



ALBERTA  
**OILSANDS** INC.

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

FOR THE THREE MONTHS ENDED  
MARCH 31, 2010

# Alberta Oilsands Inc.

## Management's Discussion and Analysis of Operations and Financial Condition

### March 31, 2010

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The following management's discussion and analysis of financial condition and the results of operations (the "MD&A") dated May 27, 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 consolidated interim financial statements as at and the three months ended March 31, 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 Inc.

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

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

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

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

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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 developments costs and the ability to fund such costs; (iii) future values that may be attributable to the Company's oil and gas properties; (iv) the ability of the Company, Platform Resources Inc. and Africa Oil Corp. to obtain the necessary approvals which are required to complete the assignment of Platform Resources Inc.'s interests in Blocks 12A and 13T in Kenya to Africa Oil Corp., including the approval of the Government of Kenya; (v) the ability of the current working capital levels of the Company to maintain future capital expenditures, including required flow-through expenditures; (vi) the Company's projected capital budget; (vii) successful results from the Company's core drilling programs; (viii) crude oil, natural gas and bitumen production levels; (ix) the continued economic viability of the Company's projects; (x) a regulatory regime that will be conducive to the Company completing its projects (including environmental regulation and royalty rates); (xi) 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; (xii) projections of market prices and the demand for the commodities the Company produces or intends to produce; and (xiii) the exploration operations and commitment of Platform Resources Inc. ("Platform") a wholly owned subsidiary of Alberta Oilsands in the Republic of Kenya. Such forward-looking statements and information are based on the opinions, assumptions and estimates of management at the date the statements are made, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements and information. Certain of these assumptions and risks are discussed in greater detail below and through-out this MD&A. The Company undertakes no obligation to update such forward-looking statements or information if circumstances or management's estimates or opinions should change, unless required by law.

With respect to forward looking statements and information contained in this MD&A, the Company has made assumptions regarding, among other things: (i) future prices for crude oil, natural gas, bitumen and refined products and that the demand for such products will continue to increase globally, especially in emerging markets; (ii) favourable future currency and interest rates; (iii) the Company's ability to generate sufficient cash flow from operations and access capital markets or strategic partners to meet its future obligations and to fund future projects; (iv) a continued favourable regulatory framework representing royalties, taxes and environmental matters where the Company conducts its business; 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,

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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 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. Platform's operations in Kenya may be adversely affected by political or economic developments or social instability, which are not within the control of either Platform or the Company, including, among other things, the risks of war, terrorism, abduction, expropriation, nationalization, renegotiation or nullification of existing concessions and contracts, taxation policies, economic sanctions, fluctuating exchange rates and currency controls. In addition, in light of the risks associated with obtaining the required approvals in respect of the sale of Platform Resources Inc.'s interests in Blocks 12A and 13T in Kenya to Africa Oil Corp. and the uncertainty associated with negotiating with foreign governments, the Company cannot provide any assurances that such approvals can be obtained in a timely manner or at all. If such approvals are not obtained, or are not obtained in a timely manner, the proposed sale may not be completed.

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 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**

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

The consolidated financial statements of the Company as at and for the three months ended March 31, 2010 have been prepared on a going concern basis which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Property and equipment is recognized in these

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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 abandonments and write-downs, and do not necessarily reflect present or future values. The ability of the Company to continue as a going concern and the recoverability of amounts shown for the properties is dependent upon the existence of economically recoverable reserves and upon the Company's ability to obtain additional financing to continue the development of the Company's properties and generate funds therefrom and to meet current and future obligations. The consolidated financial statements do not reflect adjustments in the carrying values of the assets and liabilities, expenses and the balance sheet classifications that would be used if the going concern assumption were not appropriate. Such adjustments could be material.

### **Overall Performance**

Alberta Oilsands Inc. is an early-stage oil sands exploration and development company focused in the Athabasca oil sands region of northeast Alberta. The Company trades on the TSX Venture Exchange.

Alberta Oilsands entered a critical stage of its growth plan in the first quarter of 2010. The submission of the application for the Company's first oil sands project at Clearwater West near Fort McMurray, Alberta in January marked both the end of a comprehensive process of preparation and brings it closer to the construction phase of the project. In anticipation of project approval, the Company is continuing to seek partners to help construct the initial phase of the Clearwater West project. The project, if successful, is designed to convert the Company's reserves at its Clearwater lands into a commercial oilsands project with a design capacity around 10,000 to 15,000 barrels per day (bpd) of bitumen production.

While Clearwater West will be the focus of the Company's activities in 2010, Alberta Oilsands has a total of 140.5 (121.2 net) sections of high working interest oil sands leases in five core areas and some conventional oil and natural gas assets in Western Canada that provide modest cash flow.

Q1 2010 highlights include the following:

- Filed an application to the Energy Resources Conservation Board (ERCB) and Alberta Environment on January 15, 2010 in respect of the Company's oil sands pilot project at Clearwater West.
- Carried out comprehensive technical work to refine the maximum safe operating pressure of the initial phase of the Clearwater West project.
- Initiated discussions with potential joint venture financial and operating partners.
- In February 2010, Platform Resources Inc., a wholly owned subsidiary of Alberta Oilsands agreed to assign its interests in two exploration blocks in Kenya to Africa Oil Corp. Finalization of the transaction is subject to Kenyan government approval.

Recent highlights:

- Announced the Company's first oil sands reserves on May 20, 2010. A third party evaluation by Ryder Scott Company – Canada, Petroleum Consultants, with an effective date of March 31, 2010, assigned 67.6 million barrels of Probable and Possible ("3P") bitumen gross lease reserves on approximately one section of the Company's 100% working interest lands at Clearwater West.

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**Review of Oilsands Operations**

**Fort McMurray Clearwater West**

Alberta Oilsands achieved a significant milestone in May 2010 by having its contingent resources on approximately one of the 2.5 sections within the Clearwater West project area reclassified as probable and possible reserves. This marked the Company's first oil sands reserves assignment. The independent estimate for the Clearwater West Phase 1 Project area by Ryder Scott Company – Canada, Petroleum Consultants ("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. Ryder Scott assigned total gross lease probable plus possible ("3P") reserves of 67.6 million barrels (MMB) of bitumen.

