

Alberta Oilsands Inc.

CONDENSED INTERIM FINANCIAL STATEMENTS

June 30, 2011

Notice of No Auditor Review of Interim Financial Statements

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

Alberta Oilsands Inc.

Condensed Interim Statements of Financial Position

(unaudited)

	June 30, 2011	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,916,558	\$ 4,652,658
Investment in equity instruments (Note 12)	6,045	5,576,060
Trade and other receivables	799,347	311,185
Other current assets	466,528	403,804
	<u>4,188,478</u>	<u>10,943,707</u>
Non current assets:		
Reclamation deposit	915,186	910,380
Exploration and evaluation assets (Note 6)	61,860,382	46,301,696
Property and equipment (Note 7)	3,532,114	4,015,694
	<u>3,532,114</u>	<u>4,015,694</u>
Total assets	<u>\$ 70,496,160</u>	<u>\$ 62,171,477</u>
Liabilities		
Current liabilities:		
Trade and other payables	\$ 3,244,790	\$ 2,378,379
Non current liabilities:		
Decommissioning obligations (Note 8)	2,008,561	1,869,889
Share premium liability	801,844	1,413,612
Deferred income tax	6,249,736	4,365,018
	<u>6,249,736</u>	<u>4,365,018</u>
Total liabilities	12,304,931	10,026,898
Equity		
Share capital (Note 9)	74,251,903	66,333,684
Warrants (Note 10)	961,281	864,327
Contributed surplus	7,310,586	6,754,536
Deficit	(24,332,541)	(21,807,968)
	<u>58,191,229</u>	<u>52,144,579</u>
Total equity	58,191,229	52,144,579
Total liabilities and equity	<u>\$ 70,496,160</u>	<u>\$ 62,171,477</u>
Subsequent events (Note 17)		
Commitments (Note 14)		

See accompanying notes to the interim financial statements

Alberta Oilsands Inc.

Condensed Interim Statements of Operations and Comprehensive Loss

For the three and six months ended June 30
(unaudited)

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Revenue	\$ 492,487	\$ 622,100	\$ 947,027	\$ 1,437,643
Royalties	(20,622)	(88,662)	(90,623)	(283,799)
	471,865	533,438	856,404	1,153,844
Unrealized gain on commodity contract	–	68,127	–	109,937
	471,865	601,565	856,404	1,263,781
Expenses				
Operating	234,057	369,240	644,006	860,205
General and administrative	855,755	799,626	1,451,250	1,285,385
Share-based compensation	90,595	62,599	365,835	421,853
Unrealized foreign exchange	–	(59,378)	–	(59,378)
Depletion and depreciation	126,268	246,596	247,519	588,584
Impairment on property and equipment (Note 7)	256,792	214,203	325,816	2,739,867
	1,563,467	1,632,886	3,034,426	5,836,516
Finance income	22,507	1,574	31,382	3,068
Finance expense	17,937	25,646	185,400	56,636
Net finance (income) expense (Note 5)	(4,570)	24,072	154,018	53,568
Associated business development	–	112,038	–	182,226
Loss before income tax	(1,087,032)	(1,167,431)	(2,332,040)	(4,808,529)
Deferred tax (expense) reduction	(303,231)	244,551	(192,533)	521,704
Net loss and comprehensive loss for the period	\$ (1,390,263)	\$ (922,880)	\$ (2,524,573)	\$ (4,286,825)

