

**NEWS RELEASE**

DATE: December 9, 2011

**Oilsands Quest files form 10-Q quarterly report with status update**

Calgary, Alberta – Oilsands Quest Inc. (NYSE Amex:BQI) ("Oilsands Quest," "OQI" or "the Company") has filed its Form 10-Q Quarterly Report for the quarter ended October 31, 2011 with the United States Securities and Exchange Commission. The full document is available online at [www.sec.gov](http://www.sec.gov) and [www.sedar.com](http://www.sedar.com); the Management's Discussion and Analysis (MD&A) is presented below.

**Management's Discussion and Analysis**

The following discussion addresses material changes in our results of operations and capital resources and uses for the three and six months ended October 31, 2011, compared to the three and six months ended October 31, 2010, and our financial condition and liquidity since April 30, 2011. We presume that readers have read or have access to our 2011 Annual Report on Form 10-K/A, which includes disclosure regarding critical accounting policies and estimates as part of Management's Discussion and Analysis of Financial Condition and Results of Operation. Unless otherwise stated, all dollar amounts are expressed in U.S. dollars. All future payments in Canadian dollars have been converted to U.S. dollars using an exchange rate of \$1.00 U.S. = \$0.9935 CDN, which was the October 31, 2011 exchange rate.

**Overview***Recent Events*

On November 29, 2011, we requested and obtained an Order from the Alberta Court of Queen's Bench (the "Court") providing creditor protection under the Companies' Creditors Arrangement Act (Canada) ("CCAA"). While under CCAA protection, we will continue with the day to day company operations.

In November 2011, we received approval to extend the termination date of OQI's remaining permits at Wallace Creek and Raven Ridge by two years from the original expiration date.

*Three Months Ended October 31, 2011*

- On July 18, 2011, we commenced a Rights Offering under which the existing shareholders were given the right to purchase shares in the Company. This Rights Offering process was terminated on September 12, 2011 as the negotiation of a material transaction had reached an advanced stage and would have significantly changed the use of proceeds described in the rights offering prospectus. As well, it was apparent by that time that the Rights Offering would not achieve the full \$60 million subscription.
- On September 25, 2011, the Company entered into a non-binding Letter of Intent with a third party to sell its Wallace Creek assets for total consideration of \$60 million, which included \$40 million cash at closing and a \$20 million contingent payment subject to certain future events. On November 28, 2011, negotiations with the third party to conclude the sale of the Wallace Creek assets were terminated, due to the failure of the third party to meet the conditions of the Letter of Intent.
- As planned, we relinquished the licenses in Saskatchewan and the southernmost permits at Raven Ridge in Alberta as we did not view these areas as being prospective for future development. All of our activities in Saskatchewan will now be focused on the development of the Axe Lake leases.

- During the quarter, exploration permits in Pasquia Hills expired. We continue to hold one permit in the Pasquia Hills area near Hudson Bay, Saskatchewan.
- On October 17, 2011, the Company entered into a securities purchase agreement to sell up to \$12 million of redeemable preferred shares. This agreement automatically terminated when the Company filed for CCAA protection.

#### *Six Months Ended October 31, 2011*

- On May 17, 2011 we provided new resource estimates for Wallace Creek following the 2011 winter drilling program.
- On June 27, 2011, we received an extension of our permits at Wallace Creek until March 31, 2013.
- We provided an operational update at the TD Unconventional Oil Conference in Calgary on July 6, 2011.
- On July 15, 2011 we received approval from the Government of Saskatchewan to convert portions of the Axe Lake permits to 15-year leases. The two key leases, OSA00001 and OSA00002 will be governed under the terms of the Petroleum and Natural Gas Regulations, 1969 and will expire on March 31, 2027.

### **CCAA Proceedings, Going Concern Risk, and NYSE Trading Suspension**

#### *CCAA Process and Proceedings*

On November 29, 2011, Oilsands Quest Inc. and certain subsidiaries, requested and obtained an order from the Alberta Court of Queen's Bench (the "Court") providing creditor protection under the Companies' Creditors Arrangement Act (Canada) ("CCAA"). While under CCAA protection, the Company will continue with its day to day operations. CCAA protection stays creditors and others from enforcing rights against the Company and affords Oilsands Quest the opportunity to restructure its financial affairs. The initial order is in effect until December 21, 2011, and may be further extended as required and approved by the Court.

