

Offering Memorandum

Petrocapita Income Trust
Preferred Units

Offering Memorandum

No securities regulatory authority or regulator has assessed the merits of these securities or reviewed this Offering Memorandum. Any representation to the contrary is an offence. The information disclosed on this page is a summary only. Purchasers should read the entire Offering Memorandum for full details about the Offering. This is a risky investment. See Item 9 - Risk Factors.

Date: May 29, 2017
 The Issuer: Petrocapita Income Trust
 Address: #1400, 717 – 7th Avenue SW, Calgary, Alberta T2P 0Z3
 Phone: (587) 393-3460
 Email: corporate@petrocapita.com

Currently listed or quoted? Yes. The Issuer's common trust units ("**Common Units**") trade on the Canadian Securities Exchange ("**CSE**"). **However, the offered securities do not trade on any exchange or market.**

Reporting issuer? Yes.

SEDAR filer? Yes.

The Offering

Securities Offered:	<p>The offering consists of preferred trust units, Series 1 ("Preferred Units") of Petrocapita Income Trust (the "Trust" and, together with its subsidiaries "Petrocapita"). See Item 5.1 - <i>Terms of Securities - Preferred Units</i> for the terms of the Preferred Units.</p> <p>The Preferred Units may only be purchased as part of a "Tied Unit". A Tied Unit means the combination of one Preferred Unit being offered under this Offering Memorandum and 0.23 Class A Shares offered concurrently pursuant to an offering memorandum of Petrocapita Energy Corp. dated May 29, 2017. See Item 2.1 - <i>Structure</i> and Item 5.2 - <i>Subscription Procedure</i>.</p>
Price per Security:	\$1.00 per Preferred Unit.
Minimum/Maximum Offering:	There is no minimum or maximum offering. You may be the only purchaser. Funds available under the offering may not be sufficient to accomplish our proposed objectives.
Minimum Individual Subscription Amount:	The minimum subscription is \$1,000 (1,000 Preferred Units) and may only be purchased in increments of \$1,000 (1,000 Preferred Units) thereafter. See Item 5.2 - <i>Subscription Procedure</i> .
Payment Terms:	Payment in full by certified cheque or bank draft of the aggregate subscription amount payable to the Trust with the delivery of a duly executed and completed subscription agreement. See Item 5.2 - <i>Subscription Procedure</i> .
Proposed Closing Date(s):	Closings will occur from time to time at the discretion of the Administrator.
Tax Consequences:	<p>There are important tax considerations applicable to an investment in these securities, as discussed herein, including considerations related to the Trust's status as a SIFT Trust. Potential investors should consult their own tax advisors in respect of an investment in Preferred Units.</p> <p>Provided that the Trust qualifies as a "mutual fund trust" for purposes of the Income Tax Act at all relevant times, the Preferred Units (but not the Class A Shares (as defined herein)) will be qualified investments for Exempt Plans, as further described under Item 6 - <i>Certain Income Tax Considerations and Exempt Plan Eligibility</i>, and subject to the limitations and qualifications set out therein.</p> <p>Although it is intended that the Trust qualify as a "mutual fund trust" pursuant to the Income Tax Act, the Trust will not be a "mutual fund" under applicable securities laws.</p> <p>See Item 6 - <i>Certain Income Tax Considerations and Exempt Plan Eligibility</i>.</p>
Selling Agents:	Yes. Petrocapita will retain registered dealers (the " Agents ") to effect sales of the Tied Units on a "best efforts" basis. Where permitted by applicable securities legislation, the Trust intends to pay the Agents a selling commission of up to 9% of the gross proceeds realized on the sale of Preferred Units in cash. In addition, Agents may receive an administrative fee of up to 1%. Finally, the Agents may be offered up to 20 Class A Shares from the Corporation for every 1,000 Tied Units sold. See Item 7 - <i>Compensation Paid To Sellers And Finders</i> .
Resale Restrictions:	The Preferred Units are subject to restrictions on resale. You will be restricted from selling your Preferred Units for four months and a day from the applicable Closing date. See Item 11 - <i>Resale Restrictions</i> .
Purchaser's Rights:	You have two (2) business days to cancel your agreement to purchase these securities. If there is a misrepresentation in this Offering Memorandum, you have the right to sue either for damages or to cancel the agreement. See Item 12 - <i>Purchasers' Rights</i> .

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CAUTIONARY STATEMENTS

About this Offering Memorandum

This Offering is being made pursuant to certain prospectus exemptions contained in NI 45-106. This Offering Memorandum constitutes an offering of securities only in these jurisdictions and only to those persons to whom they may be lawfully offered for sale. This Offering Memorandum is not, and under no circumstances is to be construed as, a prospectus or advertisement or a public offering of these securities.

Prospective investors should rely only on the information contained in this Offering Memorandum and should not rely on some parts of this Offering Memorandum to the exclusion of others. No person has been authorized to give any information or to make any representation not contained in this Offering Memorandum. Any such information or representation which is given or received must not be relied upon.

Forward Looking Information

This Offering Memorandum includes forward-looking information and forward-looking statements (collectively, "forward-looking information") with respect to the Trust and the Corporation. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases including, but not limited to, "expects", "does not expect", "is expected", "anticipates", "does not anticipate", "plans", "estimates", "believes", "does not believe" or "intends", or stating that certain actions, events or results may, could, would, might or will be taken, occur or be achieved) are not statements of historical fact and may be "forward-looking information". This information represents predictions and actual events or results may differ materially.

Forward-looking information contained in this Offering Memorandum includes, but is not limited to, statements with respect to: use of proceeds of the Combined Offering; the structure of Petrocapita, the Trust and the Corporation; the expected completion of the Internal Reorganization; the steps to be taken in the Internal Reorganization; the structure and capitalization of Petrocapita after the Internal Reorganization; the business to be conducted by Petrocapita; long term and short term objectives; timing and payment of distributions; Petrocapita's investment objectives and strategy; the production and reserve estimates for Petrocapita's assets, including the Palliser assets; treatment under government regulatory regimes and tax laws; the results of investments and the timing thereof, and the methods of funding.

Forward-looking information is based on a number of factors and assumptions which have been used to develop such information but which may prove to be incorrect. Although the Corporation and the Trust believe that the expectations reflected in the forward-looking information is reasonable, it cannot guarantee future results, levels of activity, performance or achievement since such expectations are inherently subject to significant business, economic, competitive, political and social uncertainties and contingencies. In addition to other factors and assumptions which may be identified in this Offering Memorandum, assumptions have been made regarding, among other things: the Trust's qualification as a "mutual fund trust" and its status as a "SIFT Trust" under the Income Tax Act; use of proceeds of the Combined Offering; the general stability of the economic and political environment in which the Trust and the Corporation operate; Petrocapita's investment objectives and investment strategies; timing and payment of distributions; treatment under governmental regulatory regimes and tax laws; the ability of Petrocapita to obtain qualified staff, equipment and services in a timely and cost efficient manner; valuation of the Trust's investments; the possibility of redemptions of Preferred Units of the Trust, and currency, exchange and interest rates. In addition, the Trust bases forward-looking information on assumptions about future events, which may not prove to be accurate. In light of these risks, uncertainties and assumptions, you should be aware that events described in the forward-looking information set out in this Offering Memorandum may not occur.

Forward-looking information is based on the current expectations, estimates and projections of the Trust and involve a number of known and unknown risks and uncertainties which would cause actual results or events to differ materially from those presently anticipated, including those risks described under Item 9 - *Risk Factors*, many of which are beyond the control of the Trust, the Trustees and the Administrator. Factors which could cause actual results, events, circumstances, expectations or performance to differ materially from those expressed or implied in forward-looking information include, but are not limited to, general economic, political, market and business factors and conditions; interest rate fluctuations; statutory and regulatory developments; unexpected judicial or regulatory proceedings; catastrophic events; and other factors set out under Item 9 - *Risk Factors*. Readers are cautioned that Item 9 - *Risk Factors* is not exhaustive.

There are numerous uncertainties inherent in estimating quantities of oil and natural gas and the future cash flows attributed to such reserves and resources. The reserves, resources and associated cash flow information set forth in this Offering Memorandum 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 reserves and resources recovery, timing and amount of capital investments, 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 and resources attributable to any particular group of properties, classification of such reserves and resources based on risk of recovery and estimates of future net revenues associated with reserves and resources prepared by different evaluators, or by the same evaluators at different times, may vary. Petrocapita's

actual production, revenues, taxes and development and operating expenditures with respect to its reserves and resources will vary from estimates thereof and such variations could be material.

The Trust has included the above summary of risks related to forward-looking information provided in this Offering Memorandum in order to provide the subscribers of Preferred Units with a more complete perspective on the Trust's current and future operations and such information may not be appropriate for other purposes. The Trust's actual results, performance or achievement could differ materially from those expressed in, or implied by, this forward-looking information and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do so, what benefits the Trust will derive therefrom. 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 can be profitably produced in the future. This forward-looking information is given as of the date of this Offering Memorandum and the Trust and the Administrator, for itself and on behalf of the Trustees, disclaim any intent or obligation to update publicly any forward-looking information, whether as a result of new information, future events or results or otherwise, other than as required by applicable securities laws.

Marketing Materials

Any "OM marketing materials" (as such term is defined in NI 45-106) related to each distribution under this Offering Memorandum and delivered or made reasonably available to a prospective purchaser before the termination of such distribution will be, and will be deemed to be, incorporated by reference into this Offering Memorandum, provided that any OM marketing materials to be incorporated by reference into this Offering Memorandum is not part of the Offering Memorandum to the extent that the contents of such OM marketing materials have been modified or superseded by a statement contained in an amended or amended and restated Offering Memorandum or OM marketing materials subsequently delivered or made reasonably available to a prospective purchaser prior to the execution of the subscription agreement by the purchaser.

Market and Industry Data

This Offering Memorandum and OM marketing materials incorporated by reference contains statistical data, market research and industry forecasts that were obtained from government or other industry publications and reports or are based on estimates derived from such publications and reports. Government and industry publications and reports generally indicate that they have obtained their information from sources believed to be reliable, but do not guarantee the accuracy and completeness of their information. While the Administrator believes this data to be reliable, market and industry data is subject to variations and cannot be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any statistical survey. Neither the Trust nor the Administrator has independently verified any of the data from independent third party sources referred to in this Offering Memorandum or ascertained the underlying assumptions relied upon by such sources.

Reliance on Information

The information concerning the Corporation, as contained in this Offering Memorandum, has been provided by the Corporation for inclusion in this Offering Memorandum. Although the Trust has no knowledge that any statements contained herein as provided by the Corporation are untrue or incomplete, the Trust assumes no responsibility for the accuracy of such information or for any failure by the Corporation to disclose events which may have occurred or may affect the significance or accuracy of any such information but which are unknown to the Trust.

