



U.S. OIL SANDS

US Oil Sands Inc.

**Unaudited Condensed Consolidated Financial Statements
For the Three and Six Months ended June 30, 2014**

(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.
Consolidated Statements of Financial Position
(Cdn\$)

As at	Notes	June 30, 2014	December 31, 2013
Assets			
Current Assets			
Cash and cash equivalents	3	\$ 69,995,663	\$ 77,582,389
Accounts receivable		84,939	227,747
Prepaid expenses		513,080	278,219
Inventory		37,211	-
		70,630,893	78,088,355
Non-current assets			
Property, plant and equipment	4	\$ 1,111,485	901,358
Exploration and evaluation assets	5	16,278,648	14,231,160
Intangible assets		1,587,564	1,584,888
Reclamation funds on deposit		646,852	398,950
		19,624,549	17,116,356
Total assets		\$ 90,255,442	\$ 95,204,711
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	7	\$ 857,416	\$ 821,042
Non-current liabilities			
Decommissioning liabilities	8	138,236	167,583
Total liabilities		995,652	988,625
Shareholders' equity			
Share capital	9	113,634,766	113,606,016
Contributed surplus	9	10,242,693	7,285,996
Warrants	9	-	2,088,600
Deficit		(35,490,589)	(29,586,258)
Accumulated other comprehensive income		872,920	821,732
Total shareholders' equity		89,259,790	94,216,086
Total liabilities and shareholders' equity		\$ 90,255,442	\$ 95,204,711

Commitments (note 15)

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		For the Six Months Ended June 30	
		2014	2013	2014	2013
Income					
Interest		\$ 153,996	\$ 4,888	\$ 499,467	\$ 10,670
Expenses					
Operation costs		20,995	32,320	21,116	32,320
Amortization	4	24,971	19,524	46,999	37,397
Accretion	8	1,028	1,252	2,061	2,068
Property evaluation		124,883	157,403	143,951	191,828
Technology development		99,707	20,769	178,672	49,096
General and administrative		3,493,389	648,015	5,142,792	1,264,546
Share-based payment	9	438,296	205,149	868,097	499,752
		4,203,269	1,084,432	6,403,688	2,077,007
Loss before taxes		(4,049,273)	(1,079,544)	(5,904,221)	(2,066,337)
Income tax expense		-	-	110	101
Net loss		(4,049,273)	(1,079,544)	(5,904,331)	(2,066,438)
Other comprehensive income (loss)		50,739	467,642	51,188	727,805
Total comprehensive loss		\$ (3,948,534)	\$ (611,902)	\$ (5,853,143)	\$ (1,338,633)
Loss per share – basic and diluted		\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.01)
Weighted average number of shares outstanding		852,892,395	312,831,064	853,123,058	312,831,064

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, 2013	\$35,615,898	\$ 4,205,391	\$ 2,227,995	\$ (21,838,577)	\$ (75,960)	\$ 20,134,747
Net loss for the period	-	-	-	(2,066,439)	-	(2,066,439)
Other comprehensive loss – 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
July 1, 2013	\$35,615,898	\$ 4,844,538	\$ 2,088,600	\$ (23,905,016)	\$ 651,845	\$ 19,295,865
Net loss for the period	-	-	-	(5,681,242)	-	(5,681,242)
Other comprehensive loss – currency translation adjustment	-	-	-	-	169,887	169,887
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	-	2,441,458	-	-	-	2,441,458
December 31, 2013	\$113,606,016	\$ 7,285,996	\$ 2,088,600	\$ (29,586,258)	\$ 821,732	\$ 94,216,086
January 1, 2014	\$113,606,016	\$ 7,285,996	\$ 2,088,600	\$ (29,586,258)	\$ 821,732	\$ 94,216,086
Net loss for the year	-	-	-	(5,904,331)	-	(5,904,331)
Other comprehensive income – currency translation adjustment	-	-	-	-	51,188	51,188
Exercise of options	28,750	-	-	-	-	28,750
Share-based payments	-	868,097	-	-	-	868,097
Warrants	-	2,088,600	(2,088,600)	-	-	-
June 30, 2014	\$113,634,766	\$ 10,242,693	\$ -	\$ (35,490,589)	\$ 872,920	\$ 89,259,790

