



ATHABASCA

OIL SANDS CORP.

Management's Discussion and Analysis
Q2 2010

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 July 28, 2010 and should be read in conjunction with the audited consolidated financial statements and management's discussion and analysis (the "Annual MD&A") of the Company for the year ended December 31, 2009, and the unaudited interim consolidated financial statements of the Company for the three and six months ended June 30, 2010. The audited and unaudited consolidated financial statements of the Company have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). Unless otherwise noted, all financial measures are expressed in Canadian dollars and tabular amounts are in thousands of dollars. This MD&A contains forward looking information based on the Company's current expectations and projections. For information on the material factors and assumptions underlying such forward looking information, refer to the "Forward Looking Statements" advisory at the end of this MD&A. Additional information relating to AOSC is available on SEDAR at www.sedar.com.

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 June 30, 2010, the Company had more than 1.6 million net acres of oil sands leases and permits in the Athabasca area. The Company's common shares are listed on the Toronto Stock Exchange under the trading symbol "ATH".

Operational Highlights for the Three and Six Months Ended June 30, 2010

- On February 10, 2010, the Company entered into a series of agreements (the "PetroChina Transaction Agreements") with PetroChina International Subco, a wholly owned subsidiary of PetroChina International Investment Company Limited ("PetroChina International"), which itself is a wholly owned subsidiary of PetroChina Company Limited ("PetroChina"), pursuant to which, among other things, PetroChina International Subco: (a) acquired 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) made certain credit facilities available to the Company (the "PetroChina Transaction"). The Company recorded a \$1.645 billion gain on the PetroChina Transaction.
- On April 8, 2010, the Company completed its initial public offering (the "IPO") and issued 75,000,000 common shares to the public for proceeds of approximately \$1.263 billion, net of commissions and other costs relating to the issue aggregating approximately \$87.5 million.
- On June 9, 2010 the Company announced that, based on the results of its recently completed independent reserve and resource evaluation, AOSC had increased its Gross Resource volumes by approximately 20% to 8.705 billion barrels, compared to the estimates (*pro forma* the completion of the PetroChina Transaction) set out in AOSC's Statement of Oil and Gas Reserves Data and Other Oil and Gas Information for the year ended December 31, 2009. The increase is primarily due to incremental contingent resources from Dover West Leduc Carbonates as a result of drilling 12 wells during the 2009/2010 winter drilling program.
- The winter drilling program included drilling 12 wells in the Dover West area where the Company holds a 100% working interest, 52 wells in the Dover area where the Company holds a 40% working interest and four wells in the Grosmont area where the Company holds operatorship and a 50% working interest.

Independent Resource Evaluations

During the second quarter AOSC's independent reserve evaluators, GLJ Petroleum Consultants Ltd. ("GLJ") and DeGolyer and MacNaughton Canada Limited ("D&M"), completed independent reserve and resource evaluations that incorporated the results of AOSC's 2009/2010 68-well winter drilling program at its Dover, Dover West and Grosmont properties in northeastern Alberta. Based on the results of these evaluations, AOSC has increased its Gross Resource volumes, by approximately 20% to 8.705 billion barrels, compared to the estimates (*pro forma* the completion of the PetroChina Transaction) set out in AOSC's Statement of Oil and Gas Reserves Data and Other Oil and Gas Information for the year ended December 31, 2009. AOSC's 8.705 billion barrels of Gross Resource is comprised of 8.591 billion barrels of contingent resource (best estimate) and 114 million barrels of probable reserves. The GLJ and DM evaluations are based on GLJ's April 1, 2010 pricing (see "Resource Information" at the end of this MD&A).

Set out in the tables below are a summary of the Company's bitumen reserves and associated future net revenues as of April 30, 2010 as evaluated by GLJ in their report dated effective April 30, 2010 (the "GLJ Report"). AOSC's bitumen reserves are located in the MacKay area. Probable and Possible Reserves have been assigned by GLJ to Phase 1 of the MacKay Oil Sands Project, for which regulatory application has been made for development. All evaluations of estimated future revenue are after the deduction of estimated royalties, development costs, production costs and well abandonment costs but before consideration of indirect costs such as administrative, overhead and other miscellaneous expenses. The estimated future net revenues contained in the following tables do not necessarily represent the fair market value of the Company's reserves. There is no assurance the forecast price and cost assumptions contained in the GLJ Report will be realized and variances could be material. The recovery and reserves estimates are estimates only. The actual reserves may be greater or less than those calculated.

