

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 May 10, 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 consolidated interim financial statements of the Company for the three months ended March 31, 2010. The audited and unaudited consolidated financial statements of the Company have been prepared in accordance with Canadian GAAP. Unless as otherwise noted, all financial measures are expressed in Canadian dollars and tabular amounts are in thousands of dollars.

FORWARD LOOKING STATEMENTS

This MD&A, particularly under the heading "Outlook", contains forward-looking information that involves various risks, uncertainties and other factors. All statements other than statements of historical fact are forward-looking statements. The use of any of the words "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "should", "believe", "predict", "pursue" and "potential" and similar expressions are intended to identify forward-looking statements. The forward-looking information is not historical fact, but rather is based on the Company's current plans, objectives, goals, strategies, estimates, assumptions and projections about the Company's industry, business and future financial results. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. No assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A. In particular, this MD&A 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; and the timing for receipt of regulatory approvals. With respect to forward-looking statements and forward-looking information contained in this MD&A, assumptions have been made regarding, among other things: the Company's ability to obtain qualified staff and equipment in a timely and cost-efficient manner; the regulatory framework governing royalties, taxes and environmental matters in the jurisdictions in which the Company conducts and will conduct its business; the applicability of technologies for the recovery and production of the Company's reserves and resources; future capital expenditures to be made by the Company; future sources of funding for the Company's capital programs; the Company's future debt levels; geological and engineering estimates in respect of the Company's reserves and resources; the geography of the areas in which the Company is conducting exploration and development activities; the impact that the PetroChina Transaction (as defined below) will have on the Company, including on the Company's financial condition and results of operations; and the Company's ability to obtain financing on acceptable terms. Actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and included elsewhere in this MD&A under the heading "Risk Management" and under the headings "Notice to Investors -Forward-Looking Statements" and "Risk Factors" in the Company's prospectus dated March 30, 2010, which is available on the SEDAR website at www.sedar.com, including: fluctuations in market prices for crude oil and bitumen blend; general economic, market and business conditions; dependence on Cretaceous Oilsands Holdings Limited ("PetroChina International Subco") as the joint venture participant in the MacKay and Dover oil sands projects; variations in foreign exchange and interest rates; factors affecting potential profitability; the global financial crisis; uncertainties inherent in estimating quantities of reserves and resources; AOSC's status and stage of development; uncertainties inherent in Steam Assisted Gravity Drainage ("SAGD"), Cyclic Steam Stimulation ("CSS") and other bitumen recovery processes; the potential impact of the exercise of the Put/Call Options (as defined below) on the Company; failure to meet the conditions precedent to the exercise by the Company of the Put/Call Options, including failure to receive regulatory approval for the MacKay oil sands project and/or the Dover oil sands project when anticipated or at all; failure to



obtain necessary regulatory approvals for completion of the Put/Call Option transactions on the terms and conditions set forth in the Put/Call Option Agreement; failure to meet development schedules and potential cost overruns; increases in operating costs can make projects uneconomic; the effect of diluent and natural gas supply constraints and increases in the costs thereof; gas over bitumen issues affecting operational results; the potential for adverse consequences in the event that the Company defaults under certain of the PetroChina Transaction Agreements (as defined below); environmental risks and hazards and the cost of compliance with environmental regulations, including greenhouse gas regulations and potential Canadian and U.S. climate change legislation; failure to obtain or retain key personnel; the substantial capital requirements of the Company's projects; the need to obtain regulatory approvals and maintain compliance with regulatory requirements; extent of, and cost of compliance with, government laws and regulations and the effect of changes in such laws and regulations from time to time; changes to royalty regimes; political risks; failure to accurately estimate abandonment and reclamation costs; risks inherent in the Company's operations, including those related to exploration, development and production of oil sands reserves and resources, including the production of oil sands reserves and resources using SAGD, CSS or other in-situ technologies; the potential for management estimates and assumptions to be inaccurate; long term reliance on third parties; reliance on third party infrastructure for project facilities; failure by counterparties (including without limitation PetroChina International Investment Company Limited ("PetroChina International") and PetroChina International Subco) to make payments or perform their operational or other obligations to the Company in compliance with the terms of contractual arrangements between the Company and such counterparties and the possible consequences thereof; the potential lack of available drilling equipment and limitations on access to the Company's assets; aboriginal claims; seasonality; hedging risks; risks associated with establishing and maintaining systems of internal controls; insurance risks; claims made in respect of the Company's operations, properties or assets; the potential for adverse consequences as a result of the change of control provisions in the PetroChina Transaction Agreements; competition for, among other things, capital, the acquisition of reserves and resources, export pipeline capacity and skilled personnel; the failure of the Company or the holder of certain licenses or leases to meet specific requirements of such licenses or leases; risks arising from future acquisition activities; risks relating to the reliance on historical and pro forma financial information, including that historical financial information does not reflect the added costs that the Company expects to incur as a public entity; volatility in the market price of the common shares; the absence of an existing public market for the common shares; the effect that the issuance of additional securities by the Company could have on the market price of the common shares; and risks relating to the Company's dividend policy. In addition, information and statements in this MD&A relating to "reserves" and "resources" are deemed to be forward-looking information and statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves and resources described exist in the quantities predicted or estimated, and that the reserves and resources described can be profitably produced in the future. The assumptions relating to the Company's reserves and resources are contained in the reports of GLJ Petroleum Consultants Ltd. dated effective December 31, 2009 (the "GLJ Report") and DeGolyer and MacNaughton Canada Limited dated effective December 31, 2009 (the "D&M Report") and are summarized in AOSC's Statement of Oil and Gas Reserves Data and Other Oil and Gas Information for the Year Ended December 31, 2009 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. The Company expects that its general and administrative expenses as a public company will be higher than those reflected in the financial statements and management's discussion and analysis of financial condition and results of operations included in this MD&A.

