VIRGINIA
HILLS OIL CORP.

Interim Financial Statements
(Unaudited)

For the three months ended
March 31, 2015 and 2014

Virginia Hills Oil Corp.

Interim Balance Sheets

(Canadian $000, Unaudited)

	Note	March 31, 2015	December 31, 2014
ASSETS			
Current assets			
Trade and other receivables	5	$ 3,339	$ 4,805
Prepaids and deposits		240	553
		3,579	5,358
Non-current assets			
Exploration and evaluation assets	6	3,700	3,633
Property, plant and equipment	7	109,061	112,110
Total Assets		**$ 116,340**	**$ 121,101**
LIABILITIES			
Current liabilities			
Trade and other payables	5	$ 8,721	$ 10,290
Bank Debt	5,8	111,420	110,570
		120,141	120,860
Non-current liabilities			
Provision for decommissioning obligations	9	11,403	11,245
Total Liabilities		131,544	132,105
Shareholders' Equity (Deficit)			
Share capital	11	281,308	281,308
Warrants	12	5,283	5,283
Contributed surplus	13	13,122	13,089
Deficit		(314,917)	(310,684)
Total Shareholders' Equity		(15,204)	(11,004)
Total Liabilities and Shareholders' Equity		**$ 116,340**	**$ 121,101**

Going Concern	2b
Commitments and Contingencies	17
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The notes are an integral part of these financial statements

Virginia Hills Oil Corp.

Interim Statements of Net Income (Loss) and Comprehensive Income (Loss)

For the three months ended March 31

(Canadian $000, except per share amounts, Unaudited)

	Note	2015	2014
Revenue			
Petroleum and natural gas sales		$ 7,149	$ 18,229
Royalties		(967)	(2,779)
Petroleum and natural gas revenue		6,182	15,450
Other operating income		191	145
Loss on derivative financial instruments	5	-	(1,355)
Total revenue and other operating income		6,373	14,240
Expenses			
Production		3,253	4,813
Transportation		441	534
Depletion and depreciation	7	3,967	5,622
General and administrative		1,189	1,368
		8,850	12,337
Operating income (loss)		**(2,477)**	**1,903**
Finance expense			
Interest expense	8	1,598	1,453
Accretion on decommissioning provision	9	158	160
		1,756	**1,613**
Income (loss) before income tax		**(4,233)**	**290**
Income tax expense			
Deferred income tax expense	10	-	-
		-	-
Net Income (Loss) and Comprehensive Income (Loss)		**$ (4,233)**	**$ 290**
Income (Loss) per share	14		
Basic		**$(0.02)**	**$0.00**
Diluted		**$(0.02)**	**$0.00**

The notes are an integral part of these financial statements

Virginia Hills Oil Corp.

Interim Statements of Changes in Equity (Deficit)

For the three months ended March 31

(Canadian $000, Unaudited)

	Note	2015	2014
Share Capital	11		
Balance, January 1		$ 281,308	$ 281,308
Balance, March 31		281,308	281,308
Warrants	12		
Balance, January 1		5,283	5,283
Balance, March 31		5,283	5,283
Contributed Surplus	13		
Balance, January 1		13,089	13,114
Share-based payments		33	300
Balance, March 31		13,122	13,414
Deficit			
Balance, January 1		(310,684)	(134,959)
Total comprehensive income (loss)		(4,233)	290
Balance, March 31		(314,917)	(134,669)
Total Shareholders' Equity (Deficit)		**$ (15,204)**	**$ 165,336**

The notes are an integral part of these financial statements

Virginia Hills Oil Corp.

Interim Statements of Cash Flows

For the three months ended March 31

(Canadian $000, Unaudited)

	Note	2015	2014
Cash flows from operating activities			
Net income		$ (4,233)	$ 290
Adjustments for:			
Accretion on decommissioning provision		158	160
Amortized deferred finance costs		117	68
Depletion and depreciation		3,967	5,622
Share-based payments		23	252
Unrealized loss on derivative financial instruments		-	845
Change in non-cash working capital	16	621	(807)
		653	**6,430**
Cash flows from investing activities			
Expenditure on exploration and evaluation assets		(67)	(65)
Expenditure on property, plant and equipment		(914)	(943)
Change in non-cash working capital	16	(699)	(1,205)
		(1,680)	**(2,213)**
Cash flows from financing activities			
Proceeds from bank debt, net of issue costs		8,500	12,900
Repayment of bank debt		(7,370)	(17,000)
Debt issue costs		(396)	-
Change in non-cash working capital	16	293	(117)
		1,027	**(4,217)**
Net decrease in cash and cash equivalents		**-**	**-**
Cash and cash equivalents, beginning of period		-	-
Cash and cash equivalents, end of period		**$ -**	**$ -**

