U.S. OIL SANDS

US Oil Sands Inc.

Consolidated Financial Statements
For the year ended December 31, 2011

(Expressed in Canadian Dollars)

Management's Report

To the Shareholders of US Oil Sands Inc.

The preparation and presentation of US Oil Sands Inc.'s consolidated financial statements is the responsibility of management. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and include management's best estimates and judgments, where required. The financial information contained elsewhere in this report is consistent with these financial statements.

Management is responsible for installing and maintaining a system of internal controls to provide reasonable assurance that assets are safeguarded and that reliable financial information is produced for preparation of the consolidated financial statements.

The Board of Directors is responsible for ensuring management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility through its Audit Committee.

The Audit Committee is appointed by the Board and all of its members are independent directors. The Committee meets periodically with management, as well as the independent auditor, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues; to satisfy itself that each party is properly discharging its responsibilities; and, to review the annual report, the consolidated financial statements and the independent auditor's report. The Committee reports its findings to the Board for consideration when approving the consolidated financial statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the independent auditor.

(signed) "Cameron Todd"
Chief Executive Officer

(signed) "Glen Snarr"
Chief Financial Officer

Calgary, Alberta
February 23, 2012

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of US Oil Sands Inc.:

We have audited the accompanying consolidated financial statements of US Oil Sands Inc., which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2011 and December 31, 2010, and the notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of US Oil Sands Inc. as at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

February 23, 2012
Calgary, Alberta

Deloitte & Touche LLP
Chartered Accountants

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

As at	Notes	December 31 2011	December 31 2010	January 1 2010
Assets				
Current Assets				
Cash and cash equivalents		**$ 3,575,004**	$ 226,869	$ 395,992
Accounts receivable		**84,640**	387,330	287,635
Prepaid expenses		**74,705**	62,946	61,422
		3,734,349	677,145	745,049
Non-current assets				
Property, plant and equipment	5	**368,652**	323,148	451,414
Exploration and evaluation assets	6	**8,083,127**	1,015,236	915,284
Technology and patents	7	**1,549,977**	1,568,785	1,557,215
Reclamation funds on deposit		**338,853**	89,549	94,086
		10,340,609	2,996,718	3,017,999
Total assets		**$ 14,074,958**	$ 3,673,863	$ 3,763,048
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	8	**$ 305,848**	$ 113,033	$ 150,878
Non-current liabilities				
Decommissioning liabilities	10	**96,534**	64,947	68,343
Total liabilities		**402,382**	177,980	219,221
Shareholders' equity				
Shareholders' capital	11	**27,274,939**	15,011,398	13,927,648
Contributed surplus	11	**3,574,978**	1,933,835	1,484,777
Warrants	11	**129,137**	-	-
Deficit		**(17,442,451)**	(13,449,350)	(11,868,598)
Accumulated other comprehensive income		**135,973**	-	-
Total shareholders' equity		**13,672,576**	3,495,883	3,543,827
Total liabilities and shareholders' equity		**$ 14,074,958**	$ 3,673,863	$ 3,763,048

Commitments (note 19)

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

	Notes	2011	2010
Income			
Interest		**$ 45,076**	$ 3,155
(Loss)/gain on sale of capital assets		**(4,215)**	4,834
		40,861	7,989
Expenses			
Amortization	6	**112,114**	135,658
Accretion	10	**1,983**	-
Acquisition expense	1	**285,199**	-
Property evaluation		**97,332**	47,242
Technology development		**85,267**	21,965
General and administrative		**1,810,825**	934,818
Share-based payments	11	**1,641,143**	449,058
		4,033,863	1,588,741
Loss before taxes		**(3,993,002)**	(1,580,752)
Income tax expense		**99**	-
Net loss		**(3,993,101)**	(1,580,752)
Other comprehensive income – currency translation adjustment		**135,973**	-
Total comprehensive loss		**$ (3,857,128)**	$ (1,580,752)
Loss per share – basic and diluted		**$ (0.02)**	$ (0.02)
Weighted average number of shares outstanding		**183,795,331**	99,275,005

