

**NEWS RELEASE**

DATE: March 10, 2010

**Oilsands Quest files third quarter form 10-Q and operational update**

Calgary, Alberta -- (March 10, 2010) – Oilsands Quest Inc. (NYSE Amex:BQI) announces that its Form 10-Q Quarterly Report for the period ended January 31, 2010, was filed March 9, 2010, and is available online at [www.sec.gov](http://www.sec.gov) and [www.sedar.com](http://www.sedar.com). The company also provides an operational update.

The following discussion addresses material changes in our results of operations and capital resources and uses for the three and nine months ended January 31, 2010, compared to the three and nine months ended January 31, 2009, and our financial condition and liquidity since April 30, 2009. It is presumed that readers have read or have access to our 2009 Annual Report filed on Form 10-K which includes disclosures regarding critical accounting policies as part of Management's Discussion and Analysis of Financial Condition and Results of Operations. All future payments in Canadian dollars have been converted to United States dollars using an exchange rate of \$1.00 U.S. = \$1.065 CDN, which was the January 31, 2010 exchange rate. Unless otherwise stated, all dollar amounts are expressed in U.S. dollars.

**Overview***Three Months Ended January 31, 2010*

- We completed the private placement of 9,714,300 shares at \$1.05 per share for gross proceeds of \$10.2 million. This transaction was completed without the use of a broker/dealer.
- We announced the appointment of Paul Ching to our Board of Directors. Mr. Ching has an exceptional background in exploration and production reservoir, production, operations, development and reservoir research. Mr. Ching has been appointed the Chair of the Reserves & Resources Committee of the Board of Directors and his experience on the Board will deliver additional momentum to the development of the reservoirs at Axe Lake, Raven Ridge and Wallace Creek.
- At the end of December 2009, we completed the 2-D seismic program on our Saskatchewan permits.
- In early December 2009, we commenced the injection of cold water into the reservoir at TS1. Initial injectivity was achieved and circulation tests were conducted between three sets of well pairs that are 1.5 meters, 10 meters and 18 meters apart, respectively. Tracer tests were also conducted by injecting a saline solution down the injector well and measuring the produced volumes of salt and water in the producer well.
- On January 19, 2010, we announced the sale of the Pasquia Hills oil shale properties to Canshale Inc., a private company formed by Christopher H. Hopkins, for consideration of

CDN \$1 million (US \$ 0.9 million) in cash and 8,000,000 shares of Canshare. The transaction is conditional on Canshare raising a minimum of CDN \$12.5 million (US \$ 11.7 million).

- Mr. Hopkins resigned as President and Chief Executive Officer of OQI to assume the role of President and Chief Executive Officer of Canshare effective January 15, 2009. Mr. Hopkins remains on the Board of Directors of OQI and is the Chair of the Community Relations and HS&E. We had previously announced that Mr. Hopkins would also be serving on the Governance and Nominating Committee. Upon review of the relevant stock exchange rules and securities laws, it was concluded that Mr. Hopkins is not independent for stock exchange rules and he is therefore no longer able to serve on the Governance and Nominating Committee.
- T. Murray Wilson, Chairman of OQI, assumed the additional roles of President and Chief Executive Officer.
- W. Scott Thompson and Thomas Milne resigned from the Board of Directors of OQI on January 15, 2010 and will join the Board of Directors of Canshare.
- We announced that Dr. Erdal Yildirim retired from OQI on February 1, 2010.
- We completed the 16 hole coring and advanced logging program portion of the overburden characterization study on assessing the nature and character of the rock structures overlying the bitumen bearing McMurray (Dina) Formation.
- The cores from the overburden characterization program have been sent to an independent laboratory to perform cap-rock integrity tests. Initial results indicate that we have containment over our reservoirs to support SAGD extraction process.
- We provided an update of our progress at Test Sites 1 and 3, our overburden characterization study and our laboratory and field test studies at the TD Unconventional Oil and Gas Forum in London, England on January 11, 2010.