The notes are an integral part of these financial statements

1. REPORTING ENTITY

Virginia Hills Oil Corp. ("Virginia Hills" or the "Company") is engaged in the acquisition, exploration, and development of oil and gas properties in western Canada. Virginia Hills is a public company, incorporated and domiciled in Alberta and is listed on the TSX Venture Exchange under the symbol "VHO-V". The Company's head office and principal place of business is located at 500, 255-5th Avenue S.W., Calgary, Alberta T2P 3G6.

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. ("Prior Virginia Hills") and the Court of Queen's Bench of Alberta.

Pursuant to the Arrangement, the common shareholders of Prior Virginia Hills became the common shareholders of the Company and approximately 90% of Prior Virginia Hills' Alberta oil and gas assets, and substantially all of the other assets and liabilities were transferred to the Company. The common shares of Prior Virginia Hills were then sold to a third party for cash proceeds of $23.5 million, subject to certain adjustments. The purchase price is subject to adjustment in the event certain tax attributes are less than $248.8 million, and $1 million of the proceeds was placed in escrow related to possible adjustments. In addition to the upfront proceeds, the Company is entitled to receive an additional payment of $5 million if, during the period from April 16, 2015 ending on April 26, 2016, a front-month hedge is made available to the third party 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. As part of the Arrangement, Prior Virginia Hills' shareholders (the "Shareholders") exchanged their shares on a basis of 100 Prior Virginia Hills 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. The arrangement rights expired on May 15, 2015. All outstanding common share purchase warrants, performance warrants and share incentive plan awards of Prior Virginia Hills were cancelled for a nominal amount (See Note 18a Subsequent Events).

The Company has the same Board of Directors as Prior Virginia Hills, and a new Management Team. The Arrangement involved entities under common control and the business operations of the Company are substantially the same as Prior Virginia Hills, consequently, management prepared these financial statements for the business formerly owned by Prior Virginia Hills under the name of Virginia Hills Oil Corp. and the results for comparative periods of the Company are those previously reported by Prior Virginia Hills (See Note 3a).

Upon completion of the Arrangement, the Company paid down its existing bank facility with the proceeds received from the Arrangement, and entered into a new bank facility in the amount of $97.0 million with the senior lenders. Subsequent to the end of the first quarter, Virginia Hills completed a private placement for proceeds of $2.9 million and completed the acquisition, through its wholly-owned subsidiary, of a private oil and gas producer, which had its own credit facility in the amount of $11.0 million. (See Note 8 Bank Debt, and Note 18b Subsequent Events).

A copy of the arrangement agreement and related documents are available under Pinecrest Energy Inc. profile at [www.sedar.com.](http://www.sedar.com)

2. BASIS OF PREPARATION & GOING CONCERN

a) Statement of compliance: These unaudited interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The policies applied in these interim financial statements are consistent with the accounting policies as set out in Note 4 to the audited financial statements for the year ended December 31, 2014 of Prior Virginia Hills. The interim financial statements were authorized for issuance by the Board of Directors on May 21, 2015.

b) Going Concern: These financial statements have been prepared in accordance with IFRS on a going concern basis which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. At March 31, 2015, Virginia Hills had an accumulated deficit of $314.9 million, and a working capital deficit (current assets minus current liabilities) of $116.6 million, which included outstanding bank debt of $111.4 million. (December 31, 2014 accumulated deficit $310.7 million, and working capital deficit of $115.5 million, which includes bank debt of $110.6 million). During the quarter ended March 31, 2015, the Company incurred a net loss of $4.2 million and generated cash from operating activities of $0.7 million (March 31, 2014 - net income $0.3 million, cash from operating activities $6.4 million). Current period revenues and operating cash flows were lower than the prior period mainly due to a decrease in production volumes and depressed commodity prices.

At March 31, 2015, the Company's bank had not completed their annual review and borrowing base redetermination, however, the credit facility was amended, to limit the borrowing amount to $114.0 million, subject to the completion of a plan of arrangement (the Arrangement") which was announced during the quarter of 2015, and completed on April 15, 2015 (See Note 1, Note 8 and Note 18a). The credit facility borrowing base shortfall remedy was removed from the credit facility during the first quarter of 2015, which, if the bank determines there is insufficient borrowing base, the outstanding bank line would be due and payable immediately. If the lenders do not renew the revolving period on the credit facility, the undrawn portion of the facility will be cancelled and the amounts outstanding will convert to a non-revolving term facility which will be required to be repaid immediately (See Note 8).

