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VIRGINIA HILLS OIL CORP.

**NEWS RELEASE** **TSX Venture Exchange: VHO**

# VIRGINIA HILLS OIL CORP. ANNOUNCES FIRST QUARTER RESULTS AND 2015 GUIDANCE

**May 22, 2015 – Calgary, Alberta –** Virginia Hills Oil Corp. ("**Virginia Hills**" or the "**Company**") announces that it has filed on SEDAR its financial statements and related management's discussion and analysis ("**MD&A**") for the three months ended March 31, 2015. The financial statements and MD&A are available for review at www.sedar.com or www.virginiahillsoil.com.

## Financial and Operating Results for Q1, 2015

| **March 31** | **Three months ended** | |
|---|---|---|
| | **2015(4)** | **2014(4)** |
| **FINANCIAL** | | |
| Petroleum and natural gas sales | **7,149** | 18,229 |
| Funds flow from operations *(1)* | **32** | 7,237 |
| Per share - basic | **$0.00** | $0.03 |
| Per share - diluted | **$0.00** | $0.03 |
| Net income (loss) | **(4,233)** | 290 |
| Per share - basic | **$(0.02)** | $0.00 |
| Per share - diluted | **$(0.02)** | $0.00 |
| Capital expenditures | **981** | 1,008 |
| Net debt*(1) (2)* | **116,562** | 121,405 |
| Common Shares Outstanding | | |
| Weighted average – basic | **217,212** | 217,212 |
| Weighted average – diluted | **217,212** | 222,027 |
| **OPERATING** | | |
| *Number of days* | ***90*** | *90* |
| Production | | |
| Crude oil (bbls/d) | **1,556** | 2,033 |
| Natural gas (mcf/d) | **261** | 366 |
| NGL (bbls/d) | **51** | 49 |
| Barrels of oil equivalent (boe/d–6:1) | **1,650** | 2,143 |
| Average realized price *(3)* | | |
| Crude oil ($/bbl) | **50.65** | 99.16 |
| Natural gas ($/mcf) | **0.43** | 0.43 |
| NGL ($/bbl) | **10.50** | 16.58 |
| Netback per boe ($)*(1)* | | |
| Petroleum and natural gas sales | **48.15** | 94.51 |
| Royalties | **(6.51)** | (14.41) |
| Transportation and production expenses | **(24.88)** | (27.72) |
| Field netback | **16.76** | 52.38 |
| Realized loss on derivative financial instruments | **-** | (2.64) |
| Operating netback | **16.76** | 49.74 |

*(1) Non-GAAP measures. See "Non-GAAP Measures" below.*
*(2) Net debt is defined as current assets minus current liabilities, plus outstanding bank debt.*
*(3) Before the effects of derivative financial instruments.*

(4) *On April 15, 2015, the Company completed a corporate reorganization pursuant to a plan of arrangement under the Business Corporations Act (Alberta) (the "Arrangement"). Under the terms of the Arrangement, 90% of the oil and natural gas assets previously owned and operated by Pinecrest Energy Inc. ("Pinecrest") were transferred to the Company and all of the outstanding shares of Pinecrest were sold to a third party together with approximately 10% of Pinecrest's oil and natural gas assets for aggregate consideration of $23.5 million, subject to certain adjustments. The financial and operating results noted above and the financial statements and MD&A filed on SEDAR represent 100% of Pinecrest's oil and natural gas assets as the Arrangement did not close prior to March 31, 2015.*

**Operational Results**

Production for the first quarter of 2015 averaged 1,650 boe per day (97% light oil and NGL's) representing a 23% decline from first quarter 2014 levels due to reduced capital investment in the Company's core Red Earth area. No new wells have been drilled since the first quarter of 2014. Operating revenue decreased in the first quarter of 2015 to approximately $7.1 million from $18.2 million realized in the first quarter of 2014 due to average production rate declines and a 49% decrease in realized oil prices. Royalties were approximately 13.5% of operating revenue, and decreased on a per unit basis by 55% on a year over year basis to approximately $6.51 per boe due to the significant decrease in realized commodity prices and lower production rates.

Production costs were $3.3 million ($21.91 per boe) for the first quarter and were lower by 32% on a total basis and 12% on a per unit basis, compared to the same period in 2014. The decrease in production costs was directly related to reduced service pricing as a result of lower overall industry activity levels. Transportation costs were $0.5 million ($2.97 per boe) in the first quarter and remained relatively static as compared to the first quarter of 2014. Operating netbacks in the quarter were $16.76 per boe or 66% lower than 2014 levels due to the significant drop in light oil prices partially off-set by lower royalty and operating costs.

**2015 Guidance**

Virginia Hills is pleased to provide operational guidance for the remainder of 2015. Early in the second quarter, the Company successfully completed both the Arrangement, pursuant to which it acquired 90% of the producing assets of Pinecrest and the acquisition of Dolomite Energy Inc., through its wholly owned subsidiary. Collectively, Virginia Hills has an asset base, which is currently producing approximately 1,550 boe per day, and is materially weighted to low decline, light oil production, focused on the Slave Point formation in the greater Red Earth area of Alberta.

The Company is concentrating its efforts and capital investments for the remainder of 2015 on improving its operating cost structure, optimizing its existing water floods and implementing acid fracturing techniques into a drilling program of up to 4.0 gross (4.0 net) light oil Slave point horizontal wells. The Company anticipates completing and bringing on production 2.0 gross (2.0 net) of the horizontal light oil wells in 2015.

