



**U.S.** OIL SANDS

**US Oil Sands Inc.**

**Management's Discussion and Analysis**

**For the Three and Nine Months ended September 30, 2011**

(Expressed in Canadian Dollars)

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011**

This Management's Discussion and Analysis ("MD&A") for US Oil Sands Inc. ("US Oil Sands" or the "Company") is dated November 29, 2011 and should be read in conjunction with the Company's unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2011 ("Q3 2011").

Unless otherwise noted, the amounts are expressed in Canadian dollars.

Additional information concerning US Oil Sands, including its Filing Statement dated April 7, 2011, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

The September 30, 2011 condensed consolidated financial statements, including comparative figures, were prepared using the accounting policies under International Financial Reporting Standards ("IFRS"). Previous annual financial statements were prepared using Canadian generally accepted accounting principles (referred to as "previous GAAP" in this MD&A). The accounting policies applied in these condensed consolidated financial statements are based on IFRS issued as of September 30, 2011. Any subsequent changes to IFRS that are given effect in the Company's annual financial statements for the year ending December 31, 2011 could result in a restatement of these interim condensed financial statements, including the adjustments made on transition to IFRS. Please refer to the section entitled "Transition to IFRS" in this MD&A for further information regarding the Company's transition to IFRS and Note 17 of the Unaudited Condensed Consolidated Financial Statements for the Three and Nine Months ended September 30, 2011 for adjustments made to bring the financial statements into conformity with IFRS.

### **FORWARD-LOOKING INFORMATION ADVISORY**

*This MD&A contains forward-looking information and forward-looking statements within the meaning of applicable Canadian securities laws (collectively, "forward-looking information"). This forward-looking information is subject to certain risks and uncertainties that could cause actual results to differ materially from those included in such forward-looking information. The words "believe", "expect", "indicate", "intend", "estimate", "anticipate", "project", "scheduled" and similar expressions, as well as future or conditional verbs such as "will", "should", "would" "may" and "could" often identify forward-looking information. This information is only a prediction. Actual events or results may differ materially from the events and results expressed in the forward-looking statements and forward-looking information. In addition, this MD&A may contain forward-looking information attributed to third-party industry sources.*

*Undue reliance should not be placed on forward-looking information, as there can be no assurance that the plans, intentions or expectations upon which it is based will occur. By its nature, forward-looking information involves numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward looking information will not occur.*

*Specific forward-looking information contained in this MD&A includes, among others, statements regarding: activities, events or developments that US Oil Sands expects or anticipates will or may occur in the future, including assessments of future plans and operations; financial information; business plans and plans for the exploration, delineation and development of the Company's assets; the work programs for the PR Spring and Cedar Camp lands; the expected costs and expenditures associated with exploration, delineation and development of the Company's assets; industry information regarding bitumen estimates for Utah and the PR Spring Special Tar Sands Area; timing and sources of financing; further capital requirements; estimated taxes; the timing of commencement of operations and the level of production anticipated; the operation of facilities; production methods; estimated general financial performance in future periods; the timing of initiation of a detailed mine plan and finalization of process extraction engineering; the timing of resolution of objections to regulatory permits; resource estimate relating to the PR Spring Project; expectations regarding the development and production potential of the Company's properties including through the use of evolving extraction technologies; the timing of receipt of required approvals and permits from regulatory authorities; assets, liabilities, financial resources,*

*financial position and growth prospects; cash projections and the components thereof; and expectations respecting US Oil Sands' transition to International Financial Reporting Standards ("IFRS") and the impact of the transition to IFRS on US Oil Sands and its financial statements.*

*Statements relating to 'resources' are forward-looking statements, as they involve the implied assessment, based on estimates and assumptions, that the resources described exist in the quantities predicted or estimated, and can be profitably produced in the future.*

*With respect to forward-looking information contained in this MD&A, the Company has made assumptions regarding, among other things: the expected costs to explore, delineate and develop US Oil Sands' assets and the expected costs to construct the PR Spring Projects; future crude oil, bitumen, natural gas and synthetic crude oil prices; US Oil Sands' ability to obtain qualified staff and equipment in a timely and cost-efficient manner to meet its demands; the regulatory framework with respect to royalties, taxes, environmental matters, resource recovery and securities matters in the jurisdiction in which US Oil Sands will conduct its business; US Oil Sands' ability to market production of bitumen successfully to customers; the timing and progress of work relating to assets; continuity of resource between core holes; future production levels; future capital expenditures; future sources of funding for the Company's capital program; future debt levels; future business plans; geological and engineering estimates; the geography of the areas in which US Oil Sands will be exploring; the impact of increasing competition; US Oil Sands' ability to obtain financing on acceptable terms; the risk around change to scope; and the sufficiency of budgeted capital expenditures in carrying out planned activities.*