Prior Virginia Hills' decrease in revenues and operating cash flow, recent history of losses, the pending finalization of the Arrangement and the bank's credit facility review during the first quarter of 2015 indicates the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Management is limiting expenditures to maintenance capital and ongoing operating activities to ensure that cash flow from operations remains positive. 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 condition and results of operation.

Subsequent to March 31, 2015, the Company completed the Arrangement, entered into a new credit facility in the amount of $97.0 million with its senior lenders and closed a private placement equity offering in the amount of $2.9 million (See Note18b). However, these developments while positive may not be adequate to ensure the Company will have the financial resources to execute its business plan. Virginia Hills's ability to continue as a going concern is dependent upon its ability to fund the repayment of existing borrowings, secure additional financing and continue to generate positive cash flows from operations. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and reported revenues, expenses and balance sheet classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

c) Basis of measurement and functional currency: These financial statements are presented in Canadian dollars and have been prepared on the historical cost basis, except for derivative financial instruments, which are measured at fair value. The methods used to measure fair values are discussed in Note 5 to the audited annual financial statements for the year ended December 31, 2014 of Prior Virginia Hills.

d) Use of estimates and judgements: The preparation of financial statements requires management to make certain judgements, accounting estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual outcomes could differ from those estimates. Management reviews estimates and assumptions on a continual basis and makes changes to such estimates based on historical experience, and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accordingly, the impact of these estimate, assumption and judgment revisions are recognized in the year in which they occur. The effect on the financial statements in future periods could be material. Significant judgements, estimates and assumptions made by management in the preparation of these interim financial statements are consistent with those of Prior Virginia Hills, as described in Note 3 to the audited annual financial statements for the year ended December 31, 2014.

3. SIGNIFICANT ACCOUNTING POLICIES

The Company's accounting policies are described in Note 4 to the audited annual financial statements for the year ended December 31, 2014 of Prior Virginia Hills. Those accounting policies have been applied consistently to all periods presented in these interim financial statements.

a) New Policies:

- ***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.

b) Accounting Standards, Interpretations and Amendments to Existing Standards not yet Effective:
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 changes on the Company's accounting policies and financial statement presentation.

- ***IAS 1 Presentation of Financial Statements ("IAS 1")***: In December 2014, the IASB issued amendments to clarify guidance on the concepts of materiality and aggregation of items in the financial statements, the use and presentation of subtotals in the statement of operations and comprehensive income or loss and providing additional flexibility in the structure and disclosures of the financial statements to enhance understandability. The amendments to IAS 1 may be applied immediately, and become mandatory for annual periods beginning on or after January 1, 2016. Pinecrest has yet to assess the impact of the amendments to its financial statements.

- ***IFRS 9 Financial Instruments ("IFRS 9"):*** This is a three-phase project undertaken by the IASB to replace *IAS 39 "Financial Instruments: Recognition and Measurement"*. The first phase was issued in November 2009, which details the classification and measurement requirements for financial assets. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets was amended in October 2010 to provide guidance on financial liabilities and derecognition of financial instruments. In November 2013, the third phase detailed new general hedge accounting model, which remains optional.

(Canadian $000, unless otherwise stated, Unaudited)

The new model is intended to allow reporters to better reflect risk management activities in the financial statements and provide more opportunities to apply hedge accounting. Pinecrest does not utilize hedge accounting for its risk management contracts currently in place. In July 2014, the IASB issued final amendments to IFRS 9, replacing earlier version s of IFRS 9.

These amendments 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. These amendments are effective for annual periods beginning on or after January 1, 2018 and are available for early adoption. The Company is in the process of evaluating the impact of this new standard on its financial statements.

- ***IFRS 11 Joint Arrangements ("IFRS 11"):*** In May 2014, the IASB issued amendments to IFRS 11 to address the accounting for acquisitions of interests in joint operations. 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 is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted.

