



ALBERTA
OILSANDS INC.

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

FOR THE THREE AND SIX MONTHS ENDED
JUNE 30, 2009

Alberta Oilsands Inc.

Management's Discussion and Analysis of Operations and Financial Condition

June 30, 2009

The following management's discussion and analysis of financial condition and the results of operations (the "MD&A") dated August 21, 2009 of Alberta Oilsands Inc ("Alberta Oilsands" or the "Company") is reported in Canadian dollars and has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and incorporates all relevant information and considerations to that date, and should be read in conjunction with the unaudited consolidated interim financial statements for the three and six months ended June 30, 2009 and 2008 and the audited consolidated financial statements for the years ended December 31, 2008 and 2007 together with the accompanying notes.

Unless the context otherwise requires, all references in this MD&A to "we", "us" or "our" means Alberta Oilsands Inc.

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

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

Special Note Regarding Non-GAAP Measures – This MD&A includes references to certain financial measures, as described below, which do not have standardized meanings prescribed by GAAP, however, as these measures are commonly used in the oil and gas industry, the Company feels that their inclusion is useful to investors and they are measures that the Company uses to evaluate its performance. Investors are cautioned that these non-GAAP measures should not be construed as an alternative to the measures calculated in accordance with GAAP as, given their non-standardized meanings, they are unlikely to be comparable to similar measures presented by other issuers. The term "field net back" is defined as petroleum and natural gas sales less royalties, less production and transportation costs and the term "net back" is defined as field net back less general and administrative costs. The term "funds from (used in) operations", defined as the cash flow from operating activities, before the change in non-cash working capital and abandonment expenditures, should not be considered an alternative to, or more meaningful than, cash flow from operating activities or net income (loss) as determined in accordance with GAAP as an indicator of performance. The Company's determination of funds from operations may not be comparable to that reported by other companies.

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

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

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

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

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

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

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

Basis of Presentation

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

The unaudited consolidated interim financial statements of the Company as at and for the three and six months ended June 30, 2009 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 interim financial statements in accordance with the accounting policies outlined in Note 2 to the audited consolidated financial statements as at December 31, 2008. Accordingly, their carrying values represent costs incurred to date, net of abandonments and write-downs, and do not necessarily reflect present or future values. The ability of the Company to continue as a going concern and the recoverability of amounts shown for the properties is dependent upon the existence of economically recoverable reserves and upon the Company's ability to obtain additional financing to continue the development of the Company's properties and generate funds therefrom and to meet current and future obligations. The unaudited consolidated interim financial statements do not reflect adjustments in the carrying values of the assets and liabilities, expenses and the balance sheet classifications that would be used if the going concern assumption were not appropriate. Such adjustments could be material.

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Overall Performance

We took advantage of two events in the second quarter of 2009 to expedite the development of our Clearwater West oil sands project on Alberta's Athabasca fairway. The first event occurred on June 4, 2009 when we announced another farm-in agreement on conventional oil and natural gas assets in the Hines Creek area to add to the McLeod and Hamburg farm-in agreements in Alberta. These agreements are intended to generate cash flow to support our oil sands initiatives. The second event involved the signing of a memorandum of understanding in April 2009 which ultimately resulted in the execution of a definitive agreement with the Fort McMurray Regional Airport Commission on July 8, 2009. This agreement improves access at our Clearwater West project which is adjacent to the airport and is expected to provide direct economic benefits to both parties.

Recent highlights:

- Placed one (0.5 net) Slave Point discovery well in the Ladyfern area on production on April 1, 2009 which produced an average 1.4 million cubic feet per day net to the Company for the second quarter. The well is eligible for Alberta's new well royalty incentive program, which provides for a 5% royalty rate for gas production volume of up to 500 million cubic feet (mmcf).
- Produced an average of 325 barrels of oil equivalent per day (boepd) from conventional assets during the second quarter of 2009, a 433% increase from the 61 boepd produced in the first quarter of 2009. This average production rate includes a 13-day period during which the Slave Point discovery well was shut in for a pressure build-up test.
- Established an economic relationship with the Ft. McMurray Regional Airport Commission ("FMAC") by entering into a definitive agreement. The Fort McMurray Regional Airport is located northwest of the Clearwater project area. The agreement, which was announced by the Company by press release on July 9, 2009, outlines the terms of a gross overriding royalty and share purchase warrants that Alberta Oilsands has granted to the airport commission in exchange for access (subject to safety regulations) to certain airport lands adjacent to Clearwater West.
- Entered into a farm-in agreement on conventional oil and natural gas assets in the Hines Creek area in northwest Alberta which is a multi-zone hydrocarbon prone area with primarily all-season access.
- Maintained a strong balance sheet with working capital of \$5.4 million as at June 30, 2009.
- Achieved gross revenue of \$998,000 in the second quarter compared with \$262,000 in the first quarter, and net operating income of \$501,000 (after royalties and direct operating expenses) compared with a net operating loss of \$235,000 in the first quarter of 2009.
- Incurred capital expenditures of \$0.6 million in the second quarter of 2009, compared with capital expenditures of \$7.3 million in the first quarter of 2009.
- Subsequent to the end of the second quarter, announced an increase in the assigned contingent resources at its Clearwater West project. The Ryder Scott Company of Canada resource report, effective June 1, 2009, estimated that Alberta Oilsands' Clearwater West property contains 182.5

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million barrels of contingent bitumen resources in a mid or "best estimate" scenario in a National Instrument 51-101 compliant evaluation. This represents an increase of 20.4% over Ryder Scott's previous assessment.

- Having drilled 22 core holes in the Clearwater West project area over the past two drilling seasons and having confirmed significant quantities of high quality bitumen, Alberta Oilsands believes that it is on track to submit a pilot project application late in 2009. Subject to the Company being able to meet the regulatory requirements, Alberta Oilsands expects to receive project approval within one year of submitting its application.

Alberta Oilsands continues to pursue sustainable cash flow and returns through a balanced approach to oil sands development. This balanced approach involves creating value for shareholders through the development and eventual conversion of our oil sands resources into reserves and by increasing production and cash flow on our conventional oil and natural gas assets. Although our focus is firmly on the oil sands, we also have what we believe to be high-impact conventional prospects in Canada.

Review of Oil Sands Operations

Although Alberta Oilsands offers a wealth of opportunity on 140.5 sections (121.5 net) of Alberta's Athabasca oil sands fairway -- including three potential project areas at Clearwater, one joint project at Hangingstone, one prospect at Algar Lake and one prospect at Grand Rapids -- our attention at this time is firmly focused on developing our project at Clearwater West. Alberta Oilsands has a 100% working interest in the area, subject to the gross overriding royalty to FMAC, located just southeast of Fort McMurray on sections 21 & 22 Twp088-R08W4.

Fort McMurray Clearwater West

Our Clearwater West project has now been fully delineated with an average density of 10 core holes per section. The Company expects that one of the main steps remaining prior to commencing work on our first pilot project is the application to Alberta's Energy Resources Conservation Board. We expect to submit our application before the end of 2009 for a first phase 2,000 barrel per day pilot project. Pending successful results from the pilot, AOS expects to submit an expansion application for a 10,000 barrels per day full commercial project.

