

ABBASTAR URANIUM CORP.
(formerly Abbastar Holdings Ltd.)
Vancouver, BC

AUDITED FINANCIAL STATEMENTS

December 31, 2008 and 2007

DE VISSER GRAY LLP
CHARTERED ACCOUNTANTS

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AUDITORS' REPORT

To the Shareholders of Abbastar Uranium Corp. (formerly Abbastar Holdings Ltd.)

We have audited the balance sheets of Abbastar Uranium Corp. as at December 31, 2008 and 2007 and the statements of operations and comprehensive loss, shareholders' equity and cash flows for the years 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 audits.

We conducted our audits 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, 2008 and 2007 and the results of its operations and cash flows for the years then ended in accordance with generally accepted accounting principles in Canada.

"De Visser Gray LLP"

CHARTERED ACCOUNTANTS

Vancouver, British Columbia
April 28, 2009

ABBASTAR URANIUM CORP. (formerly Abbastar Holdings Ltd.)

BALANCE SHEETS

As at December 31,

	2008	2007
	\$	\$
Assets		
Current		
Cash	482,025	68,834
Short-term investments	-	175,000
Amounts receivable	24,744	83,080
Deposit	-	5,000
Promissory note receivable (Note 3)	-	29,000
	<u>506,769</u>	<u>360,914</u>
Equipment (Note 4)	472	590
Interest in mineral property (Note 5)	100,000	100,000
	<u>607,241</u>	<u>461,504</u>
Liabilities		
Current		
Payables and accruals	69,757	71,096
Due to related parties (Note 6)	26,242	3,000
	<u>95,999</u>	<u>74,096</u>
Shareholders' equity		
Share capital (Note 7)	10,383,908	10,396,395
Contributed surplus	566,682	353,697
Deficit	(10,439,348)	(10,362,684)
	<u>511,242</u>	<u>387,408</u>
	<u>607,241</u>	<u>461,504</u>

Nature of operations (Note 1)

Approved by the Directors:

"John B. Good""Patrick Lavin"

The accompanying notes are an integral part of these financial statements.

ABBASTAR URANIUM CORP. (formerly Abbastar Holdings Ltd.)

STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

Years ended December 31,

	2008	2007
	\$	\$
Expenses		
Amortization	118	147
Bank charges	328	2,148
Consulting fees	71,861	52,835
Corporate communications	67,815	23,907
Management fees	92,250	102,750
Mineral exploration expenditures (Note 8)	195,162	1,237,263
Mineral property payment (Note 9)	75,000	-
Office and miscellaneous	44,884	28,731
Professional fees	24,460	33,101
Regulatory and transfer agent fees	23,672	39,536
Salaries	107,982	16,077
Stock-based compensation	94,998	256,493
Travel and promotion	13,563	32,525
Loss from operations	(812,093)	(1,825,513)
Other items		
Interest income	7,999	11,123
Gain of settlement of accounts payable	15,491	-
Exploration tax credit	479,439	-
Loss before income taxes	(309,164)	(1,814,390)
Future income tax recovery (Note 12)	232,500	-
Net loss and comprehensive loss for the year	(76,664)	(1,814,390)
Basic and diluted loss per common share	(\$0.01)	(\$0.16)
Weighted average number of common shares outstanding	13,542,529	11,134,200

The accompanying notes are an integral part of these financial statements.

ABBASTAR URANIUM CORP. (formerly Abbastar Holdings Ltd.)

STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Shares		Contributed Surplus \$	Accumulated Deficit \$	Shareholders' Equity \$
	Number	Amount \$			
Balances, January 1, 2007	9,212,830	8,724,934	88,665	(8,548,294)	265,305
Private placement – February 2007	2,000,000	650,000	-	-	650,000
Private placement – June 2007	775,000	706,528	36,472	-	743,000
Stock options exercised	310,000	62,000	-	-	62,000
Warrants exercised	500,000	225,000	-	-	225,000
Fair value of stock options exercised	-	27,933	(27,933)	-	-
Stock-based compensation	-	-	256,493	-	256,493
Net loss for the year	-	-	-	(1,814,390)	(1,814,390)
Balances, December 31, 2007	12,797,830	10,396,395	353,697	(10,362,684)	387,408
Tax deductions on flow-through share issuances	-	(232,500)	-	-	(232,500)
Private placement – July 2008	2,000,000	193,904	126,096	-	320,000
Stock options exercised	90,000	18,000	-	-	18,000
Fair value of stock options exercised	-	8,109	(8,109)	-	-
Stock-based compensation	-	-	94,998	-	94,998
Net loss for the year	-	-	-	(76,664)	(76,664)
Balances, December 31, 2008	14,887,830	10,383,908	566,682	(10,439,348)	511,242

The accompanying notes are an integral part of these financial statements.

