U.S. OIL SANDS

US Oil Sands Inc.

Unaudited Condensed Consolidated Financial Statements
For the Three and Six months ended June 30, 2017
(Expressed in Canadian Dollars)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated financial statements have been prepared by and are the responsibility of management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

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

As at	Notes		June 30, 2017		December 31, 2016
Assets					
Current Assets					
Cash and cash equivalents	5	$	**4,402,904**	$	306,601
Accounts receivable			**189,329**		362,216
Prepaid expenses			**604,124**		921,853
			5,196,357		1,590,670
Non-current assets					
Property, plant and equipment	6		**2,518,413**		2,899,606
Exploration and evaluation assets	7		**69,547,035**		67,787,604
Intangible assets	8		**1,662,886**		1,667,529
Reclamation funds on deposit			**1,040,376**		597,152
			74,768,710		72,951,891
Total assets		$	**79,965,067**	$	74,542,561
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	9	$	**6,236,633**	$	9,004,272
Current portion of bank debt	11		**294,496**		287,664
			6,531,129		9,291,936
Non-current liabilities					
Senior secured loan	10		**12,754,797**		-
Bank debt	11		**187,818**		359,045
Decommissioning liabilities	12		**1,089,277**		1,179,042
Total liabilities			**20,563,021**		10,830,023
Shareholders' equity					
Shareholders' capital	13		**126,021,113**		124,234,790
Contributed surplus			**16,303,113**		16,414,346
Deficit			**(89,095,500)**		(85,311,467)
Accumulated other comprehensive income			**6,173,320**		8,374,869
Total shareholders' equity			**59,402,046**		63,712,538
Total liabilities and shareholders' equity		$	**79,965,067**	$	74,542,561

Going Concern (note 2)
Commitments (note 18)

US Oil Sands Inc.
Consolidated Statements of Comprehensive Loss
For the three and six months ended June 30
(Cdn$)

	Notes	For the Three Months Ended June 30 2017	2016	For the Six months Ended June 30 2017	2016
Income					
Other Income	10	**$ 2,652,873**	$ -	**$ 2,652,873**	$ -
Investment income & interest		**1,223**	33,765	**1,736**	37,489
		2,654,096	33,765	**2,654,609**	37,489
Expenses					
Operation costs		**334,730**	411,324	**686,253**	868,026
Amortization	6,8	**170,137**	63,010	**346,436**	125,160
Accretion	12	**6,472**	4,858	**12,842**	11,428
Property evaluation		**-**	4,051	**-**	4,153
Technology development		**116,554**	209,524	**251,499**	332,636
General and administrative		**950,415**	885,394	**1,796,575**	1,761,288
Foreign exchange loss (gain)		**(14,023)**	(405,574)	**(92,127)**	822,346
Share-based payment	13	**165,404**	97,018	**679,714**	396,132
Interest Expense	9	**(324,584)**	7,746	**11,610**	13,941
		1,405,105	1,277,351	**3,692,802**	4,335,110
Income (loss) before taxes		**1,248,991**	(1,243,586)	**(1,038,193)**	(4,297,621)
Income tax expense		**-**	129	**-**	133
Net income (loss)		**1,248,991**	(1,243,715)	**(1,038,193)**	(4,297,754)
Other comprehensive income (loss)		**(1,708,865)**	39,401	**(2,201,549)**	(4,932,244)
Total comprehensive income (loss)		**$ (459,874)**	$ (1,204,314)	**$ (3,239,742)**	$ (9,229,998)
Loss per share – basic and diluted		**$ 0.035**	$ (0.054)	**$ (0.030)**	$ (0.215)
Weighted average number of shares outstanding		**35,431,995**	22,875,465	**35,116,916**	19,969,156

**Certain comparative figures have been adjusted to reflect current account presentation*

US Oil Sands Inc.
Consolidated Statements of Changes in Equity
For the six months ended June 30
(Cdn$)

