The following Management's Discussion and Analysis ("MD&A") of financial condition and results of operations for Virginia Hills Oil Corp. ("Virginia Hills" or "the Company") is dated November 10, 2015 and should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements and related notes for the period ended September 30, 2015, and the audited financial statements and related notes for the year ended December 31, 2014 of Pinecrest Energy Inc. (See Capital Reorganization). The unaudited interim 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*, in Canadian dollars, except where indicated otherwise. Tabular amounts are in thousands of dollars, oil and gas volumes, reserves and related performance measures are presented on a working-interest, before-royalties basis.

The unaudited interim condensed consolidated financial statements of Virginia Hills have been prepared by management and approved by the Company's Board of Directors.

DESCRIPTION OF THE COMPANY

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

CAPITAL REORGANIZATION

On April 15, 2015 (the "Effective Date"), the Company completed a corporate reorganization as part of a plan of arrangement (the "Arrangement") pursuant to section 193 of the Alberta Business Corporations Act. The Arrangement had previously been approved by the common shareholders of Pinecrest Energy Inc. and the Court of Queen's Bench of Alberta.

Pursuant to the Arrangement, the common shareholders of Pinecrest became the common shareholders of the Company and approximately 90% of Pinecrest's Alberta oil and gas assets, and substantially all of the other assets and liabilities were transferred to the Company. The common shares of Pinecrest were then sold to Cardinal Energy Ltd. ("Cardinal") for cash proceeds of $23.5 million, of which $1.0 million was placed into escrow to satisfy certain closing adjustments. In addition to the upfront proceeds, the Company is entitled to receive an additional payment of $5.0 million if, during the period from April 16, 2015 ending on April 26, 2016, a front-month hedge is made available to Cardinal by one or more financial institutions, financial intermediate or credit branches at a price of $US65 WTI per barrel of oil for a minimum of twelve months. Should Cardinal establish a front-month hedge, the value of the proceeds will be known and the full amount will be recorded at such time.

As part of the Arrangement, Pinecrest shareholders (the "Shareholders") exchanged their shares on a basis of 100 shares for one common share of the Company, and received eight (8) arrangement rights. Each arrangement right entitled the Shareholders to acquire one (1) common share of the Company at $0.25 per share and expired on May 15, 2015. A total of 3,412,175 arrangement rights were exercised for gross proceeds of $0.9 million. All outstanding common share purchase warrants, performance warrants and share incentive plan awards of Pinecrest were cancelled for a nominal amount on the Effective Date. On April 15, 2015, a total of $22.6 million from the cash proceeds and exercise of the arrangement rights were used to repay outstanding bank debt. In addition, should Virginia Hills collect the $5.0 million contingent consideration; the full amount will be used to pay down outstanding debt. In conjunction with closing of the Arrangement, the Company arranged a new bank facility with the senior lenders.

On the Effective Date, Virginia Hills and Pinecrest were considered to be under common control as the Virginia Hills shareholders are the former Pinecrest shareholders, and therefore, the business of Virginia Hills is controlled by the same shareholders immediately before and after the Arrangement. The accounting for common control entities is not addressed under IFRS 3 – *Business Combinations*, which requires an entity to develop an accounting policy. Management has determined that the predecessor values method of accounting is the most appropriate, whereby the predecessor carrying values of Pinecrest are reported, without any step-up in fair value, if any. The difference between any consideration and the aggregate carrying value of the assets and liabilities acquired is recorded as a reserve from the common control transaction in shareholders' equity, if applicable.

As such, the transaction was accounted for as a capital reorganization of Pinecrest, and comparative financial information of Virginia Hills is reported as a continuation of Pinecrest's historical accounting records. Virginia Hills, as a continuation of Pinecrest, reports its full interest in the properties until disposed on the Effective Date, and recorded a gain on the disposition of the Pinecrest shares during the second quarter of 2015 of $13.9 million.

A copy of the arrangement agreement and related documents are available on the Canadian Securities Administrators' System for Electronic Distribution and Retrieval ("SEDAR") website at www.sedar.com, under the Pinecrest Energy Inc. profile, or by contacting the Company at Suite 1500, 202-6th Avenue SW, Calgary, Alberta, T2P 2R9.

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 operations", "funds flow from 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. Funds flow from operations is calculated based on cash flow from operating activities before changes in non-cash working capital, decommissioning expenditures and transaction costs. Funds flow from operations per share is calculated using the weighted-average basic and diluted shares outstanding, used in calculating earnings per share (see "Funds Flow from Operations" below). Virginia Hills uses funds flow from 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. Virginia Hills defines field netback as average realized price less: royalties, transportation and production expenses. Operating netback is defined 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.

In addition, this MD&A also contains other industry benchmarks and terms, such as net debt (calculated as current assets, less current liabilities, plus total outstanding debt); total market capitalization (defined as total outstanding common shares, options and warrants multiplied by the period end market price per share). Management believes that, in addition to net income and cash flow from 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, or cash flow from operating activities as calculated under GAAP, as an indication of the Company's performance.***

51-101 Advisory (BOE Conversion)

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.***

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;*

- *anticipated operating costs and administrative expenses and other financial and operating results;*
- *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;*
- *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;*
- *the impact of any changes to the Company's credit facility ("Credit Facility") resulting from periodic review;*
- *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.

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
boed	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

FINANCIAL AND OPERATIONAL HIGHLIGHTS

September 30	Three months ended		Nine months ended	
	2015	2014 [(2)]	2015	2014 [(2)]
FINANCIAL				
Petroleum and natural gas sales	8,302	15,018	23,738	51,414
Funds flow from operations [(1)]	1,079	4,245	3,502	17,432
Per share - basic	$0.05	$1.95	$0.29	$8.03
Per share - diluted	$0.05	$1.92	$0.29	$7.87
Net income (loss)	(3,098)	51	340	748
Per share - basic	$(0.16)	$0.02	$0.03	$0.34
Per share - diluted	$(0.16)	$0.02	$0.03	$0.34
Capital expenditures	7,246	2,846	10,093	4,631
Net debt [(1)(3)]	110,949	113,519	110,949	113,519
Common Shares Outstanding [(2)]				
Weighted average – basic	19,724	2,172	12,050	2,172
Weighted average – diluted	19,724	2,214	12,050	2,218
Total outstanding	19,724	2,172	12,050	2,172
OPERATING				
Number of days	*92*	*92*	*273*	*273*
Production				
Oil and NGL (bbl/d)	1,416	1,756	1,482	1,943
Natural gas (mcf/d)	325	316	304	379
Total production (boe/d)	1,470	1,809	1,533	2,006
Average realized price [(4)]				
Oil and NGL ($/bbl)	63.44	92.92	58.49	96.86
Natural gas ($/mcf)	1.18	0.10	0.89	0. 38
Netback per boe ($)[(1)]				
Petroleum and natural gas sales	61.36	90.24	56.73	93.88
Royalties	(6.53)	(18.44)	(5.14)	(17.14)
Production and transportation expenses	(29.85)	(32.06)	(26.86)	(28.10)
Field netback [(1)]	24.98	39.74	24.73	48.64
Realized loss on derivative financial instruments	-	(1.95)	-	(2.88)
Operating netback [(1)]	24.98	37.79	24.73	45.76
Drilling				
Gross wells	2.0	-	2.0	-
Net wells	2.0	-	2.0	-

(1) Non-GAAP measure
(2) Shares and per share amounts for comparative periods reflect the 100:1 share consolidation as though the consolidation took place at the beginning of the earliest period
(3) Net debt is defined as current assets minus current liabilities, plus outstanding bank debt
(4) Before the effects of derivative financial instruments, but includes gains or losses on fixed price, physical contracts that are not considered derivative instruments.

OPERATIONS UPDATE AND OUTLOOK

Low commodity prices through-out the first nine months of 2015 continue to present a challenging business environment for the Canadian oil and gas industry. The price of WTI averaged US$46.43 per barrel during the third quarter of 2015, down 52% from US$97.17 per barrel during the comparable period in 2014. Benchmark price decreases have been offset to some extent by the strong U.S dollar, which has resulted in an increase in the commodity prices realized in Canada. Virginia Hill's realized pricing for the third quarter of 2015 was $61.36 per boe compared to $90.24 per boe for the third quarter of 2014, and averaged $56.73 per boe for the first nine months of 2015 compared to $93.88 per boe for the same period in 2014. Virginia Hill's production in the third quarter was weighted 96 percent to light oil and natural gas liquids, as a result the Company's realized product pricing per unit has and will continue to track closely to oil pricing. Although the Company anticipates that the oil supply and demand balance will stabilize in 2016 the return of 2014 pricing levels is not expected for a considerable amount of time. Consequently, Virginia Hills is anticipating average WTI pricing for 2016 and 2017 at $50.00 US per bbl and $55.00 US per bbl respectively.

