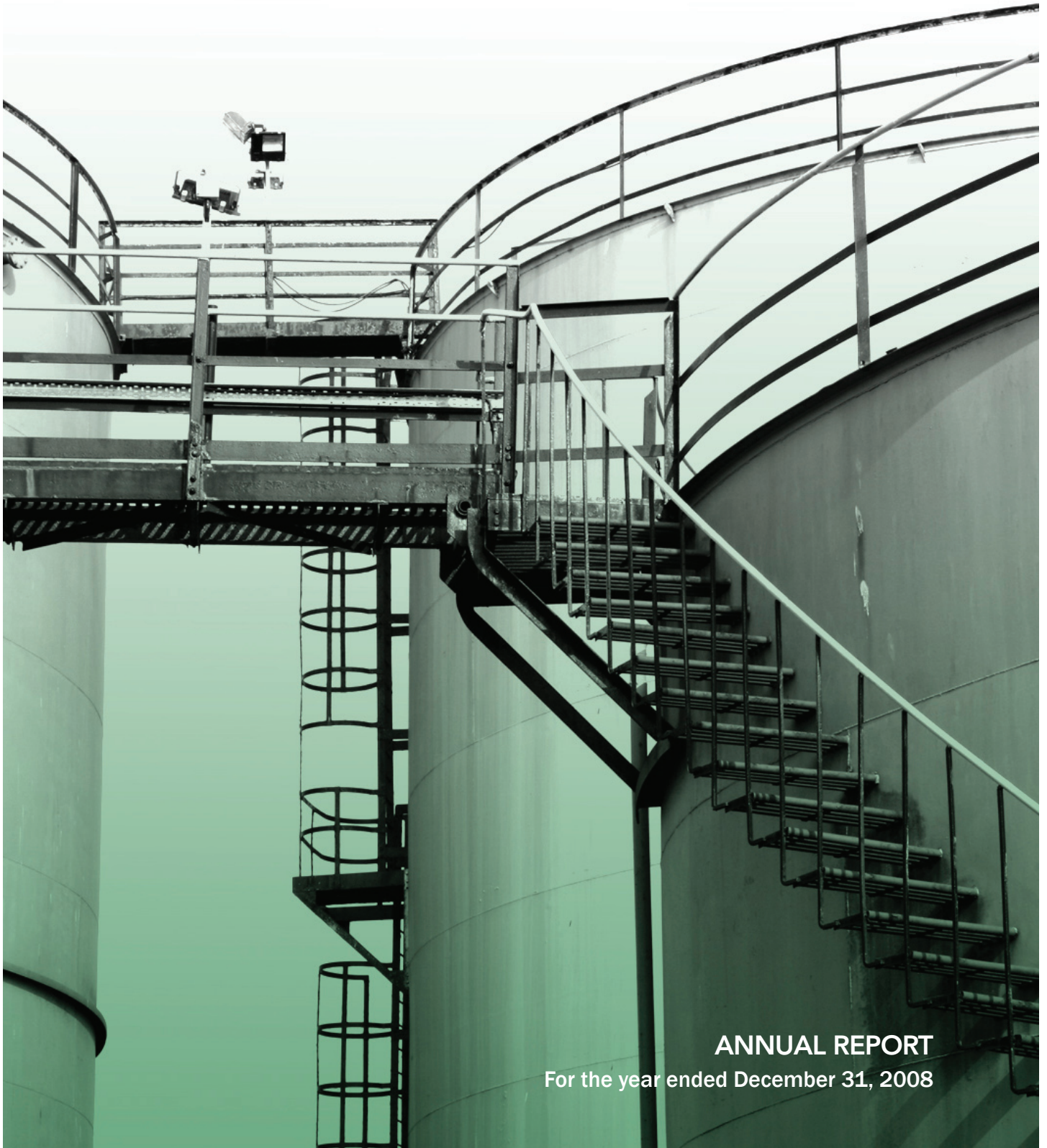




ALBERTA
OILSANDS INC.



ANNUAL REPORT

For the year ended December 31, 2008

Alberta Oilsands Inc.

Message to Shareholders and Review of Operations

December 31, 2008

Overall Performance

Alberta Oilsands continued to make strides in 2008 towards submitting an application in 2009 for its first oil sands pilot project on Alberta's Athabasca fairway. Alberta Oilsands' strategy is to delineate and prove up bitumen reserves sufficient to support a minimum potential 10,000 barrel per day in-situ project within five years.

Although Alberta Oilsands remains firmly focused on extracting bitumen from the province's rich oil sands deposits, the Company took advantage of its strong cash position, its corporate agility and the overall market downturn in early 2009 to acquire some promising conventional assets to supplement its oil sands assets. Alberta Oilsands entered into a conventional farm-in agreement in north-western and central Alberta in January 2009. The objective is to benefit from the team's conventional experience to seize attractive opportunities during the global financial crisis that would not normally be available. The benefits of taking steps at this time to gain access to quality conventional assets are becoming clear with the recent release of encouraging test results. Alberta Oilsands is positioning itself not only to survive the downturn, but to thrive after markets return to normal.

2008 highlights include the following:

- Raised \$23.6 million, including \$8.1 million in a non-brokered private placement financing and \$15.5 million through a bought-deal equity financing.
- Received approval for the Fort McMurray Clearwater Oil Sand Exploration Program application from Alberta Sustainable Resources Development.
- Completed a strategic pooling of contiguous oil sands acreage with an oil sands producer in the Hangingstone East / Halfway Creek area of Alberta.
- Commenced and completed a drilling program at Clearwater West property. The drilling results confirm high quality bitumen and cap rock integrity testing results are positive, providing the results the Company needs to proceed with its Steam-Assisted Gravity Drainage (SAGD) pilot project submission.
- Selected to the "TSX Venture 50," a ranking of Canada's top emerging public companies. Alberta Oilsands was ranked fourth in the oil and gas sector.
- Completed facilities upgrades at central Alberta property resulting in reduced operating costs.
- Identified six conventional, light oil focused development drilling locations on the Company's Nisku property.
- Obtained a net present value report by Ryder Scott Company that estimates the unrisks total value of Alberta Oilsands' Clearwater project areas at \$464 million based on a price of US\$55 West Texas Intermediate (WTI) (see "Review of Oilsands Operations – Resource assessment and net present value cash flow evaluations").
- Received an increase to contingent resources at its Fort McMurray property resulting in an assignment of 320 million barrels of bitumen – a 59% increase since the October 2007 Ryder Scott report (see "Review of Oilsands Operations – Resource assessment and net present value cash flow evaluation").
- Sought strategic partners to accelerate the Company's growth plan.
- Entered into two production sharing contracts in Kenya, through its wholly owned subsidiary Platform Resources, to allow it to evaluate two exploration blocks.

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Subsequent events:

- Entered into a significant farm-in agreement on conventional oil and natural gas assets in the McLeod area of Central Alberta and the Hamburg area of northwest Alberta.
- Successfully drilled one (0.5 net) Slave Point discovery well in the Hamburg area and placed on production on April 1, 2009 at an average gross rate of 5 million cubic feet per day.

Given the downturn in the overall market and lower than forecast commodity prices, Alberta Oilsands is currently focusing its oil sands development at its Clearwater West property. This property is at the most advanced stage of the Company's extensive portfolio. Activities on the Company's other oil sands properties, including the Hangingstone East joint-venture, have been deferred until the economic environment improves. Alberta Oilsands is committed to being prudent in managing its funds until financial markets show signs of sustained recovery. Despite the challenges, the Company's long-term oil sands growth strategy has not changed.

*There is no certainty that it will be commercially viable to produce any portion of the resources described in this message to shareholders. For important information regarding the disclosure of resource estimates, please see the section entitled "Disclosure of Resources" at the end of this message to shareholders and in the Company's management's discussion and analysis (the "MD&A") for the year ended December 31, 2008. **Resources do not constitute and should not be confused with reserves.***

Review of Oil Sands Operations

Due to market and economic conditions, Alberta Oilsands is currently focusing all of its oil sands development efforts on its Clearwater West project. All other oil sands activities have been deferred. When conditions warrant additional exploration and development, Alberta Oilsands will be able to take advantage of its depth of opportunities on 140.5 sections (121.5 net) of Alberta's Athabasca oil sands fairway. These opportunities include three potential project areas at Clearwater, one joint project at Hangingstone, one prospect at Algar Lake and one prospect at Grand Rapids.

Fort McMurray Clearwater West, East and North Projects:

By focusing its attention on Clearwater West at the end of 2008, Alberta Oilsands has been able to make significant progress on its path to production in the oil sands. By the end of January 2009, the Company had commenced its arrangements for water sourcing and water disposal. By the end of February 2009, the Company had received the initial results of its cap rock study. Additional results are expected in May 2009. The initial cap rock results were encouraging. On a mini-fracture at the 12-22, closure pressure was achieved at 2,700 kilopascals (kPa). Assuming a 1,260 kPa safety margin, this would leave a maximum SAGD injection pressure of 1,440 kPa. Alberta Oilsands is pleased with the results of its reservoir simulations (Computer Modelling Group's STARS reservoir simulator) using SAGD technology at 1,440 kPa. Average production based on 14 well pairs at Clearwater West is projected to be 700 barrels per well pair per day for an aggregate projected production of 9,800 barrels per day, with a stabilized steam-oil ratio (SOR) of 2.5. This compares very favourably with similar projects in the area. In addition, unlike generic SAGD projects, Clearwater West is close to infrastructure, allows for low injection pressure, has no bottom water and has deeper water source and disposal zones.

As a result of coring activity in the 2007/2008 winter coring program, Ryder Scott Company of Canada, an independent petroleum consulting firm, has assigned 320 million barrels of contingent resources to a portion of Alberta Oilsands' Clearwater parcel in a resource report dated June 1, 2008. With an additional 16 core holes drilled during the fall of 2008 and the winter of 2009, the Clearwater West project area was

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adequately delineated by the end of the first quarter of 2009 to provide the necessary data for the pilot project application, which is expected to be submitted in 2009.

Alberta Oilsands has a 100% working interest in 28 sections of Crown land at Clearwater, located just southeast of Fort McMurray. The parcel spans 24 kilometres from east to west and is close to the services and infrastructure required for a commercial steam-assisted oil sands project. The Company has three projects in this area: Clearwater West (sections 21 & 22 Twp088-R08W4), Clearwater East (sections 18, 19 & 30 Twp088-R07W4) and Clearwater North (sections 13, 25, 31 – 36 Twp088-R07W4). The Clearwater West and East projects are south of the Clearwater River while Clearwater North is on the north bank of the river. The Clearwater project areas are in the McMurray formation bitumen sand isopach (thickness) trend mapped by the Alberta Geological Survey, which indicates sand isopach ranging from 30 to 50 metres thick.

Current well density and well data indicate 10,000 barrels per day bitumen project in Clearwater East and another 10,000 barrels per day project in Clearwater West. Both locations offer year-round road access, proximity to pipeline and electricity and natural gas infrastructure. Combined, Clearwater East and West would provide synergies in terms of steam generation, separation of bitumen and water and water treatment and disposal. Based on total expenditures of \$500 million, the development cost metrics would be \$25,000 per flowing barrel of bitumen.

Alberta Oilsands expects its initial Clearwater pilot project to be capable of producing 2,000 barrels per day of pilot production and 10,000 barrels per day once the project is fully operational. The objectives of the *in situ* pilot are to validate reservoir performance and demonstrate operational feasibility of the recovery technology.

Resource assessment and net present value cash flow evaluation

Alberta Oilsands has commissioned a resource report from Ryder Scott Company to reflect the Company's delineation drilling activities in the fall of 2008 and 2009. The results of this report are expected to be available by May 2009.

Alberta Oilsands also commissioned two reports from Ryder Scott at the completion of the Company's March 2008 drilling program and core analysis at Clearwater: a resource assessment update and a net present value (NPV) cash flow evaluation of the potential conventional SAGD projects for these resources. These reports were completed in July 2008, prior to the Company's delineation drilling in the fall of 2008 and into 2009. An excerpt of these reports follows.

Resource assessment:

Ryder Scott presented Alberta Oilsands with a National Instrument 51-101 compliant independent resource report in July 2008 dated June 1, 2008. The report attributed an estimated contingent (recoverable) resource of 320 million barrels over five sections. This represents a 59% increase from the 2007 report. The following table summarizes the contingent (recoverable) resources assignment history at the Fort McMurray Clearwater properties.

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Independent Contingent Resource Assignments	Estimated Contingent Resources Volume million barrels
Total Contingent Resources October 2007 (pre drill results)	201.0
Additional Assignment March 2008 (pre drill results)	15.0
Total Contingent Resources March 2008 (pre drill results)	216.0
Additional Assignment June 2008 (post drill results)	104.0
Total Contingent Resources	320.0

Based on the numbers from Ryder Scott, management believes the Clearwater West and Clearwater East project areas have sufficient bitumen resources to support commercial projects. Clearwater West and East areas are proceeding as separate project areas with shared facilities. Alberta Oilsands has now delineated the areal extent of the thick bitumen pay and confirmed the lateral continuity of the high quality reservoir. In addition, the Company has explored for future water source and water disposal formations and confirmed cap rock integrity. Additional core hole drilling at Clearwater during the 2008 / 2009 winter drilling season was designed to confirm the size, continuity and quality of the bitumen deposit.

Alberta Oilsands' strategy is to drive towards pilot and subsequent commercial production of bitumen in a phased manner to maximize capital efficiency and provide early cash flow. The Company's strategy is to access strategic joint venture partners or financing based on the net present value of the projects and to expand the commercial production of bitumen. Partnerships will be key to financing Alberta Oilsands' plans and ensuring responsible development of its assets.

