



ALBERTA  
**OILSANDS** INC.

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

FOR THE THREE AND SIX MONTHS ENDED  
JUNE 30, 2010

# Alberta Oilsands Inc.

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

### June 30, 2010

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

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

Additional information relating to Alberta Oilsands and its vision, strategies and operations, is available on SEDAR at [www.sedar.com](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 and Platform Resources Inc. to complete the assignment of Platform Resources Inc.'s interests in Blocks 12A and 13T in Kenya to Africa Oil Corp.; (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, technical, drilling and processing problems; (x) the Company's ability to hire and retain qualified staff with

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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, no assurances can be provided that the assignment of Platform Resources Inc.'s interests in Blocks 12A and 13T in Kenya to Africa Oil Corp. will be completed in a timely manner and on the terms expected, or at all.

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

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

### **Basis of Presentation**

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 and six months ended June 30, 2010 have been prepared on a going concern basis which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Property and equipment is recognized in these financial statements in accordance with the accounting policies outlined in 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

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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 operating in the Athabasca oil sands region of northeast Alberta. The Company trades on the TSX Venture Exchange under the symbol AOS.

Alberta Oilsands focused its efforts in the second quarter of 2010 on supporting the Clearwater West Phase 1 application and seeking partners to help construct its first oil sands project at Clearwater West near Fort McMurray, Alberta, communicating with the community surrounding the proposed project and gathering additional data through observation wells and an updated reserves report.

The Company submitted the application for its Clearwater West oil sands project in January 2010, moving Alberta Oilsands one step closer to the construction phase. The objective is to convert the Company's reserves at Clearwater West into a commercial oil sands project with expected initial production of up to 4,500 barrels per day (bpd) in Phase 1 and with a design capacity of up to 15,000 bpd of low pressure steam-assisted gravity drainage (LP-SAGD) bitumen production once a complete commercial project is developed and operational.

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

### **Q2 2010 highlights include the following:**

- Continued discussions with potential joint-venture partners and provided detailed information about Alberta Oilsands to these groups.
- Achieved a milestone when Ryder Scott Company – Canada, Petroleum Consultants (Ryder Scott) assigned the Company with its first probable and possible oil sands reserves. Such third party evaluation 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 28 sections of 100% working interest lands at Clearwater West.
- Increased net capital expenditures to \$913,715 in the second quarter of 2010 compared with \$587,301 in the second quarter of 2009.
- Completed mini-fracture testing and analysis on the 5-22 observation well in the McMurray bitumen and the Clearwater cap rock at Clearwater West.
- Completed drilling, data gathering and analysis of the AB/1-21 observation well at Clearwater West.

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- Held an open house in Fort McMurray on June 9, 2010 as part of Alberta Oilsands' commitment to communicate with communities near the proposed Clearwater West project.
- Enhanced the Company's Board of Directors by appointing Mr. John (Jack) R. Crawford, Mr. Bill Matheson and Mr. Leonard Sokolow.
- Produced an average of 161 barrels of oil equivalent per day (boe/d) of conventional production during the three-month period ended June 30, 2010, resulting in oil and gas revenue of \$622,100. The Company used \$750,452 of cash flow in operations in the second quarter, resulting in net working capital of \$2.95 million on June 30, 2010.

#### **Subsequent highlights:**

- In an independent report dated June 30, 2010, GLJ Petroleum Consultants Ltd. (GLJ) assigned contingent resources of 79.9 million (net) barrels of bitumen to the Company's Hangingstone East property in the Athabasca oil sands.
- Early in the third quarter, the Government of Kenya approved the transaction announced in February 2010 in which 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.

## **Review of Oilsands Operations**

### **Fort McMurray Clearwater West**

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

On January 15, 2010, Alberta Oilsands filed the project application with the Energy Resources Conservation Board (ERCB) and Alberta Environment. The project at Clearwater West has a design production capacity of up to 4,500 bpd of bitumen in Phase 1 through six horizontal SAGD well pairs. Subject to regulatory approval, Alberta Oilsands expects to begin construction of the well pad and pairs by the end of 2011. Production capacity is expected to increase to 15,000 bpd of bitumen in the next phase.

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

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

Alberta Oilsands completed work on two observations wells at Clearwater West during the quarter, including mini-fracture testing and analysis on the 5-22-88-08W4M observation well in the McMurray bitumen and the Clearwater cap rock and the drilling, completion, data gathering and analysis of the AB/1-21-88-08W4M observation well. Preliminary results are encouraging.

The Company is committed to providing people who live or work in the area with the opportunity to learn about the Clearwater West project. As part of Alberta Oilsands' community engagement activities, the Company held an open house in Fort McMurray on June 9, 2010. The event provided the Alberta Oilsands' team with an opportunity to introduce the Clearwater West project to area residents and to

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answer questions related to air quality, sound, traffic, construction and community investment. The Company is committed to forging business and community relationships built on trust and to conduct business in a safe, healthy and environmentally responsible manner.

Those in attendance at the open house were advised that emissions from the project are anticipated to be well below Alberta's strict regulatory guidelines. Water required for the project is expected to be purchased from the Regional Municipality of Wood Buffalo, providing a source of revenue for the local community. The water would eventually be injected into approved disposal wells. The footprint of the Clearwater West project is expected to be limited to 10.2 hectares thanks to existing infrastructure in the area. The average sound level for project operations is expected to be five decibels (dBA) below the ERCB's night-time permissible sound level of 40 dBA. Finally, the total number of truck shipments is expected to be less than 22 loads per day with less than 150 metres of travel on gravel roads before reaching the paved Highway 69. A second open house is set for late October 2010.

**Clearwater West Reserves Milestone**

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

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

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

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

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

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

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

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

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

While Alberta Oilsands is confident the initial phase at Clearwater West will demonstrate the potential for safe and commercial bitumen production, an immediate injection of funds will allow the Company to move quickly from project approval to facility construction, first steam, first oil and first cash flow at Clearwater West.

### **Hangingstone East**

Alberta Oilsands' joint-venture partner at Hangingstone East in Alberta's Athabasca oil sands engaged GLJ Petroleum Consultants Ltd. to conduct a third-party resource analysis on the property in the second quarter of 2010. Results were released in August 2010. Alberta Oilsands has a 50% interest in 38.5 contiguous sections (9.856 hectares or 24,640 acres of oilsands rights) at Hangingstone. Contingent resources of 79.9 million (net) barrels of bitumen were assigned to the property. An additional 13 core holes were drilled in the first quarter of 2010 for a total of 32 core holes since inception.

*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.*

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#### **Review of Conventional Operations**

Alberta Oilsands produced an average of 161 boe/d in the second quarter of 2010, including 607 thousand cubic feet per day (mcf/d) of natural gas from northeastern British Columbia's Ladyfern field and 41 boe/d from Leduc, Alberta. This compares to 196 boe/d in the first quarter of 2010 and 325 boe/d in the second quarter of 2009 as the Company experienced natural declines. The Company has not added any additional conventional production since the Ladyfern well in April 2009. Alberta Oilsands has rights to 97,283 acres of undeveloped land in Alberta, Saskatchewan and Manitoba to pursue conventional exploration.