Under the terms of the initial order, Ernst & Young Inc. was named as the court-appointed monitor ("Monitor") under CCAA. The Monitor will monitor the Company's property, business and financial affairs and report to the Court from time to time on the Company's financial and operational position and any other matters that may be relevant to the CCAA proceeding. In addition, the Monitor may advise the Company on the development of a comprehensive restructuring plan and, to the extent required, assist the Company with a restructuring.

While under CCAA protection, the Board of Directors maintains its usual role and management of the Company remains responsible for the day to day operations. The Board of Directors and management, with advice from the Monitor, will be responsible for determining whether a given plan for restructuring the Company's affairs is feasible. Stakeholders whose rights would be compromised by the plan will have an opportunity to vote on the plan. Before a plan is implemented it must be approved by the requisite number and value of affected stakeholders contemplated by law and approved by the Court.

CCAA protection enables the Company to continue with its day to day operations until the CCAA status changes. The implications of this process for Oilsands Quest shareholders will not be known until the end of the restructuring process. If the affected stakeholders do not approve a plan in the manner contemplated by law, Oilsands Quest will likely be placed into receivership or bankruptcy. If by December 21, 2011, Oilsands Quest has not obtained an extension of the initial order or filed a plan, creditors and others will no longer be stayed from enforcing their rights.

In connection with the CCAA, the Company has granted a charge against its assets and any proceeds from any sales thereof, as follows and in the following priority:

- First, an administration charge, in an amount not to exceed CAD\$1 million, in favour of the Monitor and its counsel and counsel to the Company, to secure payment of professional fees and disbursements before and after the commencement of the CCAA proceedings; and
- Second, a directors' and officers' charge, in an amount not to exceed CAD\$1 million, in favour of the directors and officer of the Company as security for the Company's obligation to indemnify them against obligations and liabilities that they may incur as directors and officers after the commencement of the CCAA proceedings.

While the Company's assets on its balance sheet are in excess of its liabilities, the majority of the asset value is in long term, heavy oil production reserves that will require substantial further investment to bring on to production.

#### *Background to CCAA Proceedings*

On August 17, 2010 the Company announced that it had initiated a process to explore strategic alternatives for enhancing shareholder value. The strategic alternative process was overseen by a special committee of OQI's Board of Directors ("Special Committee") with advice from TD Securities Inc. which was engaged as a financial advisor to assist with this process. The Special Committee considered all alternatives to increase shareholder value, including strategic financing opportunities, asset divestitures, joint ventures and/or a corporate sale, merger or other business combination. The Company had many initial expressions of interest and exploratory conversations and signed confidentiality agreements with a number of entities who carried out detailed due diligence.

The formal strategic alternative process did not result in any proposals to the Company, and the process was concluded in June, 2011 upon the recommendation of the Special Committee.

The Company then proceeded to attempt to raise the funds required to advance the development of the Company's assets and on July 18, 2011, the Company commenced a Rights Offering under which the existing shareholders were given the right to purchase shares in the Company. This Rights Offering process was terminated, on the basis of the factors described below, on September 12, 2011, and the Company has, to date, been unable to raise the funds required to advance the development of the Company's assets. The decision to cancel the Rights Offering was based on two factors: first, the negotiation of a material transaction had reached an advanced stage – a transaction that would, if consummated, significantly change the use of proceeds described in the Rights Offering prospectus; and second, it had become apparent that the Company would not achieve a full \$60 million subscription through the Rights Offering, perhaps at least partially due to weak market conditions.

On September 25, 2011, the Company entered into a non-binding Letter of Intent with a third party to sell its Wallace Creek assets for total consideration of \$60 million, which included \$40 million cash at closing and a \$20 million contingent payment subject to certain future events. The sale of the Wallace Creek property would have provided the Company with the financial resources to focus on moving its largest and most advanced asset, Axe Lake, toward commercial development.

Completion of the transaction was subject to a number of terms and conditions, including negotiation of a definitive agreement, board approvals, due diligence, financing and approval by the Company's shareholders. On November 28, 2011, negotiations for the sale of the Wallace Creek assets were terminated as the potential purchaser could not complete the conditions outlined above within the time

frames agreed to in the Letter of Intent.