Net present value cash flow evaluation report:

On July 10, 2008, the Company released the Ryder Scott net present value (NPV) cash flow evaluation report and memorandum for two separate potential 10,000 barrels per day SAGD projects in Alberta Oilsands' Fort McMurray Clearwater West and Clearwater East project areas. The report, with an effective date of July 1, 2008, was prepared in accordance with the Canadian Oil and Gas Evaluation Handbook (the COGE Handbook) and estimates the unrisksed total before income tax net present value discounted at 10% (BFIT NPV₁₀) at approximately \$635 million: NPV₁₀ at approximately \$328 million for Clearwater West and NPV₁₀ at approximately \$308 million for Clearwater East. This scoping valuation is based on preliminary cost and timing estimates, provided by a third party engineering firm, along with the contingent resources assigned to the Clearwater West and East areas as announced in the Company's news release on July 2, 2008 and an assumed WTI oil price of US\$80 per barrel.

The Company has obtained a net present value update with a US\$55 WTI price which estimates the unrisksed total, before tax, at NPV₁₀ of Alberta Oilsands' Clearwater East and West projects at \$464 million, therefore the Company believes that, based on certain assumptions and conditions, its projects continue to be economically viable. See "Oilsands Development Risks" in the MD&A.

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Excerpts of the valuation results for Alberta Oilsands' Clearwater West and Clearwater East potential 10,000 bpd SAGD Projects over three constant price scenarios are shown below with the respective bitumen volumes:

Fort McMurray Clearwater West Project Scoping Economics

Gross Bitumen Volume (MMB)	US/Cdn Exchange Rate	WTI Price (US\$/Bbl)	Bitumen Blend (Cdn\$/Bbl)	Net Present Value of Future Net Revenue (Before Income Tax) at Constant Price		
				8% (Cdn\$MM)	10% (Cdn\$MM)	12% (Cdn\$MM)
91.0	0.82	\$55.00	\$47.73	\$347	\$237	\$157
91.0	0.95	\$80.00	\$51.72	\$464	\$328	\$230
91.0	1.00	\$100.00	\$58.89	\$536	\$386	\$276

Fort McMurray Clearwater East Project Scoping Economics

Gross Bitumen Volume (MMB)	US/Cdn Exchange Rate	WTI Price (US\$/Bbl)	Bitumen Blend (Cdn\$/Bbl)	Net Present Value of Future Net Revenue (Before Income Tax) at Constant Price		
				8% (Cdn\$MM)	10% (Cdn\$MM)	12% (Cdn\$MM)
78.2	0.82	\$55.00	\$47.73	\$319	\$227	\$148
78.2	0.95	\$80.00	\$51.72	\$429	\$308	\$218
78.2	1.00	\$100.00	\$58.89	\$498	\$364	\$263

Notes: Assumptions include: peak production rate at 10,000 bpd and end of life decline at 30% until economic limit is reached. Bitumen Blend refers to realized bitumen price of a marketable mixture of bitumen and diluents (condensate) that is roughly equivalent to a Lloydminster heavy oil blend. Sustaining and operating costs of \$8.61/bbl of bitumen were used. The proposed new Alberta royalty regime and anticipated Federal green house gas levy were also used.

Hangingstone East Project Area

Alberta Oilsands and its joint venture partner entered into a pooling agreement in Hangingstone East. The Company's 23 sections in the area and joint venture partner'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. The Hangingstone East project is 45 kilometres southwest of Fort McMurray along Highway 63, the primary highway from Edmonton to Fort McMurray. The land adjacent and south is Petro-Canada's Meadow Creek Project and to the southwest is the JACOS Hangingstone project. Further south is the Connacher Oil and Gas Great Divide Project. Both the JACOS and Connacher projects are on production.

Alberta Oilsands and its joint venture partner have agreed to work together on the asset until 2010, after which the joint venture partner will become the operator and Alberta Oilsands will continue to retain its 50% working interest. Although the agreement was designed to accelerate the evaluation and development of this asset, drilling plans for the area are on hold given the current financial climate.

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Ryder Scott presented Alberta Oilsands with a National Instrument 51-101 compliant independent resource report dated December 1, 2006 which attributed an estimated 1,150 million barrels of undiscovered resources at Hangingstone East.

Algar Lake Prospect Area

The Algar Lake prospect area, located 30 km northeast of EnCana's Pelican Lake development, has potential in the McMurray and Wabiskaw formations. An independent NI 51-101 compliant resource report by Ryder Scott dated effective October 1, 2007, assigned undiscovered resources of 807 million barrels of bitumen in place on Alberta Oilsands' 51 sections of oil sands leases at Algar Lake. Alberta Oilsands has a 100% working interest in the area. As soon as market conditions are suitable, Alberta Oilsands plans to execute a seismic and drilling program in the area.

Grand Rapids Prospect Area

Alberta Oilsands has a 100% working interest in 18 sections of oil sands leases in its Grand Rapids prospect area. When market conditions are suitable, Alberta Oilsands will conduct a seismic program in the area.

Review of Conventional Operations

Alberta Oilsands uses cash flow from its growing base of conventional production to assist in funding general and administrative expenses. In addition to producing an average of 61 boe per day ("boe" or barrels of oil equivalent) of conventional production in Alberta during 2008, Alberta Oilsands entered into a significant conventional farm-in agreement in the first quarter of 2009 related to properties in northwest and central Alberta. Pursuing conventional exploration plays allows Alberta Oilsands to prudently invest capital raised through the sale of flow-through shares in 2008, providing access to incremental production and consequently funding until markets return to normal.

As part of the farm-in agreement, AOS successfully completed a significant Slave Point exploration discovery well at Hamburg in northwest Alberta. The Company has a 50% working interest in the well, and testing in the pipeline started on April 1, 2009 with the well tied into the local gathering system. The well was placed on production at rates averaging 833 (416 net) boe per day. All produced gas and associated liquids are being processed and sold. This well is expected to pay the reduced 5% royalty for its first 500 mmcf of production.

Alberta Oilsands is pleased to be partnering with the technical team of an experienced operator as it seizes some of the valuable conventional opportunities that are available during this unique business climate to companies with cash.

Review of International Operations

In addition to its core oil sands assets and promising conventional assets, Alberta Oilsands has access to legacy international prospects in Kenya through its 100% wholly owned subsidiary Platform Resources Inc. ("Platform"). Although Sudan, Uganda, Tanzania and Somalia have all had oil and natural gas discoveries, Kenya remains under explored. Recent policy changes and incentives by the Kenyan government have created a pro-exploration environment and a renewed interest in oil and gas exploration and production activities in the African country.

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In September 2008, Platform was awarded access to the 15,389 sq. km Exploration Block 12A and the 8,429 sq. km Block 13T by the Government of Kenya. Production sharing contracts were subsequently signed for exploration of the asset in two phases over five years. The first phase involves a three-year evaluation and exploration period. The agreement calls for an 18-month evaluation of Block 12A and a 12-month evaluation of Block 13T, primarily using information from the Government of Kenya. Platform has already obtained 50 lines of 2D seismic and has access to a total of 3,000 line kilometres of 2D seismic. If Platform embarks on a major exploration program in years two and three of phase one, the program is expected to include the acquisition of additional 2D and 3D seismic and aero-magnetic and aero-gravity surveys to identify prospective sites for exploration wells. Phase two in years four and five of the production sharing contract is expected to feature the drilling of two high-impact exploration wells.

Platform's two exploration blocks in Kenya are located in the eastern branch of the East African Rift Basin, southwest of Lake Turkana. Recent discoveries in the western branches of the Rift Basin, near Uganda's Lake Albert, adjacent to western Kenya, highlight the potential of this geological trend.

Platform's intention is to find and partner with an experienced African operator that can oversee and fund the process of tapping into the potential of this asset.

Outlook

Alberta Oilsands continues to believe in the future viability of the oil sands in Alberta. The Company believes the oil sands are viable in the medium and long-term thanks to operating leverage and technological advances that reduce environmental impact, the province's proximity to the United States and the global supply-demand equation. Alberta Oilsands is well positioned to tap into this future because of the characteristics of its proposed in-situ SAGD method of bitumen extraction. Alberta Oilsands' SAGD operation at Clearwater West would be close to infrastructure, allow for low injection pressure, have no bottom water and would have a deep water source and a water disposal zone.

Alberta Oilsands has a healthy balance sheet. The Company raised \$23.5 million from January to August 2008, allowing the Company to end the year on December 31, 2008 with \$19.0 million in the bank and no debt.

The Company's focus for 2009 is to submit a pilot project application for its Clearwater West property. The Company believes it has sufficient working capital and revenue from conventional production to complete the requirements for the pilot project application. The construction of the pilot project will be dependent on the availability of capital and commodity prices. The Company expects the global downturn to be felt for some time; however, expects healthier financial markets and commodity prices in 2010, allowing for continued exploration and development of the oil sands.

Alberta Oilsands continues to evaluate multiple approaches to finance its capital expenditures. The preference is to proceed with projects on a 100% working interest basis, provided the capital markets recognize the value of the assets and facilities and are conducive to the raising of capital at non-dilutive levels. The Company is also seeking industry and financial partners as additional sources of funding to mitigate this risk.

Although the Company is confident in its financial strength, management has also taken steps to lower its risk during the global financial downturn. The Company has reduced its capital program to defer or reduce spending on exploratory projects and to focus on the projects that will get the Company to initial oil sands production as soon as possible. In January 2009, Alberta Oilsands' 2009 capital budget has been reduced to \$11.0 million, \$6.0 million of which is allocated towards the Company's oil sands assets, mostly in the Clearwater area and \$5.0 million is allocated to exploration and development of

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conventional opportunities. This reduced capital budget will enable the Company to incur the required qualifying expenditures from the 2008 flow-through financings by December 31, 2009. The capital budget may be adjusted as conventional opportunities arise and fiscal environment changes.

Management believes capital management, revenue from conventional production and the depth of opportunity on its current assets all provide the Company with a strong outlook for the future.

Shabir Premji
Executive Chairman
Alberta Oilsands Inc.

Forward-looking statements and Information: *Certain information regarding Alberta Oilsands set forth in this message to shareholders, including management's assessment of Alberta Oilsands' future plans, operations, properties, production and prospects, contains forward-looking information and statements within the meaning of applicable securities laws, that involve substantial known and unknown risks and uncertainties. Please refer to the disclaimer under "Forward-looking Statements and Information" in the MD&A. Please also refer to the disclaimers in the MD&A regarding Oilsands Development Risks, International Operations, Business Risks and Uncertainties and Disclosure of Resources.*

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 undiscovered resources disclosed in this message to shareholders will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of these resources. For a description of the definition of, and the risks and uncertainties in respect 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 disclosed in this message to shareholders currently classified as "contingent resources". For a description of the definition of, and the risks and uncertainties in respect 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, 2008 and management's discussion and analysis thereof contain further information regarding the resources of the Company and its independent resource reports. We encourage you to consult these documents which are available under the Company's profile at www.sedar.com.

Alberta Oilsands Inc.

Management's Discussion and Analysis of Operations and Financial Condition

December 31, 2008

The following management's discussion and analysis of financial condition and the results of operations (the "MD&A") dated April 29, 2009 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 the years ended December 31, 2008 and 2007 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.

Unless the context otherwise requires, all references in this MD&A to "we", "us" or "our" means 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 certain financial measures, as described below, which do not have standardized meanings prescribed by GAAP, however, as these measures are commonly used in the oil and gas industry, the Company feels that their inclusion is useful to investors and they are measures that the Company uses to evaluate its performance. Investors are cautioned that these non-GAAP measures should not be construed as an alternative to the measures calculated in accordance with GAAP as, given their non-standardized meanings, they are unlikely to be comparable to similar measures presented by other issuers. 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, before the change in non-cash working capital and abandonment expenditures, 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.

Forward-looking Statements and Information – Certain information regarding Alberta Oilsands set forth in this report, including management's assessment of Alberta Oilsands' future plans, operations, properties, production and prospects contains forward looking information and statements that involve substantial known and unknown risks and uncertainties. In some cases, forward looking information and statements can be identified by terminology such as "may", "will", "should", "intends", "expects", "projects", "plans", "anticipates", "targets", "believes", "strives", "estimates", "continues", "designed", "objective", "maintain", "schedule" and similar expressions or statements that certain events or conditions "may" or "will" occur. In particular, this MD&A contains forward-looking statements and information with respect to: (i) possible in-situ development (including the timing of such development) on the Company's oil sands properties, including in respect of pilot projects and further development in respect of its Clearwater East

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and Clearwater West project areas located in its Fort-McMurray properties and the joint development of its Hangingstone East project area with its pooling partner in the area; (ii) expectations regarding future developments costs and the ability to fund such costs; (iii) future values that may be attributable to the Company's oil and gas properties; (iv) the ability of the current working capital levels of the Company to maintain future capital expenditures, including required flow-through expenditures; (v) the Company's projected capital budget; (vi) successful results from the Company's 2008/2009 winter core drilling program; (vii) crude oil, natural gas and bitumen production levels; (viii) the continued economic viability of the Company's projects; (ix) a regulatory regime that will be conducive to the Company completing its projects (including environmental regulation and royalty rates); (x) the ability of the Company to meet its obligations (including future financial obligations) under the pooling agreement that it has entered into in respect of its Hangingstone East project area; (xi) projections of market prices and the demand for the commodities the Company produces or intends to produce; and (xii) the exploration operations and commitment of Platform Resources Inc. ("Platform") a wholly owned subsidiary of Alberta Oilsands in the Republic of Kenya. Such forward-looking statements and information are based on the opinions, assumptions 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 and information. Certain of these assumptions and risks are discussed in greater detail below and through-out this MD&A. The Company undertakes no obligation to update such forward-looking statements or information if circumstances or management's estimates or opinions should change, unless required by law.

