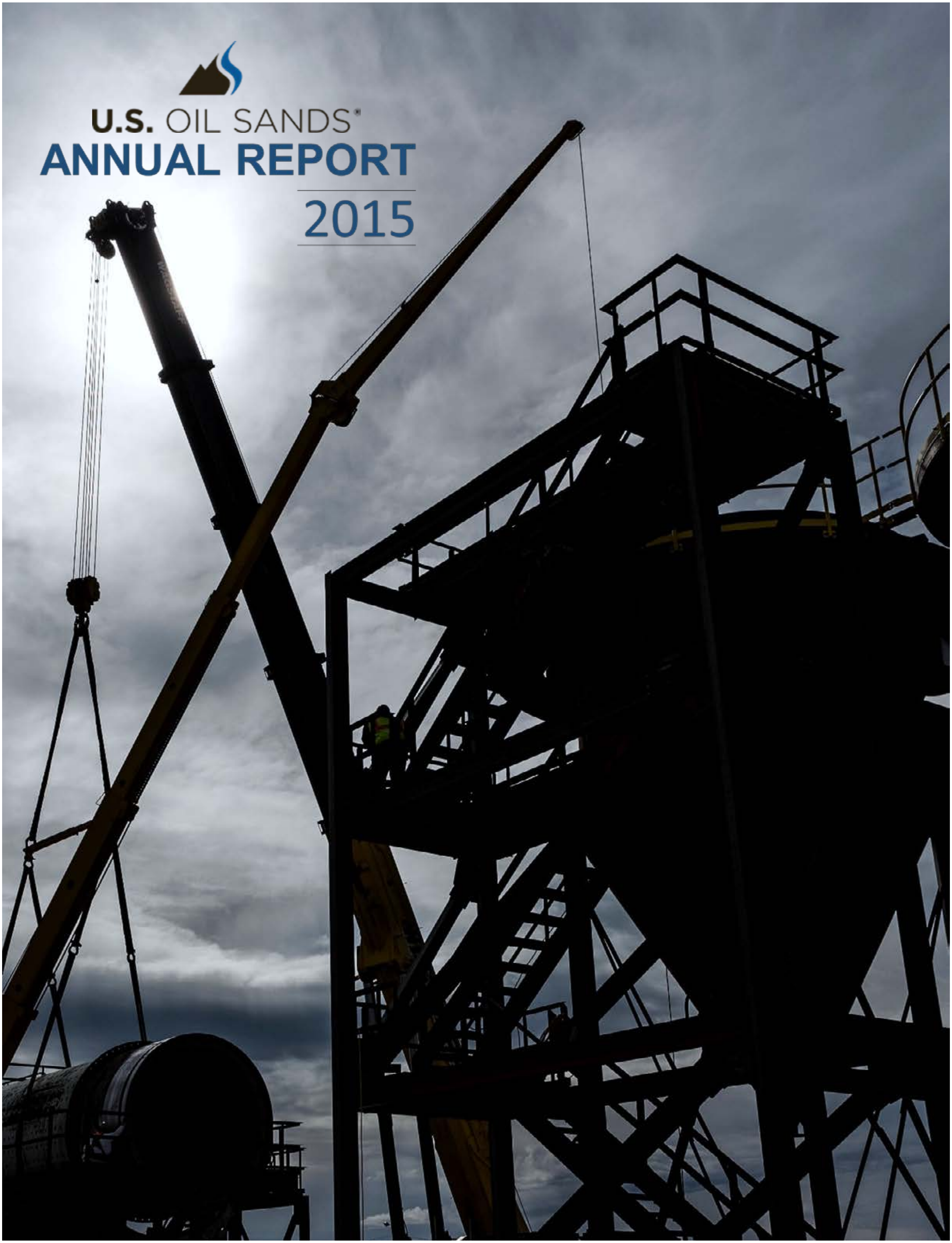
U.S. OIL SANDS® ANNUAL REPORT 2015



U.S. OIL SANDS®

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US OIL SANDS INC.

ANNUAL GENERAL AND SPECIAL MEETING
May 18, 2016
3:30 p.m.
Devonian Room
Calgary Petroleum Club
319 – 5th Avenue SW, Calgary, AB

THE CHIEF EXECUTIVE OFFICER – LETTER TO SHAREHOLDERS

APRIL 18, 2016

Dear Shareholder,

Thank you for investing in our enterprise. We appreciate the confidence you have placed in us, and hope that you will continue to support the ambitious undertakings of this Company.

A 5 YEAR JOURNEY

Five years ago US Oil Sands was first listed on the TSX Venture Exchange. The Company at that time had discovered a new technology which it believed would enable the efficient extraction of heavy oil from oil sands deposits. The Company also had a large land position located in the PR Spring Oil Sands deposit of eastern Utah and was proposing a project to demonstrate the commerciality of its breakthrough technology.

A lot has happened since those first days, and many achievements have been made. The Company has continued to develop its technology and has been granted patents in both Canada and the U.S. We explored our lands and discovered large oil resources. A fully integrated extraction project was designed and permitted, a project management team was recruited and equipment ordered and manufactured. The PR Spring Project has now been largely constructed, and an operations team recruited and trained. 90% of the project has been completed, and in only a few short months the Company expects to be commissioning its plant and producing its first oil.

The Company is now on the cusp of demonstrating its unique and innovative approach to oil sands development and sustainability. With success the Company hopes to unlock large potential value on its own resources and on other oil sands around the world. We believe this could translate into significant value creation for shareholders.

In order to complete and commission the Company's first project, additional capital investment is required. The Company has initiated a rights offering to all shareholders through which it seeks to raise approximately CDN$12.8 million. Our team believes these funds will be sufficient to complete construction and start-up, and demonstrate the commercial success of the technology.

SUCCESS IN THE NEW WORLD OF ENERGY

During this five year journey, the world too has changed enormously. The rise of the environmental movement and concerns over climate change have marked a new expectation for sustainability. Over the past two years oil prices have declined by more than 60%, and many oil operations have become uneconomic. Investments in many projects have been curtailed and or postponed, and investors have added new criteria for making capital investments. Success in this new world means adapting to these major changes.

Critical elements for success now include:

- Energy investments must provide for environmental sustainability and meet public expectation for acceptable environmental practices
- Energy projects must be developed at reduced capital cost and must be economic at low oil prices
- Cycle time for project completion must be greatly reduced
- Energy projects must be adaptable and continuously improving to meet higher and changing expectations

US OIL SANDS MEETS THE NEW CRITERIA

We believe US Oil Sands is well-positioned for success under these new investor expectations. US Oil Sands' vision is to be an innovative environmental leader in next generation resource development. The Company's technology uses biodegradable solvent to efficiently extract bitumen from oil sands. It does so without a tailings pond, the first commercial process to achieve this mark. The process has demonstrated recycle in excess of 95% of the water it uses, and reclaims its mined area while mining, the first time these achievements will have been reached. The process has one of the highest efficiencies in recovery and utilizes a number of new innovative mining and extraction technologies. These achievements place our company and its technology at the forefront of environmental sustainability.

Lower oil prices means that projects must be built for less capital per barrel to be economic. Historically Canadian oil sand mining and extraction projects have required large capital investments between CDN$80,000 to $110,000 per barrel of capacity. Projects were all very large (mega-projects), typically 100,000 barrels per day and costing in excess of CDN$10 billion. These large projects have taken many years to design, permit and build and have large impacts on local and regional infrastructure, workforce, communities, and the environment. The new world of energy is now demanding a different approach from these former norms.

US Oil Sands expects to complete its first commercial development at PR Spring, Utah for a cost of US$60 million. It is a modest sized project of 2,000 barrels per day, with an estimated cost of US$30,000 per barrel of capacity, a small fraction compared with recent Canadian megaprojects. The project is expected to be completed in under two years, thereby exposing investors to a much shorter cycle time, and if successful would be economic at lower oil prices than previously possible. The project is well-suited for expansion and the Company will target to repeat development once the technology has been commercially demonstrated.

Smaller projects, successively-developed are much more amenable to optimization and technological improvements. The Company continues to advance its extraction technologies and is in the process of applying for several new patents, all oriented at improving existing extraction efficiencies and environmental performance. Through the strategic advantage of an operating pilot facility in Grand Prairie, Alberta the Company expects to continue to be on the forefront of technological development.

RESOURCE EVALUATION REPORT

The Company engaged Calgary-based McDaniel & Associates Consultants Ltd. ("**McDaniel**") to complete an independent resource evaluation report dated December 31, 2015 (the "**McDaniel Report**") in compliance with National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities.

For the first time in the Company's history, a portion of the Company's resources have been upgraded to a Contingent Resource classification and assigned a risked value (NPV10 best estimate) of C$87.4 million on recovery of 9.6 MMbbls (from Discovered Petroleum (Bitumen) Initially-In-Place of 12.5 MMbbls) on the Company's 316 acre permitted PR Spring development area. It should be noted that these resources are not classified as reserves but as Contingent Resources based on technology under development, and are subject to certain risks and contingencies including project execution and commercial demonstration of the Company's technology. The remaining 5,614 acres of PR Spring land remain un-appraised with resources classified as Discovered Petroleum (Bitumen) Initially-In-Place totalling 171.8 MMbbls. In preparing the McDaniel Report, McDaniel audited and confirmed the Company's entire 184.3 MMbbls of Discovered Petroleum (Bitumen) Initially-In-Place attributed to the PR Spring property as previously evaluated by Sproule Unconventional Limited with an effective date of December 31, 2014.