4. DETERMINATION OF FAIR VALUE

The Company's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

Level 1:	Observable inputs, such as quoted market prices in an active market for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis;
Level 2:	Inputs, other than quoted market prices in an active market, which are observable, either directly and/or indirectly. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the market place and
Level 3:	Unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The following table summarizes the carrying amount of Virginia Hills's financial instruments as at the balance sheet dates:

	Hierarchy Level	March 31, 2015		December 31, 2014	
		Carrying Amt	Fair Value	Carrying Amt	Fair Value
Financial Assets					
Trade and other receivables[1]	1	3,339	3,339	4,805	4,805
Financial Liabilities					
Trade and other payables[1]	1	8,721	8,721	10,290	10,290
Bank debt[2]	2	111,420	111,420	110,570	110,570

[1] *Carried at cost which approximates the fair value due to the short-term nature of the accounts.*

(Canadian $000, unless otherwise stated, Unaudited)

(2) *The bank debt carries interest based on specified benchmark interest rates plus a margin for the Company's own credit risk. The fair values of the bank debt approximate its carrying amount due to the fact that interest is adjusted periodically based on changes in the relevant benchmark interest rates and Company credit risk and is based on Level 2 in the fair value measurement hierarchy.*

5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company is exposed to credit, market and liquidity risks from its use of financial instruments. Risk management policy is established by the Board of Directors and is implemented and monitored by senior management.

a) Credit risk

As at March 31, 2015, Virginia Hills's maximum exposure to credit risk was $3.3 million (December 31, 2014 - $4.8 million) which is the aggregate of trade and other receivables. Credit risk results from the possibility that parties may default on their financial obligations. Virginia Hills manages its credit risk by entering into sales contracts with only established, creditworthy counterparties; by limiting exposure to any one counterparty and by restricting risk management transactions to counterparties that, at the time of transaction, are not less than investment grade.

(i) Cash and cash equivalents: At March 31, 2015 cash and cash equivalents are comprised of bank balances, less outstanding cheques and if negative, are included in trade and other payables.

(ii) Trade and other receivables: 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 the 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. 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 following table illustrates the Company's maximum credit exposure for trade and other receivables:

As at	**March 31, 2015**	**December 31,2014**
Petroleum and natural gas sales	$ 2,575	$ 3,129
Joint venture receivables	685	1,184
Other receivables	87	499
Provision for bad debt	(8)	(7)
	$ 3,339	**$ 4,805**
Aging		
Current to 90 days	$ 3,289	$ 4,743
Greater than 90 days	50	62
	$ 3,339	**$ 4,805**

At March 31, 2015, the Company's trade and other receivables include $2.6 million from crude oil and natural gas marketers which has substantially been collected subsequent to March 31, 2015. Collectability of the accounts receivable balances are assessed at each period end by management by reviewing the counterparty's credit worthiness and assessing the frequency of payments collected. The majority of the balances over 90 days are from an industry partner that has a history of consistent monthly payments.

(Canadian $000, unless otherwise stated, Unaudited)

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet a demand for cash or fund 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 preparing an annual budget, which includes operating, investing and financing activities. The Company generates a certain level of cash flows which is used to partially fund operating, investing and financing activities. In addition, the Company has a revolving reserves-based credit facility which is disclosed in Note 8.

The following table shows the nature of Virginia Hills's payment obligations in the next year and beyond:

As at	March 31, 2015	December 31,2014
Trade payables - production	$ 5,779	$ 7,343
Trade payables - capital	2,777	2,690
Joint venture payables	165	257
Total trade and other payables	8,721	10,290
Bank debt	111,420	110,570
Total current liabilities, due less than 1 year	120,141	120,860
Bank debt, due greater than 1 year	-	-
Total	$ 120,141	$ 120,860

Subsequent to March 31, 2015, the Company paid down its bank line by $22.5 million and entered into a new $97.0 million credit facility with its lenders and closed a private placement equity offering for proceeds of $2.9 million (Note18) which provide for additional funds to meet its financial obligations.

c) Market risk

Market risk is the risk that changes in market prices, such as commodity prices, interest rates and foreign exchange rates will impact the Company's net earnings, future cash flows or the value of the Company's financial assets and financial liabilities. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing return. The Company may use both financial derivatives and physical delivery sales contracts to manage market risks. All such transactions are conducted within the risk management tolerances as established by the Board of Directors.

(i) 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 March 31, 2015 or December 31, 2014. Assuming all other variables remain constant, had the borrowing rate been 1 percent (100 basis points) higher (lower) for the three months ended March 31, 2015, net income would have decreased or increased by approximately $0.2 million based on the average outstanding bank debt balance for the three months ended March 31, 2015.