Mackay Phase 1 Bitumen Reserves (million barrels)	Gross	Net
Total Probable	113.9	88.3
Total Possible	25.8	17.6
Total Probable Plus Possible	139.7	105.9

	Probable Reserves	Net Present Value GLJ April 1, 2010 Dilbit Pricing After Tax, Company Interest						
		0%	5%	8%	9%	10%	12%	15%
GLJ REPORT	(mmbbls)	(\$Million)	(\$Million)	(\$Million)	(\$Million)	(\$Million)	(\$Million)	(\$Million)
Established Technology								
Mackay	114	2,223	915	543	455	380	261	136
Dover	-	-	-	-	-	-	-	-
Dover West Clastics	-	-	-	-	-	-	-	-
Technology Under Development								
Dover West Leduc Carbonates	-	-	-	-	-	-	-	-
Grosmont	-	-	-	-	-	-	-	-
TOTAL GLJ REPORT	114	2,223	915	543	455	380	261	136
D&M REPORT								
Established Technology								
Birch	-	-	-	-	-	-	-	-
Hangingstone	-	-	-	-	-	-	-	-
TOTAL D&M REPORT	-	-	-	-	-	-	-	-
TOTAL COMPANY	114	2,223	915	543	455	380	261	136

Notes:

(1) For pricing and inflation assumptions, refer to "Pricing Assumptions" at the end of this MD&A.

The tables below summarize the Company's Contingent Resources and associated estimated future net revenues as of April 30, 2010, as evaluated by GLJ and D&M in the "GLJ Report" and in D&M's report dated effective April 30, 2010 (the "D&M Report"). It should not be assumed the estimates of recovery, production and net revenue presented in the tables below represent the fair market value of Athabasca's bitumen resources. There is no assurance the forecast prices and cost assumptions will be realized and variances could be material. The recovery and production estimates are estimates only and there is no guarantee the estimated resources will be recovered or produced. Actual resources may be greater than or less than the estimates provided. 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. There is no certainty it will be commercially viable to produce any portion of the Contingent Resources. These tables do not include the probable and possible reserve volumes that have been assigned by GLJ to Phase 1 of the MacKay Oil Sands Project, see the MacKay Phase 1 Bitumen Reserves table above.

Contingent Resources ⁽¹⁾ (mmbbls)	Low Estimate	Best Estimate	High Estimate
GLJ REPORT			
Established Technology			
MacKay	345	573	983
Dover	772	1,358	1,775
Dover West Clastics	1,318	2,013	2,736
Technology Under Development ⁽⁶⁾			
Dover West Leduc Carbonates	N/A ⁽²⁾	2,725	4,650
Grosmont	N/A ⁽²⁾	369	1,843
TOTAL GLJ REPORT	2,435	7,038	11,987
D&M REPORT			
Established Technology			
Birch	130	1,141	1,826
Hangingstone	123	412	711
TOTAL D&M REPORT	253	1,553	2,537
TOTAL COMPANY CONTINGENT RESOURCES⁽³⁾	2,688	8,591	14,524

	Contingent Resources Best Estimate ⁽¹⁾	Net Present Value GLJ April 1, 2010 Dilbit Pricing After Tax, Company Interest						
		0%	5%	8%	9%	10%	12%	15%
GLJ REPORT	(mmbbls)	(\$Million)	(\$Million)	(\$Million)	(\$Million)	(\$Million)	(\$Million)	(\$Million)
Established Technology								
MacKay	573	10,472	2,801	1,364	1,081	857	539	260
Dover	1,358	31,177	7,797	3,776	2,996	2,384	1,513	745
Dover West Clastics	2,013	38,177	9,565	4,426	3,421	2,633	1,516	548
Technology Under Development ⁽⁶⁾								
Dover West Leduc Carbonates	2,725	57,579	15,978	7,967	6,360	5,086	3,251	1,616
Grosmont	369	4,832	1,037	301	159	50	(97)	(209)
TOTAL GLJ REPORT	7,038	142,237	37,178	17,834	14,017	11,010	6,722	2,960
D&M REPORT								
Established Technology								
Birch	1,141	23,608	6,292	3,125	2,497	2,000	1,282	633
Hangingstone	412	8,372	3,257	1,879	1,563	1,299	890	486
TOTAL D&M REPORT	1,553	31,980	9,549	5,004	4,060	3,299	2,172	1,119
TOTAL COMPANY	8,591	174,217	46,727	22,838	18,077	14,309	8,894	4,079

Notes:

- The tables set forth arithmetic sums of (i) the Contingent Resource estimates contained in the GLJ Report with respect to MacKay, Dover, Dover West Clastics, Dover West Leduc Carbonates and Grosmont, and (ii) the Contingent Resource estimates contained in the D&M Report with respect to Birch and Hangingstone. The evaluation procedures employed by GLJ and D&M are generally consistent with each other and in compliance with standards contained in the Canadian Oil and Gas Evaluation Handbook ("COGE Handbook").
- The GLJ Report does not calculate Low Estimate Contingent Resources associated with the Dover West Leduc Carbonates and Grosmont assets because GLJ does not believe that a high certainty or Low Estimate case would be economic. Readers should be aware that if calculated, the discounted future net revenues associated with the Dover West Leduc Carbonates and Grosmont assets in the Low Estimate would likely be negative since the Low Estimate result would be realized only after considerable capital has been invested.
- 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. In particular, readers should be aware that the likelihood of attaining the sum of the High Estimate is extremely low and of the Low Estimate quite high.
- Tables may not add due to rounding.
- For pricing and inflation assumptions, refer to "Pricing Assumptions" at the end of this MD&A.
- Refer to "Technology Under Development Disclaimer" at the end of this MD&A.

