

Alberta Oilsands Inc.

CONDENSED INTERIM FINANCIAL STATEMENTS

September 30, 2011

Notice of No Auditor Review of Interim Financial Statements

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed these unaudited interim financial statements as at and for the three and nine months ended September 30, 2011 and 2010.

Alberta Oilsands Inc.

Condensed Interim Statements of Financial Position

(unaudited)

	September 30, 2011	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 31,362,513	\$ 4,652,658
Investment in equity instruments (Notes 6 and 12)	4,092	5,576,060
Trade and other receivables	389,113	311,185
Other current assets	366,696	403,804
	<u>32,122,414</u>	<u>10,943,707</u>
Non current assets:		
Reclamation deposit	917,495	910,380
Exploration and evaluation assets (Note 7)	51,758,783	46,301,696
Property and equipment (Note 8)	3,543,047	4,015,694
	<u>3,543,047</u>	<u>4,015,694</u>
Total assets	<u>\$ 88,341,739</u>	<u>\$ 62,171,477</u>
Liabilities		
Current liabilities:		
Trade and other payables	\$ 3,498,949	\$ 2,378,379
Non current liabilities:		
Decommissioning obligations (Note 9)	2,208,660	1,869,889
Share premium liability	716,456	1,413,612
Deferred income tax	9,382,161	4,365,018
	<u>9,382,161</u>	<u>4,365,018</u>
Total liabilities	15,806,226	10,026,898
Equity		
Share capital (Note 10)	79,421,861	66,333,684
Warrants (Note 10)	954,434	864,327
Contributed surplus	7,588,365	6,754,536
Deficit	(15,429,147)	(21,807,968)
	<u>72,535,513</u>	<u>52,144,579</u>
Total equity	72,535,513	52,144,579
Total liabilities and equity	<u>\$ 88,341,739</u>	<u>\$ 62,171,477</u>
Commitments (Note 14)		

See accompanying notes to the interim financial statements

Alberta Oilsands Inc.**Condensed Interim Statements of Operations and Comprehensive Loss**

For the three and nine months ended September 30

(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Revenue	\$ 409,317	\$ 501,367	\$ 1,356,344	\$ 1,939,010
Royalties	49,168	84,605	139,791	368,404
	360,149	416,762	1,216,553	1,570,606
Unrealized gain on commodity contract	-	18,080	-	128,017
	360,149	434,842	1,216,553	1,698,623
Expenses				
Operating	95,462	245,791	739,468	1,105,996
General and administrative	559,652	1,088,212	2,010,902	2,373,597
Share-based compensation	122,342	(2,045)	488,177	419,808
Unrealized foreign exchange gain	-	34,423	-	(24,955)
Unrealized loss (gain) on investment in equity instrument	1,953	(1,179,806)	1,953	(1,179,806)
Depletion and depreciation	107,950	213,192	355,469	801,776
Impairment on property and equipment (Note 8)	83,967	910,856	409,783	3,650,723
	971,326	1,310,623	4,005,752	7,147,139
Finance income	20,938	4,606	52,320	7,674
Finance expense	16,135	19,167	201,535	75,803
Net finance (income) expense (Note 5)	(4,803)	14,561	149,215	68,129
Sale of Kenya interests (Note 6)	-	3,736,113	-	3,553,887
Gain on sale of exploration and evaluation assets (Note 7)	12,543,230	-	12,543,230	-
Income (loss) before income tax	11,936,856	2,845,771	9,604,816	(1,962,758)
Deferred tax expense	(3,033,462)	(672,528)	(3,225,995)	(150,824)
Net income (loss) and comprehensive income (loss) for the period	\$ 8,903,394	\$ 2,173,243	\$ 6,378,821	\$ (2,113,582)

See accompanying notes to the interim financial statements

Alberta Oilsands Inc.
Condensed Interim Statements of Changes in Equity
(unaudited)

	Number of shares	Share capital	Warrants	Contributed surplus	Deficit	Total equity
January 1, 2011	118,915,457	\$ 66,333,684	\$ 864,327	\$ 6,754,536	\$ (21,807,968)	\$ 52,144,579
Net income for the period	-	-	-	-	6,378,821	6,378,821
Share based compensation expense	-	-	-	488,177	-	488,177
Share based compensation capitalized	-	-	-	203,429	-	203,429
Options exercised	35,000	8,992	-	(4,442)	-	4,550
Shares issued, net of costs	37,666,600	14,651,207	-	140,000	-	14,791,207
Share premium	-	(1,440,000)	-	(35,250)	-	(1,475,250)
Warrants issued	-	(132,022)	132,022	-	-	-
Warrants expired	-	-	(41,915)	41,915	-	-
September 30, 2011	<u>156,617,057</u>	<u>\$ 79,421,861</u>	<u>\$ 954,434</u>	<u>\$ 7,588,365</u>	<u>\$ (15,429,147)</u>	<u>\$ 72,535,513</u>
January 1, 2010	105,210,625	\$ 61,556,565	\$ 617,637	\$ 6,091,655	\$ (17,835,339)	\$ 50,430,518
Net loss for the period	-	-	-	-	(2,113,582)	(2,113,582)
Share based compensation expense	-	-	-	419,808	-	419,808
Options exercised	674,832	229,037	-	(107,475)	-	121,562
Warrants exercised	20,000	10,137	(137)	-	-	10,000
Share based compensation capitalized	-	-	-	215,833	-	215,833
Share issued, net of costs	-	(3,937)	-	-	-	(3,937)
September 30, 2010	<u>105,905,457</u>	<u>\$ 61,791,802</u>	<u>\$ 617,500</u>	<u>\$ 6,619,821</u>	<u>\$ (19,948,921)</u>	<u>\$ 49,080,202</u>

See accompanying notes to the interim financial statements

Alberta Oilsands Inc.