*Forward-looking information is subject to known and unknown risks and uncertainties and other factors which may cause actual results, levels of activity and achievements to differ materially from those expressed or implied in such forward-looking information. Such risks, uncertainties and factors include, among others: the early stage of development of US Oil Sands' assets and the nature of the exploration and development activities on such assets; risks associated with contingent and discovered bitumen resources and mine pit estimates; difficulties attracting qualified personnel; the risk of termination or expiration of leases; difficulties encountered during the exploration for, delineation, development and production of bitumen; costs associated with exploration for, delineation, development and production and upgrading bitumen; the impact of competition; the need to obtain required approvals and permits from regulatory authorities; liabilities as a result of accidental damage to the environment; compliance with and liabilities under environmental laws and regulations; the volatility of crude oil and natural gas prices and of the differential between heavy and light crude oil prices; the risks associated with exploring for, developing and producing bitumen; changes in the foreign exchange rate amount between the Canadian dollar, the U.S. dollar and the euro; liquidity and capital market constraints on US Oil Sands; difficulties encountered in delivering bitumen to commercial markets; the risk that US Oil Sands is unable to sufficiently protect its proprietary technology or may be subject to technology infringement claims from third parties; general economic conditions in Canada, the United States, and global markets; failure to obtain industry partners and other third-party consents and approvals when required; royalties payable in respect of US Oil Sands' production; the impact of amendments to the Income Tax Act (Canada) on US Oil Sands; risks of third parties claiming or exercising pre-emptive rights; changes in or the introduction of new government regulations, and in particular related to carbon dioxide relating to US Oil Sands' business; uncertainty surrounding the ability to attract capital for both debt and equity when necessary; and circumstances may arise, including changes in IFRS, regulations or economic conditions, which could change the assumptions, estimates or expectations of the information provided in respect of US Oil Sands' transition to IFRS.*

*Management has included the above summary in order to provide readers with a more complete perspective. Actual results, performance or achievements could differ materially from those expressed in, or implied by, the forward-looking information and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do so, the benefits that US Oil Sands will derive there from. All of the forward-looking information contained in this MD&A is qualified by these cautionary statements. US Oil Sands undertakes no obligation to publicly update or revise any forward-looking information to reflect new information, subsequent events or otherwise, unless so required by applicable securities laws.*

## INTRODUCTION AND OVERVIEW

US Oil Sands is a pre-production oil sands company with a large land position totalling 32,005 acres of bitumen extraction rights on leases in the State of Utah. It is expected that a significant amount of the resource on the Company's property will be accessible using surface mining methods and the Company's proprietary oil sand extraction process.

The Company has two major oil sands project areas. The Company's primary development area is the PR Spring Project Area which consists of 5,930 contiguous acres and which has been in testing and development since 2005. Within a portion of this lease the Company has an approved surface mine development project which is expected to complete construction and commence production in 2013.

In June 2011 the Company successfully closed the acquisition of an additional 23,850 acres of undeveloped leases located approximately 6 miles to the west of the PR Spring Project area. A further 320 acres was recently added to this acquisition. These acquisitions together with the prior lease holdings of 1,905 acres, brings exploration acreage to 26,075 acres. This new project area, referred to as Cedar Camp and NW Project Area, also taps into the PR Spring Special Tar Sands Area as defined by the U.S. Geological Survey. The Cedar Camp and NW Project Area is in the early stages of exploration assessment and given its large size and proximity to known resources has significant exploration and future development potential. US Oil Sands owns a 100% working interest in all its land holdings.

The Company's proprietary extraction process is a unique highly efficient and low cost process which allows the recovery of bitumen without the need for tailings ponds. The process employs a very effective bio-solvent that is both renewable and biodegradable. The process results in extraction efficiency in excess of 96%, achieves immediate recycle of 95% of process water and is expected to achieve best-in-class environmental performance on the basis of greenhouse gas emissions, energy efficiency, surface footprint and reclamation.

