



**U.S.** OIL SANDS

**US Oil Sands Inc.**

**Unaudited Condensed Consolidated Financial Statements  
For the Three and Nine months ended September 30, 2016**  
(Expressed in Canadian Dollars)

## **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

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

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

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

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

As at	Notes	September 30, 2016	December 31, 2015
<b>Assets</b>			
Current Assets			
Cash and cash equivalents	5	\$ 3,250,116	\$ 18,529,111
Accounts receivable		276,846	134,280
Prepaid expenses		478,625	1,481,451
Inventory		-	48,239
		<b>4,005,587</b>	<b>20,193,081</b>
Non-current assets			
Property, plant and equipment	6	1,273,185	1,337,594
Exploration and evaluation assets	7	106,609,364	86,737,570
Intangible assets	8	1,671,818	1,665,684
Reclamation funds on deposit		583,365	614,255
		<b>110,137,732</b>	<b>90,355,103</b>
<b>Total assets</b>		<b>\$ 114,143,319</b>	<b>\$ 110,548,184</b>
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities	9	\$ 5,820,222	\$ 6,130,555
Current portion of bank debt	10	311,346	13,669
		<b>6,131,568</b>	<b>6,144,224</b>
Non-current liabilities			
Bank debt	10	391,539	33,229
Decommissioning liabilities	11	1,163,517	1,015,987
<b>Total liabilities</b>		<b>7,686,624</b>	<b>7,193,440</b>
<b>Shareholders' equity</b>			
Shareholders' capital	12	123,540,920	113,634,766
Contributed surplus		13,962,320	13,410,532
Warrants	12	2,635,881	-
Deficit		(40,133,094)	(34,331,504)
Accumulated other comprehensive income		6,450,668	10,640,950
<b>Total shareholders' equity</b>		<b>106,456,695</b>	<b>103,354,744</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 114,143,319</b>	<b>\$ 110,548,184</b>

Going Concern (note 2)

Commitments (note 18)

**US Oil Sands Inc.**  
**Consolidated Statements of Comprehensive Loss**  
**For the three and nine months ended September 30**  
(Cdn\$)

	Notes	For the Three Months Ended September 30		For the Nine months Ended September 30	
		2016	2015	2016	2015
<b>Income</b>					
Investment income & interest		10,324	(80,329)	47,806	65,712
<b>Expenses</b>					
Operation costs		584,059	140,067	1,454,122	153,562
Amortization	6,8	63,347	57,920	188,507	182,288
Accretion	11	5,339	2,402	16,763	5,445
Property evaluation		2,530	-	6,695	3,413
Technology development		242,156	186,121	574,639	572,893
General and administrative		749,426	1,022,370	2,524,459	3,254,322
Foreign exchange loss (gain)		(290,055)	(2,821,968)	532,291	(6,380,594)
Share-based payment	12	155,656	318,203	551,788	987,290
		1,512,458	(1,094,885)	5,849,264	(1,221,381)
<b>Income (loss) before taxes</b>		<b>(1,502,134)</b>	1,014,556	<b>(5,801,458)</b>	1,287,093
Income tax expense		-	-	132	126
<b>Net income (loss)</b>		<b>(1,502,134)</b>	1,014,556	<b>(5,801,590)</b>	1,286,967
Other comprehensive income (loss)		773,016	3,756,998	(4,190,282)	6,424,544
<b>Total comprehensive income (loss)</b>		<b>\$ (729,118)</b>	\$ 4,771,554	<b>\$ (9,991,872)</b>	\$ 7,711,511
<b>Loss per share – basic and diluted</b>					
		\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ 0.00
<b>Weighted average number of shares outstanding</b>					
		1,706,284,790	853,142,395	1,236,122,375	853,142,395

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

**US Oil Sands Inc.**  
**Consolidated Statements of Changes in Equity**  
For the nine months ended September 30  
(Cdn\$)

