

# **Fission** Energy Corp



**Consolidated Financial Statements  
Fission Energy Corp.  
June 30, 2010**

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**Fission Energy Corp.  
Management's Discussion and Analysis  
Year ended June 30, 2010**



**Consolidated Financial Statements**

**Fission Energy Corp.**

**June 30, 2010**

## AUDITORS' REPORT

To the Shareholders of  
**Fission Energy Corp.**

We have audited the consolidated balance sheets of **Fission Energy Corp.** as at June 30, 2010 and 2009 and the consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada,  
September 22, 2010.

*Ernst + Young LLP*

Chartered Accountants

**Fission Energy Corp.**  
**Consolidated Financial Statements**  
**June 30, 2010**

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# Fission Energy Corp.

## Consolidated balance sheets

	June 30 2010	June 30 2009
	\$	\$
<b>Assets</b>		
Current assets		
Cash and cash equivalents	11,941,329	2,724,297
Short-term investments (Note 3)	198,000	32,000
Amounts receivable	71,007	231,809
Prepaid expenses	22,765	378,030
	<b>12,233,101</b>	3,366,136
Property and equipment (Note 4)	80,860	83,821
Mineral property interests (Note 5)	18,086,503	18,094,905
	<b>30,400,464</b>	21,544,862
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	928,582	638,132
<b>Shareholders' equity</b>		
Capital stock (Note 6)	39,191,229	30,118,735
Contributed surplus (Note 6)	4,729,559	2,396,412
Deficit	(14,448,906)	(11,608,417)
	<b>29,471,882</b>	20,906,730
	<b>30,400,464</b>	21,544,862

Nature and continuance of operations (Note 1)

Commitments (Note 5 (e))

Contingencies (Note 12)

Subsequent Events (Note 15)

On Behalf of the Board:

"Frank Estergaard, CA"

Director

"Dev Randhawa"

Director

# Fission Energy Corp.

## Consolidated statements of operations and comprehensive loss

	Year Ended June 30 2010	Year Ended June 30 2009
	\$	\$
<b>Expenses</b>		
Advertising and promotion	4,760	9,694
Amortization	29,079	23,171
Business development	125,244	113,863
Consulting and Directors fees (Note 9)	552,115	714,658
Flow-through share tax	8,630	206,505
Insurance	36,204	29,126
Office and miscellaneous	142,801	98,147
Professional fees	162,519	192,237
Regulatory fees	9,620	27,771
Rent	74,672	74,026
Shareholder communications	45,958	16,154
Stock-based compensation (Note 6 (c))	423,249	492,426
Telephone	42,416	40,706
Trade shows and conferences	107,074	52,744
Transfer agent	18,933	10,607
Travel	16,285	37,967
Wages and benefits	262,556	147,084
	<b>2,062,115</b>	<b>2,286,886</b>
<b>Loss before other items</b>	<b>(2,062,115)</b>	<b>(2,286,886)</b>
Other items - income/(expense)		
Exploration management fee income	436,362	456,343
Interest income	39,803	100,798
Foreign exchange loss	(5,588)	(12,820)
Unrealized gain (loss) on investments	166,000	(158,000)
Gain on property option agreements	-	25,000
Flow-Through Share Settlement (Note 7)	-	(931,319)
Mineral property write-down (Note 5)	(1,871,757)	(8,566,435)
	<b>(1,235,180)</b>	<b>(9,086,433)</b>
Loss before income taxes	<b>(3,297,295)</b>	<b>(11,373,319)</b>
Future income tax recovery	456,806	1,991,299
<b>Net loss and comprehensive loss</b>	<b>(2,840,489)</b>	<b>(9,382,020)</b>
<b>Basic loss per common share</b>	<b>(0.05)</b>	<b>(0.22)</b>
<b>Weighted average number of common shares outstanding</b>	<b>58,214,854</b>	<b>42,165,244</b>

# Fission Energy Corp.

Consolidated statements of shareholders' equity  
Years ended June 30, 2010 and June 30, 2009

	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 7)	-	455,718	-	-	<b>455,718</b>
Common share units and flow-through share units issued for cash (Note 6 (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 6 (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 6 (a))	17,041,712	8,742,676	2,480,403	-	<b>11,223,079</b>
Share issue costs	-	(998,337)	-	-	<b>(998,337)</b>
Income tax benefits renounced to shareholders of flow-through shares	-	(456,806)	-	-	<b>(456,806)</b>
Exercise of Stock Options/Warrants	3,216,305	1,784,961	(570,505)	-	<b>1,214,456</b>
Stock-based compensation (Note 6 (c))	-	-	423,249	-	<b>423,249</b>
Net loss and comprehensive loss	-	-	-	(2,840,489)	<b>(2,840,489)</b>
<b>Balance, June 30, 2010</b>	<b>69,269,111</b>	<b>39,191,229</b>	<b>4,729,559</b>	<b>(14,448,906)</b>	<b>29,471,882</b>

# Fission Energy Corp.

## Consolidated statements of cash flows

	Year Ended June 30 2010 \$	Year Ended June 30 2009 \$
<b>Operating activities</b>		
Net loss and comprehensive loss	(2,840,489)	(9,382,020)
Items not involving cash:		
Amortization	29,079	23,171
Future income tax recovery	(456,806)	(1,991,299)
Unrealized (gain) loss on investments	(166,000)	158,000
Stock-based compensation	423,249	492,426
Write-down of mineral properties	1,871,757	8,566,435
	<b>(1,139,210)</b>	<b>(2,133,287)</b>
Change in non-cash working capital		
Decrease in amounts receivable	14,013	674,946
Decrease (increase) in prepaid expenses	355,265	(361,217)
Increase (decrease) in accounts payable and accrued liabilities	<b>(396,989)</b>	207,395
	<b>(1,166,921)</b>	<b>(1,612,163)</b>
<b>Investing activities</b>		
Mineral property additions	(5,959,100)	(9,273,158)
Mineral property cost recoveries	4,929,973	6,332,665
Property and equipment additions	<b>(26,118)</b>	<b>(12,604)</b>
	<b>(1,055,245)</b>	<b>(2,953,097)</b>
<b>Financing activities</b>		
Proceeds from issuance of share units, net of share issuance costs	10,224,742	2,089,886
Proceeds from exercise of options/warrants	1,214,456	-
	<b>11,439,198</b>	<b>2,089,886</b>
Increase (decrease) in cash and cash equivalents during the year	9,217,032	(2,475,374)
Cash and cash equivalents, beginning of year	2,724,297	5,199,671
<b>Cash and cash equivalents, end of year</b>	<b>11,941,329</b>	<b>2,724,297</b>

Supplemental disclosure with respect to cash flows (Note 8)

# Fission Energy Corp.

Notes to the consolidated financial statements  
June 30, 2010

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## 1. Nature and continuance of operations

Fission Energy Corp. (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 ("GAAP") 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.

## 2. Significant accounting policies

These consolidated financial statements have been prepared in accordance with Canadian GAAP and reflect the following policies:

### (a) Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries Fission Energy Peru S.A.C., and Minera Peruran S.A.C., incorporated under the laws of Peru. Significant intercompany balances and transactions are eliminated on consolidation.

### (b) Use of estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results could differ from these estimates.

Significant accounts that require estimates relate to the possible impairment of property and equipment and mineral property interests, the useful life of property and equipment, valuation allowances for future income taxes, valuation of investments, valuation of stock-based compensation and warrants in private placements and valuation of asset retirement obligations.

### (c) Cash and cash equivalents

Cash and cash equivalents include cash and those short-term money market instruments that are readily convertible to cash with an original term less than 90 days. Cash and cash equivalents are recorded at fair value.

# Fission Energy Corp.

Notes to the consolidated financial statements  
June 30, 2010

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## 2. Significant accounting policies (continued)

### (d) Short-term investments

Short-term investments were designated by the Company on initial recognition as held-for-trading and are measured at fair market value. Gains and losses are recognized in the consolidated statements of operations and comprehensive loss ("statement of operations").