	Shareholders' Capital	Contributed Surplus	Warrants	Deficit	Accumulated other comprehensive income (loss)	**Total Shareholders' Equity**
January 1, 2016	$113,634,766	$ 13,410,532	-	$ (34,331,504)	$ 10,640,950	**$103,354,744**
Net loss	-	-	-	(4,297,754)	-	**(4,297,754)**
Other comprehensive loss – currency translation adjustment	-	-	-	-	(4,932,244)	**(4,932,244)**
Rights offering	9,906,154	-	-	-	-	**9,906,154**
Share-based payments	-	396,132	-	-	-	**396,132**
Warrants	-	-	2,635,881	-	-	**2,635,881**
June 30, 2016	**$123,540,920**	**$ 13,806,664**	**$ 2,635,881**	**$ (38,629,258)**	**$ 5,708,706**	**$107,062,913**
July 1, 2016	$123,540,920	$ 13,806,664	$ 2,635,881	$ (38,629,258)	$ 5,708,706	**$107,062,913**
Net loss	-	-	-	(46,682,209)	-	**(46,682,209)**
Rights offering	262,461					
Other comprehensive income – currency translation adjustment	-	-	-	-	2,666,163	**2,666,163**
Share-based payments	-	665,671	-	-	-	**665,671**
Restricted share unit release	431,409	(431,409)	-	-	-	**-**
Warrants expired	-	2,373,420	(2,635,881)	-	-	**(262,641)**
December 31, 2016	**$124,234,790**	**$ 16,414,346**	**$ -**	**$ (85,311,467)**	**$ 8,374,869**	**$ 63,712,538**
January 1, 2017	$124,234,790	$ 16,414,346	$ -	$ (85,311,467)	$ 8,374,869	**$ 63,712,538**
Net loss	-	-	-	(1,038,193)	-	**(1,038,193)**
Other comprehensive income – currency translation adjustment	-	-	-	-	(2,201,549)	**(2,201,549)**
Share-based payments	1,480	678,235	-	-	-	**679,715**
Amended loan agreement	-	-	-	(2,745,840)	-	**(2,745,840)**
Shares for debt	995,375	-	-	-	-	**995,375**
Restricted share unit release	789,468	(789,468)	-	-	-	**-**
Warrants	-	-	13,724,436	(13,817,403)	-	**(92,967)**
Warrants cancelled			(13,724,436)	13,817,403		**92,967**
June 30, 2017	**$126,021,113**	**$ 16,303,113**	**$ -**	**$ (89,095,500)**	**$ 6,173,320**	**$ 59,402,046**

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

	Notes		2017		2016
Operating activities					
Net income (loss)		**$**	**(1,038,193)**	$	(4,297,754)
Adjustments for:					
Investment income & interest			**(1,736)**		(37,489)
Amortization	6,8		**346,436**		125,160
Accretion	12		**12,842**		11,428
Share-based payments	13		**679,714**		396,132
Gain on modification of debt			**(2,652,873)**		-
Unrealized (gain) loss on foreign exchange			**(92,509)**		1,562,476
Changes in non-cash working capital	14		**59,700**		368,896
			(2,686,619)		(1,871,151)
Investing activities					
Interest received			**1,736**		37,489
Purchase of property, plant and equipment	6		**(10,512)**		(115,841)
Expenditures on exploration and evaluation assets	7		**(4,187,708)**		(17,184,473)
Expenditures on intangible assets	8		**-**		(26,896)
Changes in non-cash working capital	14		**(2,336,723)**		(1,757,816)
			(6,533,207)		(19,047,537)
Financing activities					
Proceeds from issuance of shares from rights offering			**-**		12,797,136
Share issue costs	13		**(12,562)**		(255,101)
Warrants issue cost			**(92,967)**		-
Senior loan financing			**13,091,750**		-
Legal fees on senior loan financing			**(132,042)**		-
Bank debt payments			**(147,152)**		(12,629)
			12,707,027		12,529,406
Effects of exchange rate changes on cash and cash equivalents			**609,102**		(213,332)
Net decrease in cash and cash equivalents			**4,096,303**		(8,579,941)
Cash and cash equivalents, beginning of period		**$**	**306,601**	$	18,529,111
Cash and cash equivalents, end of period		**$**	**4,402,904**	$	9,926,497
Cash Paid:					
Interest		**$**	11,610	$	13,941
Taxes		**$**	**-**	$	-

1. NATURE OF BUSINESS

US Oil Sands Inc. (the "Company") is engaged in the exploration and development of oil sands properties and, through its wholly owned United States subsidiary US Oil Sands (Utah) Inc., has a 100% interest in bitumen leases covering 32,005 acres of land in Utah. To date, the Company has not earned significant revenues as it is in the pre-production stage.

The Company's registered office is located at Suite 1600, 521 – 3rd Ave. SW., Calgary, Alberta, Canada T2P 3T3.

2. GOING CONCERN

These condensed consolidated financial statements ("interim financial statements") have been prepared on a going concern basis which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business for the foreseeable future. The Company has historically met its day to day working capital requirements and funded its capital and operating expenditures through funding received from the proceeds of share and debt issuances.