On April 18, 2011 pursuant to the terms of the Amalgamation Agreement dated March 14, 2011, US Oil Sands Inc. (formerly International LMM Ventures Corp.) acquired all of the issued and outstanding common shares of Earth Energy Resources Inc. ("Earth Energy"), by the issuance of 105,231,324 common shares of US Oil Sands Inc., such that Earth Energy became a wholly-owned subsidiary of US Oil Sands Inc. (the "Acquisition"). On May 9, 2011, Earth Energy and US Oil Sands Inc. amalgamated and continue to operate as US Oil Sands.

The Acquisition effectively resulted in Earth Energy taking control of the consolidated entity with Earth Energy identified as the acquirer. However, as International LMM Ventures Corp. did not meet the definition of a business, the Acquisition did not constitute a business combination under IFRS 3R "Business Combinations". It is rather considered a capital restructuring or a reverse asset acquisition. The comparative figures presented as selected interim information are those of Earth Energy.

In conjunction with the Acquisition, US Oil Sands Inc. completed a private placement and issued 42,000,000 units at a price of \$0.30 per unit for gross proceeds of \$12,600,000 ("Private Placement"). Each unit consists of one common share and one-half of one common share purchase warrant exercisable at a price of \$0.40 per share expiring April 18, 2013.

## THIRD QUARTER HIGHLIGHTS

Major activities in the third quarter included completion of the Company's coring program and continuation of final engineering design on the PR Spring Development Project.

In May 2011, the Company commenced a coring program on its oil sands properties in Utah. Cores recovered from this program are currently being assayed and analyzed, and results will be used for final project planning and design of the PR Spring Project, as well as provided to the Company's independent reservoir engineers for use in assessing resources as required for its National Instrument *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101") filing. The planned coring program was completed in September with assaying and resource assessment to be completed in the fourth quarter. Total assets increased by approximately \$1.8 million, compared to the previous quarter, as a result of the

capitalization of all expenditures directly related to the exploration and evaluation of the oil and gas resources.

The Company is working closely with its engineering consultants and equipment suppliers to complete final engineering design on the PR Spring Project. Final equipment design, specifications and drawings are expected to be completed in the first quarter of 2012.

### **Oil Sands Lease Holdings**

US Oil Sands has 100% ownership of 32,005 acres of oil sands leases issued on State land. All the Company's leases are within the PR Spring Special Tar Sands Area and are administered by the State of Utah School and Institutional Trust Lands Administration ("SITLA"). Royalties paid on production from these lands are used to support the public school system in Utah.

The Company's leases are located within the prolific Uinta Basin in Northeast Utah, which aside from extensive oil sands deposits, is also well known for its conventional oil and natural gas production. Consequently, oil field services are abundant and available to support the coring program and subsequent bitumen development and production operations.

| <b>Oil Sands Acreage Under Lease</b> | <b>Acreage</b> |
|--------------------------------------|----------------|
| PR Spring Project Area               | 5,930          |
| Cedar Camp and NW Project Area       | 26,075         |
| <b>Total</b>                         | <b>32,005</b>  |

### **Exploration and Development Activities**

The PR Spring Project Area is the primary area on which the Company has focused its exploration and development activities. The Company completed its planned 163 well core holes on September 23, 2011 on schedule and below budget and decided to drill an additional 17 wells to bring the total program to 180 wells. All of the wells have been now been drilled and rigs released. In addition, all 180 drill pads have been reclaimed. Results from the higher density portion of the drilling program will be used for final design of the Company's PR Spring Development Project. Coring and assay information will also be provided to the Company's independent reserves evaluator for completion of its annual resource assessment required under NI 51-101.

The Cedar Camp and NW Project Area is 26,075 acres, of which 24,170 acres were acquired in the second quarter of 2011. The Company initiated a limited exploratory core hole drilling program on this new land. When drilling and core analysis is complete, the results will be correlated to existing geological information such that the Company will be able to more clearly estimate the potential resource on this land.

### **OVERALL PERFORMANCE AND RESULTS OF OPERATIONS**

There was no operations revenue as the Company is in the pre-production stage. The Company recorded a net loss of \$264,316 for the quarter ("Q3 2011"), down by \$2,056,308 from the previous quarter ("Q2 2011").

Of the expenses reported for the quarter, \$208,686 represents share-based payment recognized for stock options granted on April 18, 2011 and August 23, 2011.

