

Alberta Oilsands Inc.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2009 and 2008

Management's Responsibility

To the Shareholders of Alberta Oilsands Inc.:

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian generally accepted accounting principles and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Board of Directors exercises its responsibilities for financial controls through an Audit Committee. The Audit Committee is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Company's external auditors.

KPMG LLP, an independent firm of Chartered Accountants, is appointed by the shareholders to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Audit Committee and management to discuss their audit findings.

April 22, 2010

"signed"
Shabir Premji
Executive Chairman

"signed"
Michael Lee
President

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Alberta Oilsands Inc. as at December 31, 2009 and 2008 and the consolidated statements of operations, comprehensive loss and 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.

"signed KPMG LLP"

Chartered Accountants

Calgary, Canada
April 22, 2010

Alberta Oilsands Inc.
Consolidated Balance Sheets
December 31

Assets	2009	2008
Current		
Cash and cash equivalents (<i>note 4</i>)	\$ 6,880,447	\$ 17,371,816
Short-term investments (<i>note 5</i>)	1,051,381	1,994,246
Accounts receivable	3,054,865	339,700
Subscription receivable (<i>note 9</i>)	32,800	–
Prepaid expenses	213,951	125,005
	11,233,444	19,830,767
Reclamation deposit	249,262	125,325
Property and equipment (<i>note 6</i>)	47,617,698	36,460,797
	\$ 59,100,404	\$ 56,416,889
 Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 1,565,611	\$ 5,269,901
Commodity contract (<i>note 17c)ii</i>)	6,687	–
	1,572,298	5,269,901
Asset retirement obligation (<i>note 8</i>)	1,043,966	935,700
Future income taxes (<i>note 12</i>)	4,243,195	2,435,001
	6,859,459	8,640,602
 Shareholders' Equity		
Share capital (<i>note 9</i>)	58,756,475	52,237,820
Warrants (<i>note 10</i>)	617,637	–
Contributed surplus (<i>note 11</i>)	6,147,842	5,158,997
Deficit	(13,281,009)	(9,620,530)
	52,240,945	47,776,287
	\$ 59,100,404	\$ 56,416,889
Basis of presentation (<i>note 1</i>), Commitments (<i>note 16</i>)		
Subsequent events (<i>note 19</i>)		
On behalf of the Board		
<u>“signed Shabir Premji”</u> Director	<u>“signed Michael Lee”</u> Director	

See accompanying notes to the consolidated financial statements.

Alberta Oilsands Inc.

Consolidated Statements of Operations, Comprehensive Loss, and Deficit For the years ended December 31

	<u>2009</u>	<u>2008</u>
Revenue		
Petroleum and natural gas sales	\$ 2,979,929	\$ 2,032,513
Royalties	<u>(409,963)</u>	<u>(298,470)</u>
	2,569,966	1,734,043
Unrealized loss on financial instruments <i>(note 17c)ii)</i>	(133,687)	–
Interest income	<u>40,022</u>	<u>384,852</u>
	<u>2,476,301</u>	<u>2,118,895</u>
Expenses		
Production	1,395,623	746,540
Transportation	134,275	59,881
General and administrative	2,252,242	2,265,164
Business development <i>(note 13)</i>	328,473	540,768
Stock-based compensation <i>(note 9)</i>	761,951	1,594,936
Financing costs <i>(note 7)</i>	160,068	–
Interest	70,322	172,886
Accretion	34,978	62,555
Depletion and depreciation <i>(note 6)</i>	<u>1,951,922</u>	<u>2,476,576</u>
	<u>7,089,854</u>	<u>7,919,306</u>
Loss before income taxes	(4,613,553)	(5,800,411)
Future income tax reduction <i>(note 12)</i>	<u>953,074</u>	<u>1,066,098</u>
	(3,660,479)	(4,734,313)
Net loss and comprehensive loss for the year	(3,660,479)	(4,734,313)
Deficit, beginning of year	<u>(9,620,530)</u>	<u>(4,886,217)</u>
Deficit, end of year	\$ (13,281,009)	\$ (9,620,530)
Net loss per share		
Basic and diluted <i>(note 9)</i>	<u>\$ (0.04)</u>	<u>\$ (0.07)</u>

See accompanying notes to the consolidated financial statements.

Alberta Oilsands Inc.
Consolidated Statements of Cash Flows
For the years ended December 31

	<u>2009</u>	<u>2008</u>
Operating		
Net loss for the year	\$ (3,660,479)	\$ (4,734,313)
Non-cash items:		
Stock-based compensation	761,951	1,594,936
Financing costs	35,068	–
Accretion	34,978	62,555
Depletion and depreciation	1,951,922	2,476,576
Future income tax reduction	(953,074)	(1,066,098)
Unrealized loss on financial instruments	6,687	–
	<u>(1,822,947)</u>	<u>(1,666,344)</u>
Change in non-cash working capital (<i>note 14</i>)	<u>(158,191)</u>	<u>408,840</u>
	<u>(1,981,138)</u>	<u>(1,257,504)</u>
Financing		
Issuance of shares, net of costs	9,726,705	22,328,242
Change in non-cash working capital (<i>note 14</i>)	152,764	145,823
	<u>9,879,469</u>	<u>22,474,065</u>
Investing		
Short-term investments purchases	(2,050,820)	(1,994,246)
Short-term investments maturities	2,993,685	–
Expenditures on property and equipment	(12,724,649)	(15,623,603)
Reclamation deposit	(123,937)	(125,325)
Proceeds from disposal of property and equipment	18,995	–
Proceeds from joint operations	–	1,983,234
Change in non-cash working capital (<i>note 14</i>)	(6,502,974)	469,537
	<u>(18,389,700)</u>	<u>(15,290,403)</u>
(Decrease) increase in cash and cash equivalents	(10,491,369)	5,926,158
Cash and cash equivalents, beginning of year	<u>17,371,816</u>	<u>11,445,658</u>
Cash and cash equivalents, end of year	\$ 6,880,447	\$ 17,371,816
Supplemental cash flow information:		
Interest paid	<u>\$ 169,804</u>	<u>\$ 77,063</u>

See accompanying notes to the consolidated financial statements.

