



**Interim Condensed Consolidated Financial Statements  
(Unaudited)**

**For the three and nine months ended  
September 30, 2015 and 2014**

# Virginia Hills Oil Corp.

## Interim Condensed Consolidated Balance Sheets

(Canadian \$000, Unaudited)

	Note	September 30, 2015	December 31, 2014
<b>ASSETS</b>			
<b>Current assets</b>			
Trade and other receivables	16	\$ 5,909	\$ 4,805
Prepays and deposits		618	553
		6,527	5,358
<b>Non-current assets</b>			
Exploration and evaluation assets	5	3,786	3,633
Property, plant and equipment	6	112,592	112,110
<b>Total Assets</b>		<b>\$ 122,905</b>	<b>\$ 121,101</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	15	\$ 15,261	\$ 10,290
Derivative liability associated with bank debt	7	260	-
Bank debt	7,15	101,955	110,570
		117,476	120,860
<b>Non-current liabilities</b>			
Decommissioning provision	8	11,504	11,245
<b>Total Liabilities</b>		<b>128,980</b>	<b>132,105</b>
<b>Shareholders' Equity (Deficit)</b>			
Share capital	10	284,183	281,308
Warrants	11	1,455	13,089
Contributed surplus	12	18,631	5,283
Deficit		(310,344)	(310,684)
<b>Total Shareholders' Deficit</b>		<b>(6,075)</b>	<b>(11,004)</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>\$ 122,905</b>	<b>\$ 121,101</b>
<b>Going Concern</b>	3b		
<b>Commitments</b>	17		
<b>Subsequent Event</b>	18		

The notes are an integral part of these interim condensed consolidated financial statements

## Virginia Hills Oil Corp.

### Interim Condensed Consolidated Statements of Net Income and Comprehensive Income

For the three and nine months ended September 30

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

	Note	Three months ended		Nine months ended	
		2015	2014	2015	2014
<b>Revenue</b>					
Petroleum and natural gas sales		\$ 8,302	\$ 15,018	\$ 23,738	\$ 51,414
Royalties		(884)	(3,069)	(2,153)	(9,389)
Petroleum and natural gas revenue		7,418	11,949	21,585	42,025
Other operating income		125	190	468	488
Gain (loss) on derivative financial instruments	15	-	627	-	(1,070)
<b>Total revenue and other operating income</b>		<b>7,543</b>	<b>12,766</b>	<b>22,053</b>	<b>41,443</b>
<b>Expenses</b>					
Production		3,481	4,830	9,786	13,880
Transportation		558	506	1,451	1,508
Depletion and depreciation	6	3,725	4,902	11,294	16,088
Impairment	6	454	-	454	-
Exploration	5	64	-	64	-
General and administrative		951	812	3,103	4,207
Transaction costs	2,6	114	-	4,142	-
		9,347	11,050	30,294	35,683
<b>Operating income (loss)</b>		<b>(1,804)</b>	<b>1,716</b>	<b>(8,241)</b>	<b>5,760</b>
<b>Finance expense</b>					
Interest expense	7	1,884	1,501	5,575	4,543
Accretion on decommissioning provision	8	158	164	470	469
<b>Total finance expense</b>		<b>2,042</b>	<b>1,665</b>	<b>6,045</b>	<b>5,012</b>
Gain on disposition	2	-	-	(13,878)	-
<b>Income (loss) before income tax</b>		<b>(3,846)</b>	<b>51</b>	<b>(408)</b>	<b>748</b>
<b>Income tax expense</b>					
Deferred income tax expense	9	(748)	-	(748)	-
		(748)	-	(748)	-
<b>Net Income (Loss) and Comprehensive Income (Loss)</b>		<b>\$ (3,098)</b>	<b>\$ 51</b>	<b>\$ 340</b>	<b>\$ 748</b>
<b>Income (loss) per share</b>					
Basic	13	<b>\$(0.16)</b>	\$0.02	<b>\$0.03</b>	\$0.34
Diluted		<b>\$(0.16)</b>	\$0.02	<b>\$0.03</b>	\$0.34

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## Virginia Hills Oil Corp.

### Interim Condensed Consolidated Statements of Changes in Equity (Deficit)

For the three and nine months ended September 30

(Canadian \$000, Unaudited)

	Note	Three months ended		Nine months ended	
		2015	2014	2015	2014
<b>Share Capital</b>					
Balance, beginning of period	10	\$ 284,183	\$ 281,308	\$ 281,308	\$ 281,308
Common shares issued:					
Capital reorganization	2	-	-	853	-
Private Placement		-	-	2,994	-
Premium on flow-through shares		-	-	(748)	-
Fair value of warrants		-	-	(729)	-
Business acquisition	6	-	-	544	-
Share issue costs, net of tax		-	-	(39)	-
Balance, September 30		284,183	281,308	284,183	281,308
<b>Warrants</b>					
Balance, beginning of period	11	1,455	5,283	5,283	5,283
Warrants cancelled pursuant to capital reorganization	2	-	-	(5,283)	-
Warrants issued:					
Capital reorganization	2	-	-	98	-
Business acquisition	6	-	-	637	-
Fair value allocation of warrants		-	-	729	-
Warrant issue costs, net of tax		-	-	(9)	-
Balance, September 30		1,455	5,283	1,455	5,283
<b>Contributed Surplus</b>					
Balance, beginning of period	12	18,604	13,677	13,089	13,114
Capital reorganization	2	-	-	5,283	-
Share-based payments		27	101	259	664
Cash settled equity instruments		-	(139)	-	(139)
Balance, September 30		18,631	13,639	18,631	13,639
<b>Deficit</b>					
Balance, beginning of period		(307,246)	(134,262)	(310,684)	(134,959)
Total comprehensive income		(3,098)	51	340	748
Balance, September 30		(310,344)	(134,211)	(310,344)	(134,211)
<b>Total Shareholders' Equity (Deficit)</b>		<b>\$ (6,075)</b>	<b>\$ 166,019</b>	<b>\$ (6,075)</b>	<b>\$ 166,019</b>

