DUNDEE CAPITAL MARKETS
Dundee Securities Ltd.

Fission Energy Corp.

(FIS-V: C$0.60)
BUY, **Speculative Risk***
12-month target price: N/A

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Pitchstone Exploration

(PXP-V: C$0.095)
TENDER, **Venture Risk***
12-month target price: N/A (Watch List)

Buying A Relationship With Rio Tinto - Great Properties Come Free

We continue to recommend Fission Energy and suggest that this land grab while prices are cheap is a good deal for Fission shareholders. The added relationship with Rio Tinto is also viewed as quite positive.

We are changing our Pitchstone Uranium recommendation from BUY to TENDER and believe that Fission's more aggressive style of exploration is better suited for the hard to find high grade Athabasca style uranium deposits.

Ultimately, we believe this deal helps improve future opportunities for all shareholders. For $5.8 MM in stock, Fission acquires $1.5 MM in cash, a Namibian JV with Rio Tinto (RIO-N, Not Rated) for hard rock Alaskite-type deposits worth about $5 MM in the ground and essentially all of Pitchstone's prospective exploration properties in the Athabasca for free. Pitchstone shareholders get a pipeline of exploration projects including the 9 MM lb U3O8 J-Zone deposit and a management team that is strongly focused on creating shareholder value through acquisition and exploration. This gives Fission a very good toe hold in the basin, and should the Korean or Chinese utilities move in, there are more projects and opportunities to be found with Fission than perhaps some of its peers (Figure 1).

Rio Tinto, interestingly enough, comes into play again. Rio Tinto and Pitchstone have a JV in Namibia which means the relationship has already been made. Rio was the winner of the bidding war with Cameco (CCO-T, Not Rated) for Hathor located immediately adjacent to Fission's J-Zone discovery. Perhaps this relationship will manifest itself in the Athabasca in coming months - we submit that we still believe Fission is one of the top take-over targets in the Basin.

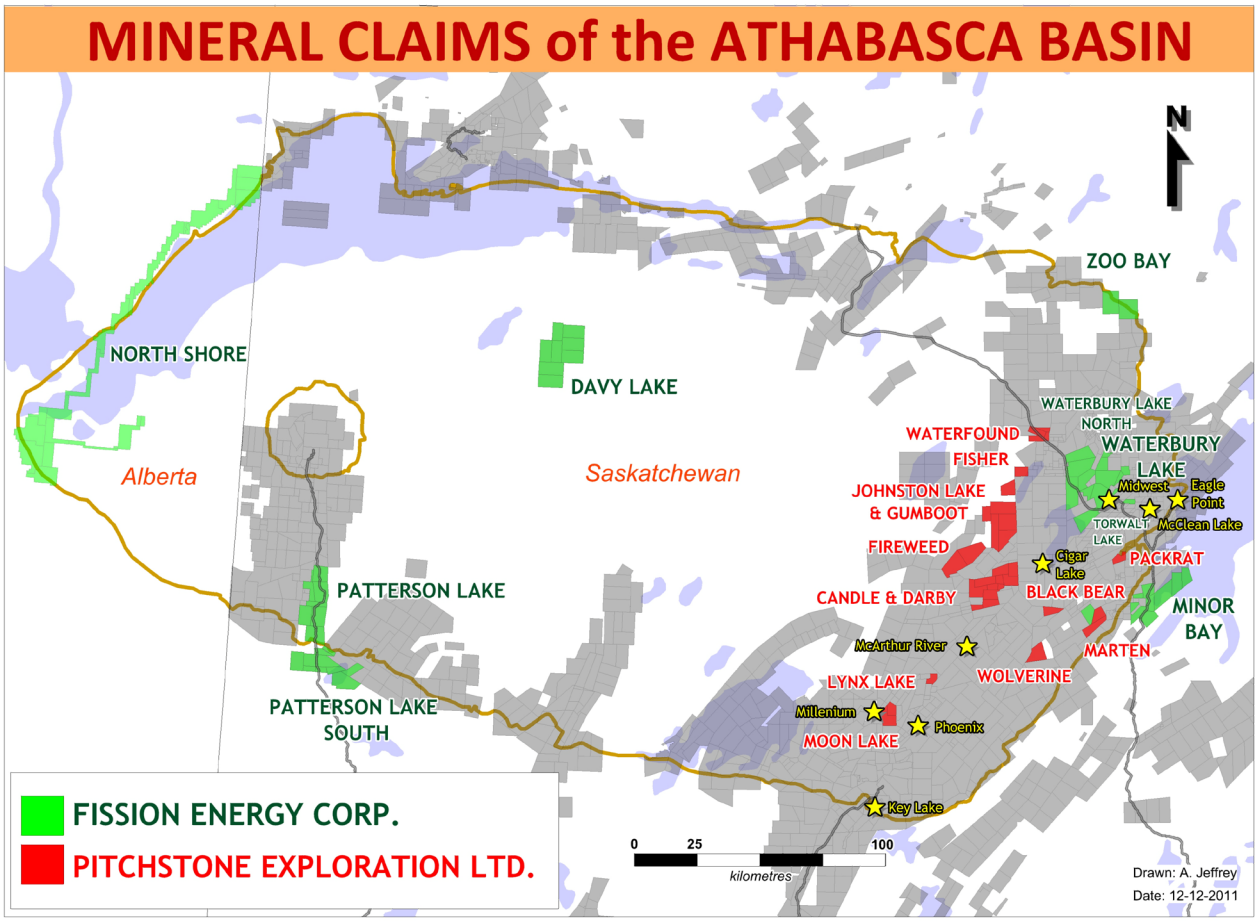
We view this take-over as a potential marriage between two companies with very good synergies in the Athabasca Basin, but whose operating styles make them almost opposites. Pitchstone was one of the early pioneers in the basin, and with a very good management team it was able to get a jump on the competition and pick up some of the better properties in the high grade and very prolific Athabasca Basin. Sure, we might be talking about moose pasture, but in our eyes we believe it is highly prospective moose pasture. Pitchstone management became a little too cautious and fiscally responsible and not enough cash was being sunk into the ground to move the needle. In the best situations it often takes considerable drilling to come up with a geological model that may or may not pay off with a uranium discovery. Being overly fiscally responsible is not what investors of uranium exploration companies based in the highest grade district in the world are looking for.