US Oil Sands' PR Spring property lies within the State of Utah's PR Spring Special Tar Sand Area and consists of three leases that encompass 5,930 acres. The Company also holds leases on an additional 26,075 acres that have only been minimally explored and therefore, not evaluated in the McDaniel Report. US Oil Sands currently holds 100% working interest in its Utah-based assets.

McDaniel's resource assessment of the evaluated areas is listed below:

Summary of Contingent Resources and Net Present Value
Effective December 31, 2015
CONTINGENT RESOURCES – BITUMEN PRICING, NATURAL GAS AS FUEL

Summary of Risked and Un-risked Volumes

Classification and Product	Bitumen Production (Mbbl)			
	Risked (@ 90%)		Un-Risked	
	Gross[1]	Net[2]	Gross[1]	Net[2]
Low Estimate Contingent Resources - Bitumen	9,108	8,504	10,120	9,449
Best Estimate Contingent Resources - Bitumen	9,644	8,958	10,715	9,953
High Estimate Contingent Resources - Bitumen	10,180	9,412	11,311	10,458

NOTES:
1. Gross resources are the working interest resources and deductions of royalties payable to others.
2. Net resources include gross resources after royalty payable to others plus royalty interest based on McDaniel & Associates January 1, 2016 forecast bitumen netback prices. McDaniel's oil and gas price forecasts can be found at http://www.mcdan.com/priceforecast.

Summary of Risked (@ 90%)/Un-risked Net Present Values before Income Taxes[1,2,3]

Classification and Product	Risk	NPV (C$MM)							
		0%	5%	8%	10%	12%	15%	20%	25%
Low Estimate Contingent Resources - Bitumen	**Risked**	86	46	30	22	15	7	(3)	(9)
	Unrisked	95	51	34	25	17	8	(3)	(10)
Best Estimate Contingent Resources - Bitumen	**Risked**	214	135	104	87	74	58	38	25
	Unrisked	237	150	115	97	82	64	43	28
High Estimate Contingent Resources - Bitumen	**Risked**	343	220	174	149	129	104	76	57
	Unrisked	381	245	193	166	143	116	85	63

NOTES:
1. Based on McDaniel & Associates January 1, 2016 forecast bitumen netback prices. McDaniel's oil and gas price forecasts can be found at http://www.mcdan.com/priceforecast.
2. Interest expenses and corporate overhead, etc. were not included.
3. The net present values may not necessarily represent the fair market value of the resources.

THE FINANCING DEAL

As discussed above, the Company has initiated an equity rights offering to all shareholders whereby each share held on the April 25, 2016 record date will give shareholders the opportunity to purchase an additional share at a price of CDN$0.015 or US$0.012 per share. The terms of this offering are described in greater detail in the circular provided to all shareholders and posted on the Company's website. This offering is expected to result in the issuance of up to 853.1 million additional shares and raise up to CDN$12.8 million in additional capital. The Company plans to use the funds raised to complete construction and start-up of the PR Spring Phase 1 Project. The Company is targeting for a successful operation of the Project to demonstrate commerciality of the Company's process and its technology and potential suitability for expansion.

The financing proposal includes a stand-by commitment from ACMO S.à.r.l., (Anchorage), US Oil Sands' largest shareholder and a member of our board of directors, which has agreed to provide up to US$7.5 million in funding. Management believes this amount of funding would be sufficient to complete the project and provide liquidity to manage the funding requirements of the Company for 12 months following closing of the deal. We greatly appreciate the confidence our largest shareholder has demonstrated in the Company, the PR Spring Project and its technology.

SHARE CONSOLIDATION

Upon completion of the financing the Company expects to have up to 1.94 billion shares outstanding. In order to streamline shareholder operations, meet various requirements of the TSX Venture Exchange and some institutional shareholders, the

Company wishes to effect a share consolidation of up to 100 to one. The expected impact of this initiative is to reduce the number of shares in circulation and to increase the expected share trading price (although the exercise is expected to have no impact on a shareholder's underlying value). This initiative is subject to shareholder approval and a special resolution has been placed on the agenda for consideration at the Company's Annual General and Special Meeting on May 18, 2016. The details of this consolidation are more fully discussed in documentation provided in the Company's Annual Meeting mailout to shareholders.

COMPANY NAME CHANGE

The Company is also requesting its shareholders approve a change in the name of the Company. The name "US Oil Sands Inc." was chosen in 2011, after the acquisition of Earth Energy Resources Inc., to reflect the Company's focus on developing oil sands properties in the State of Utah. Since that time, the Company has expanded its focus from solely Utah to other potential development areas, such as the Athabasca region of Alberta and other international opportunities. It's our intention that the U.S. subsidiary company will continue to operate as US Oil Sands (Utah) Inc.

Management and the Board believe that a name change is important to better reflect the focus and strategy of the Company on maximizing its use of innovative and environmentally leading technologies in the energy industry and expanding to new geographic locations. At the Annual Meeting on May 18, 2016, shareholders will be asked to pass a resolution authorizing the Board to change the Company's name from "US Oil Sands Inc." to such name deemed appropriate by the Board, at its sole discretion, and as may be acceptable to the TSX Venture Exchange and pursuant to the requirements of the *Business Corporations Act* (Alberta).

THE PR SPRING PROJECT

The PR Spring Phase 1 Project is a 2,000 bbl/d mining and bitumen extraction project located on the PR Spring Oil Sands deposit in eastern Utah. The project has received the required governmental approvals and is currently in the final stages of construction with approximately 90% of the project complete.

The Company commenced field construction on the project in May of 2015, and work progressed continuously until early in 2016. On February 4, 2016 the Company announced a reduction in the pace of construction in order to preserve working capital while additional financing was being sought. An external review of the project confirms the project is now approximately 90% complete, and that the project is expected to come in under the original US$60 million budget.

Upon completion of the rights offering, the Company intends to resume full construction activities which consist primarily of on-site piping, instrumentation and electrical installation. Concurrent to and following mechanical completion, commissioning procedures will begin, followed by commercial start-up, expected in Q4 2016.

We believe successful completion and continuous operation of the project will demonstrate commercial viability of the Company's technology, and the potential for expansion both on the Company's existing Utah leases and on other lands. Several other deposits on the PR Spring lease have been discovered which management believes may be commercially attractive. These deposits constitute a portion of the 171.8 million barrels of "Discovered Resources" estimated in the Company's current resources report filing. We have initiated a process of further appraising and assessing these resources and if appropriate may propose one or more expansion proposals. This work is expected to take place over the next several years.

FUTURE DEVELOPMENT

The Company's technology has been tested on a variety of oil sands deposits in Canada, the United States and internationally. We believe it has broad application and that commercial demonstration in Utah will also show its relevance to additional development in Utah and elsewhere.

The ability to economically develop smaller projects at lower capital cost and with greatly improved environmental outcomes opens the door to potential development of many stranded oil sands deposits around the world. Previously projects required recoverable reserves in excess of 1 billion barrels to be economic. We are now targeting development which was not previously possible on deposits of between 10 and 100 or more million barrels. The Company may potentially partner with other resource owners or license the technology that would provide for development of these stranded opportunities.

RESEARCH AND DEVELOPMENT

US Oil Sands' proprietary technology was first developed in the Company's research facility located in Grande Prairie, Alberta. Since then the facility has been greatly enhanced and expanded. It incorporates numerous extraction and separation equipment elements, and is designed to replicate the commercial process now under construction in Utah. The Company has made more than 200 runs to test and optimize the technology. Results of this testing provided the basis for the Company's original patents in the U.S. and Canada. The Company's process has been reviewed by the Company's independent resource auditor for assessment of the stage of technology development. A governmental research agency and other operators have also participated in assessment of the process in the pilot facilities.

The facility has the capacity for flexible set-up and incorporation of alternate separation elements and numerous variations. This allows the Company to optimize a design approach for different types of oil sands ore. Many pilot runs have been conducted on oil sand ores from other deposits in the U.S. and Canada and the Company has achieved high recovery efficiencies and successful separation results on these ores.

As a result of experimental testing the Company has made a number of advancements and discoveries, and the Company has initiated patent application on several new process enhancements. The Grande Prairie facility represents a unique strategic asset in its ability to test new separation concepts and adapt processes to optimize extraction parameters and technologies. We believe this facility will be a core element allowing the Company to continue at the forefront of technological development.

SHAREHOLDERS

We believe it important that our shareholders have a full understanding of the Company's challenges and opportunities. We encourage each shareholder to listen and view the Company's conference call and webcast to be held April 20, 2016 at 9:00 a.m. (Calgary Time). Details may be found at the Company's website www.usoilsandsinc.com. In addition, management will conduct a series of information meetings at locations and times to be posted on the Company's website. If any shareholder is interested in speaking with or meeting with the management of US Oil Sands, they are encouraged to contact the Company at their earliest convenience to coordinate suitable arrangements.

2016 promises to be an exciting year for your Company. Thank you for joining us on our journey.

