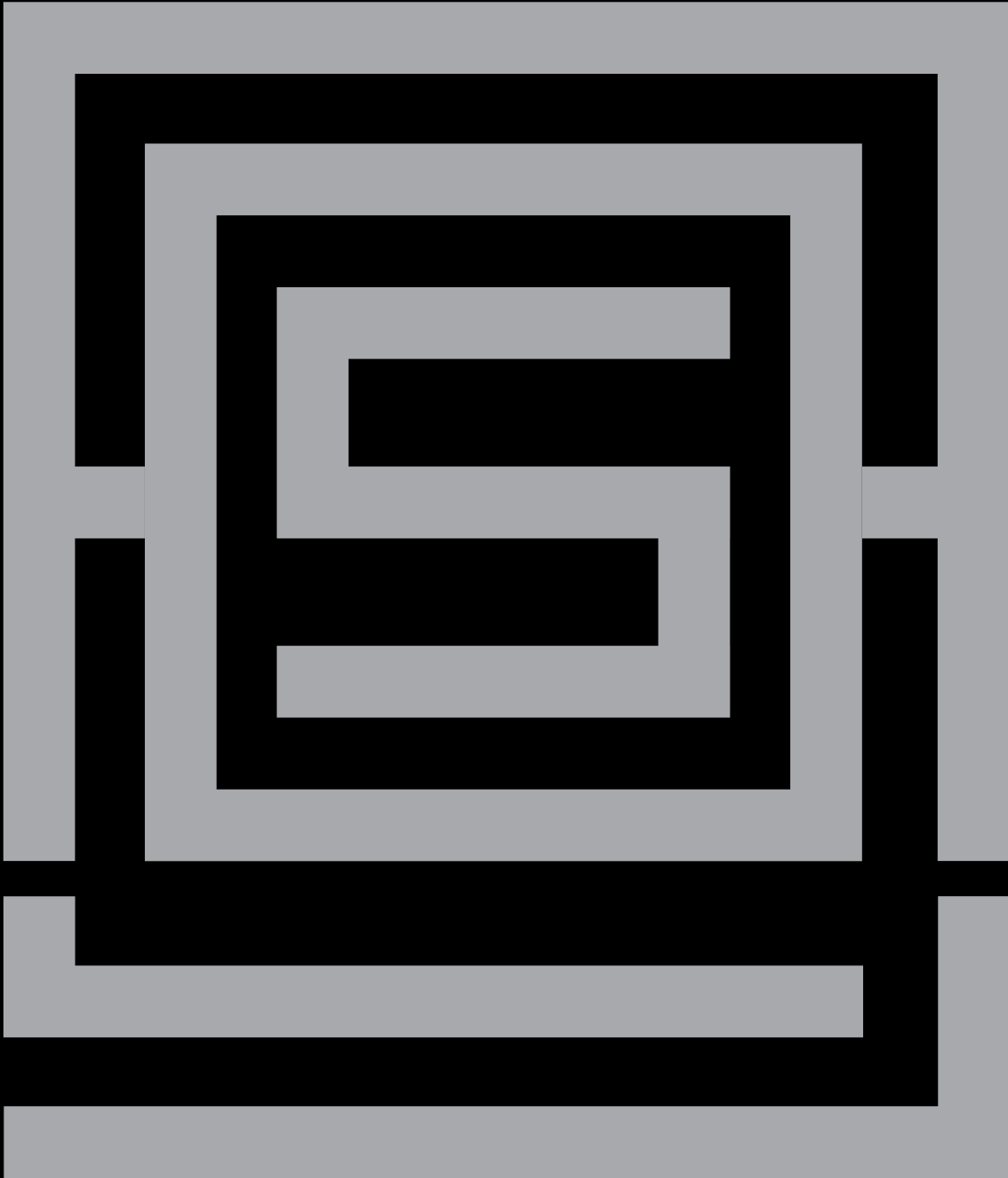




**ATHABASCA**  
OIL SANDS CORP.



Consolidated Financial Statements  
For the Year Ended December 31, 2009

# Management's Statement of Responsibility for Financial Reporting

**To the shareholders of Athabasca Oil Sands Corp.:**

## **Statement of Responsibility**

Management is responsible for the preparation of the consolidated financial statements in accordance with Canadian generally accepted accounting principles and for ensuring that all other financial and operating information presented in this report is consistent with those consolidated financial statements.

Independent auditors, appointed by the Audit Committee, have examined the consolidated financial statements in accordance with Canadian generally accepted auditing standards. They have performed such tests as they considered necessary to enable them to express an opinion that the consolidated financial statements are presented fairly in all material respects, in accordance with Canadian generally accepted accounting principles.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and internal control. This responsibility is exercised through the Audit Committee. The Audit Committee of the Board of Directors has reviewed these consolidated financial statements with Management and the auditors and has reported to the Board of Directors. The Board of Directors has approved the consolidated financial statements.



**Sveinung Svarte**, MBA, MSc  
President & CEO



**J.R. (Rob) Harding**, CMA, MBA  
Vice President Finance & CFO

Calgary, Canada  
April 14, 2010



# Auditors' Report

## **To the Directors of Athabasca Oil Sands Corp.**

We have audited the consolidated balance sheets of Athabasca Oil Sands Corp. as at December 31, 2009 and 2008 and the consolidated statements of loss and comprehensive loss, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*Ernst + Young LLP*

## **Chartered Accountants**

Calgary, Canada  
April 14, 2010

# Consolidated Financial Statements

## CONSOLIDATED BALANCE SHEETS (NOTE 1)

(CDN\$ Thousands)	December 31, 2009	December 31, 2008
		(restated Note 6)
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents (Note 4)	\$ 140,992	\$ 117,705
Short-term investments (Note 4)	-	146,138
Cash held in trust	-	26,000
Accounts receivable	1,062	4,395
Prepaid expenses and other	125	387
Assets held for sale (Note 6)	238,009	-
Future income tax asset related to assets held for sale (Notes 6 and 11)	149,152	-
	<b>529,340</b>	294,625
<b>DEFERRED CHARGES</b>	<b>1,003</b>	70
<b>PROPERTY AND EQUIPMENT</b> (Notes 5, 8 and 9)	<b>363,240</b>	292,498
<b>ASSETS HELD FOR SALE</b> (Note 6)	-	181,183
<b>FUTURE INCOME TAX ASSET</b> (Note 11)	-	33,471
	<b>\$ 893,583</b>	<b>\$ 801,847</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities (Note 7)	\$ 41,231	\$ 15,639
Current income taxes payable (Note 11)	226,194	-
	<b>267,425</b>	15,639
<b>LONG-TERM DEBT</b> (Note 9)	<b>398,996</b>	378,906
<b>ASSET RETIREMENT OBLIGATIONS</b> (Note 10)	<b>506</b>	-
<b>FUTURE INCOME TAX LIABILITY</b> (Note 11)	<b>54,602</b>	-
<b>FUTURE INCOME TAX LIABILITY RELATED TO ASSETS HELD FOR SALE</b> (Notes 6 and 11)	-	45,036
	<b>721,529</b>	439,581
<b>SHAREHOLDERS' EQUITY</b>		
Common shares (Note 15)	390,377	374,041
Warrants (Note 15)	-	1,495
Contributed surplus (Note 15)	47,079	41,432
Deficit	(265,402)	(54,702)
	<b>172,054</b>	362,266
	<b>\$ 893,583</b>	<b>\$ 801,847</b>

Commitments (Notes 15, 18 and 20)

See accompanying notes to the consolidated financial statements



## CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(CDN\$ Thousands, except per share amounts)	Year Ended December 31, 2009	Year Ended December 31, 2008
<b>REVENUE</b>		
Interest and other income	\$ 2,562	\$ 5,451
<b>EXPENSES</b>		
General and administrative	13,892	7,381
Stock-based compensation (Note 16)	5,410	7,136
Financing and interest (Note 9)	74,977	23,100
Depreciation and accretion	418	169
Research and development	523	139
	95,220	37,925
Loss before income taxes	(92,658)	(32,474)
Taxes (Note 11)		
Current income tax expense	91,146	-
Future income tax recovery	(108,152)	(7,827)
	\$ (17,006)	\$ (7,827)
Net loss and comprehensive loss	\$ (75,652)	\$ (24,647)
<b>BASIC AND DILUTED LOSS PER SHARE</b> (Note 17)	<b>\$ (0.38)</b>	<b>\$ (0.14)</b>

