



ALBERTA
OILSANDS INC.

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

FOR THE YEAR ENDED
DECEMBER 31, 2010

Alberta Oilsands Inc.

Management's Discussion and Analysis of Operations and Financial Condition

December 31, 2010

The following management's discussion and analysis of financial condition and results of operations (the "MD&A") dated May 2, 2011 of Alberta Oilsands Inc. ("Alberta Oilsands", "AOS" or the "Company") is reported in Canadian dollars and has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and incorporates all relevant information and considerations to that date, and should be read in conjunction with the audited financial statements as at and for the years ended December 31, 2010 and 2009 together with the accompanying notes.

Additional information relating to Alberta Oilsands including its MD&A and Annual Information Form for the prior year 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 barrels 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 boe 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 Canadian Generally Accepted Accounting Principles ("GAAP"), however, as these measures are commonly used in the oil and gas industry, the Company believes 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 netback" is defined as petroleum and natural gas sales less royalties and less production and transportation 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. See the reconciliation of cashflow per GAAP to funds from (used in) operations on page 10 of this MD&A.

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

Alberta Oilsands Inc.
**Management's Discussion and Analysis of Operations
and Financial Condition**
December 31, 2010

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 and local community environment 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; (xii) projections of market prices and costs; and (xiii) expectations regarding capital expenditures and exploration activities and the timing and funding in respect thereof. 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 throughout 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) future economic conditions; (iv) the Company's ability to generate sufficient cash flow from operations and access capital markets or strategic partners to meet its future obligations and to fund future projects; (v) the Company's ability to obtain required regulatory approvals in respect of its properties and proposed projects in a timely fashion; (vi) a continued favourable legal and regulatory framework and local community environment representing royalties, taxes and environmental matters where the Company conducts its business; and (vii) the Company's ability to obtain qualified staff and equipment in a timely and cost-efficient manner. In addition, the Company has made certain other assumptions in respect of the timing and feasibility of certain of its oil sands projects; see "Oilsands 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, including in respect of the Company's Clearwater Phase I Project Application submitted in January 2010 and the application update to the Clearwater Phase I Project Application submitted in December 2010; (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 qualified staff with the skills

Alberta Oilsands Inc.

Management's Discussion and Analysis of Operations and Financial Condition

December 31, 2010

necessary to continue development of the Company's projects; (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 potential oil sands projects from capital markets, strategic joint partners or other sources on competitive terms, or at all; (xvii) unavailability of required equipment and services; (xviii) risks associated with the construction of the Company's projects, including labour and material shortages and incidents such as fires, blowouts, explosions, cratering, sour gas leaks and spills; and (xix) the other factors discussed under "Oilsands Development Risks" and "Business Risks and Uncertainties" in this MD&A.

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 "reserves" and "resources" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the described reserves or 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 reserves or resources described in this MD&A. Additional information regarding the disclosure of reserves and resources and the assumptions relating to the reserves and resources of the Company are discussed under "Disclosure of Reserves and Resources" in this MD&A.

Basis of Presentation

Alberta Oilsands Inc. is incorporated under the *Business Corporations Act* (Alberta) and is listed on the TSX Venture Exchange (the "TSXV"). The Company is involved in the production, exploration and development of resource properties. Prior to September 2010, the financial statements consolidated the accounts of the Company, its wholly-owned subsidiary, Platform Resources Inc. ("Platform"), and Platform's subsidiary Platform Resources (Kenya) Limited after the elimination of all inter-company transactions and balances. On September 9, 2010, Alberta Oilsands Inc. and Platform Resources Inc. amalgamated.

The financial statements of the Company as at and for the year ended December 31, 2010 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 the audited financial statements as at and for the years ended December 31, 2010 and 2009. Accordingly, their carrying values represent costs incurred to date, net of 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 financial statements do not reflect adjustments in the carrying values of the assets and liabilities, expenses and the balance sheet classifications that

Alberta Oilsands Inc.

Management's Discussion and Analysis of Operations and Financial Condition

December 31, 2010

would be used if the going concern assumption were not appropriate. Such adjustments could be material.

Overview

AOS is focused on the exploration and development of bitumen and heavy oil in the Athabasca oil sands trend of northeast Alberta. The Company's head office is in Calgary, Alberta, Canada and its common shares (the "Common Shares") trade on the TSXV under the symbol "AOS".

The Company's efforts during 2010 were focused on a number of areas in the Athabasca oil sands trend. The primary focus was the advancement of the Clearwater Phase I Project, near Fort McMurray.

Highlights for the fiscal year 2010 include the following:

- The Company's Clearwater Phase 1 Project Application with the Energy Resources Conservation Board ("ERCB") and Alberta Environment ("AENV") was filed on January 15, 2010 and a comprehensive update was submitted in December 2010, which included revised well orientation, detailed reservoir and cap rock integrity studies, stakeholder consultation activities and a requested maximum operating pressure of 1,000 kilo pascals ("kPa") ;
- A third-party reserve assignment for the Clearwater property, dated December 31, 2010, of 12.0 million barrels of probable gross lease reserves and 32.7 million barrels of possible reserves was received;
- An additional four key sections of 100 percent working interest oil sands leases at Clearwater were acquired in November 2010;
- The 2010-2011 Clearwater winter coring program that included delineation of both current and newly acquired leases was commenced to determine additional resource potential and aid future development planning;
- A third-party assignment of 79.9 million net barrels of net bitumen contingent resources at the Hangingstone East property was received;
- Kenya oil exploration blocks were sold to Africa Oil Corporation ("Africa Oil") in exchange for 2.5 million common shares of Africa Oil and 1.5 million warrants. Subsequent to year end 2010, the Africa Oil common shares including those received from all exercised warrants were sold for net proceeds of \$5.6 million;
- Equity flow-through financings were closed in 4th quarter 2010 for gross proceeds of \$6.56 million;
- A VP Engineering Resource-Development and a VP Finance and Business Development were added to the Company's management team; and
- John (Jack) R. Crawford, Bill Matheson and Leonard Sokolow joined the Company's board of directors.

