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 August 13, 2015 and should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements and related notes for the period ended June 30, 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 AND BUSINESS ACQUISITION

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.

BUSINESS ACQUISITION

On April 27, 2015, the Company acquired all the issued and outstanding common shares of a Dolomite Energy Inc. ("Dolomite"), a private oil and gas producer by way of an amalgamation with its wholly owned subsidiary (the "Acquisition"). The Acquisition provides complements the Company's existing operations in the Red Earth area, with approximately 100 barrels of oil per day, and included approximately $51 million of tax pools.

The purchase price of $0.6 million was settled by the issuance of 10,600 common shares at a fair value of $0.48 per common share and 4,000,000 common share purchase warrants with a fair value of $0.1592 per unit, and the assumption of $11.5 million of net debt. Upon closing of the Acquisition, the Company's subsidiary entered into an amended and restated credit facility totaling $11.0 million. Results of operations from the Acquisition have been included in the interim unaudited condensed consolidated financial statements from April 27, 2015.

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

June 30	Three months ended		Six months ended	
	2015	2014 [(2)]	2015	2014 [(2)]
FINANCIAL				
Petroleum and natural gas sales	8,287	18,167	15,436	36,396
Funds flow from operations [(1)]	2,391	5,950	2,423	13,187
Per share - basic	$0.17	$2.74	$0.30	$6.07
Per share - diluted	$0.17	$2.68	$0.30	$5.94
Net income (loss)	7,671	407	3,438	697
Per share - basic	$0.55	$0.19	$0.42	$0.32
Per share - diluted	$0.55	$0.19	$0.41	$0.31
Capital expenditures	1,866	777	2,847	1,785
Net debt [(1)(3)]	105,786	115,837	105,786	115,837
Common Shares Outstanding [(2)]				
Weighted average – basic	14,060	2,172	8,149	2,172
Weighted average – diluted	14,060	2,220	8,437	2,220
Total	19,724	2,172	19,724	2,172
OPERATING				
Number of days	*91*	*91*	*181*	*181*
Production				
Oil and NGL (bbl/d)	1,426	1,994	1,516	2,038
Natural gas (mcf/d)	325	76	293	69
Total production (boe/d)	1,480	2,070	1,564	2,106
Average realized price [(4)]				
Oil and NGL ($/bbl)	63.66	100.01	56.13	98.58
Natural gas ($/mcf)	0.96	0.55	0.72	0.50
Netback per boe ($)[(1)]				
Petroleum and natural gas sales	61.54	96.45	54.52	95.47
Royalties	(2.22)	(18.80)	(4.47)	(16.58)
Production and transportation expenses	(26.02)	(24.97)	(25.43)	(26.37)
Field netback	33.30	52.68	24.62	52.52
Realized loss on derivative financial instruments	-	(3.94)	-	(3.28)
Operating netback	33.30	48.74	24.62	49.24

(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

On April 15, 2015, the Company completed its capital reorganization and entered into a new $97.0 million credit facility with its lenders. The business plan for 2015 includes an approved capital budget of $9.3 million (which is comprised of $7.5 million to drill, complete and tie-in 4.0 gross (4.0 net) oil wells, and $1.8 million on maintenance capital projects), which will be funded by operating cash flow, debt and proceeds from a completed private placement and exercise of arrangement rights issued in connection with the Arrangement. On April 27, 2015, Virginia Hills completed a corporate acquisition of Dolomite through its wholly owned subsidiary which has approximately 100 boe per day of (85% light oil) and 24,000 net undeveloped acres in the greater Red Earth area. The Company issued an aggregate of 4,000,000 common share purchase warrants, and 10,600 common shares at a price of $0.48 per common share, for total consideration of approximately $0.6 million and assumed approximately $11.5 million in net debt. In connection with the acquisition, Virginia Hills' subsidiary entered into an amended and restated $11.0 million credit facility with the lender, which was in place prior to completion of the acquisition. Virginia Hills has aggregate credit facilities of $108.0 million, which are both due for review September 2016. Currently, there is a total of $101.4 million drawn on these facilities.

Realized prices for the quarter were $61.54 per boe compared to $96.45 per boe for the second quarter of 2014, and averaged $54.52 per boe for the first half of 2015 compared to $95.47 per boe in 2014. The price of WTI averaged US$57.94 per barrel during the second quarter of 2015, up by 16% compared to the first quarter, but down 48% from the second quarter of 2014, and down 21% from US $73.15 per boe for the fourth quarter of 2014. In order to mitigate some of the volatility related to commodity price fluctuations, Virginia Hills entered into a series of physical sales agreements during the second quarter of 2015, covering approximately 1,130 boe per day, or approximately 70% of its forecasted average production, at an average fixed price of US$53.78 per barrel, from May 1, 2015 to December 31, 2015.

