

EVENT: OILSANDS QUEST INC. 2010 ANNUAL GENERAL MEETING
TIME: 3:00 p.m. MST
DATE: OCTOBER 7, 2010

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Brian MacNeill (Acting Chief Executive Officer, Oilsands Quest Inc.): Good afternoon everybody and thank you for coming today. It's nice to have this solid turnout for our Annual General Meeting. It won't be quite as exciting as in the past weeks here, with James Cameron of Avatar fame showing up, and we'll try to not go Hollywood on you but clearly we'd like to tell you about a very eventful year at Oilsands Quest.

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I'd like to start today by going over the current priorities of the management team; then I want to step back to remind you of what this company has accomplished to date and our reasons for confidence in the current strategic alternatives process.

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We've been working through a key transition in Oilsands Quest's corporate history this year. We're moving from being an exploration company to becoming a development company. Having conducted extensive exploration on our land base in recent years, the team has successfully identified and delineated high-potential in-situ bitumen reservoirs.

We spent 2010 focusing in on our best assets and preparing development plans, including planning a SAGD pilot project for our excellent reservoir at Axe Lake.

We always knew that we would need a partner for the development phase of our evolution. A 30,000 barrel per day oil sands project runs about a billion dollars plus – clearly beyond the current financial capability of our company.

We intended to build the SAGD pilot project before seeking a partner. The plan was to demonstrate that proven SAGD oil sands production technology will work on our reservoirs, and then go to the market on the strength of the test results.

However, when we finalized the SAGD pilot plans and built the capital budget for the next 12 to 18 months, the high cost of capital required for the project did not allow us to proceed, hence the strategic alternatives process now underway.

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We announced the hiring of financial advisors and the review of strategic alternatives in late August.

Our rationale for taking this step was pretty simple: We have solid assets and a development plan in place, but insufficient capital to execute the planned SAGD pilot test properly.



As well, our weak share price made a large equity raise unattractive – to raise the amount of capital we need to pursue our current plans would cause unacceptable dilution of our existing shareholders.

This process is driven by the Special Committee of the Board of Directors – chaired by Ron Blakely, Paul Ching and myself. We are open to all alternatives to enhance shareholder value, up to and including a sale of the company.

That process is well underway; Ron Blakely will describe it in more detail in a few minutes.

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In the meantime, the company's staff and management has been busy continuing with daily operations.

We have cut our expenses considerably by eliminating non-essential staff and deferring most of our operational activities. We are currently funded until early in the second quarter of 2011 and we're exploring alternatives for near term financing.

We currently have three operational priorities at this point in time:

- First, we are narrowing our focus onto our core assets;
- Secondly, we are actively pursuing the our core hole re-abandonment program;
- And finally, we have completed the engineering and procurement for the SAGD pilot project

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Focusing in on our key assets is an important shift for this company. We have analyzed all of the assets in the portfolio, in order to identify the best near-term opportunities.

Oilsands Quest had impressive success early on in building a large land position along a geological trend line. That enabled us to define the edge of the productive oil sands basin, and proved the geological hypothesis on which the company was founded – which is that the rich oil sands deposits of the Athabasca basin start in Saskatchewan.

As well as knowing where the edge of the basin is, we have also now assembled enough data to know where the best reservoirs are on our properties. These reservoirs are at Axe Lake, Wallace Creek, and Raven Ridge.

As we move from being an exploration company to being a development company, we are able to narrow our focus onto our best assets. No company can do it all, and a small company in particular can't chase too many projects at once.



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The first step in that process was to announce our intention to divest Pasquia Hills and Eagles Nest. These are both interesting assets for the right player, and we believe that they have value, but we are not the right company to develop either.

Pasquia Hills in particular – which is an oil shale prospect – will require a lot of capital and the development of specialized technology. It is also a long way away from our core areas. It doesn't appear on this map, since it's over in southeastern Saskatchewan.

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Eagles Nest is also quite distant from our other properties, as you can see here. It's the orange block far to the north and west of Axe Lake.

Selling one or both of Pasquia Hills and Eagles Nest would also provide much-needed near-term liquidity so that we can take the time required to explore strategic alternatives.

As well as divesting our more remote assets, we are also planning to relinquish other blocks of land that we don't believe are prospective.

We have now done enough exploration to know that we currently have more land than we need around our core asset area at Axe Lake. There is a cost to retaining all that land, so we plan to return the less attractive blocks back to the Crown.

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This resource estimate shows our resource base without Eagles Nest – on the assumption that we will divest that asset.

As you can see, we have a best estimate of 3.1 billion barrels of bitumen in place in our remaining assets, and 250 million barrels of contingent reserves. That is more than enough to keep a company our size busy for many years to come.

As a development company, our objective is to advance this huge inventory of discovered resources into the contingent resources category – which means proving the recoverability of the barrels – and ultimately into the reserves category once a commercial development project is sanctioned.

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Our second operational priority is the core hole re-abandonment program.

