

NEWS RELEASE

DATE: May 17, 2010

Oilsands Quest files for environmental approval of Axe Lake SAGD project

Calgary, Alberta -- (May 17, 2010) – Oilsands Quest Inc. (NYSE AMEX:BQI) (“OQI” or “the Company”) has filed key regulatory submissions to advance the development of its Axe Lake oil sands project in northwestern Saskatchewan. The first is 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). The second submission is for approval of a SAGD test to confirm the containment characteristics of the glacial till overlying the Axe Lake reservoir and to determine the operating parameters of a commercial project.

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 the Saskatchewan Ministry of Energy and Resources (SMER). OQI plans to submit the commercial application following the successful completion of the SAGD test. In preparing the commercial application, OQI will continue to develop detailed engineering plans, cost estimates and financing plans for the project based on the ongoing production testing activities at Axe Lake.

“Filing for the environmental approval of our proposed commercial project at Axe Lake is an exciting milestone not only for Oilsands Quest, but also for the province of Saskatchewan,” said Susan MacKenzie, Chief Operating Officer of OQI. “We are now taking concrete steps toward building Saskatchewan’s first commercial SAGD oil sands project at Axe Lake.”

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.

The Company has also filed for approval of a SAGD test at Test Site 1 at the Company's Axe Lake discovery in Saskatchewan. The test plan will use one 100 metre long horizontal well pair, with the upper well placed five metres below the top of the interface between the overburden and the oil sands, and will also make use of the existing surface facilities. The results of this test will demonstrate the steam containment properties of the glacial till overburden and provide information essential for the front-end engineering design for the commercial development.

Coincidental with these submissions, OQI has filed for the second one-year extension of its Saskatchewan oil sands permits. OQI has also notified the SMER that it plans to relinquish two of its northernmost land permits (permits 213 and 215) as it focuses its development opportunities to include only those lands that recent exploration activity has demonstrated to be

prospective. OQI's exploration activities on these permits include over 42 miles (68 kilometres) of 2-D seismic and 14 core holes. Relinquishing these permits will not impact the Company's resource estimates or development plans. The company's oil sands permits and licenses (100 per cent owned) now total 651,565 acres. A map showing the revised permit area is posted on the company's web site (www.oilsandsquest.com) with this news release.

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

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 process to apply for approval of a commercial oil sands development permit;
- the outcome of the filing for approval of a SAGD test at Test Site 1.

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.

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