With respect to forward looking statements and information contained in this MD&A, the Company has made assumptions regarding, among other things: (i) future prices for crude oil, natural gas, bitumen and refined products and that the demand for such products will continue to increase globally, especially in emerging markets; (ii) favourable future currency and interest rates; (iii) the Company's ability to generate sufficient cash flow from operations and access capital markets or strategic partners to meet its future obligations and to fund future projects; (iv) a continued favourable regulatory framework representing royalties, taxes and environmental matters where the Company conducts its business; and (v) the Company's ability to obtain qualified staff and equipment in a timely and cost efficient manner. In addition, the Company has made certain other assumptions in respect of the timing and feasibility of certain of its oil sands projects, see "Oilsands Development Risks" in this MD&A.

Some of the risks that could affect the Company's future results and could cause results to differ materially from those expressed in the Company's forward looking statements and information include: (i) the need to obtain required approvals and permits from regulatory authorities; (ii) the impact of competition; (iii) compliance with and liabilities under environmental laws and regulations; (iv) the uncertainties of estimates by the Company's independent consultants with respect to the Company's reserves and resources; (v) the volatility of prices for crude oil, natural gas, bitumen and refined product prices; (vi) general economic conditions in Canada and globally; (vii) changes to royalty regimes and government regulations regarding royalty payments; (viii) risks associated with exploring for, developing, producing, processing, storing and transporting crude oil, bitumen and natural gas; (ix) geological, technical, drilling and processing problems; (x) the Company's ability to hire and retain staff; (xi) imprecision in estimating capital expenditures and operating expenses; (xii) imprecision in estimating the timing, costs and levels of production and drilling; (xiii) imprecision in estimates of future production capacity; (xiv) potential delays or changes in plans with respect to exploration and development projects or capital expenditures; (xv) changes to regulations and legislation applicable to the Company and the interpretation thereof including tax and environmental legislation and regulations in the jurisdictions in

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which the Company conducts its business; (xvi) the inability of the Company to obtain financing for its potential oil sands projects from capital markets, strategic joint partners or other sources on competitive terms, or at all (the unavailability of which could have a material adverse effect on the ability of the Company to proceed with the projects as currently planned, or at all); (xvii) unavailability of required equipment and services; and (xviii) the other factors discussed under "Oilsands Development Risks" and "Business Risks and Uncertainties" in this MD&A. In addition, Platform's operations in Kenya may be adversely affected by political or economic developments or social instability, which are not within the control of either Platform or the Company, including, among other things, the risks of war, terrorism, abduction, expropriation, nationalization, renegotiation or nullification of existing concessions and contracts, taxation policies, economic sanctions, fluctuating exchange rates and currency controls.

Readers should be aware that historical results are not necessarily indicative of future performance. No assurance can be given that any events anticipated by the forward looking statements or information will transpire or occur, or if any of them do, what benefits Alberta Oilsands may derive therefrom.

Statements relating to "resources" are deemed to be forward looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the described resources exist in the quantities predicted or estimated, and can be profitably produced in the future. There is no certainty that it will be commercially viable to produce any portion of the resources described in this MD&A. Additional information regarding the disclosure of resources and the assumptions relating to the resources of the Company are discussed under "Disclosure of Resources" in this MD&A.

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 oil sands resources.

The consolidated financial statements of the Company as at and for the year ended December 31, 2008 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. The consolidated financial statements do not reflect adjustments in the carrying values of the assets and liabilities, expenses and the balance sheet classifications that would be used if the going concern assumption were not appropriate. Such adjustments could be material.

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Overall Performance

Alberta Oilsands Inc. ("Alberta Oilsands" or "the Company") is an early stage oil sands exploration and development company focused in the Athabasca oil sands region of northeast Alberta. Alberta Oilsands trades on the TSX Venture Exchange.

Although Alberta Oilsands remains firmly focused on extracting bitumen from the province's rich oil sands deposits, the Company took advantage of its strong cash position, its corporate agility and the overall market downturn in early 2009 to acquire some promising conventional assets to supplement its oil sands assets. Alberta Oilsands entered into a conventional farm-in agreement in north-western and central Alberta in January 2009. The objective is to benefit from the team's conventional experience to seize attractive opportunities during the global financial crisis that would not normally be available. The benefits of taking steps at this time to gain access to quality conventional assets are becoming clear with the recent release of encouraging test results. Alberta Oilsands is positioning itself not only to survive the downturn, but to thrive after markets return to normal.

2008 highlights include the following:

- Raised \$23.6 million, including \$8.1 million in a non-brokered private placement financing and \$15.5 million through a bought-deal equity financing.
- Received approval for the Fort McMurray Clearwater Oil Sand Exploration Program application from Alberta Sustainable Resources Development.
- Completed a strategic pooling of contiguous oil sands acreage with an oil sands producer in the Hangingstone East / Halfway Creek area of Alberta.
- Commenced and completed a drilling program at Clearwater West property. The drilling results confirm high quality bitumen and cap rock integrity testing results are positive, providing the results the Company needs to proceed with its Steam-Assisted Gravity Drainage (SAGD) pilot project submission.
- Completed facilities upgrades at central Alberta property resulting in reduced operating costs.
- Obtained a net present value report by Ryder Scott Company that estimates the unrisks total value of Alberta Oilsands' Clearwater project areas at \$464 million based on a price of US\$55 West Texas Intermediate (WTI) (see "Results of Oilsands Operations – Resource assessment and net present value cash flow evaluation").
- Received an increase to contingent resources at its Fort McMurray property resulting in an assignment of 320 million barrels of bitumen – a 59% increase since the October 2007 Ryder Scott report (see "Results of Oilsands Operations – Resource assessment and net present value cash flow evaluation").
- Entered into two production sharing contracts in Kenya, through its subsidiary Platform Resources, to allow it to evaluate two exploration blocks.

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Results of Oil Sands Operations

Due to market and economic conditions, Alberta Oilsands is currently focusing all of its oil sands development efforts on its Clearwater West project. All other oil sands activities have been deferred. When conditions warrant additional exploration and development, Alberta Oilsands will be able to take advantage of its depth of opportunities on 140.5 sections (121.5 net) of Alberta's Athabasca oil sands fairway. These opportunities include three potential project areas at Clearwater, one joint project at Hangingstone, one prospect at Algar Lake and one prospect at Grand Rapids.

Fort McMurray Clearwater West, East and North Projects:

By focusing its attention on Clearwater West at the end of 2008, Alberta Oilsands has been able to make significant progress on its path to production in the oil sands. By the end of January 2009, the Company had commenced its arrangements for water sourcing and water disposal. By the end of February 2009, the Company had received the initial results of its cap rock study. Additional results are expected in May 2009. The initial cap rock results were encouraging.

As a result of coring activity in the 2007/2008 winter coring program, Ryder Scott Company of Canada, an independent petroleum consulting firm, has assigned 320 million barrels of contingent resources to a portion of Alberta Oilsands' Clearwater parcel in a resource report dated June 1, 2008. With an additional 16 core holes drilled during the fall of 2008 and the winter of 2009, the Clearwater West project area was adequately delineated by the end of the first quarter of 2009 to provide the necessary data for the pilot project application, which is expected to be submitted in 2009.

Alberta Oilsands has a 100% working interest in 28 sections of Crown land at Clearwater, located just southeast of Fort McMurray. The parcel spans 24 kilometres from east to west and is close to the services and infrastructure required for a commercial steam-assisted oil sands project. The Company has three projects in this area: Clearwater West (sections 21 & 22 Twp088-R08W4), Clearwater East (sections 18, 19 & 30 Twp088-R07W4) and Clearwater North (sections 13, 25, 31 – 36 Twp088-R07W4). The Clearwater West and East projects are south of the Clearwater River while Clearwater North is on the north bank of the river. The Clearwater project areas are in the McMurray formation bitumen sand isopach (thickness) trend mapped by the Alberta Geological Survey, which indicates sand isopach ranging from 30 to 50 metres thick.

Resource assessment and net present value cash flow evaluation

Alberta Oilsands commissioned two reports from Ryder Scott at the completion of the Company's March 2008 drilling program and core analysis at Clearwater: a resource assessment update and a net present value (NPV) cash flow evaluation of the potential conventional SAGD projects for these resources. These reports were completed in July 2008, prior to the Company's delineation drilling in the fall of 2008 and into 2009. An excerpt of these reports follows.

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Resource assessment:

Ryder Scott presented Alberta Oilsands with a National Instrument 51-101 compliant independent resource report in July 2008 dated June 1, 2008. The report attributed an estimated contingent (recoverable) resource of 320 million barrels over five sections. This represents a 59% increase from the 2007 report. The following table summarizes the contingent (recoverable) resources assignment history at the Fort McMurray Clearwater properties.

Independent Contingent Resource Assignments	Estimated Contingent Resources Volume million barrels
Total Contingent Resources October 2007 (pre drill results)	201.0
Additional Assignment March 2008 (pre drill results)	15.0
Total Contingent Resources March 2008 (pre drill results)	216.0
Additional Assignment June 2008 (post drill results)	104.0
Total Contingent Resources	320.0

Based on the estimates from Ryder Scott, management believes the Clearwater West and Clearwater East project areas have sufficient bitumen resources to support commercial projects. Clearwater West and East areas are proceeding as separate project areas with shared facilities. Alberta Oilsands has now delineated the areal extent of the thick bitumen pay and confirmed the lateral continuity of the high quality reservoir. In addition, the Company has explored for future water source and water disposal formations and confirmed cap rock integrity. Additional core hole drilling at Clearwater during the 2008 / 2009 winter drilling season was designed to confirm the size, continuity and quality of the bitumen deposit.

Net present value cash flow evaluation report:

On July 10, 2008, the Company released the Ryder Scott net present value (NPV) cash flow evaluation report and memorandum for two separate potential 10,000 barrels per day SAGD projects in Alberta Oilsands' Fort McMurray Clearwater West and Clearwater East project areas. The report, with an effective date of July 1, 2008, was prepared in accordance with the Canadian Oil and Gas Evaluation Handbook (the COGE Handbook) and estimates the unrisks total before income tax net present value discounted at 10% (BFIT NPV₁₀) at approximately \$635 million: NPV₁₀ at approximately \$328 million for Clearwater West and NPV₁₀ at approximately \$308 million for Clearwater East. This scoping valuation is based on preliminary cost and timing estimates, provided by a third party engineering firm, along with the contingent resources assigned to the Clearwater West and East areas as announced in the Company's news release on July 2, 2008 and an assumed WTI oil price of US\$80 per barrel.

The Company has obtained a net present value update with a US\$55 WTI price which estimates the unrisks total, before tax, at NPV 10% of Alberta Oilsands' Clearwater East and West projects at \$464 million, therefore the Company believes that, based on certain assumptions and conditions, its projects continue to be economically viable.

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Excerpts of the valuation results for Alberta Oilsands' Clearwater West and Clearwater East potential 10,000 bpd SAGD Projects over three constant price scenarios are shown below with the respective bitumen volumes:

Fort McMurray Clearwater West Project Scoping Economics

Gross Bitumen Volume (MMB)	US/Cdn Exchange Rate	WTI Price (US\$/Bbl)	Bitumen Blend (Cdn\$/Bbl)	Net Present Value of Future Net Revenue (Before Income Tax) at Constant Price		
				8% (Cdn\$MM)	10% (Cdn\$MM)	12% (Cdn\$MM)
91.0	0.82	\$55.00	\$47.73	\$347	\$237	\$157
91.0	0.95	\$80.00	\$51.72	\$464	\$328	\$230
91.0	1.00	\$100.00	\$58.89	\$536	\$386	\$276

Fort McMurray Clearwater East Project Scoping Economics

Gross Bitumen Volume (MMB)	US/Cdn Exchange Rate	WTI Price (US\$/Bbl)	Bitumen Blend (Cdn\$/Bbl)	Net Present Value of Future Net Revenue (Before Income Tax) at Constant Price		
				8% (Cdn\$MM)	10% (Cdn\$MM)	12% (Cdn\$MM)
78.2	0.82	\$55.00	\$47.73	\$319	\$227	\$148
78.2	0.95	\$80.00	\$51.72	\$429	\$308	\$218
78.2	1.00	\$100.00	\$58.89	\$498	\$364	\$263

Notes: Assumptions include: peak production rate at 10,000 bpd and end of life decline at 30% until economic limit is reached. Bitumen Blend refers to realized bitumen price of a marketable mixture of bitumen and diluents (condensate) that is roughly equivalent to a Lloydminster heavy oil blend. Sustaining and operating costs of \$8.61/bbl of bitumen were used. The proposed new Alberta royalty regime and anticipated Federal green house gas levy were also used.

Hangingsstone East Project Area

Alberta Oilsands entered into a pooling agreement in Hangingsstone East. The Company's 23 sections in the area and joint venture partner'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 Hangingsstone East / Halfway Creek area. The Company's share of capital expenditures for this project during 2008 was \$3.8 million and received \$1.9 million proceeds from the partner for costs that the Company had incurred to the end of 2007.

Ryder Scott presented Alberta Oilsands with a National Instrument 51-101 compliant independent resource report dated December 1, 2006 which attributed an estimated 1,150 million barrels of undiscovered resources at Hangingsstone East..

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Algar Lake Prospect Area

The Algar Lake prospect area, located 30 km northeast of EnCana's Pelican Lake development, has potential in the McMurray and Wabiskaw formations. An independent NI 51-101 compliant resource report by Ryder Scott dated effective October 1, 2007, assigned undiscovered resources of 807 million barrels of bitumen in place on Alberta Oilsands' 51 sections of oil sands leases at Algar Lake. Alberta Oilsands has a 100% working interest in the area. As soon as market conditions are suitable, Alberta Oilsands plans to execute a seismic and drilling program in the area.