Alberta Oilsands' natural gas discovery at Ladyfern North (Hamburg) has now been producing since April 1, 2009. Gross revenue, before royalties and operating expenses generated for this property was \$813,564 in the six months ended June 30, 2010, including \$312,287 in the second quarter of 2010.

Given the success at Ladyfern North, Alberta Oilsands plans to drill a follow-up well at Ladyfern South during the 2010/2011 winter drilling season.

#### **Review of International Operations**

In August 2010, the Government of Kenya consented to the assignment of Alberta Oilsands' Kenyan assets to Africa Oil Corp. (AOI). Alberta Oilsands holds its Kenyan assets through its wholly owned subsidiary Platform Resources Inc. The transaction, which was initially announced on February 16, 2010, was subject to Kenyan Government approval.

Platform has agreed to assign its 100% interest in blocks 12A and 13T in Kenya to AOI in consideration for 2.5 million Africa Oil common shares and 1.5 million Africa Oil share purchase warrants, each of which is exercisable into one common share at a price of \$1.50 per share for a period of two years. On August 17, AOI was trading at \$1.08 per share. The common shares and warrants will be subject to a four month hold period under applicable Canadian Securities laws. The terms of the warrants contain an accelerated exercise clause, which is triggered if Africa Oil's common shares trade at over \$2 per share for 20 consecutive trading days. If the acceleration clause is exercised by Africa Oil, the warrants will expire on a date that is not less than 180 days from the date of written notice to Platform. This agreement allows Alberta Oilsands to maintain upside from a diverse portfolio of East African assets while entrusting exploration and development of the assets to an established Kenyan producer.

Alberta Oilsands views its investment in AOI to be a prudent business decision. AOI's commitment, presence and experience in Kenya are expected to accelerate the exploration of Blocks 12A and 13T.

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

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**Results of Conventional Operations**

<b>Statement of Operations and Deficit</b>	<b>Three months ended June 30</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
Petroleum and natural gas sales (\$)	<b>622,100</b>	997,514	555,333
Petroleum & natural gas sales per boe (\$)	<b>42.93</b>	33.76	112.62
Daily sales volumes (boe/day)(6:1)	<b>161</b>	325	54
Net loss for the period (\$)	<b>(939,128)</b>	(921,812)	(1,169,247)
Net loss per share – basic and diluted (\$)	<b>(0.01)</b>	(0.01)	(0.02)
<b>Statement of Cash Flows</b>			
Funds used in operations (\$) <sup>(1)</sup>	<b>(750,452)</b>	(34,242)	(631,341)
Cash flow used in operations (\$)	<b>(700,101)</b>	(811,087)	(1,043,057)
Capital expenditures (\$)	<b>913,715</b>	607,301	1,805,135
<b>Weighted average number of shares</b>			
- basic and diluted	<b>105,296,330</b>	79,651,375	62,777,154

<b>Statement of Operations and Deficit</b>	<b>Six months ended June 30</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
Petroleum and natural gas sales (\$)	<b>1,437,643</b>	1,259,541	999,669
Petroleum & natural gas sales per boe (\$)	<b>45.05</b>	35.97	98.84
Daily sales volumes (boe 6:1)	<b>179</b>	193	56
Net loss for the period (\$)	<b>(2,125,668)</b>	(2,138,382)	(1,949,681)
Net loss per share – basic and diluted (\$)	<b>(0.02)</b>	(0.03)	(0.03)
<b>Statement of Cash Flows</b>			
Funds used in operations (\$) <sup>(1)</sup>	<b>(1,127,572)</b>	(1,144,558)	(898,589)
Cash flow used in operations (\$)	<b>(1,244,152)</b>	(1,447,915)	(589,908)
Capital expenditures (\$)	<b>5,331,685</b>	7,871,089	7,698,146
<b>Total assets (\$)</b>	<b>57,611,323</b>	51,100,787	45,524,918
<b>Total liabilities (\$)</b>	<b>8,336,025</b>	7,577,791	10,454,492
<b>Shareholders' equity (\$)</b>	<b>49,275,298</b>	43,522,996	35,070,426
<b>Weighted average number of shares</b>			
- basic and diluted	<b>105,277,780</b>	79,651,375	61,128,625

(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 June 30		
	<b>2010</b>	2009	2008
Cash flow used in operating activities (per GAAP) (\$)	<b>(700,101)</b>	(811,087)	(1,043,057)
Change in non-cash working capital (\$)	<b>(50,351)</b>	776,845	411,716
Funds used in Operations	<b>(750,452)</b>	(34,242)	(631,341)

<b>Reconciliation of Cash flow per GAAP to Funds from (used in) Operations</b>	Six months ended June 30		
	<b>2010</b>	2009	2008
Cash flow used in operating activities (per GAAP) (\$)	<b>(1,244,152)</b>	(1,447,915)	(589,908)
Change in non-cash working capital (\$)	<b>116,580</b>	303,357	(308,681)
Funds used in Operations (\$)	<b>(1,127,572)</b>	(1,144,558)	(898,589)

**Production**

	Three months ended June 30		Six months ended June 30	
	<b>2010</b>	2009	<b>2010</b>	2009
Oil and NGL (bbls/day)	<b>55</b>	87	<b>55</b>	71
Natural gas (mcf/day)	<b>638</b>	1,429	<b>743</b>	737
boe/day (6:1)	<b>161</b>	325	<b>179</b>	193

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

	Three months ended June 30		Six months ended June 30	
	<b>2010</b>	2009	<b>2010</b>	2009
<b>Commodity Prices</b>				
Oil and NGL (\$/bbl)	<b>74.72</b>	63.22	<b>76.22</b>	57.91
Natural gas (\$/mcf)	<b>4.42</b>	3.84	<b>5.20</b>	3.89
boe (\$/boe)	<b>42.93</b>	33.76	<b>45.05</b>	35.97
<b>Revenues (\$)</b>				
Oil and NGL	<b>384,964</b>	497,774	<b>738,181</b>	740,436
Natural gas	<b>237,136</b>	499,740	<b>699,462</b>	519,105
Total	<b>622,100</b>	997,514	<b>1,437,643</b>	1,259,541

Commodity prices increased for oil and natural gas liquids ("NGL") to \$74.72 and \$76.22 per bbl in the three and six months ended June 30, 2010 as compared to \$63.22 and \$57.91 per bbl in the comparative periods of 2009. Gas prices increased to \$4.42 and \$5.20 per mcf compared to \$3.84 and \$3.89 per mcf in the comparative periods in 2009. However, gas prices decreased significantly from \$5.80 per mcf in the first quarter of 2010.

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

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prices per barrel of \$70.00 (floor strike price) and \$79.50 (cap strike price). For the three and six months ended June 30, 2010, the Company realized a loss of \$8,247 and \$19,317 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 June 30, 2010 is a liability of \$23,750 of which \$65,000 has been paid in cash as a deposit to the counterparty resulting in a net asset of \$41,250 (December 31, 2009 – liability of \$6,687).