On June 30, 2017, the Company closed a US$5.0 million amendment to its existing US$7.5 million senior secured loan facility with ACMO S.à R.L. ("ACMO"), the Company's largest shareholder. The first US$2.5 million tranche was funded on June 30, 2017 with the closing of the amendment. The second US$2.5 million tranche will become available upon the PR Spring Project producing 500 barrels per day of oil for five consecutive days. The additional loan facility funds are to be used to complete commissioning and startup of the PR Spring Project, fund operations and corporate general and administrative costs.

Future operations are dependent on the funding of the second tranche of the additional financing, the commissioning and startup of the PR Spring Project and the successful commercialization of the Company's proprietary bitumen extraction technology, the generation of positive cashflows from operations and the ability to discharge obligations as they come due. There is no assurance that the Company will be successful in achieving the second tranche funding milestone of producing 500 barrels of oil per day for five consecutive days. As such, there is significant doubt and there can be no assurance that the Company will be able to continue as a going concern.

The timing and extent of forecast capital and operating expenditures is based on the Company's 2017 budget and on management's estimate of expenditures expected to be incurred beyond 2017. The Company has a significant degree of control and flexibility over both the extent and timing of payments relating to creditors.

Management has applied significant judgement in preparing forecasts supporting the going concern assumption. Specifically, management has made assumptions regarding projected oil sales volumes and pricing, scheduling of payments arising from various obligations as at June 30, 2017, the availability of additional financing, and the timing and extent of capital and operating expenditures.

The financial statements have been prepared on a basis which asserts the Company has the ability to continue to realize its assets and discharge its liabilities and commitments in a planned manner giving consideration to the above and expected possible outcomes. Conversely, if the going concern assumption is not appropriate, adjustments to the carrying amounts of the Company's assets, liabilities, revenues, expenses and balance sheet classifications may be necessary, and adjustments may be material.

The financial statements reflect management's best estimates after giving consideration to likely outcomes. The financial statements continue to be prepared in accordance with International Financial Reporting Standards ("IFRS") and are consistent with the Company's accounting policies as outlined in financial statement note 3.

3. BASIS OF PRESENTATION

a) Statement of compliance

These condensed consolidated financial statements ("interim financial statements") were approved by the Board of Directors of the Company on August 16, 2017.

The interim financial statements have been prepared using the accounting policies under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and have been prepared in accordance with International Standards ("IAS") 34 "Interim Financial Reporting".

The interim financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the Audited Consolidated Financial Statements for the year ended December 31, 2016. The Company has prepared these interim financial statements using the same significant accounting policies, critical judgments, accounting estimates and methods of computation applied in the 2016 audited financial statements, except as noted below.

b) Basis of measurement

The interim financial statements are presented on a historical cost basis and in Canadian dollars which is the Company's functional and presentation currency. The Company has a wholly owned subsidiary which uses the US dollar as its functional currency. The Company follows the foreign currency translation method prescribed in IAS 21.

4. FUTURE ACCOUNTING STANDARDS

On January 1, 2018, the Company will be required to adopt IFRS 15, "Revenue from Contracts with Customers". IFRS 15 provides a single, principle-based five-step model that will apply to all contracts with customers with limited exceptions. In addition to the five-step model, the standard specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities. The extent of the impact of the adoption of IFRS 15 has not yet been determined.

IFRS 9 Financial Instruments, finalized in July 2015 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition. The standard is effective for annual periods beginning on or after January 1, 2018. The extent of the impact of the adoption of IFRS 9 amendments has not yet been determined.

IFRS 16 Leases replaces IAS 17 Leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less. This removes the classification of leases as either operating leases or finance leases. All leases will be treated as finance leases, effective January 1, 2019.

The Company has not completed its evaluation of the effect of adopting these standards on its financial statements.

5. CASH AND CASH EQUIVALENTS

		June 30 2017		December 31 2016
Cash	**$**	**4,402,904**	$	305,799
Short-term investments		**-**		802
	$	**4,402,904**	$	306,601

