The following Management's Discussion and Analysis ("MD&A") has been prepared by management and reviewed and approved by the Board of Directors of Virginia Hills Oil Corp. ("Virginia Hills" or "the Company"). This MD&A is a review of operations, current financial position and outlook for Pinecrest Energy Inc. ("Prior Virginia Hills") for the three months ended March 31, 2015 and 2014 and should be read in conjunction with the audited financial statements and related notes for the year ended December 31, 2014 of Pinecrest Energy Inc. (See Corporate Reorganization). The financial statements have been prepared in Canadian dollars, in accordance with International Financial Reporting Standards ("IFRS"). Unless otherwise noted, tabular amounts are in thousands of Canadian dollars. Oil and gas volumes, reserves and related performance measures are presented on a working-interest, before-royalties basis. This MD&A is based on information available as of May 21, 2015.

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".

CORPORATE REORGANIZATION

On April 15, 2015 (the "Effective Date"), the Company completed a corporate reorganization as part of a plan of arrangement (the "Arrangement") pursuant to section 193 of the Alberta Business Corporations Act. The Arrangement had previously been approved by the common shareholders of Pinecrest Energy Inc. ("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 $284.8 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 $5.0 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 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. In conjunction with the completion of the Arrangement, the Company arranged a new bank facility 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 Liquidity and Capital Resources and Subsequent Events).

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, from the Company's website: www.virginiahillsoil.com or by contacting the Company at Suite 500, 255-5th Avenue SW, Calgary, Alberta, T2P 3G6.

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 and decommissioning expenditures. 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

March 31	Three months ended	
	2015	**2014**
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 measure
(2) Net debt is defined as current assets minus current liabilities, plus outstanding bank debt
(3) Before the effects of derivative financial instruments

OPERATIONS UPDATE AND OUTLOOK

Virginia Hills' successful operations is dependent upon several factors, which include, but are not limited to: the Company's ability to maintain optimal production levels, efficiency in developing and operating its properties and controlling costs, the effectiveness of the Company's approach to managing capital spending allocations and commodity price volatility through a disciplined hedging program. The first quarter of 2015 was impacted by concerns of an oversupply of crude oil that surfaced in the later part of 2014, and negatively impacted oil prices. This, combined with an increase in North American crude oil inventories, and relatively strong oil production levels compounded the downward pressure on oil prices. The price of West Texas intermediate oil ("WTI") averaged US$48.58 per barrel during the first quarter of 2015, down more than 51% from the first quarter of 2014, and down from US $73.15 per boe for the fourth quarter of 2014. Average production volumes for the first quarter 2015 were 1,650 boe per day compared to 2,143 boe per day for the quarter ended March 31, 2014. Overall production declines reflect regular well declines in the absence of new wells drilled during the first quarter of 2015 and the prior twelve months. Low commodity prices and decreased average production volumes directly impacted the Company's operating cash flow for the quarter ended March 31, 2015, which was $0.7 million, compared to $6.4 million for the quarter ended March 31, 2014.

In light of the current market conditions, Virginia Hills focused on the review of its operating cost structure and the implementation of a redesigned well-maintenance program. The Company renegotiated with third party service suppliers to reduce the cost of their goods and services to establish predictable and stable operating costs. In addition a number of office-related contracts were reviewed, re-priced and in some cases, terminated to facilitate a reduction in general and administrative expenses.

Virginia Hills spent $1.0 million on capital activities during the quarter ended March 31, 2015, which was comparable to the quarter ended March 31, 2014. The Company focused its capital expenditures to reduce its overall cost structure in 2015 through a number of cost saving initiatives and to fully optimize its existing light oil waterflood 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. As part of the Company's overall strategy to protect operating cash flow from the volatility of commodity prices, Virginia Hills' entered into a series of physical sales agreements, covering approximately 1,116 boe per day (70%) of its forecasted average production, at an average price of Cdn $65.50 per boe (US to Cdn dollar conversion at $0.82), from May 1, 2015 to December 31, 2015.

On April 15, 2015, the Company completed its corporate reorganization and entered into a new credit facility with its lenders. The business plan 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 a private oil and gas producer, 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 2,165,556 common shares and assumed approximately $11.8 million in net debt. In connection with the acquisitions, Virginia Hills' subsidiary entered into an amended and restated credit facility with the lender, which was in place prior to completion of the acquisitions. Virginia Hills has aggregate credit facilities of $108.0 million, which are both due for review September 2016. Currently, there is a total of $101.3 million drawn on these facilities.

