101,310 and issued 311,817 broker warrants entitling the holder to purchase one common share of the Company at a price of \$0.30 for a period of 2 years following the closing date of the private placement. The broker warrants were valued at \$70,329 using the Black-Scholes pricing method.

On July 21, 2009 the Company completed the second tranche of the non-brokered private placement of common and flow-through units on identical terms as the first tranche. The Company issued 3,702,000 common share units at a price of \$0.30 per unit, and 2,320,712 flow-through units at a price of \$0.35 per unit for aggregate gross proceeds of \$1,922,850. The Company paid agent's commissions of \$146,628 and issued 457,817 broker warrants on identical terms to the first tranche. The warrants were valued at \$98,561 using the Black-Scholes pricing method.

## Stock Options

On August 6, 2009 the company granted 175,000 options at \$0.31 and repriced 75,000 options previously priced at \$1.00 to \$0.31 to various consultants of the company. On September 28, 2009 the company granted 125,000 options at \$0.30 to the new CFO.

## Management Changes

On September 21, 2009 Mr. Andrew Adamson replaced Mr. Pat Groening as CFO of the Company.

## Uranium Resources Summary by Property

The following table displays the Company's current uranium resources. Additions and changes are dependent on future successful exploration results. The table includes NI 43-101 compliant (Measured and Indicated, and Inferred), and historical resources as defined by the results of exploration completed by previous mining companies.

The discussion following the table provides a summary the Company's exploration activities.

Location	Previous Operator	Resource Classification	Tonnage	Grade % U <sub>3</sub> O <sub>8</sub>	Lbs/U <sub>3</sub> O <sub>8</sub>
Dieter Lake, PQ	Uranerz	NI 43-101: Inferred	19,312,816 tonnes @ 200 ppm cut-off	0.057	24,424,306
Duddridge Lake, SK	Noranda	NI 43-101: Inferred	227,880 tonnes	0.105	487,663

*The technical information in the above table has been prepared in accordance with the Canadian regulatory requirements set out in National Instrument 43-101 and reviewed by Mr. Ross McElroy, P. Geol., a qualified person under National Instrument 43-10. However, a qualified person has not completed sufficient work to classify these historic mineral resources as current mineral resources; and is not treating the historic resources as current. Hence, they should not be relied upon. It should be noted that mineral resources, which are not mineral reserves do not have demonstrated economic viability*

## North Shore Property

In July 2007, Fission Energy completed an option agreement with Tribune Minerals Corp. ("Tribune") whereby Tribune had the right to acquire a 60% interest in the Company's North Shore Athabasca Property. Tribune issued 600,000 common shares to Fission and was required to spend \$10 million in exploration over 6 years. On August 18, 2008, Tribune Minerals Corp terminated its option agreement on the North Shore Uranium Property.

During the year ended June 30, 2009, the Company consolidated the North Shore and South Shore Properties into one land package, which will now be known as the North Shore Property. "Bridge" permits connecting the properties into one contiguous land package have been staked, and the overall size has been trimmed to 28 mineral permits totaling approximately 100,718 ha. These changes will allow the Company to focus on the best targets identified by exploration completed to date.

## Fort McLeod

The Fort McLeod property is located in Southwestern Alberta. The Company re-staked additional ground in the period ended September 30, 2009. The property currently consists of 8 mineral permits totaling approximately 48,307 ha. The part of the western sedimentary basin covering southwestern Alberta is host to a number of uranium occurrences and showings, primarily hosted within the sandstones of the Tertiary Willow Creek formation. No work is planned for 2010 fiscal year.

## Uranium Resources Summary by Property (cont'd)

### Caribou Mountains & Zoo Bay

On December 3, 2007 the Company acquired the Caribou Mountains and Zoo Bay Uranium properties. The Caribou Mountains Property comprises 6 Metallic and Industrial Mineral Permits totaling 27,872 ha in Northern Alberta, while the Zoo Bay claims total 11,752 ha along the northeast margin of the Athabasca Basin, in northern Saskatchewan.