US Oil Sands Inc.
Consolidated Statements of Changes in Equity
For the years ended December 31
(Cdn$)

	Shareholders' Capital	Contributed Surplus*	Warrants	Deficit	Accumulated other comprehensive income	**Total Shareholders' Equity**
January 1, 2010	$ 13,927,648	$ 1,484,777	$ -	$ (11,868,598)	$ -	**$ 3,543,827**
Net loss for the year	-	-	-	(1,580,752)	-	**(1,580,752)**
Common shares issued	1,083,750	-	-	-	-	**1,083,750**
Share-based payments	-	449,058	-	-	-	**449,058**
December 31, 2010	$ 15,011,398	$ 1,933,835	$ -	$ (13,449,350)	$ -	**$ 3,495,883**
January 1, 2011	$ 15,011,398	$ 1,933,835	$ -	$ (13,449,350)	$ -	**$ 3,495,883**
Net loss for the year	-	-	-	(3,993,101)	-	**(3,993,101)**
Other comprehensive income – currency translation adjustment	-	-	-	-	135,973	**135,973**
Common shares issued						
Private placement, net of allocation to warrants	12,495,000	-	-	-	-	**12,495,000**
Shares issued for commissions	619,500	-	-	-	-	**619,500**
Valued assigned upon amalgamation	475,741	-	-	-	-	**475,741**
Exercise of options	73,800	-	-	-	-	**73,800**
Common shares cancelled	(25,000)	-	-	-	-	**(25,000)**
Share issue costs						
Finder's fees	(630,000)	-	-	-	-	**(630,000)**
Fees paid in connection with acquisition	(126,000)	-	-	-	-	**(126,000)**
Commissions paid in shares	(619,500)	-	-	-	-	**(619,500)**
Share-based payments	-	1,641,143	-	-	-	**1,641,143**
Warrants	-	-	129,137	-	-	**129,137**
December 31, 2011	$ 27,274,939	$ 3,574,978	$ 129,137	$ (17,442,451)	$ 135,973	**$ 13,672,576**

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

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

	Notes		**2011**		2010
Operating activities					
Net loss		**$**	**(3,993,101)**	$	(1,580,752)
Adjustments for:					
Amortization			**112,114**		135,658
Accretion			**1,983**		-
Share-based payments			**1,641,143**		449,058
Service fees paid by issuance of warrants	11		**24,137**		-
Loss (gain) on sale of capital assets			**4,215**		(4,834)
Unrealized (gain) loss on foreign exchange			**(479,557)**		8,685
			(2,689,066)		(992,185)
Changes in non-cash working capital	13		**358,731**		(139,064)
			(2,330,335)		(1,131,249)
Investing activities					
Purchase of property, plant and equipment	5		**(167,421)**		(7,392)
Proceeds from sale of capital assets			**8,070**		-
Expenditures on exploration and evaluation assets	6		**(6,887,680)**		(101,424)
Expenditures on technology and patents	7		**(6,192)**		(11,570)
Increase in reclamation funds on deposit			**(233,818)**		-
			(7,287,041)		(120,386)
Financing activities					
Proceeds from issuance of shares from private placement	11		**12,600,000**		1,083,750
Proceeds from options exercised	11		**73,800**		-
Share issue costs	11		**(756,000)**		-
Cash acquired from reverse asset acquisition	11		**600,755**		-
Proceeds from bridge loan	9		**3,000,000**		-
Repayment of bridge loan	9		**(3,000,000)**		-
			12,518,555		1,083,750
Effects of exchange rate changes on cash and cash equivalents			**446,956**		(1,238)
Net increase (decrease) in cash and cash equivalents			**3,348,135**		(169,123)
Cash and cash equivalents, beginning of year		**$**	**226,869**	$	395,992
Cash and cash equivalents, end of year		**$**	**3,575,004**	$	226,869
Supplementary information					
Interest received		**$**	**45,076**	$	3,155
Income tax expense		**$**	**99**	$	-
Non-cash increase in decommissioning liabilities	6	**$**	**27,318**	$	-
Non-cash share issue costs	11	**$**	**619,500**	$	-
Non-cash shares issued	11	**$**	**632,473**	$	11,535
Non-cash shares cancelled	11	**$**	**25,000**	$	-
Cash and cash equivalent					
Cash		**$**	**1,522,550**	$	226,869
Short-term investments			**2,052,454**		-
		$	**3,575,004**	$	226,869

