

Alberta Oilsands Inc.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
OPERATIONS AND FINANCIAL CONDITION**

FOR THE YEAR ENDED
DECEMBER 31, 2007

Alberta Oilsands Inc.

Management's Discussion and Analysis of Operations and Financial Condition

December 31, 2007

The following management's discussion and analysis of financial condition and the results of operations (the "MD&A") dated April 10, 2008 of Alberta Oilsands Inc ("Alberta Oilsands" or the "Company") is reported in Canadian dollars and has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and incorporates all relevant information and considerations to that date, and should be read in conjunction with the audited consolidated financial statements for Alberta Oilsands Inc. for the years ended December 31, 2007 and 2006 together with the accompanying notes. The Company operated as Platform Resources Inc. prior to May 29, 2007 when shareholders approved the name change of the Company to Alberta Oilsands Inc.

Additional information relating to Alberta Oilsands and its vision, strategies and operations, is available on SEDAR at www.sedar.com and on the Company's website at www.aboilsands.ca

BOE Presentation – Production information is commonly reported in units of barrel of oil equivalent ("boe"). For purposes of computing such units, natural gas is converted to equivalent barrels of oil using a conversion factor of six thousand cubic feet to one barrel of oil. This conversion ratio of 6:1 is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Such disclosure of boes may be misleading, particularly if used in isolation. Readers should be aware that historical results are not necessarily indicative of future performance.

Special Note Regarding Non-GAAP Measures – This MD&A includes references to financial measures commonly used in the oil and gas industry. The term "field net back" is defined as petroleum and natural gas sales less royalties, less production and transportation costs and the term "net back" is defined as field net back less general and administrative costs. The term "funds from (used in) operations", defined as the cash flow from operating activities adjusted for non-cash items in the statement of operations, before the change in non-cash working capital, should not be considered an alternative to, or more meaningful than, cash flow from operating activities or net income (loss) as determined in accordance with GAAP as an indicator of performance. The Company's determination of funds from operations may not be comparable to that reported by other companies. The reconciliation between cash flow from operating activities and funds from operations can be found in the Statements of Cash Flows included in the financial statements noted above.

Forward-looking Statements – Certain information regarding Alberta Oilsands set forth in this report, including management's assessment of Alberta Oilsands' future plans and operations, contains forward looking statements. Such forward-looking statements are based on the opinions and estimates of management at the date the statements are made, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These factors include the inherent risks involved in the exploration and development of oil sands properties, the uncertainties involved in interpreting drilling results and other geological data, the possibility that royalties and other government levies could be increased, changes to government regulations relating to the oil and gas industry and climate change, fluctuating oil prices, the possibility of project cost overruns or unanticipated costs and expenses, uncertainties relating to the availability and costs of financing needed in the future and other factors including unforeseen delays. As an oil sands focused enterprise, the Company faces risks, including those associated with exploration, development, approvals and the ability to access sufficient capital from external sources. Anticipated exploration and development plans relating to the Company's properties are subject to change. Certain of these items and their possible impact are discussed more fully in the section entitled "Business Risks and Uncertainties" below. Alberta Oilsands' actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward looking statements, and accordingly, no assurance can be given that any events anticipated by the forward looking statements will transpire or occur, or if any of them do, what benefits Alberta Oilsands can derive therefrom.

Alberta Oilsands Inc.

Management's Discussion and Analysis of Operations and Financial Condition

December 31, 2007

The Company undertakes no obligation to update such forward-looking statements if circumstances or management's estimates or opinions should change, unless required by law.

Basis of Presentation

The Company was incorporated under the Business Corporations Act (Alberta) on December 5, 2003 and is listed on the TSX Venture Exchange. The Company is involved in the production, exploration and development of petroleum properties with a focus on the delineation of Oilsands resources.

The consolidated financial statements of the Company for the year ended December 31, 2007 have been prepared on a going concern basis which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Property and equipment is recognized in these financial statements in accordance with the accounting policies outlined in Note 2 to such financial statements. Accordingly, their carrying values represent costs incurred to date, net of abandonments and write-downs, and do not necessarily reflect present or future values. The ability of the Company to continue as a going concern and the recoverability of amounts shown for the properties is dependent upon the existence of economically recoverable reserves and upon the Company's ability to obtain additional financing to continue the development of the Company's properties and generate funds therefrom and to meet current and future obligations. Should the going concern assumption not be appropriate, certain asset and liability amounts would require adjustment and reclassification.

Corporate Direction and Strategy

In March 2007, the Company announced a change in focus from being a conventional oil and gas company to one that would pursue the exploration, development and production of the bitumen reserves in the Athabasca oil sands area of Alberta. The Company also received shareholder approval for a name change to Alberta Oilsands Inc. at its Annual General and Special Meeting in May 2007.

The Company raised an aggregate of \$25 million during the second quarter of 2007. Specifically, the Company closed an over subscribed "non-brokered" private placement issuing 10 million flow-through shares for gross proceeds of \$5.0 million and a "bought deal" private placement financing issuing 8,888,900 common shares and 4,848,500 flow-through common shares for gross proceeds of \$20 million. In January 2008, pursuant to a non-brokered private placement, an additional \$8.1 million gross proceeds were raised through the issuance of approximately 8.7 million common shares. These funds provided the base to commence the oil sands strategy.

Oilsands Development

The biggest achievement of 2007 was the acquisition of 125 sections (80,000 acres) of 100% working interest in the Athabasca Oil sands of North East Alberta. All of the leases were acquired at Crown sales in 2007. Our management group, based on their oil sands experience, had identified over 250 sections of land with oil sands potential in the Athabasca region. The lands purchased had varying levels of well control and major announced or producing projects in the surrounding vicinity.

The leases purchased will be divided in four distinct projects that will be developed in the order of earliest and highest potential contribution to shareholder value.

Alberta Oilsands Inc.
**Management's Discussion and Analysis of Operations
and Financial Condition**
December 31, 2007

Fort McMurray – Clearwater East and West projects

These projects, situated on the main McMurray oil sands fairway, have ready access and close proximity to infrastructure and services. The total area of the 100% working interest leases comprise approximately 28 sections (17,918 acres). The Ryder Scott Independent Resource Reports dated October 26, 2007 with an effective date of October 1, 2007 estimated 2.4 billion barrels of discovered resources ⁽ⁱ⁾ on these leases, of which over 200 million barrels has been assigned as contingent (recoverable) resources ⁽ⁱⁱ⁾. The Company drilled 15 core holes over 5 of the 28 sections in the first quarter of 2008 and encountered up to 50 metres of gross bitumen pay.