<b>Royalties and Operating Expenses</b>	Three months ended June 30		Six months ended June 30	
	<b>2010</b>	2009	<b>2010</b>	2009
Royalties (\$)	<b>88,662</b>	71,057	<b>283,799</b>	108,547
% of revenues	<b>14</b>	8	<b>20</b>	9
\$/boe	<b>6.04</b>	2.40	<b>8.78</b>	3.10
Operating and transportation expenses (\$)	<b>369,240</b>	425,318	<b>860,205</b>	884,597
\$/boe	<b>25.15</b>	14.39	<b>26.60</b>	25.26

Royalties for the three and six months ended June 30, 2010 increased to 14% and 20% of revenue (\$6.04 and \$8.78 per boe) from 8% and 9% of revenue (\$2.40 and \$3.10 per boe) in the comparative quarters of 2009. The Ladyfern well had enjoyed the benefit of the royalty reduction program resulting in a rate of 5% until the fourth quarter of 2009 at which time the holiday period expired and the crown royalty for this well increased to 29% (\$10.91 per boe) for the well for the first quarter of 2010. As a result of capital cost allowance and processing adjustments, the crown royalty was reduced to 14% for the second quarter of 2010.

Production and transportation costs for the three and six months ended June 30, 2010 were \$369,240 and \$860,205 or \$25.15 and \$26.60 per boe as compared to \$425,318 (\$14.39 per boe) and \$884,597 (\$25.26 per boe) for the comparative periods of 2009 and \$490,965 or \$27.81 per boe for the first quarter of 2010. Operating costs continue to remain high for the Leduc property which consistently requires maintenance and repair expenditures due to the age of the equipment. These costs were reduced by \$80,000 in the second quarter of 2010 as compared to the first quarter of 2010 in which some workover expenditures and maintenance had occurred.

<b>Netbacks (\$/boe)</b>	Three months ended June 30		Six months ended June 30	
	<b>2010</b>	2009	<b>2010</b>	2009
Revenue	<b>42.37</b>	33.76	<b>44.46</b>	35.97
Royalties	<b>6.04</b>	2.40	<b>8.78</b>	3.10
Operating expenses	<b>25.15</b>	14.39	<b>26.60</b>	25.26
Field netbacks	<b>11.18</b>	16.97	<b>9.08</b>	7.61
General and administrative (i)	<b>54.46</b>	16.78	<b>39.75</b>	34.82
Netbacks	<b>(43.28)</b>	0.19	<b>(30.67)</b>	(27.21)

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

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**General and administrative expense**

General and administrative expenditures for the three and six months ended June 30, 2010 totalled \$799,626 and \$1,285,385 as compared to \$495,963 and \$1,219,290 for the comparative 2009 periods. Salaries in the amount of \$69,469 and \$138,938 related to individuals specifically involved in the oil sands and conventional properties were capitalized for the three and six months ended June 30, 2010 as compared to \$70,969 and \$141,938 for the comparative 2009 periods. Expenses increased in the second quarter of 2010 related to travel and professional fees incurred in the continued pursuit of financing alternatives.

**Business development expenses and international operations**

During the three and six months ended June 30, 2010, the Company incurred \$112,038 and \$182,226 as compared to \$23,137 and \$175,935 for the comparative 2009 periods, in business development expenses related to the pursuit of projects outside of conventional Canadian oil and gas exploration and development, principally in Kenya. The majority of the expenditures for the six months ended 2010 were for consulting fees and related travel costs in the ongoing negotiations with a prospective partner and the Kenyan Government. The comparative 2009 expenditures were primarily paid to the Kenyan Government for geological data and reports. The sale of the Kenya blocks is expected to close in the third quarter of 2010.. For more information, see "International Obligations" in this MD&A.

**Stock-based compensation**

Stock-based compensation for the three and six months ended June 30, 2010 was \$53,484 and \$411,707 compared to \$360,824 and \$654,470, respectively, in the same periods in 2009. In addition, \$47,018 and \$89,197 of stock-based compensation, and \$8,204 and \$22,264 of related future income taxes was capitalized to property and equipment in the three and six months ended June 30, 2010. \$91,635 and \$185,192 of stock-based compensation and \$30,544 and \$61,730 of related future income taxes was capitalized in the three and six months ended June 30, 2009. The fair value of options is estimated using the Black Scholes option-pricing model 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 \$8,560 and \$18,668 for the three and six months ended June 30, 2010 versus \$17,279 and \$49,788 in comparative periods in 2009 respectively is comprised of the Part XII.VI interest related to the Company's flow-through common share financings.

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**Depletion, depreciation, and accretion**

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
<b>Depletion, depreciation and accretion</b>				
Depletion and depreciation (\$)	<b>536,664</b>	559,447	<b>1,173,202</b>	669,822
\$/boe	<b>36.55</b>	18.93	<b>36.28</b>	19.13
Accretion (\$)	<b>20,354</b>	8,655	<b>45,580</b>	16,957
\$/boe	<b>1.39</b>	0.29	<b>1.41</b>	0.48

The total depletion, depreciation and accretion charge for the three and six months ended June 30, 2010 was \$557,018 (\$37.93 per boe) and \$1,218,782 (\$37.69 per boe) as compared to \$568,102 (\$19.23 per boe) and \$686,779 (\$19.61 per boe) for the comparative periods in 2009. The Company applied the ceiling test to its property and equipment at June 30, 2010 using July 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 \$41.8 million spent to date on its oil sands properties and \$0.3 million spent on rig mobilization of a conventional well expected to be drilled in the winter of 2010/2011.

**Capital Expenditures (\$)**

Capital spending is summarized as follows:

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
<b>Oil sand properties</b>				
Land and lease rentals (\$)	<b>55,874</b>	71,106	<b>82,306</b>	82,306
Seismic / cap rock (\$)	<b>7,391</b>	65,099	<b>56,127</b>	413,907
Drilling (\$)	<b>420,554</b>	121,550	<b>2,371,361</b>	4,346,094
Pilot application (\$)	<b>218,158</b>	151,628	<b>599,169</b>	417,751
Other (\$)	<b>115,048</b>	70,968	<b>161,910</b>	164,184
	<b>817,025</b>	480,351	<b>3,270,873</b>	5,424,242
<b>Conventional properties</b>				
Lease rentals and seismic (\$)	<b>6,944</b>	(1,116)	<b>15,227</b>	3,489
Drilling and completion (\$)	<b>36,947</b>	102,304	<b>1,901,342</b>	2,365,202
Tangible (\$)	<b>43,617</b>	25,119	<b>134,540</b>	76,778
	<b>87,508</b>	126,307	<b>2,051,109</b>	2,445,469
Office (\$)	<b>9,182</b>	643	<b>9,703</b>	1,378
<b>Total (\$)</b>	<b>913,715</b>	607,301	<b>5,331,685</b>	7,871,089

In addition, \$47,018 and \$89,197 of stock-based compensation and \$8,204 and \$22,264 of related future income taxes was capitalized to property and equipment in the three and six months ended June 30, 2010 versus \$91,635 and \$185,192 of stock-based compensation and \$30,544 and \$61,730 of related future income taxes capitalized in the three and six months ended June 30, 2009.