### Duddridge Lake

The 12,954 ha Duddridge Lake Property is situated along the eastern margins of the Wollaston Basement Domain, which underlies a number of significant uranium occurrences in the eastern part of the Athabasca Basin, Saskatchewan. These include some of the richest uranium deposits known worldwide, including: Key Lake, Millennium, McArthur River, Cigar Lake, Midwest Lake and Eagle Point. The McArthur River, Millennium and Eagle Point uranium deposits contain significant amounts of 'basement-hosted' uranium mineralization similar to Duddridge Lake. In 1974-75, Noranda Exploration began an exploration drill program and completed more than 30 holes.

In 2007, this project was joint ventured with Great Bear Uranium Corp., (now called Great Bear Resources Ltd.) or "Great Bear", who can earn a 60% interest by spending \$6 million in exploration over 5 years. This agreement was completed when Fission Energy was part of Strathmore Minerals Corp.

Exploration is focusing on the area of known mineralization. A 6 hole drill program totaling 660 m commenced in January, 2008. Fission Energy is the operator. On September 30, 2008, results from this program confirmed the previous data collected from historic drilling. Further infill drilling will be required to expand the current resource, as well as test the deposit extensions to the north and at depth. During the year ended June 30, 2009, Fission and Great Bear agreed to extend all the remaining commitments on the project by one year, as shown in the accompanying table.

<b>Minimum Exploration Commitments</b>	<b>Original Agreement</b>	<b>As Amended</b>
\$750,000	March 31, 2008	Completed
\$1,000,000	March 31, 2009	March 31, 2010
\$1,000,000	March 31, 2010	March 31, 2011
\$1,250,000	March 31, 2011	March 31, 2012
\$2,000,000	December 31, 2013	December 31, 2014

### Waterbury Lake

The 40,256 ha Waterbury Lake Property virtually surrounds the AREVA/Denison Midwest Uranium Deposit (41 million lbs U3O8 at an average grade of about 5.5% U3O8), and the Midwest "A" discovery within the east-central part of Saskatchewan's Athabasca Basin. This structural trend continues on to Fission's northeast claim area, which was originally staked in 2004 and restaked in 2009.

On October 4, 2007, Fission Energy entered into a non-binding Memorandum of Understanding with Korea Electric Power Corporation (KEPCO) for the joint exploration and development of the Waterbury Lake project in the eastern part of the basin.

During the quarter ending March 31, 2008, the Company signed an agreement with the KEPCO led Korean Waterbury Uranium Limited Partnership (the "consortium") whereby the consortium can earn up to a 50% interest in the Waterbury Lake project by expending \$14 million over a three year period. In addition, a \$1 million common share private placement with the consortium was completed at a price of \$1.00 per share. Fission retains a 2% of Net Smelter Returns overriding royalty interest in the property. The consortium funded its commitments for the first 2 years of the earn-in agreement and presently holds a 35% interest in the property, as per the terms of the agreement.

## Uranium Resources Summary by Property (cont'd)

### Waterbury Lake (cont'd)

During fiscal 2009, and following a reduction in claim area, the Company reduced the \$14mm required cash contribution from the consortium by approximately \$382,000. In addition, and with the concurrence of the consortium, the Company expended \$677,875 more than was originally budgeted during the first quarter of fiscal 2010. The consortium agreed to reimburse this excess expenditure as part of the cash call made for the quarter beginning January 1, 2010 and this is included in amounts receivable at December 31, 2009.

Prior to the closing of this agreement, Fission completed an 8 hole first phase winter exploration drill program totaling 2,219 m on its eastern claim. Significant radioactivity was encountered in three of the eight holes. Samples were systematically collected from the drill core to evaluate clay alteration minerals utilizing spectral analysis and XRD analysis. In addition, separate drill core samples were forwarded for assay by SRC Analytical Laboratories based in Saskatoon.

In February 2008, Hathor Exploration announced a significant uranium discovery near its northern Waterbury Lake claim boundary with Fission Energy. On March 3, 2008, Hathor announced its discovery hole intersected 5.29% U<sub>3</sub>O<sub>8</sub> over 11.9 m. The favorable geologic system, known as the "Roughrider Zone", may extend onto Fission's Waterbury Lake northern claim.