	Shareholders' Capital	Contributed Surplus	Warrants	Deficit	Accumulated other comprehensive income (loss)	Total Shareholders' Equity
<b>January 1, 2015</b>	\$113,634,766	\$ 12,075,635	-	\$ (34,499,675)	\$ 2,142,900	<b>\$ 93,353,626</b>
Net loss	-	-	-	1,286,967	-	<b>1,286,967</b>
Other comprehensive loss – currency translation adjustment	-	-	-	-	6,424,544	<b>6,424,544</b>
Share-based payments	-	987,290	-	-	-	<b>987,290</b>
<b>September 30, 2015</b>	<b>\$113,634,766</b>	<b>\$ 13,062,925</b>	<b>\$ -</b>	<b>\$ (33,212,708)</b>	<b>\$ 8,567,444</b>	<b>\$102,052,427</b>
<b>October 1, 2015</b>	\$113,634,766	\$ 13,062,925	\$ -	\$ (33,212,708)	\$ 8,567,444	<b>\$102,052,427</b>
Net loss	-	-	-	(1,118,796)	-	<b>(1,118,796)</b>
Other comprehensive income – currency translation adjustment	-	-	-	-	2,073,506	<b>2,073,506</b>
Share-based payments	-	347,607	-	-	-	<b>347,607</b>
<b>December 31, 2015</b>	<b>\$113,634,766</b>	<b>\$ 13,410,532</b>	<b>\$ -</b>	<b>\$ (34,331,504)</b>	<b>\$ 10,640,950</b>	<b>\$103,354,744</b>
<b>January 1, 2016</b>	\$113,634,766	\$ 13,410,532	\$ -	\$ (34,331,504)	\$ 10,640,950	<b>\$103,354,744</b>
Net loss	-	-	-	(5,801,590)	-	<b>(5,801,590)</b>
Other comprehensive income – currency translation adjustment	-	-	-	-	(4,190,282)	<b>(4,190,282)</b>
Rights offering	9,906,154	-	-	-	-	<b>9,906,154</b>
Share-based payments	-	551,788	-	-	-	<b>551,788</b>
Warrants	-	-	2,635,881	-	-	<b>2,635,881</b>
<b>September 30, 2016</b>	<b>\$123,540,920</b>	<b>\$ 13,962,320</b>	<b>\$ 2,635,881</b>	<b>\$ (40,133,094)</b>	<b>\$ 6,450,668</b>	<b>\$106,456,695</b>

**US Oil Sands Inc.**  
**Unaudited Consolidated Statements of Cash Flows**  
**For the nine months ended September 30**  
(Cdn\$)

	Notes	2016	2015
<b>Operating activities</b>			
Net income (loss)		\$ (5,801,590)	\$ 1,286,967
Adjustments for:			
Investment income & interest		(47,806)	(65,712)
Amortization	6,8	188,507	182,288
Accretion	11	16,763	5,445
Share-based payments	12	551,788	987,290
Unrealized (gain) loss on foreign exchange		1,255,989	(6,706,873)
Changes in non-cash working capital	13	590,470	(443,335)
		<b>(3,245,879)</b>	<b>(4,753,930)</b>
<b>Investing activities</b>			
Interest received		47,806	65,712
Purchase of property, plant and equipment	6	(115,544)	(129,874)
Expenditures on exploration and evaluation assets	7	(24,375,020)	(38,681,529)
Expenditures on intangible assets	8	(26,887)	(35,055)
Changes in non-cash working capital	13	7,696	11,382,284
		<b>(24,461,949)</b>	<b>(27,3398,62)</b>
<b>Financing activities</b>			
Proceeds from issuance of shares from rights offering	12	12,797,136	-
Share issue costs	12	(255,101)	-
Net bank loan inflows (outflows)		(210,250)	-
		<b>12,331,785</b>	<b>-</b>
Effects of exchange rate changes on cash and cash equivalents		97,048	6,054,493
Net decrease in cash and cash equivalents		<b>(15,274,995)</b>	<b>(26,097,899)</b>
Cash and cash equivalents, beginning of period		\$ 18,529,111	\$ 64,390,338
<b>Cash and cash equivalents, end of period</b>		<b>\$ 3,250,116</b>	<b>\$ 38,292,439</b>

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

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**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 – 3<sup>rd</sup> Ave. SW., Calgary, Alberta, Canada T2P 3T3.

**2. GOING CONCERN**

These financial statements have been prepared on a going concern basis, which asserts the Company has the ability to continue to realize its assets and discharge its liabilities and commitments in a planned manner giving consideration to the below and expected possible outcomes.

As a result of prolonged construction activities, the Company is operating with a working capital deficit. Additional capital is required to fund construction and commissioning of the PR Spring plant, as well as to successfully operate the plant and mine. For the 9-month period ended September 30, 2016, the Company reported a net loss of \$5.8 million and had negative cash from operating activities of \$3.2 million. At September 30, 2016 the Company had negative working capital of \$2.1 million.