### (e) Property and equipment

Property and equipment is recorded at cost and amortization is calculated using the straight-line method, at the following annual rates:

Geological equipment	20%
Office equipment	20%
Computer equipment	30%
Computer software	50%
Building	4%

### (f) Mineral property interests.

Mineral property interests comprise of both acquisition costs and deferred exploration costs. The Company records both acquisition costs, which consist of the right to explore for mineral deposits, and deferred exploration costs, which consist of costs attributable to the exploration of mineral property interests, at cost. All direct and indirect costs relating to the acquisition and exploration of mineral property interests are capitalized on the basis of specific claim blocks until the mineral property interests to which they relate are placed into production, disposed of through sale or where management has determined there is impairment. If a mineral property interest is abandoned, both acquisition costs and deferred exploration costs will be written off to operations in the period of abandonment.

On an ongoing basis, mineral property interests are reviewed on a property-by-property basis to consider if there is any impairment. The Company's determination for impairment is based on:

- (i) whether the exploration programs on the mineral property interests have significantly changed, such that previously identified resource targets are no longer being pursued;
- (ii) whether exploration results to date are promising and whether additional exploration work is being planned in the foreseeable future; and
- (iii) whether remaining lease terms are insufficient to conduct necessary studies or exploration work.

As at June 30, 2010, the Company believes that sufficient impairment charges relating to acquisition costs and deferred exploration costs have been recorded.

The recorded value of acquisition and deferred exploration costs are based on cash paid and share considerations issued. The recorded amount may not reflect recoverable value as this will be dependent on future development programs, the nature of the mineral deposit, commodity prices, adequate funding and the ability of the Company to bring its projects into production.

# Fission Energy Corp.

Notes to the consolidated financial statements  
June 30, 2010

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## 2. Significant accounting policies (continued)

### (g) *Foreign currency translation*

The Company's subsidiaries are integrated foreign operations. Their currencies are translated into the Canadian dollar equivalent using the temporal method. Monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the balance sheet date and non-monetary items are translated at historical rates. Revenues and expenses are translated at rates approximating those in effect at the time of the transaction. Exchange gains and losses arising on translation are included in the statement of operations.

### (h) *Flow-through common shares*

Resource expenditure deductions for income tax purposes related to exploration activities funded by flow-through share arrangements are renounced to investors in accordance with Canadian income tax legislation. The Company records a future income tax liability and a reduction in capital stock for the estimated tax benefits transferred to shareholders.

When the Company renounces flow-through expenditures, a portion of the Company's future income tax assets that were not recognized in previous years, due to the recording of a valuation allowance, will be recognized as a recovery of income taxes in the statement of operations.

### (i) *Asset retirement obligations*

An asset retirement obligation is a legal obligation associated with the retirement of tangible long-lived assets that the Company is required to settle. The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability. The Company currently does not have any asset retirement obligations.

### (j) *Stock-based compensation*

The Company uses the fair value method whereby the Company recognizes compensation costs over the vesting period for the granting of all stock options and direct awards of stock. Any consideration paid by the option holders to purchase shares is credited to capital stock.

### (k) *Income taxes*

Income taxes are recorded using the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

# Fission Energy Corp.

Notes to the consolidated financial statements  
June 30, 2010

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## 2. Significant accounting policies (continued)

### (l) *Loss per share*

Basic loss per share is calculated using the weighted average number of shares outstanding during the year. Earnings per share calculations are based on the weighted average number of common shares and common share equivalents issued and outstanding during the year. Diluted earnings per share is calculated using the treasury method which requires the calculation of diluted earnings per share by assuming that outstanding stock options, and warrants with the average market price that exceeds the average exercise prices of the options and warrants for the year, are exercised and the assumed proceeds are used to repurchase shares of the Company at the average market price of the common shares for the year.

### (m) *Financial instruments*

Financial instruments are classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value at the date of acquisition. Subsequent measurement and accounting for changes in fair value will depend on the initial classification, as follows:

- (i) held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income;
- (ii) available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is no longer recognized or impaired, at which time the amounts would be recorded in net income; and
- (iii) loans and receivables, held-to-maturity investments and other financial liabilities, are measured at amortized cost.

The Company designated its cash and cash equivalents and short-term investments as held-for-trading, which are measured at fair value. Amounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost. For the years ended June 30, 2010 and June 30, 2009, the Company had neither available-for-sale, nor held-to-maturity instruments.

Transaction costs directly attributable to the acquisition or issue of financial instruments are recognized in net income (loss) in the period incurred.

The classification of fair value measurements is based upon a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The level within which the fair value measurement is categorized is based upon the lowest level of input that is significant to the measurement. Level inputs are as follows:

- Level 1: quoted prices in active markets
- Level 2: valuation methods that use observable inputs
- Level 3: valuation methods that use unobservable inputs

# Fission Energy Corp.

Notes to the consolidated financial statements  
June 30, 2010

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## 2. Significant accounting policies (continued)

### (n) Recent accounting pronouncements

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

On February 13, 2008, the Canadian Accounting Standards Board ("AcSB") confirmed the mandatory changeover date to International Financial Reporting Standards ("IFRS") for Canadian profit-oriented publicly accountable entities ("PAE's") such as the Company.

The AcSB requires that IFRS compliant financial statements are prepared for annual and interim financial statements commencing on or after January 1, 2011. For PAE's with a June 30 year-end, the first audited annual financial statements under IFRS will be for the year ending June 30, 2012 with comparative financial information for the year ending June 30, 2011. The first unaudited interim financial statements under IFRS will be the quarter ending September 30, 2011 with comparative financial information for the quarter ended September 30, 2010.

In preparation for the changeover from Canadian GAAP to IFRS, a planning process was initiated in 2008. The Company continues to study the impact of conversion with plans for implementation in September, 2010. A detailed diagnostic of the conversion process was completed in the second quarter of 2009. The conversion to IFRS will impact the Company's financial reporting systems and, as a result some changes will be required to various areas including information technology and data systems, internal controls over financial reporting, disclosure requirements, and other business activities such as compensation programs and contractual arrangements.

#### (ii) 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 will not be able to determine the impact on its consolidated financial statements from the adoption of these new sections until after January 1, 2011.

# Fission Energy Corp.

Notes to the consolidated financial statements  
June 30, 2010

## 3. Short-term investments

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

Common Shares	Note	Number held	Original cost	Unrealised (gain) loss	Fair value
			\$	\$	\$
Great Bear Resources Ltd.	(a)	400,000	83,000	(97,000)	180,000
Tribune Minerals Corp.	(a)	30,000	630,000	612,000	18,000
Mountain Gold Resources Ltd	(b)	133,333	-	-	-
			713,000	515,000	198,000

(a) The Company has determined the fair value of its investments based on the quoted market prices at June 30, 2010.

(b) The shares of Mountain Gold Resources Ltd. ("Mountain Gold") were acquired through a plan of arrangement dated May 31, 2010 between Great Bear Resources Ltd. ("Great Bear") and Mountain Gold whereby each Great Bear shareholder received one-third of a common share of Mountain Gold while retaining the same amount of Great Bear shares. The Mountain Gold shares are currently not trading and have been given no value.

