

NEWS RELEASE

DATE: September 27, 2011

Oilsands Quest to sell Wallace Creek assets

CALGARY, ALBERTA – Oilsands Quest Inc. (NYSE Amex: BQI) (“Oilsands Quest,” “OQI” or “the Company”) has entered into a non-binding Letter of Intent with a third party to sell its Wallace Creek assets for total consideration of \$60 million, which includes \$40 million cash at closing and a \$20 million contingent payment that is subject to certain future events. The sale of the Wallace Creek property would provide the Company with the financial resources to focus on moving its largest and most advanced asset, Axe Lake, toward commercial development.

“This prospective transaction is good news for Oilsands Quest shareholders. It will provide us much of the capital we need to complete the Axe Lake pilot and prove the commercial recoverability of our highest priority core asset,” said Oilsands Quest Chief Executive Officer Garth Wong. “While Wallace Creek has shown considerable potential, it is not yet as well delineated as Axe Lake and is therefore considerably further away from commercial development.”

Oilsands Quest has held Wallace Creek in its portfolio since January 2008, when the Company purchased the 45,545-acre permit. The area is prospective for Steam Assisted Gravity Drainage (SAGD) oil sands recovery, subject to further seismic and drilling investment to delineate the bitumen reservoir more fully. The exploration program conducted over the past three years has added substantially to the geological understanding and potential of the Wallace Creek reservoir, as reflected in the transaction price.

Completion of the transaction is subject to a number of terms and conditions, including negotiation of a definitive agreement, board approvals, due diligence, financing and approval by OQI shareholders. Oilsands Quest anticipates that a definitive sale agreement will be concluded by the end of October 2011, and that the transaction will close by the end of December 2011. A further announcement will be made upon the execution of a definitive sale agreement.

Evaluating financial alternatives

The proceeds from the sale of the Wallace Creek asset, if concluded, will reduce the amount of capital that Oilsands Quest requires to advance its development priorities. To raise the remaining required capital and to strengthen near-term liquidity, the Company is evaluating financing alternatives including a private placement of equity or a new, smaller rights offering. OQI will also continue to explore strategic partnerships or further asset sales.

Speaking about the recently cancelled \$60 million rights offering, Mr. Wong said, “Our decision to cancel the rights offering considered that the negotiation of a material transaction had reached an advanced stage – a transaction that would significantly change our use of proceeds described in the rights offering prospectus. As well, it had become apparent that we would not achieve a full \$60 million subscription through the rights offering, perhaps at least partially due to the weak markets of recent weeks. We are striving to return the company to a solid financial footing so that we can move ahead on unlocking the value of the barrels of bitumen we have in the ground. We appreciate the patience of our shareholders through this challenging period.”

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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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 Company’s ability to sell the Wallace Creek assets pursuant to the Letter of Intent and the terms of such sale;
- the Company’s ability to maintain sufficient cash to accomplish its business objectives and plans to raise additional capital;
- the amount and nature of development and exploration expenditures;
- the timing of exploration and development activities; 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 the ability to raise additional capital, risks associated with the Company’s ability to implement its business plan, 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 and those factors listed under the caption “Risk Factors” in the Company’s Form 10-Q filed with the Securities and Exchange Commission on September 14, 2011. 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.