Two seasons of coring, 3D reservoir modeling, extensive cap rock studies and an updated independent resource assessment suggest Clearwater West will meet the Company's high expectations. All indications confirm a high quality reservoir and a large quantity of bitumen. The Ryder Scott Company of Canada resource report, effective June 1, 2009, estimated that Alberta Oilsands' Clearwater West property contains 182.5 million barrels of contingent bitumen resources in a mid or "best estimate" scenario in a National Instrument 51-101 compliant evaluation. This represents an increase of 30.9 million barrels or 20.4% over the previous assessment dated June 1, 2008. This brings the total best estimate of contingent resources at Clearwater West, East and North to 350.9 million barrels of contingent resources. The resource numbers for Clearwater East and North have not changed year over year because no additional delineation drilling has been conducted in these areas since the 2008 report. It should be noted that there is no certainty that it will be commercially viable to produce any portion of these contingent resources. See "Oilsands Development Risks" later in this MD&A.

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Clearwater West offers proximity to pipelines, electricity, natural gas infrastructure and roads. In the second quarter the Company signed a memorandum of understanding with the FMAC to help ensure access to three sections of land adjacent to the airport. A definitive agreement was executed subsequent to the end of the quarter on July 8, 2009. Alberta Oilsands believes that the agreement creates a strategic economic relationship of mutual benefit for both the Company and the Fort McMurray Regional Airport Commission. The agreement provides for a 2% gross overriding royalty to the Fort McMurray Regional Airport Commission on the oil sands rights held by Alberta Oilsands in Sections 21 and 22 of Twp 88-8-W4M. In addition, we have agreed to grant the Fort McMurray Regional Airport Commission 4 million common share purchase warrants to purchase 4 million common shares of Alberta Oilsands at a weighted average price of \$0.75/share. In exchange, the airport authority agreed to grant access to certain airport lands, provided that the Company's operations do not interfere with the safety or proper operation of the airport, and to work with Alberta Oilsands on planning and logistics of any operation on airport lands. Although we have always had a positive relationship with the Fort McMurray Regional Airport Commission, this agreement entrenches the relationship, allows us to expedite the development of our Clearwater West project and has the potential to provide considerable economic benefits to both parties for years to come.

Review of Conventional Operations

Although we remain focused on developing our oil sands prospects and projects, we have been taking advantage of the current economic downturn to invest in conventional exploration opportunities. The Company's decision to acquire conventional assets at attractive prices paid dividends in the second quarter of 2009 after our recent Ladyfern Slave Point discovery well (Hamburg 13-29-095-12W6M) in Alberta came on stream on April 1, 2009. As a result, we experienced significant increases in revenue and cash flow compared with the first quarter. This well produced an average of 1.4 million cubic feet per day net to the Company during the second quarter of 2009. While we are enthusiastic about our discovery at Ladyfern, readers should be cautioned that initial production from one well is not necessarily indicative of future production from that well or any other well in the area. While we understand the risks, we are optimistic we will be able to repeat our success in the Ladyfern South prospect this winter if sufficient working capital is available. Alberta Oilsands has 11 sections (5.5 net) of land in the area.

In addition to Ladyfern, we have a depth of conventional prospects at Mahaska and Bronson in Alberta and Wildmint in British Columbia. The Mahaska prospect consists of 18 sections (9 net) targeting the Blueridge (Nisku) formation. The Mahaska 16-29-57-12W5M well was drilled subsequent to June 30, 2009. This test well was abandoned. The Bronson prospect has two sections consisting of rich gas potential in the Basal Cretaceous and Jurassic formations. In British Columbia, the Wildmint prospect consists of 4 sections of land overlying a large seismically defined structure.

On June 4, 2009, we announced a conventional farm-in agreement with a private company in the Hines Creek area of the Peace River Arch region of northwest Alberta. This area is known as a multi-zone, gas prone area. The agreement provides the right to earn a minimum 50% working interest in more than 17 sections of conventional oil and gas rights. We are pleased to be able to partner with the technical team of an experienced operator in what we believe to be a high-quality, hydrocarbon prone region. We believe that the area features low finding costs, robust economics, a short time to cash flow and upside from multiple targets on each location.

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The Leduc property continues to produce and averaged 47 barrels per day of light oil for the first half of 2009. Together with other legacy conventional properties, they produced about 60 boe/d for the first half of 2009. Production in the third quarter to date is averaging over 70 barrels per day for Leduc and the other legacy conventional properties.

While our conventional production is expected to be overshadowed by our oil sands assets, the decision to take advantage of our flow-through funds at this time to pursue conventional exploration is generating cash flow intended to facilitate the pursuit of our Clearwater West oil sands pilot project.

Review of International Operations

Platform Resources Inc., ("Platform") a wholly owned subsidiary of Alberta Oilsands Inc., initiated efforts to seek a suitable joint venture partner in the second quarter of 2009 for the two onshore exploration concessions that it holds in the Republic of Kenya

Platform is currently negotiating with the Ministry of Energy to seek an extension to the Production Sharing Contracts, intended to facilitate the process of seeking a JV partner in the current uncertain financial environment. (Please refer to the "Business development and expenses and international operations" section for further details.)

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

Results of Conventional Operations

	Three months ended June 30		
	2009	2008	2007
Statement of Operations and Deficit			
Petroleum and natural gas sales (\$)	997,514	555,333	487,642
Petroleum & natural gas sales per boe (\$)	33.76	112.62	66.69
Daily sales volumes (boe 6:1)	325	54	80
Net loss for the period (\$)	(921,812)	(1,169,247)	(1,378,661)
Net loss per share – basic and diluted (\$)	(0.01)	(0.02)	(0.02)
Statement of Cash Flows			
Funds (used in) from operations (\$) ⁽¹⁾	(34,242)	(631,341)	(703,819)
Cash flow (used in) from operations (\$)	(811,087)	(1,043,057)	(384,910)
Capital expenditures (\$)	607,301	1,805,135	4,112,925
Weighted average number of shares			
- basic and diluted	79,651,375	62,777,154	56,451,094

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	Six months ended June 30		
	2009	2008	2007
Statement of Operations and Deficit			
Petroleum and natural gas sales (\$)	1,259,541	999,669	2,006,998
Petroleum & natural gas sales per boe (\$)	35.97	98.84	64.09
Daily sales volumes (boe 6:1)	193	56	173
Net loss for the period (\$)	(2,138,382)	(1,949,681)	(63,121)
Net loss per share – basic and diluted (\$)	(0.03)	(0.03)	0.00
Statement of Cash Flows			
Funds (used in) from operations (\$) ⁽¹⁾	(1,144,558)	(898,589)	(98,487)
Cash flow (used in) from operations (\$)	(1,447,915)	(589,908)	389,025
Capital expenditures (\$)	7,871,089	7,698,146	7,882,007
Total assets (\$)	51,100,787	45,524,918	34,002,115
Total liabilities (\$)	7,577,791	10,454,492	2,689,058
Shareholders' equity (\$)	43,522,996	35,070,426	31,313,057

