



ALBERTA
OILSANDS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2011

Alberta Oilsands Inc.

Management's Discussion and Analysis

September 30, 2011

This management's discussion and analysis (the "MD&A") dated November 25, 2011 of Alberta Oilsands Inc. ("Alberta Oilsands", "AOS" or the "Company") is reported in Canadian dollars and should be read in conjunction with the unaudited interim financial statements of the Company as at and for the three and nine months ended September 30, 2011 and the Canadian GAAP audited financial statements and management's discussion and analysis of AOS for the years ended December 31, 2010 and 2009 together with the accompanying notes.

Additional information relating to Alberta Oilsands including management's discussion and analysis ("MD&A") of financial condition and results of operations and annual information form for the prior year and its vision, strategies and operations, is available on SEDAR at www.sedar.com and on the Company's website at www.aboilsands.ca.

The financial data included in this MD&A is in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") that are expected to be effective or available for early adoption by the Company as at December 31, 2011, the date of the Company's first annual reporting under IFRS. The effective date of the transition to IFRS was January 1, 2010. The transition to IFRS has been reflected by restating previously reported financial statements for 2010. Previously, the Company's financial statements were prepared under Canadian generally accepted accounting principles ("GAAP"). The adoption of IFRS does not impact the underlying economics of the Company's operations or its cash flows. Note 16 to the interim financial statements contains a detailed description of the Company's adoption of IFRS, including a reconciliation of the financial statements previously prepared under GAAP to those under IFRS.

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

Special Note Regarding Non-IFRS and Non-GAAP Measures – This MD&A includes references to certain financial measures, as described below, which do not have standardized meanings prescribed by either GAAP or IFRS, however, as these measures are commonly used in the oil and gas industry, the Company believes that their inclusion is useful to investors and they are measures that the Company uses to evaluate its performance. Investors are cautioned that these non-GAAP and non-IFRS measures should not be construed as an alternative to the measures calculated in accordance with IFRS or GAAP as, given their non-standardized meanings; they are unlikely to be comparable to similar measures presented by other issuers. The term "field netback" is defined as petroleum and natural gas sales less royalties and less production and transportation costs. The term "funds from (used in) operations", defined as the cash flow from operating activities, before the change in non-cash working capital and abandonment expenditures, should not be considered an alternative to, or more meaningful than, cash flow from operating activities or net income (loss) as determined in accordance with IFRS 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 cash flow per IFRS to funds from (used in) operations on page 9 of this MD&A.

Alberta Oilsands Inc.

Management's Discussion and Analysis

September 30, 2011

Forward-looking Statements and Information – Certain information regarding Alberta Oilsands set forth in this MD&A, including management's assessment of Alberta Oilsands' future plans, operations, properties, production and prospects contains forward-looking information and statements that involve substantial known and unknown risks and uncertainties. In some cases, forward-looking information and statements can be identified by terminology such as "may", "will", "should", "intends", "expects", "projects", "plans", "anticipates", "targets", "believes", "strives", "estimates", "continues", "designed", "objective", "maintain", "schedule" and similar expressions or statements that certain events or conditions "may" or "will" occur. In particular, this MD&A contains forward-looking statements and information with respect to: (i) possible *in-situ* development (including the timing of such development) on the Company's oil sands properties, including in respect of pilot projects and further development in respect of its Clearwater project 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; (xi) projections of market prices and costs and the demand for the commodities the Company produces or intends to produce; and (xii) expectations regarding capital expenditures and exploration activities and the timing and funding in respect thereof. Such forward-looking statements and information are based on the opinions, assumptions and estimates of management at the date the statements are made, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements and information. Certain of these assumptions and risks are discussed in greater detail below and throughout this MD&A. The Company undertakes no obligation to update such forward-looking statements or information if circumstances or management's estimates or opinions should change, unless required by law.

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

Some of the risks that could affect the Company's future results and could cause results to differ materially from those expressed in the Company's forward-looking statements and information include:

(i) the need to obtain required approvals and permits from regulatory authorities, including in respect of the Company's Clearwater Phase I Project Application (the "Clearwater Phase I Project Application") submitted on January 15, 2010 and the update (the "Clearwater Phase I Project Update") to the

Alberta Oilsands Inc.

Management's Discussion and Analysis

September 30, 2011

Clearwater Phase I Project Application submitted on December 22, 2010; (ii) the potential impact of legislation and regulation; (iii) the impact of competition; (iv) compliance with and liabilities under environmental laws and regulations; (v) the uncertainties of estimates by the Company's independent consultants with respect to the Company's reserves and resources; (vi) the volatility of prices for crude oil, natural gas, bitumen and refined products; (vii) general economic conditions in Canada and globally; (viii) changes to royalty regimes and government regulations regarding royalty payments; (ix) risks associated with exploring for, developing, producing, processing, storing and transporting crude oil, bitumen and natural gas; (x) geological, technical, drilling and processing problems; (xi) the Company's ability to hire and retain qualified staff with the skills necessary to continue development of the Company's projects; (xii) imprecision in estimating capital expenditures and operating expenses; (xiii) imprecision in estimating the timing, costs and levels of production and drilling; (xiv) imprecision in estimates of future production capacity; (xv) potential delays or changes in plans with respect to exploration and development projects or capital expenditures; (xvi) 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; (xvii) the inability of the Company to obtain financing for its potential oil sands projects from capital markets, strategic joint venture partners or other sources on competitive terms, or at all; (xviii) unavailability of required equipment and services; (xix) 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 (xx) the other factors discussed under "Oil Sands Development Risks" and "Business Risks and Uncertainties" in this MD&A.