Average production volumes for the second quarter 2015 were 1,480 boe per day, down 10% from the first quarter of 2015, and down 29% from the second quarter of 2014. Overall production declines reflect the sale of approximately 10% of the Company's volumes to Cardinal, and regular well declines in the absence of new wells drilled during the first half of 2015 and the prior twelve months, offset by the acquisition of Dolomite on April 27, 2015. Management continued to focus on the operating cost structure in the second quarter, and was successful in reducing costs by approximately 26% compared to the second quarter of 2014, and by 30% year to date, despite increased costs of approximately $0.7 million incurred during the second quarter related to the clean-up of an emulsion pipeline break. Despite these initiatives, low commodity prices, decreased average production volumes, and non-recurring costs associated with the completion of the capital reorganization and acquisition of Dolomite directly impacted the Company's operating cash flow for the quarter ended June 30, 2015, which was negative $1.3 million, compared to $7.4 million for the quarter ended June 30, 2014.

Virginia Hills spent $1.9 million on capital activities during the quarter ended June 30, 2015. Capital expenditures were directed to the Company's water flood optimization project in its core Otter field and a number of projects focused on reducing the Company's operating cost structure.

In 2015, the Company is focusing its capital expenditures to reduce its overall cost structure through a number of cost saving initiatives and to fully optimize its existing light oil water flood projects in its Red Earth core area. The Company plans to initiate a drilling program of 4.0 gross (4.0 net) wells, and will apply its extensive history of acid completion techniques to the Red Earth Slave Point carbonate play. Virginia Hills' emphasis for 2015 is on strengthening the balance sheet, reducing indebtedness and improving net asset value through a focused capital program and concentration on cost reduction measures.

PRODUCTION

June 30	Three months ended			Six months ended		
	2015	**2014**	**% Change**	**2015**	**2014**	**% Change**
Production						
Number of days	*91*	*91*		*181*	*181*	
Crude oil (bbls/d)	1,383	1,916	(28)	1,469	1,974	(26)
NGL (bbls/d)	43	78	(45)	47	64	(27)
Natural gas (mcf/d)	325	457	(29)	293	412	(29)
Total (boe/d)	**1,480**	**2,070**	**(29)**	**1,564**	**2,106**	**(26)**
Crude oil & NGL (%)	96	96	-	97	97	-

The Company's production was 1,480 boe per day in the second quarter of 2015 lower by 28% compared to 2,070 boe per day for the second quarter of 2014. Average volumes are lower for the second quarter of 2015 due to the corporate reorganization of Pinecrest, in which the Company sold approximately 10% of its working interests to Cardinal on April 15, 2015, offset in part by the acquisition of Dolomite on April 27, 2015. The Company's production decline is also due in part, to shutting in approximately 25 boe per day of uneconomic production and 20 boe per day due to a pipeline break.

Average production volumes for the six months ended June 30, 2015 are lower than the prior year by 26%, mainly due to normal production declines. No wells were drilled or new wells brought on production for the six months ended June 30, 2015 or 2014.

The full-year 2015 average production expectations for 2015 are 1,635 boe per day (97% light oil & NGL's).

REVENUE

June 30	Three months ended			Six months ended		
	2015	**2014**	**% Change**	**2015**	**2014**	**% Change**
Crude oil sales	8,231	18,079	(55)	15,323	36,221	(58)
NGL sales	27	65	(59)	75	138	(46)
Natural gas sales	29	23	(26)	38	37	(2)
Total Sales	**8,287**	**18,167**	**(54)**	**15,436**	**36,396**	**(58)**
Average Realized Prices						
Crude oil ($/bbl) *(1)*	65.40	103.69	(37)	57.63	101.37	(43)
NGL ($/bbl)	7.08	9.19	(23)	8.93	12.03	(26)
Natural gas ($/mcf)	0.96	0.55	75	0.72	0.50	44
Total ($/boe)	**61.54**	**96.45**	**(36)**	**54.52**	**95.47**	**(43)**
Benchmark pricing						
Crude oil – WTI (US$/bbl) *(1)*	57.94	102.96	(44)	53.29	100.82	(47)
Crude oil – Cdn light sweet (Cdn$/bbl)	68.88	104.85	(34)	61.08	102.51	(40)
Natural gas – AECO spot (Cdn$/mcf)	2.67	4.72	(43)	2.71	5.17	(48)
Exchange Rate – (US/Cdn)	0.81	0.92	(12)	0.81	0.91	(11)