Hangingstone East

This area is comprised of 23 sections (14,720 acres) of 100% oil sands leases situated approximately 45 kilometres south west of Fort McMurray. During the fourth quarter of 2007, a total of 56 kilometres of 2D seismic was acquired and a 15 core hole program was completed. The Ryder Scott Independent Resource Report dated May 7, 2007 with an effective date of December 1, 2006 estimated 1.15 billion barrels of undiscovered bitumen ⁽ⁱ⁾ in place on this land.

In the first quarter of 2008, the Company entered into a pooling agreement with the Great Divide Oil Sands Partnership ("Great Divide"), a wholly owned affiliate of Connacher Oil and Gas, whereby the Company's 23 sections in Hangingstone East and Great Divide's 15.5 sections in the adjacent Halfway Creek properties were pooled into a joint ownership agreement. This resulted in the Company owning a 50% working interest in a 38.5 section contiguous land block in the Hangingstone East / Halfway Creek area.

Algar Lake and Other areas

During 2007 the crown purchases included 74 sections of oil sands leases in these areas. Specifically, 51 sections in Algar Lake (Hangingstone West) and 23 sections in other areas. The Ryder Scott Independent Resource Reports dated October 29, 2007 with an effective date of October 1, 2007 attributed 0.78 billion barrels of undiscovered bitumen ⁽ⁱ⁾ in place on the Algar Lake lands.

⁽ⁱ⁾ There is no certainty that any portion of the resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of the resources. For a description of the definition of, and the risks and uncertainties surrounding the disclosure of, undiscovered resources, see the sections entitled "Business Risks and Uncertainties" and "Disclosure of Resources" in this MD&A.

⁽ⁱⁱ⁾ There is no certainty that it will be commercially viable for the Company to produce any portion of the volumes currently classified as "contingent resources". For a description of the definition of, and the risks and uncertainties surrounding the disclosure of, contingent resources, see the sections entitled "Business Risks and Uncertainties" and "Disclosure of Resources" in this MD&A.

Alberta Oilsands Inc.
Management's Discussion and Analysis of Operations
and Financial Condition
December 31, 2007

Results of Conventional Operations

	Three months ended December 31		
	2007	2006	2005
Statement of Operations and Deficit			
Petroleum and natural gas sales (\$)	475,589	1,596,319	1,005,223
Petroleum & natural gas sales per boe (\$)	74.86	57.40	66.69
Daily sales volumes (boe 6:1)	69	302	164
Net loss for the period (\$)	(1,002,898)	(953,778)	(226,169)
Net loss per share – basic and diluted (\$)	(0.02)	(0.03)	(0.02)
Statement of Cash Flows			
Funds flow (used in) from operations (\$)	(418,165)	85,904	221,121
Net capital expenditures (\$)	4,681,196	765,833	4,700,951
Weighted average number of shares			
- basic and diluted	53,278,147	28,741,885	21,059,387

	Years ended December 31		
	2007	2006	2005
Statement of Operations and Deficit			
Petroleum and natural gas sales (\$)	2,980,974	5,766,744	2,431,134
Petroleum & natural gas sales per boe (\$)	67.08	63.25	63.72
Daily sales volumes (boe 6:1)	122	250	105
Net loss for the year (\$)	(2,754,755)	(1,420,409)	(445,943)
Net loss per share – basic and diluted (\$)	(0.06)	(0.05)	(0.03)
Statement of Cash Flows			
Funds flow (used in) from operations (\$)	(748,317)	1,673,671	438,831
Net capital expenditures (\$)	20,221,545	4,534,398	7,528,862
Weighted average number of shares			
- basic and diluted	42,765,794	25,964,131	15,701,290

Alberta Oilsands Inc.
Management's Discussion and Analysis of Operations
and Financial Condition
December 31, 2007

Production

	Three months ended December 31		Years ended December 31	
	2007	2006	2007	2006
Oil and NGL (bbls/day)	64	290	115	234
Natural gas (mcf/day)	29	77	41	95
boe/day (6:1)	69	302	122	250

During the fourth quarter of 2007 the Company's production decreased to 69 boe per day as compared to 302 boe per day in the fourth quarter of 2006. For the year ended December 31, 2007 the Company produced 122 boe per day compared to 250 boe per day for the 2006 year. This decrease is primarily the result of the sale of the Crystal Hills, Macoun and Hume properties in Saskatchewan during the first quarter of 2007. Production volumes and related revenue, royalties and operating costs were included up to the date of closing of the transaction.

	Three months ended December 31		Years ended December 31	
	2007	2006	2007	2006
Commodity Prices				
Oil and NGL (\$/bbl)	77.60	58.53	68.26	65.14
Natural gas (\$/mcf)	6.34	5.32	6.68	5.88
Boe (\$/boe)	74.86	57.40	67.08	63.25
Revenues (\$)				
Oil and NGL	458,862	1,558,809	2,881,430	5,562,816
Natural gas	16,727	37,511	99,544	203,928
Total	475,589	1,596,320	2,980,974	5,766,744

Commodity prices for the fourth quarter increased from the third quarter of 2007 to \$77.60 per barrel for oil and NGL's and \$6.34 per mcf for natural gas. This compares to \$58.53 per barrel and \$5.32 per mcf for the comparative 2006 period. The average prices received in 2007 are slightly higher than those received in 2006. These increased commodity prices assisted somewhat in offsetting the reduced volumes which were disposed of in the first quarter of 2007.

During 2006, the Company entered into a commodity collar for the sale of 100 barrels of oil per day from October 1, 2006 to December 31, 2007 at a ceiling strike price of U.S. \$77.20 per barrel and a floor strike price of U.S. \$60.00 per barrel. In March 2007, the Company had a partial termination of this contract whereby it amended the quantity to 50 barrels of oil per day at the same ceiling and floor strike prices. As at December 31, 2007, the contract was fulfilled and the realized loss of \$18,097 from the contract is included in petroleum and natural gas sales.