Condensed Interim Statements of Cash Flows

For the three and nine months ended September 30
(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Operating activities				
Net income (loss) for the period	\$ 8,903,394	\$ 2,173,243	\$ 6,378,821	\$ (2,113,582)
Non-cash items:				
Share based compensation	122,342	(2,045)	488,177	419,808
Depletion and depreciation	107,950	213,192	355,469	801,776
Interest expense	15,823	16,302	48,310	54,270
Deferred tax expense	3,033,462	672,528	3,225,995	150,824
Unrealized loss on financial liabilities	-	35,920	-	(12,017)
Unrealized loss (gain) on investment in equity instruments	1,953	(1,179,806)	1,953	(1,179,806)
Unrealized foreign exchange	-	34,423	-	(24,955)
Impairment loss on property and equipment	83,967	910,856	409,783	3,650,723
Sale of Kenya interests	-	(4,146,314)	-	(4,146,314)
Gain on sale of exploration and evaluation assets	(12,543,230)	-	(12,543,230)	-
	(274,339)	(1,271,701)	(1,634,722)	(2,399,273)
Change in non-cash working capital (Note 11)	(140,813)	71,242	15,688	(45,338)
	(415,152)	(1,200,459)	(1,619,034)	(2,444,611)
Investing activities				
Purchase of short term investments	-	(5,097,010)	-	(5,600,119)
Purchase of restricted investment	-	1,094,246	-	-
Maturity of short term investments	-	6,124,965	-	6,124,965
Expenditures on property and equipment	(23,611)	(295,652)	(115,955)	(2,356,464)
Expenditures on exploration and evaluation	(1,615,220)	(800,853)	(16,905,543)	(4,071,726)
Proceeds on sale of exploration and evaluation assets	24,683,925	-	24,683,925	-
Reclamation deposit	(2,309)	(1,560)	(7,115)	(454,653)
Proceeds on disposal of investment in equity	-	-	5,570,015	-
Change in non-cash working capital (Note 11)				
- property and equipment	506,251	1,636,927	(30,498)	3,347,637
- exploration and evaluation assets	573,750	(1,082,059)	1,176,729	303,141
	24,122,786	1,579,004	14,371,558	(2,707,219)
Financing activities				
Issuance of share capital, net of issue costs	4,913,284	40,983	14,034,950	159,112
Proceeds from exercise of options	-	-	4,550	-
Change in non-cash working capital (Note 11)	(174,963)	2,701	(82,169)	(303,556)
	4,738,321	43,684	13,957,331	(144,444)
Increase (decrease) in cash and cash equivalents	28,445,955	422,229	26,709,855	(5,296,274)
Cash and cash equivalents, beginning of period	2,916,558	1,161,944	4,652,658	6,880,447
Cash and cash equivalents, end of period	\$ 31,362,513	\$ 1,584,173	\$ 31,362,513	\$ 1,584,173

See accompanying notes to the interim financial statements

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three and nine months ended September 30, 2011 and 2010
(unaudited)

1. Nature of organization

Alberta Oilsands Inc. ("Company" or "Alberta Oilsands") is incorporated under the Business Corporations Act (Alberta) and is domiciled in Canada. The address of the Company's registered office is 800, 350 – 7 Ave SW Calgary, Alberta.

Prior to September 2010, the interim financial statements consolidated the accounts of the Company, its wholly owned subsidiary, Platform Resources Inc. ("Platform"), and Platform's subsidiary Platform Resources (Kenya) Limited after the elimination of all intercompany transactions and balances. On September 9, 2010, Alberta Oilsands Inc. and Platform Resources Inc. amalgamated.

The Company is involved in the production, exploration and development of resource properties in Western Canada.

2. Basis of presentation

a) Statement of compliance

These interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* from the International Financial Reporting Standards ("IFRS"). The Company adopted IFRS effective January 1, 2010. These financial statements do not include all of the information required for full annual financial statements. The financial statements for 2010 were prepared in accordance with Canadian GAAP. Canadian GAAP differs from IFRS in certain areas; therefore, the financial statements for the comparative period have been re-stated under IFRS. Reconciliations and the effect of the transition from Canadian GAAP to IFRS are disclosed in Note 16.

The standards that will be effective or available for voluntary early adoption in the financial statements for the year ending December 31, 2011 are subject to change and may be affected by additional interpretation(s). Accordingly, the accounting policies will be finalized when the first annual IFRS financial statements are prepared for the year ending December 31, 2011.

These interim financial statements were authorized for issuance on November 25, 2011, the date at which the Board of Directors approved the statements. The interim financial statements should be read in conjunction with the Canadian GAAP audited financial statements for Alberta Oilsands Inc. for the year ended December 31, 2010.

b) Basis of measurement

The interim financial statements have been prepared on a historical cost basis except for derivative financial instruments, which are measured at fair value. The methods used to measure fair values are discussed in Note 4.

c) Functional and presentation currency

These interim financial statements have been presented in Canadian dollars which is the Company's functional currency.

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three and nine months ended September 30, 2011 and 2010
(unaudited)

2. Basis of presentation (continued)

d) Use of estimates

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's reasonable knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any change in estimate is recorded in the reporting period in which the estimate is revised. The critical accounting judgments, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Property and equipment & depletion and depreciation:

Estimated useful lives and residual values of tangible equipment are reviewed annually. Estimated reserve lives and the value of the reserves are reviewed each reporting period. The carrying values of assets are reviewed for impairment where there has been a trigger event (that is, an event which may have resulted in impairment) by assessing the recoverable amount. Recoverable amount is the higher of fair value less costs to sell and value in use which is determined by the present value of future cash flows. The calculation of estimated future cash flows is based on estimates of gross reserves, production rates, oil and gas prices, future costs and other relevant assumptions and is, therefore, subjective.

Decommissioning obligations

In accounting for the decommissioning obligations, the Company makes assumptions regarding the timing and the amount of reclamation and abandonment expenditures, inflation, discount rate, and possible changes in the legal and regulatory environment. This estimate is reviewed each reporting period.

Fair value of financial instruments

As described in Notes 5 and 13, management would use judgment in selecting an appropriate valuation technique for financial instruments not quoted in an active market.

Share based compensation

In accounting for the fair value of stock options and warrants, the Company makes assumptions regarding share price volatility, risk free rate, forfeiture rate, and expected life in order to determine the amount of associated expense to recognize.