ABBASTAR URANIUM CORP. (formerly Abbastar Holdings Ltd.)

STATEMENTS OF CASH FLOWS

Years ended December 31,

	2008	2007
	\$	\$
Cash flows from operating activities		
Net loss for the year	(76,664)	(1,814,390)
Items not involving cash:		
Amortization	118	147
Stock-based compensation	94,998	256,493
Gain on settlement of accounts payable	15,491	-
Future income tax recovery	(232,500)	-
Changes in non-cash working capital		
Amounts receivable	58,336	(79,245)
Deposit	5,000	(5,000)
Payables and accruals	(16,830)	16,190
Due to related parties	23,242	(12,500)
Net cash used in operating activities	(128,809)	(1,638,305)
Cash flows from financing activities		
Issue of common shares	338,000	1,680,000
Net cash provided by financing activities	338,000	1,680,000
Cash flows from investing activities		
Short-term investments	175,000	(175,000)
Acquisition of interest in mineral property	-	(100,000)
Promissory note receivable	29,000	(8,410)
Net cash provided by (used in) investing activities	204,000	(283,410)
Increase (decrease) in cash and cash equivalents	413,191	(241,715)
Cash and cash equivalents, beginning of year	68,834	310,549
Cash and cash equivalents, end of year	482,025	68,834
Supplementary cash flow information		
Interest received	8,588	10,535

The accompanying notes are an integral part of these financial statements.

ABBASTAR URANIUM CORP. (formerly Abbastar Holdings Ltd.)

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008 and 2007

Note 1 Nature of Operations

Abbastar Uranium Corp. (the "Company") was incorporated in the Province of British Columbia under the name 424025 B.C. Ltd. on April 13, 1992. On June 14, 2006, the Company adopted new Articles and changed its authorized capital to an unlimited number of common shares without par value. On May 29, 2007, the Company changed its name to Abbastar Uranium Corp.

The Company is a junior exploration company engaged in the business of identification, acquisition and exploration of mineral interests.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis which presumes the realization of assets and settlement of liabilities in the normal course of operations in the foreseeable future. The Company has incurred operating losses and has a cumulative deficit of \$10,439,348 at December 31, 2008. The ability of the Company to continue as a going concern is dependent upon a number of factors including obtaining additional financing as required and seeking profitable operations.

Note 2 Significant Accounting Policies

Changes in accounting policies

On January 1, 2008, the Company adopted new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA") relating to capital disclosures and financial instruments disclosure and presentation.

Capital Disclosures – (CICA Handbook Section 1535) establishes standards for the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

Other than the additional disclosure in Note 10, the adoption of this Section has had no impact on the Company's financial statements.

Financial Instruments – Disclosures - (CICA Handbook Section 3862) requires an increased emphasis on disclosing the nature and the extent of risk arising from financial instruments and how the entity manages those risks. This section, together with Section 3863, "Financial Instruments – Presentation", replaced Section 3861, "Financial Instruments – Disclosure and Presentation".

Financial Instruments – Presentation - (CICA Handbook Section 3863) establishes standards for presentation of financial instruments and non-financial derivatives.

Other than the additional disclosure in Note 11, the adoption of these Sections has had no impact on the Company's financial statements.

ABBASTAR URANIUM CORP. (formerly Abbastar Holdings Ltd.)

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008 and 2007

Note 2 Significant Accounting Policies (continued)

Recent accounting pronouncements

In February 2008 the Canadian Accounting Standards Board ("AcSB") announced that accounting standards in Canada for public companies will converge with International Financial Reporting Standards ("IFRS") for interim and annual reporting periods beginning on or after January 1, 2011. The transition date of January 1, 2011 will require restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. The impact of the transition to IFRS on the Company's financial statements has not yet been determined. The Company will monitor the requirements of the IFRS transition and adopt the new standards as required.