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 March 31, 2010, the Company had more than 1.6 million net acres of oil sands leases and permits in the Athabasca area.

Operational Highlights for the Three Months Ended March 31, 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 \$1.646 billion gain on the PetroChina Transaction.
- Drilled 12 wells in the Dover West area where the Company holds a 100% working interest.
- Drilled 52 wells in the Dover area where the Company holds a 40% working interest.
- Drilled four wells in the Grosmont area where the Company holds operatorship and a 50% working interest.

Drilling Program

The following table shows the location of delineation wells drilled on Company lands by area during the winter 2009 - 2010 core hole drilling program and since inception:

Asset area	Delineation wells drilled	
	Winter 2009 - 2010	Since inception
MacKay *	-	132
Dover *	52	176
Dover West	-	22
Dover West Leduc Carbonates	12	24
Birch	-	-
Hangingstone	-	47
Grosmont	4	9
Firebag	-	2
Total	68	412

* 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.



MacKay and Dover Areas

To March 31, 2010, more than 130 delineation wells have been drilled in the MacKay area and over 175 delineation wells have been drilled in the Dover area. These wells are evaluation/exploratory, vertical wells that were drilled to determine the location and extent of the bitumen resource and cannot be used for the production of bitumen. All of these evaluation/exploratory wells must be abandoned after reservoir data is obtained. The MacKay oil sands project and the Dover oil sands project are expected to employ the Steam Assisted Gravity Drainage (“SAGD”) method of extracting bitumen, which is an in-situ production method for heavy oil and bitumen that involves a horizontal well pair consisting of a steam injection well and a production well.

Other Areas

To March 31, 2010, more than 104 delineation wells have been drilled in the Company's other areas. These wells are evaluation/exploratory, vertical wells that were drilled to determine the location and extent of the bitumen resource and cannot be used for the production of bitumen. All of these evaluation/exploratory wells must be abandoned after reservoir data is obtained. The projects are expected to employ mainly the SAGD method of extracting bitumen. Parts of the areas may also be exploited using either: (1) the CSS method, which is also an in-situ production method for extracting heavy oil and bitumen, or (2) other emerging bitumen extraction technologies. With the CSS method, steam is first injected into a well to heat the oil in the surrounding reservoir to a temperature at which it flows. After enough steam has been injected, the steam is left to “soak” for a period time, after which oil is produced out of the same well. Production will decrease as the oil cools down, and once production reaches an economically determined level the steps are repeated again.

Financial Highlights

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

(\$ Thousands, Except Per Share Amounts)	As at March 31, 2010	As at December 31, 2009
BALANCE SHEET ITEMS:		
Total assets	\$ 1,097,361	\$ 893,583
Long-term debt	\$ 430,000	\$ 398,996
Shareholders' equity	\$ 586,165	\$ 172,054

(\$ Thousands, Except Per Share Amounts)	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
INCOME STATEMENT ITEMS:		
Revenue	\$ 1,022	\$ 1,360
Gain on sale of assets	\$ 1,645,536	\$ -
Net income (loss)	\$ 1,484,498	\$ (12,977)
Net income (loss) per share - basic	\$ 6.38	\$ (0.07)
Net income (loss) per share - diluted	\$ 6.32	\$ (0.07)



The changes to total assets are due to proceeds from the PetroChina Transaction, offset by payment of a special dividend, 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 because the Company redeemed the senior secured notes with proceeds from PetroChina Loan #1 (described below). The gain on sale of assets is a result of the PetroChina Transaction. For the three months ended March 31, 2010 the Company's net income of \$1.485 billion was primarily due to the gain on the PetroChina Transaction.

