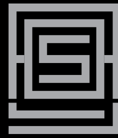

ATHABASCA
OIL SANDS CORP.

Management's Discussion and Analysis
For the Year Ended December 31, 2009

Management's Discussion and Analysis

This management's discussion and analysis of financial condition and results of operations ("MD&A") of Athabasca Oil Sands Corp. (the "Company" or "AOSC") is dated April 14, 2010 and should be read in conjunction with the audited consolidated financial statements of the Company for the years ended December 31, 2009 and 2008. The audited consolidated financial statements of the Company have been prepared in accordance with Canadian GAAP. Unless as otherwise noted, all financial measures are expressed in Canadian dollars and tabular amounts are in thousands of dollars.

FORWARD LOOKING STATEMENTS

This MD&A, particularly under the heading "Outlook", contains forward-looking information that involves various risks, uncertainties and other factors. All statements other than statements of historical fact are forward-looking statements. The use of any of the words "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "should", "believe", "predict", "pursue" and "potential" and similar expressions are intended to identify forward-looking statements. The forward-looking information is not historical fact, but rather is based on the Company's current plans, objectives, goals, strategies, estimates, assumptions and projections about the Company's industry, business and future financial results. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. No assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A. In particular, this MD&A contains forward-looking statements pertaining to the following: the Company's capital expenditure programs; the estimated quantity of the Company's Probable and Possible Reserves and Contingent Resources; the Company's drilling plans; the Company's plans for, and results of, exploration and development activities; and the timing for receipt of regulatory approvals. With respect to forward-looking statements and forward-looking information contained in this MD&A, assumptions have been made regarding, among other things: the Company's ability to obtain qualified staff and equipment in a timely and cost-efficient manner; the regulatory framework governing royalties, taxes and environmental matters in the jurisdictions in which the Company conducts and will conduct its business; the applicability of technologies for the recovery and production of the Company's reserves and resources; future capital expenditures to be made by the Company; future sources of funding for the Company's capital programs; the Company's future debt levels; geological and engineering estimates in respect of the Company's reserves and resources; the geography of the areas in which the Company is conducting exploration and development activities; the impact that the PetroChina Transaction (as defined below) will have on the Company, including on the Company's financial condition and results of operations; and the Company's ability to obtain financing on acceptable terms. Actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and included elsewhere in this in this MD&A under the heading "Risk Management" and under the headings "Notice to Investors -Forward-Looking Statements" and "Risk Factors" in the Company's prospectus dated March 30, 2010, which is available on the SEDAR website at www.sedar.com, including: fluctuations in market prices for crude oil and bitumen blend; general economic, market and business conditions; dependence on Cretaceous Oilsands Holdings Limited ("PetroChina International Subco") as the joint venture participant in the MacKay and Dover oil sands projects; variations in foreign exchange and interest rates; factors affecting potential profitability; the global financial crisis; uncertainties inherent in estimating quantities of reserves and resources; AOSC's status and stage of development; uncertainties inherent in Steam Assisted Gravity Drainage ("SAGD"), Cyclic Steam Stimulation ("CSS") and other bitumen recovery processes; the potential impact of the exercise of the Put/Call Options (as defined below) on the Company; failure to meet the conditions precedent to the exercise by the Company of the Put/Call Options, including failure to receive regulatory approval for the MacKay oil sands project and/or the Dover oil sands project when anticipated or at all; failure to obtain necessary regulatory approvals for completion of the Put/Call Option transactions on the terms and conditions set forth in the Put/Call Option Agreement; failure to meet development schedules and potential cost overruns; increases in operating costs can make projects uneconomic; the effect of diluent and natural gas supply constraints and increases in the costs thereof; gas over bitumen issues affecting operational results; the potential for adverse consequences in the event that the Company defaults under certain of the PetroChina Transaction Agreements (as defined below); environmental risks and hazards and the cost of compliance with environmental regulations, including greenhouse gas regulations and potential Canadian and U.S. climate change legislation; failure to obtain or retain key personnel; the substantial capital requirements of the Company's projects; the need to obtain regulatory approvals and maintain compliance with regulatory requirements; extent of, and cost of compliance with, government laws and regulations and the effect of changes in such laws and regulations from time to time; changes to royalty regimes; political risks; failure to accurately estimate abandonment and reclamation costs; risks inherent in the Company's operations, including those related to exploration, development and production of oil sands reserves and resources, including the production of oil sands reserves and resources using SAGD, CSS or other in-situ technologies; the potential for management estimates and assumptions to

be inaccurate; long term reliance on third parties; reliance on third party infrastructure for project facilities; failure by counterparties (including without limitation PetroChina International Investment Company Limited ("PetroChina International") and PetroChina International Subco) to make payments or perform their operational or other obligations to the Company in compliance with the terms of contractual arrangements between the Company and such counterparties and the possible consequences thereof; the potential lack of available drilling equipment and limitations on access to the Company's assets; aboriginal claims; seasonality; hedging risks; risks associated with establishing and maintaining systems of internal controls; insurance risks; claims made in respect of the Company's operations, properties or assets; the potential for adverse consequences as a result of the change of control provisions in the PetroChina Transaction Agreements; competition for, among other things, capital, the acquisition of reserves and resources, export pipeline capacity and skilled personnel; the failure of the Company or the holder of certain licenses or leases to meet specific requirements of such licenses or leases; risks arising from future acquisition activities; risks relating to the reliance on historical and pro forma financial information, including that historical financial information does not reflect the added costs that the Company expects to incur as a public entity; volatility in the market price of the common shares; the absence of an existing public market for the common shares; the effect that the issuance of additional securities by the Company could have on the market price of the common shares; and risks relating to the Company's dividend policy. In addition, information and statements in this MD&A relating to "reserves" and "resources" are deemed to be forward-looking information and statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves and resources described exist in the quantities predicted or estimated, and that the reserves and resources described can be profitably produced in the future. The assumptions relating to the reserves and resources reported herein are contained in the reports of GLJ Petroleum Consultants Ltd. dated effective December 31, 2009 (the "GLJ Report") and DeGolyer and MacNaughton Canada Limited dated effective December 31, 2009 (the "D&M Report") and are summarized in AOSC's Statement of Oil and Gas Reserves Data and Other Oil and Gas Information for the Year Ended December 31, 2009. Readers are cautioned that the foregoing list of risk factors should not be construed as exhaustive. The forward-looking statements included in this MD&A are expressly qualified by this cautionary statement and are made as of the date of this MD&A. The Company does not undertake any obligation to publicly update or revise any forward-looking statements except as required by applicable securities laws.

The Company's financial condition and results of operations discussed in this MD&A will not necessarily be indicative of the Company's future performance, as they reflect the start-up nature of the Company's activities to date. The Company expects that its general and administrative expenses as a public company will be higher than those reflected in the financial statements and management's discussion and analysis of financial condition and results of operations included in this prospectus.

BUSINESS OVERVIEW

The Company was incorporated on August 23, 2006 under the laws of the Province of Alberta and is focused on the exploration for, and sustainable development and production of, bitumen from oil sands in the Athabasca region of northeastern Alberta, Canada. The Company does not currently have any commercial operations.

The Company expects to produce its recoverable bitumen using in-situ recovery methods. At December 31, 2009, the Company had more than 1.57 million acres (net after giving effect to the PetroChina Transaction (as defined below)) of oil sands leases and permits in the Athabasca area.

Operational Highlights for the Year Ended December 31, 2009

- Entered into the Principles of Joint Venture Agreement (the "PVJA") with PetroChina International Investment Company Limited ("PetroChina International"), a wholly owned subsidiary of PetroChina Company Limited ("PetroChina"), pursuant to which, among other things, PetroChina International agreed to: (a) acquire (directly or indirectly) all of the issued and outstanding shares of 1487645 Alberta Ltd., a wholly owned subsidiary of the Company that owned an undivided 60% working interest in the MacKay and Dover oil sands projects for cash consideration of $1.9 billion; and (b) provide certain financing arrangements for the Company (the "PetroChina Transaction"). On February 10, 2010, the Company entered into a series of agreements (the "PetroChina Transaction Agreements") with PetroChina International and PetroChina International Subco and closed the PetroChina Transaction.
- Drilled 72 wells during the winter of 2009 in the Company's core areas MacKay, Dover and Dover West.
- Drilled five wells during the winter of 2009 in the Grosmont area where the Company holds operatorship and a 50% working interest.

Drilling Program

The following table shows the location of delineation wells drilled on Company lands by area during the winter 2009 core hole drilling program and since inception:

	Delineation wells drilled	
Asset area	2009	From inception to December 31, 2009
MacKay	**41**	**132**
Dover	**20**	**124**
Dover West	**1**	**22**
Dover West Leduc Carbonates	**10**	**12**
Birch	**-**	**-**
Hangingstone	**-**	**47**
Grosmont	**5**	**5**
Firebag	**-**	**2**
Total	**77**	**344**

MacKay and Dover Projects

To December 31, 2009, more than 130 delineation wells have been drilled in the MacKay area and over 120 delineation wells have been drilled in the Dover area. These wells are evaluation/exploratory, vertical wells that were drilled to determine the location and extent of the bitumen resource and cannot be used for the production of bitumen. All of these evaluation/exploratory wells must be abandoned after reservoir data is obtained. The MacKay oil sands project and the Dover oil sands project are expected to employ the Steam Assisted Gravity Drainage ("SAGD") method of extracting bitumen, which is an in-situ production method for heavy oil and bitumen that involves a horizontal well pair consisting of a steam injection well and a production well.