3. Significant accounting policies

The interim financial statements have been prepared following the same accounting policies as the interim financial statements as at March 31, 2011. The significant accounting policies are described in note 3 of the March 31, 2011 interim financial statements.

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three and nine months ended September 30, 2011 and 2010
(unaudited)

4. Determination of fair value

Where determination of fair value is required by the Company's accounting policies and disclosures, fair values have been determined based on the following methods.

- (a) Property and equipment – The fair value of property and equipment is the estimated amount for which property and equipment could be exchanged between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The fair value of oil and natural gas interests is estimated with reference to the discounted cash flows expected to be derived from production of oil and natural gas, based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the assets with reference to general market conditions, being 10 – 15% for 2011 and 2010.

- (b) Cash and cash equivalents, accounts receivable and accounts payable – Fair value is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At September 30, 2011, the fair value of these balances approximated their carrying value due to their short term to maturity.
- (c) Investment in equity instruments – Fair value has been realized by reference to the proceeds received.
- (d) Stock options – Fair value is measured using a Black Scholes option pricing model with inputs including share price on measurement date, exercise price, expected volatility, forfeiture rate, weighted average expected life, expected dividends, and the risk-free interest rate.

5. Finance income and expenses

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Income:				
Interest income on cash and short term investments	\$ 18,143	\$ 4,181	\$ 43,224	\$ 6,941
Other	2,795	525	9,096	733
	20,938	4,606	52,320	7,674
Expenses:				
Interest on flow through shares	–	2,334	1,767	21,533
Advisory fee on potential financing	–	–	150,495	–
Accretion on decommissioning obligations	15,823	16,302	48,310	54,270
Other	312	531	963	–
	16,135	19,167	201,535	75,803
Net finance (income) expense	\$ (4,803)	\$ 14,561	\$ 149,215	\$ 68,129

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three and nine months ended September 30, 2011 and 2010
(unaudited)

6. Sale of Kenya interests

On September 9, 2010, the Company completed the sale of its interests in Kenya to Africa Oil Corp. ("Africa Oil") in exchange for 2,500,000 common shares and 1,500,000 common share purchase warrants with an exercise price of \$1.50 per warrant over a life of two years. The value of the consideration is net of associated business development costs of \$410,201 and \$592,427 for the three and nine months ended September 30, 2010.

7. Exploration and evaluation assets

Exploration and evaluation assets include costs incurred on the Company's oil sand projects primarily at Clearwater and Hangingstone in Alberta. Costs capitalized relate primarily to the acquisition of land, seismic, drilling core wells, the pilot application for Clearwater, and the directly attributable general & administrative expense and share based compensation directly related to the project.

Costs are classified by cash generating units as follows:

	September 30, 2011				
	Clearwater	Hangingstone	Algar Lake	Other	Total
<u>Cost</u>					
January 1, 2011	\$ 28,943,110	11,767,389	4,134,552	1,456,645	46,301,696
Additions	16,350,059	(1,692)	–	102,928	16,451,295
Disposal	–	(11,765,697)	–	–	(11,765,697)
General & administrative costs	454,249	–	–	–	454,249
Share based compensation	203,429	–	–	–	203,429
Change in estimate of decommissioning obligations	113,811	–	–	–	113,811
September 30, 2011	\$ 46,064,658	–	4,134,552	1,559,573	51,758,783

The Company and its 50% joint venture partner completed the sale of their 100% working interest in the Hangingstone area on September 30, 2011. The Company received net proceeds of \$24.6 million. The net proceeds reflect the satisfaction by the Company of its remittance obligation to a royalty holder that converted its gross overriding royalty in the property to a 4.125% working interest. This conversion resulted in a net cash payment of approximately \$1.8 million to the holder and subscription by and issuance to the holder of 1.0 million common shares of the Company on a flow-through basis at a deemed price of \$0.375 per share (note 10). The proceeds, net of the royalty conversion, transaction costs of \$405,289 and costs incurred on the property of \$11,765,697 resulted in a gain of \$12,543,230.

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three and nine months ended September 30, 2011 and 2010
(unaudited)

7. Exploration and evaluation assets (continued)

	December 31, 2010				Total
	Clearwater	Hangingstone	Algar Lake	Other	
<u>Cost</u>					
January 1, 2010	\$ 22,401,092	10,492,318	4,134,552	1,391,616	38,419,578
Additions	5,873,388	1,275,071	–	65,029	7,213,488
General & administrative costs	262,635	–	–	–	262,635
Share based compensation	206,482	–	–	–	206,482
Change in estimate of decommissioning obligations	76,151	–	–	–	76,151
Warrants	123,362	–	–	–	123,362
December 31, 2010	\$ 28,943,110	11,767,389	4,134,552	1,456,645	46,301,696

As at September 30, 2011, the Company completed a review for indicators of impairment on its exploration and evaluation assets and determined that there were no indicators.

8. Property and equipment

	September 30, 2011		
	Oil and natural gas assets	Other	Total
<u>Cost</u>			
January 1, 2011	\$ 10,929,465	87,986	11,017,451
Additions	46,623	69,332	115,955
Change in estimate of decommissioning obligations	176,650	–	176,650
September 30, 2011	11,152,738	157,318	11,310,056
<u>Accumulated depletion and depreciation</u>			
January 1, 2011	(6,976,654)	(25,103)	(7,001,757)
Depletion & depreciation	(329,176)	(26,293)	(355,469)
Impairment loss	(409,783)	–	(409,783)
September 30, 2011	(7,715,613)	(51,396)	(7,767,009)
	\$ 3,437,125	105,922	3,543,047

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three and nine months ended September 30, 2011 and 2010
(unaudited)

8. Property and equipment (continued)

	December 31, 2010		
	Oil and natural gas assets	Other	Total
<u>Deemed cost</u>			
January 1, 2010	\$ 8,374,353	60,062	8,434,415
Additions	2,254,150	27,924	2,282,074
General & administrative costs	150,000	–	150,000
Share based compensation	46,845	–	46,845
Change in estimate of decommissioning obligations	104,311	–	104,311
Disposal	(194)	–	(194)
December 31, 2010	10,929,465	87,986	11,017,451
<u>Accumulated depletion and depreciation</u>			
January 1, 2010	–	–	–
Depletion & depreciation	(1,092,911)	(25,103)	(1,118,014)
Impairment loss	(5,883,743)	–	(5,883,743)
December 31, 2010	(6,976,654)	(25,103)	(7,001,757)
	\$ 3,952,811	62,883	4,015,694