PRODUCTION

March 31	**Three months ended**		
	2015	**2014**	**% Change**
Production			
Number of days	*90*	*90*	
Crude oil (bbls/d)	1,556	2,033	(23)
Natural gas (mcf/d)	261	366	(29)
NGL (bbls/d)	51	49	4
Total (boe/d - 6:1)	**1,650**	**2,143**	**(23)**
Commodity mix			
Crude oil & NGL (%)	97	97	-
Natural gas (%)	3	3	-
Total (%)	100	100	-

The Company's production was 1,650 boe per day (97% light oil and NGLS') in the first quarter of 2015 compared to 2,143 boe per day for the first quarter of 2014. During the first quarter of 2015, the Company had approximately ● boe per day of uneconomic production shut-in, taking into account these shut-ins volumes, production declined ●% from 2014 first quarter levels. No wells were drilled or new wells brought on production during the first quarter of 2015 or 2014.

The full-year 2015 average production expectations for 2015 are 1,635 boe per day (97% light oil & NGL's), with the fourth quarter production forecast to average 1,650 boe per day (95% light oil and NGL's).

COMMODITY PRICES AND REVENUES

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 $7.1 million for the first quarter of 2015 compared to $18.2 million for the first quarter of 2014 and were due to lower average daily production and significantly lower average realized prices.

March 31	**Three months ended**		
	2015	**2014**	**% Change**
Crude oil sales	7,092	18,142	(61)
Natural gas sales	10	14	(29)
NGL sales	47	73	(36)
Total Sales	**7,149**	**18,229**	**(61)**
Average Realized Prices:			
Crude oil ($/bbl)	50.65	99.16	(49)
Natural gas ($/mcf)	0.43	0.43	-
NGL's ($/bbl)	10.50	16.58	(37)
Total ($/boe)	**48.15**	**94.51**	**(49)**

Crude Oil Prices

Virginia Hills' realized an average oil price of $50.65 per barrel for the first quarter of 2015, a 49% decrease compared to $99.16 per barrel for the first quarter of 2014. WTI averaged US $48.58 per barrel during the first quarter of 2015, a 51% decrease from the first quarter of 2014, and a 34% decrease from US $73.15 per barrel during the fourth quarter of 2014. Prices received by Virginia Hills are based on the Canadian Light Sweet Crude price, adjusted for quality differentials, and have historically been 95% of the Canadian Light Sweet Price.

The decrease in realized prices is consistent with the decrease in WTI and Canadian Light Sweet Crude benchmark prices over the three months ended March 31, 2015.

NGL and Natural Gas Prices

Virginia Hills entered into a marketing arrangement to sell its gas and NGL's at the Evi plant gate, which attracts lower prices than the benchmark prices, but eliminates third party gas transportation and processing expenses. As a result, Virginia Hills' realized average NGL prices were $10.50 per barrel for the first quarter ended 2015 compared to $16.58 per barrel realized in the comparative period in 2014. Realized gas prices were $0.43 per mcf for the first quarter of 2015 compared to $0.43 per mcf for the comparative period in 2014.

March 31	**Three months ended**		
Benchmark Prices	**2015**	**2014**	**% Change**
WTI oil price ($US/bbl)	48.58	98.68	(51)
Canadian Light Sweet Crude oil price ($/bbl)	53.13	99.76	(47)
Exchange rate ($US/$CDN)	0.807	0.907	(11)
AECO natural gas price ($/mcf)	2.75	5.62	(51)

(1) *In the first quarter of 2014 Virginia Hills had entered into various commodity price risk contracts that are considered economic hedges. The Company does not apply hedge accounting to these contracts, consequently, the contracts are revalued to fair value at the end of each reporting date. This results in unrealized gains or losses over the term of the contracts which is reflected each period in the statement of comprehensive income until the contracts are settled, at which time realized gains or losses are recorded. Per unit metrics including risk management contracts include only the realized gains or losses and exclude unrealized gains or losses on commodity price risk contracts. There were no contracts entered into during the first quarter of 2015.*

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 the 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. During the first quarter of 2014, Virginia Hills recorded a $1.4 million loss on the commodity swaps that were outstanding. The realized component of the loss was $0.5 million ($2.64 per boe) and the unrealized component of the loss was $0.9 million ($4.38 per boe). There were no oil price risk contracts outstanding and in effect during the first quarter of 2015.