Non-GAAP Measures

In addition to using financial measures prescribed by IFRS, references are made in this offering memorandum to "operating income (loss)", "operating netback", "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 the Trust or the Corporation. Accordingly, the Trust's or the Corporation'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 securityholders 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, natural gas, transportation and disposal sales (excluding realized and unrealized gains and losses on commodity risk management contracts) less royalties, production, transportation 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 equivalent 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 Petrocapita's cash flow from operating activities and funds flow from operations is as follows:

	Twelve months ended December 31	
	2016	2015
(\$000s)		
Cash Flow from Operations - IFRS	(4,015)	(401)
Changes in Non-cash Operating Working Capital	(1,244)	(869)
Funds Flow From Operations	(5,259)	(1,270)

GLOSSARY OF TERMS

"**8% Debenture**" has the meaning ascribed thereto under Section 2.3 – *Development of the Business*.

"**8% Debenture Maturity Date**" has the meaning ascribed thereto under Section 2.3 – *Development of the Business*.

"**ABCA**" means the *Business Corporations Act* (Alberta), as amended from time to time.

"**Administration Agreement**" means the administration agreement, dated January 22, 2010, between the Administrator and the Trust, as amended, supplemented or amended and restated from time to time.

"**Administrator**" means Petrocapita GP I Ltd., a corporation incorporated under the laws of Alberta, and all successors and permitted assigns thereof.

"**affiliate**" of a person means any other person controlling, controlled by, or under common control with, such person.

"**Agents**" means the registered dealers retained by the Trust to effect sales of the Tied Units.

"**ASC**" means the Alberta Securities Commission.

"**associate**" means, in relation to another person ("**Other Person**"): (a) a person of which the Other Person beneficially owns or controls, directly or indirectly, (1) voting securities of such person (or securities currently convertible into voting securities) carrying more than 10% of the voting rights attached to outstanding securities of the person, or (2) a currently exercisable option or right to purchase those voting securities or those convertible securities; (b) any person who is a partner of the Other Person; (c) any trust or estate in which the Other Person has a substantial beneficial interest; or (d) in the case where the Other Person is an individual, a relative of that individual if the relative has the same home as that individual, including (1) the spouse of that individual; or (2) a relative of that individual's spouse.

"**BCSC**" means the British Columbia Securities Commission.

"**business day**" means any day other than a Saturday, Sunday, a statutory holiday in the Province of Alberta or a day on which the principal chartered banks located at Calgary, Alberta are not generally open for the transaction of commercial business.

"**Chapman**" means Chapman Petroleum Engineering Ltd.

"**Chapman Reserve Report**" means the Chapman evaluation of the Trust's oil and gas reserves and independent appraisal of the economic value of these reserves for the year ended December 31, 2016.

"**Class A Shares**" means the Class A shares of the Corporation.

"**Class B Shares**" means the Class B shares of the Corporation.

"**Class C Shares**" means the Class C shares of the Corporation.

"**Closing**" means a closing of the issue of Preferred Units pursuant to the Offering contemplated by this Offering Memorandum.

"**Closing Market Price**" of a Unit shall be: (i) an amount equal to the volume weighted average trading price of such Unit on the date on which the Units were tendered for redemption, if the Principal Market provides information necessary to compute a volume weighted average trading price on such date; (ii) an amount equal to the closing price of such a Unit if there was a trade on the date on which the Units were tendered for redemption, and the Principal Market provides only a closing price; (iii) an amount equal to the simple average of the highest and lowest prices of such Units if there was trading on the date on which the Units were tendered for redemption and the Principal Market provides only the highest and lowest trading prices of such Units traded on a particular day; or (iv) the simple average of the last bid and last ask prices of such Units if there was no trading on the date on which the Units were tendered for redemption.

"**Combined Offering**" means the offering and distribution of the Tied Units, as contemplated pursuant to this Offering Memorandum and the offering memorandum of the Corporation dated May 29, 2017.

"**Common Unit**" means a common trust unit of the Trust.

"**control**", and related terms including "**controlling**" and "**controlled**", shall mean the possession by or on behalf of a person, or group of persons acting jointly or in concert, of the following in respect of another person: (i) in the case where the other person is a corporation, the power to vote more than 50% of the securities having ordinary voting power for the election of directors of such corporation; (ii) in the case where the other person is a limited partnership, the power to control the general partner of the limited partnership; and (iii) in the case where the other person is other than a corporation or limited partnership, any of: (1) the power to exercise more than 50% of the voting rights in such person; or (2) the right to receive more than 50% of the distributions made by that person.

"**Corporation**" means Petrocapita Energy Corp., a corporation incorporated under the laws of Alberta and a subsidiary of the Trust.

"**Counsel**" means Norton Rose Fulbright Canada LLP, counsel to the Trust and the Corporation.

"**Crucible**" means Crucible Resources Corporation.

"**CSE**" means the Canadian Securities Exchange.

"**CTO**" has the meaning ascribed thereto under Section 3.3 - *Cease Trade Orders, Bankruptcies, Penalties or Sanctions*.

"**Current Market Price**" means, in respect of a Common Unit on any date (the "**Subject Date**"): (i) an amount equal to the volume weighted average trading price of such Common Unit on the Principal Market for each of the last twenty (20) trading days prior to the Subject Date; (ii) if the Principal Market does not provide information necessary to compute a volume weighted average trading price, an amount equal to the volume weighted average of the closing prices of such Common Unit for each of the last twenty (20) trading days prior to the Subject Date on which there was a closing price; provided that if the Principal Market does not provide a closing price, but only provides the highest and lowest prices of such Common Units traded on a particular day, the Current Market Price shall be an amount equal to the volume weighted average of the average of the highest and lowest prices for each of the trading days on which there was a trade; and (iii) if there was trading on the Principal Market for fewer than ten (10) of the last twenty (20) trading days, the Current Market Price shall be the volume weighted average of the following prices established for each of the last twenty (20) trading days; (A) the average of the last bid and last asking prices for each trading day on which there was no trading; (B) the closing price of such Common Units for each day that there was trading if the Principal Market provides a closing price; and (C) the average of the highest and lowest prices of such Common Units for each day that there was trading, if the Principal Market provides only the highest and lowest prices of such Common Units traded on a particular day.

"**Declaration of Trust**" means the amended and restated declaration of trust dated October 18, 2016 among the Trustees, the Administrator, the settlor of the Trust and each person who is or becomes a Unitholder, as such Declaration of Trust has been and may hereafter be amended from time to time.

"**Distributable Cash**" means, in respect of a Distribution Period, an amount equal to:

- (a) all cash or cash equivalents which are received by the Trust for, or in respect of, such Distribution Period, including amounts on account of interest, income, dividends, returns of capital, amounts paid on debt held by the Trust, capital gains, and such other amounts as may be determined from time to time by the Trustees or the Administrator to be included in "Distributable Cash" of such class of Preferred Units of the Trust (which may include amounts taken, in the discretion of the Trustees' or the Administrator, out of the Trust's reserves as well as amounts from the proceeds of any Offering);

less the sum of:

- (b) all amounts paid on account of expenses and liabilities for, or in respect of, such Distribution Period as well as an amount for all expenses and liabilities of the Trust which, in the opinion of the Trustees or Administrator, may reasonably be considered to have accrued and become owing in respect of, or which relate to, such Distribution Period or a prior Distribution Period if not accrued in such prior period including, without limitation, any accrued liability in respect of undeclared and accumulated distributions on the Preferred Units;
- (c) all amounts which relate to the repayment of any amount (principal or interest) in respect of any indebtedness of the Trust during such Distribution Period;
- (d) all cash amounts used during such Distribution Period for or in connection with loans, advances, investments or other acquisitions of assets by the Trust;
- (e) the aggregate amount of all cash amounts used, or to be used, in respect of the redemption or repurchase of Units called for redemption or repurchase;
- (f) any amount, in addition to those amounts set forth in (b) to (e) (inclusive), which the Administrator may reasonably consider to be necessary to provide for the payment of any liabilities which have been or will be incurred by the Trust, including any tax liability of the Trust (to the extent that such liabilities have not otherwise been taken into account in determining the Distributable Cash hereunder), or for pursuing any purpose or activity of the Trust; and
- (g) an amount as determined in the discretion of the Trustees or the Administrator for reasonable reserves to be maintained for the purposes of satisfying payment of any amounts or liabilities of the Trust.

"**Distribution Period**" means each three month period ending March 31, June 30, September 30 and December 31 in each calendar year, or such other periods as may be hereafter determined from time to time by the Trustees or the Administrator.

"**DRIP**" means the distribution reinvestment plan of the Trust.

"**Event**" occurs if the Trust, at any time while Class A Shares are outstanding, (i) issues Common Units or securities exchangeable for or convertible into Common Units to all or substantially all holders of Common Units as a unit distribution or a similar distribution (other than the issue of securities to holders of Common Units who have elected to receive payment of distributions in the form of

securities of the Trust pursuant to a distribution reinvestment plan which may be implemented by the Trust), (ii) subdivides or redivides its outstanding Common Units into a larger number of units, or (iii) reduces, combines or consolidates its outstanding Common Units into a smaller number of units.

"Exchange Rate" shall, unless adjusted in accordance with the articles of the Corporation, be equal to 32. The Exchange Rate will be adjusted in the event of a Special Distribution if such issuance does not constitute: (i) distributions in the ordinary course; or (ii) an Event, then the Exchange Rate shall be adjusted immediately after such record date so that it shall equal the value determined by multiplying the Exchange Rate in effect on such record date by a fraction, the numerator of which shall be: (A) the product of the total number of Common Units outstanding on such record date multiplied by the Current Market Price as of such record date; plus (B) the fair market value, as determined by the trustees of the Trust (which determination shall be conclusive) and subject to the prior consent of Principal Market (if necessary), to the holders of such Common Units of the aggregate of all the securities, rights, options, warrants, evidences of indebtedness or property or other assets issued or distributed in such Special Distribution; and (C) the denominator of which shall be the product of the total number of Common Units outstanding on such record date multiplied by the Current Market Price as of such record date.

In the case of an Event, then, in each such case, the Exchange Rate shall be adjusted by multiplying the Exchange Rate in effect immediately before such effective date or record date for such Event by a fraction, the numerator of which shall be the number of Common Units outstanding immediately after such Event and the denominator of which shall be the number of Common Units outstanding immediately before such Event. Any adjustment made pursuant to clause (i) above shall become effective immediately after the record date for the determination of unitholders entitled to receive such dividend or distribution, and any adjustment pursuant to clause (ii) or (iii) above shall become effective immediately after the effective date of such subdivision or consolidation.

"Exchange Request" means a Class A Shareholder's request to convert its Class A Shares into Common Units.

"Exchangeable Shares" means those Class A Shares that are exchangeable into Common Units.

"Exempt Plan" means a trust governed by a registered retirement savings plan ("RRSP"), registered retirement income fund ("RRIF"), deferred profit sharing plan, registered education savings plan ("RESP"), registered disability savings plan ("RDSP") or tax free savings account ("TFSA"), all as defined in the Income Tax Act, collectively herein referred to as **"Exempt Plans"**.

"GHG" means greenhouse gases.

"Income Tax Act" means the *Income Tax Act* (Canada) and the regulations promulgated thereunder, as amended from time to time.

"Internal Reorganization" has the meaning ascribed thereto in Item 2.1.1 – *Internal Reorganization*.

"Maha" means Maha Energy Inc.

"Management" means the Administrator and its directors and officers.