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**Liquidity and Financial Position**

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

During the six months ended June 30, 2010, the Company spent \$1,127,572 on operating activities, \$5,331,685 on capital expenditures and \$453,093 on an additional reclamation deposit. As at June 30, 2010, the Company's working capital had been reduced to \$3.0 million. Approximately \$1.15 million of flow-through expenditures remain to be spent by December 31, 2010.

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

**Share Capital**

**Common shares**

The Company commenced 2010 with 105,210,625 common shares outstanding. For the six months ended June 30, 2010, 20,000 warrants and 436,499 options were exercised resulting in 105,667,124 common shares outstanding. Subsequent to June 30, 2010, an additional 238,333 options were exercised resulting in 105,905,457 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 six months ended June 30, 2010, a total of 3,105,000 stock options were granted, 436,499 stock options were exercised, and 652,334 stock options were forfeited, resulting in 7,543,323 options outstanding as at June 30, 2010. Subsequent to then, a new grant of 600,000 options was made to directors on July 28, 2010, 238,333 options were exercised, and 346,668 were forfeited resulting in 7,558,322 outstanding as at the date of this MD&A. 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
Exercised	(436,499)	0.21
Forfeited	(652,334)	0.36
Balance, June 30, 2010	7,543,323	\$ 0.47

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The following summarizes information about stock options outstanding as at June 30, 2010:

Range of exercise prices	Number outstanding	Weighted average remaining contractual life (years)	Options outstanding weighted average exercise price	Number exercisable	Options exercisable weighted average exercise price
\$ 0.13	1,769,667	3.45	\$ 0.13	1,175,325	\$ 0.13
\$ 0.14 – \$ 0.37	1,127,000	1.21	0.35	1,101,,666	0.35
\$ 0.38 – \$ 0.61	3,727,000	4.18	0.44	1,746,990	0.48
\$ 0.62 – \$ 1.47	667,656	2.42	1.10	609,927	1.15
\$ 1.48 – \$ 2.21	252,000	2.00	2.09	252,000	2.09
	<u>7,543,323</u>	<u>3.34</u>	<u>\$ 0.47</u>	<u>4,885,908</u>	<u>\$ 0.53</u>

Of the total options outstanding, 5,554,156 are held by directors, officers and management.

#### **Warrants**

At June 30, 2010, the Company had 17,411,250 (December 31, 2009 - 17,431,250) warrants outstanding which were all exercisable. Subsequent to June 30,, 2010, 2,000,000 warrants expired unexercised decreasing the total warrants to 15,411,250 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 June 30, 2010, approximately \$4.6 million of expenditures have been incurred. The remaining \$1.15 million of qualifying expenditures must be incurred by December 31, 2010.

#### **Commodity contract**

In October 2009, the Company signed a commodity "collar" price risk contract for the period November 1, 2009 to October 31, 2010. The notional quantity under this contract is for 50 barrels of oil per day at prices per barrel of \$70.00 (floor strike price) and \$79.50 (cap strike price). For the three and six months ended June 30, 2010, the Company has realized losses of \$8,247 and \$19,317 which have been included in revenue. The mark-to-market value of the remaining unsettled portion of the contract at June 30, 2010 is a liability of \$23,750 of which \$65,000 has been paid in cash as a deposit to the counterparty offsetting 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

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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. The Kenyan Government, Kenyan National Oil Company, Africa Oil, and Platform executed an agreement for conveyance of the Blocks in August 2010.

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. It is expected that these funds will be returned to Platform upon closing of the assignment.

**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. In July 2010, 2,000,000 warrants at an exercise price of \$0.50 per common share expired unexercised.

**Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

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**Related Party Transactions**

The Company had the following related party transactions:

- a) During the three and six months ended June 30, 2010, the Company was charged \$146,908 and \$154,308 (Three and six months ended June 30, 2009 - \$43,808 and \$99,150) 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 June 30, 2010 is \$147,362 (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 June 30, 2010, a subscription receivable in the amount of \$10,000 (December 31, 2009 - \$32,800 due from two officers of the Company) was due from a former officer of the Company related to the unit and flow-through share issuances from November 2009. The monies have subsequently been collected.

**Selected Historical Financial Information**

	2010		2009	
	2 <sup>ND</sup> QUARTER	1 <sup>ST</sup> QUARTER	4 <sup>TH</sup> QUARTER	3 <sup>RD</sup> QUARTER
Petroleum and natural gas revenue (\$)	622,100	815,543	826,073	894,316
Net loss (\$)	(939,128)	(1,186,540)	(1,035,940)	(486,157)
Net loss per share – basic and diluted (\$)	(0.01)	(0.01)	(0.01)	(0.01)
Funds (used in) from operations (\$)	(750,452)	(377,120)	(776,513)	98,124
Cash flow (used in) from operations (\$)	(700,101)	(544,051)	(932,314)	399,091
Capital expenditures (\$)	913,715	4,417,970	3,202,536	1,651,024

	2009		2008	
	2 <sup>ND</sup> QUARTER	1 <sup>ST</sup> QUARTER	4 <sup>TH</sup> QUARTER	3 <sup>RD</sup> QUARTER
Petroleum and natural gas revenue (\$)	997,514	262,027	366,542	666,302
Net loss (\$)	(921,812)	(1,216,570)	(1,985,137)	(799,495)
Net loss per share – basic and diluted (\$)	(0.01)	(0.02)	(0.02)	(0.01)
Funds used in operations (\$)	(34,242)	(1,110,316)	(485,453)	(282,302)
Cash flow (used in) from operations (\$)	(811,087)	(636,828)	(397,166)	(270,430)
Capital expenditures (\$)	607,301	7,263,788	4,990,133	952,090

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## **Outlook**

Alberta Oilsands' growth strategy is to develop large-scale oil sands assets supported by conventional oil and gas asset development, joint-venture opportunities and financial partners. This will allow the Company to move quickly to convert contingent resources to proved reserves resulting in the generation of material production and cash flow.

At Clearwater, our improved understanding of the reservoir based on the technical work performed over the last few months will lead to an update to the current Clearwater West LP-SAGD Pilot Project application in the fourth quarter 2010. The Company expects to receive regulatory approval in 2011. Development efforts for Clearwater Phase 1 over the next few months are expected to progress to detailed engineering which will lead to procurement of some necessary long lead surface and subsurface facility items to ensure timely bitumen production in 2012. Construction of the project is expected to begin as soon as practical upon approval. To complete Clearwater Phase 1 construction and commissioning, the Company will have to raise an incremental \$100 million capital. Alberta Oilsands anticipates financing the capital requirement through a combination of debt, equity and joint venture arrangements.

AOS expects to perform additional field measurements during the 2010-2011 winter season to confirm and define the safe maximum operating pressure of future bitumen production operations. The Clearwater West LP-SAGD Pilot Project constitutes Phase 1 in the development of the Clearwater area. Phase 2 will comprise Phase 1 operational learnings and form an optimized continued development for the Clearwater area with a possible plant size of 15,000 to 25,000 barrels of bitumen per day. The Phase 2 reservoir scoping stage is expected to conclude early 2011 and will include a significant delineation effort during the 2010-2011 drilling season, subject to an appropriate level of capital funding.