Cameron Todd
Chief Executive Officer

PR SPRING PROJECT IN PICTURES

PR Spring Opening Mine Pit – September 2015

Pipe Racks and Foundations – June 2015

"Paddle Dryer" *En-Route* – October 2015

Primary Separation Vessels (USO Proprietary Design) – November 2015

PR Spring Winter Construction – November 2015

PR Spring Project 90% Complete – April 2016

ADVISORIES

FORWARD-LOOKING INFORMATION

The foregoing represents the opinions of management. It contains forward-looking information relating to the future performance of the Company including information relating to the development and construction of the PR Spring Project, commencement of commercial production, construction activities and costs, sustaining capital requirements, resource estimates, the completion of the Rights Offering, the amount of proceeds from the Rights Offering and the use of such proceeds, the proposed name change and consolidation, corporate development activities and international opportunities. Forward looking information is subject to a number of known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in our forward looking statements. Such risks and other factors include, among others, the actual results of exploration activities, changes in world commodity markets or equity markets, the risks of the petroleum industry including, without limitation, those associated with the environment, delays in obtaining governmental approvals, permits or financing or in the completion of development or construction activities, title disputes, change in government and changes to regulations affecting the oil and gas industry, and other risks and uncertainties detailed from time to time in the Company's filings with Canadian securities regulatory authorities (available at www.sedar.com). Forward-looking statements are made based on various assumptions and on management's beliefs, estimates and opinions on the date the statements are made. Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in the forward-looking information contained herein. The Company undertakes no obligation to update forward-looking statements if these assumptions, beliefs, estimates and opinions or other circumstances should change, except as required by applicable law.

RESOURCES

Contingent Resources are those quantities of bitumen estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingencies may include such factors as economic, legal, environmental, political and regulatory matters or a lack of markets. There is no certainty that it will be commercially viable to produce any portion of the contingent resources disclosed in this report and the estimated values of future net revenue disclosed herein do not necessarily represent the fair market value of such contingent resources.

Discovered bitumen resources or discovered bitumen initially-in-place is that quantity of bitumen that is estimated, as of a given date, to be contained in known accumulations prior to production. The recoverable portion of discovered bitumen initially-in-place includes production, reserves and contingent resources; the remainder is unrecoverable. There is no certainty that it will be commercially viable to produce any portion of the discovered bitumen resources disclosed herein.

Additional information relating to resource estimates is contained in the Company’s Statement of Resources Data and Other Oil and Gas Information for the year ended December 31, 2015 dated April 6, 2016 and available on SEDAR at www.sedar.com.

US OIL SANDS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended December 31, 2015
(Expressed in Canadian Dollars)

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended December 31, 2015

This Management's Discussion and Analysis ("MD&A") for US Oil Sands Inc. ("US Oil Sands" or the "Company") is dated April 15, 2016 and should be read in conjunction with the Company's audited Consolidated Financial Statements for the year ended December 31, 2015.

Unless otherwise noted, the amounts are expressed in Canadian dollars.

Additional information concerning US Oil Sands is available on SEDAR at www.sedar.com.

The December 31, 2015 condensed consolidated financial statements, including comparative figures, were prepared using the accounting policies under International Financial Reporting Standards ("IFRS"). The accounting policies applied in the consolidated financial statements are based on IFRS issued as of December 31, 2015.

OVERVIEW

US Oil Sands 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.

The Company's main focus is on its PR Spring project, which is currently in the construction phase and is expecting to be completed in 2016 with commercial start-up planned for Q4 2016. Significant progress has been made during the year in all aspects of the project. All major pieces of equipment were received on-site, fabrication and electrical work progressed, and mine opening activities were completed, among others.

As at December 31, 2015, the Company has invested approximately US$50 million in engineering, plant equipment and construction, mine opening, and regulatory processing on the PR Spring project since the October 2013 financing was received. The Company has $18 million in cash and $14 million in working capital as at December 31, 2015.

The Company relies on its ability to obtain various forms of financing to fund administration expenses and future exploration and development cost of its projects. The ability of the Company to continue as a going concern and to realize the carrying value of its assets and to discharge its liabilities when due is dependent on the successful completion of the PR Spring project and completion of additional financing.

NATURE OF THE BUSINESS

US Oil Sands is a pre-production oil sands company with a large land position totalling 32,005 acres of bitumen extraction rights on leases in the State of Utah. It is expected that a significant amount of the resource on the Company's property will be accessible using surface mining methods and the Company's proprietary oil sands extraction process.

The Company has two major oil sands project areas. The Company's primary development area is the PR Spring Project Area which consists of 5,930 contiguous acres and which has been in testing and development since 2005. Within a portion of this lease the Company has an approved surface mine development project which is expected to complete construction and begin commissioning and start-up in Q4 2016. The Company also holds 26,075 acres of exploration land which is referred to as the Cedar Camp and NW Project Area.

The Company's proprietary extraction process is a unique highly efficient and low cost process which allows the recovery of bitumen without the need for tailings ponds. The process employs a very effective bio-solvent that is both renewable and biodegradable and through extensive pilot testing, the Company has established extraction efficiency in excess of 90%. Management believes that the commercial PR Spring Project will also demonstrate high extraction efficiency, achieve immediate recycle of 95% process water and further expects the extraction process to exhibit best-in-class environmental performance on the basis of greenhouse gas emissions, energy efficiency, surface footprint and reclamation.

OIL SANDS LEASE HOLDINGS

As of the date of this report, US Oil Sands owns a 100% working interest in its entire 32,005 acres of land holdings. All the Company's leases are within the PR Spring Special Tar Sands Area and are administered by the State of Utah School and

Institutional Trust Lands Administration. Royalties paid on production from these lands are used to support the public school system in Utah.

The Company's leases are located within the Uinta Basin in Northeast Utah, which aside from extensive oil sands deposits, is also well known for its conventional oil and natural gas production. Consequently, oil field services are abundant and available to support the pre-production field work program and subsequent bitumen development and production operations. The following table summarizes the lease holdings of the Company:

Oil Sands Acreage Under Lease	**Acreage**
PR Spring Project Area	5,930
Cedar Camp and NW Project Area	26,075
Total	**32,005**

OPERATIONAL ACTIVITIES

The Company commenced field construction at the PR Spring Project site in May 2015 and maintained full site activity through the end of 2015. All aspects of the PR Spring Project have now been calibrated towards mechanical completion and commercial start-up in Q4 2016. Piping, electrical and instrumentation installation, pipe and tank insulation, and other site construction activities continued to progress through December 31, 2015.

Supporting the Company's PR Spring Project, several noteworthy accomplishments occurred during the year:

- Received at site for erection and installation all of the key pieces of process equipment that were fabricated off-site including the paddle dryer, disk stack centrifuge, rotating mixer, hot oil system, turbine generators, wiped film evaporator, modular electrical house, office and control room buildings, bulk storage tanks and the heat recovery steam generator;
- Completed all detailed engineering;
- Made substantial progress on the field fabrication of piping, and electrical, instrumentation, and controls installation;
- Completed tank farm construction including excavation, lining and tank installation;
- Completed all civil work including foundations and pilings, trenching and underground utilities, water supply pipeline and main gas tie-in from commercial supply pipeline;
- Developed the commissioning and start-up plan with the assistance of an experienced third party commissioning firm;
- Completed programming of the facility's automated electromechanical processes control system; and,
- Completed work on the mine opening activities, including haul roads, over-burden removal and topsoil preservation.
- Recruited and assembled key PR Spring operations team staff including the plant foremen, mine engineer, mine operations geologist, lead operators, plant operators, HSE personnel and administrative staff.

Other accomplishments during the year include:

- Issued a report to a Province of Alberta agency supporting technology development in the Canadian oil sands concerning the Company's testing program using oil sands supplied from the Athabasca region of Alberta;
- Received a favourable ruling from the Utah Division of Oil, Gas and Mining regarding a challenge to the Company's large Mine Permit whereby the Company applied to optimize the mining sequence at PR Spring which reduces the size of the storage areas required for overburden and clean processed and dewatered tailings.

Following year-end field construction, activities continued including line pipe installation, electrical and instrumentation installation, pipe and tank insulation, and preparation for commissioning of major equipment as they each reach full completion.

FINANCING ACTIVITIES

The Company has not completed any financing activities since the October 18, 2013 private placement, where the Company issued 540,036,331 common shares at a price of $0.15 per share for gross proceeds of $81,005,452.

The Company continues to work towards securing additional financing and subsequent to December 31, 2015 entered into an equity financing by way of a Rights Offering whereby the Company is offering 853,142,395 Common Shares at $0.015 per share for gross proceeds of $12,797,136.

The Rights Offering includes a standby commitment from ACMO S.à.r.l., the Company's largest shareholder for US$7,500,000 which provides assurance of over 77% of the targeted financing. As compensation for providing the standby commitment, they will receive warrants entitling them to acquire additional common shares equal to 25% of the maximum number of shares that have been agreed to acquire under the Standby Purchase Agreement. These warrants will be also priced at $0.015 per share and have a 6-month expiry term from the date of closing.

Conditional approval from the TSX Venture Exchange (the "TSXV") for the Rights Offering was received on April 15, 2016 with final approval to be issued concurrent with closing. The Company expects to close the Rights Offering on or about May 31, 2016.

