

Alberta Oilsands Inc.

CONDENSED INTERIM FINANCIAL STATEMENTS

MARCH 31, 2011

Alberta Oilsands Inc.

Condensed Interim Statements of Financial Position

(unaudited)

	March 31, 2011	December 31, 2010	January 1, 2010
Assets			
Current assets:	\$	\$	\$
Cash and cash equivalents (Note 6)	12,816,757	4,652,658	6,880,447
Short term investments	–	–	1,051,381
Investment in equity instruments (Note 14)	1,689,835	5,576,060	–
Trade and other receivables	770,690	311,185	3,087,665
Other current assets	423,105	403,804	213,951
	<u>15,700,387</u>	<u>10,943,707</u>	<u>11,233,444</u>
Non current assets:			
Reclamation deposit	912,908	910,380	249,262
Exploration and evaluation assets (Note 8)	58,063,778	46,301,696	38,419,578
Property and equipment (Note 9)	3,790,707	4,015,694	8,434,415
Total assets	<u>\$ 78,467,780</u>	<u>\$ 62,171,477</u>	<u>\$ 58,336,699</u>
Liabilities			
Current liabilities:	\$	\$	\$
Trade and other payables	10,376,285	2,378,379	1,565,611
Commodity contract	–	–	6,687
	<u>10,376,285</u>	<u>2,378,379</u>	<u>1,572,298</u>
Non current liabilities:			
Decommissioning obligations (Note 10)	1,837,941	1,869,889	1,692,843
Share premium liability	1,220,549	1,413,612	549,227
Deferred income tax	5,545,240	4,365,018	4,091,813
Total liabilities	<u>18,980,015</u>	<u>10,026,898</u>	<u>7,906,181</u>
Equity			
Share capital (Note 11)	74,304,223	66,333,684	61,556,565
Warrants (Note 12)	996,349	864,327	617,637
Contributed surplus	7,129,471	6,754,536	6,091,655
Deficit	<u>(22,942,278)</u>	<u>(21,807,968)</u>	<u>(17,835,339)</u>
Total equity	<u>59,487,765</u>	<u>52,144,579</u>	<u>50,430,518</u>
Total liabilities & equity	<u>\$ 78,467,780</u>	<u>\$ 62,171,477</u>	<u>\$ 58,336,699</u>
Subsequent events (Notes 14 and 19)			
Commitments (Note 16)			

See accompanying notes to the interim financial statements

Alberta Oilsands Inc.

Condensed Interim Statements of Operations and Comprehensive Loss

For the three months ended March 31, 2011 and 2010
(unaudited)

	2011	2010
Revenue	\$ 454,540	\$ 815,543
Royalties	(70,001)	(195,137)
	<u>384,539</u>	<u>620,406</u>
Unrealized gain on commodity contract	–	41,810
	<u>384,539</u>	<u>662,216</u>
Expenses		
Operating	409,949	490,965
General and administrative	595,495	485,759
Share-based compensation	275,240	359,254
Business development	–	70,188
Depletion and depreciation	121,251	341,988
Impairment on property and equipment (Note 9)	69,024	2,525,664
	<u>1,470,959</u>	<u>4,273,818</u>
Finance income	8,875	1,494
Finance expenses	167,463	30,990
Net finance expense (Note 7)	<u>158,588</u>	<u>29,496</u>
Loss before income tax	(1,245,008)	(3,641,098)
Deferred tax reduction	110,698	277,153
Net loss and comprehensive loss for the period	<u>\$ (1,134,310)</u>	<u>\$ (3,363,945)</u>
Net loss per share		
Basic and diluted	\$ (0.01)	\$ (0.03)
Weighted average number of shares (Note 11)		
Basic and diluted	121,151,013	105,210,625

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 loss for the period		-	-	-	(1,134,310)	(1,134,310)
Share based compensation expense		-	-	275,240	-	275,240
Share based compensation capitalized				104,137		104,137
Options exercised	35,000	8,992		(4,442)		4,550
Shares issued, net of costs	20,000,000	9,393,569	-	-	-	9,393,569
Share premium		(1,300,000)				(1,300,000)
Warrants issued		(132,022)	132,022			-
At March 31, 2011	<u>138,950,457</u>	<u>\$ 74,304,223</u>	<u>\$ 996,349</u>	<u>\$ 7,129,471</u>	<u>\$ (22,942,278)</u>	<u>\$ 59,487,765</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	-	-	-	-	(3,363,945)	(3,363,945)
Share based compensation expense	-	-	-	359,254	-	359,254
Share based compensation capitalized				37,218		37,218
Share issue costs		(3,937)	-	-	-	(3,937)
At March 31, 2010	<u>105,210,625</u>	<u>\$ 61,552,628</u>	<u>\$ 617,637</u>	<u>\$ 6,488,127</u>	<u>\$ (21,199,284)</u>	<u>\$ 47,459,108</u>

See accompanying notes to the interim financial statements

Alberta Oilsands Inc.
Condensed Interim Statements of Cash Flows
For the three months ended March 31, 2011 and 2010
(unaudited)

	2011	2010
Operating activities		
Net loss for the period	\$ (1,134,310)	\$ (3,363,945)
Non-cash items:		
Share based compensation	275,240	359,254
Depletion and depreciation	121,251	341,988
Interest expense	14,627	20,882
Deferred tax reduction	(110,698)	(277,153)
Unrealized gain on commodity contract	–	16,190
Impairment loss on property and equipment	69,024	2,525,664
	(764,866)	(377,120)
Change in non-cash working capital (Note 13)	(60,536)	(166,931)
	(825,402)	(544,051)
Investing activities		
Purchase of short term investments	–	(632)
Proceeds on disposal of investment in equity	3,886,225	–
Expenditures on property and equipment	(11,486)	(1,889,122)
Expenditures on exploration and evaluation	(11,658,322)	(2,528,848)
Reclamation deposit	(2,528)	(360,345)
Change in non-cash working capital - property and equipment (Note 13)	(580,189)	3,015,147
Change in non-cash working capital - exploration and evaluation assets (Note 13)	8,070,160	817,734
	(296,140)	(946,066)
Financing activities		
Issuance of share capital, net of issue costs	9,191,426	17,550
Proceeds from exercise of options	4,550	–
Change in non-cash working capital (Note 13)	89,665	(315,769)
	9,285,641	(298,219)
Increase (decrease) in cash and cash equivalents	8,164,099	(1,788,336)
Cash and cash equivalents, beginning of period	4,652,658	6,880,447
Cash and cash equivalents, end of period	\$ 12,816,757	\$ 5,092,111
Cash interest paid	\$ 22,777	\$ 73,631

See accompanying notes to the interim financial statements

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three months ended March 31, 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; therefore, these are the Company's first IFRS condensed interim financial statements. They 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. The Company has consistently applied IFRS for the statement of financial position as at January 1, 2010 and for all other periods presented. Reconciliations and the effect of the transition from Canadian GAAP to IFRS are disclosed in Note 18.