1. ACQUISITION, CONTINUATION AND NATURE OF BUSINESS

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

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

The Acquisition effectively resulted in Earth Energy taking control of the consolidated entity and that Earth Energy was identified as the acquirer. However, as US Oil Sands did not meet the definition of a business, the Acquisition did not constitute a business combination under IFRS 3R "Business Combinations". It is rather considered a capital restructuring or a reverse asset acquisition. The comparative figures presented in these 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 consolidated financial statements were approved by the Board of Directors of the Company on February 23, 2012.

2. BASIS OF PRESENTATION

These consolidated financial statements have been prepared using the accounting policies under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements have been prepared on a going concern basis.

These consolidated financial statements have been prepared in accordance with IFRS 1 "First-time Adoption of International Financial Reporting Standards". Previously, Earth Energy prepared its annual consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles ("previous GAAP"). As a result, the comparative figures for 2010 and the financial positions as at January 1, 2010 have been restated from previous GAAP to IFRS. Reconciliations from IFRS to previous GAAP are summarized in note 18.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned United States subsidiary US Oil Sands (Utah) Inc. All intercompany transactions and balances have been eliminated.

3. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

b) Use of estimates and judgments

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

Property, Plant and Equipment ("PP&E")

Capitalized assets, including property, plant and equipment assets are amortized over their respective estimated useful lives. All estimates of useful lives are set out in 3(d) below.

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.

	Method	Rate
Automotive equipment	declining balance	30 %
Computer hardware and software	declining balance	30 %
Leasehold improvements	straight-line	6 years
Office furniture and equipment	declining balance	20 %
Processing equipment	declining balance	30 %
Shop and laboratory equipment	declining balance	30 %

Based on the review of PP&E, the Company did not have significant components within each class of asset that requires componentization accounting as at December 31, 2011.

e) Exploration and evaluation assets ("E&E")

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

3. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

3. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 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 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. FUTURE ACCOUNTING STANDARDS NOT YET EFFECTIVE

The IASB intends to replace IAS 39 "Financial Instruments: Recognition and Measurement" in its entirety with IFRS 9 "Financial Instruments" in three main phases. IFRS 9 will be the new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39, and is effective for annual periods beginning on or after January 1, 2015, with earlier adoption permitted. The Company is currently evaluating the impact the final standard is expected to have on its financial statements.

In May 2011, the IASB issued the following standards which have not yet been adopted by the Company: IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements", IFRS 12 "Disclosure of Interests in Other Entities", IFRS 13 "Fair Value Measurement" and amended IAS 27 "Separate Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures". Each of the new standards and amendments is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

In October 2011, the IASB issued the new interpretation IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine". This new interpretation is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact this new interpretation will have on its financial statements or whether to early adopt this.

5. PROPERTY, PLANT AND EQUIPMENT

	Processing Equipment	Shop and Laboratory Equipment	Automotive Equipment	Corporate and Other	Total
Cost					
As at January 1, 2010	$ 760,124	$ 551,260	$ 15,000	$ 68,089	$ 1,394,473
Additions	-	3,698	-	3,694	7,392
As at December 31, 2010	$ 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 December 31, 2011	$ 820,110	$ 569,335	$ 25,955	$ 142,976	$ 1,558,376
Accumulated amortization					
As at January 1, 2010	$ 481,257	$ 404,253	$ 13,339	$ 44,210	$ 943,059
Amortization	83,660	44,657	498	6,843	135,658
As at December 31, 2010	$ 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
Carrying value					
As at January 1, 2010	$ 278,867	$ 147,007	$ 1,661	$ 23,879	$ 451,414
As at December 31, 2010	$ 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

No impairment on PP&E has been identified as at December 31, 2011, December 31, 2010 and January 1, 2010.

