ALBERTA OILSANDS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008

Alberta Oilsands Inc.
Management's Discussion and Analysis of Operations and Financial Condition
September 30, 2008

The following management's discussion and analysis of financial condition and the results of operations (the "MD&A") dated December 1, 2008 of Alberta Oilsands Inc ("Alberta Oilsands" or the "Company") is reported in Canadian dollars and has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and incorporates all relevant information and considerations to that date, and should be read in conjunction with the unaudited consolidated financial statements as at and for the three and nine months ended September 30, 2008 and the audited consolidated financial statements and MD&A for the years ended December 31, 2007 and 2006 together with the accompanying notes. The Company operated as Platform Resources Inc. prior to May 29, 2007 when shareholders approved the name change of the Company to Alberta Oilsands Inc.

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. 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 adjusted for non-cash items in the statement of operations, before the change in non-cash working capital, should not be considered an alternative to, or more meaningful than, cash flow from operating activities or net income (loss) as determined in accordance with GAAP as an indicator of performance. The Company's determination of funds from operations may not be comparable to that reported by other companies. The reconciliation between cash flow from operating activities and funds from operations can be found in the Statements of Cash Flows included in the financial statements noted above.

Forward-looking Statements 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 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, including in respect of net present value calculations in respect of its Clearwater East and Clearwater West project areas; (iv) the ability of the current working capital levels of the Company to maintain future capital expenditures, including in respect of 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 in respect of 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 which the Company conducts its business; (xvi) the inability of the Company to obtain financing for it 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 "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 or 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 three and nine months ended September 30, 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 the audited consolidated financial statements for the year ended December 31, 2007. Accordingly, their carrying values represent costs incurred to date, net of abandonments and write-downs, and do not necessarily reflect present or future values. The ability of the Company to continue as a going concern and the recoverability of amounts shown for the properties is dependent upon the existence of economically recoverable reserves and upon the Company's ability to obtain additional financing to continue the development of the Company's properties and generate funds therefrom and to meet current and future obligations. Should the going concern assumption not be appropriate, certain asset and liability amounts would require adjustment and reclassification.

Overall Performance

Despite challenging market conditions, Alberta Oilsands' strong balance sheet has allowed the Company to adhere to its growth plan in the third quarter of 2008, keeping the Company on track to apply for the development permit for its first oil sands pilot project which is expected to be filed in 2009. Alberta Oilsands is confident that its' financing and field activities to date have positioned the Company to prove up sufficient bitumen resources to support at least one 10,000 barrel per day thermal oil sands project on the Athabasca fairway of Northern Alberta. The timing of the Company's project depends on numerous factors as outlined in more detail below.

Developments at Alberta Oilsands during the third quarter of 2008 included the following:

- Announced an independent engineering update by Ryder Scott Company that resulted in an increase of 59% in contingent (recoverable) resources from 216 million barrels in October 2007 to 320 million barrels in June 2008.
- Completed a bought-deal financing, raising $15 million at $0.75 per common share and $0.95 per flow-through common share.
- Obtained a net present value report by Ryder Scott Company that estimates the unrisked total of Alberta Oilsands' Clearwater West and Clearwater East project areas at $635 million. This is based on West Texas Intermediate ("WTI") oil price of US$80 per barrel and is before income tax discounted at 10%.
- Sought strategic partners to accelerate the Company's growth plan.
- Entered into two production sharing contracts in Kenya, through a wholly-owned subsidiary, to allow it to evaluate two exploration blocks. See "International Operations" in this MD&A.

Although share prices and commodity prices have recently declined significantly, neither has an immediate impact on Alberta Oilsands. The Company believes it has sufficient cash flow from conventional production and working capital to pursue its current oil sands plans, thus providing some time for the markets to overcome the existing volatility.

The Company believes that its projects in Clearwater East and West continue to be economically viable at US$55 WTI price with a NPV10 of $464 million, based on certain assumptions and conditions. See "Review of Oilsands Operations" below.

Alberta Oilsand's current budget is aligned to focus its financial resources towards the development of the Clearwater project. Consequently the 2009 capital budget for the oilsands operations has been reduced to $12.0 million and will be revisited in the context of the financial markets.

In the short term, Alberta Oilsands continues to take steps to achieve its goal of applying for a pilot project on its Clearwater lands in 2009. Most recently, the Company initiated the required environmental and design studies. An engineering scoping cost estimate and timing study (pre-design basis memorandum or "pre-DBM") was completed in June 2008. A third party scoping net present value study was completed in July, indicating a 10,000 bpd development based on the economic resource levels. Upon approval of the application, the Company plans to begin construction of the pilot project some time in 2010 and potentially target to commence commercial production by 2012, all subject to raising sufficient project development financing. See "Forward-Looking Statements and Information" and "Oilsands Development Risks" in this MD&A for an important discussion on the assumptions made and risks associated with the Company's potential oil sands operations and the disclosure of resources.

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". For more information regarding Alberta Oilsands' independent resource assessments and oil sands projects, including a discussion of the assumptions made and risks associated therewith, please see the discussion under the headings "Review of Oilsands Operations" and "Oilsands Development Risks" in this MD&A.

Review of Oil Sands Operations

Alberta Oilsands has four potential *in-situ* project and prospect areas on 140.5 sections (121.5 net) of Alberta's Athabasca oil sands fairway. The Company's leases include three potential project areas at Clearwater, one potential joint project at Hangingstone, one prospect at Algar Lake and one prospect at Grand Rapids. Alberta Oilsands also produces approximately 60 BOE per day of conventional production in Alberta and Manitoba.

Fort McMurray Clearwater Projects:

In Clearwater, Alberta Oilsands is preparing to apply for pilot projects in two areas and to launch its first season of coring in a third area during the winter of 2008/2009. The two pilot projects are separated by a distance of only three kilometres, allowing for potential sharing of surface facilities. The third area north of the Clearwater River is expected to be delineated in 2009, but will be dependent on financial market conditions.

As a result of coring activity to date, comprising 15 core holes in the first quarter of 2008, Ryder Scott Company Canada, an independent petroleum consulting firm, has assigned 320 million barrels of contingent resources to a portion of Alberta Oilsands' Clearwater parcel to date. The Clearwater East and West project areas are expected to be adequately delineated this fall and in the first quarter of 2009 to provide the necessary data for the pilot project application, which is expected to be submitted in the summer of 2009.

Alberta Oilsands has a 100% working interest in its Clearwater leases, located on 28 sections of Crown land southeast of Fort McMurray. The parcel spans 24 kilometres from east to west and is close to many of the services and infrastructure required to develop a commercial oil sands thermal project. The Company refers to its projects in this area as Clearwater West (Secs 21 & 22 Twp088-R08W4), Clearwater East (Secs. 18, 19 & 30 Twp088-R07W4) and Clearwater North (Secs. 13, 25, 31 – 36 Twp088-R07W4). The Clearwater West and East projects are south of the Clearwater River while the North parcel is on the north bank of the river. The 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.