6. PROPERTY, PLANT AND EQUIPMENT

	Processing Equipment	Shop and Laboratory Equipment	Automotive Equipment	Mining Equipment	Corporate and Other	Total
Cost						
As at January 1, 2016	$ 1,445,326	$ 1,012,456	$ 139,703	$ -	$ 387,672	$ 2,985,157
Additions	-	72,406	46,289	1,860,311	643	1,979,649
Foreign exchange effect	-	(89)	(3,095)	25,136	(3,058)	18,894
As at December 31, 2016	$ 1,445,326	$ 1,084,773	$ 182,897	$ 1,885,447	$ 385,257	$ 4,983,700
Additions	-	10,512	-	-	-	10,512
Foreign exchange effect	-	(301)	(5,627)	(63,190)	(3,361)	(72,479)
As at June 30, 2017	$ 1,445,326	$ 1,094,984	$ 177,270	$ 1,822,257	$ 381,896	$ 4,921,733
Accumulated amortization						
As at January 1, 2016	$ 727,315	$ 639,505	$ 66,561	$ -	$ 214,182	$ 1,647,563
Amortization	9,843	119,424	27,950	232,539	45,240	434,996
Foreign exchange effect	-	(37)	(1,168)	3,142	(402)	1,535
As at December 31, 2016	$ 737,158	$ 758,892	$ 93,343	$ 235,681	$ 259,020	$ 2,084,094
Amortization	7,992	50,058	13,349	245,917	21,105	338,421
Foreign exchange effect	-	(97)	(2,996)	(14,644)	(1,458)	(19,195)
As at June 30, 2017	$ 745,150	$ 808,853	$ 103,696	$ 466,954	$ 278,667	$ 2,403,320
Carrying value						
As at December 31, 2016	$ 708,168	$ 325,881	$ 89,555	$ 1,649,766	$ 126,237	$ 2,899,606
As at June 30, 2017	**$ 700,176**	**$ 286,131**	**$ 73,574**	**$ 1,355,303**	**$ 103,229**	**$ 2,518,413**

7. EXPLORATION AND EVALUATION ASSETS

Cost and carrying value	
As at January 1, 2016	$ 86,737,570
Additions	27,071,467
Changes in decommissioning liabilities (note 10)	163,055
Impairment	(44,000,000)
Foreign exchange effect	(2,184,488)
As at December 31, 2016	$ 67,787,604
Additions	4,187,708
Changes in decommissioning liabilities (note 10)	(89,765)
Foreign exchange effect	(2,338,512)
As at June 30, 2017	**$ 69,547,035**

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

The Company performs impairment tests when events and/or circumstances indicate that the carrying value of an asset or CGU may exceed the recoverable amount. At June 30, 2017, the Company determined that no indicators of impairment existed with respect to its E&E assets and no impairment losses or reversals of E&E impairment losses were recorded during the six months ended June 30, 2017 (2016 - $Nil).

8. INTANGIBLE ASSETS

	Technology and Patents	Computer Software	Corporate & Other	Total
Cost				
As at January 1, 2015	$ 1,588,283	$ 160,201	$ 81,695	$ 1,830,179
Additions	25,642	1,249	-	26,891
Foreign exchange effect	(144)	(4,521)	-	(4,665)
As at December 31, 2016	$ 1,613,781	$ 156,929	$ 81,695	$ 1,852,405
Additions	-	-	-	-
Foreign exchange effect	4,861	(4,985)	-	(124)
As at June 30, 2017	$ 1,618,642	$ 151,944	$ 81,695	$ 1,852,281
Accumulated amortization				
As at January 1, 2016	$ -	$ 82,800	$ 81,695	$ 164,495
Amortization	-	22,456	-	22,456
Foreign exchange effect	-	(2,075)	-	(2,075)
As at December 31, 2016	$ -	$ 103,181	$ 81,695	$ 184,876
Amortization	-	8,015	-	8,015
Foreign exchange effect	-	(3,496)	-	(3,496)
As at June 30, 2017	$ -	$ 107,700	$ 81,695	$ 189,395
Carrying value				
As at December 31, 2016	$ 1,613,781	$ 74,129	$ -	$ 1,667,529
As at June 30, 2017	**$ 1,618,642**	**$ 44,244**	**$ -**	**$ 1,662,886**

No impairment on intangible assets have been identified as at June 30, 2017 and December 31, 2016.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30 2017	December 31 2016
Accounts payables	**$ 5,677,972**	$ 8,472,832
Accrued liabilities	**558,661**	531,440
	$ 6,236,633	$ 9,004,272

10. SENIOR SECURED LOAN

On June 30, 2017 the Company secured additional financing by amending the existing US$7.5 million senior secured loan facility (“Existing Loan”) with ACMO. The additional financing will provide the Company with US$5 million to be provided in two tranches (“Additional Loan”). The first US$2.5 million tranche was funded on June 30, 2017 with the closing of the amendment. The second US$2.5 million tranche will become available upon the Project producing 500 barrels per day of oil for five consecutive days. In conjunction with the amendment, the Company’s common shares have been delisted from the TSX Venture Exchange effective June 29, 2017. The Company continues to be a reporting issuer under Canadian securities laws and subject to Canadian continuous disclosure requirements.