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

	Notes	2014	2013
Operating activities			
Net loss		\$ (5,904,331)	\$ (2,066,438)
Adjustments for:			
Interest income		(499,467)	(10,670)
Income tax expense		110	101
Amortization	4,6	46,999	37,397
Accretion	8	2,061	2,068
Share-based payments	9	868,097	499,752
Unrealized loss (gain) on foreign exchange		2,397,641	(175,999)
Income tax paid		(110)	(101)
Changes in non-cash working capital	10	(416,858)	(174,537)
		(3,505,858)	(1,888,427)
Investing activities			
Interest received		499,467	10,670
Purchase of property, plant and equipment	4	(249,962)	(68,500)
Proceeds from sale of assets		-	(476,112)
Expenditures on exploration and evaluation assets	5	(2,080,305)	-
Expenditures on intangible assets	6	(6,158)	(1,759)
Changes in reclamation funds on deposit		-	-
Changes in non-cash working capital	10	323,968	46,250
		(1,512,990)	(489,451)
Financing activities			
Proceeds from options exercised	9	28,750	-
		28,750	-
Effects of exchange rate changes on cash and cash equivalents		(2,596,628)	86,913
Net increase/(decrease) in cash and cash equivalents		(7,586,726)	(2,190,965)
Cash and cash equivalents, beginning of period		\$ 77,582,389	\$ 5,327,732
Cash and cash equivalents, end of period		\$ 69,995,663	\$ 3,136,767

US Oil Sands Inc.
Notes to Consolidated Financial Statements
(Expressed in Canadian dollars, except as noted)

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 condensed consolidated financial statements ("interim financial statements") were approved by the Board of Directors of the Company on August 13, 2014.

The interim 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".

The interim 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, 2013. The Company has prepared these interim financial statements using the same significant accounting policies, critical judgments, accounting estimates and methods of computation applied in the 2013 audited financial statements, except as noted below.

b) Adoption of Accounting Policies and Disclosures

On January 1, 2014, the Company adopted IFRIC 21 "Levies", which provides 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. The adoption of this standard has no impact on the amounts recorded in the consolidated financial statements as at January 1, 2014 or on the comparative periods.

c) Basis of measurement

The financial statements are presented in Canadian dollars which is the Company's functional and presentation currency. The Company follows the foreign currency translation method prescribed in IAS 12.

3. CASH AND CASH EQUIVALENTS

	June 30 2014	December 31 2013
Cash	\$ 1,197,334	1,263,591
Short-term investments	68,798,329	76,318,798
	\$ 69,995,663	77,582,389

4. PROPERTY, PLANT AND EQUIPMENT

	Processing Equipment	Shop and Laboratory Equipment	Automotive Equipment	Corporate and Other	Total
Cost					
As at January 1, 2013	\$ 1,375,864	\$ 584,528	\$ 25,717	\$ 161,629	\$ 2,147,738
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	\$ 169,523	\$ 2,239,368
Additions	-	105,745	37,307	106,910	249,962
Foreign exchange effect	-	5	2,565	322	2,892
As at June 30, 2014	\$ 1,445,326	\$ 703,812	\$ 66,329	\$ 276,755	\$ 2,492,222
Accumulated amortization					
As at January 1, 2013	\$ 664,472	\$ 511,088	\$ 18,720	\$ 57,413	\$ 1,251,693
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	\$ 89,191	\$ 1,338,010
Amortization	10,043	14,996	3,327	14,386	42,752
Foreign exchange effect	-	-	(62)	37	(25)
As at June 30, 2014	\$ 703,210	\$ 549,399	\$ 24,514	\$ 103,614	\$ 1,380,737
Carrying value					
As at December 31, 2013	\$ 752,159	\$ 63,659	\$ 5,208	\$ 80,332	\$ 901,358
As at June 30, 2014	\$ 742,116	\$ 154,413	\$ 41,815	\$ 173,141	\$ 1,111,485

5. EXPLORATION AND EVALUATION ASSETS

Cost and carrying value	
As at January 1, 2013	\$ 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
Additions	2,080,305
Changes in estimates of decommissioning liabilities	(30,797)
Foreign exchange effect	(2,020)
As at June 30, 2014	\$ 16,278,648

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, 2014 and December 31, 2013.