The Company expects the initial pilot project to be capable of producing between 1,000 to 2,000 barrels per day. Drilling of the pilot horizontal wells and construction of pilot facilities are anticipated to commence upon receipt of required regulatory approvals, subject to obtaining additional financing for plant construction, if available to the Company on acceptable terms. The principal objectives of the *in situ* pilot are to validate reservoir performance and demonstrate operational feasibility of the recovery technology to the stakeholders in the area for a larger development.

At the completion of the Company's March 2008 Clearwater drilling program and core analysis, the Company commissioned two reports from Ryder Scott: a resource assessment update and a net present value (NPV) cash flow evaluation of the potential conventional SAGD projects for these resources.

Resource assessment:

Ryder Scott presented Alberta Oilsands with a National Instrument 51-101 compliant independent resource report dated June 1, 2008, based on data from the 2008 winter drilling program. The report attributed an estimated contingent (recoverable) resource of 320 million barrels over 5 sections. This is 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

Management believes that Clearwater West and Clearwater East project areas have sufficient bitumen resources to support commercial projects. Environmental impact assessment and facilities planning work is proceeding for the areas as a preliminary step to the Company's planned filing of an application for project development. This application will be the first of many steps in attaining the Company's goals in respect of commercial *in-situ* production.

Clearwater West and East areas are proceeding as separate project areas with shared facilities. Alberta Oilsands' fall 2008 program in Clearwater West calls for approximately six core holes to further delineate the areal extent of the thick bitumen pay and to further confirm the lateral continuity of the high quality reservoir. The fall 2008 program will also explore for future water source and water disposal formations and continue efforts to determine cap rock integrity. An additional 15 to 20 core hole drilling program is planned for the Clearwater projects in the 2008 / 2009 winter drilling season 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.

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 bpd SAGD projects in the 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 unrisked total before income tax net present value discounted at 10% (BFIT NPV_{10}) at approximately \$635 million: NPV_{10} at approximately \$328 million for Clearwater West and NPV_{10} 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 unrisked total, before tax, at NPV 10% of Alberta Oilsand's 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" below.

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

				Net Present Value of Future Net Revenue (Before Income Tax) at Constant Price		
Gross Bitumen Volume (MMB)	US/Cdn Exchange Rate	WTI Price (US$/Bbl)	Bitumen Blend (Cdn$/Bbl)	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

				Net Present Value of Future Net Revenue (Before Income Tax) at Constant Price		
Gross Bitumen Volume (MMB)	US/Cdn Exchange Rate	WTI Price (US$/Bbl)	Bitumen Blend (Cdn$/Bbl)	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, 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. Proposed new Alberta royalty regime and anticipated Federal green house gas levy were also used.

Hangingstone East Project Area

In the first quarter of 2008, Alberta Oilsands entered into a pooling agreement in Hangingstone East with Connacher Oil and Gas, an established junior oil sands producer. The Company's 23 sections in the area and Connacher'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 by joining forces with an experienced operator. Alberta Oilsands and Connacher have agreed to work together on the asset until 2010, after which Connacher will become the operator and Alberta Oilsands will continue to retain its 50% working interest. The agreement is expected to result in a more rapid evaluation and development of this asset.

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 PetroCanada's Meadow Creek Project and to the southwest is the JACOS Hangingstone. Further south is the Connacher Oil and Gas Great Divide Project. Both the JACOS and Connacher projects are on production.

Alberta Oilsands' 2007/2008 winter exploration program included the acquisition of 88 kilometers of 2D seismic and the completion of a 19 core hole drilling program designed to identify the channel sands. This program confirmed the presence of bitumen in the area and the possibility of two significant north-south bitumen channels. The 2008/2009 winter coring program will focus on the locations of these bitumen trends with the objective of targeting a pilot project application for the following season. An estimated 16 (net 8) core hole drilling program is planned for Hangingstone East in the 2008 / 2009 winter drilling season to further identify the pay zone, its size and quality.

Algar Lake Prospect Area

The property has potential in the McMurray and Wabiskaw Formations. A 2 core hole drilling program is planned for this area in the 2008/2009 winter drilling season. An independent NI51-101 compliant resource report by Ryder Scott assigned undiscovered resources of 807 million barrels of bitumen in place to Alberta Oilsands' 51 sections of oil sands leases at Algar Lake. There is no certainty that any portion of these resources will be discovered. If discovered, there is no certainty that it will be commercially viable to produce any portion of these resources. See "Disclosure of Resources" in this MD&A.

Grand Rapids Prospect Area

Alberta Oilsands expects that its Grand Rapids prospect area, which consists of 18 sections of oil sands leases, will show potential in the McMurray Formation. Alberta Oilsands plans to conduct a seismic program in the area in 2009.

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 including those noted above in respect of Ryder Scott's NPV calculations and: 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 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.

International Operations

Platform Resources Inc. ("Platform"), a wholly owned subsidiary of Alberta Oilsands Inc., was awarded Exploration Block 12A (15,389 sq. km.) and Block 13T (8,429 sq. km.) by the Government of Kenya. The production sharing contracts ("PSC") which were signed on September 17, 2008 under commercial terms that the Company considers to be attractive will be effective on December 17, 2008 should certain additional conditions be met. Individual exit clauses provide Platform an 18 month and 12 month evaluation period on Blocks 12A and 13T respectively before embarking on a major exploration program. The two exploration blocks are located in the eastern branch of the East African Rift Basin, southwest of Lake Turkana, in Kenya. Recent discoveries in the western branches of the Rift Basin, near Uganda's Lake Albert, adjacent to western Kenya, have highlighted the under-explored nature and potential of this geological trend.

Platform's intention is to identify and engage with a management team with Africa specific experience to evaluate the petroleum potential of the two Blocks over the next several months.

For a discussion on expenditures to date, additional conditions, as well as amounts of possible future commitments, in respect of Platform's operations in Kenya, see "Business development expenses and international operations" in this MD&A.

