



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

**FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2009**

Alberta Oilsands Inc.

Management's Discussion and Analysis

September 30, 2009

The following management's discussion and analysis of financial condition and the results of operations (the "MD&A") dated November 27, 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 nine months ended September 30, 2009 and 2008, the MD&A for the year ended December 31, 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 MD&A, 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 oilsands 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 that area; (ii) expectations regarding future development 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 core drilling programs; (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 to 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 oilsands projects, see "Oilsands Development Risks" in this MD&A.

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

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potential oilsands 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 oilsands resources.

The unaudited consolidated interim financial statements of the Company as at and for the three and nine months ended September 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

Alberta Oilsands continued to reduce the risk and accelerate the potential reward at our Clearwater West oilsands project in the third quarter of 2009. The key event designed to decrease the risk was the execution of a definitive agreement with the Fort McMurray Regional Airport Commission ("FMAC") to improve access to our Clearwater West project adjacent to the airport. In addition to reducing the risk, Alberta Oilsands took a step to accelerate the potential reward at Clearwater West by increasing production capacity of the pilot project to 5,000 barrels per day (bpd) from 2,000 bpd. We expect to submit the application for the modified pilot project design to Alberta's Energy Resources Conservation Board ("ERCB") by the end of 2009.

Recent highlights:

- Created an economic relationship with the FMAC on July 8, 2009.
- Announced on July 27, 2009 an increase in the contingent resources at Clearwater West based on an update by Ryder Scott Company Canada. The independent resource report, dated June 1, 2009, provides a "best" estimate of 183 million barrels of contingent bitumen resources at Clearwater West based on a National Instrument 51-101 compliant evaluation. See "Oilsands Development Risks" and "Disclosure of Resources" later in this MD&A for an explanation of contingent resources.
- Increased production 394% to 321 boepd in the third quarter of 2009 from 65 boepd in the third quarter of 2008.
- Achieved gross revenue of \$894,000 in the third quarter compared with \$666,000 in the comparative period in 2008.
- Incurred capital expenditures of \$1.65 million in the third quarter of 2009, compared with \$607,000 in the second quarter of 2009 and \$952,000 in the third quarter of 2008. Costs incurred in the third quarter of 2009 were primarily related to the pilot application for Clearwater West and drilling and abandonment expenditures related to the Mahaska exploration well.
- Subsequent to September 30, 2009, announced an increase in our financial flexibility by raising gross proceeds of \$10.86 million through the sale of shares and warrants in a bought-deal financing and by the arrangement of a \$10.0 million senior committed credit facility. The credit facility is designed to augment working capital and fund capital expenditures.

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Review of Oilsands Operations

Fort McMurray Clearwater West

Alberta Oilsands continues to make noteworthy progress on our Clearwater West *in situ* oilsands pilot recovery project. In October we announced a revised plan to use stacked well pairs instead of a single layer configuration on the project. This decision is expected to more than double the peak production capacity from the pilot project to 5,000 bpd from 2,000 bpd.

The Clearwater West pilot project lands are located just north of Highway 69, the east-west highway that connects to Highway 63 running from Edmonton to Fort McMurray. Alberta Oilsands has a 100% working interest in the area subject to the 2% GORR pursuant to the FMAC agreement. This project has been fully delineated with an average density of 10 core holes per section.

The revised pilot project plan for Clearwater West is designed to extract the area's bitumen through low pressure steam-assisted gravity drainage (LP SAGD) and expanding solvent (ES) SAGD using stacked SAGD well pairs. The operating parameters from Computer Modeling Group's STARS reservoir simulation suggests an average production rate of more than 4,000 bpd over three years once the project is fully operational, an average operating steam to oil ratio of 2.0 over the project life and a recovery factor ranging from 50% to 55%. If the Clearwater West project receives all the necessary approvals and the pilot project is successful, commercial production is expected to be up to 10,000 bpd once a commercial project is fully operational.

A significant development at Clearwater West in the third quarter of 2009 was the signing of a definitive agreement with the FMAC. The agreement creates an economic relationship between Alberta Oilsands and the FMAC by outlining the rights, obligations and commercial terms of a GORR and warrants Alberta Oilsands is granting the FMAC in return for access to certain airport lands related to the Clearwater West project (so long as 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 FMAC, 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.

As part of the formal agreement, Alberta Oilsands granted the FMAC a 2% GORR on the oilsands rights held by AOS in 88-8-W4M: Sections 21 and 22 in the Clearwater West project area, as well as four million warrants to purchase Alberta Oilsands shares at a weighted average price of \$0.75 per share.

It should be noted that assessments of Alberta Oilsands' properties, production and prospects constitute forward-looking statements. Forward-looking statements are based on the opinions and estimates of management at the date the statements are made and are subject to a variety of risks and uncertainties that could cause actual events or results to differ materially from those projected in the forward-looking statements. See "Forward-looking Statements and Information."

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Clearwater East

In addition to Clearwater West, Alberta Oilsands offers potential project areas at Clearwater East, south of the Clearwater River, and Clearwater North on the north bank of the river. Although Clearwater West and East are proceeding as separate project areas, based on estimates, Alberta Oilsands believes both areas offer sufficient bitumen resources to support commercial projects. Clearwater West and East are therefore expected to proceed as separate project areas, possibly with shared facilities.

Both Clearwater West and East are in the McMurray formation bitumen sand isopach (thickness) trend mapped by the Alberta Geological Survey. When conditions warrant additional exploration and development, we expect to turn our attention to developing our next project area at Clearwater or Hangingstone East.

Hangingstone East

Alberta Oilsands' potential project area at Hangingstone East consists of 23 sections (14,720 acres) of 100% working interest in oilsands leases. This area is located 45 kilometres southwest of Fort McMurray along Highway 63. In the first quarter of 2008, we entered into a pooling agreement with the Great Divide Oil Sands Partnership, an affiliate of Connacher Oil and Gas Limited ("Connacher"), whereby our 23 sections in this area and Connacher's 15.5 sections in the adjacent Halfway Creek properties were pooled. This resulted in Alberta Oilsands owning a 50% working interest in 38.5 sections of contiguous land in the Hangingstone East/Halfway Creek area and gave us access to significant additional gross contiguous lands. Alberta Oilsands and Connacher have agreed to work jointly on the pooled assets until 2010, after which Connacher has agreed to become the operator and Alberta Oilsands will continue to retain its 50% working interest.

