



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

**FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2010**

Alberta Oilsands Inc.

Management's Discussion and Analysis of Operations and Financial Condition

September 30, 2010

The following management's discussion and analysis of financial condition and the results of operations (the "MD&A") dated November 29, 2010 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 interim financial statements as at and for the three and nine months ended September 30, 2010 and the audited consolidated financial statements for the years ended December 31, 2009 and 2008 together with the accompanying notes.

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

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. See the reconciliation of cashflow per GAAP to funds from (used in) operations on page 11 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

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properties, including in respect of pilot projects and further development in respect of its Clearwater East and Clearwater West project areas located in its Fort McMurray properties and the joint development of its Hangingstone East project area with its pooling partner in the area; (ii) expectations regarding future 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) the closing of any additional tranches in respect of the Company's previously announced private placement financing; and (xii) projections of market prices and the demand for the commodities the Company produces or intends to produce. Such forward-looking statements and information are based on the opinions, assumptions and estimates of management at the date the statements are made, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements and information. Certain of these assumptions and risks are discussed in greater detail below and through out this MD&A. The Company undertakes no obligation to update such forward-looking statements or information if circumstances or management's estimates or opinions should change, unless required by law.

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

Some of the risks that could affect the Company's future results and could cause results to differ materially from those expressed in the Company's forward looking statements and information include: (i) the need to obtain required approvals and permits from regulatory authorities, including in respect of the Company's Clearwater West pilot project application which was submitted in January 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 necessary to continue development of the Company's projects; (xi) imprecision in estimating

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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 (the unavailability of which could have a material adverse effect on the ability of the Company to proceed with the projects as currently planned, or at all); (xvii) unavailability of required equipment, services, and personnel with the appropriate skill set; (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 (xviii) the other factors discussed under "Oilsands Development Risks" and "Business Risks and Uncertainties" in this MD&A. The value of the Company's investment in the shares of Africa Oil Corp. may be adversely affected by political or economic developments or social instability, which are not within the control of 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. The closing of the remainder of the Company's previously announced private placement could be delayed if Alberta Oilsands is not able to obtain the necessary regulatory and stock exchange approvals on the timelines it has planned. The remainder of the private placement will not be completed at all if these approvals are not obtained or some other condition to the closing is not satisfied. Accordingly, there is a risk that the remainder of the private placement will not be completed within the anticipated time or at all.

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 Company is involved in the production, exploration and development of resource properties. Prior to September 2010, the interim 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 intercompany 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 three and nine months ended September 30, 2010 have been prepared on a going concern basis which contemplates the realization of assets and the

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payment of liabilities in the ordinary course of business. Property and equipment is recognized in these financial statements in accordance with the accounting policies outlined in Note 2 to the audited consolidated financial statements as at and for the years ended December 31, 2009 and 2008. 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 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.

Overview

Alberta Oilsands Inc. is engaged in the exploration and development of heavy oil in the Athabasca oil sands region of northeast Alberta. The Company's head office is located in Calgary, Alberta, Canada. The Company's common shares trade on the TSX Venture Exchange under the symbol "AOS".

The Company's efforts in the third quarter were focused on a number of areas that included:

- Support work for the Clearwater West LP-SAGD Pilot ("Clearwater West Phase 1") application
- Collection of additional data for the Clearwater reservoir modeling
- Preparation of updated reserve and resource reports
- Communication with the nearby community on the Clearwater project
- Sale of the Kenya assets
- Investigation of project financing which included joint venture partnerships and debt alternatives

The Company submitted the application for Phase 1 of the Clearwater West oil sands project in January 2010. The objective of Phase 1 is to confirm commerciality and demonstrate safety. The operational integrity of the project is paramount and will incorporate safety design, monitoring and response planning. The Company also intends to demonstrate reservoir performance, including production rate and steam oil ratio. Validation of projected economic profile will also be an important objective and the Company intends to then progress from the production target of 4,500 barrels per day (bpd) in Phase 1 to a full commercial project with a design capacity of 15,000 to 25,000 bpd of low pressure steam-assisted gravity drainage (LP-SAGD) bitumen production. Capital cost for Phase 1 is anticipated to amount to approximately \$100 million. Phase 2 capital requirement is expected to be in the range of \$38,000 per barrel capacity.

The Clearwater West project consists of only 2.5 sections of Alberta Oilsands' 140.5 (121.2 net) sections of high working interest oil sands leases in five core areas. The Company also has conventional oil and natural gas production and prospects in the provinces of Alberta and British Columbia.

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Q3 2010 highlights include the following:

- 79.9 million net barrels of Contingent Resources (see "Disclosure of Reserves and Resources") of bitumen were assigned to the Company's Hangingstone East property in an independent report prepared by GLJ Petroleum Consultants Ltd and dated June 30, 2010.
- Sale of the Company's Kenya oil exploration blocks to Africa Oil Corp. ("Africa Oil"). Consideration for the sale was comprised of 2.5 million common shares of Africa Oil and 1.5 million Africa Oil share purchase warrants, each of which is exercisable into one common share at a price of \$1.50 per common share for a period of two years.
- Completed mini-fracture testing and preliminary analysis on two observation wells in the McMurray bitumen and the Clearwater cap rock at Clearwater West.
- Produced an average of 134 barrels of oil equivalent per day (boe/d) of conventional production during the three-month period ended September 30, 2010, resulting in oil and gas revenue of \$501,000.
- Continued discussions with potential joint venture partners.

Subsequent highlights:

- In October 2010, AOS entered into an agreement to raise a minimum of \$5 million and a maximum of \$7.5 million through the sale of a minimum of 10,000,000 units at a price of \$0.50 per unit on a private placement basis. Each unit will consist of one flow-through common share and one half of a flow-through common share purchase warrant of AOS issued on a flow-through basis. Each whole flow-through common share purchase warrant will entitle the holder to acquire one Common Share at a price of \$0.70 per Common Share within 18 months following the closing date of the private placement. Pursuant to this agreement, a \$5 million tranche of the private placement closed on November 19, 2010.
- The Company prepared the 2011 winter drilling program, which will consist primarily of continued development in the Clearwater area for the collection of technical data required to prepare an application for the second phase of the development. Preparations are also progressing for a winter 2011 exploration program at the Grand Rapids project area.
- On November 25, 2010, AOS acquired an additional 4 sections of oilsands leases at Clearwater. The purchase will join the previously separate Clearwater West and East projects into one contiguous development area.

Review of Oilsands Operations

Fort McMurray Clearwater West

Alberta Oilsands continues to take steps on the path to production at its first oil sands project at Clearwater West.

On January 15, 2010, Alberta Oilsands filed the project application with the Energy Resources Conservation Board (ERCB) and Alberta Environment. The Clearwater West LP-SAGD Pilot Application is for a project that has a design production capacity of up to 4,500 bpd of bitumen in Phase 1 through six horizontal SAGD well pairs. Subject to regulatory approval, Alberta Oilsands expects to begin construction of the well pad and pairs in early 2012. Production capacity is expected to increase to 15,000 to 25,000 bpd of bitumen in the next phase.

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The Clearwater West project is located one mile southeast of the Fort McMurray Regional Airport and is accessible via Highway 69. Alberta Oilsands has a 100% working interest in 28 contiguous sections of oil sands rights in the area. Two of the sections, sections 21 and 22 Twp088 R08W4M, where the Phase 1 project is located are subject to a 2% gross overriding royalty to the Fort McMurray Airport Authority.

The Company continues to move forward while awaiting approval of the Clearwater West application, including gathering technical data through observation wells and continuing stakeholder consultation with the local community.

Alberta Oilsands completed work on two observation wells at Clearwater West during the quarter, including 1) mini-fracture testing and analysis on the 5-22-88-08W4M observation well in the McMurray bitumen and the Clearwater cap rock and 2) the drilling, completion, data gathering and analysis of the AB/1-21-88-08W4M observation well. The Company is committed to providing people who live or work in the area with the opportunity to learn about Clearwater Phase 1. As part of Alberta Oilsands' community engagement activities, the Company held an open house in Fort McMurray on June 9, 2010. The event provided the Alberta Oilsands' team with an opportunity to introduce the Clearwater Project to area residents and to answer questions related to air quality, sound, traffic, construction and community relationships. The Company is committed to forging business and community relationships built on trust and to conduct business in a safe, healthy and environmentally responsible manner.

