

EVENT: OILSANDS QUEST INC. MANAGEMENT UPDATE
CONFERENCE CALL
TIME: 08H30 E.T.
LENGTH: 31 MINUTES
DATE: AUGUST 18, 2010

OPERATOR: Good morning. My name is Christopher and I will be your conference operator today.

At this time I would like to welcome everyone to the Oilsands Quest management update conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question-and-answer session. Those listeners on the webcast today can ask their question by entering them into the question box on the webcast page. For those listeners on the telephone lines, simply press * then the number 1 on your telephone keypad. Questioners will be removed briefly from the conference in order to relay their question to an Oilsands Quest representative. If you would like to withdraw your question, press the # key. Thank you.

I will now like turn the call over to Riyaz Mulji, Manager of Investor Relations with Oilsands Quest.

RIYAZ MULJI (Manager, Investor Relations, Oilsands Quest Inc.): Thank you, Christopher, and thank you all for joining us this morning. Murray Wilson, Chairman, President and CEO of Oilsands Quest will lead the call this morning, and he will begin with some prepared remarks. We also have with us Garth Wong, our Chief Financial Officer; Sue



Mackenzie, our Chief Operating Officer; and Leigh Peters, our VP of Legal.

Before we begin I would like to note that this conference call will include forward-looking information. The company believes that expectations conveyed by the forward-looking statements are reasonable, based on information available to it on the date such forward-looking statements are made. No assurances can be given to future results, levels of activity and achievements. Actual results could differ materially from those anticipated or implied in the forward-looking statements.

Certain material factors and assumptions were applied in drawing the conclusions or making the forecasts or projections as reflected in the forward-looking statements. We encourage you to review the company's current annual report on form 10-K filed on EDGAR and SEDAR, which contains additional information about the material facts that could cause actual results to differ materially from those anticipated or implied in the forward-looking statements, and the material factors or assumptions that were applied in coming to the conclusions or arriving at the estimate as reflected in the forward-looking information.

All subsequent forward-looking statements, whether written or oral, attributable to the company or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements. The Company



assumes no obligation to update forward-looking statements should circumstances or management's estimates or opinions change.

With that I'll now turn the call over to Murray Wilson.

MURRAY WILSON (Chairman, President and Chief Executive Officer, Oilsands Quest Inc.): Riyaz, thanks. And thanks also to everyone that has dialled in for today's conference call to discuss yesterday's announcement that Oilsands Quest is pursuing strategic alternatives.

We'd like to give you some background and then open it up for questions you might have. Oilsands Quest has over the years conducted Saskatchewan's largest delineation and seismic program in the oilsands. We have invested considerable time and capital in establishing the extensive quantity and the quality of the bitumen resources on our leases. We have also added considerable technical and commercial expertise to the company, and we've done detailed technical evaluations and commercial testing.

With significant exploration and commercial development still ahead of us, we do recognize though that we need access to substantial additional capital. We believe that launching an open process of pursuing all strategic alternatives at this time is in the best interest of our shareholders.



So what does strategic alternatives mean in this case? Just what it says: we intend to examine all possibilities that will enable these assets to be developed up to and including the sale of the company. We will examine strategic financing opportunities, asset divestitures, joint ventures and other business combinations and select the alternative that maximizes value for our shareholders.

We reached this decision as we finalized the plans for a SAGD pilot project at Axe Lake, as well as for our winter drilling program and other near-term priorities.

As most of you have heard me say before, we always expected that we would likely need a partner at some point along our road to commercial development, given the major capital required for these projects. But we had originally planned to complete the SAGD test before seeking a partner. We intended to demonstrate that the Axe Lake reservoir can be produced using proven SAGD technology, and then to go to the market to raise the capital required for the commercial project.

So then what changed? First and most importantly, as we refined the critical path for the next 18 months to two years we recognized that we would be starting down a road that would inevitably lead to some substantial financial commitments, commitments that are now well beyond our current resources. The SAGD pilot project requires modifications to our existing facilities, new horizontal and observation wells, and additional



instrumentation, and we'll need to run the pilot for six to 12 months. We have a high degree of confidence in this plan. However, we don't want to start drilling test wells without the certainty that we have access to the resources we need to see the pilot project through and to begin the early stages of commercial development.