A second phase 10-hole coring program is being contemplated for the Hangingstone East project.

Review of Conventional Operations

Although we remain focused on Alberta's oilsands, we also have relevant conventional assets to support our oilsands development. Our conventional assets provide modest cash flow to help defray administrative costs and provide a vehicle for the fulfillment of our exploration requirements related to the issuance of flow-through shares.

Our Ladyfern Slave Point discovery well (Hamburg 13-29) continues to produce and provide cash flow. The well came on stream on April 1, 2009 and produced an average of 1.5 million cubic feet net to the Company of natural gas per day during the third quarter of 2009 compared with 1.4 million cubic feet in the second quarter. We expect to drill a 3D defined structure with a follow-up well at Ladyfern South this winter. Alberta Oilsands has 11 sections (5.5 net) of land in the area.

In the third quarter, we drilled and abandoned a well at 16-29-57-12W5M at Mahaska. Prospect potential remains at Mahaska which may be pursued at a later date. The Mahaska area consists of 18 sections (9 net) targeting the Blueridge (Nisku) potential.

We also have multiple gas prospects in the Basal Cretaceous and Jurassic formations on two sections at Bronson in Alberta and four sections overlying a large seismically defined structure at the Wildmint prospect in northeast British Columbia.

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Production in the third quarter from our Leduc property and other legacy conventional properties averaged 53 bpd, which, combined with Ladyfern, resulted in average production of 321 boepd in the third quarter.

Review of International Operations

Alberta Oilsands holds international assets in Kenya through its wholly owned subsidiary, Platform Resources Inc. ("Platform"). Platform has a 100% interest in two production sharing contracts ("PSC's") with the Government of Kenya. The blocks are located near recent geological discoveries making this an attractive exploration area.

In September, Platform presented a detailed plan for exploration of both Blocks 12A and 13T to the Government of Kenya for their consideration and approval.

We are in the process of seeking a joint venture partner who can focus on realizing the potential of our international assets. Discussions continue with the Ministry of Energy to seek an extension to the PSCs to facilitate the process.

For more information about our international operations, please refer to the "Business development and expenses and international operations" section.

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

Results of Conventional Operations

	Three months ended September 30		
	2009	2008	2007
Statement of Operations and Deficit			
Petroleum and natural gas sales (\$)	894,316	666,302	507,374
Petroleum & natural gas sales per boe (\$)	30.25	110.77	74.92
Daily sales volumes (boe 6:1)	321	65	74
Net loss for the period (\$)	(486,157)	(799,495)	(1,688,739)
Net loss per share – basic and diluted (\$)	(0.01)	(0.01)	(0.03)
Statement of Cash Flows			
Funds (used in) from operations (\$) ⁽¹⁾	98,124	(282,302)	(231,667)
Cash flow (used in) from operations (\$)	399,091	(270,430)	(462,248)
Capital expenditures (\$)	1,651,024	952,090	7,658,343
Weighted average number of shares			
- basic and diluted	79,651,375	65,728,136	53,163,269

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	Nine months ended September 30		
	2009	2008	2007
Statement of Operations and Deficit			
Petroleum and natural gas sales (\$)	2,153,857	1,665,971	2,505,385
Petroleum & natural gas sales per boe (\$)	33.35	103.29	65.78
Daily sales volumes (boe 6:1)	237	59	140
Net loss for the period (\$)	(2,624,539)	(2,749,176)	(1,751,857)
Net loss per share – basic and diluted (\$)	(0.03)	(0.04)	(0.04)
Statement of Cash Flows			
Funds used in operations (\$) ⁽¹⁾	(1,046,434)	(1,180,891)	(330,152)
Cash flow used in operations (\$)	(1,048,824)	(860,338)	(73,221)
Capital expenditures (\$)	9,522,113	10,633,470	15,540,349
Total assets (\$)	50,216,792	55,043,725	33,753,021
Total liabilities (\$)	7,079,537	5,656,611	2,639,696
Shareholders' equity (\$)	43,137,255	49,387,114	31,113,325

Weighted average number of shares

- basic and diluted **79,651,375** 65,009,300 41,595,961

(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 September 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) (\$)	399,091	(270,430)	(462,248)
Change in non-cash working capital (\$)	300,967	11,872	(230,581)
Funds (used in) from Operations (\$)	98,124	(282,302)	(231,667)

	Nine months ended September 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) (\$)	(1,048,824)	(860,338)	(73,221)
Change in non-cash working capital (\$)	(2,390)	320,553	256,931
Funds (used in) from Operations (\$)	(1,046,434)	(1,180,891)	(330,152)

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Production	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Oil and NGL (bbls/day)	71	59	71	52
Natural gas (mcf/day)	1,504	40	996	43
boe/day (6:1)	321	65	237	59

The increase in production includes the new Slave Point discovery well in the Ladyfern area. This well commenced production in April 2009 and has continued to average approximately 1,400 mcf/day net to the Company.

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Commodity Prices				
Oil and NGL (\$/bbl)	65.41	116.86	60.43	109.95
Natural gas (\$/mcf)	3.40	9.64	3.64	9.14
boe (\$/boe)	30.25	110.77	33.35	103.29
Revenues				
Oil and NGL (\$)	424,388	630,397	1,164,824	1,558,973
Natural gas (\$)	469,928	35,905	989,033	106,998
Total (\$)	894,316	666,302	2,153,857	1,665,971

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

Royalties and Operating Expenses	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Royalties (\$)	66,569	101,739	175,116	233,787
% of revenues	7	15	8	14
\$/boe	2.25	16.91	2.71	14.49
Operating and transportation expenses (\$)	266,121	169,980	1,150,718	627,120
\$/boe	9.00	28.26	17.82	38.88

Royalties for the third quarter of 2009 decreased to \$2.25 on a per boe basis from \$2.40 per boe in the second quarter of 2009, and from \$16.91 in the third quarter of 2008. The Ladyfern well on stream in the second quarter of 2009 is eligible for Alberta's new royalty incentive program which provides an initial reduced royalty rate.

