

**NEWS RELEASE**

DATE: August 17, 2010

**Oilsands Quest announces review of strategic alternatives**

Calgary, Alberta -- (August 17, 2010) – Oilsands Quest Inc. (NYSE AMEX:BQI) (“OQI” or the “Company”) today announced that its Board of Directors has initiated a process to explore strategic alternatives for enhancing shareholder value. The Board’s decision reflects careful consideration of OQI’s current financial position and the capital required to execute the business plan, as well as recent expressions of interest received from third parties. In light of the significant incremental capital required to advance OQI’s oil sands assets in Saskatchewan and Alberta toward commercial development, the Board determined that it is in the best interests of shareholders to hire financial advisors and formally explore all alternatives.

The process of exploring and evaluating strategic alternatives will be overseen by a Special Committee chaired by Brian MacNeill, and including Ronald Blakely and Paul Ching, all of whom are independent directors. 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. The Company has retained TD Securities Inc. as financial advisor to assist it with this process.

“The time has come to seek a strategic partner, and we believe the best way to do that in the current market environment is to initiate a formal process to explore strategic alternatives,” said T. Murray Wilson, Chairman, President and Chief Executive Officer of Oilsands Quest. “We had originally planned to proceed on a standalone basis until we had completed our SAGD pilot project, but in light of the substantial capital we require to proceed both at Axe Lake and at Wallace Creek, we have determined that this is the prudent course of action. We are experiencing the growing pains that are common to smaller oil sands companies with significant opportunities. We are confident that upon closer examination of our assets, potential partners will recognize the significant underlying value currently not reflected in our share price and appreciate as we do the tremendous potential for oil sands development in northwest Saskatchewan and northeast Alberta.”

OQI has undertaken a substantial program of work on its two leading *in situ* oil sands prospects over the last several months. At Axe Lake, a successful overburden testing initiative demonstrated that the glacial till cap overlying the reservoir is capable of containing steam. As a result, OQI planned a steam-assisted gravity drainage (SAGD) pilot project as the first step toward developing a 30,000 barrel-per-day commercial oil sands project at the site. At Wallace Creek, OQI conducted a successful drilling program in late 2009 and early 2010, discovering a high-quality oil sands reservoir. The Company will need to continue to delineate this resource to determine its ultimate size and confirm its commercial development viability. In recent weeks, OQI also began the work required at Axe Lake to re-abandon a number of its early exploration core holes.

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, OQI has decided to put its SAGD pilot and Wallace Creek drilling plans on hold to preserve capital while pursuing strategic alternatives and seeking additional financing.

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.

### **Investor conference call**

Oilsands Quest will hold a conference call to discuss this announcement on Wednesday August 18, at 6:30 a.m. MDT (8:30 a.m. EDT). To dial into the conference call, investors can call (647) 427-7450 or toll free at 1-888-231-8191. The conference call will also be accessible through webcast at:

<http://w.on24.com/r.htm?e=235250&s=1&k=3159D637E4BA1F22C9CD95E2FD8A6A5E>.

### **About Oilsands Quest**

Oilsands Quest Inc. ([www.oilsandsquest.com](http://www.oilsandsquest.com)) is exploring oil sands permits and licenses, located in Saskatchewan and Alberta, and is developing Saskatchewan's first 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. 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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