Production volumes for the three and nine months ending September 30, 2015 averaged 1,470 boe/d and 1,533 boe/d, respectively, representing declines of 19 percent and 24 percent from 2014 levels. Production in the third quarter and year to date was negatively impacted by the sale of approximately 100 boe/d of production in the second quarter of 2015. In addition, the Company shut-in approximately 40 boe/d of production due to negative economics associated with the lower commodity price environment. No material production was added from new wells during the first nine months of 2015. Taking into account the disposition and uneconomic shut-in production, the Company's remaining light oil production base has declined at a rate that remains below 15 percent annually over the prior year.

During 2015, management continued to focus on the operating cost structure of its Red Earth production and was successful in reducing production and transportation expenses in the third quarter and year to date from 2014 levels by 24 percent and 27 percent, respectively. Production expenses were down by 28 percent to $3.5 million in the third quarter of 2015 from $4.8 million in the comparable 2014 quarter. Per unit costs in the third quarter of 2015 were $25.73 per boe representing an 11 percent decrease from the third quarter of 2014.

Total operating expenses (production and transportation expense) were $11.2 million for the nine months ended September 30, 2015 compared to $15.4 million in 2014, representing a decrease of 27 percent year over year. The decrease in total operating expenses is due primarily to various operational cost efficiency initiatives and a decline in base production rates. On a per unit basis total operating expenses over the first nine months of 2015 dropped 4 percent to $26.86 per boe from $28.10 per boe in 2014.

Year to date expense reductions were offset, in part, by non-recurring costs of approximately $0.7 million associated with the clean-up of an emulsion pipeline break that occurred in the second quarter. Clean-up costs associated with the pipeline break had a negative impact on operating costs of approximately $1.79 per boe for the nine months ended September 30, 2015 with costs incurred in the third quarter of approximately $0.1 million representing a negative impact of $0.69 per boe for the third quarter.

Despite these cost savings initiatives, low commodity prices and lower average production volumes have directly impacted the Company's field netback for the third quarter ended September 30, 2015, which was $3.4 million ($24.98 per boe), compared to $8.2 million ($39.74 per boe) for the third quarter ended September 30, 2014.

During the third quarter of 2015, Virginia Hills' initiated its first capital program in the Red Earth area and spent approximately $7.2 million on capital activities drilling 2.0 gross (2.0 net) horizontal light oil wells in addition to the purchase and installation of certain facilities and pipelines associated with the Company's water flood projects.

In the third quarter of 2015 the Company invested $2.6 million on optimizing its Slave Point water flood projects in the Red Earth area including certain pipelines and facility improvements and initiating the electrification of water flood facilities and producing wells.it is anticipated that these projects will allow the Company to increase its total water injection rates, under a lower cost structure, so that it can start to re-pressure the Slave Point reservoir. These projects did not provide any incremental production in the third quarter however the Company anticipates significant production and reserves additions concurrent with lower overall per unit operating costs within its water flood project areas over the next 12 to 24 months as these improvements take full effect.

The Company completed the majority of its 2015 capital program as planned in the third quarter. Virginia Hills remained focused on maximizing the rate of return associated with these projects which lead to certain cycle time delays as the Company actively pursued the lowest cost solutions in a very volatile commodity price environment. As a result of the delays associated with the start-up of these projects Virginia Hills is expecting full year production to average between 1,515 boe per day and 1,565 boe per day with exit production to range between 1,600 boe per day and 1,650 boe per day.

Through the optimization of its extensive Red Earth water flood project area Virginia Hills believes it is positioned to add a substantial amount of production and reserves with very little incremental capital over the next 12 to 24 month period. These low cost water flood additions are expected to allow the Company to operate a capital program that is significantly below its free cash flow level over this time period which will provide the opportunity for meaningful debt reduction and ultimately value creation for its shareholders. The Company maintains a risked and total unrisked undeveloped light oil horizontal drilling inventory in its Red Earth core area of 81 net wells and 176 net wells, respectively, representing over 15 years of potential drilling activity. With this undeveloped light oil drilling inventory and its substantial operated water flood infrastructure foot print in the Red Earth area, Virginia Hills remains uniquely positioned to enter a more meaningful drilling and production growth phase as commodity prices return to more historical levels in the next 24 month period.

PRODUCTION

September 30	**Three months ended**			**Nine months ended**		
	2015	**2014**	**% Change**	**2015**	**2014**	**% Change**
Production						
Number of days	*92*	*92*		*273*	*273*	
Crude oil (bbls/d)	1,358	1,688	(20)	1,432	1,878	(24)
NGL (bbls/d)	58	68	(15)	50	65	(23)
Natural gas (mcf/d)	325	316	3	304	379	(20)
Total (boe/d)	**1,470**	**1,809**	**(19)**	**1,533**	**2,006**	**(24)**
Crude oil & NGL (%)	96	97	(1)	97	97	-

The Company's production averaged 1,470 boe per day in the third quarter of 2015 which was 19% lower than third quarter of 2014, primarily due to the divestiture of approximately 100 boe per day of production during the second quarter of 2015 and base production declines. In addition, due to a significant decrease in commodity pricing year over year, Virginia Hills has shut in approximately 40 boe per day of uneconomic production over the last twelve months.

Average production volumes for the nine months ended September 30, 2015 were 1,533 boe per day which was lower than the prior year by 24% due to base declines, the divestment as noted above, and shut-in uneconomic production.

Virginia Hills expects 2015 production to average between 1,515 to 1,565 boe per day (96% light oil & NGL's).

REVENUE

September 30	Three months ended			Nine months ended		
	2015	**2014**	**% Change**	**2015**	**2014**	**% Change**
Crude oil sales	8,153	14,932	(45)	23,475	51,152	(54)
NGL sales	114	83	37	189	222	(15)
Natural gas sales	35	3	>100	74	40	85
Total Sales	**8,302**	**15,018**	**(45)**	**23,738**	**51,414**	**(54)**
Average Realized Prices						
Crude oil ($/bbl) [(1)]	65.25	96.12	(32)	60.07	99.78	(40)
NGL ($/bbl)	21.24	13.34	59	13.72	12.49	10
Natural gas ($/mcf)	1.18	0.10	>100	0.89	0.38	>100
Total ($/boe)	**61.36**	**90.24**	**(32)**	**56.73**	**93.88**	**(40)**
Crude oil hedge ($/bbl)[(1)]	9.26	-	100	3.35	-	100
Benchmark pricing						
Crude oil – WTI (US$/bbl)	46.43	97.17	(52)	51.00	99.60	(49)
Crude oil – Cdn light sweet (Cdn$/bbl)	54.94	97.71	(43)	59.04	100.53	(41)
Natural gas – AECO spot (Cdn$/mcf)	2.92	4.03	(28)	2.78	4.79	(42)
Exchange Rate – (US/Cdn)	0.76	0.92	(17)	0.79	0.91	(13)

(1) Includes realized loss on a physical commodity contract for the period May 1 to June 30, 2015, which fixed the price on 1,135 bbls/d at $US55.10 per barrel ($Cdn 5.52/bbl) and a realized gain on the contract from July 1 to September 30, 2015 which fixed the price on 1,128 bbls/d at $US53.47 ($Cdn 9.26/bbl)per barrel.

The prices received for crude oil and natural gas production directly impact the Company's earnings, cash flow from operations and financial position. Oil and gas sales were $8.3 million for the third quarter of 2015 compared to $15.0 million for the third quarter of 2014. Sales for the nine months ended September 30, 2015 were $23.7 million a decrease of 54% from $51.4 million reported for the nine months ended September 30, 2014. Decreased sales for the quarter and year to date were due to lower production volumes and significantly lower realized commodity prices for the 2015 periods compared to 2014.