We're also sensitive to the fact that potential partners may wish to influence the current plan according to their own priorities.

As we developed the plans for Axe Lake commercial project, it's important to emphasize that this is no small undertaking. While it's too early to disclose specific cost estimates, we're into the billions, not millions, level of dollars. While we have a good reservoir that we believe can be produced efficiently, we're also dealing with a more remote location – it's about 18 miles from existing infrastructure. A significant component of our costs will cover one-time infrastructure investments, given that we'll be opening a new frontier for oilsands development in Saskatchewan.

We will investigate alternatives for reducing or sharing these infrastructure costs with other oilsands operators in the area or perhaps even the Government of Saskatchewan, but this isn't a sure thing, and any such agreements will take time to complete.

We also have other spending priorities and commitments over and above the Axe Lake pilot project. We're excited about what we're seeing from last winter's exploration results at our Wallace Creek property, which



is just across the Alberta border from Axe Lake. We want to do additional delineation at the reservoir at Wallace Creek so that we can convert our permits to leases and retain the lands for future development. We see the potential for Wallace Creek to be our second commercial development.

Coming back to Axe Lake for a moment, we have an obligation there that is important both operationally and environmentally. As discussed in our last couple of quarterly releases, we have determined that a number of the early exploration core holes at Axe Lake were not abandoned in a way secure for thermal development. Thus, regrettably, we have to go back and re-abandon those. Once we discovered the issue earlier this year, we disclosed it to the Saskatchewan government and have committed to them to get this remedial work done before proceeding to institute commercial development.

Finally, we need to address near-term liquidity. Given the current weakness in capital markets generally and our own undervalued share price, to do a large equity offering in the current environment would cause totally unacceptable dilution. So for all these reasons we concluded that the time has come to initiate a process to explore strategic alternatives for enhancing shareholder value.

We are all sensitive to the need to increase value for our shareholders through this process, so we must be fully open to every alternative that is available. We have therefore convened a special



committee of the board of directors, which will be chaired by Brian MacNeill and will also include Ron Blakely and Paul Ching to examine all offers and to guide the process with our advisors, TD Securities. We are optimistic that this process will be successful.

Now, any time you have to put out a press release with the phrase strategic alternatives in it, it's obvious that things haven't gone exactly as planned. I would therefore like to take a moment to review the history of Oilsands Quest in a bit more detail to set the context for yesterday's announcement.

What is well known about Oilsands Quest I think, is that we have considerable land and now a bitumen resource position in the oil sands region straddling Alberta and Saskatchewan. The genesis of this land position – the reason we acquired the land in the first place – was our hypothesis when we founded the company that the commercial quantities of high-quality in situ sands actually begin in Saskatchewan, extending into Alberta, and our exploration activities since 2004 have proven that hypothesis to be correct.

Even once we proved the existence of oil sands in Saskatchewan, however, the question within the industry was whether we would be able to produce it, given the characteristics of those deposits and specifically given the lack of the same shale cap rock that exists above much of the McMurray formation in Alberta.



A key question about our Axe Lake prospect has been whether SAGD would work on this reservoir -- whether it would be possible to create an efficient steam chamber, and without too much energy lost to the overburden. These are the questions we've been working on.

To understand the Axe Lake reservoirs better, we spent two years undertaking a series of drilling and testing operations. We drilled wells in what we called a Bottom Up Recovery configuration, and we tested hot water and solvent injection there. As our understanding of the reservoir improved, we concluded that we likely have steam containment properties even without the typical shale-layer cap rock. So we launched an overburden testing program that we ran last winter with the assistance of Hycal Energy Research Labs here in Calgary.

The excellent results from the overburden testing gave us confidence that most of the Axe Lake resources can be produced using conventional SAGD. The test results indicate that the Axe Lake overburden, which contains layers of clay-rich till, has containment qualities that may enable it to serve as a cap rock. With these encouraging results we decided to implement the SAGD pilot to confirm the results of the laboratory and simulation testing.