## 4. Property and equipment

	June 30, 2010		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Geological equipment	63,857	35,969	27,888
Office equipment	26,480	11,836	14,644
Computer equipment	33,313	13,361	19,952
Computer software	4,484	4,484	-
Building	20,190	1,814	18,376
	148,324	67,464	80,860

	June 30, 2009		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Geological equipment	63,857	23,189	40,668
Office equipment	21,123	7,176	13,947
Computer equipment	12,552	4,766	7,786
Computer software	4,484	2,244	2,240
Building	20,190	1,010	19,180
	122,206	38,385	83,821

# Fission Energy Corp.

Notes to the consolidated financial statements  
June 30, 2010

## 5. Mineral property interests

Year Ended June 30, 2010	North Shore Property	Fort McLeod Property	Caribou Mountains and Zoo Bay Properties	Duddridge Lake Property	Waterbury Lake Properties	Patterson Lake Properties	Davy Lake Property	Dieter Lake Property	Other Canadian Properties	Macusani Property	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Acquisition costs</b>											
Balance, beginning of year	460,422	-	448,814	382,245	467,801	162,502	38,350	619,785	95,765	-	2,675,684
Additions	-	2,500	-	-	178,281	5,000	-	-	16,257	-	202,038
Write-down	-	-	(448,814)	-	-	-	-	-	-	-	(448,814)
Balance, end of year	460,422	2,500	-	382,245	646,082	167,502	38,350	619,785	112,022	-	2,428,908
<b>Exploration costs</b>											
Balance, beginning of year	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
Additions during the year											
Geology mapping/sampling	175	30	3,560	1,035	31,409	18,917	7,901	6,493	1,970	9,473	80,963
Geophysics airborne	-	-	3,105	80	383,000	63,585	348,358	1,965	9,994	-	810,087
Geophysics ground	-	-	-	-	558,084	5,188	15,942	2,630	480	-	582,324
Drilling	47,065	-	-	8,430	3,386,008	1,051	496,679	50,218	504	400	3,990,355
Land retention and permitting	1,617	4,077	19,533	3,899	39,652	54,150	19,922	40,585	3,178	21,858	208,471
Reporting	1,767	679	4,872	185	12,755	9,271	6,147	13,135	3,703	32	52,546
Environmental	-	-	-	1,095	3,140	-	-	-	-	-	4,235
Safety	-	-	-	-	11,494	-	331	-	-	-	11,825
Community Relations	-	-	-	-	7,658	-	-	-	-	14,318	21,976
General	-	-	-	-	21,392	531	-	14	-	70,572	92,509
Additions	50,624	4,786	31,070	14,724	4,454,592	152,693	895,280	115,040	19,829	116,653	5,855,291
Write-down	-	-	(289,427)	-	-	-	(1,016,863)	-	-	(116,653)	(1,422,943)
Balance, end of year	4,643,450	4,786	-	1,237,890	14,522,349	3,710,421	4,103,019	2,188,694	372,990	-	30,783,599
<b>Cumulative cost recoveries</b>											
Balance, beginning of year	(1,538,127)	-	-	(1,038,107)	(8,069,735)	(23,643)	-	(98,064)	(164,354)	-	(10,932,030)
Recoveries	-	-	-	-	(4,071,562)	(6,536)	(47,047)	(68,829)	-	-	(4,193,974)
Balance, end of year	(1,538,127)	-	-	(1,038,107)	(12,141,297)	(30,179)	(47,047)	(166,893)	(164,354)	-	(15,126,004)
<b>Total costs</b>	<b>3,565,745</b>	<b>7,286</b>	<b>-</b>	<b>582,028</b>	<b>3,027,134</b>	<b>3,847,744</b>	<b>4,094,322</b>	<b>2,641,586</b>	<b>320,658</b>	<b>-</b>	<b>18,086,503</b>

# Fission Energy Corp.

Notes to the consolidated financial statements  
June 30, 2010

## 5. Mineral property interests (continued)

Year ended June 30, 2009	North Shore Property	Fort McLeod Property	Caribou Mountains and Zoo Bay Properties	Duddridge Lake Property	Waterbury Lake Properties	Patterson Lake Properties	Davy Lake Property	Dieter Lake Property	Other Canadian Properties	Macusani Property	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Acquisition costs</b>											
Balance, beginning of year	459,702	724,696	645,625	382,245	215,498	149,882	419,091	619,785	590,036	69,580	4,276,140
Additions	720	-	-	-	252,303	12,620	-	-	-	-	265,643
Write-down	-	(724,696)	(196,811)	-	-	-	(380,741)	-	(494,271)	(69,580)	(1,866,099)
Balance, end of year	460,422	-	448,814	382,245	467,801	162,502	38,350	619,785	95,765	-	2,675,684
<b>Exploration costs</b>											
Balance, beginning of year	4,443,783	723,104	93,669	1,203,494	5,517,199	3,514,026	7,665,530	1,644,287	44,171	955,759	25,805,022
Additions during the year											
Geology mapping/sampling	1,531	2,718	148,182	210	98,314	12,438	36,188	414,968	142,710	212,653	1,069,912
Geophysics airborne	6,758	52,593	161,756	-	39,135	-	758,690	-	212,338	-	1,231,270
Geophysics ground	62,327	-	-	-	948,080	-	2,064	-	-	2,036	1,014,507
Drilling	51,903	1,001	2,500	9,756	3,344,939	22,857	13,813	7,137	2,760	870	3,457,536
Land retention and permitting	14,268	424	2,129	1,497	30,600	4,527	3,360	2,822	3,742	34,555	97,924
Reporting	11,264	-	6,011	7,880	29,676	3,695	6,134	4,440	5,812	689	75,601
Environmental	-	-	-	-	-	-	-	-	-	18,646	18,646
Safety	436	-	-	327	545	109	-	-	-	-	1,417
Community Relations	-	-	-	-	3,201	-	-	-	-	26,530	29,731
General	1,571	-	234	2	56,068	76	1,652	-	1,804	188,614	250,021
Additions	150,058	56,736	320,812	19,672	4,550,558	43,702	821,901	429,367	369,166	484,593	7,246,565
Write-down	(1,015)	(779,840)	(156,124)	-	-	-	(4,262,829)	-	(60,176)	(1,440,352)	(6,700,336)
Balance, end of year	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
<b>Cumulative cost recoveries</b>											
Balance, beginning of year	(1,534,977)	-	-	(1,038,107)	(3,620,244)	(23,643)	-	(33,215)	(44,893)	-	(6,295,079)
Recoveries	(3,150)	-	-	-	(4,449,491)	-	-	(64,849)	(119,461)	-	(4,636,951)
Balance, end of year	(1,538,127)	-	-	(1,038,107)	(8,069,735)	(23,643)	-	(98,064)	(164,354)	-	(10,932,030)
<b>Total costs</b>	<b>3,515,121</b>	<b>-</b>	<b>707,171</b>	<b>567,304</b>	<b>2,465,823</b>	<b>3,696,587</b>	<b>4,262,952</b>	<b>2,595,375</b>	<b>284,572</b>	<b>-</b>	<b>18,094,905</b>

# Fission Energy Corp.

Notes to the consolidated financial statements  
June 30, 2010

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## 5. Mineral property interests (continued)

Title to mineral property interests involves certain inherent risks due to the difficulties of determining the validity of title and/or ownership of claims and 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 assesses the carrying value of mineral properties and related exploration expenditures at least annually for 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 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") under which Tribune issued 600,000 common shares to Fission for the right to acquire an interest in the property. The shares were rolled back to 30,000 on a 20:1 basis in July 2009. On August 18, 2008, Tribune terminated its option agreement on the North Shore 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 staked additional ground in fiscal 2010.

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

On November 30, 2007 the Company acquired a 100% interest in both the Caribou Mountains property in north-central Alberta and the Zoo Bay property located in northern Saskatchewan. 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 that releases the shares in stages.

At June 30, 2009, the Company recorded write-downs of \$196,811 for acquisition costs and \$156,124 for exploration costs on the Caribou Mountains property. At June 30, 2010 the Company wrote-down the balance of acquisition and exploration costs of \$14,814 and \$27,248 respectively, due to results to date and the prioritization of other properties.

Similarly, at June 30, 2010 and following a review of the results to date and prioritization of interests, the company recorded a 100% impairment of the Zoo Bay property acquisition costs (\$434,000) and exploration costs (\$262,179).

