MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("**MD&A**") is a review of the operations and current financial position for the three months ended March 31, 2017 for Petrocapita Income Trust ("**Petrocapita**" or the "**Trust**") and should be read in conjunction with the audited consolidated financial statements as at and for the years ended December 31, 2016 and 2015, together with the notes related thereto (the "**financial statements**"). All amounts are in Canadian dollars, unless otherwise stated and all tabular amounts are in thousands of Canadian dollars, except for percentages and amounts or as otherwise noted. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**"). Additional information relating to the Trust can be found on www.sedar.com.

Forward Looking Statements

Certain statements and information contained in these statements constitute forward-looking statements and forward-looking information as defined under applicable securities legislation (collectively, "**forward-looking statements**"). These forward-looking statements relate to future events or Petrocapita's future performance. All statements other than statements of historical fact are forward-looking statements. The use of any of the words "anticipate", "plan", "contemplate", "continue", "estimate", "expect", "intend", "propose", "might", "may", "will", "shall", "project", "should", "could", "would", "believe", "predict", "forecast", "pursue", "potential" and "capable" and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. No assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon. These statements speak only as of the date of the statements. In addition, these statements may contain forward-looking statements attributed to third party industry sources.

In particular, and without limitation, these statements contain forward-looking statements pertaining to the following:

- the reserve potential of Petrocapita's assets;
- the estimated production from Petrocapita's assets;
- the estimated quantity and value of Petrocapita's proved and probable reserves;
- Petrocapita's plans to continue with its heavy oil and water disposal based focus;
- Petrocapita's growth strategy of growing organically and through accretive acquisitions;
- expectations with respect to future growth, opportunities and stability;
- expectations regarding commodity prices and costs;
- Petrocapita's capital expenditure program and future capital requirements;
- Petrocapita's estimates of future interest and foreign exchange rates;
- expectations regarding taxability of the Trust;
- the potential for production disruption and constraints;
- supply and demand fundamentals for crude oil and natural gas;
- Petrocapita's access to adequate pipeline capacity;
- Petrocapita's access to third-party infrastructure;
- industry conditions pertaining to the oil and gas industry;
- Petrocapita's plans for exploration and development activities;
- Petrocapita's abandonment and reclamation cost expectations;
- Petrocapita's treatment under governmental regulatory regimes and tax laws;
- Petrocapita's access to capital and overall strategy, development and drilling plans for all of Petrocapita's assets; and
- expectations on how Petrocapita will manage exploration, production and marketing risks.

With respect to forward-looking statements contained in these statements, assumptions have been made regarding, among other things, the following:

- future crude oil, natural gas liquids and natural gas prices;
- Petrocapita's ability to obtain qualified staff and equipment in a timely and cost-efficient manner;
- the regulatory framework governing royalties, taxes and environmental matters in the jurisdictions in which Petrocapita conducts its business and any other jurisdictions in which Petrocapita may conduct its business in the future;
- Petrocapita's ability to market production of oil and gas successfully to customers;
- Petrocapita's future production levels;
- the applicability of technologies for recovery and production of Petrocapita's reserves;
- the recoverability of Petrocapita's reserves;
- future cash flows from production meeting expectations stated;
- geological and engineering estimates in respect of Petrocapita's reserves;
- the geography of the areas in which Petrocapita is conducting exploration and development activities;
- the impact of competition on Petrocapita; and
- Petrocapita's ability to obtain future financing on acceptable terms.

Actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and included elsewhere in these statements, including:

- business operations and capital costs;
- Petrocapita's status and stage of development and the management of growth;
- general economic, market and business conditions;
- volatility in market prices and demand for crude oil and natural gas and hedging activities related thereto;
- seasonality of the Canadian oil and gas industry;
- risks related to the exploration, development and production of oil and natural gas reserves;
- current global financial conditions, including fluctuations in interest rates, foreign exchange rates and stock market volatility;
- competition for, among other things, capital, the acquisition of reserves and skilled personnel;
- operational hazards;
- actions by governmental authorities, including changes in government regulation and taxation;
- environmental risks and hazards;
- risks inherent in the exploration, development and production of oil and natural gas which may create liability to Petrocapita in excess of its insurance coverage;
- cost of new technologies;
- failure to accurately estimate abandonment and reclamation costs;
- failure of third parties' reviews, reports and projections to be accurate;
- the availability of capital on acceptable terms;
- political risks;
- climate change;
- changes to royalty or tax regimes;
- the failure of the General Partner or the holders of certain licenses or leases to meet specific requirements of such licenses or leases;
- claims made in respect of Petrocapita's properties or assets;
- aboriginal claims;
- unforeseen title defects;
- risks arising from future acquisition activities;
- risks associated with the realization of anticipated benefits of acquisitions and dispositions;
- risks associated with the Trust's structure;
- hedging strategies;
- potential conflicts of interest;
- the potential for management estimates and assumptions to be inaccurate;
- risks associated with establishing and maintaining systems of internal controls;

- risks related to the reliance on historical financial information, including that historical financial information does not reflect the added costs that Petrocapita expects to incur as a public entity;
- liquidity and additional funding requirements;
- additional indebtedness;
- failure to engage or retain key personnel;
- potential losses which would stem from any disruptions in production, including work stoppages or other labour difficulties, or disruptions in the transportation network on which Petrocapita is reliant;
- uncertainties inherent in estimating quantities of oil and natural gas reserves;
- failure to acquire or develop replacement reserves;
- geological, technical, drilling and processing problems, including the availability of equipment and access to properties;
- disclosure of confidential information of Petrocapita; and
- other factors discussed under "*Risk Factors*".