During the quarter ended June 30, 2008, it was learned that Hathor Exploration attempted to stake additional ground in the vicinity of the "Roughrider Zone" that overlapped onto Fission's northern Waterbury Lake claim. Fission filed an objection with the Saskatchewan Ministry of Energy and Resources. This provincial government agency upheld Fission's filing, and the Company retained its key ground near the "Roughrider Zone"; however, the Ministry denied the Company a small fractional claim located to the southwest of the discovery. This fractional claim was granted to Hathor Exploration, subject to corrected deficiencies.

By September 30, 2008, Fission completed an approximate \$5.5 million exploration program in the Discovery Bay area near the Roughrider Zone. The program included soil sampling, airborne and ground geophysical surveys and a 19 hole drill program. Fourteen holes focused primarily in the Discovery Bay area adjacent and to the west of Hathor's Roughrider Zone uranium discovery, while 5 holes tested regional geophysical targets. The program was successful in identifying a significant basement hosted anomaly which has been named the "Discovery Bay Zone". The Discovery Bay Zone remains open to the west and southwest. Fission believes the Discovery Bay Zone may be associated with the Roughrider Zone, or a new system that runs approximately parallel to it. The intense hydrothermal alteration, in addition to coincident anomalous geochemistry and radioactivity indicates that the potential for significant uranium mineralization on the Fission property is high.

During the year ended June 30, 2009, follow-up exploration began and was completed. Exploration focused on further testing of the Discovery Bay Zone from winter drilling on the lake, in addition to testing numerous additional targets. The program included ground based gravity and IP-Resistivity surveys and 7,000 m of drilling. The most encouraging new areas tested are known as Talisker and Disco Bay. They are located approximately 1000 m and 500 m west of Discovery Bay, respectively, and exhibit excellent potential for unconformity style uranium mineralization.

On June 4, 2009 Hathor Exploration announced by news release that drill hole MWNE-09-116 "intersected the highest levels of radioactivity (as determined by down-hole gamma-ray probe data) on the property to date". This drill hole was collared approximately 10 m from Fission's property boundary, in the vicinity of the Discovery Bay Zone, with the mineralized interval intersected 50 m from the same property boundary.

In September 2009, the Company completed its summer exploration program and learning considerably more about the geometry of the Discovery Bay Zone and Roughrider Zone mineralization, a greater understanding of a 2nd "lower" zone identified by previous drilling and extended the continuity of the Discovery Bay Zone further to the west. This zone has undergone limited drill testing, but exhibits a high potential for significant uranium mineralization within the Discovery Bay area.

## **Uranium Resources Summary by Property (cont'd)**

### Waterbury Lake (cont'd)

In their September 9, 2009 press release, Hathor Exploration, announced the discovery of high grade uranium mineralization in hole MWNE-09-170, located approximately 200 m to the east of the Roughrider Zone. This discovery hole appears to lie within an eastern extension of the east-west trending corridor that hosts Fission's Discovery Bay Zone. More importantly, it demonstrates the potential for multiple occurrences of high grade uranium concentrations along this corridor.

The proposed 2010 winter program follows-up previous programs completed in the East-West trending corridor and includes approximately 20 drill holes totalling an estimated 7,500m.

To date 10 holes have been completed. The 2nd drill hole of the program, WAT10-063A intersected 10.5m grading 1.91% U<sub>3</sub>O<sub>8</sub> from 226.0m to 236.5m downhole, including a high grade intersection of 1.0m grading 13.87% U<sub>3</sub>O<sub>8</sub> from 230.0m to 231.0m. This new high grade uranium discovery has been dubbed the "J-Zone". The next three other drill holes (WAT10-064D, 065A and 066) also intersected anomalous radioactivity including a 4m interval (203.5m to 207.5m) of high radioactivity, ranging from 500 cps to >9999 cps (off scale) intersected in WAT10-066. To date, nine drill holes have been completed at the J-Zone, with six of the holes identifying high levels of radioactivity and/or uranium mineralization. Five of these drill intersections are associated with the unconformity, while the sixth is comprised entirely of basement hosted mineralization. Most recently, WAT10-070B, a 15m step-out to the west of the high-grade mineralization encountered in WAT10-063A, intersected a 13.5m wide interval of highly radioactive mineralization at the unconformity, including several intercepts totaling 7.5m of "off-scale" (cps >9999) hand scintillometer readings. The J-Zone remains open at depth and along strike and drilling is continuing.