*Nine Months Ended January 31, 2010*

- We announced updated independent third party resource estimates for our Axe Lake and Raven Ridge properties based on the drilling completed in late 2008 and early 2009 at our Annual General Meeting held October 14, 2009.
- We commissioned the facilities at Test Site 1 in preparation for the start-up of Phase One of the testing.
- In mid-October we perforated the two vertical wells at Test Site 3, which are approximately 3.5 meters apart, and installed temporary water heating and injection facilities. We commenced injecting cold water at low pressure and volume into the base of the McMurray formation on October 25, 2009 and established communication between the two wells. Cold water injection and production was maintained for 24 hours,

following which hot water was injected and produced, resulting in the mobilization of bitumen in the reservoir.

- On October 29, 2009, a small amount of naphtha was injected and bitumen recovery commenced on October 30, 2009. We continued to circulate hot water without naphtha until November 5, 2009, at which time the injection and production facilities were removed. We are continuing to monitor the temperature and as part of the test program.
- We completed a 12-hole oil shale coring program on the exploration permits in the Pasquia Hills region of central east Saskatchewan.
- We provided an update of our progress at Test Sites 1 and 3, our overburden characterization study and our laboratory and field test studies at the Canadian Heavy Oil Association on November 10, 2009.
- In May, we completed a public offering of 35,075,000 units at a price of \$0.85 per unit for gross proceeds of \$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 expect to 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 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 the resignation of Jamey Fitzgibbon as President and Chief Operating Officer and Dr. Claes Palmgren as Vice President Reservoir Engineering.
- We began applying heat to the reservoir at Test Site 3 in December 2009 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 provided an update of our progress at Test Site 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 examine a potential re-organization of our Pasquia Hills oil shale assets, which examination has resulted in the conditional sale of these assets as described herein.
- We restated our financial statements and filed an amended Form 10-K for the year ended

April 30, 2009 and amended Form 10-Qs for the quarterly periods ended July 31, 2008, October 31, 2008, January 31, 2009, and July 31, 2009.

## **Operations Summary:**

### ***Exploration Programs***

During the three months ended January 31, 2010, we were preparing for our winter 2010 oil sands exploration plans at Wallace Creek. These activities included the selection and preparation of well sites, road construction and selection of suppliers.

On March 6, 2010, we completed a nine hole exploration drilling program on the southwest corner of Wallace Creek, adjacent to Cenovus' Borealis project area. Five of the wells drilled encountered sufficient quantities of bitumen with two wells intercepting over 20 meters of oil sand in the McMurray formation.

We are in the process of analyzing geophysical logs and core samples and expect to have an independent resource evaluation later this year.

We completed the 40 km 2-D seismic program on the permits to the north and south of Axe Lake in Saskatchewan which will further our geological knowledge of the deposits and has allowed us to meet 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 2007-2009 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.

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

#### ***Test Site 3***

The objectives of the field test are to: (1) reliably measure pressure and temperature changes within the reservoir and adjacent formations as a result of heating and (2) use those measurements to calibrate numerical simulation calculations to the field measurements in order to optimize a recovery program for future testing, piloting, commercial applications and reservoir planning. The electric downhole heater in well 1OBS 5-29-94-25 provided heat to the reservoir and pressures 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. Our detailed engineering and numerical simulation analysis has confirmed the formation characteristics and related fluid and thermal properties to be used in continued reservoir planning at Axe Lake. We presented a more detailed description of the 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 mid-October we perforated the two vertical wells at Test Site 3, which are approximately 3.5

meters apart, and installed temporary water, heating and injection facilities. The objective of this test was to inject and produce water at different temperatures in order to:

1. confirm the establishment of early fluid movement;
2. confirm the ability to establish convective heat transfer at the bottom of the reservoir;
3. recover bitumen by using both hot water and solvent injection; and
4. gather preliminary data on the horizontal displacement of fluids.

We commenced injecting cold water at low pressure and volume into the base of the McMurray formation on October 25, 2009 and established communication between the two wells. Cold water circulation was maintained for 24 hours, following which heated water was circulated, resulting in the mobilization of bitumen in the reservoir. On October 29, 2009, a small amount of naphtha was injected and bitumen recovery commenced on October 30, 2009.