In addition, information and statements in these statements relating to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated, and that the reserves described can be profitably produced in the future.

There are numerous uncertainties inherent in estimating quantities of oil and natural gas and the future cash flows attributed to such reserves. The reserve and associated cash flow information set forth in these statements are estimates only. In general, estimates of economically recoverable oil and natural gas and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates, ultimate reserve recovery, timing and amount of capital expenditures, marketability of oil and natural gas, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary materially. For these reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues associated with reserves prepared by different engineers, or by the same engineers at different times, may vary. Petrocapita's actual production, revenues, taxes and development and operating expenditures with respect to its reserves will vary from estimates thereof and such variations could be material. Readers are cautioned that the foregoing list of risk factors should not be construed as exhaustive.

The forward-looking statements included in this MD&A are expressly qualified by this cautionary statement and are made as of the date of this MD&A. Petrocapita does not undertake any obligation to publicly update or revise any forward-looking statements except as required by applicable securities laws.

General Business Description

Petrocapita Income Trust (the "Trust") was formed pursuant to a Declaration of Trust dated January 22, 2010. The Declaration of Trust was amended and restated on October 1, 2010, October 26, 2015 and October 18, 2016. The beneficiaries of the unincorporated Trust are the unitholders.

Following the internal reorganization described in note 2(c) of the condensed interim consolidated financial statements, the Trust has the objective of investing directly in the Petrocapita Energy Corp., who, through its ownership in Petrocapita Processing L.P. and Petrocapita Oil & Gas L.P., will carry on the business of investing in, conducting, engaging in, or otherwise being involved in one or more of the acquisition, exploration, exploitation, development, optimization, enhancement, production and processing of oil and natural gas and related products, and such other business activities as are in any way related, ancillary or incidental thereto.

The Trust became a public entity on November 19, 2015 and accordingly, the Trust became a "specified investment flow-through" (SIFT) trust for purposes of the *Income Tax Act (Canada)*. As a result, under the SIFT rules, certain distributions from a SIFT are not deductible in computing taxable income and the Trust is subject to tax on such distributions at a rate that is substantially equivalent to the general income tax rate applicable to a Canadian corporation. Distributions paid by a SIFT as returns of capital are not subject to the SIFT tax. Based on the current organization of the Trust and its subsidiaries, the Trust expects that its income distributed to unitholders will not be subject to SIFT tax.

The address and principal place of business of the Trust is Suite 1400, 717 – 7th Avenue SW, Calgary, Alberta, T2P 0Z3. The Trust’s units are listed on the Canadian Securities Exchange (“CSE”) and trade under the symbol “CSE.PCE.UN”.

Non-GAAP Measures

In addition to using financial measures prescribed by IFRS, references are made in this MD&A to "operating netback", "operating cash flow" "net debt", "funds flow from operations" and "funds flow netback", which are measures that do not have any standardized meaning as prescribed by IFRS and are not presented in the consolidated financial statements of Petrocapita. Accordingly, the Trust's use of such terms may not be comparable to similarly defined measures presented by other entities. Management uses such terms in the evaluation of Petrocapita's operating and financial performance and to provide Unitholders with a measurement of Petrocapita's efficiency and its ability to generate the cash necessary to fund its capital expenditures, repay debt or pay distributions.

"***Operating income (loss)***" is calculated as total petroleum and transport and disposal revenue less royalties, production and transportation expenses and transport and disposal processing expenses for the period. Management uses operating income (loss) as an indicator of operating performance and profitability. There are no IFRS measures that are reasonably comparable to operating income.

"***Operating netback***" is calculated as operating income divided by barrels of oil production volume for the period. Management uses operating netback as an indicator of operating performance and profitability relative to current commodity prices, calculated on a per barrel basis. There are no IFRS measures that are reasonably comparable to operating netback.

"***Funds flow netback***" is calculated as operating netback less general and administrative expenses (on a per barrel basis). By starting with operating netback and further deducting general and administrative (but not financing) costs, management uses funds flow netback as a supplemental indicator of operational profitability. There are no IFRS measures that are reasonably comparable to funds flow netback.

"***Funds flow from operations***" is calculated as cash flow from operating activities, as determined in accordance with IFRS, adjusted for changes in non-cash working capital and decommissioning obligations expenditures. Management considers funds flow from operations a key measure as it demonstrates Petrocapita's ability to generate cash flow necessary to fund future growth through capital investment and to repay debt. Funds flow from operations does not have any standardized meaning prescribed by IFRS and management's calculation of funds flow from operations may not be comparable to that reported by other entities. Funds flow from operations should not be considered an alternative to, or more meaningful than, cash flow from operating activities as determined in accordance with IFRS. Funds flow from operations per bbl is calculated using boe production volume for the period. Funds flow from operations per unit is calculated using the weighted average units (basic and diluted) used in calculating net income (loss) per unit on a basic and diluted basis.

