DESCRIPTION OF THE COMPANY

The following Management's Discussion and Analysis ("MD&A") of financial condition and results of operations for Virginia Hills Oil Corp. and its subsidiary (collectively "Virginia Hills" or the "Company") is a review of the operations, current financial position and condition for the three and six months ended June 30, 2016 and 2015, and should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements and related notes for the period ended June 30, 2016, and the audited consolidated financial statements and related notes for the year ended December 31, 2015. The three month period ended June 30, 2016 (and three month period ended June 30, 2015) is herein referred to as "Q2". This MD&A and the unaudited interim condensed consolidated financial statements of Virginia Hills have been prepared by management and approved by the Company's Board of Directors as at August 25, 2016.

Virginia Hills is a Calgary, Alberta based petroleum and natural gas exploration, production and development company, with operations in the Canadian province of Alberta. Virginia Hills is a public company, incorporated and domiciled in Alberta and its shares trade on the TSX Venture Exchange under the symbol "VHO".

BASIS OF PRESENTATION

The unaudited interim condensed consolidated financial statements have been prepared in Canadian dollars, in accordance with International Financial Reporting Standards ("IFRS"), specifically *International Accounting Standard ("IAS") 34, Interim Financial Reporting*. They include the accounts of the Company's wholly-owned subsidiary Dolomite Energy Inc. ("Dolomite") and all intercompany balances and transactions have been eliminated.

On April 15, 2015 the Company completed a corporate reorganization pursuant to a plan of arrangement whereby the common shareholders of Pinecrest Energy Inc. ("Pinecrest") became the common shareholders of Virginia Hills and approximately 90% of the Alberta oil and natural gas assets and substantially all of the others assets and liabilities were transferred to Virginia Hills. The common shares of Pinecrest were then sold to Cardinal Energy Ltd. The transaction was accounted for as a corporate reorganization and the comparative financial information of Virginia Hills is reported as a continuation of Pinecrest's historical accounting records.

All amounts are in Canadian dollars, unless otherwise stated. Tabular amounts are in thousands of dollars, except where indicated otherwise, and oil and gas volumes, reserves and related performance measures are presented on a working-interest, before-royalties basis.

READER ADVISORIES

This MD&A contains financial measures that are not defined under IFRS and forward looking statements. Readers are cautioned that the MD&A should be read in conjunction with the Company's disclosure under "Non-GAAP Measures", "Forward-Looking Information" and "Future Oriented Financial Information" included at the end of this MD&A.

BOE Advisory *In accordance with National Instrument 51-101, Standards for Disclosure of Oil and Gas Activities ("NI 51-101"), petroleum and natural gas reserves and volumes are converted to an equivalent measurement basis referred to as a "barrel of oil equivalent" ("boe") on the basis of 6 thousand cubic feet of natural gas equal to 1 barrel of oil. This conversion is based on an energy equivalency conversion method applicable at the burner tip and does not represent a value equivalency at the wellhead.* ***Readers are cautioned that boe may be misleading, particularly if used in isolation.***

OPERATIONS UPDATE

Persistently low commodity prices during Q2 2016 continued to present a challenging business environment for the Canadian oil and gas industry. Benchmark WTI oil prices decreased year-over-year in the second quarter and first half of 2016 to $45.59 US/bbl WTI and $39.52 US/bbl WTI, respectively, representing declines of 21% and 26% year-over-year, respectively. Benchmark pricing in the second quarter of 2016 was approximately 36% higher than levels experienced in the first quarter with third quarter pricing trending moderately upwards from first half 2016 levels. Historically, Virginia Hills' realized commodity prices have tracked the Canadian benchmark oil price due

to its corporate production and revenue weighting derived from light oil and natural gas liquids of 97% of and 99%, respectively. The Company's Q2 2016 realized corporate average prices decreased approximately 18% to $50.77 per boe compared to $61.54 per boe in Q2 2015 due to lower pricing. The Company expects its future corporate pricing to track the WTI benchmark pricing as it has not hedged any of its production in 2016, however it will continue to monitor the forward price expectations and may enter into future contracts as needed to protect the Company's cash flows.

Production volumes for second quarter of 2016 averaged 1,293 boe/d (97% light oil and NGL's), representing a decline of 13% from the same period in 2015 and a 9% decline from the first quarter of 2016. Production for the period was lower than second quarter of 2015 mainly due to the sale of approximately 65 boe/d of net production during the second quarter of 2015, in addition to the ongoing loss of an incremental 60 boe/d of net production in the quarter due to a pipeline failure that occurred late in 2015. The Company anticipates that 40 boe/d of net production related to the 2015 pipeline failure will be back on line in the fourth quarter of 2016. Taking into account dispositions, new drills and shut in production related to the 2015 pipeline failure, the Company's base production decline rate year-over-year has remained below 10%.

During the second quarter of 2016, the Company experienced a significant amount of operating costs related to downhole repair and maintenance within its water flood areas. Within the Otter water flood area, the Company has experienced increasing water, oil and total fluid rates as it re-pressurized the Slave Point reservoir through water injection. The average quarterly oil production has increased from 2014 levels by approximately 110% to 431 bbl/d in the second quarter of 2016. As a result of the increased total fluid production, the number of wells on which the Company performed a workover or downhole repair has also increased with only five operations in the fourth quarter of 2015, 11 operations in first quarter of 2016 and 17 operations in the second quarter of 2016. The cost on a per unit basis associated with these operations has contributed $3.15 per boe ($0.4 million) to operating costs in the second quarter of 2016. The downhole repairs have consisted of the replacement of downhole pumping equipment among other repairs to handle the changing pumping conditions of increased fluid rates, water cuts and H_2S concentrations. Downtime associated with the above noted workover operations exceeded historical averages by approximately 40 boe/d in the second quarter of 2016. The Company anticipates that with these replacements the future downhole repairs and associated downtime should be reduced to historical levels.

In addition to the above noted incremental workover costs, the Company has identified certain pipeline and facility optimization projects that it anticipates would reduce trucking and processing cost by approximately $0.1 million per month or approximately $1.90 per boe at second quarter production levels. These projects are at various stages of design and planning and are forecast to be completed over the next 18 months and capital pay-outs are estimated to be less than 1.5 years on each individual project and not subject to changes in commodity pricing.

The Company was able to resume its normal mechanical repair and maintenance in mid–June returning corporate production to approximately 1,400 boe/d by the end of August, based on field estimates.

Virginia Hills' field netback on a per unit basis for Q2 2016 was $19.84 per boe compared to $33.30 per boe for the comparable period of Q2 2015. The field netback for the six months ended June 30, 2016 decreased to $9.97 per boe compared to $24.62 per boe for the same six month period in 2015. The decrease in netbacks for the three and six months ended June 30, 2016 was due to a decrease in production volumes and realized commodity prices of 13% and 18%, respectively, and the above noted increases in operating expenses.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	Three months ended June 30		Six months ended June 30	
(Canadian $000, except per unit amounts)	**2016**	**2015**	**2016**	**2015**
FINANCIAL				
Petroleum and natural gas sales	$ 5,972	$ 8,287	$ 10,860	$ 15,436
Funds flow from (used in) operations [2]	692	2,391	(1,032)	2,423
Per share – basic	0.03	0.17	(0.05)	0.30
Per share – diluted	0.03	0.17	(0.05)	0.30
Net income (loss)	(2,508)	7,671	(7,580)	3,438
Per share – basic	(0.12)	0.55	(0.38)	0.42
Per share – diluted	(0.12)	0.55	(0.38)	0.41
Capital expenditures [3]	16	1,866	161	2,847
Net debt [2][4]	110,344	105,786	110,344	105,786
Common Shares Outstanding [1]				
Weighted average – basic	20,378	14,060	20,051	8,149
Weighted average – diluted	20,378	14,060	20,051	8,437
OPERATIONAL				
Number of days	91	91	182	181
Production				
Oil and NGL (bbl/d)	1,253	1,426	1,318	1,516
Natural gas (mcf/d)	239	325	241	293
Total production (boe/d)	1,293	1,480	1,358	1,564
Average realized prices [5]				
Oil and NGL ($/bbl)	52.23	63.66	45.12	56.13
Natural gas ($/mcf)	0.77	0.96	0.85	0.72
Netback per boe ($) [2]				
Petroleum and natural gas sales	50.77	61.54	43.94	54.52
Royalties	(2.80)	(2.22)	(3.15)	(4.47)
Production and transportation expenses	(28.13)	(26.02)	(30.82)	(25.43)
Field netback [2]	19.84	33.30	9.97	24.62

