# US Oil Sands Inc.

**Unaudited Condensed Consolidated Financial Statements**
**For the Three and Six Months ended June 30, 2012**
(Expressed in Canadian Dollars)

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

| As at | Notes | **June 30 2012** | December 31 2011 | January 1 2011 |
|---|---|---|---|---|
| **Assets** | | | | |
| Current Assets | | | | |
| Cash and cash equivalents | | **$ 10,479,090** | $ 3,575,004 | $ 226,869 |
| Accounts receivable | | **56,181** | 84,640 | 387,330 |
| Prepaid expenses | | **647,735** | 74,705 | 62,946 |
| | | **11,183,006** | 3,734,349 | 677,145 |
| Non-current assets | | | | |
| Property, plant and equipment | 4 | **407,665** | 368,652 | 323,148 |
| Exploration and evaluation assets | 5 | **8,930,299** | 8,083,127 | 1,015,236 |
| Technology and patents | 6 | **1,550,277** | 1,549,977 | 1,568,785 |
| Reclamation funds on deposits | | **318,617** | 338,853 | 89,549 |
| | | **11,206,858** | 10,340,609 | 2,996,718 |
| **Total assets** | | **$ 22,389,864** | $ 14,074,958 | $ 3,673,863 |
| **Liabilities** | | | | |
| Current liabilities | | | | |
| Accounts payable and accrued liabilities | 7 | **$ 448,928** | $ 305,848 | $ 113,033 |
| Non-current liabilities | | | | |
| Decommissioning liabilities | 9 | **131,740** | 96,534 | 64,947 |
| Total liabilities | | **580,668** | 402,382 | 177,980 |
| **Shareholders' equity** | | | | |
| Shareholders' capital | 10 | **34,657,881** | 27,274,939 | 15,011,398 |
| Contributed surplus | 10 | **4,017,285** | 3,574,978 | 1,933,835 |
| Warrants | 10 | **3,188,488** | 129,137 | - |
| Deficit | | **(20,203,446)** | (17,442,451) | (13,449,350) |
| Accumulated other comprehensive income | | **148,988** | 135,973 | - |
| Total shareholders' equity | | **21,809,196** | 13,672,576 | 3,495,883 |
| **Total liabilities and shareholders' equity** | | **$ 22,389,864** | $ 14,074,958 | $ 3,673,863 |

Commitments (note 16)

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

| (Cdn$) | Notes | For the Three Months Ended June 30 **2012** | **2011** | For the Six Months Ended June 30 **2012** | **2011** |
|---|---|---|---|---|---|
| **Income** | | | | | |
| Interest | | **$ 2,658** | $ 11,761 | **$ 5,152** | $ 14,556 |
| **Expenses** | | | | | |
| Amortization | 4 | **23,306** | 27,756 | **46,526** | 51,964 |
| Accretion | 9 | **-** | 1,270 | **578** | 1,270 |
| Acquisition expense | | **-** | 174,246 | **-** | 285,199 |
| Property evaluation | | **24,873** | 10,769 | **230,727** | 27,635 |
| Technology development | | **1,732** | 23,877 | **7,229** | 23,933 |
| General and administrative | | **1,340,608** | 857,336 | **2,038,679** | 1,206,551 |
| Share-based payment | 10 | **241,591** | 1,242,722 | **442,307** | 1,242,722 |
| | | **1,632,110** | 2,337,976 | **2,766,046** | 2,839,274 |
| **Loss before taxes** | | **(1,629,452)** | (2,326,215) | **(2,760,894)** | (2,824,718) |
| Income tax expense | | **-** | - | **101** | 98 |
| **Net loss** | | **(1,629,452)** | (2,326,215) | **(2,760,995)** | (2,824,816) |
| Cumulative translation adjustment | | **159,145** | (111,664) | **13,015** | (111,664) |
| **Total comprehensive loss** | | **$ (1,470,307)** | $ (2,437,879) | **$ (2,747,980)** | $ (2,936,480) |
| **Loss per share** – basic and diluted | | **$ (0.01)** | $ (0.02) | **$ (0.01)** | $ (0.02) |
| **Weighted average number of shares outstanding** | | **263,995,146** | 115,947,002 | **263,995,146** | 115,947,002 |