Alberta Oilsands Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

1. Basis of presentation and future operations

Alberta Oilsands Inc. ("the Company") is incorporated under the Business Corporations Act (Alberta) and is listed on the TSX Venture Exchange. The Company is involved in the production, exploration and development of resource properties. These audited consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Platform Resources Inc. ("Platform") and Platform's subsidiary, Platform Resources (Kenya) Limited after the elimination of intercompany transactions and balances.

These consolidated financial statements have been prepared on a going concern basis which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Property and equipment is recognized in these financial statements in accordance with the accounting policies outlined in note 2. Accordingly, their carrying amounts represent costs incurred to date, net of abandonments and write-downs, and do not necessarily reflect present or future values. In addition, the Company has incurred operating losses over the past three years. The ability of the Company to continue as a going concern and the recoverability of amounts shown for the properties is dependent upon the existence of economically recoverable reserves and upon the Company's ability to obtain additional financing to continue the development of the Company's properties and generate funds therefrom and to meet current and future obligations. The consolidated financial statements do not reflect adjustments in the carrying values of the assets and liabilities, expenses and the balance sheet classifications that would be used if the going concern assumption were not appropriate. Such adjustments could be material.

2. Significant accounting policies

The financial statements have been prepared by management in accordance with generally accepted accounting principles in Canada. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the financial statements and accompanying notes. Actual results could differ from these estimates. The financial statements have, in management's opinion, been properly prepared using careful judgment within the reasonable limits of materiality and the framework of the significant accounting policies summarized below:

a) Cash and cash equivalents

Cash and cash equivalents consist of bank balances and term deposits with maturities at the date of purchase of three months or less.

b) Prepaid expenses

Prepaid expenses consist of deposits and prepaid annual fees which are amortized over the term of the related payment.

c) Property and equipment

i) Capitalized costs

The Company follows the full cost method of accounting for its petroleum and natural gas operations. Under this method all costs related to the exploration for and development of petroleum and natural gas reserves are capitalized on a country-by-country basis. Costs include lease acquisition costs, geological and geophysical expenses, cost of drilling both productive and non-productive wells, asset retirement costs and directly related overhead. Proceeds from the sale of properties are applied against capitalized costs, without any gain or loss being realized, unless such sale would alter the rate of depletion and depreciation by more than 20%.

Alberta Oilsands Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

2. Significant accounting policies *(continued)*

c) Property and equipment *(continued)*

ii) Depletion and depreciation

Depletion of petroleum and natural gas properties and depreciation of production equipment, net of estimated salvage or residual value, is provided using the unit-of-production method based upon estimated gross proved petroleum and natural gas reserves as determined by independent engineers. The costs of significant unevaluated properties are excluded from costs subject to depletion until it is determined whether or not proved reserves are attributable to the properties or impairment occurs. For depletion and depreciation purposes, relative volumes of petroleum and natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

Office equipment is depreciated on a declining balance basis over its estimated useful life at rates varying from 20% to 45%.

iii) Impairment test

Under the full cost method of accounting, a "ceiling test" is performed to recognize and measure impairment, if any, of the carrying amount of petroleum and natural gas properties. Impairment is recognized if the carrying amount of the petroleum and natural gas properties, less the cost of undeveloped properties, net of impairment, exceeds the estimated undiscounted future cash flows from the Company's proved reserves. The future cash flows are based on a forecast of prices and costs, as provided by an independent third party. The magnitude of the impairment, if any, is then measured by comparing the carrying amount of petroleum and natural gas properties less the cost of undeveloped properties, net of impairment, to the estimated discounted future cash flows from the Company's proved and probable reserves. The future cash flows are discounted at the Company's risk-free interest rate, using forecasted prices and costs.

Any impairment recognized is recorded as additional depletion and depreciation expense.

d) Asset retirement obligation

The Company recognizes the fair value of a liability for an asset retirement obligation in the period in which it is incurred and records a corresponding increase in the carrying amount of the related property and equipment. The fair value is determined through a review of engineering studies, industry guidelines, and management's estimate on a site-by-site basis. The liability is subsequently adjusted for the passage of time, and is recognized as an accretion expense in the consolidated statement of operations.

The liability is also adjusted due to revisions in either the timing or the amount of the original estimated cash flows associated with the liability. The increase in the carrying amount of the asset is amortized using the unit of production method based on estimated gross proved reserves as determined by independent engineers. Actual costs incurred upon settlement of the asset retirement obligations are charged against the asset retirement obligation to the extent of the liability recorded.

e) Flow-through shares

A portion of the Company's exploration activities is financed through proceeds received from the issue of flow-through shares. Under the terms of the flow-through share issues, the tax attributes of the related expenditures are renounced to the share subscribers. To recognize the foregone tax benefits to the Company the carrying amount of the shares issued is reduced by the tax effect of the benefits renounced to subscribers. The tax effect of the renouncement is recorded when the renouncement documents are filed with the tax authorities.

Alberta Oilsands Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

2. Significant accounting policies *(continued)*

f) Future income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method future tax assets and liabilities are determined based on differences between financial reporting and income tax bases of assets and liabilities, and are measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in the consolidated statement of operations in the period in which the change is substantively enacted. A valuation allowance is recorded against a future income tax asset if it is more likely than not that the asset will not be realized.

g) Joint operations

Substantially all of the exploration, development and production activities of the Company are conducted jointly with others and these financial statements reflect only the Company's proportionate interest in such activities.

h) Revenue recognition

Petroleum and natural gas sales are recognized as revenue when commodities are delivered and title passes to purchasers.

i) Per share amounts

Basic per share amounts are computed by dividing the net loss by the weighted average number of common shares outstanding during the year. The Company utilizes the treasury stock method in the determination of diluted per share amounts. Under this method, the diluted weighted average number of shares is calculated assuming that proceeds arising from the exercise of options and other dilutive instruments where the market price exceeds option price are used to purchase, for cancellation, common shares of the Company at their average market price for the period. The weighted average number of shares is then adjusted by the net change.

