

NEWS RELEASE

DATE: September 8, 2010

Oilsands Quest files form 10-Q Quarterly Report

Calgary, Alberta – Oilsands Quest Inc. (NYSE Amex:BQI) ("Oilsands Quest", "OQI" or "the Company") announces that its Form 10-Q Quarterly Report for the quarter ended July 31, 2010, was filed with the United States Securities and Exchange Commission on September 8, 2010, and is available online at www.sec.gov and www.sedar.com.

The following discussion addresses material changes in our results of operations and capital resources and uses for the three months ended July 31, 2010, compared to the three months ended July 31, 2009, and our financial condition and liquidity since April 30, 2010. It is presumed that readers have read or have access to our 2010 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. = \$1.029 CDN, which was the July 31, 2010 exchange rate.

Overview*Three Months Ended July 31, 2010*

- We completed a non-brokered private financing for 10.5 million flow-through shares at \$1.00 CDN (\$0.995 USD) and 9.2 million common shares at \$0.85 per share for gross proceeds of \$18.6 million CDN (\$18.1 million USD).
- We filed an application to the Saskatchewan Ministry of Environment (SME) for the approval of a 30,000 BPD commercial project at Axe Lake. This application is the first step in the process for the approval of a commercial development.
- We were granted a one year extension, to May 31, 2011, of our oil sands permits in northwest Saskatchewan.
- We announced an updated independent third party resource estimate for our properties.
- We continued preparation for the SAGD pilot, including engineering design to modify the existing facilities for the pilot and the procurement of materials with certain long lead times for the facilities and horizontal wells.
- We drilled four additional delineation wells in the Axe Lake area in order to meet minimum commitments for certain permit retention as well as increase resource understanding.

- We provided an update of our progress at the TD Newcrest Unconventional Oil Forum held in Calgary on July 14, 2010.
- We announced the cancellation of the sale of our non-core assets at Pasquia Hills.
- We continued to discuss the scope and timing of our corehole re-abandonment program with the Saskatchewan regulators.

Operations Summary:

Exploration Programs

During the three months ended July 31, 2010, we focused on developing our 2010/2011 oil sands exploration plans for the Wallace Creek area following our successful drilling program in early 2010. These planning activities included scouting and surveying exploration drilling targets, preparing regulatory applications and initiating consultation processes for approval of a winter drilling program.

We filed for and received approval for the second of three one-year extensions of our Saskatchewan oil sands permits. We may seek and be granted an additional one year extension of each permit if the Company continues to meet its obligations under the terms of the permits and the Oil and Gas Conservation Regulations, 1985.

We also relinquished our two northernmost land permits in Saskatchewan (permits 213 and 215) as we focus our exploration and development opportunities to include only those lands that recent exploration activity has demonstrated to be prospective. The relinquishment of these permits did not impact our resource estimates or development plans. Please see below under the section titled “Outlook” for a more detailed description of the Company’s land strategy.

Axe Lake Area – Reservoir Development Activities

In July 2010 we drilled 4 wells to confirm the extent of the reservoir at Axe Lake and to satisfy our permit retention work obligations on the Saskatchewan permits. The objective of these wells was to provide additional information on the geology in the area and will not have a significant impact on our assessment of the resource in the Axe Lake area.

We are continuing with the additional processing and interpretation of the 1,847 kilometres (1,149 miles) of 2-D and 3-D seismic data in order to correlate this information to the results of the overburden drilling program and the Summer 2010 drilling program at Axe Lake. This interpretation of the seismic data and the correlation of the well information will be used to assist in the placement of the well pads for commercial development as well as mapping the glacial till overburden over areas where we currently lack well control.

We filed a proposal to the Saskatchewan Ministry of Environment (SME) for approval to produce up to 30,000 barrels per day of bitumen using steam-assisted gravity drainage (SAGD). Filing with the SME is the first step in a two-stage process to apply for approval of a commercial

lease for oil sands development. This proposal provides the complete vision for the project, giving the regulator helpful context when approving testing activity and giving all stakeholders clarity around the long-term development plans. The second stage of the process consists of an application for commercial project approval to SMER that will be submitted following the successful completion of the SAGD pilot.

