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

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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

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**

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**

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

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)

For the year ended December 31	Corporate **2015**	Corporate 2014	Utah Oil Sand Development **2015**	Utah Oil Sand Development 2014	Consolidated **2015**	Consolidated 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.