

Consolidated financial statements of

**Fission Energy Corp.**

June 30, 2008

# **Fission Energy Corp.**

June 30, 2008

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## **Auditors' report**

To the Shareholders of  
Fission Energy Corp.

We have audited the consolidated balance sheet of Fission Energy Corp. as at June 30, 2008 and the consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for the period from July 17, 2007 (inception) to June 30, 2008. 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 audit.

We conducted our audit 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, 2008 and the results of its operations and its cash flows for the period from July 17, 2007 (inception) to June 30, 2008 in accordance with Canadian generally accepted accounting principles.

***(Signed) Deloitte & Touche LLP***

Chartered Accountants  
October 28, 2008

# Fission Energy Corp.

Consolidated statement of operations and comprehensive loss  
period from July 17, 2007 (inception) to June 30, 2008

\$

## Expenses

Stock-based compensation (Note 7)	925,936
Consulting fees	659,744
Office and miscellaneous	210,479
Business development	120,496
Professional fees	118,897
Travel	77,083
Wages and benefits	76,787
Trade shows and conferences	49,951
Advertising and promotion	41,183
Rent	35,654
Shareholder communications	25,021
Telephone	24,783
Amortization	15,214
Transfer agent	13,675
Insurance	11,329
Regulatory fees	9,279
	<hr/>
	2,415,511
	<hr/>
Loss before other items	(2,415,511)
	<hr/>
Other items	
Exploration management fee income	484,640
Interest income	187,951
Foreign exchange loss	(3,129)
Unrealized loss on investments	(523,000)
Write-off of mineral properties	(619,774)
	<hr/>
	(473,312)
	<hr/>
Loss before income taxes	(2,888,823)
Future income tax recovery	662,426
	<hr/>
<b>Net loss and comprehensive loss for the period</b>	<b>(2,226,397)</b>
	<hr/>
Basic and diluted loss per common share	(0.06)
	<hr/>
Weighted average number of common shares outstanding	35,161,418
	<hr/>

# Fission Energy Corp.

## Consolidated balance sheet as at June 30, 2008

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### Assets

#### Current assets

Cash and cash equivalents	5,199,671
Short-term investments (Note 4)	190,000
Amounts receivable	2,318,425
Prepaid expenses	16,813
	<hr/>
	7,724,909

Property and equipment (Note 5)	94,388
Mineral property interests (Note 6)	23,786,084
	<hr/>
	31,605,381

### Liabilities

#### Current liabilities

Accounts payable and accrued liabilities	1,907,644
Future income taxes	2,426,766
	<hr/>
	4,334,410

### Shareholders' equity

Capital stock (Note 7)	28,364,085
Contributed surplus (Note 7)	1,133,283
Deficit	(2,226,397)
	<hr/>
	27,270,971
	<hr/>
	31,605,381

Nature and continuance of operations (Note 1)

Approved by the Directors

(Signed) Dev Randhawa

Dev Randhawa, Director

(Signed) Ray Larson

Ray Larson, Director

# Fission Energy Corp.

Consolidated statements of shareholders' equity  
period from July 17, 2007 (inception) to June 30, 2008

	Common shares		Contributed surplus	(Deficit) retained earnings	Total shareholders' equity
	Shares	Amount			
		\$	\$	\$	\$
Plan of arrangement (Note 3)	24,168,911	17,166,728	-	-	17,166,728
Common shares and flow-through shares issued for cash (Note 7 (a))	16,833,143	13,093,000	254,521	-	13,347,521
Acquisition of mineral property interests	1,000,000	620,000	-	-	620,000
Exercise of stock options	86,500	116,874	(47,174)	-	69,700
Income tax benefits renounced to shareholders of flow-through shares	-	(1,794,078)	-	-	(1,794,078)
Share issue costs	-	(838,439)	-	-	(838,439)
Stock-based compensation	-	-	925,936	-	925,936
Net loss and comprehensive loss	-	-	-	(2,226,397)	(2,226,397)
<b>Balance, June 30, 2008</b>	<b>42,088,554</b>	<b>28,364,085</b>	<b>1,133,283</b>	<b>(2,226,397)</b>	<b>27,270,971</b>

# Fission Energy Corp.

## Consolidated statement of cash flows

period from July 17, 2007 (inception) to June 30, 2008

\$

### Operating activities

Net loss for the period	(2,226,397)
Items not involving cash	
Amortization	15,214
Future income tax recovery	(662,426)
Unrealized loss on investments	523,000
Stock-based compensation	925,936
Write-off of mineral properties	619,774
	<hr/>
	(804,899)
Change in non-cash working capital	
Increase in amounts receivables	(393,155)
Increase in prepaid expenses	(16,813)
Increase in accounts payable and accrued liabilities	326,392
	<hr/>
	(888,475)

### Investing activities

Mineral property additions	(10,349,471)
Mineral property cost recoveries	3,673,597
Property and equipment additions	(109,602)
Transfer of cash per plan of arrangement	500,000
	<hr/>
	(6,285,476)

### Financing activities

Proceeds from issuance of capital stock, net of share issuance costs	12,303,922
Exercise of stock options	69,700
	<hr/>
	12,373,622
Change in cash and cash equivalents during the period	5,199,671
Cash and cash equivalents, beginning of period	-
<b>Cash and cash equivalents, end of period</b>	<hr/> <b>5,199,671</b>

Supplemental disclosure with respect to cash flows (Note 8)

# Fission Energy Corp.

## Notes to the consolidated financial statements

June 30, 2008

### 1. Nature and continuance of operations

The Company was formed on July 17, 2007 under the laws of the Canada Business Corporations Act as a result of a plan of arrangement undertaken to reorganize Strathmore Minerals Corp. ("Strathmore") (Note 3). 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, 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.

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

### 2. Significant accounting policies

#### (a) Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Minera Peruran S.A., 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 Canadian generally accepted accounting principles 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, 2008

### 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 statement of operations.

(e) *Property and equipment*

Property and equipment is recorded at cost and amortization is calculated using the declining-balance method, unless otherwise noted, at the following annual rates:

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

(f) *Mineral property interests and deferred exploration costs*

The Company records mineral property interests, which consist of the right to explore for mineral deposits, at cost. The Company records 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 these 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, the mineral property interests are disposed of through sale or where management has determined there to be an impairment. If a mineral property interest is abandoned, the mineral property interest and deferred exploration costs will be written off to operations in the period of abandonment.

