US Oil Sands Inc.

Consolidated Financial Statements
For the year ended December 31, 2013
(Expressed in Canadian Dollars)

Management's Report

To the Shareholders of US Oil Sands Inc.

The preparation and presentation of US Oil Sands Inc.'s consolidated financial statements is the responsibility of management. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and include management's best estimates and judgments, where required. The financial information contained elsewhere in this report is consistent with these financial statements.

Management is responsible for installing and maintaining a system of internal controls to provide reasonable assurance that assets are safeguarded and that reliable financial information is produced for preparation of the consolidated financial statements.

The Board of Directors is responsible for ensuring management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility through its Audit Committee.

The Audit Committee is appointed by the Board and all of its members are independent directors. The Committee meets periodically with management, as well as the independent auditor, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues; to satisfy itself that each party is properly discharging its responsibilities; and, to review the annual report, the consolidated financial statements and the independent auditor's report. The Committee reports its findings to the Board for consideration when approving the consolidated financial statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the independent auditor.

(signed) "Cameron Todd"
Chief Executive Officer

(signed) "Glen Snarr"
Chief Financial Officer

Calgary, Alberta
March 12, 2014

Deloitte.

Deloitte LLP
700, 850 - 2nd Street S.W.
Calgary AB T2P 0R8
Canada

Tel: (403) 267-1700
Fax: (587) 774-5379
www.deloitte.ca

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of US Oil Sands Inc.:

We have audited the accompanying consolidated financial statements of US Oil Sands Inc., which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of US Oil Sands Inc. as at December 31, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Accountants
Calgary, Alberta
March 12, 2014

US Oil Sands Inc.
Consolidated Statements of Financial Position
(Cdn$)

As at	Notes		**December 31, 2013**		December 31, 2012
Assets					
Current Assets					
Cash and cash equivalents	6	**$**	**77,582,389**	$	5,327,732
Accounts receivable			**227,747**		137,612
Prepaid expenses			**278,219**		249,052
			78,088,355		5,714,396
Non-current assets					
Property, plant and equipment	7		**925,610**		920,297
Exploration and evaluation assets	8		**14,231,160**		12,453,414
Technology and patents	9		**1,560,636**		1,558,159
Reclamation funds on deposit			**398,950**		311,051
			17,116,356		15,242,921
Total assets		**$**	**95,204,711**	$	20,957,317
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	10	**$**	**821,042**	$	654,502
Non-current liabilities					
Decommissioning liabilities	11		**167,583**		168,068
Total liabilities			**988,625**		822,570
Shareholders' equity					
Share capital	12		**113,606,016**		35,615,898
Contributed surplus	12		**7,285,996**		4,205,391
Warrants	12		**2,088,600**		2,227,995
Deficit			**(29,586,258)**		(21,838,577)
Accumulated other comprehensive income (loss)			**821,732**		(75,960)
Total shareholders' equity			**94,216,086**		20,134,747
Total liabilities and shareholders' equity		**$**	**95,204,711**	$	20,957,317

Commitments (note 19)

Approved on behalf of the Board:

(signed) "Verne Johnson"
Director

(signed) "Alfred Holcomb"
Director

US Oil Sands Inc.
Consolidated Statements of Comprehensive Loss
For the years ended December 31
(Cdn$)

	Notes	2013	2012
Income			
Revenue		**$ 150,062**	$ -
Interest		**205,610**	39,139
Royalty expense		**(11,380)**	-
Gain on sale of capital assets		**-**	50
		344,292	39,189
Expenses			
Operation costs		**242,954**	-
Amortization	7	**84,057**	97,131
Accretion	11	**4,121**	2,176
Reclamation expense		**-**	11,564
Property evaluation		**335,740**	250,667
Technology development		**172,807**	84,657
General and administrative		**4,310,981**	3,358,607
Share-based payments	12	**2,941,210**	630,413
		8,091,870	4,435,215
Loss before taxes		**(7,747,578)**	(4,396,026)
Income tax expense		**103**	100
Net loss		**(7,747,681)**	(4,396,126)
Other comprehensive income (loss) – currency translation adjustment		**897,692**	(211,933)
Total comprehensive loss		**$ (6,849,989)**	$ (4,608,059)
Loss per share – basic and diluted		**$ (0.02)**	$ (0.02)
Weighted average number of shares outstanding		**423,804,214**	288,546,536

US Oil Sands Inc.
Consolidated Statements of Changes in Equity
For the years ended December 31
(Cdn$)