The proposed project includes components typical of SAGD operations such as multi-well production pads of horizontal well pairs, and a central processing and bitumen treatment facility that includes produced fluid separation, water recycling, steam generation and tank storage facilities. Options for site access, utility service corridors, bitumen transportation, electricity and natural gas supplies are also being evaluated.

We also filed for and received approval for a SAGD pilot at Test Site 1. The pilot consists of one 100 meter long horizontal well pair, with the upper well placed five meters below the glacial till cap, or overburden, and will also 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.

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, 2010).

Environmental and Regulatory

Our Saskatchewan oil sands permits were granted in 2004 and are for five year terms ending in 2009. Each permit allows for an option to request three additional year long extensions. On June 21, 2010 we received approval for the second of the possible three one-year extensions. The Company may elect to seek an additional one-year extension for the oil sands permits in May 2011, and may elect to convert these permits to lease prior to the expiry of these permits. While we expect that our application for extension will be granted, approval requires that certain conditions are met and that the Company is in compliance with the Oil and Gas Conservation Regulations, 1985. Please see below under the section titled "Outlook" for further detail on the Company's land strategy.

The Company is in discussion with SME to assess a re-abandonment issue relating to the abandonment of early exploration coreholes. We have drilled 355 exploration coreholes in Saskatchewan and during a review of our development plans and well records, we determined that 210 of the early-year wells were not abandoned to meet our thermal development requirements or were not abandoned in accordance with the regulatory requirements.

Our first priority is to re-abandon 55 coreholes that are within the potential commercial development area at Axe Lake. We intend to apply for waivers on the remaining 155 coreholes, 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 will be based on the fact that these coreholes 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 108 coreholes in our management best estimate of the re-abandonment costs as described in our financial statements. These 108 coreholes represent coreholes in or adjacent to the commercial development area plus a portion of the coreholes we intend to seek waivers on. Our best estimate of the cost to complete this program over the next five years is \$29 million.

Pasquia Hills Oil Shale Permit Area

In September and October 2009, we drilled and logged 12 exploration test holes on our oil shale prospect in eastern Saskatchewan with ten out of twelve holes drilled experiencing meaningful intercepts of oil shale of up to 37.0 meters in thickness. A geologic assessment of our permit lands based on the drill results, together with the data obtained from legacy drilling, has been prepared by Norwest Corp. including an estimate of Petroleum Initially-in-Place.

On July 30, 2010, we cancelled a transaction to sell the Pasquia Hills assets to Canshale Corp. as they were unable to meet the minimum financing requirement that was a condition for the transaction to close.

The management and Board of Directors of OQI have recognized that retaining and developing the Pasquia Hills oil shale deposits over the remaining permit life would require considerable time, effort and financial resources at the same time that OQI is in the process of exploring and developing its significant portfolio of oil sands assets. In August of 2010, we announced that we would continue to review strategic alternatives for the oil shale assets following the cancellation of the sale to Canshale Corp.

Outlook

On August 17, 2010 we announced that we had initiated a process to explore strategic alternatives for enhancing shareholder value. The Board's decision reflects careful consideration of our current financial position and the capital required to execute the business plan. In light of the significant incremental capital required to advance the exploration and development of the oil sands assets in Saskatchewan and Alberta, the Board determined that it is in the best interests of shareholders to engage financial advisors and formally explore all alternatives. The process of exploring and evaluating strategic alternatives will be overseen by a Special Committee chaired by Ronald Blakely, and including Brian MacNeill and Paul Ching. The Special Committee will consider all alternatives to increase shareholder value, including strategic financing opportunities, asset divestitures, joint ventures and/or a corporate sale, merger or other business combination, and will ultimately recommend a course of action to the Company's full Board. We have retained TD Securities Inc. as a financial advisor to assist us with this process.

Upon developing the multi-year capital program for all of these plans and assessing its options to ensure near-term liquidity in the current market environment, we have decided to put our SAGD pilot and Wallace Creek drilling plans on hold to preserve capital while pursuing strategic alternatives and seeking additional capital.

There can be no assurance that the review of strategic alternatives will result in a financing or a sale of the company or in any other transaction. There is no timetable for the review, and the Company does not intend to comment further regarding the evaluation of strategic alternatives unless the Board agrees to a definitive transaction or the process is concluded. The Company may seek interim financing as required while the strategic alternatives process unfolds.