2015 FINANCIAL RESULTS AND ANALYSIS
Summary of selected financial results

	2015	**2014**
Total assets	110,548,184	98,084,333
Cash used in operations	(6,990,217)	(5,890,390)
Net income (loss)	168,171	(4,913,417)
Total comprehensive income (loss)	8,666,221	(3,592,249)
Loss per share – basic and diluted	0.00	(0.01)

Analysis of Results

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

Expenditures associated with exploration and evaluation assets are initially capitalized. During 2015, the Company capitalized $57,126,912 (2014 - $15,379,498) in E&E, including all costs directly associated to the PR Spring Project. The following table summarizes the major components of the E&E:

	2015	**2014**
Leasehold land interest	9,157,080	6,943,192
Mine pit	9,416,899	6,269,621
Production facilities	62,867,350	12,726,287
Water facilities	5,296,241	3,671,558
Total exploration and evaluation assets	**86,737,570**	**29,610,658**

b) General and administrative expenses

General and administrative costs, which include salaries and benefits, rent, and other general administrative costs decreased by $65,402. An increase in other costs of $121,305 was mainly attributed to higher insurance premiums a result of the PR Spring Project construction activities. Salaries and benefits decreased by $322,300 as the Company delayed hiring new personnel or replacing vacant positions in response to current economic environment. The following table summarizes the major components of the general and administrative expenses:

Year ended December 31	**2015**	**2014**
Salaries and benefits	2,850,031	3,172,331
Rent and utilities	587,592	451,999
Other	1,566,288	1,444,983
Total general and administrative expenses	**5,003,911**	**5,069,313**

c) Other expenses and income

Income

The Company is in its pre-operation stage and has not earned revenues from oil sands production. The Company experienced a gain on investment income and interest of $117,670 (2014 – $686,196), which was lower than 2014 due to the reduced cash balance throughout 2015. There was no operational revenue in 2015 (2014 - nil).

Share-based Payments

The Company recorded share-based payment expense of $1,334,897 during 2015, compared to $2,701,039 for 2014. The fair value of the options and RSUs was calculated using the Black-Scholes option-pricing model.

During the year, 15,766,191 restricted share units ("RSUs") were issued to employees of the Company at a weighted-average fair market value of $0.08 per unit.

Foreign exchange

An unrealized foreign exchange gain of $7,866,998 (2014 – $2,879,159) was recorded during the year driven by US denominated cash held on deposit and accounts payable.

Other Expenses

Other expenses, consisting of operations costs, technology development, amortization, accretion, and property evaluation was $1,099,583 (2014 - $712,078), representing an increase of $387,505. The increase can be attributed to the Company increasing operations in Utah in preparation for the PR Spring Project completion, mainly from the hiring of plant and mine personnel.

The company spent $54,928 evaluating potential development properties in 2015, as compared to $179,335 in 2014 during which time a significant effort was made to evaluate properties in the Athabasca region in Alberta, Canada. The Company also reduced its technology development expenses by $140,100 in 2015 through cost-sharing agreements with an Alberta government organization and an industry oil sands producer, and by increasing the operational efficiency of the Research & Development department.

Other Comprehensive Income

Included in total comprehensive income was a gain of $8,498,050 (2014 – $1,321,168) from currency translation adjustment. The amount represents exchange differences on the net investments in the US subsidiary and the resulting differences upon translation of the US subsidiary, in accordance with IFRS.

SUMMARY OF QUARTERLY RESULTS

Quarter ended	Dec 31 2015	Sep 30 2015	June 30 2015	Mar 31 2015	Dec 31 2014	Sep 30 2014	June 30 2014	Mar 31 2014
Revenue (net of royalties)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Investment income and interest	51,939	(80,329)	83,921	62,139	111,117	75,612	153,996	345,471
Net income/(loss)	(1,153,096)	1,014,556	(3,000,872)	3,307,583	(236,456)	1,226,921	(4,049,273)	(1,854,609)
Earnings (loss) per share – basic and diluted	0.00	0.00	0.00	(0.00)	0.00	(0.00)	(0.00)	(0.00)

The Company reported a $51,939 gain on investment income and interest in Q4 2015 which represented an increase in income of $132,268 from the previous quarter.

Net income decreased by $2,167,652 from the previous quarter primarily due to a smaller unrealized foreign exchange gain on US denominated working capital.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2015, the Company had cash and cash equivalents of $18,529,111, net working capital of $14,048,857 and commitments for capital expenditures of $617,340 (US$446,055).

The Company intends to use its capital resources to fulfill its liabilities and commitments and to fund the remaining development of the PR Spring Project for which in addition to the above, there are an estimated US$10 million in expenditures required to complete the project that have not yet been accrued or committed.

Anticipating having insufficient working capital for completion of the PR Spring Project and in light of the continued low oil price environment together with the potential for unexpected completion, start-up and operating costs, the Company initiated a pursuit to secure additional financing. Subsequent to year-end, the Company initiated an equity financing by way of a Rights Offering whereby the Company is offering 853,142,395 Common Shares at $0.015 per share for gross proceeds of $12,797,136.

The Rights Offering includes a standby commitment from ACMO S.à.r.l., the Company's largest shareholder for US$7,500,000 which provides assurance of over 77% of the targeted financing. As compensation for providing the standby commitment, they will receive warrants entitling them to acquire additional common shares equal to 25% of the maximum number of shares that have been agreed to acquire under the Standby Purchase Agreement. These warrants will be also priced at $0.015 per share and have a 6-month expiry term from the date of closing. If fully exercised, the warrants received as compensation for providing the standby commitment would provide the Company approximately an additional $2,400,000 in proceeds.

Conditional approval from the TSXV for the Rights Offering was received on April 15, 2016 with final approval to be issued concurrent with closing. The Company expects to close the Rights Offering on or about May 31, 2016.

US Oil Sands will continue to explore and pursue additional financing opportunities, such as government programs as they arise.

COMMITMENTS

The Company has three forms of future commitments; office leases and equipment, resources properties, and capital equipment dedicated to the PR Spring Project.

The Company leases office and office/development premises in Calgary, Grande Prairie, and Vernal respectively. The Calgary office has a head lease expiring March 31, 2018 with average gross quarterly rental fees of $110,492. The office and technology development facility lease in Grande Prairie has a 3-year term expiring March 31, 2016 with gross quarterly rental fees of $36,135. Subsequent to year-end, the Grande Prairie lease was extended to March 31, 2018 with gross quarterly rental fees of $25,740. The Vernal, Utah office has a lease expiring August 31, 2016 with average gross quarterly rental fees of US$6,600.

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 average quarterly payments are US$87,887.

The capital expenditure commitments incurred as at December 31, 2015 are US$446,056 and expected to be paid during Q1 and Q2 2016.

The committed costs pertain to capital equipment for the PR Spring Project.

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 year ended December 31 are as follows:

		2015		2014
Short-term employee benefits	**$**	**1,044,789**	$	1,491,365
Share-based payments		**837,604**		2,551,333
	$	**1,882,393**	$	4,042,698

OUTSTANDING SHARE DATA

As of the date of this report there are 853,142,395 common shares outstanding, 51,858,000 options outstanding, and 13,262,383 RSUs outstanding.

FINANCIAL INSTRUMENTS

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, however the Company has $13 million of cashable short-term investments. Had the interest rate on the investments been 100 basis points higher (or lower) throughout the year ended December 31, 2015, earnings would have been affected by $412,405 (2014 – $475,657) based on the average investment balance outstanding during the twelve 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:

		December 31 2015 (US Dollars)		December 31 2014 (US Dollars)
Cash and cash equivalents	**$**	**12,090,699**	$	48,773,993
Accounts payable		**3,302,292**		795,007
Accrued liabilities		**592,339**		2,504,256

As at December 31, 2015, the exchange rate between Canadian dollars and US dollars was US$1 to CAD$1.384. A change of the value of the Canadian dollar relative to the US dollar of 1% will result in a $81,961 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 cash flows for the possibility of a negative net cash flow. All financial instruments are short-term in nature and are settled within 90 days. For the year ended December 31, 2015, the Company had a positive working capital of $14,048,857 (2014 - $60,601,980) and an accumulated deficit of $34,331,504 (2014 - $34,449,675). The Company does not carry any long-term debt for operations.

OUTLOOK FOR 2016

The Company will continue to execute on Phase 1 of the PR Spring Project with on-site installation of the process extraction plant modules in accordance with the Company's Construction Execution Plan. A planned reduction in field assembly commenced in Q1 2016 and will continue until additional sources of financing are secured. Final field assembly, followed by commissioning and commercial start-up will resume upon the aforementioned additional financing.

The Company is conducting an equity financing by way of a Rights Offering whereby the Company is offering 853,142,395 Common Shares at $0.015 per share for gross proceeds of $12,797,136. The Rights Offering includes a standby commitment of US$7,500,000. If fully exercised, the warrants received as compensation for providing the standby commitment would provide the Company approximately an additional $2,400,000 in proceeds.

Conditional approval from the TSXV for the Rights Offering was received on April 15, 2016 with final approval to be issued concurrent with closing. The Company expects to close the Rights Offering on or about May 31, 2016.

The Company is focused on its primary success measures and ensuring these are met as the Company looks forward to first bitumen production. Proving the commercial viability of the Company's patented and unique technology is expected to open the opportunities for future developments in other oil sands areas outside of Utah, in addition to capacity expansion on the Company's Utah production. Key attributes that the Company defines as primary success measures include high oil recovery, elimination of tailings ponds, high solvent recovery and recycle rates, low capital intensity and continuous and safe operations. As the Company moves into commissioning, start-up and continuous production, additional diligence on meeting these objectives remains of more importance than experiencing minor time delays to first bitumen.

The Company is also evaluating and assessing specific markets for sales of crude oil and other petroleum products, along with optimal logistics for said products.

Management will continue to investigate and pursue business development opportunities for the Company's technology, including opportunities to work with Athabasca oil sands developers to demonstrate the technology's favourable extraction outcomes. The Company will broaden its working relationships with leaseholders and government agencies supporting development of Canadian oil sands.

