

NEWS RELEASE

DATE: July 6, 2011

Oilsands Quest Provides Update on Strategic Alternatives Review Process and Plans Rights Offering to Advance SAGD Projects Toward Commercial Development

Calgary, Alberta – Oilsands Quest Inc. (NYSE Amex: BQI) (“Oilsands Quest,” “OQI” or “the Company”) has assessed the results of the formal strategic alternatives process launched on August 17, 2010, which explored options to enhance shareholder value. After opening a data room and holding discussions with several entities in recent months, Oilsands Quest has achieved a clear understanding of asset development that potential partners or purchasers are seeking. In order to advance its assets to the next level of certainty toward commercial development, Oilsands Quest intends to pursue funding through a rights offering, under which all existing shareholders will be eligible to purchase, on an equal, proportional basis, additional shares of the Company.

“We have always planned to partner with a larger entity at some point, because building a commercial oil sands project is beyond the financial or operational capability of a company our size,” said Oilsands Quest Chief Executive Officer Garth Wong. “We have heard from potential partners and purchasers that they would like to see us advance and confirm our understanding of our reservoirs in three principal areas prior to entering into a transaction. Specifically, at Axe Lake we need to operate our planned pilot project and further delineate the glacial till cap. At Wallace Creek, we believe we would enhance value by further delineating the bitumen resource. While we will continue to pursue opportunities to partner or sell assets, we have concluded that we must drive ahead to raise the funds to complete these activities.”

The proceeds from the rights offering will be used to advance the Company’s development plan. The key operational priorities are to:

- operate the planned pilot project at Axe Lake in order to demonstrate that the Axe Lake reservoir can be produced using proven steam-assisted gravity drainage (SAGD) technology;
- conduct additional overburden testing in order to further refine the aerial extent of the glacial till that overlies the reservoir and demonstrate its extent and integrity as a cap for SAGD production; and
- advance the Wallace Creek project through additional delineation programs.

The Company expects to provide further details regarding the planned rights offering in the near-term.

Under the formal strategic alternatives process, a Special Committee of the Board of Directors considered all alternatives to increase shareholder value, including strategic financing opportunities, asset divestitures, joint ventures and/or a corporate sale, merger or other business combination. TD Securities Inc. (“TD Securities”) acted as our financial advisor for the process. As part of this process, TD Securities and the Company contacted a large number of national and international energy companies and institutional investors. While a number of parties signed confidentiality agreements, were granted access to the Company’s data room and carried out detailed due diligence, the process did not result in any compelling proposals to Oilsands Quest.

Feedback from parties in the process has illustrated that potential future partners or acquirers require a further level of development, reducing the remaining areas of uncertainty, in order to be prepared to make a substantial investment. The Company is therefore seeking funding to advance its assets toward commercial development, while remaining open to offers of joint venture opportunities, asset sales or other alternatives.

“In proceeding to the Rights Offering, we want to remind investors of the opportunity we have available with this company,” said Mr. Wong. “Our three 100 per cent-owned oil sands project opportunities together have ultimate production potential of 100,000 barrels of bitumen per day. We were pioneers at Oilsands Quest in exploring the eastern edge of the oil sands basin, and today the activity in the basin is moving toward us as exploration activity increases on lands close or adjacent to ours by companies such as Imperial Oil Limited, Cenovus Energy Inc., SilverBirch Energy Corporation and Grizzly Oil Sands Inc. With interest and development growing in our area of the basin, we remain confident that once we prove the viability of the Axe Lake reservoir through pilot and overburden testing, and further delineate Wallace Creek, we will achieve the value recognition that our long-term investors have been seeking.”

Webcast

Oilsands Quest has scheduled a webcast to discuss with stakeholders the rights offering and the future plans for the Company. The webcast will take place at 9:00 a.m. EDT (7:00 a.m. MDT) on Wednesday, July 6, 2011.

To participate in the webcast, investors should visit the following link:

<http://w.on24.com/r.htm?e=332509&s=1&k=977E28B2DD9C39F189E4D534284B7174>

A statement from Garth Wong, President & CEO, will be followed by an electronic question and answer period. A recording of the webcast will be available on the company's website, at www.oilsandsquest.com.

TD Newcrest Unconventional Energy Conference

Oilsands Quest will be presenting at the 2011 Unconventional Energy Conference on Wednesday, July 6, 2011 in Calgary, Alberta. The presentation will be available for viewing at www.oilsandsquest.com.

Cautionary statement about forward-looking statements

This news release includes certain statements that may be deemed to be “forward-looking statements.” 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 and development activities;
- potential reservoir recovery optimization processes; and
- business strategies and development of our business plan and drilling programs.

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 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, land tenure 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 undertakes no obligation to update forward-looking information 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.

About Oilsands Quest

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

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