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

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

Basis of Presentation

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

The financial statements of the Company as at and for the three and nine months ended September 30, 2011 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 IFRS and the accounting policies outlined in note 3 of the unaudited interim financial statements as at and for the three months ended March 31, 2011.

Alberta Oilsands Inc.

Management's Discussion and Analysis

September 30, 2011

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 applicable permits and additional financing to continue the development of the Company's properties and generate funds therefrom and to meet current and future obligations. The financial statements do not reflect adjustments in the carrying values of the assets and liabilities, expenses and the balance sheet classifications that would be used if the going concern assumption were not appropriate. Such adjustments could be material.

Overview

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

The Company's efforts during the third quarter of 2011 were focused on a number of areas in the Athabasca oil sands trend. The primary focus was the advancement of the Clearwater Phase I Project.

Highlights for the third quarter of 2011 include the following:

- On April 13, 2011, the Energy Resources Conservation Board ("ERCB") issued a Supplemental Information Request ("SIR") to AOS on the Clearwater Phase I Project Application. AOS submitted the response to the SIR on August 4, 2011.
- On July 15, 2011, the Company completed a prospectus offering of 16,666,600 Common Shares at a price of \$0.30 per share for gross proceeds of approximately \$5.0 million.
- On September 30, 2011, the Company and its joint venture partner closed the sale of its working interest in the Hangingstone property. The Company received net proceeds of approximately \$24.6 million.

Subsequent highlights:

- Shabir Premji retired as Executive Chairman as of October 31, 2011. Mr. Premji remains a director of the Company.
- The Board of Directors of the Company appointed Mr. Jack Crawford, previously Lead Director of the Company, as Chairman of the Board.
- Mr. Michael Lee, President of the Company was appointed interim CEO.
- On October 6, 2011 the ERCB issued a second Supplementary Information Request pertaining to the Clearwater Phase I Project Application.
- GLJ Petroleum Consultants issued a resource evaluation that assigned 373 million barrels (MMbbl) of gross lease contingent resources on a best estimate case to the Clearwater project area with an effective date of September 30, 2011.

Alberta Oilsands Inc.

Management's Discussion and Analysis

September 30, 2011

Review of Oil Sands Operations

Clearwater

AOS continued to take steps on the path to production at its oil sands project at Clearwater. The initial Clearwater Phase I Project Application was filed on January 15, 2010 with the ERCB. In December 2010, AOS filed an application update with the ERCB for a Solvent Assisted Low Pressure Steam Assisted Gravity Drainage ("SLP-SAGD") project at Clearwater with a design production capacity of 4,350 bbl/d of bitumen through six horizontal SLP-SAGD well pairs.

The 2011 winter exploration program included 26 core holes as well as 2D and 3D seismic programs. The coring further delineated existing Clearwater lands as well as two of the new sections purchased in November 2010. The Clearwater Phase I Project area is now delineated by a total of 25 core holes over 2 sections resulting in an average density of 12.5 wells per section. The seismic programs acquired 6.7 kilometres of 2D and 1.3 square kilometres of 3D data. The Company engaged GLJ Petroleum Consultants to prepare a resource report on the entire Clearwater Project area based on delineation that included the results of the winter drilling program and an effective date of September 30, 2011. Gross lease contingent resources of 373 MMbbl were assigned on a best estimate basis. The contingencies which currently prevent the classification of the contingent resources as reserves are the pending successful piloting of the SLP-SAGD technology, further delineation drilling, facility design, regulatory approvals and firm development plans.

On April 13, 2011, the ERCB issued a SIR comprising 36 questions to AOS on the Clearwater Phase I Project Application. AOS submitted the responses to the SIR on August 4, 2011. On October 6, 2011 the ERCB issued a second SIR with 7 questions. The Company is responding to these questions and expects to have comprehensive responses submitted to the ERCB in a timely manner.

AOS is working with the Provincial Government and the Regional Municipality of Wood Buffalo ("RMWB") to highlight the benefits of the Clearwater Project and to assess the potential impact of the proposed Lower Athabasca Regional Plan ("LARP") which includes the Fort McMurray Urban Development Sub-Region ("UDSR"). On August 2, 2011, Alberta Sustainable Resource Development ("ASRD") cancelled all surface lease applications in a large area surrounding the City of Fort McMurray, which included the majority of the Clearwater Project area. On August 29, 2011, a MOU was signed between the Provincial Government and the RMWB which committed the province to transfer land to the RMWB in a timely manner for the continued growth of Fort McMurray. Details of the UDSR have yet to be released but could have a material impact on the Clearwater Project.

