

NEWS RELEASE

DATE: September 10, 2009

Oilsands Quest files 10-Q Quarterly Report, and updates reservoir test program.

Calgary, Alberta -- (September 10, 2009) – Oilsands Quest Inc. (AMEX:BQI) announces that its Form 10-Q Quarterly Report for the period ended July 31, 2009, was filed September 9, 2009, and is available online at www.sec.gov and www.sedar.com. The company also provides an update on its reservoir test program.

The following discussion addresses material changes in our results of operations and capital resources and uses for the three months ended July 31, 2009, compared to the three months ended July 31, 2008, and our financial condition and liquidity since April 30, 2009. It is presumed that readers have read or have access to our Annual Report on Form 10-K for our financial year ended April 30, 2009, 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. = \$1.079 CDN, which was the July 31, 2009 exchange rate.

Overview*Three Months Ended July 31, 2009*

- We completed a public offering of 35,075,000 units at a price of \$0.85 per unit for gross proceeds to \$29.8 million. The units consisted of one common share and a warrant to purchase one-half common share.
- We were granted a one year extension, to May 31, 2010, of our permits in northwest Saskatchewan. We may seek and be granted two additional one year extensions of each permit if the Company continues to meet its obligations under the terms of the permits. We may elect to convert all or a portion of the permits to leases.
- We signed a Memorandum of Understanding establishing an economic relationship with the Birch Narrows Dene Nation in Saskatchewan through which the economic benefits of our exploration and development activities will be managed.
- We announced independent third party resource estimates for our Eagles Nest property in Northern Alberta.
- We announced the resignation of Jamey Fitzgibbon as President and Chief Operating Officer and the transition of these responsibilities to Christopher Hopkins, the Company's Chief Executive Officer.
- We resumed construction activities at Test Site 1 in preparation for the startup of Phase One of the testing.
- We began applying heat to the reservoir at Test Site 3 in late 2008 utilizing a downhole electric heater and we continue to measure pressures and temperatures at ten different locations in the reservoir subsequent to the removal of the heater element in June 2009.
- We have commenced pressure and temperature measurements at Test Site 1 in order to

capture the baseline reservoir pressure and temperature before commencing the vertical well test program.

- We provided an update of our progress at Test Sites 1 and 3 and laboratory and field test studies at the TD Newcrest Unconventional Oil Forum held in Calgary on July 8, 2009 and at the Canadian International Petroleum Conference held in Calgary on June 16 to 18, 2009.
- We disclosed our intention to re-organize our non-core assets at Pasquia Hills.
- We restated our financial statements and filed an amended Form 10-K/A for the year ended April 30, 2008 and amended Form 10-Qs for the quarterly periods ended July 31, 2008, October 31, 2008 and January 31, 2009.

Operations Summary:

Exploration Programs

During the three months ended July 31, 2009, we focused on developing our 2009-2010 oil sands exploration plans for the Axe Lake, Raven Ridge, Wallace Creek and Eagles Nest areas and our oil shale exploration plans for the Pasquia Hills area. These planning activities included scouting seismic and exploration drilling targets, preparing regulatory applications and initiating consultation processes for approval of the winter drilling program.

Specific activities we have been planning on our Axe Lake permits include an overburden core drilling program on permits 208 and 210 and 2-D seismic on the permits to the north and south of Axe Lake in Saskatchewan. Both of these programs will further our geological knowledge of the deposits while meeting work commitments required to extend the exploration permits until May 31, 2010.

We are also continuing with the additional processing and interpretation of the 1,847 kilometres (1,149 miles) of 2-D and 3-D seismic data collected and initially processed in the 2007-2008 winter program. This interpretation is proving valuable in planning for the specific reservoir tests this year and in assessing the geological structures across our permits.

We expanded our baseline environmental programs in the Axe Lake and the Raven Ridge areas in anticipation of a comprehensive Environmental Impact Assessment report required as part of the application for regulatory approval for development of Axe Lake. Other environmental work included initiating baseline environmental studies in the Wallace Creek and Eagles Nest areas. We commissioned an active (continuous) air quality monitoring station at Axe Lake during the period, the first of its kind in northwest Saskatchewan, in addition to our passive (periodic) air monitoring activities which have been ongoing since 2005.