(1) Shares and per share amounts for comparative periods reflect the 100:1 share consolidation that occurred April 15, 2015 concurrent with the corporate reorganization as though the consolidation took place at the beginning of the earliest period.
(2) Non-GAAP measure. See Reader Advisory for further information on such terms.
(3) Capital expenditures exclude amounts paid for acquisitions.
(4) Net debt is defined as current assets minus current liabilities, plus outstanding bank debt.
(5) Before the effects of derivative financial instruments, but includes gains or losses on fixed price, physical contracts that are not considered derivative instruments.

PRODUCTION

June 30	Three months ended			Six months ended		
	2016	2015	% Change	2016	2015	% Change
Number of days	*91*	*91*		*182*	*181*	
Crude oil (bbls/d)	1,222	1,383	(12)	1,289	1,469	(12)
NGL (bbls/d)	31	43	(28)	29	47	(38)
Natural gas (mcf/d)	239	325	(26)	241	293	(18)
Total (boe/d)	**1,293**	**1,480**	**(13)**	**1,358**	**1,564**	**(13)**
Crude oil & NGL (%)	97	96	1	97	97	-

Production volumes for Q2 2016 averaged 1,293 boe/d representing a decrease of 13% from Q2 2015 levels and were lower mainly due to a lower production base resulting from the sale of production in the second quarter of 2015 associated with the corporate reorganization, on-going shut-in production due to an emulsion pipeline break in December 2015, and limited surface access to wells due to wet weather during the quarter in order to perform the necessary repairs and maintenance. A total of 60 boe/d of production remains shut-in at the end of the second quarter 2016 as a result of the pipeline break, with expectations that approximately 40 boe/d of this production will be back on line in the second half of 2016. Production for the six months ended June 30, 2016 also decreased 13% from the comparable period in 2015 for mainly the same reasons noted above. Taking into account dispositions, new drills and shut in production related to the 2015 pipeline failure, the Company's base production decline rate year-over-year has remained below 10%.

REVENUE

June 30	Three months ended			Six months ended		
	2016	2015	% Change	2016	2015	% Change
Crude oil sales	5,927	8,231	(28)	10,771	15,323	(30)
NGL sales	28	27	4	52	75	(31)
Natural gas sales	17	29	(41)	37	38	(3)
Petroleum and natural gas sales	**5,972**	**8,287**	**(28)**	**10,860**	**15,436**	**(30)**
Average Realized Prices						
Crude oil ($/bbl) *(1)*	53.31	65.40	(18)	45.92	57.63	(20)
NGL ($/bbl)	9.85	7.08	39	9.79	8.93	10
Natural gas ($/mcf)	0.77	0.96	(20)	0.85	0.72	18
Total ($/boe)	**50.77**	**61.54**	**(18)**	**43.94**	**54.52**	**(19)**
Benchmark prices						
Crude oil – WTI (US$/bbl) *(1)*	45.59	57.94	(21)	39.52	53.29	(26)
Crude oil – Cdn light sweet (Cdn$/bbl)	58.74	68.88	(15)	49.98	61.08	(18)
Natural gas – AECO spot (Cdn$/mcf)	1.42	2.67	(47)	1.63	2.71	(40)
Exchange Rate – (US/Cdn)	0.78	0.81	(4)	0.75	0.81	(7)

(1) Includes realized loss on a physical commodity contract for the period May 1, 2015 to June 30, 2015, which fixed the price on approximately 1,135 bbls/d at $US 55.10 per barrel.

Petroleum and natural gas sales decreased by 28% to $6.0 million for Q2 2016 compared to $8.3 million for Q2 2015. Decreased sales for the quarter are due to both lower production volumes and lower realized commodity prices for 2016 compared to 2015. Prices received for crude oil production directly impact the Company's earnings, cash flow from operations and financial position. Virginia Hills' realized average oil price for Q2 2016 was $53.31 per barrel, compared to $65.40 per barrel during Q2 2015. Prices received by Virginia Hills are based on the Canadian Light Sweet Crude price, adjusted for quality differentials, and have historically tracked the Canadian

benchmark price at approximately 95% to 98%.

Petroleum and natural gas sales for the six months ended June 30, 2016 decreased to $10.9 million from $15.4 million for the same period in 2015 due to a combination of both decreased realized prices, down 18% between the periods, and decreased production volumes, down 13% between the periods.

Risk Management

Virginia Hills' management and its Board of Directors have established a risk management policy with the objective to reduce volatility in financial results, protect the Company's investment in its capital expenditure program and stabilize cash flow against the unpredictable commodity price environment. Exposures inherent in fluctuations in the price of crude oil and natural gas, the USD/Cdn dollar exchange rate and interest rates are monitored by management and the Board of Directors on a regular basis. Virginia Hills' risk management policy limits the term of any price risk contract to a maximum term of 24 months, up to a maximum of 70% of base production after royalties. The Company did not have any oil price risk contracts outstanding during the six month ended June 30, 2016, but did have a physical contract for the period May 1, 2015 to June 30, 2015, which fixed the price on approximately 1,135 bbls/d of oil at a price of $US 55.10 per barrel.

ROYALTY EXPENSE

June 30	**Three months ended**			**Six months ended**		
	2016	**2015**	**% Change**	**2016**	**2015**	**% Change**
Royalty expense	330	302	9	778	1,269	(39)
As a percentage of sales	6%	4%	50	7%	8%	(12)
$ Per boe	2.80	2.22	26	3.15	4.47	(30)

Royalty expense includes royalties either taken in-kind or paid to provincial governments, freehold land owners and overriding royalty owners. Royalties remained relatively static at $0.3 million for both Q2 2016 and Q2 2015, however as a percentage of sales increased to 6% of sales for Q2 2016 compared to only 4% of sales for Q2 2015 as a result of the lower sales. Royalties for the six months ended June 30, 2016 decreased to $0.8 million from $1.3 million for the comparable period in 2015 as a result of decreases in commodity prices.

OPERATING EXPENSE

Production expenses are comprised of costs to operate the wells, including emulsion and water trucking, chemicals and minor workover costs. Transportation expenses are incurred for services related to moving production volumes to sales points, and include clean oil trucking and pipeline tariffs.

June 30	**Three months ended**			**Six months ended**		
	2016	**2015**	**% Change**	**2016**	**2015**	**% Change**
Production expense	2,922	3,052	(4)	6,819	6,305	8
Transportation expense	387	452	(14)	799	893	(11)
Total expense	**3,309**	**3,504**	**(6)**	**7,618**	**7,048**	**8**
$ Per boe, Production	24.84	22.66	10	27.59	22.27	24
$ Per boe, Transportation	3.29	3.36	(2)	3.23	3.16	2
$ Per boe	28.13	26.02	8	30.82	25.43	21

Production Expenses

Production expenses on a dollar basis decreased slightly to $2.9 million for Q2 2016 from $3.1 million for Q2 2015, but increased 10% on a per unit basis to $24.84 per boe in Q2 2016 compared $22.66 per boe in Q2 2015. Since current management took over the operations in April 2015, there has been a focus on continued improvements to field efficiencies and cost programs, including consolidating certain suppliers and electrification and fuel costs. As a result of these initiatives, certain production expenses have decreased resulting in a 4% decrease in production

expenses in Q2 2016 from the same period in 2015. During Q2 2016, the Company performed 17 workover/maintenance operations on wells within the Otter water flood area resulting in approximately $0.4 million of operating costs or $3.15 per boe on a per unit basis.