Weighted average number of shares

- basic and diluted	79,651,375	61,128,625	32,137,594
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(1) Alberta Oilsands' method of calculating funds from operations may differ from that of other corporations and, accordingly, may not be comparable to measures used by other corporations. Alberta Oilsands calculates funds from operations by taking cash flow from operating activities as determined under GAAP before the change in non-cash working capital related to operating activities and abandonment expenditures incurred. The Company uses this method as it believes the uncertainty surrounding the timing of collection, payment or incurrence of these items makes them less useful in evaluating Alberta Oilsands' operating performance. A summary of this reconciliation is as follows:

	Three months ended June 30		
	2009	2008	2007
Reconciliation of Cash flow per GAAP to Funds from (used in) Operations			
Cash flow (used in) from operating activities (per GAAP) (\$)	(811,087)	(1,043,057)	(384,910)
Change in non-cash working capital (\$)	776,845	411,716	(318,909)
Funds (used in) from Operations (\$)	(34,242)	(631,341)	(703,819)

	Six months ended June 30		
	2009	2008	2007
Reconciliation of Cash flow per GAAP to Funds from (used in) Operations			
Cash flow (used in) from operating activities (per GAAP) (\$)	(1,447,915)	(589,908)	389,025
Change in non-cash working capital (\$)	303,357	(308,681)	(487,512)
Funds (used in) from Operations (\$)	(1,144,558)	(898,589)	(98,487)

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Production

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Oil and NGL (bbls/day)	87	47	71	48
Natural gas (mcf/day)	1,429	41	737	44
boe/day (6:1)	325	54	193	56

The production for the three months ended June 30, 2009 included the new Slave Point discovery well in the Ladyfern area that went on production on April 1, 2009.

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Commodity Prices				
Oil and NGL (\$/bbl)	63.22	120.12	57.91	105.71
Natural gas (\$/mcf)	3.84	10.17	3.89	8.91
boe (\$/boe)	33.76	112.62	35.97	98.84
Revenues				
Oil and NGL (\$)	497,774	517,120	740,436	928,577
Natural gas (\$)	499,740	38,213	519,105	71,092
Total (\$)	997,514	555,333	1,259,541	999,669

Commodity prices for the second quarter of 2009 as compared to the first quarter of 2009 improved for oil but declined for gas. However, compared to 2008 commodity prices still remain significantly lower.

Royalties and Operating Expenses	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Royalties (\$)	71,057	87,041	108,547	132,048
% of revenues	8	16	9	13
\$/boe	2.40	17.65	3.10	13.06
Operating and transportation expenses (\$)	425,318	240,529	884,597	457,140
\$/boe	14.39	48.78	25.26	45.20

Royalties for the second quarter of 2009 decreased to \$2.40 on a per boe basis from \$6.86 per boe in the first quarter of 2009, and from \$17.65 in the second quarter of 2008. The new well on stream in the second quarter is eligible for Alberta's new royalty incentive program which provides an initial reduced royalty rate.

Operating and transportation costs for the second quarter of 2009 were \$425,318 or \$14.39 per boe as compared to \$459,279 or \$84.01 per boe in the first quarter of 2009 and \$240,529 or \$48.78 per boe for the second quarter in 2008. The decrease on a boe basis from the 2009 first quarter was a result of the

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increased volumes from the Ladyfern well and reduced repair and maintenance expenditures from the Leduc property.

Netbacks	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Revenue (\$/boe)	33.76	112.62	35.97	98.84
Royalties (\$/boe)	2.40	17.65	3.10	13.06
Operating expenses (\$/boe)	14.39	48.78	25.26	45.20
Field netbacks (\$/boe)	16.97	46.19	7.61	40.58
General and administrative (i)(\$/boe)	16.78	162.75	34.82	117.54
Netbacks (\$/boe)	0.19	(116.56)	(27.21)	(76.96)

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

General and administrative expense

General and administrative expenditures for the three and six months ended June 30, 2009 were \$495,963 (\$16.78 per boe) and \$1,219,290 (\$34.82 per boe) versus \$802,508 (\$162.74 per boe) and \$1,188,816 (\$117.55 per boe) for the comparative periods in 2008. Salaries in the amount of \$70,969 and \$141,938 for the three and six months ended June 30, 2009 related to individuals specifically involved in the oil sands properties were capitalized to such properties versus \$75,812 and \$114,564 for the comparative periods in 2008.

Business development expenses and international operations

During the three and six months ended June 30, 2009, the Company incurred \$23,137 and \$175,935 as compared to \$70,026 and \$175,936 for the comparative 2008 periods, in business development expenses related to the pursuit of projects outside of conventional Canadian oil and gas exploration and development, principally in Kenya. The majority of the expenditures in the second quarter of 2009 related to analysis of the projects and related travel costs.

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

Under the terms of the PSC's, Platform is authorized to conduct exploration operations in two contract areas (Block 12A - 15,389 sq. km. and Block 13T - 8,429 sq. km.) for three years after the effective date of December 17, 2008, extendible at Platform's option for two additional terms of two years each. During the initial three year exploration period for each block, Platform has minimum total expenditure obligations

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of U.S. \$3,600,000 for Block 12A and U.S. \$3,650,000 for Block 13T. Platform is required to provide security for its minimum work obligations in the form of a bank letter of credit in the amount of 15%, and a guarantee of its parent (Alberta Oilsands) in the amount of 85%.

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

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

As at June 30, 2009 Platform has purchased 50 lines of 2D seismic and has access to a total of 3,000 line kilometers of 2D seismic. Platform has paid a signing bonus of U.S.\$125,000 pursuant to the PSC's and has incurred approximately U.S.\$50,000 on seismic and on producing a work program to present to the Government of Kenya.

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

Stock-based compensation

Stock-based compensation expensed for the three and six months ended June 30, 2009 was \$360,824 and \$654,470 compared to \$509,164 and \$873,463 in the same period in 2008. In addition, \$91,635 and \$185,192 of stock-based compensation and \$30,544 and \$61,730 of related future income taxes was capitalized to property and equipment in the three and six months ended June 30, 2009 versus \$159,863 and \$269,508 of stock-based compensation and \$55,483 and \$89,836 of related future income taxes was capitalized in the comparative periods in 2008. The increase in stock based compensation for the second quarter of 2009 was a result of 1.9 million stock options being cancelled and the acceleration of the related unvested stock-based compensation expense. Stock-based compensation for options granted to consultants is based on the estimated fair value recalculated at each balance sheet date until the related options are fully vested. Stock-based compensation expense related to options granted to individuals whose salary and or consulting fees are capitalized is included in property and equipment.

Interest and financing fee expenses

Total interest expense of \$17,279 and \$49,788 was incurred for the three and six months ended June 30, 2009 relating to Part XII.VI interest from the Company's 2008 flow-through common share financings. The tax benefits of the flow-through financings were renounced to investors effective December 31, 2008

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and interest accrues on a monthly basis on the unspent portion of the qualifying expenditures until all of the requirements have been met. This compares to interest expense in the three and six months ended June 30, 2008 of \$54,551 and \$131,268 which was comprised primarily of interest related to the 2007 flow-through financings.

