Virginia Hills Oil Corp. Announces Second Quarter 2015 Results

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TSX Venture Exchange: VHO

CALGARY, Aug. 13, 2015 /CNW/ - Virginia Hills Oil Corp. ("**Virginia Hills**" or the "**Company**") announces that it has filed on SEDAR its unaudited condensed consolidated financial statements and related Management's Discussion and Analysis ("**MD&A**") for the three and six months period ended June 30, 2015. The statements are available for review at www.sedar.com or www.virginiahillsoil.com.

Second Quarter of 2015 Highlights

- Acquired approximately 1,485 boe per day (97% light oil and NGL's) and 134,500 net undeveloped acres solely focused in the Red Earth area of Northern Alberta through the capital reorganization of Pinecrest Energy Inc. on April 15, 2015;
- Closed the acquisition of a Red Earth focused private oil and gas Company on April 27, 2015 representing approximately 100 boe per day (85% light oil) and 24,000 net undeveloped acres, for total consideration of approximately $0.7 million plus the assumption of $11.5 million in debt;
- Raised an aggregate of approximately $3.8 million in cash through a private placement and rights issued under the plan of arrangement in respect of the corporate re-organization of Pinecrest Energy Inc., priced at $0.25 per Virginia Hill share;
- After giving effect to the above noted acquisitions and natural well declines the Company achieved production of 1,480 boe per day (97% light oil and NGL's) after shutting in approximately 25 boe per day of uneconomic production and 20 boe/d of production due to a pipeline break;
- Realized a field operating netback of $33.30 per boe on average realized pricing of $61.54 per boe. Royalties and production costs for the quarter were $2.22 per boe and $26.02 per boe, respectively; and
- Entered into a series of committed-volume fixed price oil contracts to deliver approximately 1,130 bbls/d during the period from May 1, 2015 to December 31, 2015, at an average fixed oil price of $53.78 US per bbl.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

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

(1) Non-GAAP measure
(2) Shares and per share amounts for comparative periods reflect the 100:1 share consolidation as though the consolidation took place at the beginning of the earliest period
(3) Net debt is defined as current assets minus current liabilities, plus outstanding bank debt
(4) Before the effects of derivative financial instruments, but includes gains or losses on fixed price, physical contracts that are not considered derivative instruments.

Highlights

During the quarter, Virginia Hills initiated a conservative strategy of increasing shareholder value through a measured capital program focused on optimizing the Company's significant light oil resource and extensive infrastructure foot print in the greater Red Earth area.

Production for the quarter averaged 1,480 boe/d (97% light oil and NGL's) with approximately 25 boe/d of uneconomic production shut in due to low commodity prices and 20 boe/d of production shut in due to a pipeline failure. No new wells were drilled on the Company's land based over the prior 12 month period.

Field operating netbacks for the quarter were $33.30 per boe on an average realized pricing of $61.54 per boe. Royalties and Operating costs for the quarter were $2.22 per boe and $26.02 per boe, respectively. Operating costs were negatively affected in the quarter by the failure of a Company owned and operated pipeline resulting in the release of approximately 20 barrels of oil onto the surface in the Company's Greater Red Earth field. Net costs associated with the spill in the quarter were approximately $0.7 million or $4.88 per boe for the quarter. Although there will be additional costs associated with the spill site remediation, the Company does not anticipate these costs to be material in subsequent quarters. In the second quarter, Virginia Hills initiated a number of projects focused on reducing its operating cost structure with go forward costs expected to trend downwards from second quarter levels to approximately $23.00 per boe by year end 2015.

In the quarter the Company entered a series of fixed volume contracts to sell approximately 1,130 bbls/d of light oil at its Red Earth battery from May 1, 2015 to December 31, 2015 at an average fixed price of $53.78 US per bbl or $70.00 CND per bbl (0.77 CND/ 1.00 US). The contracts provide cash flow stability for the remainder of 2015 to ensure the Company is fully funded to complete its planned capital program in 2015 at current strip pricing.

The Company is forecasting to spend approximately $9.3 million in 2015 directed at improving its operating cost structure, optimizing existing water floods and implementing acid fracturing techniques into the drilling of up to 4.0 gross (4.0 net) light oil Slave Point horizontal oil wells. Virginia Hills anticipates completing and bringing on production 2.0 gross (2.0 net) of the horizontal wells in the last half of 2015. To date, in the third quarter the Company has drilled and cased 1.0 gross (1.0 net) light oil horizontal well and is forecasting to drill up to an additional 3.0 gross (3.0 net) wells.

Currently, production is averaging approximately 1,450 boe/d (97% light oil and NGL's) for the third quarter of 2015. The Company anticipates commissioning its water flood optimization project and commencing production from up to 2.0 gross (2.0) net light oil Slave Point horizontal wells in September 2015.

The Company expects to provide an operational update on the capital program in the fourth quarter when appropriate.

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

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

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

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

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

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

SOURCE Virginia Hills Oil Corp.

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