On an ongoing basis, the capitalized costs are reviewed on a property-by-property basis to consider if there is any impairment on the subject mineral property interest. 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; or (iii) whether remaining lease terms are insufficient to conduct necessary studies or exploration work. As at June 30, 2008, the Company believes that no impairment relating to the mineral property interests and deferred exploration costs was required.

The recorded costs of mineral property interests and deferred exploration costs are based on cash paid and the value of share considerations issued for mineral property interest acquisitions and exploration costs incurred. 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.

(g) *Foreign currency translation*

The Company's subsidiary is an integrated foreign operation and is 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.

# Fission Energy Corp.

## Notes to the consolidated financial statements

June 30, 2008

### 2. Significant accounting policies (continued)

(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.

(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 are 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.

# Fission Energy Corp.

## Notes to the consolidated financial statements

June 30, 2008

### 2. Significant accounting policies (continued)

#### (m) *Financial instruments and comprehensive income*

On July 17, 2007, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530, *Comprehensive Income*; Section 3251, *Equity*; Section 3855, *Financial Instruments - Recognition and Measurement*; and Section 3865, *Hedges*. These new Handbook Sections, which apply to fiscal years beginning on or after October 1, 2006, provide requirements for the recognition and measurement of financial instruments and on the use of hedge accounting. Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with GAAP.

Section 3865, *Hedges*, requires all derivatives to be recorded on the balance sheet at fair value and describe when and how hedge accounting can be used. Hedge accounting results in gains, losses, revenues and expenses from the hedge transaction (usually a derivative), and the item it hedges, being recorded in the statement of operations in the same period. The Company does not use hedges.

Under Section 3855, financial instruments must be 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 period from inception to June 30, 2008, 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.

# Fission Energy Corp.

## Notes to the consolidated financial statements

June 30, 2008

### 2. Significant accounting policies (continued)

(n) *Change in accounting policies*

Effective June 30, 2008, the Company adopted the following new standards issued by the CICA. These accounting policies were adopted on a prospective basis without restatement of prior period financial statements. The new standards and accounting policy changes are as follows:

(i) CICA Section 1400, *Assessing Going Concern*

This Section was amended to include requirements for management to assess and disclose an entity's ability to continue as a going concern.

(ii) CICA Section 1535, *Capital Disclosures*

This Section establishes standards for disclosing information about an entity's capital and how it is managed. This standard requires the Company to disclose, based on the information provided internally to the entity's key management personnel, (1) qualitative information regarding the Company's objectives, policies and processes for managing capital; (2) quantitative data about what the Company manages as capital; (3) whether the Company has complied with any externally imposed capital requirements; and (4) if it has not complied, the consequences of such non-compliance (Note 13).

(iii) CICA Section 3862, *Financial Instruments – Disclosures* and CICA Section 3863, *Financial Instruments – Presentation*

These sections replace CICA Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*. These new sections incorporate many of the disclosure requirements of Section 3861, but place increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how the Company manages those risks (Note 14).

(o) *Recent accounting pronouncement - International Financial Reporting Standards ("IFRS")*

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that fiscal 2012 is the changeover date for non-calendar year end publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of July 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended June 30, 2011. While the Company has begun assessing the adoption of IFRS for fiscal 2012, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

# Fission Energy Corp.

## Notes to the consolidated financial statements

June 30, 2008

### 3. Plan of arrangement

On June 19, 2007 the shareholders of Strathmore approved a plan of arrangement (the "Arrangement") to reorganize its Canadian and Peruvian mineral property interests. The effective date of the transaction was July 17, 2007.

Under the terms of the Arrangement, all of Strathmore's Canadian and Peruvian mineral property interests with a cost base of \$18,117,002, \$500,000 in cash and 200,000 common shares of Great Bear Uranium Corp. ("Great Bear") valued at \$50,000, were transferred to the Company. As the transaction was between companies under common control, the assets were recorded by the Company at their book value on the date of transfer. A future tax liability has been recorded in the amount of \$1,500,274 relating to the difference between the cost base of the assets and the elected values for tax purposes.

Under the terms of the Arrangement, Strathmore's shareholders as at the share distribution record date of July 13, 2007 received one new common share in the capital of Strathmore (a "Strathmore New Share") and one-third of one common share in the capital of Fission Energy (a "Fission Energy Share") for each Strathmore common share ("Strathmore Share") for a total of 24,168,911 shares issued.

In addition, all Strathmore warrant holders at the record date of the Arrangement were entitled to receive one-third of a common share of the Company for each warrant exercised. In accordance with the terms of the Arrangement, the exercise price of the warrants was allocated between Strathmore and the Company on the ratio of the fair market value of the spin-out assets to the fair market value of all assets of Strathmore prior to the Arrangement. All warrants expired unexercised (Note 7 (b)).

The carrying value of the assets transferred to the Company included:

	\$
Cash	500,000
Investment in Great Bear	50,000
Mineral properties	18,117,002
Future tax liability	(1,500,274)
<b>Net impact on share capital</b>	<b>17,166,728</b>

The net carrying value of \$17,166,728 was charged to share capital.

### 4. Short-term investments

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

	Original cost	Unrealized loss	Fair value
	\$	\$	\$
Common shares of Great Bear	83,000	43,000	40,000
Common shares Tribune Resources Corp. ("Tribune")	630,000	480,000	150,000
	<b>713,000</b>	<b>523,000</b>	<b>190,000</b>

The Company has determined the fair value of its investments based on the quoted market price at June 30, 2008.