Alberta Oilsands Inc.
Management's Discussion and Analysis of Operations
and Financial Condition
December 31, 2007

Royalties and Operating Expenses

	Three months ended December 31		Years ended December 31	
	2007	2006	2007	2006
Royalties (\$)	92,854	232,575	488,752	667,800
% of revenues	20	14	16	12
\$/boe	14.62	8.36	11.00	7.32
Operating and transportation expenses (\$)	244,553	450,810	1,025,564	1,456,003
\$/boe	38.49	16.21	23.08	15.97

Royalties for the fourth quarter of 2007 were 20% of revenues as compared to 14% in the fourth quarter of 2006. On both a percentage and a boe basis, royalties increased in the year ended December 31, 2007 as compared to the year ended 2006 due to the disposition of the Saskatchewan production and the current production profile of the Company.

Operating costs for the fourth quarter of 2007 were \$244,553 or \$38.49 per boe as compared to \$450,810 or \$16.21 per boe for the same period of 2006. The increase on a boe basis for the fourth quarter and full year is a result of the Company's current production profile as the properties that were sold during the first quarter of 2007 had lower operating costs.

Netbacks (\$/boe)

	Three months ended December 31		Years ended December 31	
	2007	2006	2007	2006
Revenue	74.86	57.40	67.08	63.25
Royalties	14.62	8.36	11.00	7.32
Operating expenses	38.49	16.21	23.08	15.97
Field netbacks	21.75	32.83	33.00	39.96

General and administrative expense

General and administrative expenditures totalled \$486,627 for the fourth quarter of 2007 as compared to \$421,406 for the comparative 2006 period. General and administrative expenses for the year ended December 31, 2007 were \$2,083,049 which is 72% greater than the 2006 amount of \$1,212,252. In addition \$117,083 of general and administrative expenses was capitalized to property and equipment as they related to the development of the Company's oil sands properties

The increase in the expenses in 2007 relate to the change in focus and direction of the Company. In 2007, the Company commenced the pursuit of exploration in the bitumen reserves in the Athabasca oil sands area of Alberta. This pursuit required the addition of personnel, consultants and expenditures related to this exploration

Alberta Oilsands Inc.
Management's Discussion and Analysis of Operations
and Financial Condition
December 31, 2007

Business development expenses

During the three months ended December 31, 2007, the Company incurred \$119,391 of business development expenses related to the pursuit of projects outside of the conventional Canadian oil and gas exploration and development. These expenditures totalled \$227,737 for the year ended December 31, 2007 as compared to \$641,930 for the 2006 year. They include consulting and related costs as well as costs associated with the on-going pursuit of additional financing to support any potential transactions.

Stock-based compensation

Stock-based compensation for the three months and year ended December 31, 2007 was \$411,401 and \$2,380,158, respectively, compared to \$13,622 and \$205,389 for the same 2006 periods. In addition, \$524,367 of stock-based compensation and \$152,066 of related future income taxes was capitalized to property and equipment. The increase in this expense is related to the approximately 3.5 million options granted in 2007 plus the expense from the approximately 1.6 million options granted during 2006. The fair value of options is estimated at the time of granting and is recognized as stock-based compensation over the vesting period of the options. Stock-based compensation for options granted to consultants is based on the estimated fair value recalculated at each balance sheet date until the related options are fully vested. Stock-based compensation expense related to options granted to individuals whose salary and or consulting fees are capitalized is included in property and equipment.

Interest and financing fee expenses

Interest expense in the amount of \$14,472 and \$155,450, respectively, was incurred during the three months and year ended December 31, 2007. Upon the disposition of certain properties in March 2007, the Company repaid both of its bank and bridge credit facilities. The subsequent interest expense related to the flow-through interest from the 2006 flow-through financing for which the expenditures were incurred in 2007. A total of \$76,869 was accrued until all of the qualifying expenditures had been incurred. This interest expense was paid at the end of February 2008.

The Company signed a bridge facility in October 2007 for a maximum amount of \$5.0 million. The facility matures on June 30, 2008 and bears interest at 9% per annum with a deferred fee of 4% on any amounts repaid under this facility. A commitment fee in the amount of \$175,000 was satisfied by a \$25,000 cash payment and the issuance of 116,279 common shares of the Company. This amount, plus the \$19,643 deferred fee from the 2006 bridge facility has been expensed during the year ended December 31, 2007. No amounts to date have been borrowed under this facility.

The comparative 2006 interest expense was \$52,556 and \$137,023 respectively, for the three month and year end periods ending December 31 relating to the bank debt, bridge facility and flow-through interest.

Alberta Oilsands Inc.
Management's Discussion and Analysis of Operations
and Financial Condition
December 31, 2007

Depletion, depreciation and accretion

	Three months ended December 31		Years ended December 31	
	2007	2006	2007	2006
Depletion and depreciation (\$)	245,526	1,343,008	1,730,103	3,502,086
\$/boe	38.65	48.29	38.93	38.41
Accretion (\$)	15,678	17,927	60,941	67,613
\$/boe	2.47	0.64	1.37	0.74

The total depletion, depreciation and accretion charge for the fourth quarter of 2007 was \$261,204 (\$41.12 per boe) and was \$1,791,044 (\$40.30 per boe) for the year ended December 31, 2007. The decrease over the comparative 2006 periods is related to production volume decreases from the disposition during the first quarter of 2007. A ceiling test impairment in the amount of \$211,900 was included in the third quarter 2007 depletion expense. There was no impairment on the Company's conventional petroleum properties as at December 31, 2007.

Capital Expenditures

During the three months and year ended December 31, 2007, the Company spent \$4,681,196 and \$20,221,545, respectively, on its capital program. A total of 3.0 gross wells (2.2 net) were drilled during 2007 as compared to 9.0 gross (4.5 net) wells in 2006.

Capital spending is summarized as follows:

Capital expenditures	Three months ended December 31		Years ended December 31	
	2007	2006	2007	2006
Land and seismic	1,182,020	22,383	15,645,996	140,775
Drilling and completions	3,421,971	506,878	4,135,086	3,251,284
Tangible equipment	77,205	236,572	366,819	1,114,310
Office	–	–	73,644	28,029
Total	4,681,196	765,833	20,221,545	4,534,398

The main focus for the Company during 2007 has been in acquiring leases and commencing seismic and delineation drilling in the Athabasca oil sands area of Alberta. A total of \$14.0 million has been spent to December 31, 2007 on acquiring such leases and \$4.5 million has been spent on the seismic and delineation drilling.