Results of Operations

	Three months ended September 30		
	2008	2007	2006
Statement of Operations and Deficit			
Petroleum and natural gas sales ($)	**666,302**	507,374	1,557,261
Petroleum & natural gas sales per boe ($)	**110.77**	74.92	68.82
Daily sales volumes (boe 6:1)	**65**	74	246
Net loss for the period ($)	**(799,495)**	(1,688,739)	(273,508)
Net loss per share – basic and diluted ($)	**(0.01)**	(0.03)	(0.01)
Statement of Cash Flows			
Funds flow (used in) from operations ($)	**(282,302)**	(231,667)	639,789
Capital expenditures ($)	**952,090**	7,658,343	1,005,688
Weighted average number of shares			
- basic and diluted	**65,728,136**	53,163,269	28,728,434

	Nine months ended September 30		
	2008	2007	2006
Statement of Operations and Deficit			
Petroleum and natural gas sales ($)	**1,665,971**	2,505,385	4,170,425
Petroleum & natural gas sales per boe ($)	**103.29**	65.78	65.81
Daily sales volumes (boe 6:1)	**59**	140	232
Net loss for the period ($)	**(2,749,176)**	(1,751,857)	(466,631)
Net loss per share – basic and diluted ($)	**(0.04)**	(0.04)	(0.02)
Statement of Cash Flows			
Funds flow (used in) from operations ($)	**(1,180,891)**	(330,152)	1,587,767
Capital expenditures ($)	**10,633,470**	15,540,349	3,768,565
Weighted average number of shares			
- basic and diluted	**65,009,300**	41,595,961	24,999,946

Production

	Three months ended Sept 30		Nine months ended September 30	
	2008	2007	**2008**	2007
Oil and NGL (bbls/day)	**59**	66	**52**	132
Natural gas (mcf/day)	**40**	49	**43**	45
boe/day (6:1)	**65**	74	**59**	140

During the third quarter of 2008 the Company's average production increased to 65 boe per day from 54 boe per day in the second quarter of 2008, due to oil production increases in the Company's remaining conventional properties. During the nine months ended September 30, 2008 the Company's production decreased to 59 boe per day as compared to the nine months of 2007 production of 140 boe per day which included the Company's previously held Saskatchewan properties that were sold at the end of March 2007.

	Three months ended Sept 30		Nine months ended Sept 30	
	2008	2007	**2008**	2007
Commodity Prices				
Oil and NGL ($/bbl)	**116.86**	76.82	**109.95**	66.73
Natural gas ($/mcf)	**9.64**	5.96	**9.14**	6.75
Boe ($/boe)	**110.77**	74.92	**103.29**	65.78
Revenues ($)				
Oil and NGL	**630,397**	480,753	**1,558,973**	2,422,568
Natural gas	**35,905**	26,621	**106,998**	82,817
Total	**666,302**	507,374	**1,665,971**	2,505,385

Commodity prices for the third quarter of 2008 increased significantly from the comparative quarter of 2007 but declined from the 2008 second quarter pricing.

Commodity prices for the nine months ended September 30, 2008 increased significantly from the comparative nine months of 2007. However, during the third quarter of 2008, the commodity prices commenced to decline and subsequent to the end of the quarter have seen significant declines.

The 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.

Royalties and Operating Expenses

	Three months ended Sept 30		Nine months ended Sept 30	
	2008	2007	**2008**	2007
Royalties ($)	**101,739**	94,137	**233,787**	395,898
% of revenues	**15**	19	**14**	16
$/boe	**16.91**	13.90	**14.49**	10.39
Operating and transportation expenses ($)	**169,980**	220,119	**627,120**	781,011
$/boe	**28.26**	32.50	**38.88**	20.51

Royalties for the third quarter of 2008 increased to $16.91 on a per boe basis from $13.90 per boe in the third quarter of 2007, but fell to 15% of revenue in the third quarter of 2008, compared to 19% in the same quarter of 2007. Increased commodity prices and reduced production volumes combined to effect these changes. Royalties for the first nine months of 2008 included Crown royalty reductions from 2007 on one property and adjustments from the calculation of gross overriding royalties on another property. This reduced the royalties from a 20% burden in the fourth quarter of 2007 to 14% in the first nine months of 2008.

Operating costs for the third quarter of 2008 were $169,980 or $28.26 per boe as compared to $220,119 or $32.50 per boe for the same period of 2007. Operating costs for the first nine months of 2008 were $627,120 or $38.88 per boe as compared to $781,011 or $20.51 per boe for the same period of 2007. The increase on a boe basis for the nine 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.

Netbacks ($/boe)

	Three months ended Sept 30		Nine months ended Sept 30	
	2008	2007	**2008**	2007
Revenue	**110.77**	74.92	**103.29**	65.78
Royalties	**16.91**	13.90	**14.50**	10.39
Operating expenses	**28.26**	32.50	**38.88**	20.51
Field netbacks	**65.60**	28.52	**49.91**	34.88
General and administrative *(i)*	**102.21**	68.34	**111.83**	41.92
Netbacks	**(36.61)**	(39.82)	**(61.92)**	(7.04)

(i) Note: The Company's netback per boe for general and administrative expenses is generally higher than companies with comparable production levels as Alberta Oilsands is primarily focussed on non-conventional oil sands exploration.

General and administrative expense

General and administrative expenditures for the three and nine months ended September 30, 2008 totalled $614,844 and $1,803,660 respectively, as compared to $462,797 and $1,596,422 for the comparative 2007 periods. Salaries in the amount of $42,626 and $157,190, respectively, related to individuals specifically involved in the oil sands properties were capitalized to such properties in the three and nine months ended September 30, 2008. Increases in personnel, office, travel and other promotional costs in the nine months ended September 30, 2008 were partially offset by increased capitalization of salaries and capital overhead recoveries.

Business development expenses and international operations

During the three and nine months ended September 30, 2008, the Company incurred $106,230 and $282,166, respectively of business development expenses related to the pursuit of projects principally in Kenya outside of conventional Canadian oil and gas exploration and development. They include consulting and related costs as 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 Inc. ("Platform"), a wholly owned subsidiary of Alberta Oilsands, signed two production sharing agreements ("PSC") with the Government of the Republic of Kenya which will become effective on December 17, 2008 should additional commitments be met. These agreements allow Platform to carry out petroleum operations within specific contract areas of Kenya for an initial exploration period of 3 years. Platform has purchased 50 lines of 2D seismic and has access to 3,000 line kilometres of 2D seismic in total.

As at September 30, 2008, Platform had paid a signing bonus of $125,000 US pursuant to the agreements and had incurred approximately $30,000 US on seismic expenditures.
See "Contractual Obligations and Commitments – Other commitments" in this MD&A.

Stock-based compensation

Stock-based compensation for the three and nine months ended September 30, 2008 was $388,842 and $1,262,305, respectively, compared to $1,204,970 and $1,968,757, respectively, in the same periods in 2007. In addition, $120,835 and $390,343 of stock-based compensation, and $40,278 and $130,491 of related future income taxes was capitalized to property and equipment in the three and nine months ended September 30, 2008. $174,138 and $447,257 of stock-based compensation and $56,542 and $145,224 of related future income taxes was capitalized in the three and nine months ended September 30, 2007. The decrease in this expense is related to the approximately 3.5 million options granted in 2007 plus the expense from the approximately 1.6 million options granted during 2006. The fair value of options is estimated at the time of granting and is recognized as stock-based compensation over the vesting period of the options. Stock-based compensation for options granted to consultants is based on the estimated fair value recalculated at each balance sheet date until the related options are fully vested. Stock-based compensation expense related to options granted to individuals whose salary and or consulting fees are capitalized is included in property and equipment.