Following the termination of the negotiations for the sale of the Wallace Creek, the Company initiated the CCAA process in order to preserve its liquidity and fund operations during the restructuring process. CCAA will allow the Company to reassess its business strategy with a view to developing a comprehensive financial and business restructuring plan.

#### *Going Concern Risk*

To date the Company has not received any revenue from any of its natural resource properties, none of its estimated bitumen resources have been classified as proved reserves, and the Company's exploration and development work is capital intensive. The Company expects that significant additional exploration and development activities will be necessary to establish proved bitumen reserves, and to develop the infrastructure necessary to facilitate production, from the reserves. As at October 31, 2011, the Company had negative working capital of \$5.6 million (excluding restricted cash), including cash and cash equivalents of \$4.5 million, and a deficit accumulated during the development phase of \$721.7 million.

During the six months ended October 31, 2011, the Company expended \$8.4 million on operating activities and \$2.8 million on property and equipment. Management anticipates that the Company will be able to fund its activities at a reduced level through January 2012 with its cash and cash equivalents as at October 31, 2011. Accordingly, there is substantial doubt about the Company's ability to continue as a going concern and without additional working capital, OQI may not be able to maintain operations beyond January 2012.

The CCAA provides the Company with a period of time to stabilize its operations and financial condition and develop a plan. However, it is not possible to predict the outcome of these proceedings and, as such, the realization of assets and discharge of liabilities are each subject to significant uncertainty. Further, it is not possible to predict whether the actions taken in any plan will result in sufficient improvements to the Company's financial condition to allow it to continue as a going concern. If the going concern basis is not appropriate, adjustments will be necessary to the carrying amounts and/or classification of the Company's assets and liabilities. Further, a comprehensive restructuring plan could materially change the carrying amounts and classifications reported in the consolidated financial statements.

#### *NYSE Trading Suspension*

On November 29, 2011, the NYSE Amex ("NYSE") halted trading in the common shares of the Company (symbol: BQI). The NYSE may proceed to delist the Company for failure to meet the continued listing requirements of the NYSE as a result of the Company proceeding under the CCAA. The Company's common shares will remain suspended from trading until a delisting occurs, or until the NYSE permits the resumption of trading. The decision to either resume trading or to delist, and the timing of such a determination, is at the discretion of the NYSE.

The Company does not currently have sufficient capital resources to carry out the exploration and development plans described above. See "Liquidity and Capital Resources" section below.

### **Operations Summary**

#### *Axe Lake Area – Reservoir Development Activities*

We received approval from the Government of Saskatchewan to convert portions of the Axe Lake permits to 15-year leases. These leases, the first oil sands leases in Saskatchewan, are one of the key elements the Company needs in place to proceed to development of a commercial oil sands production facility.

The two leases, OSA00001 and OSA00002, will give us the certainty of land tenure we need to underpin commercial development at Axe Lake and are governed under the terms of the Petroleum and Natural Gas Regulations, 1969 ("1969 Regulations"). The leases expire on March 31, 2027 and may be continued beyond this date if they meet certain requirements of the 1969 Regulations.

We continued the procurement of services and materials for the planned steam-assisted gravity drainage ("SAGD") pilot. The proposed pilot would consist of one pair of 100-meter-long horizontal wells, with the upper well placed five meters below the glacial till cap, or overburden, and is designed to make use of the existing surface facilities. The SAGD pilot will demonstrate the steam containment properties of the glacial till cap and provide information essential for the front-end engineering design for the commercial development. Further activity on the pilot project will be dependent on securing additional financing.

Development of a commercial project remains subject to financing, regulatory and other contingencies such as successful reservoir tests, board of directors' approvals, and other risks inherent in the oil sands industry (See "Risk Factors" section of our Form 10-K/A for the year ended April 30, 2011 and see Item 1A "Risk Factors" in our Form 10-Q for the three months ended October 31, 2011).

### *Exploration*

After analysis of available drilling and seismic data, we concluded that the lands in the south part of Raven Ridge on Permit No. 7006080098 are not prospective and relinquished this permit in August 2011. Relinquishing this land has no impact on the Company's current resource estimates or development plans.