(1) Includes realized loss on a physical commodity contract for the period May 1, 2015 to June 30, 2015, which fixed the price on approximately 1,135 bbls/d at $US55.10 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 second quarter of 2015 compared to $18.2 million for the second quarter of 2014. Sales for the six months ended June 30, 2015 were 15.4 million, 58% lower than sales of $36.4 million reported for the six months ended June 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 an average oil prices decreased by 37% and 43% in the second quarter and period ended June 30, 205 compared to 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 for May and June at $US55.10 per barrel (before quality and transportation adjustments) on approximately 1,135 barrels per day for the quarter. Because this contract is not a financial instrument, any pricing difference to the benchmark oil price is recorded as part of the realized price for oil. For the second quarter, average realized prices were approximately 95% of Canadian Light Sweet Crude benchmark price, reflecting a $2.16 per barrel loss on the contract. 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 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 commit volumes for delivery at fixed prices. The Company did not have any oil price risk contracts outstanding during the second quarter or six months ended June 30, 2015. The following contracts were outstanding for the period ended June 30, 2015 and 2014:

Year of Contract	Type of Contract	Term	Volume (bbl/d)	Price (3) (Cdn$/bbl)	Price(4) (US$/bbl)	Index
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
Commodity contracts (2)						
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	-

(1) *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.*

(2) *Physical commodity contracts are not considered financial risk management instruments and are not marked to market at the period end.*

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

(4) *Physical contracts have a fixed price, payable in USD, adjusted for quality and transportation at each period end*

Virginia Hills recorded losses of $0.3 million and $1.7 million on the commodity swaps that were outstanding during the three and six months ended June 30, 2014. There were no oil price risk contracts outstanding and in effect during the six months ended June 30 2015.

June 30	Three months ended			Six months ended		
	2015	2014	% Change	2015	2014	% Change
Realized loss	-	743	(100)	-	1,253	(100)
Unrealized loss (gain)	-	(401)	(100)	-	444	(100)
Total loss	-	**342**	(100)	-	**1,697**	(100)

ROYALTY EXPENSE

June 30	Three months ended			Six months ended		
	2015	2014	% Change	2015	2014	% Change
Royalty expense	302	3,541	(92)	1,269	6,320	(80)
As a percentage of sales	4%	20%	(16)	8%	17%	(9)
$ Per boe	2.22	18.80	(88)	4.47	16.58	(73)

Royalty expense includes royalties paid to provincial governments, freehold land owners and overriding royalty ("GORR") owners. Royalties were $0.3 million for the second quarter of 2015 compared to $3.5 million for the second quarter of 2014. Royalties for the six months ended June 30, 2015 were $1.3 million compared to $6.3 million in 2014 and are lower 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 six months ended June 30, 2015.

The Company expects the average corporate royalty rate to be approximately 12%, ($6.60 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.

June 30	Three months ended			Six months ended		
	2015	2014	% Change	2015	2014	% Change
Production expense	3,052	4,237	(28)	6,305	9,050	(30)
Transportation expense	452	468	(3)	893	1,002	(11)
Total expense	**3,504**	**4,705**	**(26)**	**7,048**	**10,052**	**(30)**
$ Per boe, Production	22.66	22.49	-	22.27	23.74	(6)
$ Per boe, Transportation	3.36	2.48	36	3.16	2.63	20
$ Per boe	26.02	24.97	-	25.43	26.37	(4)

Production Expenses

Production expenses were $3.1 million, down by 28% in the second quarter of 2015 compared to $4.2 million recorded in the second quarter of 2014. Production expenses were $6.3 million for the six months ended June 30, 2015 compared to $9.0 million in 2014. The decrease in production expenses is due primarily to savings from a decrease in propane and chemical pricing and use and cost savings related to well maintenance and labour.

Second quarter 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 near the beginning of the quarter, which has subsequently been remediated. Costs associated with the pipeline break and clean-up had a negative impact on operating costs of approximately $4.88 per boe in the quarter.

Transportation Expenses

Transportation expenses were $0.5 million for the second quarter of 2015 and approximated the second quarter 2014 costs. Transportation expenses were $0.9 million for the six months ended June 30, 2015 compared to $1.0 million reported in 2014. Overall transportation expense per boe was higher, due mainly to the decrease of average production volumes in 2015 compared to 2014.

The Company is forecasting the 2015 production and transportation costs to average approximately $23.00 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

June 30	Three months ended			Six months ended		
	2015	2014	% Change	2015	2014	% Change
Other operating income	152	153	-	343	298	15
$ Per boe	1.13	0.78	45	1.21	0.77	57

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")

June 30	Three months ended			Six months ended		
	2015	2014	% Change	2015	2014	% Change
Depletion and depreciation expense	**3,602**	**5,564**	**(35)**	**7,569**	**11,186**	**(32)**
$ Per boe	26.75	29.54	(9)	26.73	29.34	(9)

Virginia Hills calculates depletion and depreciation expense on proved plus probable reserves ("2P reserves"), and is determined on an area basis. D&D was $3.6 million in the second quarter of 2015 compared to $5.6 million in the second quarter of 2014. D&D recorded for the six months ended June 30, 2015 was $7.6 million compared to $11.2 million in 2014.

D&D expense decreased on a total dollar basis for the quarter and six month period ended June 30, 2015 due to a decrease in the depletion base, resulting from the asset impairment provision at the end of 2014, and decreased production volumes.