j) Stock options

Under the Company's stock option plan described in note 9, options to purchase common shares are granted to directors, employees and consultants at current market prices. Stock-based compensation is recorded over the vesting period of the options with a corresponding amount recorded as contributed surplus. Stock-based compensation for options granted to directors and employees is based on the estimated fair value at the time of the grant. Stock-based compensation for options granted to consultants is based on the estimated fair value at each balance sheet date until the related options are fully vested. Upon the exercise of the stock options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase in share capital. In the event that vested options expire, previously recognized compensation expense associated with such stock options is not reversed. If unvested options are forfeited, previously recognized compensation expense associated with the options is reversed. If unvested options are cancelled, compensation expense is accelerated to be fully recognized in the period of cancellation.

k) Comprehensive income

Comprehensive income is the change in shareholders' equity during a period from transactions and other events and circumstances from non-owner sources and includes unrealized gains and losses on financial assets classified as available-for-sale. The Company has reported a statement of comprehensive loss combined with the statement of operations. When related amounts are recorded, a new category for accumulated other comprehensive income will be presented in the shareholders' equity section of the balance sheet.

Alberta Oilsands Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

2. Significant accounting policies *(continued)*

l) Financial instruments

All financial instruments, including all derivatives, are required to be recognized on the balance sheet initially at fair value. Subsequent measurement of all financial assets and liabilities except those held-for-trading and available for sale are measured at amortized cost determined using the effective interest rate method. Held-for-trading financial assets are measured at fair value with changes in fair value recognized in earnings. Available-for-sale financial assets are measured at fair value with changes in fair value recognized in comprehensive income and reclassified to earnings when derecognized or impaired. The Company has classified its financial assets and liabilities as follows:

<u>Held-for-trading</u>	<u>Loans and receivables</u>	<u>Other liabilities</u>
Cash and cash equivalents	Accounts receivable	Accounts payable and accrued liabilities
Short-term investments	Subscription receivable	Credit facility
		Commodity contract

At each balance sheet date, the Company will assess financial assets for impairment with any impairment recorded in the consolidated statement of operations.

The Company may use various types of derivative financial instruments to manage risks associated with crude oil and natural gas price fluctuations. These instruments are not used for trading or speculative purposes. Proceeds and costs realized from holding the related contracts are recognized in petroleum and natural gas revenues at the time that each transaction under a contract is settled. For the unrealized portion of such contracts, the Company utilizes the fair value method of accounting.

The fair value is based on an estimate of the amounts that would have been paid to or received from counterparties to settle these instruments given future market prices and other relevant factors. The method requires the fair value of the derivative financial instruments to be recorded at each balance sheet date with the unrealized gains or losses on these contracts recorded through the consolidated statement of operations.

The Company has elected to account for its physical delivery sale contracts, which were entered into and continue to be held for the purpose of receipt or delivery of non-financial items in accordance with its expected purchase, sale or usage requirements as executory contracts on an accrual basis rather than as non-financial derivatives.

The Company expenses all transaction costs as incurred in relation to the acquisition of a financial asset or liability. The Company applies trade date accounting for the recognition of the purchase or sale of cash equivalents and short-term investments.

m) Measurement uncertainty

The amounts recorded for depletion and depreciation of property and equipment and the ceiling test are based on estimates of gross reserves, production rates, oil and gas prices, royalties, future costs and other relevant assumptions. Inherent in the fair value calculation of asset retirement obligations are numerous assumptions and judgments including the ultimate settlement amounts, inflation factors, credit adjusted discount rates, timing of settlement, and changes in the legal and regulatory environments. To the extent future revisions to these assumptions impact the fair value of the existing asset retirement obligation liability, a corresponding adjustment is made to the property and equipment balance. Amounts related to the fair value of stock options and warrants are based on estimates of share price volatility, risk-free interest rate and expected lives of options and warrants. Future income tax assets and liabilities are reported based on estimates of future income tax rates. Amounts reported for the fair value of commodity price risk contracts are based on the counterparties' estimates of future commodity prices and volatility of those prices. By their nature, these estimates and related future cash flows are subject to measurement uncertainty, and the impact on the consolidated financial statements of future periods could be material. These assumptions are reviewed periodically and, as adjustments become necessary, they are reported in the consolidated statement of operations in the periods in which they become known.

Alberta Oilsands Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

3. Changes in accounting policies

In 2009, the Company adopted the following new or revised accounting standards with no impact on the opening deficit:

- a) *Section 3064 Goodwill and Intangible Assets* was issued to replace Section 3062 Goodwill and Other Intangible Assets and Section 3450 Research and Development Costs. Section 3064 provides extensive guidance on when expenditures qualify for recognition as intangible assets, and aligns Canadian GAAP with International Financial Reporting Standards (“IFRS”).
- b) *EIC-173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities* was issued to clarify that an entity must consider its own risk and the credit risk of the counterparty when measuring the fair value of financial instruments.
- c) *Section 3855 Financial Instruments — Recognition and Measurement* was amended to bring greater consistency between Canadian GAAP, IFRS and US GAAP regarding the timing of impairment recognition for debt instruments. The amendments allow more debt instruments to be classified as loans and receivables. In addition, the amendments require reversal of previously recognized impairment losses on available-for-sale financial assets in specified circumstances and require that loans and receivables that an entity intends to sell immediately or in the near term be classified as held for trading. The transitional provisions are complex and are accompanied by disclosure requirements to explain any reclassifications made on adopting the amendments.
- d) *Section 3862 Financial Instruments – disclosures* was amended to require improved and consistent disclosures about fair value measurements of financial instruments and liquidity risk. The amendments apply to annual financial statements relating to fiscal years ending after September 30, 2009. In the first fiscal year of application, an entity need not provide comparative information for the disclosures required by the amendments. See note 17.

e) Future accounting standards

Accounting changes

In June 2009, *Section 1506 Accounting Changes* was issued to exclude from the scope of Section 1506 changes in accounting policies upon the complete replacement of an entity’s primary basis of accounting, as will occur when the Company adopts IFRS. The amendment is effective July 2009.