Virginia Hills' realized average oil price for the third quarter of 2015 was $65.25 per barrel, compared to $96.12 per barrel realized during the same period in 2014. The realized average oil price was $60.07 per barrel for the nine months ended September 30, 2015 compared to $99.78 per barrel realized in the prior year. Prices received by Virginia Hills are based on the Canadian Light Sweet Crude price, adjusted for quality differentials, and has historically been approximately 98% of the Canadian benchmark price. During the second quarter of 2015, Virginia Hills entered into a series of physical commodity contracts which fixed the price received (before quality and transportation adjustments) for May and June at $US 55.10 per barrel and fixed the price for the third quarter at $US 53.47 per barrel on a total of 34,611 barrels per month. These contracts are not considered financial instruments and any pricing difference to the benchmark oil price is recorded as part of the realized price for oil. Consequently, during the third quarter, Virginia Hills reported approximately $0.9 million in additional oil revenues. Year to date, the physical contracts have generated approximately an additional $0.6 million in oil revenues.

Virginia Hills has a marketing arrangement to sell its gas and NGL's at the Evi plant gate, which attracts prices lower than benchmark price, but eliminates third party gas transportation and processing expenses.

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 US/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.

Virginia Hills accounts for commodity price risk contracts, that are considered financial instruments, on a mark-to-market basis, and all fluctuations in value, realized or unrealized are reported directly in the statements of comprehensive income. Commodity contracts which commit the delivery of volumes are not considered financial instruments, and are not marked to market at each period end. During the second quarter of 2015, the Company entered into commodity contracts, which committed volumes for delivery at fixed prices. The Company did not have any financial instruments outstanding during the third quarter or nine months ended September 30, 2015. The following contracts were outstanding during the period ended September 30, 2015 and 2014:

Year of Contract	Type of Contract	Term	Volume (bbl/d)	Price [3] (Cdn$/bbl)	Price[1] (US$/bbl)	Index
Commodity contracts [1]						
2015	Oil delivery	May 1, 2015 – Jun 30, 2015	1,135	-	$55.10	-
2015	Oil delivery	Jul 1, 2015 - Sep 30, 2015	1,128	-	$53.47	-
2015	Oil delivery	Oct 1, 2015 – Dec 31, 2015	1,128	-	$53.22	-
Price risk contracts [1]						
2014	Swap	Jan 2014 – Dec 2014	500	$98.79	-	WTI
2014	Collar	Jan 2014 – Jun 2014	500	$95.00 – $109.50	-	WTI

(1) *Physical commodity contracts are not considered financial risk management instruments and are not marked to market at the period end. These contracts have a fixed price, payable in USD, adjusted for quality and transportation.*

(2) *Commodity price risk contracts are considered economic hedges. The Company does not apply hedge accounting; consequently, the contracts are revalued to fair value at the end of each reporting date resulting in unrealized gains and losses recognized directly into the statements of comprehensive income. When the contracts are settled the realized gains or losses are recorded. Per unit metrics include only the realized gains or losses.*

(3) *Prices are weighted average for the term.*

September 30	Three months ended			Nine months ended		
	2015	**2014**	**% Change**	**2015**	**2014**	**% Change**
Realized loss	-	322	(100)	-	1,575	(100)
Unrealized loss (gain)	-	(949)	(100)	-	(505)	(100)
Total loss (gain)	-	**(627)**	(100)	-	**1,070**	(100)

Virginia Hills recorded a $0.6 million gain and a $1.1 million loss on the oil price contracts that were outstanding during the three and nine months ended September 30, 2014 respectively. During 2015, Virginia Hills had physical oil hedges in place, and realized $0.9 million and $0.6 million in additional revenue, which is included in sales revenue, for the three and nine months ended September 30, 2015, respectively. The Company did not have any oil price risk contracts that were considered financial instruments outstanding during the nine months ended September 30, 2015.

ROYALTY EXPENSE

September 30	Three months ended			Nine months ended		
	2015	**2014**	**% Change**	**2015**	**2014**	**% Change**
Royalty expense	884	3,069	(71)	2,153	9,389	(77)
As a percentage of sales	11%	20%	(9)	9%	18%	(9)
$ Per boe	6.53	18.44	(65)	5.14	17.14	(70)

Royalty expense includes royalties paid to provincial governments, freehold land owners and overriding royalty ("GORR") owners. Royalties were $0.9 million for the third quarter of 2015 compared to $3.1 million for the third quarter of 2014. Royalties for the nine months ended September 30, 2015 were $2.2 million compared to $9.4 million in 2014. Royalties are lower in 2015 due to the decrease in pricing and production levels.

Virginia Hills pays the majority of its royalties to the Alberta provincial government, which has a favourable royalty environment for newly drilled horizontal oil wells, in which the wells pay a maximum royalty rate of 5% on production up to a maximum of 30 months, or a maximum of 70,000 barrels whichever comes first, and is a function of the total measured depth of the horizontal well. During 2014, the Company's royalty rate as a percentage of revenue was greater than 5% due to a number of wells that were off the royalty holiday. The royalty rate as a percentage of revenue for 2015 is lower than 2014 due to the decrease in reference pricing for the three and nine months ended September 30, 2015.

The Company expects the average corporate royalty rate to be between 10% and 11% ($5.03 - $6.05 per boe) for the 2015 fiscal year. The royalty rate is sensitive to commodity prices, product mixes and regulatory changes, and as such a change in any of the three factors will have an impact on the actual rate.

PRODUCTION AND TRANSPORTATION EXPENSE

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

September 30	Three months ended			Nine months ended		
	2015	2014	% Change	2015	2014	% Change
Production expense	3,481	4,830	(28)	9,786	13,880	(29)
Transportation expense	558	506	10	1,451	1,508	(4)
Total operating expense	**4,039**	**5,336**	**(24)**	**11,237**	**15,388**	**(27)**
$ Per boe, Production	25.73	29.02	(11)	23.39	25.35	(8)
$ Per boe, Transportation	4.12	3.04	36	3.47	2.75	26
$ Per boe	29.85	32.06	(7)	26.86	28.10	(4)

Production Expenses

Production expenses were down by 28% to $3.5 million in the third quarter of 2015 compared to $4.8 million recorded in the third quarter of 2014 and were $9.8 million for the nine months ended September 30, 2015 compared to $13.9 million in 2014. Per unit costs were $25.73 per boe in the third quarter of 2015 representing an 11% decrease from the third quarter of 2014 and decreased 8%, over the first nine months of 2015 to $23.39 per boe from 25.35 per boe in 2014.

The decrease in production expenses is due primarily to various operational efficiency initiatives, coupled with savings in various service provider pricing levels, and a decline in base production rates. Year to date expense reductions were offset, in part, by non-recurring costs of approximately $0.7 million associated with the clean-up of an emulsion pipeline break that occurred in the second quarter. Costs associated with the pipeline break and clean-up had a negative impact on operating costs of approximately $0.69 per boe for the third quarter and $1.79 per boe for the nine months ended September 30, 2015.

Transportation Expenses

Transportation expenses for the three and nine months ended September 30, 2015 remain relatively consistent compared to prior year periods. Transportation expense for the third quarter included a prior period adjustment from a third party facility operator of approximately $0.1 million (or $0.89 per boe). Per unit costs have increased for the three and nine months ended September 30, 2015 due to the decrease of average production volumes compared to 2014.

The Company is forecasting the 2015 production and transportation costs to average approximately $26.60 per boe for the year. Actual costs per boe are affected by a number of factors, including, but not limited to actual production levels and changes in regulatory policies.

OTHER OPERATING INCOME

September 30	Three months ended			Nine months ended		
	2015	2014	% Change	2015	2014	% Change
Other operating income	125	190	(34)	468	488	(4)
$ Per boe	0.93	1.14	(18)	1.12	0.89	26

Other operating income is comprised primarily of road use fee income, third party-processing fees and emulsion gathering fees.

DEPLETION AND DEPRECIATION EXPENSE ("D&D")

September 30	Three months ended			Nine months ended		
	2015	2014	% Change	2015	2014	% Change
Depletion and depreciation expense	**3,725**	**4,902**	**(24)**	**11,294**	**16,088**	**(30)**
$ Per boe	27.53	29.46	(7)	26.99	29.38	(8)

Virginia Hills calculates depletion and depreciation expense on an area level, based on proved plus probable reserves ("2P reserves"). D&D was $3.7 million in the third quarter of 2015 compared to $4.9 million in the third quarter of 2014. D&D recorded for the nine months ended September 30, 2015 was $11.3 million compared to $16.1 million in 2014.