See accompanying notes to the consolidated financial statements

## CONSOLIDATED STATEMENTS OF DEFICIT

(CDN\$ Thousands, except per share amounts)	Year Ended December 31, 2009	Year Ended December 31, 2008
Deficit, beginning of year	\$ (54,702)	\$ (30,055)
Net loss	(75,652)	(24,647)
Refundable portion of current income tax (Note 11)	(135,048)	-
Deficit, end of year	\$ (265,402)	\$ (54,702)

See accompanying notes to the consolidated financial statements



## CONSOLIDATED STATEMENTS OF CASH FLOWS

(CDN\$ Thousands, except per share amounts)	Year Ended December 31, 2009	Year Ended December 31, 2008
		(restated Note 6)
<b>OPERATING ACTIVITIES</b>		
Net loss	\$ (75,652)	\$ (24,647)
Items not effecting cash		
Stock-based compensation (Note 16)	5,410	7,136
Future income tax recovery (Note 11)	(108,152)	(7,827)
Changes to long-term deferred charges	10	20
Deferred borrowing cost amortization (Note 9)	12,761	2,928
Depreciation and accretion	418	169
	<b>(165,205)</b>	<b>(22,221)</b>
Change in non-cash working capital (Note 12)	123,980	(1,427)
	<b>(41,225)</b>	<b>(23,648)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from share/warrant issuances (Note 15)	8,969	7,786
Share issuance costs	-	(70)
Proceeds from senior secured notes (Note 9)	-	400,000
Senior secured notes borrowing costs (Note 9)	-	(24,391)
Decrease (increase) in cash held in trust	26,000	(26,000)
Increase in deferred initial public offering costs	(943)	-
Shareholder loan	-	-
Change in non-cash working capital (Note 12)	(15)	(204)
	<b>34,011</b>	<b>357,121</b>
<b>INVESTING ACTIVITIES</b>		
Additions to property and equipment	(58,616)	(112,669)
Additions to assets held for sale (Note 6)	(53,390)	(67,260)
Decrease (increase) in short-term investments (Note 4)	146,138	(146,138)
Changes in non-cash working capital (Note 12)	(3,631)	3,049
	<b>30,501</b>	<b>(323,018)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>23,287</b>	<b>10,455</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>117,705</b>	<b>107,250</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 140,992</b>	<b>\$ 117,705</b>

See accompanying notes to the consolidated financial statements



# Notes to the Consolidated Financial Statements

As at and for the years ended December 31, 2009 and 2008

(Tabular amounts in CDN\$ thousands, except as otherwise noted)

## 1. NATURE OF OPERATIONS

Athabasca Oil Sands Corp. (“AOSC” or the “Company”) was incorporated on August 23, 2006 under the laws governing the Province of Alberta. AOSC is in business to explore for, develop and produce oil sands related assets in the Athabasca region of northern Alberta. To date, AOSC has not earned significant revenues and is considered to be a development stage company.

Due to the long lead times and high costs associated with implementing the technology and creating the infrastructure necessary to bring identified resources to market, the success of AOSC is heavily dependent upon its ability to source additional financing to fund further exploration to maintain its interests in existing oil sands properties and to identify and develop commercially productive resources.

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (“GAAP”) assuming that AOSC will continue to operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. If the going concern assumption was not appropriate for these consolidated financial statements, adjustments would be required to the Company’s overall financial presentation.

## 2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

### a) Principles of Consolidation

The consolidated financial statements reflect the activities of the Company and its wholly owned subsidiaries. Intercompany transactions and balances are eliminated upon consolidation.

### b) Joint Venture

A portion of the Company’s oil sand lease acquisition and evaluation activities are conducted jointly with others and the consolidated financial statements reflect only the Company’s proportionate interest in such activities.

### c) Measurement Uncertainty and Use of Estimates

The preparation of the consolidated financial statements in compliance with Canadian GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the applicable period. These estimates relate to unsettled transactions and events as of the date of the consolidated financial statements and may be found to differ from actual results as future confirming events occur.

Amounts recorded for depreciation related to corporate assets are based on the estimated useful life. Amounts used for impairment calculations are based on estimates of oil sands reserves and resources and future costs required to develop those reserves and resources. Stock-based compensation is based upon expected volatility, option life estimates, and share price estimates. The fair value calculation of asset retirement obligations (“ARO”) is based upon numerous assumptions and judgments, including the ultimate settlement amounts, inflation factors, credit-adjusted discount rates, timing of settlement and changes in the legal, regulatory, environmental and political environments. The provision for income taxes is based on judgments in applying income tax law and estimates on the timing, likelihood and reversal of temporary differences between the accounting and tax bases of assets and liabilities. These estimates are subject to measurement uncertainty and changes in these estimates could materially impact the financial statements of future periods.

The carrying values of property and equipment are not intended to reflect their future value. The future value of the Company’s oil sands assets depends on a number of factors including, but not limited to, 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.

#### **d) Financial Instruments**

All financial instruments are initially recognized at fair value on the consolidated balance sheets. The Company has classified each financial instrument into the following categories: "held-for-trading"; "loans and receivables"; and "other financial liabilities". Subsequent measurement of the financial instruments is based on their classification. Unrealized gains and losses on held-for-trading financial instruments are recognized in earnings. The other categories of financial instruments are recognized at amortized cost using the effective interest rate method. 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

Transaction costs for all financial assets and liabilities are expensed as incurred, with the exception of long-term debt. Transaction costs related to long-term debt are included with the initial fair value and the instrument is carried at amortized cost using the effective interest rate method.

#### **e) Cash and Cash Equivalents and Short-term Investments**

Cash and cash equivalents consist of investments in money market instruments with an initial maturity date of three months or less. Short-term investments consist of investments in money market instruments with an initial maturity date of more than three months but less than 12 months.

#### **f) Property and Equipment**

The Company follows the full cost method of accounting. The Company 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 Company is in the early stages of developing its oil sands assets and production has not yet commenced, therefore no depletion or depreciation has been recorded with respect to the related capitalized expenditures to date, with the exception of corporate assets. Once commercial production begins, capitalized costs will be depleted using the unit-of-production method or depreciated over the estimated useful life of the asset, if the useful life differs from the reserve life.

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 (loss). 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.

Depreciation of corporate assets is calculated using the straight-line method over the estimated useful life of the asset, ranging from 1 to 10 years.

#### **g) Research and Development**

The Company engages in research and development activities to develop or improve processes and techniques to extract oil from oil sands deposits. Research involves planned investigation with the goal of attaining new knowledge. Development involves translating that knowledge into a new technology or process. Research costs are expensed as incurred. Development costs are capitalized once technical feasibility is established and if the Company intends to proceed with development. These costs are capitalized in property and equipment until the commencement of commercial operations or production. Otherwise, development costs are expensed as incurred. Development costs include pre-operating revenues and costs.

#### **h) Capitalized Borrowing Costs**

Borrowing costs, including interest and deferred financing charges on fixed term debt, associated with major development projects are capitalized until all activities necessary to prepare the facilities for their intended use are complete. These costs will be subsequently depleted or depreciated to income with the related assets.



### **i) Revenue Recognition**

Revenue associated with interest income is recorded as cash equivalents and short-term investments mature. For outstanding investments that mature in future periods, revenue is accrued up to and including the final day of the applicable reporting period based on the terms and conditions of the individual instruments.

### **j) Income Taxes**

The Company accounts for income taxes using the liability method. Under this method, the Company records a future income tax asset or liability to reflect any difference between the accounting and tax bases of assets and liabilities, using substantively enacted income tax rates. The effect on future tax assets and liabilities of a change in tax rates is recognized in net income or loss in the period in which the change occurs. Future income tax assets are only recognized to the extent it is more likely than not that sufficient future taxable income will be available to allow the future income tax asset to be realized.

### **k) Stock-based Compensation**

The Company's stock-based compensation plans for employees, directors, and consultants consist of incentive share option grants, performance warrants to acquire common shares, and stock options. For accounting purposes, certain management assumptions may be used to adjust the estimated life of the instrument. These may include the possibility of a change of control or corporate sale prior to full vesting periods expiring. At the grant date, the Company uses the fair value method to account for securities issued as part of its stock-based compensation plans, estimated. The fair value is recorded as stock-based compensation using the appropriate estimated amortization period with a corresponding amount reflected in contributed surplus. When stock options are exercised, the cash proceeds along with the amount previously recorded as contributed surplus are recorded as share capital.