The Existing Loan was extended by one year to January 12, 2019 and the Additional Loan is due on June 30, 2027, as such the Senior Secured Loan has been presented as a long-term liability. Interest payable in respect of the Existing Loan is reduced to zero percent per annum and all accrued and unpaid interest is forgiven. The Company recorded a gain on the modification of the Existing Loan of $2,652,873 as a result of the interest rate being reduced and extension of the loan for one year in accordance with IFRS 9.

Security is a first priority interest on all present and future property, assets of the Company and its wholly owned subsidiary, US Oil Sands (Utah) Inc. A provision allows the Company to obtain a US$3.0 million loan facility using accounts receivable and inventory as security, where ACMO will postpone its security in favour of a first place position.

At any time between the closing date and maturity, the Additional Loan may be convertible into that number of common shares of the Company that provides ACMO with 90% of the Company’s fully diluted common shares outstanding when combined with its existing share holdings.

Pursuant to the amendment transaction, the 24 million warrants issued to ACMO in connection with the Existing Loan on January 12, 2017 were cancelled.

11. Bank Debt

	June 30 2017	December 31 2016
Current portion of bank debt	**$ 294,496**	$ 287,664
Non-current portion of bank debt	**187,818**	359,045
	$ 482,314	$ 646,709

The Company finalized a three-year loan at 3.70% APR for US$645,000 in January 2016 to partially fund the purchase of US$1.3 million of mining equipment, with the balance of the purchase price paid in cash. Also held is a US$42,000 loan at 6.47% APR for term of five years, ending November 2019. The equipment under each loan is held as collateral, and there are no specified covenants.

12. DECOMMISSIONING LIABILITIES

	June 30 2017	December 31 2016
Balance, beginning of period	**$ 1,179,042**	$ 1,015,987
Changes in estimates	**(64,510)**	168,232
Liabilities added (note 6)	**-**	-
Accretion	**12,842**	22,563
Foreign exchange effect	**(38,097)**	(27,740)
Balance, end of period	**$ 1,089,277**	$ 1,179,042

The Company is liable for its share of dismantling, decommissioning, and site disturbance remediation activities of its properties upon abandonment. The estimated amount required to settle the decommissioning liabilities have been discounted using risk-free rates between 2.13% and 3.24% and an inflation rate of 1.6%. The properties are estimated to require reclamation in 15.2 years as at June 30, 2017.

13. SHARE CAPITAL

a) Common shares

	June 30 2017		December 31 2016	
	Number	**Amount**	Number	Amount
Balance, beginning of period	34,255,736	**$ 124,234,790**	17,062,847	$113,634,766
Rights offering, net of allocation to warrants	-	**-**	17,062,847	10,423,716
Share issue costs	-	**(12,562)**	-	(255,101)
RSU Release	305,959	**790,948**	130,060	431,409
Shares for debt issuance	986,725	**1,007,937**	-	-
Share Consolidation Rounding	-	**-**	(18)	-
Balance, end of period	35,548,420	**$ 126,021,113**	34,255,736	$124,234,790
Weighted average common shares outstanding, basic and diluted	35,116,916		19,969,156	

During Q2 2017, the Company entered into agreements with three of its service provider creditors to issue 192,868 common shares at a deemed price of $0.68 per common share in settlement of an aggregate of $131,149 in debt.

b) Warrants

	June 30 2017		December 31 2016	
	Number of Warrants	**Fair Value**	Number of Warrants	Fair Value
Balance, beginning of the period	**-**	**$ -**	-	$ -
Issued on rights offering	**-**	**-**	3,214,500	2,373,420
Issued on Senior Secured Loan	**24,000,000**	**13,724,436**	-	-
Expired	**-**	**-**	(3,214,500)	(2,373,420)
Cancelled	**(24,000,000)**	**(13,724,436)**	-	-
Balance, end of the period	**-**	**$ -**	-	$ -

As an inducement to provide the Existing Loan, ACMO was granted, on a post-consolidation basis, 24,000,000 warrants that were exercisable into one common share per warrant at $0.75 for a term of five years. The warrants were cancelled on June 30, 2017 as part of the amendment to the Existing Loan.

