



**U.S.** OIL SANDS

**US Oil Sands Inc.**

**Unaudited Condensed Consolidated Financial Statements  
For the Three Months ended March 31, 2012**

(Expressed in Canadian Dollars)

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

As at	Notes	March 31 2012	December 31 2011	January 1 2011
<b>Assets</b>				
Current Assets				
Cash and cash equivalents		\$ 2,811,483	\$ 3,575,004	\$ 226,869
Accounts receivable		50,652	84,640	387,330
Prepaid expenses		90,530	74,705	62,946
		2,952,665	3,734,349	677,145
Non-current assets				
Property, plant and equipment	4	422,267	368,652	323,148
Exploration and evaluation assets	5	8,148,129	8,083,127	1,015,236
Technology and patents	6	1,549,977	1,549,977	1,568,785
Reclamation funds on deposit		332,889	338,853	89,549
		10,453,262	10,340,609	2,996,718
<b>Total assets</b>		<b>\$ 13,405,927</b>	<b>\$ 14,074,958</b>	<b>\$ 3,673,863</b>
<b>Liabilities</b>				
Current liabilities				
Accounts payable and accrued liabilities	7	\$ 481,515	\$ 305,848	\$ 113,033
Non-current liabilities				
Decommissioning liabilities	8	95,409	96,534	64,947
<b>Total liabilities</b>		<b>576,924</b>	402,382	177,980
<b>Shareholders' equity</b>				
Shareholders' capital	9	27,499,939	27,274,939	15,011,398
Contributed surplus	9	3,775,694	3,574,978	1,933,835
Warrants	9	137,521	129,137	-
Deficit		(18,573,994)	(17,442,451)	(13,449,350)
Accumulated other comprehensive income		(10,157)	135,973	-
<b>Total shareholders' equity</b>		<b>12,829,003</b>	13,672,576	3,495,883
<b>Total liabilities and shareholders' equity</b>		<b>\$ 13,405,927</b>	<b>\$ 14,074,958</b>	<b>\$ 3,673,863</b>

Commitments (note 15)

Subsequent events (note 17)

**US Oil Sands Inc.**  
**Unaudited Condensed Consolidated Statements of Comprehensive Loss**  
For the three months ended March 31  
(Cdn\$)

	Notes	2012	2011
<b>Income</b>			
Interest		\$ 2,495	\$ 2,801
<b>Expenses</b>			
Amortization	4	23,220	24,161
Accretion	8	576	-
Acquisition expense		-	110,953
Property evaluation		205,974	16,927
Technology development		5,497	57
General and administrative		697,955	349,205
Share-based payments	9	200,716	-
		<b>1,133,938</b>	<b>501,303</b>
<b>Loss before taxes</b>		<b>(1,131,443)</b>	<b>(498,502)</b>
Income tax expense		100	99
<b>Net loss</b>		<b>(1,131,543)</b>	<b>(498,601)</b>
Other comprehensive income – currency translation adjustment		(146,130)	-
<b>Total comprehensive loss</b>		<b>\$ (1,277,673)</b>	<b>\$ (498,601)</b>
<b>Loss per share – basic and diluted</b>		<b>\$ (0.00)</b>	<b>\$ (0.01)</b>
<b>Weighted average number of shares outstanding</b>		<b>250,144,791</b>	<b>99,281,538</b>

**US Oil Sands Inc.**  
**Unaudited Condensed Consolidated Statements of Changes in Equity**  
**For the three months ended March 31**  
(Cdn\$)