On June 27, 2011, the Company received approval from Alberta Energy to extend the Wallace Creek permits for an additional 67 days to March 31, 2013. This extension will allow for two full seasons of winter exploration programs.

During the quarter ended October 31, 2011, Saskatchewan Oil Shale Permit Nos. PS00222, PS00223, PS00224, PS00225, PS00226, PS00237 and PS00238 expired and, as of October 31, 2011, we hold one remaining exploration permit in Pasquia Hills, SHP800001, totaling 83,769 acres around Hudson Bay, Saskatchewan.

In September 2011, the Government of Alberta announced changes to the "Oil Sands Tenure Resolution, 2010" that would allow permit holders to apply to extend permits with an expiry date between December 1, 2010 and December 1, 2013 by two years.

In addition, the Government of Alberta has temporarily relaxed the drilling requirements for continuing permits to leases from 12 wells per section to 1 well per 3 sections.

In November 2011, the Company applied for, and received, approval to extend all of its remaining exploration permits in Wallace Creek and Raven Ridge by two years from their original expiration date.

### *Environmental and Regulatory*

The Company is in discussion with the Saskatchewan Ministry of Energy and Resources ("SMER") to assess a re-abandonment issue relating to the abandonment of early exploration core holes. We have drilled 359 exploration core holes in Saskatchewan and during a review of our development plans and well records, we determined that 229 of the early-year wells were not abandoned to a standard that meets our thermal development requirements or were not abandoned in accordance with the regulatory requirements.

We have applied for waivers on 83 core holes, the majority of which are located outside the current potential commercial development area and the regulator has indicated that they are willing to consider such waivers on a case by case basis. Our waiver applications are based on the fact that these core holes fall outside the current commercial development area and are therefore located in areas that are not expected to be economically recoverable. We have included approximately 146 core holes in our management's best estimate of the re-abandonment costs as described in our financial statements. The Company is currently working with SMER to assess the waiver applications. As SMER has indicated, it is possible that if the Company does not meet its obligations to re-abandon these core holes, it could result in the cancellation of the Axe Lake permits under the governing regulations.

During the year ended April 30, 2011, we completed an 18 hole re-abandonment program. We successfully re-abandoned 14 core holes and were only partially successful in our attempt to re-abandon the other four core holes. Those four core holes may still contain conduits which will require the Company to undertake further monitoring should a SAGD project be implemented within the vicinity of these core holes. The re-abandonment of these four core holes occurred early in the program, and we anticipate high success rates on the re-abandonments still to come.

The remaining 128 core holes are comprised of a combination of locations that are in or adjacent to the commercial development area plus a portion of the core holes for which we are seeking waivers. Our best estimate of the undiscounted/gross costs to complete this program over the next four years is \$25.8 million.

#### *Corporate*

On January 17, 2011, the Company entered into an equity distribution agreement ("Agreement") with Knight Capital Americas, L.P. ("KCA"), a subsidiary of Knight Capital Group, Inc. Under the terms of the Agreement, the Company may offer and sell shares of common stock by way of "at-the-market" (ATM) distributions on NYSE, up to a maximum of US\$20 million until January 18, 2012, through KCA as sales agent. The shares are distributed at market prices prevailing at the time of each sale and the timing, price and number of shares sold are at our discretion. The number of shares sold on any given day is expected to be relatively small compared to the total volume of shares traded. As of October 31, 2011, 5,537,137 shares have been distributed under this arrangement for gross proceeds of \$3.1 million. Funds raised from the ATM program have been used to finance general corporate purposes. Future sales under this ATM are dependent upon our ability to retain our listing on the NYSE.

On October 17, 2011 the Company entered into a Securities Purchase Agreement ("SPA") with Socius CG II, Ltd., a subsidiary of Socius Capital Group ("Socius"). The Company has the right, over a term of two years, to require Socius, subject to the terms and conditions of the SPA, to purchase up to \$12 million of Series C redeemable preferred shares (the "Preferred Shares"). The Preferred Shares bear interest at an annual rate of 10%. The Company may, at its sole discretion, submit a tranche notice to Socius to purchase a certain dollar amount of the Company's Preferred Shares at \$10,000 per share.

The Company has not sold any Preferred Shares under the terms of the SPA and the SPA automatically terminated when the Company filed for CCAA protection.