For the six months ended June 30, 2016, production expenses increased to $6.8 million ($27.59 per boe) compared to $6.3 million ($22.27 per boe) for the same period in 2015. The Company experienced a significant amount of operating costs related to downhole repair and maintenance within its water flood areas. Within the Otter water flood area, the Company has experienced increasing water, oil and total fluid rates as it re-pressurized the Slave Point reservoir through water injection. As a result of the increased total fluid production, the number of wells on which the Company performed a workover or downhole repair has also increased with only five operations in the fourth quarter of 2015, 11 operations in first quarter of 2016 and 17 operations in the second quarter of 2016. The downhole repairs have consisted of the replacement of downhole pumping equipment among other repairs to handle the changing pumping conditions of increased fluid rates, water cuts and H_2S concentrations. The Company anticipates that with these replacements the future downhole repairs and associated downtime should be reduced to historical levels.

While total production expenses have increased on a dollar basis as noted above, the greater impact has been on a per unit basis which, when combined with the decreased production volumes, has resulted in 30%-34% increase on a per unit basis for the three and six months ended June 30, 2016, respectively. With the return of corporate production to 1,400 boe/d by the end of August 2016 and expected reductions in operating costs as a result of changes performed downhole, per unit costs are expected to decline in the second half of 2016 from first half levels.

Transportation Expenses

Transportation expenses for Q2 2016 were $0.4 million and approximated Q2 2015. For the six months ended June 30, 2016 transportation expenses were slightly lower at $0.8 million compared to $0.9 million for the same period in 2015. On a per unit basis, transportation costs for Q2 2016 approximated the costs in 2015 while the six month costs have increased over the prior period due to decreased volumes.

OTHER OPERATING INCOME

June 30	Three months ended			Six months ended		
	2016	2015	% Change	2016	2015	% Change
Other operating income	218	152	43	427	343	24
$ Per boe	1.86	1.13	65	1.73	1.21	43

Other operating income is comprised primarily of road use fee income, third party-processing fees and emulsion gathering fees. Increases for both three and six months ended June 30, 2016 are due mainly to adjustments to applicable road use rates.

DEPLETION AND DEPRECIATION EXPENSE

June 30	Three months ended			Six months ended		
	2016	2015	% Change	2016	2015	% Change
Depletion and depreciation expense	2,495	3,602	(31)	5,244	7,569	(31)
$ Per boe	21.21	26.75	(21)	21.22	26.73	(21)

Depletion and depreciation expense decreased to $2.5 million in Q2 2016 compared to $3.6 million recorded in Q2 2015. For the six months ended June 30, 2016, depletion and depreciation expense decreased 31% to $5.2 million from $7.6 million for the same period in 2015. The decreases were due to a lower depletable cost base resulting from the sale of approximately 10% of the Company's production in the second quarter of 2015 and an impairment loss recorded in the fourth quarter of 2015.

GENERAL AND ADMINISTRATIVE EXPENSE ("G&A")

June 30	Three months ended			Six months ended		
	2016	2015	% Change	2016	2015	% Change
Gross G&A	678	1,052	(36)	1,397	2,441	(43)
Overhead recoveries & capitalized G&A	(168)	(289)	(42)	(332)	(512)	(35)
Net G&A	510	763	(33)	1,065	1,929	(45)
Share-based payments	26	200	(87)	55	223	(75)
Total G&A	**536**	**963**	**(44)**	**1,120**	**2,152**	**(48)**
$ Per boe, net G&A	4.34	5.52	(21)	4.31	6.82	(37)
$ Per boe, share-based payments	0.22	1.50	(85)	0.22	0.79	(72)
$ Per boe	4.56	7.02	(35)	4.53	7.61	(40)

Net G&A costs were $0.5 million for Q2 2016 compared to $1.0 million incurred in Q2 2015. For the six months ended June 30, 2016, the net G&A costs were lower by $1.0 million at $1.1 million compared to the same period in 2015. The lower costs in both Q2 and for the six months reflect savings realized from the Company's capital reorganization which saw a reduction in staff count and related office expenses. Overhead recoveries and capitalized G&A were lower in both Q2 and for the six months in 2016 compared to Q2 2015 due to savings realized on operating and capital costs, which directly impact overhead recoveries, and a minimal capital program on which overhead is recovered. Share-based payment expense in Q2 2016 and for the six months ended June 30, 2016 was lower than the comparable periods in 2015 as the amortization of the fair value of awards granted was weighted higher in the year of grant being 2015.

FINANCE EXPENSE

June 30	Three months ended			Six months ended		
	2016	2015	% Change	2016	2015	% Change
Interest (cash)	1,515	1,470	3	3,023	2,951	2
Deferred finance charges amortization (non-cash)	335	623	(46)	732	740	(1)
Total interest expense	1,850	2,093	(12)	3,755	3,691	2
Accretion	178	154	16	352	312	13
Total finance expense	**2,028**	**2,247**	**(10)**	**4,107**	**4,003**	**3**
$ Per boe, Interest, cash	12.88	10.91	18	12.23	10.42	17
$ Per boe, Interest, non-cash	2.85	4.63	(38)	2.96	2.61	13
$ Per boe, Accretion	1.52	1.06	43	1.43	1.10	30
$ Per boe	17.24	16.69	3	16.62	14.13	18

Interest Expense (see Liquidity and Capital Resources)

Interest expense includes: cash interest paid on the Credit Facilities (as defined below); standby fees, which are based on unused available credit; and amortization of deferred financing charges incurred to establish the credit facilities. Total interest expense for Q2 2016 was $1.9 million compared to $2.1 million for Q2 2015. Cash interest expense was marginally higher in Q2 2016 compared to Q2 2015, mainly due to the inclusion of Dolomite's interest charges. For the six months ended June 30, 2016 interest expense was $3.8 million or 2% higher than the same period in 2015.

The Company had two credit facilities in place; a $97.0 million senior credit facility and an $11.0 million credit facility (collectively the "Credit Facilities"). The senior credit facility bears interest at prime plus a sliding scale margin, which is based on the Company's trailing debt to earnings before interest, taxes, depletion and amortization ("EBITDA") ratio, ranging from 1% to 3%. In addition a 1% standby fee is paid on the portion of the unused credit

facility. The second credit facility bears interest at prime plus 3%. At June 30, 2016, the interest rate on the Credit Facilities was 5.7%.

Non-cash interest charges include the amortization of deferred financing costs incurred to establish the Company's credit facilities for both Virginia Hills and Dolomite in the second quarter of 2015. Amortization for Q2 2016 of $0.3 million is less than the same quarter of 2015 as the prior year also included the expensing of financing fees associated with the cancellation of a credit facility concurrent with the corporate reorganization. Amortization costs for the six months ended June 30, 2016 are consistent with the comparable period of 2015 at $0.7 million.

Accretion expense

Accretion expense was $0.2 million for Q2 2016 and $0.4 million for the six months ended June 30, 2016, and has not changed significantly from the same comparable periods in 2015. Accretion expense on a per boe basis has increased for both the three and six months ended June 30, 2016 compared to the same periods in 2015, reflecting a decrease in the average daily production. At June 30, 2016 the credit-adjusted risk free rate was 7.5% and the inflation rate was 1.5% (December 31, 2015: 7.6% and 2.0% respectively).