"Market Price" of a Unit shall be: (i) an amount equal to the volume weighted average trading price of such a Unit for each of the 10 trading days; (ii) if the Principal Market does not provide information necessary to compute a volume weighted average trading price, an amount equal to the volume weighted average of the closing prices of such a Unit for each of the 10 trading days on which there was a closing price; provided, however, that if the Principal Market does not provide a closing price but only provides the highest and lowest prices of such Units traded on a particular day, the "market price" shall be an amount equal to the volume weighted average of the highest and lowest prices for each of the trading days on which there was a trade; and (iii) if there was trading on the Principal Market for fewer than 5 of the 10 trading days, the "market price" shall be the volume weighted average of the following prices established for each of the ten (10) trading days: (A) the average of the last bid and last asking prices for each day on which there was no trading; (B) the closing price of such Units for each day that there was trading if the Principal Market provides a closing price; and (C) the average of the highest and lowest prices of such Units for each day that there was trading, if the Principal Market provides only the highest and lowest prices of such Units traded on a particular day

"Minor Shareholders" means, collectively, each of Alex Lemmens, Richard Mellis, Gregory Marr, Stephen Johnston and Barclay Laughland together with their respective heirs, executors, administrators, successors or permitted assigns, and **"Minor Shareholder"** means any one of such persons.

"misrepresentation" has the meaning ascribed thereto in Item 12 - *Purchasers' Rights – Rights of Action in the Event of a Misrepresentation*.

"NGLs" means those hydrocarbon components that can be recovered from natural gas as a liquid including, but not limited to, ethane, propane, butanes, pentanes plus, and condensates.

"NI 45-106" means National Instrument 45-106 – *Prospectus Exemptions* of the Canadian Securities Administrators.

"Non-Resident" means a person who, at the relevant time, is not resident in Canada within the meaning of the Income Tax Act and any applicable tax convention entered into by the Government of Canada and includes a partnership that is not a "Canadian partnership" within the meaning of the Income Tax Act.

"**O&G GP**" means Petrocapita GP I Ltd., a corporation incorporated pursuant to the laws of Alberta, and the general partner of the O&G LP.

"**O&G LP**" means Petrocapita Oil & Gas L.P., a limited partnership governed by the laws of the Province of Alberta.

"**Offering**" means the offering and distribution of the Preferred Units, as contemplated pursuant to this Offering Memorandum.

"**Offering Memorandum**" means this offering memorandum of the Trust dated May 29, 2017 as the same may be amended or amended and restated from time to time.

"**Ordinary Resolution**" means (a) a resolution passed by more than 50% of the votes cast by those Unitholders entitled to vote on such resolution, whether cast in person or by proxy, at a meeting of Unitholders, at which a quorum was present, called (at least in part) for the purpose of approving such resolution, or (b) a resolution approved in writing, in one or more counterparts, by holders of more than 50% of the votes represented by those Units entitled to be voted on such resolution.

"**Palliser**" means Palliser Oil and Gas Corporation.

"**Partnership Act**" means the *Partnership Act* (Alberta) as amended and in force from time to time.

"**PCAP Trucking**" means PCAP Trucking Inc., the successor company to MJ Vallee.

"**person**" includes an individual, corporation, limited partnership, general partnership, joint stock company, limited liability company, joint venture, society, syndicate, association, company, trust, bank, trust company, pension fund, labour union, business trust and other organization, whether or not a legal entity, and government and agency or political subdivision thereof.

"**Petrocapita**" means the Trust, together with its subsidiaries including but not limited to the Corporation.

"**Preferred Unit**" means a preferred unit, series 1 of the Trust.

"**Preferred Unitholder**" means a holder of Preferred Units.

"**Principal Market**" has the meaning ascribed thereto under Section 2.7.1 – *Declaration of Trust – Redemption Rights*.

"**Processing GP**" means Petrocapita GP II Ltd., a corporation incorporated pursuant to the laws of Alberta, and the general partner of the Processing LP.

"**Processing LP**" means Petrocapita Processing L.P., a limited partnership governed by the laws of the Province of Alberta.

"**Put Right Vesting Date**" for a Minor Shareholder shall be: (i) for the first one-third of the Class C Shares currently owned by a Minor Shareholder, October 18, 2016; (ii) for the second one-third of the Class C Shares currently owned by a Minor Shareholder, October 18, 2017; and (iii) for the final one-third of the Class C Shares currently owned by a Minor Shareholder, October 18, 2018.

"**Redemption Notes**" means, with respect to a redemption of Units, promissory notes issued in series, or otherwise, by the Trust and issued to redeeming Unitholders in principal amounts equal to all or a portion of the redemption price of the Units to be redeemed and having the following terms and conditions:

- (a) unsecured and bearing interest from and including the issue date of each such note at a market rate determined at the time of issuance, based on the advice of an independent financial advisor, with such interest payable only at the maturity date of such note (with interest after as well as before maturity, default and judgment at such rate);
- (b) subordinated and postponed to (1) all senior indebtedness (and which may be subject to specific subordination and postponement agreements to be entered into with holders of such senior indebtedness) and (2) all payments and other obligations owed by the Trust in respect to the Preferred Units, including distribution entitlements and amounts payable on liquidation, dissolution or winding up of the Trust;
- (c) subject to earlier prepayment, being due and payable no later than the fifth anniversary of the date of issuance, as determined in the discretion of the Trustees; and
- (d) subject to such other standard terms and conditions as would be included in long-term promissory notes of this kind, as may be approved by the Trustees;

"**Series Redemption Date**" means, for a particular series of preferred units, the date following which a holder of a Unit of that series will be entitled to be paid (i) \$1.00; plus (ii) all accrued and unpaid cumulative distributions in respect of such Unit, whether or not declared, calculated to but excluding the date of redemption, in connection with a redemption of preferred units of that series. The Series Redemption Date of the Preferred Units is the fourth (4th) anniversary of the date of issuance of the particular Preferred Unit.

"Shareholders' Agreement" means the shareholders' agreement, dated October 18, 2016, among the Corporation, the Trust and the Minor Shareholders.

"SIFT Trust" means a specified investment flow-through trust for purposes of the Income Tax Act.

"Smartworks" means Smartworks Oilfield Maintenance Ltd.

"Special Distribution" means an issuance or distribution by the Trust, to all or substantially all the holders of its Common Units of: (a) securities of the Trust of any class other than Common Units; (b) rights, options or warrants to acquire securities or property or other assets of the Trust; (c) evidence of indebtedness; or (d) other assets or property.

"Special Resolution" means:

- (a) a resolution passed by more than 66⅔% of the votes cast by those Unitholders who were entitled to vote and did vote on such resolution, whether cast in person or by proxy, at a meeting of Unitholders, at which a quorum was present, called (at least in part) for the purpose of approving such resolution; or
- (b) a resolution approved in writing, in one or more counterparts, by Unitholders carrying more than 66⅔% of the votes represented by those Units entitled to be voted on such resolution.

"Subscriber" means a subscriber for Preferred Units under this Offering Memorandum.

"Support Agreement" means the support agreement, dated October 18, 2016, between the Corporation and the Trust.

"Tied Unit" means the combination of one Preferred Unit being offered under this Offering Memorandum and 0.23 Class A Shares offered concurrently pursuant to the offering memorandum of the Corporation.

"Triggering Event" means any of the following events:

- (a) the acquisition, directly or indirectly of Common Units acquired by a person or persons acting jointly or in concert which exceeds 50% of the outstanding Common Units;
- (b) a reclassification of the Common Units or a capital reorganization of the Trust (including any compulsory unit exchange pursuant to which Common Units are effectively converted into or exchanged for other securities, cash or property, other than a result of a general subdivision or consolidation of Common Units);
- (c) any merger, consolidation, amalgamation, take-over bid, tender offer, exchange offer, arrangement, liquidation, dissolution, share exchange or sale of assets (including any lease, long-term supply agreement or other arrangement having the same economic effect as a sale of assets) involving or relating to the Trust or any of its subsidiaries (including the Corporation) representing 50% or more of the voting or equity securities of the Trust or any of its subsidiaries (including the Corporation) (in terms of number of securities or voting power); or 50% or more of the consolidated assets (measured by the fair market value thereof as of the date of any such proposal, inquiry or offer) of the Trust and its subsidiaries (including the Corporation) taken as a whole;
- (d) change in the composition of the trustees of the Trust or the board of directors of the Administrator, as a result of a contested election of trustees or directors, with the result that the persons who were trustees of the Trust or directors of the Administrator prior to such contested election do not constitute a majority of the directors elected in such election; or
- (e) any transactions or arrangements similar to, or having the same effect or consequences, as the foregoing.

"Trust" means Petrocapita Income Trust, formed and governed pursuant to the Declaration of Trust.

"Trustee" means at any time, a person who is, in accordance with the provisions of the Declaration of Trust, a trustee of the Trust at that time, and **"Trustees"** means all of them collectively, who are currently Alex Lemmens, Richard Mellis, Gregory Marr and Ben Van Rootselaar.

"Unitholder" means a person whose name appears on the register of the Trust as a holder of one or more Units, and such holders are collectively called **"Unitholders"**.

"Units" means the Common Units and/or Preferred Units of the Trust, as the case may be and **"Unit"** means a Common Unit or a Preferred Unit of the Trust, as the case may be.

"Warrant" means a Common Unit purchase warrant. Each Warrant is exercisable at a price of \$0.06 per Unit until December 31, 2018.

In this Offering Memorandum, references to "dollars" and \$ are to the currency of Canada, unless otherwise indicated.

ABBREVIATIONS

In this Offering Memorandum, the following abbreviations have the meanings set forth below:

API	American Petroleum Institute	Mboe	thousands of barrels of oil equivalent
bbl and bbls	barrel and barrels, each barrel representing 34.972 Imperial gallons or 42 U.S. gallons	Mscf	thousand standard cubic feet
bbls/d	barrels per day	MMscf	million standard cubic feet
boe	barrels of oil equivalent	M	thousand
boe/d	barrels of oil equivalent per day	MM	million
Mbbls	thousands of barrels	STB	stock tank barrels of oil
cp	centipoise		

EXCHANGE RATE DATA AND STANDARD CONVERSIONS

The following table sets forth, for each of the periods indicated, the average and period-end noon spot rates of exchange for US\$1.00, as reported by the Bank of Canada and expressed in Canadian dollars.

	Year Ended December 31	
	2016 (CDN\$/US\$)	2015 (CDN\$/US\$)
Average noon spot rate during period	1.3248	1.2787
End of period noon spot rate	1.3427	1.3840

The following table sets forth certain standard conversions between Standard Imperial Units and the International System of Units (or metric units).

To Convert From	To	Multiply By
Mscf	cubic metres	28.174
cubic metres	cubic feet	35.315
bbls	cubic metres	0.159
cubic metres	bbls	6.293
feet	metres	0.305
metres	feet	3.281
miles	kilometers	1.609
kilometers	miles	0.621
acres	hectares	0.405
hectares	acres	2.471

OIL AND GAS DISCLOSURE

Disclosure provided in this Offering Memorandum for barrels of oil equivalent ("**boe**") may be misleading, particularly if used in isolation. A boe conversion ratio of six Mscf to one bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of oil as compared to natural gas is significantly different from the energy equivalency conversion ratio of six to one, utilizing a boe conversion ratio of six Mscf to one bbl would be misleading as an indication of value.