As discussed in our last couple of quarterly releases, we have identified a problem at our Axe Lake project site that we need to address. Some of the early exploration core holes drilled on the property – including some legacy pre-Oilsands Quest holes – were not abandoned to the standard required to support thermal production.



This creates an obligation to the Saskatchewan government that we take seriously. Therefore, we are still proceeding with the initiative to re-abandon these core holes and preserve the integrity of the reservoir.

It's important to proceed with this initiative while we pursue these strategic alternatives, in order to de-risk the asset and increase its economic attractiveness. We are confident that the program will be successful. It's a reasonably straightforward process of cementing off these holes.

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Finally, our third operational priority is to continue development work on our current assets, as our financial resources permit.

Our focus is on Axe Lake. It's our most advanced project and the furthest along the development stage, with enough wells drilled to give us the certainty we needed to file for our first regulatory approval in advance of commercial development.

McDaniel Consultants estimates discovered resources of 1.4 to 2.3 billion barrels at Axe Lake. Our planned SAGD pilot test would demonstrate the recoverability of these barrels, thereby likely advancing more of them to the contingent category.

We've been proceeding with work to prepare for the SAGD pilot test, including ordering long lead-time equipment and completing facilities modifications at the site. Our efforts have ensured we're ready to go on the Axe Lake SAGD pilot project as soon as capital funding permits.

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Before I conclude and pass it over to Ron, let me step back to remind you of what this company has accomplished to date.

From having only a land position and a geological theory five years ago, Oilsands Quest today has established 3.1 billion barrels of discovered bitumen in place and 250 million barrels of contingent resources.

We have a solid plan in place for a 30,000 barrel per day project at Axe Lake, and we believe the potential exists for a second 30,000 barrel per day project at Wallace Creek.

They're not insignificant accomplishments for a small company operating independently.

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An exciting breakthrough for us in 2010 has been the introduction of proven SAGD technology for the Axe Lake project, and presumably for Wallace Creek as well.

The question in the industry about oil sands in Saskatchewan has always been the absence of the solid shale cap rock over the bitumen layer in these eastern reservoirs. The shale cap rock layer was thought to be essential to containing steam for thermal development purposes.



We launched an overburden testing program in late 2009, and completed it successfully this summer. The tests, conducted by a third-party laboratory, produced even better results than we anticipated. They demonstrated that the glacial till overburden above Axe Lake is indeed capable of containing steam, given its integrity and its extremely low permeability.

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On the strength of the overburden test results, we planned the SAGD pilot project, which would prove the accuracy of the lab test results in the real reservoir setting.

These pictures show the Axe Lake test site. We were able to use the existing surface facilities from the earlier reservoir testing program. We have a fully developed and costed plan for the pilot project. We also filed earlier this year to the Saskatchewan government for environmental approval of a full 30,000 barrel per day commercial project.

We remain very confident about Axe Lake. This is an excellent asset for the company.

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Wallace Creek is our second core area, and while we're not nearly as advanced here as we are at Axe Lake, we're optimistic about what we see. It's a thick, quality reservoir with no top or bottom water present.

We ran a successful exploration program at Wallace Creek last winter which added 92 million barrels of contingent resources for the Oilsands Quest total. We believe that this asset has the potential to be a second commercial in situ oil sands project, subject to further delineation drilling.

We have 10 further drilling locations ready to go at Wallace Creek as soon as capital resources permit. We're confident that further drilling would enable us to confirm additional contingent resources.

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Finally, we are also retaining the Raven Ridge asset. This is an early-stage opportunity for us and we'll need additional drilling to understand it better, but we see longer-term potential here.

Raven Ridge is reasonably close to Axe Lake and Wallace Creek, so we would likely see economies of scale on the infrastructure side if we are eventually able to develop it. However, Raven Ridge is not as straightforward geologically as either Axe Lake or Wallace Creek.

The ample bitumen in place here is complicated by bottom and top water in the reservoir which presents challenges for SAGD recovery. Raven Ridge has similar reservoir characteristics to the Borealis and Telephone Lake prospects being developed by Cenovus which are located immediately west of Raven Ridge.



While we're not likely the company that will develop the technology to address the top and bottom water issues, we are following Cenovus' project on that front. Raven Ridge remains a valuable asset in our portfolio.

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The transition from exploration to development is not an easy one, and we are experiencing those growing pains at Oilsands Quest.

What gives us continued confidence, however, is the potential inherent in the billions of barrels of bitumen we have discovered, and the fact that we now know a healthy portion of those barrels are recoverable using proven technology.

With that, I'll pass it over to Ron Blakely, Chairman of Oilsands Quest, to discuss the progress of the strategic alternatives process currently underway, and then we'll follow with questions.

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Ronald Blakely (Chairman of the Board (non-executive), Oilsands Quest Inc.): Thank you Brian. I'll be brief, so that we have time for any questions you may have.