Reserve and Resource Highlights

GLJ Petroleum Consultants Ltd. ("GLJ") and DeGolyer and MacNaughton Canada Limited ("D&M"), the Company's qualified independent reserves and resources evaluators, have prepared the GLJ Report and D&M Report (collectively, the "Independent Reports"), respectively, evaluating the Company's reserves and resources effective December 31, 2009. The assumptions relating to the Company's reserves and resources set out below are contained in the Independent Reports and are summarized in AOSC's Statement of Oil and Gas Reserves Data and Other Oil and Gas Information for the Year Ended December 31, 2009, which is available on the SEDAR website at www.sedar.com.

The following table summarizes the Company's reserves and resources by asset area as evaluated in the Independent Reports, before royalties, as at December 31, 2009, on a pro forma basis after giving effect to the completion of the PetroChina Transaction:

Asset	Probable Reserves [1]	Possible Reserves [2]	Best Estimate Contingent Resources [3][6]
	(mmbbls)	(mmbbls)	(mmbbls)
MacKay [4]	114	26	573
Dover [4]	-	-	1,326
Dover West – Clastics [4]	-	-	2,012
Dover West - Leduc Carbonates [4][7]	-	-	1,420
Birch [5]	-	-	1,007
Hangingstone [5]	-	-	412
Grosmont [4][7]	-	-	396
Total	114	26	7,146 [5]

Notes:

(1) Probable Reserves are those additional reserves that are less certain to be recovered than Proved Reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated Proved Reserves plus Probable Reserves.

(2) Possible Reserves are those additional reserves that are less certain to be recovered than Probable Reserves. There is a 10% probability that the quantities actually recovered will equal or exceed the sum of Proved Reserves plus Probable Reserves plus Possible Reserves.

Contingent Resources are defined in the COGE Handbook as those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies. The contingencies which currently prevent the classification of the Contingent Resources disclosed in the table as reserves consist of: further facility design, preparation of firm development plans, and regulatory applications (including associated reservoir studies and delineation drilling), and Company approvals. It is also appropriate to classify as "Contingent Resources" the estimated discovered recoverable quantities associated with a project in the early evaluation stage. Contingent Resources are further classified in accordance with the level of certainty associated with the estimates and may be subclassified based on project maturity and/or characterized by their economic status. The volumes of contingent bitumen resources in the above table were calculated at the outlet of the proposed extraction plant. "Best Estimate" is a classification of estimated resources described in the COGE Handbook as being considered to be the best estimate of the quantity that will actually be recovered. It is equally likely that the actual remaining quantities recovered will be greater or less than the Best Estimate. If probabilistic methods are used, there should be a 50% probability (P50) that the quantities actually recovered will equal or exceed the Best Estimate.

(3) Based on the GLJ Report.

(4) Based on the D&M Report.

(5) These volumes are arithmetic sums of multiple estimates of contingent bitumen resources, which statistical principles indicate may be misleading as to volumes that may actually be recovered. Readers should give attention to the estimates of individual classes of resources and appreciate the differing probabilities of recovery associated with each class as explained.

(6) There is no certainty that it will be commercially viable to produce any portion of the resources.

(7) The Company's resources at its Dover West Leduc Carbonates and Grosmont assets are contained in carbonate reservoirs. SAGD and CSS, the proposed recovery processes to develop these assets, are considered by GLJ to be "technology under development" in carbonate reservoirs. The successful development of the Company's carbonate reservoirs depends on, among other things, the successful development and application of SAGD and CSS or other recovery processes to carbonate reservoirs. Although the technology has been developed for application to non-carbonate reservoirs, there are no known successful commercial projects that use SAGD or CSS to recover bitumen from carbonate formations and there exists a large range in the expected recoverable volumes, the lower end of which may not be economically viable. The principal risks associated with SAGD and CSS recovery in carbonate reservoirs are (i) the possibility of unexpected steam channelling which would increase steam requirements resulting in increased costs and potentially reduced economically recoverable bitumen volumes, and (ii) potential mechanical operating problems due to production of fines which could cause wellbore plugging and reduced bitumen production rates and potential interruption of surface production operations. Although the technical risks associated with technology under development have been accounted for in the GLJ Report, the timeline for verification of technology under development has inherent uncertainty. Development will involve significant capital expenditures and a lengthy time to project payout and project payout is not assured. If a pilot project and/or the technology under development do not demonstrate potential commerciality in carbonate reservoirs then the Company's projects on these assets may not proceed and this may occur only after the Company has incurred significant expenditures. With respect to the Company's Grosmont asset, the Company's strategy is to continue delineation drilling efforts in the area in order to increase the resource base. The Company has not prepared a development plan or timeline for the Grosmont area, and is monitoring industry activity toward demonstrating successful development and production methods for the Grosmont Formation.

Financial Highlights

The following table summarizes selected consolidated financial information of the Company as at and for the years ended:

	As at and for the years ended December 31	
($ Thousands, except per share amounts)	**2009**	2008
BALANCE SHEET ITEMS:		
Total assets	**893,583**	801,847
Long-term debt	**398,996**	378,906
Shareholders' equity	**172,054**	362,266
INCOME STATEMENT ITEMS:		
Revenue	**2,562**	5,451
Net loss	**(75,652)**	(24,647)
Net loss per share - basic	**(0.38)**	(0.14)
Net loss per share - diluted	**(0.38)**	(0.14)

The changes to total assets during each of the years are due primarily to spending on property and equipment to acquire, explore, evaluate and develop the Company's oil sands assets. See "Capital Expenditures" below for a description of the Company's acquisition, exploration, evaluation and development activities and expenditures, and related financing activities, during these periods. Several private placement equity financings during 2006 and 2007, and issuance of long-term debt in July 2008, were completed in order to obtain funds to acquire and develop the Company's oil sands assets. The proceeds were invested in cash and cash equivalents, and short-term investments. Revenue from interest income fluctuated as the proceeds were spent, primarily on property and equipment, and amounts invested in cash, cash equivalents and short-term investments declined. Net loss and loss per share for the year ended December 31, 2009 is higher than the comparable period in 2008 due to increased interest and financing costs as a result of an accrued pre-payment penalty and higher deferred borrowing cost amortization on the senior secured notes.

Summary of Quarterly Results

The following table summarizes selected consolidated financial information for the Company for the preceding eight quarters:

	2009				2008			
($ Thousands, except per share amounts)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	**126**	**160**	**916**	**1,360**	2,686	1,652	196	917
Net income (loss)	**(82,726)**	**26,063**	**(6,012)**	**(12,977)**	(9,857)	(9,701)	(3,227)	(1,861)
Net income (loss) per share - basic	**(0.39)**	**0.13**	**(0.03)**	**(0.07)**	(0.05)	(0.05)	(0.02)	(0.01)
Net income (loss) per share - diluted	**(0.39)**	**0.09**	**(0.03)**	**(0.07)**	(0.05)	(0.05)	(0.02)	(0.01)

Equity financings in 2006 and 2007 and a debt financing in July 2008 were completed in order to obtain funds to acquire, explore, evaluate and develop the Company's oil sands assets. The proceeds were initially invested in cash and cash equivalents, and short-term investments. Quarterly revenue from interest income fluctuated as the proceeds were spent, combined with interest rate fluctuations. Loss and loss per share has trended higher from the first quarter of 2008 through the first quarter of 2009 primarily due to increased financing costs from debt financing, higher general and administrative costs resulting from hiring additional employees to further develop the Company's projects, and additional rent and office costs. Net income and net income per share during the third quarter of 2009 results from a future income tax recovery on property and equipment assets held for sale. Net loss and net loss per share during the fourth quarter of 2009 was due to higher financing costs related to the accrual of a pre-payment penalty on the Company's senior secured notes, a decrease in the net income tax recovery, higher stock-based compensation charges resulting from amendments to existing stock-based compensation grants, and higher general and administrative costs due to increased corporate activity related to the PetroChina Transaction and hiring additional employees.

PetroChina Transaction

On August 28, 2009, the Company entered into the PJVA which set out the principles of the PetroChina Transaction. On, February 10, 2010, the Company completed the PetroChina Transaction, pursuant to which, among other things, a wholly-owned subsidiary of PetroChina International ("PetroChina International Subco") acquired 100% of the shares of 1487645 Alberta Ltd., a corporation which, at the time of closing, held a 60% working interest in the MacKay and Dover oil sands projects for cash consideration of $1.9 billion. The PetroChina Transaction Agreements also provide for certain financing arrangements for the Company. The PetroChina Transaction closed on February 10, 2010.

The financing arrangements forming part of the PetroChina Transaction include a loan facility (PetroChina Loan #1) to the Company to repay the senior secured notes. PetroChina International Subco provided the Company with a non-revolving loan of $430.0 million, which was used to repay the Company's $400.0 million of senior secured notes together with accrued interest and certain related costs. Interest on PetroChina Loan #1 is payable semi-annually at a rate equal to the LIBOR Rate plus 450 basis points. PetroChina Loan #1 is repayable, on a pro rata basis with PetroChina Loan #2 and PetroChina Loan #3, if applicable, from 90% of cash flow (as provided for in the PetroChina loan agreements) of the MacKay joint venture and Dover joint venture, and any amount remaining outstanding on June 30, 2022 is required to be repaid in full at that time.

The financing arrangements for the PetroChina Transaction also include two loan facilities to the Company (PetroChina Loan #2 and PetroChina Loan #3) to provide up to $100 million and up to $560 million, respectively, for certain initial development expenditures on the MacKay joint venture and Dover joint venture projects, provided that PetroChina Loan #3 is only available if the put/call options are not exercised and expire and the MacKay oil sands project approval is obtained. Interest on both loans is payable semi-annually at a rate equal to the LIBOR Rate plus 450 basis points. The amounts drawn on both loans are repayable, on a pro rata basis with PetroChina Loan #1, from 90% of cash flow (as provided for in the PetroChina loan agreements) of the MacKay joint venture and Dover joint venture and any amount remaining outstanding under either loan on June 30, 2024, is required to be repaid in full at that time.