# Fission Energy Corp.

Notes to the consolidated financial statements

June 30, 2008

## 5. Property and equipment

	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Geological equipment	59,410	10,501	48,909
Office equipment	21,123	2,931	18,192
Computer equipment	8,879	1,580	7,299
Building	20,190	202	19,988
	<u>109,602</u>	<u>15,214</u>	<u>94,388</u>

# Fission Energy Corp.

## Notes to the consolidated financial statements

June 30, 2008

### 6. Mineral property interests

	Athabasca Property	Fort McLeod Property	Caribou Mountain and Zoo Bay Properties	Duddridge Lake Property	Waterbury Lake Property	Patterson Lake Property	Davy Lake Property	Dieter Lake Property	Other Canadian Properties	Macusani Property	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Acquisition costs</b>											
Acquired through plan of arrangement (Note 3)	459,702	724,071	-	382,245	152,276	149,882	419,091	618,792	604,283	69,580	3,579,922
Additions	-	625	645,625	-	63,222	-	-	994	70,764	-	781,230
Written off	-	-	-	-	-	-	-	-	(85,011)	-	(85,011)
<b>Balance, end of period</b>	<b>459,702</b>	<b>724,696</b>	<b>645,625</b>	<b>382,245</b>	<b>215,498</b>	<b>149,882</b>	<b>419,091</b>	<b>619,786</b>	<b>590,036</b>	<b>69,580</b>	<b>4,276,141</b>
<b>Exploration costs</b>											
Acquired through plan of arrangement (Note 3)	2,639,547	697,412	-	113,474	1,843,282	1,989,298	4,935,754	1,235,428	554,395	528,490	14,537,080
Incurred during the period											
Drilling	1,029,747	65	4,106	917,815	2,528,267	930,941	778,149	49,910	3,014	114,184	6,356,198
Geology mapping/sampling	292,990	20,077	69,800	135,937	509,016	139,797	1,436,243	133,368	635	162,819	2,900,682
General	164,706	2,769	156	10,567	80,776	375,099	258,566	11,346	728	62,645	967,358
Geophysics airborne	284,739	-	19,607	-	158,666	70,599	27,265	101,462	18,911	-	681,249
Land retention costs and other fees	14,073	2,781	-	19,429	143,345	8,242	172,461	112,773	1,250	52,366	526,720
Geophysics ground	17,981	-	-	-	253,847	-	8,369	-	-	-	280,197
Reporting	-	-	-	5,720	-	-	48,620	-	-	-	54,340
Safety	-	-	-	-	-	-	-	-	-	24,664	24,664
Environmental	-	-	-	552	-	50	103	-	-	10,591	11,296
	1,804,236	25,692	93,669	1,090,020	3,673,917	1,524,728	2,729,776	408,859	24,538	427,269	11,802,704
Written off	-	-	-	-	-	-	-	-	(534,762)	-	(534,762)
<b>Balance, end of period</b>	<b>4,443,783</b>	<b>723,104</b>	<b>93,669</b>	<b>1,203,494</b>	<b>5,517,199</b>	<b>3,514,026</b>	<b>7,665,530</b>	<b>1,644,287</b>	<b>44,171</b>	<b>955,759</b>	<b>25,805,022</b>
Cost recoveries	(1,534,977)	-	-	(1,038,107)	(3,620,244)	(23,643)	-	(33,215)	(44,893)	-	(6,295,079)
<b>Total costs</b>	<b>3,368,508</b>	<b>1,447,800</b>	<b>739,294</b>	<b>547,632</b>	<b>2,112,453</b>	<b>3,640,265</b>	<b>8,084,621</b>	<b>2,230,858</b>	<b>589,314</b>	<b>1,025,339</b>	<b>23,786,084</b>

# Fission Energy Corp.

## Notes to the consolidated financial statements

June 30, 2008

### 6. Mineral property interests (continued)

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

(a) *Athabasca Property, Canada*

The Company acquired a 100% interest in a uranium property located in Alberta. 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.

On July 24, 2007, the Company completed an option agreement with Tribune. Tribune will have the right to acquire 60% interest in the Company's North Shore portion of the property.

Under the terms of the option agreement, Tribune may earn a 60% undivided interest in the North Shore portion of the property by issuing 600,000 common shares, which may be subject to hold periods from four months to one year, and incurring expenditures of \$10,000,000 over six years. Tribune has incurred \$1,000,000 in exploration expenditures as of June 30, 2008. The Company received 600,000 common shares of Tribune valued at \$630,000.

Subsequent to June 30, 2008, Tribune elected not to continue with this option agreement.

(b) *Fort McLeod Property, Canada*

The Company acquired a 100% interest in certain claims located in Alberta.

(c) *Caribou Mountain and Zoo Bay Properties, Canada*

On November 30, 2007 the Company acquired an option for a 100% interest in the Caribou Mountain and Zoo Bay claims located in Alberta. The Company issued a total of 700,000 common shares for the Caribou Mountain Property and 300,000 common shares for the Zoo Bay Property. The 700,000 common shares issued are subject to a three year escrow agreement and will be released in stages over a three year period. The Company has incurred additional costs in the amount of \$25,625 to complete the acquisition.

(d) *Duddridge Lake Property, Canada*

The Company acquired a 100% interest in certain claims located in north central Saskatchewan, Canada as part of a plan of arrangement with Strathmore (Note 3).

# Fission Energy Corp.

## Notes to the consolidated financial statements

June 30, 2008

### 6. Mineral property interests (continued)

#### (d) Duddridge Lake Property, Canada (continued)

On July 17, 2007, the Company completed an option agreement with Great Bear, whereby Great Bear may earn up to a 60% undivided interest in the Duddridge Lake Property. To earn its interest, Great Bear must fund \$6,000,000 in exploration expenditures, make payments totalling \$400,000 and issue 400,000 common shares to Fission, as follows:

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

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

<sup>(2)</sup> As at June 30, 2008, Great Bear had incurred \$900,000 in exploration expenditures.

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

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

On January 30, 2008 the Company completed an earn-in agreement with a group led by Korea Electric Power Corporation ("KEPCO"), under the newly created Korea Waterbury Uranium Limited Partnership (the "Waterbury Consortium"). Pursuant to the earn-in agreement, the Company has granted the Waterbury Consortium the exclusive right to earn up to a 50% interest in the Waterbury Lake Property by funding \$14,000,000 of expenditures by January 30, 2011. Pursuant to the earn-in agreement, the Waterbury Consortium may:

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

# Fission Energy Corp.

## Notes to the consolidated financial statements

June 30, 2008

### 6. Mineral property interests (continued)

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

- earn an additional 15% (for an aggregate 50% interest) by incurring, on or prior to January 30, 2011, additional exploration costs in the amount of \$4,500,000.

KEPCO has incurred \$3,860,835 in exploration costs related to the Waterbury project as of June 30, 2008.