AOS expects to be in a position to add experienced personnel to its on-going oil sands exploration and development efforts, subject to an appropriate level of capital funding. Plans have been generated to explore AOS' Algar Lake and Grand Rapids oil sands leases. Algar Lake comprises 51 sections and the three vertical wells drilled in the late 1950's indicate significant *in-situ* bitumen volumes (potential for conventional heavy oil cold flow also exists). The objective of the Algar Lake exploration plan is to confirm available resource volumes and evaluate further AOS bitumen development potential. The current Algar Lake exploration plan calls for approximately 20 bitumen core holes and 30 contingent locations. Two historical core holes in the Grand Rapids area indicate significant potential for significant *in-situ* bitumen volumes. The Grand Rapids area has been more active and recent core holes on neighbouring properties have been used to generate the Grand Rapids exploration plan. The 2010-2011 exploration season in Grand Rapids is intended to provide a first estimate of oil sands development potential on the 18 sections of oil sands properties and comprises approximately 10 core holes and 15 contingent locations. Execution of the Algar Lake and Grand Rapids are subject to obtaining appropriate levels of capital funding.

AOS expects to continue prudent management of funds and guide oil sands exploration and development subject to availability of capital. Current ranking of oil sands opportunities considers maintaining focus on bringing Clearwater Phase 1 to production, continued scoping and delineation for Clearwater Phase 2, confirm resource volumes and evaluate development potential at Algar Lake and provide a first estimate of resource volumes at Grand Rapids.

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### **Oilsands Development Risks**

In assessing the feasibility of potential oil sands projects and in estimating the value of and the projected start-up dates for pilot projects and commercial in-situ operations in the Company's Clearwater West project areas, management has made numerous assumptions that the Company will be able to obtain regulatory (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.

### **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 such risks with their legal and financial advisors.

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

### **Disclosure of Reserves and Resources**

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

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

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"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 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.

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Pending accounting pronouncements

International financial reporting standards ("IFRS")

The Accounting Standards Board ("AcSB") has confirmed that accounting standards in Canada will converge with IFRS. Entities will be required to adopt IFRS effective January 1, 2011 with a restatement of the comparative periods for 2010 including an opening balance sheet as at January 1, 2010. Under IFRS, the primary audience is capital markets and as a result, there is significantly more disclosure required. Further, while IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policies and increased note disclosures which must be addressed. The Company continues to develop its IFRS conversion plan and, on a qualitative basis, has identified the key areas where changes are anticipated.

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

IFRS 1 - First-time Adoption of IFRS which generally requires that an entity apply all IFRS effective at the end of its first IFRS reporting period retrospectively, with specific mandatory exemptions, and a limited number of optional exemptions. A preliminary analysis of exemptions to be elected has been completed. This is under review and selection will be finalized in the third quarter.

IFRS 2 – Share-based payments requires the use of a forfeiture rate based on an estimate of the number of options expected to vest and requires that each tranche be treated as a separate arrangement if graded vesting is utilized. The Company utilizes a software package for the calculation of share based compensation which is supported by a third party. AOS will work in conjunction with this third party to convert to IFRS standards. A forfeiture rate calculation has been completed and a preliminary set of IFRS compliant data has being generated. Review of data to occur during the third quarter.

IAS 16 – Property, plant and equipment requires that assets be assigned to a cash generating unit and depreciated on a component level. This requires a useful life assessment at a potentially lower level than under current Canadian GAAP and amendments to the accounting system to enable the tracking of costs at both a component and cash generating unit level. A preliminary determination of cash generating units has been made and no change is anticipated with respect to components.

IAS 36 – Impairment of Assets involves an impairment test at the cash generating unit level whereby the recoverable amount, defined as the higher of the fair value less costs to sell or value in use, is compared to the carrying value of the assets. Impairments are likely to be triggered at an earlier date under IFRS. A preliminary impairment test has been prepared. Further information will be obtained in order to finalize this calculation.

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

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

**Alberta Oilsands Inc.**  
**Management's Discussion and Analysis of Operations**  
**and Financial Condition**  
**June 30, 2010**

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The preliminary implementation milestones are as follows:

- The January 1, 2010 transition date balance sheet will be finalized by early Q4 2010.
- Q1 2010 restated to IFRS will be finalized during Q4 2010.
- Q2 2010 restated to IFRS will be finalized by December 31, 2010.

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

# **Alberta Oilsands Inc.**

## **INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2010**

### **Notice of No Auditor Review of Interim Financial Statements**

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed these unaudited interim consolidated financial statements as at and for the three and six months ended June 30, 2010 and 2009.

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

<b>Assets</b>	<b>June 30, 2010</b>	<b>December 31, 2009</b>
<b>Current</b>		
Cash and cash equivalents ( <i>note 2</i> )	\$ 1,161,944	\$ 6,880,447
Restricted cash ( <i>note 3</i> )	1,153,624	-
Short-term investments ( <i>note 4</i> )	1,554,490	1,051,381
Accounts receivable	762,877	3,054,865
Subscription receivable ( <i>note 7</i> )	10,000	32,800
Prepaid expenses	241,533	213,951
Commodity contract ( <i>note 15c(ii)</i> )	41,250	-
	<b>4,925,718</b>	<b>11,233,444</b>
Reclamation deposit	702,355	249,262
Property and equipment ( <i>note 5</i> )	51,983,250	47,617,698
	<b>\$ 57,611,323</b>	<b>\$ 59,100,404</b>
 <b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 1,974,278	\$ 1,565,611
Commodity contract ( <i>note 15c(ii)</i> )	-	6,687
	<b>1,974,278</b>	<b>1,572,298</b>
Asset retirement obligation ( <i>note 6</i> )	1,185,154	1,043,966
Future income taxes ( <i>note 10</i> )	5,176,593	4,243,195
	<b>8,336,025</b>	<b>6,859,459</b>
 <b>Shareholders' Equity</b>		
Share capital ( <i>note 7</i> )	57,492,960	58,756,475
Warrants ( <i>note 8</i> )	617,500	617,637
Contributed surplus ( <i>note 9</i> )	6,571,515	6,147,842
Deficit	(15,406,677)	(13,281,009)
	<b>49,275,298</b>	<b>52,240,945</b>
	<b>\$ 57,611,323</b>	<b>\$ 59,100,404</b>
Basis of presentation ( <i>note 1</i> )		
Commitments ( <i>note 14</i> )		
Subsequent events ( <i>note 17</i> )		

See accompanying notes to the unaudited interim consolidated financial statements.