A reconciliation of the cash flow from operating activities and funds flow from operations is as follows:

	Three months ended March 31	
($000s)	**2017**	**2016**
Cash flow from operations – IFRS	**(1,730)**	(865)
Changes in non-cash operating working capital	**759**	(207)
Bank interest income (net)	**-**	-
Funds flow from operations	**(2,489)**	(658)

Overview

Following the acquisition of the oil and gas properties of Palliser Oil and Gas Corporation ("Palliser") on July 11, 2016, and a couple minor acquisitions early in the first quarter of 2017, Petrocapita now owns and operates 445 gross (426.3 net) oil wells, 91 gross (22 net) gas wells, 19 produced water disposal facilities, three custom oil processing facilities, four natural gas compressor stations, 72.75 km in pipelines, oil well service rigs, fluid haul tractors and trailers, motor graders, and well site processing equipment.

During the three months ended March 31, 2017, Petrocapita's production increased 225% over the same quarter in the prior year as it produced an average of 947 gross equivalent boe/d of heavy oil, natural gas and natural gas liquids (824 bbl/d net) including royalty income volumes. In addition, Petrocapita's salt water disposal program processed approximately 68,429 bbls of fluid (10,874 m3) from third parties and produced approximately 625 barrels of skim oil (included in total oil production) for the three months ended March 31, 2017 (2016 - 836 bbls). The increase in production and revenue experienced in the first quarter of 2017 over the same period in the prior year is attributed to the acquisition of the oil and gas properties from Palliser in July of 2016.

In light of the discounted pricing for heavy oil production and the high water cut experienced in the mature fields in which Petrocapita operates, management continues to view the development of infrastructure – particularly with respect to salt water disposal, transportation and processing and realization of associated operating costs savings as a means to competitive advantage in the heavy oil business. This strategy is reflected in the various acquisitions completed by the Trust throughout the prior year.

To assist with the ongoing operations, during the first quarter, the Trust closed an additional tranche of the issuance of convertible secured subordinated debentures for gross proceeds of $427,000. The convertible debentures bear interest at 8% per annum, payable quarterly. The convertible debentures have a five-year term from December 31, 2015 and are convertible at the option of the holder into common units of the Trust at an amount equal to the average market trading price of such units for each of the last 20 trading days at any time after the second anniversary from the date of issue. Each debenture holder is entitled to 50,000 warrants for every $1,000 principal amount of convertible debentures subscribed for. Each warrant is exercisable at a price of $0.06 per warrant for a term of three years. The Trust issued 21.4 million warrants to debenture holders and 3.0 million broker warrants in conjunction with the current tranche.

Subsequent to the quarter end, on April 20, 2017, the Trust closed an additional tranche of secured convertible debentures for aggregate principal amounts of $333,000. The Trust issued 16.7 million warrants to debenture holders and 2.9 million broker warrants in conjunction with this tranche. The convertible debentures and warrants have the same term and conditions as the convertible debentures previously issued on December 18, 2015.

On February 8, 2017, the Trust announced it was proceeding with its offering of up to $20,000,000 of series 1 preferred trust units of the Trust by way of an exempt market offering. The offering consists of a tied offering of preferred units of the Trust and Class A shares of Petrocapita Energy Corp., a wholly-owned subsidiary of the Trust. On March 10, 2017, the Trust closed the first tranche of its series 1 preferred trust units for total aggregate principal amounts of $832,191. Total costs amounted to $125,482.

Subsequent to the quarter end, on April 24, 2017, the Trust closed the second tranche of its series 1 preferred trust units for total aggregate principal amounts of $1,338,308.

As at the date of this report, a total of 1.1 billion common units, 2.2 million preferred units and 431.1 million warrants are outstanding.

Revenue and Production Volumes

	Three months ended March 31		
	2017	**2016**	**%**
Oil			
Heavy oil revenue ($000s)	2,923	348	740
Skim oil revenue ($000s)	26	16	63
Total oil production (bbls/day)	824	251	228
Total oil production	74,204	22,860	225
Average realized price ($ per bbl)	39.74	15.92	150
Water disposal revenue ($000)	34	10	240
Water disposal volumes (m3)	10,874	2,845	282
Benchmark Prices			
WTI Oil (US$ per bbl) (1)	51.91	33.45	55
WCS Oil (US$ per bbl)) (2)	37.34	19.21	94
Heavy oil differential (3)	28%	43%	-34
CAD/USD average exchange rate	1.32	1.37	-3

Note:

(1) Western Texas Intermediate (“WTI”) refers to the arithmetic average based on NYMEX prompt month WTI.

(2) Western Canada Select blend (“WCS”) refers to the average posting price for the benchmark WCS.

(3) Heavy oil differential refers to the WCS discount to WTI

During the first quarter of 2017, Petrocapita’s production increased to 824 bbls per day from 685 bbls per day in the fourth quarter of 2016 representing a 18% increase in production quarter over quarter. For the three months ended March 31, 2017, production increased to 824 bbls per day from 251 bbls per day over the prior year representing a 225% increase. The increase in production experienced was a direct result of the addition of the Palliser oil and gas properties which began producing for Petrocapita on July 11, 2016.

Oil revenue experienced a 740% increase over the prior year’s quarter as a result of increased production combined with an increase in the WCS price of oil in the market from $19.21 to $37.34.

Water disposal revenue increased from $10 thousand to $34 thousand for the three months ended March 31, 2017 compared to the same period in the prior year. This increase is due to additional water disposal wells acquired as part of the Palliser asset acquisition.