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

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

(f) *Patterson Lake Property, Canada*

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

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

(g) *Davy Lake Property, Canada*

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

(h) *Dieter Lake Property, Canada*

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

(i) *Other Properties, Canada*

The Company acquired a 100% interest in the following uranium properties: Comstock located in British Columbia, Hall Lake, Murphy Lake and Torwalt Lake located in north-central Saskatchewan.

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

# Fission Energy Corp.

## Notes to the consolidated financial statements

June 30, 2008

### 6. Mineral property interests (continued)

#### (i) *Other Properties, Canada (continued)*

Fission has granted Hillcrest the exclusive right to earn-in a total 60% undivided interest in the Torwalt Lake exploration project, pursuant to the following terms:

- Hillcrest has paid \$25,000 on signing this agreement;
- Hillcrest shall make a second payment of \$25,000 on the first anniversary, December 17, 2008;
- Hillcrest shall incur a minimum of \$150,000 in exploration expenditures on or before December 17, 2008;
- Hillcrest shall earn a 15% undivided interest after incurring an additional \$250,000 in exploration expenditures on or before December 17, 2009;
- Hillcrest shall have earned a 30% total undivided interest after incurring an additional \$350,000 in exploration expenditures on or before December 17, 2010;
- Hillcrest shall have earned a 60% total undivided interest after incurring an additional \$500,000 in exploration expenditures on or before December 17, 2011; and
- The Company retains a 2% net smelter return on all future production.

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

The Company acquired a 100% interest in certain uranium properties located in Peru.

### 7. Capital stock and contributed surplus

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

#### (a) *Private placements*

On November 15, 2007, the Company completed a brokered private placement of common and flow-through shares. The Company issued 6,572,000 common shares at a price of \$0.70 per share, and 8,415,000 flow-through shares at a price of \$0.82 per share for aggregate gross proceeds of \$11,500,700. The Company paid agent's commissions of \$537,610, plus \$52,000 of expenses and issued 700,600 broker warrants. Each broker warrant entitles the holder to purchase one common share of the Company at a price of \$0.70 for a period of 1.5 years following the closing date of the private placement. The broker warrants were valued at \$254,521 using the Black-Scholes option pricing model with a volatility of 100%, risk free interest rate of 4.05%, expected life of 1.5 years, and a dividend rate of 0%. All warrants vested immediately on the date of grant.

On December 20, 2007, the Company completed a non-brokered private placement of 846,143 common shares at \$0.70 per share for total proceeds of \$592,300.

On March 11, 2008, the Company completed a non-brokered private placement of 1,000,000 common shares at \$1.00 per share for total proceeds of \$1,000,000.

# Fission Energy Corp.

## Notes to the consolidated financial statements

June 30, 2008

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

#### (b) Stock options and warrants

The Company has a stock option plan which allows for up to 3,500,000 stock options, with a maximum exercise period of five years, to be granted to employees, officers 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 an applicable discount. The options can be granted for a maximum term of five years; vesting terms are determined by the Board of Directors at the date of grant of the stock option.

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

	Warrants		Stock options	
	Number	Weighted average exercise price	Number	Weighted average exercise price
		\$		\$
Granted per plan of arrangement (Note 3)	180,442	0.86	-	-
Granted	700,600	0.70	3,210,000	0.82
Expired	(180,442)	0.86	-	-
Forfeited	-	-	(10,000)	0.85
<b>Outstanding, June 30, 2008</b>	<b>700,600</b>	<b>0.70</b>	<b>3,200,000</b>	<b>0.82</b>

As at June 30, 2008, incentive stock options and share purchase warrants were outstanding as follows:

#### Options

Number outstanding	Exercise price	Number exercisable	Expiry date
	\$		
2,173,500	0.80	1,048,500	August 12, 2012
100,000	0.80	50,000	November 14, 2012
150,000	0.85	-	March 7, 2013
150,000	1.00	50,000	March 14, 2013
50,000	1.05	-	March 31, 2013
250,000	0.85	50,000	November 29, 2010
240,000	0.85	40,000	November 29, 2012
<b>3,113,500</b>		<b>1,238,500</b>	

# Fission Energy Corp.

## Notes to the consolidated financial statements

June 30, 2008

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

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

<i>Warrants</i>			
<u>Date issued</u>	<u>Number of shares issuable upon exercise</u>	<u>Exercise price</u>	<u>Expiry date</u>
		\$	
November 15, 2007	700,600	0.70	May 14, 2009

(c) *Stock-based compensation*

During the period ended June 30, 2008, the Company granted 3,210,000 options to employees, consultants and directors. Pursuant to the vesting of options issued, total stock-based compensation recognized in the statement of operations during the period ended June 30, 2008 was \$925,936. This amount was also recorded as contributed surplus on the balance sheet. All options are recorded at fair value using the Black-Scholes option pricing model. The weighted average grant date fair value was \$0.56 per option.

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

Risk free interest rate	4.23%
Expected life	5 years
Annualized volatility	102%
Dividend rate	0.00%

### 8. Supplemental disclosure with respect to cash flows

\$

Cash and cash equivalents	
Cash	478,091
Term deposits	5,088,390
	<u>5,566,481</u>

There were \$Nil cash payments for interest and income taxes during the period ending June 30, 2008.

Significant non-cash transactions from inception to June 30, 2008 included:

- (a) Receiving marketable securities for mineral properties valued at \$663,000;
- (b) Receiving marketable securities pursuant to the plan of arrangement with Strathmore valued at \$50,000;
- (c) Issuing 24,168,911 common shares valued at \$17,166,728 pursuant to the plan of arrangement with Strathmore (Note 3);
- (d) Issuing 1,000,000 common shares valued at \$620,000 for mineral property acquisition;

# Fission Energy Corp.

## Notes to the consolidated financial statements

June 30, 2008

### 8. Supplemental disclosure with respect to cash flows (continued)

- (e) Renouncing flow-through expenditures of \$6,900,000 resulting in a charge to capital stock of \$1,794,078; and
- (f) Incurring mineral property expenditures of \$1,581,252 through accounts payable and accrued liabilities.
- (g) Reclassifying \$47,174 from contributed surplus to capital stock on exercise of stock options.