# Fission Energy Corp.

Notes to the consolidated financial statements  
June 30, 2010

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## 5. 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", under which the Company received \$400,000 cash and 400,000 common shares in exchange for the rights for up to a 60% undivided interest in the Duddridge Lake property. On April 9, 2010 Great Bear terminated the option agreement.

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

The Waterbury Lake properties comprise the Waterbury Lake Joint Venture property and the Waterbury Lake North property.

#### (i) *Waterbury Lake Joint Venture Property*

The Company acquired a 100% interest in certain claims located in Saskatchewan in fiscal 2008 and, on January 30, 2008, it completed an Earn-in agreement on the property with the Korea Waterbury Uranium Limited Partnership (the "Korean consortium" or the "consortium"). Under the agreement, the Company 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 on or before January 30, 2011. The agreement also provided an option for Fission to buy back a 10% interest from the consortium for \$6 million within 12 months of completion of the Earn-in period. Additionally, the Company was appointed operator of the project and retains an overriding royalty interest in the property of 2% of net smelter returns.

On April 29, 2010, the consortium fully funded its commitments for the 3 year term and consequently holds a 50% interest in the property as per the terms of the agreement. The Earn-in agreement required that, on completion of the Earn-in period, the joint venture parties agree to form a Limited Partnership to hold the property and on August 16, 2010 the Waterbury Lake Uranium Limited Partnership ("WLULP") agreement was signed. The WLULP agreement requires that Fission and its partner each spend \$5 million per year over the next three years for a total of \$30 million for exploration and evaluation costs. Fission is appointed operator for WLULP and is entitled to a management fee equal to 10% of expenditures for operator services.

#### (ii) *Waterbury Lake North Property*

In July 2009 the Company staked claims immediately adjacent to the Waterbury Lake Joint Venture property.

# Fission Energy Corp.

Notes to the consolidated financial statements  
June 30, 2010

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## 5. Mineral property interests (continued)

### (f) *Patterson Lake Properties, Canada*

The Patterson Lake Properties comprise both Patterson Lake and Patterson Lake South Joint Venture properties.

#### (i) Patterson Lake

Patterson Lake was acquired by staking in 2004.

#### (ii) Patterson Lake South Joint Venture

The Company acquired a 100% interest in various claims located in Saskatchewan in fiscal 2008 and, on January 21, 2008, entered into an exploration agreement with ESO Uranium Corporation ("ESO") to include jointly staked claims on the southern extension of Fission's 100% owned Patterson Lake claims and ESO's Hook Lake Property. The joint venture participants share costs in proportion to their interest in the joint venture. This is presently a 50% - 50% basis.

### (g) *Davy Lake Property, Canada*

The Company acquired a 100% interest in certain claims located in Saskatchewan in fiscal 2008. On June 30, 2009 the Company recorded a \$380,741 write-down of acquisition costs and \$4,262,829 of exploration costs. On June 30, 2010 the company recorded a further \$1,016,863 write-down of exploration costs.

### (h) *Dieter Lake Property, Canada*

The Company acquired a 100% interest in certain claims located in Quebec during fiscal 2008. In the event a uranium resource of more than 60 million pounds is confirmed at the property the Company is required to issue 66,667 shares to the vendor.

### (i) *Other Canadian Properties*

The Company acquired a 100% interest in the Minor Bay and Torwalt Lake properties located in the Athabasca Basin, 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 under which Fission granted Hillcrest the exclusive right to earn-in a 60% undivided interest in the property. Hillcrest did not meet the minimum expenditure requirement and the agreement was terminated on January 8, 2010.

### (j) *Macusani Property, Peru*

In 2008 the Company acquired a 100% interest in certain properties located in Peru. The Company recorded a 100% write-down in the amount of \$1,509,932 at June 30, 2009. Continuing administrative and claim maintenance costs for this property are capitalized and written off at year end, which resulted in a write down of \$116,653 for the year ended June 30, 2010.

# Fission Energy Corp.

Notes to the consolidated financial statements  
June 30, 2010

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## 6. 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. 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 \$1,922,850. A value of \$445,311 was attributed to the non flow-through warrants based on the Black-Scholes pricing model and has been included in contributed surplus. A value of \$205,293 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 \$146,628 plus \$38,145 of expenses and issued 457,817 broker warrants. A value of \$104,467 was attributed to the broker warrants based on the Black-Scholes pricing model and was included in contributed surplus. All warrants vested immediately on the date of grant.

On April 7, 2010 the Company completed a private placement of 8,384,000 common share units at \$0.80 and 2,635,000 flow-through common shares at \$0.95 per share for aggregate gross proceeds of \$9,210,450. Each common share unit consists of one common share and one half of one share purchase warrant. Each whole warrant is exercisable into one common share at \$1.00 for 2 years. A value of \$1,740,020 was attributed to the common share warrants based on the Black-Scholes pricing model and has been included in contributed surplus. The Company paid agents' commissions of \$551,667 plus \$172,118 of expenses and issued 659,940 broker warrants with an attributed value of \$342,145 based on the Black-Scholes pricing model and which was included in contributed surplus. Each Broker Warrant is exercisable into one common share of the Corporation for a period of 2 years from the Closing Date at a price of \$1.00 per share. All warrants vested immediately on the date of grant.

# Fission Energy Corp.

Notes to the consolidated financial statements  
June 30, 2010

## 6. 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 and 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	1,527,500	0.27	5,580,502	0.40
Forfeited	(940,000)	0.82	-	-
Expired	-	-	(700,600)	0.70
Outstanding, June 30, 2009	3,701,000	0.35	5,580,502	0.40
Granted	1,800,000	0.53	10,172,112	0.69
Exercised	(507,000)	0.30	(2,709,305)	0.39
Forfeited	(152,000)	0.30	-	-
Outstanding, June 30, 2010	4,842,000	0.41	13,043,309	0.63

As at June 30, 2010, incentive stock options and share purchase warrants were outstanding as follows:

### Options

Number outstanding	Exercise price	Number exercisable	Expiry date
	\$		
75,000	1.00	75,000	March 14, 2011
150,000	0.85	120,000	March 7, 2013
50,000	1.05	40,000	March 31, 2013
430,000	0.20	250,000	November 28, 2013
2,272,000	0.30	1,438,336	January 13, 2014
240,000	0.31	152,500	August 6, 2014
125,000	0.30	20,835	September 28, 2014
1,350,000	0.55	-	February 3, 2015
150,000	0.80	-	March 23, 2015
4,842,000	0.41	2,096,671	

# Fission Energy Corp.

Notes to the consolidated financial statements  
June 30, 2010

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

Warrants			
Date issued	Number of Shares issuable upon exercise	Exercise price	Expiry date
		\$	
June 30, 2009	939,257	0.45	June 30, 2011
June 30, 2009	1,950,500	0.40	June 30, 2011
June 30, 2009	62,400	0.30	June 30, 2011
July 21, 2009	1,160,355	0.45	July 21, 2011
July 21, 2009	3,632,000	0.40	July 21, 2011
July 21, 2009	446,857	0.30	July 21, 2011
April 7, 2010	4,851,940	1.00	April 7, 2012
	13,043,309	0.63	

### (c) Stock-based compensation

During the year ended June 30, 2010 the Company granted 1,800,000 (2009 - 1,527,500) options to employees, directors, officers and consultants. The Company also re-priced 75,000 options (2009 - 1,823,500) at \$0.31 (2009 - \$0.30). Pursuant to the granting and vesting of options issued, the fair value of stock-based compensation recognized in the statement of operations using the Black-Scholes option pricing model for the year ended June 30, 2010 was \$423,249 (2009 - \$492,426). This amount was also recorded as contributed surplus on the balance sheet. The following table discloses additional information about options granted in the year and outstanding at year end

	June 30 2010	June 30 2009
Weighted average fair value of options granted in year	\$0.42	\$0.28
Weighted average expiry date of outstanding options	3.83 years	4.36 years
Weighted average exercise price of outstanding options	\$0.41	\$0.35

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

	June 30 2010	June 30 2009
Risk Free interest rate	1.78%	2.81%
Expected Life - Years	2.55	4.39
Annualised Volatility	147%	133%
Dividend Rate	0%	0%

## 7. 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  
June 30, 2010

## 8. Supplemental disclosure with respect to cash flows

	<b>June 30</b>	June 30
	<b>2010</b>	2009
	\$	\$
Cash and cash equivalents		
Cash	<b>2,690,291</b>	2,159,297
Term deposits	<b>9,251,038</b>	565,000
	<b>11,941,329</b>	2,724,297

There were no cash payments for interest and income taxes during the years ended June 30, 2010 and June 30, 2009.