Development of Phase I of the project is subject to both regulatory approval and obtaining project financing.

Hangingstone

The Company and its 50% joint venture partner completed the sale of their 100% working interest in the Hangingstone East/Halfway Creek area on September 30, 2011. The Company received net proceeds of \$24.6 million. The net proceeds reflect the satisfaction by the Company of its remittance obligation to a royalty holder that converted its gross overriding royalty in the property to a 4.125% working interest. This conversion resulted in a net cash payment of approximately \$1.8 million to the holder and subscription by and issuance to the holder of 1.0 million Common Shares on a flow-through basis at a deemed price of \$0.375 per share. Proceeds of the sale will help fund the Company's working capital

Alberta Oilsands Inc.

Management's Discussion and Analysis

September 30, 2011

which will be used for both its core focus area, the Clearwater Phase I Project and commencement of an exploration program at Grand Rapids.

Grand Rapids

The Company has a 100% working interest in 18 sections in the Grand Rapids prospect area. During the 2011/2012 winter drilling season, the Company intends to drill approximately 13 core holes and acquire 54 kilometres; of 2D seismic. The expenditures for the program are estimated to be approximately \$8.0 million and are anticipated to fully satisfy the remaining balance of flow-through expenditure commitments.

The oil sands exploration permit ("OSE") application and caribou protection plan ("CPP") have been submitted and scouting and access for construction has begun. Field work will commence after freeze up, likely to be in January 2012.

Algar Lake

The Company has a 100% working interest in 51 sections in the Algar Lake prospect area. The three 1950 vintage vertical wells drilled on the lease indicate potential for significant *in situ* bitumen volumes. There is also potential for heavy oil "cold-flow" (or non-thermally-assisted) production, which if viable and approved would considerably reduce the capital requirement and facility complexity to achieve production.

Conventional Operations

AOS produced an average of 82 boe/d in the third quarter of 2011, comprising 230 mcf/d of natural gas from Ladyfern and 35 boe/d from Leduc with the balance from minor properties. This compares to 134 boe/d in the third quarter of 2010 and 85 boe/d in the second quarter of 2011. The Company has not added any conventional production since the Ladyfern well went on production in April 2009.

The unusually high operating expense at the Leduc property for the first quarter of 2011 was due primarily to repair costs of \$241,100 for a pipeline leak in the Leduc property which included soil remediation. The remediation has been completed. An insurance claim has been estimated for approximately \$154,500, which amount reduced the third quarter operating expenditures.

AOS has petroleum and natural gas rights to 38,913 hectares of undeveloped lands in Alberta and British Columbia.

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

International Operations

The sale and assignment of AOS' Kenyan assets to Africa Oil Corp. was for consideration of 2.5 million Africa Oil common shares and 1.5 million Africa Oil warrants, each of which was exercisable into one common share of Africa Oil at a price of \$1.50 per share. By the end of September 2011, the Company had sold virtually all of the 2.5 million Africa Oil common shares and exercised the 1.5 million warrants and sold the resulting shares. Net proceeds of approximately \$5.6 million were realized from the sale.

Alberta Oilsands Inc.
Management's Discussion and Analysis
September 30, 2011

Financial and Operating Summary

	Three months ended September 30		
	2011	2010	2009 ⁽¹⁾
Statement of Operations and Deficit			
Petroleum and natural gas sales (\$)	409,317	501,367	894,316
Petroleum and natural gas sales per boe (\$)	54.44	40.66	30.25
Daily sales volumes (boe 6:1)	82	134	321
Net income (loss) for the period (\$)	8,903,394	2,173,243	(486,157)
Net income (loss) per share – basic and diluted (\$)	0.06	0.02	(0.01)
Statement of Cash Flows			
Funds used in operations (\$) ⁽²⁾	(274,339)	(1,271,701)	98,124
Cash flow used in operations (\$) ⁽²⁾	(415,152)	(1,200,459)	399,091
Capital expenditures – property and equipment (\$)	23,611	349,652	1,651,024
Capital expenditures – exploration and evaluation assets (\$)	1,615,220	746,853	-
Weighted average number of shares			
Basic	153,091,705	105,727,719	79,651,375
Diluted	153,652,070	106,277,000	79,651,375
Nine months ended September 30			
	2011	2010	2009 ⁽¹⁾
Statement of Operations and Deficit			
Petroleum and natural gas sales (\$)	1,356,344	1,939,010	2,153,857
Petroleum & natural gas sales per boe (\$)	56.33	43.40	33.35
Daily sales volumes (boe 6:1)	88	164	237
Net income (loss) for the period (\$)	6,378,821	(2,113,582)	(2,624,539)
Net income (loss) per share – basic and diluted (\$)	0.05	(0.02)	(0.03)
Statement of Cash Flows			
Funds used in operations (\$) ⁽²⁾	(1,634,722)	(2,399,273)	(1,046,434)
Cash flow used in operations (\$) ⁽²⁾	(1,619,034)	(2,444,611)	(1,048,824)
Capital expenditures – property and equipment (\$)	115,955	2,410,464	9,522,113
Capital expenditures – exploration and evaluation assets (\$)	16,905,543	4,017,726	-
Total assets (\$)	88,341,739	58,708,245	50,216,792
Total liabilities (\$)	15,806,226	9,628,043	7,079,537
Shareholders' equity (\$)	72,535,513	49,080,202	43,137,255
Weighted average number of shares			
Basic	137,848,057	105,477,784	79,651,375
Diluted	138,618,161	105,477,784	79,651,375