## 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, 2011** | $ 15,011,398 | $ 1,933,835 | $ - | $ (13,449,350) | $ - | **$ 3,495,883** |
| Loss for the period | - | - | - | (2,824,816) | - | **(2,824,816)** |
| Other comprehensive loss for the period | - | - | - | - | (111,664) | **(111,664)** |
| 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 | 25,000 | - | - | - | - | **25,000** |
| Common shares cancelled | (25,000) | - | - | - | - | **(25,000)** |
| Share issue costs | (1,375,500) | - | - | - | - | **(1,375,500)** |
| Contributed surplus | - | 1,242,722 | - | - | - | **1,242,722** |
| Warrants | - | - | 105,000 | | | **105,000** |
| **June 30, 2011** | $ 27,226,139 | $ 3,176,557 | $ 105,000 | $ (16,274,166) | $ (111,664) | **$ 14,121,866** |
| **July 1, 2011** | $ 27,226,139 | $ 3,176,557 | $ 105,000 | $ (16,274,166) | $ (111,664) | **$ 14,121,866** |
| Loss for the period | - | - | - | (1,168,285) | - | **(1,168,285)** |
| Other comprehensive income for the period | - | - | - | - | 247,637 | **247,637** |
| Common shares issued – exercise of options | 48,800 | - | - | - | - | **48,800** |
| Contributed surplus | - | 398,421 | - | - | - | **398,421** |
| Warrants | - | - | 24,137 | - | - | **24,137** |
| **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** |
| Loss for the period | - | - | - | (2,760,995) | - | **(2,760,995)** |
| Other comprehensive income for the period | - | - | - | - | 13,015 | **13,015** |
| Common shares issued | | | | | | |
| 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)** |
| Contributed surplus | - | 442,307 | - | - | - | **442,307** |
| Warrants | - | - | 3,059,351 | - | - | **3,059,351** |
| **June 30, 2012** | $ 34,657,881 | $ 4,017,285 | $ 3,188,488 | $ (20,203,446) | $ 148,988 | **$ 21,809,196** |

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

| | Notes | **2012** | 2011 |
|---|---|---|---|
| **Operating activities** | | | |
| Net loss | | **$ (2,760,995)** | $ (2,824,816) |
| Adjustments for: | | | |
| Interest income | | **(5,152)** | (14,556) |
| Income tax expense | | **101** | 98 |
| Amortization | | **46,526** | 51,964 |
| Accretion | | **578** | 1,270 |
| Share-based payment | | **442,307** | 1,242,722 |
| Service fees paid by issuance of warrants | 10 | **10,258** | - |
| Unrealized (gain) loss on foreign exchange | | **14,055** | (895) |
| | | **(2,252,322)** | (1,544,213) |
| Income tax paid | | **(101)** | (98) |
| Changes in non-cash working capital | 11 | **(518,954)** | 6,616 |
| | | **(2,771,377)** | (1,537,695) |
| **Investing activities** | | | |
| Interest received | | **5,152** | 14,556 |
| Purchase of property, plant and equipment | 4 | **(85,534)** | (100,310) |
| Expenditures on exploration and evaluation expenditures | 5 | **(818,918)** | (2,338,353) |
| Expenditures on technology and patent expenditures | 6 | **(300)** | (6,192) |
| Changes in reclamation funds on deposit | | **21,139** | (233,818) |
| Changes in non-cash working capital | 11 | **117,463** | 294,903 |
| | | **(760,998)** | (2,369,214) |
| **Financing activities** | | | |
| Proceeds from issuance of shares and warrants from private placement | 10 | **11,020,452** | 12,600,000 |
| Proceeds from options exercised | 10 | **225,000** | 25,000 |
| Share issue costs | 10 | **(813,417)** | (756,000) |
| Cash acquired from reverse asset acquisition | 10 | **-** | 600,755 |
| Proceeds from bridge loan | 8 | **-** | 3,000,000 |
| Repayment of bridge loan | 8 | **-** | (3,000,000) |
| | | **10,432,035** | 12,469,755 |
| Effects of exchange rate changes on cash and cash equivalents | | **4,426** | 11,332 |
| Net increase in cash and cash equivalents | | **6,904,086** | 8,574,178 |
| Cash and cash equivalents, beginning of period | | **$ 3,575,004** | $ 226,869 |
| **Cash and cash equivalents, end of period** | | **$ 10,479,090** | $ 8,801,047 |
| **Supplementary information** | | | |
| Non-cash share issue costs | 10 | **$ -** | $ 619,500 |
| Non-cash shares issued | 10 | **$ -** | $ 632,473 |
| Non-cash shares cancelled | 10 | **$ -** | $ 25,000 |
| Cash and cash equivalent | | | |
| Cash | | **$ 437,998** | $ 2,801,047 |
| Short-term investments | | **10,041,092** | 6,000,000 |
| | | **$ 10,479,090** | $ 8,801,047 |