The assumptions relating to the Company's reserves and resources are contained in the GLJ Report and D&M Report and are not materially different than those 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. For definitions and additional information regarding the above, refer to the "Resource Information" at the end of this MD&A. See also AOSC's press release dated June 9, 2010 and its material change report dated June 18, 2010 which are available on the SEDAR website at www.sedar.com and which contain a summary of the GLJ Report and D&M Report.

Financial Highlights

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

(\$ Thousands)	As at June 30, 2010	As at December 31, 2009
Balance Sheet Items:		
Total assets	\$ 2,388,077	\$ 893,583
Long-term debt	\$ 437,814	\$ 398,996
Shareholders' equity	\$ 1,865,826	\$ 172,054

(\$ Thousands, Except Per Share Amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Income Statement Items:				
Revenue	\$ 3,207	\$ 916	\$ 4,229	\$ 2,276
Gain(loss) on sale of assets	\$ (476)	\$ -	\$ 1,645,060	\$ -
Net income (loss)	\$ (6,284)	\$ (6,012)	\$ 1,478,214	\$ (18,989)
Net income (loss) per share - basic	\$ (0.02)	\$ (0.03)	\$ 4.32	\$ (0.10)
Net income (loss) per share - diluted	\$ (0.02)	\$ (0.03)	\$ 4.29	\$ (0.10)

The changes to total assets are due to proceeds from the PetroChina Transaction and IPO, offset by payment of the Special Dividend (described below), as well as 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. Long-term debt increased as a result of the Company redeeming the senior secured notes with proceeds from PetroChina Loan #1 (described below) and borrowings under PetroChina Loan #2 (described below). The gain on sale of assets is a result of the PetroChina Transaction. For the six months ended June 30, 2010 the Company's net income of \$1.478 billion was primarily due to the gain on the PetroChina Transaction. The \$6.3 million loss for the three months ended June 30, 2010 was due to general and administrative, stock-based compensation and financing and interest expenses being greater than the interest and other income on cash and short-term investments.

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 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").

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 \$100.0 million and up to \$560.0 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. By June 30, 2010, the Company had drawn \$7.8 million on PetroChina Loan #2.

Initial Public Offering

On April 8, 2010, the Company completed its initial public offering (the "IPO") and issued 75,000,000 common shares to the public for proceeds of approximately \$1.263 billion, net of commissions and other costs relating to the issue, aggregating approximately \$87.5 million.

RESULTS OF OPERATIONS

The following table summarizes the Company's results of operations for the three and six months ended June 30, 2010 and 2009:

(\$ Thousands)	Three Months Ended		Six Months Ended	
	June 30, 2010	2009	June 30, 2010	2009
Revenue				
Interest and other income	\$ 3,207	\$ 916	\$ 4,229	\$ 2,276
Expenses				
General and administrative	3,988	2,395	7,209	4,738
Stock-based compensation	2,546	617	4,793	1,232
Financing and interest	4,628	6,060	15,019	20,593
Depreciation and accretion	189	73	363	133
Research and development		39	175	492
	11,351	9,184	27,559	27,188
Gain(loss) on sale of assets	(476)	-	1,645,060	-
Earnings (loss) before income taxes	(8,620)	(8,268)	1,621,730	(24,912)
Current income tax recovery	(5,477)	-	(12,842)	-
Future income tax expense (recovery)	1,709	(2,256)	154,910	(5,923)
Earnings (loss) before the following	(3,768)	(6,012)	1,479,662	(18,989)
Equity loss on investments	(1,432)	-	(1,448)	-
Net income (loss) and comprehensive income (loss)	\$ (6,284)	\$ (6,012)	\$ 1,478,214	\$ (18,989)

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 three and six months ended June 30, 2010, interest income increased compared to the same periods in 2009 due to the higher investment and cash balances.

Gain on Sale of Assets

Gain on sale of assets in the six months ended June 30, 2010 represents the gain recognized on the sale of all 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, to PetroChina International pursuant to the PetroChina Transaction. The \$0.5 million loss in the three months ended June 30, 2010 is for post closing adjustments, comprised primarily of legal costs, on the PetroChina Transaction.