GENERAL AND ADMINISTRATIVE EXPENSE ("G&A")

June 30	Three months ended			Six months ended		
	2015	2014	% Change	2015	2014	% Change
Gross G&A	1,052	2,155	(51)	2,441	3,651	(33)
Overhead recoveries & capitalized G&A	(289)	(366)	(21)	(512)	(746)	(31)
Net G&A	763	1,789	(57)	1,929	2,905	(34)
Share based payments	200	238	(16)	223	490	(55)
Total G&A	**963**	**2,027**	**(99)**	**2,152**	**3,395**	**(37)**
$ Per boe, net G&A	5.52	9.49	(42)	6.82	7.62	(11)
$ Per boe, share based payments	1.50	1.27	(18)	0.79	1.29	(39)
$ Per boe	7.02	10.76	(35)	7.61	8.91	(15)

Gross G&A was $1.1 million for the second quarter of 2015 compared to $2.2 million in the second quarter of 2014, reflecting a 51% decrease, which is due mainly to savings related to staff reductions. In addition, the second quarter of 2014 included a provision relating to ongoing litigation, which was subsequently settled in the third quarter of 2014. Gross G&A was $2.4 million for the six months ended June 30, 2015 compared to $3.6 million for the six months ended June 30, 2014. The decrease is attributed primarily to savings in legal and staff costs. Overhead recoveries and capitalized G&A were lower in the quarter and six months ended June 30, 2015 compared to 2014 due to decreased capital activity.

Share based payments were $0.2 million in the second quarter of 2015 compared to $0.3 million for the second quarter of 2014. Share based payment expense for the second quarter of 2015 reflects the accelerated expenditures associated with the cancellation of all issued and outstanding share incentive awards, on April 15, 2015 pursuant to the Arrangement. During the second quarter, Virginia Hills granted a total of 1,818,564 stock options at an average price $0.25. Share based payments were $0.2 million for the six months ended June 30, 2015 compared to $0.5 million for the six months ended June 30, 2014. Expenses were higher in 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

June 30	Three months ended			Six months ended		
	2015	2014	% Change	2015	2014	% Change
Transaction costs	4,028	-	100	4,028	-	100
$ Per boe	29.95	-	100	14.23	-	100

Virginia Hills incurred transaction costs of $4.0 million during the second quarter of 2015 which relate to the capital reorganization of Pinecrest ($2.4 million) and the acquisition of Dolomite ($1.4 million). 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 are not expected in subsequent quarters.

FINANCE EXPENSE

June 30	Three months ended			Six months ended		
	2015	2014	% Change	2015	2014	% Change
Cash						
Interest	1,470	1,585	(7)	2,951	2,970	-
Non-cash						
Interest, amortization	623	4	>100	740	72	>100
Accretion	154	145	6	312	305	7
Total finance expense	**2,247**	**1,734**	**30**	**4,003**	**3,347**	**20**
$ Per boe, Interest	10.91	8.42	30	10.42	7.79	34
$ Per boe, Interest, non-cash	4.63	0.02	>100	2.61	0.19	>100
$ Per boe, Accretion	1.06	0.76	40	1.10	0.80	38
$ Per boe	16.69	9.20	81	14.13	8.78	61

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 second quarter of 2015 was $1.5 million compared to $1.6 million for the second quarter of 2014. Interest expense was 7% lower in the second quarter, mainly due to reduction of outstanding debt by $22.6 million upon closing of the Arrangement on April 15, 2015. Interest expense for the six months ended June 30, 2015 was $3.0 million and approximated interest expense incurred during the same period in 2014. On a per boe basis, interest expense has increased due a decrease in the average daily production.

Upon closing of the Arrangement, Virginia Hills entered into a new $97.0 million credit facility agreement with its senior lenders. The facilities bear 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 the Company pays an additional 1% standby on the portion of the unused credit facility, which has resulted in an average interest rate for the second quarter of 6%. On April 27, 2015, the Company completed the acquisition of Dolomite through its 100% owned subsidiary, and renegotiated the terms on Dolomite's $11.0 million credit facility. This facility bears interest at prime plus 3%. Interest expense for the second quarter and period ended June 30, 2015 reflects interest associated with the Acquisition from the effective date.

Non-cash interest charges include the amortization of deferred interest charges incurred to establish the Company's credit facilities and are greater for the three and six months ended June 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 $6.6 million ($11.05 per boe).

Accretion expense
Accretion expense was $0.1 million and $0.3 million for the three and six months ended June 30, 2015 compared to $0.1 million and $0.3 million for the three and six months ended June 30, 2015. Accretion expense on a per boe basis in 2015 has increased compared the periods ended June 30, 2014, reflecting a decrease in the average daily production. At June 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

June 30	Three months ended			Six months ended		
	2015	2014	% Change	2015	2014	% Change
Gain on disposition	13,879	-	100	13,879	-	100
$ Per boe	103.07	-	100	49.02	-	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 six month period ended June 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 $18.7 million.