INCOME TAXES

Virginia Hills has not recorded a deferred tax expense or recovery for the three or six months ended June 30, 2016 nor for the same comparable periods in 2015 because the tax basis of the assets exceeded the carrying values, resulting in an unrecorded deferred income tax asset of approximately $25.0 million. At June 30, 2016, the Company has approximately $175 million of tax pools available to be deducted against future income for tax purposes. Based on the available pools, current commodity prices and the Company's capital expenditure program, Virginia Hills does not expect to be taxable in 2016 or 2017.

NET INCOME (LOSS)

June 30	Three months ended			Six months ended		
	2016	2015	% Change	2016	2015	% Change
Net income (loss)	**(2,508)**	**7,671**	**>100**	**(7,580)**	**3,438**	**>100**
$ Per share, basic [(1)]	$(0.12)	$0.55	>100	$(0.38)	$0.42	>100
$ Per share, diluted [(1)]	$(0.12)	$0.55	>100	$(0.38)	$0.41	>100

(1) *The weighted average shares outstanding and per share amounts prior to April 15, 2015 have been related to reflect the 100:1 share consolidation.*

Virginia Hills' recorded a net loss of $2.5 million in Q2 2016 compared to net income of $7.7 million in Q2 2015. For the six months ended June 30, 2016 the Company recorded a net loss of $7.6 million compared to net income of $3.4 million for the same period in 2015. The prior year net income for the three and six months ended June 30 included a gain of $13.9 million associated with the corporate reorganization. The net loss for the three and six months ended June 30, 2016 reflects lower net revenues, compounded by higher production and transportation costs and interest expense.

Netbacks [(1)]

June 30 $ Per boe	Three months ended 2016	2015	% Change	Six months ended 2016	2015	% Change
Average realized price	50.77	61.54	(18)	43.94	54.52	(19)
Royalty expense	(2.80)	(2.22)	26	(3.15)	(4.47)	(30)
Production & transportation expense	(28.13)	(26.02)	8	(30.82)	(25.43)	21
Field netback[(1)]	**19.84**	**33.30**	**(40)**	**9.97**	**24.62**	**(60)**
Realized loss on derivative financial instruments	-	-	-	-	-	-
Operating netback[(1)]	**19.84**	**33.30**	**(40)**	**9.97**	**24.62**	**(60)**
Other income	1.86	1.13	65	1.73	1.21	43
Cash G&A expense	(4.34)	(5.52)	(21)	(4.31)	(6.82)	(37)
Cash financing	(12.88)	(10.91)	18	(12.23)	(10.42)	17
Cash flow netback[(1)]	**4.48**	**18.00**	**(75)**	**(4.84)**	**8.51**	**>100**

[(1)] *Non-GAAP measures.*

Virginia Hills' field and operating netback was $19.84 per boe for Q2 2016 compared to $33.30 per boe for Q2 2015. For the six months ended June 30, 2016 the field and operating netback was $9.97 per boe compared to $24.62 per boe for the same period in 2015. The netbacks were lower for both the three and six months ended June 30, 2016 due to lower prices and production volumes, as well as increased operating expenses.

CAPITAL EXPENDITURES

June 30	Three months ended 2016	2015	% Change	Six months ended 2016	2015	% Change
Evaluation & exploration						
Undeveloped land	40	332	(88)	93	399	(77)
	40	**332**	**(88)**	**93**	**399**	**(77)**
Property, plant & equipment						
Drilling & completions [(1)]	(67)	(35)	91	(114)	353	>(100)
Equipment & facilities	27	1,426	(98)	151	1,883	(92)
Developed land	3	-	-	3	-	-
Capitalized administrative	13	128	(90)	28	196	(86)
Corporate assets	-	16	-	-	16	-
	(24)	**1,534**	**>(100)**	**68**	**2,448**	**(97)**
Total capital expenditures	**16**	**1,866**	**(99)**	**161**	**2,847**	**(94)**

[(1)] *Relates to sale of certain spare parts assets.*

Capital Expenditures & Drilling Results

Evaluation and exploration ("E&E") expenditures included lease rentals on undeveloped lands for the three and six months ended June 30, 2016 and 2015. During Q2 2016, Virginia Hills had a minimal capital program with some minor work to complete field electrification projects that had commenced late in the fourth quarter of 2015 and the release of prior period accruals resulting in negative capital expenditures for the period of $0.02 million. For the six months ended June 30, 2016 capital expenditures of $0.1 million included some maintenance capital and costs on equipment and facilities which is primarily comprised of progress payments on construction of a free water knock-out facility at the Otter 04-13 water flood project area.

There were no wells drilled during the six months ended June 30, 2016 or for the same comparative period in 2015. The Company recorded proceeds of $0.3 million from the sale of certain spare parts assets during the six months ended June 30, 2016.

LIQUIDITY AND CAPITAL RESOURCES

Virginia Hills' ongoing development of its oil and gas asset base (growing production and reserves) is dependent on the Company's ability to secure sufficient funds from operations, credit facilities and capital markets. Liquidity is the Company's ability to meet the demands for cash to settle accounts payable and other liabilities as they come due. The Company's cash flows are highly dependent upon external market and risk factors, such as the volatility in commodity prices, changes in foreign currency exchange rates and pressures on service costs. Virginia Hills is focused on all aspects of operations and general and administrative cost structures to protect future cash flows to continue to meet its obligations with respect to ongoing operations. The Company has initiated a process to review strategic alternatives to improve the liquidity satisfactory to the Lenders of the Company. This may include, among other alternatives, the addition of further capital, the sale of the Company or a portion of the assets, a merger, farm-in or joint venture or other such option. The Company has not set a definitive schedule to complete its evaluation and any strategy, if taken, has no guarantee as to terms or timing. There can be no assurance that these initiatives are sufficient to meet the Company's commitments (see "Capital Structure and Going Concern" and "Contractual Obligations and Commitments").

At June 30, 2016, Virginia Hills had a working capital deficiency of $110.3 million and an accumulated deficit of $31.6 million. During the three and six months ended June 30, 2016, the Company reported a net loss of $2.5 million and $7.6 million, respectively, and generated negative cash flow from operating activities of $0.3 million and $0.1 million, respectively. Starting April 1, 2016, principal repayments were due on the syndicated facility based on the prior month's available cash flow (as defined by the credit agreement), to which no principal repayments have been made. In addition to its working capital requirements, the Company must secure sufficient funds to meet its on-going operations and commitments. Management is limiting expenditures to its bank-approved budget, which outlines permitted capital and operating expenditures, and is currently monitoring business alternatives, including potential asset sales and joint venture opportunities, which could result in additional available funds for the Company.

Cash Flow from (used in) Operating Activities: Cash flow from operating activities was negative $0.3 million for Q2 2016 compared to negative $1.0 million for the comparative period of Q2 2015. Cash flow from operating activities for the six months ended June 30, 2016 was negative $0.1 compared to $0.3 million for the comparable period in 2015. The negative cash flow in Q2 2016 is the result of lower realized prices and production volumes compounded by increased production costs and interest charges.

Funds Flow from (used in) Operations: Funds flow from (used in) operations is a non-GAAP measure used by Virginia Hills to determine the Company's ability to fund its capital expenditures and repay its debt. Funds flow from operations represents cash flow from operating activities, a GAAP measure, adjusted for transaction costs, which are typically non-recurring, changes in non-cash working capital and settlement of decommissioning liabilities. Funds flow from operations was negative for the three and six months ended June 20, 2016 compared to the comparative periods of 2015 due to lower production volumes, lower average realized prices and increased production costs and interest expense.