General and Administrative

General and administrative expense is comprised of salaries, consulting fees, rent and other office related costs. For the six months ended June 30, 2010, general and administrative expenses increased by \$2.5 million compared to the same period in 2009 (\$1.6 million increase for the three months ended). The increase results primarily from the addition of staff and office space.

Stock-based Compensation

For the six months ended June 30, 2010, stock-based compensation expense increased by \$3.6 million compared to the same period in 2009. There was a \$1.9 million increase in the expense for the three months ended June 30, 2010. The increases result from amendments made to the majority of the stock based compensation agreements in the fourth quarter of 2009 in exchange for a reduction in the exercise price and vesting periods. The amendments were in conjunction with a modified change of control definition and the elimination of the incentive bonus plan. Also, additional stock based compensation grants were made in the first six months of 2010 with associated expense.

Financing and Interest

For the six months ended June 30, 2010, financing and interest expense decreased by \$5.6 million, compared to the same period in 2009 (\$1.4 million decrease for the three months ended June 30, 2010). The year to date decrease results mainly from lower interest costs of \$2.8 million and lower deferred borrowing cost amortization of \$3.0 million. For the three months ended June 30, 2010, the decrease is primarily due to lower deferred borrowing cost amortization. The decrease in interest costs results from a lower interest rate on the PetroChina Loans #1 and #2 outstanding in 2010 as compared to the interest rate on the senior secured notes outstanding in 2009.

Current Income Tax Recovery

For the six months ended June 30, 2010, the Company's current income tax recovery was \$12.8 million and is primarily due to an expected application of 2010 non capital losses against 2009 taxable income. The three months ended June 30, 2010 recovery of \$5.5 million also relates to the expected application of non capital losses.

Future Income Tax Expense

The Company's future income tax expense results from differences between the tax and book values of property and equipment and is primarily due to the sale of assets to PetroChina.

At June 30, 2010, the Company had approximately \$258.7 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 three and six months ended June 30, 2010 and 2009:

(\$ Thousands)	Three Months Ended		Six Months Ended	
	June 30, 2010	2009	June 30, 2010	2009
Oil sands properties – acquisitions and rentals	\$ 2,292	\$ 3,522	\$ 10,775	\$ 5,693
Exploration and evaluation - delineation drilling	483	1,319	19,142	56,323
Exploration and evaluation - geological and geophysical	1,188	2,417	7,052	8,889
Engineering and development	198	3,651	520	7,395
Corporate assets	181	249	484	263
Capital expenditures included in property and equipment	4,342	11,158	37,973	78,563
Capital expenditures included in investment *	4,742	-	17,431	-
Total capital expenditures	\$ 9,084	\$ 11,158	\$ 55,404	\$ 78,563

* Relates to the company's 40% working interest in the MacKay and Dover joint ventures. AOSC accounts for its investment in the MacKay and Dover areas using the equity method. Accordingly, the Company's 40% working interest in the MacKay and Dover areas is accounted for in the Investments line on the Company's consolidated balance sheet.

Capital Expenditures Included in Property and Equipment

Oil Sands Properties – Acquisition and Rentals

On June 30, 2010 the Company owned in excess of 1.45 million net acres (excluding the Company's working interest in the MacKay and Dover joint ventures discussed below) of oil sands leases in the Athabasca region of northern Alberta.

Capitalized costs associated with oil sands property expenditures included lease acquisitions and lease rental payments. During the three and six months ended June 30, 2010 the Company acquired certain leases to complement the existing asset areas.

Exploration and Evaluation - Delineation Drilling

Expenditures for the three and six months ended June 30, 2010 related to the drilling of 16 wells during the 2010 winter core hole delineation drilling program. The 2010 winter core hole program included 12 wells in the Dover West Area and four wells in the Grosmont Area where the Company holds operatorship and a 50% working interest on approximately 390,000 net acres.

Exploration and Evaluation - Geological and Geophysical

Expenditures for the three and six months ended June 30, 2010 included core analysis and seismic acquisition. The Company obtained core analysis on certain wells drilled during the 2010 winter core hole delineation drilling program. In addition, the Company acquired approximately 76 kilometers of 2-D seismic data and 28 square kilometers of 3-D seismic data.

Engineering and Development

Expenditures for the three and six months ended June 30, 2010 included verification of new exploration sites, development of surface mineral exploration sites as well as regulatory initiatives.

Corporate Assets

Corporate asset expenditures during the three and six months ended June 30, 2010 related mainly to information technology assets.

For the six months ended June 30, 2010, \$1.7 million of capitalized interest on borrowing costs is included in capital expenditures included in property and equipment (\$0.9 million for the three months ended June 30, 2010).