The notes are an integral part of these interim condensed consolidated financial statements

## Virginia Hills Oil Corp.

### Interim Condensed Consolidated Statements of Cash Flows

For the three and nine months ended September 30

(Canadian \$000, Unaudited)

	Note	Three months ended		Nine months ended	
		2015	2014	2015	2014
<b>Cash flows from operating activities</b>					
Net income (loss)		\$ (3,098)	\$ 51	\$ 340	\$ 748
Adjustments for:					
Deferred taxes		(748)	-	(748)	-
Gain on disposition	2	-	-	(13,878)	(7)
Accretion of decommissioning liabilities		158	164	470	469
Amortized deferred finance charges		386	-	1,126	72
Depletion and depreciation		3,725	4,902	11,294	16,088
Impairment		454	-	454	-
Exploration		64	-	64	-
Share-based payments		24	77	238	567
Unrealized loss on derivative financial instruments		-	(949)	-	(505)
Change in non-cash working capital	16	(124)	745	883	1,339
		<b>841</b>	<b>4,990</b>	<b>243</b>	<b>18,771</b>
<b>Cash flows from investing activities</b>					
Exploration and evaluation assets		(65)	(69)	(464)	(178)
Property, plant and equipment		(7,181)	(2,777)	(9,629)	(4,453)
Proceeds on capital reorganization	2	1,000	-	23,500	-
Net working capital deficit acquired in business acquisition		-	-	609	-
Change in non-cash working capital	16	2,706	759	1,879	(2,422)
		<b>(3,540)</b>	<b>(2,087)</b>	<b>15,895</b>	<b>(7,053)</b>
<b>Cash flows from financing activities</b>					
Proceeds from bank debt		10,180	9,820	114,795	35,220
Repayment of bank debt		(7,750)	(12,920)	(132,915)	(46,820)
Debt issue costs		(249)	-	(2,110)	-
Issue of common shares, net of costs		-	-	3,800	-
Change in non-cash working capital	16	(243)	197	292	(118)
		<b>1,938</b>	<b>(2,903)</b>	<b>(16,138)</b>	<b>(11,718)</b>
<b>Net decrease in cash</b>		<b>(761)</b>	<b>-</b>	<b>-</b>	<b>-</b>
Cash, beginning of period		761	-	-	-
<b>Cash, end of period</b>		<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

The notes are an integral part of these interim condensed consolidated financial statements

# Virginia Hills Oil Corp.

## Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2015 and 2014

(Canadian \$000, unless otherwise stated, Unaudited)

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### 1. REPORTING ENTITY

Virginia Hills Oil Corp. and its wholly owned subsidiary (together “Virginia Hills” or the “Company”) are engaged in the acquisition, exploration, and development of oil and gas properties in western Canada. Virginia Hills is a public company, incorporated and domiciled in Alberta and is listed on the TSX Venture Exchange under the symbol “VHO-V”. The Company’s head office and principal place of business is located at 1500, 202-6<sup>th</sup> Avenue S.W., Calgary, Alberta T2P 2R9.

Virginia Hills was incorporated under the Business Corporations Act (Alberta) on November 5, 2014. The Company was incorporated for the purposes of participating in the Capital Reorganization of Pinecrest Energy Inc. (Note 2).

### 2. CAPITAL 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 Business Corporations Act (*Alberta*). The Arrangement had previously been approved by the common shareholders of Pinecrest Energy Inc. (“Pinecrest”) and the Court of Queen’s Bench of Alberta.

Pursuant to the Arrangement, the common shareholders of Pinecrest became the common shareholders of the Company and approximately 90% of Pinecrest’s Alberta oil and gas assets, and substantially all of the other assets and liabilities were transferred to the Company. The common shares of Pinecrest were then sold to Cardinal Energy Ltd. (“Cardinal”) for cash proceeds of \$23.5 million, of which \$1.0 million was placed into escrow, to satisfy certain closing adjustments. In addition to the upfront proceeds, the Company is entitled to receive an additional payment of \$5 million if, during the period from April 16, 2015 and ending on April 26, 2016, a front-month hedge is made available to Cardinal by one or more financial institutions, financial intermediaries or credit branches at a price of \$US 65 WTI per barrel of oil for a minimum of twelve months. This contingent consideration has not been recorded in these financial statements, as the amount is contingent upon the reference price of crude oil (WTI) reaching a minimum of \$US 65. Should Cardinal establish a front-month hedge, the value of the proceeds will be known and the full amount will be recorded at such time.

As part of the Arrangement, Pinecrest’s shareholders (the “Shareholders”) exchanged their shares on a basis of 100 Pinecrest 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 and expired on May 15, 2015. A total of 3,412,175 arrangement rights were exercised for gross proceeds of \$0.9 million. All outstanding common share purchase warrants, performance warrants and share incentive plan awards of Pinecrest were cancelled at April 15, 2015 for a nominal amount, pursuant to the Arrangement. On April 15, 2015, a total of \$22.6 million from the gross proceeds and exercise of the arrangement rights were used to repay outstanding bank debt. In addition, should Virginia Hills collect the contingent consideration; the full amount will be used to pay down outstanding debt. In conjunction with closing of the Arrangement, the Company arranged a new bank facility with the senior lenders.

As a result, on the Effective Date, Virginia Hills and Pinecrest were considered to be under common control as the Virginia Hills shareholders are the former Pinecrest shareholders, and therefore, the business of Virginia Hills is controlled by the same shareholders immediately before and after the Arrangement. The accounting for common control entities is not addressed under International Financial Reporting Standards 3 – *Business Combinations*, therefore an entity is required to develop an accounting policy. Management has determined that the predecessor values method of accounting is the most appropriate, whereby the predecessor carrying values of Pinecrest are reported, without any step-up in fair value, if any.