Cash Flow from Operating Activities & Funds Flow from Operations [2]

June 30	Three months ended			Six months ended		
	2016	**2015**	**% Change**	**2016**	**2015**	**% Change**
Cash flow from (used in)operating activities	**(287)**	**(1,029)**	**(72)**	**(42)**	**(339)**	**(88)**
Transaction costs	**-**	4,028	(100)	**-**	4,028	(100)
Change in non-cash working capital	979	(607)	>100	(990)	(1,266)	(22)
Funds flow from (used in) operations	**692**	**2,392**	**(71)**	**(1,032)**	**2,423**	**>(100)**
$ Per share, basic [1]	$0.03	$0.17	(82)	$(0.05)	$0.30	>(100)
$ Per share, diluted [1]	$0.03	$0.17	(82)	$(0.05)	$0.29	>(100)

(1) *The weighted average shares outstanding and per share amounts prior to April 15, 2015 have been restated to reflect the 100:1 share consolidation.*
(2) *Non-GAAP measures.*

Capital Structure & Going Concern

The Company actively monitors its capital and operational spending activities in order to ensure that it can meet its future anticipated obligations incurred from normal ongoing operations, which may require the Company to make adjustments to its capital structure. The Company's capital structure includes working capital, bank debt and share capital. Regular reporting is provided to the Board of Directors and the Company's lender group. In order to maintain or adjust its capital structure, the Company may issue common shares, repay existing debt, seek additional debt financing, adjust its capital spending and/or seek strategic alternatives, if available upon acceptable terms.

The Company's cash flows and compliance with debt covenants are dependent upon realized current period net revenues. The Company's operating cash flows for the three and six months ended June 30, 2016, while higher than the same comparable periods of 2015, were negative due to depressed commodity prices, lower production volumes and increased operating costs. The recent decrease in revenues, operating cash flow and history of losses indicates the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. In addition, the lending value of the Credit Facilities is dependent upon the Company's reserves which are directly linked to oil and natural gas forecasted benchmark prices. The Senior Facility (as defined below) had its term extended from September 30, 2016 to January 31, 2017 while the subsidiary bank debt is due on September 30, 2016. The lender and the Company have agreed to review the Subsidiary Facility (as defined below), however there is no assurance the subsidiary bank debt will be renewed upon the current terms or levels once the bank review is completed.

Should the lenders not renew the Credit Facilities at their due dates, the Company would need to seek alternate forms of debt or equity financing, which would be difficult in the current business environment, or dispose of certain assets. The inability of the Company to access sufficient capital for its operations could have a material adverse impact on the Company's financial position and results of operations.

The Company has initiated a process to review strategic alternatives to improve the liquidity satisfactory to the Lenders of the Company. This may include, among other alternatives, the addition of further capital, the sale of the Company or a portion of the assets, a merger, farm-in or joint venture or other such option. The Company has not set a definitive schedule to complete its evaluation and any strategy, if taken, is subject to material uncertainty and could have a material adverse impact on the Company's financial position and results of operations. There is no guarantee that the process will result in a transaction of any form. These interim condensed consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and reported revenues, expenses and balance sheet classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

Net Debt
On a quarterly basis, the Company assesses its ability to meet its on-going obligations using the non-GAAP measures of funds flow from operations, compared to net debt. This ratio is a key measure of liquidity and the management of capital resources. At June 30, 2016, the Company's net debt was $110.3 million.

Credit Facilities
At June 30, 2016, the Company had total Credit Facilities available of $108.0 million, of which a total of $105.9 million was outstanding. The Senior Facilities was reviewed subsequent to June 30, 2016 and the term of this facility was extended from September 30, 2016 to January 31, 2017 and the credit available reduced to $89.5 million from $90.0 million effective August 2, 2016. The reduction in the available amount results from the release from escrow of $1.0 million associated with the corporate reorganization in April 2015 and half of such escrow funds being allocated to a permanent repayment of the facility and the rest of the funds allocated to current operations. The Subsidiary Facilities was not reviewed and remains subject to its current conditions to September 30, 2016.

As at	June 30, 2016	December 31, 2015
Credit Facilities Available		
Senior bank debt	97,000	97,000
Subsidiary bank debt	11,000	11,000
Total credit facilities available	**108,000**	**108,000**
Bank debt outstanding		
Syndicated revolving facility	90,000	90,000
Operating facility	5,000	4,500
Senior bank debt outstanding	95,000	94,500
Operating loan – non-revolving	5,000	5,000
Operating loan – revolving term loan	5,877	5,818
Subsidiary bank debt outstanding	10,877	10,818
Total bank debt outstanding	**105,877**	**105,318**
Letters of credit outstanding	**123**	**123**
Available Credit		
Senior bank debt	2,000	2,500
Subsidiary bank debt	-	59
Available Credit	**2,000**	**2,559**

Senior Bank Debt:
The Company's $97.0 million credit facility is comprised of a $90.0 million (reduced to $89.5 million effective August 2, 2016) syndicated revolving facility and a $7.0 million non-syndicated operating facility, together the "Senior Facilities". The Senior Facilities are secured by a general security agreement and a first floating charge debenture of $300.0 million covering all of the Company's assets. Starting April 1, 2016, principal repayments were due on the syndicated facility based on the prior month's available cash flow, which is defined in the credit agreement for the Senior Facilities. No principal repayments have been made on this facility.

Advances under the Senior Facilities may be made by way of Canadian prime rate loans, USD base rate loans and letters of credit. Amounts borrowed under the Senior Facilities bear interest on a floating rate based on the applicable Canadian prime rate plus a sliding scale pricing grid tied to the Company's trailing debt to EBITDA ratio. The interest pricing margin ranges from 1% to 3% and is dependent upon the form of borrowing. If at any time, the Company is in default under the Senior Facilities, the interest margin will be increased by 2%, at the discretion of the lenders. At June 30, 2016, the interest rate was 5.7%.

For the duration of the Senior Facilities, the Company is subject to certain non–financial covenants, including but not limited to: monthly reporting requirements which include reporting actual monthly results against the bank approved business plan, strategic alternatives process milestones, permitted indebtedness, permitted hedging,

permitted encumbrances and a requirement that daily production volumes may not vary below the bank approved business plan by more than 10% in any month up to May 31, 2016 after which the daily production volumes must meet a prescribed rate that varies during the period to maturity. With the recent amendment to the Senior Facilities effective July 29, 2016, the Company is subject to financial covenants which include a restriction on the Company's cumulative capital expenditures as follows:

- to a maximum of $9.3 million from April 1, 2015 to March 31, 2016;
- limitation on the aggregate amount of capital spent from April 1, 2016 to July 31, 2016 to a maximum of $85 thousand on a cash basis;
- limitation on the aggregate amount of capital spent from August 1,2016 to October 31, 2016 to a maximum of $2.2 million, of which a maximum of $0.2 million may be spent on water-flood related expenditures, not more than $1.9 million may be spent on drilling, completing and equipping a well and $0.1 million for a contingency.

There is also a requirement that net debt not exceed $100.5 million ($100 million after August 2, 2016), being Senior Facilities committed amount plus an estimated working capital deficiency of $3.5 million.

During the six months ended June 30, 2016, the Company was in compliance with its covenants, except the minimum monthly production covenant which was breached at the end of period for each of the months of February through May 2016 due to the previously noted pipeline break that occurred in Q4, 2015. The Company was also not in compliance with the operating cash flow and EBITDA covenants for the months ended February through to May 2016. The lenders provided the Company a waiver for the breaches.