Those in attendance at the open house were advised that emissions from the project are anticipated to be well below Alberta's strict regulatory guidelines. Water required for the project is expected to be purchased from the Regional Municipality of Wood Buffalo, providing a source of revenue for the local community. The produced and processed water would eventually be injected into approved disposal wells. The surface facility footprint of the Clearwater West project is expected to be a modest 10.2 hectares (26 acres) thanks to existing infrastructure in the area. The average sound level for project operations is expected to be five decibels (dBA) below the ERCB's night-time permissible sound level of 40 dBA. Finally, the total number of truck shipments is expected to be less than 22 loads per day with less than 150 metres of travel on gravel roads before reaching the paved Highway 69.

Clearwater West Reserves Milestone

As previously announced, Alberta Oilsands achieved a milestone in the second quarter of 2010 by having its contingent resources on approximately one section within the Clearwater West project area reclassified as probable and possible reserves. The independent estimate for Phase 1 of the Clearwater West Project by Ryder Scott, with an effective date of March 31, 2010, assigned 16.3 million barrels of probable ("2P") and 51.3 million barrels of possible bitumen reserves on these lands.

Lease reserves are volumes before deductions for capital costs, operating costs, royalties, and encumbrances. Probable reserves are those additional gross 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 proved plus probable reserves. Possible reserves are those additional gross reserves that are less certain to be recovered than probable reserves. There is a 10% probability that the quantities actually recovered will equal or exceed the sum of proved plus probable plus possible reserves.

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The Ryder Scott reserve report was prepared in accordance with National Instrument 51-101 ("NI 51-101") using the assumptions and methodology outlined in the Canadian Oil and Gas Evaluation Handbook ("COGEH").

The estimated contingent resources within the Phase 1 project area have been reclassified as probable plus possible reserves as a result of the submission of the Clearwater West project application. Surrounding contingent resource areas with the greatest expectations of future development to maintain plant capacity have been reclassified as possible reserves. Proved reserves may be assigned for the Phase 1 area in the future when regulatory approval is granted and project funding and construction commitments are secured.

Although the reclassification of contingent resources as probable and possible reserves was an expected outcome of the submission of the Clearwater West project application, this event is significant because it provides an increased level of certainty surrounding the potential value of Alberta Oilsands' assets. This is expected to lead to new financing options for the Company.

The long-term opportunity at Clearwater West is to increase production to between 15,000 and 25,000 bpd. This expanded development plan will require additional capital to increase the number of production pads and facilities.

Based on a production scenario of 10,000 bpd at a realized bitumen price of \$63 per barrel, the net present value discounted 10% before income tax of the Clearwater West property as calculated by Ryder Scott equates to \$395 million. At 15,000 bpd based on a realized bitumen price of \$80 per barrel, the net present value of the project before tax rises to \$885 million.

For more information on the Ryder Scott report, please refer to the Company's news release dated May 20, 2010 on Alberta Oilsands' website at www.aboilsands.ca and through SEDAR at www.sedar.com. Major assumptions used in the preparation of the report include project start-up of 2012 with a 50% recovery factor. Realized prices for bitumen of C\$63.00 per barrel ("bbl") and C\$80.00/bbl were used and are derived from an assumed US\$77.00/bbl WTI and US\$95.00/bbl WTI respectively, adjusted for foreign exchange, quality differentials, diluents and transportation costs assumptions. Capital costs assumptions were C\$215 million for the 10,000 bpd case and C\$320MM for the 15,000 bpd case. Operating cost assumptions of \$30/bbl were used for all cases. Assumptions were provided by Alberta Oilsands and accepted by Ryder Scott. Net present value discounted at 10% includes a deduction of 2% for a gross overriding royalty to the Fort McMurray Airport Authority ("FMAA"). The estimated net present value may not represent fair market value. The net present value figures were calculated based on assumptions provided to Ryder Scott by Alberta Oilsands.

The Company will be required to obtain significant capital in order to construct and realize the potential of its Clearwater West oil sands project. For additional information, see the sections entitled "Liquidity and Financial Position" and "Oilsands Development Risks" in this MD&A.

Hangingstone East

Alberta Oilsands Inc. engaged GLJ Petroleum Consultants Ltd. to conduct a third-party resource analysis on the Hangingstone East property effective June 30, 2010. The results were released in August 2010 and the Company's 50% interest in the property was assigned best estimate contingent resources of 79.9 million (net) barrels of bitumen. In addition, on this property 13 additional core holes were drilled in the

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first quarter of 2010 for a total of 32 core holes since inception. Alberta Oilsands has a 50% interest in 38.5 contiguous sections (9.856 hectares or 24,640 acres) of oilsands rights at Hangingstone.

The above assessments of Alberta Oilsands' 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 risks and uncertainties that could cause actual events or results to differ from those projected in the forward-looking statements. See "Forward-looking Statements and Information" in this MD&A.

Review of Conventional Operations

Alberta Oilsands produced an average of 134 boe/d in the third quarter of 2010, including 497 thousand cubic feet per day (mcf/d) of natural gas from the Ladyfern field and 37 boe/d from Leduc, Alberta. This compares to 161 boe/d in the second quarter of 2010 and 321 boe/d in the third quarter of 2009 as the Company's production experienced natural declines. The Company has not added any additional conventional production since the Ladyfern well in April 2009. Alberta Oilsands has rights in 97,283 acres of undeveloped land in Alberta, Saskatchewan and British Columbia to pursue conventional exploration.

Given the success at Ladyfern North, Alberta Oilsands plans to drill a follow-up well at Ladyfern South.

Review of International Operations

In August 2010, the Government of Kenya consented to the assignment of Alberta Oilsands' Kenyan assets to Africa Oil Corp. (AOI) and the assignment was completed on September 9, 2010.

Alberta Oilsands' assigned its 100% interest in blocks 12A and 13T in Kenya to AOI in consideration for 2.5 million AOI common shares and 1.5 million AOI share purchase warrants, each of which is exercisable into one common share at a price of \$1.50 per share for a period of two years. On November 23, 2010, AOI was trading at \$1.95 per share. The common shares and warrants are subject to a hold period under applicable Canadian Securities laws which concludes on January 10, 2011. The terms of the warrants contain an accelerated exercise clause, which is triggered if AOI's common shares trade at over \$2 per share for 20 consecutive trading days. If the acceleration clause is exercised by AOI the warrants will expire on a date that is not less than 180 days from the date of written notice to Alberta Oilsands. Notice of accelerated expiry of the warrants was served by AOI on November 22, 2010. The Company has 180 days from this date to exercise the warrants. This agreement allows Alberta Oilsands to maintain upside from a diverse portfolio of East African assets while entrusting exploration and development of the assets to an established Kenyan exploration company.

There are risks and uncertainties associated with Alberta Oilsands' investment in the common shares of Africa Oil Corp. For details, see "Forward-looking Statements and Information" and "Business Risks and Uncertainties."

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Results of Conventional Operations

Statement of Operations and Deficit	Three months ended September 30		
	2010	2009	2008
Petroleum and natural gas sales (\$)	501,367	894,316	666,302
Petroleum & natural gas sales per boe (\$)	40.66	30.25	110.77
Daily sales volumes (boe/day)(6:1)	134	321	65
Net income (loss) for the period (\$)	2,595,322	(486,157)	(799,495)
Net income (loss) per share – basic and diluted (\$)	0.02	(0.01)	(0.01)
Statement of Cash Flows			
Funds used in operations (\$) ⁽¹⁾	(1,271,701)	98,124	(282,302)
Cash flow used in operations (\$)	(1,200,459)	399,091	(270,430)
Capital expenditures (\$)	1,096,505	1,651,024	952,090
Weighted average number of shares			
- basic	105,727,719	79,651,375	65,728,136
- diluted	106,277,000	79,651,375	65,728,136