We continued to circulate hot water until November 5, 2009, at which time the facilities were removed. We are continuing to monitor the changes in temperature and pressure as we prepare for the next stage of our testing program.

### ***Overburden Testing Program***

We commenced the overburden characterization study on October 19, 2009 and presented some preliminary findings at the Canadian Heavy Oil Conference on November 10, 2009. We completed the 16 hole coring and logging program that yielded core material and advanced logging data (NMR, Dipole, sonic and standard suite geophysical logs) of the formation overlying the bitumen-bearing McMurray (Dina) Formation.

The cores are currently being analyzed by an independent reservoir research laboratory. The primary purpose of the program was to test the potential for the overburden to perform as a cap rock which has the capacity to contain steam within the reservoir. The core material shows that this overburden contains layers of dense clay-rich till. It is currently being analyzed by an independent reservoir research laboratory where preliminary results indicate that the overburden formation is a dense, low permeability cap rock. Further, additional laboratory testing and reservoir computer simulations are demonstrating that this material has steam containment characteristics. The core samples are also being correlated with the Axe Lake 3-D seismic data to determine the extent and continuity of this cap rock across Axe Lake. We expect to have final results of our laboratory testing and the 3D seismic correlation work by summer 2010.

### ***Test Site 1***

On October 18, 2009, the electrical, mechanical and boiler facilities at Test Site 1 were successfully commissioned. Construction is complete, experienced operating personnel are in place and the facility is ready to commence operations.

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 will further enhance our knowledge and modeling of the thermal and geo-mechanical characteristics of our reservoir.

On December 5, 2009, we commenced the injection of cold water into the reservoir at TS1. Initial injectivity was achieved and circulation tests were conducted between three sets of well pairs that are 1.5m, 10m, and 18m apart respectively. Tracer tests were also conducted by injecting a saline solution down the injector well and measuring the produced volumes of salt and water in the producer well. Inter-well communication was positively confirmed by measurement of substantial percentages of saline tracer at the producer wells.

We will continue to analyze the preliminary results from the circulation and tracer tests, history match the field results in the computer simulations and to monitor reservoir pressure and temperature with the down-hole monitoring array we have in place. In early March 2010 we received regulatory approval to use solvent in our testing program and made the decision to delay the hot water, solvent and steam injection phase of the test until after spring break-up to ensure we have enough time to run the test for several months without interruption. The results of the overburden testing program will also have an impact on the timing of the decision to complete the second phase of the testing program at TS1. Field staffing and activity levels at TS1 will be reduced in March to conserve capital and prepare for a resumption of testing activity later in the calendar year.

The next phase of testing, subject to regulatory approvals, may include the drilling of a new SAGD well pair in close proximity to the existing wells and infrastructure at TS1 to build on our growing knowledge of the reservoir and cap rock characteristics. The addition of traditional SAGD wells to our plan will enable us to build upon the testing we have done to date on the “bottom up” thermal recovery process and will enable us to test a bitumen production technology (SAGD) that has been proven to be effective in similar reservoirs in the Athabasca basin.

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 (See "Risk Factors" Section of our Form 10-K and see Part II – Other Information, Item 1A. Risk Factors below).

### ***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. Detailed evaluation and interpretation of the drilling results is underway. We are currently processing core samples in the laboratory by using Modified Fisher Assay method and some of these samples will be tested using a commercially proven recovery process to measure recovery factors. We are continuing to research potential methods for kerogen recovery from the Pasquia Hills oil shales.

We are currently recruiting to add senior technical and management resources to assist in taking our oil sands asset development forward at a faster pace. We do have front end strength with existing leadership to continue to develop and explore somewhat supplemented by the expertise of the Board of OQI. Over the past nine months we have added significant strength to our Board with the addition of Ron Blakely, Brian MacNeill and, most recently, Paul Ching who takes over as the chair of the Reserves and Resource Committee. In addition, we have hired a new Chief Reservoir Engineer, Allison Aherne, whose recent roles included leading the reservoir engineering and field operations for Suncor's Firebag SAGD project and we continue to retain industry leaders such as Dr. Arthur Hale to move ahead briskly without a change of step.