D&D expense decreased on a total dollar basis for the quarter and nine month period ended September 30, 2015 mainly due to a decreased depletion base, resulting from; an asset impairment provision at the end of 2014; the corporate reorganization, in which approximately 10% of the assets were divested during the second quarter of 2015; and decreased production volumes.

IMPAIRMENT EXPENSE

September 30	Three months ended			Nine months ended		
	2015	2014	% Change	2015	2014	% Change
Impairment expense	**454**	**-**	**100**	**454**	**-**	**100**
$ Per boe	3.35	-	100	1.08	-	100

At September 30, 2015, the Company recorded an impairment loss of $0.5 million on to its non-core gas cash generating units located in Alberta and British Columbia. The gas CGU's were written down to a recoverable amount of nil, based on the fair value less costs of disposal methodology. The estimated fair value of the CGU's was determined using future cash flows adjusted for risks specific to the assets, discounted using an after tax discount rate of 10%.

The discount rate was derived from the post-tax weighted average cost of capital for the Company. The impairment loss was the result of adjustments to future prices. The fair value measurement is classified as a level 3 in the fair value hierarchy.

EXPLORATION EXPENSE

September 30	Three months ended			Nine months ended		
	2015	**2014**	**% Change**	**2015**	**2014**	**% Change**
Exploration expense	**64**	**-**	**100**	**64**	**-**	**100**
$ Per boe	0.47	-	100	0.15	-	100

Costs such as undeveloped land acquisition and lease costs, geological and geophysical costs and exploratory drilling associated with determining the technical feasibility and commercial viability of the reserves are capitalized and classified as exploration and evaluation assets. During the quarter ended September 30, 2015, it was determined that $0.1 million of such costs associated with the Company's gas assets, and the uneconomic oil field that has been shut in did not bear any future benefit and were expensed.

GENERAL AND ADMINISTRATIVE EXPENSE ("G&A")

September 30	Three months ended			Nine months ended		
	2015	**2014**	**% Change**	**2015**	**2014**	**% Change**
Gross G&A	1,281	960	33	3,722	4,612	(19)
Overhead recoveries & capitalized G&A	(353)	(226)	56	(865)	(972)	(11)
Net G&A	928	734	26	2,857	3,640	(22)
Share based payments	23	77	(70)	246	567	(57)
Total G&A	**951**	**812**	**17**	**3,103**	**4,207**	**(26)**
$ Per boe, net G&A	6.85	4.41	55	6.83	6.63	3
$ Per boe, share based payments	0.17	0.47	(63)	0.59	1.04	(43)
$ Per boe	7.03	4.88	44	7.42	7.67	(3)

Gross G&A was $1.3 million for the third quarter of 2015 compared to $1.0 million in the third quarter of 2014, reflecting a 33% increase. Third quarter costs were higher than the prior year mainly due to a one-time credit adjustment of approximately $0.4 million recorded in the third quarter of 2014 which related to the settlement of a lawsuit. In addition, Virginia Hills moved its corporate office during the third quarter of 2015 and incurred costs of approximately $0.1 million. The Company moved to take advantage of lower cost office space, and expects annual savings of approximately $0.2 million for the next three years in comparison to previous years.

Gross G&A was $3.7 million, 19% lower, for the nine months ended September 30, 2015 compared to $4.6 million in 2014 and was primarily due to savings in legal, staff and consulting costs and software licensing costs. Overhead recoveries and capitalized G&A were higher in the quarter of 2015, reflecting the recoveries associated with drilling two wells. Recoveries were lower for the nine months ended September 30, 2015 compared to 2014 due mainly to savings realized on operating and capital costs, which directly impact overhead recoveries.

Share-based payment expense was $23 thousand in the third quarter of 2015 compared to $77 thousand for the third quarter of 2014 and were $0.3 million for the nine months ended September 30, 2015 compared to $0.6 million in 2014. Expenses were higher during the quarter and nine months ended September 30, 2014 as they reflected the amortization of the fair value of issued and outstanding stock options and incentive awards that were issued at a higher fair value than the stock options granted in 2015.

Virginia Hills expects G&A expenses to be approximately $3.8 million for the 2015 fiscal year.

TRANSACTION COSTS

September 30	Three months ended			Nine months ended		
	2015	2014	% Change	2015	2014	% Change
Transaction costs	114	-	100	4,142	-	100
$ Per boe	0.84	-	100	9.90	-	100

Virginia Hills incurred transaction costs of $4.1 million in the nine months ended September 30, 2015, which relate to the capital reorganization of Pinecrest ($2.4 million) and the acquisition of Dolomite ($1.7 million) during the second quarter of 2015. The transaction costs include costs relating to executive change of control pay, financial advisory services, and legal expenditures. These costs are non-recurring in nature and no further costs are expected in the fourth quarter of 2015.

FINANCE EXPENSE

September 30	Three months ended			Nine months ended		
	2015	2014	% Change	2015	2014	% Change
Interest (cash)	1,498	1,501	-	4,449	4,471	-
Interest, amortization (non-cash)	386	-	100	1,126	72	>100
Total interest expense	1,884	1,501	26	5,575	4,543	23
Accretion (non-cash)	158	164	(4)	470	469	-
Total finance expense	**2,042**	**1,665**	**23**	**6,045**	**5,012**	**21**
$ Per boe, Interest	11.08	9.02	23	10.63	8.16	30
$ Per boe, Interest, non-cash	2.85	-	100	2.69	0.13	>100
$ Per boe, Accretion	1.17	0.99	18	1.12	0.86	(30)
$ Per boe	15.10	10.01	51	14.44	9.15	58

Interest Expense (see Liquidity and Capital Resources)

Interest expense includes: cash interest paid on the credit facilities; 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 the third quarter of 2015 was $1.9 million compared to $1.5 million for the third quarter of 2014. Interest expense for the nine months ended September 30, 2015 was $5.6 million compared to $4.5 million during the same period in 2014. Cash interest expense was lower in both the three months and nine months ended September 30, 2015 mainly due to reduction of outstanding debt by $22.6 million upon closing of the Arrangement on April 15, 2015, and a reduction in the prime borrowing rate in mid-July from 2.85% to 2.7% per annum. On a per boe basis, interest expense has increased due a decrease in the average daily production.

The Company had two credit facilities in place; a $97.0 million senior credit facility and an $11.0 million credit facility. The senior credit facility which 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 between 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 the end of the quarter, the interest rate on both facilities was 5.7%

Non-cash interest charges include the amortization of deferred financing costs incurred to establish the Company's credit facilities and are greater for the three and nine months ended September 30, 2015 reflecting the new credit facilities for Virginia Hills, and the amended credit facility for Dolomite.

The Company expects its 2015 interest expense to be approximately $7.2 million; previously the expectation was $6.6 million which did not include the amortization of deferred financing costs.

Accretion expense

Accretion expense was $0.2 million and $0.5 million for the three and nine months ended September 30, 2015 compared to $0.2 million and $0.5 million for the three and nine months ended September 30, 2015. Accretion expense on a per boe basis in 2015 has increased compared the periods ended September 30, 2014, reflecting a decrease in the average daily production. At September 30, 2015 the credit-adjusted risk free rate was 7.9% and the inflation rate was 2.0% (December 31, 2014 – 7.8% and 2.0% respectively).

GAIN ON DISPOSITION

September 30	Three months ended			Nine months ended		
	2015	2014	% Change	2015	2014	% Change
Gain on disposition	-	-	100	13,879	-	100
$ Per boe	-	-	100	33.17	-	100

During the second quarter of 2015, Virginia Hills completed a capital reorganization of Pinecrest, whereby all of the shares of Pinecrest were sold to Cardinal for proceeds of $23.5 million, which resulted in a gain of $13.9 million (see Capital Reorganization).

INCOME TAXES

Virginia Hills has not recorded a deferred tax expense or recovery for the three and nine month period ended September 30, 2015 or 2014 because the tax basis of the assets exceeded the carrying values, resulting in an unrecorded deferred income tax asset of approximately $20.4 million. During the quarter ended September 30, 2015, the premium for flow-through shares of $0.8 million was reversed, as all the capital was spent for the flow-through share commitment. At September 30, 2015, the Company has approximately $176 million of tax pools available to be applied 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 2015 or 2016.