Interest and financing fee expenses

Interest expense in the amount of $42,500 and $173,768 for the three and nine months ended September 30, 2008 was comprised primarily of accrued interest related to the 2007 flow-through 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 must be paid by the end of February 2009. This compares to interest expense in the three and nine months of 2007 of $36,867 and $160,621 of which $22,078 and $68,882, respectively, related to the 2006 flow-through financings.

Depletion, depreciation and accretion

	Three months ended Sept 30		Nine months ended Sept 30	
	2008	2007	**2008**	2007
Depletion and depreciation ($)	**255,314**	475,466	**706,465**	1,484,577
$/boe	**42.45**	70.21	**43.80**	38.98
Accretion ($)	**15,602**	15,379	**46,278**	45,263
$/boe	**2.59**	2.27	**2.87**	1.19

The total depletion, depreciation and accretion charge for the three and nine months of 2008 was $270,918 and $752,743 ($45.04 and $46.67 per boe) respectively, as compared to $490,845 and $1,529,840, respectively, ($72.48 and $40.17 per boe) for the three and nine months ended September 30, 2007. As at September 30, 2007, the Company included ceiling test impairment in the amount of $211,900.

The decrease over the comparative 2007 period is related to production volume decreases from the disposition of certain properties by the Company during the first quarter of 2007. There was no ceiling test impairment on the Company's conventional petroleum properties as at September 30, 2008. A well that was drilled in the fourth quarter of 2007 is currently in the completion and analysis stage and it is considered to be premature to ascertain the potential reserves and economic cash flow of such well. Therefore, $906,715 of expenditures from this well have been excluded from the impairment test at this time. The delay in determining the well status is primarily due to administrative delays in the application for the extension of its petroleum and natural gas rights. A continuation application has subsequently been accepted and the rights have been continued for the Company. The Company plans to further test the well during the next six months and subject to the results of the well test, the expenditures will be included in future impairment tests.

Capital Expenditures

During the three and nine months ended September 30, 2008, the Company spent $952,090 and $8,680,236 as compared to $7,658,343 and $15,540,349 in the 2007 comparative period. Capital spending is summarized as follows:

	Three months ended Sept 30		Nine months ended Sept 30	
	2008	2007	**2008**	2007
Oil sand properties				
Land and lease rentals	**22,382**	7,084,495	**103,918**	13,989,874
Seismic	**232,168**	260,193	**955,986**	372,218
Drilling	**334,876**	158,815	**8,200,919**	158,815
Tangible	**4,712**	-	**45,818**	-
Capital expenditure recovery from joint venture partner	**-**	-	**(1,983,234)**	-
	594,138	7,503,503	**7,323,407**	14,520,907
Conventional properties				
Lease rentals and seismic	**(9,335)**	19,867	**32,709**	101,884
Drilling and completion	**12,986**	118,823	**313,868**	554,300
Tangible	**190,074**	11,351	**813,643**	289,614
	193,725	150,041	**1,160,220**	945,798
International	**158,072**	-	**158,072**	-
Office	**6,155**	4,799	**8,537**	73,644
Total	**952,090**	7,658,343	**8,650,236**	15,540,349

Stock-based compensation expense in the amount of $120,835 and $390,343 and related future tax liability of $40,278 and $130,491 has been added to the Company's oil sands property expenditures for the three and nine months ended September 30, 2008. During the comparable 2007 three and nine month periods, $174,138 and $447,257 of stock based compensation and $56,542 and $145,224 of related future income taxes were capitalized.

The main focus for the Company during 2008 has been on the commencement of the seismic and delineation drilling in the Athabasca oil sands area of Alberta. As a result of the joint venture agreement signed in February 2008, the Company was able to recover from its joint venture partner $1.9 million of expenditures that had been incurred by the Company on the joint properties during 2007. In addition, $675,000 of the initial seismic and delineation drilling expenditures that have been incurred will be received from this joint venture partner. Net expenditures of $7.7 million include the $1.9 million recovery of the 2007 expenses.

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 nine months ended September 30, 2008, a total of $1,180,891 was used in operating activities and $8,650,236 was incurred on capital expenditures. The Company exited September 2008 with working capital of $20,167,188.

In order to provide flexibility for future financings and to allow the Company to continue its 2007 exploration program, a bridge credit facility for a maximum amount of $5.0 million was established with a Canadian financial institution. The Company did not utilize this facility. The facility matured on June 30, 2008 and was not renewed.

From the 2007 flow-through financing, the Company is required to spend approximately $2.9 million on the remaining qualifying flow-through expenditures by December 31, 2008 which the Company expects to fulfill. From the August 2008 financing, the Company will be required to spend $11.8 million on qualifying expenditures by December 31, 2009.

The working capital as at September 30, 2008 of $20.2 million is expected to provide the Company with the cash resources to complete the flow-through requirements by the end of 2008 and 2009 and provide for additional capital expenditures. The Company believes that it has sufficient financial resources to fulfill all of its oil sands related commitments for at least the next 21 months, excluding international operations. The Company or its subsidiary Platform will need to seek alternate financing or a joint venture to fund the Kenya project.

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 the first nine months of 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 September 30, 2008 and as at the date of this MD&A.

Stock Options

The Company commenced 2008 with a total of 5,126,405 stock options outstanding. During the nine months ended September 30, 2008, a total of 1,324,783 options were granted, 81,000 were exercised and 490,000 were forfeited or cancelled, resulting in 5,880,188 options outstanding as at September 30, 2008. An additional 411,332 have been cancelled or forfeited resulting in 5,468,856 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 and must incur the eligible expenditures by the end of December 31, 2008. As at September 30, 2008, approximately $10.1 million of expenditures had been incurred resulting in the remaining $2.9 million of qualifying expenditures to be incurred by December 31, 2008.

During August 2008 the Company raised an additional $11.8 million of flow-through proceeds. The Company intends to renounce the tax benefits of these proceeds to the investors effective December 31, 2008 and must incur the eligible expenditures by the end of December 31, 2009.

The Company's current capital program for the period October 1, 2008 to December 31, 2009 is estimated to include approximately $13.0 million of qualifying expenditures.

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 has 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.