Subsequent to quarter end, 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*

ROYALTY EXPENSE

Royalty expense includes royalties paid to provincial governments, freehold land owners and overriding royalty ("GORR") owners. Royalty expense was $1.0 million ($6.51 per boe) for the first quarter of 2015 compared to $2.8 million ($14.41 per boe) for the first quarter of 2014. The decrease in royalties is due to lower average daily production levels and lower average realized prices.

March 31	Three months ended		
	2015	2014	% Change
Royalty			
Crown	940	2,695	(65)
Freehold and GORR	27	84	(68)
Total royalties	**967**	**2,779**	**(65)**
Average Royalty Rate (% of sales)			
Crown	13	15	(13)
Freehold and GORR	-	-	-
Total	**13**	**15**	**(13)**
$ Per boe	6.51	14.41	(55)

Alberta has a favourable royalty environment for newly drilled horizontal oil wells called the Horizontal Oil New Well Royalty Rate ("HONWRR"). The HONWRR provides for a maximum royalty rate of 5% on production between 24 to 30 months or on the first 60,000 to 70,000 barrels, whichever comes first, and is a function of the total measured depth of each horizontal well. As new horizontal oil wells come off the HONWRR, royalties as a percentage of revenues will increase. A total of 65 wells have come off the 5% royalty holiday as at March 31, 2015.

First quarter 2015 royalties were 13% of revenues, and on a per boe basis, are lower compared to the first quarter of 2014, reflecting a decrease in the average daily production and prices, offset by an increase in royalty rates on horizontal oil wells that have exhausted the HONWRR.

The Company expects the average corporate royalty rate to be approximately 20%, ($11.00 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.

March 31	Three months ended		
	2015	2014	% Change
Production expense	3,253	4,813	(32)
Transportation expense	441	534	(17)
Total production and transportation expense	**3,694**	**5,347**	**(31)**
$ Per boe, Production	21.91	24.95	(12)
$ Per boe, Transportation	2.97	2.77	7
$ Per boe	24.88	27.72	(10)

Production Expenses

Production expenses were $3.3 million ($21.91 per boe) for the first quarter of 2015 compared to $4.8 million ($24.95 per boe) for the first quarter of 2014. Production expenses were lower in the first quarter of 2015 compared to the prior year, due mainly to a decrease in the quantity of propane and chemicals used and a decrease in the price of propane, offset in part by an increase in well maintenance costs.

Transportation Expenses

Transportation expenses were $0.4 million ($2.97 per boe) for the first quarter of 2015 compared to $0.5 million ($2.77 per boe) for the first quarter of 2014 and were lower due to a decrease in average daily production.

The Company is forecasting the 2015 production and transportation costs to average approximately $20.00 per boe and $3.00 per boe, respectively. 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

March 31	**Three months ended**		
	2015	**2014**	**% Change**
Other operating income	**191**	**145**	**32**
$ Per boe	1.29	0.75	72

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

DEPLETION AND DEPRECIATION EXPENSE

March 31	**Three months ended**		
	2015	**2014**	**% Change**
Depletion and depreciation expense	**3,967**	**5,622**	**(29)**
$ Per boe	26.72	29.15	(8)

Virginia Hills calculates depletion and depreciation ("D&D") expense on proved plus probable reserves ("2P reserves"). D&D expense was $4.0 million ($26.72 per boe) for the first quarter of 2015 compared to $5.6 million ($29.15 per boe) for the first quarter of 2014. D&D expense decreased on a total dollar basis for the quarter ended March 31, 2015 due to a decrease in the depletion base, resulting from the asset impairment provision at the end of 2014. At March 31, 2015, Virginia Hills had included future development costs of $45.0 million, and excluded $3.1 million (associated with spare equipment) compared to $110.2 million in future development costs added to the depletion base at the end of the first quarter of 2014.

GENERAL AND ADMINISTRATIVE EXPENSE

March 31	Three months ended		
	2015	2014	% Change
Gross G&A	1,389	1,494	(7)
Overhead recoveries	(155)	(251)	(38)
Capitalized G&A	(68)	(127)	(46)
Net cash G&A	1,168	1,116	5
Share based payments, net (1)	23	252	(91)
Total G&A	**1,189**	**1,368**	**(13)**
$ Per boe, net cash G&A	7.86	5.79	36
$ Per boe, share based payments	0.14	1.30	(89)
$ Per boe	8.00	7.09	13

(1) Share-based payments is a non-cash charge to the statements of comprehensive income and is net of capitalized share based payments.