Notes and Definitions

In the tables set forth below, the following notes and other definitions are applicable.

Reserve Categories

The determination of oil and natural gas reserves involves the preparation of estimates that have an inherent degree of associated uncertainty. Categories of proved and probable reserves have been established to reflect the level of these uncertainties and to provide an indication of the probability of recovery.

The estimation and classification of reserves requires the application of professional judgment combined with geological and engineering knowledge to assess whether or not specific reserves classification criteria have been satisfied. Knowledge of concepts including uncertainty and risk, probability and statistics, and deterministic and probabilistic estimation methods are required to properly use and apply reserves definitions.

"Reserves" are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, as of a given date, based on:

- (a) analysis of drilling, geological, geophysical and engineering data;
- (b) the use of established technology; and
- (c) specified economic conditions, which are generally accepted as being reasonable, and shall be disclosed.

Reserves are classified according to the degree of certainty associated with the estimates.

"Proved reserves" are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.

"Probable reserves" are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

Each of the reserves categories may be divided into developed and undeveloped categories.

"Developed reserves" are those reserves that are expected to be recovered from existing wells and installed facilities, or, if facilities have not been installed, that would involve a low expenditure (e.g. when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing.

"Developed producing reserves" are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.

"Developed non-producing reserves" are those reserves that either have not been on production, or have previously been on production but are shut-in and the date of resumption of production is unknown.

"Undeveloped reserves" are those reserves expected to be recovered from known accumulations where a significant expenditure (e.g., when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves category (proved and probable) to which they are assigned.

In multi-well pools, it may be appropriate to allocate total pool reserves between the developed and undeveloped categories or to subdivide the developed reserves for the pool between developed producing and developed non-producing. This allocation is based on the estimator's assessment as to the reserves that will be recovered from specific wells, facilities and completion intervals in the pool and their respective development and production status.

Levels of Certainty for Reported Reserves

The qualitative certainty levels referred to in the definitions above are applicable to "individual reserves entities", which refers to the lowest level at which reserves calculations are performed, and to "reported reserves", which refers to the highest level sum of individual entity estimates for which reserves estimates are presented. Reported reserves should target the following levels of certainty under a specific set of economic conditions:

- (a) at least a 90% probability that the quantities actually recovered will equal or exceed the estimated proved reserves; and
- (b) at least a 50% probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable reserves.

A quantitative measure of the certainty levels pertaining to estimates prepared for the various reserves categories is desirable to provide a clearer understanding of the associated risks and uncertainties. However, the majority of reserves estimates are prepared using deterministic methods that do not provide a mathematically derived quantitative measure of probability. In principle, there should be no difference between estimates prepared using probabilistic or deterministic methods.

The process of estimating reserves is complex. It requires significant judgments and decisions based on available geological, geophysical, engineering and economic data. These estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and natural gas prices and costs change. The reserve estimates disclosed herein as contained in the Chapman Reserve Report are based on production forecasts, prices and economic conditions at the time of preparation of such report. The reserves were evaluated by Chapman for the Chapman Reserve Report. Chapman is an independent qualified reserves evaluator.

As circumstances change and additional data becomes available, reserve estimates also change. Estimates made are reviewed and revised, either upward or downward, as warranted by the new information. Revisions are often required due to changes in well performance, prices, economic conditions and governmental restrictions.

Although every reasonable effort is made to ensure that reserve estimates are accurate, reserve estimation is an inferential science. As a result, the subjective decisions, new geological or production information and a changing economic or regulatory environment as well as fluctuations in product pricing, capital expenditures, operating costs, royalty regimes and well performance that are beyond the control of Petrocapita and its subsidiaries may impact these estimates. Furthermore, differences in the underlying assumptions used by Chapman may lead to different results. Revisions to reserve estimates can also arise from changes in year-end oil and natural gas prices and reservoir performance. Such revisions can be either positive or negative. See Item 9 - *Risk Factors*.

SUMMARY OF THIS OFFERING MEMORANDUM

The following is a summary of the principle features of this Offering Memorandum and should be read together with the more detailed information contained elsewhere in this Offering Memorandum.

Investment Objective and Strategy: Petrocapita's strategy is to grow through low cost acquisitions and operations principally located in the Provinces of Alberta and Saskatchewan. Management is seeking accretive opportunities to acquire both oil production within the range of 15 - 300 boe/d and complimentary midstream assets during a cyclical low in the oil and gas markets.

Petrocapita's primary objective is to identify, evaluate and acquire oil and gas assets with opportunities to develop infrastructure (including oil and produced water processing and disposal facilities and wells, or interests therein) which can reliably generate income so as to provide a reasonable return to investors. See Item 2 - *Business of Petrocapita*.

Assets: Petrocapita's heavy oil assets are located in the Lloydminster area of Alberta and Saskatchewan and include up to nine potential producing horizons which form the clastic unit of the Lower Cretaceous age known as the Mannville group of oil bearing sands. Oil from these pools is typical of the conventional higher viscosity Lloydminster Mannville pools (30,000 to 60,000 cp), but can exhibit lower viscosity heavy oil (18,000 to 30,000 cp) in certain pools, especially in the Colony, Sparky and Waseca horizons.

Petrocapita's properties are all located in well developed areas with extremely detailed well control and analog productivity profiles from many years of intensive drilling and production activity in their areas of focus.

Petrocapita has developed a growth plan to organically increase production through a variety of opportunities including drilling its inventory of lower-risk infill locations, expanding and optimizing infrastructure and implementing secondary and tertiary enhanced oil recovery techniques, such as high volume lift.

High volume lift utilizes Petrocapita's inventory of salt water disposal locations to increase total production from high water cut wells owned by Petrocapita and third parties in order to increase total oil production and reduce the cost of disposal of produced water.

Petrocapita's production is derived from 13 fields in two regions in the Lloydminster and Granlea area of operations: four fields in Alberta (comprised of the Lloydminster, Derwent, Provost and Granlea fields) and nine fields in Saskatchewan (comprised of the Dollard, Dulwich, Edam, Landrose, Lashburn, Maidstone, Northminster, Manitou Lake and Turtleford fields).

Petrocapita currently owns and operates 445 gross (426.3 net) oil wells, 91 gross (22 net) gas wells, 19 produced water disposal facilities, 3 custom oil processing facilities, 3 natural gas compressor stations, 72.75 km in pipelines, oil well service rigs and trucks, fluid haul tractors and trailers, motor graders, and well site processing equipment. See Item 2.2.2 - *Petrocapita Assets*.

Proposed Closing Date(s): Closings will occur from time to time at the discretion of the Administrator.

Income Tax Consequences: There are important tax considerations applicable to an investment in these securities, as discussed herein, including considerations related to the Trust's status as a SIFT Trust for the purposes of the Income Tax Act. Potential investors should consult their own tax advisors in respect of an investment in Preferred Units.

Provided that the Trust qualifies as a "mutual fund trust" for purposes of the Income Tax Act at all relevant times, the Preferred Units (but not the Class A Shares) will be qualified investments for Exempt Plans, as further described under Item 6 - *Certain Income Tax Considerations and Exempt Plan Eligibility*, and subject to the limitations and qualifications set out therein.

Although it is intended that the Trust qualify as a "mutual fund trust" pursuant to the Income Tax Act, the Trust will not be a "mutual fund" under applicable securities laws.

See Item 6 - *Certain Income Tax Considerations and Exempt Plan Eligibility*.

Selling Agents: Petrocapita will retain the Agents to effect sales of the Tied Units on a "best efforts" basis. Where permitted by applicable securities legislation, the Trust intends to pay the Agents a selling commission of up to 9% of the gross proceeds realized on the sale of Preferred Units in cash. In addition, Agents may receive an administrative fee of up to 1%. Finally, the Agents may receive up to 20 Class A Shares from the Corporation for every 1,000 Tied Units sold. See Item 7 - *Compensation Paid to Sellers and Finders*.

The Units:	The Offering consists of Preferred Units, which are being issued as part of a Tied Unit. The Tied Units are made up of a combination of Preferred Units and Class A Shares, which are being offered concurrently by the Corporation pursuant to an offering memorandum dated May 29, 2017. For every 1,000 Preferred Units issued by the Trust, the Corporation will offer up to 230 Class A Shares to the Subscriber. The Agents will also receive up to 20 Class A Shares from the Corporation as part of their sales commission. The Class A Shares offered to Subscribers of Preferred Units will be priced at a nominal price of \$0.001 per Class A Share. Except for those Class A Shares offered to the Agent, the Class A Shares cannot be purchased by a Subscriber without the purchase by that Subscriber of Preferred Units. See Item 5.1 - <i>Terms of Securities - Preferred Units</i> and Item 5.2 – <i>Subscription Procedure</i> .
Voting Rights:	Except as set forth in the Declaration of Trust, the holders of the Preferred Units shall not be entitled as such to receive notice of or to attend any meeting of the Unitholders or to vote at any such meeting. See Item 5.1 - <i>Terms of Securities - Preferred Units</i> .
Distributions:	Holders of Preferred Units have the right to receive a fixed, preferential cumulative distribution of \$0.09 per Preferred Unit per annum, payable quarterly in arrears to the extent distributable cash is available. See Item 5.1 - <i>Terms of Securities - Preferred Units</i> .
Distribution Reinvestment Plan:	The Trust has adopted a distribution reinvestment plan (the " DRIP ") that will allow eligible holders of Preferred Units to elect to have their quarterly cash distributions reinvested in additional Preferred Units. See Item 2.7.3 – <i>Distribution Reinvestment Plan</i> .
Redemption:	<p>Prior to the Series Redemption Date, Preferred Units are redeemable on demand by the holders thereof, at a redemption price based on 90% of the fair market value as determined by the Administrator or, if the Preferred Units are listed, traded or quoted on a stock exchange or market at the relevant time, 90% of their Market Price or 100% of their Closing Market Price, subject to certain limitations on payment of the redemption price and the consideration therefor.</p> <p>Following the Series Redemption Date, upon receipt of a properly executed notice, the Trust shall, in respect of each Preferred Unit to be redeemed, make payment of an amount which is equal to the sum of: (1) one dollar (\$1.00); plus (2) all accrued and unpaid cumulative distributions in respect of such Preferred Unit whether or not declared, calculated to but excluding the date of redemption. The Series Redemption Date of the Preferred Units is the fourth (4th) anniversary of the date of issuance of the particular Preferred Unit.</p> <p>The Trust is entitled to limit the cash amount payable by the Trust in respect of all Preferred Units being redeemed to \$7,500 per month.</p> <p>In addition, the Trust may redeem at any time the whole or from time to time any part of the then outstanding Preferred Units from any one or more of the holders thereof as the Trustees may in their sole discretion determine. In respect of each Preferred Unit to be redeemed, the Trust shall make payment of an amount which is equal to the sum of one dollar (\$1.00), plus all accrued and unpaid cumulative distributions in respect of such Preferred Unit, whether or not declared, calculated to but excluding the date of redemption, with any combination of cash, Redemption Notes and trust property.</p> <p>See "<i>Declaration of Trust – Redemption Rights</i>".</p>
Exchange Right of the Class A Shares:	The holders of the Class A Shares shall be entitled to exercise their a right to exchange their Class A Shares for Common Units of the Trust if either: (a) a Triggering Event has occurred and the Corporation has not exercised its Redemption Right; or (b) at least 18 months have elapsed from the date of original issue of such Class A Share, which shall be satisfied in full by the Corporation delivering or causing to be delivered to such holder, for each Class A Share presented and surrendered by the holder, a number of Common Units equal to the Exchange Rate. See the offering memorandum of the Corporation dated May 29, 2017 for additional information on the exchange right.
Redemption Right of the Class A Shares:	In the event the Trust announces, approves or enters into or announces the approval or entering into of an agreement, transaction or proposal with a person who is not an affiliate of the Trust, having as its object a transaction or series of related transactions intending to result in a Triggering Event, the Board in their absolute discretion may establish a redemption date for all, but not less than all of the outstanding Class A Shares at the redemption price, which shall be satisfied in full by the Corporation delivering or causing to be delivered to the holders, for each Class A Share redeemed, a number of Common Units equal to the Exchange Rate. See the offering memorandum of the Corporation dated May 29, 2017 for additional information on the redemption right.

