

FISSION URANIUM CORP.

Execution of Subscription Agreement & Offtake Agreement with CGN Mining

EVENT

Fission Uranium Corp. has announced that it has entered into a subscription agreement with CGN Mining Company Ltd. (“CGN”). The company also elaborated on the off-take agreement with CGN.

BOTTOM LINE

Neutral – Today’s announcement takes the initial December 21 release another step forward. We reiterate our Buy recommendation and increase our target price to \$1.60 per share (from \$1.55 previously).

FOCUS POINTS

- **Off-take Agreement:** CGN Mining will purchase 20% of Patterson Lake South’s annual production and will have the option to for an additional 15%. We expect CGN to maximize this.
- **The Deal:** CGN will invest C\$82M in a private placement into Fission Uranium for 19.99% of the company at C\$0.85/share (\$3M deposit received). CGN’s first foray into Canadian uranium is a positive for Fission Uranium and the Canadian uranium industry in particular as the Chinese have finally pulled the trigger in investing in a uranium project in Canada. This highlights its desire for stable jurisdictions with a solid history of production.
- **Best available price:** The C\$0.85/share price offer is a 25% premium to FCU’s last close and a 40% premium to the 30-day VWAP. Based on the 106M lbs U₃O₈ 43-101 resource for Fission Uranium, the 19.99% stake represents a valuation of C\$3.88/lb or US\$2.78/lb. This is low relative to the Post-Fukushima average of US\$3.78/lb and PLS’ status as a world-class asset. However, this may be the best available in the current market.

Recommendation:

BUY

Symbol/Exchange:	FCU-TSX, FCUUF-OTC
Sector:	Metals & Mining
<i>All dollar values in C\$ unless otherwise noted.</i>	
Current Price:	\$0.76
Target Price:	\$1.60↑
Return Target:	110%
Cash on hand	\$12.0M

Financial summary

Shares O/S (M)	387.2	52-week range	\$0.54 - 1.68
Market cap (\$M)	\$290.4	Avg. weekly vol. (000)	2.88
Market float (\$M)	\$277.9	Fiscal year-end	30-Jun

Indicated Resource	U ₃ O ₈ Grade	Attrib Resource	Tonnage
Patterson Lake South	1.58%	79.61M lbs.	2.291Mt
Inferred Resource			
Patterson Lake South	1.30%	25.88M lbs.	0.901Mt
Global Resource		105.00M lbs.	3.192Mt

Source: Company Reports, Capital IQ



Company profile: Fission Uranium is a Canadian based uranium company focused on the acquisition, exploration and development of uranium properties in Canada’s Athabasca Basin.

Rob Chang, MBA

rchang@cantor.com
(416) 849-5008

Michael Wichterle, MBA, CAIA

mwichterle@cantor.com
(416) 849-5005

Sales/Trading — Toronto: (416) 363-5757, (866) 442-4485

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

OFF-TAKE FOR 20% WITH 15% OPTION

CGN has secured a 20% off-take from Patterson Lake South with an option for an additional 15%. Given the demand for uranium from the Chinese, we expect CGN to maximize its off-take at 35%. It was noted that the deal is at “industry standard terms”, which we assume to be spot price less a 5%-10% discount at the time.

While the potential of an up to 35% off-take is steep relative to the 20% interest that CGN has obtained, management has noted that this is in relation to the premium paid by CGN, which is 42% relative to the 30-day vwap price of \$0.60/share. While clearly a nice premium, we do note below that the \$/lb valuation is low relative to historical transactions (takeouts and major investments) and is likely a reflection of market conditions.