At June 30, 2015, the Company has approximately $174 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

June 30	Three months ended			Six months ended		
	2015	2014	% Change	2015	2014	% Change
Net income	**7,671**	**407**	**>100**	**3,438**	**697**	**>100**
$ Per share, basic [1]	$0.55	$0.19	>100	$0.42	$0.32	31
$ Per share, diluted [1]	$0.55	$0.19	>100	$0.41	$0.31	32

[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 net income of $7.7 million in the second quarter of 2015 compared to net income of $0.4 million recorded in the second quarter of 2014. Net income for the six months ended June 30, 2015 was $3.4 million compared to $0.7 million in 2015. The increase in net income for the three and six months ended June 30, 2015 is due to the gain on disposition of Pinecrest, offset by transaction costs, higher interest charges and lower net revenues.

Cash Flow from Operating Activities

June 30	Three months ended			Six months ended		
	2015	2014	% Change	2015	2014	% Change
Cash flow from operating activities	**(1,252)**	**7,351**	**>(100)**	**(598)**	**13,781**	**>(100)**
$ Per share, basic [1]	($0.09)	$3.39	>(100)	($0.07)	$6.34	>(100)
$ Per share, diluted [1]	($0.09)	$3.31	>(100)	($0.07)	$6.21	>(100)

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

Cash flow from operating activities was negative $1.3 million and $0.6 million for the three and six months ended June 30, 2015 compared to $7.4 million and $13.8 million for the comparative periods ended June 30, 2014. The decrease for the three and six months ended June 30, 2015 reflects $4.0 million in non-recurring transaction costs, and a decline in sales due to a decreased production volumes and lower average realized prices, compounded by increased interest charges.

Funds Flow from Operations

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.

June 30	**Three months ended**			**Six months ended**		
	2015	**2014**	**% Change**	**2015**	**2014**	**% Change**
Cash flow from operating activities	**(1,252)**	**7,351**	**>(100)**	**(598)**	**13,781**	**>(100)**
Transaction costs	4,028	-	100	4,028	-	100
Change in non-cash working capital	(384)	1,401	>(100)	(1,007)	594	>(100)
Funds flow from operations	**2,392**	**5,950**	**(60)**	**2,423**	**13,187**	**(82)**
$ Per share, basic [(1)]	$0.17	$2.74	(94)	$0.30	$6.07	(95)
$ Per share, diluted [(1)]	$0.17	$2.68	(94)	$0.29	$5.94	(95)

[(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 for the second quarter of 2015 was $2.4 million compared to $6.0 million for the second quarter of 2014 and was $2.4 million for the six months ended June 30, 2015 compared to $13.2 million This decrease is due to lower production volumes, lower average realized prices and increased interest expense.

Netbacks [(1)]

June 30	**Three months ended**			**Six months ended**		
$ Per boe	**2015**	**2014**	**% Change**	**2015**	**2014**	**% Change**
Average realized price	61.54	96.45	(36)	54.52	95.47	(43)
Royalty expense	(2.22)	(18.80)	(88)	(4.47)	(16.58)	(73)
Production & transportation expense	(26.02)	(24.97)	4	(25.43)	(26.37)	(4)
Field netback[(1)]	**33.30**	**52.68**	**(37)**	**24.62**	**52.52**	**(53)**
Realized loss on derivative financial instruments	-	(3.94)	100	-	(3.28)	100
Operating netback[(1)]	**33.30**	**48.74**	**(32)**	**24.62**	**49.24**	**(50)**
Other income	1. 13	0.78	45	1.21	0.77	57
Cash G&A expense	(5.52)	(9.49)	(42)	(6.82)	(7.62)	(11)
Cash financing	(10.91)	(8.42)	30	(10.42)	(7.79)	34
Cash flow netback[(1)]	**18.00**	**31.61**	**(43)**	**8.51**	**34.60**	**(75)**

[(1)] *Non-GAAP Measure*

Virginia Hills's operating netback was $33.30 per boe for the second quarter of 2015 compared to $48.74 per boe for the second quarter of 2014. On a year to date basis, the operating net back was $24.62 per boe for 2015 compared to $52.52 per boe for 2014. The decreases are the result of decreased production volumes and realized commodity prices, offset in part by reduced operating expenses.