6. EXPLORATION AND EVALUATION ASSETS

Cost and carrying value		
As at January 1, 2010	$	915,284
Additions		101,424
Foreign exchange effect		(1,472)
As at December 31, 2010	$	1,015,236
Additions		6,887,680
Foreign exchange effect		152,893
Increase in decommissioning liabilities (note10)		27,318
As at December 31, 2011	$	8,083,127

Exploration and evaluation assets are not subject to depletion as the properties have not been developed and technical feasibility or commercial viability has not been determined.

No impairment on E&E has been identified as at December 31, 2011, December 31, 2010 and January 1, 2010.

7. TECHNOLOGY AND PATENTS

As at January 1, 2010	$	1,557,215
Additions		11,570
As at December 31, 2010	$	1,568,785
Additions		6,192
Adjustment ((note 11a)		(25,000)
As at December 31, 2011	$	1,549,977

No impairment on technology and patents has been identified as at December 31, 2011, December 31, 2010 and January 1, 2010.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		December 31 2011		**December 31 2010**		**January 1 2010**
Accounts payables	**$**	**151,166**	$	49,468	$	86,517
Accrued liabilities		**154,682**		63,565		64,361
	$	**305,848**	$	113,033	$	150,878

9. BRIDGE LOAN

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

10. DECOMMISSIONING LIABILITIES

		2011		2010
Balance, beginning of year	**$**	**64,947**	$	68,343
Changes in estimates		**1,513**		-
Liabilities incurred (note 6)		**27,318**		-
Accretion		**1,983**		-
Foreign exchange effect		**773**		(3,396)
Balance, end of year	**$**	**96,534**	$	64,947

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% (2010 – 0%), depending on the estimated time to abandon the asset.

11. SHARE CAPITAL

a) Common shares

	2011 Number	2011 Amount	2010 Number	2010 Amount
Earth Energy				
Common shares issued				
Balance, beginning of year	**25,800,528**	**$ 14,998,425**	24,393,528	$ 13,903,140
Issued for cash	**-**	**-**	867,000	1,083,750
Issued as allocated	**607,303**	**12,973**	540,000	11,535
Shares cancelled	**(100,000)**	**(25,000)**	-	-
Exchange of shares on acquisition	**(26,307,831)**	**(14,986,398)**	-	-
	-	**$ -**	25,800,528	$ 14,998,425
Common shares to be issued				
Balance, beginning of year	**607,303**	**$ 12,973**	1,147,303	$ 24,508
Issued as allocated	**(607,303)**	**(12,973)**	(540,000)	(11,535)
	-	**$ -**	607,303	$ 12,973
Balance, end of year	**-**	**$ -**	26,407,831	$ 15,011,398
US Oil Sands				
Balance, beginning of year	**99,275,005**	**$ 3,573,516**	99,275,005	$ 3,573,516
Exercise of options	**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**	-	-
	249,356,329	**$ 27,274,939**	99,275,005	$ 3,573,516
Weighted average common shares outstanding, basic and diluted	**183,795,331**		99,275,005	

<u>*Earth Energy*</u>

During January 2010, Earth Energy completed a non-brokered private placement and issued 867,000 common shares of Earth Energy at a price of $1.25 per share for gross proceeds of $1,083,750.

On January 29, 2010, pursuant to an agreement as discussed in note 18, 540,000 common shares were issued to Envoy Capital Management Ltd. ("Envoy") at an aggregate assigned value of $11,535. At December 31, 2010, 607,303 common shares remain unissued.

On January 31, 2011, the remaining 607,303 common shares were issued to Envoy at an aggregate assigned value of $12,973.

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

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

SHARE CAPITAL - CONTINUED

a) Common shares - continued

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. The shares issued were valued at $0.295 per share pursuant to the private placement subscription agreement with an aggregate value of $619,500.

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

On June 7, 2011, a former US Oil Sands director exercised 250,000 of stock options at a price of $0.10 per share. The weighted average share price on the date of exercise was $0.1216 per share. As the fair value of the options is immaterial, no value has been assigned to options carried forward from US Oil Sands to the Company. Therefore, the total proceeds have been recorded in common shares and there was no effect on contributed surplus.