Royalties

	Three months ended March 31		
	2017	2016	%
Oil revenue ($000s)	2,949	348	747
Total royalties ($000s)	342	20	1610
Total royalties ($ per bbl)	4.61	0.87	427
Percent of oil revenue	11.60%	5.75%	102

Royalties incurred in the three months ended March 31, 2017 over the prior year were consistent with the corresponding changes in oil revenue. Royalties in the current year quarter were higher as a percentage of oil revenue due to the additional royalties paid with respect to the Palliser acquisition financing.

Operating expense

	Three months ended March 31		
	2017	2016	%
Production ($000s)	2,971	511	481
Transportation ($000s)	282	32	781
Total ($000s)	3,253	543	499
Production ($ per bbl)	40.04	22.35	79
Transportation ($ per bbl)	3.80	1.40	171
Total ($ per bbl)	43.84	23.75	85

Production and transportation expenses for the three months ended March 31, 2017 were higher on per bbl basis over the same period in the prior year as a direct result of re-activating wells temporarily suspended for low oil prices and wells requiring surface and sub surface repairs resulting from an extended shut down associated with the Palliser insolvency. In addition, the high fixed cost of wells acquired but not yet reactivated such as surface lease rentals and rural municipal taxes had a disproportionately high impact on costs quarter over quarter.

Disposal processing expenses are the expenses associated with the Trust's water disposal wells. They are separated from production expense due to the processing nature of the assets and potential for third party revenue. In addition, as processing assets, they are evaluated separately from the Trust's reserves under National Instrument 51-101 and by the energy regulator in both Alberta and Saskatchewan for purposes of liability management.

Operating Netback

	Three months ended March 31		
	2017	**2016**	**%**
Production volumes (bbl/day)	824	251	228
Heavy oil revenue ($ per bbl)	39.74	15.92	150
Water disposal revenue ($ per bbl)	0.50	0.56	-11
Less: Royalties ($ per bbl)	(4.61)	(0.87)	427
Production expense ($ per bbl)	(40.04)	(22.35)	79
Transportation expense ($ per bbl)	(3.80)	(1.40)	171
Operating netback ($ per bbl)	(8.21)	(8.15)	1
Disposal processing expense ($ per bbl)	(2.17)	(1.36)	60
Oilfield service (net) ($ per bbl)	(0.78)	-	-
General & administrative expense ($ per bbl)	(18.71)	(18.33)	2
Finance expense, net ($ per bbl)	(4.68)	(0.83)	463
Total funds flow netback ($ per bbl)	(34.54)	(28.66)	21

Despite increased production volumes, the operating netback for the three months ended March 31, 2017 remained the same on a per bbl basis over the prior year quarter. This was a result of higher royalties related to the Palliser asset financing, higher production costs resulting from the re-activation of wells temporarily suspended for low oil prices and wells requiring surface and sub surface repairs resulting from an extended shut down associated with the Palliser insolvency and higher fixed costs of surface lease rentals and municipal taxes associated with wells acquired but not yet reactivated.

Funds flow netback for the three months ended March 31, 2017 decreased on a per bbl basis over the prior year quarter as a result of the higher than normal production expenses related to re-activation and the significant increase in general and administrative expense associated with a significantly larger operation post the Palliser acquisition and general and administration expenses associated with the startup of a multi-faceted midstream and oilfield service business.

General and Administrative Expenses

	Three months ended March 31		
	2017	**2016**	**%**
General & administrative expense ($000s)	1,393	425	
General & administrative recoveries ($000s)	(5)	(6)	
Total G & A expense ($000s)	1,388	419	
Total G & A expense ($ per bbl)	18.71	18.33	2

The increase in G&A costs experienced in the three months ended March 31, 2017 over the prior year period was largely the result of the addition of new personnel to assist with the initiation of an infrastructure component to the business and integration of the acquisitions made during the prior year.

Depletion and Depreciation

	Three months ended March 31		
	2017	**2016**	**%**
Depletion and depreciation ($000s)	865	230	276
Depletion and depreciation ($ per bbl)	11.66	10.04	16

Depletion for the three months ended March 31, 2017 was higher as a direct result of a higher level of activity and hence production post the Palliser acquisition and the re-activation program.

Finance Expense

	Three months ended March 31		
($000s)	**2017**	**2016**	**%**
Accretion expense – non-cash	255	44	
Amortization of financing costs	83	36	
Interest expense – cash	347	19	
Total finance expense	685	99	592

The increase in finance expense in the three months ended March 31, 2017, relates solely to the issuance of debenture, convertible debentures and preferred units during the prior year and current quarter and the related interest and amortization of finance costs associated with them.

Loss and Comprehensive Loss

	Three months ended March 31		
	2017	**2016**	**%**
Loss ($000s)	(3,809)	(941)	305
Loss per common unit, basic and diluted	(0.003)	(0.001)	

The operating results for the three months ended March 31, 2017 reflect a combination of weak oil prices, higher production and general and administrative costs, an unrealized loss of $102 thousand on the conversion features of the Trust's convertible debentures

Capital Expenditures

Capital expenditures (including exploration and evaluation assets) are summarized as follows:

	Three months ended March 31		
($000s)	**2017**	**2016**	**%**
Additions:			
Land	17	3	
Drilling and completion	408	11	
Equipping	368	11	
Acquisitions	22	3	
Other	7	-	
Total capital expenditures – cash	822	28	2836

During the first quarter, in addition to an asset acquisition of the wells and a produced water disposal facility owned by a former working interest partner of Palliser, the Trust incurred cash capital expenditures to bring shut-in wells on-line to provide additional production capacity.