Term of the Trust: The Trust is obligated to commence its wind-up and termination upon the first of the following to occur: (a) a proposal to the holders of Common Units, by the Administrator, to wind-up and terminate the Trust, which proposal is approved by way of a Special Resolution; or (b) the date upon which each of the material businesses in which the Trust holds an interest, or has otherwise invested, have been liquidated; which generally means such business has been wound-up and its net assets distributed to those so entitled upon a wind-up, dissolution or termination of such business. See Item 2.7.1 - *Declaration of Trust*.

Trustees: The Trustees are Alex Lemmens, Richard Mellis, Gregory Marr and Ben Van Rootselaar. The Trustees are responsible for the management and control of the business and affairs of the Trust on a day to day basis in accordance with the terms of the Declaration of Trust. However, the Trustees, on behalf of the Trust, have retained the Administrator to carry out most of the duties of the Trustees under the Declaration of Trust and have delegated to the Administrator responsibility for the general administration, management and governance of the affairs of the Trust. In connection therewith, the Administrator is required to provide and perform all administrative, management and governance services (with limited exceptions) as may be required or advisable from time to time in order to administer, manage and govern the operations of the Trust. See Item 2.7.1 – *Declaration of Trust*.

Concurrent and Subsequent Offerings: The Preferred Units are being sold as part of a Tied Unit, which is made up of a combination of Preferred Units and Class A Shares of the Corporation. The Class A Shares are being offered concurrently by the Corporation pursuant to an offering memorandum dated May 29, 2017.

The Trust may offer additional securities concurrently with, or subsequent to, the Offering.

Risk Factors: **It is strongly recommended that each Subscriber, in order to assess tax, legal and other aspects of an investment in Preferred Units, obtain independent advice with respect to the Offering and this Offering Memorandum. An investment in the Preferred Units is subject to significant risk from, among other things, changing economic and market conditions. Following is a list of some of the most significant risk factors:**

This is a speculative offering. An investment in Preferred Units is appropriate only for subscribers who have the capacity to absorb a total loss of their investment. Subscribers who are not willing to rely on the sole and exclusive discretion and judgment of the Trustees and Administrator should not subscribe for Preferred Units.

There is no market for Preferred Units and the transfer of Preferred Units is significantly limited and in some circumstances prohibited. An investment in the Preferred Units should only be considered by those subscribers who are able to make and bear the economic risk of a long term investment and the possible total loss of their investment.

An investment in Preferred Units should only be made after consultation with independent qualified sources of investment and tax advice. An investment in the Trust is speculative and involves a high degree of risk and is not intended as a complete investment program.

There is a risk that an investment in the Trust will be lost entirely. Only investors who do not require immediate liquidity of their investment and who can afford the loss of their entire investment should consider the purchase of the Preferred Units. See Item 9 - *Risk Factors*.

ITEM 1 - USE OF AVAILABLE FUNDS

1.1 Funds

The net proceeds of the Offering and the total funds that are anticipated to be available to the Trust immediately following the Closing are as follows:

		Assuming \$20,000,000 Offering
A	Amount to be raised by this Offering ⁽¹⁾	\$20,000,000
B	Selling commissions and fees ⁽²⁾⁽³⁾	(\$2,000,000)
C	Estimated Offering costs (e.g. legal, accounting, etc.) ⁽⁴⁾	(\$200,000)
D	Available Funds: $D = A - (B+C)$ ⁽⁵⁾	\$17,800,000
E	Additional Sources of Funding Required	\$0
F	Working Capital Deficiency	(\$3,000,000) ⁽⁵⁾
G	Total: $G = (D+E) - F$	\$14,800,000

Notes:

- (1) There is no minimum or maximum amount of funds to be raised pursuant to the Offering. It is therefore possible that the amount raised by the Offering is \$0. Assuming an Offering of \$20,000,000, the size of the Combined Offering will be \$20,004,600.
- (2) The Trust intends to pay the Agents a commission of up to 9% of the gross proceeds realized on the sale of Preferred Units for soliciting subscriptions for Preferred Units. In addition to the foregoing, the Trust may also pay the Agents an administration fee of up to 1% of the gross proceeds realized on the sale of Preferred Units. Assuming a \$20,000,000 Offering, the Trust may incur commission payments of up to \$1,800,000 and administration fee payments of up to \$200,000. See Item 7 - *Compensation Paid to Sellers and Finders*.
- (3) The Trust may, from time to time, enter into agreements with third parties to provide marketing, administration and related services in connection with the Offering on such terms and conditions as may be deemed advisable by the Trustees or the Administrator. The above table does not assume any fees payable in connection with such arrangements.
- (4) The Trust will incur offering costs of approximately \$200,000, which does not include the Agents' commission or administration fees.
- (5) As at April 30, 2017, Petrocapita has a working capital deficiency of approximately \$3,000,000, which shall be paid by Petrocapita with the proceeds of the Offering. This working capital deficiency is comprised of: (i) repayment of principal balances of debentures issued to sellers to acquire certain assets due in the next 12 months in the amount of approximately \$980,000; (ii) property taxes that are expected to be due in mid-2017 of approximately \$600,000; and (iii) accounts payable and accrued liabilities in respect of general and administrative costs, operating activities and capital expenditures of approximately \$1,420,000. If the net proceeds from the Offering together with available cash flow from Petrocapita's assets is insufficient to pay Petrocapita's working capital deficiency, Petrocapita will need to seek other sources of capital, which may include a sale of assets. There can be no assurance that Petrocapita will be able to obtain sufficient additional capital to meet future working capital requirements or make additional investments. See Item 1.2 - *Use of Available Funds*.

1.2 Use of Available Funds

Description of intended use of available funds listed in order of priority	Assuming \$20,000,000 Offering ⁽¹⁾
Payment of working capital deficiency comprised of:	
(a) repayment of principal balances of debentures issued to sellers to acquire certain assets due in the next 12 months ⁽²⁾	\$980,000
(b) accrued property taxes that are expected to be due in mid-2017 ⁽³⁾	\$600,000
(a) accounts payable and accrued liabilities in respect of general and administrative costs, operating activities and capital expenditures	\$1,420,000
Acquire and develop, through its subsidiary entities, oil and gas properties, oil treatment, transportation and processing facilities and produced water disposal wells in the Lloydminster area of Alberta and Saskatchewan. See Item 2.2 - <i>Our Business</i> .	\$14,800,000

Notes:

- (1) There is no minimum or maximum amount of funds to be raised pursuant to the Offering. It is therefore possible that the amount raised by the Offering is \$0. Assuming an Offering of \$20,000,000, the size of the Combined Offering will be \$20,004,600.
- (2) Approximate principal payments due within one year are as follows: Maha (\$748,000), Pacific Oil Company (\$36,000), MJ Vallee (\$76,000), Hytop (\$72,000), Crucible (\$36,000) and Smartworks (\$15,000). See Item 4.2 - *Debt Securities and Long Term Debt*.
- (3) Property taxes for rural municipalities are assessed by each rural municipality annually in mid to late year. Assessments can be altered by suspending wells and removing equipment, by depreciation of the physical assets assessed, applying for relief and terms and by abandoning uneconomic wells. A third party has been engaged to settle old municipal taxes associated with acquisitions and to work with rural municipalities operated in by Petrocapita to reduce or eliminate such

property taxes. Additionally, all wells and facilities owned by Petrocapita have been evaluated for possible abandonment and reclamation and consequently, municipal taxes in respect of abandoned locations are expected to be eliminated. As part of Petrocapita's development plan, a number of wells will be abandoned and reclaimed annually. Property taxes for the next 12 months are estimated to be approximately \$1,200,000 based on 2016 assessments. Approximately 50% of such taxes are expected to be paid from the proceeds of the Offering with the balance to be either reduced, eliminated or paid by operating cash flow.

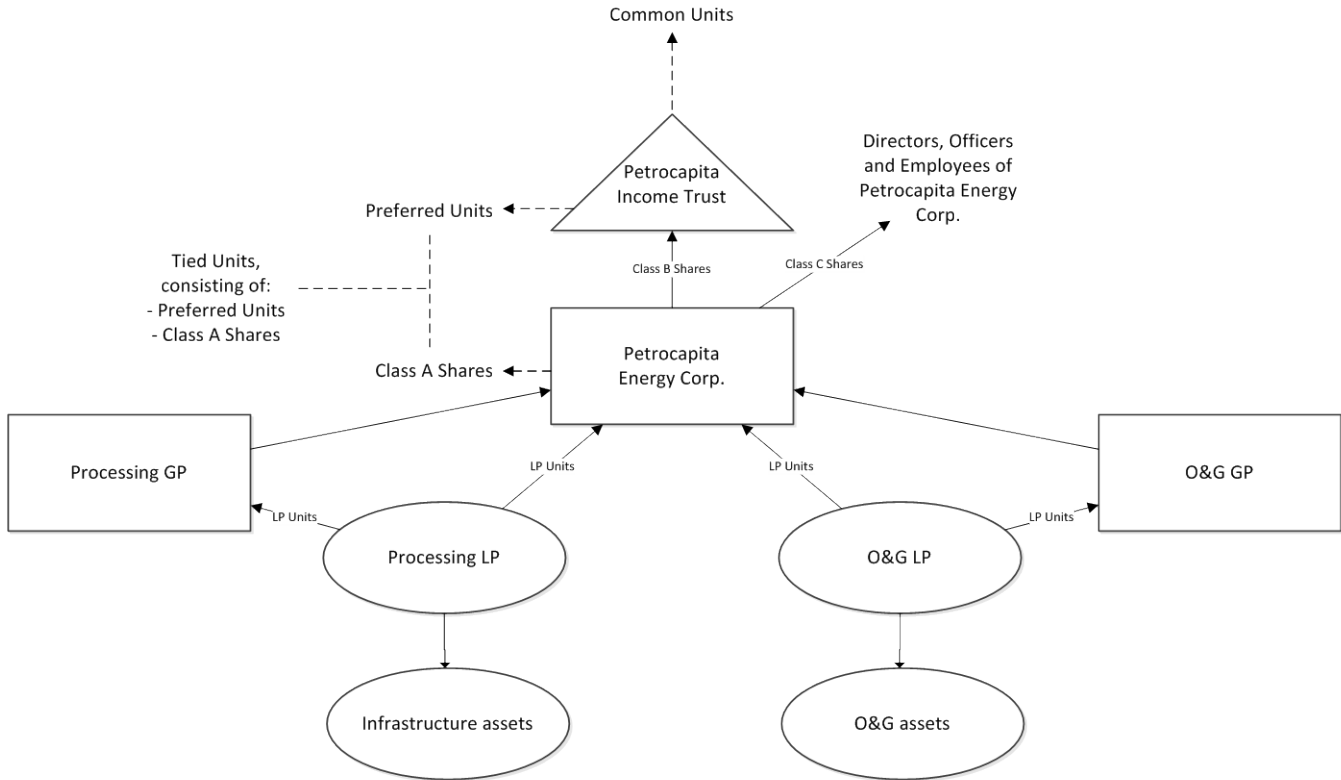
1.3 Reallocation

The Trust intends to utilize the available funds (net proceeds) as stated above, and the Trust will reallocate funds only for sound business reasons as determined at the sole discretion of the Trustees or the Administrator.