Capital Expenditures Included in Investment

At June 30, 2010 the Company had a 40% working interest in the MacKay and Dover joint ventures which own in excess of 135,000 net acres of oil sands leases in the Athabasca region of northern Alberta. The majority of capital expenditures for the three and six months ended June 30, 2010 related to the drilling of 52 core wells in the Dover Area, eight water wells in the MacKay area and two water wells in the Dover area. In addition, the joint venture obtained core analysis on certain wells drilled during the 2010 winter core hole delineation drilling program and acquired approximately 18 square kilometers of 3-D seismic data. Engineering and regulatory activities continue to develop the MacKay and Dover properties.

SUMMARY OF QUARTERLY RESULTS

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

(\$ Thousands, Except Per Share Amounts)	2010			2009			2008	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	3,207	1,022	126	160	916	1,360	2,686	1,652
Net income (loss)	(6,284)	1,484,498	(82,726)	26,063	(6,012)	(12,977)	(9,857)	(9,701)
Net income (loss) per share - basic	(0.02)	6.38	(0.39)	0.13	(0.03)	(0.07)	(0.05)	(0.05)
Net income (loss) per share - diluted	(0.02)	6.32	(0.39)	0.09	(0.03)	(0.07)	(0.05)	(0.05)

Loss and loss per share trended higher from the third 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. Revenue was higher in the first two quarters of 2010 and is primarily due to higher interest income as a result of higher average cash and cash equivalent balances. Net income and net income per share in the first quarter of 2010 was due to the \$1.646 billion gain on the PetroChina Transaction. The Company returned to a net loss in Q2 2010 as general and administrative and other expenses exceeded investment income.

LIQUIDITY AND CAPITAL RESOURCES

Working Capital

Cash and cash equivalents and short-term investments as at June 30, 2010 and December 31, 2009 was as follows:

	Term (Days)	Interest Rate (%)	Amount
As at June 30, 2010			
Cash		0.50 – 0.84	\$ 625,225
Cash equivalents	61 - 89	0.47 – 0.70	199,889
			825,114
Short-term investments	122 - 367	0.50 – 1.25	949,875
TOTAL			\$ 1,774,989
As at December 31, 2009			
Cash		0.25 – 0.40	\$ 140,992
Total			\$ 140,992

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.

On April 8, 2010, the Company completed the IPO and received net proceeds of approximately \$1.263 billion.

At June 30, 2010, the Company had working capital of \$1.9 billion, including \$1.8 billion of cash and cash equivalents and short term investments. The interest rate on amounts invested in cash and short term investment accounts as of June 30, 2010 ranges from 0.47%, to 1.25%.

Management believes the Company's working capital at June 30, 2010, combined with amounts available under PetroChina Loan #2 (and, if the Put/Call Options are not exercised, PetroChina Loan #3), are sufficient to fund the Company's expenditures at least through 2014 based on management's current plans. Until required, 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, PetroChina Loan #2 and, if the Put/Call Options are not exercised, also by PetroChina Loan #3.

Long-term Debt

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 which were outstanding as of December 31, 2009. 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 Options are 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. At June 30, 2010, the Company had drawn \$7.8 million on PetroChina Loan #2. 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 Options are 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. 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

The April 8, 2010 IPO resulted in 75,000,000 common shares being issued for proceeds of approximately \$1.263 billion, net of commissions and other costs relating to the issue aggregating approximately \$87.5 million. During the six months ended June 30, 2010, all outstanding Purchase Warrants were exercised for proceeds of \$121.6 million.

Commitments

The following table summarizes the Company's commitments as at June 30, 2010 and AOSC's estimated future minimum commitments as at June 30, 2010:

	2010	2011	2012	2013	2014	Thereafter	Total
Credit agreement repayment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 437,814	\$ 437,814
Interest payments on credit agreement ⁽¹⁾	11,015	21,550	21,550	21,550	21,550	172,402	269,617
Office leases	1,187	2,375	2,375	1,112	480	920	8,449
Other	100	200	200	200	-	132	832
TOTAL COMMITMENTS	\$ 12,302	\$ 24,125	\$ 24,125	\$ 22,862	\$ 22,030	\$ 611,268	\$ 716,712

(1) Based on interest rate effective and balance outstanding on June 30, 2010.

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 June 30, 2010.

Outstanding Share Data

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

	As At July 26, 2010
Common shares ⁽¹⁾	388,482,144
Convertible securities:	
Stock options outstanding – exercisable and unexercisable	1,759,700
Restricted share units outstanding – exercisable and unexercisable	280,500

(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.

Capital managed by the Company at June 30, 2010 and December 31, 2009 was as follows:

	As at June 30, 2010	As at December 31, 2009
Senior secured notes ⁽¹⁾	\$ -	\$ 398,996
PetroChina Loan #1	430,000	-
PetroChina Loan #2	7,814	-
Shareholders' equity	1,865,826	172,054
CAPITAL MANAGED	\$ 2,303,640	\$ 571,050

(1) 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 to economic conditions and risk characteristics of underlying assets. To maintain or adjust its capital structure, the Company may, among other things, issue new shares, acquire or dispose of assets, obtain or repay bank or other debt, or enter into joint exploration and development arrangements with other parties.