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	—	—	—	—	(2,524,573)	(2,524,573)
Share based compensation expense	—	—	—	365,835	—	365,835
Share based compensation capitalized	—	—	—	159,589	—	159,589
Options exercised	35,000	8,992	—	(4,442)	—	4,550
Shares issued, net of costs	20,000,000	9,341,249	—	—	—	9,341,249
Share premium	—	(1,300,000)	—	—	—	(1,300,000)
Warrants issued	—	(132,022)	132,022	—	—	—
Warrants expired	—	—	(35,068)	35,068	—	—
June 30, 2011	<u>138,950,457</u>	<u>\$ 74,251,903</u>	<u>\$ 961,281</u>	<u>\$ 7,310,586</u>	<u>\$ (24,332,541)</u>	<u>\$ 58,191,229</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	—	—	—	—	(4,286,825)	(4,286,825)
Share based compensation expense	—	—	—	421,853	—	421,853
Options exercised	436,499	167,811	—	(77,231)	—	90,580
Warrants exercised	20,000	10,137	(137)	—	—	10,000
Share based compensation capitalized	—	—	—	78,897	—	78,897
Share issue costs	—	(3,938)	—	—	—	(3,938)
June 30, 2010	<u>105,667,124</u>	<u>\$ 61,730,575</u>	<u>\$ 617,500</u>	<u>\$ 6,515,174</u>	<u>\$ (22,122,164)</u>	<u>\$ 46,741,085</u>

See accompanying notes to the interim financial statements

Alberta Oilsands Inc.

Condensed Interim Statements of Cash Flows

For the three and six months ended June 30
(unaudited)

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Operating activities				
Net loss for the period	\$ (1,390,263)	\$ (922,880)	\$ (2,524,573)	\$ (4,286,825)
Non-cash items:				
Share based compensation	90,595	62,599	365,835	421,853
Depletion and depreciation	126,268	246,596	247,519	588,584
Interest expense	17,860	17,086	32,487	37,968
Deferred tax expense (reduction)	303,231	(244,551)	192,533	(521,704)
Unrealized gain on commodity contract	–	(64,127)	–	(47,937)
Unrealized foreign exchange	–	(59,378)	–	(59,378)
Impairment loss on property and equipment	256,792	214,203	325,816	2,739,867
	(595,517)	(750,452)	(1,360,383)	(1,127,572)
Change in non-cash working capital (Note 11)	217,037	50,351	156,501	(116,580)
	(378,480)	(700,101)	(1,203,882)	(1,244,152)
Investing activities				
Purchase of short term investments	–	(502,477)	–	(503,109)
Purchase of restricted investment	–	(1,094,246)	–	(1,094,246)
Expenditures on property and equipment	(80,858)	(96,690)	(92,344)	(2,060,812)
Expenditures on exploration and evaluation	(3,632,001)	(817,025)	(15,290,323)	(3,270,873)
Reclamation deposit	(2,278)	(92,748)	(4,806)	(453,093)
Proceeds on disposal of investment in equity	1,683,790	–	5,570,015	–
Change in non-cash working capital - property and equipment (Note 11)	43,440	(1,304,437)	(536,749)	1,710,710
Change in non-cash working capital - exploration and evaluation assets (Note 11)	(7,467,181)	567,466	602,979	1,385,200
	(9,455,088)	(3,340,157)	(9,751,228)	(4,286,223)
Financing activities				
Issuance of share capital, net of issue costs	(69,760)	100,579	9,121,666	118,129
Proceeds from exercise of options	–	–	4,550	–
Change in non-cash working capital (Note 11)	3,129	9,512	92,794	(306,257)
	(66,631)	110,091	9,219,010	(188,128)
Decrease in cash and cash equivalents	(9,900,199)	(3,930,167)	(1,736,100)	(5,718,503)
Cash and cash equivalents, beginning of period	12,816,757	5,092,111	4,652,658	6,880,447
Cash and cash equivalents, end of period	\$ 2,916,558	\$ 1,161,944	\$ 2,916,558	\$ 1,161,944

See accompanying notes to the interim financial statements

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three and six months ended June 30, 2011 and 2010
(unaudited)

1. Nature of organization

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

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

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

2. Basis of presentation

a) Statement of compliance

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

These interim financial statements were prepared based on IFRS issued and in effect on August 23, 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 4.

c) Functional and presentation currency

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

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three and six months ended June 30, 2011 and 2010
(unaudited)

2. Basis of presentation (continued)

d) Use of estimates

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

Property and equipment & depletion and depreciation:

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

Decommissioning obligations

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

Fair value of financial instruments

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

Share based compensation

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

3. Significant accounting policies

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

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three and six months ended June 30, 2011 and 2010
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4. Determination of fair value