Grand Rapids Prospect Area

Alberta Oilsands has a 100% working interest in 18 sections of oil sands leases in its Grand Rapids prospect area. When market conditions are suitable, Alberta Oilsands will conduct a seismic program in the area.

Results of Conventional Operations

	Three months ended December 31		
	2008	2007	2006
Statement of Operations and Deficit			
Petroleum and natural gas sales (\$)	366,542	475,589	1,596,319
Petroleum & natural gas sales per boe (\$)	59.98	74.86	57.40
Daily sales volumes (boe 6:1)	66	69	302
Net loss for the period (\$)	(1,985,137)	(1,002,898)	(953,778)
Net loss per share – basic and diluted (\$)	(0.02)	(0.02)	(0.03)
Statement of Cash Flows			
Funds (used in) from operations (\$) ⁽¹⁾	(485,453)	(418,165)	85,904
Cash flow (used in) from operations (\$)	(397,166)	(508,543)	(45,766)
Capital expenditures (\$)	4,990,133	4,681,196	765,833
Weighted average number of shares			
- basic and diluted	79,651,375	53,278,147	28,741,885

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	Years ended December 31		
	2008	2007	2006
Statement of Operations and Deficit			
Petroleum and natural gas sales (\$)	2,032,513	2,980,974	5,766,744
Petroleum & natural gas sales per boe (\$)	91.39	67.08	63.25
Daily sales volumes (boe 6:1)	61	122	250
Net loss for the period (\$)	(4,734,313)	(2,754,755)	(1,420,409)
Net loss per share – basic and diluted (\$)	(0.07)	(0.06)	(0.05)
Statement of Cash Flows			
Funds (used in) from operations (\$) ⁽¹⁾	(1,666,344)	(748,317)	1,679,955
Cash flow (used in) from operations (\$)	(1,257,504)	(581,763)	1,820,166
Capital expenditures (\$)	15,623,603	20,221,545	4,534,398
Total assets	56,416,889	37,083,599	12,423,677
Total liabilities	8,640,602	6,002,376	5,592,008
Shareholders' equity	47,776,287	31,081,223	6,831,669
Weighted average number of shares			
- basic and diluted	68,689,821	42,765,794	25,964,131

(1) Alberta Oilsands' method of calculating funds from operations may differ from that of other corporations and, accordingly, may not be comparable to measures used by other corporations. Alberta Oilsands calculates funds from operations by taking cash flow from operating activities as determined under GAAP before the change in non-cash working capital related to operating activities and abandonment expenditures incurred. The Company uses this method as it believes the uncertainty surrounding the timing of collection, payment or incurrence of these items makes them less useful in evaluating Alberta Oilsands' operating performance. A summary of this reconciliation is as follows:

Reconciliation of Cash flow per GAAP to Funds from (used in) Operations

	Years ended December 31		
	2008	2007	2006
Cash flow (used in) from operating activities (per GAAP) (\$)	(1,257,504)	(581,763)	1,820,166
Change in non-cash working capital (\$)	(408,840)	(166,554)	146,495
Abandonment expenditures (\$)	-	-	6,284
Funds (used in) from Operations	(1,666,344)	(748,317)	1,679,955

Production

	Three months ended December 31		Years ended December 31	
	2008	2007	2008	2007
Oil and NGL (bbls/day)	59	64	54	115
Natural gas (mcf/day)	43	29	43	41
boe/day (6:1)	66	69	61	122

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During the fourth quarter of 2008 the Company's average production increased to 66 boe per day from 65 boe per day in the third quarter of 2008, due to gas production increases in the Company's Parkland area. During the year ended December 31, 2008 the Company's production decreased to 61 boe per day as compared to the twelve months of 2007 production of 122 boe per day which included the Company's previously held Saskatchewan properties that were sold at the end of March 2007.

	Three months ended December 31		Years ended December 31	
	2008	2007	2008	2007
Commodity Prices				
Oil and NGL (\$/bbl)	61.96	77.60	96.63	68.26
Natural gas (\$/mcf)	7.29	6.34	8.67	6.68
boe (\$/boe)	59.98	74.86	91.39	67.08
Revenues (\$)				
Oil and NGL	337,413	458,862	1,896,386	2,881,430
Natural gas	29,129	16,727	136,127	99,544
Total	366,542	475,589	2,032,513	2,980,974

Commodity prices for the fourth quarter of 2008 decreased for oil and natural gas liquids ("NGL's") and increased for natural gas, falling 20% per boe from the comparative quarter of 2007, and declined 46% from 2008 third quarter pricing of \$110.76 per boe.

Commodity prices for the year ended December 31, 2008 increased significantly from the comparative period in 2007 despite commodity price declining during the third and fourth quarters of 2008.

The previously disclosed commodity contract that the Company had in place during 2007 was fulfilled by the end of that year and no new contracts have been entered into during the year ended December 31, 2008.

Royalties and Operating Expenses

	Three months ended December 31		Years ended December 31	
	2008	2007	2008	2007
Royalties (\$)	64,683	92,854	298,470	488,752
% of revenues	17	20	15	16
\$/boe	10.58	14.62	13.42	11.00
Operating and transportation expenses (\$)	179,301	244,553	806,421	1,025,564
\$/boe	29.34	38.49	36.26	23.08

Royalties for the fourth quarter of 2008 fell to \$10.58 on a per boe basis from \$16.91 per boe in the third quarter of 2008, and from \$14.62 in the fourth quarter of 2007. Royalties for the year fell slightly from 2007 as a percentage of revenue, but increased on a per boe basis to \$13.42 from \$11.00 for the year 2007. Increased commodity prices and reduced production volumes combined to effect these changes.

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Royalties in 2008 included Crown royalty reductions from 2007 on one property and adjustments from the calculation of gross overriding royalties on another property. This reduced royalties from a 20% burden in the fourth quarter of 2007 to 17% in the same quarter of 2008. The Company does not anticipate any impact from the new royalty program on its existing production.

Operating and transportation costs for the fourth quarter of 2008 were \$179,301 or \$29.34 per boe as compared to \$244,553 or \$38.49 per boe for the same period of 2007. Operating costs for the year of 2008 were \$806,421 or \$36.26 per boe as compared to \$1,025,564 or \$23.08 per boe for the same period of 2007. The increase on a boe basis for the twelve month comparative period reflects the continuous maintenance and repair costs required on the Company's Leduc property to maintain production volumes, combined with the natural decline in production on all the properties. The pump changes, battery upgrades and other maintenance and repair items on the Leduc property during the last half of 2008, resulted in increased production and decreased operating expenses during the third and fourth quarters of 2008.

Netbacks (\$/boe)

	Three months ended December 31		Years ended December 31	
	2008	2007	2008	2007
Revenue	59.98	74.86	91.39	67.08
Royalties	10.58	14.62	13.42	11.00
Operating expenses	29.34	38.49	36.26	23.08
Field netbacks	20.06	21.75	41.71	33.00
General and administrative (i)	75.52	76.60	101.85	46.87
Netbacks	(55.46)	(54.85)	(60.14)	(13.87)

(i) Note: The Company's per boe general and administrative expenses are generally higher than companies with comparable production levels as Alberta Oilsands is primarily focussed on non-conventional oil sands exploration for which there is no immediate production increases. See "Special Note Regarding Non-GAAP measures".

General and administrative expense

General and administrative expenditures for the three months and year ended December 31, 2008 totalled \$461,504 and \$2,265,164 respectively, as compared to \$486,627 and \$2,083,049 for the comparative 2007 periods. Salaries in the amount of \$31,173 and \$189,158, respectively, related to individuals specifically involved in the oil sands properties were capitalized to such properties in the three months and year ended December 31, 2008. Increases in personnel, office, travel and other promotional costs in the year ended December 31, 2008 were partially offset by increased capitalization of salaries and capital overhead recoveries.

Business development expenses and international operations

During the three months and year ended December 31, 2008, the Company incurred \$284,848 and \$540,768 respectively, as compared to \$119,391 and \$227,737 for the comparative 2007 periods, in business development expenses related to the pursuit of projects outside of conventional Canadian oil and gas exploration and development, principally in Kenya. They include consulting and related costs as

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well as costs associated with the on-going pursuit of additional financing to support any potential projects and transactions.

On September 17, 2008 Platform Resources Ltd., a wholly-owned subsidiary of Alberta Oilsands, signed two Production Sharing Contracts ("PSC's") with the Government of the Republic of Kenya on commercial terms that Platform considers to be attractive to it. The two exploration blocks are located in the eastern branch of the East Africa Rift Basin, southwest of Lake Turkana, in Kenya. Platform believes that recent discoveries in the western branches of the Rift Basin, near Uganda's Lake Albert and adjacent to western Kenya, highlight the under-explored nature and potential of this geological trend.

Under the terms of the PSC's, Platform is authorized to conduct exploration operations in two contract areas (Block 12A - 15,389 sq. km. and Block 13T - 8,429 sq. km.) for three years after the effective date of December 17, 2008, extendible at Platform's option for two additional terms of two years each. During the initial three year exploration period for each block, Platform has minimum total expenditure obligations of U.S. \$3,600,000 for Block 12A and U.S. \$3,650,000 for Block 13T. Platform is required to provide security for its minimum work obligations in the form of a bank letter of credit in the amount of 15%, and a guarantee of its parent (Alberta Oilsands) in the amount of 85%.

Platform is entitled to opt out of the PSC's at its sole discretion after 18 months, in the case of Block 12A, and 12 months in the case of Block 13T. Subsequent correspondence between Platform and representatives of the Government state the Government's expectations that Platform is to submit to the Government its proposed minimum work program and corresponding budgets for the initial 12 and 18 month opt-out periods, for both Blocks. Platform is working towards completion of these submissions which will identify the minimum work obligations for Block 12A and Block 13T. The Government has confirmed that upon their approval and the Company's completion of these minimum work commitments during the opt-out periods, that Platform is entitled to exercise its opt-out rights after 18 and 12 months, respectively, for Blocks 12A and 13T, with no further obligations under the PSC's if it does so.

Platform has not yet submitted its work programs to the Government, nor the bank letters of credit or parent guarantees, the first of which was due on or before March 17, 2009, and the latter two of which were due on or before the commencement of the initial exploration period. The Government may be entitled to terminate the PSC's in respect of these omissions by giving a notice of default to Platform, but the PSC's provide that if Platform remedies the breaches within the period of notice (a minimum of one month), the Government is required to withdraw the notice of termination.

As at March 31, 2009 Platform has purchased 50 lines of 2D seismic and has access to a total of 3,000 line kilometers of 2D seismic. Platform has paid a signing bonus of U.S.\$125,000 pursuant to the PSC's and has incurred approximately U.S.\$50,000 on seismic and on producing a work programme to present to the Government of Kenya.

Readers should be aware that there are certain risks associated with Platform's international operations. See "Forward-looking Statements and Information" and "Business Risks and Uncertainties – International Operations".

Stock-based compensation

Stock-based compensation for the three months and year ended December 31, 2008 was \$332,631 and \$1,594,936, respectively, compared to \$411,401 and \$2,380,158, respectively, in the same periods in 2007. In addition, \$45,737 and \$436,080 of stock-based compensation, and \$15,246 and \$145,360 of related future income taxes was capitalized to property and equipment in the three months and year

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ended December 31, 2008. \$77,110 and \$524,367 of stock-based compensation and \$6,842 and \$152,066 of related future income taxes was capitalized in the three months and year ended December 31, 2007. A similar quantity of option grants occurred in 2008 as compared to 2007. However, due to the decrease in the fair value of certain options, reduced stock-based compensation has been reduced during 2008 when the consultant's options are revalued each quarter. 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

Total interest expense of \$172,886 for the year ended December 31, 2008 was comprised primarily of Part XII.VI interest related to the Company's 2007 flow-through common share financings. The tax benefits of the flow-through financings were renounced to investors effective December 31, 2007 and interest accrues on a monthly basis on the unspent portion of the qualifying expenditures until all of the requirements have been met. This interest was paid at the end of February 2009. This compares to interest expense in the year ended December 31, 2007 of \$155,450 which was comprised primarily of interest related to the 2006 flow-through financings. In addition, \$194,643 of facility fees were incurred in 2007 relating to the bridge facility which was not renewed.

Depletion, depreciation and accretion

	Three months ended December 31		Years ended December 31	
	2008	2007	2008	2007
Depletion and depreciation (\$)	1,770,111	245,526	2,476,576	1,730,103
\$/boe	289.66	38.65	111.36	38.93
Accretion (\$)	16,277	15,678	62,555	60,941
\$/boe	2.66	2.47	2.81	1.37

The total depletion, depreciation and accretion charge for the three months and year of 2008 was \$1,786,388 and \$2,539,131 (\$292.33 and \$114.17 per boe) respectively, as compared to \$261,204 and \$1,791,044, respectively, (\$41.12 and \$40.30 per boe) for the three months and year ended December 31, 2007. The Company applied the ceiling test to its property and equipment at each quarter end of 2008 and determined that as at December 31, 2008 there was an impairment in the amount of \$1,475,000 which has been included in depletion and depreciation expense. During 2007, an impairment in the amount of \$211,900 was recorded during the nine months ended September 2007. With further commodity price declines, further impairments may result.

In performing the ceiling test, the Company excludes the \$31.4 million spent to date on its oil sands properties.

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Liquidity and Financial Position

The Company commenced 2008 with working capital of \$7,664,662. In January 2008, net proceeds of \$8.0 million were received from a non-brokered private placement from the issuance of 8.7 million common shares. In August 2008, pursuant to a brokered private placement, the Company issued 4,878,300 common shares at \$0.75 per share and 12,440,300 flow-through common shares at \$0.95 per share for net proceeds of approximately \$14.3 million.

During the year ended December 31, 2008, a total of \$1,666,344 was spent on operating activities, \$15,623,603 was incurred on capital expenditures, \$125,325 for a reclamation deposit with the Energy Resources Conversation Board, and proceeds in respect of joint operations of \$1,983,234 were received from the Company's joint venture. The Company exited 2008 with a working capital of \$14,560,866.