The Company's board of directors has approved a capital budget of $9.3 million for the remainder of 2015 to be funded by operating cash flow, debt, proceeds from a completed private placement and the exercise of the arrangement rights issued under the Arrangement. The Company anticipates spending $7.5 million on drilling up to 4.0 gross (4.0 net) horizontal light oil wells with 2.0 gross (2.0 net) wells being completed and brought on production by year end 2015, with the balance of the wells scheduled to be completed in 2016. Virginia Hills will direct $1.8 million in capital expenditures to optimizing existing water flood projects and various operational initiatives designed to reduce the operating cost structure, which includes; rental equipment buy outs, electrification of pumping oil wells and the installation of pump off controllers.

Virginia Hills is forecasting average production for the remainder of 2015 to be approximately 1,635 boe per day (95% light oil and NGLs) with fourth quarter exit production of approximately 1,640 boe per day (95% light oil and NGLs). The Company intends to implement various optimization projects on its existing water flood projects however it is not anticipating any material production gains from these projects until 2016.

The Company's 2015 forecast is based on the following assumptions:

| | |
|---|---|
| Average daily production (boe/d) | 1,635 |
| Revenues (Cdn $/boe) | 54.00 |
| Royalties (Cdn $/boe) | (11.00) |
| Operating Costs (Cdn $/boe) | (23.00) |
| Operating Netback (Cdn $/boe) | 20.00 |

To back stop its cash flow expectations for the remainder of 2015, Virginia Hills has entered into a physical sales agreement covering approximately 1,116 bbl per day of oil (70% of its forecast average oil production), at an average price of approximately $65.50 per bbl (US to Cdn dollar conversion at 0.82).

Virginia Hills has aggregate lending facilities of $108.0 million that are not due to be reviewed until September 2016. Currently, there is an aggregate of approximately $100.4 million drawn on these facilities.

The board of directors of Virginia Hills approved the grant of an aggregate of 1,927,047 options under the Company's stock option plan to certain directors, officers, employees and key service providers of the Company with an exercise price equal to the closing price of the common shares on May 25, 2015. The options have a term of five years and vest equally on each of the first, second and third anniversary dates of the grant. Currently, Virginia Hills has a total of 19,724,155 common shares outstanding. On a fully diluted basis, before giving effect to the options, there are a total of 49,645,171 outstanding shares and warrants.

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**FORWARD LOOKING STATEMENTS**: This news release contains forward-looking statements. More particularly, this news release contains statements concerning Virginia Hills' expectations regarding improvement to the Company's cost structure, the implementation and timing of effect of optimization projects including water flooding and acid fracturing; the implementation of a four well drilling program and the completion of two wells in 2015; the sources of capital the Company will use to funds its 2015 capital program; the average production for 2015 and 2015 exit production rate; future oil prices, operating costs, royalties, transportation costs and operating netbacks for the remainder of 2015. In addition, the use of any of the words "guidance", "initial, "scheduled", "can", "will", "prior to", "estimate", "anticipate", "believe", "potential", "should", "unaudited", "forecast", "future", "continue", "may", "expect", "project", and similar expressions are intended to identify forward-looking statements.

The forward-looking statements contained herein are based on certain key expectations and assumptions made by the Company, including but not limited to expectations and assumptions concerning the success of optimization and efficiency improvement projects, including the water flood projects discussed herein, the availability of capital, current legislation, receipt of required regulatory approval, the success of future drilling and development activities, the performance of existing wells, the performance of new wells, general economic conditions, availability of required equipment and services and prevailing commodity prices. Although the Company believes that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because the Company can give no assurance that they will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties.

Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, risks associated with the oil and gas industry in general (including, operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; as the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to production, costs and expenses, and health, safety and environmental risks), commodity price and exchange rate fluctuations, changes in legislation affecting the oil and gas industry and uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures.

The forward-looking statements contained in this news release are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

**NON-GAAP MEASURES**: This news release contains the terms "funds flow from operations", "net debt", "field netback" and "operating netback" which do not have a standardized meaning prescribed by Canadian generally accepted accounting principles ("GAAP") and therefore may not be comparable with the calculation of similar measures by other companies. Management uses funds flow from operations to analyze operating performance and leverage. Management believes "net debt" is a useful supplemental measure of the total amount of current and long-term debt of the Company. Mark-to-market risk management contracts are excluded from the net debt calculation. Management believes "field netback" and "operating netback" are useful supplemental measures of the amount of revenues received after royalties and production and transportation costs, and the amount of revenues received after royalties, operating, transportation costs and realized gain (loss) on derivatives. Additional information relating to certain of these non-GAAP measures, including the reconciliation between funds flow from operations and cash flow from operating activities can be found in the MD&A.

**BOE ADVISORY:** To provide a single unit of production for analytical purposes, natural gas production and reserves volumes are converted mathematically to equivalent barrels of oil (boe). We use the industry-accepted standard conversion of six thousand cubic feet of natural gas to one barrel of oil (6 Mcf = 1 bbl). The 6:1 boe ratio is based on an energy equivalency conversion method primarily applicable at the burner tip. It does not represent a value equivalency at the wellhead and is not based on either energy content or current prices. While the boe ratio is useful for comparative measures and observing trends, it does not accurately reflect individual product values and might be misleading, particularly if used in isolation. As well, given that the value ratio, based on the current price of crude oil to natural gas, is significantly different from the 6:1 energy equivalency ratio, using a 6:1 conversion ratio may be misleading as an indication of value.

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