(ii) Commodity Price Risk: Commodity prices for petroleum and natural gas are impacted by global economic events that dictate the levels of supply and demand, as well as the relationship between the Canadian dollar and the United States dollar (USD). Significant changes in commodity prices may materially impact the Company's ability to raise capital. There were no outstanding commodity price contracts as at March 31, 2015 or December 31, 2014. The following table summarizes the loss on the commodity price risk contracts for the three months ended March 31, 2015 and 2014:

	2015	2014
Realized loss	$ -	$ 510
Unrealized loss	-	845
Loss on derivative financial instruments	$ -	$ 1,355

(Canadian $000, unless otherwise stated, Unaudited)

(iii) Foreign Exchange Risk: The Company's functional and reporting currency is Canadian dollars. The Company does not sell or transact in any foreign currency, however commodity prices are largely denominated in USD, and as a result the prices that the Company receives are affected by fluctuations in the exchange rates between the USD and the Canadian dollar. The exchange rate effect cannot be quantified, but generally an increase in the value of the Canadian dollar compared to the USD will reduce the prices received by the Company for its crude oil and natural gas sales. The Company did not have any foreign exchange rate swaps or related financial contracts in place as at March 31, 2015 or December 31, 2014.

d) Capital Management

The Company's capital management policy objectives are to maintain a capital structure which will enhance the cost of capital to provide optimal returns to shareholders and manage its financial flexibility to preserve the ability to fund ongoing operations, future capital projects and property and corporate acquisitions. The Company's overall objective in managing its capital structure has not changed during the three months ended March 31, 2015. Virginia Hills considers its capital structure to include shareholders' equity, which is not subject to any external restrictions, bank debt and working capital.

Virginia Hills monitors its capital structure using a non-GAAP financial measure, which is the ratio of net debt to funds flow from operations. Net debt is defined as total bank debt plus working capital. Funds flow from operations is defined as cash flow from operating activities before changes in non-cash working capital and decommissioning expenditures. This ratio is calculated by dividing the net debt at the end of the period by the annualized current monthly funds flow from operations. This ratio may increase at certain times due to the timing of capital expenditures, acquisitions and changes in market conditions. In order to monitor this ratio, management prepares production and capital expenditures budgets and forecasts, which are updated on a regular basis depending on factors such as current and forecast crude oil and natural gas prices, capital deployment and general industry conditions. The budget is approved by the board of directors and monitored by management throughout the year. In order to maintain or adjust its capital structure, the Company may issue common shares if available upon acceptable terms, repay existing debt, seek additional debt financing, adjust its capital spending and/or seek strategic alternatives (See Note 18).

6. EXPLORATION AND EVALUATION ASSETS

	Cost
At December 31, 2014	$ 3,633
Additions	67
At March 31, 2015	**$ 3,700**

There were no expired lands for the three months ended March 31, 2015 (March 31, 2014 - $nil). There were no indicators of impairment noted at March 31, 2015.

(Canadian $000, unless otherwise stated, Unaudited)

7. PROPERTY, PLANT AND EQUIPMENT

Cost	Petroleum and natural gas properties	Office furniture and equipment	Total
At December 31, 2014	$ 489,949	$ 612	$ 490,561
Additions	918	-	918
At March 31, 2015	490,867	612	491,479
Accumulated Depletion, Depreciation and Impairment			
At December 31, 2014	378,103	348	378,451
Depletion and depreciation	3,942	25	3,967
At March 31, 2015	382,045	373	382,418
Carrying Value			
At December 31, 2014	$ 111,846	$ 264	$ 112,110
At March 31, 2015	$ 108,822	$ 239	**$ 109,061**

(i) **Capitalized general and administrative expense:** During the three months ended March 31, 2015, Virginia Hills capitalized directly attributable administrative costs of $0.07 million ($0.01 million of share-based payments and $0.06 million of administrative expense). (December 31, 2014 - $0.5 million: $0.5 million of administrative expenses and $nil of share-based payments).

(ii) **Depletion and depreciation:** At March 31, 2015, future development costs of $45.0 million (December 31, 2014 - $45.0 million) were included in the depletion calculation and costs of $3.1 million (December 31, 2014 - $3.1 million) relating to projects under construction were excluded from the depletion calculation.