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

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

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

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

5. Finance income and expenses

	<u>Three months ended June 30</u>		<u>Six months ended June 30</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Income:				
Interest income on cash and short term investments	\$ 20,229	\$ 1,574	\$ 25,082	\$ 3,068
Other	<u>2,278</u>	<u>–</u>	<u>6,300</u>	<u>–</u>
	22,507	1,574	31,382	3,068
Expenses:				
Interest on flow through shares	(317)	9,512	1,769	19,199
Advisory fee on potential financing	–	–	150,495	–
Accretion on decommissioning obligations	17,860	17,086	32,487	37,968
Other	<u>394</u>	<u>(952)</u>	<u>649</u>	<u>(531)</u>
	<u>17,937</u>	<u>25,646</u>	<u>185,400</u>	<u>56,636</u>
Net finance expense	<u>\$ (4,570)</u>	<u>\$ 24,072</u>	<u>\$ 154,018</u>	<u>\$ 53,568</u>

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three and six months ended June 30, 2011 and 2010
(unaudited)

6. 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:

	June 30, 2011			
	Clearwater	Hangingstone	Other	Total
<u>Cost</u>				
January 1, 2011	\$ 28,943,110	15,901,941	1,456,645	46,301,696
Additions	14,995,882	2,485	950	14,999,317
General & administrative costs	291,006	–	–	291,006
Share based compensation	159,589	–	–	159,589
Change in estimate of decommissioning obligations	108,774	–	–	108,774
June 30, 2011	\$ 44,498,361	15,904,426	1,457,595	61,860,382

	December 31, 2010			
	Clearwater	Hangingstone	Other	Total
<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 June 30, 2011, the Company completed a review for indicators of impairment on its exploration and evaluation assets and determined that there were no indicators.

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three and six months ended June 30, 2011 and 2010
(unaudited)

7. Property and equipment

	June 30, 2011		
	Oil and natural gas assets	Other	Total
<u>Cost</u>			
January 1, 2011	\$ 10,929,465	87,986	11,017,451
Additions	52,625	39,719	92,344
Change in estimate of decommissioning obligations	(2,589)	–	(2,589)
June 30, 2011	10,979,501	127,705	11,107,206
<u>Accumulated depletion and depreciation</u>			
January 1, 2011	(6,976,654)	(25,103)	(7,001,757)
Depletion & depreciation	(232,740)	(14,779)	(247,519)
Impairment loss	(325,816)	–	(325,816)
June 30, 2011	(7,535,210)	(39,882)	(7,575,092)
	\$ 3,444,291	87,823	3,532,114

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

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three and six months ended June 30, 2011 and 2010
(unaudited)

7. Property and equipment (continued)

As at June 30, 2011, the Company completed an impairment review on its property and equipment and determined that there was an impairment of \$256,792 and \$325,816 for the three and six months ended June 30, 2011. (For the year ended December 31, 2010 - \$5,883,743 and for the three and six months ended June 30, 2010 - \$214,203 and \$2,739,867). Impairment review was conducted by comparing carrying value to recoverable amount. Carrying value is calculated for the cash generating units as the deemed cost at transition plus additions, adjustments for depletion and depreciation, and impairment losses. Recoverable amount of the cash generating units is estimated using value in use. Value in use is determined based on a third party reserve report which estimates future cash flows over the remaining reserves using a discount rate of 10% to 15%.

8. 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:

	June 30, 2011	December 31, 2010
Balance, beginning of period	\$ 1,869,889	\$ 1,692,843
Additions	108,807	75,000
Current provision in finance expense	32,487	69,132
Change in estimate	(2,622)	105,462
Disposal	-	(72,548)
Balance, end of period	<u>\$ 2,008,561</u>	<u>\$ 1,869,889</u>

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

	June 30, 2011	December 31, 2010
Undiscounted cash flows	\$ 2,997,538	\$ 2,870,568
Risk free rate	3.70%	3.48%
Inflation rate	2%	2%
Weighted average expected timing of cash flows	9 years	9 years

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three and six months ended June 30, 2011 and 2010
(unaudited)