Alberta Oilsands Inc.
**Management's Discussion and Analysis of Operations
and Financial Condition**
December 31, 2010

Subsequent to the year ended December 31, 2010 include the following:

- The 2010-2011 winter exploration activity at Clearwater consisted of 26 core holes, 6.7 kilometre of 2D and a 1.3 square-kilometre of 3D seismic surveys. The objectives of the Clearwater program were to prepare for the execution of the Phase I development and production activities and to collect the required technical data required to prepare an application for the second phase of the development;
- An equity financing was closed in March 2011 through the issuance of 20 million common shares on a flow-through basis at a price of \$0.50 per share for gross proceeds of \$10 million; and
- In March 2011, the Company granted 3,331,000 stock options ("options") pursuant to its stock option plan to employees, directors and long-term consultants with an exercise price of \$0.40 per share with a five-year life. The options vest one-third immediately and one-third on each of the first and second anniversaries of the grant.

Review of Operations

Oil sands - Clearwater

Throughout 2010, AOS continued to take steps on the path to production at its first oil sands project, Clearwater. The Clearwater Solvent Low Pressure Steam Assisted Gravity Drainage (SLP-SAGD) Pilot Application, filed on January 15, 2010 with the ERCB, is for a Phase 1 Project that has a design production capacity of up to 4,500 barrels ("bbls") per day of bitumen through six horizontal SAGD well pairs. Subject to regulatory approval anticipated later in 2011, AOS expects to begin construction of the well pad and drilling of the horizontal well pairs in early 2012. Production capacity is planned to increase to 15,000 to 25,000 bbls per day of bitumen in Phase II.

AOS completed work on two observation wells at Clearwater during the fourth quarter of 2010, including mini-fracture testing and analysis on the 5-22-88-08W4M observation well in the McMurray bitumen and the Clearwater cap rock, and drilling and completing the AB/1-21-88-08W4M observation well, followed by data gathering and analysis. A delineation program for the new leases that enjoin the Clearwater East and West project area was commenced in the 4th quarter of 2010. The full winter program comprised of 24 core holes, 2 service wells and 2D and 3D seismic programs for Clearwater Phase 1 development.

In December 2010, AOS filed an application update with the ERCB for a revised SLP-SAGD project at Clearwater. The update comprised four main changes to the original application filed in January 2010. The objective of the update was to maximize bitumen recovery efficiency.

1. The project horizontal SLP-SAGD well pairs were re-oriented from an east-to-west bearing to a direction along the south-to-north estuarine channel identified inside the Middle McMurray Formation.
2. The SLP SAGD well pairs were re-configured:
 - a. The horizontal wellbore length was reduced from 800 to 600 metres (m)
 - b. The spacing between well pairs was reduced from 100m to 75m

Alberta Oilsands Inc.
**Management's Discussion and Analysis of Operations
and Financial Condition**
December 31, 2010

3. The well pairs will be placed at the bottom of the estuarine channel, approximately 15m above the Devonian base rock. The central processing facilities were re-located to the southeast Sec 21-T88 R8W4M to follow the wellheads in order to minimize surface footprint.
4. AOS requested a maximum operating pressure of 1,000 kPag (145 psig) supported by extensive geo-mechanical and reservoir simulation modeling

This revised orientation of the well trajectories from east–west to south–north stemmed from detailed geological work carried out in 2010. The geological study identified thick, high quality bitumen saturated and uniform estuarine sand channel that followed a south-to-north direction inside the thicker Middle McMurray bitumen reservoir. Placing the horizontal wellbores along the direction of this channel is designed to ensure that high quality reservoir is contacted over the full length of the wellbore, which is expected to result in a more efficient and consistent injection and production well performance for Clearwater Phase 1.

AOS has requested the ERCB to approve a 1,000 kPa (kPa, 145 psia) maximum operating pressure for its SLP-SAGD project. This pressure is substantiated by a series of mini-frac field measurements and analyses in the McMurray Formation and the Clearwater Formation (cap rock) in the 05-22-088-08W4M and the 09-21-088-08W4M wells. The mini-frac data formed the basis for the detailed geo-mechanical and reservoir simulation calculations that predict SLP-SAGD behavior and indicate that 1,000 kPa is an optimum operating pressure for Clearwater Phase 1.

The revised project and well pair reconfiguration for Clearwater Phase 1 is designed to optimize recovery efficiency, but did lead to a reduction in effective drainage volume as compared to the original application. The reduced volume translates to a reduced year-end probable and possible reserves assignment to the Phase 1 project area. A third party National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities (“NI51-101”) compliant reserve evaluation, prepared by Ryder Scott Company, Canada, Petroleum consultants (“Ryder Scott”), effective December 31, 2010 assigned 12.0 million barrels of gross lease probable reserves and 32.7 million barrels of possible reserves to Clearwater Phase 1. The previous Ryder Scott report effective March 31, 2010, (which has been superseded as it applied to volumes from a different drainage area), assigned 16.3 MMB of gross lease probable and 51.3 MMB of gross lease possible reserves. A portion of the reduction in the reserves volume has been reclassified into the contingent resources category. As only one new well was drilled since the last resource estimate, the resource potential for the overall Clearwater area has not been updated and remains unchanged.

The Company is committed to providing people who live or work in the area with the opportunity to learn about Clearwater Phase 1, forging business and community relationships built on trust and conducting business in a safe and environmentally responsible manner. As part of AOS' community engagement activities, the Company held an open house in Fort McMurray on June 9, 2010. AOS introduced the Clearwater Phase 1 Project to area residents and answered questions related to air quality, sound, traffic, construction and community relationships.

The first stage of the front-end engineering and design study has commenced and is expected to be completed in the second quarter of 2011. It will provide the framework for ordering and fabrication of long-lead-time equipment and a more detailed cost estimate for the Phase I Project.

Alberta Oilsands Inc.

Management's Discussion and Analysis of Operations and Financial Condition

December 31, 2010

Oilsands - Hangingstone

A third party NI 51-101 compliant reserve evaluation, prepared by GLJ Petroleum Consultants effective June 30, 2010 assigned 79.9 million net barrels of contingent resources to the Company's Hangingstone property. AOS has a 50% interest in 38.5 contiguous sections in this property. The contingent resources were assigned subsequent to the Company's 2010 winter drilling program. A total of 32 core holes have been drilled on this property.

The contingencies which currently prevent the classification of the resource as reserves are the required core density, the estimates of capital costs required to render production economic, applicable regulatory considerations, pricing, specific supply costs, technological considerations, and/or other relevant factors.