General and administrative expense ("G&A"), which is comprised of salary and related benefits, office expenses, gain or loss from foreign exchange and other expenditures, has decreased quarter over quarter by \$861,053, from \$857,336 in Q2 2011 to (\$3,717) for the current quarter. Salary and related benefits amounting to \$274,849, net of expected SR&ED investment tax credit of \$84,857, were down by

\$425,796 as no bonuses were paid and no employee acquisition fees were incurred during the quarter. Professional fees and financial advisory fees increased by \$83,167 due to the transition to IFRS and public company costs and filing requirements. The largest component of the decrease to G&A was a net gain from foreign exchange of \$539,589. During July 2011, as a hedge against predominately US dollar capital program costs, the Company purchased US\$6,000,000 at a favourable rate of 0.9484. Much of the net gain is attributable to the strengthening of the US dollar against the Canadian dollar during Q3 2011.

Other comprehensive income on currency translation adjustments has increased to \$365,150 from a loss in Q2 2011 of \$111,664 due to the strengthening US dollar against the Canadian dollar during Q3 2011. Such currency translation adjustments represent exchange differences on the net investments in the US subsidiary and the resulting differences upon translation of the US subsidiary, in accordance with IFRS.

Total assets increased by \$1,848,234 from Q2 2011 to \$16,784,077. Exploration and evaluation assets increased by \$3,549,155 from Q2 2011 to \$6,821,362 as the Company continued to capitalize direct costs associated with the coring program. The Company capitalizes all costs directly associated with exploration and evaluation of oil and gas reserves.

## SELECTED QUARTERLY INFORMATION

|                                     | Three months ended |   |                   | Nine months ended |                   |
|-------------------------------------|--------------------|---|-------------------|-------------------|-------------------|
|                                     | September<br>2011  | June 30<br>2011<br>(Revised) <sup>(1)</sup> | September<br>2010 | September<br>2011 | September<br>2010 |
| Total assets                        | 16,784,077         | 14,935,843                                  | 3,660,533         | 16,784,077        | 3,660,533         |
| Cash flow from (used in) operations | 1,364,315          | (1,452,693)                                 | (35,793)          | 37,057            | (861,994)         |
| Net loss for the period             | (264,316)          | (2,326,215)                                 | (394,216)         | (3,089,132)       | (1,626,705)       |
| Loss per share – basic and diluted  | (0.00)             | (0.02)                                      | (0.00)            | (0.02)            | (0.02)            |

(1) The net loss for the three months ended June 30, 2011 has been revised from \$2,320,624 to \$2,326,215, with a net change of \$5,591, due to a reclassification of foreign exchange effects to other comprehensive loss. The revised other comprehensive loss is \$111,664. Management of the Company has decided such change is immaterial and therefore, a restatement of Q2 2011 financial statements is not required.

## LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2011, the Company had cash and cash equivalents of \$7,325,554 and net working capital of \$5,653,508.

The Company intends to use its cash and cash equivalent balance to fulfill its liabilities and commitments and fund its development project. The Company believes it has sufficient capital to complete the current resource and engineering programs. Cash flow may be insufficient to meet operating requirements in the next twelve months and additional sources of funding, either at a parent company level or at a project level, will be required to grow the Company's development project and fully develop its oil sand properties. Historically, the Company has used external sources of funding, such as private placements and public offerings. There is no assurance that the Company will be able to obtain additional financing on favourable terms, if at all, and any future equity issuances may be dilutive to current investors. If the Company cannot secure additional financing, it may have to delay its development project and forfeit or dilute its rights in existing oil sands property interests.

As of the date of this report, the Company has no bank debt or banking credit facilities in place.

## **RELATED PARTY TRANSACTIONS**

In Q3 2011, the Company incurred consulting fees of \$nil (Q2 2011 – \$8,200). The consulting fees were incurred in the normal course of business for the provision of management and consulting services and paid to the Company's officers and directors. All consulting fees for the nine months period ended September 30, 2011 were incurred by the Company prior to the Acquisition. As at September 30, 2011, the Company has no recurring related party transactions as these relationships were in place up to the closing of the Acquisition.

## **COMMITMENTS**

The Company has three forms of future commitments.

The Company leases office and office/development premises in Calgary and Grande Prairie Alberta respectively. The lease on the Calgary office space is a three year term expiring December 31, 2013 with gross quarterly rental fees of \$10,125. The office and technology development facility lease in Grande Prairie terminates on March 31, 2013 and has gross quarterly rental fees of \$33,165.

The Company's resource properties are leased from the State of Utah. With 32,005 acres held under separate leases and each having differing terms, the aggregate minimum quarterly payments are US\$82,114.