	Shareholders' Capital	Contributed Surplus*	Warrants	Deficit	Accumulated other comprehensive income	Total Shareholders' Equity
<b>January 1, 2011</b>	\$ 15,011,398	\$ 1,933,835	\$ -	\$ (13,449,350)	\$ -	\$ 3,495,883
Net loss for the period	-	-	-	(498,601)	-	(498,601)
<b>March 31, 2011</b>	\$ 15,011,398	\$ 1,933,835	\$ -	\$ (13,947,951)	\$ -	\$ 2,997,282
<b>April 1, 2011</b>	\$ 15,011,398	\$ 1,933,835	\$ -	\$ (13,947,951)	\$ -	\$ 2,997,282
Net loss for the period	-	-	-	(3,494,500)	-	(3,494,500)
Other comprehensive income – currency translation adjustment	-	-	-	-	135,973	135,973
Common shares issued	13,664,041	-	-	-	-	13,664,041
Common shares cancelled	(25,000)	-	-	-	-	(25,000)
Share issue costs	(1,375,500)	-	-	-	-	(1,375,500)
Share-based payments	-	1,641,143	-	-	-	1,641,143
Warrants	-	-	129,137	-	-	129,137
<b>December 31, 2011</b>	\$ 27,274,939	\$ 3,574,978	\$ 129,137	\$ (17,442,451)	\$ 135,973	\$ 13,672,576
<b>January 1, 2012</b>	\$ 27,274,939	\$ 3,574,978	\$ 129,137	\$ (17,442,451)	\$ 135,973	\$ 13,672,576
Net loss for the period	-	-	-	(1,131,543)	-	(1,131,543)
Other comprehensive income – currency translation adjustment	-	-	-	-	(146,130)	(146,130)
Common shares issued						
Exercise of options	225,000	-	-	-	-	225,000
Share-based payments	-	200,716	-	-	-	200,716
Warrants	-	-	8,384	-	-	8,384
<b>March 31, 2012</b>	\$ 27,499,939	\$ 3,775,694	\$ 137,521	\$ (18,573,994)	\$ (10,157)	\$ 12,829,003

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

**US Oil Sands Inc.**  
**Unaudited Condensed Consolidated Statements of Cash Flows**  
**For the three months ended March 31**  
(Cdn\$)

	Notes	2012	2011
<b>Operating activities</b>			
Net loss		\$ (1,131,543)	\$ (498,601)
Adjustments for:			
Interest income		(2,495)	(2,801)
Income tax expense		100	99
Amortization		23,220	24,161
Accretion		576	-
Share-based payments		200,716	-
Service fees paid by issuance of warrants	9	8,384	-
Unrealized (gain) loss on foreign exchange		40,251	2,654
		(860,791)	(474,488)
Income tax paid		(100)	(99)
Changes in non-cash working capital	10	158,798	745,518
		(702,093)	270,931
<b>Investing activities</b>			
Interest received		2,495	2,801
Purchase of property, plant and equipment	4	(77,843)	(36,103)
Expenditures on exploration and evaluation assets	5	(203,121)	(1,058,800)
Expenditures on technology and patents	6	-	(4,092)
Changes in non-cash working capital	10	35,032	-
		(243,437)	(1,096,194)
<b>Financing activities</b>			
Proceeds from options exercised	9	225,000	-
Proceeds from bridge loan		-	3,000,000
		225,000	3,000,000
Effects of exchange rate changes on cash and cash equivalents		(42,991)	(868)
Net increase (decrease) in cash and cash equivalents		(763,521)	2,173,869
Cash and cash equivalents, beginning of period		\$ 3,575,004	\$ 226,869
<b>Cash and cash equivalents, end of period</b>		<b>\$ 2,811,483</b>	<b>\$ 2,400,738</b>
<b>Cash and cash equivalent</b>			
Cash		\$ 804,490	\$ 2400,738
Short-term investments		2,006,993	-
		\$ 2,811,483	\$ 2,400,738

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

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**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 – 6<sup>th</sup> Ave. SW., Calgary, Alberta, Canada T2P 2Y5.

These condensed consolidated financial statements were approved by the Board of Directors of the Company on May 28, 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 is initially recorded at cost. Amortization is provided using methods and rates intended to amortize the cost of assets over their estimated useful lives.

	<b>Method</b>	<b>Rate</b>
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 March 31, 2012.

