Janaury 16, 2013
Company Update

Equity Research

FISSION ENERGY CORP.

Denison to acquire Fission Energy; Target Price Increased

EVENT

Fission Energy and Denison Mines have announced an agreement where DML will acquire FIS for 0.355 shares for each FIS share, which represents a value of $0.52 per share for a total transaction value of $70M. The Patterson Lake South project will be spun out separately into a NewCo.

BOTTOM LINE

The Mayans may have been wrong but we got it right. DML's acquisition of FIS crystallizes our predictions. Based on this transaction, we estimate a fair net asset value of $0.92/share for Fission Energy. Holders of FIS will net 0.355 DML shares as well as valuable stub company.

We reiterate our Buy (Speculative) recommendation and are increasing our target price to $0.90/share from $0.85/share, or by 5.9%.

FOCUS POINTS

- **The Offer:** DML is offering 0.355 shares for each FIS share, which based on yesterday's close represent a value of $0.52 per share for a total transaction value of $70M
- **Patterson Lake South Safe:** The NewCo will contain the 50% interest in Patterson Lake South as well as all of FIS' cash. We view this as extremely positive as initial drill results suggest that PLS may be the next notable deposit in the Athabasca Basin.
- **Denison = One Bite Consolidation Play:** This transaction ties a bow on DML for Rio Tinto to consolidate the Athabasca.
- **Cameco Interested?** We view CCO as the most likely potential source of a competing offer. The Athabasca Basin has been CCO's kingdom up until this point, and allowing consolidation and increased power by DML and potentially Rio Tinto would threaten this.

Recommendation: BUY (Speculative)

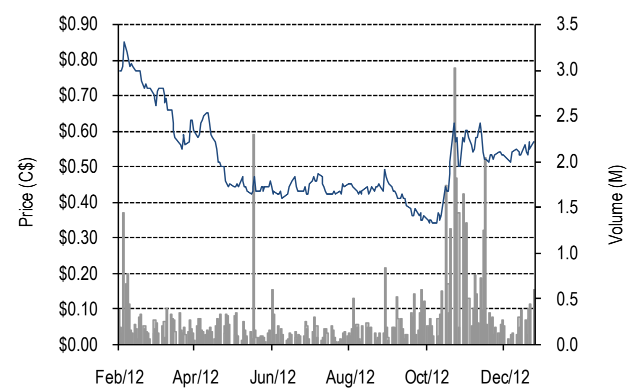
Symbol/Exchange:	FIS-TSXV
Sector:	Metals & Mining
All dollar values in C$ unless otherwise noted.	
Current price:	$0.64
One-year target:	$0.90 ↑
Return Target:	40.6%
Cash on hand	$18.0M

Financial summary

Shares O/S (M)	136.5	52-week range	$0.34 - 0.85
Market cap ($M)	$87.4	Avg. weekly vol. (000)	1.47
Market float ($M)	$83.6	Fiscal year-end	30-Jun

Waterbury Lake			
Indicated Resource	**Tonnes**	**Grade**	**Resource**
Uranium (U_3O_8)	307,000	1.52%	10.3 M lbs
Inferred Resource		**Grade**	**Resource**
Uranium (U_3O_8)	138,000	0.90%	2.7 M lbs

Source: Company Reports, Capital IQ



Company profile: Fission Energy is a Canadian based uranium company focused on the acquisition, exploration and development of uranium properties in Canada, Namibia, and the Macusani District in Peru.