ITEM 2 - BUSINESS OF PETROCAPITA

2.1 Structure

The following is a simplified chart showing the organizational structure of Petrocapita after giving effect to the transactions described in Item 2.1.1 – *Internal Reorganization*.

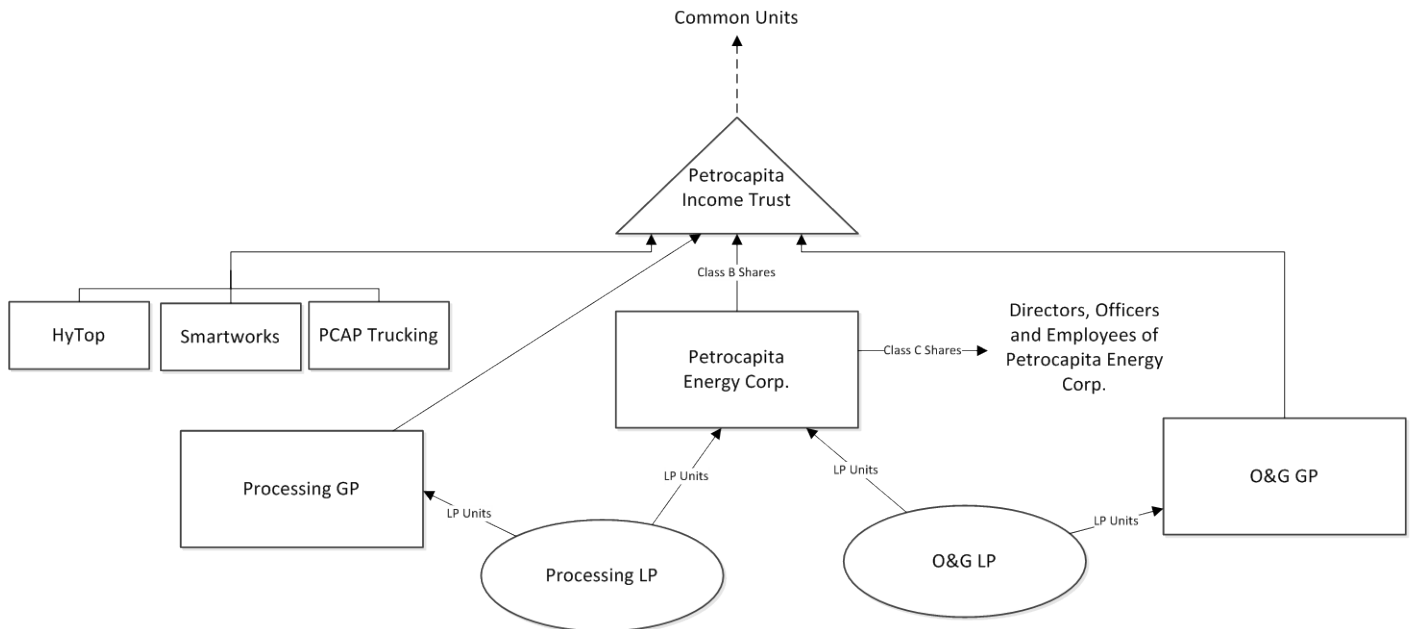


2.1.1 Internal Reorganization

As a result of Petrocapita's continued focus to build out the facilities and infrastructure side of its business, the Trust intends to complete an internal reorganization of its business (the "**Internal Reorganization**") so that its assets are split into two subsidiary operating businesses, being (i) oil and gas exploration and production held by O&G LP; and (ii) oil and gas infrastructure assets, including processing and disposal facilities, as well as transportation and well servicing assets held by Processing LP; both of which will be owned by the Corporation.

The purpose of the Internal Reorganization is to clearly identify the asset value of processing assets for purposes of both fairly valuing the processing assets for reserve report economics and provincially mandated liability management plans. Simultaneously, oil and gas development plans can be prioritized based on market metrics for processing, blending, produced water disposal, transportation and well servicing so that best in class projects are developed first. Investments can then be sought that recognize the separate but complimentary businesses and the impact of cyclical commodity prices on Petrocapita's oil and gas business offset by reduced operating costs for oil and gas production generated by consistent margins in Petrocapita's infrastructure business that is expected to result in higher valuations for the combined business and more cash flow.

As at December 31, 2016, prior to the Internal Reorganization, the organizational structure of Petrocapita is as follows:



The following is a summary of steps that have occurred or are expected to occur as part of the Internal Reorganization. Petrocapita intends to complete the following steps on a tax deferred basis, however, the specific steps taken to complete the Internal Reorganization may vary at the discretion of Petrocapita and additional steps may be required to complete the Internal Reorganization.

- The Corporation will acquire the assets formerly owned by Palliser from O&G GP for the assumption of a 12.5% promissory note issued by O&G GP to O&G LP.
- The Corporation will acquire all of the limited partnership units of O&G LP held by the Trust and certain promissory notes between the Trust, as lender, and the O&G LP, as the debtor, securing the purchase of certain assets of Pacific Oil Company, Hytop, PCAP Trucking and Smartworks through the issuance of a promissory note issued by the Corporation to the Trust in the aggregate principal amount of \$39,711,655.
- The Trust will subscribe for 39,711,655 Class B Voting Shares of the Corporation in exchange for cancellation of the \$39,711,655 promissory note issued by the Corporation to the Trust.
- Processing LP will acquire certain tangible assets of O&G LP in return for a promissory note with the aggregate principal amount of \$3,474,558 issued by Processing LP to O&G LP.
- O&G LP will acquire the intangible assets formerly owned by Palliser from the Corporation in return for limited partnership units of O&G LP being issued to the Corporation.
- Processing LP will acquire the tangible assets formerly owned by Palliser from the Corporation in return for limited partnership units of Processing LP being issued to the Corporation.
- Processing GP will be acquired by the Corporation from the Trust in exchange for 1 Class B Voting Share of the Corporation.
- O&G GP will be acquired by the Corporation from the Trust in exchange for 1 Class B Voting Share of the Corporation.
- Hytop, PCAP Trucking and Smartworks (each as defined herein) will be amalgamated with the Corporation. The assets of these companies will be transferred to the Processing LP in exchange for promissory notes of Processing LP.

To further understand the impact of the Internal Reorganization on the financial statements of the Corporation, see the unaudited pro forma consolidated financial statements of the Corporation included in Item 13 - *Financial Statements*. The unaudited pro forma consolidated financial statements should be read together with the notes to the unaudited pro forma consolidated financial statements of the Corporation.

2.1.2 The Trust

The Trust is an unincorporated investment trust created January 22, 2010 pursuant to the Declaration of Trust. The Trust is formed under and governed by the laws of the Province of Alberta. The head office of the Trust is located at #1400, 717 – 7th Avenue SW, Calgary, Alberta T2P 0Z3.

2.1.3 The Trustees

Alex Lemmens, Gregory Marr, Richard Mellis and Ben Van Rootselaar are the Trustees of the Trust. The Trustees are responsible for the management and control of the business and affairs of the Trust on a day to day basis in accordance with the terms of the Declaration of Trust. However, the Trustees, on behalf of the Trust, have retained the Administrator to carry out most of the duties of the Trustees under the Declaration of Trust and have delegated to the Administrator responsibility for the general administration, management and governance of the affairs of the Trust, and in connection therewith the Administrator is required to provide and perform all administrative, management and governance services (with limited exceptions) as may be required or advisable from time to time in order to administer, manage and govern the operations of the Trust.

2.1.4 The Administrator

The Administrator, Petrocapita GP I Ltd., was incorporated on January 4, 2010, under the laws of the Province of Alberta and manages, along with the Trustees, the affairs of the Trust. The Trust is the sole shareholder of the Administrator.

The Administrator provides and performs certain administrative, management and governance services as may be required or advisable from time to time in order to administer, manage and govern the operations of the Trust pursuant to the terms of the Declaration of Trust and the Administration Agreement. The Trust is not at arm's length to the Administrator. The directors and officers of the Administrator are Alex Lemmens, Gregory Marr, Richard Mellis and Ben Van Rootselaar, who are also the Trustees.

The head office of the Administrator is located at #1400, 717 – 7th Avenue SW, Calgary, Alberta T2P 0Z3.

2.1.5 Petrocapita Energy Corp.

The Corporation was incorporated on September 26, 2016, under the laws of the Province of Alberta. Following the completion of the Internal Reorganization, Petrocapita intends to conduct all of its business through the Corporation. The directors and officers of the Corporation are Alex Lemmens, Richard Mellis, Gregory Marr and Ben Van Rootselaar, who are also Trustees. Following the completion of the Internal Reorganization, the Trust will own approximately 39.7 million Class B Shares and the directors, officers and employees of the Corporation will own 3.9 million Class C Shares of the Corporation.

The head office of the Corporation is located at #1400, 717 – 7th Avenue SW, Calgary, Alberta T2P 0Z3.

2.1.6 The O&G LP

Petrocapita Oil & Gas L.P. (the "**O&G LP**") was formed in the Province of Alberta on January 22, 2010 by the filing of the certificate of limited partnership in accordance with the Partnership Act.

The O&G LP was formed to acquire oil and gas assets in the Lloydminster heavy oil area of Alberta and Saskatchewan. Following the completion of the Internal Reorganization, the Corporation and the O&G GP will be the only partners of the O&G LP, with the Corporation and the O&G GP holding 100% of the outstanding limited partnership units.

The head office of the O&G LP is located at #1400, 717 – 7th Avenue SW, Calgary, Alberta T2P 0Z3.

2.1.7 The O&G GP

The O&G GP is the general partner of the O&G LP and the Administrator. See Item 2.1.4 – *The Administrator*. The O&G GP controls and is responsible for the business of the O&G LP, has the ability to bind the O&G LP and can admit limited partners and do or cause to be done, in a prudent and reasonable manner, any and all acts necessary, appropriate or incidental to the business of the O&G LP. The O&G GP has exclusive authority to manage and control the activities of the O&G LP and is liable by law, as a general partner, for the debts of the O&G LP. The directors and officers of the O&G GP are Alex Lemmens, Gregory Marr, Richard Mellis and Ben Van Rootselaar, who are also the Trustees.