Fission on the other hand is a more aggressive beast. It has a fairly strong pipeline of projects - spearheaded by its Waterbury JV and the high grade 9 MM lbs J-Zone discovery. It is likely the value the company gets from this project that allows it to make other opportunistic deals. Fission completes M&A transactions and for its main projects (which would also include its high grade boulder discovery on the PLS JV), the company will carry out aggressive and systematic exploration programs. It was this persistence, in our eyes, that was largely responsible for Fission making the J-Zone discovery along strike of Hathor just two years ago. We believe it is likely this exploration style could pay off for shareholders of both companies - Pitchstone shareholders bring the projects to a company with an exploration war chest with little fear to use it, while Fission shareholders get access to a significant amount of prime real estate in the Athabasca Basin at a time when Pitchstone has been beaten up somewhat. Top of the list is the Gumboot property which is starting to show good indications - anomalous uranium, extensive alteration and multi-percent base metal mineralization has been found.

There are two risks we see associated with this deal - the chance that Fission may lose focus on J-Zone, the discovery which is located along strike of the Rio Tinto Roughrider deposits (Hathor) which has become the bread and butter of the company. Secondly is a strain on the cash finances of Fission. We are not talking about purchase price or even dilution - this is a non-cash deal. But carrying out aggressive exploration on some of the Pitchstone projects, namely the modestly deep Gumboot targets, could take a chunk out of the Fission coffers, depending on how aggressive a drill program it will carry out this year.

- FIS will acquire each PXP share for 0.2145 common shares of FIS
- Estimated purchase price is ~$0.1287/sh of PXP - a 35% premium to PXP Friday close
- FIS will issue 9,697,155 shares and have ~124.5 MM shares outstanding at close
- 19% or 8.656 MM shares of Pitchstone is locked up and the Board of Directors have unanimously approved the Plan
- 66 2/3% of PXP shareholders must approve the deal on a meeting scheduled for about 16-Jul-12

Figure 1 - Map showing the location of the Fission and Pitchstone properties in the Athabasca Basin.



Source: Company Reports

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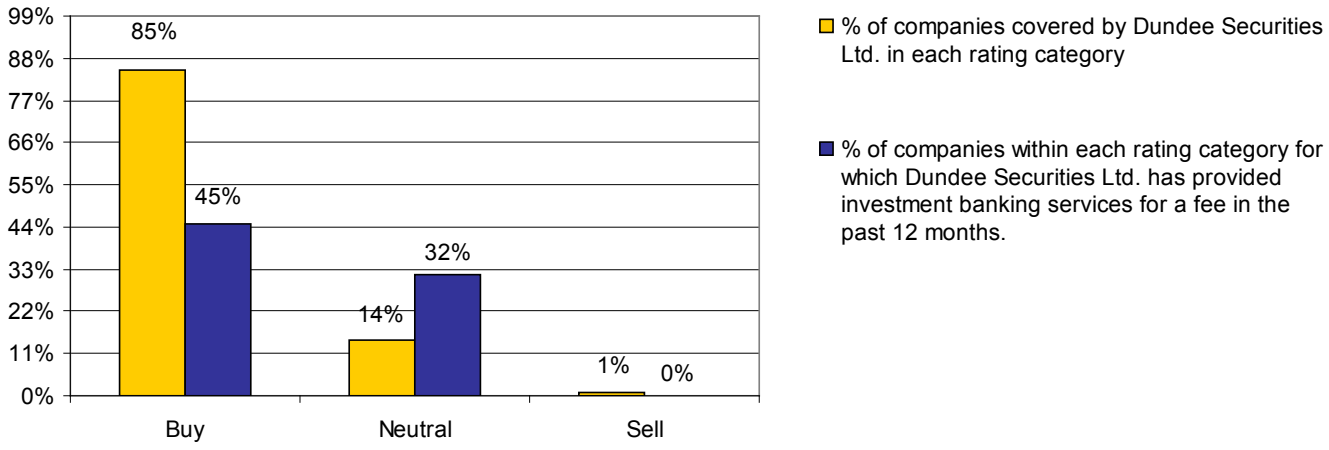

As at March 31, 2012

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