The following table summarizes Ryder Scott's estimate of the Company's reserves within the Clearwater West Phase 1 Project area:

Reserve Category	100% W.I. Lease Reserves(3) (MMB)	Realized Bitumen Price(4) (C\$/bbl)	BFIT NPV10(5)(6) (C\$ Millions)	NPV10(7) Per share
Probable Undeveloped(1)	16.3	54.65	\$ 70.7	\$0.67
Total Proved + Probable (2P)(1)	16.3	54.65	\$ 70.7	\$0.67
Possible Undeveloped(2)	51.3	54.65	\$ 97.3	\$0.93
Total Proved + Probable + Possible (3P)	67.6	54.65	\$168.0	\$1.60

- (1) 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 the estimated Proved plus Probable reserves.
- (2) 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.
- (3) Lease reserves are volumes before deductions for capital costs, operating costs, royalties and encumbrances.
- (4) Realized bitumen price is the representative price over the project life.
- (5) Future net revenues associated with reserves and resources do not necessarily represent fair market value.
- (6) Future gross revenue is after the deduction of crown royalties and the 2% GORR granted to the Fort McMurray Airport Authority. Deductions include direct costs of operating, drilling, completion, and development costs. Future net income is before tax, general and administrative expenses, and has not been adjusted for any outstanding loans or the costs of financing the project.

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Estimates for royalties are based on existing agreements and government regulations. The before income tax net present value is discounted at 10% (BFIT NPV10).

(7) Based on 105.2 million shares outstanding

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 reclassification of contingent resources as probable plus possible reserves was an expected outcome of the submission of the Clearwater West project application.

Future development plans in the Clearwater West area are to realize a larger production project, conceptually upwards of 10,000 bpd to 15,000 bpd (including phase 1 production) to recover the balance of the contingent resources that remains in this category after the current reserve assignment. That remaining volume is estimated by Ryder Scott in an NI 51-101 compliant report with an effective date of March 31, 2010 at approximately 104 million barrels. This expanded development plant will require additional capital to increase the number of production pads, plant, and facilities. Ryder Scott has completed scoping studies on the economic viability of indicative bitumen projects at various production levels, summarized below.

The following table summarizes the before income tax net present value discounted at 10% (BFIT NPV10) estimates calculated by Ryder Scott for the Clearwater West property for various production and bitumen pricing scenarios and capital cost estimates for commercial scale developments:

Production Capacity (bpd)	PIIP(1) (MMB)	100% W.I. Gross Bitumen Volume (MMB)	Realized Bitumen Price (C\$/barrel (bbl))	BFIT NPV(10) (C\$ Millions)	BFIT NPV(10) Per share
10,000	220	110	63.0	395	3.76
15,000	320	160	63.0	547	5.20
10,000	220	110	80.0	635	6.03
15,000	320	160	80.0	886	8.42

\* Notes: Economic calculations performed by Ryder Scott for indicative in situ projects, effective February 1, 2010. Major assumptions: Project start-up in mid 2011 and reach peak rates within two to three years, 50% recovery factor, realized prices of C\$63.00/bbl and C\$80.00/bbl are derived from an assumed US\$77.00/bbl WTI and US\$95.00/bbl WTI respectively, adjusted for foreign exchange, quality differentials, diluent and transportation costs assumptions. Gross Bitumen Volume is raw bitumen production for project life. Capital costs assumptions: C\$215 million for the 10,000 bpd case and C\$320 million for the 15,000 bpd case. Operating cost of \$30/bbl for all cases. All assumptions used in the above calculations were provided by AOS and were not reviewed by Ryder Scott. NPV10's include deduction for a 2% GORR to the FMAA. The estimated NPV10s presented may not represent fair market value.

(1) Petroleum initially in place (PIIP) means that the quantity of petroleum that is estimated to be contained in known accumulations prior to production. A recovery project cannot be defined for this

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volume of discovered petroleum initially in place at this time. There is no certainty that it will be commercially viable to produce any portion of the resources.

The net present value figures shown in the table above were calculated based on assumptions provided to Ryder Scott by Alberta Oilsands.

The Company will be required to obtain significant financial capital in order to fund the development 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.

In Hangingstone East project area, where AOS has a 50% interest in the 38.5 sections, thirteen 13 gross wells (6.5 net) were drilled in the past 2010 winter program with its joint venture partner. A mid-year 2010 resource assessment update is expected with the new well results, in June or July of 2010. Since the joint venture property is operated by its partner, the resources assessment will be performed by the third party evaluator used by AOS' joint venture partner rather than Ryder Scott. AOS is currently planning a drilling program that will include Phase 1 production wells at Clearwater West and delineation drilling on its other properties to further define additional Contingent Resources.

Work continues in preparation for the initial phase of Alberta Oilsands' Clearwater West SAGD oil sands project while the Company awaits approval of its application submitted in January 2010.

The Clearwater West project is located one mile southeast of the Fort McMurray Regional Airport. Alberta Oilsands has a 100% working interest in 28 sections of oil sands rights in the area subject to a 2% gross overriding royalty to the Fort McMurray Airport Authority on two of the 28 sections.

In the first quarter of 2010, Alberta Oilsands continued through the Clearwater West project application process by answering standard questions from the ERCB. The application process includes confirming the maximum safe operating pressure and cap rock integrity in the area. To this end, Alberta Oilsands commissioned comprehensive technical work to refine the maximum safe operating pressure of the project's initial phase.

In March 2010, Alberta Oilsands drilled and cased an additional observation well at 1AB/01-21-088-08W4. Analysis of the geophysical logs of the observation well drilled in March 2010 has helped Alberta Oilsands define the western edge of the main channel at the south side of Clearwater. This knowledge will help with final well pair positioning. Alberta Oilsands expects to extract bitumen from Clearwater West using six horizontal SAGD well pairs. In the current design, the wells are oriented south to north at the bottom of the thick high quality sand channel. The SAGD well pairs are expected to be spaced 75 metres apart and have a nominal length of 600 metres.

Prior to initial operations at Clearwater West, two firms have been engaged to carry out a detailed and comprehensive three-dimensional simulation analysis that builds on existing and new laboratory and field measurements.

Alberta Oilsands is also taking steps to better understand the character of the shallow oil sands deposit at Clearwater. At the Company's request, geophysical openhole well logging data and conventional laboratory core measurements were updated in the first quarter to determine the reservoir properties at Clearwater.

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The Company's knowledge of the Clearwater reservoir is also being enhanced through an updated geomodel. A geomodel captures properties such as porosity, bitumen saturation and directional permeabilities at observation wells and distributes these properties geostatistically between the wells based on local and regional information of the Athabasca bitumen. Alberta Oilsands deemed the updated geomodel to be valuable based on recent observations of a thicker, high quality sand channel inside the bitumen reservoir. The main channel is viewed to be similar to the bitumen reservoir of a commercial oil sands operation with similar depth in the area, which has been producing since the fall of 2002. Alberta Oilsands expects the initial phase at Clearwater West to demonstrate similar performance characteristics.

The Company continues to refine reservoir simulation calculations based on the updated geomodel to forecast production profiles. Based on promising preliminary results together with preliminary results of the detailed cap rock analysis, Alberta Oilsands expects to provide the ERCB and Alberta Environment with updated projections in the second quarter of 2010.