International Operations

The sale and assignment of AOS Kenyan assets to Africa Oil Corp. were completed on September 9, 2010, with the consent of the Government of the Republic of Kenya. AOS assigned its 100 percent interest in blocks 12A and 13T in Kenya to Africa Oil in consideration for 2.5 million Africa Oil common shares and 1.5 million Africa Oil warrants, each of which is exercisable into one common share of Africa Oil at a price of \$1.50 per share for a period of two years.

The Company has been able to capitalize on this investment and subsequently sold the 2.5 million Africa Oil common shares, exercised the 1.5 million warrants and sold the resulting shares for net proceeds of \$5.6 million for all its holdings of Africa Oil shares. The Kenya venture was a successful investment for AOS. The proceeds will be used to support the working capital requirements of the Company.

Conventional Operations

AOS produced an average of 118 boe per day in the fourth quarter of 2010, comprising 373 thousand cubic feet (mcf) per day of natural gas from Ladyfern and 37 boe per day from Leduc. This compares to 134 boe per day in the third quarter of 2010 and 222 boe per day in the fourth quarter of 2009 as the Company's production experienced natural declines. The Company has not added any conventional production since the Ladyfern well went on production in April 2009. For the year ended December 31, 2010, this well produced an average of 104 boe per day net to AOS. AOS has petroleum and natural gas rights to 38,913 hectares of undeveloped lands in Alberta and British Columbia to pursue conventional exploration.

In the first quarter of 2010, the Company completed the drilling of a Slave Point natural gas test at Wildmint, B.C. The well reached a total depth of 2,945 metres. Open hole logs and drill mud logs indicated zones of gas potential; however, the pay intervals indicated were too thin to warrant a completion. The well was interpreted to have missed the main structure. A vertical seismic profile (VSP) was taken from the wellbore in an attempt to illuminate the structure near the wellbore. The VSP interpretation indicated hints of a structure at about 400 to 600 metres distance. The decision was made to suspend operations as spring break-up was approaching. With further interpretation, it was concluded that the prospects will require 3D seismic data to justify further drilling. The wellbore remains in standing cased status.

The cash flow from AOS' conventional operations will continue to be used to help meet the Company's funding needs. AOS is seeking opportunities to farm-out or divest its conventional portfolio to maximize value from these assets and to sharpen its focus in the oil sands.

Alberta Oilsands Inc.
Management's Discussion and Analysis of Operations
and Financial Condition
December 31, 2010

Financial and Operating Summary

	Three months ended December 31		
	2010	2009	2008
Statement of Operations and Deficit			
Petroleum and natural gas sales (\$)	514,172	826,073	366,542
Petroleum and natural gas sales per boe (\$)	47.24	40.39	59.98
Daily sales volumes (boe 6:1)	118	222	66
Net loss for the period (\$)	(2,104,876)	(1,035,940)	(1,985,137)
Net loss per share – basic and diluted (\$)	(0.02)	(0.01)	(0.02)
Statement of Cash Flows			
Funds used in operations (\$) ⁽¹⁾	(144,863)	(776,513)	(485,453)
Cash flow used in operations (\$)	(182,787)	(932,314)	(397,166)
Capital expenditures (\$)	3,480,017	3,202,536	4,990,133
Weighted average number of shares			
basic and diluted	111,464,870	91,763,951	79,651,375

	Years ended December 31		
	2010	2009	2008
Statement of Operations and Deficit			
Petroleum and natural gas sales (\$)	2,453,182	2,979,929	2,032,513
Petroleum and natural gas sales per boe (\$)	44.15	35.05	91.39
Daily sales volumes (boe 6:1)	152	233	61
Net loss for the year (\$)	(1,635,222)	(3,660,479)	(4,734,313)
Net loss per share – basic and diluted (\$)	(0.02)	(0.04)	(0.07)
Statement of Cash Flows			
Funds used in operations (\$) ⁽¹⁾	(2,544,136)	(1,822,947)	(1,666,344)
Cash flow used in operations (\$)	(2,627,398)	(1,981,138)	(1,257,504)
Capital expenditures (\$)	9,908,207	12,724,649	15,623,603
Total assets	65,053,813	59,100,404	56,416,889
Total liabilities	8,624,936	6,859,459	8,640,602
Shareholders' equity	56,428,877	52,240,945	47,776,287

Weighted average number of shares

basic and diluted	106,986,858	82,704,408	68,689,821
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- (1) AOS' 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. AOS 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 AOS' operating performance. A summary of this reconciliation is as follows:

Alberta Oilsands Inc.
Management's Discussion and Analysis of Operations
and Financial Condition
December 31, 2010

Reconciliation of cash flow per GAAP to funds used in operations

	Three months ended December 31		
	2010	2009	2008
Cash flow used in operating activities (per GAAP) (\$)	(182,787)	(932,314)	(397,166)
Change in non-cash working capital (\$)	37,924	155,801	(88,287)
Funds used in operations (\$)	(144,863)	(776,513)	(485,453)

Reconciliation of cash flow per GAAP to funds used in operations

	Years ended December 31		
	2010	2009	2008
Cash flow used in operating activities (per GAAP) (\$)	(2,627,398)	(1,981,138)	(1,257,504)
Change in non-cash working capital (\$)	83,262	158,191	(408,840)
Funds used in operations (\$)	(2,544,136)	(1,822,947)	(1,666,344)

Production

	Three months ended December 31		Years ended December 31	
	2010	2009	2010	2009
Oil and NGL (bbls/day)	52	51	52	66
Natural gas (mcf/day)	400	1,030	603	1,004
boe/day (6:1)	118	222	152	233

For further information, see "Review of Conventional Operations" in this MD&A.

	Three months ended December 31		Years ended December 31	
	2010	2009	2010	2009
Commodity Prices				
Oil and NGL (\$/bbl)	77.72	74.51	75.67	63.17
Natural gas (\$/mcf)	4.11	5.11	4.77	4.02
boe (\$/boe)	47.24	40.39	44.15	35.05
Revenues (\$)				
Oil and NGL	362,615	342,162	1,403,004	1,506,985
Natural gas	151,557	483,911	1,050,178	1,472,944
Total	514,172	826,073	2,453,182	2,979,929

Alberta Oilsands Inc.
Management's Discussion and Analysis of Operations
and Financial Condition
December 31, 2010

For the three months ended December 31, 2010, commodity prices increased for oil and natural gas liquids ("NGL") to \$77.72 per bbl as compared to \$72.04 per bbl in the third quarter of 2010 and \$74.51 per bbl in the fourth quarter of 2009. Gas prices of \$4.11 per mcf compared to \$4.08 per mcf in the third quarter of 2010, were down from \$5.11 per mcf in the fourth quarter of 2009. For the year ended December 31, 2010, the average price for both commodities increased by almost 20% from the 2009 average prices.