US Oil Sands is pursuing various strategies to improve the liquidity position, including asset-based and equity financing. The completion of any of these strategies is subject to material uncertainty which causes significant doubt about the Company’s ability to continue operations under its current capital structure. There can be no assurance that the steps management will take will be successful. As such, there is significant doubt and there can be no assurance the Company will be able to continue as a going concern.

**3. BASIS OF PRESENTATION**

**a) Statement of compliance**

These condensed consolidated financial statements (“interim financial statements”) were approved by the Board of Directors of the Company on November 29, 2016.

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

The interim financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the Audited Consolidated Financial Statements for the year ended December 31, 2015. The Company has prepared these interim financial statements using the same significant accounting policies, critical judgments, accounting estimates and methods of computation applied in the 2015 audited financial statements, except as noted below.

**b) Basis of measurement**

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

**4. FUTURE ACCOUNTING STANDARDS**

On January 1, 2017, 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. The extent of the impact of the adoption of IFRS 15 has not yet been determined

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

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

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

## 5. CASH AND CASH EQUIVALENTS

	September 30 2016	December 31 2015
Cash	\$ 2,256,408	\$ 4,846,468
Short-term investments	993,708	13,682,643
	<b>\$ 3,250,116</b>	<b>\$ 18,529,111</b>

## 6. PROPERTY, PLANT AND EQUIPMENT

	Processing Equipment	Shop and Laboratory Equipment	Automotive Equipment	Corporate and Other	Total
<b>Cost</b>					
As at January 1, 2015	\$ 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
Additions	-	73,013	46,184	641	119,838
Foreign exchange effect	-	(4,451)	(6,867)	(5,372)	(16,690)
<b>As at September 30, 2016</b>	<b>\$ 1,445,326</b>	<b>\$ 1,081,018</b>	<b>\$ 179,020</b>	<b>\$ 382,941</b>	<b>\$ 3,088,305</b>
<b>Accumulated amortization</b>					
As at January 1, 2015	\$ 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
Amortization	7,382	88,958	20,915	54,450	171,705
Foreign exchange effect	-	(78)	(2,864)	(1,206)	(4,148)
<b>As at September 30, 2016</b>	<b>\$ 734,697</b>	<b>\$ 728,385</b>	<b>\$ 84,612</b>	<b>\$ 267,426</b>	<b>\$ 1,815,120</b>
<b>Carrying value</b>					
As at December 31, 2015	\$ 718,011	\$ 372,951	\$ 73,142	\$ 173,490	\$ 1,337,594
<b>As at September 30, 2016</b>	<b>\$ 710,629</b>	<b>\$ 352,633</b>	<b>\$ 94,408</b>	<b>\$ 115,515</b>	<b>\$ 1,273,185</b>



## 7. EXPLORATION AND EVALUATION ASSETS

### *Cost and carrying value*

As at January 1, 2015	\$	29,610,658
Additions		47,099,117
Changes in decommissioning liabilities (note 10)		570,501
Foreign exchange effect		9,457,294
As at December 31, 2015	\$	86,737,570
Additions		24,375,020
Changes in decommissioning liabilities (note 10)		147,530
Foreign exchange effect		(4,650,756)
<b>As at September 30, 2016</b>	<b>\$</b>	<b>106,609,364</b>

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 September 30, 2016 and December 31, 2015.

## 8. INTANGIBLE ASSETS

	Technology and Patents	Computer Software	Corporate & Other	Total
<b>Cost</b>				
As at January 1, 2015	\$ 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
Additions	25,642	1,246	-	26,888
Foreign exchange effect	(253)	(7,952)	-	(8,205)
<b>As at September 30, 2016</b>	<b>\$ 1,613,672</b>	<b>\$ 153,495</b>	<b>\$ 81,695</b>	<b>\$ 1,848,862</b>
<b>Accumulated amortization</b>				
As at January 1, 2015	\$ -	\$ 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
Amortization	-	16,802	-	16,802
Foreign exchange effect	-	(4,253)	-	(4,253)
<b>As at September 30, 2016</b>	<b>\$ -</b>	<b>\$ 95,349</b>	<b>\$ 81,695</b>	<b>\$ 177,044</b>
<b>Carrying value</b>				
As at December 31, 2015	\$ 1,588,283	\$ 77,401	\$ -	\$ 1,665,684
<b>As at September 30, 2016</b>	<b>\$ 1,613,672</b>	<b>\$ 58,146</b>	<b>\$ -</b>	<b>\$ 1,671,818</b>

No impairment on intangible assets have been identified as at September 30, 2016 and December 31, 2015.

