US Oil Sands Inc.

Unaudited Condensed Consolidated Financial Statements
For the Three and Six Months ended June 30, 2013
(Expressed in Canadian Dollars)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated financial statements have been prepared by and are the responsibility of management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

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

As at	Notes		June 30, 2013		December 31, 2012
Assets					
Current Assets					
Cash and cash equivalents		**$**	**3,136,767**	$	5,327,732
Accounts receivable			**95,783**		137,612
Prepaid expenses			**443,343**		249,052
			3,675,893		5,714,396
Non-current assets					
Property, plant and equipment	4		**953,458**		920,297
Exploration and evaluation assets	5		**13,636,078**		12,453,414
Technology and patents	6		**1,559,918**		1,558,159
Reclamation funds on deposit			**328,914**		311,051
			16,478,368		15,242,921
Total assets		**$**	**20,154,261**	$	20,957,317
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	7	**$**	**678,677**	$	654,502
Non-current liabilities					
Decommissioning liabilities	8		**179,719**		168,068
Total liabilities			**858,396**		822,570
Shareholders' equity					
Shareholders' capital	9		**35,615,898**		35,615,898
Contributed surplus	9		**4,844,538**		4,205,391
Warrants	9		**2,088,600**		2,227,995
Deficit			**(23,905,016)**		(21,838,577)
Accumulated other comprehensive (loss) income			**651,845**		(75,960)
Total shareholders' equity			**19,295,865**		20,134,747
Total liabilities and shareholders' equity		**$**	**20,154,261**	$	20,957,317

Commitments (note 14)

US Oil Sands Inc.
Unaudited Condensed Consolidated Statements of Comprehensive Loss
For the three and six months ended June 30

(Cdn$)	Notes	For the Three Months Ended June 30 2013	2012	For the Six Months Ended June 30 2013	2012
Income					
Interest		**$ 4,888**	$ 2,658	**$ 10,670**	$ 5,152
Expenses					
Operation costs		**32,320**	**-**	**32,320**	**-**
Amortization	4	**19,524**	23,306	**37,397**	46,526
Accretion	8	**1,252**	-	**2,068**	578
Property evaluation		**157,403**	24,873	**191,828**	230,727
Technology development		**20,769**	1,732	**49,096**	7,229
General and administrative		**648,015**	1,340,608	**1,264,546**	2,038,679
Share-based payment	9	**205,149**	241,591	**499,752**	442,307
		1,084,432	1,632,110	**2,077,007**	2,766,046
Loss before taxes		**(1,079,544)**	(1,629,452)	**(2,066,337)**	(2,760,894)
Income tax expense		**-**	-	**101**	101
Net loss		**(1,079,544)**	(1,629,452)	**(2,066,438)**	(2,760,995)
Other comprehensive income (loss)		**467,642**	159,145	**727,805**	13,015
Total comprehensive loss		**$ (611,902)**	$ (1,470,307)	**$ (1,338,633)**	$ (2,747,980)
Loss per share – basic and diluted		**$ (0.00)**	$ (0.01)	**$ (0.01)**	$ (0.01)
Weighted average number of shares outstanding		**312,831,064**	263,995,146	**312,831,064**	263,995,146

US Oil Sands Inc.
Unaudited Condensed Consolidated Statements of Changes in Equity
For the six months ended June 30
(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 period	-	-	-	(2,760,995)	-	**(2,760,995)**
Other comprehensive loss – currency translation adjustment	-	-	-	-	13,015	**13,015**
Private placement, net of allocation to warrants	7,971,359					**7,971,359**
Exercise of options	225,000	-	-	-	-	**225,000**
Share issue costs	(813,417)					**(813,417)**
Share-based payments	-	442,307	-	-	-	**442,307**
Warrants	-	-	2,098,858	-	-	**2,098,858**
June 30, 2012	$ 34,657,881	$ 4,017,285	$ 2,227,995	$ (20,203,446)	$ 148,988	**$ 20,848,703**
July 1, 2012	$ 34,657,881	$ 4,017,285	$ 2,227,995	$ (20,203,446)	$ 148,988	**$ 20,848,703**
Net loss for the period	-	-	-	(1,635,131)	-	**(1,635,131)**
Other comprehensive loss – currency translation adjustment	-	-	-	-	(224,948)	**(224,948)**
Private placement, net of allocation to warrants	960,493	-	-	-	-	**960,493**
Share issue costs Legal and other fees	(2,476)	-	-	-	-	**(2,476)**
Share-based payments	-	188,106	-	-	-	**188,106**
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	-	-	-	(2,066,439)	-	**(2,066,439)**
Other comprehensive income – currency translation adjustment	-	-	-	-	727,805	**727,805**
Share-based payments	-	499,752	-	-	-	**499,752**
Warrants	-	139,395	(139,395)	-	-	-
June 30, 2013	$ 35,615,898	$ 4,844,538	$ 2,088,600	$ (23,905,016)	$ 651,845	**$ 19,295,865**