Net cash general and administrative ("G&A") expense, before share-based payments, for the first quarter of 2015 was $1.2 million ($7.86 per boe) compared to $1.1 million ($5.79 per boe) incurred in the first quarter of 2014. The increase is due to costs relating primarily to legal and advisory services associated with the corporate reorganization that was completed on April 15, 2015. Overhead recoveries and capitalized G&A were lower in the first quarter of 2015 compared to the prior year, due to decreased capital activity. G&A expense, on a per boe basis, increased in the first quarter of 2015 compared to the first quarter of 2014 due to lower average production levels.

Virginia Hills expects the G&A expenses to be approximately $3.6 million for the 2015 fiscal year.

Share Based Compensation

March 31	Three months ended		
	2015	2014	% Change
Share based payments	26	301	(91)
Share based payments capitalized	(3)	(49)	(94)
Share based payments, net	**23**	**252**	**(91)**

Share-based payments are non-cash charges and reflect amortization of the estimated fair value of stock options, performance warrants and incentive awards (collectively "stock awards") granted to employees, directors and key consultants of Virginia Hills.
The fair value is estimated using the Black-Scholes Option Pricing model, determined at the date of grant, based on estimated volatility, forfeiture rates, risk-free interest rates, and the expected life of the stock awards. This expense may not represent actual cash compensation realized by the recipients of the awards upon future exercise. During the first quarter of 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 (for the first quarter 2014 - $0.3 million; $0.2 million expensed and $0.1 million capitalized).

A total of 25,000 restricted incentive awards and 12,500 performance awards were forfeited during the quarter ended March 31, 2015. All issued and outstanding share incentive awards and performance warrants settled with a nominal payment on the date of the Arrangement (see Subsequent Events).

The following table outlines the issued and outstanding security instruments which are accounted for as share based compensation:

As at March 31 (000's)	2015 Outstanding	2015 Exercisable / Vested	2015 Exercise price(1)	2014 Outstanding	2014 Exercisable /Vested	2014 Exercise price(1)
Equity Settled Plans:						
Stock Options	-	-	-	235	157	$2.04
Performance Warrants	3,920	3,920	$0.50	3,920	3,920	$0.50
Cash-Settled Plans						
Restricted incentives	1,552	-	n/a	2,105	-	n/a
Performance incentives	2,135	-	n/a	2,666	-	n/a

(1) *Weighted average, per share*

FINANCE EXPENSE

March 31	Three months ended 2015	2014	% Change
Cash			
Interest	1,481	1,385	7
Non-cash			
Interest, amortization	117	68	72
Accretion	158	160	(1)
Total finance expense	**1,756**	**1,613**	**9**
$ Per boe, Interest	9.97	7.18	39
$ Per boe, Interest, non-cash	0.78	0.36	>100
$ Per boe, Accretion	1.06	0.83	28
$ Per boe	11.81	8.37	41

Interest Expense

Interest expense includes cash interest paid on the credit facility, standby fees, which are based on unused available credit, plus amortization of costs incurred to establish the credit line. Total interest expense for the first quarter of 2015 was $1.5 million ($9.97 per boe) compared to $1.4 million ($7.18 per boe) for the first quarter of 2014. Increased interest expense in the first quarter reflects a higher average outstanding debt balance and interest rate margins compared to the same period in 2014. On a per boe basis, interest expense has increased due a decrease in the average daily production.

Virginia Hills' applicable borrowing margin is a sliding scale pricing grid, tied to the Company's trailing debt to annualized quarterly funds from operations ratio and ranges from a low of 1.00% to a maximum of 2.5% over prime rate. Any borrowings in excess of $80.0 million bear an additional 1% of interest. The Company's interest rate for the quarter ended March 31, 2015 was 5.85 % (see Liquidity and Capital Resources).

Subsequent to March 31, 2015, bank debt was reduced by approximately 20% from Q1, 2015 levels after taking into account the Company's Corporate Reorganization, which included the repayment of approximate $21.7 million of bank debt from the consideration of $23.5 million received. The Company forecasts its 2015 interest expense to be approximately $6.2 million ($10.42 per boe).

Accretion expense
Accretion expense was $0.2 million ($1.06 per boe) for the first quarter of 2015 compared to $0.2 million ($0.83 per boe) for the first quarter of 2014. Accretion expense has increased, on a per boe basis, compared to the first quarter of 2014, reflecting a decrease in the average daily production. At March 31, 2015 the credit-adjusted risk free rate was 7.8% and the inflation rate was 2.0% (March 31, 2014 –8.2% and 2.0% respectively).