Basis of accounting

These financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Use of estimates

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 the disclosure of any contingent assets and liabilities as at the date of the financial statements, as well as the reported amounts of expenses incurred during the year. Actual results could differ from those estimates.

Equipment

Equipment is recorded at cost and is amortized over its useful economic life using the declining balance method at an annual rate of 20% for office equipment.

Stock-based compensation

The Company recognizes compensation expense for all stock options granted, using the fair value based method of accounting. Any cash paid on the exercise of stock options is added to the stated value of common shares.

Loss per share

Loss per share is calculated based on the weighted average number of shares outstanding during the year. Diluted loss per share is anti-dilutive to loss per share and is not disclosed.

Income taxes

The Company accounts for tax consequences of the differences in the carrying amounts of tax assets and liabilities and their tax bases, using tax rates expected to apply when these temporary differences are expected to be settled. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no future tax asset is recognized. The Company has taken a valuation allowance against all such potential tax assets.

ABBASTAR URANIUM CORP. (formerly Abbastar Holdings Ltd.)

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008 and 2007

Note 2 Significant Accounting Policies (continued)**Comparative figures**

Certain prior year's comparative figures have been reclassified to conform to the current year's presentation.

Note 3 Promissory Note Receivable

	December 31, 2008 \$	December 31, 2007 \$
Promissory note receivable dated March 31, 2007 from a non-related entity, bearing interest at 8% per annum, unsecured and due on demand. Repaid in full on December 1, 2008.	<u>-</u>	<u>29,000</u>

Note 4 Equipment

	December 31, 2008			December 31, 2007		
	Cost \$	Accumulated Amortization \$	Net \$	Cost \$	Accumulated Amortization \$	Net \$
Office equipment	<u>2,000</u>	<u>1,528</u>	<u>472</u>	<u>2,000</u>	<u>1,410</u>	<u>590</u>

Note 5 Interest in Mineral Property

On February 13, 2007, the Company and Entourage Mining Ltd. ("Entourage") entered into an option agreement (the "Agreement") wherein the Company has been granted the sole option and right to acquire up to 70% of Entourage's interest (the "Transaction") in the Doran uranium property (the "Doran Property") situated in Costebelle Township, on the north shore of the Gulf of St. Lawrence in south-eastern Quebec.

On February 16, 2007, the Company advanced Entourage \$100,000 in the form of a promissory note with interest at 8% per annum. In May 2007, the promissory note was converted into the cash payment required pursuant to the Agreement in order to exercise and acquire the interest in the Doran Property.

ABBASTAR URANIUM CORP. (formerly Abbastar Holdings Ltd.)

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008 and 2007

Note 5 Interest in Mineral Property (continued)

The Company will earn its interest in the Doran Property as follows:

- 20% interest by expending not less than \$500,000 on exploration within one year from the date of the Agreement (this expenditure requirement has been met);
- 15% additional interest by expending an additional \$1,000,000 on exploration within two years from the date of the Agreement (this expenditure requirement has been met);
- 15% additional interest by expending an additional \$1,500,000 on exploration within three years from the date of the Agreement; and
- 20% additional interest by expending an additional \$2,000,000 on exploration within four years from the date of the Agreement.

Pursuant to the Agreement, the Company has acquired the sole and exclusive right to manage the Doran Property. The Company may at any time elect to abandon its interest in the Doran Property. The Agreement also provides that the Company and Entourage will enter into a joint venture agreement after the Company makes all of the above expenditures and earns the 70% interest or elects not to acquire any further interest after making the \$100,000 payment and expending \$500,000 on the Doran Property.

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from potential aboriginal claims and frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to the Doran Property and, to the best of its knowledge; title to the Doran Property is in good standing.

Note 6 Related Party Transactions

All transactions with related parties have occurred in the normal course of operations and are measured at their fair value as determined by management. The year-end balances are unsecured, non-interest bearing, without specific terms of repayment and have arisen from the provision of services and loan advances described.