	Nine months ended September 30		
	2010	2009	2008
Statement of Operations and Deficit			
Petroleum and natural gas sales (\$)	1,939,010	2,153,857	1,665,971
Petroleum & natural gas sales per boe (\$)	43.40	33.35	103.29
Daily sales volumes (boe 6:1)	164	237	59
Net income (loss) for the period (\$)	469,654	(2,624,539)	(2,749,176)
Net income (loss) per share – basic and diluted (\$)	0.00	(0.03)	(0.04)
Statement of Cash Flows			
Funds used in operations (\$) ⁽¹⁾	(2,399,273)	(1,046,434)	(1,180,891)
Cash flow used in operations (\$)	(2,444,611)	(1,048,824)	(860,338)
Capital expenditures (\$)	6,428,190	9,522,113	10,633,470
Total assets (\$)	61,984,121	50,216,792	55,043,725
Total liabilities (\$)	9,969,498	7,079,537	5,656,611
Shareholders' equity (\$)	52,014,623	43,137,255	49,387,114
Weighted average number of shares			
- basic	105,477,784	79,651,375	65,009,300
- diluted	106,141,036	79,651,375	65,009,300

(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

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uncertainty surrounding the timing of collection, payment or incurrence of these items makes them less useful in evaluating Alberta Oilsands' operating performance. A summary of this reconciliation is as follows:

Reconciliation of Cash flow per GAAP to Funds from (used in) Operations	Three months ended September 30		
	2010	2009	2008
Cash flow used in operating activities (per GAAP) (\$)	(1,200,459)	399,091	(270,430)
Change in non-cash working capital (\$)	(71,242)	(300,967)	(11,872)
Funds used in Operations	(1,271,701)	98,124	(282,302)

Reconciliation of Cash flow per GAAP to Funds from (used in) Operations	Nine months ended September 30		
	2010	2009	2008
Cash flow used in operating activities (per GAAP) (\$)	(2,444,611)	(1,048,824)	(860,338)
Change in non-cash working capital (\$)	45,338	2,390	(320,553)
Funds used in Operations (\$)	(2,399,273)	(1,046,434)	(1,180,891)

Production	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Oil and NGL (bbls/day)	46	71	52	71
Natural gas (mcf/day)	531	1,504	671	996
boe/day (6:1)	134	321	164	237

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

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Commodity Prices				
Oil and NGL (\$/bbl)	72.03	65.41	74.98	60.43
Natural gas (\$/mcf)	4.08	3.40	4.90	3.64
boe (\$/boe)	40.66	30.25	43.40	33.35
Revenues (\$)				
Oil and NGL	302,204	424,388	1,040,384	1,164,824
Natural gas	199,163	469,928	898,626	989,033
Total	501,367	894,316	1,939,010	2,153,857

Commodity prices increased for oil and natural gas liquids ("NGL") to \$72.03 and \$74.98 per bbl in the three and nine months ended September 30, 2010 as compared to \$65.41 and \$60.43 per bbl in the comparative periods of 2009. Gas prices increased to \$4.08 and \$4.90 per mcf compared to \$3.40 and \$3.64 per mcf in the comparative periods in 2009. However, gas prices decreased somewhat from \$4.42 per mcf in the second quarter of 2010.

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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 three and nine months ended September 30, 2010, the Company realized a loss of \$557 and \$19,874 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 September 30, 2010 is an asset of \$5,330 (December 31, 2009 – liability of \$6,687).

Royalties and Operating Expenses	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Royalties (\$)	84,605	66,569	368,404	175,116
% of revenues	17	7	19	8
\$/boe	6.85	2.25	8.25	2.71
Operating and transportation expenses (\$)	245,791	266,121	1,105,996	1,150,718
\$/boe	19.91	9.00	24.75	17.82

Royalties for the three and nine months ended September 30, 2010 increased to 17% and 19% of revenue (\$6.85 and \$8.25 per boe) from 7% and 8% of revenue (\$2.25 and \$2.71 per boe) in the comparative quarters of 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 14% for the second quarter of 2010 and was 20% in the third quarter of 2010.

Production and transportation costs for the three and nine months ended September 30, 2010 were \$245,791 and \$1,105,996 or \$19.91 and \$24.75 per boe as compared to \$266,121 (\$9.00 per boe) and \$1,150,718 (\$17.82 per boe) for the comparative periods of 2009 and \$369,240 or \$25.15 per boe for the second quarter of 2010. Operating costs continue to remain high for the Leduc property which consistently requires maintenance and repair expenditures due to the age of the equipment.

Netbacks (\$/boe)	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Revenue	40.66	30.25	43.40	33.35
Royalties	6.85	2.25	8.25	2.71
Operating expenses	19.91	9.00	24.75	17.82
Field netbacks	13.90	19.00	10.40	12.82
General and administrative (i)	88.16	15.40	53.12	25.93
Netbacks	(74.26)	3.60	(42.72)	(13.11)

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

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General and administrative expense

General and administrative expenditures for the three and nine months ended September 30, 2010 totalled \$1,088,212 (\$88.16 per boe) and \$2,373,597 (\$53.12 per boe) as compared to \$455,261 (\$15.40 per boe) and \$1,674,551 (\$25.93 per boe) for the comparative 2009 periods. The primary differences between the three months ended September 30, 2010 when compared to the three months ended September 30, 2009 is a severance payment made to a departing member of management and salary increases and bonuses for existing management. Salaries in the amount of \$109,968 and \$248,906 related to individuals specifically involved in the oil sands and conventional properties were capitalized for the three and nine months ended September 30, 2010 as compared to \$70,968 and \$212,906 for the comparative 2009 periods.

Business development expenses and international operations

During the three and nine months ended September 30, 2010, the Company incurred \$410,201 and \$592,427 of business development expenses which were netted against the gain from the sale of the Kenyan interests. For the three and nine months ended September 30, 2009 - (\$4,493) and \$171,442 were incurred related to the pursuit of projects outside of the conventional Canadian oil and gas exploration and development business. The expenditures for the nine months ended September 30, 2010 were for consulting fees and related travel costs in the ongoing negotiations which ultimately resulted in the assignment of its Kenya interest to AOI for consideration of 2.5 million AOI common shares and 1.5 million AOI flow-through common share purchase warrants, each of which is exercisable into one common share at a price of \$1.50 per share for a period of two years. For more information, see "International Obligations" in this MD&A.

Stock-based compensation

Stock-based compensation for the three and nine months ended September 30, 2010 was (\$7,548) and \$404,159 compared to \$59,134 and \$713,604, respectively, in the same periods in 2009. The credit in the three months ended September 30, 2010 is due to capitalization of stock based compensation relating to certain options, the forfeiture of options that had not vested, and the revaluation of options held by consultants. In the three and nine months ended September 30, 2010, \$120,568 and \$209,765 of stock-based compensation and \$47,658 and \$69,922 of related future income taxes was capitalized to property and equipment versus \$41,340 and \$226,474 of stock-based compensation and \$13,780 and \$75,491 of related future income taxes capitalized in the comparative periods in 2009. The fair value of options is estimated using the Black Scholes option-pricing model at the time an option is granted and is recognized as stock-based compensation over the vesting period of the options. Stock-based compensation for options granted to consultants is based on the estimated fair value recalculated at each balance sheet date until the related options are fully vested.

Interest expense and financing costs

The interest expense of \$2,865 and \$21,533 for the three and nine months ended September 30, 2010 versus \$15,849 and \$65,637 in comparative periods in 2009, respectively, is comprised of interest related to the Company's flow-through common share financings.

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Taxes

The future income tax provision for the three and nine months ended September 30, 2010 totaled \$705,854 and \$180,776 as compared to recoveries of (\$138,287) and (\$485,712) 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 and increased the future tax liability.

	Three months ended September 30		Nine months ended September 30	
Depletion, depreciation and accretion	2010	2009	2010	2009
Depletion and depreciation (\$)	668,959	654,611	1,842,161	1,324,433
\$/boe	54.20	22.15	41.23	20.51
Accretion (\$)	21,489	8,823	67,069	25,780
\$/boe	1.74	0.30	1.50	0.40

The total depletion, depreciation and accretion charge for the three and nine months ended September 30, 2010 was \$690,448 (\$55.94 per boe) and \$1,909,230 (\$42.73 per boe) as compared to \$663,434 (\$22.45 per boe) and \$1,350,213 (\$20.91 per boe) for the comparative periods in 2009. The Company completed a ceiling test on its conventional property and equipment at September 30, 2010 using October 1, 2010 forecast prices and determined that there was an impairment of \$200,000 which has been included in the depletion provision. With further commodity price declines, additional impairments may result. In performing the ceiling test, the Company excludes the \$42.7 million spent to date on its oil sands properties as they are assessed separately.