For employees and consultants who are specifically working on capital projects, the fair value of the cost is allocated to property and equipment. For the remainder of employees, the fair value of the cost is expensed.

The Company also has an incentive bonus plan payable to specified holders of stock options in the event of a specified change of control. See notes 16 and 20 for further description of the stock-based compensation plans.

### **l) Flow-through Shares**

The Company's capital structure includes flow-through shares issued pursuant to certain provisions of the Canadian Income Tax Act (the "Act"). The Act provides that when share issuance proceeds are used for qualifying exploration and development expenditures, the associated income tax resource deductions may be renounced to flow-through share subscribers. A future income tax liability is recorded and share capital is reduced by the tax effect of the related expenditures when the renouncement tax return is submitted to the Canadian tax authorities.

### **m) Per Share Amounts**

Basic net earnings (loss) per share is calculated by dividing earnings (loss) by the weighted average number of common shares outstanding during the period. Diluted net earnings (loss) per share reflects the potential dilution that would occur if dilutive securities were exercised. The Company uses the treasury stock method to determine the dilutive effect of its dilutive instruments. The treasury stock method assumes that proceeds received from the exercise of "in-the-money" equity instruments are used to re-purchase common shares. In a period in which there is a loss, per share amounts are calculated excluding potentially dilutive securities. Shares held in trust and contingently returnable to the Company have been excluded from basic loss per share and included as anti-dilutive securities. See note 17.

### **n) Comparative Figures**

Certain of the comparative figures have been reclassified to conform to the current year's presentation. Such reclassification did not impact previously reported net loss or accumulated deficit.

## **3. ADOPTION OF NEW ACCOUNTING POLICIES**

### **a) Asset Retirement Obligations**

During the first quarter of 2009, the Company incurred ARO and adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook section 3110, "Asset Retirement Obligations". 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 earnings (loss) 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 will be capitalized to property and equipment and amortized over the remaining useful life of the underlying asset. The ARO liabilities are carried on the consolidated balance sheets 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.

#### **b) 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 standards are effective for the Company's 2009 annual reporting. The adoption of these recommendations did not have a material impact on the Company, but required certain additional disclosures in the consolidated financial statements included in note 13.

#### **c) Goodwill and Intangible Assets**

In February 2008, the CICA issued a new accounting standard, section 3064, "Goodwill and Intangible Assets", which replaces section 3062, "Goodwill and Other Intangible Assets", and section 3450, "Research and Development Costs". The standard was effective January 1, 2009. The new section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The adoption of these recommendations did not have a material impact on the Company's consolidated financial statements.

#### **d) Future Accounting Pronouncements**

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. These standards 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.

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.

On February 13, 2008, the Canadian Accounting Standards Board confirmed the use of International Financial Reporting Standards ("IFRS") for publicly accountable profit-oriented enterprises, beginning on January 1, 2011 with appropriate comparative data from the prior year. IFRS will replace the current CICA Handbook as Canadian GAAP for these entities. Under IFRS significantly increased disclosure is required, especially for interim reporting. The Company is currently assessing the future impact of these new standards on its consolidated financial statements.

### **4. CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS**

As at December 31	Term (Days)	Interest Rate (%)	Amount
<b>2009</b>			
<b>CASH</b>			<b>\$ 140,992</b>
<b>TOTAL</b>			<b>\$ 140,992</b>
<b>2008</b>			
Cash			\$ 3,052
Cash equivalents	17 - 78	1.50 - 2.51	114,653
Short-term investments	182 - 327	3.35 - 3.50	146,138
Total			\$ 263,843

The interest rate on amounts invested in AOSC cash accounts as at December 31, 2009 ranges from the bank prime rate minus 2%, or 0.25%, to 0.40%.



## 5. PROPERTY AND EQUIPMENT

As at December 31	Cost	Accumulated DD&A	Net book value
<b>2009</b>			
<b>OIL SANDS ASSETS</b>			
MINERAL PROPERTIES	\$ 217,079	\$ -	\$ 217,079
EXPLORATION AND EVALUATION	124,144	-	124,144
ENGINEERING AND DEVELOPMENT	20,499	-	20,499
	361,722	-	361,722
<b>CORPORATE ASSETS</b>	2,113	(595)	1,518
<b>TOTAL</b>	<b>\$ 363,835</b>	<b>\$ (595)</b>	<b>\$ 363,240</b>
2008 (restated Note 6)			
Oil sands assets			
Mineral properties	\$ 210,515	\$ -	\$ 210,515
Exploration and evaluation	72,426	-	72,426
Engineering and Development	8,562	-	8,562
	291,503	-	291,503
Corporate assets	1,219	(224)	995
Total	\$ 292,722	\$ (224)	\$ 292,498

The cost of the oil sands assets is not being depleted or depreciated as the properties have not been fully developed and there is no commercial production associated with these assets. All other corporate assets are currently being depreciated.

The Company capitalized the following amounts to property and equipment directly attributable to exploration and development activity:

Years ended December 31	2009	2008
Borrowing costs	\$ 12,856	\$ 1,774
Stock-based compensation (including future income tax effect)	4,579	4,613
<b>TOTAL</b>	<b>\$ 17,435</b>	<b>\$ 6,387</b>

## 6. ASSETS HELD FOR SALE

On August 28, 2009, the Company entered into the Principles of Joint Venture Agreement with PetroChina International Investment Company Limited ("PetroChina International"), a wholly owned subsidiary of PetroChina Company Limited ("PetroChina"), and on February 10, 2010, the Company entered into a series of agreements (the "PetroChina Transaction Agreements"), 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. ("AOSC Newco"), a corporation which holds a 60% working interest in the Company's MacKay and Dover oil sands projects for cash consideration of \$1.9 billion (the "PetroChina Transaction"). PetroChina International Subco also reimbursed the Company for 60% of the expenditures incurred in respect of the oil sands assets of AOSC Newco by the Company during the period commencing November 1, 2009 and ending on the February 10, 2010, the closing date of the PetroChina Transaction. On February 10, 2010, as part of the PetroChina Transaction, AOSC (MacKay) Energy Inc. ("AOSC (MacKay)") and AOSC (Dover) Energy Inc. ("AOSC (Dover)"), wholly-owned subsidiaries of the Company, and PetroChina International Subco formed the MacKay and Dover joint ventures. The financing arrangements forming part of the PetroChina Transaction included a loan to the Company to repay its existing long-term debt. PetroChina International Subco provided to the Company a non-revolving loan of \$430.0 million ("PetroChina Loan #1") which was used to repay the Company's existing indebtedness and related costs under the note indenture dated July 30, 2008 for the \$400.0 million senior secured notes. The PetroChina Transaction also provides for a put/call option pursuant to which, in certain circumstances, PetroChina International Subco may be required to purchase or may exercise the right to acquire 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 the Company's wholly-owned subsidiaries that own those assets for an aggregate cash consideration of up to \$2.0 billion.

The assets and liabilities related to assets held for sale have been reclassified as assets or liabilities held for sale on the consolidated balance sheets. There is no effect on the consolidated statements of loss and comprehensive loss and consolidated statements of deficit related to these assets held for sale. Comparative period balances have been restated.

The assets and liabilities of assets held for sale presented on the consolidated balance sheets include the following:

As at December 31	2009	2008
<b>CURRENT ASSETS</b>		
Property and equipment	\$ 238,009	\$ -
Future income taxes	149,152	-
<b>ASSETS</b>		
Property and equipment	-	181,183
<b>LIABILITIES</b>		
Future income taxes	-	45,036
<b>NET ASSETS HELD FOR SALE</b>	<b>\$ 387,161</b>	<b>\$ 136,147</b>

As part of the PetroChina Transaction, PetroChina International Subco loaned to the Company \$430.0 million (PetroChina Loan #1) to enable the Company to repay its indebtedness to its senior secured noteholders in 2010. In addition, a second credit facility ("PetroChina Loan #2") of up to \$100 million was provided by PetroChina International Subco to enable the Company (or its wholly owned subsidiaries) to fund its share of certain capital expenditures for the MacKay and Dover joint ventures prior to the date of closing any transaction resulting from the exercise of the put/call options. If the put/call options are not exercised and regulatory approvals have been obtained for the MacKay oil sands project, PetroChina International Subco will provide a third credit facility ("PetroChina Loan #3") of up to a maximum principal amount of \$560 million to enable the Company (or its wholly owned subsidiaries) to fund its share of certain of the capital required for the business and activities of the MacKay and Dover joint ventures.