Operating and transportation costs for the third quarter of 2009 were \$266,121 or \$9.00 per boe as compared to \$425,318 or \$14.39 per boe in the second quarter of 2009 and \$169,980 or \$28.26 per boe for the third quarter in 2008. The decrease on a boe basis from the 2009 second quarter was a result of the reduced repair and maintenance expenditures from the Leduc property.

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Netbacks	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Revenue (\$/boe)	30.25	110.77	33.35	103.29
Royalties (\$/boe)	2.25	16.91	2.71	14.50
Operating expenses (\$/boe)	9.00	28.26	17.82	38.88
Field netbacks (\$/boe)	19.00	65.60	12.82	49.91
General and administrative (i)(\$/boe)	15.40	102.21	25.93	111.83
Netbacks (\$/boe)	3.60	(36.61)	(13.11)	(61.92)

(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 oilsands 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 nine months ended September, 2009 were \$455,261 (\$15.40 per boe) and \$1,674,551 (\$25.93 per boe) versus \$614,844 (\$102.21 per boe) and \$1,803,660 (\$111.83 per boe) for the comparative periods in 2008. Salaries in the amount of \$70,968 and \$212,906 for the three and nine months ended September 30, 2009 related to individuals specifically involved in the oilsands properties were capitalized to such properties versus \$42,626 and \$157,190 for the comparative periods in 2008. The Company continues to monitor and reduce overhead costs where possible.

Business development expenses and international operations

During the three and nine months ended September 30, 2009, the Company incurred (\$4,493) and \$171,442 as compared to \$106,230 and \$282,166 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 2009 related to analysis of the projects and related travel costs. The minor recovery of expenditures in the third quarter of 2009 relates to the exchange differential realized upon the payment of the Kenya geological data and reports. An additional \$112,000 US payment was required and was paid during the fourth quarter of 2009.

On September 17, 2008, Platform 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. 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 third quarter of 2009, Platform submitted a detailed plan for exploration on both Blocks 12A and 13T

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for the Government's consideration. The Government has confirmed that upon its approval and the Company's completion of these minimum work commitments during the opt-out periods, 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.

The bank letters of credit and parent guarantees that were due on or before the commencement of the initial exploration period are expected to be negotiated in the next few weeks. 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. Recent communication from the Government indicates that they are flexible in the timing given the financial downturn over the last year.

As at September 30, 2009 Platform has purchased 50 lines of 2D seismic and has access to a total of 3,000 line kilometers of 2D seismic. In 2008, Platform paid a signing bonus of U.S.\$125,000 pursuant to the PSC's and has incurred approximately U.S. \$250,000 in 2009 to the date of this MD&A 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 nine months ended September 30, 2009 was \$59,134 and \$713,604 compared to \$388,842 and \$1,262,305 in the same period in 2008. In addition, \$41,340 and \$226,474 of stock-based compensation and \$13,780 and \$75,491 of related future income taxes was capitalized to property and equipment in the three and nine months ended September 30, 2009 compared to \$120,835 and \$390,343 of stock-based compensation and \$40,278 and \$130,114 of related future income taxes being capitalized in the comparative periods in 2008. Decrease in stock based compensation is due to fewer grants being issued and at lower fair values than in the comparative periods. 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.

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Interest and financing fee expenses

Total interest expense of \$15,849 and \$65,637 was incurred for the three and nine months ended September 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 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 nine months ended September 30, 2008 of \$42,500 and \$173,768 which was comprised primarily of interest related to the 2007 flow-through financings. As at September 30, 2009 approximately \$1.8 million of expenditures remain to be spent by December 31, 2009.

Depletion, depreciation and accretion Three months ended September 30 Nine months ended September 30

	2009	2008	2009	2008
Depletion and depreciation (\$)	654,611	255,314	1,324,433	706,465
\$/boe	22.15	42.45	20.51	43.80
Accretion (\$)	8,823	15,602	25,780	46,278
\$/boe	0.30	2.59	0.40	2.87

The total depletion, depreciation and accretion charge for the three and nine months ended September 30, 2009 is \$663,434 (\$22.45 per boe) and \$1,350,213 (\$20.91 per boe) compared to \$270,916 (\$45.04 per boe) and \$752,743 (\$46.67 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 depletion rate as compared to the 2008 rate. The increased production volumes from this well in 2009 resulted in the overall increased depletion amount.

The Company applied the ceiling test to its property and equipment at the end of the third 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 oilsands properties.

As at September 30, 2009, \$896,361 is recorded for future abandonment and reclamation. During the third quarter, this obligation was reduced by \$75,000 related to two wells that have been disposed.

Alberta Oilsands Inc.
Management's Discussion and Analysis
September 30, 2009

Capital Expenditures

Capital spending is summarized as follows:

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Oil sand properties				
Land and lease rentals (\$)	6,254	22,382	88,560	103,918
Seismic / cap rock (\$)	3,752	232,168	417,659	955,986
Drilling (\$)	14,268	334,876	4,360,362	8,200,919
Pilot application (\$)	323,425	-	741,176	-
Other (\$)	70,969	4,712	235,153	45,818
Capital expenditure recovery from joint venture partner (\$)	-	-	-	(1,983,234)
	418,668	594,138	5,842,910	7,323,407
Conventional properties				
Lease rentals and seismic (\$)	44,435	(9,335)	47,924	32,709
Drilling and completion (\$)	999,793	12,986	3,364,995	313,868
Tangible (\$)	188,128	190,074	264,906	813,643
	1,232,356	193,725	3,677,825	1,160,220
International (\$)	-	158,072	-	158,702
Office (\$)	-	6,155	1,378	8,537
Total (\$)	1,651,024	952,090	9,522,113	8,650,236

In addition to the cash expenditures shown above, stock-based compensation expense in the amount of \$41,340 and \$226,474 and related future tax liability of \$13,780 and \$75,491 has been added to the Company's oilsands property expenditures for the three and nine months ended September 30, 2009. During the comparable period in 2008, \$120,835 and \$390,343 of stock based compensation and \$40,278 and \$130,114 of related future income taxes were capitalized.

The Company drilled and abandoned a Mahaska test well for a total cost of \$928,800 during the nine months ending September 30, 2009

Liquidity and Financial Position

The Company commenced 2009 with working capital of \$14.6 million.