# Virginia Hills Oil Corp.

## Notes to the Interim Condensed Consolidated Financial Statements For the three and nine months ended September 30, 2015 and 2014 (Canadian \$000, unless otherwise stated, Unaudited)

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The transaction was accounted for as a capital reorganization of Pinecrest, and comparative financial information of Virginia Hills is reported as a continuation of Pinecrest's historical accounting records. Virginia Hills, as a continuation of Pinecrest, reports its full interest in the properties until disposed, and recorded a gain on the disposition of the Pinecrest shares during the second quarter of 2015 of \$13.9 million. Contingent consideration of \$5.0 million will be received by the Company should Cardinal secure a 12 month, front-month hedge at \$US 65 WTI per barrel of oil between April 16, 2015 and April 26, 2016. This amount will be recorded, only if it is received. Transaction costs associated with the capital reorganization totalling \$2.4 million dollars have been expensed.

### 3. BASIS OF PREPARATION & GOING CONCERN

**a) Statement of compliance:** These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The policies applied in these financial statements are consistent with the accounting policies as set out in Note 4 to the audited financial statements for the year ended December 31, 2014 of Pinecrest. The interim condensed consolidated financial statements were authorized for issuance by the Board of Directors on November 27, 2015.

**b) Going Concern:** These consolidated condensed interim 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 September 30, 2015, Virginia Hills had a working capital deficit (current assets minus current liabilities) of \$110.9 million (which included bank debt of \$102.0 million) and an accumulated deficit of \$6.1 million. During the nine months ended September 30, 2015, the Company reported net income of \$0.3 million and generated cash from operating activities of \$0.2 million, which included a non-recurring gain of \$13.9 million and transaction costs of \$4.1 million related to the capital reorganization and a corporate acquisition. The Company's cash flows and compliance with debt covenants is dependent upon realized current period net revenues. Operating cash flows were lower than the prior period due to depressed commodity prices and decreased production volumes. The recent decrease in revenues and operating cash flow and recent history of losses indicates the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

The senior debt and subsidiary debt agreements contain customary events of default, including: events based on bankruptcy and insolvency, non-payment of principal, interest or fees when due, change in control and material inaccuracy of representations and warranties, and a cross-default provision for breach of covenants. At September 30, 2015, the Company was in breach of its cumulative development capital expenditure covenant, which limits total cumulative development capital expenditures from April 1, 2015 to March 31, 2016 to \$6.4 million. The Company was not in breach of its cumulative total capital expenditure covenant which restricts capital spending to \$9.3 million for the same noted period. In addition, the Company's subsidiary was in default of its financial covenant, which, due to the cross-default provisions, resulted in a breach of the senior bank debt covenants. Subsequent to September 30, 2015, the senior lenders have temporarily waived the cumulative development capital expenditure covenant breach until December 31, 2015 and lenders of both facilities have provided a waiver of the Subsidiary Bank Debt financial covenant breach, which has been amended to reset the financial test beginning in November 2015. (Note 18).

The Company continues to meet its obligations with respect to ongoing operations. Management is limiting expenditures to the bank budget, which outlines approved maintenance and development capital and operating activities. During the nine months ended September 30, 2015, the Company completed the Arrangement, entered into a new credit facility in the amount of \$97.0 million with its senior lenders, closed a private placement equity offering in the amount of \$2.9 million (Note 10) and completed a corporate acquisition of a private oil and gas company and amended its \$11.0 million credit facility, and met its obligations under the farm-in arrangement by drilling and bringing on production two oil wells in the Red Earth area.

# Virginia Hills Oil Corp.

## Notes to the Interim Condensed Consolidated Financial Statements

### For the three and nine months ended September 30, 2015 and 2014

(Canadian \$000, unless otherwise stated, Unaudited)

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While these developments are positive, there can be no assurance that these initiatives that additional, or amended debt financing, or equity will be available or sufficient to meet the Company's commitments or 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 position and results of operations.

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 generate positive cash flows from operations. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and reported revenues, expenses and balance sheet classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

**c) Basis of measurement and functional currency:** These interim condensed consolidated financial statements are presented in Canadian dollars and have been prepared on the historical cost basis, except for certain derivative financial instruments and share-based payments, which are measured at fair value. The methods used to measure fair values are discussed in Note 6 to the audited annual financial statements for the year ended December 31, 2014 of Pinecrest.

**d) Basis of consolidation:** These interim condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, 1834163 Alberta Ltd. which was incorporated on July 4, 2014. Virginia Hills subscribed for shares on February 6, 2015 for the sole purpose of completing the acquisition of Dolomite Energy Inc. (Note 5). Upon completion of the acquisition, the Company's subsidiary amalgamated with the Dolomite Energy Inc. and continued on as Dolomite Energy Inc.

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

#### 4. SIGNIFICANT ACCOUNTING POLICIES

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

##### **Accounting Standards, Interpretations and Amendments to Existing Standards not yet Effective:**

The following are new and amended accounting pronouncements that have been issued but are not yet effective. Management is currently assessing the impact of these changes on the Company's accounting policies and financial statement presentation.

- **IFRS 9 Financial Instruments ("IFRS 9):** IFRS 9 was amended to 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 and supplements the new hedge accounting principles published in 2013. These amendments are effective for annual periods beginning on or after January 1, 2018 and are available for early adoption.

## Virginia Hills Oil Corp.

### Notes to the Interim Condensed Consolidated Financial Statements

#### For the three and nine months ended September 30, 2015 and 2014

(Canadian \$000, unless otherwise stated, Unaudited)

- **IFRS 11 Joint Arrangements (“IFRS 11”):** IFRS 11, as amended requires that interests in joint operations be accounted 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 will be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The standard may be applied retrospectively, or using a modified retrospective approach.