During the year ended December 31, 2008, the Company incurred \$3,750 (2007 - \$nil) in management fees and \$22,500 in salary (2007 - \$nil) to its President and at December 31, 2008 the Company owes this individual an aggregate of \$3,750 (December 31, 2007 - \$nil) for fees.

During the year ended December 31, 2008, the Company incurred \$22,500 (2007 - \$45,000) in management fees and \$60,000 in salary (2007 - \$15,000) to its former President and at December 31, 2008 the Company owes this individual an aggregate of \$3,592 (December 31, 2007 - \$nil) for fees and expense reimbursements.

ABBASTAR URANIUM CORP. (formerly Abbastar Holdings Ltd.)

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008 and 2007

Note 6 Related Party Transactions (continued)

During the year ended December 31, 2008, the Company incurred \$42,000 (2007 - \$39,750) in management fees to a director and owes this director \$10,500 (2007 - \$nil) at December 31, 2008 for fees.

During the year ended December 31, 2008, the Company incurred \$24,000 (2007 - \$18,000) in management fees to an officer and owes this officer \$8,400 (2007 - \$3,000) at December 31, 2008 for fees.

Note 7 Share Capital

Authorized

Unlimited number of common shares, without par value.

Common shares

Private placements:

In August 2008, the Company closed the private placement announced on July 15, 2008, comprised of 2,000,000 shares units ("Units") at a price of \$0.16 per Unit for gross proceeds of \$320,000. Each Unit consists of one common share and one common share purchase warrant. One common share purchase warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.21 for a period of one year. The Units are subject to a four-month hold which expired on December 25, 2008. The fair value of the warrants issued in the private placement was \$126,096 and was allocated to contributed surplus. The proceeds from the financing were used for general working capital purposes. There was no finder's fees payable in connection with this private placement.

In August 2007, the Company closed the private placement announced on June 6, 2007 and amended August 14, 2007, comprised of 400,000 flow-through shares ("07Q3 FTS") at a price of \$1.00 per 07Q3 FTS and 375,000 non flow-through units ("07Q3 NFT Unit") at a price of \$1.00 per 07Q3 NFT Unit for total gross proceeds of \$775,000. Each 07Q3 NFT Unit consisted of one common share and one common share purchase warrant. Two common share purchase warrants entitlled the holder to purchase one additional common share of the Company at a price of \$1.50 for a period of one year. All warrants expired unexercised on July 30, 2008. The Company paid a finder's fee in the amount of \$32,000 in connection with this private placement. The fair value of the warrants issued in the private placement was \$36,472 and was allocated to contributed surplus. The proceeds from this private placement were used for further exploration expenditures on the Doran Property in Quebec and for general working capital purposes.

In May 2007, the Company closed the private placement announced on February 14, 2007 comprised of 1,000,000 flow-through shares ("07Q2 FTS") at a price of \$0.35 per 07Q2 FTS and 1,000,000 non flow-through units ("07Q2 NFT Unit") at a price of \$0.30 per 07Q2 NFT Unit for total gross proceeds of \$650,000. Each 07Q2 NFT Unit was comprised of one common share and one common share purchase warrant. Two common share purchase warrants entitlled the holder to acquire one additional share of the Company at a price of \$0.45 for a period of one year, provided that if at any time the Company's shares

ABBASTAR URANIUM CORP. (formerly Abbastar Holdings Ltd.)

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008 and 2007

Note 7 Share Capital (continued)

Private placements (continued):

have a closing price of \$0.75 or more for twenty (20) consecutive trading days on the Exchange, the Company will be entitled to give notice to the holders of the warrants to the effect that the warrants will expire 30 days from the date of mailing of such notice unless exercised before the expiry of that period, and in such event all unexercised warrants will expire at 4:30 p.m. (Vancouver time) on the last day of such 30 day period. All warrants were exercised during 07Q2. The proceeds from this private placement and exercise of warrants were used for exploration expenditures on the Doran Property in Quebec and for general working capital. There was no finder's fee payable in connection with this financing.

