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NEWS RELEASE **TSX Venture Exchange: VHO**

VIRGINIA HILLS OIL CORP. ANNOUNCES STRATEGIC ALTERNATIVES PROCESS, SECOND QUARTER OF 2016 RESULTS AND GENERAL OPERATION UPDATE

August 26, 2016 – Calgary, Alberta – Virginia Hills Oil Corp. ("Virginia Hills" or the "Company") announces it has initiated a strategic review process, provides its operating and financial results for the three and six months ended June 30, 2016, and provides a general corporate operational update including the extension of its syndicated debt facility and the successful start of its 2016 drilling program. The Company's unaudited interim financial statements and related Management's Discussion and Analysis ("MD&A") for the three and six months ended June 30, 2016 are available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com or on the Company's website at www.virginiahillsoil.com.

STRATEGIC REVIEW

The North American oil and gas sector continues to be challenged by the macro-economic supply and demand pressures on crude oil pricing. These challenges have resulted in reductions in cash flow and access to capital for growth orientated oil producers. Virginia Hills currently holds approximately 63.0 net prospective sections of land on its Red Earth light oil resource play in the Slave Point formation with approximately 17.5 net sections partially developed using primary production and 4.5 net sections developed using secondary production. The Company internally estimates a potential undeveloped drilling inventory of 178 net horizontal Slave Point light oil wells on its land base. Internal type curve expectations of 100 bbl/d IP30 and 105 mbbl per well for a half cycle capital cost of $1.8 million may provide a rate of return exceeding 80%, using flat $US 55/bbl WTI pricing and a dollar exchange conversion of $0.78 CND:US. In addition, the Company continues to advance its water flood projects in the area with its main Otter water flood area (1.75 gross sections) experiencing production gains exceeding 110% over the past 24 months, with average second quarter 2016 production increasing to approximately 431 bbl/d of light oil from approximately 204 bbl/d during the same period of 2014. The Company internally estimates that to fully develop its Red Earth assets, using both primary and secondary production techniques, within its existing capital structure would take over 30 years at current commodity price expectations. As a result, Virginia Hills has engaged financial advisors to assist the Company evaluate, develop and recommend one or more strategic alternatives necessary to maximize shareholder value associated with its Red Earth Slave Point light oil resource development.

Virginia Hills has initiated a process to review strategic alternatives with a view of maximizing the value of the Company's significant Slave Point light oil resource base. This may include, among other alternatives, the addition of capital to further develop the potential of the assets, the sale of the Company or a portion of the Company's assets, a merger, farm-in or joint venture, or other such options as may be determined by the Company's board of directors to be in the best interest of the Company and its shareholders. Virginia Hills has engaged Scotia Waterous Inc. as its sole financial advisor to assist in this process. The Company has not set a definitive schedule to complete its evaluation, and no decision on any particular alternative has been reached at this time. Virginia Hills does not intend to disclose developments with respect to this process unless and until the board has approved a definitive transaction or other course of action or otherwise deems that disclosure of developments is appropriate or otherwise required by law. There are no guarantees that the process will result in a transaction of any form or, if a transaction is entered into, as to its terms or timing.

SECOND QUARTER FINANCIALS

(Canadian $000, except per unit amounts)	Three months ended June 30 2016	Three months ended June 30 2015	Six months ended June 30 2016	Six months ended June 30 2015
FINANCIAL				
Petroleum and natural gas sales	$ 5,972	$ 8,287	$ 10,860	$ 15,436
Funds flow from (used in) operations (2)	692	2,391	(1,032)	2,423
Per share - basic	0.03	0.17	(0.05)	0.30
Per share - diluted	0.03	0.17	(0.05)	0.29
Net income (loss)	(2,508)	7,671	(7,580)	3,438
Per share - basic	(0.12)	0.55	(0.38)	0.42
Per share - diluted	(0.12)	0.55	(0.38)	0.41
Capital expenditures	16	1,866	161	2,847
Net debt (2)(4)	110,344	105,786	110,344	105,786
Common Shares Outstanding (1)				
Weighted average - basic	20,378	14,060	20,051	8,149
Weighted average - diluted	20,378	14,060	20,051	8,437
OPERATIONAL				
Number of days	91	91	182	181
Production				
Oil and NGL (bbl/d)	1,253	1,426	1,318	1,516
Natural gas (mcf/d)	239	325	241	294
Total production (boe/d)	1,293	1,480	1,358	1,564
Average realized prices (5)				
Oil and NGL ($/bbl)	52.23	63.66	45.12	56.13
Natural gas ($/mcf)	0.77	0.96	0.85	0.72
Netback per boe ($) (2)				
Petroleum and natural gas sales	50.77	61.54	43.94	54.52
Royalties	(2.80)	(2.22)	(3.15)	(4.47)
Production and transportation expenses	(28.13)	(26.02)	(30.82)	(25.43)
Field netback (2)	19.84	33.30	9.97	24.62

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

Benchmark commodity prices in the second quarter of 2016 were up 36% over the first quarter of the year, however prices were down 26% year-over-year and have continued to prevail at levels not anticipated by either Virginia Hills or the industry in general. The light oil and quality of the corporate production is such that the Company receives approximately 93% of the Canadian converted WTI benchmark price, resulting in only a 20% decline in year-over-year realized pricing after accommodating the weakening Canadian dollar.

