US Oil Sands Inc.

Consolidated Financial Statements
For the year ended December 31, 2012
(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 18, 2013

Deloitte.

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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, 2012 and December 31, 2011, and the consolidated statements of comprehensive loss, consolidated statements of changes in equity and consolidated statements of 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 audits. We conducted our audits 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 in our audits 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, 2012 and December 31, 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

March 18, 2013
Calgary, Alberta

Chartered Accountants

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

As at	Notes		December 31 2012		December 31 2011
Assets					
Current Assets					
Cash and cash equivalents		**$**	**5,327,732**	$	3,575,004
Accounts receivable			**137,612**		84,640
Prepaid expenses			**249,052**		74,705
			5,714,396		3,734,349
Non-current assets					
Property, plant and equipment	5		**920,297**		368,652
Exploration and evaluation assets	6		**12,453,414**		8,083,127
Technology and patents	7		**1,558,159**		1,549,977
Reclamation funds on deposit			**311,051**		338,853
			15,242,921		10,340,609
Total assets		**$**	**20,957,317**	$	14,074,958
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	8	**$**	**654,502**	$	305,848
Non-current liabilities					
Decommissioning liabilities	10		**168,068**		96,534
Total liabilities			**822,570**		402,382
Shareholders' equity					
Shareholders' capital	11		**35,615,898**		27,274,939
Contributed surplus	11		**4,205,391**		3,574,978
Warrants	11		**2,227,995**		129,137
Deficit			**(21,838,577)**		(17,442,451)
Accumulated other comprehensive (loss) income			**(75,960)**		135,973
Total shareholders' equity			**20,134,747**		13,672,576
Total liabilities and shareholders' equity		**$**	**20,957,317**	$	14,074,958

Commitments (note 18)

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

	Notes	2012	2011
Income			
Interest		**$ 39,139**	$ 45,076
Gain/(loss) on sale of capital assets		**50**	(4,215)
		39,189	40,861
Expenses			
Amortization	5	**97,131**	112,114
Accretion	10	**2,176**	1,983
Reclamation expense		**11,564**	-
Acquisition expense		**-**	285,199
Property evaluation		**250,667**	97,332
Technology development		**84,657**	85,267
General and administrative		**3,358,607**	1,810,825
Share-based payments	11	**630,413**	1,641,143
		4,435,215	4,033,863
Loss before taxes		**(4,396,026)**	(3,993,002)
Income tax expense		**100**	99
Net loss		**(4,396,126)**	(3,993,101)
Other comprehensive (loss) income – currency translation adjustment		**(211,933)**	135,973
Total comprehensive loss		**$ (4,608,059)**	$ (3,857,128)
Loss per share – basic and diluted		**$ (0.02)**	$ (0.02)
Weighted average number of shares outstanding		**288,546,536**	183,795,331

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, 2011	$ 15,011,398	$ 1,933,835	$ -	$ (13,449,350)	$ -	**$ 3,495,883**
Net loss for the year	-	-	-	(3,993,101)	-	**(3,993,101)**
Other comprehensive income – currency translation adjustment	-	-	-	-	135,973	**135,973**
Common shares issued						
Private placement, net of allocation to warrants	12,495,000	-	-	-	-	**12,495,000**
Shares issued for commissions	619,500	-	-	-	-	**619,500**
Value assigned upon amalgamation	475,741	-	-	-	-	**475,741**
Exercise of options	73,800	-	-	-	-	**73,800**
Common shares cancelled	(25,000)	-	-	-	-	**(25,000)**
Share issue costs						
Finder's fees	(630,000)	-	-	-	-	**(630,000)**
Fees paid in connection with acquisition	(126,000)	-	-	-	-	**(126,000)**
Commissions paid in shares	(619,500)	-	-	-	-	**(619,500)**
Share-based payments	-	1,641,143	-	-	-	**1,641,143**
Warrants	-	-	129,137	-	-	**129,137**
December 31, 2011	$ 27,274,939	$ 3,574,978	$ 129,137	$ (17,442,451)	$ 135,973	**$ 13,672,576**
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						
Commissions paid	(651,432)					**(651,432)**
Legal and other fees	(164,461)					**(164,461)**
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**