## 7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at December 31	2009	2008
Trade payables	\$ 601	\$ 4,856
Accrued liabilities	12,448	10,638
Accrued senior secured notes pre-payment penalty (Note 9)	28,000	-
Other payables	182	145
<b>TOTAL</b>	<b>\$ 41,231</b>	<b>\$ 15,639</b>

## 8. SHORT-TERM CREDIT FACILITY

The Company has available a \$25.0 million revolving demand credit facility with a Canadian Chartered Bank. Until June 2009, the effective interest rate on amounts borrowed under the facility was the bank's prime rate. Following an amendment, the effective interest rate on amounts borrowed under the facility is the bank's prime rate plus 1.5%. In addition, a 0.75% availability fee applies on undrawn amounts. The credit facility is collateralized by a fixed and floating charge debenture in the principal amount of \$100 million and a general assignment of debt over oil sands leases. As at December 31, 2009, no amount was outstanding on the credit facility. The Company cancelled the credit facility immediately prior to closing the PetroChina Transaction on February 10, 2010.

## 9. LONG-TERM DEBT

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



As at December 31	2009	2008
Senior secured notes - face value	\$ 400,000	\$ 400,000
Deferred borrowing costs	(24,391)	(24,391)
Amortization of deferred borrowing costs	23,387	3,297
<b>TOTAL</b>	<b>\$ 398,996</b>	<b>\$ 378,906</b>

For the year ended December 31, 2009 the Company amortized \$20.1 million (2008 - \$3.3 million) of deferred borrowing costs on the senior secured notes, using the effective interest rate of approximately 13.2%.

Pursuant to the PetroChina Transaction, PetroChina International Subco provided the Company with a non-revolving loan of \$430.0 million, PetroChina Loan #1 which was used to repay the Company's existing indebtedness and related costs under the Note Indenture dated July 30, 2008 for the \$400.0 million of senior secured notes. On March 12, 2010 the Company redeemed the senior secured notes, resulting in a \$28 million prepayment penalty for an aggregate payment of \$428.0 million plus accrued interest.

Under PetroChina Loan #1, the Company will pay interest semi-annually at a rate equal to LIBOR plus 450 basis points. The loan will be repaid as to principal and outstanding interest in full on the earlier of June 30, 2022, 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 loan will be repaid as to principal and outstanding interest on a pro rata basis with indebtedness under PetroChina Loan #2 and PetroChina Loan #3 from 90% of cash flow (as provided in the PetroChina loan agreements) of the MacKay joint venture and Dover joint venture.

Monies loaned under PetroChina Loan #1 are secured by guarantees from the Company's material subsidiaries and a security interest in all of the present and after-acquired assets of the Company and its material subsidiaries. As part of PetroChina Loan #1, the Company has made customary negative and positive covenants in favour of PetroChina International Subco.

See note 6 for further discussion of the PetroChina Transaction.

## 10. ASSET RETIREMENT OBLIGATIONS

The total future asset retirement obligations are estimated by management based on the Company's ownership interest in all wells, estimated costs to reclaim and abandon the wells, and the estimated timing of the costs to be incurred in future periods. The Company has calculated the net present value of its ARO using an inflation rate of 2% and discounted using a credit-adjusted risk free rate of 14% per annum. The payments to settle these obligations are expected to occur over a period of up to 5 years. The total undiscounted amount of estimated cash flows required to settle the obligations as at December 31, 2009 is \$0.8 million (2008 - \$nil).

The following table reconciles the change in asset retirement obligations:

Years ended December 31	2009	2008
Liability at January 1	\$ -	\$ -
Liabilities incurred	459	-
Accretion expense	47	-
<b>LIABILITY AT DECEMBER 31</b>	<b>\$ 506</b>	<b>\$ -</b>

## 11. INCOME TAXES

As at December 31	2009	2008
		(restated Note 6)
<b>FUTURE INCOME TAX ASSETS</b>		
Share issuance costs	\$ 1,345	\$ 2,992
Debt issuance costs	7,500	-
Non capital loss carry-forward	-	48,720
Other	159	339
<b>FUTURE INCOME TAX LIABILITIES</b>		
Capital assets in excess of tax values	(63,606)	(18,232)
Debt issuance costs	-	(348)
	<b>(54,602)</b>	<b>33,471</b>
<b>ASSETS HELD FOR SALE</b> (Note 6)		
<b>FUTURE INCOME TAX ASSETS</b>		
Tax values of capital assets in excess of the net book values	151,442	-
<b>FUTURE INCOME TAX LIABILITIES</b>		
Capital assets in excess of tax values	-	(45,036)
Valuation allowance	(2,290)	-
	<b>149,152</b>	<b>(45,036)</b>
<b>NET FUTURE INCOME TAX ASSET (LIABILITY)</b>	<b>\$ 94,550</b>	<b>\$ (11,565)</b>

The following table reconciles income taxes calculated at the Canadian statutory rate of 29% (2008 - 29.5%) with actual income taxes:

Years ended December 31	2009	2008
<b>LOSS BEFORE INCOME TAXES</b>	<b>\$ (92,658)</b>	<b>\$ (32,474)</b>
<b>EXPECTED INCOME TAX RECOVERY</b>		
Income tax recovery at statutory rate	(26,871)	(9,580)
<b>REDUCTION (INCREASE) OF BENEFIT AS A RESULT OF</b>		
Stock-based compensation	1,569	2,105
Increase (decrease) in valuation allowance	2,290	(1,528)
Rate differential	5,724	1,136
Other	282	40
<b>INCOME TAX RECOVERY</b>	<b>\$ (17,006)</b>	<b>\$ (7,827)</b>

During 2009 certain partnership interests were transferred within the corporate group of entities which resulted in a capital gain of approximately \$1.9 billion. This resulted in a net current income tax expense of approximately \$91.1 million, after estimated recoverable dividend tax on hand of \$135.0 million which is expected to be recovered on the 2010 tax return. As at December 31, 2009, the Company had approximately \$185.0 million of tax pools available for deduction against future taxable income.



## 12. SUPPLEMENTAL CASH FLOW INFORMATION

### Changes in Non-cash Working Capital

Years ended December 31	2009	2008
Accounts receivable	\$ 3,334	\$ (3,126)
Prepaid expenses and other	262	95
Accounts payable and accrued liabilities	25,592	4,449
	29,188	1,418
<b>NET CURRENT INCOME TAX PAYABLE:</b>		
Current income tax payable	226,194	-
Recoverable portion of current income tax	(135,048)	-
	91,146	-
	\$ 120,334	\$ 1,418
<b>RELATED TO:</b>		
Operating activities	123,980	(1,427)
Financing activities	(15)	(204)
Investing activities	(3,631)	3,049
<b>NET CHANGE IN NON-CASH WORKING CAPITAL</b>	<b>\$ 120,334</b>	<b>\$ 1,418</b>

Years ended December 31	2009	2008
Cash interest paid	\$ 52,000	\$ 22,188
Cash taxes paid	-	-

## 13. FINANCIAL INSTRUMENTS

The Company is exposed to financial risks arising from its financial instruments. The financial risks include credit risk, liquidity risk, and market risk related to interest rates.

### Fair Value

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

Because no observable market exists, the fair value for the senior secured notes is 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. As at December 31, 2009 the fair value of the senior secured notes was estimated at \$428.0 million consistent with recent transactions. This amount includes the fair value of the pre-payment penalty of \$28.0 million recorded in accrued liabilities (note 7). Part of the financing arrangements for the PetroChina Transaction included PetroChina Loan #1 which was used to repay the senior secured notes. See note 6 for further discussion on the impact of the PetroChina Transaction.

The Company classifies its financial instruments measured at fair value 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. Unobservable inputs utilized to determine the fair value of the senior secured notes include the estimated implied interest rate from investing in the senior secured notes.