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 Company. 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 three and six months ended June 30, 2010.

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
Accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Long-term debt	Other financial liabilities

Fair Value

The carrying values of the Company's financial instruments approximate their fair value. As of June 30, 2010 no amounts are measured at fair value aside from cash and cash equivalents.

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

Credit Risk

The maximum exposure to credit risk is represented by the carrying amount of cash and cash equivalents, short-term investments, and accounts receivable on the consolidated balance sheets.

As at June 30, 2010, 74% of the Company's consolidated accounts receivable is due from one counterparty, PetroChina International Subco. This is compared to December 31, 2009 where 56% of consolidated accounts receivable were due from two counterparties. The amounts outstanding are considered current based on the terms established between AOSC and PetroChina International Subco. Management believes the remaining 26% of accounts receivable is with high quality counterparties and does not consider any material amount past due based on the terms with the counterparties.

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 the credit risk associated with these investments is low.

Liquidity Risk

The Company's objective in managing liquidity risk is to maintain sufficient available reserves to meet its liquidity requirements at any point. The Company seeks to achieve this by managing its capital spending and maintaining sufficient funds.

Management believes the proceeds from the PetroChina Transaction, the PetroChina Loans and the IPO, combined with the Company's remaining working capital, are sufficient to fund the Company's expenditures at least through 2014 based on management's current plans. Excess cash is invested in accordance with the Company's investment policy.

The Company's outstanding financial liabilities mature within one year, with the exception of the Company's loans with PetroChina.

The Company is required to repay PetroChina Loans #1 and #2 in full on the earlier of June 30, 2022, and June 30, 2024, respectively, or a change of control of the Company and the date the Put/Call Options are exercised by either the Company or PetroChina International Subco. If the Put/Call Options are not exercised, the loans will be repaid on a *pro rata* basis with indebtedness under the remaining PetroChina Loans from 90% of cash flow (as provided in the PetroChina loan agreements) of the MacKay joint venture and Dover joint venture.

Interest Rate Risk

The Company's exposure on June 30, 2010 to interest charged on the outstanding PetroChina loan #1 and PetroChina loan #2 balances, from a 1% change in interest rates, would be approximately \$2.2 million for a six month period. The Company's exposure to interest rate fluctuations on interest earned on the ending cash balance, from a 1% change in interest rates, would be approximately \$3.1 million for a six month period.

Put/Call Options Related to MacKay and Dover Joint Ventures

The PetroChina Transaction includes the Put/Call Option Agreements 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 and Dover oil sands projects by acquiring the assets or shares of AOSC (MacKay) (or a wholly-owned subsidiary thereof) or AOSC (Dover) (or a wholly-owned subsidiary thereof), for aggregate cash consideration of up to \$2 billion.

OUTLOOK

The completion of the PetroChina Transaction and the IPO afford 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.

The MacKay and Dover oil sands projects will continue to be advanced with joint venture partner PetroChina. A regulatory application for the MacKay oil sands project was filed in late 2009 and the regulatory application for the Dover oil sands project is expected to be filed late in 2010.

In the 100% owned Dover West area, the Company continues to enhance its understanding of its large Leduc oil sands position. Two regulatory applications have been submitted to conduct experimental tests in the upcoming winter season. The first of these tests will use steam injection to evaluate parameters associated with the SAGD recovery process. GLJ has assessed the Leduc properties in the GLJ Report and assigned 2.7 billion barrels of best estimate contingent resource using SAGD as the "base case" bitumen recovery process. The second test involves an alternative bitumen recovery process which the Company refers to as thermally assisted gravity drainage (TAGD). In testing this process the Company plans to conduct a conduction heating test in two horizontal wells, each equipped with an electrical resistance heater. The test is expected to provide data to calibrate reservoir models associated with a conductive heating process that would provide efficient energy to the reservoir to allow commercial scale bitumen production.

FINANCIAL REPORTING UPDATE

Initial Application of New Accounting Policies

As a result of the PetroChina Transaction, the Company now accounts for its investment in MacKay and Dover joint ventures as an equity investment in accordance with the Canadian Institute of Chartered Accountants ("CICA") Handbook Accounting Guideline 15 (AcG-15), "Consolidation of Variable Interest Entities" and CICA Handbook section 3051, "Investments." AcG-15 requires a variable interest entity ("VIE") to be consolidated by the primary beneficiary, which is the party that will absorb the majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both. A VIE is any type of legal structure not controlled by voting equity, but rather by contractual or other financial arrangements. Due to the existence of the put/call options, the MacKay and Dover joint ventures are variable interest entities.

