



ATHABASCA

OIL SANDS CORP.

Unaudited Interim
Consolidated Financial Statements
Q2 2010

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(CDN\$ Thousands)	As at June 30, 2010	As at December 31, 2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 3)	\$ 825,114	\$ 140,992
Short-term investments (Note 3)	949,875	-
Accounts receivable	14,129	1,062
Current income tax receivable	194,849	-
Current future income tax asset (Note 9)	4,353	-
Prepaid expenses and other	189	125
Assets held for sale (Notes 6 and 9)	-	387,161
	1,988,509	529,340
DEFERRED CHARGES	55	1,003
INVESTMENTS (Note 4)	155,555	-
PROPERTY AND EQUIPMENT (Note 5)	243,958	363,240
	\$ 2,388,077	\$ 893,583
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 7,649	\$ 41,231
Current income taxes payable	51,689	226,194
	59,338	267,425
LONG-TERM DEBT (Note 7)	437,814	398,996
ASSET RETIREMENT OBLIGATIONS (Note 8)	84	506
FUTURE INCOME TAX LIABILITY (Note 9)	25,015	54,602
	522,251	721,529
SHAREHOLDERS' EQUITY		
Common shares (Note 13)	1,795,636	390,377
Contributed surplus (Note 13)	54,629	47,079
Retained earnings (deficit)	15,561	(265,402)
	1,865,826	172,054
	\$ 2,388,077	\$ 893,583

Commitments (Note 16)

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(CDN\$ Thousands, Except Per Share Amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
REVENUE				
Interest and other income	\$ 3,207	\$ 916	\$ 4,229	\$ 2,276
EXPENSES				
General and administrative	3,988	2,395	7,209	4,738
Stock-based compensation (Note 14)	2,546	617	4,793	1,232
Financing and interest	4,628	6,060	15,019	20,593
Depreciation and accretion	189	73	363	133
Research and development	-	39	175	492
	11,351	9,184	27,559	27,188
Gain (loss) on sale of assets (Note 6)	(476)	-	1,645,060	-
Income (loss) before income taxes	(8,620)	(8,268)	1,621,730	(24,912)
Taxes (Note 9)				
Current income tax recovery	(5,477)	-	(12,842)	-
Future income tax expense (recovery)	1,709	(2,256)	154,910	(5,923)
	(3,768)	(2,256)	142,068	(5,923)
Income (loss) before the following	(4,852)	(6,012)	1,479,662	(18,989)
Equity loss on investments (Note 4)	(1,432)	-	(1,448)	-
Net income (loss) and comprehensive income (loss)	\$ (6,284)	\$ (6,012)	\$ 1,478,214	\$ (18,989)
Basic income (loss) per share (Note 15)	\$ (0.02)	\$ (0.03)	\$ 4.32	\$ (0.10)
Diluted income (loss) per share (Note 15)	\$ (0.02)	\$ (0.03)	\$ 4.29	\$ (0.10)

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (DEFICIT)

(Unaudited)

(CDN\$ Thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Retained earnings (deficit), beginning of period	\$ 21,845	\$ (67,679)	\$ (265,402)	\$ (54,702)
Net income (loss)	(6,284)	(6,012)	1,478,214	(18,989)
Dividends paid	-	-	(1,332,299)	-
Refundable portion of current income tax	-	-	135,048	-
Retained earnings (deficit), end of period	\$ 15,561	\$ (73,691)	\$ 15,561	\$ (73,691)

