COURT FILE NUMBER	1101-16110	Clerk's Stamp CLERK OF THE COURT FILED SEP 26 2012 JUDICIAL CENTRE OF CALGARY
COURT	COURT OF QUEEN'S BENCH OF ALBERTA	
JUDICIAL CENTRE	CALGARY	
APPLICANTS	IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c.C-36, AS AMENDED AND IN THE MATTER OF OILSANDS QUEST INC., OILSANDS QUEST SASK INC., OILSANDS QUEST TECHNOLOGY INC., 1291329 ALBERTA LIMITED, STRIPPER ENERGY SERVICES INC., TOWNSHIP PETROLEUM CORPORATION, WESTERN PETROCHEMICALS CORP. and 1259882 ALBERTA LTD.	
DOCUMENT	**ELEVENTH REPORT OF THE MONITOR** **SEPTEMBER 26, 2012**	
ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT	**MONITOR** 1000, 440 - 2nd Avenue SW Calgary, Alberta T2P 5E9 Attention: Neil Narfason / Cassie Riglin Telephone: 403-206-5067 / 403-206-5139 Fax: 403-206-5075 Email: Neil.Narfason@ca.ey.com Cassie.Riglin@ca.ey.com **COUNSEL** Borden Ladner Gervais LLP Centennial Place, East Tower 1900, 520 – 3rd Avenue SW Calgary, Alberta T2P 0R3 Attention: Patrick T. McCarthy, Q.C. / Josef G. A. Krüger, Q.C. Phone: 403-232-9500 Fax: 403-266-1395 Email: pmccarthy@blg.com jkruger@blg.com	

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INTRODUCTION

1. On November 29, 2011, Oilsands Quest Inc. ("OQI"), Oilsands Quest Sask Inc. ("Sask"), Oilsands Quest Technology Inc., 1291329 Alberta Limited ("129"), Stripper Energy Services Inc., and Township Petroleum Corporation ("TPC") (collectively the "Initial Applicants") sought and obtained protection from their creditors under the Companies' Creditors Arrangement Act, R.S.C. 1985 c. C-36, as amended, (the "CCAA") pursuant to an order of this Honourable Court (the "Initial Order").

2. On December 20, 2011 two largely inactive wholly owned subsidiaries of Oilsands Quest Inc., Western Petrochemicals Corp. and 1259882 Alberta Ltd. were added to these CCAA proceedings. These two corporations together with the Initial Applicants above are collectively referred to herein as "Oilsands Quest" or the "Company".

3. Ernst & Young Inc. was appointed monitor of the Company (the "Monitor").

4. The purpose of this eleventh report (the "Eleventh Report") of the Monitor is to provide the Honourable Court with the Monitor's comments in respect of the following:

   a) An update regarding the Solicitation Process (as defined below);

   b) The budget to actual cash flow results for the period for November 29, 2011 to September 30, 2012 (the "Reporting Period");

   c) The cash flow forecasts (the "Forecasts") from October 1, 2012 to November 30, 2012 (the "Forecast Period");

   d) The Monitor's comments regarding the Company's request for an extension of the Stay Period; and

   e) The Monitor's recommendations.

5. Capitalized terms not defined in this Eleventh Report are as defined in the Initial Order.

6. All references to dollars are in Canadian currency unless otherwise noted.

BACKGROUND

7. The Company is a development stage company which holds certain permits, licenses and leases in Alberta and Saskatchewan allowing it to explore and develop natural resource properties. To date the Company has not received any revenue from any of its natural resource properties, and none of its resources have been classified as proved reserves.

8. Further background for the Company and its operations, together with other information regarding these CCAA proceedings, have been posted by the Monitor on its website at: www.ey.com/ca/oilsandsquest.

TERMS OF REFERENCE

9. In preparing the Eleventh Report, the Monitor has relied upon unaudited financial information, company records and discussions with former management of the Company. The Monitor has not performed an audit, review or other verification of such information. An examination of the financial forecast as outlined in the Canadian Institute of Chartered Accountants Handbook has not been performed. Future orientated financial information relied upon in this report is based on assumptions regarding future events and actual results achieved will vary from this information and the variations may be material.