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

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

	Notes		**2012**		2011
Operating activities					
Net loss		**$**	**(4,396,126)**	$	(3,993,101)
Adjustments for:					
Interest income			**(39,139)**		(45,076)
Income tax expense			**100**		99
Amortization			**97,131**		112,114
Accretion			**2,176**		1,983
Share-based payments			**630,413**		1,641,143
Service fees paid by issuance of warrants	11		**10,258**		24,137
(Gain) loss on sale of assets			**(50)**		4,215
Unrealized loss (gain) on foreign exchange			**65,413**		(479,557)
Income tax paid			**(100)**		(99)
Changes in non-cash working capital	13		**81,328**		288,732
			(3,548,596)		(2,445,410)
Investing activities					
Interest received			**39,139**		45,076
Purchase of property, plant and equipment	5		**(651,666)**		(167,421)
Proceeds from sale of assets			**2,301**		8,070
Expenditures on exploration and evaluation assets	6		**(4,488,586)**		(6,887,680)
Expenditures on technology and patents	7		**(8,182)**		(6,192)
Changes in reclamation funds on deposit			**21,139**		(233,818)
Changes in non-cash working capital	13		**40,007**		69,999
			(5,045,848)		(7,171,966)
Financing activities					
Proceeds from issuance of shares and warrants from private Placement	11		**11,020,452**		12,600,000
Proceeds from options exercised	11		**225,000**		73,800
Share issue costs	11		**(815,893)**		(756,000)
Cash acquired from reverse asset acquisition	11		**-**		600,755
Proceeds from bridge loan	9		**-**		3,000,000
Repayment of bridge loan	9		**-**		(3,000,000)
			10,429,559		12,518,555
Effects of exchange rate changes on cash and cash equivalents			**(82,387)**		446,956
Net increase in cash and cash equivalents			**1,752,728**		3,348,135
Cash and cash equivalents, beginning of year		**$**	**3,575,004**	$	226,869
Cash and cash equivalents, end of year		**$**	**5,327,732**	$	3,575,004
Non-cash increase in decommissioning liabilities	10	**$**	**71,903**	$	28,831
Non-cash share issue costs	11	**$**	**-**	$	619,500
Non-cash shares issued	11	**$**	**-**	$	632,473
Non-cash shares cancelled	11	**$**	**-**	$	25,000
Cash and cash equivalents					
Cash		**$**	**499,264**	$	1,522,550
Short-term investments			**4,828,468**		2,052,454
		$	**5,327,732**	$	3,575,004

1. NATURE OF BUSINESS

Earth Energy Resources Inc. ("Earth Energy") and US Oil Sands Inc. ("US Oil Sands", formerly International LMM Ventures Corp.) amalgamated on May 9, 2011 to continue as US Oil Sands Inc. (the "Company"). On April 18, 2011, pursuant to the terms of the Amalgamation Agreement dated March 14, 2011, US Oil Sands acquired all of the issued and outstanding common shares of Earth Energy, by the issuance of 105,231,324 common shares of US Oil Sands, such that Earth Energy became a wholly-owned subsidiary of US Oil Sands (the "Acquisition"). Common Shares were issued on the basis of four (4) Common Shares for every one (1) Earth Energy share. The Company reported $285,199 acquisition expense associated with the Acquisition. In addition to the share exchange, 13,400,000 options to purchase common shares were issued to option holders of Earth Energy in exchange for their outstanding Earth Energy options based on the same exchange ratio, and 7,200,000 new options were granted to directors, officers, employees and consultants of the Company at an exercise price of $0.36 per share expiring on April 18, 2021.

Pursuant to its mandate agreement, Endeavour Financial Ltd., was issued 2,100,000 Common Shares of the Company and was paid a cash fee of $126,000 in connection with the Acquisition.

The Acquisition effectively resulted in Earth Energy taking control of the consolidated entity and that Earth Energy was identified as the acquirer. However, as US Oil Sands did not meet the definition of a business, the Acquisition did not constitute a business combination under IFRS 3R "Business Combinations". It is rather considered a capital restructuring or a reverse asset acquisition.

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 consolidated financial statements were approved by the Board of Directors of the Company on March 18, 2013.