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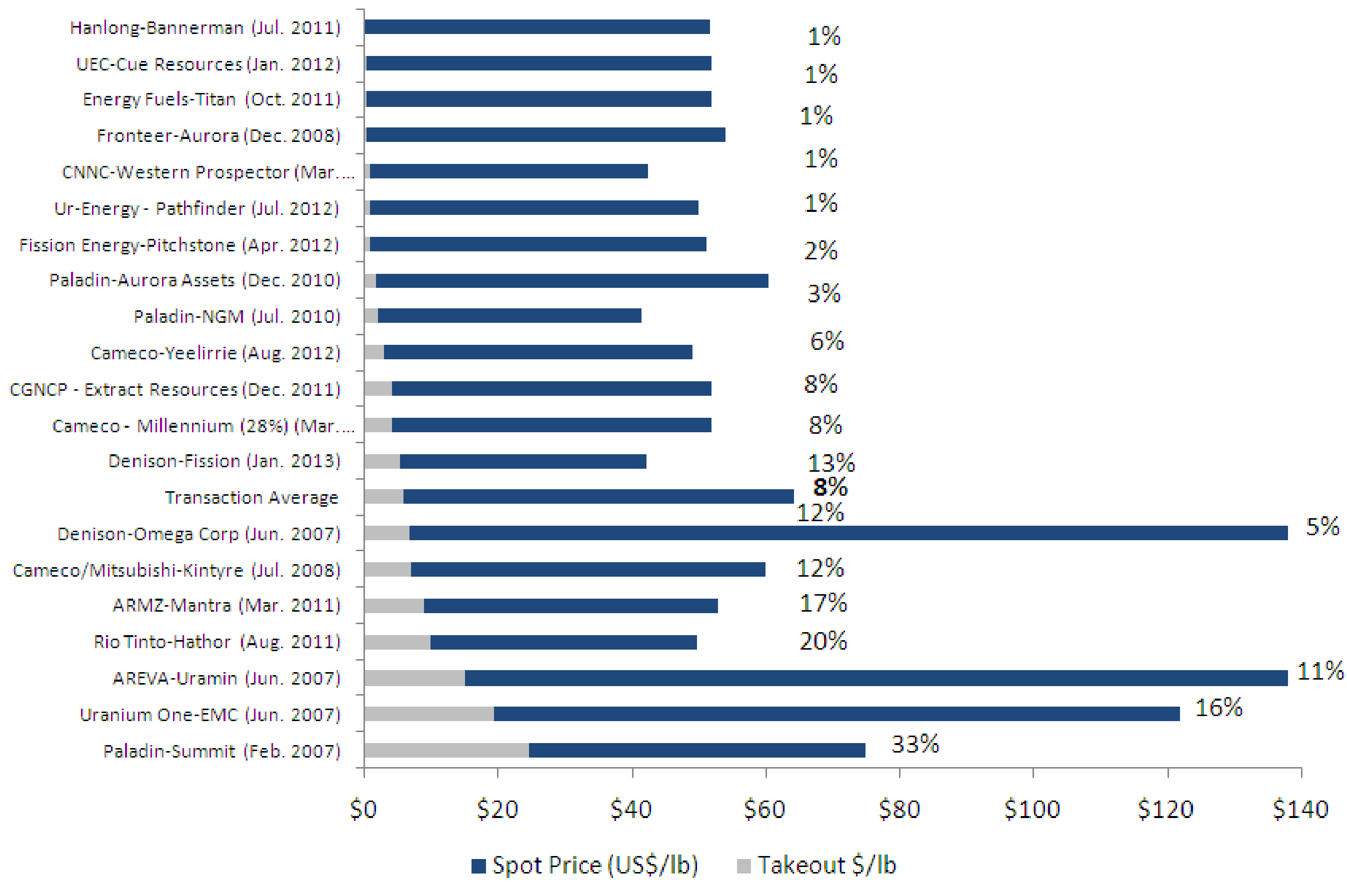
See disclosure and a description of our recommendation structure at the end of this report.

DENISON ACQUIRES FISSION ENERGY

Fission Energy and Denison Mines (DML: TSX) have announced a binding letter of intent to which Denison Mines will acquire a portfolio of assets including Fission's flagship 60%-interest in Waterbury Lake. Other assets being acquired by Denison include assets in Quebec, Nunavut, and Namibia.

Denison is offering 0.355 shares for each Fission share held, which based on yesterday's close represent a value of $0.52 per share for a total transaction value of $70M. The transaction translates into a takeout valuation per lb of U_3O_8 at $5.45/lb, which ranks it third among post-Fukushima transactions behind Rio Tinto's acquisition of Hathor Exploration at $9.98/lb and ARMZ's acquisition Mantra for $9.01/lb. As a percentage of current U_3O_8 spot, the offer sits at 13% of the current spot price of $42.25/lb, which is notably better than the 8% average achieved from the last 20 transactions in the uranium space.

Exhibit 1. Takeout Valuation per lb (US$/lb) as % of Spot U_3O_8



Source: Cantor Fitzgerald Research

The offer is conditional upon a spin out of a new company ("NewCo") that will contain certain assets. Most notably the 50% interest in Patterson Lake South, assets in the Macusani region of Peru as well as $18M in cash (plus all additional cash received from warrant and option exercises).

Upon completion of the transaction, Fission shareholders will own approximately 11% of Denison Mines. The board of directors of Fission

Energy have approved and recommend the transaction. The deal has a $3.5M reciprocal break fee and the Binding LOI includes customary non-solicitation covenants. Denison maintains the right to match any superior proposal. The transaction will take place by plan of arrangement and is expected to be completed in April 2013.