SOLICITATION PROCESS UPDATE

10. On January 11, 2012 this Honourable Court granted an Order (the "Solicitation Order") approving a Court-supervised process to solicit offers to acquire, restructure or recapitalize Oilsands Quest (the "Solicitation Process").

11. The Company executed an engagement letter with TD Securities Inc. ("TD Securities") to run the Solicitation Process.

12. As discussed in the Seventh Report dated June 26, 2012, the Solicitation Process had a bid deadline of April 27, 2012. While various bids were received from potential investors on that date none of these bids were in a form that Oilsands Quest or the Monitor believed would result in a sale or investment that would be in the best interests of Oilsands Quest and its stakeholders. As such, throughout the summer of 2012 the Monitor continued discussions with these bidders and both the TD and the Monitor sought out and responded to other parties who expressed an interest in Oilsands Quest's assets.

13. As outlined in the Ninth and Tenth Reports, the Monitor entering into an asset purchase and sale agreement ("APA") dated August 2, 2012 with a purchaser (the "Prior Offeror"). Subsequently the Prior Offeror advised the Monitor that certain material terms of the APA needed to be amended. The APA was terminated by the Monitor, and the Monitor pursued a new bid for the assets; and

14. On September 21, 2012 the Monitor entered into an asset purchase agreement ("APSA") with a new purchaser ("Purchaser").

15. The APSA is summarized below:

a) The APSA consideration is an all cash purchase ("Consideration"), with closing to occur on or before October 12, 2012 and is subject to Court approval. The APSA contains no other material conditions required for closing other than Court approval. The Purchaser has paid the required deposit;

b) The APSA includes all the remaining assets of the Company (the "Assets") including the Axe Lake, Wallace Creek and Raven Ridge properties;

c) The total of the purchase price contemplated by the APSA and the $7.0 million of proceeds received from the Eagles Nest properties is substantially less than the approximately $167 million of asset value indicated in OQI's financial statements at the commencement of these proceedings;

d) A copy of the APSA has been provided to this Honourable Court in a Supplemental Confidential Eleventh Report of the Monitor. The APSA and the contents of the Confidential Report contain commercially sensitive information and are confidential. The Purchaser was unwilling to enter into the APSA unless the Purchaser's identity and the contents of the APSA were kept confidential and the Monitor sought a sealing order to maintain that confidentiality (regarding materials filed with the court) through the hearing of the application for court approval of the APSA. The Purchaser was unwilling to enter into the APSA if it would be available to the public before disposition of the court application since that could effectively convert the APSA into a de facto stalking horse bid without the Purchaser receiving the consideration ordinarily provided to stalking horse bidders. The Purchaser is agreeable to the APSA being provided to any interested party to the proceedings who is not a bidder and who will sign an undertaking to the court, the Monitor and the Purchaser that it will not bid and will keep the APSA, its terms and the identity of the Purchaser confidential unless the Purchaser first consents in writing or discloses same to the public. Since creditors can have access to the APSA by signing the undertaking referred to, the Monitor is of the view that the Purchaser's willingness to provide a copy of the APSA to non-bidders on the foregoing conditions is commercially reasonable and properly balances the interests of creditors and the Purchaser. Accordingly, the Monitor seeks an Order sealing the Monitor's Confidential Report, including all schedules thereto (the "Sealing Order");and

e) An application to this Honourable Court for the approval of the APSA and vesting to the Purchaser (the "Sale Approval and Vesting Order") is scheduled for 10:00 a.m. on October 2, 2012.

16. The Monitor and TD Securities are satisfied that the transaction contemplated by the APSA represents the best available recovery for OQI's remaining assets. Both the Monitor and TD Securities believe that the market for OQI's business and assets

has, since the beginning of OQI's 2010 solicitation process, been thoroughly and completely canvassed and that OQI's business and assets have been exposed to all prospective purchasers who might reasonably be expected to have an interest.

17. The Monitor believes that the consideration for the Assets is fair and reasonable taking into account the limited interest shown by the market, their value as established by the extensive marketing process, and that the consideration available under the APSA is greater than what would be recovered under a liquidation sale.

BUDGET TO ACTUAL RESULTS

18. The cash flow budget to actual presented below for the Reporting Period contains the actual cash receipts and disbursements as forecast for the Reporting Period.