Alberta Oilsands Inc.
Management's Discussion and Analysis
September 30, 2011

- (1) The quarterly results for 2009 have not been adjusted and reflect the results in accordance with GAAP.
- (2) AOS' method of calculating funds from operations may differ from that of other corporations and, accordingly, may not be comparable to measures used by other corporations. AOS calculates funds from operations by taking cash flow from operating activities as determined under IFRS or GAAP before the change in non-cash working capital related to operating activities and abandonment expenditures incurred. The Company uses this method as it believes the uncertainty surrounding the timing of collection, payment or incurrence of these items makes them less useful in evaluating AOS' operating performance.

Reconciliation of cash flow to funds used in operations

	Three months ended September 30		
	2011	2010	2009 ⁽¹⁾
Cash flow used in operating activities (\$)	(415,152)	(1,200,459)	399,091
Change in non-cash working capital (\$)	140,813	(71,242)	(300,967)
Funds used in operations (\$)	(274,339)	(1,271,701)	98,124

Reconciliation of cash flow to funds used in operations

	Nine months ended September 30		
	2011	2010	2009 ⁽¹⁾
Cash flow used in operating activities (\$)	(1,619,034)	(2,444,611)	(1,048,824)
Change in non-cash working capital (\$)	(15,688)	45,338	2,390
Funds used in operations (\$)	(1,634,722)	(2,399,273)	(1,046,434)

Production

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Oil and NGL (bbls/day)	257	46	281	52
Natural gas (mcf/day)	39	531	41	671
boe/day (6:1)	82	134	88	164

Since the Company's focus is on its oil sands properties, there have been no additional wells added on its conventional properties. The last producing well added was the Ladyfern well in April 2009. Therefore, the Company's production continues to experience natural declines from its existing producing reserves.

Alberta Oilsands Inc.
Management's Discussion and Analysis
September 30, 2011

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Commodity prices				
Oil and NGL (\$/bbl)	88.18	72.03	91.25	74.98
Natural gas (\$/mcf)	3.97	4.08	4.23	4.90
boe (\$/boe)	54.44	40.66	56.33	43.40
Revenues (\$)				
Oil and NGL	315,514	302,204	1,032,409	1,040,384
Natural gas	93,803	199,163	323,935	898,626
Total	409,317	501,367	1,356,344	1,939,010

For the three and nine months ended September 30, 2011, commodity prices increased for oil and natural gas liquids ("NGL") to \$88.18 and \$91.25 per bbl, as compared to \$72.03 and \$74.98 per bbl in the comparative periods of 2010. The average price decreased from \$100.67 per bbl realized in the second quarter of 2011. Gas prices were \$3.97 and \$4.23 per mcf for the 2011 periods versus \$4.08 and \$4.90 per mcf in the comparative periods in 2010 and \$4.42 per mcf in the second quarter of 2011.

The Company had a commodity contract for the period from November 1, 2009 to October 31, 2010. Realized losses of \$557 and \$19,874 were included in oil and natural gas revenue for the three and nine months ended September 30, 2010. The contract was not renewed after October 31, 2010.

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Royalties and operating expenses				
Royalties (\$)	49,168	84,605	139,791	368,404
% of revenues	12	17	10	19
\$/boe	6.54	6.85	5.81	8.25
Production and transportation expenses (\$)	95,462	245,791	739,468	1,105,996
\$/boe	12.70	19.91	30.71	24.75

Royalties for the three and nine months ended September 30, 2011 were 12% and 10% as compared to 4% for the second quarter of 2011 and 17% and 19% in the comparative periods in 2010. A prior year reduction in crown royalties in the amount of \$58,800 from capital cost allowance and processing adjustments primarily from the Ladyfern well was recognized in the second quarter of 2011. Excluding this adjustment, royalties would have remained consistent at 15%.

Production and transportation costs for the three and nine months ended September 30, 2011 were \$95,462 (\$12.70 per boe) and \$739,468 (\$30.71 per boe) respectively as compared to \$245,791 (\$19.91 per boe) and \$1,105,996 (\$24.75 per boe) for the comparative periods in 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. There was a pipeline leak on the Leduc property which required soil remediation work to be done during the first quarter of 2011. The Company is pursuing an insurance claim which is expected to offset some of these expenditures which totalled \$241,100 (\$27.39 per boe). A provision in the amount of \$154,471 was recorded in the third quarter for this claim.