* *Contributed surplus is comprised of effects of share-based payment recorded in Comprehensive Loss.*

US Oil Sands Inc.
Unaudited Condensed Consolidated Statements of Cash Flows
For the six months ended June 30
(Cdn$)

	Notes	**2013**	2012
Operating activities			
Net loss		**$ (2,066,438)**	$ (2,760,995)
Adjustments for:			
Interest income		**(10,670)**	(5,152)
Income tax expense		**101**	101
Amortization	4	**37,397**	46,526
Accretion	8	**2,068**	578
Share-based payments	9	**499,752**	442,307
Service fees paid by issuance of warrants	9	**-**	10,258
Unrealized loss (gain) on foreign exchange		**(175,999)**	14,055
Income tax paid		**(101)**	(101)
Changes in non-cash working capital	10	**(174,537)**	(518,954)
		(1,888,427)	(2,771,377)
Investing activities			
Interest received		**10,670**	5,152
Purchase of property, plant and equipment	4	**(68,500)**	(85,534)
Expenditures on exploration and evaluation assets	5	**(476,112)**	(818,918)
Expenditures on technology and patents	6	**(1,759)**	(300)
Changes in reclamation funds on deposit		**-**	21,139
Changes in non-cash working capital	10	**46,250**	117,463
		(489,451)	(760,998)
Financing activities			
Proceeds from issuance of shares and warrants from private placement		**-**	11,020,452
Proceeds from options exercised	9	**-**	225,000
Share issue costs		**-**	(813,417)
		-	10,432,035
Effects of exchange rate changes on cash and cash equivalents		**186,913**	4,426
Net increase/(decrease) in cash and cash equivalents		**(2,190,965)**	6,904,086
Cash and cash equivalents, beginning of period		**$ 5,327,732**	$ 3,575,004
Cash and cash equivalents, end of period		**$ 3,136,767**	**$ 10,479,090**
Cash and cash equivalents			
Cash		**$ 1,079,209**	$ 437,998
Short-term investments		**2,057,558**	10,041,092
		$ 3,136,767	$ 10,479,090

1. NATURE OF BUSINESS

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.

These condensed consolidated financial statements were approved by the Board of Directors of the Company on August 15, 2013.

2. BASIS OF PRESENTATION

These condensed consolidated financial statements have been prepared using the accounting policies under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and have been prepared in accordance with International Standards ("IAS") 34 "Interim Financial Reporting".

These condensed consolidated financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the Audited Consolidated Financial Statements for the year ended December 31, 2012.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of consolidation

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

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 and the time when intangible assets are expected to be used for commercial production.

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 and software	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 June 30, 2013 and December 31, 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 condensed 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.

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) 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.

i) 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.

j) Income taxes

Current and deferred income taxes are recognized in the condensed 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 condensed 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.

k) 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.

l) Foreign currency

The condensed consolidated 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. 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.

m) Earnings per share

Basic loss per share is calculated using the weighted average number of shares outstanding during the period. 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 period.

4. 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	67,195	-	-	1,305	68,500
Foreign exchange effect	-	70	607	3,113	3,790
As at June 30, 2013	$ 1,443,059	$ 584,598	$ 26,324	$ 224,348	$ 2,278,329
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	14,348	11,018	1,070	10,961	37,397
Foreign exchange effect	-	33	277	1,422	1,732
As at June 30, 2013	$ 678,820	$ 522,139	$ 20,067	$ 103,845	$ 1,324,871
Carrying value					
As at December 31, 2012	$ 711,392	$ 73,440	$ 6,997	$ 128,468	$ 920,297
As at June 30, 2013	$ 764,239	$ 62,459	$ 6,257	$ 120,503	$ 953,458

No impairment on PP&E has been identified as at June 30, 2013 and December 31, 2012.

5. 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 (note 8)		19,000
Decommissioning liabilities incurred (note 8)		52,903
Foreign exchange effect		(190,202)
As at December 31, 2012	$	12,453,414
Additions		476,112
Foreign exchange effect		706,552
As at June 30, 2013	$	13,636,078

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 June 30, 2013 and December 31, 2012.