Capital Expenditures (\$)

Capital spending is summarized as follows:

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Oil sand properties				
Land and lease rentals (\$)	21,508	6,254	103,814	88,560
Seismic / cap rock (\$)	177,371	3,752	233,498	417,659
Drilling (\$)	1,858	14,268	2,373,219	4,360,362
Pilot application (\$)	197,233	323,425	796,402	741,176
Other (\$)	402,883	70,969	564,793	235,153
	800,853	418,668	4,071,726	5,842,910
Conventional properties				
Lease rentals and seismic (\$)	13,233	44,435	28,460	47,924
Drilling and completion (\$)	266,244	999,793	2,167,586	3,364,995
Tangible (\$)	125	188,128	134,665	264,906
	279,602	1,232,356	2,330,711	3,677,825
Office (\$)	16,050	-	25,753	1,378
Total (\$)	1,096,505	1,651,024	6,428,190	9,522,113

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In addition, \$120,568 and \$209,765 of stock-based compensation and \$47,658 and \$69,922 of related future income taxes was capitalized to property and equipment in the three and nine months ended September 30, 2010 versus \$41,340 and \$226,474 of stock-based compensation and \$13,780 and \$75,491 of related future income taxes capitalized in the three and nine months ended September 30, 2009.

Liquidity and Financial Position

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

During the nine months ended September 30, 2010, the Company spent \$2,399,273 on operating activities, \$6,428,190 on capital expenditures and \$454,653 on an additional reclamation deposit. As at September 30, 2010, the Company's working capital had been reduced to \$5.7 million which is inclusive of the investment in equity instruments which include the common shares and warrants of AOI, valued at \$5.3 million. Approximately \$872,000 of flow-through expenditures remain to be spent by December 31, 2010.

Subsequent to quarter end, the Company has entered into an agreement for a private placement financing for a minimum of \$5 million to a maximum of \$7.5 million whereby a minimum of 10 million to a maximum of 15 million units will be issued at \$0.50 per unit. Each unit is comprised of one common share issued on a flow through basis and one half of a common share purchase warrant issued on a flow through basis. Each whole warrant entitles the holder to purchase one common share issued on a flow through basis for \$0.70 per common share at any time within 18 months of the closing date of the private placement. A \$5 million tranche of the private placement closed on November 19, 2010.

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 oilsands development, including its proposed Clearwater West Phase 1. Expenditures on Clearwater West Phase 1 will be kept to a minimum until regulatory approval and financing has 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 nine months ended September 30, 2010, 20,000 warrants and 674,832 options were exercised resulting in 105,905,457 common shares outstanding as at September 30, 2010 and as at the date of this MD&A.

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Stock Options

The following is a continuity of stock options:

	Options	Weighted average exercise price
Balance, December 31, 2009	5,527,156	\$ 0.47
Granted	3,705,000	0.39
Exercised	(674,832)	0.18
Forfeited	(1,835,001)	0.45
Balance, September 30, 2010	6,722,323	\$ 0.46

The following summarizes information about stock options outstanding as at September 30, 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	1,349,667	3.20	\$ 0.13	895,329	\$ 0.13
\$ 0.14 – \$ 0.37	1,456,000	2.71	0.35	1,030,664	0.36
\$ 0.38 – \$ 0.61	3,147,000	3.98	0.43	1,430,324	0.47
\$ 0.62 – \$ 1.47	517,656	2.24	1.04	517,656	1.04
\$ 1.48 – \$ 2.21	252,000	1.75	2.09	252,000	2.09
	6,722,323	3.33	\$ 0.46	4,125,973	\$ 0.54

Of the total options outstanding, 4,610,500 are held by directors, officers and management. In October 2010, 25,000 options expired and 175,000 new options were granted to management. As at the date of this MD&A there were 6,872,323 options outstanding.

Warrants

At September 30, 2010, the Company had 15,411,250 (December 31, 2009 - 17,431,250) warrants outstanding which were all exercisable.

In November 2010, the Company agreed to issue 2,000,000 warrants to Fort McMurray Airport Authority with an exercise price of \$0.50 per warrant expiring on November 8, 2012 which is intended to replace the FMAA warrants that expired in July 2010. As at the date of this MD&A, there were 17,411,250 warrants outstanding, all of which were exercisable.

Contractual Obligations and Commitments

Flow-through expenditures

During November 2009, the Company raised \$5.75 million of flow-through common share proceeds. The Company renounced the tax benefits of these proceeds to the investors effective December 31, 2009. As at September 30, 2010, approximately \$4.8 million of expenditures have been incurred. The remaining \$872,000 million of qualifying expenditures must be incurred by December 31, 2010.

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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 commodity contract was completed at the end of October 2010 and no new contracts were entered into.

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. Pursuant to the terms of the Company's agreement with Dr. Hu, if the Company does not grant such stock options, the gross overriding royalty will increase to three percent. Therefore, since the Company did not grant stock options to Dr. Hu from the November 2009 financing, the gross overriding royalty increased to three percent and the requirement to issue future stock options has been terminated.

In July 2009, the Company signed a Gross Overriding Royalty, Access and Cooperation Agreement (the "Agreement") with the FMAA. The Agreement provides access rights to and across the airport lands to allow the Company to conduct operations. In consideration for the FMAA granting such access rights, the Company granted to the FMAA a two percent gross overriding royalty on the petroleum substances produced from the specified lands. In addition, the Company granted the FMAA 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 exercisable at a price of \$0.50 per common share which expired in July 2010 and 2,000,000 warrants exercisable at a price of \$1.00 per common share which expire in July 2011. The Company agreed to grant the FMAA 2,000,000 warrants in November 2010 at a price of \$0.50 per common share expiring in November 2012, subject to regulatory approval, to replace their warrants that expired in July 2010.

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 three and nine months ended September 30, 2010, the Company was charged \$161,538 and \$315,846 (three and nine months ended September 30, 2009 - \$56,295 and \$155,445) 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 and business development. Included in accounts payable at September 30, 2010 is \$205,757 (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.

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Selected Historical Financial Information

	2010			2009
	3 RD QUARTER	2 ND QUARTER	1ST QUARTER	4TH QUARTER
Petroleum and natural gas revenue (\$)	501,367	622,100	815,543	826,073
Net income (loss) (\$)	2,595,322	(939,128)	(1,186,540)	(1,035,940)
Net income (loss) per share – basic and diluted (\$)	0.02	(0.01)	(0.01)	(0.01)
Funds used in operations (\$)	(1,271,701)	(750,452)	(377,120)	(776,513)
Cash flow used in operations (\$)	(1,200,459)	(700,101)	(544,051)	(932,314)
Capital expenditures (\$)	1,096,505	913,715	4,417,970	3,202,536

	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 from (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

Outlook

Alberta Oilsands' growth strategy is to develop large-scale oil sands assets supported by conventional oil and gas asset development, joint-venture and financial partnerships. The Company believes that this strategy will allow accelerated conversion of its bitumen resources to production and cash flow.

At Clearwater, the Company's improved understanding of the reservoir based on the technical work performed over the last few months will be provided to the ERCB in an update to the current Clearwater West Phase 1 pilot application in December 2010. The Company expects to receive regulatory approval in 2011. Over the next few months, the Company is expecting to commence detailed engineering for the Clearwater Phase 1 project. Procurement of long lead surface and subsurface facility items will commence in 2011 to accommodate the planned commencement of construction of the Phase 1 facility in early 2012 subject to regulatory approval. To complete Clearwater West Phase 1 construction and commissioning, the Company will have to raise approximately \$100 million in capital. Alberta Oilsands anticipates financing its capital requirements through a combination of debt, equity and/or joint venture arrangements and asset rationalizations.

AOS expects to perform additional field measurements and implement a 3D seismic program during the 2010-2011 winter season to confirm and further define the reservoir. Environmental work for Phase 2 of

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the Clearwater West project will commence in the first quarter of 2011 and with the Phase 1 operational learnings, this will form an optimized continued development for the Clearwater West area with a possible plant size of 15,000 to 25,000 barrels of bitumen per day. The Phase 2 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 and guide oil sands exploration and development appropriately. Current ranking of oil sands opportunities considers maintaining focus on bringing Clearwater Phase 1 to production followed by continued scoping and delineation for Clearwater Phase 2 followed by confirmation of resource volumes and evaluation of development potential at Grand Rapids and providing a first estimate of resource volumes at Algar Lake.