## 1. NATURE OF BUSINESS

The Company is operated as a continuation of Earth Energy Resources Inc. ("Earth Energy"), subsequent to an acquisition by and amalgamation with US Oil Sands Inc. ("US Oil Sands", formerly International LMM Ventures Corp.), as described in Note 1 of the Audited Consolidated Financial Statements for the year ended December 31, 2011. The comparative figures presented in these condensed financial statements are those of Earth Energy.

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 950, 633 – 6th Ave. SW., Calgary, Alberta, Canada T2P 2Y5.

These condensed consolidated financial statements were approved by the Board of Directors of the Company on August 8, 2012.

## 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, 2011.

## 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 function 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.

| | **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, 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 statement of comprehensive loss.

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 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. 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 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. 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 statement 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 payment**

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. 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.

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 and are held within accumulated other comprehensive income 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.

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 of a part of the net investment in the foreign subsidiary, any exchange difference arising on those loans are recorded to currency translated adjustment within other comprehensive income until a disposal or partial disposal of the subsidiary.

## 4. 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 | 83,221 | 1,343 | - | 970 | 85,534 |
| Foreign exchange effect | - | 1 | 23 | 115 | 139 |
| **As at June 30, 2012** | $ 903,331 | $ 570,679 | $ 25,978 | $ 144,061 | $ 1,644,049 |
| ***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 | 20,497 | 13,067 | 1,514 | 11,448 | 46,526 |
| Foreign exchange effect | - | 3 | 22 | 109 | 134 |
| **As at June 30, 2012** | $ 643,976 | $ 495,950 | $ 17,292 | $ 79,166 | $ 1,236,384 |
| ***Carrying value*** | | | | | |
| As at January 1, 2011 | $ 195,207 | $ 106,048 | $ 1,163 | $ 20,730 | $ 323,148 |
| As at December 31, 2011 | $ 196,631 | $ 86,455 | $ 10,199 | $ 75,367 | $ 368,652 |
| **As at June 30, 2012** | $ 259,355 | $ 74,729 | $ 8,686 | $ 64,895 | $ 407,665 |

No impairment on PP&E has been identified as at June 30, 2012, December 31, 2011 and January 1, 2011.

## 5. 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 9) | | 1,513 |
| Decommissioning liabilities incurred (note 9) | | 27,318 |
| Foreign exchange effect | | 151,380 |
| As at December 31, 2011 | $ | 8,083,127 |
| Additions | | 818,918 |
| Changes in estimates of decommissioning liabilities (note 9) | | 19,000 |
| Decommissioning liabilities incurred (note 9) | | 14,969 |
| Foreign exchange effect | | (5,715) |
| **As at June 30, 2012** | $ | 8,930,299 |

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, 2012, December 31, 2011 and January 1, 2011.

## 6. TECHNOLOGY AND PATENTS

| | | |
|---|---|---|
| As at January 1, 2011 | $ | 1,568,785 |
| Additions | | 6,192 |
| Adjustment ( (note 10a) | | (25,000) |
| As at December 31, 2011 | $ | 1,549,977 |
| Additions | | 300 |
| **As at June 30, 2012** | $ | 1,550,277 |

No impairment on technology and patents has been identified as at June 30, 2012, December 31, 2011 and January 1, 2011.