Depletion, depreciation and accretion	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Depletion and depreciation (\$)	559,447	227,976	669,822	451,151
\$/boe	18.93	46.23	19.13	44.61
Accretion (\$)	8,655	15,486	16,957	30,676
\$/boe	0.29	3.14	0.48	3.03

The total depletion, depreciation and accretion charge for the three and six months ended June 30, 2009 is \$568,102 (\$19.23 per boe) and \$686,779 (\$19.61 per boe) compared to \$243,462 (\$49.37 per boe) and \$481,827 (\$47.64 per boe) for the comparative periods in 2008. An increase in reserves was assigned in 2009 from the Ladyfern well which resulted in a decrease in the boe depletion rate. The Company applied the ceiling test to its property and equipment at the end of the second quarter and determined that there was no impairment.

In performing the ceiling test, the Company excludes the \$37.0 million spent to date on its oil sands properties.

Capital Expenditures

Capital spending is summarized as follows:

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Oil sand properties				
Land and lease rentals (\$)	71,106	81,536	82,306	81,536
Seismic / cap rock (\$)	65,099	173,555	413,907	635,108
Drilling (\$)	121,550	1,098,753	4,346,094	7,866,043
Pilot application (\$)	151,628	-	417,751	-
Other (\$)	70,968	41,106	164,184	155,670
Capital expenditure recovery from joint venture partner (\$)		-	-	(1,983,234)
	480,351	1,394,950	5,424,242	6,755,123
Conventional properties				
Lease rentals and seismic (\$)	(1,116)	19,502	3,489	16,191
Drilling and completion (\$)	102,304	70,348	2,365,202	300,882
Tangible (\$)	25,119	320,335	76,778	623,568
	126,307	410,185	2,445,469	940,641
Office (\$)	643	-	1,378	2,382
Total (\$)	607,301	1,805,135	7,871,089	7,698,146

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In addition to the cash expenditures shown above, stock-based compensation expense in the amount of \$91,635 and \$185,192 and related future tax liability of \$30,544 and \$61,730 has been added to the Company's oil sands property expenditures for the three and six months ended June 30, 2009. During the comparable period in 2008, \$159,863 and \$269,508 of stock based compensation and \$55,483 and \$89,836 of related future income taxes were capitalized.

The main focus for the Company during the second quarter of 2009 was the pilot application at Clearwater in the Oilsands area and the farm-in agreement in the Hines area of northwest Alberta.

Liquidity and Financial Position

The Company commenced 2009 with working capital of \$14,560,866.

During the six months ended June 30, 2009, a total of \$1.1 million was spent on operating activities, \$0.1 million for a reclamation deposit, \$7.9 million was incurred on capital expenditures and \$20,000 of proceeds from the sale of a minor property. The Company exited the quarter with a working capital of \$5.4 million.

From the August 2008 financing, the Company raised \$11.8 million from flow-through common shares. Approximately \$8.9 million of qualifying expenditures had been spent by June 30, 2009 and the remaining \$2.9 million will be required to be spent on qualifying expenditures by December 31, 2009.

The working capital as at June 30, 2009 of \$5.4 million will be utilized to fund the balance of the flow-through expenditures, pilot application and provide funds for operating activities for the balance of 2009. While the Company does not have any financing in place as at June 30, 2009 to further fund the Clearwater West project, it will require financing in order to continue with both development and exploration efforts in the oil sands and conventional assets.

The Company through its subsidiary Platform, is seeking alternate financing or a joint venture to fund the Kenya project. See "Contractual Obligations and Commitments"

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

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

Share Capital

Common shares

The Company commenced 2009 with 79,651,375 common shares outstanding. There were no changes to June 30, 2009 and as at the date of this MD&A.

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Stock Options

The Company commenced 2009 with a total of 7,622,856 stock options outstanding. During the six months ended June 30, 2009, a total of 316,000 options were granted, and 1,935,700 were cancelled or forfeited, resulting in 6,003,156 options outstanding as at June 30, 2009. The following is a continuity of stock options:

	Options	Weighted average exercise price
Balance, December 31, 2008	7,622,856	\$ 0.85
Granted	316,000	0.20
Cancelled for directors / officers	(1,560,000)	1.99
Expired unexercised	(200,000)	0.30
Cancelled for employees/consultants	(175,700)	1.07
Balance, June 30, 2009	6,003,156	\$ 0.53

Of the total options outstanding, 4,844,156 are held by directors/officers and management. Subsequent to June 30, 2009, 204,000 options were cancelled resulting in 5,799,156 options outstanding as at the date of this MD&A.

Contractual Obligations and Commitments

Flow-through expenditures

In August 2008 the Company raised an additional \$11.8 million of flow-through proceeds. The Company renounced the tax benefits of these proceeds to the investors effective December 31, 2008. As at June 30, 2009, approximately \$8.9 million of expenditures had been incurred. The remaining \$2.9 million of qualifying expenditures must be incurred by December 31, 2009.

International obligations

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

Other commitments

In 2007 the Company granted a two percent gross overriding royalty, which is subject to certain adjustments, on the Company's Hangingstone East property to Dr. Greg Hu, a consultant who was an employee and officer of the Company from September 2007 to August 2008. The carrying amount of the respective lands is \$3.2 million. In addition, Dr. Hu had been allocated an amount equal to 10% of all future stock options which become capable of being granted by the Company as a result of an increase in the number of issued and outstanding common shares resulting from future equity financings. A total of 497,656

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options have been granted to date at a weighted average exercise price of \$0.87. If the Company is unable to grant such stock options, the gross overriding royalty on the Company's Hangingstone East property, increases to three percent.

In July 2009, the Company signed a Gross Overriding Royalty, Access and Cooperation Agreement (the "Agreement") with FMAC. The Agreement provides access rights to and across the airport lands to allow the Company to conduct operations. In consideration for FMAC granting such access rights, the Company granted to FMAC a two percent gross overriding royalty on the petroleum substances produced from the specified lands. In addition, the Company granted FMAC an aggregate of 4,000,000 common share purchase warrants. Each whole warrant entitles the holder to acquire one common share of the Company for the following periods: 2,000,000 warrants will be exercisable at a price of \$0.50 per share until July 2010 and 2,000,000 warrants will be exercisable at a price of \$1.00 until July 2011.

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 six months ended June 30, 2009, the Company was charged \$43,808 and \$99,150, respectively (three and six months ended June 30, 2008 – \$82,890 and \$136,156) in legal fees by legal firms in which directors and officers of the Company are partners. These costs are included in general and administrative expense, business development and share issue costs. Included in accounts payable at June 30, 2009 is \$44,632 (December 31, 2008 – \$42,223) due to the legal firms.
- b) During the three and six months ended June 30, 2009, the Company was charged \$281,309 and \$475,601, respectively (three and six months ended June 30, 2008 – \$152,243 and \$274,293) 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, 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.

