



U.S. OIL SANDS

US Oil Sands Inc.

**Management's Discussion and Analysis
For the year ended December 31, 2012**

(Expressed in Canadian Dollars)

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2012

This Management's Discussion and Analysis ("MD&A") for US Oil Sands Inc. ("US Oil Sands" or the "Company") is dated March 18, 2013 and should be read in conjunction with the Company's Audited Consolidated Financial Statements for the Year ended December 31, 2012.

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, 2012 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, 2012.

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 2014.

Some of the achievements in 2012 include:

- Completion of a private placement for gross proceeds of \$11,020,452
- Completion of a field program on its 5,930 acre PR Spring Project Area
- Obtained approval of patent application from the Canadian Intellectual Property Office
- Received favourable rulings from both the Utah Department of Environmental Quality and the Utah Division of Oil, Gas and Mining upholding previously issued permits for its PR Spring Project Area.

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 2014. 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 May 23, 2012, the Company completed a private placement and issued 61,224,735 units at a price of \$0.18 per unit for gross proceeds of \$11,020,452. Each unit consisted of one common share ("Share") of the Company and one full common share purchase warrant ("Warrant") exercisable at \$0.26 until May 23, 2014.

EXPLORATION AND DEVELOPMENT ACTIVITIES

During 2012, the Company completed a field program on its 5,930 acre PR Spring Project Area. The program consisted of a 37-hole coring program, a water supply drilling and testing program, and surface mining equipment specification testing.

Notably the coring program, consisting of 37 core holes drilled to an average depth of approximately 200 feet, was directed at infill delineation of known or expected bitumen deposits and all intersected bitumen pay. The results of these core holes will be integrated into the Company's resource modelling software and evaluated by the Company's independent resource evaluators for inclusion in the independent resource evaluation report in compliance with National Instrument 51-101 – *Standards for Disclosure of Oil and Gas Activities*.

The results of these wells will also be used for permitting the next phases of mine expansion beyond the existing permitted mine area.

REGULATORY ACHIEVEMENTS

On October 24, 2012, the Utah Department of Environmental Quality's Water Quality Board voted to support the Company's permit-by-rule as previously issued by the Division of Water Quality on March 4, 2008. The hearing was initiated through a Request for Agency Action filed by a Utah-based environmental organization in April 2011 against the Utah Division of Water Quality claiming that the Division of Water Quality improperly issued a permit-by-rule to the Company. The decision was published November 1, 2012 by the chairman of the Water Quality Board.

On January 14, 2013, the Board of Directors of the Utah Division of Oil, Gas and Mining ("DOG M") voted to support DOGM's previous approval of the Company's Notice of Intention to Commence Large Mining Operations at its PR Spring Project Area. The hearing was initiated through a Request for Agency Action filed by a Utah-based environmental organization in September 2010 against DOGM claiming that DOGM improperly issued the Company's Notice of Intention to Commence Large Mining Operations. The decision was published February 27, 2013 by the chairman of the board of DOGM.

As of the date hereof, the decision by the Water Quality Board was appealed to the Utah Supreme Court by the Utah-based environmental organization. Appeals cannot introduce new evidence and are heard only on the basis of technicalities of law. There are no other challenges or appeals against the Company or the regulatory agencies on any regulatory permits held by the Company in respect of its planned operations for the PR Spring Project Area.

INTELLECTUAL PROPERTY

On September 6, 2012, the Company received notice of the approval of the patent application relating to its bitumen extraction process from the Canadian Intellectual Property Office.

The Company completed the international filing of its patent application through World Intellectual Property Organization (WIPO) in October 2007 and continues to prosecute its US application, which remains pending with the United States Patent and Trademark Office.

2012 FINANCIAL RESULTS AND ANALYSIS

Summary of selected financial results

The following financial data were selected from the Company's consolidated financial statements which have been prepared using the accounting policies under IFRS as issued by the International Accounting Standards Board.

December 31	2012	2011	2010
Total assets	20,957,317	14,074,958	3,673,863
Net loss	(4,396,126)	(3,993,101)	(1,580,752)
Total comprehensive loss	(4,608,059)	(3,857,128)	(1,580,752)
Cash used in operations	(3,548,596)	(2,445,410)	(1,131,249)
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 2012, the Company capitalized \$4,436,085 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	2012	2011	2010
Leasehold land interest	5,135,540	5,310,453	723,142
Mine pit	4,456,762	1,800,233	259,113
Production facilities	5,297	1,190	-
Water facilities	2,855,815	971,251	32,981
Total exploration and evaluation assets	12,453,414	8,083,127	1,015,236

b) *Operational performance*

The Company is at its pre-operation stage and has not earned operational revenues. The Company generated interest income of \$39,139 (2011 - \$45,076) from its cash holdings. Expenditures incurred in Fiscal 2012 consists of general and administrative expense ("G&A") of \$3,358,607 (2011 - \$1,810,825), share-based payments of \$630,413 (2011 - \$1,641,143), amortization, accretion and reclamation expense of \$110,871 (2011 - \$114,097) and other costs totalled \$335,324 (2011 - \$182,599) associated with technology development and property evaluation.

G&A analysis

In 2012, G&A expenses increased by \$1,547,782. Major components of G&A include salary and related benefits, professional fees, financial advisory and business development costs as well as offices rental which, in aggregate, represents approximately 80% of the class.

Salary and related benefits expenses, net of \$234,884 capitalized to E&E assets and \$32,841 recoverable from Science Research and Experimental Development ("SR&ED") tax credits, totalled \$2,033,289, resulting in an increase of \$632,769 from 2011. Such increases were mainly due to compensation adjustments, additional staffing and bonuses paid to management and employees in recognition of their contribution to the growth and success of the Company.

