



Consolidated Financial Statements

December 31, 2008

Management's Responsibility for Consolidated Financial Statements

The accompanying consolidated financial statements of Athabasca Potash Inc. are the responsibility of management and have been approved by the Board of Directors.

Management, in conformity with Canadian generally accepted accounting principles, has prepared the consolidated financial statements. The consolidated financial statements include some amounts that are based on best estimates and judgments.

The management of the Company, in furtherance of the integrity and objectivity of data in the consolidated financial statements, has developed and maintains a system of internal accounting controls. Management believes the internal accounting controls provide reasonable assurance that financial records are reliable and form a proper basis for preparation of consolidated financial statements and that assets are properly accounted for and safeguarded. The internal accounting control process includes management's communication to employees of policies that govern ethical business conduct.

The Board of Directors carries out its responsibility for the consolidated financial statements principally through its audit committee, consisting entirely of outside directors. The audit committee reviewed the Company's annual consolidated financial statements and recommended their approval to the Board of Directors. The shareholders' auditors have full access to the audit committee, with or without management being present.

The shareholders' auditors, Hergott Duval Stack LLP, Chartered Accountants, in accordance with Canadian generally accepted audit standards, have examined these consolidated financial statements and their independent professional opinion on the fairness of the consolidated financial statements is attached.

"James G. Davidson, B.Comm. CA"

Chief Financial Officer

Saskatoon, Saskatchewan



AUDITORS' REPORT

Partners

R. Joe Parker
Thomas Stack*
Barry Frank*
Blair Davidson*
Bernie Broughton*
David Ballantyne
Craig Hermann*
Carol Mailloux*
Evan Shoforost*
Orlo Drewitz*
Greg Keller*
Irene Boychuk*
Ryan Ball*
Timothy R. Timmerman
Wes Unger*
Lane Wallace

Senior Counsel

Lee Hergott
Maurice Duval
Lyle Zdunich*

To the Shareholders of
Athabasca Potash Inc.

We have audited the consolidated balance sheet of Athabasca Potash Inc. as at December 31, 2008 and 2007 and the statements of loss, comprehensive loss and deficit and cash flows for the periods 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 consolidated financial position of the Company as at December 31, 2008 and 2007 and the consolidated results of its operations and cash flows for the periods then ended in accordance with Canadian generally accepted accounting principles.

SASKATOON, SASKATCHEWAN

February 25, 2009

“Hergott Duval Stack LLP”

Chartered Accountants

* Professional
Corporation

ATHABASCA POTASH INC.
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2008

	<u>2008</u>	<u>2007</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$31,577,777	\$44,263,925
GST receivable	240,548	350,898
Prepaid expenses	28,853	10,932
Deposits	27,658	-
	<u>31,874,836</u>	<u>44,625,755</u>
Deposits—long-term assets (Note 3)	1,312,702	1,217,400
Capital assets (Note 4)	847,723	29,420
Mineral properties (Note 5)	28,244,410	9,413,202
	<u>\$62,279,671</u>	<u>\$55,285,777</u>
<u>LIABILITIES</u>		
Current Liabilities		
Accounts payable	\$1,506,661	\$1,779,404
Future income taxes	1,031,703	-
	<u>2,538,364</u>	<u>1,779,404</u>
Contingency (Note 6)		
<u>SHAREHOLDERS' EQUITY</u>		
Share Capital (Note 7)	57,222,369	51,762,028
Contributed surplus (Note 7)	5,805,227	4,495,951
Deficit	(3,286,289)	(2,751,606)
	<u>59,741,307</u>	<u>53,506,373</u>
	<u>\$62,279,671</u>	<u>\$55,285,777</u>

On behalf of the Board

“John King Burns”
Lead Director

“Leo Bingleman”
Chairman of the Audit Committee

ATHABASCA POTASH INC.