Through all this six-year history we have conducted small equity financings when required to carry out our test plans. We have thought the same approach would take us through the Axe Lake SAGD pilot. It was



only when we built the multi-year critical path for all of our operations including Wallace Creek and the re-abandonment work that we fully appreciated the extent of capital required to pursue the business plan and the need for financing in the near-term. And the current state of the markets means that we need to curtail our activities to preserve capital while we seek that financing.

As I said in yesterday's news release, growing pains are not unusual for a company of our size. The key is to build on lessons learned as we proceed. So where does that leave us? It leaves us with lots of reasons for optimism. We have the excellent reservoirs that we always had, with 3.5 billion barrels of discovered bitumen resources. We believe we have a phased approach to get to a 30,000 barrel per day commercial project in Saskatchewan, and potentially another to follow in Alberta. We have started building the technical team to get it done, but we need an influx of capital. As such we have put our current development plans on hold while this process is underway.

The interests of our shareholders come first. The value of our assets is clearly not being recognized in our current share price. If a sale of the company or its assets turns out to offer the best value for shareholders then we will proceed on that basis. Our Board of Directors is fully engaged, led by the special committee I mentioned earlier, and we are all determined to get the best results for Oilsands Quest shareholders.



We remain very confident of the underlying value that we have built within this corporation and we're optimistic that our long-term patient investors will be rewarded for sharing our vision.

Thank you all for your attention. And we would now be pleased to take your questions.

OPERATOR: As a reminder, for those listeners on the webcast today, you can enter your question into the question box on the webcast page. For those listeners on the telephone lines, if you would like to ask a question please press * then the number 1 on your telephone keypad now. Questioners will be removed briefly from the conference in order to relay their question to an Oilsands Quest representative. If you would like to withdraw your question, press the # key.

Mr. Mulji, you may proceed with your questions.

RIYAZ MULJI: Thanks, Christopher. Our first question is, and I quote, can you elaborate on the timing of this decision? What has prompted this decision at this point in time? And I'll turn that over to Murray Wilson.

MURRAY WILSON: Yes, thanks. I think I touched on this in yesterday's news release, and there really are a few reasons. Let me run through those. We are at a point now where we have considerable capital needs on several fronts: the SAGD pilot, commercial development of Axe Lake, and to advance the exploration efforts of Wallace Creek based upon



some very significant findings. We do also have to go back and do the re-abandonment work at Axe Lake.

A large equity transaction, larger than we've done on our own in the past, would result in significant dilution for our existing shareholders. They would be very unhappy about that in my view. We have therefore determined that seeking a strategic partner makes sense in the current market.

In addition, the trend in recent capital market activity in our industry has been favourable to partnership. Examples that come to mind are Petrochina and Athabasca, BP and Value Creation, Canada Pension Plan and Laricina and the Total transaction with UTS. The Board and management team really felt it was an appropriate time to initiate a formal review in order to translate the significant value of our assets to our share price for the benefit of our shareholders.

Just keep in mind we have identified under NI-51-101 and COGEH two specific projects which I would consider to be very conventional SAGD projects. We might have another few projects that are less conventional, all of which will be used to fund utilities in the area, and all that translates to warranting a major partner being involved with us at this stage.

Thanks, Riyaz.

RIYAZ MULJI: Thanks, Murray. The next question that we have is, and I quote, when you state maximize shareholder value, what is the



timeframe that you wish to optimize your assumption for; i.e. long term, six years or short term?

And for that question I'll turn it over to Garth Wong, our CFO.

GARTH WONG (Chief Financial Officer, Oilsands Quest Inc.):

Thanks, Riyaz. That's one of the reasons we have embarked on this process of reviewing our strategic alternatives is we don't know exactly what a transaction might look like. And as stated by Murray, we're considering all of our alternatives. It could be a joint venture. It may be a sale of the assets up to and including a sale of the entire company.

We've engaged a special committee of our board, and again, that's going to be led by Brian MacNeill to help us. And we also have TD Securities as our financial advisors to help us to assess the best alternatives that we think will maximize value for the shareholders.

Thanks, Riyaz.