### Waterbury North

In July 2009, 3 claims totaling 966 ha were staked. 2 claims are immediately adjacent and to the north-central border of the Waterbury Lake project, on which the company has a joint venture agreement with a Korean consortium lead by KEPCO. A 1,135 line-km high resolution magnetic survey was flown over these claims in July 2009.

### Patterson Lake

Patterson Lake was acquired by staking in 2004. It comprises 25,316 ha. In 2007, the Company completed a five hole drill program totaling 1406 m at its Patterson Lake property located approximately 30 km south of the advanced UEX-AREVA joint venture exploration and development project in the southwestern part of the Athabasca Basin. The drilling tested two EM conductors. Assays were received during 2008 resulting in the discovery of significant alteration, geochemical anomalies, and structures commonly associated with unconformity type Uranium deposits in the Athabasca Basin. The Company is very encouraged by these results and plans are underway for an expanded exploration program. Fission has also completed a MEGATEM airborne geophysical survey at Paterson Lake. From February to April 2008, a 2,696 m drill program resulted in the completion of 6 drill holes.

### Patterson Lake South

In late 2007, Fission Energy staked 2 claims totaling 3,354 ha on the southern extension of its Patterson Lake property. On January 17, 2008 Fission and ESO Uranium Corp entered into a 50:50 immediately vested joint venture exploration agreement whereby Fission contributed its 2 claims (totaling 3,354 ha) and ESO Uranium Corp contributed its 2 claims (totaling 1,417 ha) for a total package of 4 claims totaling 4,771 ha. Both companies participate equally in the exploration and management expenditures. The companies have jointly staked additional ground and the project now consists of 11 mineral claims totaling 12,493 ha. Title to the claims is held equally in the name of Fission and ESO Energy Corp. In December 2008, a 162 line-km MEGATEM Magnetic-EM Airborne Survey was completed over what is now defined as the Patterson Lake South project. The results of this MEGATEM survey have formed the basis for developing ground targets for future exploration. In October 2009, a 3,200 line-km high resolution airborne magnetic

## **Uranium Resources Summary by Property (cont'd)**

### Patterson Lake South (cont'd)

and radiometric survey was completed across the property. Results from this survey will help to differentiate the lithologic and structural boundaries and possibly identify zones of anomalous radioactivity.

### Davy Lake

Davy Lake comprises 58 mineral claims totaling 235,255 ha. The number of claims was recently reduced to only the most prospective areas. In 2005-06 a two stage MegaTEM II survey identified a 51 km contiguous conductor. Subsequent summer geophysical programs were carried out to further identify and prioritize drill targets. An airborne gravity survey was completed in the fall of 2008 that provided a good picture of the basement structures which are an important component for hosting unconformity uranium mineralization. In October 2009 a 1,509 line-km airborne magnetic and electromagnetic survey was flown by Geotech Ltd. This survey will help to isolate and provide good resolution to the magnetic and conductive nature of the sub-surface geology in advance of a 2 or 3 hole drill program, scheduled for the quarter ended March 31, 2010.

### Minor Bay

The Minor Bay property comprises 15,886 ha and is located along the southeast margin of the Athabasca Basin. It is on trend with the West Bear deposit. It is an early stage exploration property with great potential based on the continuation of basement geology and magnetic trends. A 1,248 line-km airborne magnetic and electromagnetic survey was conducted in May 2009. A number of interesting structures across the property were identified in both EM and magnetic data. The conductive anomalies can be attributed to faulted graphitic metapelite units in the basement rocks or to clay rich alteration zones.

### Torwalt Lake

The Torwalt Lake property comprises 812 ha and was acquired by staking in early 2004. It is located approximately 10 km east of the Waterbury Lake project in the eastern part of the Athabasca Basin and is an early stage uranium exploration project. The major uranium deposits are found in the general vicinity, including the nearby Dawn Lake mine.

On December 17, 2007, Fission completed an option agreement with Hillcrest Resources Ltd. to explore for uranium at the Company's Torwalt Lake property. Hillcrest can earn up to a 60% interest in the project, pursuant to the terms of the agreement. Hillcrest did not meet the minimum expenditure requirement at December 17, 2009 and the agreement was terminated in January 2010.