In early 2009, we drilled an additional 23 exploration and delineation test wells in Raven Ridge. The Raven Ridge drilling program has demonstrated continuity of bitumen characteristics extending from Axe Lake in Northwest Saskatchewan westward into Alberta and we are in the process of updating our resource estimates based on the results of this drilling program. We expect to release these results in October of 2009.

Axe Lake Area – Reservoir Development Activities

At Test Site 3, the electric downhole heating program was continued. The objectives of the field test are to reliably measure pressure and temperature changes within the reservoir and adjacent formations as a result of heating and use those measurements to calibrate numerical simulation calculations to the field measurements in order to reduce uncertainty in future reservoir planning. The electric downhole heater in well 1OBS 5-29-94-25 provided heat to the reservoir and pressure and temperatures were measured and recorded continuously at ten locations in the hot heater well, 1OBS 5-29-94-25, and the cold observation well, INJ 5-29-94-25. The heater was removed from the well on June 26, 2009, pressures and temperatures were and are being measured and recorded during the post-heating period, and an application for perforating and continued testing of 1OBS 5-29-94-25 and INJ 5-29-94-25 is being prepared. Our detailed engineering and numerical simulation analysis has confirmed the formation characteristics anticipated and our ability to establish and control the relevant fluid heat properties to be used in continued reservoir planning at Axe Lake. We presented a more detailed description of the conceptual reservoir simulation model, analytical heat transfer calculations, Test Site 3 geo-models, supporting laboratory work and numerical simulations at the Canadian International Petroleum Conference held June 16-18, 2009.

In preparation for the commencement of the field testing of the reservoir test program we are in the final stages of construction and commissioning of the facilities at Test Site 1. Phase Three testing in the reservoir test program are planned:

Phase One of the test program at Test Site 1 will include the injection of cold water and will be followed by the injection of hot water and steam into the reservoir. The purpose of the test is to measure heat and fluid movement under specific operating conditions on a field scale to complement our ongoing simulation and laboratory analysis studies. These Phase One tests are designed to confirm and demonstrate our "bottom-up" thermal recovery process and they will further enhance our knowledge and modeling of the thermal and geo-mechanical characteristics of our reservoir.

Phase Two of the test program at Test Site 1 will evaluate and analyze information gathered from Phase One regarding mobilization with steam and/or hot water by measuring field-scale response using horizontal wells.

As part of the overall Axe Lake development plan, we continue to conduct advanced economic feasibility, financial planning and risk assessment studies for full commercial development and the commissioning of an independent study of infrastructure and bitumen markets to complement our development planning process. Development of a commercial project remains subject to regulatory and other contingencies such as successful reservoir tests, board of directors approvals, financing and other risks inherent in the oil sands industry ("Risk Factors" Section of our Form 10-K).

Pasquia Hills Oil Shale Area

During the period ended July 31, 2009, the Company initiated the planning and regulatory approval process for an exploratory drilling program on its oil shale permits in eastern

Saskatchewan. These activities included filing applications and receiving regulatory approvals for drilling up to fifteen locations, surveying drill locations, negotiating and obtaining access rights and contracting for the required services. We expect to commence exploration drilling on these permits in the last quarter of calendar 2009.

Outlook

Over the next twelve months we plan to continue the activities necessary to increase our resource base and to demonstrate the recoverability of our oil sands resources. Subject to our financial resources, we will continue to pursue exploration programs on our permit and license lands.

We are continuing our testing program based on the current geological interpretation that there is no capping shale in direct contact with our oil sands reservoir. The results of our advanced laboratory studies and numerical reservoir simulations indicate that bitumen production can best be achieved using a reconfiguration of horizontal wells at the bottom of the reservoir. Our analysis points to the three essential elements for a successful application of the bottom-up approach to bitumen extraction: (1) establish and maintain mobility at the bottom of the oil sands reservoir, (2) utilize the full length of the horizontal wells while the bitumen is being produced, and (3) implement a comprehensive reservoir monitoring system to observe and manage the growth of the swept zone. A sequential approach to the reservoir test program is required, both in the scale of the field operations at Test Site 1 and by moving from vertical wells to short horizontal wells and then to commercial length horizontal wells. In addition, as part of future pilot activities the detailed operations protocol will move from cold water to hot water to steam at each step for the different well configurations.