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(CDN\$ Thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
		(restated note 6)		(restated note 6)
OPERATING ACTIVITIES				
Net income (loss)	\$ (6,284)	\$ (6,012)	\$ 1,478,214	\$ (18,989)
Items not effecting cash				
Stock-based compensation (Note 14)	2,546	617	4,793	1,232
Future income tax expense (recovery) (Note 9)	1,709	(2,256)	154,910	(5,923)
Changes to long-term deferred charges	3	2	5	5
Deferred borrowing cost amortization (Note 7)	-	1,313	877	2,729
Depreciation and accretion	189	73	363	133
Equity loss on investment (Note 4)	1,432	-	1,448	-
(Gain) loss on sale of assets	476	-	(1,645,060)	-
	71	(6,263)	(4,450)	(20,813)
Changes in non-cash working capital (Note 10)	(11,766)	(10,409)	(129,086)	1,941
	(11,695)	(16,672)	(133,536)	(18,872)
FINANCING ACTIVITIES				
Proceeds from share equity instrument issuances (Note 13)	1,262,512	313	1,385,443	475
Dividends paid on common shares	-	-	(1,332,299)	-
Short-term credit facility (repayments)	-	(1,723)	-	-
Repayment of senior secured notes (Note 7)	-	-	(400,000)	-
Proceeds from long term debt (Note 7)	7,814	-	437,814	-
Decrease in cash held in trust	-	26,000	-	26,000
Changes to long-term deferred charges	9,061	-	943	-
Changes in non-cash working capital (Note 10)	686	-	(133,195)	(18)
	1,280,073	24,590	(41,294)	26,457
INVESTING ACTIVITIES				
Net proceeds from sale of assets	(575)	-	1,884,701	-
Additions to property and equipment	(4,342)	(5,910)	(37,973)	(40,035)
Additions to investments	(4,742)	-	(17,431)	-
Additions to assets held for sale	-	(5,248)	(1,731)	(38,528)
(Increase) decrease in short-term investments	(949,875)	114,218	(949,875)	96,579
Changes in non-cash working capital (Note 10)	(35,977)	(35,087)	(18,739)	(8,406)
	(995,511)	67,973	858,952	9,610
NET INCREASE IN CASH AND CASH EQUIVALENTS	272,867	75,891	684,122	17,195
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	552,247	59,009	140,992	117,705
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 825,114	\$ 134,900	\$ 825,114	\$ 134,900

See accompanying notes to the consolidated financial statements

Notes to the Unaudited Interim Consolidated Financial Statements

As at and for the three and six months ended June 30, 2010

(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. The Company is publicly traded on the Toronto Stock Exchange under the symbol "ATH." To date, AOSC has not earned significant revenues and is considered to be a development stage company.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

Basis of Presentation

The unaudited interim consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles. These interim consolidated financial statements have been prepared using the same accounting policies and methods of computation as the consolidated financial statements for the year ended December 31, 2009. These interim consolidated financial statements do not include all disclosures required in the annual consolidated financial statements and should be read in conjunction with the Company's audited consolidated annual financial statements and notes thereto for the year ended December 31, 2009. Certain information provided for in prior periods has been reclassified to conform to the current period's presentation.

Principals of Consolidation

Any reference to the "Company" or "AOSC" throughout these consolidated financial statements refers to the Company and its subsidiaries. All transactions between the Company and its subsidiaries have been eliminated. The Company accounts for its investment in MacKay and Dover joint ventures as an equity investment in accordance with the Canadian Institute of Chartered Accountants ("CICA") Handbook Accounting Guideline 15 (AcG-15), "Consolidation of Variable Interest Entities" and CICA Handbook section 3051, "Investments." AcG-15 requires a variable interest entity (VIE) to be consolidated by the primary beneficiary, which is the party that will absorb the majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both. A VIE is any type of legal structure not controlled by voting equity, but rather by contractual or other financial arrangements. Due to the existence of the put/call options (see Note 11), the MacKay and Dover joint ventures are variable interest entities.

Management has made an assessment under the VIE standard and determined that the Company is not the primary beneficiary in the MacKay and Dover joint ventures. The MacKay and Dover joint ventures are investments in which the Company has significant influence and will be accounted for as long-term investments using the equity method of accounting whereby the carrying value of the investment is increased or decreased for the Company's percentage of net income or loss, reduced by dividends paid to the Company, and increased or decreased to reflect the Company's share of capital transactions. Refer to Note 4 for additional information.

3. CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

	Term (Days)	Interest Rate (%)	Amount
AS AT JUNE 30, 2010			
CASH		0.50 – 0.84	\$ 625,225
CASH EQUIVALENTS	61 - 89	0.47 – 0.70	199,889
			825,114
SHORT-TERM INVESTMENTS	122 - 367	0.50 – 1.25	949,875
TOTAL			\$ 1,774,989
As at December 31, 2009			
Cash		0.25 – 0.40	\$ 140,992
Total			\$ 140,992

4. INVESTMENTS

The Company has a 40% interest in the MacKay joint venture ("MacKay") through its 100% wholly owned subsidiary AOSC (MacKay) Energy Inc. ("AOSC (MacKay)") and a 40% interest in the Dover joint venture ("Dover") through its 100% wholly owned subsidiary AOSC (Dover) Energy Inc. ("AOSC (Dover)")

The Company has recorded its share of net loss as a decrease to the Company's net income and as a decrease to the carrying cost of its investment in MacKay and Dover.

Equity Method Investment Continuity

	MacKay	Dover	Total
INITIAL COST OF THE INVESTMENT			
Cash	\$ 93	\$ 36	\$ 129
Oil sands assets			
Mineral properties	24,277	50,038	74,315
Exploration and evaluation	23,626	46,543	70,169
Engineering and development	9,143	5,952	15,095
Asset retirement obligations	(304)	(202)	(506)
Future income tax liabilities	(6,969)	(14,359)	(21,328)
TOTAL INITIAL COST OF THE INVESTMENT	\$ 49,866	\$ 88,008	\$ 137,874
Contributions	\$ 5,233	\$ 12,069	\$ 17,302
Capitalized interest	805	1,022	1,827
Share of net loss	(561)	(887)	(1,448)
	5,477	12,204	17,681
TOTAL INVESTMENTS	\$ 55,343	\$ 100,212	155,555

Related Party Transactions

As part of the PetroChina Transaction Agreements (see Note 6), Dover Operating Corp. ("Dover OpCo") was created to operate both the MacKay and Dover joint ventures. Pursuant to an agreement with Dover OpCo, AOSC was the temporary operator of the MacKay and Dover joint ventures from the closing date of the PetroChina Transaction Agreements to May 31, 2010. For the three months ended June 30, 2010, AOSC charged Dover OpCo \$0.7 million for operating the MacKay and Dover joint ventures and recorded the charges as a reduction in general and administration expenses (\$1.2 million for the six months ended June 30, 2010). In addition, AOSC has seconded staff to Dover OpCo and for the three and six months ended June 30, 2010 and AOSC charged \$0.4 million to recover the costs of these seconded staff. These transactions were in the normal course of operations and were measured at the exchange amount.

As at June 30, 2010, accounts receivable included \$0.4 million owing from Dover OpCo for seconded staff discussed above.

5. PROPERTY AND EQUIPMENT

	Cost	Accumulated DD&A	Net Book Value
AS AT JUNE 30, 2010			
OIL SANDS ASSETS			
MINERAL PROPERTIES	\$ 153,482	\$ -	\$ 153,482
EXPLORATION AND EVALUATION	81,361	-	81,361
ENGINEERING AND DEVELOPMENT	7,474	-	7,474
	242,317	-	242,317
CORPORATE ASSETS	2,597	(956)	1,641
TOTAL	\$ 244,914	\$ (956)	\$ 243,958
As at December 31, 2009			
Oil sands assets			
Mineral properties	\$ 217,079	\$ -	\$ 217,079
Exploration and evaluation	124,144	-	124,144
Engineering and development	20,499	-	20,499
	361,722	-	361,722
Corporate assets	2,113	(595)	1,518
Total	\$ 363,835	\$ (595)	\$ 363,240

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Borrowing costs	\$ 896	\$ 5,105	\$ 1,663	\$ 9,372
Stock-based compensation (including future income tax effect)	918	718	2,550	1,485
TOTAL	\$ 1,814	\$ 5,823	\$ 4,213	\$ 10,857

6. SALE OF ASSETS TO PETROCHINA INTERNATIONAL

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 held a 60% working interest in the Company's MacKay and Dover oil sands projects for cash consideration of \$1.9 billion (the "PetroChina Transaction"). The Company recorded a \$1.645 billion gain on the PetroChina Transaction. PetroChina International Subco has also agreed to reimburse 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 February 10, 2010, the closing date of the PetroChina Transaction.