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**Alberta Oilsands Inc.****Interim Consolidated Statements of Operations, Comprehensive Loss, and Deficit  
For the three and six months ended June 30  
(unaudited)**

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	Three months ended June 30		Six months ended June 30	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
<b>Revenue</b>				
Petroleum and natural gas sales	\$ 622,100	\$ 997,514	\$ 1,437,643	\$ 1,259,541
Royalties	<u>(88,662)</u>	<u>(71,057)</u>	<u>(283,799)</u>	<u>(108,547)</u>
	533,438	926,457	1,153,844	1,150,994
Unrealized gain on financial instruments <i>(note 15c(ii))</i>	68,127	–	109,937	–
Interest income	<u>1,574</u>	<u>998</u>	<u>3,068</u>	<u>34,058</u>
	<u>603,139</u>	<u>927,455</u>	<u>1,266,849</u>	<u>1,185,052</u>
<b>Expenses</b>				
Production	340,740	367,010	799,614	820,801
Transportation	28,500	58,308	60,591	63,796
General and administrative	799,626	495,963	1,285,385	1,219,290
Business development <i>(note 11)</i>	112,038	23,137	182,226	175,935
Stock-based compensation <i>(note 7)</i>	53,484	360,824	411,707	654,470
Unrealized foreign exchange gain	<u>(59,378)</u>	–	<u>(59,378)</u>	–
Interest	8,560	17,279	18,668	49,788
Accretion	20,354	8,655	45,580	16,957
Depletion and depreciation	<u>536,664</u>	<u>559,447</u>	<u>1,173,202</u>	<u>669,822</u>
	<u>1,840,588</u>	<u>1,890,623</u>	<u>3,917,595</u>	<u>3,670,859</u>
<b>Loss before income taxes</b>	<b>(1,237,449)</b>	<b>(963,168)</b>	<b>(2,650,746)</b>	<b>(2,485,807)</b>
Future income tax reduction <i>(note 10)</i>	<u>(298,321)</u>	<u>(41,356)</u>	<u>(525,078)</u>	<u>(347,425)</u>
<b>Net loss and comprehensive loss for the period</b>	<b>(939,128)</b>	<b>(921,812)</b>	<b>(2,125,668)</b>	<b>(2,138,382)</b>
Deficit, beginning of period	<u>(14,467,549)</u>	<u>(10,837,100)</u>	<u>(13,281,009)</u>	<u>(9,620,530)</u>
<b>Deficit, end of period</b>	<b>\$ (15,406,677)</b>	<b>\$ (11,758,912)</b>	<b>\$ (15,406,677)</b>	<b>\$ (11,758,912)</b>
<b>Net loss per share</b>				
Basic and diluted <i>(note 7)</i>	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.03)

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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 and six months ended June 30**  
(unaudited)

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
<b>Operating</b>				
Net loss for the period	\$ (939,128)	\$ (921,812)	\$ (2,125,668)	\$ (2,138,382)
Non-cash items:				
Unrealized financial instrument gain	(64,127)	-	(47,937)	-
Unrealized foreign exchange gain	(59,378)	-	(59,378)	-
Stock-based compensation	53,484	360,824	411,707	654,470
Accretion	20,354	8,655	45,580	16,957
Depletion and depreciation	536,664	559,447	1,173,202	669,822
Future income tax reduction	(298,321)	(41,356)	(525,078)	(347,425)
	<u>(750,452)</u>	<u>(34,242)</u>	<u>(1,127,572)</u>	<u>(1,144,558)</u>
Change in non-cash working capital (note 12)	<u>50,351</u>	<u>(776,845)</u>	<u>(116,580)</u>	<u>(303,357)</u>
	<u>(700,101)</u>	<u>(811,087)</u>	<u>(1,244,152)</u>	<u>(1,447,915)</u>
<b>Financing</b>				
Issuance of shares, net of costs	100,579	-	118,129	-
Change in non-cash working capital (note 12)	9,512	17,244	(306,257)	(119,627)
	<u>110,091</u>	<u>17,244</u>	<u>(188,128)</u>	<u>(119,627)</u>
<b>Investing</b>				
Short-term investment (purchase) redemption	(502,477)	(1,000,042)	(503,109)	994,204
Purchase of restricted investment	(1,094,246)	-	(1,094,246)	-
Expenditures on property and equipment	(913,715)	(607,301)	(5,331,685)	(7,871,089)
Proceeds on disposal of property and equipment	-	20,000	-	20,000
Reclamation deposit	(92,748)	(368)	(453,093)	(123,469)
Change in non-cash working capital (note 12)	(736,971)	(2,930,383)	3,095,910	(3,348,736)
	<u>(3,340,157)</u>	<u>(4,518,094)</u>	<u>(4,286,223)</u>	<u>(10,329,090)</u>
<b>Decrease in cash and cash equivalents</b>	<b>(3,930,167)</b>	<b>(5,311,937)</b>	<b>(5,718,503)</b>	<b>(11,896,632)</b>
Cash and cash equivalents, beginning of period	<u>5,092,111</u>	<u>10,787,121</u>	<u>6,880,447</u>	<u>17,371,816</u>
<b>Cash and cash equivalents, end of period</b>	<b>\$ <u>1,161,944</u></b>	<b>\$ <u>5,475,184</u></b>	<b>\$ <u>1,161,944</u></b>	<b>\$ <u>5,475,184</u></b>
<b>Supplemental cash flow information:</b>				
Interest paid	\$ <u>37</u>	\$ <u>-</u>	\$ <u>73,668</u>	\$ <u>169,415</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 and six months ended June 30, 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

	June 30, 2010	December 31, 2009
Cash in bank	\$ 160,317	\$ 5,377,694
Cash in investment accounts	1,001,627	1,502,753
	<u>\$ 1,161,944</u>	<u>\$ 6,880,447</u>

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

### 3. Restricted cash

As at June 30, 2010, the Company held investments of \$1,153,624 for which US\$1,087,500 was utilized to cash collateralize an unconditional and irrevocable bank guarantee securing a performance bond provided to the Kenyan Government by Platform Resources Inc. with respect to the PSC's. (note 14(d)). For the three and six months ended June 30, 2010, \$59,378 in unrealized foreign exchange gain was recognized.

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# Alberta Oilsands Inc.

## Notes to Interim Consolidated Financial Statements

As at and for the three and six months ended June 30, 2010

(unaudited)

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### 4. Short-term investments

As at June 30, 2010, the Company held investments of \$1,554,490 (December 31, 2009 – \$1,051,381), including accrued interest. These investments earn nominal interest and mature between September 2010 and January 2011. \$52,654 of this balance is a guaranteed investment certificate held to secure a letter of credit provided to a third party.

### 5. Property and equipment

	June 30, 2010		
	Cost	Accumulated depletion and depreciation	Net
Petroleum and natural gas properties			
Oil sands properties	\$ 41,771,131	\$ –	\$ 41,771,131
Conventional properties	21,901,056	11,748,200	10,152,856
Office equipment	201,544	142,281	59,263
	<u>\$ 63,873,731</u>	<u>\$ 11,890,481</u>	<u>\$ 51,983,250</u>

During the three and six months ended June 30, 2010, the Company capitalized \$69,469 and \$138,938 (June 30, 2009 – \$70,969 and \$141,938) of general and administrative costs, \$47,018 and \$89,197 (June 30, 2009 – \$91,635 and \$185,192) of stock-based compensation, and \$8,204 and \$22,264 (June 30, 2009 – \$30,544 and \$61,730) of related future incomes taxes. At June 30, 2010, the Company excluded \$41,771,131 (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 June 30, 2010 and determined that there was no impairment. For the purposes of the June 30, 2010 impairment test, the following benchmark prices were used:

	Edmonton Light Cdn\$/bbl	AECO Spot \$/MMbtu
2010 - remaining	82.00	4.50
2011	86.00	5.25
2012	90.00	6.00
2013	95.00	6.60
2014	100.00	7.25
Escalation rate thereafter - 2%		

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# Alberta Oilsands Inc.