These interim financial statements were prepared based on IFRS issued and in effect on June 28, 2011, the date at which the Board of Directors approved the statements. It is possible that IFRS will continue to evolve resulting in restatements in subsequent 2010 quarters and the year ending December 31, 2010.

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 5.

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 months ended March 31, 2011 and 2010
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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 on going 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 14, 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 accounting policies set out below have been applied consistently to all periods presented in these interim financial statements:

a) Cash and cash equivalents

Cash and cash equivalents consist of cash in the bank and short term highly liquid investments with original maturities of three months or less.

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three months ended March 31, 2011 and 2010
(unaudited)

3. Significant accounting policies (continued)

b) Short term investments

Short term investments include highly liquid investments with maturities greater than three months.

c) Other current assets

Other current assets include prepaid annual fees, which are based on the invoiced amount and amortized over the term of the related payment, and deposits.

d) Exploration and evaluation assets

Recognition:

Pre-license costs are recognized in the statement of operations and comprehensive loss as incurred. Costs incurred for the exploration and evaluation of mineral resources after the Company has obtained the legal rights to explore a specific area and before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable are considered to be exploration and evaluation assets. Exploration and evaluation assets are measured at cost. Costs include acquisition of the rights to explore, geological & geophysical studies, exploratory drilling and completion, and activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource. Subsequent to initial measurement, exploration and evaluation assets are measured at cost less any accumulated impairment losses. Exploration and evaluation assets are transferred to development and production assets upon determination of reserves.

Impairment:

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. When indicators of impairment are present, the Company will measure any resulting impairment loss on an asset by asset basis. Exploration and evaluation assets must also be tested for impairment once technical feasibility and commercial viability can be demonstrated before reclassification to property and equipment.

e) Property and equipment

Recognition and measurement:

Property and equipment are initially measured at cost. Subsequent to initial measurement, property and equipment are stated at cost less accumulated depletion & depreciation and accumulated impairment losses. Costs include expenditures incurred for acquisition of land, drilling completing and equipping wells, geological and geophysical studies, and anticipated reclamation and abandonment.

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three months ended March 31, 2011 and 2010
(unaudited)

3. Significant accounting policies (continued)

e) Property and equipment (continued)

Costs relating to major inspections, overhauls and workovers are included in the assets carrying amount if the costs incurred will result in economic benefit flowing to the Company over an extended period of time. If an asset is replaced, the original asset would be derecognized. Once commercial viability and technical feasibility are confirmed, costs are reclassified from exploration and evaluation assets to a cash generating unit ("CGU") in property and equipment after an impairment test on the exploration and evaluation assets is performed. A CGU is defined as the smallest group of assets that generates cash inflows from continuing use that largely are independent of the cash inflows of other assets or groups thereof. Components are defined as a part of an item of property and equipment with a cost that is significant in relation to the total cost of the item and would be depleted or depreciated separately. All other repairs and maintenance costs are expensed as incurred.

Gains and losses on disposal of an item of property and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized as separate line items in the statement of operations.

Depletion and depreciation:

The carrying amounts of property and equipment, including initial and any subsequent capital expenditure, will be depleted for each component using the unit of production method based on the ratio of production in the quarter to the related estimated proved and probable reserves of oil and natural gas before royalties as determined by independent petroleum engineers. Future development costs and decommissioning costs necessary to bring these reserves into production are included in the depletion calculation. For purposes of the depletion calculation, natural gas reserves and production are converted to equivalent volumes of crude oil based on relative energy content of six thousand cubic feet to one barrel of oil. Depletion and depreciation commences on the date that the asset is available for use. Office furniture and equipment are recorded at cost and are depreciated on the declining balance basis using rates varying from 20% to 30%. Estimates of residual values and useful lives are assessed annually and any change in estimate is taken into account in the determination of depletion and depreciation.

Proved and probable reserves are estimated in independent reserves evaluation reports which present the estimated quantities of crude oil, natural gas and natural gas liquids demonstrated with specific degrees of certainty to be recoverable from known reservoirs which are considered commercially producible. Proved reserves are considered to have a 90 percent probability that the actual quantity of recoverable reserves will be more than the amount estimated and a 10 percent probability that it will be less. Probable reserves carry a 50 percent probability that the actual recoverable reserves will exceed the estimated recoverable reserves, and a 50 percent probability of being less than the estimate.

Reserves may be considered commercially producible if management has the intent of developing and producing them, and that intent is based on reasonable assessment of economics of such production, a reasonable expectation of markets for the production, and evidence that the required production, transmission and transportation facilities will be available.

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three months ended March 31, 2011 and 2010
(unaudited)

3. Significant accounting policies (continued)

e) Property and equipment (continued)

Reserves may only be deemed proved and probable based on actual production or a conclusive formation test. The area of the reservoir considered proved includes the portion delineated by drilling and the immediately adjoining portions not yet drilled, but reasonably judged as economically productive on the basis of available data.

Impairment:

At each reporting date, the Company assesses whether there are any events or changes in circumstances that would indicate that an asset may be impaired. Where an indicator of impairment exists, the Company prepares a formal estimate of the cash generating unit's recoverable amount. The recoverable amount of a cash generating unit is the greater of its value in use and its fair value less costs to sell.

Value in use is generally determined by reference to the present value of the future cash flows expected to be generated from production of proved and probable reserves. The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.

Fair value less cost to sell is determined as the amount that would be obtained from the sale of a cash generating unit in an arm's length transaction between knowledgeable and willing parties. For oil and natural gas assets, fair value less cost to sell is generally the net present value of the estimated future cash flows expected to arise from continued use of the cash generating unit, including future expansion and disposal, discounted by an appropriate discount rate which a market participant would apply to arrive at a net present value of the cash generating unit.

An impairment loss is recognized in profit or loss if the carrying amount of an asset exceeds its estimated recoverable amount.

Impairment losses from prior years are assessed at each reporting date for indications that the loss has decreased or ceased to exist. If a change in the estimates used to determine the recoverable amount so indicate, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount which would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

f) Jointly controlled operations and jointly controlled assets

Many of the Company's activities involve jointly controlled assets. The financial statements include the Company's share of these jointly controlled assets and the proportionate share of relevant revenue and expenses.

g) Borrowing costs

Borrowing costs, which are directly attributable to the purchase and construction of an asset, are included in the cost of the asset. Other borrowing costs are recognized in interest expense in the period incurred.

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three months ended March 31, 2011 and 2010
(unaudited)

3. Significant accounting policies (continued)

h) Financial instruments

The Company would recognize a financial asset or a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument.

Non-derivative financial instruments

Non-derivative financial instruments comprise cash and cash equivalents, short term investments, investment in equity instruments, trade and other receivables, trade and other payables, commodity contracts and share capital.