## 7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | | **June 30 2012** | | **December 31 2011** | | **January 1 2011** |
|---|---|---|---|---|---|---|
| Accounts payables | **$** | **237,337** | $ | 151,166 | $ | 49,468 |
| Accrued liabilities | | **211,591** | | 154,682 | | 63,565 |
| | **$** | **448,928** | $ | 305,848 | $ | 113,033 |

## 8. 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.

## 9. DECOMMISSIONING LIABILITIES

| | | **June 30 2012** | | December 31 2011 |
|---|---|---|---|---|
| Balance, beginning of period | **$** | **96,534** | $ | 64,947 |
| Changes in estimates | | **19,000** | | 1,513 |
| Liabilities incurred (note 5) | | **14,969** | | 27,318 |
| Accretion | | **578** | | 1,983 |
| Foreign exchange effect | | **659** | | 773 |
| Balance, end of period | **$** | **131,740** | $ | 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.

## 10. SHARE CAPITAL

### a) Common shares

| | June 30 2012 Number | | June 30 2012 Amount | December 31 2011 Number | | December 31 2011 Amount |
|---|---|---|---|---|---|---|
| | **Number** | | **Amount** | Number | | Amount |
| **Earth Energy** | | | | | | |
| *Common shares issued* | | | | | | |
| Balance, beginning of period | **-** | **$** | **-** | 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 period | **-** | **$** | **-** | 607,303 | $ | 12,973 |
| Issued as allocated | **-** | | **-** | (607,303) | | (12,973) |
| | **-** | **$** | **-** | - | $ | - |
| Balance, end of period | **-** | **$** | **-** | - | $ | - |
| **US Oil Sands** | | | | | | |
| Balance, beginning of period | **249,356,329** | **$** | **27,274,939** | 99,275,005 | $ | 3,573,516 |
| Exercise of options | **2,250,000** | | **225,000** | 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** | | **7,971,359** | 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 | **-** | | **(813,417)** | - | | (1,375,500) |
| Exercise of options | **-** | | **-** | 738,000 | | 73,800 |
| | **312,831,064** | **$** | **34,657,881** | 249,356,329 | $ | 27,274,939 |
| Weighted average common shares outstanding, basic and diluted | **263,995,146** | | | 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 6).

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.

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 of the Audited Consolidated Financial Statements for the year ended December 31, 2011. 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 from the reverse asset acquisition as discussed in Note 1 of the Audited Consolidated Financial Statements for the year ended December 31, 2011.

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, 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 $0.1215 per share.

On March 1, 2012, 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 $0.1213 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 $0.0498 per warrant using the Black-Scholes pricing model for a total of $3,049,093. US Oil Sands paid commission fees in the amount of $651,432 and other share issue costs in the amount of $161,985.

**b) Warrants**

| | | **June 30 2012** | | December 31 2011 |
|---|---|---|---|---|
| | **Number of Warrants** | **Fair Value** | Number of Warrants | Fair Value |
| *Warrants issued* | | | | |
| Balance, beginning of period | **22,000,000** | **$ 129,137** | - | $ - |
| Issued on private placement (note 10a) | **61,224,735** | **3,049,093** | 21,000,000 | 105,000 |
| Issued per agreement | **1,000,000** | **10,258** | 1,000,000 | 24,137 |
| Balance, end of period | **84,224,735** | **$ 3,188,488** | 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 $0.0498 for the warrants issued on May 23, 2012 and $0.0037 for the warrants issued on June 30, 2012.

### c) Stock options

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

| | **June 30 2012** | | December 31 2011 | |
|---|---|---|---|---|
| | **Number of Options** | **Weighted Average Exercise Price** | Number of Options | Weighted Average Exercise Price |
| **Earth Energy** | | | | |
| Outstanding, beginning of period | **-** | **$ -** | 3,350,000 | $ 1.02 |
| Exchange of options on acquisition | **-** | **-** | (3,350,000) | (1.02) |
| Outstanding, end of period | **-** | **$ -** | - | $ - |
| **US Oil Sands** | | | | |
| Outstanding, beginning of period | **24,175,000** | **$ 0.26** | 4,250,000 | $ 0.10 |
| Options exercised | **(2,250,000)** | **0.10** | (750,000) | 0.10 |
| Exchange of options on acquisition | **-** | **-** | 13,400,000 | 0.26 |
| Options granted | **2,750,000** | **0.18** | 7,275,000 | 0.36 |
| Outstanding, end of period | **24,675,000** | **$ 0.27** | 24,175,000 | $ 0.26 |
| Exercisable, end of period | **21,462,500** | **$ 0.27** | 20,537,500 | $ 0.26 |

The following table summarizes information about stock options outstanding and exercisable as at June 30, 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 | 37,500 | August 23, 2021 |
| 0.1080 | 2,750,000 | 1,375,000 | May 28, 2012 |
| | 24,675,000 | 21,462,500 | |

As at June 30, 2012, the exercise prices of the options outstanding range from $0.10 to $0.36 per option with the weighted average remaining life of 4.11 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 issues 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.