Renounced exploration expenditures:

In February 2008, the Company renounced \$750,000 of mineral exploration expenditures under its flow-through share program, resulting in a future income tax liability of \$232,500, which was deducted from share capital. The Company subsequently reduced the future income tax liability by recognizing previously unrecorded future income tax assets equal to the amount of the future income tax liability. This decrease in the valuation allowance has resulted in a future income tax recovery of \$232,500.

Warrants/stock options exercised:

During the year ended December 31, 2008, 90,000 stock options were exercised at \$0.20 per share for proceeds of \$18,000. During the year ended December 31, 2007, 310,000 stock options were exercised at \$0.20 per share for proceeds of \$62,000 and 1,000,000 warrants were exercised into 500,000 common shares at \$0.45 per share for proceeds of \$225,000.

Warrants

As at December 31, 2008 there were 2,000,000 warrants outstanding exercisable into 2,000,000 common shares at \$0.21 per share expiring August 25, 2009. As at December 31, 2007 there were 375,000 warrants outstanding, exercisable into 187,500 common shares at \$1.50 per share. On July 30, 2008 all 375,000 warrants expired without being exercised.

Stock-based compensation plan

The Company has a stock option plan in place under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 2,500,000 common shares of the Company. Under the plan, the exercise price of each option cannot be less than the discounted market price as defined in Policy 1.1 of the TSX Venture Exchange ("Exchange") policies. The options can be granted for a maximum term of five years and the vesting period of each option grant is at the discretion of the board of directors, subject to applicable Exchange policies.

ABBASTAR URANIUM CORP. (formerly Abbastar Holdings Ltd.)

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008 and 2007

Note 7 Share Capital (continued)

Stock-based compensation plan (continued)

Options under the plan are summarized as follows:

	Year ended December 31, 2008		Year ended December 31, 2007	
	Options	Weighted Average Exercise Price \$	Options	Weighted Average Exercise Price \$
Outstanding, beginning of year	930,000	0.38	675,000	0.20
Granted	1,440,000	0.22	645,000	0.56
Exercised	(90,000)	0.20	(310,000)	0.20
Cancelled	<u>(475,000)</u>	<u>0.44</u>	<u>(80,000)</u>	<u>1.00</u>
Outstanding, end of year	<u>1,805,000</u>	<u>0.25</u>	<u>930,000</u>	<u>0.38</u>

Exercise Price \$	Number Outstanding	Options Outstanding December 31, 2008		Options Exercisable December 31, 2008		
		Weighted Average Remaining Contractual Life (Yrs)	Expiry Date	Number Exercisable	Weighted Average Exercise Price \$	Weighted Average Fair Value Granted \$
0.20	275,000	2.6	10-Aug-11	275,000	0.20	
0.20	250,000	4.6	21-Aug-13	93,750	0.20	
0.21	775,000	4.5	15-Jul-13	290,625	0.21	0.18
0.25	315,000	4.3	15-Apr-13	157,500	0.25	0.11
0.30	75,000	3.1	14-Feb-12	75,000	0.30	0.17
0.45	75,000	3.9	9-Nov-12	75,000	0.45	
1.00	<u>40,000</u>	<u>3.4</u>	8-Jun-12	<u>40,000</u>	<u>1.00</u>	
	<u>1,805,000</u>	<u>4.1</u>		<u>1,006,875</u>	<u>0.27</u>	<u>0.16</u>

During the year ended December 31, 2008, the total compensation expense related to the fair value of stock options granted and vested was \$94,998 (2007 - \$256,493). This amount was determined using the Black-Scholes option pricing model with the following weighted average assumptions: no dividends were paid, expected volatility of 94.52% (2007 – 106.24%); risk-free rate of return of 3.21% (2007 – 3.13%); and expected lives of 2.5 years (2007 – 2.1 years).

The weighted average fair value of options granted during the year ended December 31, 2008 is \$0.16 (2007 - \$0.50).

ABBASTAR URANIUM CORP. (formerly Abbastar Holdings Ltd.)