During March 2007, the Company closed the sale of certain conventional oil and gas properties in Saskatchewan. The properties included the Company's interests in the Crystal Hill, Macoun, Hume and Viewfield areas. The gross sale proceeds, prior to adjustments and transaction costs, were \$8.0 million. After adjustments the Company received net proceeds of \$7.8 million. Since the disposition altered the rate of depletion by greater than 20%, the proceeds were applied against the net book value for the properties resulting in an estimated gain on the disposition of \$2,244,439.

Alberta Oilsands Inc.
Management's Discussion and Analysis of Operations
and Financial Condition
December 31, 2007

Liquidity and Financial Position

The Company commenced 2007 with a working capital deficit of \$3,316,049. The major strategic change from the sale of the south east Saskatchewan properties provided net proceeds of \$7.9 million which were used to pay off both the bank and bridge facilities. During the second quarter of 2007, \$25.0 million was raised through private placements of both common and flow-through shares which after issue costs provided net proceeds of \$23.5 million. An additional \$300,000 was raised in December 2007 from individual investors and \$200,000 from options exercised.

During the year ended December 31, 2007, the Company incurred \$20,221,545 of capital expenditures and \$748,317 on operating activities.

In order to provide flexibility for future financings and to allow the Company to continue its exploration program, a bridge credit facility for a maximum amount of \$5.0 million was established with a Canadian financial institution. The facility bears interest at 9% per annum with a deferred fee of 4% on any amounts repaid under the facility and matures on June 30, 2008. As at December 31, 2007 and the date of this MD&A, the Company had not drawn any amount under this facility.

The Company exited 2007 with working capital surplus of \$7,664,662 and the requirement to spend approximately \$11.7 million on qualifying flow-through expenditures by December 31, 2008.

In January 2008, pursuant to a non-brokered private placement, the Company issued approximately 8.7 million common shares at a price of \$0.93 per share for gross proceeds of \$8.1 million. In addition, early in 2008, the Company signed a pooling agreement that will provide joint ownership in additional sections of land. This pooling agreement will provide the Company with an estimated \$2.5 million of funds based on expenditures incurred to December 31, 2007.

This increased working capital is expected to not only provide the Company with the cash resources to complete the flow-through requirements by the end of 2008 but also provide for additional capital expenditures.

The Company's policy is to ensure that the investments are liquid and not to invest in asset backed commercial paper products.

Share Capital

Common shares

The Company commenced 2007 with 28,817,144 common shares outstanding. During the year, a total of 638,968 options were exercised for the same number of common shares and a total of 14,848,500 shares on a flow-through basis and 9,121,207 common shares were issued upon closing of private placements and 116,279 common shares were issued for financing fees on a bridge facility. As at December 31, 2007 the total number of common shares outstanding was 53,542,098. Subsequent to December 31, 2007, 8,709,677 common shares were issued pursuant to a non-brokered private placement. As a result, at the date of this MD&A, the total number of common shares outstanding is 62,251,775.

Alberta Oilsands Inc.
Management's Discussion and Analysis of Operations
and Financial Condition
December 31, 2007

Stock Options

The Company commenced 2007 with a total of 2,604,000 stock options outstanding. During the year, a total of 3,474,373 options were granted, 638,968 were exercised and 313,000 were cancelled resulting in 5,126,405 options outstanding as at December 31, 2007. Subsequent to December 31, 2007, 87,097 stock options were granted which increased the total outstanding to 5,213,502 as at the date of this MD&A.

Contractual Obligations and Commitments

Flow-through expenditures

At the end of June 2006, the Company raised \$2,001,300 of flow-through proceeds. In February 2007, the Company renounced the tax benefits of these proceeds to the investors effective December 31, 2006 and incurred the eligible expenditures by the end of December 31, 2007.

As a result of the \$13.0 million of flow-through financings that closed during 2007, the Company renounced the tax benefits of these proceeds to the investors effective December 31, 2007 and must incur the eligible expenditures by December 31, 2008. As at the end of 2007, approximately \$1.3 million of expenditures had been incurred resulting in the remaining \$11.7 million of qualifying expenditures to be incurred by December 31, 2008.

Lease commitment

The Company's lease for office premises expired February 2007 and is currently paying monthly office rental of \$12,500.

Other commitment

The Company has granted a two percent gross overriding royalty on specific properties to a consultant who subsequently became an employee. The carrying amount of the respective lands is \$3.2 million. In addition, the individual has also been allocated an amount equal to 10% of all future stock options which become capable of being granted by the Company as a result of an increase in the number of issued and outstanding common shares resulting from future equity financings.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Other

The Company entered into a commodity contract effective October 1, 2006 which terminated December 31, 2007. The contract was for the notional quantity of 100 barrels per day at a ceiling strike price of \$USD 77.20 per barrel and a floor strike price of \$USD 60.00 per barrel.

In March 2007, the Company elected to a partial termination of this contract whereby it amended the quantity to 50 barrels of oil per day at the same ceiling and floor strike prices. As at December 31, 2007, the contract was fulfilled and the realized loss of \$18,097 from the contract is included in petroleum and natural gas sales.

Alberta Oilsands Inc.
Management's Discussion and Analysis of Operations
and Financial Condition
December 31, 2007

Related Party Transactions

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

- a) During the year ended December 31, 2007, the Company was charged \$304,716 (2006 – \$79,401) in legal fees by legal firms in which directors and officers of the Company are partners. Included in accounts payable at December 31, 2007 is \$83,911 (2006 – \$53,496) due to the legal firms.
- b) During the year ended December 31, 2007, the Company paid \$383,400 (2006 - \$79,900) to an individual prior to him becoming an employee and officer of the Company. Included in accounts receivable at December 31, 2007 is \$6,342 due from this employee for which payment was received subsequent to December 31, 2007.
- c) During the year ended December 31, 2007, the Company paid \$139,050 (2006 - \$112,600) in consulting fees to an individual prior to him becoming an employee and officer of the Company. In addition, the Company was charged \$25,373 (2006 - \$450) for geological expenses from a corporation controlled by this individual.
- d) During the year ended December 31, 2007 the Company loaned an employee and officer a total of \$65,000 on a non-interest bearing note. This note was repaid prior to December 31, 2007.