Management has made an assessment under the VIE standard and determined that the Company is not the primary beneficiary in the MacKay and Dover joint ventures. The MacKay and Dover joint ventures are investments in which the Company has significant influence and will be accounted for as long-term investments using the equity method of accounting whereby the carrying value of the investment is increased or decreased for the Company's percentage of net income or loss, reduced by dividends paid to the Company, and increased or decreased to reflect the Company's share of capital transactions.

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 were performed. The first phase of the IFRS Plan was completed in March 2009.

The second phase of the IFRS Plan is currently underway. 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, is 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. The third phase will also include the preparation of the IFRS opening balance sheet with corresponding adjustments as well as 2010 IFRS comparative information. In addition to the external IFRS consulting firm, the Company is also coordinating with its external auditors on all IFRS policies and adjustments.

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. Retrospective application of IFRS is generally required for all balances, but a number of optional and mandatory exemptions are available under IFRS 1. The Company is analyzing various accounting policy choices and is considering applying certain IFRS 1 exemptions, including:

Full-cost Accounting

IFRS 1 permits entities using the full cost method of accounting an exemption from retrospective application of IFRS. If the Company elects to utilize this exemption, the Company would use the carrying amount of its oil sands assets under Canadian GAAP after an IFRS impairment test 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:

Consolidated and Separate Financial Statements – Loss of Control

Under IFRS, when there is a loss of control of a subsidiary, any investment retained in the former subsidiary is recognized at fair value at the date when control is lost. As a result of the PetroChina Transaction, the Company's interests in the MacKay and Dover joint ventures became equity accounted investments which amounts to a loss of control. As a result, the investments will be increased to their fair value at the date of the PetroChina Transaction under IFRS.

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. All of the Company's projects are currently in the E&E phase.

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 ("CGU) level or by aggregating a group of CGUs. The Company currently does not plan to aggregate CGUs for E&E 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 CGU level under IFRS as opposed to evaluating impairment on a country-wide basis under the full-cost method within Canadian GAAP. A CGU is the smallest identifiable group of assets that generates independent cash inflows. AOSC anticipates that each of its oil sands projects will be a separate CGU.

Stock-based Compensation

Prior to the first quarter of 2010, 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 the Grosmont joint venture using the proportionate consolidation method and if the recommendations of ED 9 are adopted, the Company will evaluate all joint venture arrangements to determine which accounting method is appropriate.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements requires the Company to make judgments, assumptions and estimates in the application of GAAP that have a significant impact on the financial results of the Company. Actual results could differ from those estimates. The Company’s critical accounting policies and estimates are consistent with those described in the Annual MD&A.

RELATED PARTY TRANSACTIONS

As part of the PetroChina Transaction Agreements, Dover Operating Corp. (“Dover OpCo”) was created to operate both the MacKay and Dover joint ventures. Pursuant to an agreement with Dover OpCo, AOSC was the temporary operator of the MacKay & Dover joint ventures from the closing date of the PetroChina Transaction Agreements to May 31, 2010. For the three months ended June 30, 2010, AOSC charged Dover OpCo \$0.7 million for operating the MacKay and Dover joint ventures and recorded the charges as a reduction in general and administration expenses (\$1.2 million for the six months ended June 30, 2010). In addition, AOSC has seconded staff to Dover OpCo and for the three and six months ended June 30, 2010 AOSC charged \$0.4 million to recover the costs of these seconded staff. These transactions were in the normal course of operations and were measured at the exchange amount.

As at June 30, 2010, AOSC was owed \$0.4 million from Dover OpCo for the costs of seconded staff discussed above.

RISK FACTORS

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

- Fluctuations in market prices of crude oil and bitumen blend
- Variations in foreign exchange rates and interest rates
- Uncertainties associated with estimating reserves and resources volumes
- Status and stage of development
- Bitumen recovery processes
- Development schedules and cost over-runs
- Availability of drilling equipment and access
- Substantial capital requirements
- Regulatory approvals and compliance
- Environmental risks and hazards
- Environmental regulation compliance
- Changes to royalty and income tax regimes

For additional information regarding the risks and uncertainties to which the Company and its business are subject, please see the information under the headings “Forward Looking Information” below, and under the heading “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.

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 may contain 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; the Company’s estimated future commitments; process and timing of implementation of IFRS; proposed experimental testing in the Dover West area and the results therefrom; business plans; 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 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 above 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 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 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; 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 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 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 Company's reserves and resources are contained in the reports of GLJ Petroleum Consultants Ltd. dated effective April 30, 2010 and DeGolyer and MacNaughton Canada Limited dated effective April 30, 2010. The risks and uncertainties referred to above are described in more detail in AOSC's prospectus dated March 30, 2010 and in AOSC's Statement of Oil and Gas Reserves Data and Other Oil and Gas Information for the Year Ended December 31, 2009, each of which is available on the SEDAR website at www.sedar.com. 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.