The assets and liabilities related to AOSC Newco were reclassified as assets or liabilities held for sale on the consolidated balance sheet as at December 31, 2009. There is no effect on the consolidated statements of income (loss) and comprehensive income (loss) and consolidated statements of accumulated income (deficit) related to these assets held for sale.

The assets and liabilities of assets held for sale presented on the consolidated balance sheet as at December 31, 2009 include the following:

	As at December 31, 2009
CURRENT ASSETS	
Property and equipment	\$ 238,009
Future income taxes (Note 9)	149,152
NET ASSETS HELD FOR SALE	\$ 387,161

7. LONG-TERM DEBT

	As at June 30, 2010	As at December 31, 2009
Long-term non-revolving credit agreement #1 (b)	\$ 430,000	\$ -
Long-term non-revolving credit agreement #2 (c)	7,814	-
Senior secured notes - face value (a)	-	400,000
Deferred borrowing costs	-	(24,391)
Amortization of deferred borrowing costs	-	23,387
TOTAL	\$ 437,814	\$ 398,996

a) Senior Secured Notes

During the first quarter of 2010 AOSC redeemed the Company's senior secured notes with the proceeds received from the long-term non-revolving credit agreement #1 discussed below.

b) Long-term Non-revolving Credit Agreement #1 (PetroChina Loan #1)

During the first quarter of 2010, AOSC entered into a non-revolving credit agreement of \$430.0 million. The credit agreement bears interest, which is paid semi-annually at a rate equal to LIBOR plus 450 basis points. The loan matures on the earlier of June 30, 2022, or a change of control of the Company and the date the put/call options are exercised. If the put/call options are not exercised, the loan will be repaid as principal 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 AOSC (MacKay) and AOSC (Dover). The credit agreement is 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.

c) Long-term Non-revolving Credit Agreement #2 (PetroChina Loan #2)

During the second quarter of 2010, AOSC drew \$7.8 million on a secondary long-term non-revolving credit agreement of up to \$100.0 million. The credit agreement bears interest, which is paid semi-annually at a rate equal to LIBOR plus 450 basis points. The loan matures on the earlier of June 30, 2024, or a change of control of the Company and the date the put/call options are exercised. If the put/call options are not exercised, the loan will be repaid as principal on a *pro rata* basis with indebtedness under PetroChina Loan #1 and PetroChina Loan #3 from 90% of cash flow (as provided in the PetroChina loan agreements) of the MacKay and Dover entities. The credit agreement is secured by guarantees of the MacKay and Dover entities and their respective subsidiaries and by a security interest in all of the present and after-acquired assets of the MacKay and Dover entities and their respective subsidiaries.

d) Long-Term Non-revolving Credit Agreement #3 (PetroChina Loan #3)

If the put/call options (Note 11) are not exercised and expire, and the MacKay oil sands project approval has been obtained, the Company will have access to an additional long-term non-revolving credit agreement of up to \$560 million. The credit agreement will bear interest, which is paid semi-annually at a rate equal to LIBOR plus 450 basis points. The loan will mature on the earlier of June 30, 2024 and a change of control of the Company. The loan will be repaid as principal on a *pro rata* basis with indebtedness under PetroChina Loan #1 and PetroChina Loan #2 from 90% of cash flow (as provided in the PetroChina loan agreements) of the MacKay and Dover entities. The credit agreement is secured by guarantees of the MacKay and Dover entities and their respective subsidiaries and by a security interest in all of the present and after-acquired assets of the MacKay and Dover entities and their respective subsidiaries.