From the 2007 flow-through financing, the Company was required to spend approximately \$2.9 million on the remaining qualifying flow-through expenditures by December 31, 2008 which the Company fulfilled. From the August 2008 financing, the Company raised \$11.8 million from flow-through common shares. Approximately \$1.7 million of qualifying expenditures had been spent by December 31, 2008 and the remaining \$10.1 million will be required to be spent on qualifying expenditures by December 31, 2009.

The working capital as at December 31, 2008 of \$14.6 million will be utilized to fund the balance of the flow-through expenditures and provide funds for operating activities in 2009. While the Company does not have any financing in place as at December 31, 2008, it will require financing in order to continue with both development and exploration efforts in the oil sands, conventional assets and Kenya. The Company through its subsidiary Platform, will need to seek alternate financing or a joint venture to fund the Kenya project. See "Contractual Obligations and Commitments"

On January 28, 2009, AOS entered into a significant farm-in agreement on conventional oil and natural gas assets in the Mcleod area of Central Alberta and the Chinchaga/Ladyfern area of Northwestern Alberta. On March 23, 2009, AOS announced that it had successfully completed a Slave Point discovery well in the Chinchaga/Ladyfern area. The Company has a 50% working interest in the well which was spudded on February 16. The drilling costs to the Company of approximately \$2.0 million qualified as flow-through expenditures. The well was flow tested in mid March at various flow rates for deliverability potential. Further testing began on April 1, 2009. There is potential for further exploratory locations under this farm-in arrangement,

The Company continues to pursue alternate arrangements either from financings, joint ventures or asset rationalizations to provide the funding required to continue the Oilsands development.

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

Share Capital

Common shares

The Company commenced 2008 with 53,542,098 common shares outstanding. During 2008, a total of 13,587,977 common shares and 12,440,300 flow-through common shares were issued pursuant to private placements and 81,000 stock options were exercised for the same number of common shares, increasing the total common shares outstanding to 79,651,375 as at December 31, 2008 and as at the date of this MD&A.

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Stock Options

The Company commenced 2008 with a total of 5,126,405 stock options outstanding. During 2008, a total of 3,254,783 options were granted, 81,000 were exercised and 677,332 were forfeited, resulting in 7,622,856 options outstanding as at December 31, 2008 of which 4,490,877 are exercisable. An additional 200,000 options have been granted in March 2009, resulting in 7,822,856 options outstanding as at the date of this MD&A.

Contractual Obligations and Commitments

Flow-through expenditures

During 2007, the Company raised \$13,000,025 of flow-through proceeds. In February 2008, the Company renounced the tax benefits of these proceeds to the investors effective December 31, 2007. All of the qualifying expenditures were incurred by December 31, 2008.

During August 2008 the Company raised an additional \$11.8 million of flow-through proceeds. The Company renounced the tax benefits of these proceeds to the investors effective December 31, 2008. As at December 31, 2008, approximately \$1.7 million of expenditures had been incurred. The remaining \$10.1 million of qualifying expenditures must be incurred by December 31, 2009.

International obligations

Upon the PSC's becoming effective, Platform will have an obligation to spend an aggregate minimum of US \$7.25 million before December 17, 2011 (US\$ 3.65 million on Block 13T and US \$3.6 million on Block 12A). The PSCs provide that Platform has the right to opt out of the PSC's in Platform's sole discretion after a 12 month evaluation period in the case of Block 13T, and an 18 month evaluation period in the case of Block 12A. Platform is evaluating the minimum work program and expenditures that would be required to be spent on the two Exploration Blocks during the periods of the opt out clauses. The majority of this expenditure would be directed to prospect evaluation. See "Business development expenses and international operations".

Other commitments

The Company granted a two percent gross overriding royalty, which is subject to certain adjustments, on specific oil sands properties of the Company to Dr. Greg Hu, a consultant who was an employee and officer of the Company from September 2007 to August 2008. The carrying amount of the respective lands is \$3.2 million. In addition, Dr. Hu had 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. During 2008, 260,283 options were granted (2007 – 237,373) resulting in a total of 497,656 options granted to date at a weighted average exercise price of \$0.87.

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Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

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, 2008, respectively, the Company was charged \$263,185 (year ended December 31, 2007 –\$304,716) in legal fees by legal firms in which directors and officers of the Company are partners. Included in accounts payable at December 31, 2008 is \$42,223 (December 31, 2007 – \$83,911) due to the legal firms.
- b) During the three months and year ended December 31, 2008, the Company paid \$nil (three months and year ended December 31, 2007 – \$nil and \$383,400), respectively, in consulting fees to Mr. Chad Dust prior to him becoming an employee and officer of the Company in September 2007.
- c) During the year ended December 31, 2008, the Company paid \$nil (year ended December 31, 2007 \$139,050) in consulting fees to Dr. Greg Hu prior to him becoming an employee and officer of the Company in September 2007. In addition, for the year ended December 31, 2008, the Company was charged \$383,787 (year ended December 31, 2007 - \$25,373) for geological expenses from a corporation controlled by Dr. Greg Hu. Other than in respect of the agreement providing for a gross-overriding royalty on certain of the Company's oil sands lands, and the allocation of 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, as described earlier in this MD&A, there are no ongoing contractual obligations or other commitments outstanding as a result of the consulting arrangement with Dr. Hu. Dr. Hu resigned as an employee effective August 31, 2008. The corporation controlled by Dr. Hu is expected to continue to perform geological services for the Company in the future. Included in accounts receivable at December 31, 2008 is \$7,445 owing from the individual and in accounts payable is \$9,964 owing to his corporation.
- d) During the year ended December 31, 2007, the Company loaned Dr. Greg Hu a total of \$65,000 on a non-interest bearing note. This note was repaid prior to December 31, 2007.

These transactions, other than (d) were in the normal course of operations. All transactions were recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties and represents fair market value.

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Selected Historical Financial Information

	2008			
	4TH QUARTER	3 RD QUARTER	2 ND QUARTER	1ST QUARTER
Petroleum and natural gas revenue	366,542	666,302	555,333	444,336
Net loss	(1,985,137)	(799,495)	(1,169,247)	(780,434)
Net loss per share – basic and diluted	(0.02)	(0.01)	(0.02)	(0.01)
Funds used in operations	(485,453)	(282,302)	(631,341)	(267,248)
Cash flow (used in) from operations	(397,166)	(270,430)	(1,043,057)	453,149
Capital expenditures	4,990,133	952,090	1,805,135	5,893,011

	2007			
	4TH QUARTER	3 RD QUARTER	2 ND QUARTER	1 ST QUARTER
Petroleum and natural gas revenue	475,589	507,374	487,642	1,519,356
Net income (loss)	(1,002,898)	(1,688,739)	(1,378,661)	1,315,540
Net income (loss) per share – basic and diluted	(0.02)	(0.03)	(0.02)	0.05
Funds (used in) from operations	(418,165)	(231,667)	(703,819)	605,332
Cash flow (used in) from operations	(508,542)	(462,248)	(384,908)	773,935
Capital expenditures	4,681,196	7,658,343	4,112,925	3,769,082

The first quarter of 2007 included the revenue of the Company's Saskatchewan properties prior to its disposition in March 2007. The gross sale proceeds from this disposition were \$8.1 million which resulted in a gain on sale of \$2.2 million and a net income for the three months ended March 2007 of \$1.3 million.

Outlook

Alberta Oilsands has long-term growth opportunities in its oil sands properties. The Company has conventional production to assist in covering general and administrative expenses and has promising international prospects in Kenya.

Alberta Oilsands continues to believe in the future viability of the oil sands in Alberta. The Company believes the oil sands are viable in the medium and long-term thanks to operating leverage and technological advances that reduce environmental impact, the province's proximity to the United States and the global supply-demand equation. Alberta Oilsands is well positioned to tap into this future because of the characteristics of its proposed in-situ SAGD method of bitumen extraction. Alberta Oilsands' SAGD operation at Clearwater West would be close to infrastructure, allow for low injection pressure, have no bottom water and would have a deep water source and a water disposal zone.

Alberta Oilsands has a healthy balance sheet. The Company raised \$23.5 million from January to August 2008, allowing the Company to end the year on December 31, 2008 with a working capital of \$14.6 million.

The Company's focus for 2009 is to submit a pilot project application for its Clearwater West property. The Company believes it has sufficient working capital and revenue from conventional production to

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complete the requirements for the pilot project application. The construction of the pilot project will be dependent on the availability of capital and commodity prices. The Company expects the global downturn to be felt for some time; however, expects healthier financial markets and commodity prices in 2010, allowing for continued exploration and development of the oil sands.

Alberta Oilsands continues to evaluate multiple approaches to finance its capital expenditures. The preference is to proceed with projects on a 100% working interest basis, provided the capital markets recognize the value of the assets and facilities and are conducive to the raising of capital at non-dilutive levels. The Company is also seeking industry and financial partners as additional sources of funding to mitigate this risk.

Although the Company is confident in its financial strength, management has also taken steps to lower its risk during the global financial downturn. The Company has reduced its capital program to defer or reduce spending on exploratory projects and to focus on the projects that will get the Company to initial oil sands production as soon as possible. In January 2009, Alberta Oilsands' 2009 capital budget has been reduced to \$11.0 million, \$6.0 million of which is allocated towards the Company's oil sands assets, mostly in the Clearwater area and \$5.0 million is allocated to exploration and development of conventional opportunities. This reduced capital budget will enable the Company to incur the required qualifying expenditures from the 2008 flow-through financings by December 31, 2009. The capital budget may be adjusted as conventional opportunities arise and fiscal environment changes.

To augment existing cash flow from conventional properties, the Company signed a farm-in agreement early in 2009. In March 2009, the Company successfully completed a significant Slave Point exploration discovery well at the Hamburg area of northwest Alberta. The Company has a 50% working interest in the well, which has been tied in and commenced gas production in April 2009. The drilling and completion expenditures on this well qualified as eligible flow-through expenditures. This farm-in opportunity has potential for additional exploratory wells that are currently being evaluated.

The Company's focus for 2009 is to continue working towards the completion of the Clearwater pilot project application. During the first quarter of 2009, the Company spent approximately \$3.0 million on the Clearwater West core drilling program, the results of which will be used to complete this pilot project analysis.

Alberta Oilsands will monitor its capital program to ensure that the flow-through commitments will be met and assess opportunities that could provide additional cash flow. The Company is constrained in its financial resources, so will be assessing all opportunities to maximize return on the current capital to be spent.

Oilsands Development Risks

In assessing the feasibility of potential oil sands projects and in estimating the value of and the projected start-up dates for pilot projects and commercial in-situ operations in the Company's Clearwater East and West project areas, management has made numerous assumptions that the Company will be able to obtain regulatory (including in respect of applicable environmental matters) and other required third party approvals in a timely manner; that the regulatory framework representing royalties, taxes and environmental matters will continue to support such projects; that the Company will be able to generate sufficient cash flow, access capital markets on competitive terms or find strategic partners in order to enable it to fund such projects; that future prices for crude oil, bitumen and refined products will continue to be at levels which support such projects; that the results from the Company's 2008/2009 winter core

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drilling program will be favourable; that the Company's independent resource estimates are accurate; and that the Company will be able to obtain qualified staff and equipment in a timely and cost efficient manner. In the event such assumptions are not accurate, this could have an adverse effect on the ability of the Company to commence such projects within the noted timelines, or at all. Please see the section entitled "Forward-looking Statements and Information" in this MD&A. There is no certainty that it will be commercially viable to produce any portion of the resources described in this MD&A. For important information regarding the disclosure of resource estimates, including the definitions of "Contingent Resources", please see the section entitled "Disclosure of Resources" in this MD&A.

Business Risks and Uncertainties

The risks and uncertainties below are not the only ones facing the Company. For an overview of certain of the risks and uncertainties which may affect the Company and its business and operations, readers are referred to the section entitled "Forward-looking Statements and Information". 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 these 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.

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 result in the production of commercial quantities. Additional data required for proper evaluation of its oil sands interests will become available after drilling. The future 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

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opportunities and reduce or shut-in its operations. 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.

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.

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See also "Disclosure of Resources" below.

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.

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.

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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.

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.

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

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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.

See also "Oilsands Development Risks" above.

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 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

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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.

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.

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International Operations

A portion of the Company's business is currently located outside of North America, with the Company's wholly-owned subsidiary Platform having entered into PSCs with the Republic of Kenya. Such international operations may be adversely affected by political or economic developments or social instability, which will not be within the Company's or Platform's control, including, among other things, the risks of war, terrorism, abduction, expropriation, nationalization, renegotiation or nullification of existing concessions and contracts (including the PSCs), taxation policies, economic sanctions, fluctuating exchange rates and currency controls. The occurrence of any such events could have a material adverse effect on the Company's and Platform's results of operations as currently contemplated in respect of the PSCs.

In addition, there can be no assurances that the Government of Kenya or other counterparties to the PSCs will fulfill their obligations under such agreements and, if such counterparties do not fulfill their obligations, there can be no assurances that sufficient remedies will be available to allow the Company or Platform to recoup any investments that have been made.

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

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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 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 the bitumen resources detailed in this MD&A. The estimated future net revenues contained in this MD&A do not necessarily represent the market value of such resources. The high level of uncertainty associated with the Company's possible recovery of any of these resources is the result of various risks and uncertainties including: current uncertainties around the specific scope and timing of the development of the Company's Fort-McMurray properties; the ability of the Company to finance any potential oil sands projects at 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

Alberta Oilsands Inc.

Management's Discussion and Analysis of Operations and Financial Condition

December 31, 2008

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 sections entitled "Business Risks and Uncertainties" and "Forward-looking Statements and Information" in this MD&A.