The Company would measure these non-derivative financial instruments as follows:

- i) Financial assets and liabilities at fair value through profit or loss – These instruments are acquired primarily for the purpose of selling or repurchasing in the near term and are recorded at fair value both upon initial recognition and subsequent measurement. Transaction costs associated to the acquisition are expensed. Changes in fair value are recognized in the statement of operations. The instruments in this category held by the Company are short term investments, commodity contract, and investment in equity instruments.
- ii) Held to maturity investment – These instruments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Company would have the positive intention and ability to hold to maturity. Upon initial recognition, this instrument would be recognized at fair value plus any transaction costs that are directly attributed to the acquisition. Subsequently, these instruments are measured at amortized cost using the effective interest method. The Company doesn't hold any instruments in this category.
- iii) Available for sale investments – These instruments are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss and are initially recognized at fair value plus transaction costs. These instruments are subsequently measured at fair value with the changes in fair value being recognized in other comprehensive income. The Company doesn't hold any instruments in this category.
- iv) Loans and receivables – These instruments are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recorded at fair value. Subsequently, these instruments are measured at amortized cost using the effective interest rate method less any estimate for impairment. The instruments held by the Company in this category are cash and cash equivalents and trade and other receivables.
- v) Financial liabilities at amortized cost – These instruments are recognized initially at fair value and are subsequently measured at amortized cost using the effective interest method. The instruments held by the Company in this category are trade and other payables.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three months ended March 31, 2011 and 2010
(unaudited)

3. Significant accounting policies (continued)

h) Financial instruments (continued)

Warrants

Upon issuance, the substance of the contractual arrangement for the warrant is reviewed to determine whether the warrant is an equity instrument or a financial liability. If the terms of the warrant include:

- i. No contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the issuer; and
- ii. If the warrant may be settled with the Company's own equity instruments, it is a non-derivative that includes no contractual obligation for the Company to deliver a variable number of its own equity instruments or a derivative that will be settled only by the Company exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments. Warrants to acquire a fixed number of the Company's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.

Impairment

Financial assets

Financial assets are assessed for indicators of impairment at each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. Impairment losses are recognized in statement of operations. An impairment loss of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. All impairment losses are recognized in the statement of operations. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in profit or loss.

i) Share based payments

The Company issued equity-settled share-based payments to employees and other individuals which are subject to service conditions. The fair value of equity-settled share-based payments is measured at the date of grant using the Black Scholes option pricing model and expense is recognized in the statement of operations over the period during which service conditions are required to be met or immediately where no performance or service criteria exist. Inputs include share price on date of grant, exercise price, expected volatility which is estimated based on historical price trends, dividends, estimated forfeiture rate which is based on historical staff turnover, and risk free interest rate. The amount recognized as an expense is adjusted to reflect the actual number of options that vest.

Alberta Oilsands Inc.

Notes to Interim Financial Statements

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3. Significant accounting policies (continued)

j) Provisions

A provision is recognized in the statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount can be reliably estimated. The amount recognized as a provision would be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If the effect is material, provisions are determined by discounting the expected future cash flows at an appropriate pre-tax discount rate. Future operating costs are not provided for. A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

k) Decommissioning obligations

Liabilities for decommissioning and restoration based on both constructive and legal obligations are initially measured at the present value of management's best estimate of cash outflows required to settle the present obligation at the balance sheet date. Such costs are capitalized as part of the cost of property and equipment and amortized to expense through finance expense over the life of the asset.

The change in the liability due to the passage of time is recognized as an increase in finance costs in the statement of operations and in the carrying value of the obligation. A change resulting from revisions to either the timing or the amount of the original estimate of cash flows is recognized as an increase or decrease in the carrying amount of the obligation, with an offsetting increase or decrease in the carrying amount of the associated asset. Actual costs incurred upon settlement of the obligation are charged against the provision to the extent the provision was established.

l) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current income tax is the expected tax payable on the taxable income for the period using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is recognized using the balance sheet method providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred income tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three months ended March 31, 2011 and 2010
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3. Significant accounting policies (continued)

l) Income tax (continued)

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

m) Flow through shares

The Company issues common shares and flow through common shares. Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects. Flow-through common shares are classified as equity. At the time of issuance, the price of the flow through share is compared to the price of common shares at the date of announcement. This difference is recorded as a share premium liability until renouncement. Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. Upon spending of the associated flow through expenditures, the share premium liability is eliminated and the impact on share capital and deferred tax is recorded. The difference between the share premium liability and the deferred income tax liability is recorded as deferred income tax expense.

n) Revenue

Petroleum and natural gas revenue are recognized as revenue when the significant risks and rewards of ownership of the product are transferred to the buyer, which is usually when commodities are delivered and title passes to the purchaser.

p) Finance income and expenses

Finance expense is comprised of interest expense on flow through shares, accretion of the discount on decommissioning obligation, and other miscellaneous interest expense.

Interest income is recognized as it accrues in profit or loss using the effective interest method.

q) Consolidation

The interim financial statements comprise the financial statements of Alberta Oilsands and its subsidiaries as described in Note 1 for the three months ended March 31, 2010. The financial statements of the subsidiaries are prepared for the same reporting period using consistent accounting policies. All intercompany balances and transactions, including unrealized profits arising from intragroup transactions, have been eliminated in full for the three months ended March 31, 2010.

r) Earnings per share

Basic earnings per share represent net loss for the period divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share represents net loss divided by the weighted average number of common shares outstanding during the period plus the weighted average number of dilutive shares resulting from options and warrants where the inclusion of these would not be anti-dilutive.

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4. Future accounting standards

IFRS 9 *Financial Instruments* was issued in November 2009 and addresses the classification and measurement of financial assets. This new standard reduces the number of categories and measurement options for financial assets. This new standard also amends the measurement of equity instruments whereas these instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. This standard must be applied for years beginning January 1, 2013. The Company has not yet reviewed the impact of this standard.

IFRS 10 *Consolidated Financial Statements* was issued in May 2011. IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 (2008). This standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

IFRS 11 *Joint Arrangements* was issued in May 2011. Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. IFRS 11 essentially carves out of previous jointly controlled entities, those arrangements which although structured through a separate vehicle, such separation is ineffective and the parties to the arrangement have rights to the assets and obligations for the liabilities and are accounted for as joint operations in a fashion consistent with jointly controlled assets/operations under IAS 31. In addition, under IFRS 11 joint ventures are stripped of the free choice of equity accounting or proportionate consolidation; these entities must now use the equity method. Upon application of IFRS 11, entities which had previously accounted for joint ventures using proportionate consolidation shall collapse the proportionately consolidated net asset value (including any allocation of goodwill) into a single investment balance at the beginning of the earliest period presented. The investment's opening balance is tested for impairment in accordance with IAS 28 (2011) and IAS 36 *Impairment of Assets*. Any impairment losses are recognized as an adjustment to opening retained earnings at the beginning of the earliest period presented. This standard is effective for annual periods beginning on or after January 1, 2013.