CONSOLIDATED STATEMENT OF LOSS, COMPREHENSIVE LOSS AND DEFICIT

YEAR ENDED DECEMBER 31, 2008

	<u>2008</u>	<u>2007</u>
Revenue		
Interest	\$ 1,478,800	\$ 293,380
Rental	108,843	-
	<u>1,587,643</u>	<u>293,380</u>
Expenses		
Advertising and promotion	198,961	81,847
Business development and investor relations	187,694	-
Capital tax	62,974	54,182
Depreciation and amortization	35,792	3,012
Directors' fees	263,278	-
Insurance	31,415	8,693
Office and administration	229,877	36,038
Professional fees	591,070	88,632
Property taxes	15,276	-
Rent and occupancy	158,095	46,500
Salaries and wages	885,915	232,762
Stock based compensation	598,293	2,913,437
Travel and entertainment	56,708	-
	<u>3,315,348</u>	<u>3,465,103</u>
Loss before income taxes	(1,727,705)	(3,171,723)
Future income tax recovery	1,193,022	475,200
	<u>(534,683)</u>	<u>(2,696,523)</u>
Net and comprehensive loss	(534,683)	(2,696,523)
Deficit, beginning of year	(2,751,606)	(55,083)
	<u>\$ (3,286,289)</u>	<u>\$ (2,751,606)</u>
Deficit, end of year	\$ (3,286,289)	\$ (2,751,606)
Basic and fully diluted loss per share	\$ (0.015)	\$ (0.155)
Weighted average number of shares outstanding	36,686,200	17,803,499

ATHABASCA POTASH INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2008

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities		
Net loss	\$ (534,683)	\$ (2,696,523)
Items not affecting cash		
Depreciation and amortization	35,792	3,012
Stock based compensation	598,293	2,913,437
Future income taxes (recovery)	(1,193,022)	(475,200)
Net changes in non-cash working capital items		
Prepaid expenses	(17,921)	(10,932)
Deposits	(27,658)	
Accounts payable	-	58,087
	<u>(1,139,199)</u>	<u>(208,119)</u>
Cash flows from investing activities		
Purchase of capital assets	(867,105)	(31,904)
GST receivable	110,350	(320,811)
Deposits - permits	(316,096)	(374,680)
Deposits - land and contractors	220,794	(407,004)
Mineral property expenditures	(17,017,955)	(7,305,385)
Accounts payable - mineral properties	(272,743)	1,517,468
	<u>(18,142,755)</u>	<u>(6,922,316)</u>
Cash flows from financing activities		
Advances from Ruby Energy Inc.	-	300,000
Deferred share issue costs	-	10,000
Proceeds from issuance of shares	7,154,391	53,668,582
Share issue costs	(558,585)	(3,830,658)
	<u>6,595,806</u>	<u>50,147,924</u>
Net (decrease) increase in cash during the year	(12,686,148)	43,017,489
Cash and cash equivalents, beginning of year	<u>44,263,925</u>	<u>1,246,436</u>
Cash and cash equivalents, end of year	\$ <u>31,577,777</u>	\$ <u>44,263,925</u>

ATHABASCA POTASH INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008

1. Nature of operations

Athabasca Potash Inc. (the "Company" or "API") was incorporated under the Business Corporations Act of Saskatchewan on April 10, 2006 and commenced operations 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 ability of the Company to obtain necessary financing to complete exploration and development, and future production or proceeds from the disposition thereof. These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue operations. The outcome of these matters cannot be predicted at this time.

2. Significant accounting policies

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

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, 101102166 Saskatchewan Ltd. All intercompany transactions are eliminated on consolidation.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, guaranteed investment certificates and bankers' acceptance with maturities of less than one year.

Capital assets

Capital assets are recorded at cost. Depreciation is provided on a declining balance basis over the useful life of the asset. Leasehold improvements are amortized using the straight-line method. Annual depreciation and amortization rates are as follows:

Automobiles	30%
Exploration equipment	20%
Exploration software	20%
Furniture and equipment	20%
LAN equipment	20%
Leasehold improvements	1/5
Operation and exploration software	20%

ATHABASCA POTASH INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008

2. Significant accounting policies (continued)

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 for work being carried out by the Company or there has been a permanent impairment in 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.