The initial phase of the Clearwater West project is designed to confirm the potential for commercial bitumen production from the area and the safety of recovering bitumen in-situ from the relatively shallow reservoir near the Fort McMurray Airport. As each question is answered, Alberta Oilsands moves one step closer to realizing its objective of achieving project approval, facility construction, first steam and then first oil at Clearwater West. The current objective is to achieve bitumen production and cash flow by 2012.

*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**

In addition to Alberta Oilsands' focus on SAGD bitumen extraction, the Company has 97,283 acres of undeveloped land in Alberta, Saskatchewan and Manitoba to pursue conventional exploration. Based on legacy production and one exploratory gas well, the Company's conventional production in the first quarter of 2010 averaged 196 barrels of oil equivalent per day.

Alberta Oilsands' natural gas discovery at Ladyfern North (Hamburg) has now been on production for one year. The Slave Point gas well at 13-29-95-12W6 came on stream on April 1, 2009 and averaged 823 thousand cubic feet per day of natural gas and 10 barrels per day of natural gas liquids in the first quarter of 2010. The Company plans a follow up to this well by drilling in a prospect at Ladyfern South (Hamburg) 05-05-095-12W6 location. The follow-up is expected to be drilled during the 2010/2011 winter drilling season.

Conventional production has provided Alberta Oilsands with a source of cash flow to defray some of the general and administrative expenses. While Alberta Oilsands' conventional strategy served a key role in 2009, the Company's focus is clearly on the oil sands assets.

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**Review of International Operations**

As announced on February 16, 2010, Alberta Oilsands' wholly owned subsidiary, Platform, has agreed to assign its Kenyan assets to Africa Oil Corp. ("Africa Oil"), subject to the fulfillment of certain conditions. Conditions of the agreement include regulatory approvals and consent of the Government of Kenya.

The agreement calls for Platform to assign Blocks 12A and 13T in Kenya to Africa Oil in consideration for 2.5 million common shares and 1.5 million share purchase warrants of Africa Oil. Each warrant is exercisable into one common share at a price of \$1.50 per share over a period of two years.

In April 2010 Alberta Oilsands transferred cash of US\$1,087,500 to Platform's bank account which was utilized to cash collateralize an unconditional and irrevocable bank guarantee securing a performance bond to be provided to the Kenyan government by Platform with respect to the PSC's. See "international obligations".

Alberta Oilsands believes this transaction is in the interest of shareholders by allowing the Company to maintain upside from a diverse portfolio of East African assets while granting responsibility for exploring and developing the assets to an established local producer.

*There are risks and uncertainties associated with Alberta Oilsands' international operations and the proposed assignment to Africa Oil. For details, see "Forward-looking Statements and Information" and "Business Risks and Uncertainties."*

**Results of Conventional Operations**

<b>Statement of Operations and Deficit</b>	Three months ended March 31		
	<b>2010</b>	2009	2008
Petroleum and natural gas sales (\$)	<b>815,543</b>	262,027	444,336
Petroleum & natural gas sales per boe (\$)	<b>46.19</b>	47.93	85.74
Daily sales volumes (boe/day)(6:1)	<b>196</b>	61	58
Net loss for the period (\$)	<b>(1,186,540)</b>	(1,216,570)	(780,434)
Net loss per share – basic and diluted (\$)	<b>(0.01)</b>	(0.02)	(0.01)
<b>Statement of Cash Flows</b>			
Funds used in operations (\$) <sup>(1)</sup>	<b>(377,120)</b>	(1,110,316)	(267,248)
Cash flow used in operations (\$)	<b>(544,051)</b>	(636,828)	453,149
Capital expenditures (\$)	<b>4,417,970</b>	7,263,788	5,893,010

**Weighted average number of shares**

<b>- basic and diluted</b>	<b>105,210,625</b>	79,651,375	59,720,853
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- (1) Alberta Oilsands' method of calculating funds from operations may differ from that of other corporations and, accordingly, may not be comparable to measures used by other corporations. Alberta Oilsands calculates funds from operations by taking cash flow from operating activities as determined under GAAP before the change in non-cash working capital related to operating activities and abandonment expenditures incurred. The Company uses this method as it believes the uncertainty surrounding the timing of collection, payment or incurrence of these items makes them less useful in evaluating Alberta Oilsands' operating performance. A summary of this reconciliation is as follows:

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<b>Reconciliation of Cash flow per GAAP to Funds from (used in) Operations</b>	Three months ended March 31		
	<b>2010</b>	2009	2008
Cash flow (used in) from operating activities (per GAAP) (\$)	<b>(544,051)</b>	(636,828)	453,149
Change in non-cash working capital (\$)	<b>166,931</b>	(473,488)	(720,397)
Funds (used in) from Operations	<b>(377,120)</b>	(1,110,316)	(267,248)

<b>Production</b>	Three months ended March 31	
	<b>2010</b>	2009
Oil and NGL (bbls/day)	<b>55</b>	55
Natural gas (mcf/day)	<b>848</b>	37
boe/day (6:1)	<b>196</b>	61

During the first quarter of 2010, the Company's average production increased to 196 boe per day from 61 boe per day in the first quarter of 2009 due to the Ladyfern well which commenced production in the second quarter of 2009. However, production declined from 222 boe per day experienced in the fourth quarter of 2009, a result of natural declines from the Ladyfern well and the Leduc area.

<b>Commodity Prices</b>	Three months ended March 31	
	<b>2010</b>	2009
Oil and NGL (\$/bbl)	<b>77.74</b>	49.40
Natural gas (\$/mcf)	<b>5.80</b>	5.82
boe (\$/boe)	<b>46.19</b>	47.93
<b>Revenues (\$)</b>		
Oil and NGL	<b>372,534</b>	242,662
Natural gas	<b>443,009</b>	19,365
Total	<b>815,543</b>	262,027

Commodity prices increased for oil and natural gas liquids ("NGL") to \$77.74 per bbl as compared to \$49.40 per bbl in the comparative quarter of 2009 and \$74.51 in the fourth quarter of 2009. Gas prices were basically the same at \$5.80 per mcf in the first quarter of 2010 compared to \$5.82 per mcf in the first quarter of 2009 and \$5.11 per mcf in the fourth quarter of 2009.

In October 2009, the Company signed a commodity "collar" price risk contract for the period November 1, 2009 to October 31, 2010. The notional quantity under this contract is for 50 barrels of oil per day at prices per barrel of \$70.00 (floor strike price) and \$79.50 (cap strike price). For the three months ended March 2010, the Company realized a loss of \$11,070 under this contract which has been included in petroleum and natural gas sales revenue and has recorded an unrealized gain of \$41,810 for the unsettled portion of the contract as at March 31, 2010. The Company's mark-to-market value of this unsettled portion is a liability of \$91,877 of which \$69,000 has been paid in cash as a deposit to the counterparty resulting in a net liability of \$22,877.