6. TECHNOLOGY AND PATENTS

As at January 1, 2012	$	1,549,977
Additions		8,182
As at December 31, 2012	$	1,558,159
Additions		1,759
As at June 31, 2013	$	1,559,918

No impairment on technology and patents has been identified as at June 30, 2013 and December 31, 2012.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		June 30 2013		December 31 2012
Accounts payables	**$**	**539,015**	$	371,197
Accrued liabilities		**139,662**		283,305
	$	**678,677**	$	654,502

8. DECOMMISSIONING LIABILITIES

		June 30 2013		December 31 2012
Balance, beginning of period	$	**168,068**	$	96,534
Changes in estimates		**-**		19,000
Liabilities incurred (note 5)		**-**		52,903
Accretion		**2,068**		2,176
Foreign exchange effect		**9,583**		(2,545)
Balance, end of period	$	**179,719**	$	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.

9. SHARE CAPITAL

a) Common shares

	June 30 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	**-**		**-**	61,224,735		8,931,852
Share issue costs	**-**		**-**	-		(815,893)
Exercise of options	**-**		**-**	2,250,000		225,000
Balance, end of period	**312,831,064**	**$**	**35,615,898**	312,831,064	$	35,615,898

Weighted average common shares outstanding, basic and diluted	**312,831,064**	288,546,536

On February 29, 2012, a former US Oil Sands consultant exercised 2,000,000 stock options at a price of $0.10 per share. The weighted average share price on the date of exercise was $0.20 per share.

On March 1, 2012, a former US Oil Sands consultant exercised 250,000 stock options at a price of $0.10 per share. The weighted average share price on the date of exercise was $0.2125 per share.

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 commission fees in the amount of $651,432 and other share issue costs in the amount of $164,461.

b) Warrants

	June 30 2013		December 31 2012	
	Number of Warrants	**Fair Value**	Number of Warrants	Fair Value
Balance, beginning of period	**84,224,735**	**$ 2,227,995**	22,000,000	$ 129,137
Issued on private placement (note 8a)	**-**	**-**	61,224,735	2,088,600
Issued per 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:

	June 30 2012	May 23 2012	March 31 2012	December 31 2011
Risk-free interest rate	1.04%	1.16%	1.20%	0.89-0.97%
Expected life (years)	1.00	2.0	1.25	1.50-1.75
Expected volatility	70%	70%	70%	80%
Dividend per share	0.0	0.0	0.0	0.0

Based on the Black-Scholes pricing model, the weighted average fair value per warrant is $0.0037 for the warrants issued on June 30, 2012, $0.0341 for the warrants issued on May 23, 2012 and $0.0168 for the warrants issued on March 31, 2012.

c) Stock options

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

	June 30 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	**-**		**-**	(2,250,000)		0.100
Options granted	**4,825,000**		**0.115**	2,750,000		0.180
Outstanding, end of period	**29,500,000**	**$**	**0.244**	24,675,000	$	0.270
Exercisable, end of period	**26,381,250**	**$**	**0.244**	21,481,250	$	0.270

The following table summarizes information about stock options outstanding and exercisable as at June 30, 2013:

Exercise price	Number Outstanding	Number Exercisable	Expiry Date
0.1250	1,000,000	1,000,000	July 7, 2013
0.2500	2,000,000	2,000,000	August 11, 2013
0.3125	8,000,000	8,000,000	August 7, 2013
0.1000	1,250,000	1,250,000	December 23, 2019
0.3600	7,200,000	7,200,000	April 18, 2021
0.2000	75,000	56,250	August 23, 2021
0.1800	2,750,000	2,062,500	May 28, 2017
0.1150	4,825,000	2,412,500	March 18, 2018
0.1250	2,400,000	2,400,000	May 15, 2016
	29,500,000	26,381,250	

As at June, 2013, the exercise prices of the options outstanding ranged from $0.10 to $0.36 per option with a weighted average remaining life of 3.61 years.

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:

	May 15, 2013 Extension	Mar 18, 2013 options	May 28, 2012 options	Aug 23, 2011 options	Apr 18, 2011 options	2010 Modifications	2008 options
Risk-free interest rate	1.15%	1.34%	1.32%	2.38%	3.37%	1.94%	3.08%
Expected life (years)	3.00	5.00	5.00	10.0	10.0	3.0	5.0
Expected volatility	107%	106%	70%	80%	80%	80%	80%
Forfeiture rate	0%	0%	0%	0%	0%	0%	0%
Dividend per share	0.0	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.

c) Contributed surplus

	June 30 2013	December 31 2012
Balance, beginning of period	**$ 4,205,391**	$ 3,574,978
Share-based payments	**499,752**	630,413
Warrants Expired	**139,395**	-
Balance, end of period	**$ 4,844,538**	$ 4,205,391

10. CASH FLOW

For the six months ended June 30	2013	2012
Accounts receivable	**$ 41,829**	$ 28,459
Prepaid expenses	**(194,291)**	(573,030)
Accounts payable and accrued liabilities	**24,175**	143,080
Changes in non-cash working capital	**$ (128,287)**	$ (401,491)
Changes in non-cash working capital – operating	**$ (174,537)**	$ (518,954)
Changes in non-cash working capital – investing	**46,250**	117,463
	$ (128,287)	$ (401,491)