Business combinations and non-controlling interests

In January 2009, the AcSB issued Section 1582 Business Combinations, Section 1601 Consolidations, and Section 1602 Non-controlling Interests. Section 1582 replaces Section 1581 Business Combinations and provides the Canadian equivalent to IFRS 3 Business Combinations. Section 1601 and Section 1602 replace Section 1600 Consolidated Financial Statements. Section 1602 provides the Canadian equivalent to International Accounting Standard (“IAS”) 27 Consolidated and Separate Financial Statements, for non-controlling interests. These standards are effective January 1, 2011. Early adoption is permitted.

Equity

In August 2009, *Section 3251 Equity* was issued in response to issuing *Section 1602 Non-controlling Interests*. The amendments require non-controlling interests to be recognized as a separate component of equity. The amendments apply only to entities that have adopted Section 1602.

Alberta Oilsands Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

3. Changes in accounting policies (continued)

e) Future accounting standards (continued)

Comprehensive evaluation of assets and liabilities

In August 2009, *Section 1625 Comprehensive Revaluation of Assets and Liabilities* was issued for consistency with new *Section 1582 Business Combinations*. The amendments apply prospectively to comprehensive revaluations of assets and liabilities occurring in fiscal years beginning on or after January 1, 2011.

International Financial Reporting Standards ("IFRS")

The Accounting Standards Board ("AcSB") has confirmed that accounting standards in Canada will converge with IFRS. Entities will be required to adopt IFRS effective January 1, 2011 with a restatement of the comparative periods for 2010 including an opening balance sheet as at January 1, 2010. Under IFRS, the primary audience is capital markets and as a result, there is significantly more disclosure required. Further, while IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policies and increased note disclosures which must be addressed.

4. Cash and cash equivalents

	2009	2008
Cash in bank	\$ 5,377,694	\$ 3,898,794
Cash in investment accounts	1,502,753	13,473,022
	\$ 6,880,447	\$ 17,371,816

Cash is held in various investment accounts and earns nominal interest (2008 – 1.83% to 2.00%). In 2008, the cash in bank balance included \$218,845 of restricted cash subject to the authorization of a joint operating partner. There are no restricted amounts in 2009.

5. Short-term investments

As at December 31, 2009, the Company held investments of \$1,051,381 (2008 - \$1,994,246), including accrued interest. These investments earn nominal interest and mature on June 10, 2010 and January 5, 2011. \$52,500 of this balance is a guaranteed investment certificate held to secure a letter of credit provided to a third party.

6. Property and equipment

	2009		
	Cost	Accumulated depletion and depreciation	Net
Petroleum and natural gas properties			
Oil sands properties	\$ 38,419,578	\$ —	\$ 38,419,578
Conventional properties	19,723,558	10,585,500	9,138,058
Office equipment	191,841	131,779	60,062
	\$ 58,334,977	\$ 10,717,279	\$ 47,617,698

Alberta Oilsands Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

6. Property and equipment (continued)

	2008		
	Cost	Accumulated depletion and depreciation	Net
Petroleum and natural gas properties			
Oil sands properties	\$ 31,366,723	\$ —	\$ 31,366,723
Conventional properties	13,671,978	8,663,500	5,008,478
Office equipment	187,453	101,857	85,596
	<u>\$ 45,226,154</u>	<u>\$ 8,765,357</u>	<u>\$ 36,460,797</u>

During 2009, the Company capitalized \$283,875 (2008 - \$189,158) of general and administrative costs, \$247,411 (2008 - \$436,080) of stock-based compensation and warrant consideration, and \$82,470 (2008 - \$145,360) of related future incomes taxes. At December 31, 2009, the Company excluded \$38,379,578 (2008 - \$31,499,211) of petroleum and natural gas property costs relating to unproved properties from the depletion and ceiling test calculations. In addition, \$343,750 (2008 - \$487,750) of future development costs have been included in the depletion calculation.

The Company applied the ceiling test to its conventional property and equipment at December 31, 2009 and determined that there was no impairment (December 31, 2008 – impairment of \$1,475,000).

For the purposes of the December 31, 2009 impairment test, the following benchmark prices were used:

	Edmonton Light Cdn\$/bbl	AECO Spot \$/MMbtu
2010	85.00	5.75
2011	87.50	6.50
2012	90.00	7.00
2013	95.00	7.50
2014	100.00	7.75
Escalation rate thereafter - 2%		

7. Credit facility

In October 2009, the Company executed an agreement for a \$10 million bridge term loan (the "Facility") to fund capital expenditures of which nil was drawn as at December 31, 2009. Within the authorization limit of \$10 million, there are two sub facilities with an authorization of \$5 million each. The initial sub facility of \$5 million is available for use and must be fully utilized prior to the Company having access to the secondary sub facility. The Facility carries an initial 10% annualized coupon adjusted quarterly based on utilization and is secured by a floating debenture of \$15 million over all of the Company's properties. The interest rate ranges from 10% at less than 25% utilization to 16% at greater than 75% utilization. This Facility expires on October 31, 2010. In connection with the signing of the Facility, the Company paid a fee of \$125,000 and issued the lender warrants to purchase 650,000 common shares at \$0.50 per common share until April 15, 2011. The fair value of the warrants using the Black-Scholes pricing model was estimated to be \$35,068 (note 10). If the Company utilizes the facility it would be required to meet a cash flow to debt service covenant.

Alberta Oilsands Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

8. Asset retirement obligation

The following table presents the reconciliation of the carrying amount of the obligation associated with the retirement of the property and equipment:

	2009	2008
Balance, beginning of year	\$ 935,700	\$ 838,186
Liabilities incurred	95,410	40,000
Dispositions	(75,000)	–
Revisions	52,878	(5,041)
Accretion	34,978	62,555
Balance, end of year	<u>\$ 1,043,966</u>	<u>\$ 935,700</u>

The following significant assumptions were used to estimate the asset retirement obligation:

	2009	2008
Undiscounted abandonment costs	\$ 2,938,846	\$ 1,234,144
Credit adjusted risk-free rate	8 – 10%	8 – 10%
Inflation rate	2%	2%
Weighted average expected timing of cash flows	10 years	4 years