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	2010	2009
<b>Royalties and Operating Expenses</b>		
Royalties (\$)	<b>195,137</b>	37,490
% of revenues	<b>24</b>	14
\$/boe	<b>11.05</b>	6.86
Operating and transportation expenses (\$)	<b>490,965</b>	459,279
\$/boe	<b>27.81</b>	84.01

Royalties for the first quarter of 2010 increased to 24% of revenue (\$11.05 per boe) from 14% of revenue (\$6.86 per boe) in the first quarter of 2009. The Ladyfern well has 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 increased to 33% (\$11.48 per boe) for the well for the fourth quarter.

Production and transportation costs for the first quarter of 2010 were \$490,965 or \$27.81 per boe as compared to \$459,279 or \$84.01 per boe for the same period of 2009 and \$379,180 or \$18.54 per boe for the fourth quarter of 2009. Operating costs continue to remain high for the Leduc property which consistently requires maintenance and repair expenditures due to the age of the equipment.

<b>Netbacks (\$/boe)</b>	Three months ended March 31	
	2010	2009
Revenue	<b>46.19</b>	47.93
Royalties	<b>11.05</b>	6.86
Operating expenses	<b>27.81</b>	84.01
Field netbacks	<b>7.33</b>	(42.94)
General and administrative (i)	<b>27.51</b>	132.31
Netbacks	<b>(20.18)</b>	(175.25)

(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 is no immediate production increases. See "Special Note Regarding Non-GAAP measures".

**General and administrative expense**

General and administrative expenditures for the three months ended March 31, 2010 totalled \$485,759 as compared to \$723,327 for the comparative 2009 period. Salaries in the amount of \$69,469 related to individuals specifically involved in the oil sands and conventional properties were capitalized for the three months ended March 31, 2010 as compared to \$70,969 for the comparative 2009 periods. Bonuses in the amount of \$305,000 were paid to management during the first quarter of 2009 whereas no bonuses were paid during the first quarter of 2010.

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**Business development expenses and international operations**

During the three months ended March 31, 2010, the Company incurred \$70,188 as compared to \$152,798 for the comparative 2009 period, in business development expenses related to the pursuit of projects outside of conventional Canadian oil and gas exploration and development, principally in Kenya. The majority of the expenditures in 2009 and 2010 related to commitments paid to the Kenyan Government for geological data and reports with the balance for consulting fees and related travel costs.

In February 2010, the Company announced the execution of a definitive agreement in which its wholly owned subsidiary Platform Resources Inc. agreed to assign its interest in Blocks 12A and 13T in Kenya in consideration for 2.5 million common shares and 1.5 million share purchase warrants of Africa Oil Corp. Each warrant is exercisable into one common share at a price of \$1.50 per share over a period of 2 years. If the closing price for Africa Oil's common shares exceeds \$2.00 for 20 consecutive trading days, Africa Oil can provide written notice to Alberta Oilsands accelerating the expiry date to a date that is at least 180 days from the date of notice. The agreement is subject to the Kenyan Government and regulatory approvals.

**Stock-based compensation**

Stock-based compensation for the three months ended March 31, 2010 was \$358,223 compared to \$293,646, respectively, in the same period in 2009. In addition, \$42,179 of stock-based compensation, and \$14,060 of related future income taxes was capitalized to property and equipment in the three months ended March 31, 2010. \$93,557 of stock-based compensation and \$31,186 of related future income taxes was capitalized in the three months ended March 31, 2009. The increase in stock-based compensation is a result of the 3,105,000 options granted in February 2010. The fair value of options is estimated at the time of granting 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 \$10,108 and \$32,509 for the three months ended March 31, 2010 and 2009 respectively is comprised of the Part XII.VI interest related to the Company's flow-through common share financings.

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<b>Depletion, depreciation and accretion</b>	Three months ended March 31	
	<b>2010</b>	2009
Depletion and depreciation (\$)	<b>636,538</b>	110,375
\$/boe	<b>36.05</b>	20.19
Accretion (\$)	<b>25,226</b>	8,302
\$/boe	<b>1.43</b>	1.52

The total depletion, depreciation and accretion charge for the three months ended March 31, 2010 was \$661,764 (\$37.48 per boe) as compared to \$118,677 (\$21.71 per boe) for the three months ended March 31, 2009. The Company applied the ceiling test to its property and equipment at March 31, 2010 using April 1, 2010 forecast prices and determined that there was no impairment. With further commodity price declines, impairments may result. In performing the ceiling test, the Company excludes the \$40.9 million spent to date on its oil sands properties and \$0.25 million spent on rig mobilization costs related to a conventional well to be drilled later in 2010.

**Capital Expenditures (\$)**

Capital spending is summarized as follows:

	Three months ended March 31	
	<b>2010</b>	2009
Oil sand properties	<b>\$</b>	<b>\$</b>
Lease rentals	<b>26,432</b>	11,200
Seismic	<b>48,736</b>	675,381
Drilling	<b>1,950,807</b>	4,224,785
Pilot application	<b>381,011</b>	-
Other	<b>46,862</b>	556
	<b>2,453,848</b>	4,911,922
Conventional properties		
Lease rentals and seismic	<b>8,283</b>	36,574
Drilling and completion	<b>1,864,395</b>	2,262,898
Tangible	<b>90,923</b>	51,660
	<b>1,963,601</b>	2,351,132
Office	<b>521</b>	734
Total	<b>4,417,970</b>	7,263,788

In addition, \$42,179 of stock-based compensation and \$14,060 of related future income taxes was capitalized to property and equipment in the three months ended March 31, 2010 and \$93,557 of stock-based compensation and \$31,186 of related future income taxes was capitalized in the three months ended March 31, 2009.

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**Liquidity and Financial Position**

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

During the three months ended March 31, 2010, the Company spent \$377,120 on operations and general and administrative expenses, \$4,417,970 on capital expenditures and \$360,345 on additional reclamation deposit. As at March 31, 2010, the Company's working capital had been reduced to \$4.5 million. Approximately \$1.45 million of flow-through expenditures remain to be spent by December 31, 2010.

In April 2010 Alberta Oilsands transferred cash of US\$1,087,500 to Platform Resources Inc.'s bank account which was utilized to cash collateralize an unconditional and irrevocable bank guarantee securing a performance bond to be provided to the Kenyan Government by Platform Resources Inc. with respect to the PSC's. See "international obligations".

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 pilot project. Expenditures on Clearwater 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. Subsequent to March 31, 2010, 20,000 warrants and 292,166 options were exercised resulting in 105,522,791 common shares outstanding as at the date of this MD&A.

**Stock Options**

The Company commenced 2010 with a total of 5,527,156 stock options outstanding. During the three months ended March 31, 2010, a total of 3,105,000 stock options were granted and 180,000 stock options were forfeited, resulting in 8,452,156 options outstanding as at March 31, 2010. Subsequent to then, 292,166 were exercised and 278,334 were forfeited resulting in 7,881,656 outstanding as at the date of this MD&A.