The PetroChina Transaction includes a put/call option agreement (the "Put/Call Option Agreement") pursuant to which, in certain circumstances, PetroChina International Subco may be required to purchase or may exercise the right to acquire, as the case may be, the Company's remaining 40% working interest in one or both of the MacKay oil sands assets and the Dover oil sands assets by acquiring the assets or shares of the wholly-owned subsidiary of the Company which holds an undivided 40% interest in the MacKay oil sands assets (or a wholly-owned subsidiary thereof) or the wholly-owned subsidiary of the Company which holds an undivided 40% interest in the Dover oil sands assets (or a wholly-owned subsidiary thereof), for aggregate cash consideration of up to $2 billion (collectively, the "Put/Call Options").

RESULTS OF OPERATIONS

The following table summarizes the Company's results of operations for the years ended December 31:

($ Thousands)	2009	2008
Revenue		
Interest and other income	**2,562**	5,451
Expenses		
General and administrative	**13,892**	7,381
Stock-based compensation	**5,410**	7,136
Financing and interest	**74,977**	23,100
Depreciation and accretion	**418**	169
Research and development expense	**523**	139
Current income tax expense	**91,146**	-
Future income tax recovery	**(108,152)**	(7,827)
Net loss and comprehensive loss	**(75,652)**	(24,647)

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

Interest and Other Income

Interest and other income is comprised of interest income earned on cash and cash equivalents and short-term investments. For the year ended December 31, 2009, interest income decreased by $2.9 million compared to the same period in 2008. The decrease results from interest earned on lower cash and cash equivalents and short-term investment balances during 2009, as well as an overall decline in interest rates earned on these balances.

General and Administrative

General and administrative expense is comprised of salaries, consulting fees, rent, and other office related costs. For the year ended December 31, 2009, general and administrative expenses increased by $6.5 million compared to the same period in 2008. The increase results primarily from the addition of staff and office space.

Stock-based Compensation

For the year ended December 31, 2009, stock-based compensation expense decreased by $1.7 million compared to the same period in 2008. The decrease results from Incentive Shares granted early in the Company's history becoming fully vested and expensed prior to 2009. There was also a decrease in grants of Incentive Shares and Performance Warrants in favour of stock options, which have a lower estimated fair value.

Financing and Interest

For the year ended December 31, 2009, financing and interest expense increased by $51.9 million, compared to the same period in 2008. The increase results from higher interest costs of $7.1 million, higher deferred borrowing cost amortization of $16.8 million and an accrued pre-payment penalty of $28.0 million related to the $400.0 million senior secured notes issued in July 2008.

Depreciation and Accretion

For the year ended December 31, 2009, depreciation and accretion expense increased by $0.2 million compared to the same period in 2008. The increase results from recording an initial asset retirement obligation in the first quarter of 2009 on observation wells that will be abandoned in the future and the associated accretion expense, as well as depreciation charges on higher corporate asset balances in 2009 compared to 2008.

Research and Development Expense

For the year ended December 31, 2009, research and development expense increased by $0.4 million compared to the same period in 2008. The increase results from the Company's involvement in joint industry projects and internal Company employee work on research and development activities not directly related to an existing asset area.

Current Income Tax Expense

For the year ended December 31, 2009, the Company's current income tax expense was approximately $91.1 million and arose in connection with certain partnership interests being transferred within the corporate group of entities which resulted in a taxable capital gain of approximately $1.9 billion.

Future Income Tax Recovery

The Company's future income tax recovery results from differences between the tax and book values of property and equipment due to certain property and equipment assets being held for sale.

At December 31, 2009, the Company had approximately$185.0 million of tax pools available for deduction against future taxable income.

CAPITAL EXPENDITURES

The following table summarizes the consolidated capital expenditures made by the Company for the years ended December 31:

($ Thousands)	2009	2008
Oil sands properties	**10,880**	66,209
Exploration and evaluation - delineation drilling	**68,748**	85,067
Exploration and evaluation - geological and geophysical	**12,458**	16,108
Engineering and development	**19,026**	11,898
Corporate assets	**894**	647
Total capital expenditures	**112,006**	179,929

Year Ended December 31, 2009

Oil Sands Properties

At December 31, 2009 the Company owned in excess of 1.7 million net acres of oil sands leases in the Athabasca region of northern Alberta. Effective with the closing of the PetroChina Transaction on February 10, 2010, the Company owned in excess of 1.5 million net acres of oil sands leases.

For the year ended December 31, 2009, capitalized costs associated with oil sands property expenditures included lease acquisitions and lease rental payments. During 2009 the Company acquired certain small leases to complement the existing asset areas.

Exploration and Evaluation - Delineation Drilling

Expenditures for the year ended December 31, 2009 related to the drilling of 77 wells during the 2009 winter core hole delineation drilling program, as well as planning and preparation for the 2010 winter core hole delineation program. The 2009 winter core hole program included 72 wells in the core areas of MacKay, Dover and Dover West. In addition, the Company drilled five wells during the first quarter 2009 in the Grosmont area where the Company holds operatorship and a 50% working interest on approximately 780,000 acres (gross). The results of the delineation drilling program were utilized by the Independent Evaluators to produce the Independent Reports effective as at December 31, 2009.

Exploration and Evaluation - Geological and Geophysical

Expenditures for the year ended December 31, 2009 included core analysis and seismic acquisition. The Company obtained core analysis on certain wells drilled during the 2009 winter core hole delineation drilling program. In addition, the Company acquired approximately 124 kilometres of 2-D seismic data, acquired 5.3 square kilometres of 3-D seismic data, and purchased approximately 327 kilometres of 2-D seismic data over Company lands and characterizations of these seismic shoots were developed. An updated independent resource evaluation was commissioned in the spring of 2009 using the winter 2009 delineation drilling program results, as well as further enhancement of reservoir modeling and mapping using the new information learned from the drilling results and seismic data acquisition.

Engineering and Development

Expenditures for the year ended December 31, 2009 were concentrated around the MacKay and Dover projects. Work focused around the project's detailed environmental impact assessments for both areas and the MacKay commercial project's government application. Detailed engineering continued with engineering studies and construction management. Engineering on roads and site development included airborne surveys for aggregate, clay, and subsurface channels for use in construction. The purchase and planning for long-lead items required for pilot project construction was also initiated, however, as a result of the PetroChina Transaction, the Company has suspended the pilot project design and planning activities and instead is focusing on the commercial development of both areas.

Corporate Assets

Corporate asset expenditures during the year ended December 31, 2009 included office furniture, fixtures, leasehold improvements, and information technology assets.

For the year ended December 31, 2009, $17.9 million of capitalized interest on borrowing costs is included in capital expenditures.

Year Ended December 31, 2008

Oil Sands Properties

At December 31, 2008, the Company owned in excess of 1.3 million net acres of oil sands leases (mineral rights) in the Athabasca region of northern Alberta. Capitalized costs associated with the Company's 2008 mineral property expenditures included lease acquisitions and lease rental payments.

Exploration and Evaluation – Delineation Drilling

Delineation drilling expenditures for the year ended December 31, 2008 related to the drilling of 230 wells during the 2008 winter core hole delineation drilling program. This included wells drilled in the MacKay, Dover, Hangingstone, and Dover West areas.

Exploration and Evaluation – Geological and Geophysical

Geological and geophysical expenditures for the year ended December 31, 2008, included core analysis and seismic data acquisition. The Company obtained core analysis on certain wells drilled during the 2008 winter core hole delineation drilling program. In addition, the Company acquired approximately 327 kilometres of 2-D seismic data and purchased approximately 2,778 kilometres of 2-D seismic data over Company lands and characterizations of these seismic shoots were developed. An updated independent resource evaluation was commissioned in the spring of 2008 using the winter's delineation drilling program results. The Company also undertook further enhancement of its reservoir modeling and mapping using the new information acquired from the drilling results and seismic data acquisition.

Engineering and Development

Expenditures for the year ended December 31, 2008 were concentrated around the MacKay and Dover pilot and commercial projects. This included spending on preliminary and detailed engineering on the pilot and commercial plants and structures, including engineering studies and construction management. Preliminary costs for detailed environmental impact assessments were incurred for commercial projects on both areas. In addition there were supplemental environmental impact assessment costs on the pilot projects and for the winter drilling program. There were also preliminary costs associated with engineering on roads and site development, including airborne surveys for aggregate, clay, and subsurface channels for use in construction.

Corporate Assets

For the year ended December 31, 2008, corporate asset expenditures included the acquisition of office furniture, fixtures, leasehold improvements, and information technology assets.

For the year ended December 31, 2008, $2.5 million of capitalized interest on borrowing costs is included in capital expenditures.

LIQUIDITY AND CAPITAL RESOURCES

Working Capital

At December 31, 2009, the Company had a working capital deficit of $125.2 million, including $141.0 million of cash and cash equivalents. This deficit will be offset by a $135.0 million recovery in the 2010 tax year for Refundable Dividend Tax on Hand ("RDTOH") related to the dividend paid in 2010. The interest rate on amounts invested in Company cash accounts as at December 31, 2009 ranges from the bank prime rate minus 2%, or 0.25%, to 0.40%.

On February 10, 2010, the Company closed the PetroChina Transaction and received a cash payment of $1.9 billion. Upon completion of the PetroChina Transaction, the senior secured notes were called by the Company for redemption and all amounts owing under the senior secured note indenture were paid to Olympia Trust Company, trustee under the senior secured note indenture, on behalf of the holders of the senior secured notes from the proceeds of PetroChina Loan #1. Upon receipt of such payment, the trustee discharged its security in respect of the senior secured notes and released the Company from its obligations under the senior secured note indenture in respect of the senior secured notes. See "Long term Debt" below. On March 22, 2010 the Company paid a special dividend (the "Special Dividend") of $4.25 per common share, resulting in an aggregate amount of approximately $1.332 billion. The Company's remaining funds are currently invested in cash and cash equivalents and short-term investments

Management believes the proceeds from the PetroChina Transaction, the PetroChina loans and the IPO (as defined below), combined with the Company's remaining working capital less the Special Dividend, are sufficient to cover the Company's expenditures through 2014. Excess cash will be invested in low risk vehicles such as banker's acceptances with a focus on capital preservation.