RIYAZ MULJI: Thanks, Garth.

We've got several questions that have to do with the interest that we've received from other companies, and I'll pass that onto Murray Wilson.

MURRAY WILSON: Yes, in the course of the last three months we have had significant numbers of inbound calls of interest from Asia, Europe, the U.S. and Canada. We really do not comment on specific conversations with specific parties, but it is clear that in the last 60 to 90



days our in situ thermal oilsands assets have become of greater interest to a wide range of companies around the world.

RIYAZ MULJI: Thanks, Murray. Another question that we've received has to do with our Raven Ridge discovery, and I'll read the question out. And it is: why has there been no recent mention of the Raven Ridge discovery? And I'll pass that onto Sue MacKenzie, our Chief Operating Officer.

SUE MACKENZIE (Chief Operating Officer, Oilsands Quest Inc.): Thanks, Riyaz. Our most recent discussion has indeed been focused on Axe Lake and Wallace Creek. And that's because we view those as our largest opportunities to add contingent resource barrels in the near-term, and add value to the company. So Raven Ridge, is a more complex reservoir, and we continue to analyze its thermal recovery opportunities.

RIYAZ MULJI: Thanks, Sue. Another question that we've received is to do with our liquidity position, and it is: what is your liquidity position today, and what are your current downsizing plans? And I'll pass that onto Garth Wong, our CFO.

GARTH WONG: Thanks, Riyaz. Now that we've made the decision to defer our SAGD pilot and our winter drilling programs, we're looking for additional ways to reduce our discretionary spending over the next few months while at the same retaining our core employees and our core assets.



We will be looking for additional funding over the next few weeks to make sure that we have sufficient funds in place to conduct a thorough review of our strategic alternatives, and also to potentially carry on with some of our value-add activities, looking at potentially some additional drilling at Wallace Creek.

And so in a nutshell we're actively working on our financing and our cost management, and we're going to be able to comment further on our liquidity when we release our results for the quarter ended July 31st, and we expect to release those results in early September.

RIYAZ MULJI: Great. Thanks, Garth. Our next question has to do with the Canshale deal, and it is: did the cancellation of the Canshale deal prompt this decision? And I'll pass that onto Murray Wilson.

MURRAY WILSON: Riyaz, as you know, the answer's no to that. If we had the Canshale deal go through as had been contemplated based upon the terms we had originally set out some months ago, we would really not have received the kind of capital that we needed to meet our needs going forward on the whole SAGD project.

The board's decision really reflects a very careful consideration of our current plan, our existing position, and the capital that we see projecting forward over the next couple of years to meet our business plan. So it really has nothing to do with the Canshale transaction. Thanks.



RIYAZ MULJI: Thanks, Murray. Our next question has to do with the SAGD test, and the question reads: an explanation on why the SAGD test has been put on hold, given the confidence it would provide to the market. And I'm passing that onto Sue MacKenzie, our Chief Operating Officer.

SUE MACKENZIE: Yeah, thanks, Riyaz. As Murray mentioned earlier in his opening remarks, the resources to take us through operations results with the SAGD pilot and feed into commercial development are significant. And it's important to not only be able to build the pilot, but also to run it as well as be able to incorporate those results into a commercial development in a viable way. So actually those resources, as Murray mentioned, are significant, and that's why we're entering the strategic process that we are.

RIYAZ MULJI: Great. Thanks, Sue. Our next question has to do with the total process, and it reads: how long do you think this process will take? And I'll pass that onto Murray Wilson.

MURRAY WILSON: Yes, we really don't know how long this process is going to take. There are two or three people that probably want to jump ahead of the queue, but neither the board, nor advisors have really set the timeline for the process. Our current financial position could allow us to take as long as required in order to optimize value for the shareholders. It's a bit of an open-end at this stage. Thanks, Riyaz.



RIYAZ MULJI: Thanks, Murray. Our next question has to do with our glacial till cap, and it reads: Has the cap been tested to any extent other than the characterization? I noted the cyclic steam well listed on your application. And I'll pass that onto Sue MacKenzie.