9. Equity

a) Issued

Common Shares

	Number	Amount
January 1, 2010	105,210,625	\$ 61,556,565
Exercise of stock options	694,832	234,175
Exercise of warrants	20,000	10,137
Issue of flow through shares	12,520,000	6,122,865
Issue of flow through shares	470,000	300,800
Share issue costs (net of tax of \$105,987)	–	(317,958)
Adjustment for share premium	–	(1,572,900)
December 31, 2010	118,915,457	\$ 66,333,684
Issue of flow through shares (i)	20,000,000	10,000,000
Share issue costs (net of tax of \$219,583)	–	(790,773)
Exercise of stock options (ii)	35,000	8,992
Adjustment for share premium (iii)	–	(1,300,000)
June 30, 2011	138,950,457	\$ 74,251,903

b) Issued

- i) 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 10). The value of this issuance, net of the warrants of \$132,022 and share issue costs of \$878,333, is \$9,209,227 which has been allocated to share capital. The Company is required to incur qualifying expenditures of \$10,000,000 by December 31, 2012 of which approximately \$3.8 million has been incurred to June 30, 2011.
- ii) During the six months ended June 30, 2011, the Company issued 35,000 common shares on the exercise of 35,000 stock options at an exercise price of \$0.13 per common share for cash proceeds of \$4,550. In addition to the cash proceeds a pro-rata allocation of the options' fair value in the amount of \$4,442 was reclassified from contributed surplus to share capital.
- iii) For the six months ended June 30, 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.

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three and six months ended June 30, 2011 and 2010
(unaudited)

9. 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.

	June 30, 2011		December 31, 2010	
	Number of options	Weighted average exercise price (\$)	Number of options	Weighted average exercise price (\$)
Beginning of period	6,852,323	\$ 0.46	5,527,156	\$ 0.47
Granted	3,331,000	0.40	3,880,000	0.39
Exercised	(35,000)	0.13	(694,832)	0.18
Expired/forfeited	(140,000)	0.52	(1,860,001)	0.44
End of period	10,008,323	\$ 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	2.46	\$ 0.13	1,294,667	\$ 0.13
\$ 0.14 – \$ 0.37	1,631,000	2.21	0.34	1,114,331	0.35
\$ 0.38 – \$ 0.61	6,313,000	4.06	0.41	3,254,824	0.43
\$ 0.62 – \$ 1.47	517,656	1.50	1.04	517,656	1.04
\$ 1.48 – \$ 2.21	252,000	1.00	2.09	252,000	2.09
	10,008,323	3.34	\$ 0.44	6,433,478	\$ 0.47

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three and six months ended June 30, 2011 and 2010
(unaudited)

9. Equity (continued)

d) Loss per share

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Net loss	\$ <u>1,390,263</u>	\$ <u>922,880</u>	\$ <u>2,524,573</u>	\$ <u>4,286,825</u>
Weighted average common shares outstanding				
January 1	118,915,457	105,210,625	118,915,457	105,210,625
Shares issued (note 9b)	20,000,000		11,160,221	
Warrants exercised	–	14,066	–	7,033
Options exercised	<u>35,000</u>	<u>71,639</u>	<u>24,227</u>	<u>60,122</u>
June 30	<u>138,950,457</u>	<u>105,296,330</u>	<u>130,099,905</u>	<u>105,277,780</u>
Basic and diluted loss per share	\$ <u>(0.01)</u>	\$ <u>(0.01)</u>	\$ <u>(0.02)</u>	\$ <u>(0.04)</u>

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

10. 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 (Note 9(b) ii)	(20,000)	(137)	0.50
Issued (ii)	<u>2,000,000</u>	<u>123,362</u>	<u>0.50</u>
December 31, 2010	23,671,250	864,327	0.60
Issued (Note 9(b) vi)	1,200,000	132,022	0.50
Expired (iv)	<u>(650,000)</u>	<u>(35,068)</u>	<u>0.50</u>
June 30, 2011	<u>24,221,250</u>	\$ <u>961,281</u>	\$ <u>0.59</u>

Alberta Oilsands Inc.