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

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, 2008. The Company's significant accounting policies are subject to estimates and key judgments about future events, many of which are beyond management's control.

Change in Accounting Policies

On January 1, 2008, the Company adopted the new or revised Canadian accounting standards for capital disclosures and financial instruments. Prior periods have not been restated. The adoption of these changes had no impact on the Company's opening retained earnings.

a) Capital disclosures

Section 1535 Capital Disclosures specifies the disclosure of (i) an entity's objectives, policies, and processes for managing capital, (ii) quantitative data about what the entity regards as capital, (iii) whether the entity has complied with all capital requirements, and (iv) if it has not complied, the consequences of such noncompliance.

b) Financial instruments – presentation and disclosure

Section 3862 Financial Instruments – Disclosure and *Section 3863 Financial Instruments – Presentation* replace *Section 3861 Financial Instruments – Disclosure and Presentation*. The new standards revise and enhance disclosure requirements and place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. Presentation requirements remain unchanged.

In October 2008, the Accounting Standards Board of Canada ("AcSB") issued amendments to its standards dealing with reclassification of financial assets in response to similar amendments made by the International Accounting Standards Board ("IASB") in the context of the current financial market turmoil.

The amendments allow reclassification of financial assets out of the held-for-trading category (measured at fair value with gains and losses recognized immediately in net income) into the available-for-sale or held-to-maturity categories, in "rare circumstances." The latter two categories are subject to impairment testing, but income statement charges for impairment are recognized when impairment is considered "other than temporary." The financial assets that can be reclassified exclude derivatives and financial assets an entity has elected to include in the held-for-trading category. Assets qualifying for reclassification are mainly debt and equity investments that

Alberta Oilsands Inc.

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December 31, 2008

were originally classified as held for trading because they were acquired for the purpose of near-term sale.

The amendments are accompanied by extensive disclosure requirements to provide clear information to financial statement users and apply to reclassifications made on or after July 1, 2008. An entity is precluded from reclassifying a financial asset in accordance with the amendments before July 1, 2008. Any reclassification made on or after November 1, 2008 takes effect from the date of reclassification. However, any reclassification before November 1, 2008 can take effect from July 1, 2008 or a subsequent date.

Any reclassification of a financial asset in accordance with the amendments must not be applied retrospectively to reporting periods ended before July 1, 2008. An entity does not reclassify financial assets retrospectively in periods reported on in previously issued financial statements.

The Company did not reclassify any financial assets during 2008.

c) Pending accounting pronouncements

International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board (AcSB) published a new strategic plan confirming the changeover from Canadian generally accepted accounting principles to IFRS for publically accountable enterprises. This is effective for interim and annual financial statements for fiscal years beginning on or after January 1, 2011 with comparatives for December 31, 2010.

The International Accounting Standards Board ("IASB") has also issued an exposure draft relating to certain amendments and exemptions to IFRS 1. It is anticipated that this exposure draft will not result in an amended IFRS 1 standard until late 2009. The amendment, if implemented, will permit the Company to apply IFRS prospectively by utilizing its current reserves at the transition date to allocate the Company's full cost pool, with the provision that a ceiling test, under IFRS standards, be conducted at the transition date. Although the amended IFRS 1 standard would provide relief, the changeover to IFRS represents a significant change in accounting standards and the transition from current Canadian GAAP to IFRS will be a significant undertaking that may materially affect the Company's reported financial position and reported results of operations.

The Company has begun assessing the adoption of IFRS for the purposes of developing a plan and a timeline for conversion. The Company will also continue to monitor standards development as issued by IASB and the AcSB as well as regulatory developments as issued by the Canadian Securities Administrators, which may affect the timing, nature or disclosure of its adoption of IFRS.

Goodwill and intangible assets

In January 2008, *Section 3064 Goodwill and Intangible Assets* was issued to replace *Section 3062 Goodwill and Other Intangible Assets* and *Section 3450 Research and Development Costs*. In addition, *Section 1000 Financial Statement Concepts and Accounting Guideline AcG 11 Enterprises in the Development Stage* were amended. The new and amended material clarifies that costs may only be deferred when they relate to an item that meets the definition of an asset. The practice of matching revenues and expenses remains appropriate only for allocating the cost of an asset that is consumed in generating revenue over multiple reporting periods. Section 3064

Alberta Oilsands Inc.
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provides extensive guidance on when expenditures qualify for recognition as intangible assets, aligns Canadian GAAP with IFRS and will be effective on January 1, 2009.

Business combinations and non-controlling interests

In January 2009, the AcSB issued Section 1582 Business Combinations, Section 1601 Consolidations and Section 1602 Non-controlling Interests. Section 1582 replaces Section 1581 Business Combinations and provides the Canadian equivalent to IFRS 3 Business Combinations. Section 1601 and Section 1602 replace Section 1600 Consolidated Financial Statements. Section 1602 provides the Canadian equivalent to International Accounting Standard ("IAS") 27 Consolidated and Separate Financial Statements, for non-controlling interests. These standards are effective January 1, 2011.

Section 1582 applies to a transaction in which the acquirer obtains control of one or more businesses. Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be improbable, will be measured at fair value. Any interest in the acquiree owned prior to obtaining control will be remeasured at fair value at the acquisition date, eliminating the need for guidance on step acquisitions. A bargain purchase will result in recognition of a gain. Acquisition costs must be expensed. Any non-controlling interest will be recognized as a separate component of shareholder's equity. Net income is allocated between the controlling and non-controlling interests.

Management's Responsibility

To the Shareholders of Alberta Oilsands Inc.:

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian generally accepted accounting principles and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Board of Directors exercises its responsibilities for financial controls through an Audit Committee. The Audit Committee is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Company's external auditors.

KPMG LLP, an independent firm of Chartered Accountants, is appointed by the shareholders to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Audit Committee and management to discuss their audit findings.

April 28, 2009

"Shabir Premji" (signed)

Shabir Premji
Executive Chairman

"Michael Lee" (signed)

Michael Lee
President

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Alberta Oilsands Inc. as at December 31, 2008 and 2007 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

“signed KPMG LLP”

Chartered Accountants

Calgary, Canada

April 28, 2009

Alberta Oilsands Inc.
Consolidated Balance Sheets
December 31

Assets	<u>2008</u>	<u>2007</u>
Current		
Cash and cash equivalents (<i>note 4</i>)	\$ 17,371,816	\$ 11,445,658
Short-term investments (<i>note 5</i>)	1,994,246	-
Accounts receivable	339,700	634,043
Prepaid expenses	125,005	323,293
	<u>19,830,767</u>	<u>12,402,994</u>
Reclamation deposit	125,325	-
Property and equipment (<i>note 6</i>)	36,460,797	24,680,605
	<u>\$ 56,416,889</u>	<u>\$ 37,083,599</u>
 Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 5,269,901	\$ 4,738,332
Asset retirement obligation (<i>note 8</i>)	935,700	838,186
Future income taxes (<i>note 11</i>)	2,435,001	425,858
	<u>8,640,602</u>	<u>6,002,376</u>
 Shareholders' Equity		
Share capital (<i>note 9</i>)	52,237,820	32,793,456
Contributed surplus (<i>note 10</i>)	5,158,997	3,173,984
Deficit	(9,620,530)	(4,886,217)
	<u>47,776,287</u>	<u>31,081,223</u>
	<u>\$ 56,416,889</u>	<u>\$ 37,083,599</u>

Basis of presentation (*note 1*)

Commitments (*note 15*)

Subsequent event (*note 18*)

On behalf of the Board

"signed Shabir Premji"

Director

"signed Michael Lee"

Director

See accompanying notes to the consolidated financial statements.

Alberta Oilsands Inc.

Consolidated Statements of Operations, Comprehensive Loss, and Deficit For the years ended December 31

	2008	2007
Revenue		
Petroleum and natural gas sales	\$ 2,032,513	\$ 2,980,974
Commodity contract (note 16)	–	(48,030)
Royalties	(298,470)	(488,752)
	1,734,043	2,444,192
Interest income	384,852	295,904
	2,118,895	2,740,096
Expenses		
Production	746,540	924,167
Transportation	59,881	101,397
General and administrative	2,265,164	2,083,049
Business development (note 12)	540,768	227,737
Stock-based compensation (note 9)	1,594,936	2,380,158
Financing fees	–	194,643
Interest	172,886	155,450
Accretion	62,555	60,941
Depletion and depreciation (note 6)	2,476,576	1,730,103
	7,919,306	7,857,645
Loss before the undernoted	(5,800,411)	(5,117,549)
Gain on disposal of property and equipment (note 6)	–	2,244,439
Loss before income taxes	(5,800,411)	(2,873,110)
Future income tax reduction (note 11)	1,066,098	118,355
Net loss and comprehensive loss for the year	(4,734,313)	(2,754,755)
Deficit, beginning of year	(4,886,217)	(2,131,462)
Deficit, end of year	\$ (9,620,530)	\$ (4,886,217)
Net loss per share		
Basic and diluted (note 9)	\$ (0.07)	\$ (0.06)

See accompanying notes to the consolidated financial statements.

Alberta Oilsands Inc.
Consolidated Statements of Cash Flows
For the years ended December 31

	2008	2007
Operating		
Net loss for the year	\$ (4,734,313)	\$ (2,754,755)
Non-cash items:		
Stock-based compensation	1,594,936	2,380,158
Accretion	62,555	60,941
Depletion and depreciation	2,476,576	1,730,103
Future income tax reduction	(1,066,098)	(118,355)
Commodity contract	–	48,030
Bridge facility fee	–	150,000
Gain on disposal of property and equipment (note 6)	–	(2,244,439)
	(1,666,344)	(748,317)
Change in non-cash working capital (note 13)	408,840	166,554
	(1,257,504)	(581,763)
Financing		
Issuance of shares, net of costs	22,328,242	24,060,634
Bank debt repayment	–	(2,100,000)
Bridge facility repayment (note 7)	–	(1,000,000)
Change in non-cash working capital (note 13)	145,823	15,382
	22,474,065	20,976,016
Investing		
Short-term investments	(1,994,246)	–
Expenditures on property and equipment	(15,623,603)	(20,221,545)
Reclamation deposit	(125,325)	–
Proceeds from disposal of property and equipment (note 6)	–	7,937,969
Proceeds from joint operations	1,983,234	–
Change in non-cash working capital (note 13)	469,537	3,330,113
	(15,290,403)	(8,953,463)
Increase in cash and cash equivalents	5,926,158	11,440,790
Cash and cash equivalents, beginning of year	11,445,658	4,868
Cash and cash equivalents, end of year	\$ 17,371,816	\$ 11,445,658
Supplemental cash flow information:		
Interest paid	\$ 77,063	\$ 82,211

See accompanying notes to the consolidated financial statements.

Alberta Oilsands Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

1. Basis of presentation and future operations

Alberta Oilsands Inc. ("the Company") is incorporated under the Business Corporations Act (Alberta) and is listed on the TSX Venture Exchange. The Company is involved in the production, exploration and development of resource properties. The Company operated as Platform Resources Inc. prior to May 29, 2007, when shareholders approved a resolution to change the name of the Company to Alberta Oilsands Inc. These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Platform Resources Inc. after the elimination of all intercompany transactions and balances.

These consolidated financial statements 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. Accordingly, their carrying amounts represent costs incurred to date, net of abandonments and write-downs, and do not necessarily reflect present or future values. In addition, the Company has incurred operating losses over the past two years. 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. The consolidated financial statements do not reflect adjustments in the carrying values of the assets and liabilities, expenses and the balance sheet classifications that would be used if the going concern assumption were not appropriate. Such adjustments could be material.

2. Significant accounting policies

The financial statements have been prepared by management in accordance with generally accepted accounting principles in Canada. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the financial statements and accompanying notes. Actual results could differ from these estimates. The financial statements have, in management's opinion, been properly prepared using careful judgment within the reasonable limits of materiality and the framework of the significant accounting policies summarized below:

a) Cash and cash equivalents

Cash and cash equivalents consist of bank balances and term deposits with maturities at the date of purchase of three months or less.

b) Prepaid expenses

Prepaid expenses consist of deposits and prepaid annual fees which are amortized over the term of the related payment.

c) Property and equipment

i) Capitalized costs

The Company follows the full cost method of accounting for its petroleum and natural gas operations. Under this method all costs related to the exploration for and development of petroleum and natural gas reserves are capitalized on a country-by-country basis. Costs include lease acquisition costs, geological and geophysical expenses, costs of drilling both productive and non-productive wells, asset retirement costs and directly related overhead. Proceeds from the sale of properties are applied against capitalized costs, without any gain or loss being realized, unless such sale would alter the rate of depletion and depreciation by more than 20%.

Alberta Oilsands Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

2. Significant accounting policies *(continued)*

c) Property and equipment *(continued)*

ii) Depletion and depreciation

Depletion of petroleum and natural gas properties and depreciation of production equipment, net of estimated salvage or residual value, is provided using the unit-of-production method based upon estimated gross proved petroleum and natural gas reserves as determined by independent engineers. The costs of significant unevaluated properties are excluded from costs subject to depletion until it is determined whether or not proved reserves are attributable to the properties or impairment occurs. For depletion and depreciation purposes, relative volumes of petroleum and natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

Office equipment is depreciated on a declining balance basis over its estimated useful life at rates varying from 20% to 45%.

iii) Impairment test

Under the full cost method of accounting, a "ceiling test" is performed to recognize and measure impairment, if any, of the carrying amount of petroleum and natural gas properties. Impairment is recognized if the carrying amount of the petroleum and natural gas properties, less the cost of undeveloped properties, net of impairment, exceeds the estimated undiscounted future cash flows from the Company's proved reserves. The future cash flows are based on a forecast of prices and costs, as provided by an independent third party. The magnitude of the impairment, if any, is then measured by comparing the carrying amount of petroleum and natural gas properties less the cost of undeveloped properties, net of impairment, to the estimated discounted future cash flows from the Company's proved and probable reserves. The future cash flows are discounted at the Company's risk-free interest rate, using forecasted prices and costs.