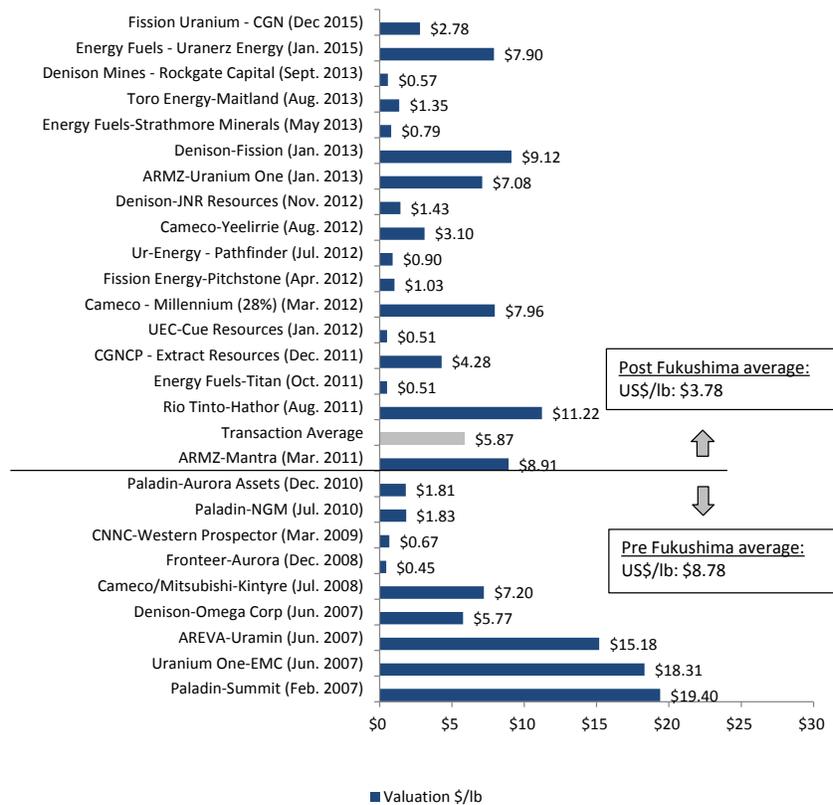
FIRST CHINESE ENTITY TO INVEST DIRECTLY IN CANADIAN URANIUM

We view CGN Mining’s first foray into Canadian uranium as a positive for Fission Uranium and the Canadian uranium industry in particular as the Chinese have finally pulled the trigger in investing in a uranium project in Canada. This highlights China’s desire for stable jurisdictions with a solid history of production. The valuation is low in our opinion but is perhaps a reflection of the current state of the market. Given the weak financing markets and a need to add cash, FCU has added a highly sought-after partner at a 25% premium to its last close price and a 42% premium to its 30-day VWAP.

CGN will acquire 96,736,540 common shares of FCU in exchange for the C\$82.2M in cash. CGN may not trade its acquired shares in FCU for a period of four months plus one day from the closing date of the offering. CGN will also be entitled to nominate two directors to FCU’s board of directors (increasing from seven to nine). Approval from the TSX is still required and is expected in the coming week or so.

Based on the 106 M lbs U_3O_8 resource for Fission Uranium, the 19.99% stake represents a valuation of C\$3.88/lb or US\$2.78/lb. As seen in our graph in Exhibit 1, the transaction values Patterson Lake South at US\$2.78/lb, which is low relative the Post-Fukushima average of US\$3.78/lb and is particularly so given PLS’ status as one of the premier undeveloped uranium deposits in the world.

Exhibit 1. Notable uranium public transaction valuations (\$USD)



Source: Cantor Fitzgerald Canada Research

The investment into FCU by CGN is a landmark transaction as it is the first direct investment into a Canadian uranium company by a Chinese entity. CGN is an investment holding company that is listed on the Hong Kong Stock Exchange and is engaged in the trading of uranium. The controlling shareholder of CGN is China Uranium Development Company Limited, which is a wholly owned subsidiary of China General Nuclear Power Corporation – the leading clean energy corporation in China.

It will be interesting to see how this transaction impacts the takeout potential for Fission Uranium now that CGN has a 19.99% stake in the company. CGN was widely viewed as a potential acquirer of FCU and at a very good valuation it now has an inside track to do so. Any new bidder will have to work with CGN if it were to acquire FCU.

Recall that after having announced an initial global resource of just over 105M lbs earlier in January, impressive potential project economics have been disclosed in September (\$1.81B pre-tax NPV10% and 46.7% pre-tax IRR using a base case US\$65/lb U₃O₈ price along with an exchange rate of US\$0.85: C\$1.00), highlighted by a mine life of 14 years, producing a total estimated 100.8M lbs. The PEA demonstrates the viability and profitability of the project.