The recent conditional sale by Oilsands Quest Inc. (OQI) of our Pasquia Hills properties to a new company formed by Christopher Hopkins is an important transaction for OQI and it follows several months of effort to determine the best use of OQI's financial and management resources.

The Pasquia Hills oil shale properties consist of several permits comprising 489,730 acres in south east Saskatchewan. These exploration permits were acquired in 2006 and 2007 with five year terms. In 2008 and 2009, we conducted small exploration programs by drilling 23 exploration holes. All of these holes encountered oil shale deposits at various depths.

The management and Board of Directors of OQI have recognized for some time 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 was in the process of exploring and developing its significant portfolio of oil sands assets. In July of 2009, we announced that we would explore various options to spin off our oil shale assets.

The Board appointed a special committee of Directors to oversee this process and make a recommendation to the Board. This committee, as part of its mandate, engaged TD Securities to provide financial advice to the OQI Board.

In evaluating the potential options for the oil shale properties, our financial advisors determined that there were no similar asset sales to use as a benchmark in valuing this asset. The valuation of these properties was also difficult because of the lack of a proven process to extract the hydrocarbons in the oil shale and the significant financial resources required to explore and develop these lands. Given the limited interest for oil shale properties, the OQI Board did not expect to receive a significant response from an auction. As well, the Board sought to retain a significant continuing position in the asset for OQI.

In exploring other options, the special committee found that a share or dividend distribution of the Pasquia Hills properties to current shareholders or new investors would be cost prohibitive, and could create a potential tax burden to shareholders.

The Board also investigated the option of selling the properties to someone experienced with early stage exploration companies. This concept appealed to Christopher Hopkins as he had previously founded and built a number of early stage exploration companies, including OQI. Mr. Hopkins will be joined by Scott Thompson and Tom Milne, former directors of OQI, both of whom have considerable experience in the development of large, non-conventional

hydrocarbon resources. Mr. Hopkins engaged the services of Genuity Capital Markets as a financial advisor to Canshale Corp., the corporation established by Mr. Hopkins to negotiate the acquisition of the Pasquia Hills properties.

Under the negotiated terms of the transaction, OQI will sell the oil shale properties to Canshale for consideration of CDN \$1 million (US \$0.9 million) in cash and 8,000,000 shares of Canshale. The transaction is conditional on Canshale raising a minimum of CDN \$12.5 million (US \$11.7 million) through an equity financing. Following the initial Canshale financing, OQI will retain an ownership interest of between 10 and 16 per cent in Canshale.

This transaction focuses OQI's financial and management resources on developing the significant oil sands project at Axe Lake and continuing with exploration activities on its remaining lands. The transaction will add cash to the treasury, reduce the work commitments and permit rental costs on undeveloped oil shale lands, as well as reduce salary and general administration costs on an ongoing basis. OQI retains ownership of 8,000,000 shares of Canshale, giving OQI shareholders exposure to the potential upside of this venture. Additionally, this transaction leverages Mr. Hopkins' expertise in building an early stage exploration company in Saskatchewan.

For the reasons above, the Board of Directors of OQI concluded that the sale of the Pasquia Hills properties is in the best interests of OQI. Oilsands Quest can now focus all of its financial resources and management time on the continuing exploration and development of its oil sands assets.

### **Environmental and Regulatory**

We expanded our baseline environmental programs in the Axe Lake, Raven Ridge and Wallace Creek areas in anticipation of comprehensive Environmental Impact Assessment reports required as part of the application for regulatory approval for development process in Alberta and Saskatchewan. We continue to operate our continuous air quality monitoring station at Axe Lake.

### **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 and development activities on our permit and license lands.

We recently drilled 16 core holes in Axe Lake to improve the understanding of the overburden characteristics and to test the potential for the overburden to act as a cap rock to contain steam within the reservoir.