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

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Selected Historical Financial Information

	2009		2008	
	2 ND QUARTER	1 ST QUARTER	4 TH QUARTER	3 RD QUARTER
Petroleum and natural gas revenue (\$)	997,514	262,027	366,542	666,302
Net loss (\$)	(921,812)	(1,216,570)	(1,985,137)	(799,495)
Net loss per share – basic and diluted (\$)	(0.01)	(0.02)	(0.02)	(0.01)
Funds used in operations (\$)	(34,242)	(1,110,316)	(485,453)	(282,302)
Cash flow (used in) from operations (\$)	(811,087)	(636,828)	(397,166)	(270,430)
Capital expenditures (\$)	607,301	7,263,788	4,990,133	952,090

	2008		2007	
	2 ND QUARTER	1 ST QUARTER	4 TH QUARTER	3 RD QUARTER
Petroleum and natural gas revenue (\$)	555,333	444,336	475,589	507,374
Net loss (\$)	(1,169,247)	(780,434)	(1,002,898)	(1,688,739)
Net loss per share – basic and diluted (\$)	(0.02)	(0.01)	(0.02)	(0.03)
Funds used in operations (\$)	(631,341)	(267,248)	(418,165)	(231,667)
Cash flow (used in) from operations (\$)	(1,043,057)	453,149	(508,542)	(462,248)
Capital expenditures (\$)	1,805,135	5,893,011	4,681,196	7,658,343

Outlook

We expect to spend approximately \$4.5 million over the second half of 2009 to complete the final steps for our Clearwater West pilot project application and to drill exploratory wells into our inventory of what we believe will be high-impact conventional prospects. Our conventional activities are expected to fulfill our flow-through share obligations for the year.

Despite achieving success in conventional oil and gas prospects, our primary focus is to incubate and pilot our oil sands assets at Clearwater West. We will take the steps to convert our discovered resources into proved producing reserves. We plan to accomplish this through commercial partnerships, hedging our input fuel requirements and growing our cash flow through the exploration and development of conventional oil and gas prospects.

As Alberta Oilsands enters a critical phase, we are in the process of sourcing industry and financial partners to share in our success as we develop our resources and realize our vast potential.

Alberta Oilsands expects its initial Clearwater pilot project to be capable of producing 2,000 barrels per day of pilot production and 10,000 barrels per day once the project is fully operational. See "Oilsands Development Risks" in this MD&A.

Over the last few weeks we have seen Investor interest returning to the oil sands. With six potential oil sands projects identified on our lands, we believe we are well positioned to profit from the renewed interest in the sector thanks to our bitumen assets on Alberta's Athabasca oil sands fairway.

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Oilsands Development Risks

In assessing the feasibility of potential oil sands projects and in estimating the value of and the projected start-up dates for pilot projects and commercial *in-situ* operations in the Company's Clearwater East and West project areas, management has made numerous assumptions that the Company will be able to obtain regulatory (including in respect of applicable environmental matters) and other required third party approvals in a timely manner; that the regulatory framework representing royalties, taxes and environmental matters will continue to support such projects; that the Company will be able to generate sufficient cash flow, access capital markets on competitive terms or find strategic partners in order to enable it to fund such projects; that future prices for crude oil, bitumen and refined products will continue to be at levels which support such projects; that the results from the Company's 2008/2009 winter core drilling program will be favourable; that the Company's independent resource estimates are accurate; and that the Company will be able to obtain qualified staff and equipment in a timely and cost efficient manner. In the event such assumptions are not accurate, this could have an adverse effect on the ability of the Company to commence such projects within the noted timelines, or at all. Please see the section entitled "Forward-looking Statements and Information" in this MD&A. There is no certainty that it will be commercially viable to produce any portion of the resources described in this MD&A. For important information regarding the disclosure of resource estimates, including the definitions of "Contingent Resources", please see the section entitled "Disclosure of Resources" in this MD&A.

Business Risks and Uncertainties

The risks and uncertainties below are not the only ones facing the Company. For an overview of 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, 2008 MD&A 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.

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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 unaudited interim financial statements are prepared in accordance with Canadian generally accepted accounting principles. A comprehensive discussion of the Company's significant accounting policies is contained in Note 2 to the audited consolidated financial statements for the year ended December 31, 2008. The Company's significant accounting policies are subject to estimates and key judgments about future events, many of which are beyond management's control.

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Change in Accounting Policies

In addition to the changes included in note 3 of the audited consolidated financial statements as at December 31, 2008, on January 1, 2009, the Company adopted the Canadian Institute of Chartered Accountants Handbook Section:

Section 3064 Goodwill and Intangible Assets which replaces the previous goodwill and intangible asset standard and revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. The adoption of this standard had no impact on the Company's unaudited interim financial statements.

Alberta Oilsands Inc.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2009

Notice of No Auditor Review of Interim 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 financial statements as at and for the three and six months ended June 30, 2009 and 2008.

Alberta Oilsands Inc.
Interim Consolidated Balance Sheets
(unaudited)

Assets	<u>June 30, 2009</u>	<u>December 31, 2008</u>
Current		
Cash and cash equivalents <i>(note 3)</i>	\$ 5,475,184	\$ 17,371,816
Short-term investments <i>(note 4)</i>	1,000,042	1,994,246
Accounts receivable	428,829	339,700
Prepaid expenses	<u>49,071</u>	<u>125,005</u>
	6,953,126	19,830,767
Reclamation deposit	248,794	125,325
Property and equipment <i>(note 5)</i>	<u>43,898,867</u>	<u>36,460,797</u>
	<u>\$ 51,100,787</u>	<u>\$ 56,416,889</u>
 Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 1,511,376	\$ 5,269,901
Asset retirement obligation <i>(note 6)</i>	962,538	935,700
Future income taxes <i>(note 9)</i>	<u>5,103,877</u>	<u>2,435,001</u>
	<u>7,577,791</u>	<u>8,640,602</u>
 Shareholders' Equity		
Share capital <i>(note 7)</i>	49,283,249	52,237,820
Contributed surplus <i>(note 8)</i>	5,998,659	5,158,997
Deficit	<u>(11,758,912)</u>	<u>(9,620,530)</u>
	<u>43,522,996</u>	<u>47,776,287</u>
	<u>\$ 51,100,787</u>	<u>\$ 56,416,889</u>

Basis of presentation *(note 1)*
Commitments *(note 13)*
Subsequent events *(note 16)*

See accompanying notes to the unaudited interim consolidated financial statements.

Alberta Oilsands Inc.

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

	Three months ended June 30		Six months ended June 30	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Revenue				
Petroleum and natural gas sales	\$ 997,514	\$ 555,333	\$ 1,259,541	\$ 999,669
Royalties	<u>(71,057)</u>	<u>(87,041)</u>	<u>(108,547)</u>	<u>(132,048)</u>
	926,457	468,292	1,150,994	867,621
Interest income	<u>998</u>	<u>67,981</u>	<u>34,058</u>	<u>186,950</u>
	<u>927,455</u>	<u>536,273</u>	<u>1,185,052</u>	<u>1,054,571</u>
Expenses				
Production	367,010	222,761	820,801	428,727
Transportation	58,308	17,768	63,796	28,413
General and administrative	495,963	802,508	1,219,290	1,188,816
Business development (note 10)	23,137	70,026	175,935	175,936
Stock-based compensation (note 7)	360,824	509,164	654,470	873,463
Interest	17,279	54,551	49,788	131,268
Accretion	8,655	15,486	16,957	30,676
Depletion and depreciation	<u>559,447</u>	<u>227,976</u>	<u>669,822</u>	<u>451,151</u>
	<u>1,890,623</u>	<u>1,920,240</u>	<u>3,670,859</u>	<u>3,308,450</u>
Loss before income taxes	(963,168)	(1,383,967)	(2,485,807)	(2,253,879)
Future income tax reduction (note 9)	<u>(41,356)</u>	<u>(214,720)</u>	<u>(347,425)</u>	<u>(304,198)</u>
Net loss and comprehensive loss for the period	(921,812)	(1,169,247)	(2,138,382)	(1,949,681)
Deficit, beginning of period	<u>(10,837,100)</u>	<u>(5,666,651)</u>	<u>(9,620,530)</u>	<u>(4,886,217)</u>
Deficit, end of period	\$ (11,758,912)	\$ (6,835,898)	\$ (11,758,912)	\$ (6,835,898)
Net loss per share				
Basic and diluted (note 7)	\$ (0.01)	\$ (0.02)	\$ (0.03)	\$ (0.03)

See accompanying notes to the unaudited interim consolidated financial statements.