Expenditures for the development of the initial commercial phases of both the MacKay oil sands project and the Dover oil sands project are expected to be substantially provided for by working capital, proceeds from the PetroChina Transaction, PetroChina Loan #2 and, if the MacKay put/call Option is not exercised, also by PetroChina Loan #3.

Long-term Debt

On July 30, 2008, the Company issued $400.0 million principal amount of senior secured notes with a term of three years, maturing July 30, 2011. The senior secured notes carried an interest rate of 13% paid semi-annually in arrears on December 31 and June 30. The senior secured notes also include an early payout feature depending on various conditions, which would result in payout between 105% and 110% of face value. The senior secured notes were secured by a floating charge and a general security interest over all of the Company's and its material subsidiaries' present and after acquired real and personal property, including their oil sands leases.

Net proceeds from the issue of the senior secured notes were partially used to fund the winter 2009 core hole drilling program, business development, and Company operations.

In accordance with the senior secured note indenture governing the senior secured notes, the Company set aside funds for the payment of the first two interest payments on the senior secured notes, which funds were held in trust. The first interest payment of $22.1 million was made on December 31, 2008 and the second interest payment of $26.0 million was made on June 30, 2009.

The financing arrangements that comprise a part of the PetroChina Transaction included the advance of PetroChina Loan #1 to the Company to repay the senior secured notes. PetroChina International Subco provided the Company with a non-revolving loan facility of $430.0 million, all of which was used to repay the Company's senior secured notes and related costs under the senior secured note indenture, including the principal amount of $400.0 million, an early redemption premium of $28.0 million, and a portion of the accrued interest. Interest on PetroChina Loan #1 is payable semi-annually on June 30 and December 31 at a rate equal to LIBOR plus 450 basis points. If the put/call option is not exercised, PetroChina Loan #1, on a pro rata basis with PetroChina Loan #2 and PetroChina Loan #3, if applicable, is repayable from 90% of cash flow (as provided for in the PetroChina loan agreements) of the MacKay joint venture and Dover joint venture, and any amount remaining outstanding on June 30, 2022 is required to be repaid in full at that time.

The financing arrangements that comprise a part of the PetroChina Transaction also included the provision of PetroChina Loan #2 and PetroChina Loan #3 to the Company to provide up to $100 million and up to $560 million, respectively, for certain initial development expenditures on the MacKay joint venture and Dover joint venture projects. Interest on both loans is payable semi-annually on June 30 and December 31 at a rate equal to LIBOR plus 450 basis points. If the put/call option is not exercised, the amounts drawn on both loans, on a pro rata basis with PetroChina Loan #1, are repayable from 90% of cash flow (as provided for in the PetroChina loan agreements) of the MacKay joint venture and Dover joint venture and any amount remaining outstanding under either loan on June 30, 2024 is required to be repaid in full at that time. No amounts have been drawn to date on PetroChina Loan #2. PetroChina Loan #3 is only available if the MacKay oil sands project approval is obtained and the put/call options are not exercised.

Equity Instruments

At December 31, 2009, the Company had 97.3 million Purchase Warrants outstanding with an exercise price of $1.25 per warrant. The Purchase Warrants expire between August and October 2011. If all Purchase Warrants were exercised this would result in proceeds of approximately $121.6 million. Subsequent to December 31, 2009, all Purchase Warrants were exercised for proceeds of $121.6 million.

Commitments

The following table summarizes the Company's estimated future minimum commitments at December 31, 2009:

($ Thousands)	2010	2011	2012	2013	2014	Thereafter	Total
Long-term debt repayment	-	400,000		-	-	-	400,000
Interest payments on long term debt	52,000	29,918		-	-	-	81,918
Office leases	2,375	2,375	2,375	1,111	480	920	9,636
Other	200	200	200	200	800	-	1,600
Total commitments	54,575	432,493	2,575	1,311	1,280	920	493,154

Upon completion of the PetroChina Transaction, the senior secured notes were called by the Company for redemption and all amounts owing under the senior secured note indenture were paid to Olympia Trust Company, trustee under the senior secured note indenture, on behalf of the holders of the senior secured notes from the proceeds of PetroChina Loan #1. Upon receipt of such payment, the trustee discharged its security in respect of the senior secured notes and released the Company from its obligations under the senior secured note indenture in respect of the senior secured notes. See "The PetroChina Transaction – Summary of the PetroChina Transaction Agreements – The PetroChina Loan Agreements – PetroChina Loan #1 Agreement".

Off Balance Sheet Arrangements

The Company has certain lease and industry group agreements, all of which are reflected in the table above under the heading "Commitments", which were entered into in the normal course of operations. The leases, which have been treated as operating leases, and industry group commitments have been treated as general and administrative expenses. No asset or liability value has been assigned to these agreements on the Company's balance sheet as of December 31, 2009.

Related Party Transactions

There were no related party transactions during the years ended December 31, 2009 and 2008, respectively.

Outstanding Share Data

The following table summarizes the number of share capital instruments outstanding at the date indicated:

		At April 14, 2010
Basic common shares [1]		**388,482,144**
Convertible securities:		
Stock options outstanding	– Exercisable and unexercisable	**637,200**
	– Restricted share units	**28,400**
Fully diluted common shares		**389,147,744**

(1) Includes 2,061,022 common shares held in trust which are contingently returnable to the Company if length of service requirements are not met.

Capital Management

The Company's objectives when managing capital are to safeguard the Company's ability to pursue the acquisition, exploration and development of its oil sands properties or potential other business and to maintain a flexible capital structure to undertake projects for the benefit of its stakeholders. The Company considers the items included in shareholders' equity, long-term debt and bank debt as capital. The Company is currently in the development stage and earns no operating revenue; as such the Company is dependent on external financing to fund its activities. At December 31, 2009, the Company had a $25 million credit line with a Canadian chartered bank.

Capital managed by the Company at December 31, is as follows:

($ Thousands)	**2009**	**2008**
Bank credit facility [1]	**-**	-
Senior secured notes [2]	**398,996**	378,906
Shareholders' equity	**172,054**	362,266
Capital managed	**571,050**	741,172

(1) Immediately prior to the closing of the PetroChina Transaction, the credit line was cancelled.

(2) Immediately following the closing of the PetroChina Transaction, the senior secured notes were redeemed with the proceeds of PetroChina Loan #1.

The Company manages the capital structure and makes adjustments in light of changes in economic conditions and risk characteristics of underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares, acquire or dispose of assets, obtain or repay bank debt, or enter into joint exploration and development arrangements with other parties. Subsequent to December 31, 2009, the Company completed an initial public offering and raised $1.263 billion (net of commissions and other costs).

To facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary and which are approved by the board of directors (the "Board") of the Corporation. Longer term financial models are also utilized to schedule and forecast anticipated cash requirements. Excess cash is invested in accordance with an investment policy, which is reviewed periodically, with the objective that cash is invested in highly liquid short-term interest-bearing investments, possessing pre-approved risk profiles, and is available as required. There were no changes in the Company's approach to capital management during the year ended December 31, 2009.

The Company is not subject to externally imposed capital requirements.

Financial Instruments

The Company has classified its financial instruments as follows:

Financial Assets and Liabilities	Classification
Cash and cash equivalents	Held-for-trading
Short-term investments	Held-for-trading
Cash held in trust	Held-for-trading
Accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Short-term credit facility	Other financial liabilities
Long-term debt	Other financial liabilities

Fair Value

The carrying values of the Company's financial instruments approximate their fair value, with the exception of the senior secured notes.

Because no observable market existed, the fair value for the senior secured notes was estimated based on discounted cash flow analysis using an estimated discount rate, with consideration for changes in economic and market conditions since issuance. Changes in the discount rate will impact the fair value of the senior secured notes. A 1% change in the discount rate will impact the fair value of the senior secured notes by approximately $5.7 million. At December 31, 2009 the fair value of the senior secured notes was estimated at $428.0 million. Immediately following the closing of the PetroChina Transaction, PetroChina International Subco provided the Company with PetroChina Loan #1 of $430.0 million, which was used to repay the senior secured notes.

The Company classifies the fair value of its financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The Company's senior secured notes have been assessed on the fair value hierarchy described above and have been classified as level 3. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

The Company's risk exposure associated with its financial instruments is summarized below.

a) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet financial obligations as they become due. The Company's financial position could be adversely affected if it failed to arrange financing for its capital expenditure programs. The Company strives to maintain sufficient financial liquidity by forecasting cash flows for current and subsequent years to identify financing requirements on an ongoing basis. Liquidity risk is currently low due to the cash and cash equivalents and short-term investments held by the Company.

b) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for another party by failing to discharge an obligation. The Company's credit risk is primarily attributable to its holdings of cash equivalents, short-term investments and accounts receivable. Approximately $0.5 million of accounts receivable and accrued receivables are due from joint venture partners. The Company attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditure budgets prior to expenditure.

Cash and cash equivalents and short-term investments held by the Company are only invested with counterparties meeting credit quality requirements and issuer and concentration limits pursuant to an investment policy that is periodically reviewed by the Audit Committee. The policy emphasizes security of assets over investment yield. Therefore, the Company's management believes that credit risk associated with these investments is low.

c) Market Risk

The three components of market risk are interest rate risk, price risk, and currency risk.

i. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value of any of its cash and cash equivalents is minimal because the Company's investment policy requires that the investments acquired be highly liquid, short term in nature and generally that investments are held through to maturity.