Significant non-cash transactions for the year ended June 30, 2010 included:

- (a) Incurring mineral property related expenditures of \$791,784 through accounts payable and accrued liabilities;
- (b) Reclassifying \$2,390,624 from capital stock to contributed surplus for warrants included in share units issued;
- (c) Reclassifying \$356,833 from share issue costs to contributed surplus for the proportionate share of warrants issued;
- (d) Reclassifying \$446,612 from capital stock to contributed surplus for the proportionate share of broker warrants issued; and
- (e) Renouncing flow-through expenditures of \$1,561,731 resulting in a charge to capital stock of \$456,806.

Significant non-cash transactions for the year ended June 30, 2009 included:

- (a) Incurring mineral property expenditures of \$104,345 through accounts payable and accrued liabilities; and
- (b) Recognizing mineral property recoveries of \$146,789 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.
- (d) Renouncing flow-through expenditures of \$209,940 resulting in a charge to capital stock of \$52,485;
- (e) Recording tax benefits of \$32,324 resulting in a credit to share issue costs; and
- (f) Reclassifying \$700,374 from capital stock to contributed surplus for warrants included in share units issued.

# Fission Energy Corp.

Notes to the consolidated financial statements  
June 30, 2010

## 9. Related party transactions

	<b>2010</b>	<b>2009</b>
	\$	\$
<b>Amounts Paid or Accrued</b>		
Consulting fees to officers and companies controlled by officers	<b>273,650</b>	<b>284,000</b>
Directors fees	<b>122,000</b>	<b>132,000</b>
Geological consulting fees to companies controlled by a director	<b>17,415</b>	<b>597,881</b>
General and administrative fees to a company controlled by a director	<b>756</b>	<b>8,419</b>
	<b>413,821</b>	<b>1,022,300</b>
<b>Recoveries Recorded</b>		
Shared costs from companies with common director and management	<b>121,767</b>	-
	<b>121,767</b>	-

Included in accounts payable at June 30, 2010 is \$17,325 (June 30, 2009 - \$14,595) for consulting fees owing to officers and companies controlled by officers and \$3,169 (June 30, 2009 - \$6,276) for consulting fees, deferred exploration and general and administrative costs owing to a company controlled by a director.

Included in accounts receivable at June 30, 2010 is \$6,783 (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  
June 30, 2010

## 10. Income taxes

A reconciliation of current income taxes at statutory rates (29.25%) with the reported income taxes is as follows:

	2010	2009
	\$	\$
Loss before income taxes	<b>(3,297,295)</b>	(11,373,319)
Expected income tax recovery	<b>(964,459)</b>	(3,440,429)
Impact of reduction in tax rates on future income taxes	<b>43,726</b>	506,238
Permanent differences	<b>101,192</b>	174,634
Change in valuation allowance	<b>577,172</b>	485,174
Other	<b>(214,437)</b>	283,084
Future income tax recovery	<b>(456,806)</b>	(1,991,299)

The significant components of the Company's future income tax assets are as follows:

	2010	2009
	\$	\$
Future income tax assets (liabilities)		
Non-capital losses	<b>1,195,980</b>	815,025
Equipment	<b>21,530</b>	15,967
Mineral properties	<b>(499,499)</b>	(575,592)
Investments	<b>64,375</b>	85,625
Share issue costs	<b>279,960</b>	144,149
Future income tax assets	<b>1,062,346</b>	485,174
Valuation allowance	<b>(1,062,346)</b>	(485,174)
Net future income tax liabilities	-	-

The Company has available approximately \$4,783,918 of non-capital losses which, if unutilized, will expire between 2028 and 2030.

During the year ended June 30, 2010 the Company renounced \$1,561,731 for Canadian exploration expenditures incurred on the Company's resource properties resulting in a future income tax liability of \$456,806 and a charge against capital stock.

During the year ended June 30, 2009, the Company reduced the renouncement of certain deductions for Canadian exploration expenditures incurred on the Company's resource properties resulting in a reduction in the future income tax liability of \$455,718 and a credit against capital stock.

During the year ended June 30, 2009, the Company renounced certain deductions for other Canadian exploration expenditures incurred on the Company's resource properties resulting in a future income tax liability of \$52,485 and a charge against capital stock.

# Fission Energy Corp.

Notes to the consolidated financial statements  
June 30, 2010

## 11. 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 years ended June 30, 2010 and June 30, 2009 to relate to this segment.

Long-lived assets by geographic area are as follows:

	June 30, 2010		June 30, 2009	
	Canada	Peru	Canada	Peru
	\$	\$	\$	\$
Property and equipment	51,975	28,885	48,110	35,711
Mineral property interests	18,086,503	-	18,094,905	-
	18,138,478	28,885	18,143,015	35,711

## 12. Contingencies

In January 2008, the Company received an invoice in the amount of \$182,616 from a Canadian drilling company for services allegedly performed during 2007. The plaintiff has commenced legal proceedings and the Company is defending itself against the action.

## 13. 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.

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.

# Fission Energy Corp.

Notes to the consolidated financial statements  
June 30, 2010

## 14. 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 evaluates credit risk on an ongoing basis including counterparty credit rating and activities related to trade and other receivables and other counterparty concentrations as measured by amount and percentage.

The primary sources of credit risk for the Company arise from:

- (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 June 30, 2010, the Company has no financial assets that are past due or impaired due to credit risk defaults.

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

	Class	June 30	June 30
	Level	2010	2009
		\$	\$
Cash and cash equivalents	1	<b>11,941,329</b>	2,724,297
Short-term investments	1	<b>198,000</b>	32,000
Amounts receivable	2	<b>71,007</b>	231,809
		<b>12,210,336</b>	2,988,106

# Fission Energy Corp.

Notes to the consolidated financial statements  
June 30, 2010

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

### (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:

	<b>June 30</b>	June 30
	<b>2010</b>	2009
	\$	\$
Accounts payable and accrued liabilities	<b>928,582</b>	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.

### (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. However, although the Company's costs are incurred primarily in Canadian dollars, any change in the value of PEN and US against the Canadian dollar can affect the costs of operations and capital expenditures. 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.

# Fission Energy Corp.

Notes to the consolidated financial statements  
June 30, 2010

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

### (d) Foreign exchange risk (continued)

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:

	June 30, 2010		June 30, 2009	
	PEN	US\$	PEN	US\$
Cash and cash equivalents	3,868	15,738	1,652	22,940
Accounts payable and accrued liabilities	-	(1,305)	-	-
	<b>3,868</b>	<b>14,433</b>	1,652	22,940

Based on the above net exposures at June 30, 2010, a 10% change in U.S. dollars against the Canadian dollar would result in a \$1,443 (June 30, 2009 \$2,294) change in the Company's net income or loss; similarly a 10% change in the PEN against the Canadian dollar would result in a \$387 (June 30, 2009 - \$165) change in the Company's net income or loss.