9. Share capital

a) Authorized

Unlimited number of common shares without nominal or par value

b) Common shares issued

	Number of Shares	Amount
Balance, December 31, 2007	53,542,098	\$ 32,793,456
Issue of common shares (i)	8,709,677	8,099,840
Issue of common shares (ii)	4,878,300	3,658,725
Issue of flow-through shares (iii)	12,440,300	11,818,285
Exercise of options (iv)	81,000	77,893
Tax effect of flow-through shares issued in 2006 (iv)	–	(3,250,006)
Share issue costs (net of tax of \$320,125)	–	(960,373)
Balance, December 31, 2008	<u>79,651,375</u>	<u>52,237,820</u>
Issue of units (v)	12,781,250	4,550,448
Issue of flow-through shares (vi)	12,778,000	5,750,100
Share issue costs (net of tax of \$275,773)	–	(827,322)
Tax effect of flow-through shares issued in 2008 (ii)	–	(2,954,571)
Balance, December 31, 2009	<u>105,210,625</u>	<u>\$ 58,756,475</u>

- (i) Pursuant to a non-brokered private placement in January 2008, the Company issued 8,709,677 common shares at a price of \$0.93 per share for gross proceeds of \$8,099,840. Share issue costs of \$121,960 were incurred.

Alberta Oilsands Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

9. Share capital *(continued)*

b) Common shares issued *(continued)*

- (ii) Pursuant to a non-brokered private placement in August 2008, the Company issued 4,878,300 common shares at a price of \$0.75 per share and 12,440,300 flow-through common shares at a price of \$0.95 per share for total gross proceeds of \$15,447,010. Share issue costs totaling \$1,158,537 were incurred. Directors and officers subscribed for 36,800 flow-through common shares. The renunciation documents were filed with the tax authorities in February 2009 at which time the tax effect of the qualifying expenditures in the amount of \$2,954,571 was recognized. The Company incurred the required \$11,818,285 in qualifying expenditures by December 31, 2009.
- (iii) During 2008, the Company issued 81,000 common shares on the exercise of 81,000 stock options at exercise prices ranging from \$0.37 to \$0.61 per common share for cash proceeds of \$31,890. In addition to the cash proceeds and a pro-rata allocation of the options' fair value in the amount of \$46,003 was reclassified from contributed surplus to share capital.
- (iv) In May 2007 and June 2007, private placements were completed for 14,848,500 flow-through common shares for gross proceeds of \$13,000,025. The renunciation documents were filed with the tax authorities in February 2008 at which time the tax effect of the qualifying expenditures in the amount of \$3,250,006 was recognized.
- (v) Pursuant to a prospectus in November 2009, the Company issued a total of 12,781,250 units at a price of \$0.40 per unit for gross proceeds of \$5,112,500. 57,000 of these units have been issued to directors and officers. Each unit consists of one common share and one common share purchase warrant of the Company. Each warrant entitles the holder to purchase one common share at an exercise price of \$0.50 per common share up until November 17, 2011. The fair value of the warrants is estimated to be \$562,052 (note 10). The value of this unit issuance, net of the warrants, is \$4,550,448 which has been allocated to share capital. Share issue costs of \$1,103,095 have been incurred for this prospectus. A subscription receivable in the amount of \$22,800 was recognized and these proceeds were received subsequent to December 31, 2009.
- (vi) Pursuant to a prospectus in November 2009, the Company issued 12,778,000 flow-through common shares at a price of \$0.45 per share for total gross proceeds of \$5,750,100. 165,000 of these units have been issued to directors and officers. The Company is required to spend \$5,750,100 in qualifying expenditures by December 31, 2010, of which approximately \$807,000 has been incurred as at December 31, 2009. A subscription receivable in the amount of \$10,000 was recognized and these proceeds are expected to be received in 2010.

c) Stock options

The Company has established a stock option plan for its directors, officers, employees and consultants. Pursuant to this plan, the Company is authorized to reserve for issuance up to 10% of its common shares outstanding from time to time. Options expire five years from the date of grant and vest over periods as determined by the board of Directors at the time of grant.

During the year ended December 31, 2009, the Company granted a total of 316,000 (2008 - 3,254,783) stock options all of which vested one-third upon grant date and one-third on the first and second anniversaries of the grant date and expire five years from the grant date. The initial total fair value of the options granted was estimated to be \$42,823 (2008 - \$940,232).

Alberta Oilsands Inc.
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9. Share capital (continued)

c) Stock options (continued)

The Black-Scholes pricing model was used to estimate the fair value of options granted in 2009 and 2008 using a forfeiture rate of 0%, a dividend yield of nil, and based on the following significant assumptions:

	2009	2008
Weighted average risk-free interest rate	2.11%	2.63%
Weighted average volatility	103%	188%
Expected life	5 years	5 years

The following is a continuity of stock options as at December 31:

	2009		2008	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Opening	7,622,856	\$ 0.85	5,126,405	\$ 1.25
Granted	316,000	0.20	3,254,783	0.30
Exercised	-	-	(81,000)	(0.39)
Cancelled for directors/officers	(1,560,000)	1.99	-	-
Expired	(360,000)	0.30	-	-
Cancelled for employees & consultants	(204,000)	2.06	(677,332)	(1.27)
Forfeited for employees & consultants	(287,700)	0.97	-	-
Closing	<u>5,527,156</u>	<u>\$0.47</u>	<u>7,622,856</u>	<u>\$ 0.85</u>

The following summarizes information about stock options outstanding as at December 31, 2009:

Range of exercise prices	Number outstanding	Weighted average remaining contractual life (years)	Options outstanding weighted average exercise price (\$)	Number exercisable	Options exercisable weighted average exercise price
\$ 0.13	2,342,000	3.94	\$ 0.13	1,494,658	\$ 0.13
\$ 0.14 - \$ 0.37	1,235,000	1.75	0.34	1,184,334	0.35
\$ 0.38 - \$ 0.61	880,500	3.20	0.59	617,662	0.58
\$ 0.62 - \$ 1.47	817,656	2.81	1.02	730,894	1.06
\$ 1.48 - \$2.21	252,000	2.50	2.09	252,000	2.09
	<u>5,527,156</u>	<u>3.10</u>	<u>\$ 0.47</u>	<u>4,279,548</u>	<u>\$ 0.53</u>

Of the total options outstanding, 4,136,656 are held by directors/officers and management. The Company recognized stock-based compensation as follows as at December 31:

	2009	2008
Expensed	761,951	1,594,936
Capitalized to property and equipment (note 6)	226,894	436,080
	<u>\$ 988,845</u>	<u>\$ 2,031,016</u>

Alberta Oilsands Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

9. Share capital *(continued)*

d) Per share amounts

Basic per share amounts are calculated using the weighted average number of shares outstanding of 82,704,408 for the year ended December 31, 2009 (2008 - 68,689,821). In computing diluted per share amounts for the years ended December 31, 2009 and 2008 all of the Company's outstanding options and warrants were excluded as they were considered to be anti-dilutive.