Our reservoir development and exploration activities over the next few months will be focused on a review of our lands to optimize our land base and in preparation for the application to extend our permits in Saskatchewan.

At this time, we anticipate that our activities will focus on the retention of portions of PS00208 and PS00210 in the Axe Lake area and their conversion to leases. The permits are currently held under the Oil Shale Regulations, 1964 (1964 Regulations). The conversion to lease requirements under the 1964 Regulations are more stringent than under the Petroleum and Natural Gas Regulations, 1969 (1969 Regulations) and we are currently working with SMER to allow us to transfer our oil sands permits from the 1964 Regulations to the 1969 Regulations in order to take advantage of the less stringent conversion from permit to lease rules. The outcome of these discussions is not a certainty.

We would also expect high likelihood of relinquishment of the balance of our lands in Saskatchewan as we do not believe that the lands to the south of the Axe Lake area are prospective, either due to the presence of interbedded water in the reservoirs that would not allow for commercial development or lack of bitumen in the reservoirs in the licenses in the southern portion of our Saskatchewan lands. Our assessment of the Saskatchewan Oil Sands Licenses has resulted in the recognition of an impairment of \$2.4 million (\$1.7 million net of tax) in the financial statements as of and for the three months ended July 31, 2010. Further, we have found interbedded water areas in our East Raven Ridge area. Further analysis of these lands' prospectivity is underway and may result in relinquishment of certain of our East Raven Ridge lands in Alberta. The relinquishment of these lands will have no impact on the Company's current resource estimates or development plans.

Over the next twelve months, we plan to continue the analytical activities necessary to evaluate the recoverability of our oil sands resources at Axe Lake, Wallace Creek and Raven Ridge. Further delineation drilling is required in the northern and eastern Wallace Creek area, and the southern Raven Ridge area in order to satisfy permit retention requirements. Whether or not the Company is able to complete this delineation drilling and retain certain portions of these permits not yet delineated is subject to the availability of capital.

Based on the delineation drilling results to date and our knowledge of the regional geology, we believe there is good potential for that project area to ultimately support an additional 30,000 barrels per day commercial project. This assessment is subject to a further delineation drilling and the availability of capital to complete this drilling.

Based on our review of publicly available drilling data and an analysis of our own delineation drilling to date, the reservoir in our West Raven Ridge area adjacent to Cenovus Energy Inc.'s ("Cenovus") Borealis Project appears to be very similar geologically. Both reservoirs have

relatively thick net bitumen pay and significant amounts of top and bottom water associated with them. Cenovus has submitted an application to the Energy Resources Conservation Board of Alberta to develop their property and, while we do not yet have the commercial or technical wherewithal to commercially develop our West Raven Ridge area, the reservoir may be developed using a similar recovery scheme as is planned by Cenovus.

Liquidity and Capital Resources

At July 31, 2010, the Company held cash and cash equivalents totaling \$29.5 million.

On May 10, 2010, the Company issued 10.5 million flow-through shares at \$1.00 CDN (\$0.995 USD) and 9.2 million common shares at \$0.85 USD per share for gross proceeds of \$18.6 million CDN (\$18.1 million USD) pursuant to a non-brokered private placement.

There is significant uncertainty about our ability to continue as a going concern. This means that without additional funding we may not be able to continue our operations beyond the next twelve months. Additional financing will also be required if our activities are changed in scope or if actual costs differ from estimates of current plans.

There is no assurance that debt or equity financing or joint venture partner arrangements will be available to us on acceptable terms, if at all, to meet our requirements. The Company has no revenues, and its operating results, profitability and the future rate of growth depend solely on management's ability to successfully implement the business plans and on the ability to raise additional capital. See "Outlook" above.

The consolidated financial statements have been prepared assuming that we will continue as a going concern.