## 15. Subsequent Events

- (a) On August 16, 2010, the company entered into a limited partnership agreement with the Korean consortium to form the Waterbury Lake Uranium Limited Partnership (or "WLULP") in respect of the jointly owned Waterbury Lake property. Under the WLULP agreement, Fission and the consortium are each required to spend \$5 million per year over the next three years for a total of \$30 million for exploration and evaluation costs in respect of the Waterbury Lake joint venture project. Fission is appointed operator for WLULP and is entitled to a management fee of 10% of expenditures for operator services.
- (b) 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 Plan of Arrangement with Strathmore. During 2010 the Company paid \$10,000 in expectation of final settlement of the claim and which is recorded as legal fees. On September 1, 2010 the company received confirmation that the claim had been settled in full with no further payment required.





**Fission Energy Corp.  
Management's Discussion and Analysis  
Year ended June 30, 2010**

**FISSION ENERGY CORP.  
FORM 51-102F2  
MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2010**

The following discussion and analysis, prepared as of September 29, 2010 should be read in conjunction with the audited consolidated financial statements and related notes of Fission Energy Corp. (the "Company" or "Fission") for the year ended June 30, 2010, which were 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.

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 June 30, 2010, the Company continued to receive support from the Korea Waterbury Uranium Limited Partnership (the "Korean consortium" or the "consortium") on its Waterbury Lake program. The consortium is headed by the Korea Electric Power Corporation ("KEPCO") (NYSE: KEP). On April 29, 2010 the Korean consortium earned their 50% interest in the Waterbury Lake property and on August 16, 2010 Fission and the consortium entered into a Limited Partnership Agreement under the terms of which both entities contributed their 50% ownership share of the Waterbury Lake project to the Waterbury Lake Uranium Partnership Limited ("WLULP"). In addition to Waterbury Lake, summer 2010 exploration programs were completed at Dieter Lake, Davy Lake and Minor Bay. Other important properties including Duddridge Lake, Patterson Lake, and North Shore have had sufficient exploration expenditures to keep them in current good standing while a deficiency deposit was paid on the Zoo Bay property to maintain that project in good standing.

**Fission Energy Corp.  
Management's Discussion and Analysis  
Year ended June 30, 2010**

**Performance Summary and Update (continued)**

Further exploration on these properties has been deferred, but future funding and operational capabilities will be reviewed and evaluated on a continuing basis. 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 14 uranium exploration projects is shown below.

<b>Property</b>	<b>Location</b>	<b>Ownership</b>	<b>Claims</b>	<b>Hectares</b>	<b>Stage</b>	<b>Carrying Value</b>
North Shore	Athabasca Basin, AB	100% Fission	28	100,718	C	\$3,565,745
Fort McLeod	Southwestern AB	100 % Fission	6	31,988	A	7,286
Caribou Mountains	Northern AB	100% Fission	6	27,872	A	0
Zoo Bay	Athabasca Basin, SK	100 % Fission	2	11,752	B	0
Duddridge Lake	Central SK	100% Fission*1	6	12,954	C	582,028
Waterbury Lake	Athabasca Basin, SK	50% LPA Consortium	13	40,256	C	2,970,944
Waterbury Lake North	Athabasca Basin, SK	100% Fission	3	966	B	56,190
Patterson Lake	Athabasca Basin, SK	100% Fission	9	25,316	C	3,750,096
Patterson Lake South	South margin of Athabasca Basin, SK	50% JV - ESO	12	13,497	B	97,648
Davy Lake	Athabasca Basin, SK	100% Fission	19	74,614	C	4,094,322
Minor Bay	East margin of Athabasca Basin, SK	100% Fission	9	21,544	B	315,080
Torwalt Lake	Athabasca Basin, SK	100% Fission*2	1	812	B	5,578
Dieter Lake	North-Central Quebec	100 % Fission	643	30,864	B	2,641,586
Macusani	Peru, South America	100 % Fission	9	5,100	A	0
<b>TOTALS</b>			<b>766</b>	<b>398,253</b>		<b>\$18,086,503</b>

Exploration Stage:

- A- Prospecting
- B- Geophysical Exploration, Sampling, Line Cutting, IP Surveys
- C- Drilling

Notes:

\*1- The Joint Venture with Great Bear was terminated on April 9, 2010.

\*2 The Joint Venture with Hillcrest was terminated in January 8, 2010 as Hillcrest did not meet minimum expenditure requirements.

**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 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.

**Fission Energy Corp.  
Management's Discussion and Analysis  
Year ended June 30, 2010**

**Private Placements (continued)**

On July 21, 2009 the Company completed the second tranche of the non-brokered private placement of common and flow-through units on the same 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 \$1,922,849. The Company paid agent's commissions of \$146,628 and issued 457,817 broker warrants on identical terms to the first tranche.

On April 7, 2010 the Company completed a private placement of 8,384,000 units at \$0.80 and 2,635,000 flow-through common shares at \$0.95 per share for aggregate gross proceeds of \$9,210,450. Each unit consists of one common share and one half of one share purchase warrant. Each whole warrant is exercisable into one common share at \$1.00 per share for 2 years. The Company paid agents' commissions of \$551,667 plus \$172,118 of expenses and issued 659,940 non-transferable broker warrants. Each Broker Warrant is exercisable into one common share of the Corporation for a period of 2 years from the Closing Date at a price of \$1.00 per share.

**Stock Options**

During the year ended June 30, 2010 the company granted options as follows:

- August 6, 2009 - the company granted 175,000 options exercisable at \$0.31 and re-priced 75,000 options previously priced at \$1.00 to \$0.31 to various consultants of the company.
- September 28, 2009 - the company granted 125,000 options exercisable at \$0.30 to the CFO.
- February 4, 2010 The Company granted 1,350,000 stock options exercisable at \$0.55 to Directors, Officers, employees and consultants.
- March 24, 2010 - the Company granted 150,000 stock options exercisable at \$0.80 per share to a consultant.

**Management Changes**

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

**Uranium Resources Summary by Property**

***Throughout this discussion and analysis, references to programs occurring from April to October are known as summer programs and those occurring from November to March are known as winter programs.***

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.

<b>Location</b>	<b>Previous Operator</b>	<b>Resource Classification</b>	<b>Tonnage</b>	<b>Grade% U<sub>3</sub>O<sub>8</sub></b>	<b>Lbs/U<sub>3</sub>O<sub>8</sub></b>
Dieter Lake, PQ	Uranerz	NI 43-101: Inferred	19,312,816 tonnes	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. A qualified person has not completed sufficient work to classify these historic mineral resources as current mineral resources and 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.*

**Fission Energy Corp.**  
**Management's Discussion and Analysis**  
**Year ended June 30, 2010**

**Uranium Resources Summary by Property (continued)**

North Shore

Fission currently holds a 100% interest in the North Shore property. This property resulted from the consolidation of the North Shore and South Shore properties into one land package during the year ended June 30, 2009. "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

Fission currently holds a 100% interest in the Fort McLeod property which 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 31,988 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 2011 fiscal year.

Caribou Mountains

On November 30, 2007 the Company acquired the Caribou Mountains property comprising 6 Metallic and Industrial Mineral Permits totaling 27,872 ha in north-central Alberta. No work is planned for 2011 fiscal year and both acquisition and exploration costs have been fully written down for accounting purposes. Fission currently holds a 100% interest in the Caribou Mountains project.

Zoo Bay

On November 30, 2007 the Company acquired the Zoo Bay property comprising 2 claims totaling 11,752 ha along the northeast margin of the Athabasca Basin, in northern Saskatchewan. No work is planned for 2011 fiscal year and both acquisition and exploration costs have been fully written down for accounting purposes. Fission currently holds a 100% interest in the Zoo Bay project.

Duddridge Lake

The 6 claim, 12,954 ha Duddridge Lake property is situated along the eastern margins of the Wollaston Basement Domain, the same basement domain that underlies a number of significant uranium occurrences in the eastern part of the Athabasca Basin, Saskatchewan. Where it occurs beneath the Athabasca Basin, the Wollaston Basement Domain hosts 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 Resources Ltd. or "Great Bear" when Fission Energy was part of Strathmore Minerals Corp. On April 9, 2010 Great Bear gave Fission written notice to terminate its option agreement and now Fission currently holds a 100% interest in the property.