FORWARD-LOOKING INFORMATION ADVISORY

This MD&A contains forward-looking information and forward-looking statements within the meaning of applicable Canadian securities laws (collectively, "forward-looking information"). This forward-looking information is subject to certain risks and uncertainties that could cause actual results to differ materially from those included in such forward-looking information. The words "believe", "expect", "indicate", "intend", "estimate", "anticipate", "project", "scheduled" and similar expressions, as well as future or conditional verbs such as "will", "should", "would" "may" and "could" often identify forward-looking information. This information is only a prediction. Actual events or results may differ materially from the events and results expressed in the forward-looking statements and forward-looking information. In addition, this MD&A may contain forward-looking information attributed to third-party industry sources.

Undue reliance should not be placed on forward-looking information, as there can be no assurance that the plans, intentions or expectations upon which it is based will occur. By its nature, forward-looking information involves numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward looking information will not occur.

Specific forward-looking information contained in this MD&A includes, among others, statements regarding: activities, events or developments that US Oil Sands expects or anticipates will or may occur in the future, including assessments of future plans and operations; financial information; business plans and plans for the exploration, delineation and development of the Company's assets; the completion of the construction of the surface mine development project in the PR Spring Project Area; the work programs for the PR Spring lands; the expected costs and expenditures associated with exploration, delineation and development of the Company's assets; industry information regarding bitumen estimates for Utah and the PR Spring Special Tar Sands Area; timing and sources of financing; further capital requirements; estimated taxes; the timing of commencement of operations and the level of production anticipated; the operation of facilities, the ability to achieve field performance results similar to those achieved in process development piloting; production methods; estimated general financial performance in future periods; resource estimate relating to the PR Spring Project; expectations regarding the development and production potential of the Company's properties including through the use of evolving extraction technologies; the environmental performance of the Company's extraction technologies; the timing of receipt of required approvals and permits from regulatory authorities; assets, liabilities, financial resources, financial position and growth prospects; cash projections and the components thereof.

Statements relating to 'resources' are forward-looking statements, as they involve the implied assessment, based on estimates and assumptions, that the resources described exist in the quantities predicted or estimated, and can be profitably produced in the future.

With respect to forward-looking information contained in this MD&A, the Company has made assumptions regarding, among other things: the expected costs to explore, delineate and develop US Oil Sands' assets and the expected costs to construct the PR Spring Projects; future crude oil, bitumen, natural gas and synthetic crude oil prices; US Oil Sands' ability to obtain qualified staff and equipment in a timely and cost-efficient manner to meet its demands; the regulatory framework with respect to royalties, taxes, environmental matters, resource recovery and securities matters in the jurisdiction in which US Oil Sands will conduct its business; US Oil Sands' ability to market production of bitumen successfully to customers; the timing and progress of work relating to assets; continuity of resource between core holes; future production levels; future capital expenditures; future sources of funding for the Company's capital program; future debt levels; future business plans; geological and engineering estimates; the geography of the areas in which US Oil Sands will be exploring; the impact of increasing competition; US Oil Sands' ability to obtain financing on acceptable terms; the risk around change to scope; and the sufficiency of budgeted capital expenditures in carrying out planned activities.

Forward-looking information is subject to known and unknown risks and uncertainties and other factors which may cause actual results, levels of activity and achievements to differ materially from those expressed or implied in such forward-looking information. Such risks, uncertainties and factors include, among others: the early stage of development of US Oil Sands' assets and the nature of the exploration and development activities on such assets; risks associated with contingent and discovered bitumen resources and mine pit estimates; difficulties attracting qualified personnel; the risk of termination or expiration of leases; difficulties encountered during the exploration for, delineation, development and production of bitumen; costs associated with exploration for, delineation, development and production and upgrading bitumen; the impact of competition; the need to obtain required approvals and permits from regulatory authorities; liabilities as a result of accidental damage to the environment; compliance with and liabilities under environmental laws and regulations; the volatility of crude oil and natural gas prices and of the differential between heavy and light crude oil prices; the risks associated with exploring for, developing and producing bitumen; changes in the foreign exchange rate amount between the Canadian dollar, the U.S. dollar and the euro; liquidity and capital market constraints on US Oil Sands; difficulties encountered in delivering bitumen to commercial markets; the risk that US Oil Sands is unable to sufficiently protect its proprietary technology or may be subject to technology infringement claims from third parties; general economic conditions in Canada, the United States, and global markets; failure to obtain industry partners and other third-party consents and approvals when required; royalties payable in respect of US Oil Sands' production; the impact of amendments to the Income Tax Act (Canada) on US Oil Sands; risks of third parties claiming or exercising pre-emptive rights; changes in or the introduction of new government regulations, and in particular related to carbon dioxide relating to US Oil Sands' business; uncertainty surrounding the ability to attract capital for both debt and equity when necessary; and circumstances may arise, including changes in IFRS, regulations or economic conditions, which could change the assumptions, estimates or expectations of the information provided in respect of US Oil Sands' transition to IFRS.

Management has included the above summary in order to provide readers with a more complete perspective. Actual results, performance or achievements could differ materially from those expressed in, or implied by, the forward-looking information and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do so, the benefits that US Oil Sands will derive there from. All of the forward-looking information contained in this MD&A is qualified by these cautionary statements. US Oil Sands undertakes no obligation to publicly update or revise any forward-looking information to reflect new information, subsequent events or otherwise, unless so required by applicable securities laws.

U.S. OIL SANDS

US OIL SANDS INC.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

For the Years ended December 31, 2015 and 2014

(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
April 15, 2016

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of US Oil Sands Inc.:

We have audited the accompanying consolidated financial statements of US Oil Sands Inc., which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of US Oil Sands Inc. as at December 31, 2015 and 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Calgary, Alberta
April 15, 2016

US Oil Sands Inc.
Consolidated Statements of Financial Position

(Cdn$)

As at	Notes	December 31, 2015	December 31, 2014
Assets			
Current Assets			
Cash and cash equivalents	5	$ 18,529,111	$ 64,390,338
Accounts receivable		134,280	121,848
Prepaid expenses		1,481,451	298,155
Inventory		48,239	40,435
		20,193,081	64,850,776
Non-current assets			
Property, plant and equipment	6	1,337,594	1,285,917
Exploration and evaluation assets	7	86,737,570	29,610,658
Intangible assets	8	1,665,684	1,634,085
Reclamation funds on deposit		614,255	702,897
		90,355,103	33,233,557
Total assets		$ 110,548,184	$ 98,084,333
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	9	$ 6,130,555	$ 4,237,338
Current portion of bank debt	10	13,669	11,458
		6,144,224	4,248,796
Non-current liabilities			
Bank debt	10	33,229	36,425
Decommissioning liabilities	11	1,015,987	445,486
Total liabilities		7,193,440	4,730,707
Shareholders' equity			
Shareholders' capital	12	113,634,766	113,634,766
Contributed surplus		13,410,532	12,075,635
Deficit		(34,331,504)	(34,499,675)
Accumulated other comprehensive income		10,640,950	2,142,900
Total shareholders' equity		103,354,744	93,353,626
Total liabilities and shareholders' equity		$ 110,548,184	$ 98,084,333

Commitments (note 19)

Approved on behalf of the Board:

(signed) "Verne Johnson"
Director

(signed) "Ronald Pantin"
Director

The accompanying notes are an integral part these consolidated financial statements

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

(Cdn$)	Notes		2015		2014
Income					
Investment income and interest		$	**117,670**	$	686,196
Gain on sale of asset			**-**		4,796
			117,670		690,992
Expenses					
Operation costs			**542,151**		41,430
Amortization	6,8		**242,596**		106,143
Accretion	11		**25,685**		10,847
Property evaluation			**54,928**		179,335
Technology development			**234,223**		374,323
General and administrative			**5,003,911**		5,069,313
Foreign exchange gain			**(7,489,020)**		(2,878,131)
Share-based payment	12		**1,334,897**		2,701,039
			(50,629)		5,604,299
Income (loss) before taxes			**168,299**		(4,913,307)
Income tax expense			**128**		110
Net income (loss)			**168,171**		(4,913,417)
Other comprehensive income			**8,498,050**		1,321,168
Total comprehensive income (loss)		**$**	**8,666,221**	$	(3,592,249)
Earnings (loss) per share – basic and diluted		**$**	**0.00**	$	(0.01)
Weighted average number of shares outstanding			**853,142,395**		**853,132,806**

The accompanying notes are an integral part these consolidated financial statements

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, 2014	$ 113,606,016	$ 7,285,996	$ 2,088,600	$ (29,586,258)	$ 821,732	**$ 94,216,086**
Net loss	-	-	-	(4,913,417)	-	**(4,913,417)**
Other comprehensive income – currency translation adjustment	-	-	-	-	1,321,168	**1,321,168**
Exercise of options	28,750	-	-	-	-	**28,750**
Share-based payment	-	2,701,039	-	-	-	**2,701,039**
Warrants expired	-	2,088,600	(2,088,600)	-	-	**-**
December 31, 2014	**$ 113,634,766**	**$ 12,075,635**	**$ -**	**$(34,499,675)**	**$ 2,142,900**	**$ 93,353,626**
January 1, 2015	$ 113,634,766	$ 12,075,635	$ -	$ (34,499,675)	$ 2,142,900	**$ 93,353,626**
Net income	-	-	-	168,171	-	**168,171**
Other comprehensive income – currency translation adjustment	-	-	-	-	8,498,050	**8,498,050**
Share-based payment	-	1,334,897	-	-	-	**1,334,897**
December 31, 2015	**$ 113,634,766**	**$ 13,410,532**	**$ -**	**$(34,331,504)**	**$ 10,640,950**	**$103,354,744**