Notes to Interim Financial Statements

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10. Warrants (continued)

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

Exercise Price	Number of Warrants	Weighted average remaining contractual life (years)	Weighted average exercise price (\$)
\$ 0.50	15,961,250	0.70	0.50
\$ 0.70	6,260,000	0.90	0.70
\$ 1.00	2,000,000	0.02	1.00
	24,221,250	0.69	0.59

11. Change in non-cash working capital

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Trade and other receivables	\$ (28,657)	\$ 175,866	\$ (488,162)	\$ 2,291,988
Other current assets	(43,423)	(34,533)	(62,724)	(27,582)
Trade and other payables	(7,131,495)	(818,441)	866,411	408,667
	\$ (7,203,575)	\$ (677,108)	\$ 315,525	\$ 2,673,073

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

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Operating	\$ 217,037	\$ 50,351	\$ 156,501	\$ (116,580)
Financing	3,129	9,512	92,794	(306,257)
Investing E&E	(7,467,181)	567,466	602,979	1,385,200
Investing	43,440	(1,304,437)	(536,749)	1,710,710
	\$ (7,203,575)	\$ (677,108)	\$ 315,525	\$ 2,673,073

12. Financial instruments and financial risk management

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

Alberta Oilsands Inc.

Notes to Interim Financial Statements

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12. Financial instruments and financial risk management (continued)

The Company is required to classify fair value measurements using a hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy is as follows:

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

The fair value of the commodity contract is considered to be level 2 as it is estimated by discounting the difference in the contract price and forward prices using the remaining volumes in the contract. The fair value of the investment in equity instruments comprised of common shares was considered to be level 1 as the shares are held in a publicly traded company and 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.

The fair value of the investment is as follows:

	June 30, 2011	December 31, 2010
Common shares		
Number of shares	3,100	2,500,000
Fair value	\$ 6,045	\$ 4,916,060
Warrants		
Fair value	\$ —	\$ 660,000
	<u>\$ 6,045</u>	<u>\$ 5,576,060</u>

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

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

Alberta Oilsands Inc.

Notes to Interim Financial Statements

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12. Financial instruments and financial risk management (continued)

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. Cash and cash equivalents are available at any time and the investments are redeemable within a short period of time. The cash is held with a Schedule I bank and short term investments are primarily 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 June 30, 2011, the maximum credit exposure is the carrying amount of the accounts receivable and accruals of \$799,347 (December 31, 2010 – \$311,185) plus cash and cash equivalents of \$2,916,558 (December 31, 2010 - \$4,652,658).

As at June 30, 2011, \$156,629 of the Company's receivables consisted of June revenue due from marketers, \$614,457 in GST, and the remaining \$28,261 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 June 30, 2011, the largest amount owing from one joint venture partner is \$9,547 (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:

	June 30, 2011	December 31, 2010
Current	\$ 787,757	\$ 292,330
Past due by less than 90 days	7,865	18,455
Past due by more than 90 days	3,725	400
	<u>\$ 799,347</u>	<u>\$ 311,185</u>

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three and six months ended June 30, 2011 and 2010
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12. Financial instruments and financial risk management (continued)

a) Credit risk (continued)

The Company did not record an allowance for doubtful accounts as at the period ended June 30, 2011 (December 31, 2010 - \$3,219). Based on review of the customer balances outstanding, no further allowance is deemed necessary. If the circumstances warrant it, an estimate would be made for a particular customer account if a trend of increasing collection period or filing for bankruptcy arose. The Company would only choose to write-off a receivable balance, as opposed to providing an allowance, after all reasonable avenues of collection has been exhausted.

b) Liquidity risk

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

As the Company pursues additional opportunities, annual budgets will be prepared, regularly monitored and updated as considered necessary. The Company monitors its cash flow monthly. The Company's financial liabilities are comprised of trade and other payables and commodity contracts. Trade and other payables have an expected maturity of less than one year. The Company has a working capital of \$943,688 as of June 30, 2011 (December 31, 2010 - \$8,565,328).