In the Axe Lake reservoir test program, we are now extending the testing at Test Site 3 and we will be commencing operations at Test Site 1 to demonstrate that we can establish and maintain communication between vertical wells at the bottom of the reservoir using water and steam. The following is an overview of key activities planned in the next twelve months.

- We expect to submit an application to perforate the two closely spaced vertical wells at Test Site 3 and circulate water at different temperatures in order to (1) confirm the establishment of early fluid movement, (2) confirm the ability for early stage convective heat transfer at the bottom of the reservoir, (3) produce and collect samples of bitumen through both hot water and solvent injection, and (4) gather preliminary data on the horizontal displacement process.
- We expect to submit an application to proceed with the Phase One test program at Test Site 1 to inject water and steam in order to (1) demonstrate the feasibility of establishing and maintaining staged communication at the base of the Axe Lake reservoir (2) evaluate reservoir behavior in relation to water and steam injection including geo-mechanical effects, and (3) calibrate the Axe Lake relative permeability curves for use in our reservoir simulators. Four vertical wells for micro-seismic monitoring will be drilled and completed and a baseline will be established prior to commencement of vertical well operations. The interpretation of micro-seismic signals is expected to enable more effective history matching of the horizontal fluid flow and convective heat transfer. This phase is scheduled to begin in October, subject to regulatory and other approvals.

- In preparation for Phase Two of the testing program at Test Site 1, we expect to drill and complete observation wells and design, construct and commission the necessary surface facilities at the site. Water and steam injection into horizontal wells drilled is planned to begin following the completion of the surface facilities associated with the horizontal test holes. This work will commence after the testing and analysis from Phase One is complete.
- We may begin field activities related to Test Site 2, where we are evaluating the testing of other energy efficient and environmentally neutral recovery processes.
- We are planning a program to evaluate the characteristics of the overburden at Axe Lake in late 2009. The program, in combination with our extensive 3-D seismic data, is expected to enhance our understanding of the formation overlaying our bitumen deposit.
- We expect to continue our reservoir characterization studies and continue to evaluate well data, perform petrophysical analyses, design and execute pertinent geophysical logging and perform advanced laboratory studies.
- We expect to submit an application for a pilot project at Axe Lake in the fall of 2009. The pilot project application will be partly based on a low pressure steam based bitumen recovery process currently being tested as part of the reservoir test program and the application will trigger an Environmental Impact Assessment.
- We are continuing the planning of additional exploration programs to further define the location, extent and quality of the potential bitumen resource in Axe Lake, Raven Ridge, Wallace Creek, Eagles Nest, and adjacent areas as appropriate.
- Infrastructure remains a critical element for continued operations and we will continue to investigate various pipe line solutions for gas and liquids transport, different routing alternatives for permanent road access and possible solutions for the provision of power.
- Efforts are also continuing on converting a portion of our Saskatchewan permits to lease pursuant to the *Oil Shale Regulations, 1964*, as amended. The permits will not be converted to leases until a development plan which will require an Environmental Impact Assessment has been developed.
- We intend to maintain our asset base and core technical team in order to advance to commercial development of our resource.

Liquidity and Capital Resources

On May 12, 2009, the Company issued 35,075,000 units at \$0.85 per unit for gross proceeds of \$29.8 million. The units were issued as part of a public offering and were comprised of a share of the common stock and one-half of a warrant to purchase a share of common stock. The Company paid an aggregate of \$1.5 million in fees to a syndicate of agents under the terms of the agency agreement and \$1.2 million of legal fees and other expenses in relation to the offering.

During the three months ended July 31, 2009, the Company expended \$4.4 million on operations and \$0.4 million on property and equipment.