The Company will be exposed to changes in interest rates on its PetroChina loan facility as the facility bears interest on any drawn amounts at LIBOR plus 450 points. Interest rate risk may increase in the future if the Company draws on this facility to fund future project expenditures.

ii. Price risk

Although the Company is not yet a producing entity, it is exposed to price risk with respect to commodity and equity prices to some extent by virtue of their impacts on the value of the Company's prospects and the resulting impact on the Company's share price and ability to access capital on favourable terms, if at all. The Company's ability to raise capital to fund future development activities is subject to risks associated with fluctuations in the price of oil, natural gas and construction inputs such as steel and labour, as well as movements in individual equity prices or general movements in the level of the stock market. The Company closely monitors commodity and equity prices to determine the appropriate course of actions to be taken by the Company.

iii. Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The financial instruments held by the Company are denominated in Canadian dollars and, as such, there is currently no currency risk associated with the financial instruments.

The Company is exposed to changes in foreign exchange rates as capital expenditures may fluctuate due to changing US dollar and Euro currency rates.

OUTLOOK

The completion of the PetroChina Transaction affords the Company substantially increased financial flexibility. The Company intends to use that flexibility to support the acceleration of its exploration and development activities on several of its asset areas. During the Company's 2009-2010 winter drilling program, the Company drilled an additional 68 delineation wells in the MacKay, Dover and Dover West areas.

The regulatory application for the MacKay oil sands project was filed on December 10, 2009 and the regulatory application for the Dover oil sands project is expected to be filed late in 2010.

FINANCIAL REPORTING UPDATE

Initial Application of New Accounting Policies

During the first quarter of 2009, the Company incurred asset retirement obligations ("ARO") and applied the provisions of CICA Handbook section 3110 "Asset Retirement Obligations" to account for them. The estimated fair value of the statutory, contractual or legal liability associated with the retirement and reclamation of tangible long-lived assets is recorded when incurred, with a corresponding increase to the carrying amount of the related assets, when a reasonable estimate of the fair value can be made. The increase to capitalized costs is amortized to net income on a basis consistent with depletion, depreciation, and accretion ("DD&A") of the underlying assets. On a periodic basis, management will review these estimates, and changes, if any, in the estimated fair value of the ARO are capitalized and amortized over the remaining useful life of the underlying asset. The ARO liabilities are carried on the consolidated balance sheets of the Company at their discounted present value and are accreted over time for the change in their present value, with this accretion charge included in DD&A. Actual expenditures incurred are charged against the accumulated obligation. Any difference between the recorded ARO and the actual retirement costs incurred is recorded as a gain or loss in the settlement period.

FUTURE ACCOUNTING PRONOUNCEMENTS

Business Combinations

In January 2009, the CICA issued a new accounting standard, section 1582 "Business Combinations", which prospectively establishes principles and requirements of the acquisition method for business combinations and related disclosures that will be effective for the Company's 2011 reporting period. These recommendations are effective for business combinations occurring after January 1, 2011, although early adoption is permitted. The adoption of these recommendations is not expected to have a material impact on the Company.

Consolidated Financial Statements

In January 2009, the CICA issued new accounting standards, section 1601, "Consolidated Financial Statements", and section 1602, "Non-controlling Interests", which together replace section 1600, "Consolidated Financial Statements". These standards are effective on or after the beginning of the first annual reporting period beginning on or after January 1, 2011, with earlier application permitted. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary subsequent to a business combination. These recommendations are not expected to have a material impact on the Company.

Financial instruments - Disclosures

In June 2009, the CICA revised section 3862 "Financial Instruments - Disclosures", to include a hierarchy concept in measuring financial instruments, a requirement to provide disclosure concerning the fair value measurements of assets and liabilities for each hierarchy level and amendments to the liquidity disclosure requirements. The recommendations are effective for the Company's 2009 annual reporting period. The adoption of these recommendations is not expected to have a material impact on the Company.

International Financial Reporting Standards

In February 2008, Canada's Accounting Standards Board ("AcSB") confirmed the changeover to International Financial Reporting Standards ("IFRS") for publicly accountable enterprises effective for fiscal years beginning on or after January 1, 2011. The changeover to IFRS represents a change to new accounting standards. The transition from current Canadian GAAP to IFRS is a significant undertaking which may materially affect the Company's reported financial position and results of operations. The Company has drafted an IFRS Transition Plan ("IFRS Plan") and an assessment of the impact of IFRS on the Company, its processes and its financial reporting is underway.

The first phase of the IFRS Plan was to perform a diagnostic review, the purpose of which was to analyze, identify and assess the overall effort required by the Company to produce financial information on an IFRS basis. Areas which will likely be significantly impacted by the adoption of IFRS were identified and a qualitative overview of likely financial statement impacts and potential difficulties with systems or processes which may arise when addressing the differences between IFRS and current Canadian GAAP was performed. The first phase of the IFRS Plan was completed in March 2009.

The second phase of the IFRS Plan is currently being undertaken. This involves the preparation of a work plan by internal staff, in coordination with an external IFRS consulting firm, for the areas of significance identified in the first phase. Component evaluations for each significant area are currently being undertaken. Each component evaluation will consist of the following:

- Definition of a starting point by summarizing Canadian GAAP as currently used;
- Definition of IFRS accounting policies for the component;
- Narrative summarization of differences between Canadian GAAP and IFRS;
- Identification of issues or data gaps to be dealt with;
- Summary of action items and identification of interdependencies with other components;
- Communication/training needs; and
- Effects on internal controls/disclosure controls.

The third phase of the IFRS Plan, to run in parallel with the second phase, will be to analyze and aggregate the Company's financial data, while modifying existing financial reporting processes to capture data to allow for new financial reporting requirements.

First-time Adoption of IFRS

IFRS 1, "First Time Adoption of International Financial Reporting Standards", provides the framework for the first-time adoption of IFRS. Although retrospective application of IFRS is required, a number of optional and mandatory exemptions are available under IFRS 1. The Company is analyzing various accounting policy choices and expects to apply certain IFRS exemptions, including:

Full-cost Accounting

IFRS 1 permits entities using the full cost method of accounting an exemption from retrospective application of IFRS. By electing this exemption, the Company will use the carrying amount of its oil sands assets under Canadian GAAP as the deemed cost of its oil sands assets at the date of first-time adoption of IFRS.

Stock-based Compensation

IFRS 1 allows for an exemption on IFRS 2, "Share-Based Payments" for equity instruments which have vested prior to transition to IFRS.

Impact of Adopting IFRS

The areas of existing IFRS identified to date that are expected to have an impact to the Company are as follows:

Identification of Exploration and Evaluation ("E&E") Expenditures

Upon transition to IFRS, the Company will re-classify E&E expenditures currently included in Property, Plant and Equipment("PP&E"). E&E assets will consist of expenditures such as, but not limited to, land acquisition, delineation drilling and seismic data acquisition. E&E assets are not depleted and are assessed for impairment when indicators of impairment exist.

Impairment of E&E Assets and PP&E

Under IFRS, the Company can choose to evaluate impairment of E&E assets at the cash generating unit level or by aggregating a group of cash generating units. The Company has not yet determined if it will aggregate cash generating units for impairment testing under IFRS.

Impairment of PP&E is calculated at a more detailed level than what is required under Canadian GAAP. Impairment will be assessed at the cash generating unit level under IFRS as opposed to evaluating impairment on a country-wide basis under Canadian GAAP.

Stock-based Compensation

The Company did not incorporate estimated volatility in the fair value calculation of stock-based compensation costs. The Company also did not estimate a forfeiture rate for equity instruments. Under IFRS, the Company is required to incorporate expected volatility and expected forfeiture rates in the fair value calculation of stock-based compensation.

Joint Ventures

The Company is monitoring the status of Exposure Draft 9 ("ED 9"), which proposes to make significant changes to the accounting for interests in joint ventures under IFRS. Entities are currently permitted under IFRS to account for investments in joint ventures using either the proportionate consolidation method or the equity method. However, ED 9 significantly restricts the previous flexibility under IFRS to account for joint ventures. The Company currently accounts for joint ventures using the proportionate consolidation method and if the recommendations of ED 9 are adopted, the Company will evaluate all joint venture arrangements to determine if a change to the equity method is required.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements, based on Canadian GAAP, requires the use of estimates and assumptions derived from management's professional judgment. By definition, estimates and assumptions are subject to a certain degree of uncertainty and the effects of changes in these estimates and assumptions on the Company's consolidated financial statements could be significant.

Reserves and Resources Estimates

Estimates of oil sands reserves and resources, by necessity, are projections based on geologic and engineering data, and there are uncertainties inherent to the interpretation of such data as well as the projection of future rates of production and the timing of development expenditures. Reserves and resource engineering is an analytical process of estimating underground accumulations of bitumen that can be difficult to measure. The accuracy of any reserves or resource estimate is a function of the quality of available data, engineering and geological interpretation and judgment. Estimates of economically recoverable bitumen reserves and resources and associated future net cash flows necessarily depend upon a number of variable factors and assumptions, such as future production rates, the assumed effects of regulations by governmental agencies and assumptions governing future bitumen prices, future royalties and operating costs, development costs and workover and remedial costs, all of which may in fact vary considerably from actual results. For these reasons, estimates of the economically recoverable quantities of bitumen attributable to any particular group of properties, classifications of such reserves or resources based on risk recovery, and estimates of the future net cash flows expected there from may vary substantially. Any significant variance in the assumptions could materially affect the estimated quantity and value of the reserves or resources, which could affect the carrying value of the Company's oil sands properties and the rate of depletion of the oil sands properties. Actual production, revenues and expenditures with respect to the Company's reserves and resources will likely vary from estimates, and such variances may be material.