Alberta Oilsands Inc.
Interim Consolidated Statements of Cash Flows
For the three and six months ended June 30
(unaudited)

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Operating				
Net loss for the period	\$ (921,812)	\$ (1,169,247)	\$ (2,138,382)	\$ (1,949,681)
Non-cash items:				
Stock-based compensation	360,824	509,164	654,470	873,463
Accretion	8,655	15,486	16,957	30,676
Depletion and depreciation	559,447	227,976	669,822	451,151
Future income tax reduction	(41,356)	(214,720)	(347,425)	(304,198)
	<u>(34,242)</u>	<u>(631,341)</u>	<u>(1,144,558)</u>	<u>(898,589)</u>
Change in non-cash working capital (note 11)	<u>(776,845)</u>	<u>(411,716)</u>	<u>(303,357)</u>	<u>308,681</u>
	<u>(811,087)</u>	<u>(1,043,057)</u>	<u>(1,447,915)</u>	<u>(589,908)</u>
Financing				
Issuance of shares, net of costs	–	25,095	–	8,009,770
Change in non-cash working capital (note 11)	17,244	54,277	(119,627)	104,932
	<u>17,244</u>	<u>79,372</u>	<u>(119,627)</u>	<u>8,114,702</u>
Investing				
Short-term investment (purchase) redemption	(1,000,042)	–	994,204	–
Expenditures on property and equipment	(607,301)	(1,805,135)	(7,871,089)	(9,681,380)
Proceeds on disposal of property and equipment	20,000	–	20,000	–
Reclamation deposit	(368)	–	(123,469)	–
Proceeds from joint operations	–	–	–	1,983,234
Change in non-cash working capital (note 11)	<u>(2,930,383)</u>	<u>(1,884,800)</u>	<u>(3,348,736)</u>	<u>(3,479,666)</u>
	<u>(4,518,094)</u>	<u>(3,689,935)</u>	<u>(10,329,090)</u>	<u>(11,177,812)</u>
Decrease in cash and cash equivalents	(5,311,937)	(4,653,620)	(11,896,632)	(3,653,018)
Cash and cash equivalents, beginning of period	10,787,121	12,446,260	17,371,816	11,445,658
Cash and cash equivalents, end of period	\$ 5,475,184	\$ 7,792,640	\$ 5,475,184	\$ 7,792,640
Supplemental cash flow information:				
Interest paid	\$ –	\$ 274	\$ 169,415	\$ 76,336

See accompanying notes to the unaudited interim consolidated financial statements.

Alberta Oilsands Inc.

Notes to the Interim Consolidated Financial Statements

As at and for the three and six months ended June 30, 2009 (unaudited)

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. These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Platform Resources Inc. after the elimination of all intercompany transactions and balances.

These unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and on a basis consistent with the audited December 31, 2008 consolidated financial statements except 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, 2008 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.

These consolidated financial statements have been prepared on a going concern basis which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Property and equipment is recognized in these financial statements in accordance with the accounting policies outlined in note 2 of the audited December 31, 2008 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 two years. The ability of the Company to continue as a going concern and the recoverability of amounts shown for the properties is dependent upon the existence of economically recoverable reserves and upon the Company's ability to obtain additional financing to continue the development of the Company's properties and generate funds therefrom and to meet current and future obligations. The consolidated financial statements do not reflect adjustments in the carrying values of the assets and liabilities, expenses and the balance sheet classifications that would be used if the going concern assumption were not appropriate. Such adjustments could be material.

2. Changes in accounting policies

In addition to the changes included in note 3 of the audited consolidated financial statements as at December 31, 2008, on January 1, 2009, the Company adopted the Canadian Institute of Chartered Accountants Handbook Section:

Section 3064 Goodwill and Intangible Assets which replaces the previous goodwill and intangible asset standard and revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. The adoption of this standard had no impact on the Company's unaudited interim financial statements.

3. Cash and cash equivalents

	June 30, 2009	December 31, 2008
Cash in bank	\$ 2,474,752	\$ 3,898,794
Cash in investment accounts	3,000,432	13,473,022
	<u>\$ 5,475,184</u>	<u>\$ 17,371,816</u>

Cash is held in various investment accounts and earns nominal interest.

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4. Short-term investments

As at June 30, 2009, the Company held a term deposit of \$1,000,042, including accrued interest. The term deposit earns nominal interest and matures on December 10, 2009.

5. Property and equipment

	June 30, 2009		
	Cost	Accumulated depletion and depreciation	Net
Petroleum and natural gas properties			
Oil sands properties	\$ 37,037,888	–	37,037,888
Conventional properties	16,107,327	(9,318,700)	6,788,627
Office equipment	188,831	(116,479)	72,352
	<u>\$ 53,334,046</u>	<u>(9,435,179)</u>	<u>43,898,867</u>

During the three and six months ended June 30, 2009, the Company capitalized \$88,320 and \$159,289, respectively (three and six months ended June 30, 2008 – \$75,812 and \$114,564) of general and administrative costs, \$91,635 and \$185,192, respectively (three and six months ended June 30, 2008 – \$159,863 and \$269,508) of stock-based compensation, and \$30,544 and \$61,730, respectively (three and six months ended June 30, 2008 – \$55,483 and \$89,836) of related future incomes taxes. At June 30, 2009, the Company excluded \$37,037,888 (December 31, 2008 – \$31,499,211) of petroleum and natural gas property costs relating to unproved properties from the depletion and ceiling test calculations. In addition, \$303,750 (December 31, 2008 – \$229,400) of future development costs have been included in the depletion calculation.

The Company applied the ceiling test to its conventional property and equipment at June 30, 2009 and determined that there was no impairment which has been included in depletion and depreciation expense.