IFRS 12 *Disclosure of Interests in Other Entities* was issued in May 2011. IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The required disclosures aim to provide information in order to enable users to evaluate the nature of, and the risks associated with, an entity's interest in other entities, and the effects of those interests on the entity's financial position, financial performance and cash flows. This standard is effective for annual periods beginning on or after January 1, 2013.

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4. Future accounting standards (continued)

IFRS 13 Fair Value Measurement was issued in May 2011. IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income. This standard is effective for annual periods beginning on or after January 1, 2013.

The Company intends to adopt the new standards prospectively in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of IFRS 13 has not yet been determined.

5. 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 March 31, 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.

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6. Cash and cash equivalents

	March 31, 2011	December 31, 2010	January 1, 2010
Cash	\$ 10,926,622	\$ 4,600,137	\$ 5,377,694
Cash equivalents	1,890,135	52,521	1,502,753
	<u>\$ 12,816,757</u>	<u>\$ 4,652,658</u>	<u>\$ 6,880,447</u>

7. Finance income and expenses

	March 31, 2011	March 31, 2010
Income:	\$	\$
Interest income on cash and short term investments	4,638	1,494
Other	4,237	-
Expenses:		
Interest on flow through shares	2,086	9,687
Advisory fee on potential financing	150,495	-
Accretion on decommissioning obligations	14,627	20,882
Other	255	421
Net finance expense	<u>\$ 158,588</u>	<u>\$ 29,496</u>

8. 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:

	March 31, 2011			
	Clearwater	Hangingstone	Other	Total
<u>Cost</u>				
January 1, 2011	\$ 28,943,110	15,901,941	1,456,645	46,301,696
Additions	11,528,167	1,553	789	11,530,509
General & administrative costs	127,813			127,813
Share based compensation	104,137			104,137
Change in estimate of decommissioning obligations	(377)			(377)
March 31, 2011	<u>\$ 40,702,850</u>	<u>15,903,494</u>	<u>1,457,434</u>	<u>58,063,778</u>

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8. Exploration and evaluation assets (continued)

	December 31, 2010			Total
	Clearwater	Hangingstone	Other	
<u>Cost</u>				
January 1, 2010	\$ 22,401,092	14,626,870	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	15,901,941	1,456,645	46,301,696

As at March 31, 2011, the Company completed an impairment review on its exploration and evaluation assets and determined that there were no impairment triggers.

9. Property and equipment

	March 31, 2011		
	Oil and natural gas assets	Other	Total
<u>Cost</u>			
January 1, 2011	\$ 10,929,465	87,986	11,017,451
Additions	3,687	7,799	11,486
Change in estimate of decommissioning obligations	(46,198)	–	(46,198)
March 31, 2011	10,886,954	95,785	10,982,739
<u>Accumulated depletion and depreciation</u>			
January 1, 2011	(6,976,654)	(25,103)	(7,001,757)
Depletion & depreciation	(115,418)	(5,833)	(121,251)
Impairment loss	(69,024)	–	(69,024)
March 31, 2011	(7,161,096)	(30,936)	(7,192,032)
	\$ 3,725,858	64,849	3,790,707

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9. 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)
	<u>\$ 3,952,811</u>	<u>62,883</u>	<u>4,015,694</u>

As at March 31, 2011, the Company completed an impairment review on its property and equipment and determined that there was an impairment of \$69,024 (For the year ended December 31, 2010 - \$5,883,743 and for the three months ended March 31, 2010 - \$2,525,664). 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 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 cashflows over the remaining reserves using a discount rate of 10% to 15%.

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10. 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:

	March 31, 2011	December 31, 2010
Balance, beginning of period	\$ 1,869,889	\$ 1,692,843
Additions	–	75,000
Current provision in finance expense	14,627	69,132
Change in estimate	(46,575)	105,462
Disposal	–	(72,548)
Balance, end of period	<u>\$ 1,837,941</u>	<u>\$ 1,869,889</u>

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

	March 31, 2011	December 31, 2010	January 1, 2010
Undiscounted cash flows	\$ 2,870,568	2,870,568	2,938,846
Risk free rate	3.70%	3.48%	4.09%
Inflation rate	2%	2%	2%
Weighted average expected timing of cash flows	8.75 years	9 years	10 years

11. Equity

a) Issued

Common Shares

	Number	Amount
January 1, 2010	105,210,625	\$ 61,556,565
Exercise of stock options (i)	694,832	234,175
Exercise of warrants (ii)	20,000	10,137
Issue of flow through shares (iii)	12,520,000	6,122,865
Issue of flow through shares (iv)	470,000	300,800
Share issue costs (net of tax of \$105,987)	–	(317,958)
Adjustment for share premium (v)	–	(1,572,900)
December 31, 2010	118,915,457	\$ 66,333,684
Issue of flow through shares (vi)	20,000,000	10,000,000
Share issue costs (net of tax of \$202,143)	–	(738,453)
Exercise of stock options (vii)	35,000	8,992
Adjustment for share premium (viii)	–	(1,300,000)
March 31, 2011	<u>138,950,457</u>	<u>\$ 74,304,223</u>

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11. Equity (continued)

b) Issued

- (i) During the year ended December 31, 2010, the Company issued 694,832 common shares on the exercise of 694,832 stock options at exercise prices ranging from \$0.13 to \$0.40 per common share for cash proceeds of \$124,162. In addition to the cash proceeds a pro-rata allocation of the options' fair value in the amount of \$110,013 was reclassified from contributed surplus to share capital.
- (ii) During the year ended December 31, 2010, the Company issued 20,000 common shares on the exercise of 20,000 warrants at an exercise price of \$0.50 per common share for cash proceeds of \$10,000. In addition to the cash proceeds a pro-rata allocation of the warrant fair value in the amount of \$137 was reclassified from warrants to share capital.
- (iii) In November 2010, the Company issued 12,520,000 units at \$0.50 per unit for cash proceeds of \$6,260,000. Each unit is comprised of one common share issued on a flow through basis and one half of a share purchase warrant. Each whole warrant entitles the holder to purchase one common share at an exercise price of \$0.70 per common share up until November 2012. The fair value of the warrants was estimated to be \$137,135 (Note 12). The value of this unit issuance, net of the warrants, is \$6,122,865 which has been allocated to share capital. Share issue costs of \$405,897 were incurred for this prospectus. Directors and officers subscribed for 60,000 flow-through common shares. The Company has incurred the required qualifying expenditures of \$6,260,000.
- iv) On December 29, 2010, the Company issued 470,000 flow through common shares for \$0.64 per share for cash proceeds of \$300,800. Share issue costs of \$18,048 were incurred for this prospectus. The Company has incurred the required qualifying expenditures of \$300,800.
- v) For the year ended December 31, 2010, \$1,572,900 was recognized as a reduction in share capital for the share premium which represents the difference between the price assigned to the flow through share and the share price inherent in the market with adjustments for flow through expenditures incurred to date.
- vi) In March 2011, the Company issued 20,000,000 flow through shares at \$0.50 per unit 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 12). The value of this issuance, net of the warrants of \$132,022 and share issue costs of \$808,573, is \$9,261,548 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 \$600,000 has been incurred to March 31, 2011.
- vii) During the three months ended March 31, 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.
- viii) For the three months ended March 31, 2011, share capital was reduced by \$1,300,000 for the share premium which represents the difference between the price assigned to the flow through share and the share price inherent in the market.