During the nine months ended September 30, 2009, a total of \$1.1 million was spent on operating activities, \$0.1 million for a reclamation deposit, \$9.5 million on capital expenditures, and \$20,000 of proceeds were realized from the sale of a minor property. The Company exited the quarter with a working capital of \$3.9 million.

From the Company's August 2008 financing, the Company raised \$11.8 million from flow-through common shares. Approximately \$10.0 million of qualifying expenditures had been spent by September 30, 2009 and the remaining \$1.8 million is expected to be spent on qualifying expenditures by year end December 31, 2009.

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The Company's working capital as at September 30, 2009 of \$3.9 million will be utilized to fund the balance of the flow-through expenditures, our pilot application, and provide funds for operating activities for the balance of 2009.

On November 17, 2009, the Company closed a short-form prospectus offering for the issue and distribution of Units and Flow-Through Shares (collectively, the "Offering") pursuant to an underwriting agreement dated effective October 21, 2009 among the Company and the Underwriters (the "Underwriting Agreement"), the terms of which are summarized as follows:

- The issuance of an aggregate of 11,500,000 Units of the Company to the Underwriters at a price of \$0.40 per Unit. Each Unit consists of one common share in the capital of the Company (each, a "Common Share") and one common share purchase warrant of the Company (a "Warrant"). Each whole Warrant entitles the holder thereof to purchase one Common Share (each, a "Warrant Share") at an exercise price of \$0.50 per Warrant Share for a period of twenty-four (24) months from the closing date. An additional 1,281,250 units at a price of \$0.40 per unit were issued through the exercise of the over-allotment option.
- The issuance of an aggregate of 12,778,000 Flow-Through Shares at a price of \$0.45 per Flow-Through Share, subject to compliance with all necessary legal requirements and terms and conditions of the Underwriting Agreement. The Company is required to incur, on or before December 31, 2010, and renounce to each subscriber of Flow-Through Shares, effective on or before December 31, 2009, Canadian Exploration Expense in an amount equal to the aggregate purchase price paid by such subscriber.
- The net proceeds from the Offering were approximately \$9,960,800.
- On October 2009, the Company entered into an arrangement in respect of a \$10,000,000 senior secured credit facility (the "Facility") from a third-party lender. The Facility carries an initial 10% annualized coupon adjusted quarterly based on utilization and is secured by a floating debenture over all of the Company's properties. In connection with the closing of this facility, the Company issued the lender 650,000 warrants to purchase common shares of the Company at \$0.50 per share for a period of 18 months.

In addition, in order to better manage price risk, the Company entered in to a commodity contract that establishes a price floor to limit losses should prices decline. See "Contractual Obligations and Commitments" for further information.

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.

Alberta Oilsands Inc.
Management's Discussion and Analysis
September 30, 2009

Share Capital

Common shares

The Company commenced 2009 with 79,651,375 common shares outstanding. There were no changes to September 30, 2009. Pursuant to the financing that closed in November 2009, a total of 25,559,250 shares were issued resulting in 105,210,625 shares outstanding as at the date of this MD&A.

Stock Options

The Company commenced 2009 with a total of 7,622,856 stock options outstanding. During the nine months ended September 30, 2009, a total of 316,000 options were granted, and 2,401,700 were cancelled or forfeited, resulting in 5,537,156 options outstanding as at September 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)	2.08
Expired unexercised	(481,700)	1.42
Cancelled for employees/consultants	(360,000)	0.30
Balance, September 30, 2009	5,537,156	\$ 0.47

Of the total options outstanding, 4,136,656 are held by directors/officers and management. Subsequent to September 30, 2009, there were no changes to the options outstanding to the date of this MD&A.

Warrants

On July 8, 2009, the Company granted 4,000,000 common share purchase warrants pursuant to the FMAC agreement. 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 8, 2010 and 2,000,000 warrants will be exercisable at a price of \$1.00 per share until July 8, 2011.

Subsequent to September 30, 2009, pursuant to the financing that closed in November 2009, a total of 12,781,250 warrants were issued, exercisable at \$0.50 per share and expiring in November 2011. In addition, pursuant to the senior credit facility that closed in October 2009, 650,000 warrants were granted at an exercise price of \$0.50 per share expiring in April 2010. As at the date of this MD&A, there are 17,431,250 warrants outstanding.

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 September 30, 2009, approximately \$10.0 million of expenditures had been incurred. The remaining \$1.8 million of qualifying expenditures must be incurred by December 31, 2009.

Alberta Oilsands Inc.

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Pursuant to the financing that closed in November 2009, a total of \$5.75 million of flow-through proceeds were received. The Company intends to renounce the tax benefits of these proceeds to the investors effective December 31, 2009 for which the qualifying expenditures must be incurred by December 31, 2010.

Commodity contract

In October 2009, the Company signed a commodity contract for the period November 1, 2009 to October 31, 2010. The notional quantity under this contract is for 50 barrels of oil per day at prices per barrel of \$70.00 (floor strike price) and \$79.50 (cap strike price). The Company has provided a deposit of \$150,000 to the counterparty as collateral and as of November 26, 2009, had advanced \$141,000 for margin calls under this contract.

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 all production from the 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 options have been granted to Dr. Hu to date at a weighted average exercise price of \$0.87. If the Company is unable to grant additional stock options, the gross overriding royalty on the 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.

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Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Related Party Transactions

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

- a) During the three and nine months ended September 30, 2009, the Company was charged \$56,295 and \$155,445, respectively (three and nine months ended September 30, 2008 – \$74,490 and \$210,646) 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 September 30, 2009 is \$104,187 (December 31, 2008 – \$42,223) due to the legal firms.
- b) During the three and nine months ended September 30, 2009, the Company was charged \$38,728 and \$514,329, respectively (three and nine months ended September 30, 2008 – \$28,049 and \$302,942) for geological expenses by a corporation controlled by Dr. Greg Hu. Included in accounts payable at September 30, 2009 is \$35,703 owing to the corporations. Other than in respect of the agreement providing for a gross-overriding royalty on certain of the Company's oilsands 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.