10. Warrants

On July 8, 2009, the Company granted 4,000,000 common share purchase warrants as partial consideration for a Gross Overriding Royalty, Access and Cooperation Agreement as disclosed in note 16(c). Each whole warrant entitles the holder to acquire one common share of the Company for the following periods: 2,000,000 warrants are exercisable at a price of \$0.50 per common share until July 8, 2010 and 2,000,000 warrants are exercisable at a price of \$1.00 per common share until July 8, 2011. The fair value of the warrants is estimated at \$20,517 using the Black-Scholes pricing model based on a forfeiture rate of 0%, a dividend yield of nil, volatility of 50%, a risk-free interest rate of 1.16%, and a weighted average expected life of 1.5 years. The fair value of the warrants has been capitalized to the oilsands properties. At December 31, 2009, all 4,000,000 warrants are exercisable.

On October 15, 2009, the Company granted 650,000 common share purchase warrants to its lender (note 7). Each warrant entitles the holder to one common share of the Company at a price of \$0.50 per common share until April 15, 2011. The fair value of the warrants is estimated at \$35,068 using the Black-Scholes pricing model based on a forfeiture rate of 0%, a dividend yield of nil, volatility of 50%, a risk-free interest rate of 1.52%, and a weighted average expected life of 1.5 years. The fair value of the warrants has been expensed and included in financing costs. At December 31, 2009, all 650,000 warrants are exercisable.

In November 2009, the Company granted 12,781,250 common share purchase warrants as part of the unit issuance (note 9b). Each warrant entitles the holder to one common share of the Company at a price of \$0.50 per common share up until November 17, 2011. The fair value of the warrants is estimated at \$562,052 using the Black-Scholes pricing model based on a forfeiture rate of 0%, a dividend yield of nil, volatility of 50%, a risk-free interest rate of 1.31%, and a weighted average expected life of 2 years. The fair value of the warrants has been included in a separate component of shareholders equity. At December 31, 2009, all 12,781,250 warrants are exercisable. 100,000 warrants were exercised subsequent to December 31, 2010.

11. Contributed surplus

Balance, December 31, 2007	\$	3,173,984
Stock-based compensation expensed		1,594,936
Stock-based compensation capitalized		436,080
Options exercised		<u>(46,003)</u>
Balance, December 31, 2008		5,158,997
Stock-based compensation expensed		761,951
Stock-based compensation capitalized		<u>226,894</u>
Balance, December 31, 2009	\$	<u><u>6,147,842</u></u>

Alberta Oilsands Inc.
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12. Income taxes

The Company's computation of income taxes is as follows:

	<u>2009</u>	<u>2008</u>
Expected income tax reduction at 29.02% (2008 – 29.59%)	\$ (1,338,788)	\$ (1,716,342)
Non deductible items including stock-based compensation	237,181	486,240
Changes in enacted tax rates and other	<u>148,533</u>	<u>164,004</u>
Future income tax reduction	<u>\$ (953,074)</u>	<u>\$ (1,066,098)</u>

The components of the net future income tax liability at December 31 are as follows:

	<u>2009</u>	<u>2008</u>
Non-capital loss carryforwards	\$ 1,550,633	\$ 928,316
Asset retirement obligation	260,992	233,925
Share issue costs	569,500	508,013
Unrealized loss on financial instruments	37,432	-
Property and equipment	<u>(6,661,752)</u>	<u>(4,105,255)</u>
Future income tax liability	<u>\$ (4,243,195)</u>	<u>\$ (2,435,001)</u>

As at December 31, 2009 the Company has approximately \$20.2 million (2008 - \$18.3 million) in tax pools and \$6.2 million (2008 - \$3.7 million) in non-capital losses available for deduction against future taxable income. The expiration of the losses is as follows:

2014	\$ 157,000
2027	1,250,000
2028	2,328,000
2029	<u>2,465,000</u>
	<u>\$ 6,200,000</u>

13. Business development expenses

During the year ended December 31, 2009 the Company incurred \$328,473 (2008 - \$540,768) of business development expenses related to the pursuit of projects outside of the conventional Canadian oil and gas exploration and development business. These expenses include consulting and related costs as well as costs associated with the on-going pursuit of additional financing to support any potential transactions.

As at December 31, 2009, Platform had paid a signing bonus of \$251,277 (2008 - \$132,488) pursuant to the production sharing contracts with the Government of Kenya which amount is included in business development expense.

Alberta Oilsands Inc.
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For the years ended December 31, 2009 and 2008

14. Change in non-cash working capital

	2009	2008
Accounts receivable	\$ (2,715,165)	\$ 294,343
Prepaid expenses	(88,946)	198,288
Accounts payable and accrued liabilities	(3,704,290)	531,569
	<u>\$ (6,508,401)</u>	<u>\$ 1,024,200</u>

The change in non-cash working capital has been allocated to the following activities:

	2009	2008
Operating	\$ (158,191)	\$ 408,840
Financing	152,764	145,823
Investing	(6,502,974)	469,537
	<u>\$ (6,508,401)</u>	<u>\$ 1,024,200</u>

15. Related parties

Except as disclosed elsewhere in the financial statements the Company had the following related party transactions for which the expenses are included in general and administrative expenses, business development expenses and share issue costs:

- a) During the year ended December 31, 2009, the Company was charged \$341,353 (2008 - \$263,185) in legal fees by legal firms in which directors and officers of the Company are partners. These costs are included in general and administrative expense, business development and share issue costs. Included in accounts payable at December 31, 2009 is \$219,839 (2008 - \$42,223) due to the legal firms.
- b) During the year ended December 31, 2009, the Company was charged \$521,448 (2008 - \$383,787) for geological expenses from corporations controlled by Dr. Greg Hu, a former officer of the Company. Included in accounts payable at December 31, 2009 is \$4,983 (2008 - \$9,964) owing to the corporations. Other than as disclosed in note 16(b), there are no ongoing contractual obligations or other commitments outstanding as a result of the consulting arrangement with Dr. Hu. Dr. Hu resigned as an employee effective August 31, 2008.
- c) As at December 31, 2009, a subscription receivable in the amount of \$32,800 was recognized for outstanding balances due from officers of the Company related to the unit and flow-through share issuances from November 2009. \$22,800 has subsequently been received.