Asset retirement obligations

The Company recognizes the fair value of liabilities for asset retirement obligations in the period in which they occur and/or in which a reasonable estimate of such costs can be made. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. Subsequently, the asset retirement cost is allocated to expenses using a systematic and rational method and is also adjusted to reflect period-to-period changes in the liability resulting from passage of time and revisions to either timing or the amount of the original estimate of the undiscounted cash flow. The Company currently does not have any asset retirement obligations.

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 the difference 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 differences 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 of future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of the 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 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 CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008

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 for the net change.

Stock-based compensation plan

The fair value of all share purchase options are recorded as an expense or increase to mineral properties as options are granted and vest, with a corresponding increase to contributed surplus. Upon exercise of share purchase options, the consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital. No subsequent recovery of these expensed amounts is recognized if previously expensed stock-based compensations incentives expire unexercised.

The Company uses the Black-Scholes option valuation model to calculate the fair value of share purchase options at the date of grant. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate.

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 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 depreciation and 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.

Financial instruments

The Company follows the Canadian Institute of Chartered Accountants (CICA) Handbook Sections 3855 – “Financial Instruments – Recognition and Measurement” and 1530 – “Comprehensive Income”.

ATHABASCA POTASH INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008

2. Significant accounting policies (continued)

Financial instruments (continued)

Section 3855 prescribes when a financial instrument is to be recognized on the balance sheet and at what amount. It also specifies how financial instrument gains and losses are to be presented. This section requires that:

- a) all financial assets be measured at fair value on initial recognition and certain financial assets to be measured at fair value subsequent to initial recognition;
- b) all financial liabilities be measured at fair value if they are classified as held for trading purposes. Other financial liabilities are measured at amortized cost using the effective interest method; and,
- c) all derivative financial instruments be measured at fair value on the balance sheet, even when they are part of an effective hedging relationship.

Section 1530 introduces a requirement to temporarily present certain gains and losses from changes in fair value outside net income. This section applies to unrealized gains and losses such as: changes in the currency translation adjustment relating to self-sustaining foreign operations; unrealized gains or losses on available-for-sale investments; and the effective portion of gains or losses on derivatives designated as cash flow hedges or hedges of the net investment in self-sustaining foreign operations.

3. Deposits – long-term assets

Deposits for exploration permit applications are administered under the Saskatchewan Subsurface Mineral Regulations. Deposits consist of the estimate of the rental costs of the land for the first year, \$100 for an application fee and \$2,000 for an exploration permit application. This secures the applicant's seniority on the applied land for exploration rights. During the process, the applicant is entitled to a refund for all deposits except for the application fee if it decides to withdraw the application.

Land deposits in the amount of \$40,000 (2007 - \$40,000), prepaid permits in the amount of \$316,096 (2007 - \$24,000) and deposits to contractors in the amount of \$956,606 (2007 - \$1,153,400) have been paid in advance to secure property and professional services for exploration on the Burr Project.

ATHABASCA POTASH INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008

4. Capital assets

	2008			2007
	Cost	Accumulated Amortization & Depreciation	Net Book Value	Net Book Value
Automobiles	\$ 26,775	\$ 12,048	\$ 14,727	\$ 22,759
Exploration equipment	31,064	2,791	28,273	-
Exploration software	53,933	7,387	46,546	-
Furniture and equipment	85,123	6,653	78,470	6,109
LAN equipment	200,397	-	200,397	-
Leasehold improvements	499,667	25,082	474,585	552
Operations software	4,868	143	4,725	-
	<u>\$ 901,827</u>	<u>\$ 54,104</u>	<u>\$ 847,723</u>	<u>\$ 29,420</u>

During the year, no amortization was taken on the LAN equipment as it was not available for use at December 31, 2008.