The Company's estimated quantities of contingent resources were assessed by qualified independent petroleum engineers GLJ Petroleum Consultants Ltd. and DeGolyer and MacNaughton Canada Limited, with their respective reports dated at December 31, 2009.

Capital Assets – Full Cost Accounting and Impairment

The Company follows the full cost method of accounting. AOSC capitalizes costs associated with its oil sands activities, including lease acquisition costs, exploratory drilling to delineate oil sands plays, geological and geophysical costs, engineering, licensing and regulatory fees, carrying charges on non-productive assets, and employee salaries and stock-based compensation related to exploration and development activities.

The carrying values of oil sands property and equipment assets are not intended to reflect their future value. The future value of AOSC's oil sands assets depends on a number of factors including, but not limited to, the acquisition cost of future property leases, the identification of commercially productive resources, management's ability to obtain additional financing, the future profitability of identified projects and the global market view related to oil as a viable energy alternative.

Each reporting period the carrying value of the Company's unproved oil sands assets will be assessed to determine if there are events or circumstances that would indicate impairment. If an impairment indicator exists and the carrying value is deemed unlikely to be recovered when compared to the estimated discounted future cash flows, the excess of those costs over the recoverable value of the assets is charged to net income. The calculation of the estimated discounted future cash flows is based on a number of estimates including, but not limited to, resource volumes, production rates, commodity prices, timing of activities, future development costs, and other variables.

The Company believes that the fair value of capitalized costs incurred to date exceeds the carrying value, and the carrying value will be recovered from future operating activity.

Stock-based Compensation

The Company uses the fair value method to account for securities issued as part of its stock-based compensation. The fair value of the securities is estimated at the date of grant and is amortized against earnings over the estimated contractual life of the instrument, with a corresponding amount reflected in contributed surplus. Amounts directly related to exploration and development activities are capitalized.

The calculation of stock-based compensation requires the use of a number of assumptions, including risk free interest rates, volatility, and estimated life.

Asset Retirement Obligations

The Company measures asset retirement obligations ("ARO") at each financial statement date, based on the Company's share of the estimated costs to retire and reclaim tangible long-lived assets.

The estimated fair values of ARO related to tangible long-lived assets are recognized as a liability in the period in which they are incurred. Retirement costs equal to the estimated fair value of the ARO are capitalized as part of the cost of associated capital assets and are amortized to expense through depletion over the life of the asset. The fair value of the ARO is estimated by discounting the expected future cash flows to settle the ARO at the Company's average credit-adjusted risk-free interest rate. In subsequent periods, the ARO is accreted for the passage of time.

In arriving at fair value of the ARO, assumptions are made for the ultimate settlement amounts, inflation factors and the timing of settlement of the obligation. Differences between actual results and estimated costs to settle the ARO will result in gains or losses in the period when the ARO is settled.

Future Income Taxes

The Company recognizes a future income tax liability based on estimates of temporary differences between the book and tax value of its assets. An estimate is also used for both the timing and tax rate upon reversal of the temporary differences. Actual differences and timing of the reversals may differ from estimates, impacting the future income tax balance and net income.

Risk Management The financial performance of the Company may be influenced by a variety of risks inherent to the oil and gas industry, many of which are outside the Company's control. At this stage, the Company does not have material operations and the Company's primary assets consist of cash and short term investments and leases held for the purpose of oil sands exploration and development. The Company's ongoing success depends on the Company's ability to execute the exploration and development projects currently planned.

Factors currently influencing the Company's ability to succeed include, but are not limited to, the following:

Market Risk

Fluctuations in Market Prices of Crude Oil and Bitumen Blend

The Company's results of operations and financial condition will be dependent upon, among other things, the prices that it receives for the bitumen, bitumen blend or other bitumen products that it sells, and the prices that it receives for such products will be closely correlated to the price of crude oil. Historically, crude oil markets have been volatile and are likely to continue to be volatile in the future. Crude oil prices have fluctuated widely during recent years and are subject to fluctuations in response to relatively minor changes in supply, demand, market uncertainty and other factors that are beyond the Company's control. These factors include, but are not limited to: global energy policy, including the ability of the Organization of the Petroleum Exporting Countries to set and maintain production levels and influence prices for crude oil; political instability and hostilities and the risk of hostilities; domestic and foreign supplies of crude oil; weather conditions; the overall level of energy demand; government regulations and taxes; currency exchange rates; the availability of transportation infrastructure; the effect of worldwide environmental and/or energy conservation measures; the price and availability of alternative energy supplies; and the overall economic environment.

Any prolonged period of low crude oil prices could result in a decision by the Company, the MacKay joint venture or the Dover joint venture (as applicable) to suspend or slow development activities, to suspend or slow the construction or expansion of bitumen recovery projects, or (following the commencement of production) to suspend or reduce production levels. Any of such actions could have a material adverse affect on the Company's results of operations and financial condition. There is no generally recognized approach to determine the constant price for bitumen because the bitumen market is not yet mature and there are no published reference prices for bitumen. To price bitumen, marketers apply formulas that take as a reference point the prices published for crude oil of particular qualities such as Edmonton Light, Lloydminster Blend, or the more internationally known WTI. The price of bitumen fluctuates widely during the course of a year, with the lowest prices typically occurring at the end of the calendar year because of decreased seasonal demand for asphalt and other bitumen-derived products coupled with higher prices for diluents added to facilitate pipeline transportation of bitumen.

The market prices for heavy oil (which includes bitumen blends) are lower than the established market indices for light and medium grades of oil, due principally to diluent prices and the higher transportation and refining costs associated with heavy oil. Also, the market for heavy oil is more limited than for light and medium grades of oil, making it more susceptible to supply and demand fundamentals. Future price differentials are uncertain and any increase in the heavy oil differentials could have an adverse effect on the Company's results of operations and financial condition.

The Company conducts an assessment of the carrying value of its assets to the extent required by Canadian GAAP. If crude oil prices decline, the carrying value of the Company's assets could be subject to downward revision, and the Company's earnings could be adversely affected.

General Economic Conditions, Business Environment and Other Risks

The business of the Company is subject to general economic conditions. Adverse changes in general economic and market conditions could negatively impact demand for crude oil, bitumen and bitumen blend, revenue, operating costs, results of financing efforts, timing and extent of capital expenditures or credit risk and counterparty risk.

Volatility in crude oil, bitumen blend, natural gas, SCO and other diluent prices, fluctuations in interest rates, product supply and demand fundamentals, market competition, labour market supplies, risks associated with technology, risks of a widespread pandemic, the Company's ability to generate sufficient cash flow from operations to meet its current and future obligations, the Company's ability to access external sources of debt and equity capital, general economic and business conditions, the Company's ability to make capital investments and the amounts of capital investments, risks associated with potential future lawsuits and regulations, assessments and audits (including income tax) against the Company and its subsidiaries, political and economic conditions in the geographic regions in which the Company and its subsidiaries operate, difficulty in obtaining necessary regulatory approvals, a significant decline in the Company's reputation, and such other risks and uncertainties, could individually or in the aggregate have a material adverse impact on the Company's business, prospects, financial condition, results of operation or cash flows. Challenging market conditions and the health of the economy as a whole may have a material adverse effect on the Company's business, financial condition, liquidity and results of operations. There can be no assurance that any risk management steps taken by the Company with the objective of mitigating the foregoing risks will avoid future loss due to the occurrence of such risks.

Variations in Foreign Exchange Rates and Interest Rates

World oil and gas prices are quoted in United States dollars and the price received by Canadian producers is therefore affected by the Canadian/U.S. dollar exchange rate, which will fluctuate over time. In recent years and months, the Canadian dollar has increased materially in value against the United States dollar. Material increases in the value of the Canadian dollar negatively impact commodity prices valued in United States dollars thereby reducing the Company's production revenues. Future Canadian/U.S. dollar exchange rates could accordingly impact the future value of the Company's resources as determined by independent evaluators.

The Company's indebtedness under PetroChina Loan #1 (and any indebtedness the Company incurs in the future under PetroChina Loan #2 and PetroChina Loan #3) is at a variable rate of interest and exposes the Company to interest rate risk. After the PetroChina loans are repaid, the Company may incur additional indebtedness at variable rates of interest that expose the Company to additional interest rate risk. If interest rates increase, the Company's debt service obligations on such variable rate indebtedness would increase even though the amount borrowed remains the same, and the Company's net income and cash flows would decrease.

To the extent that the Company engages in risk management activities related to foreign exchange rates or interest rates, there is a credit risk associated with counterparties with whom the Company may contract.

Uncertainties Associated with Estimating Reserves and Resources Volumes

Other than Probable and Possible Reserves associated with certain portions of the MacKay oil sands assets, the Company has not established any reserves, although it has identified Contingent Resources. GLJ and D&M have completed geological evaluations of the Company's properties effective as of December 31, 2009. See "Independent Reserve and Resource Evaluations" and "Project Development". There are numerous uncertainties inherent in estimating the quantities of reserves and resources attributable to the Dover oil sands project, the MacKay oil sands project, the Dover West Clastics oil sands project, the Dover West Leduc Carbonates oil sands project, and the Company's other assets, including many factors beyond the Company's control, and no assurance can be given that the indicated level of reserves and resources will be realized. In general, estimates of recoverable reserves and resources are based upon a number of factors and assumptions made as of the date on which the reserves and resource estimates were determined, such as geological and engineering estimates which have inherent uncertainties, the assumed effects of regulation by governmental agencies and estimates of future commodity prices and operating costs, all of which may vary considerably from actual results. All such estimates are, to some degree, uncertain and classifications of reserves and resources are only attempts to define the degree of uncertainty involved. For these reasons, estimates of the economically recoverable bitumen and the classification of such reserves and resources based on risk of recovery prepared by different engineers or by the same engineers at different times may vary substantially.