## Notes to Interim Consolidated Financial Statements

As at and for the three and six months ended June 30, 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
Revisions		95,608
Accretion		45,580
Balance, June 30, 2010	\$	<u>1,185,154</u>

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

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

### 7. Share capital

#### a) Common shares issued

	Number of Shares	Amount
Balance, December 31, 2009	105,210,625	\$ 58,756,475
Share issue costs ( <i>net of tax of \$1,313</i> )	-	(3,937)
Exercise of stock options (ii)	436,499	167,810
Exercise of warrants (iii)	20,000	10,137
Tax effect of flow-through shares issued in 2009 (i)	-	(1,437,525)
Balance, June 30, 2010	<u>105,667,124</u>	<u>\$ 57,492,960</u>

- (i) Pursuant to a prospectus in November 2009 the Company issued 12,778,000 flow-through common shares at a price of \$0.45 per share for total gross proceeds of \$5,750,100. The renouncement documents were filed with the tax authorities in February 2010 at which time the tax effect of the flow-through proceeds in the amount of \$1,437,525 was recognized. The Company is required to spend \$5,750,100 in qualifying expenditures by December 31, 2010, of which approximately \$4,595,000 has been incurred as at June 30, 2010. A subscription receivable in the amount of \$10,000 from this issue remains outstanding as at June 30, 2010 but has been subsequently collected (note 12(b)).
- (ii) During the six months ended June 30, 2010, the Company issued 436,499 common shares on the exercise of 436,499 stock options at exercise prices ranging from \$0.13 to \$0.40 per common share for cash proceeds of \$90,579. In addition to the cash proceeds a pro-rata allocation of the options' fair value in the amount of \$77,231 was reclassified from contributed surplus to share capital.
- (iii) During the six months ended June 30, 2010, the Company issued 20,000 common shares on the exercise of 20,000 warrants at an exercise price of \$0.50 per common share for cash proceeds of \$10,000. In addition to the cash proceeds a pro-rata allocation of the warrant fair value in the amount of \$137 was reclassified from warrants to share capital.

# Alberta Oilsands Inc.

## Notes to Interim Consolidated Financial Statements

As at and for the three and six months ended June 30, 2010

(unaudited)

### 7. Share Capital (continued)

#### b) Stock options

During the three and six months ended June 30, 2010, the Company granted a total of 3,105,000 (June 30, 2009 – 316,000) 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 (June 30, 2009 – \$42,823).

The Black-Scholes pricing model was used to estimate the fair value of the options granted using a forfeiture rate of 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.

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
Exercised	(436,499)	0.21
Forfeited	(652,334)	0.36
Balance, June 30, 2010	<u>7,543,323</u>	<u>\$ 0.47</u>

The following summarizes information about stock options outstanding as at June 30, 2010:

Range of exercise prices	Number outstanding	Weighted average remaining contractual life (years)	Options outstanding weighted average exercise price	Number Exercisable	Options exercisable weighted average exercise price
\$ 0.13	1,769,667	3.45	\$ 0.13	1,175,325	\$ 0.13
\$ 0.14 – \$ 0.37	1,127,000	1.21	0.35	1,101,666	0.35
\$ 0.38 – \$ 0.61	3,727,000	4.18	0.44	1,746,990	0.48
\$ 0.62 – \$ 1.47	667,656	2.42	1.10	609,927	1.15
\$ 1.48 – \$ 2.21	252,000	2.00	2.09	252,000	2.09
	<u>7,543,323</u>	<u>3.34</u>	<u>\$ 0.47</u>	<u>4,885,908</u>	<u>\$ 0.53</u>

Of the total options outstanding, 5,554,156 are held by directors, officers and management. The Company recognized stock-based compensation as follows for the three and six months ended June 30:

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Capitalized to property and equipment ( <i>note 5</i> )	\$ 47,018	\$ 91,635	\$ 89,197	185,192
Expensed	<u>53,484</u>	<u>360,824</u>	<u>411,707</u>	<u>654,470</u>
	<u>\$ 100,502</u>	<u>\$ 452,459</u>	<u>\$ 500,904</u>	<u>\$ 839,662</u>

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# Alberta Oilsands Inc.

## Notes to Interim Consolidated Financial Statements

As at and for the three and six months ended June 30, 2010

(unaudited)

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### 7. Share Capital (continued)

#### c) Per share amounts

Basic per share amounts are calculated using the weighted average number of shares outstanding of 105,296,330 and 105,277,780 for the three and six months ended June 30, 2010 (three and six months ended June 30, 2009 - 79,651,375). In computing diluted per share amounts for the three and six months ended June 30, 2010 and 2009 all of the Company's outstanding options and warrants were excluded as they were considered to be anti-dilutive.

### 8. Warrants

The following is a continuity of warrants:

	Options	Value
Balance, December 31, 2009	17,431,250	\$ 617,637
Exercised	(20,000)	(137)
Balance, June 30, 2010	17,411,250	\$ 617,500

The following summarizes information about the warrants outstanding as at June 30, 2010:

Exercise Price	Number of Warrants	Weighted Average Remaining Contractual Life (years)
\$0.50	15,411,250	1.19
\$1.00	2,000,000	1.00
	17,411,250	1.17

In July 2010, 2,000,000 warrants at an exercise price of \$0.50 per common share expired unexercised.

### 9. Contributed surplus

Balance, December 31, 2009	\$ 6,147,842
Stock-based compensation expensed	411,707
Stock-based compensation capitalized	89,197
Options exercised	(77,231)
Balance, June 30, 2010	\$ 6,571,515

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# Alberta Oilsands Inc.

## Notes to Interim Consolidated Financial Statements

As at and for the three and six months ended June 30, 2010

(unaudited)

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### 10. Income taxes

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

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Expected income tax reduction at 28.02% (2009 – 29.02%)	\$ (346,719)	\$ (279,021)	\$ (742,711)	\$ (721,348)
Stock-based compensation expense	17,705	103,324	119,085	190,000
Changes in enacted tax rates and other	30,693	134,341	98,548	183,923
Future income tax reduction	<u>\$ (298,321)</u>	<u>\$ (41,356)</u>	<u>\$ (525,078)</u>	<u>\$ (347,425)</u>

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

	June 30, 2010	December 31, 2009
Non-capital loss carryforwards	\$ 1,941,125	\$ 1,550,633
Asset retirement obligation	296,289	260,992
Share issue costs	469,943	569,500
Unrealized loss on financial instruments	(30,784)	37,432
Property and equipment	<u>(7,853,166)</u>	<u>(6,661,752)</u>
Future income tax liability	<u>\$ (5,176,593)</u>	<u>\$ (4,243,195)</u>

### 11. Business development expenses

During the three and six months ended June 30, 2010 the Company incurred \$112,038 and \$182,226 (June 30, 2009 - \$23,137 and \$175,935) 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 June 30		Six months ended June 30	
	2010	2009	2010	2009
Accounts receivable	\$ 175,866	\$ (163,567)	\$ 2,291,988	\$ (89,129)
Prepaid expenses	(34,533)	12,836	(27,582)	75,934
Accounts payable and accrued liabilities	<u>(818,441)</u>	<u>(3,539,253)</u>	<u>408,667</u>	<u>(3,758,525)</u>
	<u>\$ (677,108)</u>	<u>\$ (3,689,984)</u>	<u>\$ 2,673,073</u>	<u>\$ (3,771,720)</u>

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# Alberta Oilsands Inc.