### 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 December 31, 2009, 56% of the Company's consolidated accounts receivable are due from two counterparties, compared to 29% as at December 31, 2008. Both counterparties have a history of full payment. The amounts outstanding with the counterparties are considered current based on the terms established between AOSC and the counterparties. Accounts receivable outstanding from the counterparties were collected subsequent to December 31, 2009. Management believes the remaining 44% of accounts receivable is with high quality 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 that credit risk associated with these investments is low.

### Liquidity Risk

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

Management believes that the proceeds from the PetroChina Transaction, the PetroChina Loans and the initial public offering, combined with the Company's remaining working capital less the special dividend, are sufficient to fund the Company's expenditures for at least 2010 and 2011. Excess cash will be invested in low risk instruments such as banker's acceptances with a focus on capital preservation.

The Company's outstanding financial liabilities mature within one year, with the exception of the Company's senior secured notes, which were scheduled to mature July 30, 2011. As noted above, these notes were repaid as part of the PetroChina Transaction.

The Company is required to repay PetroChina Loan #1 (note 6) as to principal and outstanding interest in full on the earlier of June 30, 2022, 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 loan will be repaid as to principal and outstanding interest on a pro rata basis with indebtedness under PetroChina Loan #2 and PetroChina Loan #3 (note 9) from 90% of cash flow (as provided in the PetroChina loan agreements) of the MacKay joint venture and Dover joint venture.

Monies loaned under PetroChina Loan #1 are secured by guarantees from the Company's material subsidiaries and a security interest in all of the present and after-acquired assets of the Company and its material subsidiaries. As part of PetroChina Loan #1, the Company has made customary negative and positive covenants in favour of PetroChina International Subco.

### Interest Rate Risk

For the year ended December 31, 2009, the Company's exposure to interest charged on the average outstanding credit facility balance, from a 1% change in interest rates, would have an insignificant impact on the consolidated financial statements. The Company's exposure to interest rate fluctuations on interest earned on the average cash and cash equivalents and short-term investment balances, from a 1% change in interest rates, would be approximately \$2.1 million.

## 14. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the acquisition, exploration and development of its oil sands properties or potential other business and to maintain a flexible capital structure for its projects for the benefit of its stakeholders. The Company considers the items included in shareholders' equity 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. As at December 31, 2009 the Company had available a \$25.0 million credit facility with a Canadian chartered bank. Immediately prior to closing the PetroChina Transaction, the credit facility was cancelled. Immediately following the closing of the PetroChina Transaction, the senior secured notes were repaid with the proceeds from PetroChina Loan #1.

Capital managed by the Company is as follows:

As at December 31	2009	2008
Bank credit facility	\$ -	\$ -
Senior secured notes	398,996	378,906
Shareholders' equity	172,054	362,266
<b>CAPITAL MANAGED</b>	<b>\$ 571,050</b>	<b>\$ 741,172</b>



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 estimated costs relating to the issue).

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"). 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, thereby ensuring 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.

## 15. SHARE CAPITAL

### a) Authorized

Authorized share capital of AOSC consists of an unlimited number of common shares.

### b) Issued and Outstanding Common Shares

The following table summarizes changes to the Company's common share capital:

Years ended December 31	2009		2008	
	Number of shares	Amount	Number of shares	Amount
Balance at January 1	192,529,661	\$ 374,041	177,372,811	\$ 383,872
Exercise of purchase warrants (c)	7,007,000	8,759	6,156,850	7,696
Exercise of performance warrants (e)	10,000,000	100	9,000,000	90
Liquidity rights/warrants converted to common shares (d)	3,736,433	1,495	-	-
Exercise of stock options (Note 16)	2,764,300	110	-	-
Non-cash portion of stock options vested and exercised (f)	-	5,872	-	-
Share issue costs (net of tax benefit)	-	-	-	(52)
Tax effect of flow through shares	-	-	-	(17,565)
Less common shares granted and held in trust contingently returnable to the Company (Note 16)	(2,061,022)	-	-	-
<b>BALANCE AT DECEMBER 31</b>	<b>213,976,372</b>	<b>\$ 390,377</b>	<b>192,529,661</b>	<b>\$ 374,041</b>

During the year ended December 31, 2008 the Company renounced \$70.3 million of qualifying exploration expenditures to flow-through common share subscribers under the look back rule, for flow-through financing proceeds from 2007. The effective date of the renouncement was December 31, 2007 based on actual core hole drilling program expenditures incurred in the first three months of 2008. The future tax effect of this renouncement at a future estimated tax rate of 25% is \$17.6 million and has been recorded as a reduction to share capital.

### c) Outstanding Purchase Warrants

The Company reserved 112.0 million common shares for issuance upon exercise of certain issued and outstanding purchase warrants, each whole purchase warrant exercisable at a price of \$1.25 per share on or before five years from the date of issuance. The following table summarizes changes to the Company's purchase warrants:

Years ended December 31	2009	2008
Balance at January 1	104,281,250	110,438,100
Exercised	(7,007,000)	(6,156,850)
<b>BALANCE AT DECEMBER 31</b>	<b>97,274,250</b>	<b>104,281,250</b>

No value was assigned to these warrants at the time of issuance.

#### d) Outstanding Liquidity Rights/Warrants

An aggregate of 37,364,450 common and flow through shares were issued during 2007 financings. Each share had either a liquidity right or a liquidity warrant attached providing the security holder with a right or warrant to approximately 0.10 additional common shares per right or warrant, if the Company did not meet certain liquidity event requirements by February 16, 2009. Each liquidity right or liquidity warrant was assigned a value of \$0.04 at the time of the financing. The Company reserved 3.7 million common shares to be issued provided the Company did not meet the liquidity event requirements.

A liquidity event, as it related to the securities described above, meant:

- i) an initial public offering whereby the common shares of the Company are listed and posted for trading on a recognized Canadian or U.S. stock exchange, or
- ii) the completion of any transaction as a result of which all or substantially all of the outstanding common shares are exchanged for the securities of another issuer, and such securities will be listed on a recognized exchange.

The Company did not meet the liquidity event requirements under the share subscription agreements and accordingly 3.7 million common shares were issued upon conversion of the outstanding liquidity rights and liquidity warrants on February 16, 2009.

The following table summarizes changes to the Company's liquidity rights and liquidity warrants:

Years ended December 31	2009			2008		
	Number of warrants/ rights outstanding	Number of common shares if converted	Amount if converted	Number of warrants/ rights outstanding	Number of common shares if converted	Amount if converted
Balance at January 1	37,364,450	3,736,433	\$ 1,495	37,364,450	3,736,433	\$ 1,495
Issued with common shares for cash	-	-	-	-	-	-
Issued with flow-through shares for cash	-	-	-	-	-	-
Converted to common shares	(37,364,450)	(3,736,433)	(1,495)	-	-	-
<b>BALANCE AT DECEMBER 31</b>	-	-	\$ -	37,364,450	3,736,433	\$ 1,495

#### e) Outstanding Performance Warrants

Two series of performance warrants were issued as part of the initial capitalization of the Company totaling 19.0 million warrants. 9.5 million Series I performance warrants and 9.5 million Series II performance warrants were issued, both of which are exercisable for a period of nine years from the date of issuance and only if the net asset value per fully diluted common share is equal to or greater than \$1.50 and \$2.50 per share (for the Series I and II performance warrants, respectively), and certain liquidity thresholds have been achieved. The exercise price was \$0.01 per performance warrant.

During 2007 all performance criteria associated with these performance warrants were achieved.

The following table summarizes changes to the aggregate Series I and Series II performance warrants of the Company:

Years ended December 31	2009	2008
	Number of performance warrants outstanding	Number of performance warrants outstanding
Balance at January 1	10,000,000	19,000,000
Exercised	(10,000,000)	(9,000,000)
<b>BALANCE AT DECEMBER 31</b>	-	10,000,000



## f) Contributed Surplus

The following table summarizes changes to the Company's contributed surplus:

Years ended December 31	2009	2008
Balance at January 1	\$ 41,432	\$ 28,758
Capitalized stock-based compensation	6,109	5,538
Expensed stock-based compensation	5,410	7,136
Stock options vested and exercised (Note 16)	(5,872)	-
<b>BALANCE AT DECEMBER 31</b>	<b>\$ 47,079</b>	<b>\$ 41,432</b>

## 16. STOCK-BASED COMPENSATION PLANS

The Company's stock-based compensation plans for employees, directors, and consultants consist of incentive share options to acquire incentive shares, performance warrants to acquire common shares, purchase warrants to acquire common shares, stock options and an incentive bonus plan payable to certain specified holders of stock options in the event of a specified change of control or initial public offering.