For the purposes of the June 30, 2009 impairment test, the following benchmark prices were used:

	Edmonton Light Cdn\$/bbl	AECO Spot \$/MMbtu
2009 – remaining	75.00	4.50
2010	80.00	6.00
2011	85.00	6.75
2012	90.00	7.50
2013	95.00	8.25
Escalation rate thereafter - 2%		

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, 2008	\$ 935,700
Liabilities incurred	9,881
Accretion	<u>16,957</u>
Balance, June 30, 2009	<u>\$ 962,538</u>

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6. Asset retirement obligation (continued)

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

	<u>June 30, 2009</u>
Undiscounted abandonment costs	\$ 1,236,620
Credit adjusted risk-free rate	8 - 10%
Inflation rate	2%
Weighted average expected timing of cash flows	4 years

7. Share capital

a) Common shares issued

	<u>Number of Shares</u>	<u>Amount</u>
Balance, December 31, 2008	79,651,375	\$ 52,237,820
Tax effect of flow-through shares issued in 2008	—	(2,954,571)
Balance, June 30, 2009	<u>79,651,375</u>	<u>\$ 49,283,249</u>

In August 2008 a private placement was completed for 12,440,300 flow-through common shares for gross proceeds of \$11,818,285. The renunciation documents were filed with the tax authorities in February 2009 at which time the tax effect of the qualifying expenditures in the amount of \$2,954,571 was recognized. The Company is required to spend \$11,818,285 in qualifying expenditures by December 31, 2009, of which approximately \$8,966,730 has been incurred at June 30, 2009.

b) Stock options

During the six months ended June 30, 2009, the Company granted a total of 316,000 stock options which vested one-third upon grant date and one-third on the first and second anniversaries of the grant date and expire five years from grant date. 200,000 of the new stock options were granted to employees with the remaining amount granted to consultants. The initial total fair value of the options granted was estimated to be \$42,823. The Black-Scholes pricing model was used to estimate the fair value of the options granted using a forfeiture rate of 0%, a dividend yield of nil, weighted average risk-free interest rate of 2.11%, weighted average volatility of 103%, and an expected life of 5 years.

The following is a continuity of stock options as at June 30, 2009:

	<u>Options</u>	<u>Weighted average exercise price</u>
Balance, December 31, 2008	7,622,856	\$ 0.85
Granted	316,000	0.16
Cancelled for directors / officers	(1,560,000)	1.99
Expired unexercised	(200,000)	0.30
Cancelled for employees/consultants	(175,700)	1.07
Balance, June 30, 2009	<u>6,003,156</u>	<u>\$ 0.53</u>

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7. Share capital (continued)

b) Stock options (continued)

The following summarizes information about stock options outstanding as at June 30, 2009:

Range of exercise prices	Number outstanding	Weighted average remaining contractual life (years)	Options outstanding weighted average exercise price	Number exercisable	Options exercisable weighted average exercise price
\$ 0.13	2,357,000	4.42	\$ 0.13	785,667	\$ 0.13
\$ 0.14 - \$0.28	116,000	4.91	0.26	38,667	0.26
\$ 0.29 - \$ 0.30	467,000	1.13	0.30	467,000	0.30
\$ 0.37 - \$ 0.40	914,000	2.18	0.37	914,000	0.37
\$ 0.45 - \$ 0.67	1,168,686	3.65	0.61	726,729	0.60
\$ 0.85 - \$ 1.30	357,097	3.3	1.19	238,065	1.19
\$ 1.47 - \$ 1.91	354,373	2.9	1.74	354,373	1.74
\$ 1.92 - \$ 2.21	269,000	3.1	2.21	179,333	2.21
	<u>6,003,156</u>	<u>3.47</u>	<u>\$ 0.53</u>	<u>3,703,834</u>	<u>\$ 0.63</u>

Of the total options outstanding, 4,844,156 are held by directors/officers and management. The Company recognized stock-based compensation expense in the three and six months ended June 30, 2009 and 2008 for the following option grants:

Year of option grant	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
2006	\$ —	\$ 35,981	\$ —	\$ 71,970
2007 (i)	377,988	400,199	699,218	810,187
2008	64,256	232,847	122,779	260,814
2009	10,215	—	17,665	—
	<u>452,459</u>	<u>669,027</u>	<u>839,662</u>	<u>1,142,971</u>
Capitalized to property and equipment (note 5)	<u>(91,635)</u>	<u>(159,863)</u>	<u>(185,192)</u>	<u>(269,508)</u>
Expensed	<u>\$ 360,824</u>	<u>\$ 509,164</u>	<u>\$ 654,470</u>	<u>\$ 873,463</u>

(i) Included in the three and six months ended June 30, 2009 is \$202,643 of remaining stock-based compensation expense as a result of the cancellation of the 1,560,000 options.

c) Per share amounts

Basic per share amounts are calculated using the weighted average number of shares outstanding for the three and six months ended June 30, 2009 of 79,651,375 and 79,651,375, respectively (three and six months ended June 30, 2008 – 62,277,154 and 61,128,625). In computing diluted per share amounts for the three and six months ended June 30, 2009 and 2008 all of the Company's outstanding options were excluded as they were considered to be anti-dilutive.

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8. Contributed surplus

Balance, December 31, 2008	\$	5,158,997
Stock-based compensation expense		654,470
Capitalized stock-based compensation		185,192
		<hr/>
Balance, June 30, 2009	\$	<u>5,998,659</u>

9. Income taxes

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

	Three months ended June 30		Six months ended June 30	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Expected income tax reduction at 29.02% (2008 – 29.70%)	\$ (279,021)	\$ (410,034)	\$ (721,348)	\$ (668,050)
Stock-based compensation expense	103,324	155,215	190,000	264,808
Changes in enacted tax rates and other	<u>134,341</u>	<u>40,099</u>	<u>183,923</u>	<u>99,044</u>
Future income tax reduction	<u>\$ (41,356)</u>	<u>\$ (214,720)</u>	<u>\$ (347,425)</u>	<u>\$ (304,198)</u>

The components of the net future income tax asset (liability) are as follows:

	<u>June 30, 2009</u>	<u>December 31, 2008</u>
Non-capital loss carryforwards	\$ 1,179,801	\$ 928,316
Asset retirement obligation	240,635	233,925
Share issue costs	429,536	508,013
Property and equipment	<u>(6,953,849)</u>	<u>(4,105,255)</u>
Future income tax liability	<u>\$ (5,103,877)</u>	<u>\$ (2,435,001)</u>

10. Business development expenses

During the three and six months ended June 30, 2009 the Company incurred \$23,137 and \$175,935, respectively (three and six months ended June 30, 2008 – \$70,026 and \$175,936) 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 (note 15).

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11. Change in non-cash working capital

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Accounts receivable	\$ (163,567)	\$ 76,600	\$ (89,129)	\$ (4,774,201)
Prepaid expenses	12,836	75,883	75,934	286,203
Accounts payable and accrued liabilities	<u>(3,539,253)</u>	<u>(2,394,722)</u>	<u>(3,758,525)</u>	<u>1,421,945</u>
	<u>\$ (3,689,984)</u>	<u>\$ (2,242,239)</u>	<u>\$ (3,771,720)</u>	<u>\$ (3,066,053)</u>

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

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Operating	\$ (776,845)	\$ (411,716)	\$ (303,357)	\$ 308,681
Financing	17,244	54,277	(119,627)	104,932
Investing	<u>(2,930,383)</u>	<u>(1,884,800)</u>	<u>(3,348,736)</u>	<u>(3,479,666)</u>
	<u>\$ (3,689,984)</u>	<u>\$ (2,242,239)</u>	<u>\$ (3,771,720)</u>	<u>\$ (3,066,053)</u>

12. 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 six months ended June 30, 2009, the Company was charged \$43,808 and \$99,150, respectively (three and six months ended June 30, 2008 – \$82,890 and \$136,156) in legal fees by legal firms in which directors and officers of the Company are partners. These costs are included in general and administrative expense, business development and share issue costs. Included in accounts payable at June 30, 2009 is \$44,632 (December 31, 2008 – \$42,223) due to the legal firms.
- b) During the three and six months ended June 30, 2009, the Company was charged \$281,309 and \$475,601, respectively (three and six months ended June 30, 2008 – \$152,243 and \$274,293) 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, 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.