5. Mineral properties

Mineral properties are made up of the following:

	Balance at December 31, 2006	2007 Expenditures	Balance at December 31, 2007
Burr Property			
Acquisition Costs			
Surface lands	\$ -	\$ 1,094,442	\$ 1,094,442
Freehold mineral rights	303,755	249,694	553,449
Permits	61,114	55,880	116,994
Exploration			
Drilling	123,568	3,579,765	3,703,333
Geophysics	206,524	1,765,690	1,972,214
Engineering and consulting fees	103,069	152,092	255,161
Amortization	-	-	-
Stock-based compensation	15,724	1,248,616	1,264,340
	<u>813,754</u>	<u>8,146,179</u>	<u>8,959,933</u>
Other Properties			
Acquisition costs			
Permits	-	418,394	418,394
Exploration			
Geophysics	-	-	-
Engineering and consulting fees	-	34,875	34,875
	<u>-</u>	<u>453,269</u>	<u>453,269</u>
	<u>\$ 813,754</u>	<u>\$ 8,599,448</u>	<u>\$ 9,413,202</u>

ATHABASCA POTASH INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008

5. Mineral properties (continued)

	Balance at December 31, 2007	2008 Expenditures	Balance at December 31, 2008
Burr Property			
Acquisition Costs			
Surface lands	\$ 1,094,442	\$ 4,039,551	\$ 5,133,993
Freehold mineral rights	553,449	772,189	1,325,638
Permits	116,994	342,769	459,763
Exploration			
Drilling	3,703,333	4,846,738	8,550,071
Geophysics	1,972,214	274,975	2,247,189
Engineering and consulting fees	255,161	4,746,804	5,001,965
Amortization	-	13,010	13,010
Stock-based compensation	1,264,340	1,800,243	3,064,583
	8,959,933	16,836,279	25,796,212
Other Properties			
Acquisition costs			
Permits	418,394	858,551	1,276,945
Exploration			
Geophysics	-	1,079,122	1,079,122
Engineering and consulting fees	34,875	57,256	92,131
	453,269	1,994,929	2,448,198
	\$ 9,413,202	\$ 18,831,208	\$ 28,244,410

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 of Dawn Zhou and are therefore related parties. This related party transaction is recorded at \$303,755, which is 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.

Stock-based compensation in the amount of \$977,052 relates to the value of stock options per the Black-Scholes method, which were issued to officers and management who were wholly or partially dedicated to the Burr Project. The balance relates to the tax effects of the stock options issued.

ATHABASCA POTASH INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008

5. Mineral properties (continued)

Other Properties

In addition to the Burr Property, the Company has acquired an additional twenty-two permits. These permits cover approximately two million acres (or 800,000 hectares) of prospective potash mineralization.

6. 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. Access to potash mineralization not owned by the Crown must be negotiated with Freehold Mineral Rights owners and private land owners and cannot be assured.

7. Share capital

The authorized share capital of the Company consists of an unlimited number of common shares.

Common shares issued

	<u>Common Shares</u>	<u>Share Capital</u>
Balance, December 31, 2006	<u>9,863,888</u>	<u>\$ 2,626,775</u>
Non flow-through private placement	7,895,556	\$ 5,921,667
Flow-through private placement	5,767,628	5,190,865
Initial public offering	10,140,000	43,095,000
Broker warrants exercised	378,731	305,018
Stock options exercised	354,250	94,098
Flow through renunciation	-	(475,200)
Share issue costs	-	(4,996,195)
Balance, December 31, 2007	<u>34,400,053</u>	<u>\$ 51,762,028</u>
Exercise of over-allotment	1,521,000	6,464,250
Broker warrants exercised	939,530	884,821
Stock options exercised	57,500	71,389
Flow through renunciation	-	(1,401,534)
Share issue costs	-	(558,585)
Balance, December 31, 2008	<u>36,918,083</u>	<u>\$ 57,222,369</u>

ATHABASCA POTASH INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008

7. Share capital (continued)

During June 2007, the Company had two private placements. The first placement in June, resulted in the Company issuing 3,463,600 flow-through common shares at a price of \$0.90 per share and 3,448,800 non-flow-through common shares at a price of \$0.75 per share, for gross proceeds of \$5,703,840. In lieu of cash commissions, the agent was granted 8% of the total flow-through and non-flow-through shares issued in the placement. This resulted in an additional 275,904 non-flow-through common shares and 277,088 flow-through common shares being issued to the agent.