#### 5. EXPLORATION AND EVALUATION ASSETS

	<b>Cost</b>
At December 31, 2014	\$ 3,633
Capital Reorganization	(372)
Acquired in a business combination	125
Additions	464
Expensed	(64)
<b>At September 30, 2015</b>	<b>\$ 3,786</b>

#### 6. PROPERTY, PLANT AND EQUIPMENT

<b>Cost</b>	<b>Petroleum and natural gas properties</b>	<b>Office furniture and equipment</b>	<b>Total</b>
At December 31, 2014	\$ 489,949	\$ 612	\$ 490,561
Capital Reorganization	(48,740)	-	(48,740)
Acquisition, net	12,994	-	12,994
Additions	9,655	14	9,669
<b>At September 30, 2015</b>	<b>463,858</b>	<b>626</b>	<b>464,484</b>
<b>Accumulated Depletion, Depreciation and Impairment</b>			
At December 31, 2014	378,103	348	378,451
Capital Reorganization	(38,307)	-	(38,307)
Depletion and depreciation	11,234	60	11,294
Impairment provision	454	-	454
<b>At September 30, 2015</b>	<b>351,484</b>	<b>408</b>	<b>351,892</b>
<b>Carrying Value</b>			
At December 31, 2014	\$ 111,846	\$ 326	\$ 112,110
<b>At September 30, 2015</b>	<b>\$ 112,374</b>	<b>\$ 218</b>	<b>\$ 112,592</b>

## Virginia Hills Oil Corp.

### Notes to the Interim Condensed Consolidated Financial Statements For the three and nine months ended September 30, 2015 and 2014

*(Canadian \$000, unless otherwise stated, Unaudited)*

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**Corporate Acquisition:** During the first quarter of 2015, the Company acquired all the issued and outstanding common shares of Dolomite Energy Inc. (“Dolomite”), a private oil and gas producer by way of an amalgamation with its wholly owned subsidiary (the “Acquisition”). The purchase price was settled by issuance of 10,600 common shares at a fair value of \$0.48 per common share based on the market value of the shares on the date of acquisition and 4,000,000 common share purchase warrants with a fair value of \$0.1592 per unit (Note 11 “Series C Warrants”) for total consideration of \$0.6 million and assumed \$11.5 million of net debt, defined as bank debt, net of working capital. Each warrant entitles the holder to purchase one Virginia Hills Share at a price of \$0.50 for a period of three years.

The Company incurred transaction costs of \$1.6 million in conjunction with the acquisition, all of which have been expensed. In addition, a total of 983,624 common shares were issued at a price of \$0.25 per common share to former executive officers of Dolomite in satisfaction of a portion of their severance. The balance of executive 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 of Virginia Hills shares at the time of issuance. Should the executives elect to be paid in cash, the payment is subject to approval from the Company’s senior lenders. In addition certain third party service providers of Dolomite were issued 1,171,332 shares at a price of \$0.25 per share as payment for services previously provided (Note 11).

**Capitalized general and administrative expense:** During the nine months ended September 30, 2015, Virginia Hills capitalized directly attributable administrative costs of \$0.3 million (\$0.3 million of administrative expense and \$nil share-based payment) (December 31, 2014 - \$0.5 million: \$0.5 million of administrative expenses and \$nil of share-based payments).

**Depletion and depreciation:** At September 30, 2015, future development costs of \$90.8 million (December 31, 2014 - \$45.0 million) were included in the depletion calculation and costs of \$2.8 million (December 31, 2014 - \$3.1 million) relating to projects under construction were excluded from the depletion calculation.

**Impairment:** At September 30, 2015, the Company recorded an impairment loss of \$0.5 million on its non-core gas cash generating units located in Alberta and British Columbia. The gas CGU’s were written down to a recoverable amount of nil, based on the fair value less costs of disposal methodology. The estimated fair value of the CGU’s was determined using future cash flows adjusted for risks specific to the assets, discounted using an after tax discount rate of 10%. The discount rate was derived from the post-tax weighted average cost of capital for the Company. The impairment loss was the result of adjustments to future prices. The fair value measurement is classified as a level 3 in the fair value hierarchy.

## Virginia Hills Oil Corp.

### Notes to the Interim Condensed Consolidated Financial Statements For the three and nine months ended September 30, 2015 and 2014 (Canadian \$000, unless otherwise stated, Unaudited)

#### 7. BANK DEBT

As at		September 30, 2015	December 31, 2014
<b>Senior bank debt</b>			
Facility A - syndicated non-revolving loan	a)	\$ 90,000	\$ 95,000
Facility B – revolving operating loan		2,500	15,570
Subtotal		92,500	110,570
Less: unamortized deferred financing charges		(1,125)	-
		91,375	110,570
<b>Subsidiary bank debt</b>			
Credit facility – revolving term loan		5,797	-
Credit facility – non-revolving operating loan	b)	5,000	-
Value allocated to embedded derivative		(260)	-
Accretion on credit facility		133	-
		10,670	-
Less: unamortized deferred financing charges		(90)	-
		10,580	-
<b>Outstanding bank debt</b>		<b>\$ 101,955</b>	<b>\$ 110,570</b>

#### a) Senior Bank Debt: Facilities A and B

The Company's \$97.0 million credit facility 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. 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.

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%. At September 30, 2015 the Facilities interest rate was 5.7%.

The Facilities contain the following non-financial covenants: monthly reporting requirements, permitted indebtedness, permitted hedging, permitted encumbrances and place a limitation on the maximum capital spending of the Company. The Company is subject to financial covenants which are based on cash flow and earnings before interest, taxes, depreciation and amortization ("EBITDA") which restricts the variance from the bank-approved business plan over the periods from April 1, 2015 to September 30, 2015 to a maximum of \$0.7 million; October 1, 2015 to March 31, 2016 to the lesser of 25% and \$1.5 million and from April 1, 2016 to September 30, 2016 to the lesser of 25% and \$2.0 million; net debt may not exceed \$100.2 million, and daily production volumes may not vary below the bank approved business plan by more than 10%. In addition, the Company's cumulative capital expenditures may not exceed \$9.3 million from April 1, 2015 to March 31, 2016, with development capital limited to \$6.4 million, of which a maximum of \$4.8 million may be spent on the farm-in wells, and maintenance capital limited to \$2.9 million expenditures. At September 30, 2015, the Company was in compliance its covenants, except the allocation of the capital expenditures between development and maintenance capital. At the end of September 30, 2015, the Company had expended development capital in excess of the \$6.4 million, but had not exceeded its capital spending limit of \$9.3 million or its spending limit of \$4.8 million on the farm-in wells. Subsequent to September 30, 2015, the Company received a temporary waiver from the bank with respect to the development capital expenditure default until December 31, 2015.