Selected Historical Financial Information

	2009			2008
	3 RD QUARTER	2 ND QUARTER	1ST QUARTER	4TH QUARTER
Petroleum and natural gas revenue (\$)	894,316	997,514	262,027	366,542
Net loss (\$)	(486,157)	(921,812)	(1,216,570)	(1,985,137)
Net loss per share – basic and diluted (\$)	(0.01)	(0.01)	(0.02)	(0.02)
Funds used in operations (\$)	98,124	(34,242)	(1,110,316)	(485,453)
Cash flow (used in) from operations (\$)	399,091	(811,087)	(636,828)	(397,166)
Capital expenditures (\$)	1,651,024	607,301	7,263,788	4,990,133

Alberta Oilsands Inc.
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September 30, 2009

	2008			2007
	3 RD QUARTER	2 ND QUARTER	1 ST QUARTER	4 TH QUARTER
Petroleum and natural gas revenue (\$)	666,302	555,333	444,336	475,589
Net loss (\$)	(799,495)	(1,169,247)	(780,434)	(1,002,898)
Net loss per share – basic and diluted (\$)	(0.01)	(0.02)	(0.01)	(0.02)
Funds used in operations (\$)	(282,302)	(631,341)	(267,248)	(418,165)
Cash flow (used in) from operations (\$)	(270,430)	(1,043,057)	453,149	(508,542)
Capital expenditures (\$)	952,090	1,805,135	5,893,011	4,681,196

Outlook

Alberta Oilsands' recent \$10.35 million bought-deal financing and \$10.0 million credit facility combined with working capital of \$3.9 million as at September 30, 2009 put us in a strong position both in terms of our immediate conventional prospects and our potential high impact oilsands projects.

We expect to spend approximately \$3.25 million in the last quarter of 2009 to complete the final steps for our Clearwater West pilot project application and to drill exploratory wells to fulfill our flow-through share obligations for the year.

The submission of our Clearwater West pilot project application will mark the beginning of a critical growth phase for Alberta Oilsands. If our application meets all the regulatory requirements, we expect to receive project approval within one year of submitting our application.

Strong commercial partnerships, effective hedges and cash flow from conventional production will all contribute to our short-term viability. We must now select the industry and financial partners who will work with us to develop our sizeable resources and ultimately share in our long-term success.

Oilsands Development Risks

In assessing the feasibility of potential oilsands 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 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.

Alberta Oilsands Inc.

Management's Discussion and Analysis

September 30, 2009

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 and the Company's current Annual Information Form which can be found under the Company's profile at www.sedar.com. The risks and uncertainties as contained in such documents are not the only ones facing the Company. Additional risks and uncertainties not presently known to the Company or that the Company currently considers immaterial may also impair the business and operations of the Company and cause the price of the securities of the Company to decline. If any of these risks actually occur, the Company's business may be harmed and the financial condition and results of operation may suffer significantly. In that event, the trading price of the shares could decline and shareholders may lose all or part of their investment. Prospective investors should review the risks with their legal and financial advisors and should consider, in addition to the matters set forth elsewhere in this prospectus, the following risks of purchasing shares.

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

Disclosure of Resources

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

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

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

There is no certainty that it will be commercially viable for the Company to produce any portion of the bitumen resources detailed in this MD&A. The estimated future net revenues contained in this MD&A do not necessarily represent the market value of such resources. The high level of uncertainty associated with the Company's possible recovery of any of these resources is the result of various risks and uncertainties including: current uncertainties around the specific scope and timing of the development of the Company's Fort-McMurray properties; the ability of the Company to finance any potential oilsands projects at its Fort-McMurray properties; proposed reliance on technologies that have not yet been demonstrated to be commercially applicable in oilsands 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,

Alberta Oilsands Inc.

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September 30, 2009

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.

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 following 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.

Pending Accounting Pronouncements

The Canadian Accounting Standards Board (AcSB) published a new strategic plan that outlines the convergence of Canadian generally accepted accounting principles with International Financial Reporting Standards ("IFRS") over an expected five year transitional period. The changeover date for publicly-listed companies to use IFRS, replacing Canada's own generally accepted accounting principles, is interim and annual financial statements for fiscal years beginning on or after January 1, 2011, with the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010.

The Company is in the process of completing a high-level review and preliminary assessment of the differences between Canadian GAAP and IFRS and the potential effects of IFRS to accounting and reporting processes, information systems, business processes and external disclosures. This assessment has provided insight into what are anticipated to be the most significant areas of difference applicable to the Company. The next step is to perform an in-depth review of the significant areas of difference and select ongoing IFRS policies. Key areas to be addressed will include a determination of any information technology issues, the impact on internal controls over financial reporting and the impact on business activities including the effect, if any, on covenants and compensation arrangements.

The Company will also continue to monitor standard developments as issued by the IASB and the AcSB as well as regulatory developments as issued by the Canadian Securities Administrators, which may affect the timing, nature or disclosure of its adoption of IFRS.

Alberta Oilsands Inc.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 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 nine months ended September 30, 2009 and 2008.

Alberta Oilsands Inc.
Interim Consolidated Balance Sheets
(unaudited)

Assets	September 30, 2009	December 31, 2008
Current		
Cash and cash equivalents <i>(note 3)</i>	\$ 3,514,220	\$ 17,371,816
Short-term investments <i>(note 4)</i>	999,589	1,994,246
Accounts receivable	504,780	339,700
Prepaid expenses	72,846	125,005
	<u>5,091,435</u>	<u>19,830,767</u>
Reclamation deposit	249,029	125,325
Property and equipment <i>(note 5)</i>	44,876,328	36,460,797
	<u>\$ 50,216,792</u>	<u>\$ 56,416,889</u>
 Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 1,203,825	\$ 5,269,901
Asset retirement obligation <i>(note 6)</i>	896,361	935,700
Future income taxes <i>(note 10)</i>	4,979,351	2,435,001
	<u>7,079,537</u>	<u>8,640,602</u>
 Shareholders' Equity		
Share capital <i>(note 7)</i>	49,283,249	52,237,820
Warrants <i>(note 8)</i>	20,517	–
Contributed surplus <i>(note 9)</i>	6,078,558	5,158,997
Deficit	(12,245,069)	(9,620,530)
	<u>43,137,255</u>	<u>47,776,287</u>
	<u>\$ 50,216,792</u>	<u>\$ 56,416,889</u>