The fair value of the warrants were estimated on the date of issuance using the Black-Scholes pricing model with the following assumptions: Risk-free interest rate 1.08%, expected life 5 years, expected volatility 56%, dividend per share $0.00. Based on this model, the weighted average fair value per warrant was $0.98.

c) Stock options

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

	June 30 2017		December 31 2016	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	**1,014,640**	**$ 9.39**	1,037,160	$ 9.32
Granted	**1,609,144**	**0.18**	-	-
Expired	**(27,000)**	**9.00**	(16,000)	(6.25)
Forfeited	**(171,567)**	**(8.11)**	(6,520)	(5.38)
Outstanding, end of period	**2,425,217**	**$ 3.37**	1,014,640	$ 9.39
Exercisable, end of period	**778,913**	**$ 9.74**	896,680	$ 9.95

The following table summarizes the ranges of exercise prices and weighted average remaining life:

	Outstanding			**Exercisable**		
Range of Exercise Prices ($)	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life
0.00-1.00	1,609,144	$ 0.18	9.99	-	$ 0.00	0.00
5.00-7.50	249,573	$ 5.43	1.99	212,413	$ 5.49	1.88
7.51-10.00	430,000	$ 9.50	1.37	430,000	$ 9.50	1.37
17.51-18.00	136,500	$ 18.00	3.80	136,500	$ 18.00	3.80
	2,425,217	**$ 9.50**	**7.30**	**778,913**	**$ 9.90**	**1.93**

As at June 30, 2017, the exercise prices of the options outstanding ranged from $0.180 to $18.00 per option with a weighted average remaining life of 7.3 years.

The fair value of stock options granted were estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	June 30 2017	December 31 2016
Risk-free interest rate	1.74%	1.58%
Expected life (years)	10.00	5.00
Expected volatility	148%	119%
Forfeiture rate	12.3%	0.88%
Dividend per share	0.00%	0.00%

On June 30, 2017, 1,609,144 stock options with an exercise price of $0.18 were granted to officers of the Company. The stock options vest one-third on the first, second, and third anniversary dates of the grant. The weighted average fair value of these options is $0.03 per option. This option grant was in consideration for amendments to the officers' employment agreements, including elimination of the aggregate $2.0 million potential severance entitlement over and above the provisions of the *Employment Standards Code* (Alberta).

The Company may grant stock options to directors, officers, employees, charities and consultants pursuant to individual stock option agreements. The exercise price, terms of vesting and expiry date of stock options are fixed by directors of the Company at the time of grant.

The Company adopted a "rolling" Stock Option Plan (the "Plan") in compliance with the TSX Venture Exchange policy for granting shares. Under the Plan, the number of shares reserved for issuance may not exceed 10% of the total number of issued and outstanding shares and, to any one optionee, may not exceed 5% of the issued shares on a yearly basis. The exercise price of each option shall not be less than the market price of the Company's stock at the date of grant with a minimum exercise price of $0.05. Options can be granted for a maximum term of ten years and will vest on issuance unless otherwise determined by the board of directors.

d) Restricted Share Units

The Company has a Restricted Share Unit Plan which authorizes the Board of Directors to granted restricted share units ("RSUs") to directors, officers, employees and consultants of US Oil Sands Inc. and its subsidiary.

The RSUs vest one-third on the first, second, and third anniversary dates of the grant. On the vesting dates, the Corporation has the option of settling the award value in cash or common shares of the Corporation.

For the purpose of calculating share-based compensation, the fair value of each award is determined at the grant date using the closing price of the common shares. An estimated forfeiture rate of 10.96% was used to value all awards granted for the period ended June 30, 2017.

The number of restricted share units outstanding are as follows:

	June 30 2017	December 31 2016
Balance, beginning of period	**962,167**	265,246
Granted	**25,000**	880,724
Vested	**(305,959)**	(170,068)
Forfeited	**(91,367)**	(13,735)
Balance, end of period	**589,841**	962,167

e) Share-based Payments

A reconciliation of the share-based payments expense is provided below:

For the six months ended June 30		**2017**		2016
Share-based payments on stock options	**$**	**10,824**	$	123,300
Share-based payments on RSUs		**785,772**		359,596
Gross share-based payment expense	**$**	**796,596**	$	482,896
Recoveries from forfeitures on stock options		**(75,462)**		-
Recoveries from forfeitures on RSUs		**(41,420)**		(86,764)
	$	**679,714**	$	396,132