	Shareholders' Capital	Contributed Surplus	Warrants	Deficit	Accumulated other comprehensive income (loss)	**Total Shareholders' Equity**
January 1, 2012	$ 27,274,939	$ 3,574,978	$ 129,137	$ (17,442,451)	$ 135,973	**$ 13,672,576**
Net loss for the year	-	-	-	(4,396,126)	-	**(4,396,126)**
Other comprehensive loss – currency translation adjustment	-	-	-	-	(211,933)	**(211,933)**
Common shares issued						
Private placement, net of allocation to warrants	8,931,852	-	-	-	-	**8,931,852**
Exercise of options	225,000	-	-	-	-	**225,000**
Share issue costs	(815,893)					**(815,893)**
Share-based payments	-	630,413	-	-	-	**630,413**
Warrants	-	-	2,098,858	-	-	**2,098,858**
December 31, 2012	$ 35,615,898	$ 4,205,391	$ 2,227,995	$ (21,838,577)	$ (75,960)	**$ 20,134,747**
January 1, 2013	$ 35,615,898	$ 4,205,391	$ 2,227,995	$ (21,838,577)	$ (75,960)	**$ 20,134,747**
Net loss for the year	-	-	-	(7,747,681)	-	**(7,747,681)**
Other comprehensive income – currency translation adjustment	-	-	-	-	897,692	**897,692**
Common shares issued						
Private placement	81,005,452	-	-	-	-	**81,005,452**
Exercise of options	2,875	-	-	-	-	**2,875**
Share issue costs	(3,018,209)					**(3,018,209)**
Share-based payments	-	2,941,210	-	-	-	**2,941,210**
Expiry of warrants	-	139,395	(139,395)	-	-	**-**
December 31, 2012	$113,606,016	$ 7,285,996	$ 2,088,600	$ (29,586,258)	$ 821,732	**$ 94,216,086**

US Oil Sands Inc.
Consolidated Statements of Cash Flows
For the years ended December 31
(Cdn$)

	Notes	**2013**	2012
Operating activities			
Net loss		**$ (7,747,681)**	$ (4,396,126)
Adjustments for:			
Interest income		**(205,610)**	(39,139)
Income tax expense		**103**	100
Amortization	7	**84,057**	97,131
Accretion	11	**4,121**	2,176
Share-based payments	12	**2,941,210**	630,413
Service fees paid by issuance of warrants	12	**-**	10,258
Gain on sale of assets		**-**	(50)
Unrealized loss (gain) on foreign exchange		**(135,435)**	65,413
Income tax paid		**(103)**	(100)
Changes in non-cash working capital	14	**78,415**	81,328
		(4,980,923)	(3,548,596)
Investing activities			
Interest received		**205,610**	39,139
Purchase of property, plant and equipment	7	**(87,007)**	(651,666)
Proceeds from sale of assets		**-**	2,301
Expenditures on exploration and evaluation assets	8	**(921,944)**	(4,488,586)
Expenditures on technology and patents	9	**(2,477)**	(8,182)
Changes in reclamation funds on deposit		**(66,156)**	21,139
Changes in non-cash working capital	14	**(31,177)**	40,007
		(903,151)	(5,045,848)
Financing activities			
Proceeds from issuance of shares and warrants from private placement		**81,005,452**	11,020,452
Proceeds from options exercised	12	**2,875**	225,000
Share issue costs		**(3,018,209)**	(815,893)
		77,990,118	10,429,559
Effects of exchange rate changes on cash and cash equivalents		**148,613**	(82,387)
Net increase in cash and cash equivalents		**72,254,657**	1,752,728
Cash and cash equivalents, beginning of period		**$ 5,327,732**	$ 3,575,004
Cash and cash equivalents, end of period		**$ 77,582,389**	$ 5,327,732

1. NATURE OF BUSINESS

US Oil Sands Inc. (the "Company") 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. To date, the Company has not earned significant revenues as it is in the pre-production stage.

The Company's registered office is located at Suite 1600, 521 – 3rd Ave. SW., Calgary, Alberta, Canada T2P 3T3.

2. BASIS OF PRESENTATION

a) Statement of compliance

These consolidated financial statements ("financial statements") were approved by the Board of Directors of the Company on March 12, 2014.