The PSC's that Platform has signed with the Government of Kenya do not become effective until December 17, 2008. On or before that date Platform is required to provide a parent guarantee of Platform's obligations under the PSC's, and a $1.0 million letter of credit. 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. By way of a separate letter signed by the Minister of Energy for the Government of Kenya, the Minister has confirmed that upon Platform opting out, it will have no further obligation under the PSCs.

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 three and nine months ended September 30, 2008, respectively, the Company was charged $74,490 and $210,646 (three and nine months ended September 30, 2007 – $14,136 and $211,818) in legal fees by legal firms in which directors and officers of the Company are partners.

Included in accounts payable at September 30, 2008 is $50,845 (December 31, 2007 – $83,911) due to the legal firms.

b) During the three and nine months ended September 30, 2007, the Company paid $33,000 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 three and nine months ended September 30, 2007, the Company paid $96,300 and $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 three and nine months ended September 30, 2008, the Company was charged $28,049 and $302,942 (2007 - $23,558) 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.

d) During the three and nine months ended September 30, 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) are 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**.**

Selected Historical Financial Information

	2008			2007
	3RD QUARTER	2ND QUARTER	1ST QUARTER	4TH QUARTER
Petroleum and natural gas revenue	666,302	555,333	444,336	475,589
Net loss	(799,495)	(1,169,247)	(780,434)	(1,002,898)
Net loss per share – basic and diluted	(0.01)	(0.02)	(0.01)	(0.02)
Funds used in operations	(282,302)	(631,341)	(267,248)	(418,165)
Capital expenditures	952,090	1,805,135	5,893,011	4,681,196

	2007			2006
	3RD QUARTER	2ND **QUARTER**	1ST **QUARTER**	4TH **QUARTER**
Petroleum and natural gas revenue	507,374	487,642	1,519,356	1,596,319
Net income (loss)	(1,688,739)	(1,378,661)	1,315,540	(953,778)
Net income (loss) per share – basic and diluted	(0.03)	(0.02)	0.05	(0.03)
Funds (used in) from operations	(231,667)	(703,819)	605,332	85,904
Capital expenditures	7,658,343	4,112,925	3,769,082	765,833

Outlook

Alberta Oilsands believes it offers the potential to produce more than 60,000 barrels of oil per day from its existing oil sands properties, four *in-situ* potential project and prospect areas, control over its capital program, a large land position and a strong balance sheet. Alberta Oilsands raised $15.5 million in August 2008 to augment its working capital position and fund the fall 2008 / 2009 drilling programs. The Company believes it has sufficient working capital to execute the 2008 / 2009 oil sands core drilling programs and complete the requirements for a pilot project application which is expected to be approved in 2010.

The Company's focus for the rest of 2008 and into 2009 is to pursue the goal of bringing its Clearwater projects to pilot production by the end of 2010 and to commercial production by 2012.

The Company continues to research and evaluate multiple approaches to find the best means of financing capital expenditures. The preference is to proceed with projects on a 100% working interest basis, provided the capital market recognizes the value of the assets and facilitates the raising of capital at non-dilutive levels. Alternatively, the Company may seek industry or financial partners to mitigate its risk.

Alberta Oilsands expects the impact of Alberta's new royalty program on the Company's internal rate of return to be minimal. The Company believes any impacts of the revisions will be offset by new technologies that will lower operating and capital costs.

The Company intends to be very prudent in bringing value to its assets. Management is acutely aware of the general financial conditions and has reduced its capital program to defer or reduce spending on more exploratory projects and focus on the projects that will get the Company to initial oilsands production as soon as possible. Excluding possible international operations in Kenya, the 2009 capital budget has been reduced to $13 million from $21 million, most of which will be directed towards its Clearwater assets. Any future budgeted expenditures in respect of the Kenya program have not yet been determined and are under review by management and the Board of Directors of the Company. Alberta Oilsands believes that its philosophy of prudent capital management in these uncertain times will keep it well positioned to create long term value for shareholders.

The Company projects that its existing working capital and revenue from conventional assets will result in the Company being fully funded until the middle of 2010, by which time financial markets and commodity markets are expected to be much healthier.

Business Risks and Uncertainties

The risks and uncertainties below are not the only ones facing the Company. For an overview 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" in this MD&A and to the Company's December 31, 2007 MD&A and the Company's Annual Information Form for the year ended December 31, 2007, both of which can be found under the Company's profile at www.sedar.com. The risks and uncertainties as contained in such documents are not the only ones facing the Company. Additional risks and uncertainties not presently known to the Company or that the Company currently considers immaterial may also impair the business and operations of the Company and cause the price of the securities of the Company to decline. If any of 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.

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 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, 2007. The Company's significant accounting policies are subject to estimates and key judgments about future events, many of which are beyond management's control.

Change in Accounting Policies

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

i) 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 any capital requirements, and (iv) if it has not complied, the consequences of such non-compliance.

ii) Financial Instruments – Disclosure and Presentation, have revised and enhanced its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

iii) In March 2007, Inventories was issued which aligns Canadian GAAP with IFRS. This standard has no impact on the Company's unaudited interim consolidated financial statements.

b) Two new accounting changes have been adopted by the CICA which will become effective in upcoming years. The CICA's Accounting Standards Board ("AcSB") announced that publicly accountable enterprises will adopt International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") effective January 1, 2011. Although IFRS uses a conceptual framework similar to Canadian GAAP, differences in accounting policies will need to be addressed. The Company is currently assessing the impact of this AcSB announcement on its consolidated financial statements.

The CICA also implemented revisions to standards dealing with Intangible Assets effective for fiscal years beginning on or after October 1, 2008. The revisions are intended to align the definition of an Intangible Asset under Canadian GAAP with that under IFRS. Section 1000 "Financial Statement Concepts" was revised to remove material that permitted the recognition of assets that might not otherwise meet the definition of an asset and to add guidance from the IASB's "Framework for the Preparation and Presentation of Financial Statements" that will help distinguish assets from expenses. Section 3064 "Goodwill and Intangible Assets", which replaced Section 3062 "Goodwill and Other Intangible Assets", gives guidance on the recognition of intangible assets as well as the recognition and measurement of internally developed intangible assets. The Company does not expect these changes to have a material effect on its consolidated financial statements.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2008

Notice of No Auditor Review of Interim Consolidated Financial Statements

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed these unaudited interim consolidated financial statements as at and for the three and nine months ended September 30, 2008 and 2007.