Estimates with respect to reserves and resources that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves and resources, rather than upon actual production history. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves and resources based upon production history will result in variations, which may be material, in the estimated reserves and resources. Reserves and resource estimates may require revision based on actual production experience. Such figures have been determined based upon assumed oil prices and operating costs. Market fluctuations of oil prices may render uneconomic the recovery of certain grades of bitumen. Moreover, short term factors relating to oil sands reserves and resources may impair the profitability of the Company's projects in any particular period.

There is no certainty that any of the Dover, MacKay, Dover West, Birch, Hangingstone or Grosmont areas will produce any portion of the volumes currently classified as "Probable Reserves", "Possible Reserves" or "Contingent Resources".

Project Development Risk

Status and Stage of Development

The Company has no producing properties and no history of earnings, and there is no assurance that any of its properties will commence production, generate earnings, operate profitably or provide a return on investment in the future.

The MacKay and Dover oil sands projects are currently both in the early stages of their planned development schedules, and all of the Company's other assets are currently in the early stages of exploration or development. There is a risk that one or all of the MacKay oil sands project, the Dover oil sands project, the Dover West clastics oil sands project, the Dover West Leduc carbonates oil sands project or any other proposed commercial development of the Company's assets will not be completed on time or within the applicable capital cost estimates or at all. Additionally, there is a risk that one or all of the MacKay oil sands project, the Dover oil sands project, the Dover West clastics oil sands project, the Dover West Leduc carbonates oil sands project or any other proposed commercial development of the Company's assets may have delays, interruption of operations or increased costs due to many factors, including, without limitation: breakdown or failure of equipment or processes; construction performance falling below expected levels of output or efficiency; design errors; contractor or operator errors; non-performance

by third-party contractors; labour disputes, disruptions or declines in productivity; increases in materials or labour costs; inability to attract sufficient numbers of qualified workers; delays in obtaining or conditions imposed by, regulatory approvals; changes in project scope; violation of permit requirements; disruption in the supply of energy and other inputs, including natural gas and diluents; and catastrophic events such as fires, earthquakes, storms or explosions.

Given the stage of development of the MacKay oil sands project, the Dover oil sands project, the Dover West clastics oil sands project and the Dover West Leduc carbonates oil sands project, various changes are likely to be made prior to completion. The commercial development application for regulatory approval of the MacKay oil sands project was submitted on December 10, 2009, and based upon current scheduling, approvals are expected in late 2011 and first oil production is expected to begin in late 2014. Based upon current scheduling, the expected submission date for regulatory approval for the commercial development application for the Dover oil sands project is late 2010, with approvals expected in late 2012 and first oil production expected to begin in late 2015. No commercial development applications for regulatory approval of the Dover West clastics oil sands project, the Dover West Leduc carbonates oil sands project or any other commercial development of the Company's assets has been submitted. The information contained herein, including, without limitation, resource and economic evaluations, is conditional upon receipt of all regulatory approvals and no material changes being made to the MacKay oil sands project, the Dover oil sands project, the Dover West clastics oil sands project and the Dover West Leduc carbonates oil sands project or the scope of any of the projects.

As a result of the completion of the PetroChina Transaction and the formation of the MacKay joint venture and the Dover joint venture, each of the MacKay oil sands project and the Dover oil sands project is subject to a re-evaluation by the Participants. The MacKay oil sands project and the Dover oil sands project concepts are also subject to revision as the projects continue through the later engineering stages and as specific enhancement opportunities are identified. Some changes to the MacKay oil sands project and the Dover oil sands project concepts are virtually certain to occur and such changes may be material both in terms of design and cost. Similar changes and revisions to the concepts for the Dover West clastics oil sands project and the Dover West Leduc carbonates oil sands project, which may be material both in terms of design and cost, are also virtually certain to occur as those projects are at much earlier stages of development than the MacKay and Dover oil sands projects.

In addition to the foregoing, there is also a risk that some or all of the Company's other assets may not be developed on a timely basis or at all. Numerous factors, many of which are beyond the Company's control, could impact the Company's ability to further explore and develop the Company's other assets and the timing thereof, including the risk factors set forth in this MD&A.

Bitumen Recovery Processes

The recovery of bitumen using SAGD and CSS processes is subject to uncertainty. Both the SAGD and CSS bitumen recovery processes have had limited operating history in commercial projects and there can be no assurance that the Company's operations will produce bitumen at the expected levels or on schedule. This is particularly true in respect of the Company's Dover West and Grosmont properties, because in these areas a significant quantity of the Company's bitumen resources are located in "carbonate" reservoirs, whereas in other areas the Company's bitumen resources are found in "clastic" reservoirs (see "Project Development – Dover West Asset – Resources – Geology – Area Overview" for a discussion of the differences between clastic reservoirs and carbonate reservoirs). All of the commercially viable SAGD and CSS recovery projects undertaken to date in Alberta have targeted clastic reservoirs.

SAGD and CSS, the recovery processes proposed to develop the "carbonate" reservoirs at the Company's Dover West and Grosmont properties, are considered by GLJ to be "technology under development" in carbonate reservoirs. The successful development of the Company's carbonate reservoirs depends on, among other things, the successful development and application of SAGD and CSS or other recovery processes to carbonate reservoirs. Although the technology has been developed for application to non-carbonate reservoirs, there are no known successful commercial projects that use SAGD or CSS to recover bitumen from carbonate formations and there exists a large range in the expected recoverable volumes, the lower end of which may not be economically viable. The principal risks associated with SAGD and CSS recovery in carbonate reservoirs are (i) the possibility of unexpected steam channelling which would increase steam requirements resulting in increased costs and potentially reduced economically recoverable bitumen volumes, and (ii) potential mechanical operating problems due to production of fines which could cause wellbore plugging and reduced bitumen production rates and potential interruption of surface production operations. Although the technical risks associated with "technology under development" have been accounted for in the GLJ Report, the timeline for verification of "technology under development" has inherent uncertainty. Development will involve significant capital expenditures and a lengthy time to project payout and project payout is not assured. If a pilot project and/or the technology under development do not demonstrate potential commerciality in carbonate reservoirs then the Company's projects on these assets may not proceed and this may occur only after significant e xpenditureshave been incurred by the Company. With respect to the Company's Grosmont asset, the Company's strategy is to continue delineation drilling efforts in the area in order to increase the resource base. The Company has not prepared a development plan or timeline for the Grosmont area, and is monitoring industry activity toward demonstrating successful development and production methods for the Grosmont Formation.

Therefore, the Company's ability to develop its bitumen resources that are located in carbonate reservoirs on a commercially viable scale is contingent upon one or more of the following events occurring: the Company using existing SAGD or CSS technology to successfully exploit carbonate reservoirs; the Company adapting existing SAGD or CSS technology such that it can be successfully used to exploit carbonate reservoirs; or, the Company developing or acquiring new technology that can be used to successfully exploit carbonate reservoirs. There can be no assurance that existing SAGD or CSS technologies will prove to be viable for the commercial exploitation of bitumen located in carbonate reservoirs, that existing SAGD or CSS technologies can be modified in such a manner as to be made to be viable for the commercial exploitation of bitumen located in carbonate reservoirs, or that new technologies will be developed or acquired by the Company that will be viable for the commercial exploitation of bitumen located in "carbonate" reservoirs. The development of such recovery processes will involve significant capital expenditures and a lengthy time to project payout and project payout is not assured.

Current SAGD and CSS technologies require a significant amount of natural gas and other fuels in the production of steam that is used in the recovery process. The amount of steam required in the production process can also vary and affect costs. The Company has no operating history with respect to the average operating steam to oil ratio for its projects. Should the actual average operating steam to oil ratio in commercial operations be higher than the Company's estimates, it may result in some or all of the following: an increase in operating costs; lower bitumen production; or, the requirement for additional facilities. If one or more of these events occurs it is possible that the affected project could become uneconomic, which could have a material adverse affect on Athabasca's results of operations and financial condition.

In addition, should the Company encounter the existence of adverse reservoir conditions during the development of its clastics or carbonates projects, ultimate bitumen recovery levels achieved by the Company utilizing the SAGD and/or CSS recovery processes may be negatively impacted. Such adverse reservoir conditions could include, but are not limited to, the following: regional poor quality geological features; depleted or partially depleted associated gas caps due to prior gas production; the existence of bottom or top water, inter-formation water, or other thief zones; or the absence of an overlying cap rock.

Any of these events could have a material adverse impact on the future operating activities conducted at, and the economic performance of, the Company's projects, which in turn could have a material adverse impact on the Company's results of operations and financial condition and thereby adversely affect the value in trading price of the Common Share.

Development Schedules and Cost Over-Runs

Historically, oil sands projects have experienced capital cost over-runs due to a variety of factors. Prior to the onset of the global financial crisis in 2008, the large number of existing and planned bitumen recovery and upgrading projects in the Athabasca oil sands area of northeast Alberta had created a strong demand for, and in some cases shortages of, the labour, goods and services that are required to complete and operate these types of projects. It is possible that as the North American and world economies improve and the demand for commodities recovers these conditions could again materialize in the Athabasca oil sands area.

Although the Company has a defined schedule for developing its oil sands resources (including obtaining regulatory approvals), and commencing and completing the construction of certain projects (including the MacKay oil sand project, the Dover oil sands project, the Dover West clastics oil sands project and the Dover West Leduc carbonates oil sands project), there is no assurance that the development and project schedules will proceed as planned. Any delays in the development and project schedules could be material and could adversely affect the Company's results of operations and financial condition. Project delays may delay expected revenues from operations. Significant project cost over-runs could make a project uneconomic. Additionally, there is a risk that the Company's future projects may have delays, interruption of operations or increased costs. The Company's ability to execute projects, and the performance of such projects, depends upon numerous factors beyond the Company's control. Because of these factors, the Company could be unable to execute projects on time, on budget or at all or the projects may not perform to the Company's expectations or as required by regulatory approvals.