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11. Equity (continued)

c) 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 initial total fair value of the options granted during the three months ended March 31, 2011 was estimated to be \$827,388 (March 31, 2010 - \$803,093). The fair value of 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. The following assumptions were utilized: risk free interest rate of 2.65% (March 31, 2010 – 2.21%); volatility of 101% (March 31, 2010 – 107%); exercise price of \$0.40 for both March 31, 2011 and 2010, share price of \$0.37 (March 31, 2010 - \$0.375), vesting over two years with one third vesting immediately and the remaining two thirds vesting on the two following anniversary dates, option life of 5 years, and forfeiture rate of 10%. Volatility is based on the historical price changes over a term comparable to the remaining life of the option.

	March 31, 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	3,331,000	0.40	3,880,000	0.39
Exercised	(35,000)	0.13	(694,832)	0.18
Expired	–	–	(229,000)	0.31
Forfeited	(33,333)	(0.40)	(1,631,001)	0.46
End of period	10,114,990	\$ 0.44	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	2.73	\$ 0.13	1,294,667	\$ 0.13
\$ 0.14 – \$ 0.37	1,631,000	2.46	0.34	1,089,000	0.34
\$ 0.38 – \$ 0.61	6,419,667	4.27	0.42	3,353,167	0.42
\$ 0.62 – \$ 1.47	517,656	1.75	1.04	517,656	1.04
\$ 1.48 – \$ 2.21	252,000	1.26	2.09	252,000	2.09
	10,114,990	3.58	\$ 0.44	6,506,490	\$ 0.46

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11. Equity (continued)

d) Earnings per share

	March 31, 2011	March 31, 2010
Net loss	\$ (1,134,310)	\$ (3,363,945)
Weighted average common shares outstanding		
January 1	118,915,457	105,210,625
Shares issued (note 11 b)	2,222,222	–
Options exercised	13,334	–
March 31	121,151,013	105,210,625
Basic and diluted loss per share	\$ (0.01)	\$ (0.03)

In computing diluted per share amounts, all of the Company's outstanding options and warrants have been excluded as they are anti-dilutive.

12. 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 (i)	6,260,000	137,135	0.70
Expired (ii)	(2,000,000)	(13,670)	0.50
Exercised (iii)	(20,000)	(137)	0.50
Issued (ii)	2,000,000	123,362	0.50
December 31, 2010	23,671,250	864,327	0.60
Issued (Note 11(b) vi))	1,200,000	132,022	0.50
March 31, 2011	24,871,250	\$ 996,349	\$ 0.59

- i) On November 19, and 30, 2010, the Company issued 1,250,000 and 5,010,000 warrants respectively as part of the unit issuance (Note 15(b)(iii)) with an exercise price of \$0.70 and a term of 18 months. These units were determined to be an equity instrument. The Black-Scholes pricing model was used to estimate the fair value of the warrants granted using a forfeiture rate of nil, a dividend yield of nil, interest rate of 1.60% and 1.61% respectively, volatility of 50% and an expected life of approximately 1.5 years resulting in a fair value of \$90,736 and \$46,399 respectively recorded in share issue costs.

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12. Warrants (continued)

- ii) On July 8, 2009, the Company granted 4,000,000 common share purchase warrants to the Fort McMurray Airport Authority. Each whole warrant entitles the holder to acquire one common share of the Company for the following periods: 2,000,000 warrants were 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 was 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 was capitalized to the oil sands properties in the year ended December 31, 2009. The warrants which expired in July 2010 were reissued on November 8, 2010 with an exercise price of \$0.50 and a term of two years. The Black-Scholes pricing model was used to estimate the fair value of the warrants granted using a forfeiture rate of nil, a dividend yield of nil, interest rate of 1.52%, volatility of 50% and an expected life of 2 years resulting in a fair value of \$123,362 which was capitalized to the oil sands properties in the year ended December 31, 2010.
- iii) During the year ended December 31, 2010, the Company issued 20,000 common shares on the exercise of 20,000 warrants at an exercise price of \$0.50 per common share for cash proceeds of \$10,000. In addition to the cash proceeds a pro-rata allocation of the warrant fair value in the amount of \$137 was reclassified from warrants to share capital.

The following summarizes information about the warrants outstanding as at March 31, 2011, all of which are exercisable:

Exercise Price	Number of Warrants	Weighted average remaining contractual life (years)	Weighted average exercise price (\$)
\$ 0.50	16,611,250	0.90	0.50
\$ 0.70	6,260,000	1.14	0.70
\$ 1.00	2,000,000	0.27	1.00
	24,871,250	0.91	0.59

13. Change in non-cash working capital

	March 31, 2011	March 31, 2010
Trade and other receivables	\$ (459,505)	\$ 2,116,122
Other current assets	(19,301)	6,951
Trade and other payables	7,997,906	1,227,108
	\$ 7,519,100	\$ 3,350,181

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13. Change in non-cash working capital (continued)

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

	March 31, 2011	March 31, 2010
Operating	\$ (60,536)	\$ (166,931)
Financing	89,665	(315,769)
Investing	7,489,971	3,832,881
	<u>\$ 7,519,100</u>	<u>\$ 3,350,181</u>

14. Financial instruments and financial risk management

The Company's financial instruments include cash and cash equivalents, short term investments, trade and other receivable, 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.

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 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 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 the shares were disposed of subsequent to March 31, 2011. 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.

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14. Financial instruments and financial risk management (continued)

The fair value of the investment is as follows:

	March 31, 2011	December 31, 2010
Common shares		
Number of shares	501,600	2,500,000
Fair value	\$ 1,029,835	\$ 4,916,060
Warrants		
Fair value	\$ 660,000	\$ 660,000
	<u>\$ 1,689,835</u>	<u>\$ 5,576,060</u>

As at December 31, 2010 and March 31, 2011, fair value is based on net proceeds received from common shares sold subsequent to the period. During the three months ended March 31, 2011, 1,998,400 common shares were sold for net cash proceeds of \$3,886,225. 501,600 shares and the warrants remain outstanding at March 31, 2011. Subsequent to March 31, the remaining shares and warrants were sold for cash proceeds of approximately \$1.7 million.

As at December 31, 2010 and March 31, 2011, the fair value is based on net proceeds received from the shares sold subsequent to the period.

The 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.

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 and cash equivalents 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 and 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 March 31, 2011, the maximum credit exposure is the carrying amount of the accounts receivable and accruals of \$770,690 (December 31, 2010 – \$311,185) plus cash and cash equivalents and short-term investments of \$12,816,757 (December 31, 2010 - \$4,652,658).