### 9. Related party transactions

The Company paid or accrued the following amounts to related parties:

	\$
Consulting fees to directors and companies controlled by directors	10,002
Consulting fees to officers and companies controlled by officers	295,000
General and administrative costs to a company controlled by an officer	39,052
Geological consulting costs to companies controlled by an officer	2,029,537
Wages to a company with common directors and management	36,563
Rent to a company with common directors and management	9,645
Shared office and administrative costs to a company with common directors and management	5,103
Interest paid to a company with common directors and management	15,806
	<hr/>
	2,440,708

Included in accounts payable is \$22,500 for directors fees owing to directors, \$18,375 for consulting fees owing to officers and companies controlled by officers and \$429,209 for consulting fees, deferred exploration and general/administrative costs owing to a company controlled by an officer.

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, 2008

### 10. Income taxes

A reconciliation of current income taxes at statutory rates (32.81%) with the reported income taxes is as follows:

	\$
<u>Loss before income taxes</u>	<u>(2,888,823)</u>
Expected income tax recovery	(947,823)
Impact of reduction in tax rates on future income taxes	(105,416)
<u>Non-deductible expenditures</u>	<u>390,813</u>
<u>Future income tax recovery</u>	<u>(662,426)</u>

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

	\$
Future income tax assets	
Non-capital losses	249,343
Equipment	3,956
Investments	67,990
Share issue costs	164,129
<u>Future income tax assets</u>	<u>485,418</u>
Future income tax liabilities	
Mineral property interests and related exploration expenditures	(2,912,184)
<u>Net future income tax liabilities</u>	<u>(2,426,766)</u>

The Company has available approximately \$959,000 of non-capital losses which, if unutilized, will expire in 2028. Subject to certain restrictions, the Company also has resource exploration expenditures of approximately \$11,593,000 available to reduce taxable income of future years.

During fiscal 2008, the Company renounced certain deductions for Canadian exploration expenditures incurred on the Company's resource properties resulting in a future income tax liability of \$1,794,078 and a charge against capital stock.

# Fission Energy Corp.

## Notes to the consolidated financial statements

June 30, 2008

### 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 from inception on July 17, 2007 to June 30, 2008, to relate to this segment.

Long-lived assets by geographic area are as follows:

	Canada	Peru	Total
	\$	\$	\$
Property and equipment	56,205	38,183	94,388
Mineral property interests	22,760,745	1,025,339	23,786,084
	22,816,950	1,063,522	23,880,472

### 12. Contingencies

In January 2008, the Company received an invoice in the amount of \$182,616 from a Canadian drilling company. The invoice represents amounts for services allegedly performed during 2007. The Company rejects this claim. The party has commenced legal proceedings and the Company will defend itself and will seek reimbursement for all costs associated with the defense from the claim or litigation. No amount has been accrued in these financial statements in respect of the claim as the outcome is not determinable.

In June 2008, the Company received a statement of claim for approximately \$108,000 plus costs from the Government of Saskatchewan. The basis of the claim relates to one of Strathmore's contractors allegedly performing certain surface exploration work that resulted in a forest fire. Although the Company has not been named in the lawsuit, it assumed all liabilities attached to the property on completion of the Arrangement. The Company rejects the claim. No amount has been accrued in these financial statements in respect of the claim as the outcome is not determinable. Any costs ultimately assessed against the Company in respect of this claim will be recorded in the period in which the actual determination of the liability, if any, is made.

### 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 Note 7. 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.

# Fission Energy Corp.

## Notes to the consolidated financial statements

June 30, 2008

### 13. Capital management (continued)

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

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

### 14. Financial instruments and risk management

The Company's financial instruments consist of cash and cash equivalents, short-term investments, amounts receivable, 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 other financial assets represents the market value of quoted investments.

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 may, or may not, establish from time to time active policies to manage these risks. The Company does not currently have in place any active hedging or derivative trading policies to manage these risks since the Company's management does not believe that the current size, scale and pattern of its operations would warrant such hedging activities.

#### (a) Credit risk

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

The primary sources of credit risk for the Company arise from the following financial assets: (1) cash and cash equivalents; (2) short-term investments; and (3) amounts receivable. The Company has not had any credit losses in the past, nor does it expect to have any credit losses in the future. At June 30, 2008, 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:

	\$
Cash and cash equivalents	5,199,671
Short-term investments	190,000
<u>Amounts receivable</u>	<u>2,318,425</u>
	<u>7,708,096</u>

# Fission Energy Corp.

## Notes to the consolidated financial statements

June 30, 2008

### 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:

	Remainder of 2008	Total
	\$	\$
Accounts payable and accrued liabilities	1,907,644	1,907,644

#### (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 Peruvian New Sols ("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, as the Company's costs are incurred primarily in U.S. dollars. The appreciation of the PEN against the Canadian dollar can increase the costs of operations and capital expenditures in PEN terms. The Company maintains its cash balances in Canadian dollars and exchanges currency to meet its PEN 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, 2008

## 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:

	PEN\$	US\$
Cash and cash equivalents	(4,391)	43,456
Amounts receivable	-	2,212
Accounts payable and accrued liabilities	-	(34,876)
	<u>(4,391)</u>	<u>10,792</u>

Based on the above net exposures at June 30, 2008, a 10% depreciation or appreciation in U.S. dollars against the Canadian dollar would result in a \$1,079 increase or decrease in the Company's net loss and the PEN against the Canadian dollar would result in a \$439 increase or decrease in the Company's net loss.

## **FISSION ENERGY CORP.**

### **FORM 51-102F1 MANAGEMENT'S DISCUSSION & ANALYSIS FROM INCEPTION ON JULY 17, 2007 TO June 30, 2008**

The following discussion and analysis, prepared as of October 28, 2008, should be read in conjunction with the results of operations and financial position of Fission Energy Corp. (the "Company" or "Fission") from inception on July 17, 2007 to June 30, 2008.

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. (the "Company") is a junior resource issuer primarily engaged in the acquisition, exploration, and development of uranium resource properties primarily in Canada. In addition, the Company holds a uranium property in the Macusani District of Peru. Fission Energy Corp. was created as a result of a plan of arrangement undertaken to reorganize Strathmore Minerals Corp. ("Strathmore") into two separate operating companies. The Board of Directors and Management for Strathmore Minerals Corp have continued on to serve with Fission Energy Corp. 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 worldwide energy demand
- Increased demand for uranium;
- Uranium Demand/Supply Imbalance, resulting in significantly higher uranium prices;
- Potential for increased demand from developing countries as they construct new nuclear power plants; and
- Many of Fission Energy's properties are located in Saskatchewan's Athabasca Basin, home of the world's richest uranium deposits in the world.