Asset Acquisitions

During the three months ended March 31, 2017, the Trust acquired all of the Canadian oil and gas properties and assets of Maha Energy Inc. (“Maha”), including a produced water disposal facility and connecting water disposal flowlines for $1,650,000 to create additional operating efficiencies. The acquisition was accounted for as a business combination as the acquired assets and liabilities assumed constituted a business. The values attributed to property and equipment were determined with reference to an internal reserve report prepared by management using proved developed producing reserves discounted at approximately 15% - 20%.

Consideration was given by issuance of a convertible debenture in the amount of $1,650,000. The convertible debenture is secured by the acquired assets. The convertible debenture is for a term of seven years, carries an interest rate of 6% per annum, payable monthly, and principal repayments are due beginning on March 15, 2017, being $50,000 on each of March 15, 2017, April 15, 2017 and May 15, 2017, $200,000 on each of September 15, 2017, October 15, 2017 and November 15, 2017. The remaining principal balance of $900,000 will be repaid in equal monthly payments of approximately $12,000 beginning December 15, 2017 through February 9, 2024.

During the three months ended March 31, 2017, the Trust acquired ten wells and associated production equipment complimenting a produced water disposal facility, wells and production equipment acquired from the same company in 2015 for cash consideration of $21,825. Future abandonment and reclamation obligations associated with these assets are estimated at approximately $555,110.

Selected Financial Information – Quarterly Results

	Quarter Ended							
Financial ($000s)	**Q1 2017**	**Q4 2016**	**Q3 2016**	**Q2 2016**	**Q1 2016**	**Q4(*) 2015**	**Q3 2015**	**Q2 2015**
Total revenue (1)	3,081	2,600	1,601	685	374	646	1,061	1,029
Funds flow from operations (2)	(2,489)	(3,312)	(869)	(421)	(658)	(814)	(409)	16
Net income (loss)	(3,809)	(4,813)	1,922	(1,173)	(941)	(1,440)	(868)	142
Cash capital expenditures (3)	822	1,025	3,596	254	28	168	82	252
Total Assets	61,753	59,045	65,295	37,356	30,766	31,114	33,906	33,647
Operating								
Total oil production (bbls)	74,204	63,060	47,647	17,418	22,860	24,359	28,914	20,442
Total oil production (bbls/day)	824	685	518	191	251	265	314	222
Average realized oil price ($ per bbl)	39.74	38.23	33.46	33.99	15.92	27.34	36.11	49.30
Operating netback ($ per bbl)(2)	(8.21)	(14.63)	8.90	(1.86)	(8.15)	0.87	4.29	12.68

(*) *Restated – refer to note 3 in the Consolidated Financial Statements for the year ended December 31, 2016.*

Note:

(1) Includes heavy oil revenue, royalty income and transport and disposal revenues
(2) See "Non-GAAP Measures"
(3) Cash only capital expenditures including assets swaps, business combinations and asset acquisitions
(4) Income received from selling the oil that is recovered from the water to be disposed
(5) Income received from charging third parties for the disposal of water

Production is slightly cyclical for Petrocapita, producing more in the summer months when costs to heat the oil are low and servicing costs for re-activating wells are more competitive. Production (exclusive of the Palliser transaction) had been decreasing quarter over quarter due to the declining price of oil as Petrocapita temporarily shut in the less economical wells until the price of oil recovers. With the closing of the acquisition of the Palliser assets in the third quarter of 2016, production increased significantly in that quarter as the Palliser wells contributed to overall production starting July 11, 2016.

Water Disposal activities (included in above totals)

	Quarter Ended							
Financial ($000s)	**Q1 2017**	**Q4 2016**	**Q3 2016**	**Q2 2016**	**Q1 2016**	**Q4 2015**	**Q3 2015**	**Q2 2015**
Skim oil sold (bbls)	625	657	766	646	836	682	565	293
Skim oil revenue (4)	26	24	27	25	16	15	23	14
Water disposed (m3)	10,874	15,342	3,837	4,111	2,845	3,474	4,964	6,052
Water disposed (bbls)	68,429	96,545	24,146	25,870	17,903	21,861	31,238	38,084
Water disposal revenue (5)	34	53	13	14	10	12	17	21
Operating								
Total revenue ($ per bbl)	41.30	38.05	34.62	37.93	19.44	22.51	41.32	48.85
Royalties ($ per bbl)	(0.05)	(0.16)	(0.64)	-	(0.12)	(0.02)	-	(0.03)
Production expense ($ per bbl)	(2.28)	(3.87)	(4.82)	(0.90)	(1.64)	(2.09)	(1.20)	(1.85)
Transportation expense ($ per bbl)	(0.05)	(0.01)	(0.09)	(0.07)	(0.09)	(0.06)	(0.02)	(0.03)
Operating netback ($ per bbl)(2)	38.92	34.01	29.07	36.96	17.59	20.34	40.10	46.94

Note:

(1) Includes heavy oil revenue, royalty income and transport and disposal revenues
(2) See "Non-GAAP Measures"
(3) Cash only capital expenditures including assets swaps, business combinations and asset acquisitions
(4) Income received from selling the oil that is recovered from the water to be disposed
(5) Income received from charging third parties for the disposal of water

Water disposal wells receive outside third party water deliveries and associated skim oil. Since the decline in the price of oil which began in late 2014, high water production wells are being shut in by third parties so deliveries to our disposal wells have been declining each quarter as well.