NET INCOME AND CASH FLOW

Net Income

September 30	Three months ended			Nine months ended		
	2015	2014	% Change	2015	2014	% Change
Net income (loss)	**(3,098)**	**51**	**>(100)**	**340**	**748**	**>(100)**
$ Per share, basic [(1)]	$(0.16)	$0.02	>(100)	$0.03	$0.34	(91)
$ Per share, diluted [(1)]	$(0.16)	$0.02	>(100)	$0.03	$0.34	(91)

[(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 $3.1 million in the third quarter of 2015 compared to net income of $0.1 million recorded in the third quarter of 2014. The third quarter net loss reflects lower net revenues, higher interest costs, exploration expense and impairment loss.

Net income for the nine months ended September 30, 2015 was $0.3 million compared to $0.7 million in 2014. The decrease in net income for the nine months ended September 30, 2015 is due lower net revenues, one time transaction costs and higher interest charges, offset by the gain on disposition of Pinecrest.

Cash Flow from Operating Activities

September 30	Three months ended			Nine months ended		
	2015	2014	% Change	2015	2014	% Change
Cash flow from operating activities	**841**	**4,990**	**(83)**	**243**	**18,771**	**(99)**
$ Per share, basic [1]	$0.04	$2.30	(98)	$0.02	$8.64	(99)
$ Per share, diluted [1]	$0.04	$2.25	(98)	$0.02	$8.46	(99)

[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.*

Cash flow from operating activities was $0.8 million and $0.2 million for the three and nine months ended September 30, 2015 compared to $5.0 million and $18.8 million for the comparative periods ended September 30, 2014. The decrease for the three and nine months ended September 30, 2015 is the result of decreased revenues due to lower production volumes and lower average realized prices, compounded by increased interest charges. The nine months ended September 30, 2015 also reflects $4.1 million in non-recurring transaction costs.

Funds Flow from Operations

September 30	Three months ended			Nine months ended		
	2015	2014	% Change	2015	2014	% Change
Cash flow from operating activities	**841**	**4,990**	**(83)**	**243**	**18,771**	**(99)**
Transaction costs	114	-	100	4,142	-	100
Change in non-cash working capital	124	(745)	>100	(883)	(1,339)	34
Funds flow from operations	**1,079**	**4,245**	**(75)**	**3,501**	**17,432**	**(80)**
$ Per share, basic [1]	$0.05	$1.95	(97)	$0.29	$8.03	(96)
$ Per share, diluted [1]	$0.05	$1.92	(97)	$0.29	$7.86	(96)

[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.*

Funds flow from 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 changes in non-cash working capital, transaction costs and settlement of decommissioning liabilities. Funds flow from operations was lower for the third quarter and nine months ended September 30, 2015 compared to 2014 is due to lower production volumes, lower average realized prices and increased interest expense.

Netbacks [(1)]

September 30	Three months ended			Nine months ended		
$ Per boe	**2015**	**2014**	**% Change**	**2015**	**2014**	**% Change**
Average realized price	61.36	90.24	(30)	56.73	93.88	(40)
Royalty expense	(6.53)	(18.44)	(65)	(5.14)	(17.14)	(70)
Production & transportation expense	(29.85)	(32.06)	(7)	(26.86)	(28.10)	(4)
Field netback[(1)]	**24.98**	**39.74**	**(37)**	**24.73**	**48.64**	**(49)**
Realized loss on derivative financial instruments	-	(1.95)	100	-	(2.88)	100
Operating netback[(1)]	**24.98**	**37.79**	**(34)**	**24.73**	**45.76**	**(46)**
Less:						
Other income	(0.93)	(1.14)	(18)	(1.12)	(0.89)	26
Cash G&A expense	6.85	4.41	55	6.83	6.63	3
Cash financing	11.08	9.02	23	10.63	8.16	30
Cash flow netback[(1)]	**7.98**	**25.50**	**(69)**	**8.39**	**31.86**	**(74)**

(1) *Non-GAAP Measure*

Virginia Hills's operating netback was $24.98 per boe for the third quarter of 2015 compared to $37.79 per boe for the third quarter of 2014. For the nine months ended September 30, 2015, the operating netback was $24.73 per boe compared to $45.76 per boe for 2014. Decreased operating netbacks are the result of decreased realized commodity prices and production volumes, offset in part by reduced operating expenses and royalties.

CAPITAL EXPENDITURES, ACQUISITIONS AND CAPITAL RESOURCES

September 30	Three months ended			Nine months ended		
	2015	**2014**	**% Change**	**2015**	**2014**	**% Change**
Evaluation & exploration						
Undeveloped land, net of proceeds	65	67	(3)	464	166	>(100)
Drilling	-	2	(100)	-	2	(100)
	65	**69**	**(6)**	**464**	**168**	**>100**
Property, plant & equipment						
Drilling & completions	4,543	2,255	>100	4,896	4,773	3
Equipment & facilities	2,511	424	>100	4,394	(715)	>100
Capitalized administrative	128	99	29	324	365	(11)
Corporate assets	(1)	(1)	(50)	15	39	(64)
	7,181	**2,777**	**>100**	**9,629**	**4,463**	**>100**
Total capital expenditures	**7,246**	**2,846**	**>100**	**10,093**	**4,631**	**>100**

Capital Expenditures & Drilling Results

Evaluation and exploration expenditures ("E&E") for the third quarter ended September 30, 2015 included lease rentals on undeveloped crown lands. E&E was $0.5 million for the nine months ended September 30, 2015 and included lease rentals on undeveloped lands and land acquisition costs incurred in the second quarter.

During the third quarter of 2015, Virginia Hills spent $7.2 million which included costs to drill, complete and tie-in 2.0 gross (2.0 net) horizontal oil wells and facility enhancement costs at its Otter water flood facility. Both horizontal light oil wells and the water flood optimization projects were brought online late in the third quarter of 2015. In comparison, a total of $2.8 million was spent during the third quarter of 2014 on well optimizations, and bottom hole pump changes.

Capital expenditures were $9.6 million for the nine months ended September 30, 2015 compared to $4.5 million in 2014 and included costs to drill two horizontal oil wells, enhancements on the Company's water flood optimization project in the Otter field and a number of projects focused on reducing the operating cost structure. In contrast, capital expenditures for the nine months ended September 30, 2014 included well optimizations, remediation work on certain producing wells and a credit relating to an equalization payment from a joint venture partner for water flood facilities in the Evi area. A total of 2.0 gross (2.0 net) oil wells were drilled during the three months ended September 30, 2015, no drilling activity occurred during the three and nine months ended September 30, 2014.

Land Holdings

As at September 30	**2015**		**2014**		**% Change**	
Acres	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**
Developed	24,048	14,987	20,320	13,537	16	10
Undeveloped	175,202	158,376	159,792	156,387	9	1
Total	**199,250**	**173,363**	**180,112**	**169,924**	**10**	**2**
Average working interest		**87%**		**94%**		**(7)**

Virginia Hills held a total of 173,363 net acres of land at September 30, 2015 representing an average working interest of 87%. Total net acreage increased compared to the prior year as a result of the Dolomite acquisition, that had high average working interest lands of approximately 92%, which was offset by the disposition of approximately 10% working interest in its lands pursuant to the capital reorganization in the second quarter of 2015. A total of 15,904 net undeveloped acres expired in the three and nine months ended September 30, 2015. Costs associated with this acreage were expensed during the year ended December 31, 2014.

LIQUIDITY AND CAPITAL RESOURCES

Virginia Hills' continued development of its oil and gas asset base 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 capital structure includes working capital, bank debt and shareholders' equity. On a quarterly basis, the Company assesses its ability to carry on as a going concern 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.