Results of Operations

Net loss

Three months ended July 31, 2010 as compared to three months ended July 31, 2009. The Company experienced a net loss of \$16.0 million or \$0.05 per share for the three months ended July 31, 2010 as compared to a net loss of \$4.8 million or \$0.02 per share for the three months ended July 31, 2009. The increase in the net loss as compared to the prior year is due to \$8.0 million (\$5.9 million net of tax) of additional asset retirement obligations revised during the period in relation to the re-abandonment of a certain number of wells in the Axe Lake area. As well, the Company recognized an impairment of \$2.4 million (\$1.7 million net of tax) due to the high probability of relinquishing our Saskatchewan Oil Sands Licenses. The increase is also caused by foreign exchange activity, whereas a gain of \$3.2 million was recorded during the three months ended July 31, 2009 as a result of holding Canadian funds with an appreciation of the Canadian dollar value versus the U.S. dollar compared to a loss of \$0.3 million recorded during the current period. 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 July 31, 2010 as compared to three months ended July 31, 2009. Exploration costs for the three months ended July 31, 2010 were \$11.7 million (2009 - \$3.6 million). Exploration expenditures in the three months ended July 31, 2010 related mainly to the drilling of four additional delineation wells in the Axe lake area in order to satisfy the permit retention requirements on our northern permits in Saskatchewan. The increase in exploration costs during the three month period ended July 31, 2010 is due to \$8.0 million of additional asset retirement obligations that were revised during the current period in relation to the re-abandonment of a certain number of wells in the Axe Lake area. The Operations Summary above provides a summary of the exploration activities conducted in the three months ended July 31, 2010.

General and administrative

Corporate

Three months ended July 31, 2010 as compared to three months ended July 31, 2009. General and administrative expenses settled with cash for the three months ended July 31, 2010 were \$3.8 million (2009 - \$3.8 million). Expenditures in the three month period ended July 31, 2010 consist of salaries (\$1.5 million), legal and other professional fees (\$1.2 million) and general office costs (\$1.1 million). General and administrative expenses in the three months ended July 31, 2009 consist of salaries (\$2.1 million), legal and other professional fees (\$0.7 million) and general office costs (\$1.0 million). At July 31, 2010 there were 46 employees including 5 seasonal field employees, and at July 31, 2009 there were 48 employees including 8 seasonal field employees. The decrease in salaries and wages during the current period occurred as result of severances paid during the three month period ended July 31, 2009.

Stock-based compensation

Three months ended July 31, 2010 as compared to three months ended July 31, 2009: Stock-based compensation expense for the three months ended July 31, 2010 was \$1.0 million (2009 - \$1.7 million) and consists of stock-based compensation related to the issuance of options to directors, officers, employees and consultants. The decrease during the current period compared to the same period in the prior year is mainly due to 4.1 million of options that were forfeit after July 2009. Stock-based compensation is a non-cash expense.

Foreign exchange loss (gain)

Three months ended July 31, 2010 as compared to three months ended July 31, 2009. A foreign exchange loss of \$0.3 million (2009 — gain of \$3.2 million) resulted from holding Canadian dollar cash in the parent company with a US dollar functional currency when the value of the Canadian dollar decreased as compared to the U.S. dollar during the current period.

Depreciation and accretion

Three months ended July 31, 2010 as compared to three months ended July 31, 2009. Depreciation and accretion expense for the three months ended July 31, 2010 was \$1.1 million (2009 - \$0.4 million). Depreciation expense relates to camp facilities, equipment and corporate assets which are being depreciated over their useful lives of three to five years. Accretion expense relates to the asset retirement obligation recognized on the airstrip, camp site, access roads and reservoir test sites which are being brought into income over a period of five to thirty years. The increase during the three month period ended July 31, 2010 compared to the same period last year is mainly due to the additional accretion on asset retirement obligation as a result of the recognition of a re-abandonment obligation of a certain number of wells in the Axe Lake area that was identified in the previous fiscal year.

Impairment

Three months ended July 31, 2010 as compared to three months ended July 31, 2009. The impairment for the three months ended July 31, 2010 was \$2.0 million (2009 – nil) and included a \$2.4 million impairment recognized on the Saskatchewan Oil Sands Licenses due to their high likelihood of relinquishment at July 31, 2010. This amount is also net of an impairment reduction of \$0.4 million on assets held for sale representing the change between the previous carrying amount measured as fair value less costs to sell and the fair value on July 30, 2010, the date of change from assets held for sale to assets held and used.