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14. Financial instruments and financial risk management (continued)

a) Credit risk (continued)

As at March 31, 2011, \$172,696 of the Company's receivables consisted of March revenue due from marketers, \$581,933 in GST, and the remaining \$16,061 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 March 31, 2011, the largest amount owing from one joint venture partner is less than \$3,903 (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:

	March 31, 2011	December 31, 2010	January 1, 2010
Current	\$ 727,953	\$ 292,330	\$ 422,446
Past due by less than 90 days	41,360	18,455	10,296
Past due by more than 90 days	1,377	400	20,154
	<u>770,690</u>	<u>311,185</u>	<u>452,896</u>
Cash call receivable	-	-	2,601,969
Subscription receivable	-	-	32,800
	<u>\$ 770,690</u>	<u>\$ 311,185</u>	<u>\$ 3,087,665</u>

The Company did not record an allowance for doubtful accounts as at the period ended March 31, 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.

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three months ended March 31, 2011 and 2010
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14. Financial instruments and financial risk management (continued)

b) Liquidity risk (continued)

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 \$5,324,102 as of March 31, 2011 (December 31, 2010 - \$8,565,328).

As the Company is in the exploration stage of its oilsands 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 equity financings 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 or 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 March 31, 2011.

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. The Company has not entered into any commodity contracts as at March 31, 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 months ended March 31, 2010 and year ended December 31, 2010, the Company realized losses of \$11,070 and \$25,961 respectively under the contract which has been included in petroleum and natural gas sales revenue.

Alberta Oilsands Inc.

Notes to Interim Financial Statements

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14. Financial instruments and financial risk management (continued)

c) Market risk (continued)

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 months ended March 31, 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 (March 31, 2010 – \$6,300) 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 March 31, 2011.

15. 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 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 the following:

	March 31, 2011	December 31, 2010
Working capital	\$ 5,324,102	\$ 8,565,328
Equity	59,487,765	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 cashflow 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.

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three months ended March 31, 2011 and 2010
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15. Capital management (continued)

There has been no change in the Company's approach to capital management during the three months ended March 31, 2011. The Company has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the foreseeable future.

16. Commitments

Pursuant to flow-through issuances in March 2011, the Company is required to incur \$10,000,000 of qualifying expenditures by December 31, 2012. Approximately \$600,000 of these expenditures was incurred by March 31, 2011.

17. Related party transactions

During the three months ended March 31, 2011, the Company was charged \$10,918 (March 31, 2010 – \$7,400) 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. Included in accounts payable at March 31, 2011 is \$125,066 (December 31, 2010 – \$162,368) due to the legal firms.

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.

18. Reconciliation of Canadian GAAP to IFRS

As described in Note 2, these are the Company's first interim financial statements for the period covered by the first annual financial statements prepared in accordance with IFRS. The accounting policies in Note 3 have been applied in preparing these interim financial statements for the three months ended March 31, 2011, the comparative information for the three months ended March 31, 2010, the comparative information for the year ended December 31, 2010 and the preparation of an opening IFRS statement of financial position on the transition date being January 1, 2010.

In preparing the January 1, 2010 IFRS statement of financial position, comparative information for the three months ended March 31, 2010 and the comparative information for the year ended December 31, 2010, 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.

Guidance for the first-time adoption of IFRS is set out in IFRS 1 *First-time Adoption of International Financial Reporting Standards* which provides for certain mandatory exceptions and optional exemptions for first-time adopters of IFRS.

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three months ended March 31, 2011 and 2010
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18. Reconciliation of Canadian GAAP to IFRS (continued)

As part of the Company's adoption of IFRS, the following elections were made under IFRS 1:

- Share based payments (IFRS 2) – To elect not to restate options that have vested prior to January 1, 2010.
- Business combinations (IFRS 3) – To elect not to re-state business combinations that occurred prior to the transition date.
- Exploration and evaluation assets (IFRS 6) – To elect to measure assets at deemed cost as determined under the previous GAAP and perform an impairment review as at January 1, 2010.
- Property and equipment (IAS 16) - To elect to measure assets at deemed cost as determined under the previous GAAP and perform an impairment review as at January 1, 2010.
- Decommissioning obligation (IAS 37) –The decommissioning obligation was calculated on transition. Due to the deemed cost exemption used, as described above, the remeasurement of the decommissioning obligation is recorded as an adjustment to accumulated deficit.

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three months ended March 31, 2011 and 2010
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18. Reconciliation of Canadian GAAP to IFRS (continued)

Statement of Financial Position at the date of IFRS transition – January 1, 2010

	Canadian GAAP	Transition to IFRS	Note	IFRS
Assets				
Current assets:	\$	\$		\$
Cash and cash equivalents	6,880,447	–		6,880,447
Short term investments	1,051,381	–		1,051,381
Trade and other receivables	3,087,665	–		3,087,665
Other current assets	213,951	–		213,951
	<u>11,233,444</u>	–		<u>11,233,444</u>
Non current assets:				
Reclamation deposit	249,262	–		249,262
Exploration and evaluation assets	–	38,419,578	a)	38,419,578
Property and equipment	47,617,698	(39,183,283)	b)	8,434,415
	<u>59,100,404</u>	<u>(763,705)</u>		<u>58,336,699</u>
Total assets	\$ 59,100,404	\$ (763,705)		\$ 58,336,699
Liabilities				
Current liabilities:	\$	\$		\$
Trade and other payables	1,565,611	–		1,565,611
Commodity contract	6,687	–		6,687
	<u>1,572,298</u>	–		<u>1,572,298</u>
Non current liabilities:				
Decommissioning obligations	1,043,966	648,877	e)	1,692,843
Share premium liability	–	549,227	d)	549,227
Deferred income tax	4,243,195	(151,382)	c)	4,091,813
	<u>6,859,459</u>	<u>1,046,722</u>		<u>7,906,181</u>
Total liabilities	6,859,459	1,046,722		7,906,181
Equity				
Share capital	58,756,475	2,800,090	d)	61,556,565
Warrants	617,637	–		617,637
Contributed surplus	6,147,842	(56,187)	f)	6,091,655
Deficit	(13,281,009)	(4,554,330)	g)	(17,835,339)
	<u>52,240,945</u>	<u>(1,810,427)</u>		<u>50,430,518</u>
Total liabilities & equity	\$ 59,100,404	\$ (763,705)		\$ 58,336,699

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three months ended March 31, 2011 and 2010
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18. Reconciliation of Canadian GAAP to IFRS (continued)