Subsidiary Bank Debt

Virginia Hills' subsidiary, Dolomite, entered into an agreement to amend and restate its $11.0 million credit facility on April 27, 2015. The facility provides for a $6.0 million revolving operating loan and a $5.0 million non-revolving reducing term loan (collectively the "Subsidiary Facilities"). Interest is payable on the loans based on Canadian prime plus 3%. At June 30, 2016, the interest rate was 5.7%.

From April 1, 2016 through to and including April 15, 2016, the lender, at their option, could have converted up to $4.0 million of the non-revolving reducing term loan into common shares of Virginia Hills at a deemed price of the greater of $0.30 per share or the market price based on a 20-day volume weighted average price. The lender did not exercise this conversion option and such option has since expired.

The Company's subsidiary is subject to customary monthly reporting covenants, and a financial covenant that restricts the subsidiary's monthly working capital deficit to a maximum of $1.3 million from November 30, 2015 to March 31, 2016, and $1.2 million from April 2016 to September 30, 2016. The Company was not in compliance with its subsidiary bank debt financial covenant for each of the reporting period ends April through June 30, 2016. During the six months ended June 30, 2016, the lender waived the covenant breach through to June 30, 2016.

The senior and subsidiary credit agreements contain customary events of default, including: events based on bankruptcy and insolvency, non-payment of principal, interest or fees when due, change in control, material inaccuracy of representations and warranties, and a cross-default provision for breach of covenants. In the event of default, the total outstanding principal amounts of the credit facilities plus all accrued interest and costs become immediately due and payable by the Company, at the discretion and upon request from the lenders. During the six months ended June 30, 2016, the Company provided an updated budget and business plan to reflect the current commodity price environment and the Company's proposed future plans to address the repayment of the bank debt, which led to the extension of the term of the Senior Facilities to January 31, 2017.

Share Capital

The Company had the following outstanding common shares and equity instruments:

As at *(000's)*	**June 30, 2016**	**December 31, 2015**
Common Shares	20,954	19,724
Warrants	29,920	29,920
Stock Options	1,834	1,773
Total outstanding securities	**52,708**	**51,417**

During the six months ended June 30, 2016 the Company granted 61,500 stock options to staff at an exercise price of $0.21 per share and a total of 1,229,530 common shares were issued at a deemed price of $0.30 per share to settle certain outstanding obligations to the former executive management of Dolomite.

At August 24, 2016, Virginia Hills had the following equity instruments outstanding:

	(000's)
Common shares	20,954
Warrants	29,920
Stock Options	1,650
Total outstanding securities	**52,524**

Subsequent to June 30, 2016, certain staff and a Board member who had terminated their relationship with the Company forfeited 183,400 stock options.

BUSINESS RISKS

Virginia Hills' business, financial condition, results of operations and cash flows are impacted by a number of risks facing participants in the oil and gas industry. These risks cannot be eliminated, however, Virginia Hills' management is committed to monitoring, and where possible, mitigating the following risks: safety, environmental, regulatory and financial risks. The oil and gas industry is highly regulated, and compliance with such legislation could require additional expenditures, and failure to comply may result in fines and penalties which could, in the aggregate, be material. Full discussion of each operational and financial risk is provided in the MD&A for the year ended December 31, 2015. Operations are continually monitored to minimize environmental impact and address these various operational risk factors.

Financial Risk

Virginia Hills defines financial risk as the risk of loss or lost opportunity resulting from financial management and market conditions that could have a positive or negative impact on the Company's cash flows.

Commodity Price Risk: Recent market events and conditions, including global excess oil and natural gas supply, recent actions taken by OPEC, slowing growth in China and other emerging economies, market volatility and disruptions in Asia, and sovereign debt levels in various countries, have caused significant weakness and volatility in commodity prices. These events and conditions have caused a significant decrease in the valuation of oil and gas companies and a decrease in confidence in the oil and gas industry. These difficulties have been exacerbated in Canada by the recent changes in government at a federal level and, in the case of Alberta, the provincial level and the resultant uncertainty surrounding regulatory, tax and royalty changes that may be implemented by the new governments. In addition, the inability to get the necessary approvals to build pipelines and other facilities to provide better access to markets for the oil and gas industry in western Canada has led to additional uncertainty and reduced confidence in the oil and gas industry in western Canada. Lower commodity prices may also affect the volume and value of the Company's reserves especially as certain reserves become uneconomic.

In addition, lower commodity prices have restricted, and are anticipated to continue to restrict, the Company's cash flow resulting in a reduced capital expenditure budget. As a result, the Company may not be able to replace its production with additional reserves and both the Company's production and reserves could be reduced on a year over year basis. Any decrease in value of the Company's reserves may reduce the borrowing base under its credit facilities, which, depending on the level of the Company's indebtedness, could result in the Company having to repay a portion of its indebtedness. Given the current market conditions and the lack of confidence in the Canadian oil and gas industry, the Company may have difficulty raising additional funds or if it is able to do so, it may be on unfavourable and highly dilutive terms.

In accordance with policies approved by the Board of Directors, Virginia Hills may, from time to time, manage these risks through the use of physical delivery contracts, swaps, collars or other financial instruments not to exceed 70% of net commodity production (after royalties). During the three and six months ended June 30, 2016 and 2015, Virginia Hills had no fixed-price physical delivery contracts in place.

Credit Risk: Credit risk is the risk of loss if purchasers or counterparties default on their financial obligations. The maximum exposure of the Company to credit risk at June 30, 2016 and December 31, 2015 is limited to trade and other receivable balances as reported on the consolidated Balance Sheets.

The Company's accounts receivable are subject to concentration of credit risk as all of the Company's customers are in the oil and gas sector. The majority of Company's trade and other receivables are from joint interest partners and crude oil and natural gas marketers. Receivables from oil and gas marketers are typically collected on the 25th day of the month following production. Virginia Hills attempts to mitigate this risk by assessing the financial strength of its counterparty to determine that they have a well-established credit history, and entering into relationships with more than one marketer. Receivables from joint interest partners are typically collected within one to three months from the joint venture billing date. The Company attempts to mitigate collection risk from joint interest partners by obtaining partner pre-approval of significant capital expenditures prior to initiation of the capital project. However, joint interest partners are exposed to various oil and gas industry risks that could impact the Company's ability to collect these amounts. The carrying amount of trade and other receivables represents the maximum credit exposure to the Company. In the event such entities fail to meet their contractual obligations to the Company, such failures may have a material adverse effect on the Company's business, financial condition, results of operations and prospects. In addition, poor credit conditions in the industry and of joint venture partners may affect a joint venture partner's willingness to participate in the Company's ongoing capital program, potentially delaying the program and the results of such program until the Company finds a suitable alternative partner. To the extent that any of such third parties go bankrupt, become insolvent or make a proposal or institute any proceedings relating to bankruptcy or insolvency, it could result in the Company being unable to collect all or portion of any money owing from such parties. Any of these factors could materially adversely affect the Company's financial and operational results

Liquidity Risk: Liquidity risk is the risk that the Company will not be able to meet its financial liabilities as they come due. Liquidity risk also includes the risk of the Company not being able to liquidate assets in a timely manner at a reasonable price. The Company monitors its liquidity requirements by anticipating operating, investing and financing activities and ensuring there are enough funds to cover these activities. Liquidity risks may necessitate the need for the Company to conduct equity issues or obtain debt financing. The Company prepares annual production and capital expenditure budgets, which are regularly monitored and updated when necessary to include a review of debt forecasts and working capital requirements. In addition, Virginia Hills uses authorization for expenditures for operated and non-operated capital projects to facilitate monitoring capital programs.

At June 30, 2016 there were a total of $116.1 million in liabilities outstanding; which was comprised of bank overdraft of $0.4 million, trade and other payables of $9.6 million, flow through share premium of $0.2 million and $105.9 million outstanding on its Credit Facilities.