The financial statements have been prepared using the accounting policies under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements have been prepared on a going concern basis.

b) Basis of measurement

The financial statements are presented in Canadian dollars which is the Company's functional and presentation currency. The Company has a wholly owned subsidiary which previously used the Canadian dollar as functional currency. The Company follows the foreign currency translation method prescribed in IAS 12.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of consolidation

The financial statements include the accounts of the Company and its wholly owned United States subsidiary US Oil Sands (Utah) Inc. All intercompany transactions and balances have been eliminated.

b) Use of estimates and judgments

The timely preparation of the 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 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.

Property, Plant and Equipment ("PP&E")

Capitalized assets, including property, plant and equipment assets are amortized over their respective estimated useful lives. All estimates of useful lives are set out in 3(d) below.

Decommissioning Liabilities

The determination of decommissioning liabilities requires the Company to make estimates regarding the useful life of certain operating facilities, the timing and dollar value of future remediation activities, discount rates and the interpretation and changes to various environmental laws and regulations. Any differences between estimates and actual results will impact the Company's accrual for decommissioning liabilities and will result in an impact to net earnings.

Asset Impairments

PP&E, exploration and evaluation assets, and technology and patents are subject to impairment reviews based on whether current or future events and circumstances suggest that their recoverable amount may be less than their carrying value. The methods of calculating recoverable amounts are set out in 3(g) below.

Significant judgments involve the determination of the functional currency of the subsidiary, cash generating unit identification, and the time when intangible assets are expected to be used for commercial production.

3. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

c) Cash and cash equivalents

Cash and cash equivalents includes short-term, highly liquid investments that mature within three months of their purchase.

d) Property, plant and equipment ("PP&E")

PP&E is initially recorded at cost. Amortization is provided using methods and rates intended to amortize the cost of assets over their estimated useful lives. Items of PP&E are not amortized until they are placed into service.

	Method	Rate	
Automotive equipment	declining balance	30	%
Computer hardware	declining balance	30	%
Leasehold improvements	straight-line	6	years
Office furniture and equipment	declining balance	20	%
Processing equipment	declining balance	30	%
Shop and laboratory equipment	declining balance	30	%

Based on the review of PP&E, the Company did not have significant components within each class of asset that requires componentization accounting as at December 31, 2013 and 2012.

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

Expenditures incurred prior to acquiring the legal right to explore are charged to expense as incurred and recorded as expense in the consolidated statements of comprehensive loss.

Once mineral rights have been obtained all costs directly associated with exploration and evaluation of oil and gas reserves are initially capitalized. E&E costs are those expenditures where technical feasibility and commercial viability has not yet been determined and include license and unproved property acquisition costs, geological and geophysical costs and costs of drilling resource delineation wells.

E&E costs are classified as intangible assets and are not depleted until technical feasibility and commercial viability is considered to be determined. Upon establishment of technical feasibility and commercial viability, E&E assets will be first tested for impairment and then reclassified to property, plant and equipment.

f) Technology and patents

Technology and patents are recorded at cost, including the acquisition of the intellectual property ("IP"), patent application, IP maintenance and related professional fees. Amortization will commence when the technology reaches commercial production.

g) Impairment of non-financial assets

Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets (the "cash-generating unit" or "CGU").

The carrying value of PP&E is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. The carrying value of E&E assets is tested for impairment when events or changes in circumstance indicate that the carrying value of an asset may exceed its recoverable value and upon transfer of E&E costs to PP&E. The carrying value of technology and patents is tested for impairment upon commencement of commercial production of the properties or when events or changes in circumstance indicate that the carrying value of an asset may exceed its recoverable value.

A CGU's recoverable amount is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the CGU and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money. Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and is written down to its recoverable amount. The impairment amount reduces first the carrying amount of any goodwill allocated to the CGU. Any remaining impairment is allocated to the individual assets in the CGU on a pro rata basis. Impairment is charged to net income (loss) in the period in which it occurs.

3. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

g) Impairment of non-financial assets - continued

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depletion and depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in net income (loss). After such a reversal, the depletion or depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life. Impairment losses recognized in relation to goodwill and E&E are not reversed for subsequent increases in its recoverable amount.

h) Research and Development

The Company engages in research and development activities to develop or improve processes and techniques to extract bitumen from oil sand deposits. Research involves planned investigation with the goal of attaining new knowledge and is not directly related to specific E&E projects. Development involves translating that knowledge into a new technology or process. Research costs are expensed as incurred. Development costs are capitalized with exploration and evaluation assets as the Company assess commercial viability and technical feasibility. These costs are capitalized until the development is ready for use, considered to the commencement of commercial operations or production. Otherwise, development costs are expensed as incurred.

i) Financial instruments

Financial instruments are measured at fair value on initial recognition of the instrument and are classified into one of the following five categories: fair value through profit or loss ("FVTPL"), loans and receivables, held-to-maturity investments, available-for-sale financial assets or financial liabilities measured at amortized cost.