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The following is a continuity of stock options:

	Options	Weighted average exercise price
Balance, December 31, 2009	5,527,156	\$ 0.47
Granted	3,105,000	0.40
Forfeited	(180,000)	0.13
	8,452,156	\$ 0.45

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

Range of exercise prices	Number outstanding	Weighted average remaining contractual life (years)	Options outstanding weighted average exercise price	Number exercisable	Options exercisable weighted average exercise price
\$ 0.13	2,167,000	3.70	\$ 0.13	1,444,658	\$ 0.13
\$ 0.14 – \$ 0.37	1,230,000	1.50	0.34	1,179,334	0.35
\$ 0.38 – \$ 0.61	3,985,500	4.43	0.44	1,652,652	0.47
\$ 0.62 – \$ 1.47	817,656	2.56	1.02	759,927	1.05
\$ 1.48 – \$ 2.21	252,000	2.25	2.09	252,000	2.09
	8,452,156	3.57	\$ 0.45	5,288,571	\$ 0.51

Of the total options outstanding, 6,346,656 are held by directors, officers and management.

### **Warrants**

At March 31, 2010 and December 31, 2009, the Company had 17,431,250 warrants outstanding which were all exercisable. Subsequent to March 31, 2010, 20,000 warrants were exercised decreasing the total warrants to 17,411,250 as at the date of this MD&A.

### **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 March 31, 2010 approximately \$4.3 million of expenditures has been incurred. The remaining \$1.45 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). For the three months ended March 31, 2010, the Company has realized a loss of \$11,070 which has been included in revenue. The mark-to-market value of the remaining unsettled portion of the contract at March 31, 2010 is a liability of \$91,877 of which \$69,000 has been paid in cash as a deposit to the counterparty offsetting a portion of this liability.

**International obligations**

Pursuant to the Production Sharing Contracts ("PSC's") entered into with the Government of Kenya, Platform has an obligation to spend an aggregate minimum of US \$7.25 million before December 17, 2011 (US\$ 3.65 million on Block 13T and US \$3.6 million on Block 12A). The PSC's provide that Platform has the right to opt out of the PSC's in Platform's sole discretion after a 12 month evaluation period in the case of Block 13T, and an 18 month evaluation period in the case of Block 12A. In February 2010, the Company announced the execution of a definitive agreement in which Platform agreed to assign its interest in Blocks 12A and 13T in Kenya in consideration for 2.5 million common shares and 1.5 million share purchase warrants of Africa Oil, subject to regulatory and Government of Kenya approvals. To facilitate the closing of this transaction, in April 2010, Alberta Oilsands transferred cash of US\$1,087,500 to Platform's bank account which was utilized to cash collateralize an unconditional and irrevocable bank guarantee securing a performance bond to be provided to the Kenyan Government by Platform Resources Inc. with respect to the PSC's.

**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 agreement 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 is removed.

In July 2009, the Company signed a Gross Overriding Royalty, Access and Cooperation Agreement (the "Agreement") with 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. 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 until July 2010 and 2,000,000 warrants exercisable at a price of \$1.00 per common share until July 2011.

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**Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

**Related Party Transactions**

The Company had the following related party transactions:

- a)** During the three months ended March 31, 2010, the Company was charged \$7,400 (March 31, 2009 – \$55,342) in legal fees by legal firms in which a former director and a current officer of the Company are partners. These costs are included in general and administrative expense, business development and share issue costs. Included in accounts payable at March 31, 2010 is nil (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 March 31, 2010, a subscription receivable in the amount of \$10,000 (December 31, 2009 - \$32,800 was due from two officers of the Company) is due from an officer of the Company related to the unit and flow-through share issuances from November 2009.

**Selected Historical Financial Information**

	2010		2009	
	1ST QUARTER	4TH QUARTER	3 <sup>RD</sup> QUARTER	2 <sup>ND</sup> QUARTER
Petroleum and natural gas revenue (\$)	815,543	826,073	894,316	997,514
Net loss (\$)	(1,186,540)	(1,035,940)	(486,157)	(921,812)
Net loss per share – basic and diluted (\$)	(0.01)	(0.01)	(0.01)	(0.01)
Funds (used in) from operations (\$)	(377,120)	(776,513)	98,124	(34,242)
Cash flow (used in) from operations (\$)	(544,051)	(932,314)	399,091	(811,087)
Capital expenditures (\$)	4,417,970	3,202,536	1,651,024	607,301

	2009		2008	
	1ST QUARTER	4TH QUARTER	3 <sup>RD</sup> QUARTER	2 <sup>ND</sup> QUARTER
Petroleum and natural gas revenue (\$)	262,027	366,542	666,302	555,333
Net loss (\$)	(1,216,570)	(1,985,137)	(799,495)	(1,169,247)
Net loss per share – basic and diluted (\$)	(0.02)	(0.02)	(0.01)	(0.02)
Funds used in operations (\$)	(1,110,316)	(485,453)	(282,302)	(631,341)
Cash flow (used in) from operations (\$)	(636,828)	(397,166)	(270,430)	(1,043,057)
Capital expenditures (\$)	7,263,788	4,990,133	952,090	1,805,135

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## **Outlook**

Alberta Oilsands is seeking financial and operating partners to help defray the costs and share the benefits of the Company's significant bitumen production potential. The Company is committed to weighing its financing options carefully to ensure its decisions are in the long-term interests of shareholders.

If the Clearwater West project application meets all regulatory requirements and if the questions from the ERCB and Alberta Environment are answered in a satisfactory manner, Alberta Oilsands anticipates receiving project approval in 2011.

Alberta Oilsands believes the recent reclassification of some of its contingent resources as reserves at Clearwater West will facilitate the path to production. Clarity regarding the potential value of the Clearwater West project is expected to result in an updated borrowing base that would enhance the ability to obtain project financing and joint venture partnerships.

## **Oilsands Development Risks**

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

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

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

### **Disclosure of 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.

"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

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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 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

The Company has not commenced the development of an IT 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 by June 30, 2010.
- Q1 2010 restated to IFRS will be finalized by July 31, 2010.
- Q2 2010 restated to IFRS will be finalized by September 30, 2010

The Company is unable to quantify the impact of the conversion at this time; however, financial statement disclosure will significantly increase. The Company will continue to monitor standard developments as issued by the IASB and the AcSB as well as regulatory developments as issued by the Canadian Securities Administrators, which may affect the timing, nature or disclosure of its adoption of IFRS.

# **Alberta Oilsands Inc.**

## **INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**MARCH 31, 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 months ended March 31, 2010 and 2009.