The cores, currently being analyzed by an independent reservoir research laboratory, show that the overburden on top of the reservoir contains layers of clay-rich till. This is a dense, low permeability cap rock which demonstrates steam containment characteristics in laboratory testing and reservoir computer simulations. The core samples are also being correlated with the Axe

Lake 3-D seismic data to determine the extent and continuity of this cap across the various reservoirs.

The preliminary results of the testing indicate that the Company may be able to produce bitumen using either a typical SAGD configuration or the bottom up recovery process that we have been testing. We now believe that the majority of the Axe Lake reservoirs could be developed using proven SAGD bitumen recovery processes, while the remaining resources would likely be more efficiently produced by way of the bottom up recovery configuration.

Based on the encouraging results from the cap rock testing, we are developing plans to accelerate work on a new SAGD pair of wells at Test Site 1 using low pressure steam injection. As SAGD technology matures in the oil sands industry, lower pressure SAGD approaches are proving to deliver technical, economic and environmental benefits, as less energy is required to mobilize the bitumen. The Axe Lake reservoir, with its high porosity, permeability and homogeneity, is well suited to lower pressure thermal recovery.

We plan to apply for regulatory approval to support further testing and commercial development plans at Axe Lake, which could include the filing of an application with the Saskatchewan Ministry of Environment, and to initiate front-end engineering design (FEED) for a 30,000 barrel-per-day commercial project adjacent to Test Site 1. Under the Saskatchewan regulatory process, companies file environmental applications for projects separately from energy and resources applications, enabling environmental impact assessment and public consultation work to get underway while the engineering is proceeding.

The following is an overview of key activities planned in the next twelve months:

- We will continue our overburden characterization studies and continue to evaluate well data, perform petrophysical analyses, and perform advanced laboratory studies. The core samples will be correlated with the Axe Lake and Raven Ridge 3-D seismic data to determine the extent and continuity of this material across the various reservoirs on both sides of the Saskatchewan/Alberta border.
- We will evaluate the feasibility of a traditional SAGD well pair at Test Site 1 at Axe Lake.
- We expect to submit an application for a commercial development at Axe Lake in the spring of 2010. The project application will be 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 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 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.

- We will seek an additional one year extension on our oil sands permits in Saskatchewan.
- Efforts are also continuing on converting a portion of our Saskatchewan permits to lease pursuant to the Oil Shale Regulations, 1964, as amended.

### **Liquidity and Capital Resources**

At January 31, 2010, the Company held cash and cash equivalents and short term investments totaling \$33.0 million (April 30, 2009 - \$32.2 million).

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.

On December 23, 2009, the Company issued 9,714,300 shares of common stock at a price of \$1.05 per share for gross proceeds of \$10.2 million pursuant to a non-brokered private placement.

During the nine months ended January 31, 2010, the Company expended \$37.3 million on operations and \$1.6 million on property and equipment.

We believe that we have sufficient funds to maintain our interest in the existing properties and maintain other core 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 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 core activities through to January 31, 2011. 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 January 31, 2010 as compared to three months ended January 31, 2009. The Company experienced a net loss of \$23.7 million or \$0.08 per share for the three months ended

January 31, 2010 as compared to a net loss of \$20.6 million or \$0.08 per share for the three months ended January 31, 2009. The increase in the net loss compared to the same quarter last year is primarily due to a \$5.6 million allowance for impairment on the oil shale assets (\$4.1 million net of tax) resulting from an assessment of their net realizable value following the announcement of the sale of the Pasquia Hills assets on January 19, 2010. In addition, \$1.7 million of compensatory arrangements were paid to certain officers following their departure during the quarter ended January 31, 2010. These amounts were partially offset by a \$2.8 million reduction in the stock based compensation expense resulting from an increased number of forfeited options during the quarter ended January 31, 2010.

Nine months ended January 31, 2010 as compared to nine months ended January 31, 2009. The Company experienced a net loss of \$41.7 million or \$0.14 per share for the nine months ended January 31, 2010 as compared to a net loss of \$77.6 million or \$0.30 per share for the nine months ended January 31, 2009. The decline in the net loss as compared to the same period last year is due to the reduction in exploration activity, a reduction in stock-based compensation expense and a foreign exchange gain resulting from holding Canadian funds with an appreciation of the Canadian dollar versus the U.S. dollar.