Statement of Financial Position – March 31, 2010

	Canadian GAAP	Transition to IFRS	Note	IFRS
Assets				
Current assets:	\$	\$		\$
Cash and cash equivalents	5,092,111	–		5,092,111
Short term investments	1,052,013	–		1,052,013
Trade and other receivables	948,743	–		948,743
Other current assets	207,000	–		207,000
	<u>7,299,867</u>	<u>–</u>		<u>7,299,867</u>
Non current assets:				
Reclamation deposit	609,607	–		609,607
Exploration and evaluation assets	–	40,985,644	a)	40,985,644
Property, plant and equipment	51,550,977	(43,999,484)	b)	7,551,493
Total assets	<u>\$ 59,460,451</u>	<u>\$ (3,013,840)</u>		<u>\$ 56,446,611</u>
Liabilities				
Current liabilities:	\$	\$		\$
Trade and other payables	2,792,719	–		2,792,719
Commodity contract	22,877	–		22,877
	<u>2,815,596</u>	<u>–</u>		<u>2,815,596</u>
Non current liabilities:				
Decommissioning obligations	1,164,800	644,533	e)	1,809,333
Share premium liability	–	160,999	d)	160,999
Deferred income tax	5,466,710	(1,265,135)	c)	4,201,575
Total liabilities	<u>9,447,106</u>	<u>(459,603)</u>		<u>8,987,503</u>
Equity				
Share capital	57,315,013	4,237,615	d)	61,552,628
Warrants	617,637	–		617,637
Contributed surplus	6,548,244	(60,117)	f)	6,488,127
Deficit	(14,467,549)	(6,731,735)	g)	(21,199,284)
	<u>50,013,345</u>	<u>(2,554,237)</u>		<u>47,459,108</u>
Total liabilities & equity	<u>\$ 59,460,451</u>	<u>\$ (3,013,840)</u>		<u>\$ 56,446,611</u>

Alberta Oilsands Inc.

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For the three months ended March 31, 2011 and 2010
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18. Reconciliation of Canadian GAAP to IFRS (continued)

Statement of Financial Position - December 31, 2010

	Canadian GAAP	Transition to IFRS	Note	IFRS
Assets				
Current assets:				
	\$	\$		\$
Cash and cash equivalents	4,652,658	–		4,652,658
Short term investments	–	–		–
Investment in equity instruments	5,576,060	–		5,576,060
Trade and other receivables	311,185	–		311,185
Other current assets	403,804	–		403,804
	<u>10,943,707</u>			<u>10,943,707</u>
Non current assets:				
Reclamation deposit	910,380	–		910,380
Exploration and evaluation assets	–	46,301,696	a)	46,301,696
Property, plant and equipment	53,199,726	(49,184,032)	b)	4,015,694
Total assets	<u>\$ 65,053,813</u>	<u>\$ (2,882,336)</u>		<u>\$ 62,171,477</u>
Liabilities				
Current liabilities:				
	\$	\$		\$
Trade and other payables	2,378,379	–		2,378,379
Deferred tax	200,166	(200,166)	c)	–
	<u>2,578,545</u>	<u>(200,166)</u>		<u>2,378,379</u>
Non current liabilities:				
Decommissioning obligations	1,154,949	714,940	e)	1,869,889
Share premium liability	–	1,413,612	d)	1,413,612
Deferred income tax	4,891,442	(526,424)	c)	4,365,018
Total liabilities	<u>8,624,936</u>	<u>1,401,962</u>		<u>10,026,898</u>
Equity				
Share capital	63,668,969	2,664,715	d)	66,333,684
Warrants	864,327	–		864,327
Contributed surplus	6,811,812	(57,276)	f)	6,754,536
Deficit	(14,916,231)	(6,891,737)	g)	(21,807,968)
	<u>56,428,877</u>	<u>(4,284,298)</u>		<u>52,144,579</u>
Total liabilities & equity	<u>\$ 65,053,813</u>	<u>\$ (2,882,336)</u>		<u>\$ 62,171,477</u>

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three months ended March 31, 2011 and 2010
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18. Reconciliation of Canadian GAAP to IFRS (continued)

Statement of Operations – March 31, 2010

	Canadian GAAP	Transition to IFRS	Note	IFRS
Revenue	\$ 815,543	\$ -		\$ 815,543
Royalties	(195,137)	-		(195,137)
	<u>620,406</u>	<u>-</u>		<u>620,406</u>
Unrealized gain on financial instruments	41,810	-		41,810
	<u>662,216</u>	<u>-</u>		<u>662,216</u>
Expenses				
Operating	490,965	-		490,965
General and administrative	485,759	-		485,759
Share based compensation	358,223	1,031	f)	359,254
Business development	70,188	-		70,188
Accretion	25,226	(25,226)	e)	-
Depletion and depreciation	636,538	(294,550)	b)	341,988
Impairment on property and equipment	-	2,525,664	b)	2,525,664
	<u>2,066,899</u>	<u>2,206,919</u>		<u>4,273,818</u>
Interest income	1,494	-		1,494
Interest expense	10,108	20,882	e)	30,990
Net interest expense	<u>8,614</u>	<u>20,882</u>		<u>29,496</u>
Loss before income tax	(1,413,297)	(2,227,801)		(3,641,098)
Deferred tax reduction	<u>226,757</u>	<u>50,396</u>		<u>277,153</u>
Net loss and comprehensive loss for the period	<u>(1,186,540)</u>	<u>(2,177,405)</u>		<u>(3,363,945)</u>

Alberta Oilsands Inc.

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For the three months ended March 31, 2011 and 2010
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18. Reconciliation of Canadian GAAP to IFRS (continued)

Statement of Operations – December 31, 2010

	Canadian GAAP	Transition to IFRS	Note	IFRS
Revenue	\$ 2,453,182	\$ –		\$ 2,453,182
Royalties	(443,272)	–		(443,272)
	<u>2,009,910</u>			<u>2,009,910</u>
Unrealized gain on financial instruments	133,687	–		133,687
Gain on sale of properties	–	235,425	b)	235,425
	<u>2,143,597</u>	<u>235,425</u>		<u>2,379,022</u>
Expenses				
Operating	1,102,352	–		1,102,352
General and administrative	2,964,858	–		2,964,858
Share based compensation	520,733	(14,837)	f)	505,896
Accretion	87,582	(87,582)	e)	–
Depletion and depreciation	2,178,503	(1,060,489)	b)	1,118,014
Unrealized gain on investment in equity instruments	(1,429,746)	–		(1,429,746)
Impairment on property and equipment	2,450,000	3,433,743	b)	5,883,743
	<u>7,874,282</u>	<u>2,270,835</u>		<u>10,145,117</u>
Interest income	10,213	–		10,213
Interest expense	23,516	68,335	e)	91,851
Net interest expense	<u>13,303</u>	<u>68,335</u>		<u>81,638</u>
Sale of Kenya interests	4,146,314	–		4,146,314
Associated business development costs	600,533	–		600,533
	<u>3,545,781</u>	<u>–</u>		<u>3,545,781</u>
Loss before income tax	(2,198,207)	(2,103,745)		(4,301,952)
Deferred tax reduction	562,985	(233,662)		329,323
Net loss and comprehensive loss for the year	<u>(1,635,222)</u>	<u>(2,337,407)</u>		<u>(3,972,629)</u>

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three months ended March 31, 2011 and 2010
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18. 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 a result, an impairment test was performed for January 1, 2010 indicating that no impairment existed. At transition and on a year to date basis, 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:

January 1, 2010	March 31, 2010	December 31, 2010
\$ 38,419,578	\$ 40,985,644	\$ 46,301,696

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

Deemed cost

The Company elected to adopt the cost model (Note 3) in IAS 16 *Property, Plant, and Equipment* and utilize the deemed cost exemption available under IFRS 1 *First-time Adoption of International Financial Reporting Standards* where the opening property and equipment was deemed to be equivalent to the net book value under Canadian GAAP. Net book value was allocated to cash generating units based on proved and probable reserve values.