AOS expects to be in a position to add experienced personnel to its on-going oil sands exploration and development efforts over the next few quarters. Preliminary planning has commenced to explore AOS' Algar Lake and Grand Rapids oil sands leases. Algar Lake comprises 51 sections and the three 1950's vintage vertical wells drilled on the lease indicate significant *in-situ* bitumen volumes (potential for conventional heavy oil cold flow also exists). 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 neighbouring properties have been used to generate the Grand Rapids exploration plan. The 2010-2011 exploration season in Grand Rapids is intended to provide a first estimate of oil sands development potential on the 18 sections of oil sands properties and comprises approximately 10 core holes and 15 contingent locations. Execution of the Algar Lake and Grand Rapids are subject to obtaining appropriate levels of capital funding.

Management's focus over the next few months will be on the shepherding of the Clearwater West Phase 1 Pilot Project application through the regulatory process to successful approval. Concurrently, the funding for the Phase 1 project will be sought through a variety of sources.

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 West project areas, management has made numerous assumptions 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. Please see the section entitled "Forward-looking Statements and

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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 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, readers are referred to the section entitled "Forward-looking Statements and Information" in this MD&A and to the Company's December 31, 2009 MD&A which can be found under the Company's profile at www.sedar.com. The risks and uncertainties as contained in such documents are not the only ones facing the Company. Additional risks and uncertainties not presently known to the Company or that the Company currently considers immaterial may also impair the business and operations of the Company and cause the price of the securities of the Company to decline. If any of these risks actually occur, the Company's business may be harmed and the financial condition and results of operation may suffer significantly. In that event, the trading price of the shares could decline and shareholders may lose all or part of their investment. Prospective investors should review such risks with their legal and financial advisors.

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" 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" means those additional reserves that are less certain to be recovered than probable reserves. It is unlikely that the actual remaining quantities recovered will exceed 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.

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"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 reserves or 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 reserves or resources. 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 Fort-McMurray properties; the ability of the Company to finance any potential oil sands projects at its Fort-McMurray properties; proposed reliance on technologies that have not yet been demonstrated to be commercially applicable in oil sands applications; lack of regulatory approvals; the 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 the sections entitled "Business Risks and Uncertainties" and "Forward-looking Statements and Information" in this MD&A.

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

Critical Accounting Estimates

The Company's financial statements are prepared in accordance with Canadian generally accepted accounting principles. A comprehensive discussion of the Company's significant accounting policies is contained in Note 2 to the audited consolidated financial statements for the year ended December 31, 2009. 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")

The Accounting Standards Board ("AcSB") has confirmed that accounting standards in Canada will converge with IFRS. Entities will be 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 continues to develop its IFRS conversion plan and, on a qualitative basis, has identified the key areas where changes are anticipated.

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

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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 completed. It is anticipated that the following exemptions 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.
- 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 at the amount determined under the previous GAAP – this would apply to the Oilsands (i.e. Clearwater West & East, Hangingstone, and other which includes a combination of small oilsands areas) cash generating units.
 - 2) Assets in the development or production phases 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 volumes or reserve values as of that date. This would apply to Leduc, Ladyfern, and other cash generating units.

Since the Company anticipates that the above exemption will be taken, a mandatory impairment test will be completed for each CGU on the transition date (January 1, 2010).

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 and the adjustment from GAAP to IFRS has been estimated. The calculation of the forfeiture rate and estimated adjustment is to be finalized during the fourth quarter of 2010. It is not anticipated that a material adjustment will occur in this area.

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. A preliminary determination of cash generating units has been made. Depletion will be calculated at a CGU level.

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 from GAAP has been eliminated. A preliminary impairment test has been prepared. This analysis will be finalized during the fourth quarter of 2010. It is possible that a significant impairment loss will be recognized in the transition date balance sheet for IFRS. Based on the elections under IFRS 1, an impairment test is required at transition date.

A preliminary 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

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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 prepare additional reporting and to track information under both Canadian GAAP and IFRS for 2010 and 2011.

The preliminary implementation milestones are as follows:

- The January 1, 2010 transition date balance sheet will be finalized in the fourth quarter of 2010.
- Q1 2010 restated to IFRS will be finalized during the first quarter of 2011.

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.

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INTERIM FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

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, 2010 and 2009.

Alberta Oilsands Inc.
Interim Balance Sheets
(unaudited)

Assets	September 30, 2010	December 31, 2009
Current		
Cash and cash equivalents <i>(note 2)</i>	\$ 1,584,173	\$ 6,880,447
Short-term investments <i>(note 3)</i>	551,490	1,051,381
Investment in equity instruments <i>(note 4)</i>	5,326,120	–
Accounts receivable	738,560	3,054,865
Subscription receivable <i>(note 13)</i>	–	32,800
Prepaid expenses	495,511	213,951
Commodity contract <i>(note 15c(ii))</i>	5,330	–
	8,701,184	11,233,444
Reclamation deposit	703,915	249,262
Property and equipment <i>(note 5)</i>	52,579,022	47,617,698
	\$ 61,984,121	\$ 59,100,404
 Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 2,832,750	\$ 1,565,611
Commodity contract <i>(note 15c(ii))</i>	–	6,687
Future income taxes <i>(note 10)</i>	201,019	–
	3,033,769	1,572,298
Asset retirement obligation <i>(note 6)</i>	1,206,643	1,043,966
Future income taxes <i>(note 10)</i>	5,729,086	4,243,195
	9,969,498	6,859,459
 Shareholders' Equity		
Share capital <i>(note 7)</i>	57,554,187	58,756,475
Warrants <i>(note 8)</i>	617,500	617,637
Contributed surplus <i>(note 9)</i>	6,654,291	6,147,842
Deficit	(12,811,355)	(13,281,009)
	52,014,623	52,240,945
	\$ 61,984,121	\$ 59,100,404
Basis of presentation <i>(note 1)</i>		
Commitments <i>(note 14)</i>		
Subsequent events <i>(note 17)</i>		

See accompanying notes to the unaudited interim financial statements.

Alberta Oilsands Inc.

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

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Revenue				
Petroleum and natural gas sales	\$ 501,367	\$ 894,316	\$ 1,939,010	\$ 2,153,857
Royalties	<u>(84,605)</u>	<u>(66,569)</u>	<u>(368,404)</u>	<u>(175,116)</u>
	416,762	827,747	1,570,606	1,978,741
Unrealized gain on commodity contract (note 15c(ii))	18,080	–	128,017	–
Interest income	<u>4,606</u>	<u>3,115</u>	<u>7,674</u>	<u>37,173</u>
	439,448	830,862	1,706,297	2,015,914
Expenses				
Production	223,413	216,035	1,023,027	1,036,836
Transportation	22,378	50,086	82,969	113,882
General and administrative	1,088,212	455,261	2,373,597	1,674,551
Business development (notes 4 and 11)	–	(4,493)	–	171,442
Stock-based compensation (note 7)	(7,548)	59,134	404,159	713,604
Unrealized foreign exchange (gain) loss	34,423	–	(24,955)	–
Unrealized gain on investment in equity instruments (notes 4 and 15)	(1,179,806)	–	(1,179,806)	–
Interest	2,865	15,849	21,533	65,637
Accretion	21,489	8,823	67,069	25,780
Depletion and depreciation	<u>668,959</u>	<u>654,611</u>	<u>1,842,161</u>	<u>1,324,433</u>
	874,385	1,455,306	4,609,754	5,126,165
Loss before the undernoted	<u>(434,937)</u>	<u>(624,444)</u>	<u>(2,903,457)</u>	<u>(3,110,251)</u>
Sale of Kenya interests (notes 4 and 15)	4,146,314	–	4,146,314	–
Associated business development costs (note 11)	<u>(410,201)</u>	<u>–</u>	<u>(592,427)</u>	<u>–</u>
Net gain on sale	<u>3,736,113</u>	<u>–</u>	<u>3,553,887</u>	<u>–</u>
Income (loss) before income taxes	3,301,176	(624,444)	650,430	(3,110,251)
Future income tax provision (reduction) (note 10)	<u>705,854</u>	<u>(138,287)</u>	<u>180,776</u>	<u>(485,712)</u>
Net income (loss) and comprehensive income (loss) for the period	2,595,322	(486,157)	469,654	(2,624,539)
Deficit, beginning of period	<u>(15,406,677)</u>	<u>(11,758,912)</u>	<u>(13,281,009)</u>	<u>(9,620,530)</u>
Deficit, end of period	\$ <u>(12,811,355)</u>	\$ <u>(12,245,069)</u>	\$ <u>(12,811,355)</u>	\$ <u>(12,245,069)</u>
Net income (loss) per share				
Basic and diluted	\$ 0.02	\$ (0.01)	\$ 0.00	\$ (0.03)

See accompanying notes to the unaudited interim financial statements.