These transactions other than (c) are in the normal course of operations and were recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

16. Commitments

Except as disclosed elsewhere in the financial statements (see note 17), the Company had the following commitments as at December 31, 2009:

- a) The Company is committed to an agreement for office premises on a month to month basis at a rate of \$13,500 per month.

Alberta Oilsands Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

16. Commitments *(continued)*

- b) The Company had initially granted a two percent gross overriding royalty to Dr. Greg Hu on all production with respect to specific properties. The carrying amount of such properties is \$3.2 million. In addition, Dr. Hu had been allocated an amount equal to 10% of all future stock options which become capable of being granted by the Company as a result of an increase in the number of issued and outstanding common shares resulting from future equity financings. Pursuant to the terms of the agreement if the Company does not grant such stock options, the gross overriding royalty will increase to three percent. Therefore, since the Company did not grant stock options to Dr. Hu from the November 2009 financing, the gross overriding royalty increased to three percent and the requirement to issue future stock options is removed.
- c) On July 8, 2009, the Company signed a Gross Overriding Royalty, Access and Cooperation Agreement (the "Agreement") with the Fort McMurray Airport Commission ("FMAC"). The Agreement provides access rights to and across the airport lands to allow the Company to conduct operations. In consideration for FMAC granting such access rights, the Company granted to FMAC a two percent gross overriding royalty on the petroleum substances produced from the specified lands. In addition, the Company granted FMAC an aggregate of 4,000,000 common share purchase warrants, the terms of which are disclosed in note 10.
- d) Pursuant to flow-through issuance in November 2009, the Company is required to incur approximately \$5.0 million of remaining qualifying expenditures by December 31, 2010.
- e) On September 17, 2008, Platform signed two Production Sharing Contracts ("PSCs") with the Government of the Republic of Kenya (the "Government").

Under the terms of the PSC's, Platform is authorized to conduct exploration operations in two contract areas (Block 12A - 15,389 sq. km. and Block 13T - 8,429 sq. km.) for three years after the effective date of December 17, 2008, extendible at Platform's option for two additional terms of two years each. During the initial three year exploration period for each block, Platform has minimum total expenditure obligations of U.S. \$3.6 million for Block 12A and U.S. \$3.65 million for Block 13T. Platform is required to provide security for its minimum work obligations in the form of a bank letter of credit in the amount of 15%, and a guarantee of its parent (Alberta Oilsands) in the amount of 85%. (see note 19).

17. Financial instruments and financial risk management

The Company's financial instruments include cash and cash equivalents, short-term investments, accounts receivable, subscription receivable, accounts payable and accrued liabilities, commodity contract, and credit facility. The carrying values of these financial instruments approximate their fair values due to their relatively short periods to maturity. The Company is required to classify fair value measurements using a hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy is as follows:

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

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Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

17. Financial instruments and financial risk management *(continued)*

The fair value of cash and short term investments is considered level 1 as it is determined by cash balances and investments held at financial institutions. The fair value of the commodity contract is considered to be level 2 as it is estimated by discounting the difference in the contract price and forward prices using the remaining volumes in the contract.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company has exposure to credit risk, liquidity risk and market risk as a result of its use of financial instruments. This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for measuring and managing these risks. Further quantitative disclosures are included throughout these financial statements. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has implemented and monitors compliance with risk management policies as set out herein.

a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The cash is available at any time and the investments are redeemable within a short period of time. The cash is held with a Schedule I bank. Short term investments are primarily a T-Bill held by an investment firm. The Company's policy is to ensure that its investments are liquid and not invested in asset-backed commercial paper products.

A substantial portion of the Company's accounts receivable is with joint venture partners in both the oil sands area and conventional properties. Purchasers of the Company's petroleum and natural gas are subject to credit review to minimize the risk of non-payment. As at December 31, 2009, the maximum credit exposure is the carrying amount of the accounts receivable and accruals of \$3,054,865 (2008 – \$339,700) plus cash and cash equivalents and short-term investments of \$7,931,828 (2008 – \$19,366,062).

As at December 31, 2009, \$260,454 of the Company's receivables consisted of December revenue due from marketers, \$27,281 in GST, \$2,601,969 in a cash call receivable, and the remaining \$165,161 is comprised of receivables due from joint venture partners. Receivables from petroleum and natural gas marketers are typically collected on the 25th day of the month following production. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with large purchasers. The Company historically has not experienced any significant collection issues with its petroleum and natural gas marketers. The cash call receivables are with three joint venture parties and will be drawn down as the capital projects progress. Completion is expected by June 30, 2010.

Joint venture receivables are typically collected within one to two months of the joint venture bill being issued to the partner. The Company mitigates the risk from joint venture receivables by obtaining partner approval of capital expenditures prior to starting a project. However, the receivables are from participants in the petroleum and natural gas sector, and collection is dependent on typical industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. As at December 31, 2009, the largest amount owing from one joint venture partner is \$16,095 which was collected subsequent to year end.

Alberta Oilsands Inc.
Notes to Consolidated Financial Statements
For the years ended December 31, 2009 and 2008

17. Financial instruments and financial risk management *(continued)*

a) Credit risk *(continued)*

Further risk exists with joint venture partners as disagreements occasionally arise which increases the potential for non-collection. For properties that are operated by the Company, production can be withheld from joint venture partners who are in default of amounts owing. In addition, the Company often has offsetting amounts payable to joint venture partners from which it can net receivable balances.