Oilsands Quest Inc.
Budget to actual cash flow results
for the period of November 29, 2011 toSeptember 30, 2012
(000's) - CAD

	Notes	ACTUAL	FORECAST	VARIANCE
RECEIPTS				
DIP Financing	a	-	2,750,000	(2,750,000)
Interest Income / (expense)	a	34,215	(85,333)	119,548
Sale of Eagles Nest	a	7,075,800	4,380,000	2,695,800
Camp Service		2,350,000	2,350,000	-
Alberta Road Maintenance	b	869,010	1,148,368	(279,358)
Main Road Maintenance	c	628,719	511,931	116,788
Other Road, Fuel, misc	d	346,466	342,404	4,062
GST collected	e	482,677	747,547	(264,870)
Total receipts		11,786,887	12,144,917	(358,030)
DISBURSEMENTS				
Corporate recurring G&A	f	2,083,409	2,850,426	(767,016)
Corporate payroll and benefits	g	1,347,273	1,375,277	(28,004)
Corporate Insurance		917,294	922,000	(4,706)
Operating Expenses	h	4,145,700	4,248,325	(102,625)
Land tenure	i	370,185	406,921	(36,736)
Litigation	j	371,348	705,000	(333,652)
Solicitation process	k	750,135	1,213,000	(462,865)
CCAA professional fees	l	1,277,426	1,121,601	155,825
GST Paid	m	409,752	533,160	(123,408)
Foreign exchange gain	n	(16,962)	-	(16,962)
Total disbursements (before interest payments)		**$ 11,655,560**	**$ 13,375,709**	**$ (1,720,149)**
NET CASH FLOWS		**$ 131,327**	**$ (1,230,792)**	**$ 1,362,119**
OPENING CASH		$ 3,282,913	$ 3,282,913	-
NET CHANGE IN CASH FLOWS		131,327	(1,230,792)	1,362,119
ENDING CASH		$ 3,414,240	$ 2,052,120	$ 1,362,119

19. Receipts for the Reporting Period totalled approximately $11.8 million representing a negative variance of approximately $358,000 to the anticipated amounts. This variance relates primarily to:

a) A positive variance of approximately $2,750,000 relating to the higher than expected sales price of the Eagles Nest Assets, almost completely offset by the interest savings as due to the corresponding decrease in DIP financing needs;

b) A negative variance of approximately $279,000 due to lower than expected billings to Cenovus as a direct result of lower costs incurred for building roads due to favorable weather conditions and efficient operations resulting from shared services on multiple projects;

c) A positive variance of approximately $117,000 due to the main road remaining open approximately two weeks longer than originally planned, which increased costs and the corresponding recovery;

d) A positive variance of approximately $5,000 in lower fuel and maintenance costs due to less use during the Reporting Period; and

e) A negative variance of approximately $264,000 in lower GST collections as a result of slower GST refunds from the CRA and lower expenditures during the Reporting Period.

20. Operating disbursements for the Reporting Period totalled approximately $11.66 million representing a positive variance of approximately $1.7 million to the anticipated amounts. This variance relates primarily to:

f) A positive variance of approximately $767,000 relating to lower than anticipated corporate cost, some of which is a timing difference that will be settled in October 2012;

g) A positive variance of approximately $28,000 relating to lower than expected executive travel and salaries;

h) A positive variance of approximately $102,000 relating to less overall activity in camp during the Reporting Period;

i) A positive variance of approximately $37,000 relating to cost saving on the renewal of letter of guarantee for collateral of unfunded liabilities under the Licensee Liability Rating Program;

j) A positive variance of approximately $333,000 relating to the timing of payment of litigation costs;

k) A positive variance of approximately $465,000 relating to the timing of the success fee payment to be paid to TD Securities in October 2012;

l) A negative variance of approximately $156,000 relating to higher CCAA professional fees than expected due to the length of the CCAA proceeding;

m) A positive variance of approximately $123,000 relating to lower than expected GST payments during the Reporting Period; and

n) A positive variance of approximately $17,000 relating to foreign exchange gain.

21. Oilsands Quest has kept current all of its obligations to all its employees during the Reporting Period.

CASH FLOW FORECAST THROUGH NOVEMBER 30, 2012

22. The Monitor with input from former management, has prepared the Forecast for the Forecast Period which is attached as Appendix A to this report. The Forecast is based on the most current information available.