Exploration is focused on the area of known mineralization. A 6 hole drill program totaling 660 m commenced in January, 2008 with Fission as the operator. 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.

**Fission Energy Corp.  
Management's Discussion and Analysis  
Year ended June 30, 2010**

**Uranium Resources Summary by Property (continued)**

Waterbury Lake

The 13 claim, 40,256 ha Waterbury Lake property virtually surrounds the AREVA/Denison Midwest Uranium Deposit (41 million lbs U<sub>3</sub>O<sub>8</sub> at an average grade of about 5.5% U<sub>3</sub>O<sub>8</sub>), 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 partially re-staked in 2009.

In January 2008, and after an earlier drill program where significant radio-activity was found, the Company signed an Earn-in agreement with the Korean consortium whereby the consortium would complete a \$1 million common share private placement at a price of \$1.00 per share and could earn up to a 50% interest in the Waterbury Lake project by spending \$14 million over a three year period. The agreement also provided an option for Fission to buy back a 10% interest from the consortium for \$6 million within 12 months of completion of the Earn-in period. Under the agreement, Fission retains a 2% of net smelter returns overriding royalty interest in the property. On April 29, 2010, the consortium fully funded its commitments for the 3 year term and consequently holds a 50% interest in the property as per the terms of the agreement. The Earn-in agreement required that, on completion of the Earn-in period, the joint venture parties agree to form a Limited Partnership to hold the property and on August 16, 2010 the Waterbury Lake Uranium Limited Partnership ("WLULP") agreement was signed. The WLULP agreement requires that Fission and its partner each spend \$5 million per year over the next three years for a total of \$30 million for exploration and evaluation costs. Fission is appointed operator for WLP and is entitled to a management fee equal to 10% of expenditures for operator services.

In 2008, Fission completed an 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, and was successful in identifying a significant basement hosted anomaly which has been named the "Discovery Bay Zone" that remains open to the west and southwest.

During the first half of 2009, follow-up exploration tested areas known as Talisker and Disco Bay both of which showed excellent potential for unconformity style uranium mineralization. On completion of its summer exploration program, the Company had learned considerably more about the geometry of the Discovery Bay Zone and Roughrider Zone mineralization, and extended the continuity of the Discovery Bay Zone further to the west.

The 2010 winter program that followed-up on previous programs in the East-West trending corridor included 35 drill holes totaling an estimated 11,260m. 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 named the "J-Zone". Selected results from the 2010 winter drilling included intersections of 17m @ 3.99% U<sub>3</sub>O<sub>8</sub> (WAT10-070B), 6m @ 14.7% U<sub>3</sub>O<sub>8</sub> (WAT10-071) and 12m @ 3.64% U<sub>3</sub>O<sub>8</sub>. A total of 24 holes were drilled at the J-Zone, with 21 of those holes intersecting significant mineralization at or near the unconformity. The J-Zone remains open at depth and along strike. Two other areas of discrete mineralization on E-W trend with the J Zone were also intersected 70m to the east (WAT10-094A) and 130m to the west (WAT10-092A) referred to as J East and Highland respectively.

The 13-hole, 4,000m summer 2010 drilling program was recently completed and included the following objectives:

- Continue to delineate the J Zone with close-spaced step out holes
- Understand basement lithology and structure, considered important to emplacement of the J Zone mineralization
- Test in the J East area for further mineralization
- Test in the Highland area for further mineralization

**Fission Energy Corp.  
Management's Discussion and Analysis  
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**Uranium Resources Summary by Property (continued)**

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 the Korean consortium. A 1,135 line-km high resolution magnetic survey was flown over these claims in July 2009. Fission holds a 100% interest in the Waterbury North project.

Patterson Lake

Patterson Lake was acquired by staking in 2004. It comprises 9 claims and 25,316 ha. In 2007, the Company completed a five hole drill program totaling 1,406 m on the 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 was 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 and, in the period from February to April 2008, completed a 6 hole 2,696 m drill program. Fission holds a 100% interest in the Patterson Lake project.

Patterson Lake South

The Patterson Lake South property currently consists of 12 claims and 13,497 ha. 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 (ESO) entered into a 50:50 immediately vested joint venture exploration agreement whereby Fission contributed its 2 claims and ESO contributed its 2 claims (totaling 1,417 ha) for a total package of 4 claims totaling 4,771 ha. Under the agreement, both companies will participate equally in exploration and management expenditures and title to the claims is held equally in the name of Fission and ESO. In December 2008, a 162 line-km MEGATEM Airborne Survey was completed over what is now defined as the Patterson Lake South project, the results of which formed the basis for developing ground targets for future exploration.

In October 2009, a 3,200 line-km high resolution airborne magnetic and radiometric survey was completed across the property. The results indicate a strong, 900 meter long train of radioactive boulders extending southwards off the original claim block. The boulder train runs south from a coincident radon soils anomaly (identified in earlier work completed by CanOxy Petroleum Ltd) that is centered over an extension of the Patterson conductor corridor that appears to have been disrupted by cross cutting structures. In April 2010, additional ground was staked to cover this area and has added approximately 1004 hectares (2,480 acres) to the Joint Venture claim block. The most recent airborne survey used state of the art radiometric and high resolution aeromagnetic surveys and were flown on 50 meter line spacing with an average magnetometer sensor altitude of 17 meters, by Special Projects Inc of Calgary, Alberta. This survey targeted a corridor of conductors extending from the SSW trending Patterson Corridor on the adjacent Purepoint Uranium Inc - Cameco Joint Venture claims that had been previously identified from earlier airborne and ground surveys.

**Fission Energy Corp.  
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**Uranium Resources Summary by Property (continued)**

Davy Lake

Davy Lake comprises 19 mineral claims totaling 74,614 ha following a recent reduction in the number of claims to only the most promising areas. In 2005/06 a two stage MEGATEM airborne geophysical 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 in the fall of 2008 provided a good picture of the basement structures which are an important component for hosting unconformity uranium mineralization. In October 2009 a further 1,509 line-km airborne magnetic and electromagnetic survey flown by Geotech Ltd. helped isolate and provide good resolution to the magnetic and conductive nature of the sub-surface geology. In June and July 2010 a 2-hole drill program (2,388m) was completed. The first hole intersected the unconformity at 1045m. Basement rocks consisted of graphitic pelitic gneiss with quartz veining and hydrothermal alteration immediately below the unconformity. The second hole was terminated at 1,236m in sandstone. Fission holds a 100% interest in the Davy Lake project.

Minor Bay

Fission currently holds a 100% interest in the Minor Bay property which comprises 9 claims and 21,544 ha and is located along the southeast margin of the Athabasca Basin on a trend with the West Bear deposit (1.266 M lbs @ 0.44% U3O8). 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

Fission owns a 100% interest in the Torwalt Lake property which comprises 1 claim and 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. The agreement allowed Hillcrest to earn up to a 60% interest in the project. Hillcrest did not meet the minimum expenditure requirement at December 17, 2009 and the agreement was terminated on January 8, 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 U3O8 at an average grade of 0.057% U3O8 (Davis and Guo, 2006). The property comprises 643 claims over 30,864 ha and is located approximately 150 km north of Hydro Quebec Reservoir LG-4. A \$408,000 work program was conducted during 2008, which primarily entailed mapping, prospecting, and radon surveys. Data collected from that work program will help to develop future programs that will expand the resource beyond the known uranium mineralization. All claims are presently in good standing with renewal dates occurring in 2011 and later years. The summer 2010 program was recently completed and included mapping-prospecting, relogging and resampling historic drill holes and collection and evaluation of soil sediment drainage samples.