#### **e) Exploration and evaluation assets (“E&E”)**

Expenditures incurred prior to acquiring the legal right to explore are charged to expense as incurred and recorded as expense in the 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 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 translation

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
<b>Cost</b>					
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	76,500	1,343	-	-	77,843
Foreign exchange effect	-	(24)	(193)	(979)	(1,196)
<b>As at March 31, 2012</b>	<b>\$ 896,610</b>	<b>\$ 570,654</b>	<b>\$ 25,762</b>	<b>\$ 141,997</b>	<b>\$ 1,635,023</b>
<b>Accumulated amortization</b>					
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
Disposition	-	-	(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	10,248	6,533	755	5,684	23,220
Foreign exchange effect	-	(3)	(30)	(155)	(188)
<b>As at March 31, 2012</b>	<b>\$ 633,727</b>	<b>\$ 489,410</b>	<b>\$ 16,481</b>	<b>\$ 73,138</b>	<b>\$ 1,212,756</b>
<b>Carrying value</b>					
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
<b>As at March 31, 2012</b>	<b>\$ 262,883</b>	<b>\$ 81,244</b>	<b>\$ 9,281</b>	<b>\$ 68,859</b>	<b>\$ 422,267</b>

No impairment on PP&E has been identified as at March 31, 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
Foreign exchange effect		152,893
Increase in decommissioning liabilities (note 8)		27,318
As at December 31, 2011	\$	8,083,127
Additions		203,121
Foreign exchange effect		(138,119)
<b>As at March 31, 2012</b>	<b>\$</b>	<b>8,148,129</b>

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 March 31, 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 9a)		(25,000)
As at December 31, 2011	\$	1,549,977
<b>As at March 31, 2012</b>	<b>\$</b>	<b>1,549,977</b>

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

## 7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31 2012	December 31 2011	January 1 2011
Accounts payables	\$ 301,560	\$ 151,166	\$ 49,468
Accrued liabilities	179,955	154,682	63,565
	<b>\$ 481,515</b>	<b>\$ 305,848</b>	<b>\$ 113,033</b>

## 8. DECOMMISSIONING LIABILITIES

	March 31 2012	December 31 2011
Balance, beginning of period	\$ 96,534	\$ 64,947
Changes in estimates	-	1,513
Liabilities incurred (note 5)	-	27,318
Accretion	576	1,983
Foreign exchange effect	(1,701)	773
Balance, end of period	<b>\$ 95,409</b>	<b>\$ 96,534</b>

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 0.97% to 2.49%, depending on the estimated time to abandon the asset.

## 9. SHARE CAPITAL

### a) Common shares

	March 31 2012		December 31 2011	
	Number	Amount	Number	Amount
<b>Earth Energy</b>				
<i>Common shares issued</i>				
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)
	-	\$ -	-	\$ -
<i>Common shares to be issued</i>				
Balance, beginning of period	-	\$ -	607,303	\$ 12,973
Issued as allocated	-	-	(607,303)	(12,973)
	-	\$ -	-	\$ -
Balance, end of period	-	\$ -	-	\$ -
<b>US Oil Sands</b>				
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	-	-	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	-	-	-	(1,375,500)
Exercise of options	-	-	738,000	73,800
	251,606,329	\$ 27,499,939	249,356,329	\$ 27,274,939
Weighted average common shares outstanding, basic and diluted				
	250,144,791		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.

#### b) Warrants

	March 31 2012		December 31 2011	
	Number of Warrants	Fair Value	Number of Warrants	Fair Value
<i>Warrants issued</i>				
Balance, beginning of period	22,000,000	\$ 129,137	-	\$ -
Issued on private placement (note 9a)	-	-	21,000,000	105,000
Issued per agreement	500,000	8,384	1,000,000	24,137
Balance, end of period	22,500,000	\$ 137,521	22,000,000	\$ 129,137

The weighted average exercise price for the warrants issued is \$0.40 (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:

	March 31 2012	December 31 2011
Risk-free interest rate	1.20%	0.89-0.97%
Expected life (years)	1.25	1.50-1.75
Expected volatility	70%	80%
Dividend per share	0.0	0.0

Based on the Black-Scholes pricing model, the weighted average fair value per warrant is \$0.02 for the warrants issued on March 31, 2012.