The PEA projects an assumed 14-year mine life producing 100.8M lbs at a metallurgical recovery of 95% with 77.5M lbs U₃O₈ recovered in the first six

years of production. The average annual production is forecast to be 7.2M lbs U₃O₈ over the total mine life. The payback period is estimated to total 1.4 years pre-tax, or 1.7 years post-tax, while the base case pre-tax net cash flow from the proposed LOM is expected at \$4.12B or post-tax, \$2.53B.

The transaction is expected to close on January 11, 2016 at 2pm Pacific time. The transaction carries a C\$3M break fee. The LOI further provides that the break fee will be payable by CGN Mining to Fission in the event that CGN Mining shareholder approval, Hong Kong Stock Exchange approval or the approval of the Chinese government is not obtained by February 29, 2016, Pacific time.

VALUATION AND RECOMMENDATION

We are maintaining our Buy recommendation with a target price of C\$1.60 per share, which is up 3% from C\$1.55 per share. Our target price is based on a 1.0x multiple to our NAV_{10%} valuation of \$1.60 per share. Based on Friday's close, this represents upside of 113%.

Our NAV valuation for Fission Uranium remains effectively the same at C\$1.60 per share as positive fluctuations in the USD/CAD exchange rate were offset by the modelling of reduced revenue stemming from a 35% off-take to CGN at an estimated 10% discount to spot prices at the time.

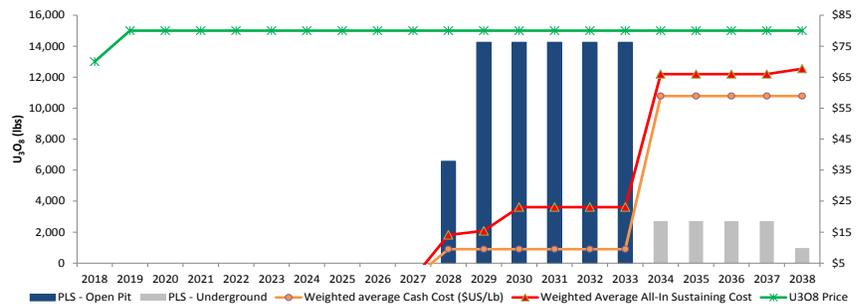
Exhibit 2. Patterson Lake South Net Asset Value

Mining Assets			
		C\$ 000s	Per share
Patterson Lake South	(100%)	600,419	1.22
Total Mining Assets		600,419	1.22
Financial Assets			
		C\$ 000s	Per share
Cash		94,200	0.19
Working Capital net of cash		(7,797)	(0.02)
LT Liabilities		0	0.00
Proceeds from ITM Instruments		100,457	0.20
12% Stake in Fission 3.0		1,870	0.00
		186,860	0.38
Net Asset Value		787,279	1.60
Shares Outstanding (000's)		483,310	
NAV/sh		\$1.63	
Diluted shares outstanding		493,513	
NAV per Diluted share (C\$/share)		\$1.60	
Current share price (C\$/share)		\$0.73	
Price / NAV		0.46x	

(1) Corporate adjustments are as of last reported Financial Statements

Source: Cantor Fitzgerald Canada Research

Exhibit 3. PLS Production and cost profile



Source: Cantor Fitzgerald Canada Research

Exhibit 4. Uranium Price Forecast

	2013A	2014A	2015E	2016E	2017E	2018E	2019E
U3O8 Price	\$38.53	\$33.48	\$37.82	\$48.75	\$60.00	\$70.00	\$80.00