The second placement in June 2007 resulted in the Company issuing 1,830,500 flow-through common shares at a price of \$0.90 per share and 3,861,900 non-flow-through common shares at a price of \$0.75 per share, for gross proceeds of \$4,543,875. In lieu of cash commissions, the agent was granted 8% of the total flow-through and non-flow-through shares issued in the placement. This resulted in an additional 146,440 flow-through common shares and 308,952 non-flow-through common shares being issued to the agent.

During September 2007, the Company issued 50,000 flow-through shares at a price of \$0.90 as part of a purchase of the Freehold Mineral Rights.

In November 2007, the Company issued 378,731 common shares for aggregate proceeds of \$235,747 pursuant to the exercise of broker warrants, for an average exercise price of \$0.63 per common share. In particular, 161,006 common shares were issued for the exercise price of \$0.45 per share for proceeds of \$72,453, and 217,725 common shares were issued for the exercise price of \$0.75 per share for proceeds of \$163,294.

During December 2008, the Company issued 354,250 common shares for aggregate proceeds of \$88,563 pursuant to the exercise of stock options, for an exercise price of \$0.25 per common share.

On December 13, 2007, the Company completed its initial public offering of 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 property, to carry out general exploration on properties of merit, and for working capital. The offering was sold through an underwriting syndicate. The Company has granted the underwriting syndicate an over-allotment option to purchase up to 1,521,000 common shares at the price of \$4.25 per share. The option was exercisable, in whole or in part, within 30 days subsequent to December 13, 2007 to cover over-allotments if any, and for market stabilization purposes. Pursuant to the underwriters' agreement, the underwriters received commission equal to 6% of gross proceeds of the common share offering. The underwriters were granted the over-allotment option entitling them to purchase 15% of the aggregate number of common shares sold under the offering.

The over-allotment option granted to the underwriting syndicate in conjunction with the initial public offering of December 13, 2007 was exercised January 10, 2008, resulting in a purchase from treasury of 1,521,000 common shares of the Company at a price of \$4.25 per share, for gross proceeds of \$6,464,250.

ATHABASCA POTASH INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008

7. Share capital (continued)

In January 2008, the Company issued 358,463 common shares for aggregate proceeds of \$260,372 pursuant to the exercise of broker warrants, for an average exercise price of \$0.7263 per common share. In particular, 28,249 common shares were issued for the exercise price of \$0.45 per share for proceeds of \$12,712, and 330,214 common shares were issued for the exercise price of \$0.75 per share for proceeds of \$247,660.

In January 2008, the Company issued 190,039 common shares for aggregate proceeds of \$105,927 pursuant to the exercise of broker warrants, for an average exercise price of \$0.5574 per common share. In particular, 122,007 common shares were issued for the exercise price of \$0.45 per share for proceeds of \$54,903, and 68,032 common shares were issued for the exercise price of \$0.75 per share for proceeds of \$51,024.

In February 2008, the Company issued 103,476 common shares for aggregate proceeds of \$72,240 pursuant to the exercise of broker warrants, for an average exercise price of \$0.6981 per common share. In particular, 17,889 common shares were issued for the exercise price of \$0.45 per share for proceeds of \$8,050, and 85,587 common shares were issued for the exercise price of \$0.75 per share for proceeds of \$64,190.

In May 2008, the Company issued 5,000 common shares for aggregate proceeds of \$3,750 pursuant to the exercise of broker warrants, for an exercise price of \$0.75 per common share.

In June 2008, the Company issued 258,592 common shares for aggregate proceeds of \$193,944 pursuant to the exercise of broker warrants, for an exercise price of \$0.75 per common share.

In July 2008, the Company issued 42,500 common shares for aggregate proceeds of \$31,875 pursuant to the exercise of stock options, for an exercise price of \$0.75 per common share.