Pursuant to a Special Advisory Services Letter Agreement dated July 6, 2011 and as amended September 30, 2011, whereby the Company engaged with an arms-length international advisory-focused boutique investment bank to provide general advice and counsel on equity capital markets, the Company has agreed to issue 2,000,000 warrants. The warrants are to be issued quarterly as services are rendered at a price equal to the greater of Market Price (as defined in TSXV Policy) and \$0.40 in the case of warrants issuable in connection with the quarters September 30, 2011 and December 31, 2011 and \$0.50 in the case of warrants issuable in connection with the quarters March 31, 2012 and June 30, 2012. All of the warrants issued shall be exercisable at any time up until June 30, 2013. Subsequent to September 30, 2011 and in connection with the quarter then ended, the Company issued 500,000 warrants at \$0.40.

## **OUTSTANDING SHARE DATA**

As of the date of this report and after having given effect to the Acquisition of Earth Energy by US Oil Sands Inc. and subsequent amalgamation, there are 249,356,329 common shares outstanding, 24,175,000 options outstanding and 21,000,000 warrants outstanding.

Subsequent to September 30, 2011 and in connection with the quarter then ended, the Company issued 500,000 warrants at an exercisable price of \$0.40 expiring June 30, 2013.

## **TRANSITION TO IFRS**

Effective January 1, 2011, the Company adopted the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The Company's condensed consolidated financial statements for the three and nine months ended September 30, 2011 have been prepared in accordance with IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 34 "Interim Financial Reporting".

IFRS 1 requires the presentation of comparative information as at January 1, 2010 ("transition date") and subsequent comparative periods as well as the consistent and retrospective application of IFRS accounting policies. The impact of adopting IFRS on shareholder's equity, net loss and cash flows is

disclosed in Note 17 of the Unaudited Condensed Consolidated Financial Statements for the Three and Nine Months ended September 30, 2011.

## **CRITICAL ACCOUNTING ESTIMATES**

The Company's financial statements are prepared using the accounting policies under IFRS. A summary of the Company's significant accounting policies is contained in Note 3 to the unaudited condensed financial statements for Q3 2011.

The timely preparation of the condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or action, actual results ultimately may differ from those estimates. Accordingly, actual reported amounts may differ from estimated amounts as future confirming events occur.

The estimates and judgments that the Company has used in these condensed consolidated financial statements include the estimates of the useful life of assets, impairment of capital assets, risk-free rate, volatility rate, and forfeiture rate.

## **FINANCIAL INSTRUMENTS**

The Company's financial assets and liabilities are comprised of cash and cash equivalents, accounts receivable, deposits, reclamation funds, and accounts payable and accruals. All financial instruments must be classified into one of the following five categories: loans and receivables, held-to-maturity, fair value through profit or loss, available-for-sale financial assets or financial liabilities measured at amortized cost. The Company classified all of the financial instruments as loans and receivables with accounts payable and accrued liabilities as other financial liabilities measured at amortized cost.

It is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments except as otherwise disclosed.

### **Fair value of financial instruments**

The carrying amount of cash and cash equivalents, accounts receivable, deposits, reclamation funds, accounts payable and accruals is approximated by their fair value due to their short-term nature. The Company classifies fair value measurements using a fair value hierarchy with the following levels:

- Level 1 – Unadjusted quoted price in active markets for identical assets and liabilities;
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – Inputs for the asset or liability that are not based on observable market data.

All of the fair value of the financial instruments of the Company was based on Level 1 measurement and the Company does not have financial instruments of which fair values were based on Level 2 or Level 3 measurement.

### **Foreign currency risk**

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company enters into transactions denominated in United States currency for which the related expenses and accounts payable balances are subject to exchange rate fluctuations.



**Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company enters into transactions for which repayment is required at various maturity dates. Liquidity risk is measured by reviewing the Company's future net cash flows for the possibility of a negative net cash flow. All financial instruments are of short-term in nature and are settled within 90 days.

**OUTLOOK FOR REMAINDER OF 2011**

During 2011, US Oil Sands intends to continue its focus on resource delineation and final design for the PR Spring Project. Coring and assay information will also be provided to the Company's independent reserves evaluator for completion of its annual resource assessment required under NI 51-101. Major equipment for the PR Spring Project is expected to be ordered in 2012 and construction on the project will also begin next year. The Company will continue to pursue opportunities to add additional resource lands and to continue to advance its PR Spring Project Area to its planned 2013 commercial production start-up.