8. 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 10% per annum. The payments to settle these obligations are expected to occur during a period of up to 5 years. The total undiscounted amount of estimated cash flows required to settle the obligations as of June 30, 2010 is \$0.1 million (December 31, 2009 – \$0.8 million). The following table reconciles the change in asset retirement obligations:

	As at June 30, 2010	As at December 31, 2009
ARO liability at January 1	\$ 506	\$ -
Reclassified to investment	(506)	-
Liabilities incurred	82	459
Accretion expense	2	47
TOTAL LIABILITY AT END OF PERIOD	\$ 84	\$ 506

9. INCOME TAXES

	As at June 30, 2010	As at December 31, 2009
FUTURE INCOME TAX ASSETS		
Share issuance costs	\$ 19,080	\$ 1,345
Debt issuance costs	6,119	7,500
Other	326	159
FUTURE INCOME TAX LIABILITIES		
Capital assets in excess of tax values	(29,217)	(63,606)
Equity investments in excess of tax values	(16,970)	-
	(20,662)	(54,602)
ASSETS HELD FOR SALE (note 6)	-	149,152
NET FUTURE INCOME TAX ASSET (LIABILITY)	\$ (20,662)	\$ 94,550
PRESENTED AS		
Assets held for sale	-	149,152
Current future income tax asset	4,353	-
Future income tax liability	(25,015)	(54,602)

The following table reconciles income taxes calculated at the Canadian statutory rate of 28% (2009 - 29%) with actual income taxes:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
INCOME(LOSS) BEFORE INCOME TAXES	\$ (8,620)	\$ (8,268)	\$ 1,621,730	\$ (24,912)
EXPECTED INCOME TAX EXPENSE (RECOVERY)				
Income tax expense (recovery) at statutory rate	(2,414)	(2,398)	454,084	(7,224)
ADJUSTMENTS RELATED TO THE FOLLOWING:				
Stock-based compensation	713	179	1,342	357
Rate differential	562	306	(80,477)	947
Non-taxable portion of gain on sale	67	-	(230,308)	-
Other	(2,696)	(343)	(2,573)	(3)
INCOME TAX EXPENSE(RECOVERY)	\$ (3,768)	\$ (2,256)	\$ 142,068	\$ (5,923)

As at June 30, 2010, the Company had approximately \$258.7 million of tax pools available for deduction against future taxable income.

10. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in Non-cash Working Capital

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Accounts receivable	\$ 6,167	\$ 4,087	\$ (13,067)	\$ 1,352
Prepaid expenses and other	(64)	-	(64)	155
Accounts payable and accrued liabilities	(48,219)	(49,583)	(33,582)	(7,990)
	(42,116)	(45,496)	(46,713)	(6,483)
NET CURRENT INCOME TAX RECEIVABLE				
Current income tax payable	47,495	-	(174,505)	-
Recoverable portion of current income tax	-	-	135,047	-
Current income tax receivable	(52,436)	-	(194,849)	-
	(4,941)	-	(234,307)	-
	(47,057)	(45,496)	(281,020)	(6,483)
RELATED TO:				
Operating activities	(11,766)	(10,409)	(129,086)	1,971
Financing activities	686	-	(133,195)	(18)
Investing activities	(35,977)	(35,087)	(18,739)	(8,406)
NET CHANGE IN NON-CASH WORKING CAPITAL	\$ (47,057)	\$ (45,496)	\$ (281,020)	\$ (6,483)

11. 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 the Company's financial instruments approximate their fair value. As at June 30, 2010 no amounts were measured at fair value aside from cash and cash equivalents.

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

Credit Risk

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

As at June 30, 2010, 74% of the Company's consolidated accounts receivable is due from one counterparty, PetroChina International Subco. This is compared to December 31, 2009 where 56% of consolidated accounts receivable was due from two counterparties. The amounts outstanding are considered current based on the terms established between AOSC and PetroChina

International Subco. Management believes the remaining 26% of accounts receivable is with high quality counterparties and does not consider any material amount past due based on the terms with the counterparties.