#### **Liquidity and Capital Resources**

The following discussion of liquidity and capital resources should be read in conjunction with the consolidated financial statements included in Part I, Item 1. "Financial Statements" included in the 10-Q for the quarter ended October 31, 2011 filed with the SEC on December 9, 2011. The consolidated financial statements have been prepared assuming that we will continue as a going concern.

At October 31, 2011, the Company held cash and cash equivalents totaling \$4.5 million (April 30, 2011 - \$16.0 million).

In July 2011, the Company commenced a \$60 million rights offering under which the existing shareholders were given the right to purchase additional shares in the Company based on their pro-rata share ownership. However, as described below, due to a potential sale of the Wallace Creek assets that would have impacted the Company's financial position and funding requirements, the \$60 million rights offering was cancelled on September 12, 2011. Thereafter, the Company entered into a non-binding letter of intent (the "Letter of Intent") for the sale of the Wallace Creek assets with a third party on September 25, 2011. On November 28, 2011, the third party notified the Company that they could not meet the terms of that Letter of Intent and negotiations were terminated. This transaction would have provided the Company with the capital required to complete the Axe Lake pilot and prove its commercial recoverability. After considering all available alternatives, on November 28, 2011 the Board of Directors of the Company authorized the Company to file for creditor protection under the CCAA. On November 29, 2011 the Company was granted an order from the Court providing creditor protection under CCAA.

There can be no assurance that the Company will be able to maintain its protection under the CCAA, implement a plan in the manner contemplated by law, implement a transaction or recapitalization or emerge as a solvent company. It is impossible to predict with certainty the length of time that the Company may spend in creditor protection under CCAA or whether a plan will be approved. The continuation of CCAA could materially adversely affect operations and relationships with creditors, customers, vendors, service providers, employees, and regulators.

There is no assurance that Oilsands Quest can obtain Debtor-in-Possession ("DIP") financing, if required, to satisfy its obligations in the ordinary course. Based on the Company's cash flow projections the Company has determined that additional priority borrowings are not necessary from the date of its court filing to December 31, 2011. Therefore, the Company has not made arrangements for DIP financing at this time. Although Oilsands Quest reserves its rights to apply to the Court for such a DIP financing facility there is no assurance that such facility could be attained, should such financing be required to satisfy the Company's ongoing obligations.

There can be no assurance that the initial period granted by the Court, and any subsequent extensions thereof, will be sufficient to present and finalize a plan. Should Oilsands Quest lose the protection of the stay under the CCAA, creditors may immediately enforce rights and remedies against Oilsands Quest and its properties, which may lead to the liquidation of the Company's assets.

There can be no assurance that the Company can raise sufficient funds to carry out its exploration and development plans, meet its future obligations and alleviate doubt about our ability to continue as a going concern. The Company cannot be certain that additional funds, even if available, will be on acceptable terms. To the extent additional funds are raised by issuing equity securities, or the Company undergoes a restructuring under the CCAA, significant dilution may be experienced by our shareholders.

## **Results of Operations**

### **Net loss**

Three months ended October 31, 2011 as compared to three months ended October 31, 2010. The Company experienced a net loss of \$4.5 million or \$0.01 per share for the three months ended October 31, 2011 as compared to a net loss of \$9.1 million or \$0.03 per share for the three months ended October 31, 2010. The decline in the net loss in the current period as compared to the prior period is primarily due to the decrease in corporate costs, mainly employee related costs and overall general and administration costs, as part of the Company's cost reduction initiatives over the past year. Employees' salaries

decreased by approximately \$0.9 million as compared to the same period last year due to workforce reductions initiated in September 2010 following the announcement of the review of strategic alternatives. The decline in the net loss is also caused by a reduction in exploration activity which was partially offset by an increase in depreciation and accretion.

Six months ended October 31, 2011 as compared to six months ended October 31, 2010. The Company experienced a net loss of \$10.3 million or \$0.03 per share for the six months ended October 31, 2011 as compared to a net loss of \$25.1 million or \$0.08 per share for the six months ended October 31, 2010. The decrease in the net loss as compared to the same period last year is due to a reduction in exploration activity, a reduction in cost revisions related to asset retirement obligations and a reduction in impairment loss recognized on property and equipment. During the same period last year, the Company incurred \$8.1 million of cost revisions related to asset retirement obligations to re-abandon a certain number of wells in the Axe Lake area and reclaim the airstrip, camp site, access roads and reservoir test site at the Company's properties. In addition, the Company recognized an impairment loss of \$2.5 million on the Saskatchewan Oil Sands Licenses during the same period last year. These licenses were relinquished in August 2011 as they had no future prospect of development.