Source: Cantor Fitzgerald Canada Research

Exhibit 5. Comparable Valuation

Uranium Producer Company Name	Stage	Stock Price (Local \$)	Market Cap (\$'000)	Enterprise Value (\$'000)	43-101 Resources (M lbs)				MKT / LB	EV / LB	
					Avg Grade	P&P	M&I	Inferred			Total
Cameco Corporation (TSX:CCO)	Production	16.06	6,356,427.9	7,784,530.9	7.576%	465.1	245.9	288.8	999.8	\$6.36	\$7.79
Energy Fuels Inc. (TSX:EFR)	Production	3.41	154,350.7	128,992.9	0.091%	0.0	100.0	40.4	140.3	\$1.10	\$0.92
Paladin Energy Ltd (ASX:PDN)	Production	0.24	398,325.9	630,958.9	0.079%	174.3	193.6	153.8	521.7	\$0.76	\$1.21
Uranium Energy Corp. (NYSE:UEC)	Production	1.01	141,700.1	161,265.6	0.062%	0.0	32.4	36.3	68.7	\$2.06	\$2.35
UR-Energy Inc. (TSX:URE)	Production	0.98	127,585.0	113,261.4	0.080%	0.0	34.5	10.3	44.9	\$2.84	\$2.52
Producer Average			\$1,435,677.9	\$1,763,801.9		127.9	121.3	105.9	355.1	\$2.62	\$2.96

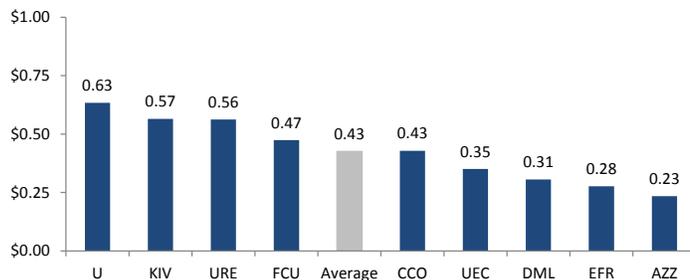
*Market Cap and Enterprise value for Paladin Energy and Uranium Energy Corp. has been converted to \$CAD at the prevailing \$AUD/\$CAD or \$USD/\$CAD market exchange rates

Uranium Explorer/Developer Company Name	Stage	Stock Price (\$Local)	Market Cap (C\$'000)	Enterprise Value (C\$'000)	43-101 Resources (M lbs)				MKT / LB	EV / LB	
					Avg Grade	M&I	Inferred	Total			
Hathor Exploration (Acquired)	Exploration	4.70	654,240.0	581,240.0	8.628%	17.2	40.7	57.9	112.9	\$11.29	\$10.03
Denison Mines (TSX:DML)	Exploration	0.65	336,985.1	224,126.3	2.29%	102.0	97.6	199.7	199.7	\$1.69	\$1.12
Fission Uranium Corp. (TSX:FCU)	Exploration	0.76	290,409.6	281,456.0	1.51%	79.6	25.9	105.5	105.5	\$2.75	\$2.67
NexGen Energy (TSXV:NXE)*	Exploration	0.79	226,638.8	205,888.9	0.64%	0.0	0.0	148.6	148.6	\$1.53	\$1.39
Kivalliq Energy Corp. (TSXV:KIV)	Exploration	0.10	20,598.1	18,317.7	0.69%	0.0	43.3	43.3	43.3	\$0.48	\$0.42
UEX Corp. (TSX:UEX)	Exploration	0.16	39,362.4	32,793.1	0.84%	68.2	16.5	84.7	84.7	\$0.46	\$0.39
Peninsula Energy Ltd. (ASX:PEN)**	Development	1.06	185,051.1	155,833.6	0.05%	17.2	30.2	47.4	47.4	\$3.90	\$3.29
Azarga Uranium (TSX:AZZ)	Development	0.29	17,496.4	14,684.8	0.17%	18.1	5.7	23.8	23.8	\$0.74	\$0.62
Average			\$221,347.7	\$189,292.6		37.8	32.5	88.9	88.9	\$2.85	\$2.49

* Until a maiden resource is published, given drilling to date, Cantor Fitzgerald Canada currently estimates a 148.6M lb resource at 0.64% U3O8 for NexGen Energy

** Market Cap and Enterprise value for Peninsula Energy has been converted to \$CAD at the prevailing \$AUD/\$CAD market exchange rate

Uranium Coverage P/NAV



Source: Cantor Fitzgerald Canada

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

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