Net Debt & Funds Flow from Operations

Three months ended	**September 30, 2015**	**December 31,2014**
Funds flow from operations	1,079	2,060
Annualized funds flow from operations	4,316	8,240
As at	**September 30, 2015**	**December 31,2014**
Working capital deficit (excluding bank debt)	8,994	4,932
Bank debt, including deferred financing charges	101,955	110,570
Net Debt	**110,949**	**115,502**
Net debt to annualized funds flow from operations	**25.7**	**14.0**

The major changes in net debt were as follows:

Net debt, beginning of period	$ 115,502
Cash from operations	(243)
Proceeds from disposition	(23,500)
Proceeds from equity offering	(3,800)
Capital expenditures	10,093
Debt and share issue costs	2,110
Assumption of net debt on acquisition of subsidiary	10,787
Net debt, end of period	**$ 110,949**

Going Concern

Virginia Hills' unaudited interim condensed consolidated financial statements as at and for the three and nine months ended September 30, 2015 have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. At September 30, 2015, Virginia Hills had a working capital deficit (current assets minus current liabilities) of $110.9 million (which included bank debt of $101.9 million) and an accumulated deficit of $6.1 million. During the nine months ended September 30, 2015, the Company reported a net income of $0.3 million and generated cash from operating activities of $0.2 million, which included a non-recurring gain of $13.9 million and transaction costs of $4.1 million related to the capital reorganization and a corporate acquisition. The Company's cash flows and compliance with debt covenants is dependent upon realized current period net revenues. Operating cash flows were lower than the prior period due to depressed commodity prices and decreased production volumes. The recent decrease in revenues and operating cash flow and recent 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.

The senior debt and subsidiary debt 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 and material inaccuracy of representations and warranties, and a cross-default provision for breach of covenants. At September 30, 2015, the Company was in breach of its subsidiary financial covenant, which, due to the cross–default provision, resulted in a breach of the senior bank debt covenant. At September 30, 2015, the Company was in breach of its cumulative development capital expenditure covenant, which limits total cumulative development capital expenditures from April 1, 2015 to March 31, 2016 to $6.4 million. The Company was not in breach of its cumulative total capital expenditure covenant which restricts capital spending to $9.3 million for the same noted period. In addition, the Company's subsidiary was in default of its financial covenant, which, due to the cross–default provisions, resulted in a breach of the senior bank debt covenants. Subsequent to September 30, 2015, the senior lenders have temporarily waived the cumulative development capital expenditure covenant breach until December 31, 2015 and lenders of both facilities have provided a waiver of the Subsidiary Bank Debt financial covenant breach, which has been amended to reset the financial test beginning in November 2015. *(See Subsequent Events).*

The Company continues to meet its obligations with respect to ongoing operations. Management is limiting expenditures to the bank budget, which outlines approved maintenance and development capital and operating activities. During the nine months ended September 30, 2015, the Company completed the Arrangement, entered into a new credit facility in the amount of $97.0 million with its senior lenders, closed a private placement equity offering in the amount of $2.9 million, completed a corporate acquisition of a private oil and gas company and amended its $11.0 million credit facility, and met its obligations under the farm-in arrangement by drilling two oil wells in the Red Earth area. While these developments are positive, there can be no assurance that these initiatives that additional, or amended debt financing, or equity will be available or sufficient to meet the Company's commitments or be on terms acceptable to Virginia Hills. 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.

Virginia Hills's ability to continue as a going concern is dependent upon its ability to fund the repayment of existing borrowings, secure additional financing and generate positive cash flows from operations. These 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.

Credit Facilities

At September 30, 2015 the Company had total credit facilities available of $108.0 million, of which a total of $103.3 million was outstanding.

Senior debt: During the second quarter of 2015, the Company, entered into a new $97.0 million credit facility, which is comprised of a $90.0 million syndicated non-revolving facility and a $7.0 million non-syndicated operating facility, both of which have a term to September 30, 2016. Starting April 1, 2016, principal repayments are due on the syndicated facility based on the prior month's available cash flow. The 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.

Advances under the credit facility may be made by way of Canadian prime rate loans, US Base Rate loans and letters of credit. Amounts borrowed under the 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 Facilities, the interest margin will be increased by 2%. At September 30, 2015, the Facilities interest rate was 5.7%.

The facility contains the following non–financial covenants: monthly reporting requirements, permitted indebtedness, permitted hedging, permitted encumbrances and dispositions and place a limitation on the maximum capital spending of the Company. The Company is subject to financial covenants which are based on cash flow and earnings before interest, taxes, depreciation and amortization ("EBITDA") which restricts the variance from the bank-approved business plan, covering the periods from April 1, 2016 to September 30, 2016 to the lesser of 25% and $2.0 million; net debt may not exceed $100.2 million, and daily production volumes may not vary below the bank approved business plan by more than 10%. In addition, the Company's cumulative capital expenditures may not exceed $9.3 million from April 1, 2015 to March 31, 2016, with development capital limited to $6.4 million, of which a maximum of $4.8 million may be spent on the farm-in wells, and maintenance capital limited to $2.9 million expenditures. At September 30, 2015, the Company was in compliance its covenants, except the allocation of the capital expenditures between development and maintenance capital. At the end of September 30, 2015, the Company had expended development capital in excess of the $6.4 million, but had not exceeded its capital spending limit of $9.3 million or its spending limit of $4.8 million on the farm-in wells. Subsequent to September 30, 2015, the Company received a temporary waiver from the bank with respect to the development capital expenditure default until December 31, 2015.

Subsidiary debt: During the second quarter of 2015, Virginia Hills completed an acquisition of Dolomite Energy Inc., by way of an amalgamation with the Company's 100% owned subsidiary. Upon closing of the acquisition the subsidiary entered into an agreement to amend and restate the $11.0 million credit facility with Dolomite's lender. The facility provides for a $6.0 million revolving operating loan and a $5.0 million non-revolving reducing term loan. Interest is payable on the loans based on Canadian prime plus 3%. Both facilities are due on September 30, 2016. From April 1, 2016 through to and including April 15, 2016, the lender, at their option, may convert 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 twenty day volume weighted average price. This conversion feature is an embedded derivative and is reported separately as a current liability on the balance sheet.

The subsidiary is subject to customary reporting covenants, and a financial covenant that requires the three-month rolling average available cash flow (defined by the agreement) to be at least 75% of the three-month rolling average cash flow (defined under the agreement) as presented to the lender. At September 30, 2015, the subsidiary was not incompliance with its' financial covenant.

The senior debt and subsidiary debt 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 and material inaccuracy of representations and warranties, and a cross-default provision for breach of covenants. The subsidiary default on its financial covenant triggered the cross-default provision on the senior bank debt. Subsequent to September 30, 2015, the lenders of both facilities have provided a waiver of the covenant breach and the Subsidiary Bank Debt financial covenant has been amended to reset the test beginning in November 2015, based on a working capital covenant rather than cash flow.

Share Capital

The Company had the following outstanding common shares and equity instruments at September 30, 2015:

(000's)	**Common Shares**	**Warrants**	**Stock Options**
Balance, December 31, 2014 – Pinecrest Energy Inc.	217,212	23,270	-
Cancelled pursuant to the Arrangement (100:1) *(1) (2)*	(217,212)	(23,270)	-
Share consolidation pursuant to the Arrangement (100:1) *(1) (2)*	2,172	-	-
Issued pursuant to the exercise of Arrangement Rights *(2)*	3,412	-	-
Issued in Private Placement *(3)*	11,974	23,948	-
Issued pursuant to corporate acquisition *(4)*	11	4,000	-
Issued to settle debt relating to corporate acquisition *(5)*	2,155	-	-
Issued to the Company's senior lenders *(6)*	-	1,972	-
Issued to Company employees (stock options)*(7)*	-	-	1,844
Balance, September 30, 2015	**19,724**	**29,920**	**1,844**

(1) Effective April 15, 2015, under the terms of the Arrangement, each holder of Pinecrest common shares received one Virginia Hills share for each 100 Pinecrest common shares held. All outstanding warrants were cancelled.

(2) On April 15, 2015, under the terms of the Arrangement, each holder of one (1) Virginia Hills' common share received eight (8) Arrangement Rights. A total of 3,412,175 Arrangement Rights were exercised as at May 15, 2015 for gross proceeds of $0.9 million.

(3) On April 27, 2015, a total of 11,974,300 million flow-through units were issued for gross proceeds of $2.9 million. Each Unit comprises one common share, issued on a flow-through basis, under the *Income Tax Act* (Canada), and two common share purchase warrants (Series A Warrants and Series B Warrants). The Series A Warrants are exercisable at a price of $0.30 and the Series B Warrants are exercisable at $0.35. The warrants vest in tranches of 1/3 upon the 20 day weighted average trading price of the Company's share equaling or exceeding $0.35, $0.40 and $0.45 respectively and will be outstanding for 5 years.

(4) On April 27, 2015 the Company completed an acquisition of Dolomite Energy Inc. by way of an amalgamation with its wholly owned subsidiary. A total of 10,600 common shares and 4.0 million common share purchase warrants ("Series C Warrants") to the common shareholders of Dolomite. The warrants entitle the holders to acquire on common share of the Company at a price of $0.50 per share for a period of three years.