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 million and up to \$560 million, respectively, for certain initial development expenditures on the MacKay joint venture and Dover joint venture projects, provided that PetroChina Loan #3 is only available if the Put/Call Options are not exercised and expire and the MacKay oil sands project approval is obtained. Interest on both loans is payable semi-annually at a rate equal to the LIBOR Rate plus 450 basis points. The amounts drawn on both loans are repayable, on a pro rata basis with PetroChina Loan #1, from 90% of cash flow (as provided for in the PetroChina loan agreements) of the MacKay joint venture and Dover joint venture and any amount remaining outstanding under either loan on June 30, 2024, is required to be repaid in full at that time. At March 31, 2010, the Company had not yet drawn on PetroChina Loan #2. Subsequent to March 31, 2010 the Company drew \$0.9 million on PetroChina Loan #2.



RESULTS OF OPERATIONS

The following table summarizes the Company's results of operations for the three months ended March 31 2010 and 2009:

(\$ Thousands)	2010	2009
Revenue	\$	\$
Interest and other income	1,022	1,360
Expenses		
General and administrative	3,221	2,342
Stock-based compensation	2,247	615
Financing and interest	10,391	14,534
Depreciation and accretion	174	60
Research and development expense	175	453
	16,208	18,004
Gain on sale of assets	1,645,536	-
Earnings (loss) before income taxes	1,630,350	(16,644)
Current income tax recovery	(7,365)	-
Future income tax expense (recovery)	153,201	(3,667)
Earnings (loss) before the following	1,484,514	(12,997)
Equity loss on investments	(16)	-
Net income (loss) and comprehensive income (loss)	\$ 1,484,498	\$ (12,977)

Three Months Ended March 31, 2010 Compared to Three Months Ended March 31, 2009

Interest and Other Income

Interest and other income is comprised of interest income earned on cash and cash equivalents. For the three months ended March 31, 2010, interest income decreased by \$0.3 million compared to the same period in 2009. The decrease results from an overall decline in interest rates offset slightly by a higher cash and cash equivalents balance.

Gain on Sale of Assets

Gain on sale of assets 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.

General and Administrative

General and administrative expense is comprised of salaries, consulting fees, rent, and other office related costs. For the quarter ended March 31, 2010, general and administrative expenses increased by \$0.8 million compared to the same period in 2009. The increase results primarily from the addition of staff and office space.

Stock-based Compensation

For the quarter ended March 31, 2010, stock-based compensation expense increased by \$1.6 million compared to the same period in 2009. The increase results from amendments made to the majority of the stock based compensation agreements in the fourth quarter of 2009 to reduce 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 quarter of 2010 with associated expense.



Financing and Interest

For the three months ended March 31, 2010, financing and interest expense decreased by \$4.1 million, compared to the same period in 2009. The decrease results mainly from lower interest costs of \$3.3 million and lower deferred borrowing cost amortization of \$1.0 million. The decrease in interest costs results from a lower interest rate on the PetroChina Loan #1 as compared to the interest rate on the senior secured notes outstanding at March 31, 2009.

Current Income Tax Recovery

For the three months ended March 31, 2010, the Company's current income tax recovery was approximately \$7.4 million and is primarily due to an expected application of 2010 non capital losses against 2009 taxable income.

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 March 31, 2010, the Company had approximately \$199.7 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 months ended March 31, 2010 and 2009 :

(\$ Thousands)	2010	2009
Oil sands properties	\$ 8,484	\$ 2,171
Exploration and evaluation - delineation drilling	18,659	55,004
Exploration and evaluation - geological and geophysical	5,864	6,472
Engineering and development	321	3,744
Corporate assets	303	14
Capital expenditures included in property and equipment	\$ 33,631	\$ 67,405
Capital expenditures included in investment *	10,450	-
Total capital expenditures	\$ 44,081	\$ 67,405

* 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.