The Company completed an impairment review on its property and equipment and determined that there was an impairment of \$83,967 and \$409,783 for the three and nine months ended September 30, 2011. (For the year ended December 31, 2010 - \$5,883,743 and for the three and nine months ended September 30, 2010 - \$910,856 and \$3,650,723). Impairment review was conducted by comparing carrying value to recoverable amount. Carrying value is calculated for the cash generating units as the deemed cost at transition plus additions, adjustments for depletion and depreciation, and impairment losses. Recoverable amount of the cash generating units is estimated using value in use. Value in use is determined based on a third party reserve report which estimates future cash flows over the remaining reserves using a discount rate of 10% to 15%.

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three and nine months ended September 30, 2011 and 2010
(unaudited)

9. Decommissioning obligations

The following table presents the reconciliation of the carrying amount of the obligation associated with the reclamation and abandonment of the Company's property and equipment:

	September 30, 2011	December 31, 2010
Balance, beginning of period	\$ 1,869,889	\$ 1,692,843
Additions	106,956	75,000
Current provision in finance expense	48,310	69,132
Change in estimate	183,505	105,462
Disposal	-	(72,548)
Balance, end of period	<u>\$ 2,208,660</u>	<u>\$ 1,869,889</u>

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

	September 30, 2011	December 31, 2010
Undiscounted cash flows	\$ 2,997,538	\$ 2,870,568
Risk free rate	2.68%	3.48%
Inflation rate	2%	2%
Weighted average expected timing of cash flows	9 years	9 years

10. Equity

a) Issued

Common Shares

	Number	Amount
January 1, 2010	105,210,625	\$ 61,556,565
Exercise of stock options	694,832	234,175
Exercise of warrants	20,000	10,137
Issue of common shares on a flow-through basis	12,520,000	6,122,865
Issue of common shares on a flow-through basis	470,000	300,800
Share issue costs (net of tax of \$105,987)	-	(317,958)
Adjustment for share premium	-	(1,572,900)
December 31, 2010	118,915,457	\$ 66,333,684
Issue of flow through shares (i)	20,000,000	10,000,000
Exercise of stock options (ii)	35,000	8,992
Adjustment for share premium (iii)	-	(1,440,000)
Issue of common shares (iv)	16,666,600	4,999,980
Issue of common shares on a flow-through basis (v)	1,000,000	375,000
Share issue costs (net of tax of \$241,257)	-	(855,795)
September 30, 2011	<u>156,617,057</u>	<u>\$ 79,421,861</u>

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three and nine months ended September 30, 2011 and 2010
(unaudited)

10. Equity (continued)

a) Issued (continued)

Common Shares

- i) In March 2011, the Company issued 20,000,000 common shares on a flow-through basis at \$0.50 per common share for gross cash proceeds of \$10,000,000. 1,200,000 warrants were issued to the underwriter at an exercise price of \$0.50 per common share up until March 2014. The fair value of the warrants was estimated to be \$132,022 (Note 10). The value of this issuance, net of the warrants of \$132,022 and share issue costs of \$878,333, is \$9,209,227 which has been allocated to share capital. The Company is required to incur qualifying expenditures of \$10,000,000 by December 31, 2012 of which approximately \$6.2 million has been incurred to September 30, 2011.
- ii) During the first quarter of 2011, the Company issued 35,000 common shares on the exercise of 35,000 stock options at an exercise price of \$0.13 per common share for cash proceeds of \$4,550. In addition to the cash proceeds a pro-rata allocation of the options' fair value in the amount of \$4,442 was reclassified from contributed surplus to share capital.
- iii) For the nine months ended September 30, 2011, share capital was reduced by \$1,440,000 for the share premium which represents the difference between the price assigned to the common shares issued on a flow-through basis and the share price inherent in the market.
- iv) In July 2011, the Company issued 16,666,600 common shares at \$0.30 per common share for gross cash proceeds of \$4,999,980. The value of this issuance, net of share issue costs of \$86,695, was \$4,913,285 which has been allocated to share capital.
- v) On September 30, 2011, the Company issued 1,000,000 common shares on a flow-through basis at \$0.375 per common share as part of the consideration for the sale of Hangingstone (note 7). The Company is required to incur qualifying expenditures of \$375,000 by December 31, 2012 of which nil has been incurred to September 30, 2011.

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three and nine months ended September 30, 2011 and 2010
(unaudited)

10. Equity (continued)

b) Stock options

The Company has established an option plan for its directors, officers, employees and consultants which entitle the holder to purchase common shares in the Company once options are vested. Options are settled upon the physical delivery of shares. Pursuant to this plan, the Company is authorized to reserve for issuance up to 10% of shares outstanding from time to time. Vesting typically occurs with one-third immediately and the remaining over two years and options expire after five years. Upon departure of an option holder, unvested options expire immediately and vested options expire within 60 days.

The following options were granted in the three and nine months ended September 30, 2011 and 2010:

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Options granted	578,570	600,000	3,909,750	3,705,000
Risk free rate	1.49%	2.20%	1.49% and 2.36%	2.20%
Volatility	100%	102%	100%	102% and 107%
Exercise prices	\$0.23	\$0.33	\$0.23 and \$0.40	\$0.33 and \$0.40
Share prices	\$0.23	\$0.33	\$0.23 and \$0.375	\$0.33 and \$0.375
Forfeiture rate	10%	10%	10%	10%
Life	5 years	5 years	5 years	5 years
Fair value per share	\$0.17	\$0.25	\$0.17 and \$0.28	\$0.25 and \$0.29

Option grants vest over two years with one third vesting immediately and the remaining two thirds vesting on the two following anniversary dates. Volatility is based on the historical price changes over a term comparable to the remaining life of the option.