Impairment

As a result of using the deemed cost exemption at transition, an impairment test was performed resulting in an impairment loss being recognized. This 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 cashflows. 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 cashflows under Canadian GAAP, the carrying amount of the asset was then compared to the sum of discounted cashflows 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 cashflows.

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three months ended March 31, 2011 and 2010
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18. Reconciliation of Canadian GAAP to IFRS (continued)

Notes:

b) Property and equipment (continued)

Impairment (continued)

Under IFRS, at each reporting period, the Company considers whether an impairment indicator exists and, if so, proceeds with completing an impairment test.

Depletion and depreciation

Under IFRS, the Company will deplete 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.

Disposition of assets

In November 2010, the Company disposed of the Daly property. Under IFRS, it is required to recognize a gain/loss on disposal of assets whereas under Canadian GAAP, the disposal is recorded as a reduction in the full cost pool unless the gain/loss would trigger a change in the depletion rate in excess of 20%. As a result of the transition to IFRS, the Company recognized a gain of \$235,425 in the year ended December 31, 2010 which is the \$163,685 of proceeds credited to the full cost pool under Canadian GAAP and a reduction in decommissioning obligation of \$71,740. Upon transition to IFRS on January 1, 2010, the deemed cost of Daly was nil and \$194 in capital expenditures were incurred during the year ended December 31, 2010.

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

	January 1, 2010	March 31, 2010	December 31, 2010
Reclassification to E&E	\$ (38,419,578)	\$ (40,985,644)	\$ (46,301,696)
Impairment	(763,705)	(3,289,369)	(4,197,448)
Adjustment to depletion	-	294,550	1,060,489
Addition for decommissioning obligation	-	-	84,159
Capitalized share based compensation	-	-	5,592
Reclassification of capitalized share based payments to E&E	-	(19,021)	(71,704)
Disposal of Daly – reversal of credits to full cost pool	-	-	235,425
Other	-	-	1,151
	<u>(39,183,283)</u>	<u>(43,999,484)</u>	<u>(49,184,032)</u>

Alberta Oilsands Inc.

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18. Reconciliation of Canadian GAAP to IFRS (continued)

Notes:

c) Deferred income tax

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:

	January 1, 2010	March 31, 2010	December 31, 2010
	<u> </u>	<u> </u>	<u> </u>
Adjustment upon transition	\$ (353,145)	\$ (353,145)	\$ (353,145)
Liability for expenditures incurred on flow-through issuances	201,763	1,075,276	1,603,450
Reverse renouncement of tax benefits recorded under Canadian GAAP	-	(1,437,525)	(1,437,525)
Adjustment for deferred tax expense	-	(535,681)	(459,510)
Reverse tax expense in regards to share based compensation	-	(14,060)	(79,860)
Reclassification from current	-	-	200,166
	<u>\$ (151,382)</u>	<u>\$ (1,265,135)</u>	<u>\$ (526,424)</u>

Alberta Oilsands Inc.

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18. 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
Adjustment at transition for former flow through issuances renounced	\$ 638,900	\$ 2,800,090
Adjustment for qualifying expenditures incurred to date	(89,673)	-
January 1, 2010	549,227	2,800,090
Adjustment for qualifying expenditures incurred to date	(388,288)	-
To reverse renouncement under Canadian GAAP	-	1,437,525
March 31, 2010	160,999	4,237,615
Adjustment for qualifying expenditures incurred to date	(160,999)	-
To record share premium on new flow through issuance	1,572,900	(1,572,900)
Adjustment for qualifying expenditures incurred to date	(159,288)	-
December 31, 2010	1,413,612	2,664,715

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.

Alberta Oilsands Inc.

Notes to Interim Financial Statements

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18. Reconciliation of Canadian GAAP to IFRS (continued)

Notes:

e) Decommissioning obligations

The Company calculated decommissioning obligation using the risk free rate per IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. This resulted in an adjustment of \$648,877 to accumulated deficit at January 1, 2010. 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:

	January 1, 2010	March 31, 2010	December 31, 2010
Adjustment upon transition	\$ 648,877	\$ 648,877	\$ 648,877
Change in estimate due to discount rate and reserve lives	-	-	85,310
Change in accretion	-	(4,344)	(19,247)
	<u>648,877</u>	<u>644,533</u>	<u>714,940</u>

Accretion has been reclassified to interest expense.

f) Share based compensation

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:

	January 1, 2010	March 31, 2010	December 31, 2010
Adjustment upon transition	\$ (56,187)	\$ (56,187)	\$ (56,187)
Reverse spiral tax capitalized to property and equipment as share based compensation	-	14,060	79,860
Share based compensation expense	-	1,031	\$ (14,837)
Share based compensation capitalized	-	(19,021)	(66,112)
	<u>\$ (56,187)</u>	<u>\$ (60,117)</u>	<u>\$ (57,276)</u>

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three months ended March 31, 2011 and 2010
(unaudited)

18. Reconciliation of Canadian GAAP to IFRS (continued)

Notes:

g) Accumulated deficit

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

	January 1, 2010	March 31, 2010	December 31, 2010
Property and equipment – impairment (b)	\$ (763,705)	\$ (3,289,369)	\$ (4,197,448)
Property and equipment – depletion (b)	-	294,550	1,060,489
Decommissioning obligations – change in estimate (e)	(648,877)	(648,877)	(648,877)
Decommissioning obligations – change in accretion (e)	-	4,344	19,247
Flow through shares (d)	(3,551,080)	(3,551,080)	(3,551,080)
Deferred tax (c)	353,145	403,541	119,483
Contributed surplus (f)	56,187	55,156	71,024
Gain on sale of properties (b)	-	-	235,425
	<u>\$ (4,554,330)</u>	<u>\$ (6,731,735)</u>	<u>\$ (6,891,737)</u>

19. Subsequent events

On June 21, 2011, the Company entered into subscription agreements with an institutional investor, for the sale of an aggregate of 15,431,200 Common Shares in the capital of the Company at a price of \$0.315 per share for gross proceeds of approximately \$4.86 million. Closing is subject to certain conditions including, but not limited to, the receipt of all necessary approvals including the approval of the TSXV and the securities commissions.