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008 and 2007

Note 8 Mineral Exploration Expenditures

A summary of the exploration expenditures incurred on the Doran Property during the years ended December 31, 2008 and 2007 is as follows:

	2008	2007
	\$	\$
Air support and fuel	5,577	189,554
Assaying and analysis	32,265	32,101
Contract labour	4,050	57,050
Drilling	-	603,780
Equipment rental	33,498	66,700
Field supplies	-	34,050
Geological consulting	82,741	143,214
Shipping, handling and expediting	602	25,826
Storage	4,585	-
Travel and lodging	31,844	84,988
Incurred during the year	195,162	1,237,263
Exploration tax credit	(479,439)	-
Cumulative expenditures, beginning of year	1,237,263	-
Cumulative expenditures, end of year	952,986	1,237,263

Note 9 Mineral Property Payment

During the year ended December 31, 2008 the Company made the final payment of \$75,000 due to the vendor of the Doran Property on behalf of Entourage. Pursuant to the Agreement (see Note 5) Entourage acknowledges the \$75,000 payment made by the Company as a mineral exploration expenditure.

Note 10 Capital Management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support future business opportunities. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

ABBASTAR URANIUM CORP. (formerly Abbastar Holdings Ltd.)

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008 and 2007

Note 10 Capital Management (continued)

The Company currently has no source of revenues; as such the Company is dependent upon external financings to fund activities. In order to carry future projects and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the year ended December 31, 2008. The Company is not subject to externally imposed capital requirements.

Note 11 Financial Instruments

All financial instruments are classified into one of the following five categories: held for trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depend on their initial classification:

- Held for trading financial instruments are measured at fair value. All gains and losses are included in net earnings in the period in which they arise.
- Held-to-maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and losses due to impairment are included in current period net earnings.
- Available-for-sale financial assets are measured at fair value. Revaluation gains and losses are included in other comprehensive income until the asset is removed from the balance sheet.
- All derivative financial instruments are classified as held for trading financial instruments and are measured at fair value, even when they are part of a hedging relationship. All gains and losses are included in net earnings in the period in which they arise.

In accordance with this standard, the Company has classified its financial instruments as follows:

Cash and cash equivalents are classified as held-for-trading; receivables are classified as loans and accounts payable are classified as other financial liabilities. All are measured at fair value and gains and losses are included in net earnings in the period in which they arise.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk:

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company believes it has no significant credit risk.

ABBASTAR URANIUM CORP. (formerly Abbastar Holdings Ltd.)

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December 31, 2008 and 2007

Note 11 Financial Instruments (continued)

Liquidity risk:

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2008, the Company had a cash and short-term investment balance of \$482,025 (December 31, 2007 - \$243,834) to settle current liabilities of \$95,999 (December 31, 2007 - \$74,096). Other than due to related parties, all of the Company's financial liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms.

Market risk:

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and equity prices.

(a) Interest rate risk - the Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institution. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

(b) Foreign currency risk - the Company currently believes it has no significant foreign exchange risk.

(c) Price risk - the Company is exposed to price risk with respect to equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. The Company closely monitors individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

Sensitivity Analysis:

The carrying amount of cash and accounts payable and accrued liabilities approximates their fair value due to their short term nature. The Company does not have any deposits with fixed interest rates and is therefore does not have significant exposure to changing interest rates.

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NOTES TO THE FINANCIAL STATEMENTS

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Note 12 Income Taxes

A reconciliation of income taxes at statutory rates is as follows:

	Year ended December 31, 2008 \$	Year ended December 31, 2007 \$
Loss before income taxes	(309,164)	(1,814,390)
Income taxes (recovery) at statutory rates	(97,387)	(618,707)
Net adjustment for amortization, deductible and non-deductible amounts	29,962	509,421
Tax assets recognized on flow-through renunciation	(232,500)	-
Unrecognized benefit of non-capital losses	67,425	109,286
Total income taxes (recovery)	(232,500)	-

The significant components of the Company's future income tax assets are as follows:

	December 31, 2008 \$	December 31, 2007 \$
Future income tax assets:		
Mineral property	72,276	138,870
Non-capital loss carry forwards	257,660	300,390
Equipment	397	402
	330,333	439,662
Valuation allowance	(330,333)	(439,662)
Net future income tax assets	-	-

The Company has non-capital losses of approximately \$975,000 (2007 - \$1,054,000), which are available to reduce future taxable income in Canada and which expire between 2008 and 2027. The Company has not recognized any future tax benefit for these tax losses as it is not considered likely that they will be utilized.