In September 2008, the Company issued 23,960 common shares for aggregate proceeds \$10,782 pursuant to the exercise of broker warrants, for an exercise price of \$0.45 per share.

In November 2008, the Company issued 15,000 common shares for aggregate proceeds of \$11,250 pursuant to the exercise of stock options, for an exercise price of \$0.75 per common share.

The Company finances a portion of its exploration activities through the use of flow-through shares. During the first quarter of the year, the Company renounced the eligible expenditures to investors and recorded \$1,401,534 of share issue costs related to the future income tax liability of the temporary difference arising from the renunciation.

Stock options

The Company has established a stock option plan under which options may be granted to directors and officers of the Company. Options granted are non-transferable, depending on the terms of issuance options vest when issued or on a date two years after their issuance, and will expire the earlier of five years after issuance, the 90th day after holder ceases to be a director or officer of the Company, or one year after death of the holder.

ATHABASCA POTASH INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008

7. Share capital (continued)

A summary of the status of the Company's stock option plan and changes during the year ended December 31, 2008 is presented below.

<u>Expiry Date</u>	<u>Exercise Price</u>	<u>Outstanding 2007</u>	<u>Issued</u>	<u>Exercised</u>	<u>Cancelled/ Expired</u>	<u>Outstanding 2008</u>
August 31, 2011	\$ 0.25	190,750	-	-	-	190,750
December 31, 2011	0.45	441,389	-	-	-	441,389
July 9, 2012	0.75	1,106,317	-	42,500	-	1,063,817
August 2, 2012	0.75	135,000	-	15,000	-	120,000
December 10, 2012	4.25	1,340,000	-	-	30,000	1,310,000
February 15, 2013	6.29	-	75,000	-	-	75,000
April 14, 2013	6.45	-	125,000	-	-	125,000
August 28, 2013	5.31	-	75,000	-	-	75,000
December 16, 2013	1.69	-	100,000	-	-	100,000
		<u>3,213,456</u>	<u>375,000</u>	<u>57,500</u>	<u>30,000</u>	<u>3,500,956</u>

<u>Option Price Per Share</u>	<u>Number of Options Outstanding</u>	<u>Weighted Average Remaining Life</u>
\$0.25	190,750	2.67
0.45	441,389	3.00
0.75	1,183,817	3.57
4.25	1,310,000	3.95
5.31 - 6.45	275,000	4.36
1.69	<u>100,000</u>	<u>4.96</u>
	<u>3,500,956</u>	<u>3.62</u>

The fair value of the stock options issued are estimated using the Black-Scholes option-pricing model, with the following assumptions: risk free rate, volatility, dividend yield and weighted average expected option life and expected forfeiture rate. During 2007, the Company granted a total of 2,581,317 stock options (1,106,317 in July, 135,000 in August, and 1,340,000 in December 2007). The strike price for the options granted in July 2007 and August 2007 was \$0.75 and \$4.25 for the options granted in December 2007 and are available for a period of five years. The value of these options, using the Black-Scholes option-pricing model, was \$4,162,053, of which \$1,248,616 is allocated to mineral properties and the remainder allocated to the stock-based compensation expense with a corresponding increase in contributed surplus. Assumptions used in the pricing model for the year are as follows: risk-free interest rate 3.89%-4.69%, expected life of options five years, annualized volatility 73.3% and dividend rate of nil.

In the first quarter of 2008, the Company granted a total of 75,000 stock options. The fair value of stock options was estimated using the Black-Scholes option-pricing model, with the following assumptions: risk free rate of 3.23%, volatility of 133%, dividend yield of nil and expected term of five years. The fair value as calculated using the Black-Scholes model was \$421,358, which was added to the cost of the mineral properties with a corresponding increase in contributed surplus.

ATHABASCA POTASH INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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7. Share capital (continued)
Stock options (continued)

In the second quarter of 2008, the Company granted a total of 125,000 stock options. The fair value of stock options was estimated using the Black-Scholes option-pricing model, with the following assumptions: risk free rate of 3.23%, volatility of 133%, dividend yield of nil and expected term of five years. The fair value as calculated using the Black-Scholes model was \$694,617, with \$138,923 added to stock-based compensation expense and \$555,694 added to the cost of the mineral properties with a corresponding increase in contributed surplus.