DENISON = ONE BITE CONSOLIDATION PLAY

If successful, the transaction ties a neat bow on top of Denison for a potential takeout offer from Rio Tinto (RIO:LSE). Fission's Waterbury Lake property contains the J Zone deposit that is attached to Rio Tinto's Roughrider deposit – as it is the same orebody. Any development scenario of the 57.9M lbs U_3O_8 Roughrider project will need to include the J Zone material. In addition, the camp surrounding the Roughrider and Waterbury projects contains over 120M lbs of U_3O_8 owned jointly by Denison Mines and Areva (CEI-Fr). The acquisition of Fission presents Denison as a one-bite consolidation play for Rio Tinto, whose Roughrider project on its own does not move the needle for the global mining giant.

Of note is that Denison also acquires the Dome project in Namibia. This is a JV project with Rio Tinto where the latter is earning into a 35% interest in the project (FIS 35% and Manica 29%) after a $5M spending program - yet another reason for the mining giant to show interest in the new DML.

At the end of the transaction, a holder of Fission Energy will end up with 0.355 DML shares as well as a stub company that holds the blue sky PLS project. We view this as a more favourable transaction relative to purchasing DML directly.

CAMECO INTEREST?

We view Cameco (CCO-TSX; CCJ-NYSE) as the most likely potential source of a competing offer. If we assume Rio Tinto will eventually acquire Denison to consolidate its presence in the Athabasca we believe it may be in Cameco's best interest to acquire Fission and force participation in the Roughrider project by owning the western piece of the deposit. Moreover, the Athabasca Basin has been Cameco's kingdom up until this point, and allowing consolidation and increased power by Denison and potentially Rio Tinto would threaten this. That being said, Cameco may not be interested in defending its turf as it did allow Rio Tinto to acquire Hathor Exploration and gain a foothold in the Basin when the two last competed for an Athabasca asset.

PATTERSON LAKE SOUTH SAFE

Safe from the Denison acquisition is Fission's 50% ownership of Patterson Lake South, which will be spun out into a NewCo. Along with its joint venture partners Alpha Minerals (TSXV: AMW), Fission released discovery-level initial assay results in November 2012 for the project. Given the blue sky potential of this project, we are delighted to see shareholders maintain ownership of PLS so that its value may be unlocked through exploration.

Highlights from the initial set of drill hole assays:

- 18.0m @ 1.78% U_3O_8 (Hole PLS12-024)
  - Including: 12.5m @ 2.49% U_3O_8
- 8.5m @ 1.07% U_3O_8 (Hole PLS12-022)
  - Including: 2.5m @ 2.63% U_3O_8
- 22.5m @ 0.4% U_3O_8 (Hole PLS12-025)
  - Including: 4.03m @ 0.85 U_3O_8
- 9.5m @ 0.27% U_3O_8 (Hole PLS-023)

The four holes with mineralized intercepts produced a weighted-average grade of 0.90% U_3O_8 with a highlight intercept producing 2.49% U_3O_8 (global median grade is 0.09% U_3O_8). Moreover, outside of the major deposits, the Athabasca Basin is renowned for high grade mineralization over very small intercepts (at times in centimetres). The average intercept reported from the four mineralized holes is 14.6m with the longest being 22.5m

Of note is the fact that the mineralization was intercepted between 60m and 83m downhole, which is shallow and potentially open pittable. Deposits in the Athabasca Basin tend to be very deep such as McArthur River (500m – 640m) and Shea Creek (700M) where underground mining methods are required.