Any impairment recognized is recorded as additional depletion and depreciation expense.

d) Asset retirement obligation

The Company recognizes the fair value of a liability for an asset retirement obligation in the period in which it is incurred and records a corresponding increase in the carrying amount of the related property and equipment. The fair value is determined through a review of engineering studies, industry guidelines, and management's estimate on a site-by-site basis. The liability is subsequently adjusted for the passage of time, and is recognized as an accretion expense in the consolidated statement of operations.

The liability is also adjusted due to revisions in either the timing or the amount of the original estimated cash flows associated with the liability. The increase in the carrying amount of the asset is amortized using the unit of production method based on estimated gross proved reserves as determined by independent engineers. Actual costs incurred upon settlement of the asset retirement obligations are charged against the asset retirement obligation to the extent of the liability recorded.

e) Flow-through shares

A portion of the Company's exploration activities is financed through proceeds received from the issue of flow-through shares. Under the terms of the flow-through share issues, the tax attributes of the related expenditures are renounced to the share subscribers. To recognize the foregone tax benefits to the Company the carrying amount of the shares issued is reduced by the tax effect of the benefits renounced to subscribers. The tax effect of the renouncement is recorded when the renouncement documents are filed with the tax authorities.

Alberta Oilsands Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

2. Significant accounting policies *(continued)*

f) Future income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method future tax assets and liabilities are determined based on differences between financial reporting and income tax bases of assets and liabilities, and are measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in the consolidated statement of operations in the period in which the change is substantively enacted. A valuation allowance is recorded against a future income tax asset if it is more likely than not that the asset will not be realized.

g) Joint operations

Substantially all of the exploration, development and production activities of the Company are conducted jointly with others and these financial statements reflect only the Company's proportionate interest in such activities.

h) Revenue recognition

Petroleum and natural gas sales are recognized as revenue when commodities are delivered and title passes to purchasers.

i) Per share amounts

Basic per share amounts are computed by dividing net loss by the weighted average number of common shares outstanding during the year. The Company utilizes the treasury stock method in the determination of diluted per share amounts. Under this method, the diluted weighted average number of shares is calculated assuming that proceeds arising from the exercise of options and other dilutive instruments where the market price exceeds option price are used to purchase, for cancellation, common shares of the Company at their average market price for the period. The weighted average number of shares is then adjusted by the net change.

j) Stock options

Under the Company's stock option plan described in note 9, options to purchase common shares are granted to directors, employees and consultants at current market prices. Stock-based compensation is recorded over the vesting period of the options with a corresponding amount recorded as contributed surplus. Stock-based compensation for options granted to directors and employees is based on the estimated fair value at the time of the grant. Stock-based compensation for options granted to consultants is based on the estimated fair value at each balance sheet date until the related options are fully vested. Upon the exercise of the stock options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase in share capital. In the event that vested options expire unexercised, previously recognized compensation expense associated with such stock options is not reversed. In the event that unvested options are forfeited, previously recognized compensation expense associated with such stock options is reversed.

k) Comprehensive income

Comprehensive income is the change in shareholders' equity during a period from transactions and other events and circumstances from non-owner sources and includes unrealized gains and losses on financial assets classified as available-for-sale. The Company has reported a statement of comprehensive loss combined with the statement of operations. When related amounts are recorded, a new category for accumulated other comprehensive income will be presented in the shareholders' equity section of the balance sheet.

Alberta Oilsands Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

2. Significant accounting policies *(continued)*

l) Financial instruments

All financial instruments, including all derivatives, are required to be recognized on the balance sheet initially at fair value. Subsequent measurement of all financial assets and liabilities except those held-for-trading and available for sale are measured at amortized cost determined using the effective interest rate method. Held-for-trading financial assets are measured at fair value with changes in fair value recognized in earnings. Available-for-sale financial assets are measured at fair value with changes in fair value recognized in comprehensive income and reclassified to earnings when derecognized or impaired. The Company has classified its financial assets and liabilities as follows:

<u>Held-for-trading</u>	<u>Loans and receivables</u>	<u>Other liabilities</u>
Cash and cash equivalents Short-term investments	Accounts receivable	Accounts payable and accrued liabilities

At each balance sheet date, the Company will assess financial assets for impairment with any impairment recorded in the consolidated statement of operations.

The Company may use various types of derivative financial instruments to manage risks associated with crude oil and natural gas price fluctuations. These instruments are not used for trading or speculative purposes. Proceeds and costs realized from holding the related contracts are recognized in petroleum and natural gas revenues at the time that each transaction under a contract is settled. For the unrealized portion of such contracts, the Company utilizes the fair value method of accounting. The fair value is based on an estimate of the amounts that would have been paid to or received from counterparties to settle these instruments given future market prices and other relevant factors. The method requires the fair value of the derivative financial instruments to be recorded at each balance sheet date with the unrealized gains or losses on these contracts recorded through the consolidated statement of operations.

The Company has elected to account for its physical delivery sale contracts, which were entered into and continue to be held for the purpose of receipt or delivery of non-financial items in accordance with its expected purchase, sale or usage requirements as executory contracts on an accrual basis rather than as non-financial derivatives.

The Company expenses all transaction costs as incurred in relation to the acquisition of a financial asset or liability. The Company applies trade date accounting for the recognition of the purchase or sale of cash equivalents and short-term investments.

m) Measurement uncertainty

The amounts recorded for depletion and depreciation of property and equipment and the ceiling test are based on estimates of gross reserves, production rates, oil and gas prices, royalties, future costs and other relevant assumptions. Inherent in the fair value calculation of asset retirement obligations are numerous assumptions and judgments including the ultimate settlement amounts, inflation factors, credit adjusted discount rates, timing of settlement, and changes in the legal and regulatory environments. To the extent future revisions to these assumptions impact the fair value of the existing asset retirement obligation liability, a corresponding adjustment is made to the property and equipment balance. Amounts related to the fair value of stock options and warrants are based on estimates of share price volatility, risk-free interest rate and expected lives of options and warrants. Future income tax assets and liabilities are reported based on estimates of future income tax rates. Amounts reported for the fair value of commodity price risk contracts are based on the counterparties' estimates of future commodity prices. By their nature, these estimates and related future cash flows are subject to measurement uncertainty, and the impact on the consolidated financial statements of future periods could be material. These assumptions are reviewed periodically and, as adjustments become necessary, they are reported in the consolidated statement of operations in the periods in which they become known.

Alberta Oilsands Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

3. Changes in accounting policies

On January 1, 2008, the Company adopted the new or revised Canadian accounting standards for capital disclosures and financial instruments. Prior periods have not been restated. The adoption of these changes had no impact on the Company's financial results, however did result in additional disclosures.

a) Capital disclosures

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Alberta Oilsands Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

3. Changes in accounting policies (continued)

c) Pending accounting pronouncements (continued)

Goodwill and intangible assets (continued)

Section 3064 provides extensive guidance on when expenditures qualify for recognition as intangible assets and aligns Canadian GAAP with IFRS. These standards are effective on January 1, 2009.

Business combinations and non-controlling interests

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4. Cash and cash equivalents

	2008	2007
Cash in bank	\$ 3,898,794	\$ 2,106,177
Term deposits	13,473,022	9,339,481
	<u>\$ 17,371,816</u>	<u>\$ 11,445,658</u>

The term deposits outstanding as at December 31, 2008 earned interest at rates ranging from 1.83% to 2.00% (2007 - 4.65%) and matured during January to March 2009 at which time they were reinvested at similar terms. Included in the cash in bank balance is \$218,845 of restricted cash subject to the authorization of a joint operating partner.

5. Short-term investments

As at December 31, 2008, the Company held a term deposit of \$1,994,246, including accrued interest. The term deposit earned interest at 1.89% and matured on March 10, 2009 at which time it was reinvested at similar terms.

6. Property and equipment

	2008		
	Cost	Accumulated depletion and depreciation	Net
Petroleum and natural gas properties			
Oil sands properties	\$ 31,366,723	\$ —	\$ 31,366,723
Conventional properties	13,671,978	8,663,500	5,008,478
Office equipment	187,453	101,857	85,596
	<u>\$ 45,226,154</u>	<u>\$ 8,765,357</u>	<u>\$ 36,460,797</u>

Alberta Oilsands Inc.
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For the years ended December 31, 2008 and 2007

6. Property and equipment (continued)

	2007		
	Cost	Accumulated depletion and depreciation	Net
Petroleum and natural gas properties			
Oil sands properties	\$ 19,129,410	\$ –	\$ 19,129,410
Conventional properties	11,672,612	6,223,500	5,449,112
Office equipment	167,364	65,281	102,083
	<u>\$ 30,969,386</u>	<u>\$ 6,288,781</u>	<u>\$ 24,680,605</u>

During 2008, the Company capitalized \$189,158 (2007 - \$117,083) of general and administrative costs, \$436,080 (2007 - \$524,367) of stock-based compensation, and \$145,360 (2007 - \$152,066) of related future incomes taxes. At December 31, 2008, the Company excluded \$31,499,211 (2007 - \$19,900,230) of petroleum and natural gas property costs relating to unproved properties from the depletion and ceiling test calculations. In addition, \$487,750 (2007 - \$229,400) of future development costs have been included in the depletion calculation.

The Company applied the ceiling test to its conventional property and equipment at December 31, 2008 and determined that there was an impairment in the amount of \$1,475,000 (December 31, 2007 - \$211,900) which has been included in depletion and depreciation expense.

For the purposes of the December 31, 2008 impairment test, the following benchmark prices were used:

	Edmonton Light Cdn\$/bbl	AECO Spot \$/MMbtu
2009	70.00	7.25
2010	80.00	7.75
2011	90.00	8.25
2012	95.00	8.75
2013	100.00	9.00
Escalation rate thereafter - 2%		

The Company disposed of certain properties in March 2007 for net proceeds of \$7.9 million. The gain recorded on disposal was \$2.2 million. In addition, the Company disposed of \$193,266 of asset retirement obligations pursuant to the disposition.

7. Credit facility

The Company currently has no credit facility in place. On June 30, 2008, the bridge facility entered into in October 2007 expired and was cancelled undrawn. The bridge facility charged interest at 9% per annum with a deferred fee of 4% on any amounts repaid under the facility. A commitment fee during 2007 in the amount of \$175,000 was satisfied by a cash payment of \$25,000 and the issuance of 116,279 common shares of the Company.

Alberta Oilsands Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

8. Asset retirement obligation

The following table presents the reconciliation of the carrying amount of the obligation associated with the retirement of the property and equipment:

	2008	2007
Balance, beginning of year	\$ 838,186	\$ 967,497
Liabilities incurred	40,000	30,327
Dispositions (<i>note 6</i>)	–	(193,266)
Revisions	(5,041)	(27,313)
Accretion	62,555	60,941
Balance, end of year	<u>\$ 935,700</u>	<u>\$ 838,186</u>

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

	2008	2007
Undiscounted abandonment costs	\$ 1,234,144	\$ 1,194,100
Credit adjusted risk-free rate	8 – 10%	8%
Inflation rate	2%	2%
Weighted average expected timing of cash flows	4 years	3 years

9. Share capital

a) Authorized

Unlimited number of common shares without nominal or par value

b) Common shares issued

	Number of Shares	Amount
Balance, December 31, 2006	28,817,144	\$ 8,567,290
Issue of flow-through common shares ((i) and (ii))	14,848,500	13,000,025
Issue of common shares (ii)	8,888,900	12,000,015
Issue of common shares (iii)	232,307	302,000
Exercise of options (iv)	638,968	336,490
Financing fee (v)	116,279	150,000
Tax effect of flow-through shares issued in 2005	–	(587,382)
Share issue costs (<i>net of tax of \$476,532</i>)	–	(974,982)
Balance, December 31, 2007	53,542,098	\$ 32,793,456
Issue of common shares (vi)	8,709,677	8,099,840
Issue of common shares (vii)	4,878,300	3,658,725
Issue of flow-through shares (vii)	12,440,300	11,818,285
Exercise of options (viii)	81,000	77,893
Tax effect of flow-through shares issued in 2006 (ix)	–	(3,250,006)
Share issue costs (<i>net of tax of \$320,125</i>)	–	(960,373)
Balance, December 31, 2008	<u>79,651,375</u>	<u>\$ 52,237,820</u>

- (i) In May 2007, a private placement was completed for 10,000,000 flow-through common shares at \$0.50 per share for gross proceeds of \$5,000,000. In conjunction with the private placement the Company paid \$50,000 of commissions. Directors and officers subscribed for 1,090,000 flow-through common shares. The Company incurred all of the qualifying expenditures by December 31, 2008.

