

Cogency Group

Due Diligence Report

March 12, 2014

Alberta Oilsands Inc. (AOS-TSXV: \$0.15)

Introduction

Alberta Oilsands Inc. is a Calgary based oil & gas company. Its principal asset is a compensation claim of \$56.2 million (\$0.26/share). On July 26, 2013 AOS announced that the Government of Alberta had cancelled certain of its leases to allow for the expansion of the Fort McMurray Urban Development Sub-Region (UDSR). The claim was made under the terms of the *Mineral Rights Compensation Regulation* (the "Regulation"). Financial statements at September 30, 2013 include the affected Clearwater project at \$50.8 million and other oil & gas assets of \$22.1 million.

Share Information

Amounts except volume and price are thousands

Shares Outstanding-Basic	212,032
Fully Diluted	222,851
Bruce Mitchell	29,358
Board (includes control of 10.5 million)	22,186
Market Capitalization	\$30,745
Working Capital (Sept 30, 2013)	\$1.5 MM
Volume (since July 25, 2013)	163,775
Volume (last 10 days)	13,720
High-Low (52 weeks)	\$0.03-\$0.17

Amount of Claim

A November 28, 2013 press release summarized the \$56.2 million claim. Amounts are thousands.

Crown payments	\$5,928
Development allowance	41,931
Reclamation allowance	0
Interest allowance	8,382
	<u>\$56,241</u>

AOS Lease Agreements

This is a summary of AOS Lease Agreements and the cancellation details disclosed on October 18, 2013.

Lease Agreements-Cancelled	Size-Hectares		Cancelled	Crown Payments (thousands)
	Original			
7407090336	1,408			\$66
7407070268	<u>512</u>			<u>274</u>
		1,920	1,920	\$340
7407080532	4,224			5,184
7407070269	<u>512</u>			<u>375</u>
		<u>4,736</u>	<u>2,422</u> 51%	<u>5,559</u>
		6,656	4,342 65%	5,899
Lease Agreements-Not Cancelled				
7407090382	256			14
7407090384	256			15
7407090385	256			471
7407090386	256			416
7407090387	256			83
7407090388	<u>256</u>			<u>70</u>
	<u>8,192</u>		<u>4,342</u> 53%	<u>\$6,968</u>

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Some Conclusions

We have not been able to confirm the AOS compensation claim. In spite of the company's assurances that it is eligible for \$56.2 million, its disclosure for the past 7 months does not allow investors to confirm this assertion. As discussed below, we believe the \$56.2 million is possibly overstated. In any case we believe the company should provide more information to shareholders about these matters. We have not considered AOS' other assets.

AOS is claiming \$5.9 million for Crown payments. From publicly available information, we have determined that this amount is approximately equal to 100% of the bonus, application fees and rentals for 6 years for the 4 leases in question including those partially cancelled. This is the \$5,899 amount illustrated on the first page. Based on the cancellation details disclosed in the press release dated October 18, 2013, we have concluded that only 51% of the area covered by Lease Agreements 7407080532 and 7407070269 was cancelled. This is significant as Section 3(3)(a) of the Regulation regarding amounts paid to the Crown covers the issue of partial cancellation. We believe it provides for the amount being prorated on the basis of area. The company should explain its interpretation of the Regulation and the basis of its calculation of the \$5.9 million.

A more significant issue is the development allowance of \$41.9 million. The November 28th press release indicates that the \$41.9 million is "in connection with the development of its cancelled Clearwater Project". We are concerned with this statement. We think the Regulation is intended to deal narrowly with the cancellation of a particular agreement, not broadly with a project in its entirety. While Section 6 is not as specific as Section 3(3)(a) with respect to a partial cancellation of an agreement, we are concerned that some proration also applies in calculating a development allowance. As previously mentioned the financial statements at September 30, 2013 include the Clearwater oilsands project at \$50.8 million or \$43.9 million not including the \$6.9 million in Crown payments on 10 all leases. AOS' development allowance is 95% of this amount.

We know the claim includes drilling and other costs such as seismic, engineering, ERCB applications and facility design. Firstly, we are concerned about the amount of these other costs that are eligible. The Regulation states that it is the amount that the minister determines was "fairly and reasonably expended"... "in exploring and developing a mineral or minerals". Given the nature of some of these costs, the fact that only 53% of the land covered by the 10 leases was cancelled and the ministerial discretion, we cannot conclude 95% of these non-drilling costs is reasonable. Secondly, and of greater significance, are drilling costs. While we know all 60 wells were drilled in areas covered by Lease Agreements 7407080532 and 7407070269, by comparing a map of well locations with a map of the expanded UDSR, one could conclude that perhaps only 37 of the 60 wells are located in cancelled areas. It is not possible to know definitively without details of the cancelled areas. The company should explain these details, its interpretation of the Regulation and the basis of its calculation of the \$41.9 million.

No claim for a reclamation allowance has yet been made. The interest allowance of \$8.4 million is reasonable, but only if the claims for amounts paid to the Crown and the development allowance are accepted. We are concerned about this assumption.

It is possible that the company has simply decided to take an aggressive position in claiming \$56.2 million, believing it would enhance its negotiating position with the Government of Alberta. Unfortunately such an aggressive negotiating strategy requires an equally aggressive disclosure practice. Such a practice is not without consequence. No doubt some investors will have relied on management's representations that the company is entitled to \$56.2 million. Unfortunately this might not be the case. Our concerns in this regard are exacerbated by the fact that in the past 2 weeks trading volumes have increased significantly. In many cases large trades have involved "Anonymous" sellers. We would urge existing and prospective shareholders to exercise caution at this time. In our opinion, the company should provide more information to shareholders about these matters.

For more information:

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