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). For the year ended December 31, 2010, the Company realized a loss of \$25,961 under the contract which has been included in petroleum and natural gas sales revenue. The mark-to-market value of the remaining unsettled portion of the contract at December 31, 2010 is nil as the contract has expired.

Royalties and Operating Expenses	Three months ended December 31		Years ended December 31	
	2010	2009	2010	2009
Royalties (\$)	74,868	234,847	443,272	409,963
% of revenues	15%	29%	18%	14%
\$/boe	6.88	11.48	7.98	4.82
Production and transportation expenses (\$)	(3,644)	379,180	1,102,352	1,529,898
\$/boe	(0.33)	18.54	19.84	17.99

Royalties for the three months and year ended December 31, 2010 were 15% and 18% of revenue (\$6.88 and \$7.98 per boe) as compared to 17% (\$6.85 per boe) in the third quarter of 2010 and 29% and 14% of revenue (\$11.48 and \$4.82 per boe) in the comparable periods in 2009. The Ladyfern well had enjoyed the benefit of the royalty reduction program resulting in a rate of 5% until the fourth quarter of 2009 at which time the holiday period expired and the Crown royalty for this well increased to approximately 29% for the well in the first quarter of 2010. As a result of capital cost allowance and processing adjustments, the Ladyfern Crown royalty was reduced to 17% for the fourth quarter of 2010 and was 20% in the third quarter of 2010.

Production and transportation costs for the three months ended December 31, 2010 were a recovery of \$3,644 or (\$0.33) per boe as compared to \$379,180 or \$18.54 per boe for the fourth quarter in 2009 and \$245,791 or \$19.91 per boe for the third quarter of 2010. Included in the quarter was an additional recovery from an insurance claim in the amount of \$164,428 related to an oil spill in the Leduc area. In addition, adjustments from a prior period relating to the Ladyfern well resulted in an operating cost recovery of \$53,855. Prior to adjustments the production and transportation costs for the fourth quarter of 2010 were \$217,842 or \$20.01 per boe. Production and transportation costs for the year ended December 31, 2010 were \$1,102,352 or \$19.84 per boe as compared to \$1,529,898 or \$17.99 per boe for the comparable period in 2009. Operating costs continue to remain high for the Leduc property which consistently requires maintenance and repair expenditures due to the age of the equipment.

Alberta Oilsands Inc.
Management's Discussion and Analysis of Operations
and Financial Condition
December 31, 2010

Netbacks (\$/boe)	Three months ended December 31		Years ended December 31	
	2010	2009	2010	2009
Revenue	47.24	40.39	44.15	35.05
Royalties	6.88	11.48	7.98	4.82
Production and transportation expenses	(0.33)(1)	18.54	19.84	17.99
Field netbacks	40.69	10.37	16.33	12.24

(1) includes credit of \$221,486 (\$20.34 per boe) related to prior adjustments

General and administrative expense

General and administrative expenditures for the three months and year ended December 31, 2010 were \$591,261 and \$2,964,858 as compared to \$577,691 and \$2,252,242 for the comparative 2009 periods. The primary differences between the year ended December 31, 2010 and 2009 is a severance payment made to a departing member of management and increased professional fees. Salaries in the amount of \$163,729 and \$412,635 related to individuals specifically involved in the oil sands and conventional properties were capitalized for the three months and year ended December 31, 2010 as compared to \$70,969 and \$283,875 for the comparative 2009 periods. The increase is a result of the activity involved in the filing of the Clearwater Phase I Pilot Application and subsequent Application update.

Business development expenses and international operations

During the three months and year ended December 31, 2010, the Company incurred \$8,106 and \$600,533 of business development expenses which were netted against the gain from the sale of the Kenyan interests. For the three months and year ended December 31, 2009, \$157,031 and \$328,473 were incurred related to the pursuit of projects outside of the conventional Canadian oil and gas exploration and development business. The expenditures were primarily for consulting fees and related travel costs in the ongoing negotiations which ultimately resulted in the assignment of its Kenya interest to Africa Oil. For more information, see "International Operations" in this MD&A.

Stock-based compensation

Stock-based compensation for the three months and year ended December 31, 2010 was \$116,574 and \$520,733 compared to \$48,347 and \$761,951, respectively, in the same periods in 2009. In the three months and year ended December 31, 2010, \$153,177 and \$362,942 of stock-based compensation and \$9,938 and \$79,860 of related future income taxes was capitalized to property and equipment versus \$20,937 and \$247,411 of stock-based compensation and warrant consideration and \$6,979 and \$82,470 of related future income taxes capitalized in the comparative periods in 2009. The increase in the current year over the prior year is a result of increased stock option grants during 2010 versus 2009. The fair value of stock options is estimated using the Black Scholes option-pricing model at the time a stock option is granted and is recognized as stock-based compensation over the vesting period of the stock options. Stock-based compensation for stock options granted to consultants is based on the estimated fair value revalued at each balance sheet date and vesting dates until the related options are fully vested.

Alberta Oilsands Inc.
Management's Discussion and Analysis of Operations
and Financial Condition
December 31, 2010

Interest expense and financing costs

The interest expense of \$1,983 and \$23,516 in the three months and year ended December 31, 2010 versus \$4,685 and \$70,322 in comparative periods in 2009, respectively, is comprised of interest related to the Company's flow-through financings.

Taxes

The future income tax reductions for the three months and year ended December 31, 2010 totaled (\$743,761) and (\$562,985) as compared to reductions of (\$467,362) and (\$953,074) for the comparative 2009 periods. As a result of the disposition of the Kenya interests, existing tax pools were utilized to shelter the gain from the sale.