This increased demand and higher prices have 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 over 809,000 hectares (~2 million acres) of prospective exploration lands.

#### **Performance Summary and Update**

The Company's primary objective is to locate, evaluate and acquire uranium properties and to finance their exploration and potential development through equity financing, by way of joint venture, option agreements or other means. At the time of writing, the long-term uranium contract price was approximately US \$ 70 /lb. and the spot price was US \$45/lb. The following is a summary of significant events and transactions that occurred during the period.

## Performance Summary and Update (continued)

Most of the uranium properties currently held by Fission Energy Corp were originally staked or acquired by Strathmore Minerals Corp. after 2003, with the exception of the Macusani Property in Peru, which was acquired in 1997. Most of the properties are located in Saskatchewan's Athabasca Basin. Fission continues to hold one of the largest portfolios of early stage exploration properties in the Basin. Other properties outside the Athabasca Basin include Dieter Lake in Quebec, the Fort McLeod property in southern Alberta, and the Caribou Mountains project in Northern Alberta, which was acquired just prior to the December 31, 2007 quarter end. While Management believes its properties have the potential for hosting an economic uranium deposit, exploration carries considerable risk and there is no guarantee that an economic mineral deposit will be discovered. A list of the Company's uranium exploration projects is shown below.

PROJECT	LOCATION	OWNERSHIP
Dieter Lake	Quebec, Canada	100 % Fission Energy Corp.
Waterbury Lake	Athabasca Basin, SK	J V – KEPCO
Davy Lake	Athabasca Basin, SK	100% Fission Energy Corp.
Patterson Lake	Athabasca Basin, SK	100% Fission Energy Corp.
Patterson Lake South	Athabasca Basin, SK	J V – ESO Uranium Corp
Duddridge Lake	Athabasca Basin, SK	J V - Great Bear Resources
Torwalt Lake	Athabasca Basin, SK	J V- Hillcrest Resource
Zoo Bay	Athabasca Basin, SK	100% Fission Energy
Athabasca North Shore	Athabasca Basin, AB	*J V - Tribune Resources
Athabasca South Shore	Athabasca Basin, AB	100% Fission Energy Corp.
Caribou Mountains	Caribou Mountains, Northern AB	100% Fission Energy Corp
Fort McLeod	Southwestern AB	100 % Fission Energy Corp.
Macusani	Peru, South America	100 % Fission Energy Corp.

\* JV with Tribune Resources was terminated subsequent to the June 30<sup>th</sup> year end.

## Plan of Arrangement

On June 19, 2007 the shareholders of Strathmore approved the terms of the arrangement, (“the arrangement”) to reorganize the Canadian and Peruvian mineral property interests. The effective date of the transaction was July 17, 2007.

Under the terms of the arrangement, all of Strathmore's Canadian and Peruvian mineral property interests with a cost base of \$18,117,002 and \$500,000 in cash were transferred to the Company. A future tax liability has been recorded in the amount of \$1,500,274 relating to the difference between the cost base and the elected values for tax purposes. Under the terms of the arrangement, Strathmore's shareholders as at the share distribution record date of July 13, 2007 received one new common share in the capital of Strathmore (a “Strathmore New Share”) and one-third of one common share in the capital of Fission (a “Fission Energy Share”) for each Strathmore common share (“Strathmore Share”) for a total of 24,168,911 shares.

## Private Placements

On November 15, 2007, Fission completed a brokered private placement of common and flow-through shares. The Company issued 6,572,000 common shares at a price of \$0.70 per share, and 8,415,000 flow-through shares at a price of \$0.82 per share for aggregate gross proceeds of \$11,500,700. The Company paid agent's commissions of \$537,610, plus \$52,000 of expenses and issued 700,600 broker warrants. Each broker warrant entitles the holder to purchase one common share of the Company at a price of \$0.70 for a period of 18 months following the closing date of the private placement. The broker warrants were valued at \$254,521 using the Black-Scholes option pricing model.

## Private Placements (continued)

On December 20, 2007 the Company completed a non-brokered private placement of 846,143 common shares at \$0.70 per share for total proceeds of \$592,300.

On March 11, 2008, the Company completed a non-brokered private placement of 1,000,000 common shares at \$1.00 per share for total proceeds of \$1,000,000.

## Management Changes

On October 12, 2007, Mr. Ross McElroy, a registered professional geologist in Saskatchewan, Alberta, and NWT/Nunavut, was appointed Vice-President of Exploration. Mr. McElroy brings over 20 years professional experience on all types of mineral projects from grass roots exploration, to mine development and production.

On February 28, 2008, Mr. Jody Dahrouge, P. Geol. was appointed President and Chief Operating Officer, replacing David Miller, who retains his position on Fission's Board of Directors. Mr. Dahrouge was granted options to purchase up to 150,000 common shares at \$0.85 per share for a period of five years expiring on March 7, 2013.

Subsequent to the June 30<sup>th</sup> year end, Ross McElroy was promoted to President and Chief Operating Officer, replacing Jody Dahrouge. Mr. Dahrouge was appointed to the Board of Directors, replacing David Miller, who stepped down to focus on his role as CEO of Strathmore Minerals Corp.

## Uranium Resources Summary by Property

The following table updates the Company's uranium resources as of December 31, 2007. Additions and changes are dependent on future successful exploration results. The table includes NI 43-101 compliant (Measured and Indicated, and Inferred), and historical resources as defined by the results of exploration completed by previous mining companies. The discussion following the table revisits previously released information and adds the new historical resources where appropriate.

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

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

### Athabasca North Shore Properties

In July 2007, Fission Energy completed an option agreement with Tribune Minerals Corp whereby Tribune has the right to acquire a 60% interest in the Company's North Shore Athabasca Property. Tribune has issued 600,000 common shares to Fission and is required to spend \$10 million in exploration over 6 years. Fission is operator, and retains an 11% buyback interest in the project. The 2007/8 exploration program began last winter with a 696 line-km, 200 m and 100 m line spacing airborne high resolution magnetic and electromagnetic (VTEM) survey in the northeast part of the property, and concluded with a seven hole spring drill program totalling 1,260 m. The drill program was successful in testing for alteration and potential mineralization at depths that exceeded previous historic drilling. Further exploration planning is underway. Subsequent to the June 30th year end, Tribune Minerals Corp terminated its option agreement on the North Shore Uranium Property.