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. As the fair value of the options is immaterial, no value has been assigned to options carried forward from US Oil Sands to the Company. Therefore, the total proceeds have been recorded in common shares and there was no effect on contributed surplus.

b) Warrants

	2011		2010	
	Number of Warrants	**Fair Value**	Number of Warrants	Fair Value
Warrants issued				
Balance, beginning of year	**-**	**$ -**	-	$ -
Issued on private placement (note 11a)	**21,000,000**	**105,000**	-	-
Issued per agreement	**1,000,000**	**24,137**		
Balance, end of year	**22,000,000**	**$ 129,137**	-	$ -

The weighted average exercise price for the warrants issued is $0.40 (2010 – $nil) 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:

	Warrants issued December 31, 2011	Warrants issued September 30, 2011
Risk-free interest rate	0.97%	0.89%
Expected life (years)	1.50	1.75
Expected volatility	80%	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 and $0.03 for the warrants issued on September 30, 2011 and December 31, 2011, respectively.

11. SHARE CAPITAL – CONTINUED

c) Stock options

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

	2011 Number of Options	**2011** Weighted Average Exercise Price	2010 Number of Options	2010 Weighted Average Exercise Price
Earth Energy				
Outstanding, beginning of year	**3,350,000**	**$ 1.02**	3,350,000	$ 1.02
Exchange of options on acquisition	**(3,350,000)**	**(1.02)**	-	-
Outstanding, end of year	**-**	**$ -**	3,350,000	$ 1.02
US Oil Sands				
Outstanding, beginning of year	**4,250,000**	**$ 0.10**	4,250,000	$ 0.10
Options exercised	**(750,000)**	**0.10**	-	-
Exchange of options on acquisition	**13,400,000**	**0.26**	-	-
Options granted	**7,275,000**	**0.36**	-	-
Outstanding, end of year	**24,175,000**	**$ 0.26**	4,250,000	$ 0.10
Exercisable, end of year	**20,537,500**	**$ 0.26**	4,250,000	$ 0.10

The following table summarizes information about stock options outstanding and exercisable as at December 31, 2011:

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	3,500,000	3,500,000	December 23, 2019
0.3600	7,200,000	3,600,000	April 18, 2021
0.2000	75,000	37,500	August 23, 2021
	24,175,000	20,537,500	

As at December 31, 2011, the exercise prices of the options outstanding range from $0.10 to $0.36 per option with the weighted average remaining life of 4.83 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

11. SHARE CAPITAL – CONTINUED

c) Stock options - continued

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.

On June 18, 2010, Earth Energy modified the expiry dates of 1,350,000 stock options ("2010 Modifications"). 850,000 of the previous options were set to expire on July 7, 2010 with the remaining 500,000 set to expire on August 11, 2010. The expiry dates of the modified options have been extended by three years and are now set to expire on July 7, 2013 and August 11, 2013, respectively. The changes in fair value of these stock options totalled $356,807 calculated by using the Black-Scholes stock pricing model and has been recorded in 2010.

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

		2011		2010
Balance, beginning of year	**$**	**1,933,835**	$	1,484,777
Share-based payments		**1,641,143**		449,058
Balance, end of year	**$**	**3,574,978**	$	1,933,835

11. INCOME TAXES

The Company's income tax provision differs from the taxes that would be obtained by applying the statutory tax rates applicable to each legal entity and is reconciled as follows:

		2011		2010
Canada				
Loss before income taxes	**$**	**(3,451,129)**	$	(1,559,886)
Statutory income tax rate		**26.5%**		28.0%
Expected income tax recovery		**(914,550)**		(436,770)
Effect on non-deductible items:				
Share-based payments		**434,900**		125,740
Unrealized foreign exchange (gain) loss		**(178,490)**		-
Non-deductible expenses		**211,140**		96,390
Share issue cost charged to share capital		**(52,690)**		(2,100)
Other		**(4,350)**		(440)
		(504,040)		(217,180)
Change in valuation allowance		**504,040**		217,180
Income tax provision	**$**	**-**	$	-
United States (in US dollars)				
Loss before income taxes	**$**	**(319,179)**	$	(106,174)
Statutory income tax rate		**20%**		20%
Expected income tax recovery		**(63,840)**		(21,230)
Effect on non-deductible items:		**63,980**		21,260
		140		30
Change in valuation allowance		**(40)**		(30)
Income tax provision	**$**	**100**	$	-