CAPITAL EXPENDITURES, ACQUISITIONS AND CAPITAL RESOURCES

June 30	Three months ended			Six months ended		
	2015	2014	% Change	2015	2014	% Change
Evaluation & exploration						
Undeveloped land	332	34	>100	399	99	>100
	332	**34**	**>100**	**399**	**99**	**>100**
Property, plant & equipment						
Drilling & completions	(35)	1,075	>(100)	353	2,518	(86)
Equipment & facilities	1,426	(489)	>100	1,883	(1,139)	>100
Capitalized administrative	128	140	(9)	196	267	(27)
Corporate assets	16	17	-	16	40	6
	1,534	**743**	**>100**	**2,448**	**1,686**	**45**
Total capital expenditures	**1,866**	**777**	**>100**	**2,847**	**1,785**	**60**

Capital Expenditures & Drilling Results

Subsequent to closing of the capital reorganization with Pinecrest, which included a revised business plan, Virginia Hills commenced its capital program which includes drilling two farm-in commitment wells and water flood facility enhancements. During the second quarter of 2015 a total of $1.9 million was spent, primarily on construction of a free water knock-out facility at the Otter 04-13 water flood and production optimization projects. The free water knock facility construction was completed at the end of the quarter, and is expected to be commissioned late in the third quarter. In comparison, a total of $0.7 million was spent during the second quarter of 2014 and included $1.1 million spent on well optimizations, and $0.5 million credit relating to unused equipment returned to the vendor.

Capital expenditures during the six months ended June 30, 2015 were $2.8 million compared to $1.8 million in 2014. Year to date, capital expenditures include $1.9 million spent on capital activities during the quarter ended June 30, 2015. Capital expenditures were directed to the Company's water flood optimization project in its core Otter field and a number of projects focused on reducing the operating cost structure. Capital expenditures for the six months ended June 30, 2014 included well optimizations and a credit relating to an equalization payment from a joint venture partner for water flood facilities in the Evi area. There were no wells drilled during the three and six months ended June 30, 2015 or 2014.

Land Holdings

As at June 30	2015		2014		% Change	
Acres	Gross	Net	Gross	Net	Gross	Net
Developed	23,767	14,707	20,640	13,677	15	8
Undeveloped	178,825	161,612	163,793	160,307	9	1
Total	**202,592**	**176,319**	**184,433**	**173,984**	**10**	**1**
Average working interest		**92%**		**94%**		

Virginia Hills held a total of 176,319 net acres of land at June 30, 2015 representing an average working interest of 92%. During the second quarter of 2015, the Company sold approximately 10% of its working interest in its lands to Cardinal pursuant to the capital reorganization, and completed the acquisition of Dolomite, which had an average working interest in its lands of 92%. There were no land expiries in the three and six months ended June 30, 2015. There is a total of 49,261 net acres of land that will expire in the later part of 2015, which was recorded as exploration expense 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	**June 30, 2015**	**December 31,2014**
Funds flow from operations	2,392	2,060
Annualized funds flow from operations	9,570	8,240
As at	**June 30, 2015**	**December 31,2014**
Working capital deficit (excluding bank debt)	6,641	4,932
Non-current bank debt, including deferred financing charges	99,145	110,570
Net Debt	**105,786**	**115,502**
Net Debt to annualized funds flow from operations	11.1	14.0

The major changes in net debt were as follows:

Net debt, beginning of period	$ 115,502
Proceeds from disposition	(22,500)
Proceeds from equity offering	(3,800)
Capital expenditures	2,847
Debt and share issue costs	1,860
Assumption of net debt on acquisition of subsidiary	11,280
Use of cash from operations	597
Net debt, end of period	**$ 105,786**

Going Concern

Virginia Hills' unaudited interim condensed consolidated financial statements as at and for the three and six months ended June 30, 2015 have been prepared on a going concern basis. The going concern basis of presentation assumes that the Company will continue to operate for the foreseeable future and will be able to realize its assets and discharge its obligations in the normal course of business. At June 30, 2015, Virginia Hills had a working capital deficit of $105.8 million (which included bank debt of $99.1 million) and an accumulated deficit of $306.9 million. The Company reported net income of $3.4 million but generated negative cash from operating activities of $0.6 million, which included non-recurring transaction costs of $4.0 million related to the capital reorganization and Dolomite acquisition. The Company's cash flows and compliance with debt covenants is dependent upon realized commodity prices and maintaining production volumes. Current period revenues and operating cash flows were lower than the prior period, due to depressed commodity prices and a decrease in 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 Company continues to meet its obligations with respect to ongoing operations. Management is limiting expenditures to the budget which has been approved by the Company's Board of Directors and lenders, which outlines approved maintenance and development capital and on-going operating activities. In addition, during, the second quarter, Virginia Hills completed its capital reorganization, established a new credit facility in the amount of $97.0 million, closed a private placement equity offering in the amount of $2.9 million, completed a corporate acquisition of Dolomite, and amended its $11.0 million credit facility. At June 30, 2015 Virginia Hills was in compliance with the bank covenants on its senior debt, but was not in compliance with its financial covenant on the Dolomite debt. Subsequent to June 30, 2015, the Company was in receipt from its lenders of a waiver of the breach.