### Caribou Mountains & Zoo Bay Uranium Properties

On December 3, 2007 the Company acquired the Caribou Mountains and Zoo Bay Uranium properties. The Caribou Mountains Property comprises 41 Metallic and industrial Mineral Permits totaling ~337,000 hectares ((932,000 acres) in Northern Alberta, while the Zoo Bay claims total 12,140 hectares (~30,000 acres) along the northeast margin of the Athabasca Basin.

### Duddridge Lake

At the beginning of the quarter, crews were mobilized to the Duddridge Lake Property located at the southern fringe of the Athabasca basin. This project is joint ventured with Great Bear Uranium Corp., who can earn a 60% by spending \$6 million in exploration over 5 years. This agreement was completed when Fission Energy was part of Strathmore Minerals Corp. Exploration is focusing on the area of know mineralization. A 15-20 hole drill program totaling 1,000 meters commenced in January, 2008. Fission Energy is the operator.

Subsequent to the quarter ending June 30<sup>th</sup>, results from this program confirmed 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. Phase II planning is underway.

### Waterbury Lake

On October 4, 2007, Fission Energy entered into a non-binding Memorandum of Understanding with Korea Electric Power (KEPCO) for the joint exploration and development of the Waterbury Lake project in the eastern part of the basin. The Waterbury Lake Property comprises 41, 280 hectares and virtually surrounds the AREVA-Denison Midwest Uranium Deposit scheduled to begin production in 2010-11.

During the quarter ending March 31, 2008, an agreement with a Korean consortium led by KEPCO was signed whereas the consortium can earn up to a 50% interest in the Waterbury Lake project by expending C \$14 million over a three year period. In addition, a C \$1 million common share private placement with the consortium was completed at a price of C\$1.00 per share (see Private Placements). Fission retains a 2% of Net Smelter Returns overriding royalty interest in the property.

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

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

### Waterbury Lake (continued)

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

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

Plans to accelerate follow-up exploration that will include further testing of the Discovery Bay Zone during winter drilling on the lake, in addition to testing numerous additional targets are underway. An exploration budget of approximately \$3.87 million has been proposed for approval by the Joint Venture partners for 2009. It is expected that exploration will resume in January, 2009.

### Patterson Lake

In 2007, the Company completed a five hole drill program totaling 1406m at its Patterson Lake property located approximately 30km south of the advanced UEX-AREVA Joint Venture exploration and development project in the southwestern part of the Athabasca Basin. The drilling tested two conductors. Assays were received during the quarter resulting in the discovery of significant alteration, geochemical anomalies, and structures commonly associated with unconformity type Uranium deposits in the Athabasca Basin. The Company is very encouraged by these results and plans are underway for an expanded exploration program, planned for calendar 2008. During the quarter, Fission completed a MEGATEM airborne geophysical survey and commenced a 5,000m drill program.

### Patterson Lake South

During the quarter ending March 31, 2008, Fission and ESO Energy Corp entered into a joint venture exploration agreement to include claims jointly staked in late 2007 on the southern extension of the Company's 100% owned Patterson Lake claims. In December, a 162 line-km MEGATEM Magnetic-EM Airborne Survey was completed over what is now defined as the Patterson Lake South project. The results of this MEGATEM survey are being processed by Fugro Airborne Surveys, and will form the basis for developing ground targets for further work planned by the Joint Venture in 2008.

### Davy Lake

At Davy Lake, where a 51 km contiguous conductor was identified in 2006, summer geophysical programs were carried out to further identify and prioritize drill targets. No work was carried out during the quarter. Plans are underway for additional ground geophysics, followed by a first phase drill program in 2009.

### Dieter Lake

An all weather camp was established by Strathmore Minerals at Dieter Lake in 2006 and is available to Fission for future exploration. Minimal work was conducted during 2008, which primarily entailed mapping, prospecting, and radon surveys. The claims are in good standing until 2010.

### Torwalt Lake

On December 17, 2007, Fission completed an option agreement with Hillcrest Resources Ltd. to explore for uranium at the Company's Torwalt lake property, located approximately 10 km east of the Waterbury lake project. Hillcrest can earn up to a 60% interest in the project, pursuant to the terms of the agreement. Torwalt Lake is an early stage uranium exploration project. Ground geophysical surveys are planned for 2008.

### Peru

Management is reviewing alternatives for this property. Subsequent to the June 30<sup>th</sup> year end, Fission retained the services of Intercapital Canada Inc. to assist in obtaining a listing of its common shares on the Lima Stock Exchange in Peru.

## **Results of Operations**

For the first year of operations the Company incurred a loss of \$2,226,397 or \$0.06 per share.

General and administrative expenses totaled \$2,415,512 from inception to June 30, 2008. Major expenses included consulting fees of \$659,744 and stock based compensation of \$925,936 relating to the granting of incentive stock options to directors, officers, employees and certain consultants.

During the year the Company incurred an additional loss from other items totaling \$473,312. The loss was primarily due to an unrealized decrease in value of the Company's investments in Great Bear Uranium Corp. and Tribune Resources Corp. of \$523,000. Abandonment of the Hall Lake claims increased the loss by an additional \$619,774. The losses were offset by exploration management fee income of \$484,640 and interest on cash balances of \$187,951.

During the year the Company had a future income tax recovery of \$662,426.

## **Selected Annual Information**

	2008
Loss for the year	\$ (2,226,397)
Total assets	31,605,381
Total liabilities	4,334,410
Shareholders' equity	27,270,971
Basic and diluted loss per share	\$ (0.06)

## Summary of Quarterly Results

		<b>1<sup>st</sup> Quarter</b>	<b>2<sup>nd</sup> Quarter</b>	<b>3<sup>rd</sup> Quarter</b>	<b>4<sup>th</sup> Quarter</b>
<b>2007/2008</b>	Net Income (loss)	(536,996)	(328,304)	311,313	(1,672,410)
	Net Income (loss) per share	(.02)	(.01)	0.01	(0.05)

From the date of spin-out from Strathmore on July 17, 2007 to the end of first quarter the company incurred a loss of \$536,996. The new Company had limited operations during the 1<sup>st</sup> quarter with the single largest expense of \$398,492 coming from stock based compensation. Two property option agreements were signed during the quarter.