### a) Incentive Shares, Stock Options (Amended) and Nominally Priced Stock Options, Performance Warrants, and Purchase Warrants

In 2006 the Company issued, to Avenir Capital Corporation, 20.0 million incentive shares at a price of \$0.001 per share of which 17.1 million were available for allocation to employees, directors, and consultants.

Years ended December 31	2009	2008
	Number of common shares	Number of common shares
Available for grant at January 1	382,500	1,320,000
Granted	(379,000)	(937,500)
Available for grant at December 31	3,500	382,500
Balance granted and held in trust at January 1	5,957,918	6,848,332
Granted	379,000	937,500
Stock options (amended) and nominally priced stock options, exercised and held in trust (c)	2,061,022	-
Vested and released	(678,609)	(1,827,914)
<b>BALANCE GRANTED AND HELD IN TRUST AT DECEMBER 31</b>	<b>7,719,331</b>	<b>5,957,918</b>

The estimated fair value per incentive share granted during the year ended December 31, 2009 was \$11.91.

The estimated aggregate fair value (initial fair value plus incremental fair value) per stock option (amended) and nominally priced stock options exercised and held in trust was \$10.65. See note 16(c).

As at December 31, 2009, a total of 7,719,331 common shares were held in trust subject to length of service requirements. Of this, 5,658,309 relate to shares initially issued to Avenir Capital Corporation pursuant to an agreement to be used for Athabasca employees, directors, and consultants. Any returned shares, if the length of service requirement is not met, would be available for future grant. The remaining 2,061,022 shares are contingently returnable to the Company and will be cancelled if the length of service requirement is not met.

As at December 31, 2008 and 2007 there were 5.0 million Series I and 5.0 million Series II performance warrants issued to directors and officers of the Company which were fully vested and remained outstanding and exercisable. During the fourth quarter of 2009, the Company issued 10.0 million common shares upon exercise of the outstanding performance warrants.

As at December 31, 2009, 2008, and 2007 there were 791,773 purchase warrants issued to directors and officers of the Company which are fully vested and remain outstanding and exercisable.

See note 15 for descriptions of these securities.

## b) Stock Options

The Company has a Stock Option Plan, approved in 2006 which allows options to be granted to employees, directors and consultants. The specific terms are determined by the Board when each specific tranche of options is approved. All options issued by the Company permit the holder to purchase one common share of the Company at the stated exercise price or to receive a cash payment equal to the appreciated value of the stock option at the sole discretion of the Company.

The stock option plan is a rolling plan and currently limits the number of common shares that may be issued on exercise of options awarded under the plan to an aggregate of 10% of the common shares outstanding from time to time.

In 2007, the Company reserved the first tranche of 2.0 million common shares in connection with this plan for use in attracting and rewarding employees. Stock options expire after 10 years from the date of grant.

During the second quarter of 2009, the Board authorized an additional 1.5 million stock options under the Company's 2006 stock option plan which can be granted to employees, directors and consultants.

During the third quarter of 2009, the Board authorized up to an additional 750,000 nominally priced stock options which were granted to certain employees, directors and consultants who were eligible for additional stock options under the amended incentive plan agreements. See note 16(c).

During the fourth quarter of 2009, the Board approved a new stock option plan and cancelled the Company's 2006 stock option plan. Under the new stock option plan options expire after 5 years from the date of grant. See note 16(c).

Years ended December 31	2009		2008	
	Number of options	Weighted average exercise price (\$)	Number of options	Weighted average exercise price (\$)
Outstanding at January 1	1,657,000	8.09	470,000	7.35
Granted - stock options	1,148,900	7.53	1,187,000	8.30
Granted - incentive stock options (c)	663,900	0.01	-	-
Exercised stock options	(10,000)	8.30	-	-
Exercised stock options (amended) (c)	(693,306)	0.01	-	-
Exercised and held in trust stock options (amended) (c)	(1,397,094)	0.01	-	-
Exercised and held in trust nominally priced stock options (c)	(663,900)	0.01	-	-
<b>OUTSTANDING AT DECEMBER 31</b>	<b>705,500</b>	<b>10.01</b>	<b>1,657,000</b>	<b>8.09</b>
<b>EXERCISABLE AT DECEMBER 31</b>	<b>170,500</b>	<b>7.84</b>	<b>355,670</b>	<b>8.12</b>

The estimated fair value per stock option granted during the year ended December 31, 2009 was \$3.43.

The estimated fair value per nominally priced stock option granted during the year ended December 31, 2009 was \$15.74. See note 16(c).

The exercise prices of the Company's outstanding stock options are as follows:

As at December 31	Options outstanding			Options exercisable	
	Number of options	Weighted average exercise price (\$)	Weighted average years to expiry	Number of options	Weighted average exercise price (\$)
Range of exercise prices (\$)					
5.00-8.30	215,500	7.91	8.41	170,500	7.84
10.40-14.10	490,000	10.93	4.84	-	-
<b>5.00-14.10</b>	<b>705,500</b>	<b>10.01</b>	<b>5.93</b>	<b>170,500</b>	<b>7.84</b>



### c) Incentive Plan Amendments

During the fourth quarter of 2009, the Company agreed to the terms of amended incentive plan agreements with certain employees, directors, and consultants. The amended incentive plan agreements became effective October 15, 2009. The amendments were agreed to in exchange for the waiver of certain rights as it pertains to change of control conditions contained in the original incentive plan agreements.

The amended terms for stock options consist of:

- a more descriptive explanation of what would constitute a “change of control”;
- immediate vesting of the stock options, reduction of all exercise prices to \$0.01 per stock option, the immediate exercise of such stock options, and the agreement of the service providers to return the common shares obtained on exercise of such options in trust to Avenir Capital Corporation for subsequent release to the service providers on the satisfaction of length of service requirements; and
- amendment of vesting/length of service requirements to a maximum of four years.

The amended terms for incentive shares granted consist of:

- a more descriptive and restrictive definition of what constitutes a “change of control”;
- amendment of vesting/length of service requirements to a maximum of four years; and
- additional grant of 30% more nominally priced stock options to the holders of incentive shares that had not met the vesting/length of service requirements as at October 15, 2009.

In addition, 750,000 stock options were authorized by the Board in September 2009 and reserved for security holders eligible for the 30% additional grant. The Company granted 663,900 stock options to employees, directors, and consultants for this additional 30% grant in the fourth quarter of 2009. The remaining 86,100 authorized stock options related to the incentive plan amendment will not be granted.

Prior to the amendments, incentive plan securities grants to new employees generally vested over 6 years. The amendment of vesting/length of service requirements to a maximum of four years included the immediate vesting of one-third of the securities granted for certain security holders who had not started working for the Company prior to October 15, 2007, with the remaining vesting over four years starting October 15, 2009. For certain security holders who started working for the Company prior to October 15, 2007, there was no change in vesting dates. The agreement amendments resulted in an immediate charge to stock-based compensation expense for those securities that were accelerated. The exercise price change also resulted in an immediate charge to stock-based compensation. A charge to stock-based compensation for approximately \$5.6 million related to these changes was accounted for in the fourth quarter of 2009.

For those employees, directors, and consultants who accepted the amended agreements, in consideration for the exercise price change on granted stock options, the associated cash bonus rights and the Incentive Bonus Plan payments were cancelled.

During the fourth quarter of 2009, the Board approved a new stock option plan in order to attract and retain employees, directors, and consultants. The new stock options typically vest over a four-year period on each anniversary of the grant date and expire five years after the grant date. Stock option exercise prices approximate the market price for the common shares on the date the stock options are granted. An option holder may make an offer to the Company for the surrender of any option for an amount (not to exceed the fair market value of the underlying common share less the exercise price of the option) specified by the option holder in the surrender offer. The Company may, but is not obligated to, accept the surrender offer. If a surrender offer is accepted, the option in respect of which the surrender offer relates is cancelled upon payment of the agreed amount by the Company to the option holder.