Interest and other income

Three months ended July 31, 2010 as compared to three months ended July 31, 2009. Interest income for the three months ended July 31, 2010 was \$0.01 million (2009 - \$0.06 million). Interest income is earned because the Company pre-funds its activities and the resulting cash on hand which is invested in short-term deposits. The decrease in interest income this quarter as compared to the same quarter in the prior year reflects the decrease in short term investments and the decrease in market interest rates over the intervening year.

Deferred income tax benefit

Three months ended July 31, 2010 as compared to three months ended July 31, 2009. The deferred income tax benefit for the three months ended July 31, 2010 was \$3.9 million (2009 - \$1.5 million) and relates to the tax benefit that is generated by expensing all exploration costs. The amount also includes \$0.5 million of tax benefits related to the \$2.0 million impairment activity of the current period, primarily in relation to the impairment of the Saskatchewan Oil Sands Licenses. The increase in deferred tax benefit in the current period compared to the same period last year relates to additional asset retirement obligations that were recorded during the period. The Company has generated deferred tax benefits by expensing all exploration costs for accounting purposes while capitalizing these costs for income tax purposes. This results in a higher tax basis for the Company's property and equipment when compared to their carrying

value. The deferred tax liability reported on the balance sheet is mainly related to the book value of property which will not be deductible for tax purposes and is related to the Company's 2006 acquisition of the minority interest in OQI Sask.

Legal Proceedings

On February 24, 2010, a derivative action entitled *Make a Difference Foundation Inc. v. Hopkins, et al.*, Case No. 10-CV-00408, was filed in United States District Court for the District of Colorado by plaintiff *Make a Difference Foundation, Inc.* The derivative action names the following individual defendants: Christopher H. Hopkins, T. Murray Wilson, Ronald Blakely, Paul Ching, Brian MacNeill, Ronald Phillips, John Read, Gordon Tallman, Pamela Wallin, Thomas Milne and W. Scott Thompson (the "Individual Defendants"). In addition, the Company is named as a nominal defendant. Plaintiff asserts, among other things, claims for waste and breaches of the fiduciary duty of loyalty and good faith by the defendants stemming from the Company's approval of the proposed sale of the Company's Pasquia Hills assets to Canshale Corp. The plaintiff seeks unspecified damages on behalf of the Company, restitution on behalf of the Company, and reasonable costs and expenses including counsel fees and experts' fees. On May 18, 2010, the Company and the Individual Defendants filed motions to dismiss the lawsuit. On July 16, 2010, Plaintiff filed an Amended Verified Derivative Complaint that asserts similar claims and damages as the initial complaint. In response to the Company's announcement that the sale of the Company's Pasquia Hills assets to Canshale Corp. was cancelled, the plaintiff has indicated it will seek leave to file another amended complaint by September 8, 2010. The Company and the Individual Defendants will review the allegations in the amended complaint and respond accordingly. To the extent the amended complaint is based on similar allegations advanced by the plaintiff in the prior complaints, the Company and the Individual Defendants believe the claims are wholly without merit and will seek dismissal of the amended complaint.

About Oilsands Quest

Oilsands Quest Inc. (www.oilsandsquest.com) is developing Saskatchewan's first global-scale oil sands discovery at Axe Lake, while exploring one of Canada's largest holdings of contiguous oil sands permits and licenses, located in Saskatchewan and Alberta. It is leading the establishment of the province of Saskatchewan's emerging oil sands industry.

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 Form 10-Q 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:

- 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 corehole re-abandonment program;
- our plans to negotiate with the Saskatchewan Ministry of Energy and Resources (SMER) respecting the transfer of our Saskatchewan oil sands permits from the Oil Shale Regulations to the Petroleum and Natural Gas Regulations; and the outcome of our process to explore strategic alternatives.

Forward-looking statements also typically include words such as "anticipate", "estimate", "expect", "potential", "could" or similar words suggesting future outcomes. Readers are cautioned that forward-looking statements are not guarantees of future performance and that actual results or developments may differ materially from those expressed or implied in the forward-looking statements. 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.

For more information:

Garth Wong
Chief Financial Officer
Email: ir@oilsandsquest.com
Investor Line: 1-877-718-8941