14. SUPPLEMENTAL CASH FLOW INFORMATION

For the six months ended June 30		**2017**		2016
Accounts receivable	**$**	**172,887**	$	(172,927)
Prepaid expenses		**317,729**		829,446
Inventory		**-**		2,896
Accounts payable and accrued liabilities		**(2,767,639)**		(2,048,335)
	$	**(2,277,023)**	$	(1,388,920)
Related to:				
Changes in non-cash working capital - operating	**$**	**59,700**	$	368,896
Changes in non-cash working capital - investing		**(2,336,723)**		(1,757,816)
	$	**(2,277,023)**	$	(1,388,920)

15. 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) Non-current segment assets

As at June 30, 2017	Corporate	Utah Oil Sand Development	Consolidated
Property, plant and equipment	$ 1,028,980	$ 1,489,433	$ 2,518,413
Exploration and evaluation assets	260,000	69,287,035	69,547,035
Intangible assets	1,616,747	46,139	1,662,886
Reclamation funds on deposits	-	1,040,376	1,040,376
Segment non-current assets	$ 2,905,727	$ 71,862,983	$ 74,768,710

As at December 31, 2016	Corporate	Utah Oil Sand Development	Consolidated
Property, plant and equipment	$ 1,096,990	$ 1,802,616	$ 2,899,606
Exploration and evaluation assets	260,000	67,527,604	67,787,604
Intangible assets	1,612,197	55,332	1,667,529
Reclamation funds on deposits	-	597,152	597,152
Segment non-current assets	$ 2,969,187	$ 69,982,704	$ 72,951,891

b) Reported segment income (loss)

	Corporate		Utah Oil Sand Development		Consolidated	
For the three months ended June 30	**2017**	2016	**2017**	2016	**2017**	2016
Income						
Other Income	**$ 2,652,873**	$ -	**$ -**	$ -	**$ 2,652,873**	$ -
Investment income & interest	**34**	32,625	**1,189**	1,140	**1,223**	33,765
	2,652,907	32,625	**1,189**	1,140	**2,654,096**	33,765
Less: Expenses						
Operation costs	**-**	-	**334,730**	411,324	**334,730**	411,324
Amortization	**31,606**	46,794	**138,531**	16,216	**170,137**	63,010
Accretion	**-**	-	**6,472**	4,858	**6,472**	4,858
Property evaluation	**-**	900	**-**	3,151	**-**	4,051
Technology development	**116,554**	209,524	**-**	-	**116,554**	209,524
General and administrative	**705,592**	687,223	**244,823**	198,171	**950,415**	885,394
Foreign exchange	**(14,023)**	(405,574)	**-**	-	**(14,023)**	(405,574)
Share-based payments	**165,404**	97,018	**-**	-	**165,404**	97,018
Interest expense	**(329,962)**	-	**5,378**	7,746	**(324,584)**	7,746
	675,171	635,885	**729,934**	641,466	**1,405,105**	1,277,351
Income (loss) before taxes	**1,977,736**	(603,260)	**(728,745)**	(640,326)	**1,248,991**	(1,243,586)
Income tax expense	**-**	-	**-**	129	**-**	129
Segment net income (loss)	**$ 1,977,736**	$ (603,260)	**$ (728,745)**	$ (640,455)	**$ 1,248,991**	$ (1,243,715)
Capital Expenditures	**$ 8,096**	$ 28,240	**$ 2,022,608**	$ 6,341,962	**$ 2,030,704**	$ 6,370,202

**Certain comparative figures have been adjusted to reflect current account presentation*

For the Six months ended June 30	Corporate 2017	2016	Utah Oil Sand Development 2017	2016	Consolidated 2017	2016
Income						
Other Income	**$ 2,652,873**	$ -	**$ -**	$ -	**$ 2,652,873**	$ -
Investment income & interest	**444**	36,312	**1,292**	1,177	**1,736**	37,489
	2,653,317	**36,312**	**1,292**	**1,177**	**2,654,609**	**37,489**
Less: Expenses						
Operation costs	**-**	-	**686,253**	868,026	**686,253**	868,026
Amortization	**71,557**	91,826	**274,879**	33,334	**346,436**	125,160
Accretion	**-**	-	**12,842**	11,428	**12,842**	11,428
Property evaluation	**-**	900	**-**	3,253	**-**	4,153
Technology development	**251,499**	332,636	**-**	-	**251,499**	332,636
General and administrative	**1,383,818**	1,276,287	**412,757**	485,001	**1,796,575**	1,761,288
Foreign exchange	**(92,127)**	822,346	**-**	-	**(92,127)**	822,346
Share-based payments	**679,714**	396,132	**-**	-	**679,714**	396,132
Interest Expense	**-**	-	**11,610**	13,941	**11,610**	13,941
	2,294,461	2,920,127	**1,398,341**	1,414,983	**3,692,802**	4,335,110
Income (loss) before taxes	**358,856**	(2,883,815)	**(1,397,049)**	(1,413,806)	**(1,038,193)**	(4,297,621)
Income tax expense	**-**	-	**-**	-	**-**	-
Segment net income (loss)	**$ 358,856**	$ (2,883,815)	**$ (1,397,049)**	$ (1,413,806)	**$ (1,038,193)**	$ (4,297,621)
Capital Expenditures	**$ 8,096**	$ 40,651	**$ 4,143,476**	$ 11,268,349	**$ 4,151,572**	$ 11,309,000