Exhibit 2. Patterson Lake South Assay Results

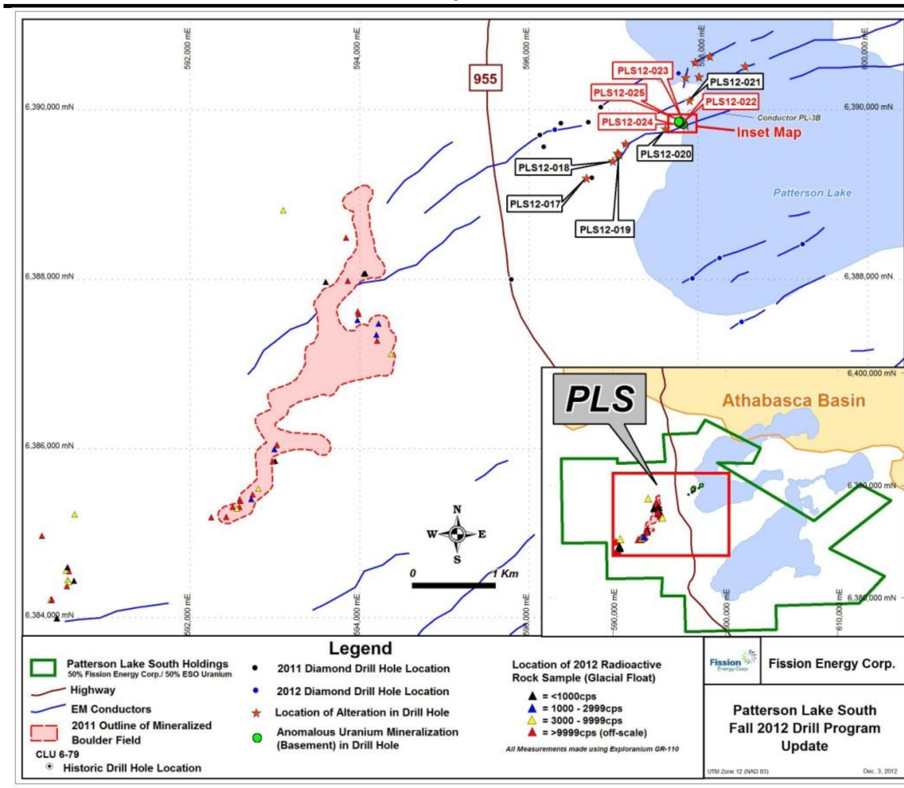
Hole ID	From (m)	To (m)	Interval (m)	U3O8 (wt%)
PLS12-024	65	83	18	1.78%
including			12.5	2.49%
including			3.5	4.33%
including			0.5	11.10%
PLS12-022	70.5	79	8.5	1.07%
including			2.5	2.63%
PLS12-025	60.5	83	22.5	0.40%
including			4.03	0.85%
PLS12-023	66.5	76	9.5	0.27%

Source: Fission Energy

The Patterson Lake South property is 31,039 hectares in size and is located 50km south of UEX Corp's (TSX: UEX) and Areva's (Fr: CEI) Shea Creek discovery, which contains 88M lbs of U_3O_8. These holes were drilled northeast of the high grade boulder trend on the PLS property that led to the discovery of this mineralized zone. Management announced today that a $4M winter drill program has been approved for the project to be conducted this winter.

Given the high grades and wide intercepts of these assays, we view these results as potential discovery holes for another major deposit in the Athabasca Basin.

Exhibit 3. Patterson Lake South Map



Source: Fission Energy

VALUATION

We are maintaining our Buy (Speculative) rating on Fission Energy and are increasing our target price to $0.90/share, up 5.9% from $0.85. Our target price reflects a 0.98x multiple to our valuation of $0.92/share.

Our target price is based on the sum of the parts valuation consisting of Denison's 0.355 per share offer and the market value of Patterson Lake South, which we imply from the enterprise value of Alpha Minerals (AMW-TSXV) who owns the other 50% of the project. We further assume options and warrants are exercised below a strike price of $0.85/share for Fission, which subsequently adds about 13.5M shares in dilution and $8.2M in cash.

Exhibit 4. Valuation

Fission Valuation		
Denison Shares	$0.53	per share
Patterson Lake South	$0.22	per share
Cash	$0.17	per share
Total	**$0.92**	per share

Source: Cantor Fitzgerald Research

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Disclosures as of January 16, 2013

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The analysts responsible for this research report *do have*, either directly or indirectly, a long or short position in the shares or options of Fission Energy.

The analyst responsible for this report *has* visited the material operations of Fission Energy. No payment or reimbursement was received for the related travel costs.

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BUY: The stock is attractively priced relative to the company's fundamentals and we expect it to appreciate significantly from the current price over the next 6 to 12 months.

BUY (Speculative): The stock is attractively priced relative to the company's fundamentals, however investment in the security carries a higher degree of risk.

HOLD: The stock is fairly valued, lacks a near term catalyst, or its execution risk is such that we expect it to trade within a narrow range of the current price in the next 6 to 12 months. The longer term fundamental value of the company may be materially higher, but certain milestones/catalysts have yet to be fully realized.

SELL: The stock is overpriced relative to the company's fundamentals, and we expect it to decline from the current price over the next 6 to 12 months.

TENDER: We believe the offer price by the acquirer is fair and thus recommend investors tender their shares to the offer.

UNDER REVIEW: We are temporarily placing our recommendation under review until further information is disclosed.