**Alberta Oilsands Inc.**  
**Interim Consolidated Balance Sheets**  
(unaudited)

<b>Assets</b>	<b>March 31, 2010</b>	<b>December 31, 2009</b>
<b>Current</b>		
Cash and cash equivalents <i>(note 2)</i>	\$ 5,092,111	\$ 6,880,447
Short-term investments <i>(note 3)</i>	1,052,013	1,051,381
Accounts receivable	938,743	3,054,865
Subscription receivable <i>(note 7)</i>	10,000	32,800
Prepaid expenses	207,000	213,951
	<b>7,299,867</b>	<b>11,233,444</b>
Reclamation deposit	609,607	249,262
Property and equipment <i>(note 4)</i>	51,550,977	47,617,698
	<b>\$ 59,460,451</b>	<b>\$ 59,100,404</b>
 <b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 2,792,719	\$ 1,565,611
Commodity contract <i>(note 15c(ii))</i>	22,877	6,687
	<b>2,815,596</b>	<b>1,572,298</b>
Asset retirement obligation <i>(note 6)</i>	1,164,800	1,043,966
Future income taxes <i>(note 10)</i>	5,466,710	4,243,195
	<b>9,447,106</b>	<b>6,859,459</b>
 <b>Shareholders' Equity</b>		
Share capital <i>(note 7)</i>	57,315,013	58,756,475
Warrants <i>(note 8)</i>	617,637	617,637
Contributed surplus <i>(note 9)</i>	6,548,244	6,147,842
Deficit	(14,467,549)	(13,281,009)
	<b>50,013,345</b>	<b>52,240,945</b>
	<b>\$ 59,460,451</b>	<b>\$ 59,100,404</b>
 Basis of presentation <i>(note 1)</i>		
Commitments <i>(note 14)</i>		
Subsequent event <i>(note 17)</i>		

See accompanying notes to the unaudited interim consolidated financial statements.

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**Alberta Oilsands Inc.****Interim Consolidated Statements of Operations, Comprehensive Loss, and Deficit  
For the three months ended March 31  
(unaudited)**

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	<u>2010</u>	<u>2009</u>
<b>Revenue</b>		
Petroleum and natural gas sales	\$ 815,543	\$ 262,027
Royalties	<u>(195,137)</u>	<u>(37,490)</u>
	620,406	224,537
Unrealized gain on financial instruments <i>(note 15c(ii))</i>	41,810	–
Interest income	<u>1,494</u>	<u>33,060</u>
	<u>663,710</u>	<u>257,597</u>
<b>Expenses</b>		
Production	458,874	453,791
Transportation	32,091	5,488
General and administrative	485,759	723,327
Business development <i>(note 11)</i>	70,188	152,798
Stock-based compensation <i>(note 7)</i>	358,223	293,646
Interest	10,108	32,509
Accretion	25,226	8,302
Depletion and depreciation	<u>636,538</u>	<u>110,375</u>
	<u>2,077,007</u>	<u>1,780,236</u>
<b>Loss before income taxes</b>	<u>(1,413,297)</u>	<u>(1,522,639)</u>
Future income tax reduction <i>(note 10)</i>	<u>226,757</u>	<u>306,069</u>
<b>Net loss and comprehensive loss for the period</b>	<b>(1,186,540)</b>	<b>(1,216,570)</b>
Deficit, beginning of period	<u>(13,281,009)</u>	<u>(9,620,530)</u>
<b>Deficit, end of period</b>	<b>\$ (14,467,549)</b>	<b>\$ (10,837,100)</b>
<b>Net loss per share</b>		
Basic and diluted <i>(note 7)</i>	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>

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See accompanying notes to the unaudited interim consolidated financial statements.

**Alberta Oilsands Inc.**  
**Interim Consolidated Statements of Cash Flows**  
**For the three months ended March 31**  
(unaudited)

	<u>2010</u>	<u>2009</u>
<b>Operating</b>		
Net loss for the period	\$ (1,186,540)	\$ (1,216,570)
Non-cash items:		
Unrealized loss on financial instruments	16,190	–
Stock-based compensation	358,223	293,646
Accretion	25,226	8,302
Depletion and depreciation	636,538	110,375
Future income tax reduction	(226,757)	(306,069)
	<u>(377,120)</u>	<u>(1,110,316)</u>
Change in non-cash working capital ( <i>note 12</i> )	<u>(166,931)</u>	<u>473,488</u>
	<u>(544,051)</u>	<u>(636,828)</u>
<b>Financing</b>		
Receipt of cash for shares issued, net of costs	17,550	–
Change in non-cash working capital ( <i>note 12</i> )	<u>(315,769)</u>	<u>(136,871)</u>
	<u>(298,219)</u>	<u>(136,871)</u>
<b>Investing</b>		
Short-term investments purchases	(632)	–
Short-term investments maturities	–	1,994,246
Expenditures on property and equipment	(4,417,970)	(7,263,788)
Reclamation deposit	(360,345)	(123,101)
Change in non-cash working capital ( <i>note 12</i> )	3,832,881	(418,353)
	<u>(946,066)</u>	<u>(5,810,996)</u>
<b>Decrease in cash and cash equivalents</b>	<b>(1,788,336)</b>	<b>(6,584,695)</b>
Cash and cash equivalents, beginning of period	<u>6,880,447</u>	<u>17,371,816</u>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 5,092,111</b>	<b>\$ 10,787,121</b>
<b>Supplemental cash flow information:</b>		
Interest paid	<u>\$ 73,631</u>	<u>\$ 169,380</u>

See accompanying notes to the unaudited interim consolidated financial statements.

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# Alberta Oilsands Inc.

## Notes to Interim Consolidated Financial Statements

As at and for the three months ended March 31, 2010

(unaudited)

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### 1. Basis of presentation and future operations

Alberta Oilsands Inc. ("the Company") is incorporated under the Business Corporations Act (Alberta) and is listed on the TSX Venture Exchange. The Company is involved in the production, exploration and development of resource properties. These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Platform Resources Inc. ("Platform") and Platform's subsidiary Platform Resources (Kenya) Limited, after the elimination of all intercompany transactions and balances.

These unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and on a basis consistent with the audited December 31, 2009 consolidated financial statements except certain disclosures have been condensed or omitted. Accordingly, these unaudited interim consolidated financial statements should be read in conjunction with the notes contained in the Company's audited December 31, 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 consolidated financial statements have been prepared on a going concern basis which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Property and equipment is recognized in these financial statements in accordance with the accounting policies outlined in note 2 of the audited December 31, 2009 consolidated financial statements. Accordingly, their carrying amounts represent costs incurred to date, net of abandonments and write-downs, and do not necessarily reflect present or future values. In addition, the Company has incurred operating losses over the past two years. The ability of the Company to continue as a going concern and the recoverability of amounts shown for the properties is dependent upon the existence of economically recoverable reserves and upon the Company's ability to obtain additional financing to continue the development of the Company's properties and generate funds therefrom and to meet current and future obligations. The interim consolidated financial statements do not reflect adjustments in the carrying values of the assets and liabilities, expenses and the balance sheet classifications that would be used if the going concern assumption were not appropriate. Such adjustments could be material.