Liquidity and Capital Resources

The Trust's ongoing liquidity is impacted by various external events and conditions, including commodity price fluctuations. The Trust will require additional funding to reduce its exposure to liquidity risk. The Trust continually monitors its actual and forecast cash flows to review whether there are adequate reserves available to meets its obligations. Management continues to seek additional means to maintain the Trust's working capital, including but not limited to, reviewing potential mergers, acquisitions and arranging additional debt or equity financing. In addition, the Trust continues to minimize capital expenditures, reduce operating and general and administrative costs and enhance operational efficiencies.

Continued weak commodity prices commencing in the last quarter of 2014 to date have negatively impacted operating income and cash flow for the current year and the prior year. A loss for three months ended March 31, 2017 was $3.8 million compared to $941,000 in the prior year quarter.

As at March 31, 2017, the Trust had a working capital deficiency, of $4.1 million (December 31, 2016 - $910,000). The early payments of principal associated with the Maha acquisition, principal payments associated with convertible debentures and accruals of rural municipal taxes not yet assessed are $1,283,696 ($983,696 and $300,000, respectively) of this total at March 31, 2017.

The Trust's financial liabilities under obligations that have contractual maturities are summarized below:

	Less than year	2-5 years	After 5 years	Total
Accounts payable and accrued liabilities	$ 7,464,446	$ -	$ -	$ 7,464,446
Bank debt	140,000	-	-	140,000
Loans payable	211,442	-	-	211,442
Obligations under finance leases	82,833	136,180	-	219,013
Debentures	-	5,000,000	-	5,000,000
Convertible debentures	983,696	9,038,872	381,237	10,403,805
Preferred units	-	832,000	-	832,000
	$ 8,882,417	$ 15,007,052	$ 381,237	$ 24,270,706

Capital Funding

During the first quarter of the year, the Trust closed an additional tranche of the issuance of convertible secured subordinated debentures for gross proceeds of $427,000. The convertible debentures bear interest at 8% per annum, payable quarterly. The convertible debentures have a five-year term from December 31, 2015 and are convertible at the option of the holder into common units of the Trust at an amount equal to the average market trading price of such units for each of the last 20 trading days at any time after the second anniversary from the date of issue. Each debenture holder is entitled to 50,000 warrants for every $1,000 principal amount of convertible debentures subscribed for. Each warrant is exercisable at a price of $0.06 per warrant for a term of three years. The Trust issued 21.4 million warrants to debenture holders and 3.0 million broker warrants in conjunction with the current tranche.

Subsequent to the quarter end, on April 20, 2017, the Trust closed an additional tranche of secured convertible debentures for aggregate principal amounts of $333,000. The Trust issued 16.7 million warrants to debenture holders and 2.9 million broker warrants in conjunction with this tranche. The convertible debentures and warrants have the same term and conditions as the convertible debentures previously issued on December 18, 2015.

On February 8, 2017, the Trust announced it was proceeding with its offering of up to $20,000,000 of series 1 preferred trust units of the Trust by way of an exempt market offering. The offering consists of a tied offering of preferred units of the Trust and Class A shares of Petrocapita Energy Corp., a wholly-owned subsidiary of the Trust.

On March 10, 2017, the Trust closed the first tranche of its preferred units for total aggregate principal amounts of $832,191. Total costs amounted to $125,482. Subsequent to the quarter end, on April 24, 2017, the Trust closed the second tranche of its preferred units for total aggregate principal amounts of $1,338,308.

Capital Management

The Trust's capital includes unitholders' equity and other debt. The Trust's objective in managing capital is to ensure that it has sufficient working capital and access to sources of capital to finance its operations and to make planned capital expenditures or capital acquisitions as opportunities present themselves. The Trust monitors the level of risk associated for each capital project to balance the proportion of debt and equity in its capital structure. The Trust monitors capital based on its current working capital, projected cash flow from operating activities and anticipated capital expenditures. The Trust's officers are responsible for managing the Trust's capital and do so through weekly meetings and regular reviews of financial information, including budgets and forecasts. The Trust's directors are responsible for overseeing this process. The Trust manages its capital structure and makes changes to it in light of changes in economic conditions, anticipated or planned capital expenditures, opportunities for acquisitions and the risk characteristics of the underlying investments. The Trust's capital management objectives have not changed during the three months ended March 31, 2017 and December 31, 2016. Total capital managed is determined as follows:

	March 31 2017	December 31 2016
Bank debt	**$ 140,000**	$ 95,000
Loans payable	**211,442**	211,442
Obligations under finance leases	**219,013**	237,510
Debenture	**4,590,710**	4,565,987
Convertible debentures	**7,024,722**	5,671,115
Preferred units	**623,318**	-
Unitholders' equity	**12,431,095**	16,149,962
	$ 25,240,300	$ 26,931,016

Total capital has increased from year end due to the issuance of debentures, convertible debentures, preferred units and acquisitions.

The Trust monitors its working capital (excluding embedded derivatives) closely, as determined on the following basis:

	March 31 2017	December 31 2016
Cash	**$ 1,337,964**	$ 2,532,582
Accounts receivable	**1,975,953**	1,907,822
Crude oil inventory	**640,706**	836,831
Prepaid expenses and deposits	**852,312**	546,845
Accounts payable and accrued liabilities	**(7,464,446)**	(6,188,075)
Bank debt	**(140,000)**	(95,000)
Loans payable	**(211,442)**	(211,442)
Current portion of obligation under finance lease	**(82,833)**	(79,214)
Current portion of convertible debenture	**(983,697)**	(160,204)
Working capital deficiency	**$ (4,075,483)**	$ (909,855)

The working capital deficiency has increased from the end of the prior year due mainly to the loss incurred during the first three months of the year.