8. BANK DEBT

As at	March 31, 2015	December 31, 2014
Outstanding bank debt, net of financing costs	**$ 111,420**	**$ 110,570**
Outstanding bank debt		
Prime based loans	$ 111,700	$ 15,570
Bankers' acceptances	-	95,000
Outstanding bank debt	$ 111,700	$ 110,570

Virginia Hills's extendible revolving credit facility with a syndicate of Canadian chartered banks is subject to the banks' semi-annual valuation of the Company's petroleum and natural gas reserves. During the banks semi-annual review during the first quarter of 2015, the credit facility was amended to provide for a $114.0 million revolving credit facility, and extended the annual borrowing base review, subject to a proposed Arrangement between the Company and a third party to reorganize the business (See Note 1 Reporting Entity, and Note 18 Subsequent Events). In addition, the credit facility borrowing base shortfall remedy was removed from the credit facility, which, if the bank determines that there is insufficient borrowing base, the outstanding bank line would be due and payable immediately. Any excess cash flow of the Company is to be applied towards reducing the outstanding revolving credit facilities. The credit facility is secured by a $300.0 million general debenture and a general security interest on all of the present and future acquired assets of the Company.

Advances under the credit facility may be made by way of Canadian prime rate loans, US Base Rate loans, bankers' acceptances, LIBOR Based loans and letters of credit. Interest payable on the facility depends on the form of borrowing, with the applicable margins and stamping fees based on a sliding scale pricing grid tied to the Company's trailing debt to annualized quarterly funds from operations ratio. The revolving credit facility and interest margin ranges from a minimum of 1.0% to a maximum of 2.5% over prime rate.

(Canadian $000, unless otherwise stated, Unaudited)

Any borrowings in excess of $80.0 million bear an additional 1% of interest. At March 31, 2015, Virginia Hills' interest rate was 5.85% per annum, plus an additional 1% on the balance in excess of $80.0 million of bank debt drawn. During the three months ended March 31, 2015, the Company incurred costs of $0.3 million related to the review and renegotiation of the credit facilities. Total interest expense for the quarter ended March 31, 2015 was $1.6 million (March 31, 2014 - $1.5 million).

Subsequent to March 31, 2015, the Company repaid $22.5 million of debt and entered into a new $97.0 million credit facility (See Note 18 b).

9. PROVISION FOR DECOMMISSIONING OBLIGATIONS

A credit-adjusted risk-free rate of 7.8% and an inflation rate of $2.0% were used to calculate the fair value of the decommissioning obligation at March 31, 2015 (December 31, 2014 – 7.8% and 2.0% respectively).

	Three months ended March 31, 2015	**Year ended December 31, 2014**
Balance, beginning of period	$ 11,245	$ 10,450
Obligations incurred	-	298
Revision of estimates	-	(83)
Accretion expense	158	635
Expenditures incurred	-	(55)
Balance, end of period	**$ 11,403**	$ 11,245

10. TAXATION

The Company uses an annualized effective tax rate of 25.0% to determine its current period tax expense (March 31, 2014 - 25.0%). Deferred taxes reflect the tax effects of differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts reported for tax purposes. At March 31, 2015, the Company had the following unrecognized deferred tax assets, which are classified by source of temporary differences:

	March 31, 2015	**December 31, 2014**
Tax value in excess of capital assets	$ 34,473	$ 34,021
Decommissioning liability	2,851	2,812
Share issue and financing costs	684	785
Cumulative eligible capital	273	221
Non-capital loss carry forward	39,073	38,411
Unrecognized deferred tax asset	**$ 77,354**	$ 76,250

11. SHARE CAPITAL

a) Authorized

At March 31, 2015, the Company was authorized to issue an unlimited number of common shares without nominal or par value and an unlimited number of preferred shares, issuable in series, with rights and privileges to be determined at time of issue. The holders of common shares are entitled to receive dividends as declared by the Board of Directors and are entitled to one vote per share.

(Canadian $000, unless otherwise stated, Unaudited)

b) Issued

Share Capital Issued:	Number (000's)	Stated Value ($)
Balance, December 31, 2014	217,212	$ 281,308
Balance, March 31, 2015	**217,212**	**$ 281,308**

12. WARRANTS

At March 31, 2015, all warrants were exercisable at a weighted average exercise price of $0.50 per warrant. A total of 21.6 million warrants expire on May 6, 2015 and 1.7 million warrants expire May 21, 2015. All issued and outstanding warrants will be cancelled for a nominal amount of the Arrangement (see Note18a).

	Number (000's)	Stated Value ($)
Balance, December 31, 2014	23,270	5,283
Balance, March 31, 2015	**23,270**	**5,283**
Issued and outstanding (000's)	**March 31, 2015**	**December 31, 2014**
2010 Common Share Units	12,516	12,516
2010 Flow-Through Units	10,754	10,754
Total	**23,270**	**23,270**

13. SHARE-BASED PAYMENTS

a) Stock-Option Plan

There were no grants, vestings, cancellation or forfeitures of stock options during the quarter ended March 31, 2015. No stock options were outstanding at March 31, 2015 or December 31, 2014.

b) Performance Warrants

All issued and outstanding performance warrants will be cancelled on the Effective Date of the Arrangement (see Note 18a).