## 9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30 2016	December 31 2015
Accounts payables	\$ 5,479,383	\$ 5,035,422
Accrued liabilities	340,839	1,095,133
	<b>\$ 5,820,222</b>	<b>\$ 6,130,555</b>

## 10. BANK DEBT

	September 30 2016	December 31 2015
Current portion of bank debt	\$ 311,346	\$ 13,669
Non-current portion of bank debt	391,539	33,229
	<b>\$ 702,885</b>	<b>\$ 46,898</b>

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

## 11. DECOMMISSIONING LIABILITIES

	September 30 2016	December 31 2015
Balance, beginning of period	\$ 1,015,987	\$ 445,486
Changes in estimates	185,387	(60,401)
Liabilities added (note 6)	-	482,373
Accretion	16,763	25,685
Foreign exchange effect	(54,620)	122,844
Balance, end of period	<b>\$ 1,163,517</b>	<b>\$ 1,015,987</b>

The Company is liable for its share of dismantling, decommissioning, and site disturbance remediation activities of its properties upon abandonment. The estimated amount required to settle the decommissioning liabilities have been discounted using risk-free rates between 2.37% and 3.24% and an inflation rate of 1.5%. The properties are estimated to require reclamation in 15.2 years as at September 30, 2016.

## 12. SHARE CAPITAL

### a) Common shares

	September 30 2016		December 31 2015	
	Number	Amount	Number	Amount
Balance, beginning of period	853,142,395	\$ 113,634,766	853,142,395	\$ 113,634,766
Rights offering, net of allocation to warrants	853,142,395	\$ 10,161,255	-	-
Share issue costs	-	\$ (255,101)	-	-
Balance, end of period	1,706,284,790	<b>\$ 123,540,920</b>	853,142,395	<b>\$ 113,634,766</b>
Weighted average common shares outstanding,				
basic and diluted	1,236,122,375		853,142,395	

On May 31, 2016, the Company completed a Rights Offering and issued 853,142,395 common shares at a price of \$0.015 per common share for gross proceeds of \$12.8 million. Pursuant to a Standby Agreement, 160,725,000 warrants exercisable at a price of \$0.015 per share expiring November 30, 2016 were also granted to ACOMO S.à.r.l.. The Company paid legal and regulatory fees in the amount of \$255,101 in completing the rights offering.

### b) Warrants

	September 30 2016		December 31 2015	
	Number of Warrants	Fair Value	Number of Warrants	Fair Value
Balance, beginning of the period	-	\$ -	-	\$ -
Issued on rights offering	160,725,000	\$ 2,635,881	-	-
Balance, end of the period	<b>160,725,000</b>	<b>\$ 2,635,881</b>	-	\$ -

The fair value of the warrants is estimated on the date of issuance using the Black-Scholes pricing model with the following assumptions: Risk-free interest rate 61%, Expected life 0.5 years, Expected volatility 170%, Dividend per share \$0.00. Based on this model, the weighted average fair value per warrant is \$0.016.

**c) Stock options**

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

	September 30 2016		December 31 2015	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	51,858,000	\$ 0.186	47,810,000	\$ 0.197
Granted	-	-	8,300,000	0.100
Expired	(800,000)	(0.002)	(4,252,000)	0.143
Forfeited	(312,000)	(0.001)	-	-
Outstanding, end of period	50,746,000	\$ 0.188	51,858,000	\$ 0.186
Exercisable, end of period	44,672,000	\$ 0.199	42,231,667	\$ 0.205

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
November 12, 2013	0.1900	26,600,000	26,600,000	November 12, 2018
March 12, 2015	0.1450	20,000	13,333	March 12, 2019
April 15, 2015	0.1250	1,500,000	1,000,000	April 15, 2019
April 21, 2015	0.1400	100,000	66,667	April 21, 2019
May 14, 2015	0.1300	400,000	266,667	May 14, 2019
August 13, 2015	0.1200	450,000	300,000	August 13, 2019
November 18, 2015	0.1000	500,000	166,667	November 18, 2019
March 11, 2015	0.1000	7,376,000	2,458,667	March 11, 2020
		50,746,000	44,672,000	

As at September 30, 2016, the exercise prices of the options outstanding ranged from \$0.10 to \$0.36 per option with a weighted average remaining life of 2.60 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:

	September 30 2016	December 31 2015
Risk-free interest rate	Nil	1.58%
Expected life (years)	Nil	5.00
Expected volatility	Nil	119%
Forfeiture rate	Nil	0.88%
Dividend per share	Nil	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 policy for granting shares. Under the Plan, the number of shares reserved for issuance may not exceed 10% of the total number of issued and outstanding shares and, to any one optionee, may not exceed 5% of the issued shares on a yearly basis. The exercise price of each option shall not be less than the market price of the Company's stock at the date of grant with a minimum exercise price of \$0.05. Options can be granted for a maximum term of ten years and will vest on issuance unless otherwise determined by the board of directors.

