

ATHABASCA POTASH INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2006

AUDITORS' REPORT

To the Shareholders of
Athabasca Potash Inc.

We have audited the balance sheet of Athabasca Potash Inc. as at December 31, 2006 and the statements of loss and deficit and cash flows for the nine months then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our 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 financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2006 and the results of its operations and cash flows for the nine months then ended in accordance with Canadian generally accepted accounting principles.

SASKATOON, SASKATCHEWAN
February 20, 2007 (except for Note 12
which is as of December 6, 2007)

Hergott Duval Stack LLP
Chartered Accountants

ATHABASCA POTASH INC.
BALANCE SHEET
DECEMBER 31, 2006

ASSETS

Current Assets

Cash	\$1,246,436
GST receivable	30,087
Due from Ruby Energy Inc. (Note 3)	300,000
Deposits — contractors	56,996
Deferred share issue costs	10,000
	1,643,519
Deposits — permits	378,720
Mineral property (Note 4)	813,754
Capital assets (Note 5)	2,536
	<u>\$2,838,529</u>

LIABILITIES

Accounts payable	<u>\$ 178,964</u>
Contingency (Note 7)	

SHAREHOLDERS' EQUITY

Share Capital (Note 6)	2,626,775
Contributed surplus	87,873
Deficit	(55,083)
	<u>2,659,565</u>
	<u>\$2,838,529</u>

Approved by the Board

DAWN ZHOU
Director

GARY BILLINGSLEY
Director

ATHABASCA POTASH INC.
STATEMENT OF LOSS AND DEFICIT
NINE MONTHS ENDED DECEMBER 31, 2006

Interest income	\$ 13,663
Expenses	
Amortization	282
Bank charges	318
Dues and memberships	345
Insurance	2,110
Management fees and wages	28,886
Office	4,141
Professional fees	10,294
Promotion	11,131
Rent	4,500
Stock based compensation	6,739
	<u>68,746</u>
Net loss	(55,083)
Retained earnings, beginning of period	—
Deficit, end of period	\$ (55,083)
Basic and diluted loss per share	\$ (0.02)
Weighted average number of shares outstanding	<u>2,859,514</u>

ATHABASCA POTASH INC.
STATEMENT OF CASH FLOWS
NINE MONTHS ENDED DECEMBER 31, 2006

Cash flows from operating activities

Net loss	\$ (55,083)
Items not affecting cash	
Amortization	282
Stock based compensation	6,739
Net changes in non-cash working capital items related to operations:	
GST receivable	(30,087)
Deposits — permits	(435,716)
Deferred share issue costs	(10,000)
Accounts payable	178,964
	<u>(344,901)</u>

Cash flows from investing activities

Purchase of capital assets	(2,818)
Proceeds from disposal of mineral properties	300,000
Mineral property expenditures	(728,865)
	<u>(431,683)</u>

Cash flows from financing activities

Advances to related party	(300,000)
Proceeds from issuance of shares	2,500,750
Share issuance costs	(177,730)
	<u>2,023,020</u>

Cash, end of period (Note 11) **\$1,246,436**

Cash consists of:

Bank indebtedness	\$ (8,673)
Short-term investments (cash equivalents)	1,255,109
	<u>\$1,246,436</u>

ATHABASCA POTASH INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006

1. NATURE AND CONTINUATION OF OPERATIONS

Athabasca Potash Inc. (the "Company" or "API") was incorporated under the Business Corporations Act of Saskatchewan on April 10, 2006 and on August 14, 2006 API's Articles of Incorporation were amended by way of a Certificate of Amendment. The Company has been formed to engage primarily in the exploration of potash in the province of Saskatchewan.

These financial statements have been prepared on the basis of Canadian generally accepted accounting principles as applicable to a going concern, which contemplates the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future.

The Company's ability to continue as a going concern is dependent upon the discovery of economically recoverable mineral reserves, the ability of the Company to obtain necessary financing to complete exploration and development, and future production or proceeds from the disposition thereof.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared to reflect the following significant accounting policies:

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and short-term investments in money market funds.

Deferred share issuance costs

Certain share issue costs have been deferred in anticipation of the Company's initial public offering ("IPO").