Basis of presentation *(note 1)*

Commitments *(note 14)*

Subsequent events *(note 17)*

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 nine months ended September 30 (unaudited)

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Revenue				
Petroleum and natural gas sales	\$ 894,316	\$ 666,302	\$ 2,153,857	\$ 1,665,971
Royalties	(66,569)	(101,739)	(175,116)	(233,787)
	<u>827,747</u>	<u>564,563</u>	<u>1,978,741</u>	<u>1,432,184</u>
Interest income	3,115	86,689	37,173	273,639
	<u>830,862</u>	<u>651,252</u>	<u>2,015,914</u>	<u>1,705,823</u>
Expenses				
Production	216,035	154,540	1,036,836	583,267
Transportation	50,086	15,440	113,882	43,853
General and administrative	455,261	614,844	1,674,551	1,803,660
Business development (note 11)	(4,493)	106,230	171,442	282,166
Stock-based compensation (note 7)	59,134	388,842	713,604	1,262,305
Interest	15,849	42,500	65,637	173,768
Accretion	8,823	15,602	25,780	46,278
Depletion and depreciation	654,611	255,314	1,324,433	706,465
	<u>1,455,306</u>	<u>1,593,312</u>	<u>5,126,165</u>	<u>4,901,762</u>
Loss before income taxes	(624,444)	(942,060)	(3,110,251)	(3,195,939)
Future income tax reduction (note 10)	(138,287)	(142,565)	(485,712)	(446,763)
	<u>(486,157)</u>	<u>(799,495)</u>	<u>(2,624,539)</u>	<u>(2,749,176)</u>
Net loss and comprehensive loss for the period	(486,157)	(799,495)	(2,624,539)	(2,749,176)
Deficit, beginning of period	(11,758,912)	(6,835,898)	(9,620,530)	(4,886,217)
Deficit, end of period	\$ (12,245,069)	\$ (7,635,393)	\$ (12,245,069)	\$ (7,635,393)
Net loss per share				
Basic and diluted (note 7)	\$ (0.01)	\$ (0.01)	\$ (0.03)	\$ (0.04)

See accompanying notes to the unaudited interim consolidated financial statements.

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

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Operating				
Net loss for the period	\$ (486,157)	\$ (799,495)	\$ (2,624,539)	\$ (2,749,176)
Non-cash items:				
Stock-based compensation	59,134	388,842	713,604	1,262,305
Accretion	8,823	15,602	25,780	46,278
Depletion and depreciation	654,611	255,314	1,324,433	706,465
Future income tax reduction	(138,287)	(142,565)	(485,712)	(446,763)
	98,124	(282,302)	(1,046,434)	(1,180,891)
Change in non-cash working capital (note 12)	300,967	11,872	(2,390)	320,553
	399,091	(270,430)	(1,048,824)	(860,338)
Financing				
Issuance of shares, net of costs	–	14,323,883	–	22,333,653
Change in non-cash working capital (note 12)	15,662	41,948	(103,965)	146,880
	15,662	14,365,831	(103,965)	22,480,533
Investing				
Short-term investment redemption	453	–	994,657	–
Expenditures on property and equipment	(1,651,024)	(952,090)	(9,522,113)	(10,633,470)
Proceeds on disposal of property and equipment	(1,005)	–	18,995	–
Reclamation deposit	(235)	–	(123,704)	–
Proceeds from joint operations	–	–	–	1,983,234
Change in non-cash working capital (note 12)	(723,906)	389,550	(4,072,642)	(3,090,116)
	(2,375,717)	(562,540)	(12,704,807)	(11,740,352)
(Decrease) increase in cash and cash equivalents	(1,960,964)	13,532,861	(13,857,596)	9,879,843
Cash and cash equivalents, beginning of period	5,475,184	7,792,640	17,371,816	11,445,658
Cash and cash equivalents, end of period (note 3)	\$ 3,514,220	\$ 21,325,501	\$ 3,514,220	\$ 21,325,501
Supplemental cash flow information:				
Interest paid	\$ –	\$ 826	\$ 169,415	\$ 76,888

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 nine months ended September 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 interim 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 following 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.

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3. Cash and cash equivalents

	September 30 2009	December 31 2008
Cash in bank	\$ 511,991	\$ 3,898,794
Cash in investment accounts	3,002,229	13,473,022
	<u>\$ 3,514,220</u>	<u>\$ 17,371,816</u>

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

4. Short-term investments

As at September 30, 2009, the Company held a term deposit of \$999,589, including accrued interest. The term deposit earns nominal interest and matures on December 10, 2009.

5. Property and equipment

	September 30, 2009		
	Cost	Accumulated depletion and depreciation	Net
Petroleum and natural gas properties			
Oil sands properties	\$ 37,511,598	\$ –	\$ 37,511,598
Conventional properties	17,265,689	9,966,000	7,299,689
Office equipment	188,831	123,790	65,041
	<u>\$ 54,966,118</u>	<u>\$ 10,089,790</u>	<u>\$ 44,876,328</u>

During the three and nine months ended September 30, 2009, the Company capitalized \$70,968 and \$212,906 respectively (three and nine months ended September 30, 2008 – \$43,421 and \$157,985) of general and administrative costs, \$41,340 and \$226,474, respectively (three and nine months ended September 30, 2008 – \$120,835 and \$390,343) of stock-based compensation, and \$13,780 and \$75,491, respectively (three and nine months ended September 30, 2008 – \$40,278 and \$130,114) of related future income taxes. At September 30, 2009, the Company excluded \$37,511,598 (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 – \$487,750) of future development costs have been included in the depletion calculation.

The Company applied the ceiling test to its conventional property and equipment at September 30, 2009 and determined that there was no impairment.