Depletion, depreciation and accretion

	Three months ended December 31		Years ended December 31	
	2010	2009	2010	2009
Depletion and depreciation (\$)	536,342	627,489	2,178,503	1,951,922
Impairment (\$)	2,250,000	-	2,450,000	-
Depletion, depreciation, and impairment (\$)	2,786,342	627,489	4,628,503	1,951,922
\$/boe	255.98	30.68	83.30	22.96
Accretion (\$)	20,513	9,198	87,582	34,978
\$/boe	1.89	0.45	1.57	0.41

The total depletion, depreciation and accretion charge for the three months and year ended December 31, 2010 was \$2,806,855 (\$257.87 per boe) and \$4,716,085 (\$84.87 per boe) as compared to \$636,687 (\$31.13 per boe) and \$1,986,900 (\$23.37 per boe) for the comparative periods in 2009. The Company completed a ceiling test on its conventional property and equipment at December 31, 2010 using January 1, 2011 forecast prices. During the year ended December 31, 2010, an impairment was included in depletion and depreciation of which \$200,000 was recognized in the three and nine months ended September 30, 2010 and \$2,250,000 in the three months ended December 31, 2010. With further commodity price declines, additional impairments may result. In performing the ceiling test, the Company excludes the \$46.4 million spent to date on its oil sands properties as they are assessed separately.

Alberta Oilsands Inc.
Management's Discussion and Analysis of Operations
and Financial Condition
December 31, 2010

Capital Expenditures (\$)

Capital spending is summarized as follows:

	Three months ended December 31		Years ended December 31	
	2010	2009	2010	2009
Oil sand properties				
Land and lease rentals	1,209,985	6,458	1,313,799	95,018
Seismic	408,167	73,327	641,665	490,986
Drilling	1,277,295	398,476	3,650,514	4,758,838
Phase 1 application	310,578	290,834	1,106,980	1,032,010
Other	198,372	70,969	763,165	306,122
	3,404,397	840,064	7,476,123	6,682,974
Conventional properties				
Lease rentals and seismic	39,394	13,219	67,854	61,143
Drilling and completion	16,363	2,242,495	2,183,949	5,607,490
Tangible	17,692	103,749	152,357	368,655
	73,449	2,359,463	2,404,160	6,037,288
Office	2,171	3,009	27,924	4,387
Total	3,480,017	3,202,536	9,908,207	12,724,649

In addition, \$153,177 and \$362,942 of stock-based compensation and \$9,938 and \$79,860 of related future income taxes was capitalized to property and equipment in the three months and year ended December 31, 2010 versus \$20,937 and \$247,411 of stock-based compensation and \$6,979 and \$82,470 of related future income taxes capitalized in the comparative periods in 2009.

Liquidity and Financial Position

The Company commenced 2010 with a working capital position of \$9.7 million.

During the year ended December 31, 2010, the Company spent \$2,544,136 on operating activities, \$9,908,207 on capital expenditures, received net proceeds of \$163,879 from the disposition of a minor conventional property, received proceeds of \$6,303,817 from the issuance of shares, (net of issue costs), received net proceeds on short-term investments of \$1,051,381 and spent \$661,118 on an additional reclamation deposit. The Company ended 2010 with a working capital position of \$8.4 million which is inclusive of the investment in equity instruments. The equity instruments which include the common shares and warrants of Africa Oil are valued at \$5.6 million as at December 31, 2010, being the net cash proceeds received for their sale subsequent to December 31, 2010.

In November 2010, the Company issued 12,520,000 units at a price of \$0.50 per unit for gross cash proceeds of \$6,260,000. Each unit is comprised of one common share issued on a flow-through basis and one-half of a share purchase warrant. Each whole warrant entitles the holder to purchase one common share at an exercise price of \$0.70 per share until November 2012.

Alberta Oilsands Inc.
Management's Discussion and Analysis of Operations
and Financial Condition
December 31, 2010

On December 29, 2010, the Company issued 470,000 common shares on a flow-through basis at a price of \$0.64 per share for gross cash proceeds of \$300,800. The tax benefits of both of these flow-through issues were renounced to the investors effective December 31, 2010 and therefore the Company must spend the total gross proceeds of \$6,560,800 on qualifying expenditures by December 31, 2011. Approximately \$5.9 million of qualifying flow-through expenditures remain to be spent as at December 31, 2010.

On March 15, 2011, the Company issued 20 million common shares on a flow-through basis at a price of \$0.50 per share for net cash proceeds of approximately \$9.4 million. In addition, the Company issued 1.2 million warrants to the underwriter with an exercise price of \$0.50 until March 21, 2014. The Company must spend the \$10 million on qualifying flow-through expenditures by the end of December 31, 2012.

The Company continues to pursue alternate arrangements either from equity or debt financings, joint ventures or asset rationalizations to provide the funding required to continue its oil sands development, including its proposed Clearwater Phase I Project. 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. Expenditures on the Clearwater Phase I Project will be kept to a minimum until regulatory approval and financing have been obtained. The Company's policy is to ensure that its cash investments are liquid and are not invested in asset backed commercial paper products.

Share Capital
Common shares

The Company commenced 2010 with 105,210,625 common shares outstanding. For the year ended December 31, 2010, 20,000 warrants and 694,832 stock options were exercised and 12,990,000 common shares were issued resulting in 118,915,457 common shares outstanding as at December 31, 2010. Subsequent to the 2010 year-end, 35,000 stock options were exercised and 20 million common shares were issued resulting in 138,950,457 common shares outstanding as at the date of this MD&A.

Alberta Oilsands Inc.
Management's Discussion and Analysis of Operations
and Financial Condition
December 31, 2010

Stock Options

The following is a continuity of stock options:

	2010		2009	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Opening	5,527,156	\$ 0.47	7,622,856	\$ 0.85
Granted	3,880,000	0.39	316,000	0.20
Exercised	(694,832)	0.18	–	–
Cancelled for directors/officers	–	–	(1,560,000)	1.99
Cancelled for employees/consultants	–	–	(204,000)	2.06
Expired	(229,000)	0.31	(360,000)	0.30
Forfeited	(1,631,001)	0.46	(287,700)	0.97
Closing	6,852,323	\$ 0.46	5,527,156	\$ 0.47

The following summarizes information about stock options outstanding as at December 31, 2010:

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	1,329,667	2.95	\$ 0.13	1,271,333	\$ 0.13
\$ 0.14 – \$ 0.37	1,631,000	2.71	0.34	1,088,997	0.35
\$ 0.38 – \$ 0.61	3,122,000	3.76	0.43	1,405,324	0.47
\$ 0.62 – \$ 1.47	517,656	1.99	1.04	517,656	1.04
\$ 1.48 – \$ 2.21	252,000	1.50	2.09	252,000	2.09
	6,852,323	3.14	\$ 0.46	4,535,310	\$ 0.50

Of the total options outstanding, 4,885,500 are held by directors, officers and management.