(5) On April 27, 2015, as part of the Acquisition, certain payable obligations were settled by the issuance of common shares of the Company. A total of 983,624 common shares were issued at a price of $0.25 per common share for a total of $0.2 million, to the former executive officers of Dolomite as satisfaction of a portion of their change in control payments. The balance of the change in control payments of $0.6 million is due on April 27, 2016, and may be settled by the issuance of a maximum of an additional 1,229,530 common shares issued at a deemed price of the greater of $0.30 per share or the market price, at the time of issuance. Should the executives elect to be paid in cash, the payment is subject to approval by the

Company's senior lenders. In addition, a total of 1,171,332 common shares were issued at a price of $0.25 for a total of $0.3 million to certain third-party service providers as payment for services previously provided .

(6) Under the terms of the new Credit Facilities, the Company's senior lenders were issued a total of 1,972,416 warrants (Series D Warrants) representing 10% of the issued and outstanding shares of the Company at May 15, 2015. The warrants are exercisable at a price of $0.30 per common share for a period ending on the earlier of five years from the date of issue, or 30 days following the date on which the Credit Facilities mature.

(7) A total of 1,844,614 options were issued at an average exercise price of $0.25 per share. The options vest in tranches of 1/3, on each of the first, second and anniversary dates from grant and will be outstanding for 5 years.

Additionally, under the terms of the Dolomite acquisition, Dolomite's lender has the option to convert up to $4.0 million of the non-revolving term facility into common shares of Virginia Hills at a deemed price of $0.30 per share, or the Market Price of the shares, whichever is greater, until April 25, 2016, for a maximum of 13,333,333 common shares.

At November 27, 2015, Virginia Hills had the following equity instruments outstanding:

	(000's)
Common shares	19,174
Warrants	29,920
Stock Options [(1)]	1,793
Total outstanding securities	50,887

[(1)] *Subsequent to September 30, 2015 a total of 51,241 stock options were forfeited.*

BUSINESS RISKS

Virginia Hills's 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: operational; safety, environmental and regulatory; and financial.

1) Operational Risk

Development and Production Risk: Virginia Hills's production and exploration activities are concentrated in the Western Canadian Sedimentary Basin, where activity is highly competitive and includes a variety of different sized companies ranging from small junior producers to large integrated petroleum companies. Virginia Hills is exposed to the following development and production risk factors:

- finding and developing petroleum and natural gas reserves at economic costs;
- production of petroleum and natural gas in commercial quantities; and
- marketability of petroleum and natural gas produced.

The Company's future success is dependent upon its ability to develop or acquire additional oil and natural gas reserves that are economically recoverable at attractive costs. Except to the extent that Virginia Hills conducts successful activities or acquires properties containing proved reserves, or both, the proved reserves and production will generally decline as reserves are produced. If prevailing oil and natural gas prices were to increase significantly, the Company's costs to add reserves could be expected to increase. The drilling of oil and natural gas wells involves a high degree of risk, especially the risk of a well that is not sufficiently productive to provide an economic return on the capital expended to drill the well or of its ongoing operational costs.

In order to reduce exploration risk, Virginia Hills strives to employ highly qualified and motivated professional employees with demonstrated ability to generate quality proprietary geological and geophysical prospects. To help maximize drilling success and mitigate reserve replacement risk, the Company has focused its exploration in areas that afford multi-zone prospect potential, targeting a range of low to moderate exploration and development risk prospects.

Virginia Hills mitigates its risk related to producing hydrocarbons through the utilization of the most appropriate and up-to-date technology to enhance drilling and completions operations; control costs to maximize returns and has focused exploration in areas where the Company's management and employees have significant drilling and completions experience. In addition, Virginia Hills seeks operational control of its projects, where feasible. Advanced oil and gas related technologies such as three dimensional seismography and reservoir simulation studies might be utilized by Virginia Hills to improve its ability to find, develop and produce economical oil and gas reserves. Regardless of whether Virginia Hills combines technology and expertise, these risks may not be eliminated.

Other Operational risks*:* Oil and natural gas exploration operations are subject to risks such as explosions, blow-outs, fire and oil spills, each of which could result in substantial damage to oil and gas wells and facilities, other property, the environment or personal injury. In accordance with industry practice, Virginia Hills carries insurance coverage for general and comprehensive liability as well as limited pollution liability. The amount and terms of this insurance are reviewed on an ongoing basis and adjusted as necessary to reflect changing corporate requirements, as well as industry standards and government regulations. Virginia Hills's oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment in our core areas. Demand for such limited equipment or access restriction may affect the availability of such equipment and may delay exploration and development activities. Virginia Hills's operations require license and permits from various governmental authorities. There can be no assurance that the Company will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development projects.

2) Safety, Environmental and Regulatory Risk

The oil and gas industry is subject to extensive government regulation (municipal, provincial and national). Environmental legislation provides for restrictions and prohibitions on spills, releases and/or emissions of various substances produced in association with oil and gas production. Petroleum and natural gas exploration and production can involve environmental risks such as pollution of the environment and destruction of natural habitat, as well as safety risks such as personal injury. In order to mitigate such risks, Virginia Hills conducts its operations at high standards and follows safety procedures intended to reduce the potential for personal injury to employees, contractors and the public at large. The Company maintains adequate insurance commensurate with industry standards to cover reasonable risk and potential liabilities associated with its activities. The nature of these risks is such that liabilities could exceed policy limits, in which event the Company could incur significant costs that could have an adverse effect upon its financial condition. Virginia Hills has in place an environmental and safety policy that is designed at minimum to comply with current government regulations for the oil and gas industry. Changes to governmental regulations are monitored to ensure compliance. Environmental reviews are completed and part of the due diligence process when evaluating corporate and property acquisitions.

3) 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*:* Crude oil prices are affected by worldwide factors such as supply and demand fundamentals, and geopolitical events. Natural gas prices are influenced by the price of alternative fuel sources such as oil or coal, and by North American natural gas supply and demand fundamentals. 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 nine months ended September 30, 2015, the Company had the following fixed-price physical delivery contracts in place:

Term	Volume (bbl/d)	Fixed Price(1) (US$/bbl)	Fixed Price(1)(2) (Cdn$/bbl)
May 1, 2015 – Jun 30, 2015	1,135	$55.10	$73.47

Jul 1, 2015 – Sep 30, 2015	1,128	$53.47	$71.29
Oct 1, 2015 - Dec 31, 2015	1,128	$53.22	$70.96

(1) *Pricing is adjusted on a monthly basis for quality and transportation*
(2) *Estimated Cdn$ using exchange rate of 0.75*

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 September 30, 2015 and December 31, 2014 is limited to trade and other receivable balances as reported on the 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.

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 September 30, 2015, Virginia Hills had a total of $117.5 million in liabilities outstanding; which was comprised of: trade and other payables of $15.3 million, embedded derivative associated with bank debt $0.3 million and $101.9 million outstanding on its credit facilities of $108.0 million.

Foreign Currency Risk: World oil prices are quoted in United States (US) dollars 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's 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's credit facility 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 September 30, 2015. Had the market interest rate been 1% (100 basis points) higher (or lower) and assuming all other variables remained constant for the nine months ended September 30, 2015, net income would have been lower or higher by $0.6 million based on the average outstanding bank debt balance outstanding for the nine months ended September 30, 2015.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements requires management to make certain judgments, 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's critical accounting estimates and judgments can be found in Note 3 and a summary of significant accounting policies can be found in Note 4 to the audited financial statements of Pinecrest Energy Inc. for the year ended December 31, 2014.