Capital assets

Capital assets are recorded at cost. Amortization is provided on a declining balance basis over the estimated useful life of the asset. Annual amortization rates are as follows:

Furniture and equipment	20%
-------------------------	-----

Mineral properties

The Company capitalizes mineral property acquisition costs and exploration and development expenditures on a property-by-property basis. These costs will be amortized over the estimated productive lives of the properties upon commencement of production using the unit-of-production method, or written down to their estimated fair value if the properties are abandoned, allowed to lapse, there is little prospect of further work being carried out by the Company or there has been a permanent impairment in their value, with the associated write-down being charged to operations.

Mineral property acquisition costs include the cash consideration paid and the appropriate value of common shares issued.

The amounts shown for mineral properties represent costs incurred to date, less recoveries and write-downs, and do not necessarily reflect present or future values.

Income taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, 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 (temporary differences), and losses carried forward. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary difference are expected to be recovered or settled. A valuation allowance is recorded against any future tax asset if it is more likely than not that the asset will not be realized. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of substantive enactment.

The Company finances a portion of its exploration activities through the use of flow-through shares. The Company records the tax cost of expenditures renounced to subscribers on the date the deductions are renounced to the subscribers. Share capital is reduced and future income tax liabilities are increased by the estimated tax benefits renounced by the Company to the subscribers, except to the extent that the Company has unrecorded loss carryforwards and tax pools in excess of book value available for deduction.

Non-monetary transactions

Non-monetary transactions are measured at the more reliably measurable amount of either the fair value of the asset given up or fair value of the asset received.

ATHABASCA POTASH INC.
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2006

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income per share

Basic per share amounts are calculated using the weighted average number of shares outstanding during the year. Diluted per share amounts are calculated based on the treasury-stock method, which assumes that any proceeds received on exercise of warrants would be used to purchase common shares at the average market price during the year. The weighted average number of shares outstanding is then adjusted by the net change.

Stock-based compensation plan

The Company has adopted revised CICA Handbook Section 3870, "Accounting for Stock-Based Compensation and Other Stock-Based Payments". The revision of Section 3870 requires that when stock options or other stock-based compensation awards ("Incentives") are granted, a fair value be calculated and assigned to these Incentives and the calculated value be recognized in the financial statements in the period the Incentives vest with the recipient. This revision effectively requires companies to expense the fair value of stock-based compensation as options are granted and vesting occurs. No subsequent recovery of these expensed amounts is recognized if previously expensed stock-based compensation Incentives expire unexercised. Previously, no compensation expense was recognized when options were granted to employees, officers and directors ("Grantees") and any consideration paid to Grantees upon excesses of these stock options was credited to share capital.

The Company uses the Black-Scholes option-pricing method to determine the fair value of these Incentives.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates include determination of the recoverability of capitalized mineral costs, fair value of related party transactions, stock-based compensation expenses, useful lives for amortization of capital assets, and contingencies reported in the notes to the financial statements. Financial results as determined by actual events could differ from those estimates.

By nature, asset valuations are subjective and do not necessarily result in precise determinations. Should underlying assumptions change, the estimated net recoverable value could change by a material amount.

3. DUE FROM RUBY ENERGY INC.

The amount due from Ruby Energy Inc., a company controlled by a director of API, is associated with the sale of lease interests in oil property held by the API. The amount due is non-interest bearing and is to be repaid in six monthly instalments of \$50,000, starting January 31, 2007.

4. MINERAL PROPERTY

	<u>Burr Property</u>
Balance, April 10, 2006	\$ —
Expenditures during the year	
Acquisition	303,755
Exploration	
Drilling	123,568
Management/consulting fees	309,593
Permits/surveys/mapping	61,114
Stock based compensation	15,724
	<u><u>\$813,754</u></u>

Burr property

On August 31, 2006, API and Athabasca Resources Inc. ("ARI") entered into a purchase and sale agreement whereby ARI sold its permit to prospect for subsurface minerals to API for 2,272,727 common shares at a price of \$0.22 per common share, for a sales price of \$500,000. ARI and API are under common control and are therefore related parties. This related party transaction is recorded at \$303,755, which is the the carrying value of the property in ARI's records on August 31, 2006. The difference between the exchange amount of \$500,000 and the carrying value of \$303,755 was charged to share capital of API.

ATHABASCA POTASH INC.
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2006

4. MINERAL PROPERTY (Continued)

The Company is in the process of completing an independent technical report in compliance with National Instrument 43-101. As at December 31, 2006, no conclusions have been made associated with this report.