Technology Under Development Disclaimer

The Company's resources at its Dover West Leduc Carbonates and Grosmont assets are contained in carbonate reservoirs. SAGD and CSS, the proposed in-situ bitumen 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 channeling 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 expenditures have 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.

RESOURCE INFORMATION

Both the GLJ Report and the D&M Report were prepared using the assumptions and methodology guidelines outlined in the COGE Handbook and in accordance with National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities*.

Definitions

"Gross Reserves" and **"Gross Resources"** are the Company's working interest (operating or non-operating) share before deducting royalties and without including any royalty interests of the Company.

"Net Reserves" are the Company's working interest (operating or non-operating) share after deduction of royalty obligations, plus the Company's royalty interests in reserves.

"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.

"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. Contingencies may include factors such as economic, legal, environmental, political and regulatory matters or a lack of markets. 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.

“Low Estimate” is a classification of estimated resources described in the COGE Handbook as being considered to be a conservative estimate of the quantity that will actually be recovered. It is likely that the actual remaining quantities recovered will exceed the Low Estimate. If probabilistic methods are used, there should be a 90% probability (P90) that the quantities actually recovered will equal or exceed the Low Estimate.

“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.

“High Estimate” is a classification of estimated resources described in the COGE Handbook as being considered to be an optimistic estimate of the quantity that will actually be recovered. It is unlikely that the actual remaining quantities recovered will exceed the High Estimate. If probabilistic methods are used, there should be a 10% probability (P10) that the quantities actually recovered will equal or exceed the High Estimate.

Pricing Assumptions

Both the GLJ Report and D&M report are based on GLJ’s April 1, 2010 pricing models, a summary of selected price forecasts is set forth below:

GLJ – April 1, 2010 Pricing Assumptions ^{(1) (2)}									
		Bank of Canada Average Noon Rate Oil Sands Inflation %	West Texas Intermediate Crude Oil at Cushing Oklahoma \$US/bbl	Light, Sweet Crude Oil (40 API, 0.3%S) at Edmonton \$Cdn/bbl	LLB Crude Oil Stream Quality at Hardisty \$Cdn/bbl	Dilbit Quality Differential \$Cdn/bbl	Diluent at Field ⁽³⁾ \$Cdn/bbl	Sandstones 0.42857 Bitumen Wellhead \$Cdn/bbl	Carbonates 0.46 Bitumen Wellhead ⁽⁴⁾ \$Cdn/bbl
2010	2.0	0.950	80.00	83.26	72.58	-4.25	90.93	53.65	52.83
2011	2.0	0.950	83.00	86.42	71.30	-3.25	94.15	51.87	50.93
2012	2.0	0.950	86.00	89.58	72.11	-2.25	97.37	53.07	52.09
2013	2.0	0.950	89.00	92.74	72.80	-1.25	100.59	54.10	53.08
2014	2.0	0.950	92.00	95.90	75.28	-1.25	103.82	56.26	55.22
2015	2.0	0.950	93.84	97.84	76.80	-1.25	105.80	57.59	56.53
2016	2.0	0.950	95.72	99.81	78.35	-1.25	107.81	60.01	58.96
2017	2.0	0.950	97.64	101.83	79.93	-1.25	109.87	61.39	60.32
2018	2.0	0.950	99.59	103.88	81.55	-1.25	111.96	63.52	62.45
2019	2.0	0.950	101.58	105.98	83.19	-1.28	114.10	64.91	63.83
2020	2.0	0.950	103.61	108.10	84.85	-1.30	116.26	67.04	65.95
2021	2.0	0.950	105.69	110.26	86.55	-1.33	118.47	68.48	67.38
2022	2.0	0.950	107.80	112.47	88.28	-1.35	120.72	69.95	68.83
2023+	2.0	0.950	+2.0%/yr	+2.0%/yr	+2.0%/yr		+2.0%/yr	+2.0%/yr	+2.0%/yr

Notes:

- (1) Blending Ratio = 1 bbl bitumen: 0.42857 bbl Diluent for Bitumen Netback pricing. This blending ratio equates to a bitumen blend (dilbit) comprised of 30% condensate and 70% bitumen.
- (2) Blending Ratio = 1 bbl bitumen: 0.46 bbl Diluent for Carbonates Bitumen Netback pricing. This blending ratio equates to a bitumen blend (dilbit) comprised of 31.5% condensate and 68.5% bitumen.
- (3) Includes diluent transportation and postings costs of Cdn\$6.00/bbl.
- (4) Net of transportation costs of Cdn\$3.50/bbl from 2010 through 2015, Cdn\$2.75/bbl from 2016 through 2017, Cdn\$2.25 from 2018 through 2019, and Cdn\$1.75/bbl thereafter.