2. BASIS OF PRESENTATION

These 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"). These consolidated financial statements have been prepared on a going concern basis.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of consolidation

The 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 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.

3. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

b) Use of estimates and judgments - continued

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 December 31, 2012 and 2011.

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.

3. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

3. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

j) 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.

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 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. Effective April 1, 2011, the subsidiary changed the functional currency to US dollars 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.

m) 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. FUTURE ACCOUNTING STANDARDS

a) IFRS 9 “Financial Instruments”

As of January 1, 2015 , the Company will be required to adopt IFRS 9 “Financial Instruments”, which is the result of the first phase of the IASB project to replace IAS 39 “Financial Instruments: Recognition and Measurement”. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. Portions of the standard remain in development and the full impact of the standard on the Company’s consolidated financial statements will not be known until the project is complete.

b) New and revised standards on consolidation, joint arrangements, associates and disclosures

In May 2011, the IASB released the following new standards: IFRS 10 “Consolidated Financial Statements”, IFRS 11 “Joint Arrangements” and IFRS 12 “Disclosures of interests in other entities. Each of these standards is to be adopted for fiscal years beginning January 1, 2013 with earlier adoption permitted. A brief description of each new standard follows below:

- IFRS 10 “Consolidated Financial Statements” supersedes IAS 27 “Consolidation and Separate Financial Statements” and SIC-12 “Consolidation – Special Purpose Entities”. This standard provides a single model to be applied in control analysis for all investees including special purpose entities. The adoption of this standard is not expected to have an impact on the Company’s consolidated financial statements.

- IFRS 11 “Joint Arrangements” divides joint arrangements into two types, joint operations and joint ventures, each with their own accounting model. All joint arrangements are required to be reassessed on transition to IFRS 11 to determine their type to apply the appropriate accounting. The adoption of this standard is not expected to have an impact on the Company’s consolidated financial statements.

- IFRS 12 “Disclosure of Interests in Other Entities” combines in a single standard the disclosure requirements for subsidiaries, associates and joint arrangements as well as unconsolidated structured entities. The adoption of this standard is not expected to have an impact on the Company’s consolidated financial statements.

c) IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine”

Issued in October 2011, IFRIC 20 applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine (production stripping costs). It clarifies that costs from stripping which provide access to ore is recognized as non-current asset and costs of normal on-going operational stripping activities are accounted for in accordance with IAS 2 “Inventory”. This new standard is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The adoption of this standard is not expected to have an impact on the Company’s consolidated financial statements.

5. PROPERTY, PLANT AND EQUIPMENT

	Processing Equipment	Shop and Laboratory Equipment	Automotive Equipment	Corporate and Other	Total
Cost					
As at January 1, 2011	$ 760,124	$ 554,958	$ 15,000	$ 71,783	$ 1,401,865
Additions	59,986	14,343	23,417	69,675	167,421
Dispositions	-	-	(12,761)	-	(12,761)
Foreign exchange effect	-	34	299	1,518	1,851
As at December 31, 2011	$ 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
Accumulated amortization					
As at January 1, 2011	$ 564,917	$ 448,910	$ 13,837	$ 51,053	$ 1,078,717
Amortization	58,562	33,965	3,258	16,329	112,114
Dispositions	-	-	(1,382)	-	(1,382)
Foreign exchange effect	-	5	43	227	275
As at December 31, 2011	$ 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
Carrying value					
As at December 31, 2011	$ 196,631	$ 86,455	$ 10,199	$ 75,367	$ 368,652
As at December 31, 2012	$ 711,392	$ 73,440	$ 6,997	$ 128,468	$ 920,297

No impairment on PP&E has been identified as at December 31, 2012 and December 31, 2011.

6. EXPLORATION AND EVALUATION ASSETS

Cost and carrying value	
As at January 1, 2011	$ 1,015,236
Additions	6,887,680
Changes in estimates of decommissioning liabilities (note 10)	1,513
Decommissioning liabilities incurred (note 10)	27,318
Foreign exchange effect	151,380
As at December 31, 2011	$ 8,083,127
Additions	4,488,586
Changes in estimates of decommissioning liabilities (note 10)	19,000
Decommissioning liabilities incurred (note 10)	52,903
Foreign exchange effect	(190,202)
As at December 31, 2012	$ 12,453,414

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, 2012 and December 31, 2011.