#### d) Restricted Share Units

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

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

For the purpose of calculating share-based compensation, the fair value of each award is determined at the grant date using the closing price of the common shares. An estimated forfeiture rate of 1% was used to value all awards granted for the period ended September 30, 2016.

The number of restricted share units outstanding are as follows:

	September 30 2016	December 31 2015
Balance, beginning of period	13,262,383	-
Granted	-	15,766,191
Vested <sup>(1)</sup>	(4,298,746)	-
Forfeited	(654,809)	(2,503,808)
Balance, end of period	8,308,828	13,262,383

<sup>(1)</sup> RSU awards vested in 2016 are to be settled in common shares. As of September 30, 2016 the common shares had not been released due to the Company being in blackout during much of the period since the vesting date.

#### e) Share-based Payments

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

For the nine months ended September 30	2016	2015
Share-based payments on stock options	\$ 163,287	\$ 217,757
Share-based payments on RSUs	388,501	37,369
Total share-based payment expense	\$ 551,788	\$ 225,126

### 13. SUPPLEMENTAL CASH FLOW INFORMATION

For the nine months ended September 30	2016	2015
Accounts receivable	\$ (142,566)	\$ (16,780)
Prepaid expenses	1,002,826	63,222
Inventory	48,239	(3,772)
Accounts payable and accrued liabilities	(310,333)	428,936
Changes in non-cash working capital	\$ 598,166	\$ 471,606
Changes in non-cash working capital – operating	\$ 590,470	\$ (15,208)
Changes in non-cash working capital – investing	7,696	486,814
	\$ 598,166	\$ 471,606

### 14. SEGMENT INFORMATION

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

#### a) Non-current segment assets

As at September 30, 2016	Corporate	Utah Oil Sand Development	Consolidated
Property, plant and equipment	\$ 1,112,587	\$ 160,598	\$ 1,273,185
Exploration and evaluation assets	260,000	106,349,364	106,609,364
Intangible assets	1,612,533	59,285	1,671,818
Reclamation funds on deposits	-	583,365	583,365
Segment non-current assets	\$ 2,985,120	\$ 107,152,612	\$ 110,137,732

As at December 31, 2015	Corporate		Utah Oil Sand Development		Consolidated	
Property, plant and equipment	\$	1,181,614	\$	155,980	\$	1,337,594
Exploration and evaluation assets		260,000		86,477,570		86,737,570
Intangible assets		1,587,896		77,788		1,665,684
Reclamation funds on deposits		-		614,255		614,255
<b>Segment non-current assets</b>	<b>\$</b>	<b>3,029,510</b>	<b>\$</b>	<b>87,325,593</b>	<b>\$</b>	<b>90,355,103</b>

**b) Reported segment income (loss)**

For the three months ended September 30	Corporate		Utah Oil Sand Development		Consolidated							
	2016	2015	2016	2015	2016	2015						
<b>Income</b>												
Investment income & interest	\$	10,252	\$	(81,190)	\$	72	\$	861	\$	10,324	\$	(80,329)
<b>Less: Expenses</b>												
Operation costs	-	-	584,059	140,067	584,059	140,067						
Amortization	46,924	40,694	16,423	17,226	63,347	57,920						
Accretion	-	-	5,339	2,402	5,339	2,402						
Property evaluation	-	-	2,530	-	2,530	-						
Technology development	241,692	186,121	464	-	242,156	186,121						
General and administrative	540,849	696,840	208,577	325,530	749,426	1,022,370						
Foreign exchange	(290,055)	(2,821,968)	-	-	(290,055)	(2,821,968)						
Share-based payments	155,656	318,203	-	-	155,656	318,203						
	695,066	(1,580,110)	817,392	485,225	1,512,458	(1,094,885)						
Income (loss) before taxes	(684,814)	1,498,920	(817,320)	(484,364)	(1,502,134)	1,014,556						
Income tax expense	-	-	-	-	-	-						
<b>Segment net income (loss)</b>	<b>\$</b>	<b>(684,814)</b>	<b>\$</b>	<b>1,498,920</b>	<b>\$</b>	<b>(817,320)</b>	<b>\$</b>	<b>(484,364)</b>	<b>\$</b>	<b>(1,502,134)</b>	<b>\$</b>	<b>1,014,566</b>
<b>Capital Expenditures</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>28,240</b>	<b>\$</b>	<b>7,387,464</b>	<b>\$</b>	<b>2,019,589</b>	<b>\$</b>	<b>7,387,464</b>	<b>\$</b>	<b>2,047,830</b>