INCOME TAXES

Virginia Hills has not recorded a deferred tax expense or recovery for the first quarter of 2015 or 2014 because the tax basis of the assets exceeded the carrying values, resulting in an unrecorded deferred income tax asset of approximately $77.4 million. At March 31, 2015, the Company has approximately $408 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 (Loss)

March 31	**Three months ended**		
	2015	**2014**	**% Change**
Net income (loss)	**(4,233)**	**290**	**>(100)**
$ Per share, basic	$(0.02)	$0.00	(100)
$ Per share, diluted	$(0.02)	$0.00	(100)

Virginia Hills recorded a net loss of $4.2 million ($0.02 per share, basic and diluted) in the first quarter of 2015 compared to net income of $0.3 million ($0.00 per share, basic and diluted) recorded in the first quarter of 2014. The Company's net loss for the quarter ended 2015 is due to decreased average daily production and average realized prices.

Cash Flow from Operations

March 31	**Three months ended**		
	2015	**2014**	**% Change**
Cash flow from operations	**653**	**6,430**	**(90)**
$ Per Share, basic	$0.00	$0.03	(100)
$ Per Share, diluted	$0.00	$0.03	(100)

Cash flow from operations for the first quarter of 2015 was $0.7 million ($0.00 per share, basic and diluted) a decrease of 90% compared to $6.4 million ($0.03 per share, basic and diluted) for the first quarter of 2014. The decrease in cash flow from operations in the first quarter of 2015 was the result of a 49% decrease in average realized prices, a 23% decrease in in average daily production, compounded by an increase in interest charges.

Funds Flow from Operations

March 31	Three months ended		
	2015	**2014**	**% Change**
Cash flow from operations	653	6,430	(90)
Deduct:			
Change in non-cash working capital	621	(807)	>(100)
Funds flow from operations	**32**	**7,237**	**(100)**
Funds flow from operations			
Per Share – Basic	$0.00	$0.03	(100)
Per Share – Diluted	$0.00	$0.03	(100)

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 is defined by Virginia Hills as cash flow from operations, less the change in non-cash working capital and decommissioning expenditures.

The Company's funds flow from operations for the first quarter of 2015 was $0.03 million ($0.00 per basic and diluted share) compared to $7.2 million ($0.03 per basic and diluted share) for the first quarter of 2014, and was lower due to a decrease in average realized prices and average daily production.

***Netbacks* (1)**

Virginia Hills's field netback was $16.76 per boe for the first quarter of 2015 compared to $52.38 per boe for the first quarter of 2014. The decrease in operating netbacks is the result of decreased average daily production and average realized prices. The following table summarizes the net income on a barrel of oil equivalent for the three months ended as indicated:

March 31 $ Per boe	Three months ended		
	2015	**2014**	**% Change**
Average realized price	48.15	94.51	(49)
Royalty expenses	(6.51)	(14.41)	(55)
Production & transportation expenses	(24.88)	(27.72)	(10)
Field netback (1)	**16.76**	**52.38**	**(68)**
Realized loss on derivative financial instruments	-	(2.64)	(100)
Operating netback(1)	**16.76**	**49.74**	**(66)**
Other income	1.29	0.75	72
Cash general & administrative expenses	(7.86)	(5.79)	36
Cash financing	(9.97)	(7.18)	39
Cash flow netback(1)	**0.22**	**37.52**	**(99)**
Unrealized loss on derivative contracts	-	(4.38)	(100)
Depletion & depreciation	(26.72)	(29.15)	(8)
Interest (non-cash)	(0.78)	(0.36)	>100
Accretion	(1.06)	(0.83)	28
Share-based payments	(0.14)	(1.30)	(89)
Net income (loss)	**(28.48)**	**1.50**	**>(100)**

(1) *Non-GAAP Measure*

CAPITAL EXPENDITURES, ACQUISITIONS AND CAPITAL RESOURCES

March 31	Three months ended		
	2015	2014	% Change
Evaluation & exploration			
Undeveloped land, net of proceeds	67	65	3
	67	**65**	**3**
Property, plant & equipment			
Drilling & completions	389	1,444	(73)
Equipment & facilities	457	(650)	>(100)
Capitalized administrative	68	127	(46)
Corporate assets	-	22	<(100)
	914	**943**	**(3)**
Total capital expenditures	**981**	**1,008**	**(3)**

Capital Expenditures & Drilling Results

Virginia Hills spent $1.0 million on capital activities during the first quarter of 2015, relatively consistent compared to $1.0 million for the first quarter of 2014. First quarter 2015 expenditures included exploration expenditures of $0.07 million on Alberta crown rentals, $0.4 million on maintenance capital and $0.5 million on equipment and facilities which is primarily comprised of progress payments on construction of a free water knock-out facility at the Otter 04-13 waterflood, anticipated to be complete by the end of the second quarter 2015. In comparison, the first quarter of 2014 included $1.4 million in costs spent on well optimizations, and proceeds of $1.0 million from the equalization of costs at the Otter waterflood project were credited to equipment and facilities expenditures. There were no wells drilled in the first quarter of 2015 or 2014.