Subsequent measurement of financial instruments is based on their initial classification. FVTPL financial assets are measured at fair value and changes in fair value are recognized in net income (loss). Available-for-sale financial assets are measured at fair value with changes in fair value recorded in other comprehensive income (loss) until the instrument is derecognized or impaired. The remaining categories of financial instruments are recognized at amortized cost using the effective interest rate method.

j) Decommissioning liabilities

The Company recognizes a decommissioning liability on its oil sands properties, related facilities, and removal of equipment from leased acreage and for returning such land to its original condition, in the period in which the asset is explored or acquired. The decommissioning liability is estimated using the present value of the estimated expected future cash outflows at a risk-free interest rate. The obligation is reviewed regularly by management, based upon current regulations, costs, technologies and industry standards. The effects of changes resulting from revisions to the timing, the discount rate or the amount of the original estimate of the provision are reflected on a prospective basis, generally by adjustment to the carrying amount of the related property, plant and equipment. The discounted obligation is initially capitalized as part of the carrying amount of the related property, plant and equipment and a corresponding liability is recognized. The amount of the capitalized retirement obligation is depleted and depreciated on the same basis as the other capitalized property, plant and equipment. Actual abandonment and reclamation expenditures are charged to the accumulated obligation as incurred and obligations related to properties disposed are removed.

k) Revenue Recognition

Interest income is recognized in the period in which it is earned. Incidental revenues are recognized in net income as incurred.

l) Income taxes

Current and deferred income taxes are recognized in the consolidated statements of comprehensive loss, except when they relate to items that are recognized directly in equity.

The Company follows the liability method accounting for income taxes. Under this method, deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

m) Share-based payments

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option pricing model. The amount is expensed or capitalized and credited to contributed surplus over the vesting period. Upon exercise of the options, the exercise proceeds, together with amounts previously credited to contributed surplus, are credited to share capital. The Company estimates the number of options expected to vest and revise the estimate to equal the number of options that ultimately vested on the vesting date. In estimating the forfeiture rate, the Company takes into consideration past experience and other factors.

n) Foreign currency

The consolidated financial statements are presented in Canadian dollars which is the Company's functional and presentation currency. The Company has a wholly owned US subsidiary which has a US dollar functional currency reflecting that the US dollar is the currency of the primary environment in which the subsidiary operates. Transactions denominated in non-functional currencies are translated at rates prevailing at the date of the transaction. Any monetary items held in a currency which is not the functional currency of the subsidiary are translated into the functional currency at the rate prevailing at the balance sheet date. All exchange differences arising as a result of the translation to the functional currency of the subsidiary are recorded in net income (loss).

Translation of all assets and liabilities from the subsidiary's functional currency to the presentation currency are performed using the rate prevailing at the balance sheet date. The difference arising from translation from the functional currency to the presentation currency are recorded as currency translation adjustments in other comprehensive income (loss) and are held within accumulated other comprehensive income (loss) until a disposal or partial disposal of a subsidiary. A disposal or partial disposal will then give rise to a realized foreign exchange (gain) loss which is recorded in net income (loss).

Within the consolidated group there are outstanding intercompany loans which in substance represent an investment in the subsidiary. When these loans are identified as being part of the net investment in the foreign subsidiary, any exchange difference arising on those loans are recorded to currency translation adjustment within other comprehensive income (loss) until a disposal or partial disposal of the subsidiary.

o) Earnings per share

Basic loss per share is calculated using the weighted average number of shares outstanding during the year. The treasury stock method is used to calculate diluted earnings per share. This method assumes that only in-the-money stock options and warrants are exercised and that any proceeds would be used to purchase common shares at the average market price during the year.

4. ADOPTION OF ACCOUNTING POLICIES AND DISCLOSURES

On January 1, 2013 the Company adopted new standards with respect to consolidations (IFRS 10), joint arrangements (IFRS 11), disclosure of interests in other entities (IFRS 12), fair value measurements (IFRS 13), and amendments to financial instrument disclosures (IFRS 7). The adoption of these standards had no impact on the amounts recorded in the consolidated financial statements as at January 1, 2013 or on the comparative periods.

5. FUTURE ACCOUNTING STANDARDS

IFRIC 21 "Levies"

As of January 1, 2014 , the Company will be required to adopt IFRIC 21 "Levies", guidance on when to recognize a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount of the levy is certain. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014.