7. TECHNOLOGY AND PATENTS

As at January 1, 2011	$	1,568,785
Additions		6,192
Adjustment (note 11a)		(25,000)
As at December 31, 2011	$	1,549,977
Additions		8,182
As at December 31, 2012	$	1,558,159

No impairment on technology and patents has been identified as at December 31, 2012 and December 31, 2011.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		December 31 2012		**December 31 2011**
Accounts payables	**$**	**371,197**	$	151,166
Accrued liabilities		**283,305**		154,682
	$	**654,502**	$	305,848

9. BRIDGE LOAN

Pursuant to a loan agreement dated February 1, 2011, $3 million was advanced by a syndicate of arm's length lenders to the Company (the "Bridge Loan") to fund the acquisition of undeveloped oil sands leases in the State of Utah and to provide working capital for certain operating activities, including a coring program and engineering activities. The Bridge Loan was advanced in exchange for non-interest bearing promissory notes of the Company ("Promissory Notes") having a maturity date of August 1, 2011. The Promissory Notes were repaid on April 18, 2011.

10. DECOMMISSIONING LIABILITIES

		December 31 2012		December 31 2011
Balance, beginning of year	**$**	**96,534**	$	64,947
Changes in estimates		**19,000**		1,513
Liabilities incurred (note 6)		**52,903**		27,318
Accretion		**2,176**		1,983
Foreign exchange effect		**(2,545)**		773
Balance, end of year	**$**	**168,068**	$	96,534

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.

11. SHARE CAPITAL

a) Common shares

	December 31 2012 Number		December 31 2012 Amount	December 31 2011 Number		December 31 2011 Amount
Earth Energy						
Common shares issued						
Balance, beginning of year	**-**	**$**	**-**	25,800,528	$	14,998,425
Issued for cash	**-**		**-**	-		-
Issued as allocated	**-**		**-**	607,303		12,973
Shares cancelled	**-**		**-**	(100,000)		(25,000)
Exchange of shares on acquisition	**-**		**-**	(26,307,831)		(14,986,398)
	-	**$**	**-**	-	$	-
Common shares to be issued						
Balance, beginning of year	**-**	**$**	**-**	607,303	$	12,973
Issued as allocated	**-**		**-**	(607,303)		(12,973)
	-	**$**	**-**	-	$	-
Balance, end of year	**-**	**$**	**-**	-	$	-
US Oil Sands						
Balance, beginning of year	**249,356,329**	**$**	**27,274,939**	99,275,005	$	3,573,516
Exercise of options prior to amalgamation	**-**		**-**	12,000		1,200
Elimination of US Oil Sands share capital on amalgamation	**-**		**-**	-		(3,574,716)
Exchange of Earth Energy shares for US Oil Sands shares on acquisition	**-**		**-**	105,231,324		14,986,398
Private placement, net of allocation to warrants	**61,224,735**		**8,931,852**	42,000,000		12,495,000
Commissions paid in shares	**-**		**-**	2,100,000		619,500
Value assigned to US Oil Sands share capital on amalgamation	**-**		**-**	-		475,741
Share issue costs	**-**		**(815,893)**	-		(1,375,500)
Exercise of options	**2,250,000**		**225,000**	738,000		73,800
	312,831,064	**$**	**35,615,898**	249,356,329	$	27,274,939
Weighted average common shares outstanding, basic and diluted	**288,546,536**			183,795,331		

Earth Energy

On January 31, 2011, pursuant to an agreement dated September 15, 2005, 607,303 common shares were issued to Envoy Capital Management Ltd. at an aggregate assigned value of $12,973.

On April 7, 2011, Earth Energy cancelled 100,000 shares issued to a third party as consideration for IP purchased in 2005; $25,000 was originally assigned to those shares. Technology and patents balance was reduced by $25,000 accordingly (note 7).

On April 18, 2011, 26,307,831 common shares of Earth Energy were exchanged on a four (4) for one (1) basis for US Oil Sands common shares as discussed below.