	Number (000's)	Exercise Price[1] ($)
Outstanding, December 31, 2014	3,920	0.50
Outstanding, March 31, 2015	**3,920**	**0.50**

(1) *Weighted average*

c) Share Incentive Plan

During the three month period ended March 31, 2015, the Company recorded share-based payment compensation of $0.03 million of which a total of $0.02 million has been expensed and $0.01 million capitalized to petroleum and natural gas properties and equipment (Note 7) (March 31, 2014 - $0.3 million; $0.2 million expensed and $0.1 million capitalized). All issued and outstanding Share Incentive Awards were cancelled on April 15, 2015 for a nominal amount (See Note 18a).

At March 31, 2015 the following Incentive Awards were outstanding:

	Restricted awards (000s)	**Performance awards (000s)**	**Remaining Life (Yrs)**
Outstanding, December 31, 2014	1,577	2,148	1.7
Forfeited	(25)	(13)	1.7
Outstanding, March 31, 2015	**1,552**	**2,135**	**1.7**

14. PER SHARE AMOUNTS

The average market value of the Company's shares for the purposes of calculating the dilutive effect of share options and warrants was based on quoted market prices for the period that the options, incentive awards and warrants were outstanding. The following table summarizes the weighted average shares used in calculating the net income per share:

Three months ended March 31,	**2015**	**2014**
Net income (loss) and comprehensive income (loss)	$ (4,233)	$ 290
Issued common shares, beginning of period	217,212	217,212
Weighted average number of common shares - basic	**217,212**	**217,212**
Effect of incentive awards outstanding	-	4,815
Weighted average number of common shares - diluted	**217,212**	**222,027**
Income per share:		
Basic	$(0.02)	$0.00
Diluted	$(0.02)	$0.00

15. RELATED PARTY BALANCES AND 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 three months ended March 31, 2015, the Company incurred legal fees and disbursements of $0.4 million (March 31, 2014 - $0.01 million) related to general matters, of which $0.4 million was outstanding at March 31, 2015 (December 31, 2014 - $0.01 million). These transactions were in the normal course of business and have been measured at fair value.

16. SUPPLEMENTARY CASH FLOW INFORMATION

As at March 31,	**2015**	**2014**
Provided by (used in):		
Trade and other receivables	$ 1,466	$ 353
Prepaids and deposits	313	(52)
Trade and other payables	(1,564)	(2,430)
	$ 215	$ (2,129)
Provided by (used in)		
Operating activities	$ 621	$ (807)
Investing activities	(699)	(1,205)
Financing activities	293	(117)
	$ 215	$ (2,129)
Interest paid	$ 1,188	$ 1,501

17. COMMITMENTS AND CONTINGENCIES

a) The Company has a lease agreement for its office space, effective October 1, 2014, which expires September 30, 2015 and is committed to make lease payments over the next six months of $0.2 million plus operating costs.

b) The Company has commitments to purchase or rent well equipment and supplies, which will be delivered over the year, totalling $0.5 million. The equipment purchase agreements all have cancellation clauses, which require the Company to give 30 to 90 days' notice should the Company wish to cancel the agreements.

c) The Company has commitments to install electrical service to a number of its well sites over the next 18 months totalling $1.5 million. The agreements may be cancelled by the Company upon providing 30 days written notice.

18. SUBSEQUENT EVENTS

a) Plan of Arrangement: On April 15, 2015 (the "Effective Date"), the Company, Prior Virginia Hills and a third party completed the Arrangement whereby the shareholders' of Prior Virginia Hills received one common share of the Company, plus eight (8) arrangement rights that were outstanding for 30 days subsequent to the Effective Date. Each arrangement right entitled the shareholders to purchase one common share of the Company at a price of $0.25 per share before May 15, 2015. A total of 3,412,175 Arrangement Rights were exercised for gross proceeds of $0.9 million.