2.1.8 The Processing LP

Petrocapita Processing L.P. (the "**Processing LP**") was formed in the Province of Alberta on October 19, 2016 by the filing of the certificate of limited partnership in accordance with the Partnership Act.

The Processing LP was formed to acquire oil and gas infrastructure assets, including processing and disposal facilities, as well as transportation and well servicing assets. Following the completion of the Internal Reorganization, the Corporation and the Processing GP will be the only partners of the Processing LP, with the Corporation and the Processing GP holding 100% of the outstanding limited partnership units.

The head office of the Processing LP is located at #1400, 717 – 7th Avenue SW, Calgary, Alberta T2P 0Z3.

2.1.9 The Processing GP

The Processing GP, was incorporated on October 18, 2016, under the laws of the Province of Alberta. The Processing GP is the general partner of the Processing LP. The Processing GP controls and is responsible for the business of the Processing LP, has the ability to bind the Processing LP and can admit limited partners and do or cause to be done, in a prudent and reasonable manner, any and all acts necessary, appropriate or incidental to the business of the Processing LP. The Processing GP has exclusive authority to manage and control the activities of the Processing LP and is liable by law, as a general partner, for the debts of the Processing LP. The directors and officers of the Processing GP are Alex Lemmens, Gregory Marr, Richard Mellis and Ben Van Rootselaar, who are also the Trustees.

The head office of the Processing GP is located at #1400, 717 – 7th Avenue SW, Calgary, Alberta T2P 0Z3.

2.2 Our Business

Petrocapita is an Alberta-based oil and gas exploration and production trust focused on the acquisition and development, through its subsidiary entities, of oil and gas properties, oil treatment, transportation and processing facilities and produced water disposal wells in the Lloydminster area of Alberta and Saskatchewan. Specifically, Petrocapita's principal properties are located in 13 fields in two regions in the Lloydminster and Granlea area of operations: four fields in Alberta (comprised of the Lloydminster, Derwent, Provost and Granlea fields) and nine fields in Saskatchewan (comprised of the Dollard, Dulwich, Edam, Landrose, Lashburn, Maidstone, Northminster, Manitou Lake and Turtleford fields).

2.2.1 Business Strategy and Objective

Petrocapita's strategy is to grow through low cost acquisitions and operations principally located in the Provinces of Alberta and Saskatchewan. Management is seeking accretive opportunities to acquire both oil production within the range of 15 - 300 boe/d and complimentary midstream assets during a cyclical low in the oil and gas markets.

Petrocapita's primary objective is to identify, evaluate and acquire oil and gas assets with opportunities to develop infrastructure (including oil treatment, transportation and processing facilities and produced water disposal wells, or interests therein) which can reliably generate income so as to provide a reasonable return to investors.

Management anticipates that a majority of the assets to be acquired from time to time (whether mineral interests, current or shut-in production, or other interests) will be in respect of heavy oil properties and related or ancillary assets. With respect to heavy oil assets, management believes such assets have potential to provide significant upside while at the same time providing stable income generation. Significantly, such assets will typically require development of infrastructure to strictly manage cost and improve oil recovery. Such infrastructure will initially be in the form of converting lower return oil wells and facilities into produced water processing and disposal facilities but can expand to include produced water flow-lines, fuel gas flow-lines, fluid transportation equipment and facilities, drilling and well servicing equipment, and centralized oil processing facilities.

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 mature infrastructure – particularly with respect to oil treating and salt water disposal, transportation and processing – and realization of associated operating costs savings as a means to competitive advantage in the heavy oil business.

2.2.2 Petrocapita Assets

General

Petrocapita's heavy oil assets are located in the Lloydminster area of Alberta and Saskatchewan and include up to nine potential producing horizons which form the clastic unit of the Lower Cretaceous age known as the Mannville group of oil bearing sands. The sands are generally found in a pro-grading deltaic environment but can be part of a shoreline to shallow marine environment. Oil from these pools is typical of the conventional higher viscosity Lloydminster Mannville pools (30,000 to 60,000 cp), but can exhibit lower viscosity heavy oil (18,000 to 30,000 cp) in certain pools, especially in the Colony, Sparky and Waseca horizons.

Petrocapita's properties are all located in well developed areas with extremely detailed well control and analog productivity profiles from many years of intensive drilling and production activity in their areas of focus. This data is extremely useful to Petrocapita in estimating reserves, and in the selection of drilling locations.

Petrocapita has developed a growth plan to organically increase production through a variety of opportunities including drilling its inventory of lower-risk infill locations, expanding and optimizing infrastructure and implementing secondary and tertiary enhanced oil recovery techniques, such as high volume lift.

High volume lift utilizes Petrocapita's inventory of salt water disposal locations to increase total production from high water cut wells owned by Petrocapita and third parties in order to increase total oil production and reduce the cost of disposal of produced water.

Petrocapita's production is derived from 13 fields in two regions in the Lloydminster and Granlea area of operations: four fields in Alberta (comprised of the Lloydminster, Derwent, Provost and Granlea fields) and nine fields in Saskatchewan (comprised of the Dollard, Dulwich, Edam, Landrose, Lashburn, Maidstone, Northminster, Manitou Lake and Turtleford fields).

Petrocapita currently owns and operates 445 gross (426.3 net) oil wells, 91 gross (22 net) gas wells, 19 produced water disposal facilities, 3 custom oil processing facilities, 3 natural gas compressor stations, 72.75 km in pipelines, oil well service rigs and trucks, fluid haul tractors and trailers, motor graders, and well site processing equipment.

Lloydminster Region

The Lloydminster heavy oil region is centered around the City of Lloydminster on the Alberta/Saskatchewan border. It encompasses an area from Township 36 in the south to Township 57 in the north and from Range 17W3 to Range 8W4, east to west. This region's production is predominantly heavy oil in the 12° to 16° API range that comes from a variety of zones including the Colony, McLaren, Waseca, Sparky, General Petroleum, Rex, Lloydminster, Cummings and Dina at depths of 500 to 700 metres.

Petrocapita's properties in the Lloydminster field in Alberta exhibit production largely from the Sparky horizon but also have porosity in the Lloydminster and Dina horizons which usually have high salt water saturation and are more suitable for produced water disposal.

Petrocapita's properties in Saskatchewan generally exhibit oil pay in the Sparky, McLaren and Waseca formations, but also have porosity in the Lloydminster and Dina horizons which usually have high salt water saturation and are more suitable for produced water disposal.

Of the 16 gross wells (15.2 net) drilled by Petrocapita since its inception, all were drilled in this region and it is anticipated that nearly all of the wells to be drilled by Petrocapita in 2017 will be drilled in this region.

As at May 29, 2017, Petrocapita had 445 (426.3 net) oil wells in the Lloydminster region, of which 141 gross (139 net) oil wells were on production and a further 304 gross (287.3 net) wells were standing waiting on improved economics from re-completion and water disposal.

Petrocapita's intended program for 2017 includes continued re-activation of an oil processing and disposal facility in Saskatchewan and converting up to 5.0 gross (5.0 net) existing suspended oil wells and producing facilities to produced salt water disposal batteries and a work-over and re-completion program focused on maximizing skim oil production and minimizing production cost in the Lloydminster heavy oil region. All of Petrocapita's production is gathered at single well or multi-well facilities of which it has ownership and control. Petrocapita has ownership in approximately 450 heavy oil batteries with capacity for approximately 350,000 bbls of fluid.

Granlea Region

The Granlea shallow natural gas region is located near the city of Medicine Hat, Alberta and features long life, low productivity natural gas wells requiring compression and pipeline gathering systems to operate. Petrocapita owns working interests in 89 gross (20 net) gas wells, 2 gas compressor stations and 11.5 km of gas pipelines all operated by third parties.

2.2.3 Selected Oil and Gas Information

(a) Disclosure of Reserve Data

The following is a summary of the oil and natural gas reserves, and the value of future net revenue of Petrocapita as evaluated by Chapman as at December 31, 2016, and dated March 23, 2017. Chapman is an independent qualified reserves evaluator and auditor.

All evaluations of future revenue are after the deduction of future income tax expenses, unless otherwise noted in the tables, royalties, development costs, production costs and well abandonment costs but before consideration of indirect costs such as administrative, overhead and other miscellaneous expenses. The estimated future net revenue contained in the following tables does not necessarily represent the fair market value of Petrocapita's reserves. There is no assurance that the forecast price and cost assumptions contained in the Chapman Reserve Report will be attained and variances could be material. Other assumptions and qualifications relating to costs and other matters are included in the Chapman Reserve Report. The recovery and reserves estimates on Petrocapita's properties described herein are estimates only. The actual reserves on Petrocapita's properties may be greater or less than those calculated.

All monetary values presented in this document are expressed in terms of Canadian dollars.

**SUMMARY OF OIL AND GAS RESERVES
BASED ON FORECAST PRICES AND COSTS
AS AT DECEMBER 31, 2016**

Reserves Category	Petrocapita Reserves							
	Light and Medium Oil		Heavy Oil		Conventional Natural Gas		Natural Gas Liquids	
	Gross MSTB	Net MSTB	Gross MSTB	Net MSTB	Gross MMscf	Net MMscf	Gross Mbbl	Net Mbbl
	PROVED							
Developed Producing	0	0	1,009	917	197	187	1	1
Developed Non-Producing	0	0	727	660	22	21	0	0
Undeveloped	0	0	153	129	0	0	0	0
TOTAL PROVED	0	0	1,890	1,707	219	208	1	1
TOTAL PROBABLE	0	0	6,430	5,597	223	199	2	1
TOTAL PROVED + PROBABLE	0	0	8,320	7,303	442	407	3	2

**SUMMARY OF NET PRESENT VALUES
BASED ON FORECAST PRICES AND COSTS
AS AT DECEMBER 31, 2016**

Reserves Category	Net Present Values of Future Net Revenue									
	Before Income Tax Discounted at					After Income Tax Discounted at				
	0%/yr \$M	5%/yr. \$M	10%/yr. \$M	15%/yr. \$M	20%/yr. \$M	0%/yr \$M	5%/yr. \$M	10%/yr. \$M	15%/yr. \$M	20%/yr. \$M
PROVED										
Developed Producing	18,419	16,098	14,291	12,857	11,696	18,419	16,098	14,291	12,857	11,696
Developed Non-Producing	9,938	8,288	6,986	5,944	5,102	9,938	8,288	6,986	5,944	5,102
Undeveloped	1,853	1,388	1,038	769	560	1,853	1,388	1,038	770	560
TOTAL PROVED	30,209	25,774	22,315	19,570	17,358	30,209	25,774	22,315	19,570	17,358
TOTAL PROBABLE	157,090	115,070	87,000	67,497	53,504	126,569	92,475	69,812	54,116	42,877
TOTAL PROVED + PROBABLE	187,299	140,844	109,314	87,067	70,862	156,778	118,249	92,127	73,686	60,235

**TOTAL FUTURE NET REVENUE (UNDISCOUNTED)
BASED ON FORECAST PRICES AND COSTS
AS AT DECEMBER 31, 2016**

	Revenue (\$M)	Royalties (\$M)	Operating Costs (\$M)	Development Costs (\$M)	Abandonment and Reclamation Costs (\$M)	Future Net Revenue Before Income Taxes (\$M)	Income Taxes (\$M)	Future Net Revenue After Income Taxes (\$M)
Total Proved	103,582	10,486	50,352	6,244	6,293	30,209	0	30,209
Total Proved Plus Probable	489,157	59,984	191,159	36,014	14,701	187,299	-30,521	156,778

(b) Pricing Assumptions – Forecast Prices and Costs

The following tables detail the benchmark reference prices for the regions in which Petrocapita operated as at December 31, 2016. The forecast price assumptions assume the continuance of current laws and regulations and take into account inflation with respect to future operating and capital costs. There will be adjustments to field prices from the benchmarks below.