US Oil Sands

On February 11, 2011, a former US Oil Sands director exercised 12,000 of stock options at a price of $0.10 per share. The weighted average share price on the date of exercise was $0.0246 per share.

On April 18, 2011, pursuant to the terms of the Amalgamation Agreement dated March 14, 2011, 105,231,324 common shares of US Oil Sands were issued to shareholders of Earth Energy on the basis of four (4) common shares for every one (1) Earth Energy share.

11. SHARE CAPITAL - CONTINUED

a) Common shares - continued

On April 18, 2011, US Oil Sands completed a private placement and issued 42,000,000 units at a price of $0.30 per unit for gross proceeds of $12,600,000. Each unit consists of one common share and one-half of one common share purchase warrant exercisable at a price of $0.40 per share expiring April 18, 2013. US Oil Sands assigned a value of $0.005 per warrant pursuant to the private placement subscription agreement for a total of $105,000. US Oil Sands paid finder's fees in the amount of $630,000.

On April 18, 2011, pursuant to its mandate agreement, Endeavour Financial Ltd. was issued 2,100,000 common shares of US Oil Sands and was paid a cash fee of $126,000 in connection with the acquisition described in Note 1. The shares issued were valued at $0.295 per share pursuant to the private placement subscription agreement with an aggregate value of $619,500.

Upon amalgamation on May 9, 2011, 99,287,005 shares of US Oil Sands were transferred to the Company. These shares were valued at $475,741, which represented the excess of the cash received of $600,755 over non-cash working deficit of $125,015 (note 13) from the reverse asset acquisition as discussed in Note 1.

On June 7, 2011, a former US Oil Sands director exercised 250,000 of stock options at a price of $0.10 per share. The weighted average share price on the date of exercise was $0.1216 per share.

On July 14, 2011, former US Oil Sands directors exercised 488,000 of stock options at a price of $0.10 per share. The weighted average share price on the date of exercise was $0.1215 per share.

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

	December 31 2012		December 31 2011	
	Number of Warrants	**Fair Value**	Number of Warrants	Fair Value
Warrants issued				
Balance, beginning of year	**22,000,000**	**$ 129,137**	-	$ -
Issued on private placement (note 11a)	**61,224,735**	**2,088,600**	21,000,000	105,000
Issued per agreement	**1,000,000**	**10,258**	1,000,000	24,137
Balance, end of year	**84,224,735**	**$ 2,227,995**	22,000,000	$ 129,137

The weighted average exercise price for the warrants issued is $0.30 (2011 – $0.40) 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.

11. SHARE CAPITAL - CONTINUED

c) Stock options

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

	December 31 2012			December 31 2011		
	Number of Options		**Weighted Average Exercise Price**	Number of Options		Weighted Average Exercise Price
Earth Energy						
Outstanding, beginning of year	**-**	**$**	**-**	3,350,000	$	1.02
Exchange of options on acquisition	**-**		**-**	(3,350,000)		(1.02)
Outstanding, end of year	**-**	**$**	**-**	-	$	-
US Oil Sands						
Outstanding, beginning of year	**24,175,000**	**$**	**0.26**	4,250,000	$	0.10
Options exercised prior to amalgamation	**-**		**-**	(12,000)		0.10
Exchange of options on acquisition	**-**		**-**	13,400,000		0.26
Options exercised	**(2,250,000)**		**0.10**	(738,000)		0.10
Options granted	**2,750,000**		**0.18**	7,275,000		0.36
Outstanding, end of year	**24,675,000**	**$**	**0.27**	24,175,000	$	0.26
Exercisable, end of year	**21,481,250**	**$**	**0.27**	20,537,500	$	0.26

The following table summarizes information about stock options outstanding and exercisable as at December 31, 2012:

Exercise price	Number Outstanding	Number Exercisable	Expiry Date
0.1250	3,400,000	3,400,000	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	5,400,000	April 18, 2021
0.2000	75,000	56,250	August 23, 2021
0.1800	2,750,000	1,375,000	May 28, 2017
	24,675,000	21,481,250	

As at December 31, 2012, 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 28, 2012 options	August 23, 2011 options	April 18, 2011 options	2010 Modifications	2008 options
Risk-free interest rate	1.32%	2.38%	3.37%	1.94%	3.08%
Expected life (years)	5.00	10.0	10.0	3.0	5.0
Expected volatility (peer group)	70%	80%	80%	80%	80%
Forfeiture rate	0%	0%	0%	0%	0%
Dividend per share	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. Vesting of the stock options depends on the capacity of the individual.