6. INTANGIBLE ASSETS

	Technology & Patents	Computer Software	Corporate & Other	Total
Cost				
As at January 1, 2013	\$ 1,558,159	\$ 54,622	\$ 81,695	\$ 1,694,476
Additions	2,477	-	-	2,477
Foreign exchange effect	-	3,680	-	3,680
As at December 31, 2013	\$ 1,560,636	\$ 58,302	\$ 81,695	\$ 1,700,633
Additions	6,158	-	-	6,158
Foreign exchange effect	-	744	-	744
As at June 30, 2014	\$ 1,566,794	\$ 59,046	\$ 81,695	\$ 1,707,535
Accumulated amortization				
As at January 1, 2013	\$ -	\$ 22,165	\$ 81,695	\$ 103,860
Amortization	-	10,072	-	10,072
Foreign exchange effect	-	1,813	-	1,813
As at December 31, 2013	\$ -	\$ 34,050	\$ 81,695	\$ 115,745
Amortization	-	4,200	-	4,200
Foreign exchange effect	-	26	-	26
As at June 30, 2014	\$ -	\$ 38,276	\$ 81,695	\$ 119,971
Carrying value				
As at December 31, 2013	\$ 1,560,636	\$ 24,252	\$ -	\$ 1,584,888
As at June 30, 2014	\$ 1,566,794	\$ 20,770	\$ -	\$ 1,587,564

No impairment on intangible assets have been identified as at June 30, 2014 and December 31, 2013.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30 2014	December 31 2013
Accounts payables	\$ 597,980	\$ 407,032
Accrued liabilities	239,436	414,010
	\$ 837,416	\$ 821,042

8. DECOMMISSIONING LIABILITIES

	June 30 2014	December 31 2013
Balance, beginning of period	\$ 167,583	\$ 168,068
Changes in estimates	(30,797)	(15,829)
Liabilities incurred (note 5)	-	-
Accretion	2,061	4,121
Foreign exchange effect	(611)	11,223
Balance, end of period	\$ 138,236	\$ 167,583

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 a risk-free rate of 2.78% and an inflation rate of 1.5%. The properties are estimated to require reclamation in 16 years as at June 30, 2014.

9. SHARE CAPITAL

a) Common shares

	June 30 2014		December 31 2013	
	Number	Amount	Number	Amount
Balance, beginning of period	852,892,395	\$ 113,606,016	312,831,064	\$ 35,615,898
Private placement, net of allocation to warrants	-	-	540,036,331	81,005,452
Share issue costs	-	-	-	(3,018,209)
Exercise of options	250,000	28,750	25,000	2,875
Balance, end of period	853,142,395	\$ 113,634,766	852,892,395	\$ 113,606,016
Weighted average common shares outstanding, basic and diluted	853,123,058		423,804,214	

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

	June 30 2014		December 31 2013	
	Number	Amount	Number	Amount
Balance, beginning of period	61,224,735	\$ 2,088,600	84,224,735	\$ 2,227,995
Expired	(61,224,735)	(2,088,600)	(23,000,000)	(139,395)
Balance, end of period	-	\$ -	61,224,735	\$ 2,008,600

On May 23, 2014, 61,224,735 warrants expired leaving no outstanding warrants as at June 30, 2014. The weighted average exercise price for the warrants issued is \$nil (2013 – \$0.26) 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:

	June 30 2014		December 31 2013	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	45,200,000	\$ 0.203	24,675,000	\$ 0.270
Options exercised	(250,000)	0.115	(25,000)	0.115
Options granted	2,020,000	0.127	31,725,000	0.179
Options expired	(1,250,000)	0.154	(11,000,000)	0.284
Options cancelled & forfeited	-	-	(175,000)	0.161
Outstanding, end of period	45,720,000	\$ 0.201	45,200,000	\$ 0.203
Exercisable, end of period	29,256,250	\$ 0.214	28,706,250	\$ 0.216

c) Stock Options - continued

The following table summarizes information about stock options outstanding and exercisable as at June 30, 2014:

Exercise price	Number Outstanding	Number Exercisable	Expiry Date
0.100	1,250,000	1,250,000	December 23, 2019
0.360	7,200,000	7,200,000	April 18, 2021
0.180	1,975,000	1,481,250	May 28, 2017
0.115	3,975,000	2,981,250	March 18, 2018
0.125	2,400,000	2,400,000	May 15, 2016
0.190	26,900,000	13,450,000	November 12, 2018
0.145	20,000	-	March 12, 2019
0.125	1,500,000	-	April 15, 2019
0.140	100,000	-	April 21, 2019
0.130	400,000	-	May 14, 2019
	45,720,000	29,256,250	

As at June 30, 2014, the exercise prices of the options outstanding ranged from \$0.10 to \$0.36 per option with a weighted average remaining life of 4.55 years.

The fair value of stock options granted during the six months ended June 30, 2014 were estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	June 30 2014	June 30 2013
Risk-free interest rate	1.62%	1.27%
Expected life (years)	5.00	5.00
Expected volatility	120%	106%
Forfeiture rate	0%	0%
Dividend per share	N/A	N/A

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 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.

On March 12, 2014, 20,000 options to purchase common shares were granted to an employee of the Company at an exercise price of \$0.145 per share expiring on March 12, 2019. The weighted average fair value of these options is \$0.12 per option.

On April 15, 2014, 1,500,000 options to purchase common shares were granted to a director of the Company at an exercise price of \$0.125 per share expiring on April 15, 2019. The weighted average fair value of these options is \$0.10 per option.

c) Stock Options - continued

On April 21, 2014, 100,000 options to purchase common shares were granted to an employee of the Company at an exercise price of \$0.14 per share expiring on April 21, 2019. The weighted average fair value of these options is \$0.12 per option.

On May 14, 2014, 400,000 options to purchase common shares were granted to employees of the Company at an exercise price of \$0.13 per share expiring on March 12, 2019. The weighted average fair value of these options is \$0.11 per option.

d) Contributed surplus

	June 30 2014	December 31 2013
Balance, beginning of period	\$ 7,285,996	\$ 4,205,391
Share-based payments	868,097	2,941,210
Warrants Expired	2,088,600	139,395
Balance, end of period	\$ 10,242,693	\$ 7,285,996

10. CASH FLOW

For the six months ended June 30	2014	2013
Accounts receivable	\$ 162,808	\$ 11,831
Prepaid expenses	(234,861)	62,699
Inventory	(37,211)	-
Accounts payable and accrued liabilities	16,374	(262,287)
Changes in non-cash working capital	\$ (92,890)	\$ (187,757)
Changes in non-cash working capital – operating	\$ (416,858)	\$ (85,047)
Changes in non-cash working capital – investing	323,968	(102,710)
	\$ (92,890)	\$ (187,757)

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, 2014	Canada & Corporate	US & Utah Oil Sand Development	Consolidated
Property, plant and equipment	\$ 1,064,063	\$ 47,422	\$ 1,111,485
Exploration and evaluation assets	260,000	16,018,648	16,278,648
Intangible assets	1,567,325	20,239	1,587,564
Reclamation funds on deposits	-	646,852	646,852
Segment non-current assets	\$ 2,891,388	\$ 16,733,161	\$ 19,624,549