Contractual Obligations and Contingencies

The Trust has entered into lease agreements for office space and equipment which expire in May 2017, July 2017, May 2019 and March 2022. The required lease payments, exclusive of operating costs, over the remaining term of the leases are as follows:

2017	$ 143,000
2018	195,000
2019	190,000
2020	179,000
2021	182,000
Thereafter	45,000
	$ 934,000

Related Party Transactions

Transactions

During the three months ended March 31, 2017, the Trust issued convertible secured subordinated debentures to certain officers and directors for aggregate principal amounts of $90,000 (2016 - $180,000). Total convertible secured subordinated debentures outstanding to certain officers and directors at March 31, 2017 is $515,000 (December 31, 2016 - $425,000).

Compensation of key management personnel

Key management includes the Trust's directors and officers. Total remuneration for key management included in general and administrative expenses during the three months ended March 31, 2017 was approximately $277,000 (2016 - $152,000).

As at March 31, 2017 $178,665 (December 31, 2016 - $218,613) remains outstanding to key management and is included in accounts payable and accrued liabilities.

Off-Balance Sheet Transactions

The Trust was not involved in any off-balance sheet transactions during the three months ended March 31, 2017 and 2016.

Subsequent Events

(a) Offering memorandum

Subsequent to the quarter end, the Trust closed the second tranche of preferred units for aggregate principal amounts of approximately $1,338,000 and $307.74 for Class A shares of Petrocapita Energy. A total of 1,338,000 preferred units of the Trust and 307,740 Class A shares of Petrocapita Energy were issued in conjunction with the closing. Total cash commissions paid to the agents were $133,800 in addition to 26,760 Class A shares issued.

(b) Private placement of convertible debentures

Subsequent to the quarter end, the Trust closed an additional tranche of secured convertible debentures for total aggregate principal amounts of approximately $333,000. Total debt issue costs were approximately $30,020. In conjunction with the issue of these convertible debentures, the Trust issued 16,650,000 warrants to debenture holders and 2,930,000 broker warrants. The convertible debentures and warrants have the same term and conditions as the convertible debentures previously issued on December 18, 2015.

Critical Accounting Estimates

The preparation of financial statements requires management to make estimates and assumptions and use judgment regarding the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the condensed interim consolidated financial statements and the reported amounts of revenues and expenses during the period. By their nature, estimates are subject to estimation uncertainty.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

Significant estimates made by management in the preparation of these condensed interim consolidated financial statements are as follows:

Reserve and cash flow estimates

Amounts recorded for depletion and depreciation and amounts used for impairment calculations relating to property and equipment are based on estimates of reserves, including the estimates of future prices, costs, discount rates and the related future cash flows as well as cash flows related to transport and disposal assets.

The assessment of reported recoverable quantities of proved and probable reserves include estimates regarding production volumes, commodity prices, exchange rates, remediation costs, timing and amount of future development costs, and production, transportation and marketing costs for future cash flows. It also requires interpretation of geological and geophysical models in anticipated recoveries. The economical, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact the carrying values of the Trust's heavy oil properties and transport and disposal assets, the calculation of depletion and depreciation and the provision for decommissioning provisions due to changes in expected future cash flows. The Trust's oil reserves and cash flows related to its transport and disposal business activities and infrastructure are assessed at least annually by independent reserve engineers and are determined pursuant to *Alberta Securities Commission National Instrument 51-101, Standard of Disclosures for Oil and Gas Activities*.

Valuation of property and equipment and exploration and evaluation assets

In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of oil reserves, production rates, future oil prices, estimate of fixed fees earned on water disposal volumes and associated costs, recent land sales, management's future intentions, future development costs, estimates of rates for oilfield services and associated costs, discount rates and other relevant assumptions.

Decommissioning provisions

The calculation of decommissioning provisions and related accretion expense requires estimates of future remediation costs of production facilities, wells and pipelines at different stages of development and construction of assets or facilities. In most instances, removal of assets occurs many years into the future. In addition, the calculation requires assumptions regarding abandonment date, future environmental and regulatory legislation, the extent of reclamation activities, the engineering methodology for estimating cost, future removal technologies in determining the removal cost and liability-specific discount rates to determine the present value of these cash flows.

Business combinations, asset swaps and asset acquisitions

Management estimates the fair value of the acquired identifiable net assets at the date of acquisition and specifically in identifying and valuing property and equipment, exploration and evaluation assets, oilfield service equipment and transport and disposal equipment and decommissioning provisions acquired in acquisitions. The fair value of these specific net assets is based on numerous estimates including discount rates, estimates of proved and probable reserves, future oil prices, estimates of fair value based on independent appraisals, estimates of abandonment and reclamation costs and other factors.

Management has used estimates to determine the likelihood of factors being met related to the contingent consideration-GORR on the acquisition of assets. These estimates are based on forecast prices of West Texas Intermediate oil published by external reserve engineers over a period of five years.

Fair value of conversion feature of convertible debentures

The Trust measures the convertible debenture embedded derivative by reference to the fair value of the financial instrument using a Black-Scholes pricing model, taking into consideration management's best estimate of the expected volatility and exercise price on the date of issue and at each reporting date.