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

		2011		2010
Canada				
Property, plant and equipment	**$**	**603,630**	$	639,230
Eligible capital		**60,320**		16,170
Share issue costs		**296,420**		2,250
Non-capital loss carry-forwards		**1,938,660**		1,463,160
		2,899,030		2,120,810
Valuation allowance		**(2,899,030)**		(2,120,810)
Deferred tax asset	**$**	**-**	$	-
United States (in US dollars)				
Decommissioning liabilities	**$**	**(37,020)**	$	(24,390)
Capitalized expenses		**250,180**		121,740
		213,160		97,350
Valuation allowance		**(213,160)**		(97,350)
Deferred tax asset	**$**	**-**	$	-

As at December 31, 2011, the Company has, for tax purposes, non-capital losses in Canada available to carry forward to future years total $7,754,646 (2010 – $5,852,623). There are no non-capital losses in the United States as the Company elected to capitalize all related exploration costs for tax purposes.

12. CASH FLOW

		2011		2010
Accounts receivable	**$**	**302,690**	$	(99,695)
Prepaid expenses		**(11,759)**		(1,524)
Accounts payable and accrued liabilities		**192,815**		(37,845)
Non-cash working deficit from reverse asset acquisition (note 11a)		**(125,015)**		-
Changes in non-cash working capital	**$**	**358,731**	$	(139,064)

13. 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 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 December 31, 2010	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

As at January 1, 2010	Corporate	Utah Oil Sand Development	Consolidated
Property, plant and equipment	$ 451,414	$ -	$ 451,414
Exploration and evaluation assets	260,000	655,284	915,284
Technology and patents	1,557,215	-	1,557,215
Reclamation funds on deposits	-	94,086	94,086
Segment non-current assets	$ 2,268,629	$ 749,370	$ 3,017,999

b) Reconciliation of reported segment loss

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

14. SEGMENT INFORMATION - CONTINUED

b) Reconciliation of reported segment loss - continued

For the years ended December 31, 2010		Corporate		Utah Oil Sand Development		Consolidated
Income						
Interest income	$	3,013	$	142	$	3,155
Gain on sale of capital assets		4,834		-		4,834
		7,847		142		7,989
Less: Expenses						
Amortization		135,658		-		135,658
Property evaluation		-		47,242		47,242
Technology development		21,965		-		21,965
General and administrative		960,782		(25,964)		934,818
Share-based payments		449,058		-		449,058
		1,567,463		21,278		1,588,741
Segment net loss	$	(1,559,616)	$	(21,136)	$	(1,580,752)

15. 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.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT - CONTINUED

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company enters into transactions denominated in United States currency for which the related expenses and accounts payable balances are subject to exchange rate fluctuations. The following items are denominated in United States currency:

	December 31 2011	December 31 2010	January 1 2010
Cash and cash equivalents	**2,612,331**	22,053	10,249
Accounts payable	**56,263**	16,110	4,562
Accrued liabilities	**27,898**	-	-

As at December 31, 2011, the exchange rate between Canadian dollars and US dollars was CAD$1 to US$0.9833. A change of the value of the Canadian dollar relative to the US dollar of 1% will result in a $25,282 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.

16. RELATED PARTY TRANSACTIONS

		2011		2010
Consulting fees	**$**	**50,356**	$	150,897

The consulting fees were paid to corporations owned by the Company's officers and directors and were measured at the exchange amount as the transactions were entered into in the normal course of business. As at December 31, 2011, the Company has no recurring related party transactions as these relationships were in place up to the closing of the Acquisition.