Upon completion of the acquisition described in Note 1 of the Audited Consolidated Financial Statements for the year ended December 31, 2011, 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. Such transaction was accounting 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

| | | **June 30 2012** | | December 31 2011 |
|---|---|---|---|---|
| Balance, beginning of period | **$** | **3,574,978** | $ | 1,933,835 |
| Share-based payments | | **442,307** | | 1,641,143 |
| Balance, end of period | **$** | **4,017,285** | $ | 3,574,978 |

## 11. CASH FLOW

| For the six months ended June 30 | | **2012** | | 2011 |
|---|---|---|---|---|
| Accounts receivable | **$** | **28,459** | $ | (34,047) |
| Prepaid expenses | | **(573,030)** | | (135,447) |
| Accounts payable and accrued liabilities | | **143,080** | | 596,028 |
| Non-cash working deficit from reverse asset acquisition (note 10a) | | **-** | | (125,015) |
| Changes in non-cash working capital | **$** | **(401,491)** | $ | 301,519 |
| | | | | |
| Changes in non-cash working capital – operating | **$** | **(518,954)** | $ | 6,616 |
| Changes in non-cash working capital –investing | | **117,463** | | 294,903 |
| | **$** | **(401,491)** | $ | 301,519 |

## 12. 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, 2012 | | **Corporate** | | **Utah Oil Sand Development** | | **Consolidated** |
|---|---|---|---|---|---|---|
| Property, plant and equipment | $ | 358,390 | $ | 49,275 | $ | 407,665 |
| Exploration and evaluation assets | | 260,000 | | 8,670,299 | | 8,930,299 |
| Technology and patents | | 1,550,277 | | - | | 1,550,277 |
| Reclamation funds on deposits | | - | | 318,617 | | 318,617 |
| **Segment non-current assets** | $ | 2,168,667 | $ | 9,038,191 | $ | 11,206,858 |

| 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 |

| As at January 1, 2011 | | **Corporate** | | **Utah Oil Sand Development** | | **Consolidated** |
|---|---|---|---|---|---|---|
| Property, plant and equipment | $ | 323,148 | $ | - | $ | 323,148 |
| Exploration and evaluation assets | | 260,000 | | 755,236 | | 1,015,236 |
| Technology and patents | | 1,568,785 | | - | | 1,568,785 |
| Reclamation funds on deposits | | - | | 89,549 | | 89,549 |
| **Segment non-current assets** | $ | 2,151,933 | $ | 844,785 | $ | 2,996,718 |

**b) Reconciliation of reported segment loss**

| For the three months ended June 30 | Corporate 2012 | Corporate 2011 | Utah Oil Sand Development 2012 | Utah Oil Sand Development 2011 | Consolidated 2012 | Consolidated 2011 |
|---|---|---|---|---|---|---|
| ***Income*** | | | | | | |
| Interest income | **$ 2,462** | $ 11,738 | **$ 196** | $ 23 | **$ 2,658** | $ 11,761 |
| ***Less: Expenses*** | | | | | | |
| Amortization | **19,015** | 23,750 | **4,291** | 4,006 | **23,306** | 27,756 |
| Accretion | **-** | - | **-** | 1,270 | **-** | 1,270 |
| Acquisition expense | **-** | 174,246 | **-** | - | **-** | 174,246 |
| Property evaluation | **-** | 609 | **24,873** | 10,160 | **24,873** | 10,769 |
| Technology development | **1,732** | 23,877 | **-** | - | **1,732** | 23,877 |
| General and administrative | **1,310,224** | 851,411 | **30,384** | 5,925 | **1,340,608** | 857,336 |
| Share-based payments | **241,591** | 1,242,722 | **-** | - | **241,591** | 1,242,722 |
| | **1,572,562** | 2,316,615 | **59,548** | 21,361 | **1,632,110** | 2,337,976 |
| Loss before taxes | **(1,570,100)** | (2,304,877) | **(59,352)** | (21,338) | **(1,629,452)** | (2,326,215) |
| Income tax expense | **-** | - | **-** | - | **-** | - |
| **Segment net loss** | **$(1,570,100)** | $(2,304,877) | **$ (59,352)** | $ (21,338) | **$(1,629,452)** | $(2,326,215) |