The Company continued to expand during the 2<sup>nd</sup> quarter and reported losses to \$328,304 or \$0.01 per share. Operational expenses increased in most areas but a significant decline in stock based compensation expense decreased the net loss.

The third quarter resulted in a net income of \$311,313 or \$0.01 per share. Normally the company would have expected continued losses but a future income tax recovery of \$1,056,155 created positive earnings for the quarter. The operational expenses continued to increase during the quarter amounting to \$803,704 before other items and future income tax recovery. Other items included exploration management fee income from the Company's newly signed option agreement with KEPCO and other agreements totaling \$195,668. Losses were also increased by an unrealized loss on investments of \$207,000.

The fourth quarter resulted in a net loss of \$1,672,410 or \$0.05 per share. The increased quarterly loss was primarily attributable to the write off of Hall Lake claims and additional unrealized losses on investments.

## Liquidity and Capital Resources

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

At June 30, 2008 the Company had \$5,817,265 in working capital. The Company does not have significant concerns about the liquidity of its current assets. Nearly all of the amounts receivable were collected subsequent to year end. Short term investments in equities of \$190,000 may decline in value. The Company will continue to monitor the performance of these investments. Cash and equivalents include cash in bank and bank issued term deposits, which are liquid assets, and are readily available to the Company.

The Company does not have any mineral property agreements that require it to meet certain expenditures other than a joint venture agreement with ESO Uranium where expenses are shared equally. Minimal expenses are budgeted under this agreement. The remaining mineral property agreements require the contracted party to fund exploration expenses to earn their interest. These agreements also allow the Company to charge a fee as project operator. During the year the Company received \$484,640 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. The current economic downturn will likely have a negative effect on the Company's short term financing efforts. If the Company is not able to raise additional equity financing over the next 12 months it will become necessary to significantly curtail mineral property exploration expenditures and reduce operating costs.

## **Off –Balance Sheet Arrangements**

The Company currently does not have any off- balance sheet arrangements.

## **Related Party Transactions**

From inception on July 17, 2007 to June 30, 2008, the Company entered into the following transactions involving related parties:

- a) Paid or accrued management consulting fees in the amount of \$104,000 and Directors fees of \$22,500 to a company controlled by Devinder Randhawa, the Chairman and Chief Executive Officer for services provided to the Company.
- b) Paid or accrued management consulting fees in the amount of \$57,000 to a company controlled by an officer, Steven Khan, for services provided to the Company.
- c) Paid or accrued management consulting fees in the amount of \$16,000 and Directors fees of \$22,500 to David Miller, the President and Chief Operating Officer for services provided to the Company.
- d) Paid or accrued management consulting fees in the amount of \$5,013 and Directors fees of \$25,000 to a company controlled by Dieter Krewedl, a Director, for services provided to the Company.
- e) Paid or accrued management consulting fees in the amount of \$4,989 and Directors fees of \$24,416 to a company controlled by Ray Larson, a Director, for services provided to the Company.
- f) Paid or accrued management consulting fees in the amount of \$43,000 to Patrick Groening, the Chief Financial Officer for services provided to the Company.
- g) Paid or accrued general, administrative, and exploration costs of \$2,029,537 to companies controlled by Jody Dahrouge, the president of the Company.
- h) Paid or accrued Directors fees in the amount of \$24,750 to Mike Halverson.
- i) Paid or accrued wages in the amount of \$39,052 and deferred exploration costs in the amount of \$2,029,537 to Dahrouge Geological Ltd., a company controlled by Jody Dahrouge.
- j) Paid or accrued wages in the amount of \$36,563, rent in the amount of \$9,645, office and administrative costs in the amount of \$5,103 and interest in the amount of \$15,805 to Strathmore Minerals Corp., a company 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.

Amounts due to related parties are due to directors and companies controlled by directors and are unsecured, non-interest bearing and have no specific repayment terms.

## **Outstanding Share Data**

As at October 27, 2008, the Company has 42,088,554 common shares issued and outstanding. The Company also has 3,113,500 incentive stock options with exercise prices ranging from \$0.80 to \$1.05 per share, and 700,600 share purchase warrants for an exercise price of \$0.70 per share.

## **Financial instruments**

Financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value except for loans and receivables, held-to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired.

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

## **New and Upcoming Accounting Pronouncements**

### Assessing Going Concern

The AcSB amended CICA Handbook Section 1400, to include requirements for management to assess and disclose an entity's ability to continue as a going concern. This section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008.

### Financial Instruments

The AcSB issued CICA Handbook Section 3862, *Financial Instruments – Disclosures*, which requires entities to provide disclosures in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. The principles in this section complement the principles for recognizing, measuring and presenting financial assets and financial liabilities in Section 3855, *Financial Instruments – Recognition and Measurement*, Section 3863, *Financial Instruments – Presentation*, and Section 3865, *Hedges*. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007.

The AcSB issued CICA Handbook Section 3863, *Financial Instruments – Presentation*, which is to enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows. This section establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007.

### Capital Disclosures

The AcSB issued CICA Handbook Section 1535, which establishes standards for disclosing information about an entity's capital and how it is managed. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007.

The Company adopted these new standards as of June 30, 2008. There was no impact on the Company's operating results or financial position from adopting these new standards however there is additional disclosure included in the notes to the Company's audited financial statements for the period ended June 30, 2008.

#### Fourth Quarter

During the fourth quarter, there were no significant events or transactions. The Company did not have any extraordinary items, year-end adjustments or dispositions.

#### Accounting Changes

The AcSB issued CICA Handbook Section 1506. The main features of this new standard are (a) voluntary changes in accounting policy are made only if they result in the financial statements providing reliable and more relevant information; (b) changes in accounting policy are applied retrospectively unless doing so is impracticable (as defined in the section); (c) prior period errors are corrected retrospectively; and (d) new disclosures are required in respect of changes in accounting policies, changes in accounting estimates and correction of errors. This new standard is effective for fiscal years beginning on or after January 1, 2007.

#### Recent accounting pronouncement - International Financial Reporting Standards (“IFRS”)

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that fiscal 2012 is the changeover date for non-calendar year end publicly-listed companies to use IFRS, replacing Canada’s own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of July 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended June 30, 2011. While the Company has begun assessing the adoption of IFRS for fiscal 2012, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.