The fair value of stock options issued during the period was estimated using the Black-Scholes option pricing model for each tranche. Share based compensation is recorded utilizing the graded vesting methodology with fair value calculated for each tranche.

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three and nine months ended September 30, 2011 and 2010
(unaudited)

10. Equity (continued)

b) Stock options (continued)

	September 30, 2011		December 31, 2010	
	Number of options	Weighted average exercise price (\$)	Number of options	Weighted average exercise price (\$)
Beginning of period	6,852,323	\$ 0.46	5,527,156	\$ 0.47
Granted	3,909,570	0.37	3,880,000	0.39
Exercised	(35,000)	0.13	(694,832)	0.18
Expired	(780,000)	0.37	(229,000)	0.31
Forfeited	(737,656)	0.74	(1,631,001)	0.41
End of period	9,209,237	\$ 0.41	6,852,323	\$ 0.46

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	1,294,667	2.21	\$ 0.13	1,294,667	\$ 0.13
\$ 0.14 – \$ 0.37	1,429,570	4.27	0.28	727,186	0.29
\$ 0.38 – \$ 0.61	6,113,000	3.87	0.41	3,088,158	0.42
\$ 0.62 – \$ 1.47	120,000	0.94	1.30	120,000	1.30
\$ 1.48 – \$ 2.21	252,000	0.75	2.09	252,000	2.09
	9,209,237	3.57	\$ 0.41	5,482,011	\$ 0.43

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three and nine months ended September 30, 2011 and 2010
(unaudited)

10. Equity (continued)

c) Income (loss) per share

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Net income (loss)	\$ 8,903,394	\$ 2,173,243	\$ 6,378,821	\$ (2,113,852)
Weighted average common shares outstanding				
January 1	138,950,457	105,655,124	118,915,457	105,210,625
Shares issued (note 9b)	14,141,248	–	18,904,743	–
Warrants exercised	–	–	–	11,429
Options exercised	–	72,595	27,857	255,730
	<u>153,091,705</u>	<u>105,727,719</u>	<u>137,848,057</u>	<u>105,477,784</u>
In the money options outstanding*	<u>560,365</u>	<u>549,282</u>	<u>770,104</u>	<u>–</u>
September 30	\$ <u>153,652,070</u>	\$ <u>106,277,001</u>	\$ <u>138,618,161</u>	\$ <u>105,477,784</u>
Basic and diluted income (loss) per share	\$ 0.06	\$ 0.02	\$ 0.05	\$ (0.02)

* In computing diluted per share amounts, all of the Company's outstanding options and warrants have been excluded as they are anti-dilutive for the nine months ended September 30, 2010.

d) Warrants

The following is a continuity of warrants:

	Warrants	Value	Weighted average exercise price
January 1, 2010	17,431,250	\$ 617,637	\$ 0.56
Issued	6,260,000	137,135	0.70
Expired	(2,000,000)	(13,670)	0.50
Exercised (Note 9(b) ii))	(20,000)	(137)	0.50
Issued	<u>2,000,000</u>	<u>123,362</u>	<u>0.50</u>
December 31, 2010	23,671,250	864,327	0.60
Issued (Note 9(b) vi))	1,200,000	132,022	0.50
Expired	<u>(2,650,000)</u>	<u>(41,915)</u>	<u>0.97</u>
September 30, 2011	<u>22,221,250</u>	\$ <u>954,434</u>	\$ <u>0.56</u>

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three and nine months ended September 30, 2011 and 2010
(unaudited)

10. Equity (continued)

d) Warrants (continued)

The following summarizes information about the warrants outstanding as at September 30, 2011, all of which are exercisable:

Exercise Price	Number of Warrants	Weighted average remaining contractual life (years)	Weighted average exercise price (\$)
\$ 0.50	15,961,250	0.41	0.50
\$ 0.70	6,260,000	0.62	0.70
	22,221,250	0.47	0.56

11. Change in non-cash working capital

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Trade and other receivables	\$ 410,234	\$ 24,317	\$ (77,928)	\$ 2,316,305
Other current assets	99,832	(253,978)	37,108	(281,560)
Trade and other payables	254,159	858,472	1,120,570	1,267,139
	\$ 764,225	\$ 628,811	\$ 1,079,750	\$ 3,301,884

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

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Operating	\$ (140,813)	\$ 71,242	\$ 15,688	\$ (45,338)
Financing	(174,963)	2,701	(82,169)	(303,556)
Investing E&E	573,750	(1,082,059)	1,176,729	303,141
Investing	506,251	1,636,927	(30,498)	3,347,637
	\$ 764,225	\$ 628,811	\$ 1,079,750	\$ 3,301,884

12. Financial instruments and financial risk management

The Company's financial instruments include cash and cash equivalents, short term investments, trade and other receivables, trade and other payables, commodity contract, and share capital. The carrying values of cash and cash equivalents, short term investments, trade and other receivable, and trade and other payables approximate their fair values due to their relatively short periods to maturity.

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three and nine months ended September 30, 2011 and 2010
(unaudited)

12. Financial instruments and financial risk management (continued)

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.

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 fair value of the investment in equity instruments comprised of common shares was considered to be level 1 as the shares are held in a publicly traded company and majority of the shares have been sold. The fair value of the investment in equity instruments comprised of warrants is considered to be level 1 as the warrants were disposed of subsequent to March 31, 2011.

On September 9, 2010, the Company completed the sale of its interests in Kenya to Africa Oil Corp. ("Africa Oil") in exchange for 2,500,000 common shares and 1,500,000 common share purchase warrants of Africa Oil with an exercise price of \$1.50 per warrant over a life of two years.

The fair value of the investment is as follows:

	September 30, 2011	December 31, 2010
Common shares		
Number of shares	3,100	2,500,000
Fair value	\$ 4,092	\$ 4,916,060
Warrants		
Fair value	\$ —	\$ 660,000
	<u>\$ 4,092</u>	<u>\$ 5,576,060</u>

As at September 30, 2011 and December 31, 2010, fair value is based on net proceeds received from common shares sold subsequent to the period. During the nine months ended September 30, 2011, 2,496,900 common shares were sold for net cash proceeds of \$5,570,015.