6. CASH AND CASH EQUIVALENTS

	December 31 2013	December 31 2012
Cash	**$ 1,263,591**	$ 499,264
Short-term investments	**76,318,798**	4,828,468
	$ 77,582,389	$ 5,327,732

7. PROPERTY, PLANT AND EQUIPMENT

	Processing Equipment	Shop and Laboratory Equipment	Automotive Equipment	Corporate and Other	Total
Cost					
As at January 1, 2012	$ 820,110	$ 569,335	$ 25,955	$ 142,976	$ 1,558,376
Additions	555,754	15,223	-	80,689	651,666
Dispositions	-	-	-	(3,068)	(3,068)
Foreign exchange effect	-	(30)	(238)	(667)	(935)
As at December 31, 2012	$ 1,375,864	$ 584,528	$ 25,717	$ 219,930	$ 2,206,039
Additions	69,462	13,449	-	4,096	87,007
Foreign exchange effect	-	85	740	3,798	4,623
As at December 31, 2013	$ 1,445,326	$ 598,062	$ 26,457	$ 227,824	$ 2,297,669
Accumulated amortization					
As at January 1, 2012	$ 623,479	$ 482,880	$ 15,756	$ 67,609	$ 1,189,724
Amortization	40,993	28,214	3,011	24,913	97,131
Adjustment upon disposition	-	-	-	(817)	(817)
Foreign exchange effect	-	(6)	(47)	(243)	(296)
As at December 31, 2012	$ 664,472	$ 511,088	$ 18,720	$ 91,462	$ 1,285,742
Amortization	28,695	23,272	2,167	29,923	84,057
Foreign exchange effect	-	43	362	1,855	2,260
As at December 31, 2013	$ 693,167	$ 534,403	$ 21,249	$ 123,240	$ 1,372,059
Carrying value					
As at December 31, 2012	$ 711,392	$ 73,440	$ 6,997	$ 128,468	$ 920,297
As at December 31, 2013	$ 752,159	$ 63,659	$ 5,208	$ 104,584	$ 925,610

8. EXPLORATION AND EVALUATION ASSETS

Cost and carrying value	
As at January 1, 2012	$ 8,083,127
Additions	4,488,586
Changes in estimates of decommissioning liabilities	19,000
Decommissioning liabilities incurred	52,903
Foreign exchange effect	(190,202)
As at December 31, 2012	$ 12,453,414
Additions	921,944
Changes in estimates of decommissioning liabilities	(15,829)
Foreign exchange effect	871,631
As at December 31, 2013	$ 14,231,160

Exploration and evaluation assets are not subject to depletion as the properties have not been developed and technical feasibility or commercial viability has not been determined.

No impairment on E&E has been identified as at December 31, 2013 and December 31, 2012.

9. TECHNOLOGY AND PATENTS

As at January 1, 2012	$ 1,549,977
Additions	8,182
As at December 31, 2012	$ 1,558,159
Additions	2,477
As at December 31, 2013	$ 1,560,636

No impairment on technology and patents has been identified as at December 31, 2013 and December 31, 2012.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		December 31 2013		December 31 2012
Accounts payables	**$**	**407,032**	$	371,197
Accrued liabilities		**414,010**		283,305
	$	**821,042**	$	654,502

11. DECOMMISSIONING LIABILITIES

		December 31 2013		December 31 2012
Balance, beginning of period	**$**	**168,068**	$	96,534
Changes in estimates		**(15,829)**		19,000
Liabilities incurred (note 5)		**-**		52,903
Accretion		**4,121**		2,176
Foreign exchange effect		**11,223**		(2,545)
Balance, end of period	**$**	**167,583**	$	168,068

The Company is liable for its share of reclamation of its properties upon abandonment. The estimated amount required to settle the decommissioning liabilities have been discounted using risk-free rates of interest ranging from 2.33% to 2.49%, depending on the estimated time to abandon the asset, and an inflation rate of 2.8%. The properties are estimated to require reclamation in 16 years as at December 31, 2013.