### Dieter Lake

Fission holds a 100% interest in the Dieter Lake property, which has a NI 43-101 inferred resource totaling 24.4 million lbs  $U_3O_8$  at an average grade of 0.057%  $U_3O_8$  (Davis and Guo, 2006). The property comprises 30,864 ha and is located approximately 150 km north of Hydro Quebec Reservoir LG-4. An all weather camp was established by Strathmore Minerals at Dieter Lake in 2006 and is available to Fission for future exploration. A \$408,000 work program was conducted during 2008, which primarily entailed mapping, prospecting, and radon surveys. Data collected from the work program will assist future exploration programs with an aim to expand the resource beyond the known uranium mineralization. All claims are presently in good standing with some renewal dates occurring in May 2010 and the balance in 2011 and later years.

### Peru

The Macusani property is located within southeastern Peru. Fission holds the rights to 9 mineral concession blocks encompassing 5100 ha and two surface rights over some of the areas with known uranium mineralization. The ownership of the surface rights is in question and is in process of being resolved.

## Results of Operations

For the second quarter ended December 31, 2009, the Company incurred a net loss of \$381,084, or \$0.01 per share compared to a net loss of \$1,313,432, or \$0.03 per share, for the quarter ended December 31, 2008. The decreased loss in the current period is primarily attributable to an improvement in the market price of investments and the impact of both flow-through share tax and settlement expense, net of income tax recovery, in the second quarter fiscal 2009.

### Summary of Quarterly Results

Quarter Ended	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
Net loss	\$(381,084)	\$(359,647)	\$(5,909,854)	\$(1,744,800)
Net loss per share	\$(0.01)	\$(0.01)	\$(0.14)	\$(0.04)
Quarter Ended	December 31, 2008	September 30, 2008	June 30, 2008	March 31, 2008
Net Income (loss)	\$(1,313,432)	\$(413,934)	\$(1,672,410)	\$311,313
Net Income (loss) per share	\$(0.03)	\$(0.01)	\$(0.04)	\$0.01

The third quarter of fiscal 2008 net income was due to recovery of future income taxes of \$1,056,155. Operational expenses continued to increase during the quarter amounting to \$803,704 before other items. The Company's newly signed option agreement with the KEPCO led consortium and others generated exploration management fee income totaling \$195,668. Expenses were also increased by an unrealized loss on investments of \$207,000.

The fourth quarter fiscal 2008 net loss was primarily attributable to the write off of Hall Lake claims and additional unrealized losses on investments.

The first quarter fiscal 2009 net loss arose from a further decline in value of the Company's investments in Great Bear Resources Ltd. and Tribune Minerals Corp. offset to some degree by interest income of \$50,028 and exploration management fee income of \$150,177.

The second quarter fiscal 2009 loss increase is primarily attributable to the settlement of liabilities arising from flow through share agreements in the amount of \$931,319 and flow through share tax expense of \$206,505. See Note 8 to the Company's audited consolidated financial statements for the year ended June 30, 2009 for more details.

The third quarter fiscal 2009 saw the write down of minerals properties by \$2,007,405 to produce a net loss of \$1,744,800. The quarter also saw a self imposed reduction in director and senior management compensation of 20% which continued into the fourth quarter.

The fourth quarter of fiscal 2009 was adversely impacted by the further write down of mineral properties by \$6,559,030, the bulk of which came from the impairment of its Davy Lake and Peru properties.

The first quarter of fiscal 2010 saw little change from the comparable quarter in fiscal 2009 except to note the reclassification of consultants to employees and the reduced write down provision on investments.

## Liquidity and Capital Resources

Fission Energy Corp is a mineral exploration company. The Company has not yet determined whether its mineral properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for mineral properties, including acquisition costs and related exploration costs, are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production. The Company expects to rely upon equity financing and/or joint venturing project development with a partner as primary sources of funding.

At December 31, 2009 the Company had \$2,893,188 in working capital. The Company does not have significant concerns about the liquidity of its current assets. Cash and cash equivalents include cash in bank and bank issued term deposits, which are liquid assets, and are readily available to the Company. Short term investments in equities of \$87,600 are insignificant to the Company's current assets. Amounts receivable includes amounts recoverable from our joint venture partner and amounts due from federal and provincial governments.