Three Months Ended March 31, 2010

Capital Expenditures Included in Property and Equipment

Oil Sands Properties - Acquisition and Rentals

At March 31, 2010 the Company owned in excess of 1.45 million net acres (excluding the Company's portion of working interest in the MacKay and Dover joint ventures discussed below) of oil sands leases in the Athabasca region of northern Alberta.



For the three months ended March 31, 2010, capitalized costs associated with oil sands property expenditures included lease acquisitions and lease rental payments. During the first quarter of 2010 the Company acquired certain leases to complement the existing asset areas.

Exploration and Evaluation - Delineation Drilling

Expenditures for the three months ended March 31, 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 months ended March 31, 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. An updated independent resource evaluation is expected in the spring of 2010 using the winter 2010 delineation drilling program results, as well as further enhancement of reservoir modeling and mapping using the new information learned from the drilling results and seismic data acquisition.

Engineering and Development

Expenditures for the three months ended March 31, 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 months ended March 31, 2010 related mainly to information technology assets.

For the three months ended March 31, 2010, \$3.4 million of capitalized interest on borrowing costs is included in capital expenditures.

Capital Expenditures Included in Investment

At March 31, 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 months ended March 31, 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. An updated independent resource evaluation is expected in the second quarter of 2010 using the winter 2010 delineation drilling program results, as well as further enhancement of reservoir modeling and mapping using the new information learned from the drilling results and seismic data acquisition. Engineering and 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:

	2010		2009				2008	
(\$ Thousands, except per share amounts)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue	\$ 1,022	126	\$ 160	\$ 916	\$ 1,360	\$ 2,686	\$ 1,652	\$ 196
Net income (loss)	1,484,498	(82,726)	26,063	(6,012)	(12,977)	(9,857)	(9,701)	(3,227)
Net income (loss) per share - basic	6.38	(0.39)	0.13	(0.03)	(0.07)	(0.05)	(0.05)	(0.02)
Net income (loss) per share - diluted	6.32	(0.39)	0.09	(0.03)	(0.07)	(0.05)	(0.05)	(0.02)

Loss and loss per share trended higher from the first quarter of 2008 through the first quarter of 2009 primarily due to increased financing costs from debt financing, higher general and administrative costs resulting from hiring additional employees to further develop the Company's projects, and additional rent and office costs. Net income and net income per share during the third quarter of 2009 results from a future income tax recovery on property and equipment assets held for sale. Net loss and net loss per share during the fourth quarter of 2009 was due to higher financing costs related to the accrual of a pre-payment penalty on the Company's senior secured notes, a decrease in the net income tax recovery, higher stock-based compensation charges resulting from amendments to existing stock-based compensation grants, and higher general and administrative costs due to increased corporate activity related to the PetroChina Transaction and hiring additional employees. Revenue was higher in the first quarter 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.

LIQUIDITY AND CAPITAL RESOURCES

Working Capital

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

At March 31, 2010, the Company had working capital of \$655.0 million, including \$552.2 million of cash and cash equivalents. The interest rate on amounts invested in Company cash accounts as at March 31, 2009 ranges from 0.25%, to 0.59%.

On April 8, 2010, the Company completed the IPO (as described below) and received estimated net proceeds of approximately \$1.263 billion.

Management believes that the Company's working capital at March 31, 2010, together with the net proceeds from the IPO combined with amounts drawn under PetroChina Loan #2 (and, if the MacKay Put/Call Option is 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, net proceeds from the IPO, PetroChina Loan #2 and, if the MacKay put/call Option is 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 at 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 Option is not exercised, PetroChina Loan #1, on a pro rata basis with PetroChina Loan #2 and PetroChina Loan #3, if applicable, is repayable from 90% of cash flow (as provided for in the PetroChina loan agreements) of the MacKay joint venture and Dover joint venture, and any amount remaining outstanding on June 30, 2022 is required to be repaid in full at that time.

The financing arrangements that comprise a part of the PetroChina Transaction also included the provision of PetroChina Loan #2 and PetroChina Loan #3 to the Company to provide up to \$100 million and up to \$560 million, respectively, for certain initial development expenditures on the MacKay joint venture and Dover joint venture projects. Subsequent to March 31, 2010 the Company drew \$0.9 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 Option is not exercised, the amounts drawn on both loans, on a pro rata basis with PetroChina Loan #1, are repayable from 90% of cash flow (as provided for in the PetroChina loan agreements) of the MacKay joint venture and Dover joint venture and any amount remaining outstanding under either loan on June 30, 2024 is required to be repaid in full at that time. 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

During the three months ended March 31, 2010, all outstanding Purchase Warrants were exercised for proceeds of \$121.6 million.