### c) Stock options

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

	March 31 2012		December 31 2011	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
<b>Earth Energy</b>				
Outstanding, beginning of period	-	\$ -	3,350,000	\$ 1.02
Exchange of options on acquisition	-	-	(3,350,000)	(1.02)
Outstanding, end of period	-	\$ -	-	\$ -
<b>US Oil Sands</b>				
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	-	-	7,275,000	0.36
Outstanding, end of period	21,925,000	\$ 0.28	24,175,000	\$ 0.26
Exercisable, end of period	18,287,500	\$ 0.28	20,537,500	\$ 0.26

The following table summarizes information about stock options outstanding and exercisable as at March 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	3,600,000	April 18, 2021
0.2000	75,000	37,500	August 23, 2021
	21,925,000	18,287,500	

As at March 31, 2012, the exercise prices of the options outstanding range from \$0.10 to \$0.36 per option with the weighted average remaining life of 4.26 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:

	August 23, 2011 options	April 18, 2011 options	2010 Modifications	2008 options
Risk-free interest rate	2.38%	3.37%	1.94%	3.08%
Expected life (years)	10.0	10.0	3.0	5.0
Expected volatility (peer group)	80%	80%	80%	80%
Forfeiture rate	0%	0%	0%	0%
Dividend per share	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, 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.

**d) Contributed surplus**

	<b>March 31</b>	December 31
	<b>2012</b>	2011
Balance, beginning of period	\$ 3,574,978	\$ 1,933,835
Share-based payments	200,716	1,641,143
Balance, end of period	\$ 3,775,694	\$ 3,574,978

**10. CASH FLOW**

For the three months ended March 31	<b>2012</b>	2011
Accounts receivable	\$ 33,988	\$ (2,032)
Prepaid expenses	(15,825)	(11,906)
Accounts payable and accrued liabilities	175,667	759,456
Changes in non-cash working capital	\$ 193,830	\$ 745,518
Changes in non-cash working capital – operating	\$ 158,798	\$ 745,518
Changes in non-cash working capital –investing	35,032	-
	\$ 193,830	\$ 745,518

**11. SEGMENT INFORMATION**

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

**a) Reconciliation of non-current segment assets**

As at March 31, 2012	<b>Corporate</b>	<b>Utah Oil Sand Development</b>	<b>Consolidated</b>
Property, plant and equipment	\$ 369,715	\$ 52,552	\$ 422,267
Exploration and evaluation assets	260,000	7,888,129	8,148,129
Technology and patents	1,549,977	-	1,549,977
Reclamation funds on deposits	-	332,889	332,889
<b>Segment non-current assets</b>	<b>\$ 2,179,692</b>	<b>\$ 8,273,570</b>	<b>\$ 10,453,262</b>

As at December 31, 2011	<b>Corporate</b>	<b>Utah Oil Sand Development</b>	<b>Consolidated</b>
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
<b>Segment non-current assets</b>	<b>\$ 2,120,817</b>	<b>\$ 8,219,792</b>	<b>\$ 10,340,609</b>

As at January 1, 2011	<b>Corporate</b>	<b>Utah Oil Sand Development</b>	<b>Consolidated</b>
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
<b>Segment non-current assets</b>	<b>\$ 2,151,933</b>	<b>\$ 844,785</b>	<b>\$ 2,996,718</b>

