



U.S. OIL SANDS

US Oil Sands Inc.

Management's Discussion and Analysis

For the year ended December 31, 2013

(Expressed in Canadian Dollars)

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2013

This Management's Discussion and Analysis ("MD&A") for US Oil Sands Inc. ("US Oil Sands" or the "Company") is dated March 12, 2014 and should be read in conjunction with the Company's Audited Consolidated Financial Statements for the Year ended December 31, 2013.

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

Additional information concerning US Oil Sands is available on SEDAR at www.sedar.com.

The December 31, 2013 consolidated financial statements, including comparative figures, were prepared using the accounting policies under International Financial Reporting Standards ("IFRS"). The accounting policies applied in the consolidated financial statements are based on IFRS issued as of December 31, 2013.

EXECUTIVE SUMMARY

US Oil Sands is engaged in the exploration and development of oil sands properties and, through its wholly owned United States subsidiary US Oil Sands (Utah) Inc., has a 100% interest in bitumen leases covering 32,005 acres of land in Utah. The Company is in the pre-production stage, anticipating the commencement of bitumen production and sales in 2015.

Some of the achievements in 2013 include:

- Completion of a private placement for gross proceeds of \$81,005,452 that fully funds the PR Springs 2,000 bbl/day project to first oil
- Completed an extended duration pump test of the deep aquifer, confirming the supply and delivery capabilities of the water source
- Received a favorable ruling from the Utah Board of Oil, Gas, and Mining regarding a challenge to the Company's large mine permit

The Company selected Kellogg Brown & Root LLC ("KBR") on January 20, 2014 to provide project and construction management services for the PR Spring Project. Working jointly with US Oil Sands, KBR will work to bring both the extraction facilities and mine development into commercial production.

NATURE OF THE BUSINESS

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 sands 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 2015. The Company also holds 26,075 acres of exploration land which is referred to as the Cedar Camp and NW Project Area.

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.

OIL SANDS LEASE HOLDINGS

As of the date of this report, US Oil Sands owns a 100% working interest in its entire 32,005 acres of land holdings. 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. 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 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 pre-production field work program and subsequent bitumen development and production operations. The following table summarizes the lease holdings of the Company:

Oil Sands Acreage Under Lease	Acreage
PR Spring Project Area	5,930
Cedar Camp and NW Project Area	26,075
Total	32,005

FINANCING ACTIVITIES

On October 18, 2013, the company completed a private placement and issued 540,036,331 common shares at a price of \$0.15 per share for gross proceeds of \$81,005,452.

OPERATIONAL ACTIVITIES

During the year the Company continued to work with its engineering consultants and equipment suppliers to complete final engineering design. Detailed mine planning also continued to identify and plan expansion areas.

The Company also entered into an agreement to supply water and raw materials in Uintah County, Utah for a state-funded road building project. The 44 mile project will serve the general public, ranchers, recreationalists, and the energy industry. In relation thereto, the Company permitted and mobilized a man-camp to support field operations and acquired and installed pumping equipment to bring the production water well to operational status. In supplying water for the road project, the Company was also able to concurrently execute an extended duration pump test of the deep aquifer. This three month test exceeded previous ground water model predictions and effectively confirmed the supply potential and delivery capability of the project water supply.

2013 FINANCIAL RESULTS AND ANALYSIS

Summary of selected financial results

Year ended December 31	2013	2012	2011
Total assets	\$ 95,204,711	\$ 20,957,317	\$ 14,074,958
Cash used in operations	(4,980,923)	(3,548,596)	(2,445,410)
Net loss	(7,747,681)	(4,396,126)	(3,993,101)
Total comprehensive loss	(6,849,989)	(4,608,059)	(3,857,128)
Loss per share – basic and diluted	(0.02)	(0.02)	(0.02)

Analysis of Results

a) Exploration and evaluation assets ("E&E")

Expenditures associated with exploration and evaluation of oil and gas reserves are initially capitalized. During 2013, the Company capitalized \$1,777,746 (2012 - \$4,370,287) in E&E, including all costs directly associated to the field program. The following table summarizes the major components of the E&E:

December 31	2013	2012	2011
Leasehold land interest	\$ 5,805,839	\$ 5,135,540	\$ 5,310,453
Mine pit	5,162,393	4,456,762	1,800,233
Production facilities	9,051	5,297	1,190
Water facilities	3,253,877	2,855,815	971,251
Total exploration and evaluation assets	\$ 14,231,160	\$ 12,453,414	\$ 8,083,127

b) Operational performance

The Company is in its pre-operation stage and has not earned revenues from oil sands production. During 2013 there was revenue from operations related to the State-funded road building project of \$150,062 (2012 - \$nil) which was subject to royalty payments of \$11,380. The Company also earned interest income from its cash holdings of \$205,610 (2012 - \$39,139).

As at December 31, the Company had total assets of \$95,204,711 (2012 - \$20,957,317) which is comprised of largely cash and cash equivalents and exploration and evaluation assets.

G&A analysis

The Company recorded a net loss of \$7,747,681 which included non-cash share-based payment of \$2,941,210 and general and administrative expense ("G&A") of \$4,310,981. Of the total G&A expense, \$3,207,488 related to salary and wages paid during 2013 and \$336,215 related to financial advisory fees paid to third parties. As the US dollar strengthened in relation to the Canadian dollar over the year, unrealized foreign exchange gain of \$135,435 was reported in G&A.

Other Expenses

Property evaluation expenses of \$335,740 (2012 - \$250,667) were incurred during 2013 in analysis of potential oil sands properties. The Company incurred \$172,807 (2012 - \$84,657) in technology development expenses, primarily at its R&D facility.

Share-based Payments

The Company recorded share-based payment expense of \$2,941,210 during the year ended December 31, 2013, compared to \$630,413 for the same period of 2012. The fair value of the options was calculated using the Black-Scholes option-pricing model.

During the year, 31,725,000 options were issued at a weighted average exercise price of \$0.179 per option, 175,000 options were forfeited or cancelled at weighted average exercise price of \$0.161.

Other Comprehensive Income

Included in total comprehensive income was a gain of \$897,692 (2012 - loss of \$211,933) from currency translation adjustment. The amount represents exchange differences on the net investments in the US subsidiary and the resulting differences upon translation of the US subsidiary, in accordance with IFRS.

SUMMARY OF QUARTERLY RESULTS

Quarter ended	Dec 31 2013	Sep 30 2013	Jun 30 2013	Mar 31 2013	Dec 31 2012	Sep 30 2012	Jun 30 2012	Mar 31 2012
Revenue (net of royalties)	\$ 12,947	\$ 126,905	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest income	192,436	2,497	4,888	5,782	9,210	24,778	2,658	2,495
(Loss)/gain on sale of capital assets	-	-	-	-	-	50	-	-
Net loss	(4,818,595)	(861,648)	(1,079,544)	(986,894)	(775,407)	(859,724)	(1,629,452)	(1,131,543)
Earnings (loss) per share – basic and diluted	(0.01)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)	(0.00)

The Company earned \$12,947 in operating revenue by providing water to a Utah state-funded road building contractor. Interest income is earned on cash deposits and short-term investments.

The Company reported \$192,436 in interest income in Q4 2013 which increased by \$189,939 from the previous quarter. The increase in interest income resulted from the majority of proceeds received from the private placement being invested into cashable GICs.

Net loss increased by \$3,956,947 from the previous quarter mainly due to increased share-based payments resulting from the November 12, 2013 stock option grant and bonuses paid out to officers and employees of the Company following the successful private placement.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2013, the Company had cash and cash equivalents of \$77,582,389, net working capital of \$77,267,313 and no commitments for capital expenditures.

The Company intends to use its cash and cash equivalent balance to fulfill its liabilities and commitments and fund its development project.

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

COMMITMENTS

The Company has three forms of future commitments; office leases, resources properties, and office equipment.