## Virginia Hills Oil Corp.

### Notes to the Interim Condensed Consolidated Financial Statements

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The Company incurred fees to establish the Facilities in the amount of \$1.6 million which were deferred, and are payable over the term of the Facilities (\$1.5 million in cash fees and \$0.1 million in non-cash fees paid in the form of warrants). The Company issued a total of 1,972,416 common share purchase warrants to the lenders ("Series D Warrants") representing 10% of the issued and outstanding shares of the Company as 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 Facilities mature (Note 11). A total of \$1.2 million remains payable at September 30, 2015 which is included in trade and other payables.

#### b) Subsidiary Bank Debt

Following the completion of the corporate acquisition of Dolomite, Virginia Hills' subsidiary entered into an agreement to amend and restate the \$11.0 million credit facility. 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. From April 1, 2016 through to and including April 15, 2016, the lender, at their option, 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 based on a twenty day volume weighted average price. This conversion feature is an embedded derivative and is reported separately as a current liability on the balance sheet. The embedded derivative will be revalued and marked to market on each balance sheet date, with the resulting difference being recorded as a financing gain or loss in the income statement. The bank debt is carried at amortized cost, using the effective interest method, which will accrete the liability up to full value of the bank debt at the expiry of the conversion feature; this amount is recorded as a non-cash finance expense. Total fees of \$0.1 million were paid to the bank for amending the credit agreement.

The subsidiary is subject to customary reporting covenants, and a financial covenant that requires the three-month rolling average available cash flow (defined by the agreement) to be at least 75% of the three-month rolling average cash flow (defined under the agreement) as presented to the lender. At September 30, 2015, the subsidiary was not in compliance with its' financial covenant. Both credit facilities contain customary events of default, including: events based on bankruptcy and insolvency, non-payment of principal, interest or fees when due, change in control and material inaccuracy of representations and warranties, and a cross-default provision for breach of covenants. As a result, this default puts the senior bank debt in default as well. Subsequent to September 30, 2015, the lenders of both facilities have provided a waiver of the subsidiary's financial covenant default, and the financial covenant has been amended to be based on minimum monthly working capital requirements, beginning November 2015 (Note 18). At September 30, 2015, Virginia Hills' interest rate was 5.7% per annum on its outstanding bank debt. During the nine months ended September 30, 2015, the Company incurred interest expense \$5.6 million (September 30, 2014 - \$4.5 million).

## 8. DECOMMISSIONING PROVISION

	Nine months ended September 30, 2015	Year ended December 31, 2014
Balance, beginning of period	\$ 11,245	\$ 10,450
Capital Reorganization	(1,184)	-
Assumed in a business combination (Note 6)	939	-
Obligations incurred	125	298
Revision of estimates	(91)	(83)
Accretion expense	470	635
Expenditures incurred	-	(55)
<b>Balance, end of period</b>	<b>\$ 11,504</b>	<b>\$ 11,245</b>

## Virginia Hills Oil Corp.

### Notes to the Interim Condensed Consolidated Financial Statements

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At September 30, 2015, a credit-adjusted risk-free rate of 7.9% and an inflation rate of 2.0% were used to calculate the fair value of the decommissioning obligation (December 31, 2014 – 7.8% and 2.0% respectively). The Company estimated the total undiscounted cash flows required to settle its decommissioning liabilities was approximately \$22.2 million at September 30, 2015, which will be incurred over the next 15 years.

## 9. TAXATION

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The Company used an annualized effective tax rate of 26.0% to determine its current period tax expense (September 30, 2014 - 25.0%). Deferred taxes reflect the tax effects of differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts reported for tax purposes. At September 30, 2015, the Company had \$20.7 million of unrecognized deferred tax assets, and has approximately \$175.6 million of tax pools available for deduction against future taxable income.

## 10. SHARE CAPITAL

### a) Authorized

At September 30, 2015, the Company was authorized to issue an unlimited number of common shares without nominal or par value and an unlimited number of preferred shares, issuable in series, with rights and privileges to be determined at time of issue. The holders of common shares are entitled to receive dividends as declared by the Board of Directors and to one vote per share.

On April 15, 2015, the Company completed a share consolidation of the Company's shares on a 100 for one basis, pursuant to the Arrangement (Note 2). All share information relating to basic and diluted income (loss) per share, issued and outstanding common shares, common shares issued, warrants, stock options and the weighted average number of common shares outstanding is presented on a retroactive basis as if the consolidation took place at the beginning of all years presented unless otherwise noted.

### b) Issued

<b>Share Capital Issued:</b>	<b>Number (000's)</b>	<b>Stated Value (\$)</b>
Balance, December 31, 2014	217,212	281,308
Cancelled pursuant to the Arrangement (Note 2)	(217,212)	-
Issued pursuant to the Arrangement (100:1 consolidation) (Note 2) <sup>(1)</sup>	2,172	-
Common shares issued:		
Arrangement Rights exercised (Note 2) <sup>(2)</sup>	3,412	853
Private Placement <sup>(3)</sup>	11,974	2,994
Less: premium on flow-through shares	-	(748)
fair value allocation of Warrants Series A & Series B	-	(729)
Dolomite acquisition (Note 6) <sup>(4)</sup>	11	5
Dolomite acquisition, debt settlement (Note 6) <sup>(5)</sup>	2,155	539
Share issue costs, net of tax	-	(39)
<b>Balance, September 30, 2015</b>	<b>19,724</b>	<b>284,183</b>

(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 (Note 2).