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 joint ventures to fund its activities in the future.

#### Net loss from continuing operations

Three months ended January 31, 2010 as compared to three months ended January 31, 2009. The Company experienced a net loss from continuing operations of \$19.4 million or \$0.06 per share for the three months ended January 31, 2010 as compared to a net loss of \$20.5 million or \$0.08 per share for the three months ended January 31, 2009. The decrease in the net loss from continuing operations compared to the same period last year is primarily due to a \$2.8 million reduction in the stock based compensation expense resulting from an increased number of forfeited options during the quarter ended January 31, 2010 and partially offset by \$1.7 million of compensatory arrangements paid to certain officers following their departure during the quarter ended January 31, 2010.

Nine months ended January 31, 2010 as compared to nine months ended January 31, 2009. The Company experienced a net loss from continuing operations of \$36.9 million or \$0.12 per share for the nine months ended January 31, 2010 as compared to a net loss from continuing operations of \$76.9 million or \$0.30 per share for the nine months ended January 31, 2009. The decline in the net loss from continuing operations as compared to the same period last year is due to the reduction in exploration activity, a reduction in stock-based compensation expense and a foreign exchange gain resulting from holding Canadian funds with an appreciation of the Canadian dollar versus the U.S. dollar.

#### Net loss from discontinued operations

Three and nine months ended January 31, 2010 as compared to three and nine months ended January 31, 2009. The Company experienced a net loss from discontinued operations of \$4.4

million or \$0.02 per share for the three months ended January 31, 2010 as compared to a net loss of \$0.1 million or \$nil per share for the three months ended January 31, 2009. The Company experienced a net loss from discontinued operations of \$4.9 million or \$0.02 per share for the nine months ended January 31, 2010 as compared to a net loss of \$0.7 million or \$nil per share for the nine months ended January 31, 2009. The activities related to the oil shale program have been reported as discontinued operations in the consolidated statement of income following the announcement of the sale of the Pasquia Hills assets. The net loss of \$4.4 million and \$4.9 million for the three and nine months ended January 31, 2010 includes the exploration costs incurred in relation to the oil shale activities for the period and an allowance for impairment of \$5.6 million (\$4.1 million after tax) expected from the disposal of the assets.

#### Exploration costs

Three and nine months January 31, 2010 as compared to three and nine months ended January 31, 2009. Exploration costs for the three months ended January 31, 2010 were \$13.6 million (2009 - \$14.4 million). Exploration costs for the nine months ended January 31, 2010 were \$25.3 million (2009 - \$61.4 million). The Operations Summary above provides a summary of the exploration activities conducted in the three and nine months ended January 31, 2010. Exploration expenditures in the three and nine months ended January 31, 2009 related mainly to drilling, seismic, engineering, environmental and construction costs associated with Test Sites 1 & 3.

#### General and administrative

#### Corporate

Three and nine months ended January 31, 2010 as compared to three and nine months ended January 31, 2009. General and administrative expenses settled with cash for the three months ended January 31, 2010 were \$5.7 million (2009 - \$3.1 million). General and administrative expenses settled with cash for the nine months ended January 31, 2010 were \$12.8 million (2009 - \$9.4 million). Expenditures in the three month period ended January 31, 2010 consist of salaries (\$3.8 million), legal and other professional fees (\$0.5 million) and general office costs (\$1.4 million). General and administrative expenses in the nine months ended January 31, 2010 consist of salaries (\$7.3 million), legal and other professional fees (\$1.9 million) and general office costs (\$3.6 million). General and administrative expenses settled with cash in the three months ended January 31, 2009 consisted of salaries (\$1.4 million), legal and other professional fees (\$0.7 million) and general office costs (\$1.0 million). General and administrative expenses in the nine months ended January 31, 2009 consisted of salaries (\$3.7 million), legal and other professional fees (\$2.5 million) and general office costs (\$3.2 million).