Other than the consortium agreement on Waterbury Lake and a joint venture agreement with ESO Uranium on Patterson Lake South where expenses are shared equally, the Company has no mineral property agreements that require it to meet certain expenditures. The Duddridge Lake property agreement requires Great Bear to fund exploration expenses to earn their interest. The agreement with KEPCO allows the Company to charge a fee as project operator. During the six months ended December 31, 2009 the Company earned \$147,261 (2008 - \$182,026) in exploration management fee income.

The financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. If the Company is not able to raise additional equity financing over the next 12 months it will become necessary to significantly curtail mineral property exploration expenditures and reduce operating costs.

## Related Party Transactions

For the six months ended December 31, 2009, the Company entered into the following related party transactions:

- a) Paid or accrued management consulting fees in the amount of \$99,000 to a company controlled by Devinder Randhawa, the Chairman and Chief Executive Officer for services provided to the Company and Directors fees of \$13,000.
- b) Paid or accrued Directors fees of \$12,000 to Jody Dahrouge.
- c) Paid or accrued Directors fees of \$12,000 to Mike Halvorson.
- d) Paid or accrued Directors fees of \$14,000 to Frank Estergaard.
- e) Paid or accrued Directors fees of \$13,000 to George Sanders.
- f) Paid or accrued management consulting fees of \$18,750 to a company controlled by Andrew Adamson and \$12,500 to Pat Groening, for services provided as Chief Financial Officer to the Company.
- g) Paid or accrued general and administrative costs of \$500 and deferred exploration costs of \$12,661 to a company controlled by Jody Dahrouge.
- h) The company recovered administrative costs of \$30,855 from a company controlled by Devinder Randhawa and \$13,788 from companies with common directors.

At December 31, 2009 accounts payable includes \$17,325 due to a company controlled by Devinder Randhawa for consulting and administrative costs and \$273 to a company controlled by Jody Dahrouge.

Amounts receivable include \$32,398 for administrative costs recoverable from a company controlled by Devinder Randhawa and \$14,478 from companies with common directors.

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Amounts due to and due from related parties or and are unsecured, non-interest bearing and have no specific repayment terms.

### **Outstanding Share Data**

As at February 16, 2010 the Company has 55,364,279 common shares issued and outstanding, 5,020,527 incentive stock options outstanding with exercise prices ranging from \$0.20 to \$1.05 per share and 10,900,674 share purchase warrants outstanding with exercise prices of between \$0.30 and \$0.45 per share. These numbers include 330,473 shares issued pursuant to the exercise of share options and the grant of 1,350,000 share options as described in the Subsequent Events note.

### **Financial Instruments**

The Company has classified its cash equivalents and short-term investments as held-for-trading. Amounts receivable are classified as loans and receivables and are measured at amortized cost. Accounts payable and accrued liabilities are classified as other liabilities and are measured at amortized cost.

### **Recent Accounting Pronouncements**

#### International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies and in February 2008 they announced that fiscal 2012 is the changeover date for non-calendar year end publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date for Fission is July 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended June 30, 2011.

The CICA has adopted or incorporated many of the new standards into recent pronouncements but many are different and called for an analysis of existing reporting requirements. The Company completed its IFRS diagnostic regarding the adoption of IFRS for fiscal 2012 in October 2009 and has determined that the key issues affecting the Company include the treatment of exploration expenditures, the presentation of deferred income tax, stock-based compensation and the impairment of assets. Management is confident that the presentation and financial impact of the transition from GAAP to IFRS will have been addressed by mid 2010.

#### CICA Sections 1582, 1601, 1602 Business Combinations, Consolidations, and Non-Controlling Interests

In January 2009, the AcSB issued the following Handbook sections: 1582 – Business Combinations, 1601 – Consolidations, and 1602 – Non-Controlling Interests. These new Sections will be applicable to financial statements beginning on or after January 1, 2011. Early adoption is permitted. The Company has determined that there will be no impact from the adoption of these new sections on its consolidated financial statements.

### **Subsequent Events**

- a) The Company granted 1,350,000 stock options exercisable at \$0.55 per share to Directors, Officers, employees and consultants. These were announced by the Company on February 4, 2010 and expire on February 3, 2015.
- b) Subsequent to December 31, 2009, 330,473 stock options were exercised.