The accompanying notes are an integral part these consolidated financial statements

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

	Notes		2015		2014
Operating activities					
Net income (loss)		$	**168,171**	$	(4,913,417)
Adjustments for:					
Investment income and interest			**(117,670)**		(686,196)
Amortization	6,8		**242,596**		106,143
Accretion	11		**25,685**		10,847
Share-based payment	12		**1,334,897**		2,701,039
Gain on sale of assets			**-**		(4,796)
Unrealized gain on foreign exchange			**(7,866,998)**		(2,879,159)
Changes in non-cash working capital	14		**(776,898)**		(224,851)
			(6,990,217)		(5,890,390)
Investing activities					
Interest received			**117,670**		686,196
Purchase of property, plant and equipment	6		**(242,236)**		(459,504)
Proceeds from sale of assets			**-**		5,650
Expenditures on exploration and evaluation assets	7		**(47,099,117)**		(13,185,452)
Expenditures on intangible assets	8		**(35,390)**		(55,511)
Changes in reclamation funds on deposit			**-**		(303,947)
Changes in non-cash working capital	14		**1,466,583**		3,686,675
			(45,792,490)		(9,625,893)
Financing activities					
Proceeds from options exercised	12		**-**		28,750
Net bank loan inflows (outflows)			**(12,629)**		47,883
			(12,629)		76,633
Effects of exchange rate changes on cash and cash equivalents			**6,934,109**		2,247,599
Net (decrease)in cash and cash equivalents			**(45,861,227)**		(13,192,051)
Cash and cash equivalents, beginning of the year		$	**64,390,338**	$	77,582,389
Cash and cash equivalents, end of the year		**$**	**18,529,111**	$	64,390,338

The accompanying notes are an integral part of these consolidated financial statements

US Oil Sands Inc.
Notes to Consolidated Financial Statements
For the years ended December 31, 2015 and 2014
(Expressed in Canadian dollars, except as noted**)**

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. BASIS OF PRESENTATION

a) Statement of compliance

These consolidated financial statements ("financial statements") were approved by the Board of Directors of the Company on April 15, 2016.

The 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 financial statements have been prepared on a going concern basis.

b) Basis of measurement

The 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.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of consolidation

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

b) Use of estimates and judgments

The timely preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the 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. Significant judgments involve the determination of the functional currency of the subsidiary, cash generating unit identification, and the time when intangible assets are expected to be used for commercial production.

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.

Share-based Payment

The Company's estimate of share-based payment is dependent upon estimates of historic volatility and forfeiture rates.

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. Items of PP&E are not amortized until they are placed into service.

	Method	Rate	
Automotive equipment	declining balance	30	%
Computer hardware	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, 2015 and 2014.

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

Expenditures incurred prior to acquiring the legal right to explore are charged to expense as incurred and recorded as expense in the consolidated statements of comprehensive loss.

Once mineral rights have been obtained all costs directly associated with exploration and evaluation of oil and gas reserves are initially capitalized. E&E costs are those expenditures where technical feasibility and commercial viability has not yet been determined and include license and unproved property acquisition costs, geological and geophysical costs, drilling resource delineation wells, and directly attributable general and administrative costs.

E&E costs are those expenditures for an area where technical feasibility and commercial viability have not yet been 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. No reserves have been assigned to the E&E assets.

f) Intangible Assets

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.

Computer software is recorded at cost and amortized at 30% once placed into service.

g) Impairment of non-financial assets

Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets (the "cash-generating unit" or "CGU").

The carrying value of PP&E is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. The carrying value of E&E assets is tested for impairment when events or changes in circumstance indicate that the carrying value of an asset may exceed its recoverable value and upon transfer of E&E costs to PP&E. The carrying value of technology and patents is tested for impairment upon commencement of commercial production of the properties or when events or changes in circumstance indicate that the carrying value of an asset may exceed its recoverable value.

A CGU's recoverable amount is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the CGU and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money. Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and is written down to its recoverable amount. The impairment amount reduces first the carrying amount of any goodwill allocated to the CGU. Any remaining impairment is allocated to the individual assets in the CGU on a pro rata basis. Impairment is charged to net income (loss) in the period in which it occurs.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depletion and depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in net income (loss). After such a reversal, the depletion or depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life. Impairment losses recognized in relation to goodwill and E&E are not reversed for subsequent increases in its recoverable amount.

h) Research and Development

The Company engages in research and development activities to develop or improve processes and techniques to extract bitumen from oil sand deposits. Research involves planned investigation with the goal of attaining new knowledge and is not directly related to specific

E&E projects. Development involves translating that knowledge into a new technology or process. Research costs are expensed as incurred. Development costs are capitalized with exploration and evaluation assets, in accordance with IAS 38 "Intangible Assets", as the Company assess commercial viability and technical feasibility. These costs are capitalized until the development is ready for use, considered to the commencement of commercial operations or production. Otherwise, development costs are expensed as incurred.

i) Financial instruments

Financial instruments are measured at fair value on initial recognition of the instrument and are classified into one of the following five categories: fair value through profit or loss ("FVTPL"), loans and receivables, held-to-maturity investments, available-for-sale financial assets or financial liabilities measured at amortized cost.

Subsequent measurement of financial instruments is based on their initial classification. FVTPL financial assets are measured at fair value and changes in fair value are recognized in net income (loss). Available-for-sale financial assets are measured at fair value with changes in fair value recorded in other comprehensive income (loss) until the instrument is derecognized or impaired. The remaining categories of financial instruments are recognized at amortized cost using the effective interest rate method.

j) 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.

k) Revenue Recognition

Interest income is recognized in the period in which it is earned. Incidental revenues are recognized in net income as incurred.

l) Income taxes

Current and deferred income taxes are recognized in the consolidated statements of comprehensive loss, except when they relate to items that are recognized directly in equity.

The Company follows the liability method accounting for income taxes. Under this method, deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the 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.

m) Share-based payment

The Corporation uses the fair value method for valuing stock options and restricted share unites ("RSUs"). Under the fair value method, compensation costs attributable to all stock options and RSUs are measured at fair value at the date of grant and expensed over the vesting period with a corresponding increase to contributed surplus. A forfeiture rate is estimated on the date of grant and is adjusted to reflect the actual number of awards that vest.

The fair value of each option is estimated using the Black-Scholes option pricing model that takes into account the grant date, the exercise price and expected life of the option, the price of the underlying security, the expected volatility, and the risk-free interest rate. The fair value of RSUs is determined with reference to the trading price of the Company's common shares on the date of grant. Upon the exercise of the stock options and RSUs, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital and the contributed surplus balance is reduced.

n) Foreign currency

The financial statements are presented in Canadian dollars which is the Company's functional and presentation currency. The Company has a wholly owned US subsidiary which has a US dollar functional currency 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. Income statement items are translated at the average rate for the period. All exchange differences arising as a result of the translation to the functional currency of the subsidiary are recorded in net income (loss).

Translation of all assets and liabilities from the subsidiary's functional currency to the presentation currency are performed using the rate prevailing at the balance sheet date. The difference arising from translation from the functional currency to the presentation currency are recorded as currency translation adjustments in other comprehensive income (loss) and are held within accumulated other comprehensive income (loss) until a disposal or partial disposal of a subsidiary. A disposal or partial disposal will then give rise to a realized foreign exchange (gain) loss which is recorded in net income (loss).

Within the consolidated group there are outstanding intercompany loans which in substance represent an investment in the subsidiary. When these loans are identified as being part of the net investment in the foreign subsidiary, any exchange difference arising on those loans are recorded to currency translation adjustment within other comprehensive income (loss) until a disposal or partial disposal of the subsidiary.

o) Earnings per share

Basic loss per share is calculated using the weighted average number of shares outstanding during the year. The treasury stock method is used to calculate diluted earnings per share. This method assumes that only in-the-money stock options and warrants are exercised and that any proceeds would be used to purchase common shares at the average market price during the year.

4. FUTURE ACCOUNTING STANDARDS

On January 1, 2018, the Corporation 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.

IFRS 9 Financial Instruments, finalized in July 2014 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.