The strategic alternatives process is unfolding as we had expected. We now have a data room in place, so that interested parties can examine all the extensive data we have on these assets. We are actively soliciting interest along with TD Securities as our financial advisors, and we've been out talking to prospective partners and we'll be conducting meetings going forward.

The question that we now get more than any other is how long we expect this process to take. Quite frankly, it's impossible to say. Occasionally these things can happen quite quickly, sometimes they take quite a long time. Also, you'll appreciate that we can't give any detail on who we're talking to, as these discussions are of course confidential.

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We don't want to rush the process or create artificial deadlines. We need to address our near-term liquidity challenges as well. We currently have sufficient capital on hand to take us into the second quarter 2011.

We are therefore examining options to address that near term liquidity. It's also one of the drivers for seeking to sell some of the non-core assets that Brian mentioned earlier.

The continuing international interest in the oil sands gives us confidence. The list shown here of transactions over the last 18 months or so is impressive.

We fully understand that a process like this one creates uncertainty for investors and employees. I know we have both in the audience today. Let me first of all say that we are grateful to all of you who are employees for your continued professionalism and dedication during this uncertain time and to our investors for their continued support as we go through this.



Like you, we believe in the asset base that we have built in this company, and we are working hard to deliver the best value we can for shareholders.

Thank you for your attention to our presentations today, and we'd now be very pleased to take your questions. I'm going to ask Brian to come back to the podium to answer your questions.

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Question from audience: I'd like to have you discuss a little bit more about this core hole re-abandonment issue that has come up fairly recently. It just seems to us that the announcement that came out – that there was some 250 wells that were not properly abandoned – is a fairly significant issue, and it certainly underlies perhaps, the ability of this company to conduct these operations. So I'd like to hear a little bit more about what happened, and who was responsible, and the kind of effect it's had at the company. It seemed at the time before this was announced, there was an active attempt to bring SAGD testing to fruition, which seemed to come to a direct halt when these core hole abandonment issues arose.

Secondly, I'd like you to address the departure of your COO. It apparently happened quickly after she was hired. I don't expect you to discuss any confidential matters, but it certainly has an effect upon people's confidence in the company when a senior officer departs a very short period of time after being hired.

Brian MacNeill (Acting Chief Executive Officer, Oilsands Quest Inc.): First off, with the core hole program, I think this goes back a fair way in many instances – back into the 2006 timeframe - some of those holes were drilled for mining purposes, not for what we are looking at today. Of course it is key with a SAGD project to keep the steam in the reservoir and we have to make sure these are abandoned in the proper way. As I say, there are a lot of old holes and some of them, as we've found out since, were not abandoned appropriately. I don't know if there is any one individual or process we can determine is responsible, it was just a matter of evolution over time. We have put together a core hole re-abandonment committee that's focused on it. I'll ask Paul Ching who was the chair of that committee to respond a little more to the technical aspects of the program.

Paul Ching (Director, Oilsands Quest Inc.): We effectively had a number of core holes, and it came about that we found that a number of them weren't properly abandoned. What do I mean by that? They did not use thermal cement. And so, we knew as we went back through all of the records that we had somewhere around 210 well bores that needed to be re-examined out of the 355 that we have drilled. As we have gone through that, we now have successfully re-abandoned 14, we are in the process of doing 4 more, and that leaves us somewhere in the neighbourhood of 105-107 that are going to have to be re-abandoned. There are 101 that we are submitting waivers this month to the Saskatchewan government, and we have been working with them and they know these are coming. We will be asking for waivers stating that they have been abandoned properly, and that they are not in a core development area where there is going to be any steam etc. So the justification, all the records, and everything else will be done. And so, we believe that we will be able to have success with the last ones that remain. The other thing is that we have a very talented drilling engineer that is working on it. He has found



ways to be able to make sure that he finds the old holes and is able to have – what we think – is a relatively high success rate. He has also been able to reduce the costs. So, we believe that we are going to be able to successfully do this. Those that we don't, we will have to recognize that we won't be able to steam within 100 metres of those wells. So there may be isolated areas that we won't be able to actually access the reserves. But right now, we have identified all of the wells and we believe we are going to be able to do it.

Brian MacNeill (Acting Chief Executive Officer, Oilsands Quest Inc.): I should say too, we are working closely with the Saskatchewan government. We're in contact with them virtually every day, and making sure we conform to the requirements. It's an issue obviously for us, but it's not a unique issue to us. The industry abandonment issue is a very big one, both here and in the U.S., but we are conforming now and I think it's going very well.

Your second question in regards to the COO Sue Mackenzie: her history was with Petro-Canada prior to the merger of Suncor and Petro-Canada. For quite a while, she ran their MacKay River SAGD project. When we hired her, obviously it was to put that expertise to work on the Axe Lake project. When it was deferred, I think Sue's thought was that she didn't have a project to work on and thought she could do some other things. It was a very amicable parting, and we are still in contact with her periodically if we have any questions. I hope that answers your questions.

If that is all the questions, I would like to thank you all for coming. We will keep you informed as the process evolves. Thank you.

