



Message to Shareholders

2007 – A PIVOTAL YEAR

Your company made a seismic strategic shift in 2007 when we put the people, prospects and plans in place to tap into the tremendous potential of Alberta's vast oil sands. We transformed from Platform Resources Inc into Alberta Oilsands Inc. and took the first steps to delineating and proving up bitumen reserves sufficient to support a minimum 10,000 barrel per day in-situ project by 2012.

The year 2007 began with the sale of our southeast Saskatchewan property for net proceeds of \$7.8 million, which supplied us with the capital to start our oil sands lease acquisition strategy in earnest. By March 2007, we completed our first acquisition of 23 sections of oil sands leases at our Hangingstone East project. We then completed two equity financings for an aggregate of \$25 million in May and June. This was followed by the acquisition of a further 102 sections of oil sands leases from May to September 2007, this time for our Fort McMurray Clearwater, Algar Lake (Hangingstone West) and Grand Rapids projects. Our share price hit a high of \$2.40 in July of 2007 after starting the year at \$0.23. Independent resources assessments assigned over five billion barrels of bitumen in place, of which 2.4 billion barrels were in the discovered category and more than 200 million barrels were in the contingent (recoverable) resources category.

Production from our conventional assets averaged 122 barrels of oil equivalent per day throughout the year. The net cash flow from field operations amounted to \$1.47 million.

OIL SANDS

Our major achievement of 2007 was the acquisition of 125 sections (80,000 acres) of 100% working interest in the Athabasca oil sands of northeast Alberta.

All of the leases were acquired at Crown sales in 2007. Our management group, based on their oil sands experience, identified more than 250 sections of prospective land with oil sands potential in the Athabasca region. The lands purchased have varying levels of well control and major announced or producing projects in the surrounding vicinity.

The leases purchased are divided in four distinct projects that are prioritized in the order of highest contribution to shareholder value.

Fort McMurray – Clearwater East and West Projects

These projects are situated on the main McMurray formation oil sands fairway, have ready access and are in proximity to infrastructure and services. The Fort McMurray area's 100% owned

leases consist of approximately 28 sections (17,918 acres). The Ryder Scott independent resource report estimated 2.4 billion barrels of discovered resources on these leases, of which more than 200 million barrels have been assigned contingent (recoverable) resources. The total bitumen in place in this project is estimated to be approximately 3.0 billion barrels.

We 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. Detailed core analyses and geological interpretation is progressing to estimate the size of the producible bitumen resource. An additional 50 to 60 core hole drilling program is envisaged for the Clearwater projects in 2008 / 2009 winter season to confirm the size, continuity and quality of the bitumen deposit. Based on the 2007 / 2008 winter drilling results, we plan to accelerate the timing of the baseline environmental study and the scoping of the engineering in the second quarter of 2008 to support a proposed steam assisted gravity drainage ("SAGD") production project. This will advance our goal of applying to the appropriate regulatory authorities to proceed with a 10,000 barrel per day production project with first production expected in 2011 / 2012.

Hangingsstone East

This area consists of 23 sections (14,720 acres) of 100% working interest oil sands leases purchased from Crown sales in the first quarter of 2007. This project is situated approximately 45 kilometres southwest of Fort McMurray along Highway 63, the major highway from Edmonton to Fort McMurray. The land adjacent and south is the Petro Canada Meadow Creek Project, while to the southwest is the JACOS project. Further south is the Connacher Oil and Gas Great Divide Project. Both the JACOS and Connacher projects are currently on production. The Ryder Scott Independent Resource Report estimates 1.15 billion barrels of undiscovered bitumen in place on this land.

Our 2007 / 2008 winter exploration program included the acquisition of 56 kilometres of 2D seismic and the completion of a 15 core hole drilling program designed to identify the channel sands. This program confirmed the presence of bitumen in the area and the possibility of two significant north-south bitumen channels. The data will be critical in planning next season's coring program, which will focus on the locations of these bitumen trends.

In the first quarter of 2008, we entered into a pooling agreement with the Great Divide Oil Sands Partnership, a wholly owned subsidiary of Connacher Oil and Gas, whereby our 23 sections and their 15.5 sections in the adjacent Halfway Creek properties were pooled into a joint ownership agreement. This resulted in our Company owning a 50% working interest in a 38.5 section contiguous land block in the Hangingsstone East / Halfway Creek area. This transaction gave us access to significant additional gross contiguous lands. Joining forces with an experienced operator in the area is expected to result in a more rapid evaluation and development of this asset.

Algar Lake, Grand Rapids and Other areas

During 2007, we purchased a total of 74 sections of oil sands leases in these areas. Specifically, we purchased 51 sections in Algar Lake (Hangingsstone West), 18 sections in Grand Rapids and

five sections in other areas. The Ryder Scott Independent Resource Report attributes 800 million barrels of undiscovered bitumen in place on the Algar Lake lands. We expect to start a 2D seismic program in the Algar Lake area in 2009, and may follow that with a delineation drilling program in the winter of 2010.

CONVENTIONAL PRODUCTION

In early 2007, we sold our southeast Saskatchewan producing assets for net proceeds of \$7.8 million. This sale resulted in a net gain of \$2.2 million, allowing us to retire our bank and bridge facilities of \$3.1 million and finance the purchase of the Hangingstone East oil sands leases.

Average 2007 production was 122 boe per day, resulting in net field income of \$1.47 million. Cash flow from conventional operations covered 70% of the corporate general and administrative expenditures. At a projected average production rate of 70 boe per day during 2008 and at current commodity prices, cash flow from our properties is expected to absorb 50% of the projected general and administrative costs in 2008.

OUTLOOK

We are confident the resolution of capital market problems in 2008 combined with our 2007 / 2008 winter results will begin to have a positive impact on the valuation of our Company.

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. We believe from the preliminary data that we may have a 10,000 barrel a day project in the Clearwater area. 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 will 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 to 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 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 economies in Asia, resulting in strong and sustained energy prices. Although we are aware of labour demands, equipment and material cost inflation, we trust that our projects will continue to be economically viable and that our ability to create long term value will remain strong.

Finally, we thank our valued employees, contractors, shareholders, Board of Directors, banking group and business associates who have been so supportive during a wonderfully transformative year. We have been emboldened by your support and look forward to 2008 with enthusiasm and optimism.

Respectfully submitted on behalf of the Board of Directors,

Shabir Premji

Executive Chairman

Michael Lee

President

Forward-looking Statements - This letter contains certain forward-looking statements and information regarding Alberta Oilsands Inc., including statements regarding the company's future plans and operations. 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 oilsands 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 Management's Discussion and Analysis of Operations and Financial Condition for the year ended December 31, 2007 (the "MD&A") under the section entitled "Business Risks and Uncertainties". The actual results of the company 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 in the forward-looking statements will occur or transpire, or if any of them do,

what benefits the company can derive there from. Alberta Oilsands Inc. undertakes no obligation to update such forward-looking statements, except as required by law.

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.

Resource Disclosure - 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 the MD&A.

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 the MD&A.

The financial statements of Alberta Oilsands Inc. for the year ended December 31, 2007 and management's discussion and analysis thereof contain further information regarding the resources of the company and the independent resource report. We encourage you to consult these documents which are available under the company's profile at www.sedar.com.