**b) Reconciliation of reported segment loss**

For the three months ended March 31, 2012	Corporate	Utah Oil Sand Development	Consolidated
<b>Income</b>			
Interest income	\$ 2,495	\$ -	\$ 2,495
<b>Less: Expenses</b>			
Amortization	18,967	4,253	23,220
Accretion	-	576	576
Property evaluation	-	205,974	205,974
Technology development	5,497	-	5,497
General and administrative	642,417	55,538	697,955
Share-based payments	200,716	-	200,716
	867,597	266,341	1,133,938
Loss before taxes	(865,102)	(266,341)	(1,131,443)
Income tax expense	-	100	100
<b>Segment net loss</b>	<b>\$ (865,102)</b>	<b>\$ (266,441)</b>	<b>\$ (1,131,543)</b>

For the three months ended March 31, 2011	Corporate	Utah Oil Sand Development	Consolidated
<b>Income</b>			
Interest income	\$ 2,106	\$ 695	\$ 2,801
<b>Less: Expenses</b>			
Amortization	23,870	291	24,161
Acquisition expense	110,953	-	110,953
Property evaluation	-	16,927	16,927
Technology development	57	-	57
General and administrative	403,805	(54,600)	349,205
	538,685	(37,382)	501,303
Income (loss) before taxes	(536,579)	38,077	(498,502)
Income tax expense	-	99	99
<b>Segment net income (loss)</b>	<b>\$ (536,579)</b>	<b>\$ 37,978</b>	<b>\$ (498,601)</b>

**12. 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:

	<b>March 31 2012</b>	December 31 2011	January 1 2011
Cash and cash equivalents	<b>2,402,773</b>	2,612,331	22,053
Accounts payable	<b>92,279</b>	56,263	16,110
Accrued liabilities	<b>60,009</b>	27,898	-

As at March 31, 2012, the exchange rate between Canadian dollars and US dollars was CAD\$1 to US\$1.0009. A change of the value of the Canadian dollar relative to the US dollar of 1% will result in a \$22,505 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.

## **13. RELATED PARTY TRANSACTIONS**

For the three months ended March 31	<b>2012</b>		2011
Consulting fees	\$	-	\$ 45,900

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 March 31, 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.

## **14. 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:

	<b>March 31 2012</b>	December 31 2011	January 1 2011
Shareholders' capital	<b>27,499,939</b>	27,274,939	15,011,398
Contributed surplus	<b>3,775,694</b>	3,574,978	1,933,835
Warrants	<b>137,521</b>	129,137	-
Deficit	<b>(18,573,994)</b>	(17,442,451)	(13,449,350)

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

## **15. COMMITMENTS**

The Company has three 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.

Pursuant to a Special Advisory Services Letter Agreement ("Agreement") dated July 6, 2011 and as amended September 30, 2011, whereby the Company engaged with an arms-length international advisory-focused



boutique investment bank to provide general advice and counsel on equity capital markets, the Company has agreed to issue 2,000,000 warrants. The warrants are to be issued quarterly as services are rendered at a price equal to the greater of Market Price (as defined in TSXV Policy) and \$0.40 in the case of warrants issued in connection with the quarters September 30, 2011 and December 31, 2011 and \$0.50 in the case of warrants issued and issuable in connection with the quarters March 31, 2012 and June 30, 2012. All of the warrants issued shall be exercisable at any time up until June 30, 2013.

**16. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform with current period's presentation.

**17. SUBSEQUENT EVENTS**

Subsequent to March 31, 2012, the Company entered into an agreement with Dundee Securities Ltd., on behalf of a syndicate including FirstEnergy Capital Corp. (the "Agents") under which the Agents have agreed to offer for sale, on a best efforts private placement basis, up to 50,000,000 units (the "Units") at a price of \$0.18 per Unit for gross proceeds of \$9,000,000. On May 23, 2012, the private placement financing was closed with 61,224,735 Units being issued for gross proceeds of \$11,020,452. Each Unit consists of one Common Share and one warrant exercisable at \$0.26 for a period of 24 months from closing.

Subsequent to March 31, 2012, 2,750,000 options to purchase common shares of the Company were granted to directors, officers, consultants and employees of the Company at an exercise price of \$0.18 per share expiring on May 28, 2017.