The Company leases office and office/development premises in Calgary and Grande Prairie, respectively. The Calgary office has a head lease expiring March 31, 2018 with average gross quarterly rental fees of \$103,788. The office and technology development facility lease in Grande Prairie has a 3-year term expiring March 31, 2016 with gross quarterly rental fees of \$36,135.

The Company's resource properties are leased from the State of Utah. With 32,005 acres held under separate leases and each having differing expiry terms, the average quarterly payments are US\$69,087.

The Company also leases office equipment in Calgary. The lease expires on July 2016 with quarterly lease payment of \$564.

RELATED PARTY TRANSACTIONS

The key management personnel of the Company are comprised of members of the US Oil Sands Board of Directors and executives of the Company. The remuneration of directors and other members of key management personnel during the year ended December 31 are as follows:

	2013	2012
Short-term employee benefits	\$ 1,753,366	\$ 1,655,769
Share-based payments	2,704,375	573,145
	\$ 4,457,741	\$ 2,228,914

OUTSTANDING SHARE DATA

As of the date of this report there are 853,142,395 common shares outstanding, 43,700,000 options outstanding and 61,224,735 warrants outstanding. A former Director of the Company exercised 250,000 options at an exercise price of \$0.115 per share on January 14, 2014, and 1,250,000 options granted to former Directors expired January 16, 2014.

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.

Fair value of financial instruments

The carrying amount of cash and cash equivalents, accounts receivable, reclamation funds, accounts payable and accrued liabilities 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 financial instruments held by the Company are recorded at amortized cost; therefore, the fair value hierarchy is not applicable and the Company does not have financial instruments of which fair values were based on Level 1, 2 or Level 3 measurement.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company has not entered into any mitigating interest rate hedges or swaps, however the Company has \$76 million of cashable GICs. Had the interest rate on investments been 100 basis points higher (or lower) throughout the year ended December 31, 2013, earnings would have been affected by \$168,300 (December 31, 2012 – \$34,400) based on the average investment balance outstanding during the year.

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. The following items are denominated in United States currency:

	December 31 2013	December 31 2012
Cash and cash equivalents	\$ 1,065,727	\$ 4,840,597
Accounts payable	23,234	110,962
Accrued liabilities	86,430	80,637

As at December 31, 2013, the exchange rate between Canadian dollars and US dollars was US\$1 to CAD\$1.064. A change of the value of the Canadian dollar relative to the US dollar of 1% will result in a \$9,561 increase in the gain or loss of foreign exchange, respectively.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The maximum risk to credit exposure is equal to the Accounts Receivable balance, the majority of which consists of receivables due from the Government of Canada.

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 short-term in nature and are settled within 90 days.

OUTLOOK FOR 2014

The Company successfully completed an \$81 million private equity financing (the "Financing"), issuing 540,036,331 Common Shares on October 18, 2013 at a price of \$0.15 per Common Share. All Common Shares issued pursuant to the Financing are subject to a statutory hold period of four months from the date of each closing. Following completion of the Financing, the Company has a total of 852,892,395 Common Shares outstanding on a non-diluted basis. The Company intends to use proceeds from the Offering to finalize the first phase of the commercial development of the PR Spring Project and to accelerate future production phases. Proceeds raised in excess of those required to fund the PR Spring Project will allow the Company to immediately initiate corporate development activities that may include the acquisition of or participation in other oil sands assets.

For 2014, the Company will continue to focus on the engineering and mine design, procurement of long-lead items, and general site preparation and construction related to Phase 1 of the PR Spring Project. Management anticipates that the off-site fabrication of the process extraction plant will be substantially complete in 2014, with field assembly to occur in 2015 followed by commercial start-up and bitumen production.

Management intends to continue its pursuit of opportunities to add additional resource lands by assessing growth opportunities and furthering regulatory application efforts that ensure a ready inventory of future mineable assets for the Company.

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 completion of the construction of the surface mine development project in the PR Spring Project Area; the work programs for the PR Spring 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; 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 environmental performance of the Company's 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.

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.