Foreign Currency Risk: World oil prices are quoted in USD and the price received is therefore affected by the Canadian/US dollar exchange rate, which will fluctuate over time. Recently, the Canadian dollar has weakened in value against the USD which positively impacts commodity prices valued in Canadian dollars, thereby indirectly increasing Virginia Hills' oil revenues and future value of reserves, as determined by independent evaluators. The Company has not entered into any foreign currency risk arrangements.

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 interest charged on Virginia Hills' Credit Facilities fluctuates with the interest rates posted by lenders, plus a margin. The Company has not entered into any mitigating interest rate swaps or hedges as at June 30, 2016. Had the market interest rate been 1% (100 basis points) higher (or lower) and assuming all other variables remained constant for the three and six months ended June 30, 2016, net loss would have been lower or higher by $0.3 million and $0.5 million, respectively, based on the average outstanding bank debt balance outstanding for the three and six months ended June 30, 2016.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires management to make certain judgements, accounting estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. A summary of Virginia Hills' critical accounting estimates and judgements can be found in Note 4 and a summary of significant accounting policies can be found in Note 5 to the annual audited consolidated financial statements for the year ended December 31, 2015. Virginia Hills' management reviews its estimates frequently; however, the emergence of new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates. Virginia Hills attempts to mitigate this risk by employing individuals with the appropriate skill set and knowledge to make reasonable estimates, developing internal control systems and comparing past estimates to actual results. There have been no changes to Virginia Hills' critical accounting policies, estimates and judgements in the three and six months ended June 30, 2016.

DISCLOSURE AND INTERNAL CONTROLS

Management is responsible for the preparation and integrity of the financial statements, including the maintenance of appropriate information systems, procedures and internal controls, and to ensure that information used internally or disclosed externally, including the financial statements and MD&A, is complete and reliable. Disclosure controls and procedures have been designed to provide reasonable assurance that information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified under the Canadian securities law. Virginia Hills' Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation, that the disclosure controls and procedures as of the end of June 30, 2016, are effective and provide reasonable assurance that material information related to the Company is made known to them by others within Virginia Hills.

It should be noted that a control system, including Virginia Hills' disclosure and internal controls and procedures, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud. There have been no changes to the Company's internal controls since year end December 31, 2015.

In connection with Exemption Orders issued in November 2007 by each of the securities commissions across Canada, Virginia Hills' certifying officers will file a Venture Issuer Basic Certificate with respect to the financial information contained in the unaudited interim condensed consolidated financial statements and the audited annual financial statements and respective accompanying MD&A. The Venture Issuer Basic Certification includes a 'Notice to Reader' stating that the certifying officers do not make any representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*.

OFF BALANCE SHEET ARRANGEMENTS

No off balance sheet arrangements existed at June 30, 2016.

RELATED PARTY TRANSACTIONS

The Company has retained the law firm of Burnet, Duckworth and Palmer LLP to provide legal services. The current Chairman of the Board is a partner and Corporate Secretary is an associate of the law firm. During the three and six months ended June 30, 2016, the Company incurred legal fees and disbursements of $0.04 million (Q2 2015: $0.7 million) related to general corporate matters. A total of $0.2 million was outstanding at June 30, 2016

(December 31, 2015: $0.2 million). These transactions were in the normal course of business and have been measured at the exchange amount.

CONTRACUTAL OBLIGATIONS AND COMMITMENTS

The Company had the following commitments at June 30, 2016.

	2017	2018	2019	2020	2021	Thereafter
Office lease rentals	145	145	193	16	-	-
Field office lease rental	40	7	-	-	-	-
Equipment rentals	12	12	7	-	-	-
Electrification agreements	288	288	-	-	-	-
Flow-through shares	1,000	-	-	-	-	-
Commitments	**1,485**	**452**	**200**	**16**	**-**	**-**

The Company has $0.6 million in commitments to install electrical service to a number of its well sites over the next 24 months. The agreements may be cancelled by the Company upon providing written notice at any time, but will be responsible for costs incurred by the vendor from date of contract up to date of cancellation.

During 2015, the Company issued flow-through units at a price of $0.25 per unit for gross proceeds of $3.0 million. As at December 31, 2015, the Company had incurred qualifying expenditures of $2.0 million, and is committed to spend $1.0 million on qualifying expenditures by December 31, 2016. This commitment is fulfilled in the third quarter of 2016 with the drilling of a well.

SUBSEQUENT EVENTS

a) Subsequent to June 30, 2016, the Company entered into an amending credit agreement with the lenders of the senior bank debt extending the agreement from September 30, 2016 to January 31, 2017 and decreasing the commitment amount of the syndicated portion from $90.0 million to $89.5 million effective August 2, 2016.

b) Subsequent to June 30, 2016, the Company initiated a process to review strategic alternatives to improve its liquidity position and engaged a financial advisor to assist in the process. This may include, among other alternatives, the addition of further capital, the sale of the Company or a portion of the assets, a merger, farm-in or joint venture or other such option. The Company has not set a definitive schedule to complete its evaluation and no decision on any particular alternative has been reached at this time.

SUPPLEMENTAL QUARTERLY INFORMATION

	2016		2015				2014	
	Jun 30 Q2	Mar 31 Q1	Dec 31 Q4	Sep 30 Q3	Jun 30 Q2	Mar 31 Q1	Dec 31 Q4	Sep 30 Q3
Oil & gas sales	5,972	4,888	9,101	8,302	8,287	7,149	12,269	15,018
Funds flow from (used in) operations [1]	692	(1,725)	2,573	1,079	2,393	31	2,579	4,243
Per share – basic [4]	$0.03	$(0.09)	$0.13	$0.05	$0.17	$0.01	$1.19	$1.95
Per share – diluted [4]	$0.03	$(0.09)	$0.13	$0.05	$0.17	$0.01	$1.19	$1.92
Cash flow from (used in) operations	(287)	245	3,501	(72)	(1,114)	767	4,594	4,594
Per share – basic [4]	$(0.01)	$0.01	$0.18	$(0.00)	$(0.08)	$0.35	$2.12	$2.12
Per share – diluted [4]	$(0.01)	$0.01	$0.18	$(0.00)	$(0.08)	$0.35	$2.12	$2.12
Net income (loss) [2]	(2,508)	(5,072)	(18,254)	(3,098)	7,671	(4,233)	(176,473)	51
Per share – basic [4]	$(0.12)	$(0.26)	$(0.93)	$(0.16)	$0.55	$(1.95)	$(81.24)	$0.02
Per share – diluted [4]	$(0.12)	$(0.26)	$(0.93)	$(0.16)	$0.55	$(1.95)	$(81.24)	$0.02
Capital expenditures, net	16	145	237	7,246	1,866	981	4,115	2,846
Property dispositions	-	-	-	(1,000)	(22,500)	-	-	-
Total assets	93,587	96,118	100,330	121,101	120,313	116,340	121,101	296,960
Net debt [1][4]	110,344	110,786	108,520	110,949	105,786	116,562	115,502	113,627
Average daily production								
Oil & NGLs (bbls/d)	1,253	1,383	1,411	1,416	1,426	1,607	1,831	1,756
Natural gas (mcf/d)	239	243	320	325	325	261	322	316
Total (boe/d)	1,293	1,423	1,464	1,470	1,480	1,650	1,885	1,808
Average prices								
Oil & NGLs (bbls/d)	52.23	36.68	69.90	63.44	63.66	49.38	72.78	92.92
Natural gas (mcf/d)	0.77	0.93	1.05	1.18	0.96	0.43	0.16	0.10
Netbacks ($/boe) [1]								
Average prices	50.77	37.74	67.57	61.36	64.54	48.15	70.74	90.24
Royalties	(2.80)	(3.46)	(7.45)	(6.53)	(2.22)	(6.51)	(14.07)	(18.44)
Production & transp.	(28.13)	(33.27)	(27.67)	(29.85)	(26.02)	(24.88)	(30.51)	(32.06)
Field netback [1]	19.84	1.01	32.45	24.98	33.30	16.76	26.15	39.74
Realized gain (loss) on derivative contracts	-	-	-	-	-	-	4.21	(1.95)
Operating netback	19.84	1.01	32.45	24.98	33.30	16.76	30.37	37.79