Land Holdings

As at March 31	2015		2014		% Change	
Acres	Gross	Net	Gross	Net	Gross	Net
Developed	20,320	**13,567**	20,640	13,677	(2)	-
Undeveloped	152,753	**149,301**	163,798	160,312	(7)	(7)
Total	**173,073**	**162,868**	**184,438**	**173,989**	**(6)**	**(6)**
Average working interest		**94%**		**94%**		

Virginia Hills held a total of 162,868 net acres of land at March 31, 2015, representing an average working interest of 94%. There were no land expiries in the first quarter of 2015. There is a total of 49,261 net acres of land that will expire in 2015, which was recorded as exploration expense in the year ended December 31, 2014.

LIQUIDITY AND CAPITAL RESOURCES

Virginia Hills' capital management strategy is to maintain a capital structure which will optimize the cost of capital at an acceptable level, provide optimal returns to shareholders, and manage the financial flexibility to preserve its ability to fund ongoing operations, future capital programs and property and corporate acquisitions. Virginia Hills monitors its capital structure and liquidity based on the ratio of total debt (which includes working capital and outstanding bank debt) to funds flow from operations (non-GAAP measure). This ratio is calculated by dividing the total debt at the end of the period by the annualized current monthly funds flow from operations. In order to monitor this ratio, management prepares production and capital expenditure budgets and forecasts, which are updated as necessary, depending on such factors as current and forecast commodity prices, capital deployment and general industry and market conditions. The budgets are monitored by management and the board of directors throughout the year.

The first quarter 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, the Company 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). 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, 2015 - 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 bank had not completed its annual review and borrowing base redetermination, however, the credit facility was amended, to limit the borrowing amount to $114.0 million, subject to the Arrangement which was announced during the quarter, and completed on April 15, 2015 (See Corporate Reorganization and Subsequent Events). The credit facility borrowing base shortfall remedy was removed from the credit facility during the first quarter, which, if the bank determines there is insufficient borrowing base, the outstanding bank line would be due and payable immediately.

The Company's 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 Virginia Hills' 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, the Arrangement will close, 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.

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.

Subsequent to March 31, 2015, Virginia Hills' entered into a new $97.0 million credit facility, completed a Private Placement equity offering for gross proceeds of $2.9 million, and completed an acquisition of a private oil and gas company, (see Corporate Reorganization and Subsequent Events). 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.

Net Debt and Working Capital

At March 31, 2015, Virginia Hills had net debt of $116.6 million, which comprised of outstanding bank debt of $111.4 million, and accounts payable in excess of accounts receivable and prepaid expenses of $5.1 million.

As at	March 31, 2015	December 31, 2014
Total current assets	3,579	5,358
Total current liabilities (including bank debt)	(120,141)	(120,860)
Working capital deficiency and debt outstanding	**(116,562)**	**(115,502)**

Net debt increased by $1.1 million at March 31, 2015 compared to December 31, 2014 due to reduced cash flows from operations (from a decrease in average daily production and lower average realized prices). Virginia Hills' capital expenditures program was funded during the quarter ended March 31, 2015 primarily with bank debt. Working capital is managed using cash flow from operations, advances under the credit facility and the issuance of equity, if required, and/ or available. At each quarter end, the major components of working capital included:

As at	March 31, 2015	December 31, 2014
Prepaids and deposits	240	553
Accounts receivable – marketers	2,575	3,129
Accounts receivable, net – joint interest partners, net	512	920
Accounts receivable – other parties	86	499
Accounts payable – trade	(8,555)	(10,033)
Bank debt	(111,420)	(110,570)
Working capital deficit	**(116,562)**	**(115,502)**

Credit Facility

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 Corporate Reorganization, and 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. 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). The following table shows the amount of maximum credit available under the Company's credit facility at the following dates:

As at	March 31, 2015	December 31, 2014
Maximum borrowing base limit	$ 114,000	$ 165,000
Bank imposed maximum limit	$ 114,000	$ 114,000
Outstanding bank debt		
Bankers' acceptances	-	(95,000)
Operating line, before deferred financing charges	(111,700)	(15,570)
Total available credit	**$ 2,300**	**$ 3,430**

Subsequent to March 31, 2015, and as part of the Corporate Reorganization, Virginia Hills' and its lenders 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 which have a term to September 30, 2016. In addition, the Company completed the acquisition of a private oil and gas producer. Consideration paid included the issuance of common shares and common share purchase warrants and the assumption of approximately $11.8 million in net debt. Upon completion of the acquisition, the Company and its lender entered into an amended and restated credit facility in the amount of $11.0 million. At May 21, 2015, a total of $100.4 million was drawn on the two credit facilities.

Share Capital

The Company had the following outstanding common shares and equity instruments:

March 31 *(000's)*	**Three months ended** **2015**	**2014**
Common Shares	217,212	217,212
Common Share Purchase Warrants [(1)(2)]	27,190	27,190
Stock Options[(2)]	-	235
Incentive Awards[(2)]	3,687	4,771
Total outstanding securities	**248,089**	**249,408**

[(1)] Includes a total of 3.9 million (March 31, 2014 – 3.9 million) performance warrants

[(2)] On the Effective Date of the Arrangement (April 15, 2015), all outstanding purchase warrants, stock options and incentive awards were cancelled (See Subsequent Events).

Total Market Capitalization

At May 21, 2015 the Company's market capitalization was approximately $4.9 million, based on total outstanding common shares, at the closing price of $0.25 per share (TSX Venture Exchange). At May 21, 2015, Virginia Hills had the following equity instruments outstanding:

(000's)	**Common**	**Warrants**
Balance, December 31, 2014 – Pinecrest Energy Inc.	*217,212,365*	-
Issued pursuant to the Arrangement (100:1) [(1) (2)]	2,172,124	-
Issued pursuant to the exercise of Arrangement Rights [(2)]	3,412,175	-
Issued in Private Placement [(3)]	11,974,300	23,948,600
Issued pursuant to Privateco acquisition [(4)]	10,600	4,000,000
Issued to Privateco third party service providers [(5)]	1,171,332	-
Issued to Privateco Executives [(6)]	983,624	-
Issued to the Company's senior lenders[(7)]	-	1,972,416
Total outstanding securities	**19,724,155**	**29,921,016**

(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.

(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, resulting in a total of 17,376,989 Arrangement Rights being issued, and are exercisable for $0.25 per share up to May 15, 2015. 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 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 a Privateco by way of an amalgamation with its wholly owned subsidiary, which was incorporated on February 6, 2015 for the sole purpose of completing the acquisition. Virginia Hills issued a total of 10,600 common shares and 4.0 million common share purchase warrants ("Series C Warrants") to the common shareholders of Privateco, and assumed approximately $11.8 million in net debt. The Privateco's lenders and the Company entered into an amended and restated credit facility in the amount of $11.0 million. 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, certain third party service providers of Privateco were issued Virginia Hills shares as payment for services previously rendered.

(6) A total of 983,624 common shares were issued to the former executive officers of Privateco as satisfaction of a portion of their change in control payments. The balance of the change in control payments 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 of the Market Price (as defined by the TSX Venture Exchange Company Finance Manual), 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.

(7) 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.

(8) Under the terms of the Privateco acquisition, and as consideration for entering into the amended and restated credit facility, the 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.

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 our 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. Subsequent to March 31, 2015, the Company entered into a series of commodity contracts which commit monthly volumes for delivery at prices ranging from USD $53.22 per barrel to USD $55.10 per barrel from May 1, 2015 to December 31, 2015.

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 March 31, 2015 and December 31, 2014 is limited to trade and other receivable balances and the fair value of financial instruments 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 25^{th} 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 March 31, 2015, Virginia Hills had the following liabilities outstanding: trade and other payables of $8.7 million, and $111.4 million outstanding on its revolving credit facility of $114.0 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 March 31, 2015. Had the market interest rate been 1% (100 basis points) higher (or lower) and assuming all other variables remained constant for the quarter ended March 31, 2015, net income would have been lower or higher by $0.2 million based on the average outstanding bank debt balance outstanding for the quarter ended March 31, 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. (Prior Virginia Hills) 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

- ***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.

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.