Subsequent to December 31, 2010, 35,000 options were exercised and 3,331,000 options were granted. As at the date of this MD&A, there were 10,148,323 options outstanding.

Alberta Oilsands Inc.
Management's Discussion and Analysis of Operations
and Financial Condition
December 31, 2010

Warrants

At December 31, 2010, the Company had 23,671,250 (December 31, 2009 - 17,431,250) warrants outstanding, all of which were exercisable. The following is a continuity of warrants:

	Warrants	Value	Weighted average exercise price
Balance, December 31, 2008	–	\$ –	\$ 0.00
Issued	4,000,000	20,517	0.75
Issued	650,000	35,068	0.50
Issued	12,781,250	562,052	0.50
Balance, December 31, 2009	17,431,250	617,637	0.56
Issued	6,260,000	137,135	0.70
Issued	2,000,000	123,362	0.50
Expired	(2,000,000)	(13,670)	0.50
Exercised	(20,000)	(137)	0.50
Balance, December 31, 2010	23,671,250	\$ 864,327	\$ 0.60

In November 2010, the Company issued to the FMAA 2,000,000 warrants entitling the FMAA to acquire one common share at an exercise price of \$0.50 per share until November 8, 2012, in order to replace the warrants previously granted to FMAA and that expired in July 2010.

On November 19 and 30, 2010, the Company issued 1,250,000 and 5,010,000 warrants respectively as part of the unit issuance with an exercise price of \$0.70 expiring 18 months from the date of issuance.

As at December 31, 2010 there were 23,671,250 warrants outstanding, all of which were exercisable. Subsequent to 2010 year-end, 1.2 million warrants were granted resulting in 24,871,250 warrants outstanding as at the date of this MD&A.

Contractual Obligations and Commitments

Flow-through expenditures

During November and December 2010, the Company raised \$6,560,800 in common share on a flow-through basis. The Company renounced the tax benefits of these proceeds to the investors effective December 31, 2010. As at December 31, 2010, approximately \$665,000 of expenditures had been incurred. The remaining \$5.9 million of qualifying expenditures must be incurred by December 31, 2011.

In March 2011, the Company raised \$10 million in common shares on a flow-through basis. The tax benefits of these proceeds will be renounced to the investors effective December 31, 2011 and the Company has until December 31, 2012 to incur the \$10 million of qualifying expenditures.

Alberta Oilsands Inc.
Management's Discussion and Analysis of Operations
and Financial Condition
December 31, 2010

Commodity contract

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 realized a loss of \$25,961 which is included in petroleum and natural gas revenue for the year ended December 31, 2010. The commodity contract was completed at the end of October 2010 and no new contracts were entered into.

Other commitments

The Company has granted a 3 percent gross overriding royalty, which is subject to certain adjustments, on all production from the Hangingstone East property.

In July 2009, the Company signed a Gross Overriding Royalty, Access and Cooperation Agreement (the "Agreement") with the FMAA. In consideration for the FMAA granting such access rights, the Company granted to the FMAA a 2 percent gross overriding royalty on the petroleum substances produced from the specified lands. In addition, the Company granted the FMAA 2,000,000 warrants entitling the holder to one common share at a price of \$0.50 per share until July 2010 and 2,000,000 warrants entitling the holder to one common share at a price of \$1.00 per share until July 2011. In November 2010, in order to replace the warrants which expired in July 2010, the Company issued 2,000,000 warrants to the FMAA entitling the holder to one common share at a price of \$0.50 per share until November 2012.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Related Party Transactions

The Company had the following related party transaction:

During the year ended December 31, 2010, the Company was charged \$321,474 (2009 - \$341,353) in legal fees by legal firms in which a former director and in which a current officer of the Company are partners. These costs are included in general and administrative expense, share issue costs and business development costs. Included in accounts payable at December 31, 2010 is \$162,368 (December 31, 2009 - \$219,839) due to the legal firms. 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.

Alberta Oilsands Inc.
Management's Discussion and Analysis of Operations
and Financial Condition
December 31, 2010

Selected Historical Financial Information (\$)

	2010			
	4TH QUARTER	3RD QUARTER	2ND QUARTER	1ST QUARTER
Petroleum and natural gas revenue	514,172	501,367	622,100	815,543
Net income (loss)	(2,104,876)	2,595,322	(939,128)	(1,186,540)
Net income (loss) per share – basic and diluted	(0.02)	0.02	(0.01)	(0.01)
Funds used in operations	(144,863)	(1,271,701)	(750,452)	(377,120)
Cash flow used in operations	(182,787)	(1,200,459)	(700,101)	(544,051)
Capital expenditures	3,480,017	1,096,505	913,715	4,417,970

	2009			
	4TH QUARTER	3RD QUARTER	2ND QUARTER	1ST QUARTER
Petroleum and natural gas revenue	826,073	894,316	997,514	262,027
Net loss	(1,035,940)	(486,157)	(921,812)	(1,216,570)
Net loss per share – basic and diluted	(0.01)	(0.01)	(0.01)	(0.02)
Funds from (used in) operations	(776,513)	98,124	(34,242)	(1,110,316)
Cash flow (used in) from operations	(932,314)	399,091	(811,087)	(636,828)
Capital expenditures	3,202,536	1,651,024	607,301	7,263,788

As conventional production declines and gas pricing remains low, the quarterly revenue for the Company will continue to be reduced. The plan is for the Company to continue to spearhead the Phase I Pilot Application and shoot seismic and continue delineation drilling on its leases. Therefore, with no additional cash flow being anticipated, the cash flow used in operations will increase and losses will continue to increase. Expenditures will increase as financing becomes available.

Outlook

AOS' growth strategy is to develop through joint-venture and financial partnerships, oil sands assets of a scale that represent strong growth leverage to a company of AOS' size. The Company believes that this strategy will expedite conversion of its bitumen resources to production and cash flow.