### 2. Cash and cash equivalents

	March 31, 2010	December 31, 2009
Cash in bank	\$ 3,589,104	\$ 5,377,694
Cash in investment accounts	1,503,007	1,502,753
	<u>\$ 5,092,111</u>	<u>\$ 6,880,447</u>

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

### 3. Short-term investments

As at March 31, 2010, the Company held investments of \$1,052,013 (December 31, 2009 – \$1,051,381), including accrued interest. These investments earn nominal interest and mature on June 10, 2010 and January 5, 2011. \$52,554 of this balance is a guaranteed investment certificate held to secure a letter of credit provided to a third party.

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# Alberta Oilsands Inc.

## Notes to Interim Consolidated Financial Statements

As at and for the three months ended March 31, 2010

(unaudited)

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### 4. Property and equipment

	March 31, 2010		
	Cost	Accumulated depletion and depreciation	Net
Petroleum and natural gas properties			
Oil sands properties	\$ 40,929,665	\$ –	\$ 40,929,665
Conventional properties	21,782,767	(11,217,200)	10,565,567
Office equipment	192,362	(136,617)	55,745
	<u>\$ 62,904,794</u>	<u>\$ (11,353,817)</u>	<u>\$ 51,550,977</u>

During the three months ended March 31, 2010, the Company capitalized \$69,469 (March 31, 2009 – \$70,969) of general and administrative costs, \$42,179 (March 31, 2009 – \$93,557) of stock-based compensation, and \$14,060 (March 31, 2009 – \$31,186) of related future incomes taxes. At March 31, 2010, the Company excluded \$40,929,665 (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 applied the ceiling test to its conventional property and equipment at March 31, 2010 and determined that there was no impairment. For the purposes of the March 31, 2010 impairment test, the following benchmark prices were used:

	Edmonton Light Cdn\$/bbl	AECO Spot \$/MMbtu
2010 - remaining	85.00	4.50
2011	87.50	5.25
2012	90.00	6.00
2013	95.00	6.60
2014	100.00	7.25
Escalation rate thereafter - 2%		

### 5. Credit facility

In October 2009, the Company executed an agreement for a \$10 million bridge term loan (the "Facility") to fund capital expenditures which had not been drawn on as at March 31, 2010 and December 31, 2009. The Facility expires on October 31, 2010. If the Company utilizes the Facility it would be required to meet a cash flow to debt service covenant.

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# Alberta Oilsands Inc.

## Notes to Interim Consolidated Financial Statements

### As at and for the three months ended March 31, 2010

(unaudited)

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#### 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
Additions		75,000
Revisions		20,608
Accretion		25,226
Balance, March 31, 2010	\$	<u>1,164,800</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)
Tax effect of flow-through shares issued in 2009 (i)	-	(1,437,525)
Balance, March 31, 2010	<u>105,210,625</u>	<u>\$ 57,315,013</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 renunciation 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 \$4,300,000 has been incurred as at March 31, 2010. A subscription receivable in the amount of \$10,000 from this issue remains outstanding as at March 31, 2010 (note 13(b)).

##### b) Stock options

During the three months ended March 31, 2010, the Company granted a total of 3,105,000 (March 31, 2009 – 200,000) stock options 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 \$900,450 (March 31, 2009 – \$19,867).

The Black-Scholes pricing model was used to estimate the fair value of the options granted using a forfeiture rate of 0%, a dividend yield of nil, weighted average risk-free interest rate of 2.21%, weighted average volatility of 107% and an expected life of 5 years.

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# Alberta Oilsands Inc.

## Notes to Interim Consolidated Financial Statements

As at and for the three months ended March 31, 2010

(unaudited)

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### 7. Share capital (continued)

#### b) Stock options (continued)

The following is a continuity of stock options:

	Options	Weighted average exercise price
Balance, December 31, 2009	5,527,156	\$ 0.47
Granted	3,105,000	0.40
Forfeited	(180,000)	0.13
Balance, March 31, 2010	<u>8,452,156</u>	<u>\$ 0.45</u>

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

Range of exercise prices	Number outstanding	Weighted average remaining contractual life (years)	Options outstanding weighted average exercise price	Number exercisable	Options exercisable weighted average exercise price
\$ 0.13	2,167,000	3.70	\$ 0.13	1,444,658	\$ 0.13
\$ 0.14 – \$ 0.37	1,230,000	1.50	0.34	1,179,334	0.35
\$ 0.38 – \$ 0.61	3,985,500	4.43	0.44	1,652,652	0.47
\$ 0.62 – \$ 1.47	817,656	2.56	1.02	759,927	1.05
\$ 1.48 – \$ 2.21	252,000	2.25	2.09	252,000	2.09
	<u>8,452,156</u>	<u>3.57</u>	<u>\$ 0.45</u>	<u>5,288,571</u>	<u>\$ 0.51</u>

Of the total options outstanding, 6,346,656 are held by directors, officers and management. The Company recognized stock-based compensation as follows for the three months ended March 31:

	2010	2009
Expensed	\$ 358,223	\$ 293,646
Capitalized to property and equipment (note 4)	42,179	93,557
	<u>\$ 400,402</u>	<u>\$ 387,203</u>

#### c) Per share amounts

Basic per share amounts are calculated using the weighted average number of shares outstanding of 105,210,625 for the three months ended March 31, 2010 (March 31, 2009 - 79,651,375). In computing diluted per share amounts for the three months ended March 31, 2010 and 2009 all of the Company's outstanding options and warrants were excluded as they were considered to be anti-dilutive.

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# Alberta Oilsands Inc.

## Notes to Interim Consolidated Financial Statements

As at and for the three months ended March 31, 2010

(unaudited)

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### 8. Warrants

As at March 31, 2010 and December 31, 2009, the Company had 17,431,250 warrants outstanding, all of which are exercisable. The following summarizes information about the warrants outstanding as at March 31, 2010:

Exercise Price	Number of Warrants	Weighted Average Remaining Contractual Life (years)
\$0.50	15,431,250	1.41
\$1.00	2,000,000	1.30
	17,431,250	1.39

Subsequent to March 31, 2010, 20,000 of the \$0.50 warrants were exercised.

### 9. Contributed surplus

Balance, December 31, 2009	\$	6,147,842
Stock-based compensation expensed		358,223
Stock-based compensation capitalized		42,179
Balance, March 31, 2010	\$	<u>6,548,244</u>

### 10. Income taxes

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

	Three months ended March 31	
	2010	2009
Expected income tax reduction at 28.02% (2009 – 29.02%)	\$ (395,992)	\$ (442,327)
Non deductible items including stock-based compensation	101,381	86,675
Changes in enacted tax rates and other	67,854	49,583
Future income tax reduction	\$ (226,757)	\$ (306,069)

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

	March 31, 2010	December 31, 2009
Non-capital loss carryforwards	\$ 1,687,424	\$ 1,550,633
Asset retirement obligation	291,200	260,992
Share issue costs	521,062	569,500
Unrealized loss on financial instruments	11,707	37,432
Property and equipment	(7,978,103)	(6,661,752)
Future income tax liability	\$ (5,466,710)	\$ (4,243,195)

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# Alberta Oilsands Inc.