Alberta Oilsands Inc.
Management's Discussion and Analysis
September 30, 2011

Netbacks (\$/boe)	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Revenue	54.44	40.62	56.33	43.40
Royalties	6.54	6.85	5.81	8.25
Operating expenses	12.70	19.91	30.71	24.75
Field netbacks	35.20	13.86	19.81	10.40

General and administrative expense

General and administrative expenditures for the three and nine months ended September 30, 2011 were \$559,652 and \$2,010,902 as compared to \$1,088,212 and \$2,373,597 in the comparative periods in 2010 and \$855,755 for the second quarter of 2011. Salaries in the amount of \$163,243 and \$454,249 related to individuals specifically involved in the oil sands properties were capitalized for the three and nine months ended September 30, 2011. Expenditures increased in the second quarter of 2011 as a result of additional staff and related costs, preparation for IFRS, attempted disposition of conventional properties and increased legal and regulatory filing fees.

Share-based compensation

Share-based compensation expensed for the three and nine months ended September 30, 2011 was \$122,342 and \$488,177 compared to (\$2,045) and \$419,808 for the comparative periods in 2010. In addition, share based compensation that was capitalized to exploration and evaluation assets was \$43,840 and \$203,429 for the three and nine months ended September 30, 2011 compared to \$39,685 and \$215,833 for the comparative periods in 2010. A total of 3,909,570 stock options were granted during the first nine months of 2011. Under IFRS, the calculation of share-based compensation is virtually the same as it was under GAAP, however the recognition of the expense is different. Under IFRS, the expense is recognized over the individual vesting periods for the graded vesting awards, resulting in more expense at the beginning of the recognition period, compared to GAAP where the Company recognized the expense on a straight-line basis through the date of full vesting.

Interest expense and financing costs

The Company paid an advisory fee of \$150,495 in the first quarter of 2011 in the pursuit of a potential financing commitment. The financing has not been completed. The balance of the interest expense relates to the accretion of the decommissioning liabilities.

Taxes

The deferred tax provision for the three and nine months ended September 30, 2011 totaled \$3,033,462 and \$3,225,995 as compared to \$672,528 and \$150,824 for the comparative 2010 periods. This 2011 amount was net of the deferred tax expense of \$631,856 relating to the reduction of the flow-through share premium liability.

Alberta Oilsands Inc.
Management's Discussion and Analysis
September 30, 2011

Depletion, depreciation and impairment	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Depletion and depreciation (\$)	107,950	213,192	355,469	801,776
Impairment (\$)	83,967	910,856	409,783	3,650,723
Total (\$)	191,917	1,124,048	765,252	4,452,499
\$/boe	25.52	91.07	31.78	99.65

Depletion and depreciation for the three and nine months ended September 30, 2011 was \$107,950 and \$355,469 as compared to \$213,192 and \$801,776 for the comparative periods in 2010. Under IFRS the Company calculates depletion and depreciation on a component basis utilizing total proved plus probable reserves. Under previous GAAP, depletion was calculated using only total proved reserves applied to the full cost pool. On a going forward basis, the Company's depletion and depreciation is anticipated to be lower under IFRS than was previously reported under GAAP as a result of this change and the impairment write-downs that were taken under IFRS.

Under IFRS, the carrying value of cash generating units ("CGU's") is compared to the recoverable amount which is defined as the higher of the fair value less costs to sell or value in use (i.e. discounted cash flows). As a result, the Company recognized impairments under IFRS in the amounts of \$83,967 and \$409,783 for the three and nine months ended September 30, 2011 and \$0.9 million and \$3.7 million for the three and nine months ended September 30, 2010. These impairments related to the Company's conventional natural gas CGU's.

Alberta Oilsands Inc.
Management's Discussion and Analysis
September 30, 2011

Capital expenditures (\$)

Capital spending is summarized as follows:

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Oil sand properties				
Land and lease rentals	22,810	21,508	108,700	103,814
Seismic	205,142	177,371	4,436,947	233,498
Drilling	901,601	1,858	10,895,339	2,373,219
Clearwater Phase I Application	487,306	197,233	1,187,208	796,402
Other	(1,639)	402,883	277,349	564,793
	1,615,220	800,853	16,905,543	4,071,726
Conventional properties				
Lease rentals and seismic	(5,999)	13,233	23,379	28,460
Drilling and completion	(3)	266,244	13,525	2,167,586
Tangible	-	125	9,719	134,665
	(6,002)	279,602	46,623	2,330,711
Office	29,613	16,050	69,332	25,753
Total	1,638,831	1,096,505	17,021,498	6,428,190

Liquidity and financial position

The Company commenced 2011 with a working capital position of \$8.6 million, which included the value of the Company's equity investment in Africa Oil.