5. CAPITAL ASSETS

	Cost	Accumulated Amortization	Net Book Value
Furniture and equipment	<u>\$2,818</u>	<u>\$ 282</u>	<u>\$2,536</u>

6. SHARE CAPITAL

Authorized an unlimited amount of common shares, without par value

Issued

	Common Shares	Share Capital
Balance, April 10, 2006	—	\$ —
Non flow-through private placement	2,702,273	740,750
Flow-through private placement	4,888,888	1,760,000
Issued for mineral properties	2,272,727	303,755
Share issue costs	—	(177,730)
Balance, December 31, 2006	<u>9,863,888</u>	<u>\$2,626,775</u>

Upon incorporation, the Company issued 750,000 common shares for total consideration of \$750.

During August of 2006, the Company issued 2,272,727 common shares with a value of \$303,755 to ARI as consideration for the acquisition of mineral properties (Note 4). Also during August of 2006, the Company issued 227,273 common shares for gross proceeds of \$50,000, as well as 2,200,000 flow-through common shares for gross proceeds of \$550,000.

During September 2006 the Company issued 562,500 common shares for gross proceeds of \$225,000, as well as 1,848,941 flow-through common shares for gross proceeds of \$832,023.

During December 2006, the Company issued 1,162,500 common shares for gross proceeds of \$465,000, as well as 839,947 flow-through common shares for gross proceeds of \$377,977.

The calculation of the fully diluted loss per share excludes the effects of the issued stock options and broker warrants on the weighted average number of shares outstanding component of the calculation as these are anti-dilutive in nature.

Stock options

Options granted are non transferable, vest when issued, and will expire the earlier of five years after issuance, 90th day after holder ceases to be a director or officer of the Company, or one year after death of the holder.

A summary of the status of the Company's stock option plan and changes during the periods ended December 31, 2006 is presented below.

For options outstanding at December 31, 2006, weighted average exercise prices are as follows:

	Options	Average Price
Outstanding, beginning of period	—	—
Options granted	<u>986,389</u>	<u>0.34</u>
	<u>986,389</u>	<u>\$0.34</u>

ATHABASCA POTASH INC.
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2006

6. SHARE CAPITAL (Continued)

<u>Options Price Per Share</u>	<u>Number Outstanding</u>	<u>Weighted Average Remaining Life</u>
.25	545,000	4.67
.45	441,389	5.00
	<u>986,389</u>	<u>4.84</u>

The fair value of stock options issued in the year is estimated using the Black-Scholes option-pricing model, with the following assumptions: risk free rate of 3.99% and 4.03%, volatility of nil, dividend yield of nil and expected term of five years. During 2006, the Company granted a total of 986,389 stock options (545,000 in August 2006 and 441,389 in December 2006). The strike price for the options were \$0.25 and \$0.45 respectively for a period of five years. The value of these options, using the Black-Scholes option-pricing model described above, was \$22,463. A portion of the fair value of the stock options is allocated to mineral properties, with the remainder allocated to the stock-based compensation expense with a corresponding increase in contributed surplus.

Broker warrants

On certain issues of common shares, the Company granted broker warrants as partial consideration to the agent for services associated to the share issuance. Each broker warrant entitles the agent to acquire one common share of the Company for a period of 24 months from closing. The broker warrants issued in 2006 were fair valued at nil. The fair value of the broker warrants was determined using the Black-Scholes option-pricing model with the following assumptions; volatility of nil, risk free rate of return of 3.79%, expected dividend of nil and expected term of two years. The continuity of share purchase warrants for the year ended December 31, 2006 is as follows:

<u>Expiry Date</u>	<u>Exercise Price</u>	<u>Balance April 10, 2006</u>	<u>Issued</u>	<u>Exercised</u>	<u>Expired</u>	<u>Balance December 31, 2006</u>
September 29, 2008	\$0.45	—	192,915	—	—	192,915
December 7, 2008	0.45	—	160,196	—	—	160,196
		<u>—</u>	<u>353,111</u>	<u>—</u>	<u>—</u>	<u>353,111</u>

7. CONTINGENCY

While the Company has performed its own due diligence with respect to title of its properties, this should not be construed as a guarantee of title. The properties may be subject to prior unregistered agreements of transfer or aboriginal land claims, and title may be affected by undetected defects. If the Issuer defaults with respect to making payments or completing assessment work as required in order to keep its mineral claims in good standing, the Issuer may lose its rights to the properties underlying such claims.