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

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Operating				
Net income (loss) for the period	\$ 2,595,322	\$ (486,157)	\$ 469,654	\$ (2,624,539)
Non-cash items:				
Unrealized loss (gain) on commodity contract	35,920	–	(12,017)	–
Unrealized gain on investment in equity instruments	(1,179,806)	–	(1,179,806)	–
Unrealized foreign exchange loss (gain)	34,423	–	(24,955)	–
Stock-based compensation	(7,548)	59,134	404,159	713,604
Accretion	21,489	8,823	67,069	25,780
Depletion and depreciation	668,959	654,611	1,842,161	1,324,433
Sale of Kenya interests	(4,146,314)	–	(4,146,314)	–
Future income tax	705,854	(138,287)	180,776	(485,712)
	<u>(1,271,701)</u>	<u>98,124</u>	<u>(2,399,273)</u>	<u>(1,046,434)</u>
Change in non-cash working capital (note 12)	<u>71,242</u>	<u>300,967</u>	<u>(45,338)</u>	<u>(2,390)</u>
	<u>(1,200,459)</u>	<u>399,091</u>	<u>(2,444,611)</u>	<u>(1,048,824)</u>
Financing				
Issuance of shares, net of costs	40,983	–	159,112	–
Change in non-cash working capital (note 12)	<u>2,701</u>	<u>15,662</u>	<u>(303,556)</u>	<u>(103,965)</u>
	<u>43,684</u>	<u>15,662</u>	<u>(144,444)</u>	<u>(103,965)</u>
Investing				
Short-term investment redemption	6,124,965	453	6,124,965	1,994,699
Purchase of short term investments	(5,097,010)	–	(5,600,119)	(1,000,042)
Redemption of restricted investment	1,094,246	–	–	–
Expenditures on property and equipment	(1,096,505)	(1,651,024)	(6,428,190)	(9,522,113)
Proceeds on disposal of property and equipment	–	(1,005)	–	18,995
Reclamation deposit	(1,560)	(235)	(454,653)	(123,704)
Change in non-cash working capital (note 12)	<u>554,868</u>	<u>(723,906)</u>	<u>3,650,778</u>	<u>(4,072,642)</u>
	<u>1,579,004</u>	<u>(2,375,717)</u>	<u>(2,707,219)</u>	<u>(12,704,807)</u>
Increase (decrease) in cash and cash equivalents	422,229	(1,960,964)	(5,296,274)	(13,857,596)
Cash and cash equivalents, beginning of period	<u>1,161,944</u>	<u>5,475,184</u>	<u>6,880,447</u>	<u>17,371,816</u>
Cash and cash equivalents, end of period	\$ 1,584,173	\$ 3,514,220	\$ 1,584,173	\$ 3,514,220
Supplemental cash flow information:				
Interest paid	\$ –	\$ –	\$ 73,833	\$ 169,415

See accompanying notes to the unaudited interim financial statements.

Alberta Oilsands Inc.

Notes to Interim Financial Statements

As at and for the three and nine months ended September 30, 2010

(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. Prior to September 2010, the interim 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 intercompany transactions and balances. On September 9, 2010, Alberta Oilsands Inc. and Platform Resources Inc. amalgamated.

These unaudited interim 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, 2009 consolidated financial statements except certain disclosures have been condensed or omitted. Accordingly, these unaudited interim financial statements should be read in conjunction with the notes contained in the Company's audited December 31, 2009 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 interim 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, 2009 consolidated financial statements. Accordingly, their carrying amounts represent costs incurred to date, net of 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 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. Cash and cash equivalents

	September 30, 2010	December 31, 2009
Cash in bank	\$ 1,577,252	\$ 5,377,694
Cash in investment accounts	6,921	1,502,753
	<u>\$ 1,584,173</u>	<u>\$ 6,880,447</u>

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

3. Short-term investments

As at September 30, 2010, the Company held investments of \$551,490 (December 31, 2009 – \$1,051,381), including accrued interest. These investments earn nominal interest and mature between December 2010 and January 2011. \$52,500 of this balance is a guaranteed investment certificate held to secure a letter of credit provided to a third party.

Alberta Oilsands Inc.
Notes to Interim Financial Statements
As at and for the three and nine months ended September 30, 2010
(unaudited)

4. Investment in Africa Oil Corp.

On September 9, 2010, the Company completed the sale of its interests in Kenya to Africa Oil Corp. ("Africa Oil") in exchange for 2,500,000 common shares and 1,500,000 common share purchase warrants with an exercise price of \$1.50 per warrant over a life of two years. See note 15 for further information.

5. Property and equipment

	September 30, 2010		
	Cost	Accumulated depletion and depreciation	Net
Petroleum and natural gas properties			
Oil sands properties	\$ 42,724,363	\$ –	\$ 42,724,363
Conventional properties	22,196,505	12,409,200	9,787,305
Office equipment	217,594	150,240	67,354
	<u>\$ 65,138,462</u>	<u>\$ 12,559,440</u>	<u>\$ 52,579,022</u>

During the three and nine months ended September 30, 2010, the Company capitalized \$109,968 and \$248,906 (September 30, 2009 – \$70,968 and \$212,906) of general and administrative costs, \$120,568 and \$209,765 (September 30, 2009 – \$41,340 and \$226,474) of stock-based compensation, and \$47,658 and \$69,922 (September 30, 2009 – \$13,780 and \$75,491) of related future incomes taxes. At September 30, 2010, the Company excluded \$42,724,363 (December 31, 2009 – \$38,379,578) of petroleum and natural gas property costs relating to unproved properties from the depletion and ceiling test calculations. In addition, \$343,750 (December 31, 2009 – \$343,750) of future development costs have been included in the depletion calculation.

The Company completed a ceiling test on its conventional property and equipment at September 30, 2010 and determined that there was an impairment of \$200,000 (December 31, 2009 – nil) which has been included in depletion and depreciation. For the purposes of the September 30, 2010 impairment test, the following benchmark prices were used:

	Edmonton Light Cdn\$/bbl	AECO Spot \$/MMbtu
2010 – remaining	82.00	4.00
2011	86.00	4.25
2012	90.00	4.75
2013	95.00	5.25
2014	100.00	6.50
Escalation rate thereafter - 2%		

Alberta Oilsands Inc.
Notes to Interim Financial Statements
As at and for the three and nine months ended September 30, 2010
(unaudited)

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, 2009	\$ 1,043,966
Revisions	95,608
Accretion	67,069
Balance, September 30, 2010	<u>\$ 1,206,643</u>

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

Undiscounted abandonment costs	\$ 3,013,846
Credit adjusted risk-free rate	8 – 10%
Inflation rate	2%
Weighted average expected timing of cash flows	10 years

7. Share capital

a) Common shares issued

	Number of Shares	Amount
Balance, December 31, 2009	105,210,625	\$ 58,756,475
Share issue costs (<i>net of tax of \$1,313</i>)	–	(3,937)
Exercise of stock options (ii)	674,832	229,037
Exercise of warrants (iii)	20,000	10,137
Tax effect of flow-through shares issued in 2009 (i)	–	(1,437,525)
Balance, September 30, 2010	<u>105,905,457</u>	<u>\$ 57,554,187</u>

- (i) Pursuant to a prospectus in November 2009 the Company issued 12,778,000 flow-through common shares at a price of \$0.45 per share for total gross proceeds of \$5,750,100. The renouncement documents were filed with the tax authorities in February 2010 at which time the tax effect of the flow-through proceeds in the amount of \$1,437,525 was recognized. The Company is required to spend \$5,750,100 in qualifying expenditures by December 31, 2010, of which approximately \$4,878,100 has been incurred as at September 30, 2010.
- (ii) During the nine months ended September 30, 2010, the Company issued 674,832 common shares on the exercise of 674,832 stock options at exercise prices ranging from \$0.13 to \$0.40 per common share for cash proceeds of \$121,562. In addition to the cash proceeds a pro-rata allocation of the options' fair value in the amount of \$107,475 was reclassified from contributed surplus to share capital.
- (iii) During the nine months ended September 30, 2010, the Company issued 20,000 common shares on the exercise of 20,000 warrants at an exercise price of \$0.50 per common share for cash proceeds of \$10,000. In addition to the cash proceeds a pro-rata allocation of the warrant fair value in the amount of \$137 was reclassified from warrants to share capital.