During the nine months ended September 30, 2011, the Company spent \$1.6 million on operating activities and \$17.0 million on capital expenditures. In March 2011, pursuant to a public offering, the Company issued 20 million Common Shares on a flow-through basis at a price of \$0.50 per share for net cash proceeds of \$9.1 million. In addition, during the first half of 2011, the Company sold virtually all of its Africa Oil shares for net cash proceeds of \$5.6 million. In July 2011, the Company issued 16.7 million Common Shares for net proceeds of \$4.9 million. At the end of the third quarter, the Company sold its working interest in the Hangingstone property for net cash proceeds of \$24.6 million. The working capital at September 30, 2011 was \$28.6 million.

As a result of the flow-through issues in November and December 2010, the Company received gross proceeds of \$6,560,800. These proceeds were spent on qualifying expenditures by the end of March 31, 2011.

From the March 2011 and September 2011 flow-through share financings the Company must spend the \$10.375 million proceeds on qualifying expenditures by the end of December 31, 2012. Approximately \$6.2 million has been spent as at September 30, 2011.

The Company continues to pursue debt, capital transactions, joint-ventures and other financial partnerships to provide the funding required to continue its oil sands development, including its proposed

Alberta Oilsands Inc.
Management's Discussion and Analysis
September 30, 2011

Clearwater Phase I Project. The ability of the Company to recover the amounts shown for the properties is dependent upon the existence of economically recoverable reserves and upon the Company's ability to obtain applicable permits and additional financing to continue the development of the Company's properties and generate funds therefrom and to meet current and future obligations. Expenditures on the Clearwater Phase I Project will be kept to a minimum until regulatory approval and financing have been obtained. The Company's policy is to ensure that its cash investments are liquid and are invested in low risk products.

Share Capital

Common shares

The Company commenced 2011 with 118,915,457 Common Shares outstanding. During the nine months ended September 30, 2011, 35,000 stock options were exercised and 37,666,600 Common Shares were issued resulting in 156,617,057 Common Shares outstanding as at September 30, 2011 and as at the date of this MD&A.

Stock options

The following is a continuity of stock options:

	September 30, 2011		December 31, 2010	
	Number of options	Weighted average exercise price (\$)	Number of options	Weighted average exercise price (\$)
Beginning of period	6,852,323	\$ 0.46	5,527,156	\$ 0.47
Granted	3,909,570	0.37	3,880,000	0.39
Exercised	(35,000)	0.13	(694,832)	0.18
Expired	(780,000)	0.37	(229,000)	0.31
Forfeited	(737,656)	0.74	(1,631,001)	0.41
End of period	<u>9,209,237</u>	<u>\$ 0.41</u>	<u>6,852,323</u>	<u>\$ 0.46</u>

The following summarizes information about stock options outstanding as at September 30, 2011:

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	1,294,667	2.21	\$ 0.13	1,294,667	\$ 0.13
\$ 0.14 – \$ 0.37	1,429,570	4.27	0.28	727,186	0.29
\$ 0.38 – \$ 0.61	6,113,000	3.87	0.41	3,088,158	0.42
\$ 0.62 – \$ 1.47	120,000	0.94	1.30	120,000	1.30
\$ 1.48 – \$ 2.21	252,000	0.75	2.09	252,000	2.09
	<u>9,209,237</u>	<u>3.57</u>	<u>\$ 0.41</u>	<u>5,482,011</u>	<u>\$ 0.43</u>

Of the total stock options outstanding, 7,174,070 are held by directors, officers and management.

Alberta Oilsands Inc.
Management's Discussion and Analysis
September 30, 2011

Warrants

The following is a continuity of warrants:

	Warrants	Value	Weighted average exercise price
January 1, 2010	17,431,250	\$ 617,637	\$ 0.56
Issued	6,260,000	137,135	0.70
Expired	(2,000,000)	(13,670)	0.50
Exercised	(20,000)	(137)	0.50
Issued	2,000,000	123,362	0.50
December 31, 2010	23,671,250	864,327	0.60
Issued	1,200,000	132,022	0.50
Expired	(2,650,000)	(41,915)	0.97
September 30, 2011	22,221,250	\$ 954,434	\$ 0.56

In March 2011, pursuant to the public offering the Company issued 1,200,000 warrants to the underwriter. Each warrant entitles the holder to acquire one Common Share at an exercise price of \$0.50 per share until March 21, 2014. In April 2011, 650,000 warrants at an exercise price of \$0.50 per share expired and in September 2011, 2,000,000 warrants at an exercise price of \$1.00 per share expired. As at September 30, 2011 there were 22,221,250 warrants outstanding, all of which were exercisable.

On November 17, 2011, 12,761,250 warrants exercisable at \$0.50 expired resulting in 9,460,000 warrants outstanding as at the date of this MD&A.

Contractual Obligations and Commitments

Flow-through expenditures

During November and December 2010, the Company raised \$6,560,800 through the sale of Common Shares issued on a flow-through basis. The Company renounced the tax benefits of these proceeds to the investors effective December 31, 2010. As at March 31, 2011, all of the proceeds had been incurred on qualifying expenditures in the oil sands properties.

In March 2011, the Company raised \$10 million through the sale of Common Shares issued on a flow-through basis. The tax benefits of these proceeds will be renounced to the investors effective December 31, 2011 and the Company has until December 31, 2012 to incur the \$10 million of qualifying expenditures. As at September 30, 2011, approximately \$6.2 million has been incurred on qualifying expenditures.