Cash and cash equivalents and short-term investments held by the Company are 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. At June 30, 2010 the Company was invested in banker's depository notes, term deposits and banker's acceptances with large reputable Canadian financial institutions as well as Government of Canada treasury bills. 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 to meet its liquidity requirements at any point. The Company achieves this by managing its capital spending and maintaining sufficient funds in cash and cash equivalent accounts.

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

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

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

Interest Rate Risk

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

Put/Call Options Related to MacKay and Dover Joint Ventures (See note 4)

The PetroChina Transaction includes the Put/Call Option Agreements pursuant to which, in certain circumstances, PetroChina International Subco may be required to purchase or may exercise the right to acquire, as the case may be, the Company's remaining 40% working interest in one or both of MacKay and Dover by acquiring the assets or shares of AOSC (MacKay) (or a wholly-owned subsidiary thereof) or AOSC (Dover) (or a wholly-owned subsidiary thereof), for aggregate cash consideration of up to \$2 billion.

Management of the Company has conducted a review of the value of each put/call option and has determined the value of the put/call options at the inception of the contract was nil. Additionally, the contracts will not be re-measured at each reporting date due to the numerous variables that may not be reliably measured when computing the value of the put/call options.

12. CAPITAL MANAGEMENT

Capital managed by the Company is as follows:

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

The Company manages the capital structure and makes adjustments in light of changes to economic conditions and risk characteristics of underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, acquire or dispose of assets, obtain or repay debt, or enter into joint exploration and development arrangements with other parties.

13. SHARE CAPITAL

a) Authorized

The Company's authorized share capital consists of an unlimited number of common shares and an unlimited number of first and second preferred shares. There are no first or second preferred shares currently outstanding.

b) Issued and Outstanding Common Shares

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

	Six months ended June 30, 2010		Year ended December 31, 2009	
	Number of Shares	Amount	Number of Shares	Amount
Balance at January 1	213,976,372	\$ 390,377	192,529,661	\$ 374,041
Issue of shares on initial public offering	75,000,000	1,281,935	-	-
Exercise of purchase warrants (c)	97,274,250	121,593	7,007,000	8,759
Exercise of performance warrants	-	-	10,000,000	100
Liquidity right/warrants converted to common shares	-	-	3,736,433	1,495
Exercise of stock options (Note 14)	170,500	1,731	2,764,300	5,982
Less common shares granted and held in trust contingently returnable to the company (Note 14)	-	-	(2,061,022)	-
BALANCE AT END OF PERIOD	386,421,122	\$ 1,795,636	213,976,372	\$ 390,377

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 approximately \$1.282 billion, net of commissions and other costs relating to the issue aggregating approximately \$87.5 million and a future tax recovery of \$19.4 million.

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:

	Six months ended June 30, 2010	Year ended December 31, 2009
Balance at January 1	97,274,250	104,281,250
Exercised	(97,274,250)	(7,007,000)
BALANCE AT END OF PERIOD	-	97,274,250

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

d) Contributed Surplus

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

	Six months ended June 30, 2010	Year ended December 31, 2009
Balance at January 1	\$ 47,079	\$ 41,432
Capitalized stock-based compensation	3,151	6,109
Expensed stock-based compensation	4,793	5,410
Stock options vested and exercised (Note 14)	(394)	(5,872)
BALANCE AT END OF PERIOD	\$ 54,629	\$ 47,079

14. 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, stock options and restricted share units.

a) Incentive Shares, Stock Options (Amended) and Nominally Priced Stock Options

In 2006 the Company issued, to Avenir Capital Corporation (“Avenir”), 20.0 million incentive shares at a price of \$0.001 or \$0.01 per share of which 17.1 million were available for allocation to employees, directors, and consultants. At December 31, 2009, 3,500 of these incentive shares were available for grant. This plan has been replaced for future grants with the Restricted Share Unit plan. See Note 14 (c).

During 2009, certain stock options were amended to an exercise price of \$0.01 and immediately exercised and nominally priced stock options were granted and immediately exercised with all common shares obtained held in trust for subsequent release subject to the satisfaction of length of service requirements.