(1) *Non-GAAP measures.*

(2) *Prior periods have been restated to conform with current period classification.*

(3) *Net loss for the quarters ended December 31, 2015 and September 30, 2015 include impairment losses of $16.4 million and $0.5 million respectively. Net income for the quarter ended June 30, 2015 includes a $13.9 million gain on the disposition of Pinecrest Energy Inc. shares to Cardinal Energy Ltd. pursuant to a plan of arrangement. Net loss for the quarter ended December 31, 2014 includes exploration and evaluation asset expense and impairment of $79.2 million and an asset impairment of $93.0 million.*

(4) *Net debt is defined as working capital (current assets less current liabilities) plus outstanding bank debt.*

(5) *Pursuant to the corporate reorganization, that was effective April 15, 2015, the weighted average shares outstanding and per share amounts prior to April 15, 2015 have been restated to reflect the 100:1 share consolidation.*

NON-GAAP MEASUREMENTS

The Company uses certain financial measures referred to in this MD&A to quantify its results that are not prescribed by Generally Accepted Accounting Principles ("GAAP"). The following terms: "funds flow from (used in) operations", "funds flow from (used in) operations per share", "field netback", "operating netback", "operating netback per boe", "cash flow netback" and "cash flow netback per boe" are not recognized measures under GAAP and may not be comparable to that reported by other companies. Virginia Hills uses funds flow from (used in) operations to analyze operating performance, and considers this to be a key measure that demonstrates the Company's ability to generate cash necessary to fund future capital expenditures and repay its debt. Operating netback is a measure of operating margin used in capital allocation decisions. The following outlines the definitions that Virginia Hills uses for each measure:

- Funds flow from (used in) operations is calculated based on cash flow from (used in) operating activities before changes in non-cash working capital, decommissioning expenditures and transaction costs;
- Funds flow from (used in) operations per share is calculated using the weighted-average basic and diluted shares outstanding, used in calculating earnings per share;
- Field netback is calculated as average realized price less: royalties, transportation and production expenses. Operating netback is calculated as field netback, plus (or minus) any realized gain (or loss) on derivative commodity contracts;
- Operating netback per boe is calculated by dividing operating netback by total boe produced for the applicable period. Cash flow netback is a measure of operating netback, plus other operating income less net cash administrative expenses, less cash interest expenses;
- Cash flow netback per boe is calculated by dividing cash flow netback by the total boe produced during the applicable period;
- Net debt is calculated as current assets, less current liabilities, plus outstanding total bank debt; and
- Total market capitalization is calculated as the total outstanding common shares, stock options and warrants multiplied by the period end market price per share.

Management believes that, in addition to net income (loss) and cash flow from (used in) operating activities, these measures are useful supplemental measures as they provide an indication of Virginia Hills's operating performance, and leverage. ***Readers are cautioned that these measures should not be construed as an alternative to net income (loss), or cash flow from (used in) operating activities as calculated under GAAP, as an indication of the Company's performance.***

FORWARD LOOKING STATEMENTS

Certain statements in this MD&A constitute forward-looking statements and forward-looking information (collectively "forward-looking statements") within the meaning of applicable Canadian securities laws. All statements other than statements of present or historical fact are forward-looking statements. Forward-looking information is often, but not always, identified by the use of words such as: "anticipate", "believe", "continuous", "estimate", "expect", "intend", "may", "objective", "ongoing", "plan", "should", or similar words suggesting future outcomes. In particular, this MD&A contains forward-looking statements relating, but not limited to:

- *anticipated exit and average production rates and production mix, including performance characteristics of the Company's oil and natural gas properties for the remainder of 2016;*
- *anticipated operating costs and administrative expenses and other financial and operating results;*
- *average corporate royalty rates for 2016;*
- *anticipated production and transportation costs for 2016;*
- *interest expense for 2016;*
- *business strategy, goals and management focus;*
- *drilling and development plans and the timing thereof;*
- *anticipated facility upgrades;*
- *plans to pursue additional land in core areas;*
- *forecast capital expenditures, the allocation of capital expenditures and the results therefrom;*
- *sources of funds for the Company's ongoing operations and capital expenditures;*

- *future liquidity and the Company's access to sufficient debt and equity capital, including the renewal of the Credit Facilities;*
- *the renewal of the Subsidiary Facilities and the terms thereof;*
- *the receipt of waivers from the Company's lenders when and if required;*
- *asset base and future prospects for development and growth;*
- *expectations regarding the business environment, industry conditions and future commodity prices;*
- *expectations regarding the Company's tax horizon and the tax pool that will be available to the Company;*
- *the impact of any changes to the Company's credit facilities resulting from periodic review and*
- *treatment under governmental and other regulatory regimes and tax, environmental and other laws.*

Such statements are based on assumptions of future events and actual results could vary from these assumptions. Events or circumstances may cause actual results to differ materially from those predicted as a result of numerous known and unknown risks, uncertainties and other factors, many of which are beyond the control of the Company. These include, but are not limited to, risks associated with petroleum and natural gas exploration, production, marketing and transportation, such as loss of market, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, imprecision of accounting estimates, environmental risk, and competition from other producers and ability to access sufficient capital from internal and external sources.

Although management believes that the expectations reflected in such forward-looking statements and information are reasonable, it can give no assurance that such expectations will prove to be accurate, as results and future events could differ materially from those expected or estimated in such statements. As such, readers are cautioned not to place undue reliance on these forward-looking statements. The forward-looking statements contained in this MD&A are made as of the date hereof for the purposes of providing the readers with the Company's expectations for the coming year. The forward-looking statements and information may not be appropriate for other purposes. Furthermore, the Company undertakes no obligation to update or revise these forward-looking statements or information as a result of new information or future events, other than as required by applicable securities laws. However, in the event that subsequent events are reasonably likely to cause actual results to differ materially from forward-looking statements previously disclosed by the Company for a period that is not yet complete, Virginia Hills will provide disclosure on such events and the anticipated impact of such events.

FUTURE ORIENTED FINANCIAL INFORMATION

This MD&A, in particular the information in respect of the future estimated production, production and transportation expenses, general and administrative expenses, and interest expense may contain Future Oriented Financial Information ("FOFI") within the meaning of applicable securities laws. The FOFI has been prepared by management to provide an outlook of the Company's activities and results and may not be appropriate for other purposes. The FOFI has been prepared based on a number of assumptions including the assumptions discussed under the heading "Forward-Looking Statements" and assumptions with respect to production rates and commodity prices. The actual results of operations and the resulting financial results may vary from the amounts set forth herein, and such variations may be material. Management believes that the FOFI has been prepared on a reasonable basis, reflecting management's best estimates and judgments.

Frequently Used Terms:

Term	Description
AECO	A natural gas storage facility located at Suffield, Alberta
bbl	Barrel(s)
bbl/d	Barrel(s) per day
boe	Barrel(s) of oil equivalent
boe/d	Barrel(s) of oil equivalent per day
mcf	Thousand cubic feet
mcf/d	Thousand cubic feet per day
Mmbtu	Million British thermal units
NGL	Natural gas liquids
WTI	West Texas Intermediate, reference price paid in US$ at Cushing Oklahoma for crude oil of standard grade