In the third quarter of 2008, the Company granted a total of 75,000 stock options. The fair value of stock options was estimated using the Black-Scholes option-pricing model, with the following assumptions: risk free rate of 3.15%, volatility of 105%, dividend yield of nil and expected term of five years. The fair value as calculated using the Black-Scholes model was \$309,868, which was added to stock-based compensation expense.

In the fourth quarter of 2008, the Company granted a total of 100,000 stock options. The fair value of stock options was estimated using the Black-Scholes option-pricing model, with the following assumptions: risk free rate of 1.5%, volatility of 139.1%, dividend yield of nil and expected term of five years. The fair value as calculated using the Black-Scholes model was \$149,503, which was added to stock-based compensation expense.

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 and 2007 were fair valued at \$nil and \$320,832 respectively. The fair value of the broker warrants was determined using the Black-Scholes option-pricing model with the following assumptions; volatility of 73.3% (December 31, 2007 – nil), risk free rate of return of 4.69% (December 31, 2007 - 3.79%), expected dividend of nil and expected term of two years.

The continuity of share broker warrants for the year ended December 31, 2008 is as follows:

<u>Expiry Date</u>	<u>Exercise Price</u>	<u>Balance December 31, 2007</u>	<u>Issued</u>	<u>Exercised</u>	<u>Expired</u>	<u>Balance December 31, 2008</u>
September 29, 2008	\$ 0.45	107,036	-	(107,036)	-	-
December 7, 2008	0.45	85,069	-	(85,069)	-	-
June 6, 2009	0.75	552,992	-	(536,758)	-	16,234
June 29, 2009	0.75	<u>237,667</u>	<u>-</u>	<u>(210,667)</u>	<u>-</u>	<u>27,000</u>
		<u>982,764</u>	<u>-</u>	<u>(939,530)</u>	<u>-</u>	<u>43,234</u>

ATHABASCA POTASH INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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7. Share capital (continued)

Contributed surplus

The fair values of certain stock options and broker warrants have been valued using the Black-Scholes option-pricing model. The fair value on the grant of these securities is added to contributed surplus. Upon exercise, the corresponding amount of contributed surplus related to the security is removed from contributed surplus and added to share capital. A summary of the contributed surplus activity is as follows:

	December 31, <u>2008</u>	December 31, <u>2007</u>
Balance, beginning of year	\$ 4,495,951	\$ 87,873
Fair value of stock options granted	1,575,346	4,162,053
Fair value of broker warrants granted	-	320,832
Less: broker warrants exercised	(237,806)	(69,272)
Less: stock options exercised	<u>(28,264)</u>	<u>(5,535)</u>
Balance, end of year	<u>\$ 5,805,227</u>	<u>\$ 4,495,951</u>

Shareholders' rights plan

The directors of the Company approved a shareholder rights plan ("Rights Plan") on May 12, 2008. In the event a bid to acquire control of the Company is made, the Rights Plan is designed to give the directors of the Company time to consider alternatives to allow shareholders to receive full and fair value for their shares

8. Commitments

In order to keep their permits in good standing, the Company is required to pay annual rent of \$0.50 per acre on each permit held for a term of five years, and is committed to annual rental payments of \$833,238 under a total of twenty-three permits as of December 31, 2008.

For each permit, the Company is required to expend \$40,000 in each of the second and third years of the term, and \$80,000 in the fourth and fifth years of the term on work for the purpose of exploring for, developing or mining subsurface minerals. The total work commitment under the twenty-three permits held at December 31, 2008 is as follows: 2009 - \$960,000; 2010 - \$1,400,000; 2011 - \$1,760,000; 2012 - \$880,000.