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 Corporation has not completed its evaluation of the effect of adopting these standards on its financial statements

5. CASH AND CASH EQUIVALENTS

		December 31 2015		December 31 2014
Cash	**$**	**4,846,468**	$	656,535
Short-term investments		**13,682,643**		63,733,803
	$	**18,529,111**	$	64,390,338

6. PROPERTY, PLANT AND EQUIPMENT

	Processing Equipment	Shop and Laboratory Equipment	Automotive Equipment	Corporate and Other	Total
Cost					
As at January 1, 2014	$ 1,445,326	$ 598,062	$ 26,457	$ 169,523	$ 2,239,368
Additions	-	209,895	79,331	170,278	459,504
Disposals	-	(14,867)	-	-	(14,867)
Foreign exchange effect	-	120	13,741	8,898	22,759
As at December 31, 2014	$ 1,445,326	$ 793,210	$ 119,529	$ 348,699	$ 2,706,764
Additions	-	218,871	-	23,365	242,236
Foreign exchange effect	-	375	20,174	15,608	36,157
As at December 31, 2015	$ 1,445,326	$ 1,012,456	$ 139,703	$ 387,672	$ 2,985,157
Accumulated amortization					
As at January 1, 2014	$ 693,167	$ 534,403	$ 21,249	$ 89,191	$ 1,338,010
Amortization	20,087	34,456	9,570	31,374	95,487
Disposals	-	(14,013)	-	-	(14,013)
Foreign exchange effect	-	79	1,079	205	1,363
As at December 31, 2014	$ 713,254	$ 554,925	$ 31,898	$ 120,770	$ 1,420,847
Amortization	14,061	84,365	28,969	91,430	218,825
Foreign exchange effect	-	215	5,694	1,982	7,891
As at December 31, 2015	$ 727,315	$ 639,505	$ 66,561	$ 214,182	$ 1,647,563
Carrying value					
As at December 31, 2014	$ 732,072	$ 238,285	$ 87,631	$ 227,929	$ 1,285,917
As at December 31, 2015	**$ 718,011**	**$ 372,951**	**$ 73,142**	**$ 173,490**	**$ 1,337,594**

7. EXPLORATION AND EVALUATION ASSETS

Cost and carrying value	
As at January 1, 2014	$ 14,231,160
Additions	13,185,452
Changes in decommissioning liabilities (note 11)	277,903
Foreign exchange effect	1,916,143
As at December 31, 2014	$ 29,610,658
Additions	47,099,117
Changes in decommissioning liabilities (note 11)	570,501
Foreign exchange effect	9,457,294
As at December 31, 2015	**$ 86,737,570**

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.

No impairment on E&E has been identified as at December 31, 2015 and December 31, 2014.

8. INTANGIBLE ASSETS

	Technology and Patents	Computer Software	Corporate & Other	Total
Cost				
As at January 1, 2014	$ 1,560,636	$ 58,302	$ 81,695	$ 1,700,633
Additions	10,008	45,503	-	55,511
Foreign exchange effect	562	7,301	-	7,863
As at December 31, 2014	$ 1,571,206	$ 111,106	$ 81,695	$ 1,764,007
Additions	8,766	26,624	-	35,390
Foreign exchange effect	8,311	22,471	-	30,782
As at December 31, 2015	$ 1,588,283	$ 160,201	$ 81,695	$ 1,830,179
Accumulated amortization				
As at January 1, 2014	$ -	$ 34,050	$ 81,695	$ 115,745
Amortization	-	10,656	-	10,656
Foreign exchange effect	-	3,521	-	3,521
As at December 31, 2014	$ -	$ 48,227	$ 81,695	$ 129,922
Amortization	-	23,771	-	23,771
Foreign exchange effect	-	10,802	-	10,802
As at December 31, 2015	$ -	$ 82,800	$ 81,695	$ 164,495
Carrying value				
As at December 31, 2014	$ 1,571,206	$ 62,879	$ -	$ 1,634,085
As at December 31, 2015	$ 1,588,283	$ 77,401	$ -	$ 1,665,684

No impairment on intangible assets have been identified as at December 31, 2015 and December 31, 2014.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31 2015	December 31 2014
Accounts payables	**$ 5,035,422**	$ 1,044,434
Accrued liabilities	**1,095,133**	3,192,904
	$ 6,130,555	$ 4,237,338

10. BANK DEBT

	December 31 2015	December 31 2014
Current portion of bank debt	**$ 13,669**	$ 11,458
Non-current portion of bank debt	**33,229**	36,425
	$ 46,898	$ 47,883

The Company entered into a US $42,000 loan at 6.47% APR for a term of five years. A Company-owned vehicle is held as collateral on the loan, and there are no specified financial covenants.

11. DECOMMISSIONING LIABILITIES

		December 31 2015		December 31 2014
Balance, beginning of the year	$	445,486	$	167,583
Changes in estimates		(60,401)		(17,489)
Liabilities added (note 7)		482,373		256,750
Accretion		25,685		10,847
Foreign exchange effect		122,844		27,795
Balance, end of the year	$	1,015,987	$	445,486

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 a risk-free rate of 2.15% and an inflation rate of 0.7%. The properties are estimated to require reclamation in 15.50 years as at December 31, 2015.

12. SHARE CAPITAL

a) Common shares

	December 31 2015			December 31 2014		
	Number		Amount	Number		Amount
Balance, beginning of the year	853,142,395	$	113,634,766	852,892,395	$	113,606,016
Exercise of options	-		-	250,000		28,750
Balance, end of the year	853,142,395	$	113,634,766	853,142,395	$	113,634,766
Weighted average common shares outstanding, basic and diluted	853,142,395			853,132,806		

b) Warrants

	December 31 2015			December 31 2014		
	Number of Warrants		Fair Value	Number of Warrants		Fair Value
Balance, beginning of the year	-	$	-	61,224,735	$	2,088,600
Expired	-		-	(61,224,735)		(2,088,600)
Balance, end of the year	-	$	-	-	$	-

On May 23, 2014, 61,224,735 warrants expired leaving no outstanding warrants as at December 31, 2014. The weighted average exercise price for the warrants issued is $nil (2013 – $0.26) per warrant.

Fair value of the warrants was estimated on the date of issuance, May 23, 2012, using the Black-Scholes pricing model with the following weighted assumptions:

Risk-free interest rate	1.16%
Expected life (years)	2.0
Expected volatility	70%
Dividend per share	-

Based on the Black-Scholes pricing model, the weighted average fair value per warrant was $0.0341 for the warrants issued on May 23, 2012.

c) Stock options

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

	December 31 2015			December 31 2014		
	Number of Options		**Weighted Average Exercise Price**	Number of Options		Weighted Average Exercise Price
Outstanding, beginning of year	**47,810,000**	**$**	**0.197**	45,200,000	$	0.203
Options exercised	**-**		**-**	(250,000)		0.115
Options granted	**8,300,000**		**0.100**	4,585,000		0.111
Options forfeited	**(4,252,000)**		**0.143**	(1,725,000)		0.145
Outstanding, end of the year	**51,858,000**	**$**	**0.186**	47,810,000	$	0.197
Exercisable, end of the year	**42,231,667**	**$**	**0.205**	35,891,250	$	0.210

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

Issue Date	Exercise Price	Number Outstanding	Number Exercisable	Expiry Date
December 23, 2009	0.1000	1,250,000	1,250,000	December 23, 2019
April 18, 2011	0.3600	6,900,000	6,900,000	April 18, 2021
May 28, 2012	0.1800	1,875,000	1,875,000	May 28, 2017
March 18, 2013	0.1150	3,775,000	3,775,000	March 18, 2018
May 15, 2013	0.1250	800,000	800,000	May 15, 2016
November 12, 2013	0.1900	26,600,000	26,600,000	November 12, 2018
March 12, 2014	0.1450	20,000	6,667	March 12, 2019
April 15, 2014	0.1250	1,500,000	500,000	April 15, 2019
April 21,2014	0.1400	100,000	33,333	April 21, 2019
May 14, 2014	0.1300	400,000	133,333	May 14, 2019
August 13, 2014	0.1200	575,000	191,667	August 13, 2019
November 18, 2014	0.1000	500,000	166,667	November 18, 2019
March 11, 2015	0.1000	7,563,000	-	March 11, 2020
		51,858,000	42,231,667	

As at December 31, 2015, the exercise prices of the options outstanding ranged from $0.10 to $0.36 per option with a weighted average remaining life of 3.31 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:

	December 31 2015	December 31 2014
Risk-free interest rate	0.89%	1.58%
Expected life (years)	5.00	5.00
Expected volatility	101%	119%
Forfeiture rate	1.00%	0.88%
Dividend per share	0.00%	0.00%

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 (the "TSXV") 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 grant RSUs to directors, officers, employees and consultants of US Oil Sands Inc. and its subsidiary.

On March 11, 2015, 14,118,000 RSUs were granted to officers, and employees of the Company, on May 27, 2015, 965,556 RSUs were granted to employees of the Company, and on August 25, 2015, 682,635 RSUs were granted to employees of the Company. 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 1% was used to value all awards granted for the period ended December 31, 2015.

The number of restricted share units outstanding are as follows:

	December 31 2015	December 31 2014
	Number	Number
Balance, beginning of the year	**-**	-
Granted	**15,766,191**	-
Forfeited	**(2,503,808)**	-
Balance, end of the year	**13,262,383**	-

e) Share-based Payment

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

For the year ended December 31		**2015**		2014
Share-based payment on stock options	**$**	**720,123**	$	2,701,039
Share-based payment on RSUs		**614,774**		-
Total share-based payment expense	**$**	**1,334,897**	$	2,701,039

13. 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:

		2015		2014
Income (loss) before income taxes	**$**	**168,299**	$	(4,913,307)
Statutory income tax rate		**26.0%**		25.0%
Expected income tax expense (recovery)		**43,758**		(1,228,327)
Differences resulting from:				
Share-based payment and other permanent differences		**371,738**		681,031
Tax differential on foreign jurisdictions		**1,374,952**		271,337
		1,790,448		(275,960)
Change in deferred tax benefits not recognized		**(1,790,448)**		275,960
Income tax expense	**$**	**-**	$	-

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

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

		2015		2014
Property, plant and equipment	**$**	**12,540,111**	$	3,199,739
Exploration and evaluation assets		**(31,303,807)**		(10,424,852)
Share issue costs		**391,799**		623,260
Non-capital losses		**22,591,799**		10,281,715
Other		**17,355**		(1,233,055)
		4,237,257		2,446,807
Deferred tax benefits not recognized		**(4,237,257)**		(2,446,807)
Deferred tax asset	**$**	**-**	$	-

Comparative figures for 2014 have been adjusted for compliance with federal tax returns. There has been no change to the 2014 income tax provision or deferred tax asset.