Alberta Oilsands Inc.

Notes to Interim Financial Statements

As at and for the three and nine months ended September 30, 2010

(unaudited)

7. Share Capital (continued)

b) Stock options

During the three and nine months ended September 30, 2010, the Company granted a total of 600,000 and 3,705,000 (three and nine months ended September 30, 2009 – nil and 316,000) stock options respectively which vest one-third upon grant date and one-third on the first and second anniversaries of the grant date and expire five years from the grant date. The initial total fair value of the options granted was estimated to be \$150,397 (\$0.25 per option) and \$1,051,333 (\$0.28 per option) (September 30, 2009 – \$42,823).

The Black-Scholes pricing model was used to estimate the fair value of the options granted using a forfeiture rate of nil, a dividend yield of nil, interest rate of approximately 2.20%, volatility ranging from 105% to 107% and an expected life of 5 years.

The following is a continuity of stock options:

	Options	Weighted average exercise price
Balance, December 31, 2009	5,527,156	\$ 0.47
Granted	3,705,000	0.39
Exercised	(674,832)	0.18
Expiry	(204,000)	0.30
Forfeited	(1,631,001)	0.46
Balance, September 30, 2010	6,722,323	\$ 0.46

The following summarizes information about stock options outstanding as at September 30, 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	1,349,667	3.20	\$ 0.13	895,329	\$ 0.13
\$ 0.14 – \$ 0.37	1,456,000	2.71	0.35	1,030,664	0.36
\$ 0.38 – \$ 0.61	3,147,000	3.98	0.43	1,430,324	0.47
\$ 0.62 – \$ 1.47	517,656	2.24	1.04	517,656	1.04
\$ 1.48 – \$ 2.21	252,000	1.75	2.09	252,000	2.09
	6,722,323	3.33	\$ 0.46	4,125,973	\$ 0.54

Of the total options outstanding, 4,610,500 are held by directors, officers and management. The Company recognized stock-based compensation as follows for the three and nine months ended September 30:

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Capitalized to property and equipment (note 5)	\$ 120,568	\$ 41,340	\$ 209,765	226,474
Expensed	(7,548)	59,134	404,159	713,604
	\$ 113,020	\$ 100,474	\$ 613,924	\$ 940,078

Alberta Oilsands Inc.

Notes to Interim Financial Statements

As at and for the three and nine months ended September 30, 2010

(unaudited)

7. Share Capital (continued)

c) Per share amounts

Basic per share amounts are calculated using the weighted average number of shares outstanding of 105,727,719 and 105,477,784 for the three and nine months ended September 30, 2010 (three and nine months ended September 30, 2009 - 79,651,375). For the three and nine months ended September 30, 2010 diluted per share amounts are calculated using the weighed average number of shares of 106,277,000 and 106,141,036, respectively, which includes 895,329 and 1,925,993 in the money options, respectively. For the three and nine months ended September 30, 2009 all of the Company's outstanding warrants were excluded as they were considered to be anti-dilutive.

8. Warrants

The following is a continuity of warrants:

	Warrants	Value
Balance, December 31, 2009	17,431,250	\$ 617,637
Expired	(2,000,000)	-
Exercised	(20,000)	(137)
Balance, September 30, 2010	<u>15,411,250</u>	<u>\$ 617,500</u>

The following summarizes information about the warrants outstanding as at September 30, 2010, all of which are exercisable:

Exercise Price	Number of Warrants	Weighted Average Remaining Contractual Life (years)
\$0.50	13,411,250	1.07
\$1.00	2,000,000	0.80
	<u>15,411,250</u>	<u>1.04</u>

9. Contributed surplus

Balance, December 31, 2009	\$ 6,147,842
Stock-based compensation expensed	404,159
Stock-based compensation capitalized	209,765
Options exercised	<u>(107,475)</u>
Balance, September 30, 2010	<u>\$ 6,654,291</u>

Alberta Oilsands Inc.

Notes to Interim Financial Statements

As at and for the three and nine months ended September 30, 2010

(unaudited)

10. Income taxes

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

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Expected income tax reduction at 28.02% (2009 – 29.02%)	\$ 924,961	\$ (181,215)	\$ 182,250	\$ (902,562)
Non deductible items	(164,598)	21,748	(45,513)	211,747
Changes in enacted tax rates and other	(54,509)	21,180	44,039	205,103
Future income tax reduction	<u>\$ 705,854</u>	<u>\$ (138,287)</u>	<u>\$ 180,776</u>	<u>\$ (485,712)</u>

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

	September 30, 2010	December 31, 2009
Non-capital loss carryforwards	\$ 1,276,275	\$ 1,550,633
Asset retirement obligation	301,661	260,992
Share issue costs	418,672	569,500
Unrealized (gain) loss on financial instruments	(201,019)	37,432
Property and equipment	(7,725,694)	(6,661,752)
Future income tax liability	<u>\$ (5,930,105)</u>	<u>\$ (4,243,195)</u>
Current portion of future income tax liability	(201,019)	–
Future income tax liability – long term	<u>(5,729,086)</u>	<u>(4,243,195)</u>

11. Business development expenses

During the three and nine months ended September 30, 2010 the Company incurred \$410,201 and \$592,427 of business development expenses which were netted against the gain from the sale of the Kenyan interests (note 4). For the three and nine months ended September 30, 2009 - (\$4,493) and \$171,442 were incurred related to the pursuit of projects outside of the Canadian oil and gas exploration and development business.

12. Change in non-cash working capital

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Accounts receivable	\$ 24,317	\$ (75,951)	\$ 2,316,305	\$ (165,080)
Prepaid expenses	(253,978)	(23,775)	(281,560)	52,159
Accounts payable and accrued liabilities	858,472	(307,551)	1,267,139	(4,066,076)
	<u>\$ 628,811</u>	<u>\$ (407,277)</u>	<u>\$ 3,301,884</u>	<u>\$ (4,178,997)</u>

Alberta Oilsands Inc.

Notes to Interim Financial Statements

As at and for the three and nine months ended September 30, 2010

(unaudited)

12. Change in non-cash working capital (continued)

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

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Operating	\$ 71,242	\$ 300,967	\$ (45,338)	\$ (2,390)
Financing	2,701	15,662	(303,556)	(103,965)
Investing	554,868	(723,906)	3,650,778	(4,072,642)
	<u>\$ 628,811</u>	<u>\$ (407,277)</u>	<u>\$ 3,301,884</u>	<u>\$ (4,178,997)</u>

13. Related party transactions

Except as disclosed elsewhere in the financial statements the Company had the following related party transactions:

- a) During the three and nine months ended September 30, 2010, the Company was charged \$161,538 and \$315,846 (three and nine months ended September 30, 2009 - \$56,295 and \$155,445) 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 and business development costs. Included in accounts payable at September 30, 2010 is \$205,757 (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.
- b) As at September 30, 2010, no subscription receivable was outstanding (December 31, 2009 - \$32,800 due from officers of the Company related to the unit and flow-through share issuances from November 2009).

14. Commitments

Except as disclosed elsewhere in the financial statements (see note 15), the Company had the following commitments as at September 30, 2010:

- a) The Company has granted a three 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.
- b) On July 8, 2009, the Company signed a Gross Overriding Royalty, Access and Cooperation Agreement (the "Agreement") with the Fort McMurray Airport Authority ("FMAA"). The Agreement provides access rights to and across the airport lands to allow the Company to conduct operations. In consideration for FMAA granting such access rights, the Company granted to FMAA a two percent gross overriding royalty on the petroleum substances produced from the specified lands. In addition, the Company granted FMAA an aggregate of 4,000,000 common share purchase warrants of which 2,000,000 expired in July 2010.
- c) Pursuant to a flow-through issuance in November 2009, the Company is required to incur approximately \$872,000 of remaining qualifying expenditures by December 31, 2010.