The following table summarizes all shares granted and held in trust under the incentive share, stock option (amended) and nominally priced stock option agreements:

	Six months ended June 30, 2010	Year ended December 31, 2009
	Number of common shares	Number of common shares
Balance granted and held in trust at January 1	7,719,331	5,957,918
Granted	-	379,000
Forfeited	(7,500)	-
Stock options (amended) and nominally priced stock options, exercised and held in trust	-	2,061,022
Vested and released	-	(678,609)
BALANCE GRANTED AND HELD IN TRUST AT END OF PERIOD	7,711,831	7,719,331

As at June 30, 2010, a total of 7,711,831 common shares were held in trust subject to length of service requirements. Of this, 5,650,809 relate to shares initially issued to Avenir and will be returned to Avenir if the length of service requirement is not met. 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.

b) Stock Options

The Company has a stock option plan, approved in 2009 which allows options to be granted to employees, directors and consultants. 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, less the number of common shares issuable under the restricted share unit plan. Under the stock option plan options expire after 5 years from the date of grant.

	Six months ended June 30, 2010		Year ended December 31, 2009	
	Number of options	Weighted average exercise price (\$)	Number of options	Weighted average exercise price (\$)
Outstanding at January 1	705,500	10.01	1,657,000	8.09
Granted – stock options	184,500	15.00	1,148,900	7.53
Forfeited	(65,100)	13.78	-	-
Granted – incentive stock options	-	-	663,900	0.01
Exercised stock options	(170,500)	7.84	(703,306)	0.18
Exercised and held in trust stock options	-	-	(1,397,094)	0.01
Exercised and held in trust nominally priced stock options	-	-	(663,900)	0.01
OUTSTANDING AT END OF PERIOD	654,400	8.31	705,500	10.01
EXERCISABLE AT END OF PERIOD	-	-	170,500	7.84

The estimated fair value per stock option granted during the six months ended June 30, 2010 was \$8.30.

The exercise prices of the Company's outstanding stock options as at June 30, 2010 are as follows:

Range of exercise prices (\$)	Options outstanding			Options exercisable	
	Number of options	Weighted average exercise price (\$)	Weighted average years to expiry (\$)	Number of options	Weighted average exercise price (\$)
3.95	45,000	3.95	4.24	-	-
5.95-7.65	400,000	6.21	4.33	-	-
9.85-11.52	123,100	10.47	4.71	-	-
14.95-18.00	86,300	17.25	4.76	-	-
	654,400	8.31	4.45	-	-

Subsequent to June 30, 2010 AOSC granted 1,105,300 stock options under the stock option plan.

c) Restricted Share Units (RSUs)

During the first quarter of 2010, the Company established an RSU stock-based compensation plan. Under the terms of the RSU plan, the Company may grant RSU's to employees, directors, and consultants. All RSU's issued by the Company permit the holder to purchase one common share of the Company for \$0.10 or to receive a cash payment equal to the fair market value of the common shares less the exercise price of the RSU, at the sole discretion of the Company. The RSU plan is a rolling plan and currently limits the number of common shares that may be issued on exercise of RSU's awarded under the plan to an aggregate of 10% of the common shares outstanding from time to time, less the number of common shares issuable under the stock option plan. The life and vesting terms of the RSU plan are consistent with the Company's stock option plan.

	Six months ended June 30, 2010
Restricted share units outstanding at January 1	-
Granted	55,800
Forfeited	(6,700)
RESTRICTED SHARE UNITS OUTSTANDING AT END OF PERIOD	49,100

None of the outstanding RSUs are exercisable. The estimated fair value per RSU granted during the six months ended June 30, 2010 was \$14.86.