Remunerations of directors and other key management personnel

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

		2011		2010
Short-term employee benefits	$	1,011,058	$	299,045
Post-employment benefits		-		-
Termination benefits		-		-
Share-based payments		1,383,833		-
	$	2,394,891	$	299,045

17. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to maintain financial flexibility to meet financial obligations; to facilitate growth; and to optimize the use of capital sources to provide an appropriate investment return to its shareholders. The Company is not subject to any externally imposed capital requirements.

The Company strives to properly exploit its current asset base. Currently, the Company's capital structure is comprised of equity as follows:

	December 31 2011	December 31 2010	January 1 2010
Shareholders' capital	**27,274,939**	15,011,398	13,927,648
Contributed surplus	**3,574,978**	1,933,835	1,484,777
Warrants	**129,137**	-	-
Deficit	**(17,442,451)**	(13,449,350)	(11,868,598)

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

18. TRANSITION TO IFRS

Effective January 1, 2011, the Company adopted IFRS for its first consolidated financial statements for the year ended December 31, 2011.

IFRS 1 requires the presentation of comparative information as at January 1, 2010 ("transition date") and subsequent comparative periods as well as the consistent and retrospective application of IFRS accounting policies. To assist with the transition, the provisions of IFRS 1 allow for certain mandatory and optional exemptions for first-time adopters. Accordingly, those consolidated financial statements were prepared using the accounting policies stated in note 3 and were retrospectively and consistently applied except where specific IFRS 1 optional and mandatory exemptions permitted an alternative treatment upon transition to IFRS for first-time adopters.

Mandatory exceptions to the retrospective application of other IFRSs

The Company is subject to the following mandatory exceptions to the retrospective application of other IFRSs:

a) Estimates

The estimates made under previous GAAP are required to be applied to the balances in accordance with IFRS unless there is evidence that the estimates were in error or to reflect any adjustments made to accounting policies to comply with IFRS. The significant changes in estimates as at the date of transition related to the determination of the fair value of common shares issued for services rendered and share-based payments due to differing requirements between previous GAAP and IFRS.

b) Derecognition of financial instruments

A first-time adopter shall apply the requirement within IAS 39 "Financial Instruments" prospectively from the transition date unless it chooses to apply the derecognition guidance retrospectively from a date of its election. The Company has elected to apply derecoginition of financial instruments prospectively from January 1, 2010, the date of transition. Based on the election, there were no significant adjustments required as a result of the derecognition.

c) Non-controlling interest

At the date of transition, IFRS prescribes that certain requirements of IAS 27 "Consolidated and Separate Financial Statements" be applied prospectively. As the Company had no outstanding instruments which were accounted for as a non-controlling interest there was no impact of this exception under IFRS.

Elected exemptions from full retroactive application

a) Deemed cost election for oil and gas properties

Under previous GAAP, the Company followed the "full cost accounting" method of accounting for oil and gas activities in which all costs directly associated with the acquisition of, the exploration for, and the development of oil and natural gas reserves were capitalized. Under IFRS, exploration and evaluation costs are those expenditures for an area where technical feasibility and commercial viability has not yet been determined, are presented separately on the statement of financial position as exploration and evaluation assets and may or may not be amortized based on the Company's accounting policy. Development costs include those expenditures for areas where technical feasibility and commercial viability has been determined, are presented as a part of property, plant and equipment on the balance sheet and are depleted and depreciated on an area-by-area level. The Company adopted the IFRS 1 exemption whereby the Company deemed its January 1, 2010 IFRS asset costs to be equal to its previous GAAP capitalized value. Accordingly, exploration and evaluation costs were deemed equal to the unproved properties balance and had been tested for impairment at the transition date.

b) Share-based payments

The Company has elected to use the IFRS 1 exemption whereby the expenses for share-based payments that had vested or settled prior to January 1, 2010 were not required to be retrospectively restated.

c) Leases

The Company has elected not to reassess whether an arrangement contains a lease under IFRIC 4 "Determining Whether an Arrangement contains a Lease", for contracts that were assessed under previous

GAAP EIC-150 “Determining Whether and Arrangement Contains a Lease”. As there are no differences between IFRIC 4 and EIC-150, any arrangements that were identified under EIC-150 and determined to contain or not contain an operating or financing lease do not need to be reassessed.