For the nine months ended September 30	Corporate		Utah Oil Sand Development		Consolidated							
	2016	2015	2016	2015	2016	2015						
<b>Income</b>												
Investment income & interest	\$	46,564	\$	63,967	\$	1,242	\$	1,745	\$	47,806	\$	65,712
<b>Less: Expenses</b>												
Operation costs	-	-	1,454,122	153,562	1,454,122	153,562						
Amortization	138,750	134,070	49,757	48,218	188,507	182,288						
Accretion	-	-	16,763	5,445	16,763	5,445						
Property evaluation	900	558	5,795	2,855	6,695	3,413						
Technology development	574,169	572,893	470	-	574,639	572,893						
General and administrative	1,817,405	2,409,143	705,054	845,179	2,524,459	3,254,322						
Foreign exchange	532,291	(6,380,594)	-	-	532,291	(6,380,594)						
Share-based payments	551,788	987,290	-	-	551,788	987,290						
	3,615,303	(2,276,640)	2,233,961	1,055,259	5,849,264	(1,221,381)						
Income (loss) before taxes	(3,568,739)	2,340,607	(2,232,719)	(1,053,514)	(5,801,458)	1,287,093						
Income tax expense	-	-	132	126	132	126						
<b>Segment net income (loss)</b>	<b>\$</b>	<b>(3,568,739)</b>	<b>\$</b>	<b>2,340,607</b>	<b>\$</b>	<b>(2,232,851)</b>	<b>\$</b>	<b>(1,053,640)</b>	<b>\$</b>	<b>(5,801,590)</b>	<b>\$</b>	<b>1,286,967</b>
<b>Capital Expenditures</b>	<b>\$</b>	<b>68,718</b>	<b>\$</b>	<b>112,693</b>	<b>\$</b>	<b>24,719,873</b>	<b>\$</b>	<b>37,964,090</b>	<b>\$</b>	<b>24,788,591</b>	<b>\$</b>	<b>38,076,783</b>

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

## 15. 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 \$1.0 million of cashable short-term investments. Had the interest rate on the investments been 100 basis points higher (or lower) throughout the nine months ended September 30, 2016, earnings would have been affected by \$73,277 (2015 – \$395,253) based on the average investment balance outstanding during the nine 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:

	<b>September 30 2016 (US Dollars)</b>	December 31 2015 (US Dollars)
Cash and cash equivalents	\$ 2,155,288	\$ 12,090,699
Accounts payable	3,676,276	3,302,292
Accrued liabilities	85,266	592,339

As at September 30, 2016, the exchange was 1.3117 USD/CAD. A change of the value of the Canadian dollar relative to the US dollar of 1% will result in an \$16,063 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 quarter ended September 30, 2016, the Company had a negative working capital of \$2.1 million (2015 - \$23.6 million surplus) and an accumulated deficit of \$40.1 million (2015 - \$33.2 million). The Company does not carry any long-term debt for operations.

## 16. 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:

	September 30 2016	December 31 2015
Shareholders' capital	\$ 123,540,920	\$ 113,634,766
Contributed surplus	13,962,320	13,410,532
Warrants	2,635,881	-
Deficit	(40,133,094)	(34,331,504)

## 17. 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 nine months ended September 30 are as follows:

	2016	2015
Short-term employee benefits	\$ 688,548	\$ 757,500
Share-based payments	227,775	692,677
	\$ 916,323	\$ 1,450,177

There were no other related party transactions during the nine months ended September 30, 2016.

## 18. COMMITMENTS

	Office and equipment	Resource properties (US dollars)	Exploration and evaluation (US dollars)
2016	\$ 159,120	\$ -	\$ -
2017	635,778	357,049	-
2018	182,815	336,094	-
2019	1,874	336,094	-
2020	-	318,934	-
Thereafter	-	217,580	-
	\$ 979,587	\$ 1,565,751	\$ -

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