The cost to construct projects for the development of the Company's oil sands resources has not been fixed and remains dependent on many factors, some of which are beyond the Company's control. There is no assurance that the current construction and operations schedules will proceed as planned without any delays or cost over-runs. Any delays may increase the costs of those projects, which could result in the need for additional capital, and there can be no assurance that such capital will be available on acceptable terms or at all.

Availability of Drilling Equipment and Access

Oil sands exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Company and may delay exploration and development activities. There can be no assurance that sufficient drilling and completion equipment, services and supplies will be available when needed. Shortages could delay the Company's proposed exploration, development and sales activities. If the demand for, and wage rates of, qualified rig crews rise in the drilling industry then the oil industry may experience shortages of qualified personnel to operate drilling rigs. This could delay and increase the costs of the Company's drilling operations. One or more of these events could have a material adverse effect on the Company's results of operations and financial condition.

Substantial Capital Requirements

The Company anticipates making substantial capital expenditures to fund, among other things: the Company's share of the costs to develop the MacKay oil sands project, the Dover oil sands project, the Dover West clastics oil sands project and the Dover West Leduc carbonates oil sands project; the ongoing exploration of the Company's other assets; and the future acquisition, exploration, development and production of oil and natural gas resources and reserves. The only source of future funds presently available to the Company is through the sale of additional equity capital, borrowing funds (including pursuant to the PetroChina loan agreements), or selling assets (including a portion of the Company's interest in the MacKay oil sands project, the Dover oil sands project, the Dover West clastics oil sands project and the Dover West Leduc carbonates oil sands project). However, the PetroChina loan agreements, the Dover joint venture agreement and the MacKay joint venture agreement each contain restrictions on the ability of the Company to sell certain assets and/or incur additional debt. In addition, uncertain levels of near term industry activity coupled with the ongoing global credit crisis exposes the Company to additional access to capital risk. There can be no assurance that debt or equity financing, or cash, if any, that may be generated by future operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Company. The inability to access sufficient capital for the Company's operations could result in, among other things: the default of the Company under the MacKay joint.

venture agreement or the Dover joint venture agreement relating to its obligations to fund the MacKay oil sands project and the Dover oil sands project, respectively; the inability of the Company to repay amounts owing by the Company under the PetroChina loan agreements; and the inability of the Company to conduct exploration and development programs on its other assets including the Dover West clastics oil sands project and the Dover West Leduc carbonates oil sands project. In addition, equity financing (if available) may result in substantial dilution to existing shareholders. Any of these results could have a material adverse effect on the Company's financial condition, results of operations and prospects.

Risk Factors During Operations

The Company has no producing properties, however, once the Company commences operations, factors which would influence the Company's operating success include, but are not limited to, the following:

- operating costs
- diluent and natural gas costs
- impact of royalties regimes on operating cash flow

Other Risk Factors

Regulatory Approvals and Compliance

The construction, operation and decommissioning of the MacKay oil sands project, the Dover oil sands project and any additional projects that the Company undertakes including the Dover West clastics oil sands project and the Dover West Leduc carbonates oil sands project, are and will be conditional upon various environmental and regulatory approvals issued by governmental authorities, including but not limited to the approval of the Energy Resources Conservation Board of Alberta. There is no assurance such approvals will be issued, or, once issued or renewed, that they will not contain terms and conditions which make the MacKay oil sands project, the Dover oil sands project, the Dover West clastics oil sands project, the Dover West Leduc carbonates oil sands project or such other projects uneconomic, or cause the Company to significantly alter the MacKay oil sands project, the Dover oil sands project, the Dover West clastics oil sands project, the Dover West Leduc carbonates oil sands project or such other projects. Further, the construction, operation and decommissioning of the MacKay oil sands project, the Dover oil sands project, the Dover West clastics oil sands project, the Dover West Leduc carbonates oil sands project and such other projects will be subject to regulatory approvals and statutes and regulations relating to environmental protection and operational safety. Although the Company believes that the MacKay oil sands project, the Dover oil sands project or its other projects will be in general compliance with applicable environmental and safety regulatory approvals, statutes and regulations, risks of substantial costs and liabilities are inherent in oil sands recovery and upgrading operations and there can be no assurance that substantial costs and liabilities will not be incurred or that the MacKay oil sands project, the Dover oil sands project or its other projects will be permitted to carry on operations. Moreover, it is possible that other developments, such as increasingly strict environmental and safety statutes, regulations and enforcement policies thereunder, and claims for damages to property or persons resulting from the operations of the Company's projects, could result in substantial costs and liabilities to the Company or delays to or abandonment of make the MacKay oil sands project, the Dover oil sands project, the Dover West clastics oil sands project, the Dover West Leduc carbonates oil sands project or such other projects.

Environmental

AOSC looks to both Alberta provincial authorities and to Canada's federal authorities for direction regarding environmental and climate change legislation.

All phases of the oil sands business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal and provincial laws and regulations. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. There has been much public debate with respect to Canada's alternative strategies with respect to climate change and the control of greenhouse gases. Implementation of strategies for reducing greenhouse gases could have a material impact on the nature of oil sands operations. Given the evolving nature of the issues related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict either the nature of those requirements or the impact on the Company and its operations and financial condition.

AOSC believes that government regulators realize the importance of oil sands projects to both Alberta and Canada and that a competitive economic environment will be maintained. However, AOSC cannot guarantee this assumption and there can be no assurance that currently enacted or potential future environmental legislation will not have an adverse affect on the Company's financial condition.

For additional information regarding the risks and uncertainties to which the Company and its business are subject, please see the information under the headings "Notice to Investors - Forward-Looking Statements" and "Risk Factors" in the Company's prospectus dated March 30, 2010, which is available on the SEDAR website at www.sedar.com

SUBSEQUENT EVENTS

Incentive Plan Amendments

On February 25, 2010, the Board approved amendments to the exercise price of 552,000 unvested new stock options to reduce the exercise price by $4.25, the amount of the Special Dividend, as required by the adjustment provisions of the new stock options. The amendments became effective on the effective date of the Plan of Arrangement (as defined below) pursuant to which the Special Dividend was paid. There is no charge to stock-based compensation on the date of amendment because none of the new stock options are vested.

Restricted Share Unit ("RSU") Plan

Subsequent to December 31, 2009, the Board approved a restricted share unit plan in order to attract and retain employees, officers, directors and consultants. The plan allows the Board to grant restricted share units, each of which is a unit that is equivalent in value to a common share and that upon vesting and exercise results in the holder being issued a common share for a nominal exercise price. The restricted share units typically vest over a four-year period on each anniversary of the grant date and expire five years after the grant date. A plan participant may make an offer to the Company for the surrender of any restricted share unit that has vested for an amount (not to exceed the fair market value of the underlying common share less the nominal exercise price of the restricted share unit) specified by the participant in the surrender offer. The Company may, but is not obligated to, accept the surrender offer. If the surrender offer is accepted, the restricted share unit in respect of the surrender offer relates is cancelled upon payment of the agreed amount by the Company to the participant.

Exercise of Purchase Warrants

Subsequent to December 31, 2009, the Company issued 97,274,250 common shares upon the exercise of 97,274,250 Purchase Warrants (including the 84,109,692 Purchase Warrants deemed to be exercised pursuant to the Plan of Arrangement), for aggregate proceeds of approximately $121.6 million.

Special Dividend

On March 22, 2010, pursuant to a plan of arrangement (the "Plan of Arrangement") under the *Business Corporations Act* (Alberta), the Company paid the Special Dividend in the aggregate amount of approximately $1.332 billion ($4.25 per common share) utilizing a portion of the proceeds of the PetroChina Transaction.

Pursuant to the Plan of Arrangement: (a) each outstanding Purchase Warrant was deemed to be exercised for one common share and the holder thereof became entitled to the Special Dividend; (b) (i) each common share held by a shareholder or warrantholder that so elected and certified that: (A) it is a resident of Canada; (B) it holds its common shares as capital property; and (C) it is not exempt from tax under Part I of the Tax Act; will be exchanged for one Class B common share; (ii) the Company declared and paid the Special Dividend in the aggregate amount of $4.25 per share to the holders of common shares and Class B common shares, with the capital dividend portion of the Special Dividend being paid to holders of Class B common shares; and (iii) following the payment of the Special Dividend, each Class B common share was exchanged for one common share. Accordingly, on completion of the Plan of Arrangement there are no authorized or issued Class B common shares and there was no change in the outstanding number of common shares, except for the 84,109,692 common shares issued upon the deemed exercise of Purchase Warrants pursuant to the Plan of Arrangement.

Special Securityholders Meeting

At the Special Securityholders Meeting held on March 19, 2010, Securityholders, as applicable, approved: (i) the Plan of Arrangement described above; (ii) the creation of an unlimited number of first preferred shares, issuable in series, and an unlimited number of second preferred shares, issuable in series; and (iii) the adoption of shareholder rights plan.

Commitments

The PetroChina Transaction closed on February 10, 2010 and includes a 2010 budget and work program for the MacKay River and Dover oil sands projects. The Company's share of this budget and work program is approximately $30.3 million.

Initial Public Offering

On April 8, 2010, pursuant to an underwriting agreement and a prospectus each dated March 30, 2010, the Company completed its initial public offering (the "IPO") and issued 75,000,000 common shares to the public for estimated proceeds of approximately $1.263 billion, net of commissions and other estimated costs relating to the issue aggregating approximately $87.5 million. The Company has also granted an overallotment option to the underwriters of the IPO for the issue of up to an additional 11,250,000 common shares exercisable within 30 days from the date of closing of the public financing. If the option is exercised in full the Company would receive estimated additional proceeds of approximately $190.4 million, net of commissions of approximately $12.2 million.

Additional Information

Additional information relating to AOSC is available on SEDAR at www.sedar.com.