The Company expects to continue to incur operating losses and will continue to be dependent on additional sales of equity or debt securities and/or property sales or joint ventures to fund its activities in the future.

#### Exploration costs

Three months ended October 31, 2011 as compared to three months ended October 31, 2010. Exploration costs for the three months ended October 31, 2011 were \$0.1 million (2010 - \$1.7 million). Exploration expenditures in the three months ended October 31, 2011 decreased due to a reduction in overall drilling and exploration activity compared to the same period last year. The necessary capital resources are required in order to pursue our reservoir development and exploration activities in accordance to plan and to re-abandon the early exploration core holes to maintain the Axe Lake leases.

Six months ended October 31, 2011 as compared to six months ended October 31, 2010. Exploration costs for the six months ended October 31, 2011 were \$0.7 million (2010 - \$13.4 million). Exploration expenditures in the six months ended October 31, 2011 include \$0.5 million of cost revisions related to asset retirement obligations compared to \$8.1 million incurred last year in relation to the re-abandonment of a certain number of core holes at Axe Lake and the reclamation of the airstrip, camp site, access roads and reservoir test site at the Company's properties. In addition, exploration expenditures decreased due to a reduction in overall drilling and exploration activity compared to the same period last year.

#### General and administrative

##### *Corporate*

Three months ended October 31, 2011 as compared to three months ended October 31, 2010. General and administrative expenses settled with cash for the three months ended October 31, 2011 were \$3.1 million (2010 - \$5.3 million). Expenditures in the three month period ended October 31, 2011 consist of salaries (\$0.8 million), legal and other professional fees (\$1.0 million) and general office costs (\$1.3 million). General and administrative expenses in the three months ended October 31, 2010 consist of salaries (\$2.4 million), legal and other professional fees (\$1.7 million) and general office costs (\$1.2 million). As a result of cost reduction efforts initiated in September 2010 following the announcement of a review of strategic alternatives, salaries and other employee related costs decreased by \$1.6 million compared to the same period last year, of which approximately \$0.7 million related to severance payments incurred because of workforce terminations. Compared to last year, salary levels decreased by

\$0.9 million over the 3 month period ended October 31, 2011. The reduction in legal and professional fees for the three month period ended October 31, 2011 compared to the same period last year is explained by a reduction in professional fees associated with the formal process of the strategic alternative review completed in June 2011. During the current period, the downsizing activities in general office costs were partially offset by the recognition of a \$0.6 million obligation under sublease contract incurred for the Calgary corporate office.

Six months ended October 31, 2011 as compared to six months ended October 31, 2010. General and administrative expenses settled with cash for the six months ended October 31, 2011 were \$7.2 million (2010 - \$9.1 million). Expenditures in the six month period ended October 31, 2011 consist of salaries (\$2.4 million), legal and other professional fees (\$2.8 million) and general office costs (\$2.0 million). General and administrative expenses in the six months ended October 31, 2010 consist of salaries (\$3.9 million), legal and other professional fees (\$2.8 million) and general office costs (\$2.4 million). Cost reduction efforts and downsizing initiatives implemented by the Company this past year explained primarily the reduction in salaries and general office costs incurred during the six month ended October 31, 2011 compared to the same period last year.

At October 31, 2011, there were 12 employees and no seasonal field employees, and at October 31, 2010, there were 32 employees including 5 seasonal field employees.

#### *Stock-based compensation*

Three and six months ended October 31, 2011 as compared to three and six months ended October 31, 2010. Stock-based compensation expense for the three months ended October 31, 2011 was \$0.1 million (2010 – recovery of \$0.001 million) and \$0.1 million (2010 – \$1.0 million) for the six months ended October 31, 2011 and consists of stock based compensation related to the issuance of options to directors, officers and employees. The decrease during the six month period compared to the same period in the prior year results from fewer options remaining to vest including options that forfeited due to the reduction in employee headcount. A total of 1.6 million options were forfeited and 3.4 million options expired during the six months ended October 31, 2011.