- ***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. Virginia Hills 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. 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. Virginia Hills 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 versions 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 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 is effective for annual periods beginning on or after January 1, 2017, 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 March 31, 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 March 31, 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 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.

CONTRACUTAL OBLIGATIONS AND COMMITMENTS

The Company has the following commitments as at March 31, 2015:

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, totaling $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 totaling $1.5 million. The agreements may be cancelled by the Company upon providing 30 days written notice.

SUBSEQUENT EVENTS UPDATE

a) Plan of Arrangement: On April 15, 2105, (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 total consideration of $10 per warrant holder. All outstanding share incentive awards were cancelled as follows: 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; and 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 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, depreciation and taxes ("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, 2105 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%.

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 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"). Of the two warrants, the Series A Warrants will be exercisable at a price of $0.30 and the Series B Warrants will be 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 at a deemed price of $0.25 per share and 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 the Company's senior lender.

e) **Virginia Hills' Subsidiary Bank Debt:** Following the completion of the acquisition, Virginia Hills' subsidiary entered into an agreement to amend and restate the $11.0 million credit facility with the 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' subsidiary had a total of $10.8 million drawn on its credit facility.

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.

SUPPLEMENTAL QUARTERLY INFORMATION

	2015 Mar 31 Q1	2014 Dec 31 Q4	2014 Sep 30 Q3	2014 Jun 30 Q2	2014 Mar 31 Q1	2013 Dec 31 Q4	2013 Sep 30 Q3	2013 Jun 30 Q2
FINANCIAL								
Oil & gas sales	7,149	12,269	15,018	18,167	18,229	19,549	25,921	29,573
Funds flow from operations [1]	32	2,038	4,245	5,950	7,237	7,824	9,582	16,374
Per share – basic	$0.00	$0.01	$0.02	$0.03	$0.03	$0.04	$0.04	$0.08
Per share – diluted	$0.00	$0.01	$0.02	$0.03	$0.03	$0.04	$0.04	$0.07
Cash flow from operations	653	3,601	4,990	7,351	6,430	6,714	11,514	12,251
Per share – basic	$0.00	$0.02	$0.02	$0.03	$0.03	$0.03	$0.05	$0.06
Per share – diluted	$0.00	$0.02	$0.02	$0.03	$0.03	$0.03	$0.05	$0.05
Net income (loss) [2]	(4,233)	(176,473)	51	407	290	(178,115)	(843)	4,196
Per share – basic	$(0.02)	$(0.81)	$0.00	$0.00	$0.00	$(0.82)	$0.00	$0.02
Per share – diluted	$(0.02)	$(0.81)	$0.00	$0.00	$0.00	$(0.82)	$0.00	$0.02
Capital expenditures, net of dispositions	981	3,100	2,846	777	1,008	1,730	23,886	2,331
Total assets	116,340	121,101	296,960	300,889	306,700	311,567	513,798	500,637
Net debt [1],[3]	116,562	115,502	113,627	115,837	121,405	126,721	130,902	120,774
OPERATING								
Average daily production								
Crude oil (bbls/d)	1,556	1,775	1,688	1,916	2,033	2,479	2,674	3,467
Natural gas (mcf/d)	261	322	316	457	366	478	463	561
NGLS (bbls/d)	51	56	68	78	49	61	53	54
Total (boe/d)	1,650	1,885	1,808	2,070	2,143	2,620	2,804	3,615
Average prices								
Crude oil (bbls/d)	50.65	74.75	96.12	103.69	99.16	84.04	103.90	92.40
Natural gas (mcf/d)	0.43	0.16	0.10	0.55	0.43	2.21	2.52	3.55
NGLS (bbls/d)	10.50	11.19	13.34	9.19	16.58	50.95	51.54	48.17
Netbacks ($/boe) [1]								
Average prices	48.15	70.74	90.24	96.45	94.51	81.12	100.46	89.90
Royalties	(6.51)	(14.07)	(18.44)	(18.80)	(14.41)	(10.36)	(10.86)	(7.23)
Production & transp.	(24.88)	(30.51)	(32.06)	(24.97)	(27.72)	(23.66)	(29.06)	(22.31)
Field netback [1]	16.76	26.15	39.74	52.68	52.38	47.10	60.54	60.31
Realized gain (loss) on derivative contracts	-	4.21	(1.95)	(3.94)	(2.64)	(5.94)	(15.46)	(3.59)
Operating netback	16.76	30.37	37.79	48.74	49.74	41.16	45.08	56.72

(1) *Non-GAAP measure*
(2) *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*