23. The table below summarizes cash flow for the Forecast Period:

Consolidated Cash flow Forecast October 1, 2012 - November 30, 2012 (000's) - CAD				
	Notes	**Oct-12**	**Nov-12**	**Total**
RECEIPTS				
Total receipts		-	-	-
DISBURSEMENTS				
Corporate recurring G&A	a	75,000	25,000	**100,000**
Operating Expenses	b	75,000	-	**75,000**
Soliciation Process	c	485,000	-	**485,000**
CCAA professional fees	d	50,000	50,000	**100,000**
Total disbursements		**$ 685,000**	**$ 75,000**	**760,000**
NET CASH FLOWS		**$ (685,000)**	**$ (75,000)**	**$ (760,000)**
OPENING CASH		$ 3,414,240	$ 2,729,240	**$ 3,414,240**
NET CHANGE IN CASH FLOWS		(685,000)	(75,000)	**(760,000)**
ENDING CASH		**$ 2,729,240**	**$ 2,654,240**	**$ 2,654,240**

24. As summarized above, the Company is projecting no cash receipts against cash disbursements of approximately $685,000 during the Forecast Period.

25. Significant assumptions made by the Company's management with respect to the Forecast are:

    a) Corporate recurring G&A costs are based on recent historical results and includes professional fees, corporate fees, consulting, office supplies and rent;

    b) Operating expenses relate to the ongoing cost of maintaining the camp;

    c) Success fee payable to TD Securities on the closing of the APA; and

    d) CCAA professional fees relate to legal fees, the Monitor's fees and include professional fees related to the Chapter 15 Proceedings.

26. The Monitor has reviewed the assumptions supporting the Forecast and believes the assumptions to be reasonable.

27. Based on the Company's assumptions, the Forecast indicates that the Company will continue to have sufficient available cash to meet its current obligations through the Forecast Period.

REQUEST FOR AN EXTENSION OF THE STAY PERIOD

28. Pursuant to an Order of this Honourable Court dated September 28, 2012, the Stay Period expires on October 5, 2012. The Company is seeking an extension of the Stay Period up to and including, November 30, 2012 (the "Stay Extension").

29. The Stay Extension is necessary to allow for the time to close the APA and develop a plan of distribution.

30. In the Monitor's view, the Company is acting in good faith and with due diligence.

RECOMMENDATIONS

31. The Monitor recommends that this Honourable Court approve:

    a) The Sale Approval and Vesting Order;

    b) The sealing of the Monitor's Supplemental Confidential Eleventh Report and all schedules thereto, and

    c) The Stay Extension.

Dated at Calgary, this 26th day of September, 2012.

ERNST & YOUNG INC.
in its capacity as
Monitor of Oilsands Quest

Neil Narfason, CA•CIRP, CBV
Senior Vice-President

APPENDIX A

APPENDIX A

Oilsands Quest Inc.
Consolidated Cash flow Forecast
October 1, 2012 - November 30, 2012
(000's) - CAD

	Notes	Oct-12	Nov-12	Total
RECEIPTS				
Sales proceeds		-	-	-
Total receipts		-	-	-
DISBURSEMENTS				
Corporate recurring G&A	1	75,000	25,000	**100,000**
Operating Expenses	2	75,000	-	**75,000**
Soliciation Process	3	485,000	-	**485,000**
CCAA professional fees	4	50,000	50,000	**100,000**
Total disbursements (before interest payments)		**$ 685,000**	**$ 75,000**	**760,000**
NET CASH FLOWS		**$ (685,000)**	**$ (75,000)**	**$ (760,000)**
OPENING CASH		$ 3,414,240	$ 2,729,240	**$ 3,414,240**
NET CHANGE IN CASH FLOWS		(685,000)	(75,000)	**(760,000)**
ENDING CASH		**$ 2,729,240**	**$ 2,654,240**	**$ 2,654,240**

Notes and Assumptions

1 The forecasted run rates for consulting, office supplies and computer expense estimated at $75k for October and $25k for November.
2 Camp maintenance adjusted run rate of $75K / month.
3 Sucess fee due to TD Securities upon closing of sucessful deal.
4 Estimated professional fees.