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.

11. SHARE CAPITAL - CONTINUED

c) Stock options - continued

Upon completion of the acquisition described in Note 1, 13,400,000 options to purchase common shares were issued to option holders of Earth Energy in exchange for their outstanding Earth Energy options based on the same exchange ratio. This transaction was accounted for as an exchange of options as there was no modification to the terms. In addition, 7,200,000 new options were granted to directors, officers, employees and consultants of the Company at an exercise price of $0.36 per share expiring on April 18, 2021. The weighted average fair value of these options is 0.30 per option.

On August 23, 2011, 75,000 options to purchase common shares were granted to an employee of the Company at an exercise price of $0.20 per share expiring on August 23, 2021. The weighted average fair value of these options is $0.16 per option.

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.

d) Contributed surplus

		December 31 2012		December 31 2011
Balance, beginning of year	**$**	**3,574,978**	$	1,933,835
Share-based payments		**630,413**		1,641,143
Balance, end of year	**$**	**4,205,391**	$	3,574,978

12. 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:

		2012		2011
Canada				
Loss before income taxes	**$**	**(3,569,378)**	$	(3,451,129)
Statutory income tax rate		**25.0%**		26.5%
Expected income tax recovery		**(892,340)**		(914,550)
Effect on non-deductible items:				
Share-based payments		**157,600**		434,900
Unrealized foreign exchange (gain) loss		**20,500**		(178,490)
Non-deductible expenses		**105,890**		211,140
Share issue cost charged to share capital		**(110,660)**		(52,690)
Other		**(4,210)**		(4,350)
		(723,220)		(504,040)
Change in valuation allowance		**723,220**		504,040
Income tax provision	**$**	**-**	$	-
United States (in US dollars)				
Loss before income taxes	**$**	**(1,022,620)**	$	(319,179)
Statutory income tax rate		**20%**		20%
Expected income tax recovery		**(204,520)**		(63,840)
Effect on non-deductible items		**112,960**		63,980
Development expenses		**(624,980)**		-
Other		**(5,620)**		-
		(722,160)		140
Change in valuation allowance		**722,160**		(40)
Income tax provision	**$**	**-**	$	100

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

12. INCOME TAXES - CONTINUED

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

		2012		2011
Canada				
Property, plant and equipment	**$**	**615,660**	$	603,630
Eligible capital		**55,880**		60,320
Share issue costs		**389,730**		296,420
Non-capital loss carry-forwards		**2,661,880**		1,938,660
		3,723,150		2,899,030
Valuation allowance		**(3,723,150)**		(2,899,030)
Deferred tax asset	**$**	**-**	$	-
United States (in US dollars)				
Property, plant and equipment	**$**	**(8,410)**	$	-
Exploration expenses		**562,130**		-
Net operating loss carryover		**2,287,620**		-
Decommissioning liabilities		**-**		(37,020)
Capitalized expenses		**-**		250,180
		2,841,340		213,160
Valuation allowance		**(2,841,340)**		(213,160)
Deferred tax asset	**$**	**-**	$	-

As at December 31, 2012, the Company has, for tax purposes, non-capital losses in Canada available to carry forward to future years total $10,647,533 (2011 – $7,754,646) expiring between 2014 and 2032 if not fully utilized. The Company, through its wholly-owned US subsidiary has, for tax purposes, net operating loss carryover in the United States to carry forward to future years total $5,865,688 (2011 - $nil) expiring in 2032 if not fully utilized.