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
Liabilities sold	(75,000)
Accretion	25,780
Balance, September 30, 2009	<u>\$ 896,361</u>

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6. Asset retirement obligation (continued)

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

	September 30 2009
Undiscounted abandonment costs	\$ 1,161,620
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

	Number of Shares		Amount
Balance, December 31, 2008	79,651,375	\$	52,237,820
Tax effect of flow-through shares issued in 2008	—		(2,954,571)
Balance, September 30, 2009	<u>79,651,375</u>	<u>\$</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 \$9,997,000 had been incurred at September 30, 2009.

b) Stock options

During the nine months ended September 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 September 30, 2009:

	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)	2.08
Cancelled / forfeited for employees / consultants	(481,700)	1.42
Expired unexercised	(360,000)	0.30
Balance, September 30, 2009	<u>5,537,156</u>	<u>\$ 0.47</u>

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7. Share capital (continued)

b) Stock options (continued)

The following summarizes information about stock options outstanding as at September 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	2,342,000	4.20	\$ 0.13	780,665	\$ 0.13
\$ 0.14 - \$ 0.37	1,245,000	2.03	0.34	1,184,334	0.35
\$ 0.38 - \$ 0.61	880,500	3.46	0.59	617,662	0.58
\$ 0.62 - \$ 1.47	817,656	3.06	1.02	725,894	1.06
\$ 1.48 - \$2.21	252,000	2.75	2.09	252,000	2.09
	<u>5,537,156</u>	<u>3.36</u>	<u>\$ 0.47</u>	<u>3,560,555</u>	<u>\$ 0.61</u>

Of the total options outstanding, 4,136,656 are held by directors/officers and management. The Company recognized stock-based compensation as follows:

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Capitalized to property and equipment (note 5)	41,340	120,835	226,474	390,343
Expensed	59,134	388,842	713,604	1,262,305
	<u>\$ 100,474</u>	<u>\$ 509,677</u>	<u>\$ 940,078</u>	<u>\$ 1,652,648</u>

c) Per share amounts

Basic per share amounts are calculated using the weighted average number of shares outstanding for the three and nine months ended September 30, 2009 of 79,651,375 and 79,651,375, respectively (three and nine months ended September 30, 2008 – 65,728,136 and 65,009,300). In computing diluted per share amounts for the three and nine months ended September 30, 2009 and 2008, all of the Company's outstanding options were excluded as they were considered to be anti-dilutive.

8. Warrants

On July 8, 2009, the Company granted 4,000,000 common share purchase warrants as partial consideration for a Gross Overriding Royalty, Access and Cooperation Agreement as disclosed in note 14(c). 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 8, 2010 and 2,000,000 warrants will be exercisable at a price of \$1.00 per share until July 8, 2011.

The fair value of the warrants is estimated at \$20,517 using the Black-Scholes pricing model based on a forfeiture rate of 0%, a dividend yield of nil, expected volatility of 50%, risk-free interest rate of 1.16% and a weighted average expected life of 1.5 years. The fair value of the warrants has been capitalized as stock based compensation to the oilsands properties.

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9. Contributed surplus

Balance, December 31, 2008	\$	5,158,997
Stock-based compensation expense		713,604
Capitalized stock-based compensation		205,957
		<hr/>
Balance, September 30, 2009	\$	<u>6,078,558</u>

10. Income taxes

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

	Three months ended		Nine months ended	
	September 30		September 30	
	2009	2008	2009	2008
Expected income tax reduction at 29.02% (2008 – 29.70%)	\$ (182,272)	\$ (278,587)	\$ (855,491)	\$ (946,637)
Stock-based compensation expense	21,748	116,653	211,747	381,461
Changes in enacted tax rates and other	22,237	19,369	158,032	118,413
	<hr/>	<hr/>	<hr/>	<hr/>
Future income tax reduction	\$ <u>(138,287)</u>	\$ <u>(142,565)</u>	\$ <u>(485,712)</u>	\$ <u>(446,763)</u>

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

	September 30		December 31	
	2009		2008	
Non-capital loss carryforwards	\$	1,186,897	\$	928,316
Asset retirement obligation		224,090		233,925
Share issue costs		389,427		508,013
Property and equipment		<u>(6,779,765)</u>		<u>(4,105,255)</u>
Future income tax liability	\$	<u>(4,979,351)</u>	\$	<u>(2,435,001)</u>

11. Business development expenses

During the three and nine months ended September 30, 2009 the Company reported a \$4,493 recovery and \$171,442 of expenses, respectively (three and nine months ended September 30, 2008 expenses of \$106,230 and \$282,166) for business development activities 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 17).

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12. Change in non-cash working capital

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Accounts receivable	\$ (75,951)	\$ 4,998,946	\$ (165,080)	\$ 224,745
Prepaid expenses	(23,775)	(87,003)	52,159	199,200
Accounts payable and accrued liabilities	(307,551)	(4,468,573)	(4,066,076)	(3,046,628)
	<u>\$ (407,277)</u>	<u>\$ 443,370</u>	<u>\$ (4,178,997)</u>	<u>\$ (2,622,683)</u>

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

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Operating	\$ 300,967	\$ 11,872	\$ (2,390)	\$ 320,553
Financing	15,662	41,948	(103,965)	146,880
Investing	(723,906)	389,550	(4,072,642)	(3,090,116)
	<u>\$ (407,277)</u>	<u>\$ 443,370</u>	<u>\$ (4,178,997)</u>	<u>\$ (2,622,683)</u>

13. Related party transactions

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

- a) During the three and nine months ended September 30, 2009, the Company was charged \$56,295 and \$155,445, respectively (three and nine months ended September 30, 2008 – \$74,490 and \$210,646) 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 September 30, 2009 is \$104,187 (December 31, 2008 – \$42,223) due to the legal firms.
- b) During the three and nine months ended September 30, 2009, the Company was charged \$38,728 and \$514,329, respectively (three and nine months ended September 30, 2008 – \$28,049 and \$302,942) for geological expenses from corporations controlled by Dr. Greg Hu, a former officer of the Company. Included in accounts payable at September 30, 2009 is \$35,703 owing to the corporations. Other than as disclosed in note 14(b), 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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14. Commitments

Except as disclosed elsewhere in the financial statements (see note 17), the Company had the following commitments as at September 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 had granted a two percent gross overriding royalty to Dr. Greg Hu on all production with respect to specific properties. The carrying amount of such properties is \$3.2 million. In addition, Dr. Hu has been allocated an amount equal to 10% of all future stock options which become capable of being granted by the Company as a result of an increase in the number of issued and outstanding common shares resulting from future equity financings. If the Company is unable to grant such stock options, the gross overriding royalty increases to three percent.
- c) On July 8, 2009, the Company signed a Gross Overriding Royalty, Access and Cooperation Agreement (the "Agreement") with the Fort McMurray Airport Commission ("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, the terms of which are disclosed in note 8.
- d) Pursuant to flow-through private placements, the Company is required to incur approximately \$1.8 million of qualifying expenditures by December 31, 2009.
- e) On September 17, 2008, Platform Resources Ltd. ("Platform"), a wholly-owned subsidiary of Alberta Oilsands, signed two Production Sharing Contracts ("PSCs") with the Government of the Republic of Kenya (the "Government") 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 programs and corresponding budgets for the initial 12 and 18 month opt-out periods, for both Blocks.