#### *Foreign exchange (gain) loss*

Three and six months ended October 31, 2011 as compared to three and six months ended October 31, 2010. A foreign exchange gain of \$0.2 million (2010 - \$0.1 million) during the three months ended October 31, 2011 and \$0.3 million (2010 - loss of \$0.2 million) during the six months ended October 31, 2011 resulted from holding more U.S. funds in OQI during the current period compared to the same period last year when the value of the U.S. dollar appreciated against to the Canadian dollar.

#### *Depreciation and accretion*

Three and six months ended October 31, 2011 as compared to three and six months ended October 31, 2010. Depreciation and accretion expense for the three months ended October 31, 2011 was \$1.3 million (2010 - \$1.1 million) and \$2.6 million (2010 - \$2.2 million) for the six months ended October 31, 2011. Depreciation expense relates to camp facilities, equipment and corporate assets which are being depreciated over their useful lives of 3 to 5 years. Accretion expense relates to the asset retirement obligation recognized on the re-abandonment of a certain number of wells in the Axe Lake area and on the airstrip, camp site, access roads and reservoir test sites which are being brought into income over a period of 1 to 30 years. The increase during the three and six month period ended October 31, 2011 compared to the same periods last year is due to the additional accretion on asset retirement obligation resulting from the re-abandonment of a certain number of wells in the Axe Lake area that was identified in the year ended April 30, 2010.

### *Impairment*

Three and six months ended October 31, 2011 as compared to three and six months ended October 31, 2010. The impairment for the three months ended October 31, 2011 was \$0.04 million (2010 - \$0.2 million) and \$0.04 million (2010 - \$2.2 million) for the six months ended October 31, 2011. The impairment recognized during the three and six months ended October 31, 2011 was due to the costs incurred that were related to properties that are fully impaired. The impairment for the six months ended on October 31, 2010 was recognized on the Saskatchewan Oil Sands Licenses due to their high likelihood of relinquishment. These licenses were relinquished in August 2011 as they had no future prospect of development.

### *Interest and other income*

Three and six months ended October 31, 2011 as compared to three and six months ended October 31, 2010. Interest income for the three months ended October 31, 2011 was \$0.01 million (2010 - \$0.03 million) and \$0.03 million (2010 - \$0.04 million) for the six months ended October 31, 2011. Interest income is earned because the Company pre-funds its activities and the resulting cash on hand is invested in short-term deposits.

### *Deferred income tax expense (benefit)*

Three months ended October 31, 2011 as compared to three months ended October 31, 2010. The deferred income tax benefit for the three months ended October 31, 2011 was \$nil million (2010 - expense of \$0.8 million) and \$nil (2010 - \$3.0 million) for the six months ended October 31, 2011. During the three and six months ended October 31, 2011, no deferred income tax benefit was recognized since a full valuation allowance was taken on the taxable temporary differences associated with property and equipment capitalized on the balance sheet. At April 30, 2011, the deferred tax benefit associated with the impairment on undeveloped properties was recorded to the extent of the deferred tax liability amount on the balance sheet derived from the excess appreciated asset value over the tax basis of the Company's net assets. Therefore, in addition to recording a full valuation allowance on all non-capital losses incurred in accordance with the Company's accounting policy, a valuation allowance is now taken on taxable temporary differences associated with property and equipment capitalized on the balance sheet. The deferred income tax expense recognized in the three months ended October 31, 2010 resulted from asset retirement liabilities that were settled during the period and triggered the reversal of tax benefits previously recognized on asset retirement obligations.

Previously, the Company recognized a full valuation allowance on all non-capital losses and generated deferred tax benefits by expensing all exploration costs for accounting purposes while capitalizing these costs for income tax purposes. This resulted in a higher tax basis for the Company's property and equipment when compared to their carrying value.

### **Recently Issued Accounting Standards Not Yet Adopted**

There have been no recent accounting pronouncements or changes in accounting pronouncements during the three months ended October 31, 2011, as compared to the recent accounting pronouncements described in the Company's Annual Report on Form 10-K/A, that are of significance, or potential significance to the Company.