### d) Stock-based Compensation

The Company uses the Black-Scholes pricing model to calculate the fair value for grants under its stock-based compensation plans.

The estimated fair values of the incentive shares and stock options granted in 2009 were calculated using the following assumptions:

2009 stock-based compensation grants	
Share price (\$)	3.96 – 15.75
Risk-free interest rate (%)	2.12 – 3.20
Life of incentive share grants (years)	5.8 – 6.7
Life of stock option grants (years)	4.0 – 10.0
Dividend rate (%)	0
Volatility (%)	N/A

The estimated incremental fair values for stock options (amended) in 2009 were calculated using the following assumptions:

	Stock options (amended) incremental fair value
Share price (\$)	8.20
Risk-free interest rate (%)	2.93
Life of stock option grants (years)	4.0
Dividend rate (%)	0
Volatility (%)	N/A

See note 16(c).

The estimated fair values of the nominally priced stock options granted in 2009 were calculated using the following assumptions:

	2009 nominally priced stock option grants
Share price (\$)	15.75
Risk-free interest rate (%)	2.12
Life of stock option grants (years)	4.0
Dividend rate (%)	0
Volatility (%)	N/A

See note 16(c).

As a private company, no observable market exists for the Company's shares. The share price used in fair value calculations is estimated based on prior private equity issuances or grey market trading information. The Company has not incorporated an expected volatility into its fair value calculation because it is a private company.

#### e) Incentive Bonus Plan

A cash incentive bonus plan was approved by the Board in 2008. The plan provides for a cash payment of \$4.50 per outstanding option to specified holders of stock options upon exercise, subject to being preceded by a specified change of control or an initial public offering. As at December 31, 2009, the potential liability related to incentive bonus rights, following amendments to the incentive plans described in note 16(c), is approximately \$0.2 million. Subsequent to December 31, 2009 the outstanding bonus rights were cancelled.

### 17. PER SHARE COMPUTATIONS

The weighted average number of shares outstanding for the year ended December 31, 2009 was 199,957,688 (2008 - 181,550,247). Per share amounts are calculated excluding dilutive securities during periods in which there is a loss. Dilutive securities will have a dilutive effect under the treasury stock method only when the average market price of the common shares during the period exceeds the exercise price of the securities. As at December 31, 2009, 99,940,744 anti-dilutive securities were excluded from the calculation of diluted loss per share.

### 18. COMMITMENTS

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

(CDN\$ Thousands)	2010	2011	2012	2013	2014	Thereafter	Total
Senior secured notes repayment (Note 9)	-	400,000	-	-	-	-	400,000
Interest payments on senior secured notes (Note 9)	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
<b>TOTAL COMMITMENTS</b>	<b>54,575</b>	<b>432,493</b>	<b>2,575</b>	<b>1,311</b>	<b>1,280</b>	<b>920</b>	<b>493,154</b>



Pursuant to the PetroChina Transaction, PetroChina International Subco provided the Company with PetroChina Loan #1 of \$430.0 million, which was used to repay the Company's existing indebtedness and related costs under the Note Indenture dated July 30, 2008 for the \$400.0 million of senior secured notes. PetroChina Loan #1 is repayable from cash flow and any amount remaining on June 30, 2022 will be repaid in full.

See note 6 for further discussion of the PetroChina Transaction.

## **19. RELATED PARTY TRANSACTIONS**

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

## **20. SUBSEQUENT EVENTS**

### **PetroChina Transaction**

On August 28, 2009, the Company entered into the Principles of Joint Venture Agreement with PetroChina International Investment Company Limited ("PetroChina International"), a wholly owned subsidiary of PetroChina Company Limited ("PetroChina"), to acquire a 60% working interest in the Company's MacKay and Dover oil sands projects. The transaction closed on February 10, 2010 for cash consideration of \$1.9 billion plus 60% of costs incurred on the MacKay and Dover oil sands projects between November 1, 2009 and February 10, 2010. See note 6 for further discussion of the PetroChina Transaction.

### **MacKay Put Option**

PetroChina International Subco has granted to the Company the sole and exclusive right, exercisable at the Company's option prior to the 31st day following receipt of MacKay oil sands project approval, to require PetroChina International Subco to acquire or nominate an affiliate to acquire, the shares of AOSC (MacKay) (or a wholly-owned subsidiary thereof) (if the Cushing Reference Price is greater than US\$70.00) or the assets of AOSC (MacKay) (or a wholly-owned subsidiary thereof) (if the Cushing Reference Price is less than US\$70.00) for a purchase price of \$680 million if exercised in 2010, 2011 or 2012, \$646 million if exercised in 2013, \$612 million if exercised in 2014, and the product of a 0.9 multiple of the fair market value of the assets or shares, as applicable, of AOSC (MacKay) (or a wholly-owned subsidiary thereof) if exercised in any calendar year after 2014.

### **Dover Put Option**

PetroChina International Subco has granted to the Company the sole and exclusive right, exercisable at the Company's option prior to the 31st day following receipt of Dover oil sands project approval, if the MacKay put/call option is exercised, to require PetroChina International Subco to acquire or nominate an affiliate to acquire, the shares of AOSC (Dover) (or a wholly-owned subsidiary thereof) (if the Cushing Reference Price is greater than US\$ 70.00) or the assets of AOSC (Dover) (or a wholly-owned subsidiary thereof) (if the Cushing Reference Price is less than US\$70.00) for a purchase price of \$1.32 billion if exercised in 2010, 2011 or 2012, \$1.254 billion if exercised in 2013, \$1.188 billion if exercised in 2014, and the product of a 0.9 multiple of the fair market value of the assets or shares, as applicable, of AOSC (Dover) (or a wholly-owned subsidiary thereof) if exercised in any calendar year after 2014.

### **MacKay Call Options**

The Company has granted to PetroChina International Subco the sole and exclusive right, exercisable at PetroChina International Subco's option, to acquire the shares of AOSC (MacKay) (or a wholly-owned subsidiary thereof), in the following circumstances, for the applicable purchase price, as follows:

- (a) prior to the 31<sup>st</sup> day following receipt of MacKay oil sands project approval, for a purchase price of \$680 million if exercised in 2010, 2011 or 2012, \$646 million if exercised in 2013, \$612 million if exercised in 2014, and the product of a 0.9 multiple of the fair market value of the shares of AOSC ( MacKay) (or a wholly-owned subsidiary thereof ) if exercised in any calendar year after 2014;
- (b) prior to the fifth business day following December 31 in any calendar year commencing 2012 (and provided the MacKay oil sands project approval has not occurred prior thereto), for a purchase price of \$680 million if exercised in 2013, \$612 million if exercised in 2014, \$544 million if exercised in 2015, and the product of a 0.8 multiple of the fair market value of the shares of AOSC (MacKay) (or a wholly-owned subsidiary thereof) if exercised in any calendar year after 2015;
- (c) prior to the 61st day following the receipt of notice of the occurrence of an insolvency event or change of control of the Company or AOSC (MacKay) (or a wholly-owned subsidiary thereof) or AOSC (Dover) (or a wholly owned subsidiary thereof), for a purchase price of \$680 million; and
- (d) prior to the fifth business day following March 31, 2011, if an application for Dover oil sands project approval with the Energy Resources Conservation Board ("ERCB") and Alberta Environment has not been filed on or by March 31, 2011, for a purchase price of \$578 million.