9. Related party transactions

During the year ended December 31, 2008, the Company paid \$134,984 (2007 - \$46,500) in rent and occupancy costs for office space, equipment and furniture and has incurred \$480,309 for leasehold improvement costs to the property owned by CSIT Consulting Inc., a company controlled by Dawn Zhou, a director and officer of the Company. The Company also paid remuneration to officers and directors in the amount of \$1,113,446 (2007 - \$217,083)

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

ATHABASCA POTASH INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008

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 assets and liabilities are as follows:

	<u>2008</u>	<u>2007</u>
Future income tax asset (liability)		
Non-capital loss carryforwards	\$ 890,222	\$ 301,214
Deferred share issue costs	812,391	925,514
Mineral properties	(2,734,316)	(770,354)
Valuation allowance	<u>-</u>	<u>(456,374)</u>
	<u>\$ (1,031,703)</u>	<u>\$ -</u>

The valuation allowance offsets the net future tax assets for which there is no assurance of recovery and is evaluated considering positive and negative evidence about whether the future income tax assets will be recognized. At the time of the evaluation, the allowance is either increased or decreased. A reduction could result in the complete elimination of the allowance if positive evidence indicated that the value of the future income tax assets is no longer impaired and the allowance is no longer required.

A reconciliation of income taxes at Canadian statutory rates with the reported income tax is as follows:

	<u>2008</u>	<u>2007</u>
Loss for the year before taxes	\$ (1,781,887)	\$(3,171,723)
Expected income tax expense (recovery)	(570,203)	(1,129,768)
Other non-deductible amounts	-	22,884
Non-deductible stock based compensation	191,454	1,037,766
Effect of change in tax rate on temporary difference	(89,094)	(744,803)
Valuation allowance	<u>(725,179)</u>	<u>338,721</u>
Actual income tax expense (recovery)	<u>\$ (1,193,022)</u>	<u>\$ (475,200)</u>

At December 31, 2008, the Company had non-capital losses for tax purposes of \$3,297,119 which may be carried forward to reduce income for tax purposes in future periods and for which no future tax benefit has been recognized in these financial statements as a result of the valuation allowance. The non-capital loss will begin to expire in 2026.

ATHABASCA POTASH INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008

11. 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.

The Company has designated its cash and cash equivalents as held-for-trading, which are measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. The Company has not entered into any hedging relationships and does not hold any other available-for-sale securities that would result in the recognition of other comprehensive income or loss. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

Management of financial risk

The Company's financial instruments are exposed to certain financial risks, including credit risk and liquidity risk. Credit risk is minimal because the Company's investment policy is to invest its cash in highly rated, liquid short-term interest-bearing investments with an initial term to maturity of twelve months or less.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. As at December 31, 2008, the Company believes it will have sufficient assets and access to financial markets to continue to meet its obligations as they become due. The Company does not currently operate any producing properties and as such, is dependent upon the issuance of new equity to advance its exploration properties. Although the Company has been successful in the past in obtaining financing, there can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. Failure to obtain additional financing on a timely basis may cause the Company to postpone development plans, forfeit rights in its properties or joint ventures or reduce or terminate its operations. Reduced liquidity or difficulty in obtaining future financing could have an adverse impact on the Company's future cash flows, earnings, results of operations and financial position. The Company is reasonably satisfied that its current capital resources will be sufficient to carry out its exploration plans through its current operating period.

12. Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders.

The Company considers the items included in shareholder's equity as capital. The Company manages the capital structure and makes adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares, or acquire or dispose of assets.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary. The annual budgets are approved by the Board of Directors.

ATHABASCA POTASH INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008

12. Capital management (continued)

In order to maximize ongoing exploration efforts, the Company does not pay out dividends. The Company's investment policy is to invest its cash in highly rated, liquid short-term interest-bearing investments, with an initial term to maturity of twelve months or less.

The Company is not subject to externally imposed capital requirements, except as disclosed.

13. Subsequent events

On January 29, 2009 the Company granted 65,000 options to purchase common shares at an exercise price of \$1.63 per common share. The options expire January 29, 2014.

14. Comparative figures

Certain of the comparative figures have been reclassified to conform to the current period's presentation.