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.

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three and nine months ended September 30, 2011 and 2010
(unaudited)

12. Financial instruments and financial risk management (continued)

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. Cash and cash equivalents are available at any time and the investments are redeemable within a short period of time. The cash is held with a Schedule I bank and short term investments are primarily GICs 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 September 30, 2011, the maximum credit exposure is the carrying amount of the accounts receivable and accruals of \$389,113 (December 31, 2010 – \$311,185) plus cash and cash equivalents of \$31,362,513 (December 31, 2010 - \$4,652,658).

As at September 30, 2011, \$112,900 of the Company's receivables consisted of September 2011 revenue due from marketers, \$81,204 in GST, \$154,471 in an insurance claim, and the remaining \$40,538 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. 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 September 30, 2011, the largest amount owing from one joint venture partner was \$14,880 (December 31, 2010 - \$10,544).

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 considers its receivables to be aged as follows:

	September 30, 2011	December 31, 2010
Current	\$ 217,886	\$ 292,330
Past due by less than 90 days	12,051	18,455
Past due by more than 90 days	4,705	400
	<u>234,642</u>	<u>311,185</u>
Insurance claim	154,471	–
	<u>\$ 389,113</u>	<u>\$ 311,185</u>

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three and nine months ended September 30, 2011 and 2010
(unaudited)

12. Financial instruments and financial risk management (continued)

a) Credit risk (continued)

The Company recorded an allowance for doubtful accounts of \$908 for the nine months ended September 30, 2011 (December 31, 2010 - \$3,219). Based on review of the customer balances outstanding, no further allowance is deemed necessary. If the circumstances warrant it, an estimate would be made for a particular customer account if a trend of increasing collection period or filing for bankruptcy arose. The Company would only choose to write-off a receivable balance, as opposed to providing an allowance, after all reasonable avenues of collection has been exhausted.

b) Liquidity risk

Liquidity risk is the risk that the Company will incur difficulties meeting its 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 distressed conditions without incurring unacceptable losses or risking harm to the Company's reputation.

As the Company pursues additional opportunities, annual budgets will be prepared, regularly monitored and updated as considered necessary. The Company monitors its cash flow monthly. The Company's financial liabilities are comprised of trade and other payables and commodity contracts. Trade and other payables have an expected maturity of less than one year. The Company has working capital of \$28,623,465 as of September 30, 2011 (December 31, 2010 - \$8,565,328).

As the Company is in the exploration stage of its oil sands properties, the Company's working capital position may not provide it with sufficient capital resources to realize economically recoverable reserves. It is expected that further debt, capital transactions, joint-ventures and other financial partnerships will be used to continue development of the Company's properties and to meet future obligations. There can be no assurance that such financing will be available to the Company.

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 of future cash flows will fluctuate as a result of changes in foreign exchange rates. All of the Company's oil sales are denominated in Canadian dollars; however, the underlying market prices in Canada for petroleum are impacted by changes in the exchange rate between the Canadian and United States dollar. The Company has not entered into any forward exchange rate contracts as at September 30, 2011.

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three and nine months ended September 30, 2011 and 2010
(unaudited)

12. 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 of 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. The Company has not entered into any commodity contracts as at September 30, 2011.

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 was 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 three and nine months ended September 30, 2010, the Company realized losses of \$557 and \$19,874 respectively under the contract which has been included in petroleum and natural gas sales revenue.

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 three and nine months ended September 30, 2011, if interest rates had been 1% higher with all other variables held constant, the change in the loss for the period would have been insignificant (September 30, 2010 – \$5,885 and \$18,543 lower 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 September 30, 2011.

13. 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 oil sand 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 oil sand properties which are dependent on weather conditions. Lease and road preparation for 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.

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three and nine months ended September 30, 2011 and 2010
(unaudited)

13. Capital management (continued)

The Company considers its capital structure to include the following:

	September 30, 2011	December 31, 2010
Working capital	\$ 28,623,465	\$ 8,565,328
Equity	\$ 72,535,513	\$ 52,144,579

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.

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 cash flow from operating activities 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.

There has been no change in the Company's approach to capital management during the nine months ended September 30, 2011. The Company has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the foreseeable future.

14. Commitments

Pursuant to flow-through issuances in March 2011 and September 2011, the Company is required to incur \$10,000,000 and \$375,000 of qualifying expenditures by December 31, 2012. Approximately \$6.2 million of these expenditures was incurred by September 30, 2011.

15. Related party transactions

During the three and nine months ended September 30, 2011, the Company was charged \$35,438 and \$128,969 (September 30, 2010 – \$161,538 and \$315,846) in legal fees by legal firms in which an officer of the Company is a partner. These costs are included in general and administrative expense. Included in accounts payable at September 30, 2011 is \$85,668 (December 31, 2010 – \$162,368) due to the legal firm.

These transactions were conducted in the normal course of operations, on commercial terms established and agreed to by the parties. All outstanding balances are unsecured and are expected to be settled by cash payment within three months of the reporting date.

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three and nine months ended September 30, 2011 and 2010
(unaudited)

16. Reconciliation of Canadian GAAP to IFRS

The accounting policies as outlined in Note 3 in the interim financial statements for the three months ended March 31, 2011 have been applied in preparing the interim financial statements for the three and nine months ended September 30, 2011 and the comparative information for the three and nine months ended September 30, 2010.

In preparing the September 30, 2010 IFRS statement of financial position, the Company has adjusted amounts previously reported in financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has effected the Company's financial statements is set out in the following tables.