## Dover Call Options

Except as set forth below, provided that the MacKay put/call option has been exercised, the Company has granted to PetroChina International Subco the sole and exclusive right, exercisable at PetroChina International Subco's option, to acquire the shares of AOSC (Dover) (or a wholly-owned subsidiary thereof), in the following circumstances, for the applicable purchase price, as follows:

- (a) prior to the 31st day following receipt of Dover oil sands project approval, for a purchase price of \$1.32 billion if exercised in 2010, 2011 or 2012, \$1.254 billion if exercised in 2013, \$1.188 billion if exercised in 2014, and the product of a 0.9 multiple of the fair market value of the shares of AOSC (Dover) (or a wholly-owned subsidiary thereof) if exercised in any calendar year after 2014;
- (b) prior to the fifth business day following December 31 in any calendar year commencing 2012 (and, except for the option exercisable following December 31, 2012, concurrently with the exercise of the corresponding MacKay put/call option by PetroChina International Subco), for a purchase price of \$1.32 billion if exercised in 2013, \$1.1888 billion if exercised in 2014, \$1.056 billion if exercised in 2015, and the product of a 0.8 multiple of the fair market value of the shares of AOSC (Dover) (or a wholly-owned subsidiary thereof) if exercised in any calendar year after 2015;
- (c) prior to the 61st day following receipt of notice of the occurrence of an insolvency event or change of control of the Company or AOSC (MacKay) (or a wholly-owned subsidiary thereof) or AOSC (Dover) (or a wholly-owned subsidiary thereof), for a purchase price of \$1.32 billion; and
- (d) prior to the fifth business day following March 31, 2011, if an application for Dover oil sands project approval with the ERCB and Alberta Environment has not been filed on or by March 31, 2011, for a purchase price of \$1.122 billion; provided that, if the MacKay put/call option is exercised during a given calendar year, the AOSC (Dover) purchase price will be determined as of the date of the closing of the MacKay put/call option transaction, irrespective of the date of the closing of the Dover call option or the Dover put option. There will be an adjustment for working capital between the date of exercise of the applicable option and the closing date.

## PetroChina Loan #1 Agreement

PetroChina International Subco has provided to the Company a non-revolving loan in the principal amount of \$430 million, the proceeds of which were used to repay the Company's indebtedness to the Senior Secured Noteholders and to fund related costs under the Senior Secured Note Indenture. Interest on PetroChina Loan #1 is payable semi-annually at a rate equal to LIBOR plus 450 basis points. The PetroChina Loan #1 is payable as to principal and outstanding interest in full on the earlier of June 30, 2022, a change of control of the Company (but only if PetroChina International Subco accepts the Company's offer to repay the loan on the occurrence of such change of control, which offer PetroChina International Subco may refuse in its sole discretion) and the date the MacKay put/call option is exercised by either the Company or PetroChina International Subco. If none of the put/call options is exercised, the PetroChina Loan #1 is repayable as to principal and outstanding interest on a pro rata basis with indebtedness owing under PetroChina Loan #2 and PetroChina Loan #3 from 90% of the following: (a) revenues of AOSC (MacKay) and AOSC (Dover), less (b) certain costs of AOSC (MacKay) and AOSC (Dover).

Monies loaned under the PetroChina Loan Agreement in respect of PetroChina Loan #1 are secured by guarantees from the Company's material subsidiaries and a security interest in all of the present and after-acquired property, assets and undertakings of the Company and its material subsidiaries. The Company has provided certain negative and positive covenants in favour of PetroChina International Subco that are similar to those covenants that would be given to a Schedule 1 Canadian chartered bank in the same position as PetroChina International Subco.

## PetroChina Loan #2 Agreement

PetroChina International Subco has agreed to provide to the Company a limited recourse non-revolving multi-draw credit facility of up to a maximum principal amount of \$100,000,000 to be used, as required from time to time, to enable the Company to provide funds to each of AOSC (MacKay) and AOSC (Dover) to fund their share of the capital required for the initial activities of the MacKay and Dover joint ventures prior to the date of closing any transaction resulting from the exercise of a put/call option. The Company will pay interest semi-annually at a rate equal to LIBOR plus 450 basis points. The loan will be repaid as to principal and outstanding interest in full on the earlier of June 30, 2024, a change of control of the Company (but only if PetroChina International Subco accepts the Company's offer to repay the loan on the occurrence of such change of control, which offer PetroChina International Subco may refuse in its sole discretion) and the date one or both of the put/call options is exercised by either the Company or PetroChina International Subco. If none of the put/call options is exercised, the loan will be repaid as to principal and outstanding interest on a pro rata basis with indebtedness owing under PetroChina Loan #1 and PetroChina Loan #3, if applicable, from 90% of the following: (a) revenues of AOSC (MacKay) and AOSC (Dover), less (b) certain costs of AOSC (MacKay) and AOSC (Dover).



Monies loaned under the PetroChina Loan Agreement in respect of PetroChina Loan #2 will be secured by guarantees of AOSC (MacKay) and AOSC (Dover) and their respective subsidiaries and by a security interest in all of the present and after-acquired property, assets and undertakings of AOSC (MacKay) and AOSC (Dover) and their respective subsidiaries.

The Company has provided certain negative and positive covenants in favour of PetroChina International Subco that are similar to those covenants that would be given to a Schedule 1 Canadian chartered bank in the same position as PetroChina International Subco.

### **PetroChina Loan #3 Agreement**

If the put/call options are not exercised and have expired and the MacKay oil sands project approval has been obtained, PetroChina International Subco will provide to the Company a limited recourse non-revolving multi-draw credit facility of up to a maximum principal amount of \$560,000,000 to be used, as required from time to time, to enable the Company to provide funds to each of AOSC (MacKay) and AOSC (Dover) to fund their share of the capital required for the business and activities of the MacKay joint venture (but only in respect of MacKay first phase) and the Dover joint venture (but only in respect of Dover first phase), respectively, as cash-called from time to time by the MacKay joint venture or the Dover joint venture, as the case may be. The Company will pay interest semi-annually at a rate equal to LIBOR plus 450 basis points. The loan will be repaid as to principal and outstanding interest in full on the earlier of June 30, 2024 and a change of control of the Company (but only if PetroChina International Subco accepts the Company's offer to repay the loan on the occurrence of such change of control, which offer PetroChina International Subco may refuse in its sole discretion). The loan will be repaid as to principal and outstanding interest on a pro rata basis with indebtedness owing under PetroChina Loan #1 and PetroChina Loan #2 from 90% of the following: (a) revenues of AOSC (MacKay) and AOSC (Dover), less (b) certain costs of AOSC (MacKay) and AOSC (Dover).

Monies loaned under the PetroChina Loan Agreement in respect of PetroChina Loan #3 will be secured by guarantees of AOSC (MacKay) and AOSC (Dover) and their respective subsidiaries and by a security interest in all of the present and after-acquired property, assets and undertakings of AOSC (MacKay) and AOSC (Dover) and their respective subsidiaries.

The Company has agreed that if PetroChina Loan #3 becomes effective, it will provide certain negative and positive covenants in favour of PetroChina International Subco that are similar to those covenants that would be given to a Schedule 1 Canadian chartered bank in the same position as PetroChina International Subco.

### **Gain on Sale of AOSC Newco**

The PetroChina Transaction described above and in note 6 resulted in an accounting gain of approximately \$1.6 billion.

### **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 warrant holder 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.



# Corporate Information

## MANAGEMENT

Sveinung Svarte, MBA, MSc.  
President & CEO

Rob Harding, CMA, MBA  
Vice President, Finance & CFO

Ian Atkinson, MSc, P.Eng.  
Vice President, Geoscience, Technology & Reservoir

Don Verdonck, P.Eng.  
Vice President, Development & Operations

Bob Bruce  
Vice President, Corporate Development

Bryan Gould  
Vice President, New Ventures and Business Development

Anne Schenkenberger, LLB  
General Counsel & Corporate Secretary

## DIRECTORS

William Gallacher, P.Eng. <sup>(1)(2)(3)</sup>  
Chairman

Gary H. Dundas, CMA, MBA <sup>(2)(3)</sup>

Thomas W. Buchanan, FCA <sup>(1)(3)</sup>

J.G. (Jeff) Lawson, LLB <sup>(2)(3)</sup>

Marshall L. McRae, CA <sup>(1)(3)</sup>

Sveinung Svarte, MBA, MSc. <sup>(2)</sup>  
President & CEO

Member of:

- (1) Audit Committee
- (2) Reserves and Health, Safety & Environmental Committee
- (3) Compensation and Governance Committee

## CORPORATE OFFICE

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## WEBSITE

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## TRUSTEE AND TRANSFER AGENT

Olympia Trust Company  
2300, 125 - 9 Avenue SW  
Calgary, Alberta, T2P 0P6  
Telephone: (403) 261-0900  
Fax: (403) 265-1455

## BANK

Bank of Montreal

## AUDITORS

Ernst & Young LLP

## LEGAL COUNSEL

Burnet, Duckworth & Palmer LLP

## INDEPENDENT EVALUATORS

GLJ Petroleum Consultants

DeGoyler and MacNaughton Canada Limited