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

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13. Commitments

Except as disclosed elsewhere in the financial statements (see note 16), the Company has the following commitments as at June 30, 2009:

- a) The Company is committed to an agreement for office premises on a month to month basis at a rate of \$12,500 per month.
- b) The Company has granted a two percent gross overriding royalty on all production with respect to specific properties to Dr. Greg Hu, a former officer of the Company. The carrying amount of such properties is \$3.2 million. In addition, the individual has also been allocated an amount equal to 10% of all future stock options which become capable of being granted by the Company as a result of an increase in the number of issued and outstanding common shares resulting from future equity financings. If the Company is unable to grant such stock options, the gross overriding royalty increases to three percent.
- c) Pursuant to flow-through private placements, the Company is required to incur approximately \$2.9 million of qualifying expenditures by December 31, 2009.
- d) On September 17, 2008 Platform Resources Ltd., a wholly-owned subsidiary of Alberta Oilsands, signed two Production Sharing Contracts ("PSC's") with the Government of the Republic of Kenya on commercial terms that Platform considers to be attractive to it. The two exploration blocks are located in the eastern branch of the East Africa Rift Basin, southwest of Lake Turkana, in Kenya. Platform believes that recent discoveries in the western branches of the Rift Basin, near Uganda's Lake Albert and adjacent to western Kenya, highlight the under-explored nature and potential of this geological trend.

Under the terms of the PSC's, Platform is authorized to conduct exploration operations in two contract areas (Block 12A - 15,389 sq. km. and Block 13T - 8,429 sq. km.) for three years after the effective date of December 17, 2008, extendible at Platform's option for two additional terms of two years each. During the initial three year exploration period for each block, Platform has minimum total expenditure obligations of U.S. \$3.6 million for Block 12A and U.S. \$3.65 million for Block 13T. Platform is required to provide security for its minimum work obligations in the form of a bank letter of credit in the amount of 15%, and a guarantee of its parent (Alberta Oilsands) in the amount of 85%.

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

14. Financial instruments and financial risk management

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

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company has exposure to credit risk, liquidity risk and market risk as a result of its use of financial instruments.

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14. Financial instruments and financial risk management (continued)

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 June 30, 2009 are redeemable at any time and are with a Schedule I bank. The Company's policy is to ensure that its investments are liquid and not invested in asset-backed commercial paper products.

A substantial portion of the Company's accounts receivable is with a joint venture partner in the oil sands area. Purchasers of the Company's petroleum and natural gas are subject to credit review to minimize the risk of non-payment. As at June 30, 2009, the maximum credit exposure is the carrying amount of the accounts receivable and accruals of \$428,829 (December 31, 2008 – \$339,700) plus cash and cash equivalents and short-term investments of \$6,475,226 (December 31, 2008 – \$19,366,062). Accounts receivable is comprised primarily of petroleum and natural gas marketers, Goods and Services Tax input tax credits and joint venture partners.

Receivables from petroleum and natural gas marketers are typically collected on the 25th day of the month following production. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with large purchasers. The Company historically has not experienced any significant collection issues with its petroleum and natural gas marketers.

Joint venture receivables are typically collected within one to two months of the joint venture bill being issued to the partner. The Company mitigates the risk from joint venture receivables by obtaining partner approval of capital expenditures prior to starting a project. However, the receivables are from participants in the petroleum and natural gas sector, and collection is dependent on typical industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling.

Further risk exists with joint venture partners as disagreements occasionally arise which increases the potential for non-collection. For properties that are operated by the Company, production can be withheld from joint venture partners who are in default of amounts owing. In addition, the Company often has offsetting amounts payable to joint venture partners from which it can net receivable balances.

The Company provided an allowance for a doubtful account in the amount of \$1,883 and \$2,404 during the three and six months ended June 30, 2009, respectively (year ended December 31, 2008 – \$23,576). 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 June 30, 2009 the Company's receivables were comprised of the following:

Nature of receivable	Amount	Actual or expected collection	Aging
Petroleum and natural gas marketer	\$ 317,549	July 2009	Not past due
Goods and Services Tax credits	19,599	August 2009	30 to 60 days
Other joint venture partners and receivables	91,681	July – September 2009	30 to 90 days
	\$ 428,829		

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

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.

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 June 30, 2009.

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 June 30, 2009.

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

c) Market risk *(continued)*

iii) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk primarily through its variable interest rate on its cash and cash equivalents and short-term investments. For the three and six months ended June 30, 2009, if interest rates had been 1% higher with all other variables held constant, the loss for the periods would have been \$4,082 and \$22,182 (2008 – \$19,900 and \$49,500) lower due to increased interest income. An equal and opposite impact would have occurred had interest rates been lower by the same amounts. The Company had no interest rate contracts outstanding at June 30, 2009.

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

The Company considers its capital structure to include working capital of \$5,441,750 (December 31, 2008 – \$14,560,866) and shareholders' equity of \$43,552,996 (December 31, 2008 – \$47,776,287). The Company monitors capital based on annual funds from operations from its conventional oil and gas properties which are utilized to partially fund the general and administrative expenses.

The Company prepares budgets for its capital expenditures, which are updated as necessary and are reviewed and periodically approved by the Company's Board of Directors.

The Company manages its capital structure and makes adjustments by continually monitoring its business conditions including the current economic conditions, the risk characteristics of the Company's petroleum and natural gas assets, the depth of its investment opportunities, current and forecasted net debt levels, current and forecasted commodity prices and other facts that influence commodity prices and funds from operations such as quality and basis differentials, royalties, operating costs and transportation costs.

In order to maintain or adjust the capital structure, the Company will consider the potential level of credit facilities that may be attainable as a result of the potential value of the oil sands properties, availability of other sources of debt with different characteristics than conventional debt, the sale of assets, limiting the size of the capital expenditure program and new equity if available on favorable terms.

There has been no change in the Company's approach to capital management during the six months ended June 30, 2009. The Company has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the foreseeable future.

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16. Subsequent events

- a) The Company has signed a Gross Overriding Royalty, Access and Cooperation Agreement (the "Agreement") with the Fort McMurray Airport Commission (or "FMAC"). The Agreement provides access rights to and across the airport lands to allow the Company to conduct operations. In consideration for FMAC granting such access rights, the Company granted to FMAC a two percent gross overriding royalty on the petroleum substances produced from the specified lands. In addition, the Company granted FMAC an aggregate of 4,000,000 common share purchase warrants. Each whole warrant entitles the holder to acquire one common share of the Company for the following periods: 2,000,000 warrants will be exercisable at a price of \$0.50 per share until July 2010 and 2,000,000 warrants will be exercisable at a price of \$1.00 until July 2011.
- b) Subsequent to June 30, 2009, the Company cancelled 204,000 stock options.