## Notes to Interim Consolidated Financial Statements

### As at and for the three months ended March 31, 2010

(unaudited)

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#### 11. Business development expenses

During the three months ended March 31, 2010 the Company incurred \$70,188 (March 31, 2009 – \$152,798) of business development expenses related to the pursuit of projects outside of the conventional Canadian oil and gas exploration and development business. These expenses include consulting and related costs as well as costs associated with the on-going pursuit of additional financing to support any potential transactions.

#### 12. Change in non-cash working capital

	Three months ended March 31	
	2010	2009
Accounts receivable	\$ 2,116,122	\$ 74,438
Prepaid expenses	6,951	63,098
Accounts payable and accrued liabilities	1,227,108	(219,272)
	<u>\$ 3,350,181</u>	<u>\$ (81,736)</u>

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

	2010	2009
Operating	\$ (166,931)	\$ 473,488
Financing	(315,769)	(136,871)
Investing	3,832,881	(418,353)
	<u>\$ 3,350,181</u>	<u>\$ (81,736)</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 months ended March 31, 2010, the Company was charged \$7,400 (March 31, 2009 – \$55,342) 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, business development and share issue costs. Included in accounts payable at March 31, 2010 is nil (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 March 31, 2010, a subscription receivable in the amount of \$10,000 (December 31, 2009 - \$32,800 due from two officers of the Company) is due from an officer of the Company related to the unit and flow-through share issuances from November 2009.

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# Alberta Oilsands Inc.

## Notes to Interim Consolidated Financial Statements

### As at and for the three months ended March 31, 2010

(unaudited)

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#### 14. Commitments

Except as disclosed elsewhere in the financial statements (see note 15), the Company had the following commitments as at March 31, 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 Commission ("FMAC"). The Agreement provides access rights to and across the airport lands to allow the Company to conduct operations. In consideration for FMAC granting such access rights, the Company granted to FMAC a two percent gross overriding royalty on the petroleum substances produced from the specified lands. In addition, the Company granted FMAC an aggregate of 4,000,000 common share purchase warrants.
- c) Pursuant to flow-through issuance in November 2009, the Company is required to incur approximately \$1.45 million of remaining qualifying expenditures by December 31, 2010.
- d) On September 17, 2008, Platform signed two Production Sharing Contracts ("PSCs") with the Government of the Republic of Kenya (the "Government").

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

#### 15. Financial instruments and financial risk management

The Company's financial instruments include cash and cash equivalents, short-term investments, accounts receivable, subscription receivable, accounts payable and accrued liabilities, commodity contract, and credit facility. The carrying values of these financial 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.

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# Alberta Oilsands Inc.

## Notes to Interim Consolidated Financial Statements

As at and for the three months ended March 31, 2010

(unaudited)

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### 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 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 March 31, 2010, the maximum credit exposure is the carrying amount of the accounts receivable and accruals of \$938,743 (December 31, 2009 – \$3,054,865) plus cash and cash equivalents and short-term investments of \$6,144,124 (December 31, 2009 - \$7,931,828).

As at March 31, 2010, \$254,577 of the Company's receivables consisted of March revenue due from marketers, \$56,592 in GST, \$491,159 in a cash call receivable, \$111,231 for an insurance claim and the remaining \$25,184 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 is expected by June 30, 2010.

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 March 31, 2010, the largest amount owing from one joint venture partner is \$9,288 which was collected subsequent to March 31, 2010.

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.

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# Alberta Oilsands Inc.

## Notes to Interim Consolidated Financial Statements

As at and for the three months ended March 31, 2010

(unaudited)

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

#### a) Credit risk *(continued)*

The Company did not provide an allowance for a doubtful account during the three months ended March 31, 2010 (2009 – \$6,732). 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:

	March 31, 2010	December 31, 2009
Current	\$ 925,243	\$ 3,024,415
Past due by less than 90 days	9,593	10,296
Past due by more than 90 days	3,907	20,154
	<u>\$ 938,743</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.

#### 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 March 31, 2010 or 2009.

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# Alberta Oilsands Inc.

## Notes to Interim Consolidated Financial Statements

### As at and for the three months ended March 31, 2010

(unaudited)

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

##### c) Market risk *(continued)*

###### ii) Commodity price risk

Commodity price risk is the risk that the fair value 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 months ended March 31, 2010, the Company realized a loss of \$11,070 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 March 31, 2010 is a liability of \$91,877 of which \$69,000 has been paid in cash as a deposit to the counterparty resulting in a net liability of \$22,877 (December 31, 2009 – \$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 months ended March 31, 2010, if interest rates had been 1% higher with all other variables held constant, loss for the period would have been \$6,300 (March 31, 2009 – \$18,100) 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 March 31, 2010 or 2009.

#### 16. Capital management

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

Consideration must also be given to the seasonality of the Company's operations. The majority of the capital expenditures are carried on in the 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 \$4,484,271 (December 31, 2009 – \$9,661,146), credit facility, and shareholders' equity of \$50,013,345 (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.

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# Alberta Oilsands Inc.

## Notes to Interim Consolidated Financial Statements

As at and for the three months ended March 31, 2010

(unaudited)

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### 16. Capital management *(continued)*

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

In order to maintain or adjust the capital structure, the Company will consider the potential level of credit facilities that may be attainable as a result of the potential value of the 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 (note 5). 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 months ended March 31, 2010. The Company has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the foreseeable future.

### 17. Subsequent event

In February 2010, the Company executed a definitive agreement with Africa Oil Corp. ("Africa Oil") in which Platform Resources Inc. agreed to assign its interest in Blocks 12A and 13T in Kenya in consideration for 2.5 million common shares and 1.5 million common share purchase warrants of Africa Oil. Each warrant is immediately exercisable into one common share at a price of \$1.50 per common share over a period of 2 years. If the closing price for Africa Oil's common shares exceeds \$2.00 per share for 20 consecutive trading days, Africa Oil can provide written notice to Alberta Oilsands accelerating the expiry date to a date that is at least 180 days from the date of notice. The agreement is subject to the Kenyan Government and regulatory approvals.

To facilitate the closing of the Company's interest in Kenya, in April 2010, Alberta Oilsands transferred cash of US\$1,087,500 to Platform Resources Inc.'s bank account which was utilized to cash collateralize an unconditional and irrevocable bank guarantee securing a performance bond to be provided to the Kenyan Government by Platform Resources Inc. with respect to the PSC's.