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

Selected Historical Financial Information

	2007				
	4 TH QUARTER	3 RD QUARTER	2 ND QUARTER	1 ST QUARTER	TOTAL
Petroleum and natural gas revenue	475,589	507,374	487,642	1,519,356	2,980,974
Net income (loss)	(1,002,898)	(1,688,739)	(1,378,661)	1,315,540	(2,754,755)
Net income (loss) per share – basic and diluted	(0.02)	(0.03)	(0.02)	0.05	(0.06)
Funds (used in) from operations	(418,165)	(231,667)	(703,819)	605,332	(748,317)
Capital expenditures	4,681,196	7,658,343	4,112,925	3,769,082	20,221,545

	2006				
	4 TH QUARTER	3 RD QUARTER	2 ND QUARTER	1 ST QUARTER	TOTAL
Petroleum and natural gas revenue	1,596,319	1,557,261	1,637,241	975,923	5,766,744
Net income (loss)	(953,778)	(273,508)	94,319	(287,442)	(1,420,409)
Net income (loss) per share – basic and diluted	(0.03)	(0.01)	0.00	(0.01)	(0.05)
Funds from operations	85,904	639,789	758,549	189,429	1,673,671
Capital expenditures	765,833	1,005,688	977,665	1,785,212	4,534,398

Alberta Oilsands Inc.
**Management's Discussion and Analysis of Operations
and Financial Condition**
December 31, 2007

Outlook

Fiscal 2008 has started with three successful drilling programs. Our 15 core holes at Clearwater East and West projects encountered 15 to 50 metres of gross bitumen pay in the McMurray formation. The 19 core holes in Hangingstone East / Halfway Creek confirmed the presence of bitumen and suggest further delineation is required to locate the channels.

Our objectives for 2008 are to pursue the goal of bringing the Clearwater project to production in 2011 / 2012 and to advance our Hangingstone project with our new partner and established oil sands producer Connacher Oil and Gas Limited.

We continue to maintain our strong balance sheet. The \$8.1 million equity financing in January 2008 and a focused winter drilling program designed to provide the maximum value for the capital expended should see us exit the second quarter of 2008 with approximately \$7.0 million cash and no debt. This would allow us to undertake the appropriate environmental studies to fast track the commercial project applications in the latter half of 2009 following the 2008 / 2009 core drilling program.

We expect our 2009 capital budget to be in the range of \$30 to \$40 million and we continue to research and evaluate multiple approaches to find the best means of financing our future capital expenditures. Our preference is to proceed with the projects on a 100% working interest basis, provided the capital markets recognize the underlying value of the assets and facilitate the raising of the required capital at non-dilutive levels. Alternatively, we may seek industry or financial partners, which would reduce our working interest in the projects, but mitigate our financial market risk. You can be assured that we are mindful of this decision and will act in what we believe is the best interest of our shareholders.

We intend to be proactive in facing the environmental issues that are becoming a significant component of our business. Heightened public and government awareness of this issue has created grounds for new environmental regulatory framework that is affecting the energy industry. Our project development strategy will identify and respond to these challenges by incorporating the necessary technology to minimize our environmental impact.

We believe the demand for energy in the foreseeable future will remain robust due to continued growth in emerging industrial economics in Asia, resulting in strong and sustained energy prices. Although we are aware of labour demands, equipment and material cost inflation, we expect that our projects will continue to be economically viable and that our ability to create long term value will remain strong.

The Government of Alberta announced revisions to the royalty program for oil sands production. The Government did not grandfather existing oil sands operations and introduced a price sensitive sliding scale royalty for bitumen production which, at all price levels for West Texas Intermediate ("WTI") above US\$55.00 per barrel, results in higher royalties for bitumen production than under the present regime, whether before or after payout. While we would have preferred to see the existing regime stay in place, given that this was the basis for our original capital investment decisions, the emergence of much higher prices for crude oil appears to be the driving force for the change. The Company does not expect the new policy to impair its decision to proceed with the continuing evaluation of its oil sands acreage.

On March 10, 2008, the Federal government announced new regulations regarding carbon dioxide emissions and sequestration which will impact future oil sands projects and coal fired electrical generation plants. The impact these measures will have on oil and natural gas exploration and development is not known at this time.

Alberta Oilsands Inc.
Management's Discussion and Analysis of Operations
and Financial Condition
December 31, 2007

Business Risks and Uncertainties

The risks and uncertainties below are not the only ones facing the Company. Additional risks and uncertainties not presently known to the Company or that the Company currently considers immaterial may also impair the business and operations of the Company and cause the price of the securities of the Company to decline. If any of the following risks actually occur, the Company's business may be harmed and the financial condition and results of operation may suffer significantly. In that event, the trading price of the shares could decline and shareholders may lose all or part of their investment. Prospective investors should review the risks with their legal and financial advisors and should consider, in addition to the matters set forth elsewhere in this prospectus, the following risks of purchasing shares.

An investment in the securities of the Company is suitable only for purchasers who are aware of such risks and who have the ability and willingness to accept the risk of total loss of their invested capital.

Stage of Development

The business of the Company should be considered speculative due to its present stage of development. There can be no assurance that the Company will be able to sustain or increase its revenue or net income in the future.

Speculative Nature of Exploratory and Developmental Activities

The Company's exploration and development activities are focused on undeveloped oil sands rights which are high-risk ventures with uncertain prospects for success. In addition, the Company's initial operations in this area are exploratory only, which increases the degree of risk substantially as compared to properties in the development stage. The Company will have no earnings to support it should the wells drilled or properties acquired prove not to be commercially viable.

The Company's exploration and development activities in its oil sands interests will depend in part on the evaluation of data obtained through geophysical testing and geological analysis. The results of such studies and tests are often subject to varying interpretations, and no assurances can be given that such activities will produce natural gas in commercial quantities. Additional data required for proper evaluation of its oil sands interests will become available after drilling. The exploration and development activities that will be undertaken by the Company are subject to greater risks than those normally associated with the acquisition and ownership of producing properties. The drilling of development wells, although generally consisting of drilling in areas believed to be productive, may result in a failure to produce hydrocarbons in commercial quantities. Moreover, any drilling of exploration wells is subject to inherent uncertainties as discussed in more detail below.

Additional Financing Requirements

From time to time, the Company may require additional financing in order to execute its acquisition, exploration and development programs. Failure to obtain financing in a timely manner or on favourable terms could cause the Company to dispose of working interests in properties, pass up acquisition opportunities and reduce or shut-in its operations. If the Company's cash flow from operations is not sufficient to satisfy its capital expenditure budget, there can be no assurance that additional financing or additional financing on favourable terms will be available to meet these requirements.

If alternative sources of financing are required, but are insufficient or unavailable, the Company will be required to modify its growth and operating plans in accordance with the extent of available funding, which could have an adverse effect on the Company's business and results of operations.