As the Company is in the exploration stage of its oil sands properties, the Company's working capital position may not provide it with sufficient capital resources to realize economically recoverable reserves. It is expected that further 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 of future cash flows will fluctuate as a result of changes in foreign exchange rates. All of the Company's oil sales are denominated in Canadian dollars; however, the underlying market prices in Canada for petroleum are impacted by changes in the exchange rate between the Canadian and United States dollar. The Company has not entered into any forward exchange rate contracts as at June 30, 2011.

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three and six months ended June 30, 2011 and 2010
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12. Financial instruments and financial risk management (continued)

c) Market risk (continued)

ii) Commodity price risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by world economic events that dictate the levels of supply and demand as well as the relationship between the Canadian and United States dollar, as outlined above. Should the Company choose to mitigate commodity price risk through the use of financial derivatives and physical delivery fixed price sales contracts, all such contracts would require approval of the Board of Directors. The Company has not entered into any commodity contracts as at June 30, 2011.

In October 2009, the Company signed a commodity "collar" price risk contract for the period November 1, 2009 to October 31, 2010. The notional quantity under this contract was for 50 barrels of oil per day at prices per barrel of \$70.00 (floor strike price) and \$79.50 (cap strike price). For the three and six months ended June 30, 2010, the Company realized losses of \$8,247 and \$19,317 respectively under the contract which has been included in petroleum and natural gas sales revenue.

iii) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk primarily through its variable interest rate on its cash and cash equivalents and short-term investments. For the three and six months ended June 30, 2011, if interest rates had been 1% higher with all other variables held constant, the change in the loss for the period would have been insignificant (June 30, 2010 – \$6,300 and \$12,658 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 June 30, 2011.

13. Capital management

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

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

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three and six months ended June 30, 2011 and 2010
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13. Capital management (continued)

The Company considers its capital structure to include the following:

	June 30, 2011	December 31, 2010
Working capital	\$ 943,688	\$ 8,565,328
Equity	\$ 58,191,229	\$ 52,144,579

The Company monitors capital based on annual funds from operations from its conventional oil and gas properties which are utilized to partially fund the general and administrative expenses. The Company prepares budgets for its capital expenditures, which are updated as necessary and are reviewed and periodically approved by the Company's Board of Directors.

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

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

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

14. Commitments

Pursuant to flow-through issuances in March 2011, the Company is required to incur \$10,000,000 of qualifying expenditures by December 31, 2012. Approximately \$3.8 million of these expenditures was incurred by June 30, 2011.

15. Related party transactions

During the three and six months ended June 30, 2011, the Company was charged \$118,051 and \$128,969 (June 30, 2010 – \$146,908 and \$154,308) in legal fees by legal firms in which an officer of the Company is a partner. These costs are included in general and administrative expense. Included in accounts payable at June 30, 2011 is \$118,051 (December 31, 2010 – \$162,368) due to the legal firm.

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

Alberta Oilsands Inc.
Notes to Interim Financial Statements

For the three and six months ended June 30, 2011 and 2010
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16. Reconciliation of Canadian GAAP to IFRS

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

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

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three and six months ended June 30, 2011 and 2010
(unaudited)