Management believes that the fundamentals for oil sands will remain strong over the foreseeable future, recognizing there could also be periods of correction. Energy demand continues to grow globally and the entry of several Asian national companies in Alberta's oil sands industry indicates the growing importance of this resource in the world energy supply equation. Recent events in the Middle East accentuate the need for an alternative supply source from a stable region of the world, specifically as the United States, which is the largest market for Canadian oil supply, reconsiders its strategic energy partners.

The intensive level of industry activity in the oil sands creates challenges for all industry competitors in securing supplies and services over the next few years. Activity in the oil sands sector was strong this past winter season and is expected to further intensify. Concurrent with increased demand for services

Alberta Oilsands Inc.

Management's Discussion and Analysis of Operations and Financial Condition

December 31, 2010

will likely be increases in supply and material prices. AOS management is cognizant of this and has considered strategies to adapt.

At Clearwater, the Company's premier project, AOS expects to receive regulatory approval for Phase 1 by late 2011. Over the next few months, the Company is expecting to complete front-end engineering and design for this phase. Procurement of long-lead items is expected to commence in mid-2011 to accommodate the planned construction of the Phase 1 facility in 2012, subject to regulatory approval. To enable Phase 1 construction and commissioning, the Company will need to raise capital of approximately \$150 million.

AOS expects to progress with technical and consultation work on Phase 1 in anticipation of ERCB approval. This includes interpreting the results of the winter core-hole program and the 3D seismic to confirm the Phase 1 well placements. These results will also be used to plan Phase II, for which environmental work commenced in the first quarter of 2011. The Phase II reservoir scoping stage is expected to conclude in early 2012 and is expected to include a significant delineation effort during the 2011-2012 drilling season, subject to an appropriate level of capital funding.

AOS expects to continue prudent management of funds deployed for oil sands exploration and development. Current ranking of the Company's oil sands opportunities considers maintaining focus on: 1) bringing Phase 1 to production; 2) continued delineation for Phase II and 3) confirmation of resource volumes and evaluation of development potential at Grand Rapids and Algar Lake. AOS expects to be in a position to add experienced personnel to its ongoing oil sands exploration and development efforts over the next few quarters.

The Hangingstone East property has been assigned contingent resource to a level that justifies a viable project. Further delineation and engineering work will be required to advance this asset to project application status. The project area has a joint venture partner as the operator of the property. Activity will be subject to cooperation with the joint venture partner. The property is also strategically located, being surrounded by a larger oil sands entity with significant oil sands rights holdings in the region.

Preliminary planning has commenced to explore AOS' Algar Lake and Grand Rapids oil sands leases. Algar Lake comprises 51 sections and the three 1950s-vintage vertical wells drilled on the lease indicate significant *in situ* bitumen volumes. There is also potential for heavy oil "cold-flow" (or non-thermally-assisted) production, which if viable and approved would considerably reduce the capital requirement and facility complexity during primary recovery. The objective of the Algar Lake exploration plan is to confirm available resource volumes and evaluate further AOS bitumen development potential. The initial Algar Lake exploration plan calls for approximately 20 to 30 bitumen core holes and 30 contingent locations.

Two historical core holes in the Grand Rapids area indicate significant potential for significant *in situ* bitumen volumes. The Grand Rapids area has been more active and recent core holes on offsetting lands have been used to generate the Grand Rapids exploration plan. The 2011-2012 exploration season in Grand Rapids is intended to provide a first estimate of oil sands development potential on the 18 sections of oil sands rights and comprises approximately 10 core holes and 15 contingent locations. Execution of the Algar Lake and Grand Rapids exploration programs is subject to obtaining appropriate levels of capital funding. With successful programs at the Grand Rapids and Algar Lake leases, these areas may also support project proposals similar to Clearwater.

Alberta Oilsands Inc.
**Management's Discussion and Analysis of Operations
and Financial Condition**
December 31, 2010

Management's focus over the next year will comprise the following: to secure sufficient project funding for the Clearwater Phase 1 Project, guide the necessary activities to facilitate the Clearwater Phase 1 Project application to approval, secure the personnel and contracts to execute and construct the Clearwater Phase 1 Project, secure the approvals, equipment and services to execute the planned 2011-2012 exploration programs at Grand Rapids and Algar Lake, and rationalize the conventional oil and natural gas assets.

Oilsands Development Risks

In assessing the feasibility of potential oil sands projects and in estimating the value of and the projected start-up dates for pilot projects and commercial *in-situ* operations in the Company's Clearwater project areas, management has made numerous assumptions including that the Company will be able to obtain regulatory approval (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 core drilling programs will be favourable; that the Company's independent resource estimates are accurate; that the Company will be able to obtain qualified staff and equipment in a timely and cost-efficient manner; and that the Company will be able to address issues raised by the community. 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. For more information see "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 definition of "Contingent Resources", see "Disclosure of Reserves and Resources" in this MD&A.

Business Risks and Uncertainties

For an overview of the risks and uncertainties which may affect the Company and its business and operations, see "Forward-looking Statements and Information" in this MD&A and Annual Information Form for the year ended December 31, 2009 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 holders of Common Shares may lose all or part of their investment. Prospective investors should review such risks with their legal and financial advisors.

Alberta Oilsands Inc.
Management's Discussion and Analysis of Operations
and Financial Condition
December 31, 2010

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 Reserves and Resources

"proved reserves" means those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated Proved reserves.

"probable reserves" (2P) means those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated Proved plus Probable reserves.

"possible reserves" (3P) means those additional reserves that are less certain to be recovered than probable reserves. There is a 10 percent probability that the actual remaining quantities recovered will be greater or less than the sum of the estimated Proved plus Probable plus Possible reserves.

"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 resources detailed in this MD&A. The high level of uncertainty associated with the Company's possible recovery of any of these reserves or 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 oil sands properties; the ability of the Company to finance any potential oil sands projects; proposed reliance on technologies that have not yet been demonstrated to be commercially applicable in oil sands applications; lack of regulatory approvals; the ability of the Company to obtain community support, the uncertainty regarding marketing plans for production from the subject areas; and improved estimation of project costs. There are a number of inherent risks and contingencies associated with such development, including commodity price fluctuations, project costs and those other risks and contingencies discussed in more detail in "Business Risks and Uncertainties" and "Forward-looking Statements and Information" in this MD&A.