**Certain comparative figures have been adjusted to reflect current account presentation*

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial assets and liabilities are comprised of cash and cash equivalents, accounts receivable, reclamation funds on deposit, accounts payable, accrued liabilities, and bank debt. 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, accrued liabilities and bank debt as other financial liabilities measured at amortized cost.

Fair value of financial instruments

The carrying amount of cash and cash equivalents, accounts receivable, reclamation funds, accounts payable, accrued liabilities and bank debt is approximated by their fair value due to their short-term nature. The Company classifies fair value measurements using a fair value hierarchy with the following levels:

- Level 1 – Unadjusted quoted price in active markets for identical assets and liabilities;
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – Inputs for the asset or liability that are not based on observable market data.

All of the financial instruments held by the Company are recorded at amortized cost; therefore, the fair value hierarchy is not applicable and the Company does not have financial instruments of which fair values were based on Level 1, 2 or Level 3 measurement.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company has not entered into any mitigating interest rate hedges or swaps, and the Company does not have any cashable short-term investments. Had the interest rate on the investments been 100 basis points higher (or lower) throughout the six months ended June 30, 2017, earnings would have been affected by $nil (2016 – $395,253) based on the average investment balance outstanding during the six month period.

Foreign currency risk

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

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

		June 30 2017 (US Dollars)		December 31 2016 (US Dollars)
Cash and cash equivalents	**$**	**3,160,755**	$	167,185
Accounts payable		**4,120,069**		5,616,615
Accrued liabilities		**124,045**		163,321

As at June 30, 2017, the exchange was 1.2977 USD/CAD. A change of the value of the Canadian dollar relative to the US dollar of 1% will result in an $10,834 increase in the gain or loss of foreign exchange, respectively.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The maximum risk to credit exposure is equal to the Accounts Receivable and Cash and Cash Equivalents balances. The majority of Accounts Receivable consists of receivables due from the Government of Canada. The Company holds cash and cash equivalents with large and reputable North American banks.

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 cashflows for the possibility of a negative net cashflow. For the quarter ended June 30, 2017, the Company had a negative working capital of $1.3 million (2016 - $1.6 million surplus) and an accumulated deficit of $89.1 million (2016 - $37.4 million). The Company's ability to remain a going concern is dependent on the funding of the second tranche of financing, the successful commercialization of the Company's proprietary bitumen extraction technology, the generation of positive cashflows from operations and the ability to discharge obligations as they become due.

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:

		June 30 2017		December 31 2016
Shareholders' capital	**$**	**126,021,113**	$	124,234,790
Contributed surplus		**16,303,113**		16,414,346
Deficit		**(89,097,056)**		(85,311,467)

18. RELATED PARTY TRANSACTIONS

The key management personnel of the Company are comprised of members of the US Oil Sands Board of Directors and executives of the Company. Directors only receive share-based payment compensation and no cash compensation. The remuneration of key management personnel during the six months ended June 30 are as follows:

		2017		2016
Short-term employee benefits	**$**	**412,613**	$	503,640
Share-based payments		**431,247**		169,038
	$	**843,860**	$	672,678

The Existing Loan entered into on January 12, 2017 and Additional Loan entered into on June 30, 2017 are both with ACMO, the Company's largest shareholder. Upon closing of the amended Loan Facility, the Board decreased from five seats to three, all of which are appointed by ACMO.

19. COMMITMENTS

	Office and equipment		Resource properties (US dollars)	
2017	$	338,355	$	313,434
2018		210,295		336,094
2019		3,191		336,094
2020		-		318,934
2021		-		53,020
Thereafter		-		164,560
	$	**551,841**	**$**	**1,522,136**

The Company leases equipment and office premises in Canada and USA. The resource properties are leased from the State of Utah. With 32,005 acres held under separate leases and each having differing expiry terms.