At July 31, 2009, the Company held cash, cash equivalents and short term investments totaling \$56.1 million. At September 1, 2009, the Company held cash, cash equivalents and short-term investments totaling \$53.6 million.

We believe that we have sufficient funds to carry out our planned activities over the next twelve months. If we accelerate commercial development at Axe Lake or any of our other prospects, our cash requirements will increase significantly. Additional funding may also be required if our current planned activities are changed in scope or if actual costs differ from estimates of current plans. We believe the Company will have access to sufficient funding and sources of capital for its planned activities through to July 31, 2010. Because we constantly and actively monitor our expenditure budgets, if sufficient funding is not available we can adjust our expenditure plans based on available cash. We plan to fund future operations by way of financing, including a public offering or private placement of equity or debt securities. Our development strategy also includes considering partners on a joint venture basis on our specific projects to fund the development of such projects in a timely and responsible manner. However, 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 these 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 further funding.

Results of Operations

Net loss

Three Months ended July 31, 2009 as compared to three months ended July 31, 2008. The Company experienced a net loss of \$1,908,301 or \$0.01 per share for the three months ended July 31, 2009 as compared to a net loss of \$14,123,683 or \$0.06 per share for the three months ended July 31, 2008. The decline in the net loss is mainly due to a reduction in exploration activity and costs in the current quarter as compared to the same quarter last year. The Company expects to continue to incur operating losses and will continue to be dependent on additional sales of equity or debt of securities and/or property joint ventures to fund its activities in the future.

Exploration costs

Three months July 31, 2009 as compared to three months ended July 31, 2008. Exploration costs for the three months ended July 31, 2009 were \$3,614,359 (2008 - \$10,472,742). The Operations Summary above provides a summary of the exploration activities conducted in the three months ended July 31, 2009. Exploration expenditures in the three months ended July 31, 2009 related mainly to engineering and construction costs on Test Sites 1 & 3 and to environmental monitoring activities.

General and administrative

Corporate

Three months ended July 31, 2009 as compared to three months ended July 31, 2008. General and administrative expenses settled with cash for the three months ended July 31, 2009 were \$3,798,450 (2008 - \$2,855,016). Expenditures in the three month period ended July 31, 2009 consist of salaries (\$1.0 million), legal and other professional fees (\$0.7 million) and general office costs (\$2.1 million). General and administrative expenses in the three months ended July 31, 2008 consist of salaries (\$0.9 million), legal and other professional fees (\$0.9 million) and general office costs (\$1.0 million). At July 31, 2009 there were 48 employees including 8 seasonal field employees, at July 31, 2008 there were 72 employees including 30 seasonal field employees. The increase in salaries and wages during the quarter occurred as result of severance payments.

Stock-based compensation

Three months ended July 31, 2009 as compared to three months ended July 31, 2008. Stock-based compensation reversal for the three months ended July 31, 2009 was \$1,152,931 (2008 – \$3,569,157 expense). Stock-based compensation expense for the three months ended July 31, 2009 and 2008 consists of stock-based compensation related to the issuance of options to directors, officers, employees and consultants. The grant date fair value of the stock options was estimated using the Black-Scholes valuation model which requires the input of highly subjective assumptions, including the option's expected life and the expected stock price volatility determined using the historical volatility of the price of shares of the Company's common stock. The decrease this quarter as compared to the same quarter in the prior year is the result of 2.8 million options being forfeited due to a reduction in the number of employees and resulting in a reversal of previously recorded stock-based compensation. Stock-based compensation is a non-cash expense.

Foreign exchange gain (loss)

Three months ended July 31, 2009 as compared to three months ended July 31, 2008. A foreign exchange gain of \$3,243,691 (2008 — loss of \$782,690) resulted from holding Canadian dollar cash in the parent company with a US dollar functional currency when the value of the Canadian dollar increased as compared to the U.S. dollar.