Alberta Oilsands Inc.

Management's Discussion and Analysis of Operations and Financial Condition

December 31, 2007

Issuance of Debt

From time to time the Company may enter into transactions to acquire assets or the shares of other Companies. These transactions may be financed partially or wholly with debt, which may increase the Company debt levels above industry standards. Depending on future exploration and development plans, the Company may require additional equity and/or debt financing that may not be available or, if available, may not be available on favourable terms. Neither the Company's articles nor its by-laws limit the amount of indebtedness that the Company may incur. The level of the Company indebtedness from time to time could impair the Company's ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

Dependence Upon Key Personnel

The Company's success depends upon its ability to attract, train and retain highly qualified key management and operations personnel. Hiring employees with the combination of skills and attributes required to carry out the Company's strategy is competitive. Such employees may voluntarily terminate their employment with the Company at any time. There can be no assurance that the Company will be able to retain or to successfully identify, attract, hire and train additional qualified personnel. The loss of the services of key personnel or the inability to attract additional qualified personnel could have a material adverse effect on the Company's business and results of operations. The Company does not expect to obtain key man insurance on its management in the near future.

Resources and Reserves

The process of estimating natural gas and oil resources and reserves is complex and involves a significant number of decisions and assumptions in evaluating available geological, geophysical, engineering and economic data. As a result of these complexities, resource and reserves estimates are inherently uncertain. In addition, there are numerous uncertainties in forecasting the amounts and timing of future drilling, production, costs, expenses and the results of exploration and development projects. All estimates are, to some degree, uncertain and classifications of resources and reserves are only attempts to define the degree of uncertainty involved. For these reasons, estimates of the economically recoverable resources and reserves attributable to any particular group of properties, the classification of such reserves based on risk of recovery and the standardized measure of discounted future net cash flows, prepared by different engineers or by the same engineers at different times, may vary substantially. The Company's actual production, taxes and development and operating expenditures with respect to its resources and reserves will likely vary from such estimates, and such variances could be material.

Estimates with respect to resources and reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reservoirs, rather than upon actual production history. Estimates based on these methods generally are less reliable than those based on actual production history. Subsequent evaluation of the same resources and reserves based upon production history will result in variations, which may be material, in the estimated resources and reserves.

Stakeholder Consultation and Approvals

Each singular development and each phase of development are subject to participant involvement (stakeholder consultation and notification) pursuant to a variety of laws and regulations in the areas in which the Company does business. These regulations apply to the Company's business as they apply to other companies or enterprises in the energy industry.

Alberta Oilsands Inc.
**Management's Discussion and Analysis of Operations
and Financial Condition**
December 31, 2007

Stakeholder consultation and notification regulations impose, among other things, suggested and prescribed stakeholder consultation, notification and communication planning methodology, stakeholder audiences, minimum radii of personal contact and notification, communication quality and effectiveness, communication mediums, tools and content, contact timing, co-operation methodology and communication audit documentation.

Participant involvement compliance can require significant expenditures and may involve considerable effort that may impact the timing of exploration, production and development activities. However, failure to comply with participant involvement legislation may result in the Company's inability to obtain the necessary licenses and permits required to carry out the Company's exploration and development programs. At the same time there can be no assurance that the Company will be able to obtain all of the necessary licenses and permits required for its exploration and development programs.

The Company does not expect that participant involvement regulations will affect the operations of the Company in a manner materially different than they would affect other companies of similar size in the industry.

Environmental

All phases of the natural gas and oil business are subject to environmental regulation pursuant to a variety of laws and regulations in the areas in which the Company does business. These regulatory regimes are laws of general application that apply to the Company's business in the same manner as they apply to other companies or enterprises in the energy industry. Environmental legislation imposes, among other things, restrictions, liabilities and obligations in connection with the generation, handling, storage, transportation, treatment and disposal of hazardous substances and waste and in connection with spills, releases and emissions of various substances to the environment. Environmental legislation also requires that pipelines, wells, facility sites and other properties associated with the Company's operations be constructed, operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Certain types of operations, including exploration and development projects, may require the development, submission and approval of environmental impact assessments or permit applications. In some cases, exploration and development activities may be precluded or restricted due to designation of areas (present and future) as environmentally-sensitive or exploration-restricted areas. Compliance with environmental legislation can require significant expenditures and failure to comply with environmental legislation may result in the imposition of fines and penalties and liability for clean up costs and damages. Additionally, the Company's business is subject to the trend toward increased civil liability for environmental matters. Although the Company currently believes that the costs of complying with environmental legislation and dealing with environmental civil liabilities will not have a material adverse effect on the Company's financial condition or results of operations, there can be no assurance that such costs in the future will not have such an effect.

Regulation

Natural gas and oil operations are subject to extensive legislative and regulatory controls imposed by various levels of government, which may be amended from time to time. Existing laws and regulations may be revised or new laws and regulations may become applicable to the Company that may have a negative effect on the Company's business and results of operations. The Company monitors and complies with current government regulations that affect its activities, although operations may be adversely affected by changes in government policy, regulations or taxation. There can be no assurance that the Company will be able to obtain all of the necessary licenses and permits that may be required to carry out the Company's exploration and development programs. It is not expected that any of these controls or regulations will affect the operations of the Company in a manner materially different than they would affect other natural gas and oil companies operating in the areas in which the Company operates.

Alberta Oilsands Inc.

Management's Discussion and Analysis of Operations and Financial Condition

December 31, 2007

Recent Regulatory Changes and Announcements

On October 25, 2007, the Government of Alberta unveiled a new royalty regime. The new regime will introduce new royalties for conventional oil, natural gas and bitumen effective January 1, 2009 that are linked to price and production levels and will apply to both new and existing oil sands projects and conventional oil and gas activities. The implementation of the proposed changes to the royalty regime in Alberta is subject to certain risks and uncertainties, but it is expected to result in increased royalties or other levies applicable to the Company's properties. The significant changes to the royalty regime require new legislation, changes to existing legislation and regulation and development of proprietary software to support the calculation and collection of royalties. Additionally, certain proposed changes contemplate further public and/or industry consultation. There may be modifications introduced to the proposed royalty structure prior to the implementation thereof. However, as the Company based its capital investment decisions on the royalty regime currently in place, the changes to such regime could result in an adverse effect on the Company's business and results of operations.