12. SHARE CAPITAL

a) Common shares

		December 31 2013			December 31 2012
	Number	**Amount**	Number		Amount
Balance, beginning of period	**312,831,064**	**$ 35,615,898**	249,356,329	$	27,274,939
Private placement, net of allocation to warrants	**540,036,331**	**81,005,452**	61,224,735		8,931,852
Share issue costs	**-**	**(3,018,209)**	-		(815,893)
Exercise of options	**25,000**	**2,875**	2,250,000		225,000
Balance, end of period	**852,892,395**	**$ 113,606,016**	312,831,064	$	35,615,898
Weighted average common shares outstanding, basic and diluted	**423,804,214**		288,546,536		

On May 23, 2012, US Oil Sands 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 consists of one common share and one common share purchase warrant exercisable at a price of $0.26 per share expiring May 23, 2014. US Oil Sands assigned a fair value of $0.0341 per warrant using the Black-Scholes pricing model for a total of $2,088,600. US Oil Sands paid share issue costs in the amount of $815,893.

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. US Oil Sands paid share issue costs in the amount of $3,018,209.

b) Warrants

	December 31 2013		December 31 2012	
	Number	**Fair Value**	Number	Fair Value
Balance, beginning of period	**84,224,735**	**$ 2,227,995**	22,000,000	$ 129,137
Issued on private placement (note 10a)	**-**	**-**	61,224,735	2,088,600
Issued per consulting agreement	**-**	**-**	1,000,000	10,258
Expired	**(23,000,000)**	**(139,395)**	-	**-**
Balance, end of period	**61,224,735**	**$ 2,088,600**	84,224,735	$ 2,227,995

The weighted average exercise price for the warrants issued is $0.26 (2012 – $0.30) per warrant.

Fair value of the warrants is estimated on the date of issuance using the Black-Scholes pricing model with the following weighted assumptions:

	May 23 2012
Risk-free interest rate	1.16%
Expected life (years)	2.0
Expected volatility	70%
Dividend per share	0.0

Based on the Black-Scholes pricing model, the weighted average fair value per warrant is $0.0341 for the warrants issued on May 23, 2012.

c) Stock options

The following table summarizes the changes in stock options and the weighted average exercise prices:

	December 31 2013		December 31 2012	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	**24,675,000**	**$ 0.270**	24,175,000	$ 0.260
Options exercised	**(25,000)**	**0.115**	(2,250,000)	0.100
Options granted	**31,725,000**	**0.179**	2,750,000	0.180
Options expired	**(11,000,000)**	**0.284**	**-**	**-**
Options cancelled & forfeited	**(175,000)**	**0.161**	**-**	**-**
Outstanding, end of period	**45,200,000**	**$ 0.203**	24,675,000	$ 0.270
Exercisable, end of period	**28,706,250**	**$ 0.216**	21,481,250	$ 0.270

The following table summarizes information about stock options outstanding and exercisable as at December 31, 2013:

Exercise price	Number Outstanding	Number Exercisable	Expiry Date
0.1000	1,250,000	1,250,000	December 23, 2019
0.3600	7,200,000	7,200,000	April 18, 2021
0.1800	2,725,000	2,043,750	May 28, 2017
0.1150	4,725,000	2,362,500	March 18, 2018
0.1250	2,400,000	2,400,000	May 15, 2016
0.1900	26,900,000	13,450,000	November 18, 2018
	45,200,000	28,706,250	

As at December 31, 2013, the exercise prices of the options outstanding ranged from $0.10 to $0.36 per option with a weighted average remaining life of 5.00 years.

c) **Stock Options - continued**

The fair value of each stock option is estimated on the date of grant using the Black-Scholes option pricing model with the following weighed assumptions:

	Nov 18, 2013 options	May 15, 2013 Extension	Mar 18, 2013 options	May 28, 2012 options	Apr 18, 2011 options	2010 Modifications
Risk-free interest rate	1.86%	1.15%	1.34%	1.32%	3.37%	1.94%
Expected life (years)	5.00	3.00	5.00	5.00	10.0	3.0
Expected volatility	122%	107%	106%	70%	80%	80%
Forfeiture rate	0%	0%	0%	0%	0%	0%
Dividend per share	0.0	0.0	0.0	0.0	0.0	0.0

The Company grants stock options to certain directors, officers, employees, charities and consultants pursuant to individual stock option agreements. The exercise price, terms of vesting and expiry date of stock options are fixed by directors of the Company at the time of grant.

The Company adopted a "rolling" Stock Option Plan (the "Plan") in compliance with the TSX Venture Exchange policy for granting shares. Under the Plan, the number of shares reserved for issuance may not exceed 10% of the total number of issued and outstanding shares and, to any one optionee, may not exceed 5% of the issued shares on a yearly basis. The exercise price of each option shall not be less than the market price of the Company's stock at the date of grant with a minimum exercise price of $0.10. Options can be granted for a maximum term of ten years and will vest on issuance unless otherwise determined by the board of directors.