Alberta Oilsands Inc.
Interim Consolidated Balance Sheets
(unaudited)

	September 30, 2008	December 31, 2007
Assets		
Current		
Cash and cash equivalents *(note 3)*	$ **21,325,501**	$ 11,445,658
Accounts receivable	**409,298**	634,043
Prepaid expenses	**124,093**	323,293
	21,858,892	12,402,994
Property and equipment *(notes 4 & 10)*	**33,184,833**	24,680,605
	$ **55,043,725**	$ 37,083,599
Liabilities		
Current		
Accounts payable and accrued liabilities	$ **1,691,704**	$ 4,738,332
Asset retirement obligation *(note 6)*	**924,464**	838,186
Future income taxes *(note 9)*	**3,040,443**	425,858
	5,656,611	6,002,376
Shareholders' Equity		
Share capital *(note 7)*	**52,241,878**	32,793,456
Contributed surplus *(note 8)*	**4,780,629**	3,173,984
Deficit	**(7,635,393)**	(4,886,217)
	49,387,114	31,081,223
	$ **55,043,725**	$ 37,083,599

Basis of presentation *(note 1)*
Commitments *(note 13)*

See accompanying notes to the interim consolidated financial statements.

Alberta Oilsands Inc.

Interim Consolidated Statements of Operations, Comprehensive Loss and Deficit
For the three and nine months ended September 30
(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2008	2007	**2008**	2007
Revenue				
Petroleum and natural gas sales	$ **666,302**	$ 507,374	$ **1,665,971**	$ 2,505,385
Commodity contract	**–**	(56,339)	**–**	(47,352)
Royalties	**(101,739)**	(94,137)	**(233,787)**	(395,898)
	564,563	356,898	**1,432,184**	2,062,135
Interest income	**86,689**	177,113	**273,639**	181,875
	651,252	534,011	**1,705,823**	2,244,010
Expenses				
Production	**154,540**	189,327	**583,267**	576,579
Transportation	**15,440**	30,792	**43,853**	204,432
General and administrative	**614,844**	462,797	**1,803,660**	1,596,422
Business development *(note 10)*	**106,230**	79,090	**282,166**	108,346
Stock-based compensation *(note 7)*	**388,842**	1,204,970	**1,262,305**	1,968,757
Interest	**42,500**	36,867	**173,768**	160,621
Accretion	**15,602**	15,379	**46,278**	45,263
Depletion and depreciation	**255,314**	475,466	**706,465**	1,484,577
	1,593,312	2,494,688	**4,901,762**	6,144,997
Loss before the undernoted	**(942,060)**	(1,960,677)	**(3,195,939)**	(3,900,987)
Gain on disposal of property and equipment	**–**	29,332	**–**	2,244,439
Loss before income taxes	**(942,060)**	(1,931,345)	**(3,195,939)**	(1,656,548)
Future income tax provision (reduction) *(note 9)*	**(142,565)**	(242,606)	**(446,763)**	95,309
Loss and comprehensive loss for the period	**(799,495)**	(1,688,739)	**(2,749,176)**	(1,751,857)
Deficit, beginning of period	**(6,835,898)**	(2,194,580)	**(4,886,217)**	(2,131,462)
Deficit, end of period	$ **(7,635,393)**	$ (3,883,319)	$ **(7,635,393)**	$ (3,883,319)
Net loss per share – Basic and diluted *(note 7)*	$ **(0.01)**	$ (0.03)	$ **(0.04)**	$ (0.04)

See accompanying notes to the interim consolidated financial statements.

Alberta Oilsands Inc.
Interim Consolidated Statements of Operations, Comprehensive Loss and Deficit
For the three and nine months ended September 30
(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2008	2007	**2008**	2007
Operating				
Net loss for the period	$ **(799,495)**	$ (1,688,739)	$ **(2,749,176)**	$ (1,751,857)
Add back (deduct) non-cash items:				
Commodity contract	**–**	33,195	**–**	72,238
Stock-based compensation	**388,842**	1,204,970	**1,262,305**	1,968,757
Accretion	**15,602**	15,379	**46,278**	45,263
Depletion and depreciation	**255,314**	475,466	**706,465**	1,484,577
Gain on disposal of property and equipment	**–**	(29,332)	**–**	(2,244,439)
Future income tax (reduction) provision	**(142,565)**	(242,606)	**(446,763)**	95,309
	(282,302)	(231,667)	**(1,180,891)**	(330,152)
Change in non-cash working capital *(note 11)*	**11,872**	(230,581)	**320,553**	256,931
	(270,430)	(462,248)	**(860,338)**	(73,221)
Financing				
Issuance of shares, net of costs	**14,323,883**	103,935	**22,333,653**	23,738,985
Repayment of bank debt	**–**	–	**–**	(2,100,000)
Repayment of bridge facility	**–**	–	**–**	(1,000,000)
(Purchase) redemption of term deposits	**–**	17,695,063	**–**	(1,009,599)
Change in non-cash working capital *(note 11)*	**41,948**	(6,512)	**146,880**	111,588
	14,365,831	17,792,486	**22,480,533**	19,740,974
Investing				
Expenditures on property and equipment	**(952,090)**	(7,658,343)	**(10,633,470)**	(15,540,349)
Proceeds on joint operations	**–**	–	**1,983,234**	–
Proceeds from disposal of property and equipment	**–**	74,331	**–**	7,937,969
Change in non-cash working capital *(note 11)*	**389,550**	299,083	**(3,090,116)**	56,398
	(562,540)	(7,284,929)	**(11,740,352)**	(7,545,982)
Increase in cash and cash equivalents	**13,532,861**	10,045,309	**9,879,843**	12,121,771
Cash and cash equivalents, beginning of period	**7,792,640**	2,081,330	**11,445,658**	4,868
Cash and cash equivalents, end of period	$ **21,325,501**	$ 12,126,639	$ **21,325,501**	$ 12,126,639

Supplemental cash flow information:

Interest paid	$ **826**	$ 15,226	$ **76,888**	$ 95,369

See accompanying notes to the interim consolidated financial statements.

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. These unaudited 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 to the audited December 31, 2007 consolidated financial statements. 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 several years. The ability of the Company to continue as a going concern and recover amounts shown for the properties is dependent upon the existence of economically recoverable reserves. The Company's ability to continue as a going concern is dependent upon its ability to obtain additional financing to continue the development of the Company's properties and generate funds therefrom and to meet current and future obligations. Should the going concern assumption not be appropriate, certain asset and liability amounts would require adjustment and reclassification.

These unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") and on a basis consistent with the audited December 31, 2007 consolidated financial statements except as disclosed below. Also, certain disclosures have been condensed or omitted. Accordingly, these unaudited interim consolidated financial statements should be read in conjunction with the notes contained in the Company's audited December 31, 2007 consolidated financial statements. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. Accordingly, actual results could differ from those estimates.

The operating results for the three and nine months ended September 30, 2008 may not be indicative of the results for the year ended December 31, 2008.