On March 10, 2008, the Federal Government of Canada announced new regulations regarding carbon dioxide emissions and sequestration which will impact future oil sands projects and coal fired electrical generation plants. The impact of these measures on oil and natural gas exploration and development, including with respect to the development of the Company's properties, is not known at this time. If the new regulations require a substantial increase in the capital required to complete and operate oil sands projects, this could have a material adverse effect on the Company's business and results of operations.

SAGD Bitumen Recovery Process

The Company currently intends to use steam assisted gravity drilling (SAGD) in its oil sands projects. The recovery of bitumen using the SAGD process is subject to uncertainty. The SAGD process has had limited operating history in commercial projects and there can be no assurance that the Company will be able to utilize the SAGD process on its oil sands properties in a manner which is commercially viable. A failure by the Company to realize commercial benefits from SAGD operations could have a significant adverse impact on the future activities and economic performance of the Company's oil sands properties.

Commodity Prices

The Company's revenues, cash flows, earnings, cost of capital, asset values, results of operations and financial condition will be dependent upon the prevailing price of crude oil and natural gas. Oil prices have historically been extremely volatile and fluctuate significantly in response to regional, national and global supply and demand factors beyond the Company's control. Among the factors that can cause oil price and natural gas price fluctuation are:

- the level of consumer product demand;
- the domestic and foreign supply of natural gas and crude oil, including the decisions of the Organization of Petroleum Exporting Countries relating to export quotas and their compliance or non-compliance with such self-imposed quotas;
- weather conditions, including hurricanes, floods and other natural disasters;
- domestic and foreign governmental regulations;
- the effect of worldwide conservation of resources;
- the price and availability of alternative fuels, including liquefied natural gas;
- political conditions in crude oil and natural gas producing regions, including wars, terrorist activities and other hostilities;
- the proximity of reserves to, and capacity of, transportation facilities;
- the price of foreign imports of crude oil and natural gas;
- overall global and domestic economic conditions; and
- concern over climate change and emissions.

Alberta Oilsands Inc.
**Management's Discussion and Analysis of Operations
and Financial Condition**
December 31, 2007

Any material decline in such prices could result in a material reduction of the Company's operating results, production revenue, reserves, overall value and could also result in the determination that production of the Company's oil sands projects are no longer commercially feasible.

Exploration, Development and Production Risks

Oil sands exploration development and production involves many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of the Company depends on its ability to find, acquire, develop and commercially produce hydrocarbons gas reserves. Without the continual addition of new reserves, the Company's existing reserves and the production therefrom will decline over time as such existing reserves are exploited.

A future increase in the Company's reserves will depend not only on its ability to explore and develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. No assurance can be given that the Company will be able to continue to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, the Company may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. There is no assurance that further commercial quantities of natural gas or oil will be discovered or acquired by the Company.

Future oil sands exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient petroleum substances to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

Oil sands exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering, sour gas releases and spills, each of which could result in substantial damage to wells, production facilities, other property and the environment or personal injury. In accordance with industry practice, the Company is not fully insured against all of these risks, nor are all such risks insurable. Although the Company maintains liability insurance in an amount that it considers appropriate, the nature of these risks is such that liabilities could exceed policy limits, in which event the Company could incur significant costs that could have a material adverse effect upon its financial condition. Production operations are also subject to all the risks typically associated with such operations, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations. Losses resulting from the occurrence of any of these risks could have a material adverse effect on the Company.

Operational Hazards

Hazards, such as unusual or unexpected geological formations, high pressures or other conditions are involved in drilling and operating wells. The Company may become subject to liability for pollution, blowouts or other hazards against which it may not have sufficient insurance to cover such events, or that the

Alberta Oilsands Inc.

Management's Discussion and Analysis of Operations and Financial Condition

December 31, 2007

Company may elect not to insure against because of high premium costs or other reasons. The payment of such liabilities will reduce the funds available to the Company or could result in the total loss of the Company's property.

Availability of Drilling Equipment

The supply of service and production equipment at competitive prices is critical to the ability to add reserves at a competitive cost, and produce them in an economic and timely fashion. In periods of increased activity, these services and supplies can become difficult to obtain. The Company has attempted to mitigate this risk by developing strong long-term relationships with suppliers and contractors, and maintaining an appropriate inventory of production equipment.

Project Risks

The Company manages a variety of small and large projects in the conduct of its business. Project delays may delay expected revenues from operations. Significant project cost over-runs could make a project uneconomic. The Company's ability to execute projects and market its production depends upon numerous factors beyond the Company's control, including:

- the availability of processing capacity;
- the availability and proximity of pipeline capacity;
- the supply of and demand for natural gas and oil;
- the availability of alternative fuel sources;
- the effects of inclement weather;
- the availability of drilling and related equipment;
- unexpected cost increases;
- accidental events;
- currency fluctuations;
- the availability and productivity of skilled labour; and
- regulation of the natural gas industry by various levels of government and governmental agencies.

Because of these factors, the Company could be unable to execute projects on time, on budget or at all, and may not be able to effectively market its production.

Estimated Operating Expenses

As a result of the Company's formative stage of development, its estimates of operating expenses may not be accurate. The Company is vulnerable to market prices and fixed costs, including costs associated with operations, leases, labour costs, and depreciation which account for a significant portion of the Company's costs and expenses. If actual operating expenses are higher than estimated, the Company's profit margin will be lower than expected and the Company's business and results of operations may be adversely affected.

Management of Growth

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expend, train and manage its employee base. The inability of the Company to deal with this growth could have a material adverse impact on its business, operations and prospects.

Alberta Oilsands Inc.
**Management's Discussion and Analysis of Operations
and Financial Condition**
December 31, 2007

Expiration of Licences and Leases

The Company's properties are held in the form of licences and leases and working interests in licences and leases. If the Company or the holder of the licence or lease fails to meet the specific requirement of a licence or lease, the licence or lease may terminate or expire. There can be no assurance that any of the obligations required to maintain each licence or lease will be met. The termination or expiration of the Company's licences or leases or the working interests relating to a licence or lease may have a material adverse effect on the Company's results of operations and business.

Aboriginal Claims

Aboriginal peoples have claimed aboriginal title and rights to portions of western Canada. The Company is not aware that any claims have been made in respect of its properties. However, if a claim arose and was successful this could have an adverse effect on the Company and its operations.