18. TRANSITION TO IFRS – CONTINUED

Elected exemptions from full retroactive application - continued

d) Business combinations

IFRS 3R “Business Combinations” has not been applied to business combinations that occurred before the transition date.

e) Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of qualifying assets were not retrospectively restated prior to transition date.

f) Additional exemptions applied

The Company applied additional exemption for cumulative translation differences in that cumulative translation differences were deemed to be zero at the day of transition.

Reconciliation of Canadian GAAP to IFRS

Reconciliation of shareholders’ equity

		December 31 2010		January 1 2010
Shareholders’ capital under previous GAAP	$	14,936,398	$	13,852,648
Differences increasing shareholders’ capital				
Common shares issued for services		75,000		75,000
Shareholders’ capital under IFRS	$	15,011,398	$	13,927,648
Contributed surplus under previous GAAP	$	1,403,080	$	1,330,069
Differences increasing contributed surplus				
Share-based payments		530,755		154,708
Contributed surplus under IFRS	$	1,933,835	$	1,484,777
Deficit under previous GAAP	$	(12,843,595)	$	(11,638,890)
Differences increasing reported deficit:				
Common shares issued for services		(75,000)		(75,000)
Share-based payments		(530,755)		(154,708)
Deficit under IFRS	$	(13,449,350)	$	(11,868,598)

There is no difference between previous GAAP and IFRS in regards to the total amount of shareholders’ equity; however, there are changes in the components of shareholders’ equity due to the following IFRS adjustments:

Pursuant to an agreement with Earth Energy dated September 15, 2005, Envoy Capital Management Ltd. ("Envoy"), an unrelated party, was entitled to receive 3,510,916 common shares of Earth Energy which remained in treasury as allocated but unissued, and which are fully earned and paid up. These unissued common shares could not be voted until issued. Envoy was engaged by Earth Energy to provide corporate finance services, including facilitating the acquisition of the technology assets. Under previous GAAP, as the services provided were broad in nature, no expense or capital had been recorded in the accounts of Earth Energy. Upon transition to IFRS, Earth Energy assigned a value of $75,000 for the 3,510,916 common shares, in accordance with IFRS 2 “Share-based Payment” based on the value of the services received with this amount charged to financial advisory expenses.

Under previous GAAP, the Company recorded share-based payments using the Black-Scholes pricing model with an expected volatility of 0% as the Company was an unlisted entity. IFRS requires the Company to take into account the expected volatility of the share price and that an unlisted entity could consider the historical or implied volatility of similar listed entities. On transition, the Company applied an expected volatility of 80% by benchmarking to those of similar listed entities. In determining the fair value of the options granted, the Company applied a forfeiture rate of 0% as the Company anticipated that officers and employees who received

the options will continue their employment within the vesting periods based on their long-term employment history with the Company.

18. TRANSITION TO IFRS – CONTINUED

Reconciliation of Canadian GAAP to IFRS - continued

Reconciliation of Comprehensive Loss

		December 31 2010
Total comprehensive loss under previous GAAP	$	(1,204,705)
Differences increasing reported loss:		
Share-based payment		(376,047)
Total comprehensive loss under IFRS	$	(1,580,752)

As described above, the Company recorded share-based payments at fair value of the options using the Black-Scholes pricing model with an expected volatility of 80%. The changes in the options' fair value in 2010 were recognized in total comprehensive loss.

There were no differences between previous GAAP and IFRS related to cash flow.

19. COMMITMENTS

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

2012	$	178,855
2013		72,360
	$	**251,215**

The Company's resource properties are leased from the State of Utah. With 32,005 acres held under separate leases and each having differing expiry terms, the aggregate minimum annual payments are as follows (in US dollars):

2012	$	328,456
2013		328,456
2014		328,456
2015		312,613
2016		304,029
Thereafter, to 2021		1,440,120
	$	**3,042,130**

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 issuable in connection with the quarters September 30, 2011 and December 31, 2011 and $0.50 in the case of warrants 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.