16. Reconciliation of Canadian GAAP to IFRS (continued)

Statement of Financial Position – June 30, 2010

	Canadian GAAP	Transition to IFRS	Note	IFRS
Assets				
Current assets:	\$	\$		\$
Cash and cash equivalents	1,161,944	–		1,161,944
Restricted cash	1,153,624	–		1,153,624
Short term investments	1,554,490	–		1,554,490
Trade and other receivables	762,877	–		762,877
Subscription receivable	10,000	–		10,000
Prepaid expenses	241,533	–		241,533
Commodity contract	41,250	–		41,250
	<u>4,925,718</u>	<u>–</u>		<u>4,925,718</u>
Non current assets:				
Reclamation deposit	702,355	–		702,355
Exploration and evaluation assets	–	41,812,552	a)	41,812,552
Property, plant and equipment	51,983,250	(44,675,837)	b)	7,307,413
Total assets	<u>\$ 57,611,323</u>	<u>\$ (2,863,285)</u>		<u>\$ 54,748,038</u>
Liabilities				
Current liabilities:	\$	\$		\$
Trade and other payables	1,974,278	–		1,974,278
Non current liabilities:				
Decommissioning obligations	1,185,154	729,498	e)	1,914,652
Share premium liability	–	128,299	d)	128,299
Deferred income tax	5,176,593	(1,186,869)	c)	3,989,724
Total liabilities	8,336,025	(329,072)		8,006,953
Equity				
Share capital	57,492,960	4,237,615	d)	61,730,575
Warrants	617,500	–		617,500
Contributed surplus	6,571,515	(56,341)	f)	6,515,174
Deficit	(15,406,677)	(6,715,487)	g)	(22,122,164)
	<u>49,275,298</u>	<u>(2,534,213)</u>		<u>46,741,085</u>
Total liabilities & equity	<u>\$ 57,611,323</u>	<u>\$ (2,863,285)</u>		<u>\$ 54,748,038</u>

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three and six months ended June 30, 2011 and 2010
(unaudited)

16. Reconciliation of Canadian GAAP to IFRS (continued)

Statement of Operations – Three months ended June 30, 2010

	Canadian GAAP	Transition to IFRS	Note	IFRS
Revenue	\$ 622,100	\$ –		\$ 622,100
Royalties	(88,662)	–		(88,662)
	533,438	–		533,438
Unrealized gain on financial instruments	68,127	–		68,127
	601,565	–		601,565
Expenses				
Operating	369,240	–		369,240
General and administrative	799,626	–		799,626
Share based compensation	53,484	9,115	f)	62,599
Accretion	20,354	(20,354)	e)	–
Depletion and depreciation	536,664	(290,068)	b)	246,596
Unrealized foreign exchange	(59,378)	–		(59,378)
Impairment on property and equipment	–	214,203	b)	214,203
	1,719,990	(87,104)		1,632,886
Finance income	1,574	–		1,574
Finance expense	8,560	17,086	e)	25,646
Net finance expense	6,986	17,086		24,072
Business development	112,038	–		112,038
Loss before income tax	(1,237,449)	70,018		(1,167,431)
Deferred tax reduction	298,321	(53,770)		244,551
Net loss and comprehensive loss for the period	\$ (939,128)	\$ 16,248		\$ (922,880)

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three and six months ended June 30, 2011 and 2010
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16. Reconciliation of Canadian GAAP to IFRS (continued)

Statement of Operations – Six months ended June 30, 2010

	Canadian GAAP	Transition to IFRS	Note	IFRS
Revenue	\$ 1,437,643	\$ –		\$ 1,437,643
Royalties	(283,799)	–		(283,799)
	<u>1,153,844</u>	<u>–</u>		<u>1,153,844</u>
Unrealized gain on financial instruments	109,937	–		109,937
	<u>1,263,781</u>	<u>–</u>		<u>1,263,781</u>
Expenses				
Operating	860,205	–		860,205
General and administrative	1,285,385	–		1,285,385
Share based compensation	411,707	10,146	f)	421,853
Accretion	45,580	(45,580)	e)	–
Depletion and depreciation	1,173,202	(584,618)	b)	588,584
Unrealized foreign exchange	(59,378)	–		(59,378)
Impairment on property and equipment	–	2,739,867	b)	2,739,867
	<u>3,716,701</u>	<u>2,119,815</u>		<u>5,836,516</u>
Finance income	3,068	–		3,068
Finance expense	18,668	37,968	e)	56,636
Net finance expense	<u>15,600</u>	<u>37,968</u>		<u>53,568</u>
Business development	<u>182,226</u>	<u>–</u>		<u>182,226</u>
Loss before income tax	(2,650,746)	(2,157,783)		(4,808,529)
Deferred tax reduction	<u>525,078</u>	<u>(3,374)</u>		<u>521,704</u>
Net loss and comprehensive loss for the period	<u>\$ (2,125,668)</u>	<u>\$ (2,161,157)</u>		<u>\$ (4,286,825)</u>

Alberta Oilsands Inc.