At January 31, 2010 there were 62 employees, including 17 seasonal field employees. At January 31, 2009, there were 76 employees, including 26 seasonal field employees. The increase in salaries and wages during the nine months ended January 31, 2010 occurred as result of severances paid during the quarters ended July 31, 2009 and January 31, 2010.

#### Stock-based compensation

Three and nine months ended January 31, 2010 as compared to three and nine months ended January 31, 2009. Stock-based compensation for the three months ended January 31, 2010 was \$1.9 million (2009 – \$4.7 million) and \$4.7 million for the nine months ended January 31, 2010 (2009 - \$16.5 million). Stock-based compensation expense for the three and nine months ended January 31, 2010 and 2009 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 were estimated using either the Black-Scholes valuation model or the trinomial option-pricing model, both of which require the input of highly subjective assumptions, including the expected life of the options and the expected stock price volatility determined using the historical volatility of the price of shares of the Company's common stock. The decrease during the three and nine months ended January 31, 2010 compared to the same periods in the prior year is the result of 5.4 million options forfeited due to a reduction in the number of employees that was greater than the anticipated forfeiture rate.

#### Foreign exchange (gain) loss

Three and nine months ended January 31, 2010 as compared to three and nine months ended January 31, 2009. A foreign exchange gain of \$0.8 million (2009 —loss of \$0.2 million) during the three months ended January 31, 2010 resulted from holding Canadian funds in the parent company when the value of the Canadian dollar increased compared to the U.S. dollar. For the nine months ended January 31, 2010, a foreign exchange gain of \$3.9 million (2009 – loss of \$5.6 million) resulted from holding Canadian funds in the parent company when the value of the Canadian dollar increased compared to the U.S. dollar.

#### Depreciation and accretion

Three and nine months ended January 31, 2010 as compared to three and nine months ended January 31, 2009. Depreciation and accretion expense for the three months ended January 31, 2010 was \$0.8 million (2009 - \$0.4 million) and \$1.8 million for the nine months ended January 31, 2009 (2009 - \$1.2 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 10 of 30 years. The change from the three and nine-month periods ended January 31, 2010 to the three and nine-month periods ended January 31, 2009 relates to the increase in assets held during the period. Additions to the property and equipment for the nine months ended January 31, 2010 totaled \$1.6 million.

#### Interest and other income

Three and nine months ended January 31, 2010 as compared to three and nine months ended January 31, 2009. Interest income for the three months ended January 31, 2010 was \$0.05 million (2009 - \$0.3 million). Interest income for the nine months ended January 31, 2010 was \$0.1 million (2009 - \$1.1 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 period as compared to the same period 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 and nine months ended January 31, 2010 as compared to three and nine months ended January 31, 2009. The deferred income tax benefit for the three months ended January 31, 2010 was \$1.8 million (2009 - \$2.0 million). The deferred income tax benefit for the nine months ended January 31, 2010 was \$3.8 million (2009 - \$16.0 million). The slight decrease in the deferred tax benefit during the three months ended January 31, 2010 compared to the same period last year is due to a reduction in exploration activity. The decrease in the deferred tax benefit for the nine month period ended January 31, 2010 compared to the same period last year is mainly due to a reduction in exploration costs incurred.

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.

## Disclosure Controls and Procedures and Internal Control over Financial Reporting

As of January 31, 2010, 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 January 31, 2010, 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 January 31, 2010 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 and for the first quarter in fiscal 2010.

We plan to remediate the material weakness described above by consulting with an independent big four accounting firm on complex accounting issues and by obtaining 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.

### **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. 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, restitution, and reasonable costs and expenses including counsel fees and experts' fees. A response to the Complaint is currently due on March 16, 2010. The Company believes the claims are wholly without merit and intends to file a motion to dismiss the Complaint.

### **About Oilsands Quest**

Oilsands Quest Inc. ([www.oilsandsquest.com](http://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**

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 eventual outcome of the on-going physical laboratory testing and reservoir computer simulations and correlation of the core samples with the Axe Lake 3-D seismic data;
- 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. 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:**

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