Financial advisory expenses increased by \$189,882 from \$175,792 in 2011 to \$365,674 in 2012. The Company engaged an external professional firm to provide investor relationship services. All related service contracts were in place for the entire fiscal year in 2012. The Company also engaged an investment brokerage firm to assist with its business development initiatives; costs incurred in 2012 totalled \$136,900.

Included in G&A expenses was \$79,305 loss (2011 – gain of \$445,570) on foreign exchange arising from changes in foreign exchange rates in cash and cash equivalents denominated in US dollar.

Share-base payments

Share-based payments for 2012 in the amount of \$630,413 (2011 - \$1,641,143) represents recognition of fair value of options granted on April 18, 2011, August 23, 2011 and May 23, 2012, using the Black-Scholes pricing model.

c) *Other comprehensive income*

Included in total comprehensive income was a loss of \$211,933 (2011 – income of \$135,973) from currency translation adjustment. This 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.

FOURTH QUARTER HIGHLIGHTS

Operational

With field operations largely complete at the beginning of the quarter, major activities in the fourth quarter ("Q4 2012") included continuation of the work with its engineering consultants and equipment suppliers to complete final engineering design and initiate equipment orders with vendors on the PR Spring Project Area.

Summary of quarterly results

Quarter ended	December		September		June		March	
	2012	2011	2012	2011	2012	2011	2012	2011
Cash from (used) in operations	(587,498)	(457,946)	(156,176)	(333,219)	(2,023,079)	(1,783,729)	(702,093)	270,931
Net income (loss)	(775,407)	(903,969)	(859,724)	(264,316)	(1,629,452)	(2,326,215)	(1,131,543)	(498,601)
Total comprehensive Income (loss)	(656,599)	(1,021,482)	(1,203,480)	100,834	(1,470,307)	(2,437,879)	(1,277,673)	(498,601)
Earnings (loss) per share – basic and diluted	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)	(0.02)	(0.00)	(0.01)

The Company recorded a net loss of \$775,407 for Q4 2012, down by \$84,317 from the previous quarter.

The Company reported \$9,210 interest income in Q4 2012 which decreased by \$15,568 from Q3 2012 as cash was used to settle the remaining balance of costs related to the field program in early Q4 2012.

In Q4 2012, G&A expenses decreased by \$155,926. While there were additional promotional and business development costs and higher rental expenses incurred in Q4 2012, the increased expenses were offset by the estimated SR&ED tax credits, the unrealized foreign exchange gains given the improved position of the US currency during the quarter and the amount of salary expenses capitalized to E&E.

Technology development expenses increased by \$50,996 in Q4 2012 as the Company continued to work on the final engineering design of the processing equipment.

The Company reported other comprehensive income on currency translation adjustments in the amount of \$118,808 as opposed to a loss of \$343,756 in the previous quarter, as a result of the improved exchange rate from US dollars to Canadian dollars for the quarter.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2012, the Company had cash and cash equivalents of \$5,327,732, net working capital of \$5,059,894 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. The Company believes it has sufficient capital to complete the current resource and engineering programs. Cash flow will be insufficient to meet planned operating and capital 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 finance the Company's development project and fully develop its oil sand properties. Historically, the Company has used equity private placements as its external source of funding. As an alternative to equity that is highly dilutive at current share prices, the Company is engaged in a process to attract a joint venture partner to participate in the PR Spring Project Area. 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 elect to delay its development project or dilute its rights in existing oil sands property interests. If the Company elects to defer capital projects, it has sufficient working capital to support operations well beyond 2013.

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

COMMITMENTS

The Company leases office equipment with an annual fee of \$2,256 with a lease term expiring in 2016.

The Company leases office and office/development premises in Calgary and Grande Prairie, respectively. The lease on the Calgary office space is an 8-month term sublease expiring May 31, 2013 and thereafter, a 3-year term headlease expiring May 31, 2016 with aggregate gross annual rental fees of \$255,848, \$312,544 and \$316,522 for each of the next three years. The office and technology development facility lease in Grande Prairie terminates on March 31, 2013 and has remaining rental commitment of \$33,165. As of the date of this report, the Company is in the process to renew the lease in Grande Prairie. The Company assigned its prior Calgary office space which expires December 31, 2013 to a third party at full costs. Should the assignee default on future payments, the Company will need to fulfil the lease obligation with gross annual rental fees of \$39,200.

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 annual payments are US\$328,456.

RELATED PARTY TRANSACTIONS

As at December 31, 2012, the Company had no recurring 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 are as follows:

Short-term employee benefits	1,655,769
Share-based payments	573,145
Total	2,228,914

OUTSTANDING SHARE DATA

As of the date of this report there are 312,831,064 common shares outstanding, 24,675,000 options outstanding and 84,224,735 warrants outstanding.

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 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.

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.

OUTLOOK FOR 2013

For the remainder of 2013, the Company continues to focus on the final engineering and the ordering of the equipment, together with the site preparations and construction of the PR Spring Project Area. The Company anticipates the majority of the fabrication of the process extraction plant to be complete in 2013 with final field assembly to occur in 2014, followed by start-up. The timing of these plans is to a large degree dependent on when the Company raises the capital necessary to undertake the major expenditures.

With the assistance of external corporate finance support, US Oil Sands continues the process of marketing and closing a joint venture financing.

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; the ability to attract a joint venture partner for the PR Spring Project Area; 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.