There can be no assurance that these initiatives will be successful, or that additional, or amended debt financing, or equity will be available or sufficient to meet the Company's commitments. In addition if equity or debt financing is available, there is no assurance that it will 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. The unaudited interim condensed consolidated financial statements do not reflect adjustments that would be necessary if the going concern basis was not appropriate. Such adjustments could be material.

Credit Facilities

At June 30, 2015 the Company had total credit facilities available of $108.0 million, of which a total of $100.9 million was outstanding.

Senior debt: On April 15, 2015, the Company repaid $21.7 million of existing Pinecrest bank debt and 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 June 30, 2015, the Facilities interest rate was 5.85%.

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 1,2015 to September 30, 2015, to a maximum of $0.7 million; October 1, 2015 to March 31, 2016 to the lesser of 25% and $1.5 million and 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%. At June 30, 2015, the Company was in compliance with all of its covenants.

Subsidiary debt: During the quarter, 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 June 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. At June 30, 2015, the full amount of the outstanding Senior Bank Debt and Subsidiary Bank Debt was recorded as a current liability because the Company was in breach of the Subsidiary Bank Debt financial covenant.

Subsequent to June 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 July 2015, based on an updated cash flow projections.

Share Capital

The Company had the following outstanding common shares and equity instruments at June 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)*	-	-	1,819
Balance, June 30, 2015	**19,724**	**29,920**	**1,819**

(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 (Note 5), 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 1,818,564 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 August 13, 2015, Virginia Hills had the following equity instruments outstanding:

	(000's)
Common shares	19,174
Warrants	29,920
Stock Options *(1)*	1,844
Total outstanding securities	50,938

(1) *25,600 stock options were issued subsequent to June 30, 2015 pursuant to the Company's stock option plan.*

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 first quarter of 2015, Virginia Hills did not enter into any such financial instruments.

Credit Risk: Credit risk is the risk of loss if purchasers or counterparties default on their financial obligations. The maximum exposure of the Company to credit risk at June 30, 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 June 30, 2015, Virginia Hills had a total of $111.9 million in liabilities outstanding; which was comprised of: trade and other payables of $11.5 million, embedded derivative associated with bank debt $0.3 million, flow through share liability $0.7 million, long term payable of $0.2 million and $100.9 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 June 30, 2015. Had the market interest rate been 1% (100 basis points) higher (or lower) and assuming all other variables remained constant for the six months ended June 30, 2015, net income would have been lower or higher by $0.4 million based on the average outstanding bank debt balance outstanding for the six months ended June 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

New Accounting Policies Adopted

- ***Basis of Consolidation***: Subsidiaries are entities in which the Company holds a controlling interest. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All intercompany transactions and balances are eliminated on consolidation.

- ***Business combinations*****:** A business combination is accounted for using the acquisition method. The acquired identifiable net assets are measured at their fair value at the date of acquisition. The consideration paid includes the fair value of any assets or liability resulting from a contingent consideration arrangement. Deferred taxes are recognized for any differences between the fair value of net assets acquired and their tax bases. Any excess of the purchase price over the fair value of the net assets acquired is recognized as goodwill. Any deficiency of the purchase price below the fair value of the net assets acquired is recorded as a gain in profit and loss. Associated transaction costs are expensed when incurred.

- ***Business combinations involving entities under common control*****:** A business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party, both before and after the business combination, and control is not transitory. Management has determined the book value accounting method to be most appropriate under such circumstances. The book value accounting method requires the consolidated financial statements to be prepared using the predecessor book values without any step up to fair value. Transaction costs are recognized as an expense when incurred.

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"):*** In May 2014, the IASB issued amendments to IFRS 11 to address the accounting for acquisitions of interest in joint operations. The amendments address how a joint operator should account for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business. IFRS 11, as amended requires that such transactions 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.

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 June 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 June 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 six months ended June 30, 2015, the Company incurred legal fees and disbursements of $0.7 million (June 30, 2014 - $0.1 million) related to general matters, the Acquisition and Arrangement, of which $0.7 million was outstanding at June 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 June 30, 2015

($000's)		2015	2016	2017	2018	2019	Thereafter
Office lease rentals		92	145	145	193	193	-
Field office lease rental		19	39	16	-	-	-
Equipment rentals		24	11	12	10	-	-
Electrification agreements	a)	1,269	-	-	-	-	-
Flow-through qualifying expenditures		2,994	-	-	-	-	-
Commitments		**4,398**	**195**	**173**	**203**	**193**	**-**

a) The Company has $1.3 million in commitments to install electrical service to a number of its well sites over the next six months. The agreements may be cancelled by the Company upon providing 30 days written notice.