### **Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements that have or are reasonably likely to have a current

or further effect on its financial condition, changes in financial condition, revenues or expenses, results of operations liquidity, capital expenditures or capital resources that are material to investors.

### **Notice of Non-Compliance**

On September 12, 2011 Oilsands Quest received notice from the staff of the NYSE that, based on their review of the Company's Form 10-K/A for the fiscal year ended April 30, 2011 and discussions and correspondence with management, the Company is not in compliance with certain of the NYSE's continued listing standards as set forth in Part 10 of the NYSE's Company Guide. Specifically, the NYSE noted that the Company is not in compliance with Section 1003(a)(iv) of the Company Guide because the Company has sustained losses which are so substantial in relation to the Company's overall operations or its existing financial resources, or its financial condition has become so impaired that it appears questionable, in the opinion of the NYSE, as to whether the Company will be able to continue operations and/or meet its obligations as they mature.

On October 12, 2011, the Company submitted a plan explaining how the Company intends to return to full compliance with the NYSE's listing requirements. The Company believed that with the Socius financing and the Wallace Creek asset sale pursuant to the Letter of Intent, Oilsands Quest would have secured the necessary capital to move ahead with operations and use the resulting reservoir production data to seek a joint venture partner, strategic investor, or purchaser of the asset or the Company.

Following the termination of negotiations on the Wallace Creek sale, the NYSE halted trading in the common shares of the Company. On December 2, 2011, the NYSE requested that Company submit a revised plan by December 12, 2011. The NYSE may proceed to delist the company for failure to meet the continued listing requirements of the NYSE. The Company's common shares will remain suspended from trading until a delisting occurs, or until the NYSE permits the resumption of trading.

### **Cautionary statement about forward-looking statements**

The following includes certain statements that may be deemed to be "forward-looking statements." All statements, other than statements of historical facts, included in this news release that address activities, events or developments that our management expects, believes or anticipates will or may occur in the future are forward-looking statements. Such forward-looking statements include discussion of such matters as:

- our ability to maintain protection under the Companies' Creditors Arrangement Act (Canada) ("CCAA");
- risks and uncertainties associated with limitations on actions against the Company and certain subsidiaries during creditor protection proceedings;
- risks and uncertainties associated with potential delisting of the Company's common shares from the NYSE;
- our ability to maintain sufficient cash to accomplish our business objectives, including our ability to continue as a going concern;
- the amount and nature of future capital, exploration and development expenditures;
- the extent and timing of exploration and development activities;
- business strategies and development of our business plan and exploration programs;
- potential relinquishment of certain of our oil sands permits and licenses;
- anticipated cost of our asset retirement obligations, including the extent and timing of our core hole re-abandonment program; and
- our ability to secure additional funds through the sale of assets or the issuance of debt or equity.

Forward-looking statements are statements other than relating to historical fact and are frequently characterized by words such as “plan”, “expect”, “project”, “intend”, “believe”, “anticipate”, “estimate”, “potential”, “prospective” and other similar words or statements that certain events or conditions “may” “will” or “could” occur. Forward-looking statements such as references to Oilsands Quest’s drilling program, geophysical programs, reservoir field testing and analysis program, preliminary engineering and economic assessment program for a first commercial project, and the timing of such programs are based on the opinions 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 anticipated in the forward-looking statements, which include but are not limited to the ability to raise additional capital, risks associated with the Company’s ability to implement its business plan, its ability to successfully submit a timely plan to its creditors and the court under the CCAA proceeding and to resolve its liquidity difficulties, the possibility of delisting of its securities from the NYSE Amex, risks inherent in the oil sands industry, regulatory and economic risks, land tenure risks, lack of infrastructure in the region in which the company’s resources are located and those factors listed under the caption “Risk Factors” in the Company’s 10-Q filed with the Securities and Exchange Commission (the “SEC”) on December 9, 2011.

The Company is under no duty to update any of these forward-looking statements after the date of this report. You should not place undue reliance on these forward-looking statements.

### **About Oilsands Quest**

Oilsands Quest Inc. ([www.oilsandsquest.com](http://www.oilsandsquest.com)) is exploring and developing oil sands permits and leases, located in Saskatchewan and Alberta, and developing Saskatchewan's first commercial oil sands discovery.

### **For more information:**

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