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three and nine months ended September 30, 2011 and 2010
(unaudited)

16. Reconciliation of Canadian GAAP to IFRS (continued)

Statement of Financial Position – September 30, 2010

	Canadian GAAP	Transition to IFRS	Note	IFRS
Assets				
Current assets:	\$	\$		\$
Cash and cash equivalents	1,584,173	–		1,584,173
Restricted cash	551,490	–		551,490
Investment in equity instruments	5,326,120	–		5,326,120
Trade and other receivables	738,560	–		738,560
Prepaid expenses	495,511	–		495,511
Commodity contract	5,330	–		5,330
	<u>8,701,184</u>	<u>–</u>		<u>8,701,184</u>
Non current assets:				
Reclamation deposit	703,915	–		703,915
Exploration and evaluation assets	–	42,743,603	a)	42,743,603
Property, plant and equipment	52,579,022	(46,019,479)	b)	6,559,543
Total assets	<u>\$ 61,984,121</u>	<u>\$ (3,275,876)</u>		<u>\$ 58,708,245</u>
Liabilities				
Current liabilities:	\$	\$		\$
Trade and other payables	2,832,750	–		2,832,750
Deferred tax liability	201,019	(201,019)		–
	<u>3,033,769</u>	<u>(201,019)</u>		<u>2,832,750</u>
Non current liabilities:				
Decommissioning obligations	1,206,643	798,099	e)	2,004,742
Share premium liability	–	96,847	d)	96,847
Deferred income tax	5,729,086	(1,035,382)	c)	4,693,704
Total liabilities	<u>9,969,498</u>	<u>(341,455)</u>		<u>9,628,043</u>
Equity				
Share capital	57,554,187	4,237,615	d)	61,791,802
Warrants	617,500	–		617,500
Contributed surplus	6,654,291	(34,470)	f)	6,619,821
Deficit	(12,811,355)	(7,137,566)	g)	(19,948,921)
	<u>52,014,623</u>	<u>(2,934,421)</u>		<u>49,080,202</u>
Total liabilities & equity	<u>\$ 61,984,121</u>	<u>\$ (3,275,876)</u>		<u>\$ 58,708,245</u>

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three and nine months ended September 30, 2011 and 2010
(unaudited)

16. Reconciliation of Canadian GAAP to IFRS (continued)

Statement of Operations – Three months ended September 30, 2010

	Canadian GAAP	Transition to IFRS	Note	IFRS
Revenue	\$ 501,367	\$ –		\$ 501,367
Royalties	(84,605)	–		(84,605)
	<u>416,762</u>	<u>–</u>		<u>416,762</u>
Unrealized gain on financial instruments	18,080	–		18,080
	434,842	–		434,842
Expenses				
Operating	245,791	–		245,791
General and administrative	1,088,212	–		1,088,212
Share based compensation	(7,548)	5,503	f)	(2,045)
Accretion	21,489	(21,489)	e)	–
Depletion and depreciation	468,959	(255,767)	b)	213,192
Unrealized foreign exchange	34,423	–		34,423
Unrealized gain on investment in equity instruments	(1,179,806)	–		(1,179,806)
Impairment on property and equipment	200,000	710,856	b)	910,856
	<u>871,520</u>	<u>439,103</u>		<u>1,310,623</u>
Finance income	4,606	–		4,606
Finance expense	2,865	16,302	e)	19,167
Net finance (income) expense	(1,741)	16,302		14,561
Sale of Kenya interests	4,146,314	–		4,146,314
Associated business development costs	410,201	–		410,201
	<u>3,736,113</u>	<u>–</u>		<u>3,736,113</u>
Income before income tax	3,301,176	(455,405)		2,845,771
Deferred tax (expense) reduction	(705,854)	33,326		(672,528)
Net income and comprehensive income for the period	<u>2,595,322</u>	<u>(422,079)</u>		<u>2,173,243</u>

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three and nine months ended September 30, 2011 and 2010
(unaudited)

16. Reconciliation of Canadian GAAP to IFRS (continued)

Statement of Operations – Nine months ended September 30, 2010

	Canadian GAAP	Transition to IFRS	Note	IFRS
Revenue	\$ 1,939,010	\$ –		\$ 1,939,010
Royalties	(368,404)	–		(368,404)
	<u>1,570,606</u>	<u>–</u>		<u>1,570,606</u>
Unrealized gain on financial instruments	128,017	–		128,017
	1,698,623	–		1,698,623
Expenses				
Operating	1,105,996	–		1,105,996
General and administrative	2,373,597	–		2,373,597
Share based compensation	404,159	15,649	f)	419,808
Accretion	67,069	(67,069)	e)	–
Depletion and depreciation	1,642,161	(840,385)	b)	801,776
Unrealized foreign exchange	(24,955)	–		(24,955)
Unrealized gain on investment in equity instruments	(1,179,806)	–		(1,179,806)
Impairment on property and equipment	200,000	3,450,723	b)	3,650,723
	<u>4,588,221</u>	<u>2,558,918</u>		<u>7,147,139</u>
Finance income	7,674	–		7,674
Finance expense	21,533	54,270	e)	75,803
Net finance expense	13,859	54,270		68,129
Sale of Kenya interests	4,146,314	–		4,146,314
Associated business development costs	592,427	–		592,427
	<u>3,553,887</u>	<u>–</u>		<u>3,553,887</u>
Income before income tax	650,430	(2,613,188)		(1,962,758)
Deferred tax (expense) reduction	(180,776)	29,952		(150,824)
Net income (loss) and comprehensive income (loss) for the period	<u>469,654</u>	<u>(2,583,236)</u>		<u>(2,113,582)</u>

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three and nine months ended September 30, 2011 and 2010
(unaudited)

16. Reconciliation of Canadian GAAP to IFRS (continued)

Notes:

a) Exploration and evaluation assets

The Company elected to adopt the cost model (Note 3) and to utilize the deemed cost exemption available under IFRS 1 *First-time Adoption of International Financial Reporting Standards*. As at September 30, 2010, the Company reclassified the following amounts from property and equipment to exploration and evaluation assets relating to the costs incurred on the oil sands properties and recognized IFRS adjustments directly to exploration and evaluation assets:

	Three months to September 30, 2010	Cumulative to September 30, 2010
Reclassified from property and equipment	962,795	42,811,020
Share based compensation capitalized	(32,247)	(68,568)
Decommissioning obligation	503	1,151
	\$ 931,051	\$ 42,743,603

Under Canadian GAAP, these licenses are presented in conjunction with property and equipment whereas IFRS 6 *Exploration for and Evaluation of Mineral Resources* requires that assets which do not meet the technical feasibility and commercial viability criteria be presented separately.

b) Property and equipment

Impairment

An impairment arose as IFRS requires that an impairment loss be recognized if the carrying value exceeds the recoverable amount for each cash generating unit identified. Recoverable amount is the higher of the fair value less costs to sell and value in use which is defined as the present value of the expected future cash flows. Under Canadian GAAP, the Company tested for impairment by comparing the carrying value of the cost center to the sum of the undiscounted cash flows of proved reserves. If the carrying amount was greater than the undiscounted cash flows under Canadian GAAP, the carrying amount of the asset was then compared to the sum of discounted cash flows at a risk free rate of proved plus probable reserves. The cost center would then be written down for the difference between the carrying value and discounted cash flows.