13. CASH FLOW

For the years ended December 31		2012		2011
Accounts receivable	**$**	**(52,972)**	$	302,690
Prepaid expenses		**(174,347)**		(11,759)
Accounts payable and accrued liabilities		**348,654**		192,815
Non-cash working deficit from reverse asset acquisition (note 11a)		**-**		(125,015)
Changes in non-cash working capital	**$**	**121,335**	$	358,731
Changes in non-cash working capital – operating	**$**	**81,328**	$	288,732
Changes in non-cash working capital – investing		**40,007**		69,999
	$	**121,335**	$	358,731

14. 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:

14. SEGMENT INFORMATION - CONTINUED

a) Reconciliation of non-current segment assets

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

As at December 31, 2011	Corporate	Utah Oil Sand Development	Consolidated
Property, plant and equipment	$ 310,840	$ 57,812	$ 368,652
Exploration and evaluation assets	260,000	7,823,127	8,083,127
Technology and patents	1,549,977	-	1,549,977
Reclamation funds on deposits	-	338,853	338,853
Segment non-current assets	$ 2,120,817	$ 8,219,792	$ 10,340,609

b) Reconciliation of reported segment loss

For the year ended December 31, 2012	Corporate	Utah Oil Sand Development	Consolidated
Income			
Interest income	$ 38,945	$ 194	$ 39,139
Gain on sale of capital assets	50	-	50
	38,995	194	39,189
Less: Expenses			
Amortization	80,071	17,060	97,131
Accretion	-	2,176	2,176
Reclamation expense	-	11,564	11,564
Property evaluation	-	250,667	250,667
Technology development	84,657	-	84,657
General and administrative	3,200,105	158,502	3,358,607
Share-based payments	630,413	-	630,413
	3,995,246	439,969	4,435,215
Loss before taxes	(3,956,251)	(439,775)	(4,396,026)
Income tax expense	-	100	100
Segment net loss	$ (3,956,251)	$ (439,875)	$ (4,396,126)

For the year ended December 31, 2011	Corporate	Utah Oil Sand Development	Consolidated
Income			
Interest income	$ 44,355	$ 721	$ 45,076
Loss on sale of capital assets	-	(4,215)	(4,215)
	44,355	(3,494)	40,861
Less: Expenses			
Amortization	100,932	11,182	112,114
Accretion	-	1,983	1,983
Acquisition expense	285,199	-	285,199
Property evaluation	609	96,723	97,332
Technology development	85,141	126	85,267
General and administrative	1,608,682	202,143	1,810,825
Share-based payments	1,641,143	-	1,641,143
	3,721,706	312,157	4,033,863
Loss before taxes	(3,677,351)	(315,651)	(3,993,002)
Income tax expense	-	99	99
Segment net loss	$ (3,677,351)	$ (315,750)	$ (3,993,101)

15. 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.

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.

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 2012		December 31 2011
Cash and cash equivalents	**$**	**4,840,597**	$	2,612,331
Accounts payable		**110,962**		56,263
Accrued liabilities		**80,637**		27,898

As at December 31, 2012, the exchange rate between Canadian dollars and US dollars was CAD$1 to US$1.0051. A change of the value of the Canadian dollar relative to the US dollar of 1% will result in a $46,490 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.

16. RELATED PARTY TRANSACTIONS

Consulting fees

		2012		2011
Consulting fees	**$**	**-**	$	50,356

The consulting fees were paid to corporations owned by the Company's officers and directors and were measured at the exchange amount as the transactions were entered into in the normal course of business. As at December 31, 2012, the Company has no recurring related party transactions.

Remunerations of directors and other key management personnel

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

		2012		2011
Short-term employee benefits	$	1,655,769	$	1,011,058
Share-based payments		573,145		1,383,833
	$	2,228,914	$	2,394,891

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 2012		December 31 2011
Shareholders' capital	**$**	**35,615,898**	$	27,274,939
Contributed surplus		**4,205,391**		3,574,978
Warrants		**2,227,995**		129,137
Deficit		**(21,838,577)**		(17,442,451)

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

18. COMMITMENTS

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

		Equipment Lease		Office Leases
2013	$	2,256	$	289,013
2014		2,256		312,544
2015		2,256		316,522
2016		1,128		108,485
	$	**7,896**	**$**	**1,026,564**

The Company assigned its prior Calgary office space which expires December 31, 2013 to a third party at full costs. Should the assignee default on future payments, the Company will need to fulfil the lease obligation with annual rental fees of $39,195.

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):

2013	$	328,456
2014		328,456
2015		312,613
2016		304,029
2017		304,029
Thereafter, to 2021		1,136,091
	$	**2,713,674**