As at December 31, 2013	Canada & Corporate	US & Utah Oil Sand Development	Consolidated
Property, plant and equipment	\$ 895,007	\$ 6,351	\$ 901,358
Exploration and evaluation assets	260,000	13,971,160	14,231,160
Intangible assets	1,561,166	23,722	1,584,888
Reclamation funds on deposits	-	398,950	398,950
Segment non-current assets	\$ 2,716,173	\$ 14,400,183	\$ 17,116,356

b) Reconciliation of reported segment loss

For the three months ended June 30	Corporate		Utah Oil Sand Development		Consolidated	
	2014	2013	2014	2013	2014	2013
Income						
Interest income	\$ 153,887	\$ 4,315	\$ 109	\$ 573	\$ 153,996	\$ 4,888
Less: Expenses						
Operation costs	-	-	20,995	32,320	20,995	32,320
Amortization	20,953	16,444	4,018	3,080	24,971	19,524
Accretion	-	-	1,028	1,252	1,028	1,252
Property evaluation	112,245	79,081	12,638	78,322	124,883	157,403
Technology development	99,707	20,769	-	-	99,707	20,769
General and administrative	3,314,532	618,378	178,857	29,637	3,493,389	648,015
Share-based payments	438,296	205,149	-	-	438,296	205,149
	3,985,733	939,821	217,536	144,611	4,203,269	1,084,432
Loss before taxes	(3,831,846)	(935,506)	(217,427)	(144,038)	(4,049,273)	(1,079,544)
Income tax expense	-	-	-	-	-	-
Segment net loss	\$(3,831,846)	\$(935,506)	\$(217,427)	\$(144,038)	\$(4,049,273)	\$(1,079,544)

For the six months ended June 30	Corporate		Utah Oil Sand Development		Consolidated	
	2014	2013	2014	2013	2014	2013
Income						
Interest income	\$ 499,358	\$ 10,097	\$ 109	\$ 573	\$ 499,467	\$ 10,670
Less: Expenses						
Operation costs	-	-	21,116	32,320	21,116	32,320
Amortization	39,463	31,278	7,536	6,119	46,999	37,397
Accretion	-	-	2,061	2,068	2,061	2,068
Property evaluation	131,240	91,853	12,711	99,975	143,951	191,828
Technology development	178,672	49,096	-	-	178,672	49,096
General and administrative	4,831,019	1,196,889	311,773	67,657	5,142,792	1,264,546
Share-based payments	868,097	499,752	-	-	868,097	499,007
	6,048,491	1,868,868	355,197	208,139	6,403,688	2,077,007
Loss before taxes	(5,549,133)	(1,858,771)	(355,088)	(207,566)	(5,904,221)	(2,066,337)
Income tax expense	-	-	110	101	110	101
Segment net loss	\$(5,549,133)	\$(1,858,771)	\$(355,198)	\$(207,667)	\$(5,904,331)	\$(2,066,438)

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.

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.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT - continued

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 \$69 million of cashable GICs. Had the interest rate on the investments been 100 basis points higher (or lower) throughout the six months ended June 30, 2014, earnings would have been affected by \$357,878 (2013 – \$25,475) based on the average investment balance outstanding during the six month period.

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 2014	December 31 2013
Cash and cash equivalents	\$ 55,837,974	\$ 1,065,727
Accounts payable	323,157	23,234
Accrued liabilities	169,612	86,430

As at June 30, 2014, the exchange rate between Canadian dollars and US dollars was US\$1 to CAD\$1.0676. A change of the value of the Canadian dollar relative to the US dollar of 1% will result in a \$553,452 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.

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 2014	December 31 2013
Shareholders' capital	\$ 113,634,766	\$ 113,606,016
Contributed surplus	10,242,693	7,285,996
Warrants	-	2,088,600
Deficit	(35,490,589)	(29,586,258)

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

14. 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. The remuneration of key management personnel during the six months ended June 30 are as follows:

	2014		2013
Short-term employee benefits	\$ 978,825	\$	454,327
Share-based payments	390,541		66,962
	\$ 1,369,366	\$	521,289

15. COMMITMENTS

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

2014	\$ 291,169
2015	574,575
2016	467,794
2017	434,607
2018	108,652
	\$ 1,876,797

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	\$ -
2015	304,029
2016	304,029
2017	304,029
2018	283,074
Thereafter	548,988
	\$ 1,744,149

As at June 30, 2014, the capital expenditure commitments for the PR Spring Project are US\$1,556,697 and expected to be paid during 2014. The committed costs pertain to detailed engineering, construction management and capital equipment. Subsequent to the end of the quarter, the Company committed to an additional US\$1,777,644 of capital equipment to be paid in 2014 and 2015.