11. 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 June 30, 2013	**Corporate**	**Utah Oil Sand Development**	**Consolidated**
Property, plant and equipment	$ 917,405	$ 36,053	$ 953,458
Exploration and evaluation assets	260,000	13,376,078	13,636,078
Technology and patents	1,559,918	-	1,559,918
Reclamation funds on deposits	-	328,914	328,914
Segment non-current assets	$ 2,737,323	$ 13,741,045	$ 16,478,368

As at December 31, 2012	**Corporate**	**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

	Corporate		**Utah Oil Sand Development**		**Consolidated**	
For the three months ended June 30	**2013**	2012	**2013**	2012	**2013**	2012
Income						
Interest income	**$ 4,315**	$2,462	**$ 573**	$ 196	**$ 4,888**	$ 2,658
Less: Expenses						
Operation costs	**-**	-	**32,320**	-	**32,320**	-
Amortization	**16,444**	19,015	**3,080**	4,291	**19,524**	23,306
Accretion	**-**	-	**1,252**	-	**1,252**	-
Property evaluation	**79,081**	-	**78,322**	24,873	**157,403**	24,873
Technology development	**20,769**	1,732	**-**	-	**20,769**	1,732
General and administrative	**618,378**	1,310,224	**29,637**	30,384	**648,015**	1,340,608
Share-based payments	**205,149**	241,591	**-**	-	**205,149**	241,591
	939,821	1,572,562	**144,611**	59,548	**1,084,432**	1,632,110
Loss before taxes	**(935,506)**	(1,570,100)	**(144,038)**	(59,352)	**(1,079,544)**	(1,629,452)
Income tax expense	**-**	-	**-**	-	**-**	-
Segment net loss	**$ (935,506)**	$(1,570,100)	**$ (144,038)**	$ (59,352)	**$(1,079,544)**	$(1,629,452)

For the six months ended June 30	Corporate 2013	Corporate 2012	Utah Oil Sand Development 2013	Utah Oil Sand Development 2012	Consolidated 2013	Consolidated 2012
Income						
Interest income	**$ 10,097**	$ 4,957	**$ 573**	$ 195	**$ 10,670**	$ 5,152
Less: Expenses						
Operation costs	**-**	-	**32,320**	-	**32,320**	-
Amortization	**31,278**	37,982	**6,119**	8,544	**37,397**	46,526
Accretion	**-**	-	**2,068**	578	**2,068**	578
Property evaluation	**91,853**	-	**99,975**	230,727	**191,828**	230,727
Technology development	**49,096**	7,229	**-**	-	**49,096**	7,229
General and administrative	**1,196,889**	1,952,642	**67,657**	86,037	**1,264,546**	2,038,679
Share-based payments	**499,752**	442,307	**-**	-	**499,752**	442,307
	1,868,868	2,440,160	**208,139**	325,886	**2,077,007**	2,766,046
Loss before taxes	**(1,858,771)**	(2,435,203)	**(207,566)**	(325,691)	**(2,066,337)**	(2,760,894)
Income tax expense	**-**	-	**101**	101	**101**	101
Segment net loss	**$(1,858,771)**	$(2,435,203)	**$ (207,667)**	$ (325,792)	**$(2,066,438)**	$(2,760,995)

12. 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.

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, as all of the Company's cash are held at high-rated financial institutions.

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:

	June 30 2013	December 31 2012
Cash and cash equivalents	**$ 2,746,361**	$ 4,840,597
Accounts payable	**140,818**	110,962
Accrued liabilities	**58,012**	80,637

As at June 30, 2013, the exchange rate between Canadian dollars and US dollars was US$1 to CAD$1.0512. A change of the value of the Canadian dollar relative to the US dollar of 1% will result in a $25,475 increase in the gain or loss of foreign exchange, respectively.

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.

13. 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:

		June 30 2013		December 31 2012
Shareholders' capital	**$**	**35,615,898**	$	35,615,898
Contributed surplus		**4,844,538**		4,205,391
Warrants		**2,088,600**		2,227,995
Deficit		**(23,905,016)**		(21,838,577)

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

14. COMMITMENTS

The Company has three forms of future commitments.

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

The Company leases office and office/development premises in Calgary and Grande Prairie, respectively. The lease on the Calgary office space had an 8-month term sublease expiring May 31, 2013 with gross quarterly rental fees of $30,173 and thereafter, a 3-year term headlease expiring May 31, 2016 with gross quarterly rental fees of $40,118. 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 assigned its original 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 quarterly rental fees of $9,800.

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 quarterly payments are US$82,114.