Commitments

The following table summarizes the Company's estimated future minimum commitments at March 31, 2010:

(\$ Thousands)	2010	2011	2012	2013	2014	Thereafter	Total
Credit agreement repayment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 430,000	\$ 430,000
Interest payments							
on credit agreement	16,161	21,156	21,156	21,156	21,156	169,248	270,033
Office leases	1,781	2,375	2,375	1,111	480	920	9,042
Other	150	200	200	200	800	400	1,950
Total commitments	\$ 18,092	\$ 23,731	\$ 23,731	\$ 22,467	\$ 22,436	\$ 600,568	\$ 711,025

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 March 31, 2010.



Outstanding Share Data

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

	At May 8, 2010
Basic common shares ⁽¹⁾	388,482,144
Convertible securities:	
Stock options outstanding – exercisable and unexercisable	658,400
Restricted share units outstanding – exercisable and unexercisable	36,200
Fully diluted common shares	389,176,744

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

Capital Management

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

Cash and cash equivalents at March 31, 2010 and December 31, 2009 was as follows:

	Term (Days)	Interest Rate (%)	Amount
As at March 31, 2010			
Cash			\$ 484,272
Cash equivalents	34 - 66	0.27 - 0.32	67,975
Total			\$ 552,247
As at December 31, 2009			
Cash			\$ 140,992
Total			\$ 140,992

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

(\$ Thousands)	March 31, 2010	December 31, 2009
Senior secured notes ⁽¹⁾	-	398,996
PetroChina Loan #1	430,000	-
Shareholders' equity	586,165	172,054
Capital managed	1,016,165	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 in economic conditions and risk characteristics of underlying assets. In order 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. Subsequent to March 31, 2010, the Company completed the IPO and raised \$1.263 billion (net of commissions and other estimated costs relating to the offering).



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 months ended March 31, 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 at March 31, 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.

a) 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 seeks to achieve this by managing its capital spending and maintaining sufficient funds.

Management believes that the Company’s working capital at March 31, 2010, together with the net proceeds from the IPO combined with draws under PetroChina Loan #2 (and, if the MacKay put/call Option is 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.

The Company’s outstanding financial liabilities mature within one year, with the exception of the Company’s loan from PetroChina.

The Company is required to repay PetroChina Loan #1 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.

b) Credit Risk

The Company's 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 March 31, 2010, 84% of the Company's consolidated accounts receivable are due from three counterparties, compared to 56% as at December 31, 2009. The 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. Management believes the remaining 16% of accounts receivable is with creditworthy 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 invested with counterparties meeting credit quality requirements and issuer and concentration limits pursuant to an investment policy that is periodically reviewed by the Audit Committee. The policy emphasizes security of assets over investment yield. Therefore, the Company's management believes that credit risk associated with these investments is low.

c) Market Risk

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

i. Interest rate risk

For the three months ended March 31, 2010, 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. For the three months ended March 31, 2010, the Company's exposure to interest charged on the average outstanding PetroChina loan #1 balance, from a 1% change in interest rates, would be approximately \$2.2 million. 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 \$7.6 million.

ii. Price risk

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

iii. Currency risk

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

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

OUTLOOK

The completion of the PetroChina Transaction and the IPO affords the Company substantially increased financial flexibility. The Company intends to use that flexibility to support the acceleration of its exploration and development activities on several of its asset areas.



An updated independent resource evaluation is expected in the second quarter of 2010 using the winter 2010 delineation drilling program results, as well as further enhancement of reservoir modeling and mapping using the new information learned from the drilling results and seismic data acquisition.

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

FINANCIAL REPORTING UPDATE

FUTURE ACCOUNTING PRONOUNCEMENTS

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.

International Financial Reporting Standards

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

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

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

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

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

First-Time Adoption of IFRS

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

Full-cost Accounting

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

Stock-based Compensation

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

Impact of Adopting IFRS

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

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

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

Impairment of E&E Assets and PP&E

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

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

Stock-based Compensation

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 joint ventures using the proportionate consolidation method and if the recommendations of ED 9 are adopted, the Company will evaluate all joint venture arrangements to determine if a change to the equity method is required.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements requires the Company to make judgments, assumptions and estimates in the application of generally accepted accounting principles 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.

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

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" above, 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.

SUBSEQUENT EVENTS

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 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 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, which has expired unexercised.

ADDITIONAL INFORMATION

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