Depreciation and accretion

Three months ended July 31, 2009 as compared to three months ended July 31, 2008. Depreciation and accretion expense for the three months ended July 31, 2009 was \$448,416 (2008 - \$317,726). 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 10 of 30 years. The change from the quarter ended July 31, 2008 to the quarter ended July 31, 2009 is not significant and relates to the increase in assets held during the year.

Interest and other income

Three months ended July 31, 2009 as compared to three months ended July 31, 2008. Interest income for the three months ended July 31, 2009 was \$58,764 (2008 - \$429,278). 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, 2009 as compared to three months ended July 31, 2008. The deferred income tax benefit for the three months ended July 31, 2009 was \$1,497,538 (2008 - \$3,444,370) and relates to the tax benefit that is generated by expensing all exploration costs. 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.

Disclosure Controls and Procedures

As of July 31, 2009, we carried out an evaluation under the supervision of, and with the participation of our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15(e) under the Securities and Exchange Act of 1934, as amended. Based on the evaluation as of July 31, 2009 our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures (as defined in Rule 13a-15e) under the Securities Exchange Act of 1934) were not effective because of the material weakness in internal control over financial reporting described below.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness in our internal control over financial reporting as of July 31, 2009 existed as we did not maintain effective processes and controls over the accounting for and reporting of complex and non-routine transactions. Specifically, we did not have sufficient appropriate level of technical knowledge, experience and training in the accounting for asset acquisitions, stock-based compensation, and deferred income taxes. This control deficiency

resulted in the restatement of the consolidated financial statements for the years ended April 30, 2008 and 2007 and each of the quarters in fiscal 2009 and 2008. The restatement of the prior periods also resulted in a material adjustment to the April 30, 2009 financial statement prior to their issuance.

We plan to remediate the material weakness described above by consulting with an independent big four accounting firm on complex accounting issues and obtain written analysis of the accounting options available to us. The analysis would be reviewed with the independent auditors on the appropriateness of the accounting treatment for any new transactions. We will also amend our period close procedures to include access to independent consultation on technical accounting treatment with respect to highly complex transactions.

Changes in Internal Control Over Financial Reporting

We regularly review our system of internal control over financial reporting. There were no changes in our internal control over financial reporting during the period covered by this report on Form 10-Q that have materially affected or is reasonably likely to materially affect, our internal control over financial reporting.

Other information

Effective August 28th, 2009, Dr. Claes Palmgren, Vice President Reservoir Engineering, resigned from the Company for personal reasons. Dr. Palmgren intends to stay on with the Company on a consulting basis for a period of approximately six months.

About Oilsands Quest

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

Cautionary Statement about Forward-Looking Statements

This news release includes certain statements that may be deemed to be “forward-looking statements” within the meaning of the U.S. federal securities laws. 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:

- the amount and nature of future capital, development and exploration expenditures;
- the timing of exploration activities;
- business strategies and development of our business plan and drilling programs;
- potential reservoir recovery optimization processes.

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 and the company’s independent evaluators 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 risks inherent in the oil sands industry, regulatory and economic risks, lack of infrastructure in the region in which the company’s resources are located and risks associated with the company’s ability to implement its business plan. The Company’s views about the restatement, its remediation of a material weakness in its controls, its financial condition, performance and other matters also constitute “forward-looking statements”. These forward-looking statements are subject to risks and uncertainties including, but not limited to, the results and effect of the Company’s review of its accounting practices; potential claims and proceedings relating to the adjustments to the Company’s financial statements or its accounting practices, including shareholder litigation and action by the SEC or other governmental agencies which could result in civil or criminal sanctions against the Company and/or certain of its current or former officers, directors and/or employees; and negative tax or other implications for the Company resulting from the accounting adjustments and other factors detailed from time to time in the Company’s filings under the Securities Exchange Act of 1934. Many of these risks and uncertainties are beyond the control of the Company. The Company undertakes no obligation to update forward-looking statements if circumstances or management’s estimates or opinions should change, except as required by law. The reader is cautioned not to place undue reliance on forward-looking statements.

For more information:

Riyaz Mulji

Manager, Investor Relations

Email: ir@oilsandsquest.com

Investor Line: 1-877-718-8941