Seasonality

The level of activity in the Canadian oil and natural gas industry is influenced by seasonal weather patterns. Wet weather and spring thaw may make the ground unstable. Consequently, municipalities and provincial transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. Also, certain oil and natural gas producing areas including areas in which the Company has properties are inaccessible during certain non-winter months because the ground surrounding the sites in these areas consists of swampy terrain. Seasonal factors and unexpected weather patterns may lead to declines in exploration and production activity and corresponding declines in the demand for the goods and services of the Company.

Third Party Credit Risk

The Company is or may be exposed to third party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of its petroleum and natural gas production and other parties. In the event such entities fail to meet their contractual obligations to the Company, such failures could have a material adverse effect on the Company and its cash flow from operations. In addition, poor credit conditions in the industry and of joint venture partners may impact a joint venture partner's willingness to participate in the Company's ongoing capital program, potentially delaying the program and the results of such program until the Company finds a suitable alternative partner.

Conflicts of Interest

The directors or officers of the Company may also be directors or officers of other oil and natural gas companies or otherwise involved in natural resource exploration and development and situations may arise where they are in a conflict of interest with the Company. Conflicts of interest, if any, that arise will be subject to and governed by procedures prescribed by the *Business Corporations Act* (Alberta) ("ABCA") which require a director or officer of a Company who is a party to, or is a director or an officer of, or has a material interest in any person who is a party to, a material contract or proposed material contract with the Company disclose his or her interest and, in the case of directors, to refrain from voting on any matter in respect of such contract unless otherwise permitted under the ABCA.

Hedging

The Company is exposed to commodity price and market risk for its production. Commodity prices are influenced by a wide variety of factors, most of which are beyond the Company's control. To manage this risk, the Company will consider entering into short-term financial derivatives for hedging purposes. These derivatives could include contracts related to natural gas and oil prices. Inflation also subjects the

Alberta Oilsands Inc.

Management's Discussion and Analysis of Operations and Financial Condition

December 31, 2007

Company to potential erosion of product netbacks. For example, increased domestic prices for natural gas and oil production equipment and services can inflate the cost of operations.

Competition

Competition among natural gas and oil exploration and development companies is significant. Many of the Company's competitors are substantially larger and have substantially greater revenues than the Company's overall greater financial resources and better access to capital at more favourable terms than the Company. The Company's ability to generate revenues depends on its ability to successfully exploit existing reserves and locate additional reserves and the ability of the Company to do this may be hindered by the Company's competitive disadvantage.

Disclosure of Resources

"Resources" are quantities of petroleum that are estimated to exist originally in naturally occurring accumulations, including the quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations, prior to production, plus those estimated quantities in accumulations yet to be discovered.

"Contingent resources" are defined as those quantities of petroleum estimated, on a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political and regulatory matters or a lack of markets. It is also appropriate to classify as "contingent resources" the estimated discovered recoverable quantities associated with a project in the early project stage.

"Undiscovered resources" are defined as that portion of undiscovered petroleum initially-in-place which is estimated, as of a given date, not to be recoverable by future development projects. A portion of these quantities may become recoverable in the future as commercial circumstances change or technological developments occur; the remaining portion may never be recovered due to the physical/chemical constraints represented by subsurface interaction of fluids and reservoir rocks.

There is no certainty that it will be commercially viable for the Company to produce any portion of its volumes currently classified as "contingent resources". The primary contingencies which currently prevent the classification of the Company's disclosed contingent resources associated with its Fort-McMurray properties as "reserves" consist of: current uncertainties around the specific scope and timing of the development of its Fort-McMurray properties; proposed reliance on technologies that have not yet been demonstrated to be commercially applicable in oil sands applications; lack of regulatory approvals; the uncertainty regarding marketing plans for production from the subject areas; and improved estimation of project costs. There are a number of inherent risks and contingencies associated with such development, including commodity price fluctuations, project costs and those other risks and contingencies discussed in more detail in the section entitled "Business Risks and Uncertainties" in this MD&A.

Resources, undiscovered resources and contingent resources do not constitute, and should not be confused with, reserves.

Alberta Oilsands Inc.
Management's Discussion and Analysis of Operations
and Financial Condition
December 31, 2007

Disclosure Controls and Procedures

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosure. The Company's President and Executive Chairman have concluded, based on their evaluation as of December 31 2007 that the Company's disclosure controls and procedures are designed and operating to provide reasonable assurance that material information related to the Company is made known to them by others within the entity. It should be noted that while the Company's President and Executive Chairman believe that our disclosure controls and procedures provide a reasonable level of assurance and that they are effective, except as mentioned below they do not expect that the disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Internal Controls over Financial Reporting

The President and Executive Chairman of the Company are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The President and Executive Chairman have assessed the design of the Company's internal control over financial reporting as of December 31, 2007 and during this process have identified certain material weaknesses in internal controls over financial reporting which are follows:

- Due to the limited number of staff at the Company, it is not possible to achieve complete segregation of duties; and
- Due to the size of the Company and the limited number of staff, the Company does not have the technical accounting expertise and knowledge to address all complex and non-routine accounting transactions that may arise.

These weaknesses in the Company's internal controls over financial reporting result in a more than remote likelihood that a material misstatement would not be prevented or detected. Management and the board of directors work to mitigate the risk of material misstatement in financial reporting. In addition, when complex accounting and technical issues arise during preparation of the quarterly financial statements outside consulting expertise is engaged. In spite of management's best efforts, there can be no assurance that this risk can be reduced to less than a remote likelihood of a material misstatement. Management does not anticipate remedying this weakness.

Critical Accounting Estimates

The Company's financial statements are prepared in accordance with Canadian generally accepted accounting principles. A comprehensive discussion of the Company's significant accounting policies is contained in Note 2 to the audited consolidated financial statements for the year ended December 31, 2007. The Company's significant accounting policies are subject to estimates and key judgments about future events, many of which are beyond management's control.

Alberta Oilsands Inc.
Management's Discussion and Analysis of Operations
and Financial Condition
December 31, 2007

Change in Accounting Policies

On January 1, 2007, the Company adopted the new or revised Canadian accounting standards for accounting changes, comprehensive income, financial instruments—recognition and measurement and financial instruments—presentation and disclosures. The impact of the adoption of the new standards is disclosed in Note 3 to the Company's December 31, 2007 audited consolidated financial statements. Additional disclosure requirements for financial instruments have been approved by the Canadian Institute of Chartered Accountants and will be required disclosure beginning January 1, 2008.