Virginia Hills's 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. Significant judgments, estimates and assumptions made by management in preparing the financial statements are described below:

Estimates

- The fair value of financial assets and liabilities is estimated, whenever possible, based on published market prices and if not available, on estimates from third party brokers as at the balance sheet date and may differ from what will eventually be realized;
- Depletion, depreciation and accretion and the assessment of asset recoverability (tests for impairment) are based on assumptions of grouping of assets into cash generating units and estimates of crude oil and natural gas reserves;
- Revenues, operating expenses and royalties for which accruals have been recorded for actual revenues and costs which have been earned or incurred but have not yet been received;
- Decommissioning liability including estimates of future costs and the timing of the costs and
- Share-based payments requires estimates about the share price volatility, forfeiture rates, option life, dividend yield, risk-free rate and forfeitures of options at the initial grant date

Judgments

- Estimates of proven and probable petroleum and natural gas reserves include assumptions regarding production profile, commodity prices, exchange rates, remediation costs, timing and amount of future development costs, production, transportation and marketing costs for future cash flows. Estimated quantities of petroleum and natural gas reserves also include the interpretation of geological and engineering data;
- Identification of Cash Generating Units for purposes of impairment testing;
- Decisions regarding capital expenditures on projects that are in progress require judgments about the probable commercial reserves and the level of activities that constitute on-going evaluation determination;
- Deferred income taxes and the recoverability of deferred income tax assets have been recorded based on temporary differences between the carrying value and tax basis of the Company's assets and liabilities. These provisions require estimating the timing of these temporary differences and estimating whether tax assets will be realized before expiry; and
- Judgment is required when determining if Virginia Hills has joint control over an arrangement. This will impact whether the investment is accounted for on a proportionate basis, or by equity accounting.

ACCOUNTING CHANGES AND PRONOUNCEMENTS

Recent Accounting Pronouncements Issued

The following are new and amended accounting pronouncements that have been issued but are not yet effective. Management is currently assessing the impact of these new and amended standards on the Company's accounting policies and financial statement presentation or whether to early adopt any of the standards. These standards are not expected to have a material impact on the Company's financial statements.

- ***IFRS 9 Financial Instruments ("IFRS 9):*** IFRS 9 was amended to introduce a single, forward-looking "expected loss" impairment model for financial assets which will require more timely recognition of expected credit losses, and a fair value through other comprehensive income category for financial assets that are debt instruments and supplements the new hedge accounting principles published in 2013 These amendments are effective for annual periods beginning on or after January 1, 2018 and are available for early adoption.

- ***IFRS 11 Joint Arrangements ("IFRS 11"):*** IFRS 11, as amended requires that interests in joint operations be account for using the principles related to business combinations accounting as outlined in IFRS 3, Business Combinations". The amendments are to be applied prospectively and are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. The Company does not expect this to have any impact on its financial statements.

- ***IFRS 15 Revenue From Contracts With Customers***: provides clarification for recognizing revenue from contracts with customers and establishes a single revenue recognition and measurement framework. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. The new standard will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The standard may be applied retrospectively, or using a modified retrospective approach.

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's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation, that the disclosure controls and procedures as of the end of September 30, 2015, 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's 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, 2014.

In connection with Exemption Orders issued in November 2007 by each of the securities commissions across Canada, Virginia Hills's certifying officers will file a Venture Issuer Basic Certificate with respect to the financial information contained in the unaudited interim 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 September 30, 2015.

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 and Corporate Secretary are partners at the law firm. During the nine months ended September 30, 2015, the Company incurred legal fees and disbursements of $0.8 million (September 30, 2014 - $0.2 million) related to general matters, the Acquisition and Arrangement, of which $0.2 million was outstanding at September 30, 2015 (December 31, 2014 - $0.01 million). These transactions were in the normal course of business and have been measured at fair value.

CONTRACUTAL OBLIGATIONS AND COMMITMENTS

The Company had the following commitments at September 30, 2015.

($000's)	2015	2016	2017	2018	2019	Thereafter
Office lease rentals	62	145	145	193	16	-
Field office lease rental	10	39	16	-	-	-
Equipment rentals	10	11	12	10	-	-
Electrification agreements	-	297	297	-	-	-
Commitments	**82**	**492**	**470**	**203**	**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.

The following physical commodity contract was outstanding at September 30, 2015, which commits monthly volumes for delivery, at the following prices:

Term	Volume (bbl/d)	Fixed Price[1] (US$/bbl)	Fixed Price[1][2] (Cdn$/bbl)
Oct 1, 2015 - Dec 31, 2015	1,128	$53.22	$70.96

(1) *Pricing is adjusted on a monthly basis for quality and transportation*
(2) *Estimated $Cdn using exchange rate of 0.75*

SUBSEQUENT EVENTS

Subsequent to September 30, 2015, the Company executed an Amended Subsidiary credit facility which amended the financial covenant test, to be based on a minimum working capital amount, beginning with the November 2015 month end. Consequently, lenders of both facilities have provided a waiver of the subsidiary's financial covenant default as at September 30, 2015. In addition, the Company received a temporary waiver from its Senior Lenders with respect to the cumulative development capital expenditure default until December 31, 2015.

SUPPLEMENTAL QUARTERLY INFORMATION

	2015			2014				2013
	Sep 30 Q3	Jun 30 Q2	Mar 31 Q1	Dec 31 Q4	Sep 30 Q3	Jun 30 Q2	Mar 31 Q1	Dec 31 Q4
FINANCIAL								
Oil & gas sales	8,302	8,287	7,149	12,269	15,018	18,167	18,229	19,549
Funds flow from operations (1)	1,079	2,392	32	2,038	4,245	5,950	7,237	7,824
Per share – basic (4)	$0.05	$0.17	$0.01	$0.95	$1.95	$2.74	$3.33	$3.60
Per share – diluted (4)	$0.05	$0.17	$0.01	$0.94	$1.92	$2.68	$3.26	$3.28
Cash flow from operations	841	(1,252)	653	3,601	4,990	7,351	6,430	6,714
Per share – basic (4)	$0.04	$(0.09)	$0.30	$1.66	$2.30	$3.39	$2.96	$3.09
Per share – diluted (4)	$0.04	$(0.09)	$0.30	$1.64	$2.25	$3.31	$2.90	$2.81
Net income (loss) (2)	(3,098)	7,671	(4,233)	(176,473)	51	407	290	(178,115)
Per share – basic (4)	$(0.16)	$0.55	$(1.95)	$(81.24)	$0.02	$0.19	$0.13	$(82.00)
Per share – diluted (4)	$(0.16)	$0.55	$(1.95)	$(81.24)	$0.02	$0.18	$0.13	$(82.00)
Capital expenditures, net of dispositions	7,246	1,866	981	3,100	2,846	777	1,008	1,730
Total assets		120,313	116,340	121,101	296,960	300,889	306,700	311,567
Net debt (1)(3)	110,949	105,786	116,562	115,502	113,627	115,837	121,405	126,721
OPERATING								
Average daily production								
Crude oil (bbls/d)	1,358	1,383	1,556	1,775	1,688	1,916	2,033	2,479
NGLS (bbls/d)	58	43	51	56	68	78	49	61
Natural gas (mcf/d)	325	325	261	322	316	457	366	478
Total (boe/d)	1,470	1,480	1,650	1,885	1,808	2,070	2,143	2,620
Average prices								
Crude oil (bbls/d)	65.25	64.40	50.65	74.75	96.12	103.69	99.16	84.04
NGLS (bbls/d)	21.24	7.08	10.50	11.19	13.34	9.19	16.58	50.95
Natural gas (mcf/d)	1.18	0.96	0.43	0.16	0.10	0.55	0.43	2.21
Netbacks ($/boe) (1)								
Average prices	61.36	64.54	48.15	70.74	90.24	96.45	94.51	81.12
Royalties	(6.53)	(2.22)	(6.51)	(14.07)	(18.44)	(18.80)	(14.41)	(10.36)
Production & transp.	(29.85)	(26.02)	(24.88)	(30.51)	(32.06)	(24.97)	(27.72)	(23.66)
Field netback (1)	24.98	33.30	16.76	26.15	39.74	52.68	52.38	47.10
Realized gain (loss) on derivative contracts	-	-	-	4.21	(1.95)	(3.94)	(2.64)	(5.94)
Operating netback	24.98	33.30	16.76	30.37	37.79	48.74	49.74	41.16

(1) *Non-GAAP measure.*

(2) *Net loss for the quarter ended September 30, 2015 includes impairment loss and exploration expense of $0.5 million. Net income for the quarter ended June 30, 2015 includes a $13.9 million gain on disposition of Pinecrest Energy Inc. to Cardinal Energy Ltd pursuant to the Arrangement. Net loss for the quarter ended December 31, 2014 includes exploration expense and impairment of $79.2 million and an asset impairment of $93.0 million. Net loss for the quarter ended December 31, 2013 includes exploration expense and impairment of $16.3 million and an asset impairment of $176.7 million.*

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

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