On May 28, 2012, 2,750,000 options to purchase common shares were granted to directors, officers, employees and consultants of the Company at an exercise price of $0.18 per share expiring on May 28, 2017. The weighted average fair value of these options is $0.10 per option.

On March 18, 2013, 4,825,000 options to purchase common shares were granted to directors, officers and employees of the Company at an exercise price of $0.115 per share expiring on March 18, 2018. The weighted average fair value of these options is $0.09 per option.

On May 15, 2013 and prior to the expiry date of July 7, 2013, 2,400,000 options to purchase common shares previously granted to employees of the Company on July 7, 2008 were extended for a period of three years to May 15, 2016. The incremental fair value granted totaled $131,964, as determined by the difference in the modified options to that of the original, both measured as at May 15, 2013 using the assumptions noted above. The exercise price of the options remains at $0.125 per share and the weighted average fair value of the modified options is $0.07 per option.

On November 12, 2013, 26,900,000 options to purchase common shares were granted to directors, officers, employees and consultants of the Company at an exercise price of $0.19 per share expiring on November 12, 2018. The weighted average fair value of these options is $0.16 per option.

d) Contributed surplus

		December 31 2013		December 31 2012
Balance, beginning of period	**$**	**4,205,391**	$	3,574,978
Share-based payments		**2,941,210**		630,413
Warrants Expired		**139,395**		-
Balance, end of period	**$**	**7,285,996**	$	4,205,391

13. INCOME TAXES

The Company's income tax provision differs from the taxes that would be obtained by applying the statutory tax rates applicable to each legal entity and is reconciled as follows:

		2013		2012
Loss before income taxes	**$**	**(7,747,578)**	$	(4,396,026)
Statutory income tax rate		**25.0%**		25.0%
Expected income tax recovery		**(1,936,895)**		(1,099,007)
Effect on non-deductible items:				
Share-based payments		**735,300**		157,600
Unrealized foreign exchange (gain) loss		**(33,860)**		20,500
Non-deductible expenses		**195,187**		218,771
Share issue cost charged to share capital		**(260,550)**		(110,660)
Development Expenses		**(157,379)**		(624,543)
Other		**(6,092)**		(9,826)
		(1,464,289)		(1,447,165)
Change in valuation allowance		**1,464,289**		1,447,165
Income tax provision	**$**	**-**	$	-

Income tax expenses included in the Consolidated Statements of Comprehensive Loss are the minimum tax paid to the State of Utah.

The components of the Company's deferred tax asset (liability) are calculated using the expected future tax rates and are as follows:

		2013		2012
Property, plant and equipment	**$**	**563,405**	$	607,293
Capitalized Exploration Expenses		**643,967**		559,263
Eligible capital		**52,540**		55,880
Share issue costs		**883,740**		389,730
Non-capital loss carry-forwards		**6,401,118**		4,937,833
		8,544,770		6,549,999
Valuation allowance		**(8,544,770)**		(6,549,999)
Deferred tax asset	**$**	**-**	$	-

As at December 31, 2013, the Company has, for tax purposes, non-capital losses in Canada available to carry forward to future years total $17,029,159 (2012 – $10,647,533) expiring between 2014 and 2033 if not fully utilized.

Year of Origin	Year of Expiry		Amount
2013	2033	$	4,641,440
2012	2032		2,941,003
2011	2031		2,442,933
2006 - 2010	2026 - 2030		3,665,570
2004 - 2005	2014 - 2015		3,338,213
		$	17,029,159

The Company, through its wholly-owned US subsidiary has, for tax purposes, net operating loss carryover in the USA to carry forward to future years total $7,180,016 (2012 - 5,865,494) expiring by 2033 if not fully utilized.

14. CASH FLOW

For the year ended December 31		**2013**		2012
Accounts receivable	**$**	**(90,135)**	$	(52,972
Prepaid expenses		**(29,167)**		(174,347)
Accounts payable and accrued liabilities		**166,540**		348,654
Changes in non-cash working capital	**$**	**47,238**	$	121,335
Changes in non-cash working capital – operating	**$**	**78,415**	$	81,328
Changes in non-cash working capital – investing		**(31,177)**		40,007
	$	**47,238**	$	121,335