b) Concurrent with the closing of the Acquisition on April 27, 2015, Virginia Hills entered into a Farm-In Agreement which includes a commitment to drill two test wells. The Company will pay 100% of the capital costs to earn 70% working interest in the wells, plus a 14% working interest in all wells and facilities on those lands. The first test well is to be spud no later than July 31, 2015, with the second test well to be spud no later than 120 days after rig release of the first test well. In addition, Virginia Hills' has the option to drill up to three additional test wells ("Option Wells") at 100% to earn a 70% working interest plus a 14% working interest in all wells and facilities associated with those lands. Drilling of the Option Wells is subject to Virginia Hills' senior lender approval. Should the Company not meet its obligations under the Farm-in Agreement, a penalty payment of $0.8 million is due and payable as compensation. As of August 13, 2015, the Company had fulfilled its commitment.

c) The following table summarizes physical commodity contracts that were outstanding at June 30, 2015, which commit monthly volumes for delivery, at the following prices:

Term	Volume (bbl/d)	Fixed Price[1] (US$/bbl)	Fixed Price[1][2] (Cdn$/bbl)
Jul 1, 2015 - Sep 30, 2015	1,128	$53.47	$70.36
Oct 1, 2015 - Dec 31, 2015	1,128	$53.22	$70.03

(1) *Pricing is adjusted on a monthly basis for quality and transportation*
(2) *Estimated Cdn$ using exchange rate of 0.76*

SUBSEQUENT EVENTS UPDATE

Subsequent to June 30, 2015, the Company received consent from its lenders to waive the cash flow covenant breach on the Subsidiary bank debt, with an amendment to reset the covenant test beginning July 2015, based on updated cash flow projections..

SUPPLEMENTAL QUARTERLY INFORMATION

	2015		2014				2013	
	Jun 30 Q2	Mar 31 Q1	Dec 31 Q4	Sep 30 Q3	Jun 30 Q2	Mar 31 Q1	Dec 31 Q4	Sep 30 Q3
FINANCIAL								
Oil & gas sales	8,287	7,149	12,269	15,018	18,167	18,229	19,549	25,921
Funds flow from operations [(1)]	2,392	32	2,038	4,245	5,950	7,237	7,824	9,582
Per share – basic [(4)]	$0.17	$0.01	$0.95	$1.95	$2.74	$3.33	$3.60	$4.40
Per share – diluted [(4)]	$0.17	$0.01	$0.94	$1.92	$2.68	$3.26	$3.28	$4.36
Cash flow from operations	(1,252)	653	3,601	4,990	7,351	6,430	6,714	11,514
Per share – basic [(4)]	$(0.09)	$0.30	$1.66	$2.30	$3.39	$2.96	$3.09	$5.29
Per share – diluted [(4)]	$(0.09)	$0.30	$1.64	$2.25	$3.31	$2.90	$2.81	$5.24
Net income (loss) [(2)]	7,671	(4,233)	(176,473)	51	407	290	(178,115)	(843)
Per share – basic [(4)]	$0.55	$(1.95)	$(81.24)	$0.02	$0.19	$0.13	$(82.00)	$(0.39)
Per share – diluted [(4)]	$0.55	$(1.95)	$(81.24)	$0.02	$0.18	$0.13	$(82.00)	$(0.39)
Capital expenditures, net of dispositions	1,866	981	3,100	2,846	777	1,008	1,730	23,886
Total assets	120,313	116,340	121,101	296,960	300,889	306,700	311,567	513,798
Net debt [(1)(3)]	105,786	116,562	115,502	113,627	115,837	121,405	126,721	130,902
OPERATING								
Average daily production								
Crude oil (bbls/d)	1,383	1,556	1,775	1,688	1,916	2,033	2,479	2,674
NGLS (bbls/d)	43	51	56	68	78	49	61	53
Natural gas (mcf/d)	325	261	322	316	457	366	478	463
Total (boe/d)	1,480	1,650	1,885	1,808	2,070	2,143	2,620	2,804
Average prices								
Crude oil (bbls/d)	64.40	50.65	74.75	96.12	103.69	99.16	84.04	103.90
NGLS (bbls/d)	7.08	10.50	11.19	13.34	9.19	16.58	50.95	51.54
Natural gas (mcf/d)	0.96	0.43	0.16	0.10	0.55	0.43	2.21	2.52
Netbacks ($/boe) [(1)]								
Average prices	64.54	48.15	70.74	90.24	96.45	94.51	81.12	100.46
Royalties	(2.22)	(6.51)	(14.07)	(18.44)	(18.80)	(14.41)	(10.36)	(10.86)
Production & transp.	(26.02)	(24.88)	(30.51)	(32.06)	(24.97)	(27.72)	(23.66)	(29.06)
Field netback [(1)]	33.30	16.76	26.15	39.74	52.68	52.38	47.10	60.54
Realized gain (loss) on derivative contracts	-	-	4.21	(1.95)	(3.94)	(2.64)	(5.94)	(15.46)
Operating netback	33.30	16.76	30.37	37.79	48.74	49.74	41.16	45.08

(1) *Non-GAAP measure*

(2) *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. Net loss for the quarters ended December 31, 2014 and December 31, 2013 include asset impairments*

(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.*