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

During the second quarter of 2016, the Company experienced a significant amount of operating costs related to downhole repair and maintenance within its water flood areas. Within the previously noted Otter water flood area, the Company has experienced increasing water, oil and total fluid rates as it re-pressurized the Slave Point reservoir through water injection. The average quarterly oil production has increased from 2014 levels by approximately 110% to 431 bbl/d in the second quarter of 2016. As a result of the increased total fluid production, the number of wells on which the Company performed a workover or downhole repair has also increased with only five operations in the fourth quarter of 2015, 11 operations in first quarter of 2016 and 17 operations in the second quarter of 2016. The cost on a per unit basis associated with these operations has contributed $3.15 per boe ($0.4 million) to operating costs in the second quarter of 2016. The downhole repairs have consisted of the replacement of downhole pumping equipment among other repairs to handle the changing pumping conditions of increased fluid rates, water cuts and H2S concentrations. Downtime associated with the above noted workover operations exceeded historical averages by approximately 40 boe/d in the second quarter of 2016. The Company anticipates that with these replacements the future downhole repairs and associated downtime should be reduced to historical levels.

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

As a result of its light oil weighted production, Virginia Hills' field netback on a per unit basis for the second quarter of 2016 was $19.84 per boe compared to only $1.01 per boe in the first quarter of 2016. The increase in operating netbacks quarter-over-quarter was a result of the higher realized commodity prices and lower production and transportation expenses. The Company continues to focus on increasing its operating netbacks by reducing it's per unit cost structure in Red Earth. To date in the third quarter of 2016, the Company has made significant strides in reducing its workover related costs within its water flood areas and continues to move its facility optimization projects forward. In addition, the Company anticipates moderately increasing corporate production rates for the remainder of the year which ultimately will reduce per unit fixed cost in Red Earth.

GUIDANCE FOR 2016

During the second quarter of 2016, the Company's operations were affected by extremely wet surface conditions which resulted in limited surface access and ultimately resulted in extended periods of downtime and a pause in the Company's wellbore optimization program. Due to low commodity pricing, the Company determined it was not economic to continue service rig work during wet conditions and as a result the Company delayed a number of optimization projects until late in the second quarter and into the third quarter. The Company was able to resume its normal rig operations in mid–June returning corporate production to approximately 1,400 boe/d (97% light oil and NGL's) by the end of August 2016, based on field estimates.

Subsequent to quarter end, the Company successfully completed an extension of its syndicated lending facility from September 30, 2016 to January 31, 2017 under similar terms to the previous banking agreement. Concurrent with the extension of the bank line the total commitment under the facility dropped marginally to $96.5 million from $97.0 million to reflect payment of certain escrow funds associated with the reorganization of the Company in April 2015. In addition, the $11.0 million credit facility for the Company's wholly-owned subsidiary is scheduled for review within the third quarter of 2016 and maintains a due date of September 30, 2016.

In conjunction with the loan extension, the Company's board has approved a $2.2 million capital program for the remainder of 2016. The capital program will include the Company drilling and completing one (0.9 net) horizontal well in the Company's core greater Red Earth area in the third quarter as well as the completion of certain production optimization projects.

In late August the Company spud its first well (0.9 net) in its 2016 drilling program and will look to provide direction on the capital and production performance of this well in September when appropriate.

The Company anticipates production to average 1,420 boe/d (97% light oil and NGL's) for the year and to exit the year at approximately 1,530 boe/d (97% light oil and NGL's).

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READER ADVISORY

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 and the timing thereof; future costs allocated to pipeline clean-up and repair; expectations regarding decreases in future operating costs; the Company's ability to maintain current production levels; the timing of the Company commencing drilling operation; the timing of releasing the Company's capital budget; and future oil prices. 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, estimated volume and product mix of the Company's oil and gas production, forecasted average 2016 production, future liquidity and financial capacity to fund 2016 planned capital program, renewal of the Company's wholly-owned subsidiary credit facility, 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, estimated future drilling inventory, general economic conditions, availability of required equipment and services, prevailing commodity prices and completion of the Company's strategic review process, including time and disclosure of developments related thereto and potential transaction the Company may pursue as a result of the process. 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 (used in) operations", "net debt", "field netback" and "operating netback" which do not have a standardized meaning prescribed by IFRS and therefore may not be comparable with the calculation of similar measures by other companies. These measures should not be construed as an alternative to other terms that are calculated in accordance with IFRS. Management uses funds flow from (used in) 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 and to understand liquidity at specific points in time. Mark-to-market risk

management contracts are excluded from the net debt calculation. Management calculates "field netback" and "operating netback" as the amount of revenues received after royalties and production and transportation costs, and the amount of revenues received after royalties, production, transportation costs and realized gain (loss) on derivatives. Management believes these measures are useful to understand profitability relative to current commodity prices and a benchmark of operational performance against prior periods and peers. 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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