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15. Financial instruments and financial risk management

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

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

This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for measuring and managing these risks. Further quantitative disclosures are included throughout these financial statements. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has implemented and monitors compliance with risk management policies as set out herein.

a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The term deposits in place as at September 30, 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 portion of the Company's accounts receivable is with joint venture partners. Purchasers of the Company's petroleum and natural gas are subject to credit review to minimize the risk of non-payment. As at September 30, 2009, the maximum credit exposure is the carrying amount of the accounts receivable and accruals of \$504,780 (December 31, 2008 – \$339,700) plus cash and cash equivalents and short-term investments of \$4,513,809 (December 31, 2008 – \$19,366,062). Accounts receivable are 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 additional allowance for a doubtful account in the amount of \$1,099 and \$3,503 during the three and nine months ended September 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.

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

a) Credit risk *(continued)*

As at September 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	\$ 262,632	October 2009	Not past due
Goods and Services Tax credits	8,919	November 2009	30 to 60 days
Other joint venture partners and receivables	233,229	October – December 2009	30 to 90 days
	<u>\$ 504,780</u>		

As at September 30, 2009, the Company had not committed to any hedging arrangements and was not exposed to credit risk associated with possible non-performance by counterparties to any such derivative financial instrument contracts. In October 2009, the Company executed a commodity contract (note 15 c) ii)),

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 of future cash flows will fluctuate as a result of changes in foreign exchange rates. All of the Company's petroleum and natural gas sales are denominated in Canadian dollars; however, the underlying market prices in Canada for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar. The Company had no outstanding forward exchange rate contracts in place at September 30, 2009.

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

c) Market risk *(continued)*

ii) Commodity price risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by world economic events that dictate the levels of supply and demand as well as the relationship between the Canadian and United States dollar, as outlined above. Should the Company choose to mitigate commodity price risk through the use of financial derivatives and physical delivery fixed price sales contracts, all such contracts would require approval of the Board of Directors. There were no commodity price risk contracts outstanding at September 30, 2009.

In October 2009, the Company signed a commodity "collar" price risk contract for the period November 1, 2009 to October 31, 2010. The notional quantity under this contract is for 50 barrels of oil per day at prices per barrel of \$70.00 (floor strike price) and \$79.50 (cap strike price). The Company has provided a deposit of \$150,000 to the counterparty and as of November 27, 2009, has advanced \$141,000 for margin calls under this contract.

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 nine months ended September 30, 2009, if interest rates had been 1% higher with all other variables held constant, the loss for the periods would have been \$10,082 and \$32,264 (2008 – \$31,031 and \$80,496) 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 September 30, 2009.

16. Capital management

The Company's objective when managing capital is to maintain a flexible capital structure which will allow it to execute on its capital expenditure program, which includes expenditures primarily in the oilsand properties, which may or may not be successful. Therefore, the Company monitors the level of risk incurred in its capital expenditures to balance the proportion of debt and equity in its capital structure.

Consideration must also be given to the seasonality of the Company's operations. The majority of the capital expenditures are carried on in the oilsands properties where activities 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 \$3,887,610 (December 31, 2008 – \$14,560,866) and shareholders' equity of \$43,137,255 (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.

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16. Capital management (continued)

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 its 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 nine months ended September 30, 2009. The Company has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the foreseeable future.

17. Subsequent events

a) Short-form prospectus offering

On November 17, 2009, the Company closed a short-form prospectus offering for the issue and distribution of Units and Flow-Through Shares (collectively, the "Offering") pursuant to an underwriting agreement dated effective October 21, 2009 among the Company and the Underwriters (the "Underwriting Agreement"), the terms of which are summarized as follows:

- (i) The issuance of an aggregate of 11,500,000 Units of the Company to the Underwriters at a price of \$0.40 per Unit. Each Unit consists of one common share in the capital of the Company (each, a "Common Share") and one common share purchase warrant of the Company (a "Warrant"). Each whole Warrant entitles the holder thereof to purchase one Common Share (each, a "Warrant Share") at an exercise price of \$0.50 per Warrant Share for a period of twenty-four (24) months from the closing date. On November 25, 2009, an additional 1,281,250 units at a price of \$0.40 per unit were issued through the exercise of the over-allotment option.
- (ii) The issuance of an aggregate of 12,778,000 Flow-Through Shares at a price of \$0.45 per Flow-Through Share, subject to compliance with all necessary legal requirements and terms and conditions of the Underwriting Agreement. The Company will incur, on or before December 31, 2010, and renounce to each subscriber of Flow-Through Shares, effective on or before December 31, 2009, Canadian Exploration Expense in an amount equal to the aggregate purchase price paid by such subscriber.
- (iii) In consideration for their services in connection with the Offering, the Underwriters were paid a fee of \$0.024 per Unit and \$0.027 per Flow-Through Share for an aggregate amount of \$651,756.

The net proceeds to the Company from the Offering are estimated to be approximately \$9,960,800 after deducting the Underwriters' Fee of \$651,756 and the estimated expenses of the Offering of \$250,000.

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17. Subsequent events *(continued)*

b) Credit facility

In October 2009, the Company entered into an arrangement in respect of a \$10,000,000 senior credit facility (the "Facility") from a third-party lender. The Facility carries an initial 10% annualized coupon adjusted quarterly based on utilization and is secured by a floating debenture over all of the Company's properties. In connection with the closing of the Facility, the Company issued the lender warrants to purchase 650,000 Common Shares at \$0.50 per share for a period of 18 months from the date of closing.