15. SEGMENT INFORMATION

Management has segmented the Company's business based on nature of products and services. The Company conducts its oil sands development predominately through its wholly-owned subsidiary, US Oil Sands (Utah) Inc. The accounting policy for each segment is the same as the Company and information regarding the results of each segment is included as below:

a) Reconciliation of non-current segment assets

As at December 31, 2013	Canada & Corporate	US & Utah Oil Sand Development	Consolidated
Property, plant and equipment	$ 895,537	$ 30,073	$ 925,610
Exploration and evaluation assets	260,000	13,971,160	14,231,160
Technology and patents	1,560,636	-	1,560,636
Reclamation funds on deposits	-	398,950	398,950
Segment non-current assets	$ 2,716,173	$ 14,400,183	$ 17,116,356

As at December 31, 2012	Canada & Corporate	US & Utah Oil Sand Development	Consolidated
Property, plant and equipment	$ 880,183	$ 40,114	$ 920,297
Exploration and evaluation assets	260,000	12,193,414	12,453,414
Technology and patents	1,558,159	-	1,558,159
Reclamation funds on deposits	-	311,051	311,051
Segment non-current assets	$ 2,698,342	$ 12,544,579	$ 15,242,921

b) Reconciliation of reported segment loss

	Canada & Corporate		US & Utah Oil Sand Development		Consolidated	
For the year ended December 31	**2013**	2012	**2013**	2012	**2013**	2012
Income						
Revenue	**$ -**	$ -	**$ 150,062**	$ -	**$ 150,062**	$ -
Interest income	**205,030**	38,945	**580**	194	**205,610**	39,139
Royalty Expense	**-**	-	**(11,380)**	-	**(11,380)**	-
Gain on sale of assets	**-**	50	**-**	-	**-**	50
	$ 205,030	$ 38,995	**$ 139,262**	$ 194	**$ 344,292**	$ 39,189
Less: Expenses						
Operation costs	**-**	-	**242,954**	-	**242,954**	-
Amortization	**71,652**	80,071	**12,405**	17,060	**84,057**	97,131
Accretion	**-**	-	**4,121**	2,176	**4,121**	2,176
Reclamation expense	**-**	-	**-**	11,564	**-**	11,564
Property evaluation	**221,301**	-	**114,439**	250,667	**335,740**	250,667
Technology development	**157,517**	84,657	**15,290**	-	**172,807**	84,657
General and administrative	**3,899,832**	3,200,105	**411,149**	158,502	**4,310,981**	3,358,607
Share-based payments	**2,941,210**	630,413	**-**	-	**2,941,210**	630,413
	7,291,512	3,995,246	**800,358**	439,969	**8,091,870**	4,435,215
Loss before taxes	**(7,086,482)**	(3,956,251)	**(661,096)**	(439,775)	**(7,747,578)**	(4,396,026)
Income tax expense	**-**	-	**103**	100	**103**	100
Segment net loss	**$ (7,086,482)**	$ (3,956,251)	**$ (661,199)**	$ (439,875)	**$ (7,747,681)**	$ (4,396,126)

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial assets and liabilities are comprised of cash and cash equivalents, accounts receivable, reclamation funds on deposit, and accounts payable and accrued liabilities. 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 the 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.

17. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to maintain financial flexibility to meet financial obligations; to facilitate growth; and to optimize the use of capital sources to provide an appropriate investment return to its shareholders. The Company is not subject to any externally imposed capital requirements.

The Company strives to properly exploit its current asset base. Currently, the Company's capital structure is comprised of equity as follows:

		December 31 2013		December 31 2012
Shareholders' capital	**$**	**113,606,016**	$	35,615,898
Contributed surplus		**7,285,996**		4,205,391
Warrants		**2,088,600**		2,227,995
Deficit		**(29,586,258)**		(21,838,577)

The Company's capital management objectives, evaluation measures, definitions and targets have remained unchanged over the periods presented.

18. 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. Directors only receive share-based payment compensation, and no cash compensation was received.The remuneration 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

19. COMMITMENTS

The Company leases equipment and office premises in Calgary and Grande Prairie with the estimated minimum annual payments as follows:

2014	$	509,630
2015		574,575
2016		467,794
2017		434,607
2018		108,652
	$	**2,095,258**

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 aggregate minimum annual payments are as follows (in US dollars):

2014	$	328,456
2015		304,029
2016		304,029
2017		304,029
2018		283,074
Thereafter		548,988
	$	**2,072,605**

20. SUBSEQUENT EVENTS

A former Director of the Company exercised 250,000 options at an exercise price of $0.115 per share on January 14, 2014. On January 16, 2014, 1,250,000 options with a weighted average exercise price of $0.154 granted to former Directors expired.