In September 2011, pursuant to the sale of the Hangingstone property, the Company issued 1 million Common Shares on a flow-through basis for a value of \$375,000. The tax benefits will be renounced to the investor effective December 31, 2011 and the Company has until December 31, 2012 to incur the \$375,000 on qualifying expenditures.

Alberta Oilsands Inc.
Management's Discussion and Analysis
September 30, 2011

Other commitments

In July 2009, the Company signed a Gross Overriding Royalty, Access and Cooperation Agreement (the "Agreement") with the Fort McMurray Airport Authority ("FMAA"). In consideration for the FMAA granting access rights, the Company granted to the FMAA a two percent (2%) gross overriding royalty on the petroleum substances produced from the specified lands. The Company granted the FMAA 2,000,000 warrants entitling the holder to one Common Share at a price of \$0.50 per share until November 2012.

Off-Balance Sheet arrangements

The Company has no off-balance sheet arrangements.

Related party transaction

During the three and nine months ended September 30, 2011, the Company was charged \$35,438 and \$128,969 (September 30, 2010 – \$161,538 and \$315,846) in legal fees by legal firms in which an officer of the Company is a partner. These costs are included in general and administrative expense. Included in accounts payable at September 30, 2011 is \$85,668 (December 31, 2010 – \$162,368) due to the legal firm.

This transaction was conducted in the normal course of operations, on commercial terms established and agreed to by the parties. All outstanding balances are unsecured and are expected to be settled by cash payment within three months of the reporting date.

Selected Historical Financial Information (\$)

	IFRS			
	2011			2010
	3RD QUARTER	2ND QUARTER	1ST QUARTER	4TH QUARTER
	RESTATED			
Petroleum and natural gas revenue	409,317	492,487	454,540	514,172
Net income (loss)	8,903,394	(1,390,263)	(1,134,310)	(1,859,047)
Net income (loss) per share – basic and diluted	0.06	(0.01)	(0.01)	(0.02)
Funds used in operations	(274,339)	(595,517)	(764,866)	(144,863)
Cash flow used in operations	(415,154)	(378,480)	(825,402)	(182,787)
Capital expenditures	1,638,831	3,712,859	11,669,808	3,480,017

	IFRS			GAAP
	2010			2009
	3RD QUARTER	2ND QUARTER	1ST QUARTER	4TH QUARTER
	RESTATED			
Petroleum and natural gas revenue	501,367	622,100	815,543	826,073
Net income (loss)	2,173,243	(922,880)	(3,363,945)	(1,035,940)
Net income (loss) per share – basic and diluted	0.02	(0.01)	(0.03)	(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

Alberta Oilsands Inc.

Management's Discussion and Analysis

September 30, 2011

The Company does not expect to invest material additional capital towards development and exploration of its conventional assets. Consequently, natural declines at stable commodity prices will result in quarter over quarter reducing revenues and cash flow. The Company's investment in capital and operations on its oil sands assets is expected to accelerate in 2012, subject to the receipt of applicable permits and the availability of project financing.

Outlook

AOS' growth strategy is to develop its oil sands assets through a combination of debt, capital transactions, joint-ventures and other financial partnerships. The Company believes that this strategy will expedite conversion of its bitumen resources to production and cash flow.

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

The anticipated intensive level of industry activity in the oil sands creates challenges for all industry competitors in securing qualified personnel, supplies and services over the next few years. Activity in the oil sands sector was strong this past winter season (2010 - 2011) and is expected to continue. Concurrent with increased demand for services and qualified personnel there will likely be increases in labour and material costs. AOS management is cognizant of this and has considered strategies to adapt.

AOS expects to continue with technical and consultation work on Clearwater Phase I in anticipation of ERCB approval. This includes finalizing the interpretation of the 2011 winter exploration program in order to confirm Phase I well placements. These results will also be used to plan the expansion of the project in Clearwater Phase II.

The sale of the Hangingstone property has been completed and the Company received net cash proceeds of approximately \$24.6 million. Preparation work has commenced to explore AOS' Grand Rapids oil sands leases. Exploration activity is expected to occur in the first quarter of 2012.

Planned exploration in Grand Rapids is intended to provide an estimate of oil sands development potential of the area and would comprise approximately 13 core holes. Two historical core holes in the Grand Rapids area indicate potential for significant *in situ* bitumen volumes. The area surrounding Grand Rapids has experienced more activity and recent core holes on offsetting lands have assisted in generating the Grand Rapids exploration plan. A successful delineation program at Grand Rapids may support an oil sands project proposal in the future.

The objective of an Algar Lake exploration plan would be to confirm available resource volumes and evaluate further bitumen development potential.

Over the next year, management will focus on the following: guide the Clearwater Phase I Project Application to approval, assess and mitigate any impact of the planned UDSR on the Clearwater project, secure sufficient development funding for Clearwater Phase I, secure the personnel and contracts to

Alberta Oilsands Inc.