The Company provided an allowance for a doubtful account in the amount of \$6,732 during the year ended December 31, 2009 (2008 – \$23,576). The Company would only choose to write-off a receivable balance (as opposed to providing an allowance) after all reasonable avenues of collection had been exhausted. As at December 31, the Company considers its receivables to be aged as follows:

	2009	2008
Current	\$ 3,024,415	\$ 327,141
Past due by less than 90 days	10,296	10,011
Past due by more than 90 days	20,154	2,548
	\$ 3,054,865	\$ 339,700

b) Liquidity risk

Liquidity risk is the risk that the Company will incur difficulties meeting its current and future financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation.

The Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. The Company uses authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures.

The Company anticipates it will have adequate liquidity to fund its financial liabilities through its existing working capital. The Company's financial liabilities are comprised of accounts payable and accrued liabilities which have expected maturities of less than one year resulting in their current classification on the balance sheet.

c) Market risk

Market risk consists of currency risk, commodity price risk and interest rate risk. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns. The Company may use both financial derivatives and physical delivery sales contracts to manage market risks. All such transactions are conducted in accordance with a risk management policy as set out herein.

i) Currency risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. All of the Company's petroleum and natural gas sales are denominated in Canadian dollars; however, the underlying market prices in Canada for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar. The Company had no outstanding forward exchange rate contracts in place at December 31, 2009 or 2008.

Alberta Oilsands Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

17. Financial instruments and financial risk management *(continued)*

c) Market risk *(continued)*

ii) Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by world economic events that dictate the levels of supply and demand as well as the relationship between the Canadian and United States dollar, as outlined above. Should the Company choose to mitigate commodity price risk through the use of financial derivatives and physical delivery fixed price sales contracts, all such contracts would require approval of the Board of Directors.

In October 2009, the Company signed a commodity "collar" price risk contract for the period November 1, 2009 to October 31, 2010. The notional quantity under this contract is for 50 barrels of oil per day at prices per barrel of \$70.00 (floor strike price) and \$79.50 (cap strike price). For the year ended December 31, 2009, the Company has realized a loss of \$4,905 which has been included in petroleum and natural gas sales revenue. The mark-to-market value of the remaining unsettled portion of the contract at December 31, 2009 is a liability of \$133,687 of which \$127,000 has been paid in cash as a deposit to the counterparty resulting in a net liability of \$6,687.

iii) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk primarily through its variable interest rate on its cash and cash equivalents and short-term investments. For the year ended December 31, 2009, if interest rates had been 1% higher with all other variables held constant, earnings for the years would have been \$38,600 (2008 – \$126,400) higher due to increased interest income. An equal and opposite impact would have occurred had interest rates been lower by the same amounts. The Company had no interest rate contracts outstanding at December 31, 2009 or 2008.

18. Capital management

The Company's objective when managing capital is to maintain a flexible capital structure which will allow it to execute on its capital expenditure program, which includes expenditures primarily in the oilsand properties, which may or may not be successful. Therefore, the Company monitors the level of risk incurred in its capital expenditures to balance the proportion of debt and equity in its capital structure.

Consideration must also be given to the seasonality of the Company's operations. The majority of the capital expenditures are carried on in the oilsand properties which are dependent on weather conditions. Lease and road preparation for the delineation drilling is dependent upon the roads being dry to support the equipment being moved. The typical "spring break-up" curtails the Company's activity levels.

The Company considers its capital structure to include working capital of \$9,661,146 (2008 – \$14,560,866), credit facility, and shareholders' equity of \$52,240,945 (2008 – \$47,776,287). The Company monitors capital based on annual funds from operations from its conventional oil and gas properties which are utilized to partially fund the general and administrative expenses. The Company prepares budgets for its capital expenditures, which are updated as necessary and are reviewed and periodically approved by the Company's Board of Directors.

Alberta Oilsands Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2009 and 2008

18. Capital management *(continued)*

The Company manages its capital structure and makes adjustments by continually monitoring its business conditions including the current economic conditions, the risk characteristics of the Company's petroleum and natural gas assets, the depth of its investment opportunities, current and forecasted net debt levels, current and forecasted commodity prices and other facts that influence commodity prices and funds from operations such as quality and basis differentials, royalties, operating costs and transportation costs.

In order to maintain or adjust the capital structure, the Company will consider the potential level of credit facilities that may be attainable as a result of the potential value of the oil sands properties, availability of other sources of debt with different characteristics than conventional debt, the sale of assets, limiting the size of the capital expenditure program, joint venture and other financial partners, and new equity if available on favorable terms.

The Company has externally imposed capital requirements as governed by the credit facility through the maintenance of certain financial covenants (note 7). The availability of the banking facility is determined by the lender's borrowing base model which is based on the Company's petroleum and natural gas reserves.

There has been no change in the Company's approach to capital management during the year ended December 31, 2009. The Company has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the foreseeable future.

19. Subsequent events

- a) In February 2010, the Board approved a grant of 3,105,000 options to directors, employees, and consultants. The options are exercisable at \$0.40 per option and expire five years from the date of grant. The options vest one-third upon grant date and one-third on the first and second anniversaries of the grant date.
- b) In February 2010, the Company executed a definitive agreement in which Platform Resources Inc. agreed to assign its interest in Blocks 12A and 13T in Kenya in consideration for 2.5 million common shares and 1.5 million common share purchase warrants of the purchaser. Each warrant is immediately exercisable into one common share at a price of \$1.50 per common share over a period of 2 years. If the closing price for Africa Oil's common shares exceeds \$2.00 per share for 20 consecutive trading days, Africa Oil can provide written notice to Alberta Oilsands accelerating the expiry date to a date that is at least 180 days from the date of notice. The agreement is subject to the Kenyan Government and regulatory approvals. The Company will retain no rights or obligations in Blocks 12A and 13T or with the Kenyan Government.

To facilitate the closing of the Company's interest in Kenya, in April 2010, Alberta Oilsands transferred cash of US\$1,087,500 to Platform Resources Inc.'s bank account which was utilized to cash collateralize an unconditional and irrevocable bank guarantee securing a performance bond to be provided to the Kenyan Government by Platform Resources Inc. with respect to the PSC's.