As at December 31, 2015, the Company has, for tax purposes, non-capital losses in Canada available to carry forward to future years total $21,366,287 (2014 – $17,154,566) expiring between 2026 and 2035 if not fully utilized.

Year of Origin	Year of Expiry	Amount
2015	2035	$ 4,211,721
2014	2034	3,375,091
2013	2033	4,729,969
2012	2032	2,941,003
2011	2031	2,442,933
2006 - 2010	2026 - 2030	3,665,570
		$ 21,366,287

The Company, through its wholly-owned US subsidiary has, for tax purposes, net operating loss carryover in the USA to carry forward to future years total $31,167,373 (2014 - $13,246,148) expiring by 2035 if not fully utilized.

14. SUPPLEMENTAL CASH FLOW INFORMATION

For the year ended December 31	**2015**	2014
Accounts receivable	**$ (12,432)**	$ 105,899
Prepaid expenses	**(1,183,296)**	(19,936)
Inventory	**(7,804)**	(40,435)
Accounts payable and accrued liabilities	**1,893,217**	3,416,296
Changes in non-cash working capital	**$ 689,685**	$ 3,461,824
Changes in non-cash working capital – operating	**$ (776,898)**	$ (224,851)
Changes in non-cash working capital – investing	**1,466,583**	3,686,675
	$ 689,685	$ 3,461,824

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

	Corporate		**Utah Oil Sand Development**		**Consolidated**	
For the year ended December 31	**2015**	2014	**2015**	2014	**2015**	2014
Property, plant and equipment	**$ 1,181,614**	$ 1,136,472	**$ 155,980**	$ 149,445	**$ 1,337,594**	$ 1,285,917
Exploration and evaluation assets	**260,000**	260,000	**86,477,570**	29,350,658	**86,737,570**	29,610,658
Intangible assets	**1,587,896**	1,570,153	**77,788**	63,932	**1,665,684**	1,634,085
Reclamation funds on deposit	**-**	-	**614,255**	702,897	**614,255**	702,897
Segment non-current assets	**3,029,510**	2,966,625	**87,325,593**	30,266,932	**90,355,103**	33,233,557
Capital expenditures	**$ 231,698**	$ 335,246	**$ 46,937,809**	$ 13,592,010	**$ 47,169,507**	$ 13,927,256

b) Reported segment Income (loss)

	Corporate		Utah Oil Sand Development		Consolidated	
For the year ended December 31	**2015**	2014	**2015**	2014	**2015**	2014
Income						
Investment income and interest	**$ 115,772**	$ 686,086	**$ 1,898**	$ 110	**$ 117,670**	$ 686,196
Gain on sale of assets	**-**	4,796	**-**	-	**-**	4,796
	$ 115,772	$ 690,882	**$ 1,898**	$ 110	**$ 117,670**	$ 690,992
Less: Expenses						
Operation costs	**-**	-	**542,151**	41,430	**542,151**	41,430
Amortization	**176,338**	83,940	**66,258**	22,203	**242,596**	106,143
Accretion	**-**	-	**25,685**	10,847	**25,685**	10,847
Property evaluation	**5,725**	166,535	**49,203**	12,800	**54,928**	179,335
Technology development	**234,223**	374,323	**-**	-	**234,223**	374,323
General and administrative	**3,852,183**	4,413,626	**1,151,728**	655,687	**5,003,911**	5,069,313
Foreign exchange	**(7,489,020)**	(2,878,131)	**-**	-	**(7,489,020)**	(2,878,131)
Share-based payment	**1,334,897**	2,701,039	**-**	-	**1,334,897**	2,701,039
	(1,885,654)	4,861,332	**1,835,025**	742,967	**(50,629)**	5,604,299
Income (loss) before taxes	**2,001,426**	(4,170,450)	**(1,833,127)**	(742,857)	**168,299**	(4,913,307)
Income tax expense	**-**	-	**128**	110	**128**	110
Segment net income (loss)	**$ 2,001,426**	$ (4,170,450)	**$ (1,833,255)**	$ (742,967)	**$ 168,171**	$ (4,913,417)

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, however the Company has $13 million of cashable short-term investments. Had the interest rate on the investments been 100 basis points higher (or lower) throughout the year ended December 31, 2015, earnings would have been affected by $412,405 (2014 – $475,657) based on the average investment balance outstanding during the year.

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 2015 (US Dollars)		December 31 2014 (US Dollars)
Cash and cash equivalents	**$**	**12,090,699**	$	48,773,993
Accounts payable		**3,302,292**		795,007
Accrued liabilities		**592,339**		2,504,256

As at December 31, 2015, the exchange rate between Canadian dollars and US dollars was US$1 to CAD$1.384, while at December 31, 2014 the exchange rate was US$1 to CAD$1.160. A change of the value of the Canadian dollar relative to the US dollar of 1% will result in a $81,961 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 then 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 cash flows for the possibility of a negative net cash flow. All financial instruments are short-term in nature and are settled within 90 days. For the year ended December 31, 2015, the Company had a positive working capital of $14,048,857 (2014 - $60,601,980) and an accumulated deficit of $34,331,504 (2014 - $34,499,675). The Company does not carry any long-term debt for operations.

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 2015		December 31 2014
Shareholders' capital	**$**	**113,634,766**	$	113,634,766
Contributed surplus		**13,410,532**		12,075,635
Deficit		**(34,331,504)**		(34,499,675)

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 year ended December 31 are as follows:

		2015		2014
Short-term employee benefits	**$**	**1,044,789**	$	1,491,365
Share-based payment		**837,604**		2,551,333
	$	**1,882,393**	$	4,042,698

There were no other related party transactions during the year ended December 31, 2015.

19. COMMITMENTS

	Office and equipment	Resource properties (US dollars)	Exploration and evaluation (US dollars)
2016	$ 520,062	$ 357,049	$ 446,056
2017	473,511	357,049	-
2018	133,648	336,094	-
2019	1,776	336,094	-
2020	-	318,934	-
Thereafter	-	217,580	-
	$ 1,128,997	**$ 1,922,800**	**$ 446,056**

The Company leases equipment and office premises in Canada and USA, as well as vehicles in the 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.

As at December 31, 2015, the capital expenditure commitments for the PR Spring Project are US$446,056 and expected to be paid during Q1 2016 and Q2 2016. The committed costs pertain to detailed engineering, construction management and capital equipment.

The Corporation is not involved in any legal disputes that would generate a material impact to the financial results of the Corporation.

20. SUBSEQUENT EVENT

The Company is conducting an equity financing by way of a Rights Offering whereby the Company is offering 853,142,395 Common Shares at $0.015 per share for gross proceeds of $12,797,136. The Rights Offering includes a standby commitment of US$7,500,000 from ACMO S.à.r.l., the Company's largest shareholder. As compensation for providing the standby commitment, ACMO S.à.r.l. will receive warrants entitling them to acquire additional common shares equal to 25% of the maximum number of shares that have been agreed to acquire under the Standby Purchase Agreement. These warrants will be also priced at $0.015 per share and have a 6-month expiry term from the date of closing.

Conditional approval from the TSXV for the Rights Offering was received on April 15, 2016 with final approval to be issued concurrent with closing. The Company expects to close the Rights Offering on or about May 31, 2016. There can be no assurance that the Rights Offering will close as described or that the full gross proceeds will be received.

Subsequent to December 31, 2015, the Company's wholly-owned subsidiary finalized a three-year loan at 3.70% interest for US$645,000 to partially fund the purchase of US$1.3 million of mining equipment, with the balance of the purchase price paid by cash. The loan was funded on January 5, 2016 and the Company took ownership of the equipment in February 2016. The equipment under loan is held as collateral

CORPORATE INFORMATION

BOARD OF DIRECTORS

Verne G. Johnson
Chairman

Ed Chwyl
Director

Alfred Holcomb
Director
Vice President of Acquisitions and Divestitures
Lewis Energy Group

Serafino Iacono
Director
Co-Chairman and Executive Director
Pacific Exploration & Production Corp.

Ronald Pantin
Director
Chief Executive Officer
Pacific Exploration & Production Corp.

Stephen Lehner
Director
Managing Director
Anchorage Capital Group, LLC

Mark Brown
Director

Cameron Todd
Director
Chief Executive Officer
US Oil Sands Inc.

OBSERVERS

Kevin Ulrich
Chief Executive Officer and Portfolio Manager
Anchorage Capital Group, LLC

Rod Lewis
Founder and Chief Executive Officer
Lewis Energy Group

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AUDITORS

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Calgary, Alberta

BANKERS

Bank of Montreal
Zions Bank

LEGAL COUNSEL

Borden Ladner Gervais LLP
Holland & Hart LLP

TSX-V LISTING

Trading Symbol: USO

REGISTRAR & TRANSFER AGENT

For information concerning lost share certificates and estate transfers, or for a change in share registration or address, please contact the transfer agent and registrar:
Computershare Investor Services Inc.
9th Floor, 100 University Avenue
Toronto, ON, M5J 2Y1

FACILITIES

CANADA

ALBERTA
Calgary – Corporate Head Office
Grande Prairie – Pilot Plant, R&D Facility

UNITED STATES

UTAH
Vernal – Regional Office
PR Spring – Project Area

Changing the Way
Oil Sands Bitumen
is Extracted