2. Changes in accounting policies

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

i) 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 any capital requirements, and (iv) if it has not complied, the consequences of such non-compliance.

ii) Financial Instruments – Disclosure and Financial Instruments – Presentation, have revised and enhanced its disclosure requirements, and carrying forward unchanged presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

2. Changes in accounting policies (continued)

iii) A revised standard for inventories aligns Canadian GAAP with IFRS. This standard has no impact on the Company's unaudited interim consolidated financial statements.

b) Two new accounting changes have been adopted by the Canadian Institute of Chartered Accountants ("CICA") which will become effective in upcoming years. The CICA's Accounting Standards Board ("AcSB") announced that publicly accountable enterprises will adopt International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") effective January 1, 2011. Although IFRS uses a conceptual framework similar to Canadian GAAP, differences in accounting policies will need to be addressed. The Company is currently assessing the impact of this AcSB announcement on its consolidated financial statements.

The CICA also implemented revisions to standards dealing with Intangible Assets effective for fiscal years beginning on or after October 1, 2008. The revisions are intended to align the definition of an Intangible Asset under Canadian GAAP with that under IFRS. Section 1000 "Financial Statement Concepts" was revised to remove material that permitted the recognition of assets that might not otherwise meet the definition of an asset and to add guidance from the IASB's "Framework for the Preparation and Presentation of Financial Statements" that will help distinguish assets from expenses. Section 3064 "Goodwill and Intangible Assets", which replaced Section 3062 "Goodwill and Other Intangible Assets", gives guidance on the recognition of intangible assets as well as the recognition and measurement of internally developed intangible assets. The Company does not expect these changes to have a material effect on its consolidated financial statements.

3. Cash and cash equivalents

	September 30, 2008	December 31, 2007
Cash in bank	$ 386,613	$ 2,106,177
Term deposits	20,938,888	9,339,481
	$ 21,325,501	$ 11,445,658

The term deposits outstanding as at September 30, 2008 earned interest at an average rate of 2.80% and matured in October and November 2008 at which time they were reinvested.

4. Property and equipment

	September 30, 2008		
	Cost	Accumulated depletion and depreciation	Net
Petroleum and natural gas properties			
Oil sands properties	$ 26,973,274	$ –	$ 26,973,274
Conventional properties	12,872,832	6,905,300	5,967,532
Foreign properties *(note 10)*	158,072	–	158,072
	40,004,178	6,905,300	33,098,878
Office equipment	175,901	89,946	85,955
	$ 40,180,079	$ 6,995,246	$ 33,184,833

4. Property and equipment (continued)

During the three and nine months ended September 30, 2008 the Company capitalized $43,421 and $157,985 (2007 – nil) of general and administrative costs; $120,835 and $390,343 (2007 – $174,138 and $447,257) of stock-based compensation expense and $40,278 and $130,114 (2007 – $56,542 and $145,224) of related future income taxes.

At September 30, 2008, the Company excluded from the depletion calculation $26,973,274 for its oil sands properties (December 31, 2007 – $19,129,410), $90,551 (December 31, 2007 – $158,189) of unproved properties from its conventional petroleum and natural gas property costs and $158,072 from foreign exploration properties. In addition, $212,500 (December 31, 2007 – $299,400) of future development costs have been included in the depletion calculation.

The Company applied the ceiling test to its capitalized conventional petroleum and natural gas property assets at September 30, 2008 and determined that there was no impairment.

5. Bridge facility

In October 2007, the Company entered into a new bridge facility with the same lender for a maximum amount of $5.0 million, maturing on June 30, 2008. The facility bears interest at 9% per annum with a deferred fee of 4% on any amounts repaid under the facility. A commitment fee 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 in October 2007. The Company had not borrowed any amounts under this facility as at June 30, 2008 when the facility matured and was not renewed.

6. 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:

Balance, December 31, 2007	$	838,186
Additions		40,000
Accretion		46,278
Balance, September 30, 2008	$	924,464

The following significant assumptions were used to estimate the asset retirement obligation at September 30, 2008:

Undiscounted abandonment costs	$	1,234,100
Credit adjusted risk-free rate		8%
Inflation rate		2%
Weighted average expected timing of cash flows		4.3 years

7. Share capital

a) Common shares issued

	Number of Shares		Amount
Balance, December 31, 2007	53,542,098	$	32,793,456
Issue of common shares *(i)*	8,709,677		8,099,840
Issue of common shares *(ii)*	4,878,300		3,658,725
Issue of flow-through shares *(ii)*	12,440,300		11,818,285
Exercise of options *(iii)*	81,000		77,893
Tax effect of flow-through shares *(iv)*	–		(3,250,006)
Share issue costs (*net of tax of $318,772*)	–		(956,315)
Balance, September 30, 2008	79,651,375	$	52,241,878

i) 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.

ii) 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. The Company is required to spend $11,818,285 in qualifying expenditures by December 31, 2009, none of which had been incurred at September 30, 2008.

iii) During the three months ended June 30, 2008, the Company issued 81,000 common shares on the exercise of 81,000 options at prices ranging from $0.37 to $0.61 per common share for cash proceeds of $31,890 and a pro-rata allocation of the options' fair value in the amount of $46,003.

iv) 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. 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.

b) Stock options

During the nine months ended September 30, 2008, the Company granted stock options for 87,097 options at $0.85 per share, 974,500 options at $0.61 per share and 173,186 at $0.62 per share. The options have a five year term to expiry and vest one-third immediately and one-third on the first and second anniversaries of the grant date. The total fair value of the options granted was estimated to be $749,254.

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

Weighted average risk-free interest rate	3.18%
Weighted average volatility	166%
Expected life	5 years

7. Share capital (continued)

b) Stock options (continued)

The following is a continuity of stock options as at September 30, 2008:

	Number of Options	Weighted average exercise price
Balance, December 31, 2007	5,126,405	$ 1.25
Granted	1,324,783	0.63
Exercised	(81,000)	(0.39)
Cancelled	(490,000)	(1.03)
Balance, September 30, 2008	5,880,188	$ 1.14

The following summarizes information about stock options outstanding as at September 30, 2008:

Range of exercise prices	Number outstanding	Weighted average remaining contractual life (years)	Number exercisable	Weighted average exercise price
$ 0.29 – 0.30	717,000	1.6	667,000	$ 0.30
0.37 – 0.40	1,053,032	3.0	1,053,032	0.37
0.45 – 0.67	1,300,686	3.4	518,562	0.49
0.85 – 1.30	527,097	4.0	317,366	1.23
1.47 – 1.91	1,110,373	3.7	777,583	1.86
1.92 – 2.21	1,172,000	3.8	781,333	2.21
	5,880,188	3.3	4,114,876	$ 1.11

The Company recognized stock-based compensation expense in the three and nine months ended September 30, 2008 in the amount of $509,677 and $1,652,648 (three and nine months ended September 30, 2007 – $1,379,108 and $2,416,014). Of this total amount, $388,842 and $1,262,305 was expensed (three and nine months ended September 30, 2007 – $1,204,970 and $1,968,757) and $120,835 and $390,343 was capitalized to property and equipment (three and nine months ended September 30, 2007 – $174,138 and $447,257).

c) Per share amounts

Basic per share amounts are calculated using the weighted average number of shares outstanding of 65,728,136 and 65,009,300 for the three and nine months ended September 30, 2008 (three and nine months ended September 30, 2007 – 53,163,269 and 39,223,170). In computing diluted per share amounts all of the Company's outstanding options were excluded as they were considered to be anti-dilutive.