## Virginia Hills Oil Corp.

### Notes to the Interim Condensed Consolidated Financial Statements

#### For the three and nine months ended September 30, 2015 and 2014

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- (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 on May 15, 2015 for gross proceeds of \$0.8 million (Note 2).
- (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") (Note 12). The Company is committed to incur the full amount on qualifying Canadian Exploration Expenditures prior to December 31, 2015. Insiders subscribed for a total of 5,266,000 common shares issued.
- (4) On April 27, 2015 the Company completed an acquisition of a private company by way of an amalgamation with its wholly owned subsidiary. Virginia Hills issued a total of 10,600 common shares at a price of \$0.48 per share (Note 5).
- (5) On April 27, 2015, as part of the Acquisition (Note 5), certain payable obligations were settled by the issuance of common shares of the Company. A total of 983,624 common shares were issued at a price of \$0.25 per common share for a total of \$0.2 million, to the former executive officers of Dolomite as satisfaction of a portion of their change in control payments. The balance of the change in control payments of \$0.6 million 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, 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. In addition, a total of 1,171,332 common shares were issued at a price of \$0.25 for a total of \$0.3 million to certain third-party service providers as payment for services previously provided.

## 11. WARRANTS

	Number (000's)	Stated Value (\$)
Balance, December 31, 2014	23,270	5,283
Cancelled pursuant to the Arrangement (Note 2) <sup>(1)</sup>	(23,270)	(5,283)
Warrants issued:		
Series A - Private Placement <sup>(2)</sup>	11,974	418
Series B - Private Placement <sup>(2)</sup>	11,974	311
Series C - Dolomite acquisition (Note 6) <sup>(3)</sup>	4,000	637
Series D - New bank facilities (Note 7) <sup>(4)</sup>	1,972	98
Warrant issue costs, net of tax	-	(9)
<b>Balance, September 30, 2015</b>	<b>29,920</b>	<b>1,455</b>

- (1) On April 15, 2015, and as part of the closing consideration under the Arrangement, all Pinecrest outstanding common share purchase warrants and performance warrants were cancelled for total consideration of \$10 per warrant holder (Note 2).
- (2) On April 27, 2015, a total of 11,974,300 flow-through units ("Unit") were issued for gross proceeds of \$2.9 million. Each Unit comprises one common share, issued on a flow-through basis (Note 11), 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

## Virginia Hills Oil Corp.

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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.

- (3) On April 27, 2015 the Company completed an Acquisition (Note 5) and issued a total of 10,600 common shares and 4.0 million common share purchase warrants ("Series C Warrants") to the common shareholders of Dolomite. 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.
- (4) As part of the consideration for providing the Senior debt to the Company, 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, to the senior lender group. 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 bank facilities mature.

The following option pricing models were used to determine the fair values of the warrants issued during 2015:

Assumptions	Series A	Series B	Series C	Series D
Option Pricing Model	Monte Carlo	Monte Carlo	Black Scholes	Black Scholes
Grant date share price (\$)	0.48	0.48	0.48	0.25
Fair value (\$)	0.035	0.026	0.16	0.05
Expected volatility (%)	50.59	50.59	50.59	50.79
Risk free rate (%)	0.88	0.88	0.64	0.64
Forfeiture rate (%)	-	-	-	-
Dividend yield (%)	-	-	-	-
Expected life (years)	5	5	3	1.5
<b>At September 30, 2015</b>				
Quantity Outstanding (000,s)	11,974	11,974	4,000	1,972
Quantity Exercisable (000's)	-	-	-	-
Remaining life (years) <sup>(1)</sup>	4.6	4.6	2.8	1.3
Exercise price (\$) <sup>(1)</sup>	0.30	0.35	0.50	0.30

<sup>(1)</sup> Weighted average

## 12. SHARE-BASED PAYMENTS

### a) Stock-Option Plan

On April 16, 2015, the Company implemented a stock option plan whereby options may be granted from time to time to directors, officers, employees and consultants of the Company, with shares to be reserved for issuance as options not to exceed 10% of the issued and outstanding common shares. Options vest as to one-third on each of the first, second and third anniversary from the date of grant. The maximum term of an option grant is five years. At September 30, 2015 the following share options were issued and outstanding:

	Number (000's)	Exercise Price (\$) <sup>(1)</sup>	Remaining Expected life (years)
Outstanding, December 31, 2014	-	-	
Issued	1,844	\$0.25	4.9
<b>Outstanding, September 30, 2015</b>	<b>1,844</b>	<b>\$0.25</b>	<b>4.9</b>

<sup>(1)</sup> Weighted average

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The fair value of the options issued was estimated using the Black-Scholes option pricing model and the following weighted average assumptions: fair value at grant date of \$0.11, exercise price of \$0.25, risk-free interest rate of 1.0%, forecast volatility of 50.9%, forfeiture rate of 14.1% expected average life of 5 years, and dividend yield of 0%.

During the nine month period ended September 30, 2015, the Company recorded share-based payment compensation of \$0.01 million of which a total of \$0.01 million has been expensed (September 30, 2014 - \$0.7 million; \$0.6 million expensed and \$0.1 million capitalized).

### 13. PER SHARE AMOUNTS

The weighted average number of basic and diluted common shares and income per share prior to April 15, 2015 have been revised to reflect the 100:1 share consolidation (Note 2). For the nine months ended September 30, 2015, 31,765,180 warrants and options were excluded from the diluted earnings per share as their effect was anti-dilutive.

September 30	Three months ended		Nine months ended	
	2015	2014	2015	2014
Issued common shares, beginning of period	19,724	2,172	2,172	2,172
Shares issued during the period	-	-	9,878	-
<b>Basic: weighted average number of common shares</b>	<b>19,724</b>	<b>2,172</b>	<b>12,050</b>	<b>2,172</b>
Effect of incentive awards outstanding	-	42	-	46
<b>Weighted average number of common shares - diluted</b>	<b>19,724</b>	<b>2,214</b>	<b>12,050</b>	<b>2,218</b>

### 14. RELATED PARTY BALANCES AND TRANSACTIONS

The Company has retained the law firm of Burnet, Duckworth and Palmer LLP to provide legal services. The current Chairman of the Board and Corporate Secretary are partners at the law firm. During the nine months ended September 30, 2015, the Company incurred legal fees and disbursements of \$0.8 million (September 30, 2014 - \$0.2 million) related to general matters, the Acquisition and Arrangement, of which \$0.2 million was outstanding at September 30, 2015 (December 31, 2014 - \$0.01 million). These transactions were in the normal course of business and have been measured at fair value.