Subsequent to June 30, 2010 AOSC granted 231,400 RSUs under the RSU plan.

d) Incentive Plan Amendments

During the first quarter of 2010, the Board approved amendments to the exercise price of 552,000 unvested stock options to reduce the exercise price by \$4.25, the amount of the special dividend, as required by the adjustment provisions of the stock options. The amendments became effective on the effective date of the plan of arrangement pursuant to which the special dividend was paid. There is no charge to stock-based compensation expense on the date of amendment because none of the stock options are vested. A stock-based compensation expense of approximately \$0.7 million will be recognized over the remaining term of the unvested stock options.

e) Stock-based Compensation

The Company uses the Black-Scholes pricing model to calculate the fair value for grants under its stock-based compensation plans. Estimated fair values during 2010 were calculated using the following assumptions:

	Stock-based compensation & RSU grants	Stock options incremental fair value
Share price (\$)	10.45 – 18.00	18.00
Risk-free interest rate (%)	2.21 – 2.80	2.26
Expected life (years)	5.0	4.50 - 4.90
Dividend rate (%)	0	0
Volatility (%)	50-85	85

Prior to April 2010, the Company was private and no observable market existed for the Company's shares. Prior to finalizing the Company's IPO share price, the share price used in fair value calculations was estimated based on prior private equity issuances or grey market trading information. After establishing the IPO price, this amount was used for stock-based compensation fair value calculations. Since the Company's shares began trading on the Toronto Stock Exchange, the current trading price on date of grant has been used.

f) 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. All outstanding stock options with bonus rights were exercised prior to the initial public offering. Accordingly, there is no potential liability related to the incentive bonus plan.

15. PER SHARE COMPUTATIONS

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Weighted average number of common shares outstanding - basic	380,651,891	196,468,072	342,210,991	195,479,100
Dilution effect of stock options and RSUs	-	-	159,288	-
Dilution effect of contingently returnable shares	-	-	2,061,022	-
Weighted average number of common shares outstanding - diluted	380,651,891	196,468,072	344,431,301	195,479,100

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 sum of the exercise price of the securities and unamortized stock-based compensation. For the six months ended June 30, 2010, 86,300 anti-dilutive securities were excluded from the calculation of diluted income per share (none for the three months ended June 30, 2010).

16. COMMITMENTS

The following table summarizes AOSC's commitments as at June 30, 2010 and AOSC's estimated future minimum commitments as at June 30 for the following four years and generally for subsequent years:

	2010	2011	2012	2013	2014	Thereafter	Total
Credit agreement repayment (Note 9)	\$ -	\$ -	\$ -	\$ -	\$ -	437,814	\$ 437,814
Interest payments on credit agreement (Note 9) ⁽¹⁾	11,015	21,550	21,550	21,550	21,550	172,402	269,617
Office leases	1,187	2,375	2,375	1,112	480	920	8,449
Other	100	200	200	200	-	132	832
TOTAL COMMITMENTS	\$ 12,302	\$ 24,125	\$ 24,125	\$ 22,862	\$ 22,030	\$ 611,268	\$ 716,712

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

Corporate Information

MANAGEMENT

Sveinung Svarte, MBA, MSc
President & CEO

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

Ian Atkinson, MSc, PEng
Vice President, Geoscience, Technology & Reservoir

Don Verdonck, PEng
Vice President, Development & Operations

Bob Bruce
Vice President, Corporate Development

Bryan Gould, MASC, PEng
Vice President, New Ventures and Business Development

Anne Schenkenberger, BSc, LLB
Vice President, Legal and Corporate Secretary

Heather Douglas
Vice President, Communications and External Affairs

DIRECTORS

William Gallacher, PEng⁽¹⁾⁽²⁾⁽³⁾
Chairman

Gary H. Dundas, CMA, MBA⁽²⁾⁽³⁾

Thomas W. Buchanan, FCA⁽¹⁾⁽³⁾

J.G. (Jeff) Lawson, LLB⁽²⁾⁽³⁾

Marshall L. McRae, CA⁽¹⁾⁽³⁾

Sveinung Svarte, MBA, MSc⁽²⁾
President & CEO

Member of:

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

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Ernst & Young LLP

LEGAL COUNSEL

Burnet, Duckworth & Palmer LLP

INDEPENDENT EVALUATORS

GLJ Petroleum Consultants
DeGoyler and MacNaughton Canada Limited

STOCK SYMBOL

ATH
Toronto Stock Exchange