SUE MACKENZIE: Thank you, Riyaz. Indeed we did do some cap rock testing as we have disclosed, did some lab testing, and we're extremely encouraged by the results that we saw from that that made us consider our glacial till cap rock as very clearly an analogue to Clearwater shale or other cap rocks further west towards Fort McMurray. So we're very pleased with the lab testing results.

On a cyclic steam possibility, this really isn't a reservoir to accommodate cyclic steam, but it is a beauty for SAGD. So some of the reference to cyclic steam in the past may have been when we were undertaking some of our earlier learnings with some of our earlier test results.

Right now we are focused on SAGD. This looks like a great reservoir for SAGD application.

RIYAZ MULJI: Thanks, Sue. Another question that's come up regarding our overburden test is why was the overburden test not done years ago and other unconventional options explored in depth ahead of a SAGD test?



SUE MACKENZIE: So, as we learned more about the reservoir and through the testing that Oilsands Quest has undertaken over the years past, we've learned more as well about the overburden characteristics. And it's been important for us to be able to compare the results of our testing with the results that we get from our delineation core hole logging. And that's allowed us to have the confidence actually to proceed with some of that overburden testing that I just alluded to and a lab testing. It took us some time to be able to assimilate the various forms of data to have the confidence to do that.

MURRAY WILSON: You know, I'm going to jump in. It's Murray here. I think the questioner has a great question. And we should have done more work earlier on the overburden, and we are doing it now. So thank you for the question.

RIYAZ MULJI: All right. Our next question has to do with our finances, and it is: with the reduction of most operations to conserve finances, how long will our present finances last? And I'll turn that over to Garth Wong.

GARTH WONG: Okay. Thank you, Riyaz. What we are looking to do is additional – as I mentioned earlier we're looking for additional funding to retain our assets and our permits, and also once again to repeat, we are looking at raising additional funds in the future as part of this review of our



strategic alternatives. That includes looking for a partner. That does include potentially going into doing an equity raise.

Again, we're going to consider all of the alternatives as we go through the process.

As far as what our current liquidity is and how long our cash is going to last, again, we're going to be reviewing that, we're reviewing our spending profile over the next few months. We have curtailed our operations in advance of... as a result of entering into this process. And we expect to have more information available when we report on our July 31st results in early September. Thanks, Riyaz.

RIYAZ MULJI: Thanks, Garth. We've got several questions that we've already answered in some of the questions that we've answered previously. And so I'm just reviewing our question list. One question that's come up is regarding keeping investors updated as this process unfolds, and I think we've alluded to that earlier, but I'll ask Murray Wilson to expand on it. And the question reads: will investors be kept updated along the way as this exploratory process unfolds or should we expect the share price to languish for the next several months?

MURRAY WILSON: Well, Riyaz, we don't think the share price will languish as we're going through the process because as we're going through the process I think the market will either, directly through us or indirectly through information in the market, learn that there are a



considerable number of people that are interested, not just in the two existing identifiable projects, but in some of the additional reservoirs. And we would think that as the process unfolds over the next three, six, nine, 12 months that that information will eventually move into the market, again, either formally through us or informally through communications in the market. And the true value of those underlying reservoirs will begin to be recognized more completely by the market.

RIYAZ MULJI: And our final question regarding our finances again is: what amount of money is required to go forward? And I'll pass that onto Garth Wong.

GARTH WONG: Okay. As you can see from our financial statements, we do have limited near-term liquidity, and in our July 31st financial statements we reported that we had approximately \$18 million of cash in the bank. Subsequent to releasing those financial statements, we raised an additional \$18 million in equity. And we are actively pursuing sources of financing that'll give us enough time to complete a successful process. Thanks, Riyaz.

RIYAZ MULJI: Thanks, Garth. That brings us to just after 9:00 o'clock, and unfortunately our time has concluded. I would remind the listeners that additional questions that have been received will be answered in due course, and further questions can also be sent via email



to our email address, which is ir – the letters I-R – @oilsandsquest.com or into our investor line at 1-877-718-8941.

Thank you very much for joining us on this call. Our call is now concluded.

OPERATOR: This concludes today's conference call. You may now disconnect.