Notes to Interim Financial Statements

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16. Reconciliation of Canadian GAAP to IFRS (continued)

Notes:

a) Exploration and evaluation assets

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

	Three months to June 30, 2010	Cumulative to June 30, 2010
Reclassified from property and equipment	\$ 843,560	\$ 41,848,225
Share based compensation capitalized	(17,300)	(36,321)
Decommissioning obligation	648	648
	<u>\$ 826,908</u>	<u>\$ 41,812,552</u>

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

b) Property and equipment

Impairment

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

Depletion and depreciation

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

Alberta Oilsands Inc.

Notes to Interim Financial Statements

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16. Reconciliation of Canadian GAAP to IFRS (continued)

Notes:

b) Property and equipment (continued)

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

	Three months to June 30, 2010	Cumulative to June 30, 2010
Reclassification to E&E	\$ (843,560)	\$ (41,848,225)
Impairment	(214,203)	(3,503,572)
Adjustment to depletion	290,068	584,618
Addition for decommissioning obligation	87,585	87,585
Capitalized share based compensation	3,757	3,757
	<u>\$ (676,353)</u>	<u>\$ (44,675,837)</u>

c) Deferred income tax liability

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

	Three months to June 30, 2010	Cumulative to June 30, 2010
Adjustment upon transition	\$ –	\$ (353,145)
Liability for expenditures incurred on flow-through issuances	73,575	1,148,851
Reverse renouncement of tax benefits recorded under Canadian GAAP	–	(1,437,525)
Adjustment for deferred tax expense	12,895	(522,786)
Reverse tax expense in regards to share based compensation	(8,204)	(22,264)
	<u>\$ 78,266</u>	<u>\$ (1,186,869)</u>

Alberta Oilsands Inc.

Notes to Interim Financial Statements

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16. Reconciliation of Canadian GAAP to IFRS (continued)

Notes:

d) Share premium liability

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

	Share premium liability	Share capital
January 1, 2010	\$ 549,227	\$ 2,800,090
Adjustment for qualifying expenditures incurred to date	(420,928)	–
To reverse renouncement under Canadian GAAP	–	1,437,525
June 30, 2010	<u>\$ 128,299</u>	<u>\$ 4,237,615</u>

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

e) Decommissioning obligations

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

	Three months to June 30, 2010	Cumulative to June 30, 2010
Adjustment upon transition	\$ –	\$ 648,877
Change in estimate due to discount rate	88,233	88,233
Change in accretion	(3,268)	(7,612)
	<u>\$ 84,965</u>	<u>\$ 729,498</u>

Accretion has been reclassified to interest expense.

Alberta Oilsands Inc.

Notes to Interim Financial Statements

For the three and six months ended June 30, 2011 and 2010
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16. Reconciliation of Canadian GAAP to IFRS (continued)

Notes:

f) Contributed surplus

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

	Three months to June 30, 2010	Cumulative to June 30, 2010
Adjustment upon transition	\$ —	\$ (56,187)
Reverse spiral tax capitalized to property and equipment as share based compensation	8,204	22,264
Share based compensation expense	9,115	10,146
Share based compensation capitalized – property and equipment	(17,300)	(36,321)
Share based compensation capitalized – exploration and evaluation assets	3,757	3,757
	<u>\$ 3,776</u>	<u>\$ (56,341)</u>

g) Accumulated deficit

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

	Three months to June 30, 2010	Six months to June 30, 2010
Property and equipment – impairment (b)	\$ (214,203)	\$ (3,503,572)
Property and equipment – depletion (b)	290,068	584,618
Decommissioning obligations – change in estimate (e)	–	(648,877)
Decommissioning obligations – change in accretion (e)	3,268	7,612
Flow through shares (d)	–	(3,551,080)
Deferred tax (c)	(53,770)	349,771
Share based compensation/contributed surplus (f)	(9,115)	46,041
	<u>\$ 16,248</u>	<u>\$ (6,715,487)</u>

17. Subsequent event

In July 2011, pursuant to a private placement the Company issued 16,666,600 Common shares at a price of \$0.30 per share for gross proceeds of \$5.0 million.