### 15. FINANCIAL RISK MANAGEMENT AND FAIR VALUE

Financial assets and liabilities include: cash, trade and other receivables, trade and other payables, risk management assets and liabilities, derivative liability associated with bank debt and bank debt. Risk management assets and liabilities arise from the use of derivative financial instruments. The Company is exposed to credit, market and liquidity risks from its use of financial instruments. Risk management policy is established by the Board of Directors and is implemented and monitored by senior management. The Company classifies the fair value of financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument:

Level 1:	Observable inputs, such as quoted market prices in an active market for identical assets or liabilities as of the reporting date;
Level 2:	Inputs, other than quoted market prices in an active market, which are observable, either directly (quoted prices) or indirectly (derived from prices);and
Level 3:	Unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

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### Notes to the Interim Condensed Consolidated Financial Statements

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**a) Fair value of non-derivative financial assets and liabilities**

The fair values of trade and other receivables, trade and other payables approximate their carrying amount due to the short-term maturity of these instruments. The bank debt bears interest based on specified benchmark interest rates plus a margin for the Company's own credit risk. The fair value of the bank debt approximates its carrying amount due to the fact that interest is adjusted periodically based on changes in the relevant benchmark interest rates and Company credit risk.

**b) Credit risk**

As at September 30, 2015, Virginia Hills's maximum exposure to credit risk was \$6.0 million (December 31, 2014 - \$4.8 million) which is the aggregate of trade and other receivables. Credit risk is the possibility that parties may default on their financial obligations to pay the Company. Virginia Hills manages its credit risk by: entering into sales contracts with only established, creditworthy counterparties, and restricting risk management transactions with counterparties that have strong credit ratings. The Company attempts to mitigate collection risk from joint interest partners by obtaining partner 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.

**Cash:** is comprised of bank balances, less outstanding cheques and if negative, is included in trade and other payables.

**Trade and other receivables:** The majority of the Company's accounts receivable is subject to concentration of credit risk as all of the Company's customers are in the oil and gas sector. The majority of the Company's trade and other receivables are from joint interest partners and crude oil and natural gas marketers. Receivables from oil and gas marketers are typically collected on the 25<sup>th</sup> day of the month following production. Receivables from joint interest partners are typically collected within one to three months from the joint venture billing date.

At September 30, 2015, the Company's trade and other receivables include \$2.7 million from crude oil and natural gas marketers which has substantially been collected subsequent to September 30, 2015. Collectability of the accounts receivable balances are assessed at each period end by management by reviewing the counterparty's credit worthiness and assessing the frequency of payments collected. The majority of the balances over 90 days are from an industry partner that has a history of consistent monthly payments.

The following table illustrates the Company's maximum credit exposure for trade and other receivables:

<b>As at</b>	<b>September 30, 2015</b>	<b>December 31, 2014</b>
Petroleum and natural gas sales	\$ 2,674	\$ 3,129
Joint venture receivables	2,092	1,184
Other receivables	1,154	499
Provision for bad debt	(11)	(7)
	<b>\$ 5,909</b>	<b>\$ 4,805</b>

  

<b>Accounts Receivable Aging</b>	<b>September 30, 2015</b>	<b>December 31, 2014</b>
Current to 90 days	\$ 4,294	\$ 4,743
Greater than 90 days	1,615	62
	<b>\$ 5,909</b>	<b>\$ 4,805</b>

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### Notes to the Interim Condensed Consolidated Financial Statements

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#### c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet a demand for cash or fund its financial liabilities as they come due or not being able to liquidate assets in a timely manner at a reasonable price. The Company monitors its liquidity requirements by preparing an annual budget, which includes operating, investing and financing activities. The Company generates a certain level of cash flows and has revolving reserves-based credit facilities (Note 7), which is used to partially fund operating, investing and financing activities (Note 3b) Going Concern). The following table shows the nature of Virginia Hills's payment obligations in the next year and beyond:

As at	September 30, 2015	December 31, 2014
Trade payables - production	\$ 9,051	\$ 7,343
Trade payables - capital	5,395	2,690
Joint venture payables	815	257
Total trade and other payables	15,261	10,290
Derivative liability associated with bank debt	260	-
Bank debt	101,955	110,570
Total current liabilities, due within 1 year	<b>\$ 117,476</b>	<b>\$ 120,860</b>

#### d) Market risk

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

**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 September 30, 2015 or December 31, 2014. Assuming all other variables remain constant, had the borrowing rate been 1 percent (100 basis points) higher (lower) for the nine months ended September 30, 2015, net income would have decreased or increased by approximately \$0.6 million based on the average outstanding bank debt balance for the nine months ended September 30, 2015.

**Commodity Price Risk:** Commodity prices for petroleum and natural gas are impacted by global economic events that dictate the levels of supply and demand, as well as the relationship between the Canadian dollar and the United States dollar. Significant changes in commodity prices may materially impact the Company's ability to raise capital. There were no outstanding commodity price risk contracts as at September 30, 2015 or December 31, 2014. The following table summarizes the commodity price risk contracts, that are considered financial instruments for the three and nine months ended September 30, 2015 and 2014:

September 30	Three months ended		Nine months ended	
	2015	2014	2015	2014
Realized loss	\$ -	\$ 322	\$ -	\$ 1,575
Unrealized loss (gain)	-	(949)	-	(505)
Loss (gain) on derivative financial instruments	\$ -	\$ (627)	\$ -	\$ 1,070

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### Notes to the Interim Condensed Consolidated Financial Statements

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The following physical delivery contracts commit the Company to deliver fixed volumes per month, at a fixed price are not considered financial instruments, and are not fair valued each period end. The following table summarizes the fixed, physical oil contracts that were in place during the three and nine months ended September 30, 2015.