Warrants

The fair value of warrants is measured at the grant date using a Black-Scholes pricing model, taking into consideration management's best estimate of the expected volatility and the expected life of the warrants.

Estimates of useful lives of transport and disposal assets and oilfield service assets

Management's judgment involves the use of estimates for determining the expected useful lives of depreciable assets, to determine depreciation methods and the asset's residual value.

Taxes

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in profit or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods.

Accounts receivable

The valuation of accounts receivable is based on management's best estimate of collectability and the provision for doubtful accounts.

Significant judgments made by management in the preparation of these condensed interim consolidated financial statements are as follows:

Identification of cash-generating units

The Trust's exploration and evaluation assets and property and equipment are aggregated into cash-generating units ("CGUs") based on their ability to generate largely independent cash flows and are used for impairment testing. The classification of assets into CGUs requires significant judgment and interpretations with respect to the integration between assets, the existence of active markets, external users, shared infrastructures and the way in which management monitors the Trust's operations. The Trust has identified heavy oil properties, transport and disposal assets and oilfield service assets as its core CGUs.

Valuation of property and equipment and exploration and evaluation assets

Judgments are required to select, consider and interpret various external and internal sources of information to assess when impairment indicators, or reversal indicators, exist and impairment testing is required.

Exploration and evaluation assets

The application of the Trust's accounting policy for exploration and evaluation assets requires management to make certain judgments as to future events and circumstances as to whether economic quantities of proved and/or probable reserves have been found in assessing an area's technical feasibility and commercial viability.

The decision to transfer exploration and evaluation assets to property and equipment is based on management's determination of an area's technical feasibility and commercial viability based on proved and/or probable reserves as well as the related future cash flows.

Componentization

For the purposes of depletion, the Trust allocates its oil and natural gas assets to components with similar lives and depletion methods. The groupings of assets are subject to management's judgment and are performed on the basis of geographical proximity and similar reserve life.

Business combinations

Determining whether an acquisition should be accounted for as a business combination or represents an asset purchase requires judgment on a case by case basis, depending on management's assessment as to whether the acquisition meets the definition of a business.

Taxes

Deferred tax assets (if any) are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse.

Judgments are made by management to determine the likelihood of whether deferred tax assets at the end of the reporting period will be realized from future taxable earnings. To the extent that assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit or loss in the period in which the change occurs.

The determination of the Trust's income and other tax liabilities requires interpretation of complex laws and regulations. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by management.

Gross overriding royalty arrangement

Management has applied judgement in determining the accounting treatment of the gross overriding royalty arrangement. Management has considered the specific terms of the arrangement to determine whether the Trust has disposed of an interest in the related petroleum and natural gas property.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

New Accounting Pronouncements

The Trust has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Trust.

IFRS 15 "Revenue from Contracts with Customers", dictates the recognition and measurement requirements for reporting the nature, amount, timing and uncertainty of revenue resulting from an entity's contracts with customers. The Trust is currently evaluating the impact of adopting IFRS 15 which is effective for years beginning on or after January 1, 2018.

IFRS 9 "Financial Instruments", which provides guidance on the recognition and measurement, impairment and derecognition of financial instruments into a single model that has two classification categories: amortized cost and fair value. The Trust is currently evaluating the impact of adopting IFRS 9 which is effective for years beginning on or after January 1, 2018.

IFRS 16 "Leases" which provides for a single recognition and measurement model for leases, with required recognition of assets and liabilities for most leases. The Trust is currently evaluating the impact of adopting IFRS 16 which is effective for years beginning on or after January 1, 2019.

Outlook

While the current climate of weak oil prices experienced over the past two years continued to impact the Trust's operating results in the first quarter of 2017, management continues to view this economic environment as an opportunity to make strategic acquisitions to create future efficiencies. Accordingly, management has and continues to focus its efforts on building a diversified portfolio of infrastructure/mid-stream assets, primarily by way of acquisition at the current highly attractive prices. The strategic acquisition of the Palliser assets in the third quarter of the prior year more than doubled the Trust's production upon acquisition and that production more than doubled again by the end of the prior year through reactivation of temporarily suspended wells. Most critically, the acquisition resulted in the addition of certain midstream assets which added key infrastructure to complement this additional activity.

To assist with the on-going financing of these strategic acquisitions and the further development of its acquired oil and gas properties, to date, the Trust continues to make use of funds raised from its 8% convertible debentures totalling $7.3 million to date.

In addition, on February 8, 2017, the Trust announced it was proceeding with its offering of up to $20,000,000 of series 1 preferred trust units of the Trust by way of an exempt market offering. The offering consists of a tied offering of preferred units of the Trust and Class A shares of Petrocapita Energy Corp., a wholly-owned subsidiary of the Trust. Pursuant to this Offering, on March 10 and April 24, 2017, the Trust closed the first and second tranches respectively of its series 1 preferred units and tied Class A shares for total aggregate principal amount of $2.1 million.

As of the date of this report, the Trust continues to pursue additional strategic acquisitions of both oil and gas and infrastructure assets to strengthen its competitive position. Management remains optimistic that oil prices will continue their recovery and infrastructure utilization will improve over the next year. As a result, Management firmly believes the Trust will emerge from the current economic environment in a strong position, ready to capitalize on the added production capacity and efficiencies resulting from the several strategic acquisitions made during the prior year.

Calgary, Alberta
May 30, 2017