8. Contributed surplus

Balance, December 31, 2007	$	3,173,984
Stock-based compensation expensed *(note 7(b))*		1,262,305
Stock-based compensation capitalized *(note 7(b))*		390,343
Exercise of stock options *(note 7(a))*		(46,003)
Balance, September 30, 2008	$	4,780,629

9. Income taxes

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

	Three months ended September 30				Nine months ended September 30			
		2008		2007		2008		2007
Expected income tax (recovery) expense at 29.62% (2007 – 33.13%)	$	(278,587)	$	(637,054)	$	(946,637)	$	(546,014)
Stock-based compensation		116,653		401,367		381,461		658,613
Changes in enacted tax rates and other		19,369		(6,919)		118,413		(17,290)
Future income tax (reduction) provision	$	(142,565)	$	(242,606)	$	(446,763)	$	95,309

The components of the net future income tax liability at September 30, 2008 are as follows:

Non-capital loss carryforwards	$	766,744
Asset retirement obligation		231,116
Share issue costs		549,603
Property and equipment		(4,587,906)
Future income tax liability	$	(3,040,443)

As at September 30, 2008 the Company has approximately $19.4 million in tax pools and $3.2 million in non-capital losses available for deduction against future taxable income. Non-capital losses expire between 2008 and 2028.

10. Business development expenses

During the three and nine months ended September 30, 2008 the Company incurred $106,230 and $282,166 (three and nine months ended September 30, 2007 – $79,090 and $108,346) 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.

On September 17, 2008, Platform Resources Inc. ("Platform"), a wholly owned subsidiary of Alberta Oilsands, signed two production sharing agreements with the Government of the Republic of Kenya which will become effective on December 17, 2008 should additional commitments be met. These agreements allow Platform to carry out petroleum operations within specific contract areas of Kenya. Platform is authorized to conduct exploration operations in the contract areas during an initial exploration period of three (3) years.

As at September 30, 2008, Platform had paid a signing bonus of $125,000 US pursuant to the agreements and had incurred approximately $30,000 US on seismic expenditures.

11. Change in non-cash working capital

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Accounts receivable	$ 4,998,946	$ (24,025)	$ 224,745	$ 506,830
Prepaid expenses	(87,003)	(17,061)	199,200	38,981
Deferred financing fees	–	–	–	19,643
Accounts payable and accrued liabilities	(4,468,573)	103,076	(3,046,628)	(140,537)
	$ 443,370	$ 61,990	$ (2,622,683)	$ 424,917

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

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Operating	$ 11,872	$ (230,581)	$ 320,553	$ 256,931
Financing	41,948	(6,512)	146,880	111,588
Investing	389,550	299,083	(3,090,116)	56,398
	$ 443,370	$ 61,990	$ (2,622,683)	$ 424,917

12. Related party transactions

The Company had the following related expenses which are included in capital expenditures, general and administrative expenses, business development expenses and share issue costs.

a) During the three and nine months ended September 30, 2008, the Company was charged $74,490 and $210,646 (three and nine months ended September 30, 2007 – $14,136 and $211,818) in legal fees by legal firms in which directors and officers of the Company are partners. Included in accounts payable at September 30, 2008 is $50,845 (December 31, 2007 – $83,911) due to the legal firms.

b) During the three and nine months ended September 30, 2007, the Company paid $33,000 and $383,400 in consulting fees to an individual prior to him becoming an employee and officer of the Company in September 2007.

c) During the three and nine months ended September 30, 2007, the Company paid $96,300 and $139,050 in consulting fees to an individual prior to him becoming an employee and officer of the Company in September 2007. In addition, for the three and nine months ended September 30, 2008, the Company was charged $28,049 and $302,942 (2007 - $23,558) for geological expenses from a corporation controlled by this individual. This individual resigned from the Company effective August 31, 2008.

d) During the three and nine months ended September 30, 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) are in the normal course of operations. All transaction 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.

13. Commitments

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

b) Pursuant to flow-through private placements, the Company is required to incur approximately $2.9 million on qualifying expenditures by December 31, 2008 and $11.8 million by December 31, 2009.

c) The PSC's that Platform has signed with the Government of Kenya do not become effective until December 17, 2008. On or before that date Platform is required to provide a parent guarantee of Platform's obligations under the PSC's, and a $1.0 million letter of credit. 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. By way of a separate letter signed by the Minister of Energy for the Government of Kenya, the Minister has confirmed that upon Platform opting out, it will have no further obligation under the PSCs.

14. Financial instruments and financial risk management

The Company's financial instruments include cash and cash equivalents, 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.

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 September 30, 2008 are redeemable at any time and with a Schedule I bank. The Company's policy is to ensure that its investments are liquid and not to invest 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 September 30, 2008, the maximum credit exposure is the carrying amount of the accounts receivable and accruals of $409,298 (December 31, 2007 – $634,043). The balance of the accounts receivable is from petroleum and natural gas marketers, Goods and Services Tax input tax credits and joint venture partners.

14. Financial instruments and financial risk management (continued)

a) Credit risk (continued)

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. As at September 30, 2008, the largest amount owing from one partner is $50,753.

The Company did not provide for any doubtful accounts nor was it required to write-off any receivables during the period ended September 30, 2008. 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 September 30, 2008 the Company's receivables were comprised of the following:

Nature of receivable		Amount	Actual or expected collection
Petroleum and natural gas marketer	$	284,682	October 2008
Goods and Services Tax credits		44,858	November 2008
Other joint venture partners and receivables		79,758	Oct-Dec 2008
	$	409,298	

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.

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.

14. Financial instruments and financial risk management (continued)

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 September 30, 2008.

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. There were no commodity price risk contracts outstanding at September 30, 2008.

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. For the three and nine months ended September 30, 2008, if interest rates had been 1% higher with all other variables held constant, earnings for the periods would have been $31,031 and $80,496 higher respectively, due to increased interest income. An equal and opposite impact would have occurred had interest rates been lower by the same amounts.

15. 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 and shareholders' equity. 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.

15. Capital management (continued)

The Company prepares budgets for its capital expenditure budgets, 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 period ended September 30, 2008.