Type of Contract	Term	Volume (bbl/d)	Price (US\$/bbl)
Oil	May 1, 2015 – Jun 30, 2015	1,135	\$55.10
Oil	Jul 1, 2015 - Sep 30, 2015	1,128	\$53.47
Oil	Oct 1, 2015 – Dec 31, 2015	1,128	\$53.22

Physical commodity contracts are not financial instruments and are not marked-to-market at period end. The contracts have a fixed price, payable in USD, adjusted for quality and transportation and are settled each month with the Company's regular monthly revenue payments. Virginia Hills received \$0.9 million and \$0.6 million in additional revenues for the quarter and nine months ended September 30, 2015 on these physical commodity contracts.

**Foreign Exchange Risk:** The Company's functional and reporting currency is Canadian dollars. The Company does not sell or transact in any foreign currency, however commodity prices are largely denominated in USD, and as a result the prices that the Company receives are affected by fluctuations in the exchange rates between the USD and the Canadian dollar. The exchange rate effect cannot be quantified, but generally an increase in the value of the Canadian dollar compared to the USD will reduce the prices received by the Company for its crude oil and natural gas sales. The Company did not have any foreign exchange rate swaps or related financial contracts in place as at September 30, 2015 or December 31, 2014.

#### e) Capital Management

Virginia Hill's capital structure includes shareholders' equity, which is not subject to external restrictions, bank debt and working capital. The Company's objectives for managing its capital structure are to: meet its financial obligations; internally finance future capital projects and property and corporate acquisitions and preserve its ability to access capital markets. The Company's overall objective in managing its capital structure has not changed during the nine months ended September 30, 2015.

Virginia Hills monitors its capital structure using a non-GAAP financial measure, which is the ratio of net debt to funds flow from operations. Net debt is defined as total bank debt plus working capital. Funds flow from operations is defined as cash flow from operating activities adjusted for changes in non-cash working capital, decommissioning expenditures and transaction costs. This ratio is calculated by dividing the net debt at the end of the period by the annualized current monthly funds flow from operations. This ratio may increase at certain times due to the timing of capital expenditures, acquisitions and changes in market conditions.

Management prepares production and capital expenditures budgets and forecasts, which are updated on a regular basis depending on factors such as current and forecast crude oil and natural gas prices, capital deployment and general industry conditions. The budget is approved by the board of directors and monitored by management throughout the year. In addition, the Company regularly reports to its lender group compared to budgets. In order to maintain or adjust its capital structure, the Company may issue common shares if available upon acceptable terms, repay existing debt, seek additional debt financing, adjust its capital spending and/or seek strategic alternatives.

## Virginia Hills Oil Corp.

### Notes to the Interim Condensed Consolidated Financial Statements For the three and nine months ended September 30, 2015 and 2014 (Canadian \$000, unless otherwise stated, Unaudited)

#### 16. SUPPLEMENTARY CASH FLOW INFORMATION

As at September 30	Three months ended		Nine months ended	
	2015	2014	2015	2014
Provided by (used in):				
Trade and other receivables	\$ (1,329)	\$ 1,815	\$ (991)	\$ 3,552
Prepays and deposits	215	378	(13)	-
Trade and other payables	3,454	(492)	4,058	(4,753)
	\$ 2,339	\$ 1,701	\$ 3,054	\$ (1,201)
Provided by (used in)				
Operating activities	\$ (124)	\$ 745	\$ 883	\$ 1,339
Investing activities	2,706	759	1,879	(2,422)
Financing activities	(243)	197	292	(118)
	\$ 2,339	\$ 1,701	\$ 3,054	\$ (1,201)
Interest received	\$ -	\$ 1	\$ -	\$ 2
Interest paid	\$ 4,449	\$ 1,303	\$ 1,499	\$ 4,588
<b>Non-cash investing and financing activities:</b>				
Issue of shares on Acquisition	\$ -	-	\$ 5	-
Issue of warrants	\$ -	-	\$ 735	-

#### 17. COMMITMENTS

The Company had the following commitments at September 30, 2015.

(\$000's)	2015	2016	2017	2018	2019	Thereafter
Office lease rentals	62	145	145	193	16	-
Field office lease rental	10	39	16	-	-	-
Equipment rentals	10	11	12	10	-	-
Electrification agreements	-	297	297	-	-	-
<b>Commitments</b>	<b>82</b>	<b>492</b>	<b>470</b>	<b>203</b>	<b>16</b>	<b>-</b>

The Company has \$0.6 million in commitments to install electrical service to a number of its well sites over the next 24 months. The agreements may be cancelled by the Company upon providing written notice at any time, but will be responsible for costs incurred by the vendor from date of contract up to date of cancellation.

The following table summarizes physical commodity contracts that were outstanding at September 30, 2015, which commit monthly volumes for delivery, at the following prices:

Term	Volume (bbl/d)	Fixed Price <sup>(1)</sup> (US\$/bbl)	Fixed Price <sup>(1)(2)</sup> (Cdn\$/bbl)
Oct 1, 2015 - Dec 31, 2015	1,128	\$53.22	\$70.96

<sup>(1)</sup> Pricing is adjusted on a monthly basis for quality and transportation

<sup>(2)</sup> Estimated Cdn\$ using exchange rate of 0.75

## **Virginia Hills Oil Corp.**

### **Notes to the Interim Condensed Consolidated Financial Statements**

#### **For the three and nine months ended September 30, 2015 and 2014**

*(Canadian \$000, unless otherwise stated, Unaudited)*

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#### **18. SUBSEQUENT EVENT**

Subsequent to September 30, 2015, the Company executed an Amended Subsidiary credit facility which amended the financial covenant test, to be based on a minimum working capital amount, beginning with the November 2015 month end. Consequently, lenders of both facilities have provided a waiver of the subsidiary's financial covenant default as at September 30, 2015. In addition, the Company received a temporary waiver from its Senior Lenders with respect to the cumulative development capital expenditure default until December 31, 2015.