Alberta Oilsands Inc.

Management's Discussion and Analysis of Operations and Financial Condition

December 31, 2010

Estimates of reserves and resources contained in this MD&A for individual properties may not reflect the same confidence level as estimates of resources for all properties, due to the effects of aggregation.

Contingent resources do not constitute, and should not be confused with, reserves.

Critical Accounting Estimates

The Company's financial statements are prepared in accordance with GAAP. A comprehensive discussion of the Company's significant accounting policies is contained in Note 2 to the audited financial statements for the year ended December 31, 2010. The Company's significant accounting policies are subject to estimates and key judgments about future events, many of which are beyond management's control.

Pending accounting pronouncements

International Financial Reporting Standards ("IFRS")

On January 1, 2011, the Company adopted IFRS for publicly accountable enterprises as required by the Accounting Standards Board of Canada. Entities are required to adopt IFRS effective January 1, 2011 with a restatement of the comparative periods for 2010 including an opening balance sheet as at January 1, 2010. Under IFRS, the primary audience is capital markets and as a result, there is significantly more disclosure required. Further, while IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policies and increased note disclosures which must be addressed. The Company anticipates making the following adjustments to the opening balance sheet at the date of transition to IFRS, however these adjustments may change as a result of changes in IFRS and changes to the Company's selected policies. Readers are cautioned that the preliminary balance sheet prepared for adoption of IFRS as at January 1, 2010 has not been audited at this time and may still be subject to change.

The following standards are considered the most significant for the Company's conversion to IFRS:

IFRS 1 - First-time Adoption of IFRS which generally requires that an entity apply all IFRS effective at the end of its first IFRS reporting period retrospectively, with specific mandatory exemptions, and a limited number of optional exemptions. An analysis of exemptions to be elected has been analyzed and it is anticipated that the following exemptions, subject to change, will be utilized:

- Share based payments (IFRS 2) – To elect not to re-state share based payments for options vesting prior to the transition date.
- Business combinations (IFRS 3) – To elect not to re-state business combinations that occurred prior to the transition date.
- Property and equipment (IAS 16) – To elect to measure oil and gas assets at the date of transition to IFRS on the following basis:
 - 1) Exploration and evaluation assets ("E&E") at the amount determined under the previous GAAP – this would apply to the oil sands properties.

Alberta Oilsands Inc.
Management's Discussion and Analysis of Operations
and Financial Condition
December 31, 2010

- 2) Assets in the development or production phases (PP&E) at the amount determined for the cost centre under the previous GAAP. AOS shall allocate this amount to the cost centre's underlying assets pro rata using reserve values as of the date of transition. The following cash generating units have been determined: Leduc, Ladyfern, Daly, Minnehik-Buck Lake, and other.

Since the Company has elected to utilize these exemptions, a mandatory impairment test was completed for each cash generating unit in E&E and PP&E on the transition date and an impairment is anticipated, the amount has yet to be finalized.

IFRS 2 – Share-based payments requires the use of a forfeiture rate based on an estimate of the number of options expected to vest and requires that each tranche be treated as a separate arrangement when graded vesting is utilized. The Company utilizes a software package for the calculation of share based compensation which is supported by a third party. AOS has worked in conjunction with this third party to set up data according to IFRS standards. A preliminary forfeiture rate calculation has been finalized. It is likely that a significant adjustment will occur in this area.

IFRS 6 - Exploration for and Evaluation of Mineral Resources requires costs that were incurred for the exploration and evaluation of mineral resources after the Company has obtained the legal rights to explore a specific area and before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable, is presented separately from PP&E as exploration and evaluation assets. This has resulted in the reclassification of oil sands costs to E&E. The Company has elected to utilize the cost model.

IAS 16 – Property, plant and equipment requires that assets be assigned to a cash generating unit and depreciated on a component level. This requires a useful life assessment at a lower level than under current Canadian GAAP and amendments to the accounting system to enable the tracking of costs at both a component and cash generating unit level. Depletion will be calculated using proven and probable reserves. As discussed above, the Company has elected the IFRS I full cost exemption which requires the entity to allocate costs to components based on previous GAAP carrying amounts. Subsequent to initial measurement, PP&E are measured at cost less accumulated depletion and depreciation and accumulated impairment losses.

Flow-through shares – IFRS requires that a share premium liability be calculated for the difference in fair value between the flow-through share and the common shares. The value of the flow-through share is compared to the common share price to determine a share premium which reduces share capital and creates a liability until renouncement. Upon renouncement of the tax pools to shareholders, a deferred tax liability is recognized and a portion of the premium liability is expensed. Under IFRS, the renouncement date will be based on when flow-through expenditures are incurred. A preliminary estimate indicates an adjustment of \$3.4 million to share capital and a share premium liability of \$0.6 million, prior to tax effect will be recognized in the transition date balance sheet for IFRS.

IAS 36 – Impairment of Assets involves an impairment test at the cash generating unit level whereby the recoverable amount, defined as the higher of the fair value less costs to sell or value in use, is compared to the carrying value of the assets. Impairments are likely to be triggered at an earlier date under IFRS as the first step of considering carrying value versus undiscounted cashflow under GAAP has been eliminated. An impairment test for the transition date is being prepared. A preliminary estimate indicates

Alberta Oilsands Inc.
Management's Discussion and Analysis of Operations
and Financial Condition
December 31, 2010

there may be an impairment that will be recognized in the transition date balance sheet for IFRS. Management is still attempting to quantify the amount

IAS 37 - Provisions, Contingent Liabilities and Contingent Assets requires that the discount rate used in calculation for the asset retirement obligation be the risk free rate. Any adjustment will be recorded to retained earnings on transition.

A position paper addressing Canadian GAAP/IFRS differences with high level analysis on accounting policy selection and implementation has been drafted. Once the review of accounting policies has been finalized, internal controls over financial reporting and disclosure controls and procedures will be reviewed to ensure that any necessary changes are made to ensure the effectiveness and reliability of controls. The Company will continue to utilize external consultants to support the conversion process.

The Company has not commenced the development of an information technology plan. It is anticipated that further changes are required in order to automate additional reporting and tracking of information under both Canadian GAAP and IFRS for 2010 and 2011.

The Company will also continue to monitor standard developments as issued by the International Accounting Standards Board and the Accounting Standards Board 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.