Management's Discussion and Analysis

September 30, 2011

execute and construct the Clearwater Phase I Project, secure the approvals, equipment and services to execute the planned exploration program at Grand Rapids, explore options for an exploration program at Algar Lake, and rationalize the conventional oil and natural gas assets.

Oil Sands Development Risks

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

Business Risks and Uncertainties

For an overview of the risks and uncertainties which may affect the Company and its business and operations, see "Forward-looking Statements and Information" in this MD&A and the annual information form for the year ended December 31, 2010 which can be found under the Company's profile at www.sedar.com. The risks and uncertainties as contained in such documents are not the only ones facing the Company. Additional risks and uncertainties not presently known to the Company or that the Company currently considers immaterial may also impair the business and operations of the Company and cause the price of the securities of the Company to decline. If any of these risks actually occur, the Company's business may be harmed and the financial condition and results of operation may suffer significantly. In that event, the trading price of the shares could decline and holders of Common Shares may lose all or part of their investment. Prospective investors should review such risks with their legal and financial advisors.

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.

Alberta Oilsands Inc.
Management's Discussion and Analysis
September 30, 2011

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. There is a 10 percent (10%) probability that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable plus possible reserves.

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

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

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

There is no certainty that it will be commercially viable for the Company to produce any portion of the resources detailed in this MD&A. The high level of uncertainty associated with the Company's possible recovery of any of these reserves or resources is the result of various risks and uncertainties including: current uncertainties around the specific scope and timing of the development of the Company's oil sands properties; the ability of the Company to finance any potential oil sands projects; proposed reliance on technologies that have not yet been demonstrated to be commercially applicable in oil sands applications; lack of regulatory approvals; the ability of the Company to obtain community support, the uncertainty regarding marketing plans for production from the subject areas; and improved estimation of project costs. There are a number of inherent risks and contingencies associated with such development, including commodity price fluctuations, project costs and those other risks and contingencies discussed in more detail in "Business Risks and Uncertainties" and "Forward-looking Statements and Information" in this MD&A.

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

Alberta Oilsands Inc.

Management's Discussion and Analysis

September 30, 2011

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

Critical Accounting Estimates

The Company adopted IFRS effective January 1, 2011. As a result the Company's financial results for the three and nine months ended September 30, 2011 and the comparative periods are reported under IFRS while selected historical data before 2010 continues to be reported under GAAP. (Refer to note 16 of the interim condensed financial statements for the Company's assessment of the impacts of the transition to IFRS).

Readers are cautioned that the preliminary statement of financial position prepared for adoption of IFRS as at January 1, 2010 has not been audited at this time and may still be subject to change.

New and pending accounting pronouncements

IFRS 9 - *Financial Instruments* was issued in November 2009 and addresses the classification and measurement of financial assets. This new standard reduces the number of categories and measurement options for financial assets. This new standard also amends the measurement of equity instruments whereas these instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. This standard must be applied for years beginning January 1, 2013. The Company has not yet reviewed the impact of this standard.

IFRS 10 *Consolidated Financial Statements* was issued in May 2011. IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are Special Purpose Entities in the scope of SIC-12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 (2008). This standard is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

IFRS 11 *Joint Arrangements* was issued in May 2011. Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. IFRS 11 essentially carves out of previous jointly controlled entities, those arrangements which although structured through a separate vehicle, such separation is ineffective and the parties to the arrangement have rights to the assets and obligations for the liabilities and are accounted for as joint operations in a fashion consistent with jointly controlled assets/operations under IAS 31. In addition, under IFRS 11 joint ventures are stripped of the free choice of equity accounting or proportionate consolidation; these entities must now use the equity method. Upon application of IFRS 11, entities which had previously accounted for joint ventures using proportionate consolidation shall collapse the proportionately consolidated net asset value (including any allocation of goodwill) into a single investment balance at the beginning of the earliest period presented. The investment's opening balance is tested for impairment in accordance with IAS 28 (2011) and IAS 36 *Impairment of Assets*. Any impairment losses are recognized as an adjustment to opening retained earnings at the beginning of the earliest period presented. This standard is effective for annual periods beginning on or after January 1, 2013.

IFRS 12 *Disclosure of Interests in Other Entities* was issued in May 2011. IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the

Alberta Oilsands Inc.
Management's Discussion and Analysis
September 30, 2011

performance of the other entity. The required disclosures aim to provide information in order to enable users to evaluate the nature of, and the risks associated with, an entity's interest in other entities, and the effects of those interests on the entity's financial position, financial performance and cash flows. This standard is effective for annual periods beginning on or after January 1, 2013.

IFRS 13 Fair Value Measurement was issued in May 2011. IFRS 13 replaces the fair value measurement guidance contained in individual IFRS's with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income. This standard is effective for annual periods beginning on or after January 1, 2013.

The Company intends to adopt these new IFRS standards prospectively in its financial statements for the annual period beginning on January 1, 2013. The extent of the impact of adoption of these new IFRS standards has not yet been determined.