Alberta Oilsands Inc.

Notes to Interim Financial Statements

As at and for the three and nine months ended September 30, 2010

(unaudited)

15. Financial instruments and financial risk management

The Company's financial instruments include cash and cash equivalents, short-term investments, investment in equity instruments, accounts receivable, subscription receivable, accounts payable and accrued liabilities, commodity contract, and credit facility. The carrying values of these financial instruments, excluding the investment in equity instruments, approximate their fair values due to their relatively short periods to maturity. The Company is required to classify fair value measurements using a hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy is as follows:

- Level 1 - quoted prices in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - inputs for the asset or liability that are not based on observable market data.

The fair value of cash and short term investments is considered level 1 as it is determined by cash balances and investments held at financial institutions. The fair value of the commodity contract is considered to be level 2 as it is estimated by discounting the difference in the contract price and forward prices using the remaining volumes in the contract. The fair value of the investment in equity instruments comprised of common shares is considered to be level 1 as the shares are held in a publicly traded company. The fair value of the investment in equity instruments comprised of warrants is considered to be level 2. The valuation of the investment is calculated as follows:

	September 9, 2010	September 30, 2010	Change in FV
Common shares	2,500,000	2,500,000	
Share price	\$ 1.34	\$ 1.69	
	\$ 3,350,000	\$ 4,225,000	\$ 875,000
Warrants			
Fair value	\$ 796,314	\$ 1,101,120	\$ 304,806
	<u>\$ 4,146,314</u>	<u>\$ 5,326,120</u>	<u>\$ 1,179,806</u>

The price of Africa Oil's common shares on September 9, 2010 was \$1.34 per share resulting in a fair value of \$3,350,000 for the common shares on the date of the transaction. As at September 30, 2010, the share price had increased to \$1.69 per share resulting in a fair value of \$4,225,000. The Black-Scholes pricing model was used to estimate the fair value of the warrants granted using a forfeiture rate of nil, a dividend yield of nil, interest rate of 1.47%, volatility of 90% and an expected life of approximately 1.5 years. The term of the warrants has been reduced from 2 years to approximately 1.5 years to account for the ability to accelerate the exercise of the warrants if Africa Oil's common shares trade over \$2.00 per share for over 20 consecutive days. Notice to accelerate the expiry of the warrants was served on November 22, 2010. As the investment in Africa Oil has been classified as a financial instrument held for trading, the increase of \$1,179,806 in fair value has been recognized as an unrealized gain on investment in equity instruments in net income.

Alberta Oilsands Inc.

Notes to Interim Financial Statements

As at and for the three and nine months ended September 30, 2010

(unaudited)

15. Financial instruments and financial risk management (continued)

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 cash and cash equivalents is available at any time and the investments are redeemable within a short period of time. The cash is held with a Schedule I bank. Short term investments are primarily a T-Bill held by an investment firm. The Company's policy is to ensure that its investments are liquid and not invested in asset-backed commercial paper products.

A substantial portion of the Company's accounts receivable is with joint venture partners in both the oil sands area and conventional properties. 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, 2010, the maximum credit exposure is the carrying amount of the accounts receivable and accruals of \$738,560 (December 31, 2009 – \$3,054,865) plus cash and cash equivalents, restricted cash and short-term investments of \$2,135,663 (December 31, 2009 - \$7,931,828).

As at September 30, 2010, \$163,105 of the Company's receivables consisted of September revenue due from marketers, \$41,862 in GST, \$350,236 in a cash call receivable, \$174,852 for an insurance claim and the remaining \$8,505 is comprised of receivables due from 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. The cash call receivable is with one joint venture party and will be drawn down as the capital projects progress. Completion of the project is substantially completed.

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. As at September 30, 2010, excluding the cash call receivable of \$350,236 owing from a joint venture partner, the largest amount owing from one joint venture partner is less than \$1,000.

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.

Alberta Oilsands Inc.

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15. Financial instruments and financial risk management (continued)

a) Credit risk (continued)

The Company provided an allowance for a doubtful account of \$644 during the three and nine months ended September 30, 2010 (three and nine months ended September 30, 2009 – \$1,099 and \$3,503). 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. The Company considers its receivables to be aged as follows:

	September 30, 2010	December 31, 2009
Current	\$ 181,014	\$ 422,446
Past due by less than 90 days	23,027	10,296
Past due by more than 90 days	9,431	20,154
	<u>213,472</u>	<u>452,896</u>
Cash call receivable	350,236	2,601,969
Insurance claim	174,852	–
	<u>\$ 738,560</u>	<u>\$ 3,054,865</u>

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.

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15. Financial instruments and financial risk management (continued)

c) Market risk

Market risk consists of currency risk, commodity price risk and interest rate risk. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns. The Company may use both financial derivatives and physical delivery sales contracts to manage market risks. All such transactions are conducted in accordance with a risk management policy as set out herein.

i) Currency risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. All of the Company's petroleum and natural gas sales are denominated in Canadian dollars; however, the underlying market prices in Canada for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar. The Company had no outstanding forward exchange rate contracts in place at September 30, 2010 or 2009.

ii) Commodity price risk

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

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 three and nine months ended September 30, 2010, the Company realized losses of \$557 and \$19,874, respectively, 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 September 30, 2010 is an asset of \$5,330 (December 31, 2009 – liability of \$6,687).

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, 2010, if interest rates had been 1% higher with all other variables held constant, loss for the period would have been \$5,885 and \$18,543 (three and nine months ended September 30, 2009 - \$10,082 and \$32,264) 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, 2010 or 2009.

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

The Company considers its capital structure to include working capital of \$5,667,415 (December 31, 2009 – \$9,661,146), credit facility, and shareholders' equity of \$52,014,623 (December 31, 2009 – \$52,240,945). The Company monitors capital based on annual funds from operations from its conventional oil and gas properties which are utilized to partially fund the general and administrative expenses. The Company prepares budgets for its capital expenditures, which are updated as necessary and are reviewed and periodically approved by the Company's Board of Directors.

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

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

The Company has externally imposed capital requirements as governed by the credit facility through the maintenance of certain financial covenants. The availability of the banking facility is determined by the lender's borrowing base model which is based on the Company's petroleum and natural gas reserves.

There has been no change in the Company's approach to capital management during the three and nine months ended September 30, 2010. The Company has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the foreseeable future.

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17. Subsequent events

- a) The Company entered in to an agreement with Proforma Capital Inc. for a private placement financing for a minimum of \$5 million to a maximum of \$7.5 million whereby a minimum of 10 million to a maximum of 15 million units will be issued at \$0.50 per unit. Each unit is comprised of one common share issued on a flow through basis and one half of a flow through share purchase warrant. Each whole warrant entitles the holder to purchase one common share for \$0.70 per common share at any time within 18 months of the closing date of the private placement. A \$5 million tranche of the private placement closed on November 19, 2010.
- b) The Company executed a letter of intent ("LOI") effective September 21, 2010, with a closing date of December 1, 2010, to purchase additional lands adjacent to the pilot project in Clearwater West for \$1.2 million composed of cash consideration of \$650,000 and the issuance of 1,646,409 common shares. Restrictions for trading of shares are in place whereas 60% of the shares may be traded after March 31, 2011, an additional 20% may be traded after June 2, 2011, and the remaining 20% of shares after July 31, 2011. The LOI was amended on October 5, 2010 allowing the closing date to be amended, clarifying that cash consideration of \$650,000 represents the minimum cash payable as part of the purchase, and that number of shares will be calculated based on weighted average price of \$0.334 from August 24, 2010 to the effective date of the agreement.
- c) In November 2010, the Company issued 2,000,000 warrants to FMAA with an exercise price of \$0.50 per warrant expiring on November 8, 2012. These warrants are intended to replace the warrants that expired in July 2010 (note 8).
- d) In October 2010, 175,000 options were granted to a member of management of the Company with an exercise price of \$0.33 per option.