## Notes to Interim Consolidated Financial Statements

As at and for the three and six months ended June 30, 2010

(unaudited)

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

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

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Operating	\$ 50,351	\$ (776,845)	\$ (116,580)	\$ (303,357)
Financing	9,512	17,244	(306,257)	(119,627)
Investing	<u>(736,971)</u>	<u>(2,930,383)</u>	<u>3,095,910</u>	<u>(3,348,736)</u>
	<u>\$ (677,108)</u>	<u>\$ (3,689,984)</u>	<u>\$ 2,673,073</u>	<u>\$ (3,771,720)</u>

### 13. Related party transactions

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

- a) During the three and six months ended June 30, 2010, the Company was charged \$146,908 and \$154,308 (three and six months ended June 30, 2009 - \$43,808 and \$99,150) 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 June 30, 2010 is \$147,362 (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 June 30, 2010, a subscription receivable in the amount of \$10,000 (December 31, 2009 - \$32,800 due from two officers of the Company) was due from a former officer of the Company related to the unit and flow-through share issuances from November 2009. The monies have subsequently been collected.

### 14. Commitments

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

- a) The Company has granted a three percent gross overriding royalty to Dr. Greg Hu on all production with respect to specific properties. The carrying amount of such properties is \$3.2 million.
- b) On July 8, 2009, the Company signed a Gross Overriding Royalty, Access and Cooperation Agreement (the "Agreement") with the Fort McMurray Airport 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 of which 2,000,000 expired in July 2010.
- c) Pursuant to flow-through issuance in November 2009, the Company is required to incur approximately \$1.15 million of remaining qualifying expenditures by December 31, 2010.

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# Alberta Oilsands Inc.

## Notes to Interim Consolidated Financial Statements

As at and for the three and six months ended June 30, 2010

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### 14. Commitments (continued)

- 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.

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.

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# Alberta Oilsands Inc.

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

#### a) Credit risk (continued)

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 June 30, 2010, the maximum credit exposure is the carrying amount of the accounts receivable and accruals of \$762,877 (December 31, 2009 – \$3,054,865) plus cash and cash equivalents, restricted cash and short-term investments of \$3,870,058 (December 31, 2009 - \$7,931,828).

As at June 30, 2010, \$177,848 of the Company's receivables consisted of June revenue due from marketers, \$29,366 in GST, \$367,399 in a cash call receivable, \$160,341 for an insurance claim and the remaining \$27,923 is comprised of receivables due from joint venture partners. Receivables from petroleum and natural gas marketers are typically collected on the 25th day of the month following production. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with large purchasers. The Company historically has not experienced any significant collection issues with its petroleum and natural gas marketers. The cash call receivable is with one joint venture party and will be drawn down as the capital projects progress. Completion of the project is primarily completed.

Joint venture receivables are typically collected within one to two months of the joint venture bill being issued to the partner. The Company mitigates the risk from joint venture receivables by obtaining partner approval of capital expenditures prior to starting a project. However, the receivables are from participants in the petroleum and natural gas sector, and collection is dependent on typical industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. As at June 30, 2010, the largest amount owing from one joint venture partner is \$8,039.

Further risk exists with joint venture partners as disagreements occasionally arise which increases the potential for non-collection. For properties that are operated by the Company, production can be withheld from joint venture partners who are in default of amounts owing. In addition, the Company often has offsetting amounts payable to joint venture partners from which it can net receivable balances.

The Company did not provide an allowance for a doubtful account during the three and six months ended June 30, 2010 (three and six months ended June 30, 2009 – \$1,883 and \$2,404). 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:

	June 30, 2010	December 31, 2009
Current	\$ 723,818	\$ 422,446
Past due by less than 90 days	32,395	10,296
Past due by more than 90 days	6,664	20,154
	<u>356,419</u>	<u>452,896</u>
Cash call receivable	367,399	2,601,969
	<u>\$ 762,877</u>	<u>\$ 3,054,865</u>

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# Alberta Oilsands Inc.

## Notes to Interim Consolidated Financial Statements

As at and for the three and six months ended June 30, 2010

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

#### 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 June 30, 2010 or 2009.

##### ii) Commodity price risk

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

In October 2009, the Company signed a commodity "collar" price risk contract for the period November 1, 2009 to October 31, 2010. The notional quantity under this contract is for 50 barrels of oil per day at prices per barrel of \$70.00 (floor strike price) and \$79.50 (cap strike price). For the three and six months ended June 30, 2010, the Company realized losses of \$8,247 and \$19,317, respectively, under the contract which has been included in petroleum and natural gas sales revenue. The mark-to-market value of the remaining unsettled portion of the contract at June 30, 2010 is a liability of \$23,750 of which \$65,000 has been paid in cash as a deposit to the counterparty resulting in a net asset of \$41,250 (December 31, 2009 – liability of \$6,687).

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# Alberta Oilsands Inc.

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

#### c) Market risk (continued)

##### iii) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk primarily through its variable interest rate on its cash and cash equivalents and short-term investments. For the three and six months ended June 30, 2010, if interest rates had been 1% higher with all other variables held constant, loss for the period would have been \$6,300 and \$12,658 (Three and six months ended June 30, 2009 - \$4,082 and \$22,182) 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 June 30, 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 \$2,951,440 (December 31, 2009 – \$9,661,146), credit facility, and shareholders' equity of \$49,275,298 (December 31, 2009 – \$52,240,945). The Company monitors capital based on annual funds from operations from its conventional oil and gas properties which are utilized to partially fund the general and administrative expenses. The Company prepares budgets for its capital expenditures, which are updated as necessary and are reviewed and periodically approved by the Company's Board of Directors.

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

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

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

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

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# Alberta Oilsands Inc.

## Notes to Interim Consolidated Financial Statements

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### 17. Subsequent events

- a) 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 Kenyan Government, Kenyan National Oil Company, Africa Oil, and Platform have executed an agreement for conveyance of the Blocks in August 2010. 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. It is expected that these funds will be returned upon closing of the assignment.
- b) Subsequent to June 30, 2010, 600,000 stock options were granted to directors at an option price of \$0.325 per common share, 238,333 stock options were exercised, and 550,668 stock options were forfeited resulting in a total of 7,354,322 stock options outstanding.