8. COMMITMENTS

The Company has entered into a contract with an exploration company to explore the Burr area project. The initial work estimate was \$481,190. Work completed and billed is \$430,095. The Company initially made a deposit of \$120,300 to be applied to the final payment. The unapplied deposit remaining, equal to the estimated work outstanding, is \$51,095.

The Company is required to pay \$37,500 each year as lease payments on permits for the Burr area project.

9. RELATED PARTY TRANSACTIONS

- a) During the period, the Company paid \$14,310 for administrative services to a related company controlled by a director of the Company.
- b) During the period, the Company paid \$4,770 rent to a related company controlled by a director of the Company.
- c) During the period, the Company paid \$15,900 for consulting services to a director of API.
- d) During the period, the Company paid \$500,000 to a related company controlled by a director of the Company. The purpose of the \$500,000 was to initiate a joint venture which was returned when the joint venture was abandoned. During the year, the \$500,000 along with interest of \$3,000 was received in full.
- e) During the period, the Company paid \$5,179 for the use of software to a related company controlled by a director of API.

ATHABASCA POTASH INC.
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2006

9. RELATED PARTY TRANSACTIONS (Continued)

The above transactions are in the normal course of operations and are measured at the exchange amount which approximates fair value and is the amount of consideration established and agreed to by the related parties.

During the period, the Company sold an oil property to a commonly-controlled company for \$300,000, the exchange amount. The cost of the property was \$234,590, the carrying value. This transaction was recorded at the carrying value because the transaction is not considered to be in the normal course of operations and no third party verification of fair value could be obtained. The excess of the exchange amount and carrying value is recorded as an increase to contributed surplus.

During the period, the Company purchased the Burr property, from a commonly-controlled company for \$500,000, the exchange amount. Consideration for this purchase was 2,272,727 common shares at \$0.22 per common share of the Company. The carrying value of the property was \$303,755. This transaction is recorded at the carrying value because the transaction is not considered to be in the normal course of operations and no third party verification of fair value could be obtained. The excess of the exchange amount and carrying value is recorded as a reduction to share capital.

10. INCOME TAXES

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's future tax assets are as follows:

Future income tax assets:

Non-capital loss carry forwards	\$ 19,023
Share issue costs	53,490
Mineral property	73,827
Valuation allowance	<u>(146,340)</u>
	<u>\$ —</u>

During the year, the Company paid \$0 in taxes.

As at December 31, 2006, the Company has operating losses for income tax purposes approximating \$50,568 that are available to reduce taxes in future years and expire in 2015.

To satisfy its commitments pursuant to the issuance of flow-through shares, the Company is required to incur and renounce \$1,760,000 of qualifying exploration expenditures for tax purposes on or before December 31, 2007.

The income tax expense (recovery) differs from the amount computed by applying Canadian statutory rates to income before taxes for the following reasons:

Canadian federal and provincial statutory income tax rates	<u>37.62%</u>
Expected income tax expense (recovery) based on above rates	<u>\$(20,722)</u>
Changes to taxes due to adjustments for:	
Non-deductible stock-based compensation expenses	2,535
Other non-deductible expenses	977
Taxable capital gain	12,304
Tax benefits not recognized on share issue costs	(13,372)
Change in valuation allowance associated with non-capital loss carryforwards	<u>18,278</u>
Actual income tax expense (recovery)	<u>\$ —</u>

11. NOTE TO THE STATEMENT OF CASH FLOWS

During the year, the Company issued 2,272,725 common shares for the acquisition of the Burr property. The non-cash consideration is \$303,755.

12. SUBSEQUENT EVENT

The Company on December 6, 2007, filed a final prospectus for the sale and issue of up to 10,140,000 common shares at a price of \$4.25 per share, for aggregate proceeds of \$43,095,000. Gross proceeds of the offering will be used for exploration and development of the Burr potash property, to carry out general exploration on properties of merit, and for working capital. Also, during the current period, the Company entered into a underwriting agreement with a syndicate of underwriters ("Underwriters") to appoint them as underwriters

ATHABASCA POTASH INC.
NOTES TO THE FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2006

12. SUBSEQUENT EVENT (Continued)

of the Company's IPO. Pursuant to the letter of engagement, Genuity will receive commission equal to 6% of gross proceeds of the common share offering. The Underwriters will be granted an over-allotment option entitling them to purchase 15% of the aggregate number of common shares sold under the offering.

13. FINANCIAL INSTRUMENTS

Fair value of financial instruments

The carrying amounts of cash, amounts receivable and accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of those instruments.