On the Effective Date, and as part of the closing consideration for the Arrangement, all Prior Virginia Hills' outstanding common share purchase warrants and performance warrants were cancelled for nominal consideration. All outstanding share incentive awards were cancelled as follows: All performance incentive awards were settled with a payment based on the five-day weighted average trading price times the number of outstanding incentive awards times a performance factor of 0; all restricted incentive awards were settled with a payment based on the five-day weighted average trading price of Prior Virginia Hills common shares times the number of outstanding restricted incentive awards which resulted in a nominal payment to the security holders.

b) New Bank Debt: On the Effective Date, the Company repaid $21.7 million of bank debt and entered into a new $97.0 million credit facility, which is comprised of a $90.0 million syndicated non-revolving facility ("Facility A") and a $7.0 million non-syndicated operating facility ("Facility B", together the "Facilities"), 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. In addition, should the Company receive the $5.0 million in contingent proceeds from the Arrangement, that amount will be applied to reduce the outstanding principal amount of Facility A. At May 21, 2015, the Company has a total of $89.6 million drawn on its Facilities.

Non–financial covenants include: 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 over the periods from April 1 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 the net debt as reported at March 31, 2015, and daily production volumes may not vary below the bank approved business plan by more than 10%.

18 SUBSEQUENT EVENTS CONTINUED

b) New Bank Debt continued: 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%. 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. As consideration for making the Facilities available to the Company, the fees in the amount of $1.4 million will be payable over the term of the Facilities, and the Company issued a total of 1,972,416 common share purchase warrants ("Series D Warrants") representing 10% of the issued and outstanding shares of the Company as at May 15, 2015. The warrants will be 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 Facilities mature.

c) Private Placement: On April 15, 2015, the Company completed a Private Placement and issued 11,974,300 Subscription Receipts at $0.25 per Subscription Receipt, for gross proceeds of $2.9 million. Each Subscription Receipt entitled the holder to one flow-through unit ("Units") of Virginia Hills, upon completion of a proposed acquisition by the Company. On April 27, 2015, the Company announced the completion of the acquisition (see Note 18 d) below), resulting in the conversion of the Subscription Receipts to the Units. Each Unit is comprised of one common share of the Company, issued on a flow-through basis under the *Income Tax Act* (Canada) and two (2) 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 a price of $0.35. Each warrant will be outstanding for five years and will vest and become exercisable in tranches of 1/3 upon the 20 day weighted average trading price of the Company's shares equaling or exceeding $0.35, $0.40 and $0.45 respectively.

d) Acquisition: On April 27, 2015, the Company announced that its wholly owned subsidiary, which was incorporated on February 6, 2015 for the sole purpose of completing this acquisition, completed the acquisition of a private oil and gas producer ("Privateco"), which comprised of approximately 100 barrels of oil per day, 24,000 net undeveloped acres of land in the Red Earth area and approximately $51.0 million of tax pools. The purchase price paid by the Company was settled by the issuance of an aggregate of 2,165,556 common shares, 4.0 million common share purchase warrants ("Series C Warrants") and the assumption of approximately $11.8 million in net debt. The Series C Warrants entitle the holders to purchase one Virginia Hills' common share at a price of $0.50 per share for a period of three years. Of the 2,165,556 common shares issued, a total of 983,624 common shares were issued to former executive officers of the Privateco as satisfaction of a portion of their severance. The balance of the Privateco executives severance 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 (as defined by the TSX Venture Exchange Company Finance Manual) at the time of issuance. Should the Privateco executives elect to be paid in cash, the payment is subject to approval from the Company's senior lender.

e) Virginia Hills' Subsidiary Bank Debt: Following the completion of the acquisition (Note 18d), Virginia Hills' subsidiary entered into an agreement to amend and restate the $11.0 million credit facility with its 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. The subsidiary is subject to reporting covenants, and a financial covenant that requires the three-month rolling average available cash flow is at least 75% of the three-month rolling average cash flow as presented to the lender. As consideration for entering into the new credit facility, the lender 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 up until April 25, 2016. At May 21, 2015 the Company's subsidiary had approximately $10.8 million drawn on its credit faciity.

(Canadian $000, unless otherwise stated, Unaudited)

f) Farm-In Agreement Commitment: 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. Virginia Hills 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 Virginia Hills not meet its obligations under the Farm-in Agreement, a penalty payment of $0.8 million is due and payable to as compensation.

g) Commodity Contracts: Subsequent to March 31, 2015, the Company entered into the following commodity contracts which commit monthly volumes for delivery, at the following prices:

Term	Volume (bbl/d)	Fixed Price[1] (US$/bbl)
May 1, 2015 - Jun 30, 2015	1,116	$55.10
Jul 1, 2015 - Sep 30, 2015	1,116	$53.47
Oct 1, 2015 - Dec 31, 2015	1,116	$53.22

[1] *Pricing is adjusted on a monthly basis for quality and transportation*