Alberta Oilsands Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

9. Share capital *(continued)*

b) Common shares issued *(continued)*

- (ii) In June 2007, a private placement financing was completed for the issuance of 8,888,900 common shares at a price of \$1.35 per share and 4,848,500 flow-through common shares at a price of \$1.65 per share for total gross proceeds of \$20,000,040. In connection with the private placement, the Company paid a commission to the underwriters of approximately \$1.2 million. The Company incurred all of the qualifying expenditures by December 31, 2008.
- (iii) In December 2007, pursuant to a non-brokered private placement, 232,307 common shares at a price of \$1.30 per share were issued for gross proceeds of \$302,000.
- (iv) During 2007, a total of 638,968 stock options were exercised at exercise prices ranging from \$0.29 to \$0.38 per common share, for total cash proceeds of \$210,108. In addition to the cash proceeds, a pro-rata allocation of the options' fair value in the amount of \$126,382 was reclassified from contributed surplus to share capital.
- (v) Pursuant to the bridge facility (note 7), a total of 116,279 common shares valued at \$1.29 per share were issued.
- (vi) Pursuant to a non-brokered private placement in January 2008, the Company issued 8,709,677 common shares at a price of \$0.93 per share for gross proceeds of \$8,099,840. Share issue costs of \$121,960 were incurred.
- (vii) Pursuant to a non-brokered private placement in August 2008, the Company issued 4,878,300 common shares at a price of \$0.75 per share and 12,440,300 flow-through common shares at a price of \$0.95 per share for total gross proceeds of \$15,447,010. Share issue costs totaling \$1,158,537 were incurred. Directors and officers subscribed for 36,800 flow-through common shares. The Company is required to spend \$11,818,285 in qualifying expenditures by December 31, 2009, of which approximately \$1,730,800 had been incurred at December 31, 2008.
- (viii) During 2008, the Company issued 81,000 common shares on the exercise of 81,000 stock options at exercise prices ranging from \$0.37 to \$0.61 per common share for cash proceeds of \$31,890. In addition to the cash proceeds and a pro-rata allocation of the options' fair value in the amount of \$46,003 was reclassified from contributed surplus to share capital.
- (ix) In May 2007 and June 2007, private placements were completed for 14,848,500 flow-through common shares for gross proceeds of \$13,000,025 as disclosed above in notes 9(b)(i) and(ii). The renouncement documents were filed with the tax authorities in February 2008 at which time the tax effect of the qualifying expenditures in the amount of \$3,250,006 was recognized.

c) Stock options

The Company has established a stock option plan for its directors, officers, employees and consultants. Pursuant to this plan, the Company is authorized to reserve for issuance up to 10% of its common shares outstanding from time to time. Options expire five years from the date of grant and vest over periods as determined by the board of Directors at the time of grant.

During the year ended December 31, 2008, the Company granted a total of 3,254,783 (2007 - 3,474,373) stock options all of which vested one-third upon grant date and one-third on the first and second anniversaries of the grant date and expire five years from grant date. The initial total fair value of the options granted was estimated to be \$940,232 (2007 - \$5,285,329).

Alberta Oilsands Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

9. Share capital (continued)

c) Stock options (continued)

The Black-Scholes pricing model was used to estimate the fair value of options granted in 2008 and 2007 using a forfeiture rate of 0%, a dividend yield of nil and based on the following significant assumptions:

	2008	2007
Weighted average risk-free interest rate	2.63%	4.38%
Weighted average volatility	188%	151%
Expected life	5 years	5 years

The following is a continuity of stock options as at December 31, 2008 and 2007:

	2008		2007	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Opening	5,126,405	\$ 1.25	2,604,000	\$ 0.34
Granted	3,254,783	0.30	3,474,373	1.67
Exercised	(81,000)	(0.39)	(638,968)	(0.33)
Forfeited	(677,332)	(1.27)	(313,000)	(0.34)
Closing	7,622,856	\$ 0.85	5,126,405	\$ 1.25

The following summarizes information about stock options outstanding as at December 31, 2008:

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	2,160,000	4.90	\$ 0.13	720,000	\$ 0.13
\$ 0.29 – \$ 0.30	667,000	1.20	0.30	617,000	0.30
\$ 0.37 – \$ 0.40	951,700	2.67	0.37	951,700	0.37
\$ 0.45 – \$ 0.67	1,240,686	4.16	0.61	495,562	0.61
\$ 0.85 – \$ 1.30	527,097	3.77	1.23	322,366	1.26
\$ 1.47 – \$ 1.91	1,004,373	3.40	1.85	669,582	1.85
\$ 1.92 – \$ 2.21	1,072,000	3.60	2.21	714,667	2.21
	7,622,856	3.72	\$ 0.85	4,490,877	\$ 0.92

The Company recognized stock-based compensation expense in the years ended December 31, 2008 and 2007 for the following option grants:

Year of option grant	Weighted average fair value per share	2008	2007
2005	\$ 0.31	\$ –	\$ 7,425
2006	\$ 0.37	106,913	206,566
2007	\$ 1.74	1,470,788	2,690,534
2008	\$ 0.30	453,315	–
		2,031,016	2,904,525
Capitalized to property and equipment (note 6)		(436,080)	(524,367)
Expensed		\$ 1,594,936	\$ 2,380,158

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For the years ended December 31, 2008 and 2007

9. Share capital (continued)

d) Per share amounts

Basic per share amounts are calculated using the weighted average number of shares outstanding of 68,689,821 (2007 - 42,765,794) for the year ended December 31, 2008. In computing diluted per share amounts for the years ended December 31, 2008 and 2007 all of the Company's outstanding options were excluded as they were considered to be anti-dilutive.

10. Contributed surplus

Balance, December 31, 2006	\$	395,841
Stock-based compensation expense		2,380,158
Capitalized stock-based compensation		524,367
Options exercised		<u>(126,382)</u>
Balance, December 31, 2007	\$	3,173,984
Stock-based compensation expense		1,594,936
Capitalized stock-based compensation		436,080
Options exercised		<u>(46,003)</u>
Balance, December 31, 2008	\$	<u><u>5,158,997</u></u>

11. Income taxes

The Company's computation of income taxes are as follows:

	2008	2007
Expected income tax reduction at 29.59% (2007 – 32.83%)	\$ (1,716,342)	\$ (943,242)
Stock-based compensation expense	486,240	790,936
Changes in enacted tax rates and other	164,004	33,951
Future income tax reduction	<u>\$ (1,066,098)</u>	<u>\$ (118,355)</u>

The components of the net future income tax liability at December 31 are as follows:

	2008	2007
Non-capital loss carryforwards	\$ 928,316	\$ 477,220
Asset retirement obligation	233,925	246,008
Share issue costs	508,013	421,839
Property and equipment	<u>(4,105,255)</u>	<u>(1,570,925)</u>
Future income tax liability	<u>\$ (2,435,001)</u>	<u>\$ (425,858)</u>

As at December 31, 2008 the Company has approximately \$18.3 million (2007 - \$17.8 million) in tax pools and \$3.7 million (2007 - \$1.6 million) in non-capital losses available for deduction against future taxable income. Non-capital losses expire between 2014 and 2028.

12. Business development expenses

During the year ended December 31, 2008 the Company incurred \$540,768 (2007 - \$227,737) of business development expenses related to the pursuit of projects outside of the conventional Canadian oil and gas exploration and development business. These expenses include consulting and related costs as well as costs associated with the on-going pursuit of additional financing to support any potential transactions.

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Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

12. Business development expenses (continued)

As at December 31, 2008, Platform had paid a signing bonus of \$132,488 pursuant to the production sharing contracts with the Government of Kenya which amount is included in business development expense. (note 15).

13. Change in non-cash working capital

	2008	2007
Accounts receivable	\$ 294,343	\$ 162,284
Prepaid expenses	198,288	(164,996)
Deferred financing fees	—	19,643
Accounts payable and accrued liabilities	531,569	3,495,118
	<u>\$ 1,024,200</u>	<u>\$ 3,512,049</u>

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

	2008	2007
Operating	\$ 408,840	\$ 166,554
Financing	145,823	15,382
Investing	469,537	3,330,113
	<u>\$ 1,024,200</u>	<u>\$ 3,512,049</u>

14. Related parties

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, 2008, the Company was charged \$263,185 (2007 - \$304,716) in legal fees by legal firms in which directors and officers of the Company are partners. These costs are included in general and administrative expense, business development and share issue costs. Included in accounts payable at December 31, 2008 is \$42,223 (2007 - \$83,911) due to the legal firms.
- b) During the year ended December 31, 2007, the Company paid consulting fees of \$383,400 to an individual prior to him becoming an employee and officer of the Company.
- c) During the year ended December 31, 2008, the Company paid \$nil (2007 - \$139,050) in consulting fees to an individual prior to him becoming an employee and officer of the Company in September 2007. The individual resigned as an employee effective August 31, 2008. In addition, during the year ended December 31, 2008, the Company was charged \$383,787 (2007 - \$25,373) for geological expenses from a corporation controlled by this individual. Included in accounts receivable at December 31, 2008 is \$7,445 owing from the individual and in accounts payable is \$9,964 owing to his corporation.
- d) During the year ended December 31, 2007 the Company loaned Dr. Greg Hu, a former officer of the Company, a total of \$65,000 on a non-interest bearing note. This note was repaid prior to December 31, 2007.

These transactions other than (d) 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.

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Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

15. Commitments

- a) The Company is committed to an agreement for office premises on a month to month basis at a rate of \$12,500 per month.
- b) The Company has granted a two percent gross overriding royalty on specific properties to Dr. Greg Hu, a former officer of the Company. The carrying amount of such properties 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.
- c) Pursuant to flow-through private placements, the Company is required to incur approximately \$10.1 million on qualifying expenditures by December 31, 2009.
- d) Under the terms of the PSC's, Platform is authorized to conduct exploration operations in two contract areas (Block 12A - 15,389 sq. km. and Block 13T - 8,429 sq. km.) for three years after the effective date of December 17, 2008, extendible at Platform's option for two additional terms of two years each. During the initial three year exploration period for each block, Platform has minimum total expenditure obligations of U.S. \$3.6 million for Block 12A and U.S. \$3.65 million for Block 13T. Platform is required to provide security for its minimum work obligations in the form of a bank letter of credit in the amount of 15%, and a guarantee of its parent (Alberta Oilsands) in the amount of 85%.

However, Platform is entitled to opt out of the PSC's at its sole discretion after 18 months, in the case of Block 12A, and 12 months in the case of Block 13T. Subsequent correspondence between Platform and representatives of the Government state the Government's expectations that Platform is to submit to the Government its proposed minimum work program and corresponding budgets for the initial 12 and 18 month opt-out periods, for both Blocks.

16. Financial instruments and financial risk management

The Company's financial instruments include cash and cash equivalents, short-term investments, accounts receivable and accounts payable and accrued liabilities. The carrying values of these financial instruments approximate their fair values due to their relatively short periods to maturity.

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

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16. Financial instruments and financial risk management *(continued)*

a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The term deposits in place as at December 31, 2008 are redeemable at any time and are with a Schedule I bank. 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 a joint venture partner in the oil sands area. Purchasers of the Company's petroleum and natural gas are subject to credit review to minimize the risk of non-payment. As at December 31, 2008, the maximum credit exposure is the carrying amount of the accounts receivable and accruals of \$363,276 (2007 – \$634,043) plus cash and cash equivalents and short-term investments of \$19,366,062 (2007 – \$11,445,658). The balance of the accounts receivable is from petroleum and natural gas marketers, Goods and Services Tax input tax credits and 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.

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 provided an allowance for a doubtful account in the amount of \$23,576 during the year ended December 31, 2008 (2007 – nil). The Company would only choose to write-off a receivable balance (as opposed to providing an allowance) after all reasonable avenues of collection had been exhausted.

As at December 31, 2008 the Company's receivables were comprised of the following:

Nature of receivable	Amount	Actual or expected collection	Aging
Petroleum and natural gas marketer	\$ 50,091	January 2009	Not past due
Goods and Services Tax credits	245,153	February 2009	30 to 60 days
Other joint venture partners and receivables	44,456	Jan – Mar 2009	30 to 90 days
	\$ 339,700		

As the Company has not entered into any hedging arrangements, it is not exposed to credit risk associated with possible non-performance by counterparties to any such derivative financial instrument contracts.

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Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

16. Financial instruments and financial risk management *(continued)*

b) Liquidity risk

Liquidity risk is the risk that the Company will incur difficulties meeting its current and future 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 stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation.

The Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. The Company uses authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures.

The Company anticipates it will have adequate liquidity to fund its financial liabilities through its existing working capital. The Company's financial liabilities are comprised of accounts payable and accrued liabilities which have expected maturities of less than one year resulting in their current classification on the balance sheet.

c) Market risk

Market risk consists of currency risk, commodity price risk and interest rate risk. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns. The Company may use both financial derivatives and physical delivery sales contracts to manage market risks.

All such transactions are conducted in accordance with a risk management policy as set out herein.

i) Currency risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. All of the Company's petroleum and natural gas sales are denominated in Canadian dollars; however, the underlying market prices in Canada for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar. The Company had no outstanding forward exchange rate contracts in place at December 31, 2008 or 2007.

ii) Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by world economic events that dictate the levels of supply and demand as well as the relationship between the Canadian and United States dollar, as outlined above. Should the Company choose to mitigate commodity price risk through the use of financial derivatives and physical delivery fixed price sales contracts, all such contracts would require approval of the Board of Directors.

During 2006, the Company entered into a financial 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. There were no commodity price risk contracts outstanding at December 31, 2008.

Alberta Oilsands Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

16. Financial instruments and financial risk management *(continued)*

c) Market risk *(continued)*

iii) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk primarily through its variable interest rate on its cash and cash equivalents and short-term investments. For the year ended December 31, 2008, if interest rates had been 1% higher with all other variables held constant, earnings for the years would have been \$126,456 (2007 – \$11,900) higher 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 December 31, 2008 or 2007.

17. 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 oilsand 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 oilsand properties which are dependent on weather conditions. Lease and road preparation for the delineation drilling is dependent upon the roads being dry to support the equipment being moved. The typical "spring break-up" curtails the Company's activity levels.

The Company considers its capital structure to include working capital of \$14,560,866 (2007 – \$7,664,662) and shareholders' equity of \$47,776,287 (2007 – \$31,081,223). 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 funds from operations 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 and new equity if available on favorable terms.

There has been no change in the Company's approach to capital management during the year ended December 31, 2008. The Company has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the foreseeable future.

18. Subsequent event

In March 2009, the Company granted 200,000 options to employees at an exercise price of \$0.13, vest one-third immediately and one-third each subsequent year of grant. They expire five years from date of grant.