Depletion and depreciation

Under IFRS, the Company depletes property and equipment using unit of production at a component level based on proved and probable reserves. Canadian GAAP required that property and equipment be depleted in a full cost pool for each country using proved reserves. As a result of calculating depletion at a component level and electing to utilize proved and probable reserves, the Company recognized a reduction in depletion in the statement of operations.

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three and nine months ended September 30, 2011 and 2010
(unaudited)

16. Reconciliation of Canadian GAAP to IFRS (continued)

Notes:

b) Property and equipment (continued)

The following changes occurred in property and equipment as a result of the transition to IFRS:

	Three months to September 30, 2010	Cumulative to September 30, 2010
Reclassification to E&E	\$ (962,795)	\$ (42,811,020)
Impairment	(710,856)	(4,214,428)
Adjustment to depletion	255,767	840,385
Addition for decommissioning obligation	73,285	160,870
Capitalized share based compensation	957	4,714
	<u>\$ (1,343,642)</u>	<u>\$ (46,019,479)</u>

c) Deferred income tax liability

Under previous GAAP, the deferred tax liability associated with the renouncement of tax deductions from the issuance of flow-through shares was recorded as a reduction in share capital at the time of renouncement. Under IFRS, the difference between the deferred tax liability associated with the renouncement of the tax deductions and the premium price received on the issuance of flow-through shares over the market value of the Company's common shares at the time of issue is recorded as a deferred tax expense as the expenditures are incurred. This deferred tax expense effectively represents the net loss on the distribution of the tax deductions to investors. As a result of the transition to IFRS, the following changes were recognized in deferred tax:

	Three months to September 30, 2010	Cumulative to September 30, 2010
Adjustment upon transition	\$ -	\$ (353,145)
Liability for expenditures incurred on flow-through issuances	70,767	1,219,618
Reverse renouncement of tax benefits recorded under Canadian GAAP	-	(1,437,525)
Adjustment for deferred tax expense	(72,641)	(595,427)
Reverse tax expense in regards to share based compensation	(47,658)	(69,922)
Reclassify tax liability from short to long term	201,019	201,019
	<u>\$ 151,487</u>	<u>\$ (1,035,382)</u>

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three and nine months ended September 30, 2011 and 2010
(unaudited)

16. Reconciliation of Canadian GAAP to IFRS (continued)

Notes:

d) Share premium liability

Under Canadian GAAP, the Company recorded the deferred tax associated with flow through shares upon renouncement with the offset recorded to share capital. Under IFRS, the Company is required to record a share premium liability upon issuance and adjust this liability as flow through expenditures are incurred with the difference being recorded in deferred tax.

	Share premium liability	Share capital
January 1, 2010	\$ 549,227	\$ 2,800,090
Adjustment for qualifying expenditures incurred to date	(452,380)	–
To reverse renouncement under Canadian GAAP	–	1,437,525
September 30, 2010	<u>\$ 96,847</u>	<u>\$ 4,237,615</u>

For further information on changes in the deficit and deferred tax as the result of transactions associated to share premium liability, see c) and g) respectively.

e) Decommissioning obligations

The Company calculated decommissioning obligation using the risk free rate per IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Under Canadian GAAP, the discount rate utilized for decommissioning rate is a credit adjusted risk free rate. Under IFRS, it is required to review and re-measure the obligation each reporting period for a change in estimate including discount rates. Using risk free interest rates between 3 and 4%, the Company recognized an increase in the decommissioning obligations for the following:

	Three months to September 30, 2010	Cumulative to September 30, 2010
Adjustment upon transition	\$ –	\$ 648,877
Change in estimate due to discount rate	73,788	162,021
Change in accretion	(5,187)	(12,799)
	<u>\$ 68,601</u>	<u>\$ 798,099</u>

Accretion has been reclassified to interest expense.

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three and nine months ended September 30, 2011 and 2010
(unaudited)

16. Reconciliation of Canadian GAAP to IFRS (continued)

Notes:

f) Contributed surplus

Under Canadian GAAP, the Company recognized one-third of its share based compensation immediately and the remaining two-thirds equally over a two year period. Under IFRS, the Company is required to calculate share based compensation at a tranche level utilizing graded vesting and a forfeiture rate. The following adjustments were recorded to share based compensation during 2010:

	Three months to September 30, 2010	Cumulative to September 30, 2010
Adjustment upon transition	\$ –	\$ (56,187)
Reverse spiral tax capitalized to property and equipment as share based compensation	47,658	69,922
Share based compensation expense	5,503	15,649
Share based compensation capitalized – exploration and evaluation assets	(32,247)	(68,568)
Share based compensation capitalized – property and equipment	957	4,714
	<u>\$ 21,871</u>	<u>\$ (34,470)</u>

g) Accumulated deficit

The following adjustments were recognized in accumulated deficit upon transition to IFRS:

	Three months to September 30, 2010	Nine months to September 30, 2010
Property and equipment – impairment (b)	\$ (710,856)	\$ (4,214,428)
Property and equipment – depletion (b)	255,767	840,385
Decommissioning obligations – change in estimate (e)	–	(648,877)
Decommissioning obligations – change in accretion (e)	5,187	12,799
Flow through shares (d)	–	(3,551,080)
Deferred tax (c)	33,326	383,097
Share based compensation/Contributed surplus (f)	(5,503)	40,538
	<u>\$ (422,079)</u>	<u>\$ (7,137,566)</u>