| For the six months ended June 30 | Corporate 2012 | Corporate 2011 | Utah Oil Sand Development 2012 | Utah Oil Sand Development 2011 | Consolidated 2012 | Consolidated 2011 |
|---|---|---|---|---|---|---|
| ***Income*** | | | | | | |
| Interest income | **$ 4,957** | $ 13,844 | **$ 195** | $ 712 | **$ 5,152** | $ 14,556 |
| ***Less: Expenses*** | | | | | | |
| Amortization | **37,982** | 47,620 | **8,544** | 4,344 | **46,526** | 51,964 |
| Accretion | **-** | - | **578** | 1,270 | **578** | 1,270 |
| Acquisition expense | **-** | 285,199 | **-** | - | **-** | 285,199 |
| Property evaluation | **-** | 609 | **230,727** | 27,026 | **230,727** | 27,635 |
| Technology development | **7,229** | 23,933 | **-** | - | **7,229** | 23,933 |
| General and administrative | **1,952,642** | 1,200,245 | **86,037** | 6,306 | **2,038,679** | 1,206,551 |
| Share-based payments | **442,307** | 1,242,722 | **-** | - | **442,307** | 1,242,722 |
| | **2,440,160** | 2,800,328 | **325,886** | 38,946 | **2,766,046** | 2,839,274 |
| Loss before taxes | **(2,435,203)** | (2,786,484) | **(325,691)** | (38,234) | **(2,760,894)** | (2,824,718) |
| Income tax expense | **-** | - | **101** | 98 | **101** | 98 |
| **Segment net loss** | **$(2,435,203)** | $(2,786,484) | **$ (325,792)** | $ (38,332) | **$(2,760,995)** | $(2,824,816) |

## 13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial assets and liabilities are comprised of cash and cash equivalents, accounts receivable, prepaid expenses, 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, prepaid expenses, 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 costs; therefore, the fair value hierarchy is not applicable and that 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:

| | **June 30 2012** | December 31 2011 | January 1 2011 |
|---|---|---|---|
| Cash and cash equivalents | **1,384,297** | 2,612,331 | 22,053 |
| Accounts payable | **129,699** | 56,263 | 16,110 |
| Accrued liabilities | **118,792** | 27,898 | - |

As at June 30, 2012, the exchange rate between Canadian dollars and US dollars was CAD$1 to US$0.9813. A change of the value of the Canadian dollar relative to the US dollar of 1% will result in an $11,358 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 of short-term in nature and are settled within 90 days.

## 14. RELATED PARTY TRANSACTIONS

| For the three months ended June 30 | **2012** | 2011 |
|---|---|---|
| Consulting fees | **$ -** | $ 8,200 |

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 June 30, 2012, the Company has no recurring related party transactions as these relationships were in place up to the closing of the acquisition as described in Note 1 of the Audited Consolidated Financial Statement for the year ended December 31, 2011.

## 15. 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 2012** | December 31 2011 | January 1 2011 |
|---|---|---|---|
| Shareholders' capital | **34,657,881** | 27,274,939 | 15,011,398 |
| Contributed surplus | **4,017,285** | 3,574,978 | 1,933,835 |
| Warrants | **3,188,488** | 129,137 | - |
| Deficit | **(20,203,446)** | (17,442,451) | (13,449,350) |

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

## 16. COMMITMENTS

The Company has two forms of future commitments.

The Company leases office and office/development premises in Calgary and Grande Prairie, respectively. The lease on the Calgary office space is a three year term expiring December 31, 2013 with gross quarterly rental fees of $9,800. The office and technology development facility lease in Grande Prairie terminates on March 31, 2013 and has gross quarterly rental fees of $33,165.

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.