**Fission Energy Corp.  
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**Uranium Resources Summary by Property (continued)**

Peru

The Macusani property is located within southeastern Peru. Fission holds the rights to 9 mineral concession blocks encompassing 5,100 ha and two surface rights over some of the areas with known uranium mineralization. Legal title of the surface rights has been challenged by the community of Corani and is being adjudicated in the Peruvian courts. Continuing discussions are in place which the Company believes will be settled in its favour due to its senior title on the properties.

**Summary of Quarterly Results**

Quarter Ended	June 30 2010	March 31 2010	December 31 2009	September 30 2009
	\$	\$	\$	\$
Mineral property interests	18,086,503	19,174,314	19,046,515	18,267,603
Working Capital	11,304,519	3,972,942	2,893,188	4,011,631
Net and comprehensive income (loss)	(2,378,625)	289,367	(381,084)	(370,147)
Net income (loss) per share	(0.04)	0.01	(0.01)	(0.01)
Quarter Ended	June 30 2009	March 31 2009	December 31 2008	September 30 2008
	\$	\$	\$	\$
Mineral property interests	18,094,905	24,269,924	26,131,397	25,037,866
Working Capital	2,728,004	1,298,852	1,544,147	4,211,178
Net and comprehensive loss	(5,909,854)	(1,744,800)	(1,313,432)	(413,934)
Net loss per share	(0.14)	(0.04)	(0.03)	(0.01)

**Results of Operations**

The expenses incurred by the Company are typical of junior exploration and development companies that do not have established cash flows from mining operations. Changes in these expenditures from quarter to quarter are impacted directly by non-recurring activities or events.

In the fourth quarter of fiscal 2010 ended June 30, 2010 the Company recorded a net loss of \$2,378,625 (\$0.04 per share) compared to a net loss of \$5,909,854 (\$0.14 per share) for the quarter ended June 30, 2009. The change in the quarter is attributable to lower property impairment charges, deterioration in the value of investments, reduced exploration management fee income and increased show and promotion costs to promote mineral finds. The fiscal 2009 loss was adversely impacted by significant mineral property write downs of the Davy Lake and Macusani properties which was partially offset by future income tax recovery. Year on year, the 2009 results were adversely impacted by the recording of significant mineral property impairment charges of \$8.6 million compared to \$1.9 million for 2010 as well as charges of \$931,000 arising from flow through share settlement costs. Otherwise operating expenses for the two years were largely comparable.

**Liquidity and Capital Resources**

Fission is a mineral exploration company and has not yet determined whether its properties contain mineral resources 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.

**Fission Energy Corp.  
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**Liquidity and Capital Resources (continued)**

At June 30, 2010 the Company had \$11,304,519 in working capital and \$11.9 million cash. 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.

The increase in working capital from June 30, 2009 is primarily due to the \$9.2 million private placement that closed on April 7, 2010 as discussed above.

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.

As noted previously, under the WLULP agreement Fission and its partner are each required to spend \$5 million per year over the next three years for a total of \$30 million. The agreement also appointed Fission as operator and allows the Company to charge a management fee of 10% of expenditures for operator services. During the fiscal year ended June 30, 2010 the Company earned \$436,362 (2009 - \$456,343) 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.

**Related Party Transactions**

For the year ended June 30, 2010 the Company entered into the following related party transactions:

- a) Paid or accrued management consulting fees in the amount of \$198,000 to a company controlled by Devinder Randhawa, the Chairman and Chief Executive Officer for services provided to the Company and Directors fees of \$27,500.
- b) Paid or accrued Directors fees of \$25,000 to Jody Dahrouge.
- c) Paid or accrued Directors fees of \$12,500 to Mike Halvorson.
- d) Paid or accrued Directors fees of \$29,500 to Frank Estergaard.
- e) Paid or accrued Directors fees of \$27,500 to George Sanders.
- f) Paid or accrued management consulting fees of \$63,150 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 \$756 and deferred exploration costs of \$17,415 to a company controlled by Jody Dahrouge.
- h) The company recovered administrative costs of \$91,333 from a company controlled by Devinder Randhawa and \$30,433 from companies with common directors.

At June 30, 2010 accounts payable includes \$17,325 due to a company controlled by Devinder Randhawa, the Chairman and Chief Executive Officer, for services provided to the Company and \$3,169 to a company controlled by Jody Dahrouge.

Amounts receivable include \$2,664 for administrative costs recoverable from a company controlled by Devinder Randhawa, the Chairman and Chief Executive Officer, and \$4,119 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 are unsecured, non-interest bearing and have no specific repayment terms.

**Fission Energy Corp.  
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**Outstanding Share Data**

As at September 29, 2010 the Company has 69,302,111 common shares issued and outstanding, 4,842,000 incentive stock options outstanding with exercise prices ranging from \$0.20 to \$1.05 per share and 13,010,309 share purchase warrants outstanding with exercise prices of between \$0.30 and \$1.00 per share.

**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")

On February 13, 2008, the Canadian Accounting Standards Board ("AcSB") confirmed the mandatory changeover date to International Financial Reporting Standards ("IFRS") for Canadian profit-oriented publicly accountable entities ("PAE's") such as the Company.

The AcSB requires that IFRS compliant financial statements are prepared for annual and interim financial statements commencing on or after January 1, 2011. For PAE's with a June 30 year-end, the first audited annual financial statements under IFRS will be for the year ending June 30, 2012 with comparative financial information for the year ending June 30, 2011. The first unaudited interim financial statements under IFRS will be the quarter ending September 30, 2011 with comparative financial information for the quarter ended September 30, 2010.

In preparation for the changeover from Canadian GAAP to IFRS, a planning process was initiated in 2008. The Company continues to study the impact of conversion with plans for implementation on July 1, 2010. A detailed diagnostic of the conversion process was completed in the second quarter of 2009. The conversion to IFRS will impact the Company's financial reporting systems and, as a result some changes will be required to various areas including information technology and data systems, internal controls over financial reporting, disclosure requirements and other business activities such as compensation programs and contractual arrangements.

Progress to date:

- Established a project team to assist with the conversion process.
- Trained key members of the IFRS project team.
- Completed a detailed IFRS diagnostic in the second quarter of 2009.
- Reviewed the vendor's plans to assist the conversion of Company's accounting software from Canadian GAAP to IFRS.
- Reviewed options to provide IFRS compliant information systems for the stock based compensation programs.
- Drafted white papers concerning the first time adoption choices and accounting options under IFRS and submitted them for review and discussion.
- Upgraded accounting software to track and report foreign exchange gains and losses as required by IFRS.

The following areas are likely to be impacted under IFRS: Share-based-payments, property, plant and equipment, related party disclosures, business combinations and consolidation of minority interests, impairment of assets, provisions, contingent assets and liabilities, exploration and evaluation of mineral properties and income taxes. Additional financial statement disclosures will also be required.

**Fission Energy Corp.  
Management's Discussion and Analysis  
Year ended June 30, 2010**

**Recent Accounting Pronouncements**

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 will not be able to determine the impact on its consolidated financial statements from the adoption of these new sections until after January 1, 2011.

**Subsequent Events**

On August 16, 2010, the company entered into a limited partnership agreement with the Korean consortium to form the Waterbury Lake Uranium Limited Partnership (or "WLULP") in respect of the jointly owned Waterbury Lake property. Under the WLULP agreement, Fission and the consortium are each required to spend \$5 million per year over the next three years for a total of \$30 million for exploration and evaluation costs in respect of the Waterbury Lake joint venture project. Fission is appointed operator for WLULP and is entitled to a management fee of 10% of expenditures for operator services.

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 Plan of Arrangement with Strathmore. During 2010 the Company paid \$10,000 in expectation of final settlement of the claim and which is recorded as legal fees. On September 1, 2010 the company received confirmation that the claim had been settled in full with no further payment required.