**CRUDE OIL
CURRENT AND FUTURE PRICES
January 1, 2017**

Date	WTI ⁽¹⁾	Brent Spot (ICE) ⁽²⁾	AB Synthetic	Western Canada	Exchange
	\$US/STB		Crude Price ⁽³⁾	Select ⁽⁴⁾	
	\$US/STB	\$US/STB	\$CDN/STB	\$CDN/STB	\$US/\$CDN
FORECAST PRICES					
2017	55.00	57.20	73.20	51.24	0.76
2018	60.00	62.40	75.83	56.11	0.80
2019	65.00	67.60	79.14	58.57	0.83
2020	70.00	72.80	85.17	63.02	0.83
2021	72.50	75.40	86.12	63.73	0.85
2022	75.00	78.00	89.07	65.91	0.85

Constant thereafter

Notes:

- (1) West Texas Intermediate quality (D2/S2) crude (40API) landed in Cushing, Oklahoma.
- (2) The Brent Spot price is estimated based on historic data.
- (3) Equivalent price for Light Sweet Crude (D2/S2) & Synthetic Crude landed in Edmonton.
- (4) Western Canada Select (20.5API), spot price for B.C., Alberta, Saskatchewan, and Manitoba.

**NATURAL GAS & BY-PRODUCTS
CURRENT AND FUTURE PRICES
January 1, 2017**

Date	Alberta		AECO Spot	Henry Hub	Propane	Butane	Condensate (Pentanes Plus)
	GRP ⁽¹⁾		Gas ⁽²⁾	Gas ⁽³⁾	C3 ⁽⁴⁾	C4 ⁽⁴⁾	C5+ ⁽⁵⁾
	\$CDN/MMBTU	\$CDN/GJ	\$CDN/MMBTU	\$US/MMBTU	\$CDN/BBL	\$CDN/BBL	\$CDN/BBL
FORECAST PRICES							
2017	2.96	2.81	3.25	4.34	25.62	43.92	69.54
2018	3.00	2.85	3.30	4.39	26.54	45.50	72.04
2019	3.09	2.93	3.40	4.49	27.70	47.49	75.19
2020	3.28	3.11	3.60	4.69	29.81	51.10	80.91
2021	3.37	3.19	3.70	4.79	30.14	51.67	81.82
2022	3.55	3.37	3.90	4.99	31.17	53.44	84.61

Constant thereafter

Notes:

- (1) Alberta Gas Reference Price (GRP) represents the average of all system and direct (spot and firm) sales.
- (2) The AECO C Spot price, which is the Alberta gas trading price.
- (3) Henry Hub Spot is natural gas traded on the New York Mercantile Exchange (NYMEX).
- (4) Alberta average field price for Propane and Butane purchased at field locations.
- (5) Edmonton condensate from GMPFirstEnergy.

Petrocapita's weighted average prices received this fiscal year are: \$2.88/Mscf for conventional natural gas and \$33.39/STB.

(c) Future Development Costs

The following table shows the development costs anticipated in the next five years, which have been deducted in the estimation of the future net revenues of the proved and probable reserves.

	Total Proved Estimated Using Forecast Prices and Costs (Undiscounted) (\$M)	Total Proved Plus Probable Estimated Using Forecast Prices and Costs (Undiscounted) (\$M)
2017	3,640	7,236
2018	1,102	16,901
2019	1,503	11,165
2020	0	711
2021	0	0
Total for five years	6,244	36,014
Remainder	0	0
Total for all years	6,244	36,014

The ability of Petrocapita to realize the carrying value of its proved and probable reserves depends on the success of Petrocapita's exploration and development of its oil and gas properties, as well as the ability of Petrocapita to obtain additional financing or equity to fund the exploration and development of those oil and gas properties.

(d) Drilling Activity

The following table sets forth the number of exploratory and development wells which Petrocapita completed during its 2016 financial year:

	Exploratory Wells		Development Wells	
	Gross⁽¹⁾	Net⁽²⁾	Gross⁽¹⁾	Net⁽²⁾
Oil Wells	0	0	0	0
Gas Wells	0	0	0	0
Service Wells	0	0	0	0
Dry Holes	0	0	0	0
Total Completed Wells	0	0	0	0

Notes:

(1) Total number of wells in which Petrocapita has a working interest.

(2) Total number of wells in which Petrocapita has a working interest multiplied by Petrocapita working interest in each well.

Petrocapita is actively raising funds to develop the carrying value of the proved and probable reserves. The acquisition of infrastructure assets acquired with the Palliser assets in mid-2016 is necessary to economically operate heavy oil wells in the Lloydminster area of Alberta and Saskatchewan. Based on improved economics associated with such infrastructure, it has been and will continue to re-activate a number of wells temporarily suspended as a result of low world oil prices and the differentials related to oil quality. Improvement in world oil prices and differentials coupled with the benefit of upgraded infrastructure acquired will dictate expenditures for drilling new wells.

(e) Costs Incurred

The following table summarizes the capital expenditures made by Petrocapita on oil and natural gas properties for the year ended December 31, 2016.

Property Acquisition Costs (\$M)		Exploration Costs (\$M)	Development Costs (\$M)
Proved Properties	Unproved Properties		
710	2427	0	1767

(f) Production History – By Quarters

The following table sets forth certain information in respect of production, product prices received, royalties, production costs and netbacks received by Petrocapita for each quarter of its most recently completed financial year:

	Three Months Ended March 31, 2016	Three Months Ended June 30 2016	Three Months Ended September 30, 2016	Three Months Ended December 31, 2016
Average Daily Production				
Heavy Crude Oil (Bbl/d)	251	191	496	685
Conventional Natural Gas (Mscf/d)			121	252
Average Net Prices Received				
Heavy Crude Oil - C\$/Bbl	15.92	33.99	34.05	38.23
Conventional Natural Gas C\$/Mscf			3.51	2.06
Royalties				
Heavy Crude Oil - C\$/Bbl	0.87	2.93	3.71	4.77
Conventional Natural Gas – C\$/Mscf			0.13	0.26
Production Costs				
Heavy Crude Oil - C\$/Bbl	25.11	35.08	24.16	48.64
Conventional Natural Gas – C\$/Mscf			4.28	2.38
Netback Received				
Heavy Crude Oil - C\$/Bbl	(10.06)	(4.02)	6.18	(14.63)
Conventional Natural Gas - C\$/Mscf			(0.90)	(0.58)

2.3 Development of the Business

The business of Petrocapita commenced in 2010 following the formation of the Trust and the initial acquisition by Petrocapita in February 2010 of undeveloped land near Dulwich, Saskatchewan and other assets from an arm's length third party. The following is a description of Petrocapita's business development over the past three completed financial years.

2014

In 2014, Petrocapita drilled 2 oil wells (1.7 net), re-completed 12 oil wells (12.0 net) and purchased 80 acres of mineral land rights (40 net).

In 2014, Petrocapita generated income from salt water disposal of \$933,000, of which \$521,000 (up from \$49,000 in 2013) was from salt water disposal and \$412,000 (up from \$8,000 in 2013) was from skim oil sales.

In light of declining oil prices in late 2014, Petrocapita temporarily shut in 20 wells and approximately 200 bbls/d of production, reduced capital spending on drilling and re-completion of wells, and increased its focus on further developing its water disposal program. As at December 31, 2014, Petrocapita had nine potential salt water disposal sites requiring limited capital to initiate disposal operations.

2015

In 2015, Petrocapita acquired a 100% interest in an operational salt water disposal facility and seven gross (7.0 net) oil wells in the Lloydminster area of Alberta; increased to 100% its working interest in 46 gross oil wells in which it previously held working interests of between 25% and 50% (increasing its net well count with respect to those 46 wells from 20.1 net wells to 46.0 net wells), and purchased one gross (1.0 net) additional oil well from the same vendor; acquired 11 gross (9.4 net) oil wells in Saskatchewan; and purchased six fluid haul trailers. The net consideration paid by Petrocapita in these transactions was approximately \$870,000, which included settlement of outstanding joint interest billings and the issuance to two vendors of \$677,000 aggregate principal amount of secured debentures, plus the transfer of substantially all of Petrocapita's interest in three gross (1.5 net) oil wells in the Lloydminster area and related land.

In June 2015 Petrocapita reactivated 11 of the wells that it had temporarily shut-in as at December 31, 2014, which restored approximately 100 bbls/d of production.

On December 1, 2015 the Trust entered into an agreement with an agent to proceed, on a best efforts basis, with an offering of up to \$5,000,000 aggregate principal amount of 8% secured convertible debentures (the "**8% Debentures**") at a price of \$1,000 per 8% Debenture. Purchasers of the 8% Debentures were also entitled to Warrants to purchase 50,000 Common Units per \$1,000 principal amount of 8% Debentures. Each Warrant is exercisable at a price of \$0.06 per Unit until December 31, 2018. The 8% Debentures

bear interest at a rate of 8% per annum, payable quarterly in arrears on March 31, June 30, September 30 and December 31 in each year commencing on March 31, 2016. The 8% Debentures have a maturity date of December 31, 2020 (the "**8% Debenture Maturity Date**"). On or after December 31, 2017, the 8% Debentures will be convertible at the holder's option into Common Units at a conversion price per Common Unit equal to the volume weighted average trading price of such Common Unit on the CSE for each of the last 20 trading days prior to the date of conversion, subject to certain restrictions, conditions and adjustments in certain circumstances. The 8% Debentures will not be redeemable before December 31, 2018. On or after December 31, 2018, but prior to the 8% Debenture Maturity Date, the Trust may, at its option, redeem the 8% Debentures, in whole or in part, at a price equal to the principal amount of the 8% Debentures plus all accrued and unpaid interest up to but excluding the date of redemption.

As at December 31, 2015, Petrocapita owned 10,165 acres of land (9,859 net) and 153 wells (144.6 net), and produced an average of 314 bbls/d of gross heavy oil production and 274 bbls/d of net production including royalty income volumes for the year ended December 31, 2015. In addition, Petrocapita's salt water disposal program processed approximately 623,571 barrels of fluid and produced approximately 1,845 barrels of skim oil for the year ended December 31, 2015.

2016

In January, 2016 Petrocapita acquired 2 wells and partial working interests in 2 wells, (net 2.8 to Petrocapita) from one of its working interest partners, and shut in 2 wells due to lower than expected oil prices. This acquisition and the shut ins had no material effect on Petrocapita's daily production.

On April 29, 2016, the O&G LP issued a \$5 million secured debenture with a maturity date of April 29, 2021 and bearing an interest rate of 12.5% per annum, payable quarterly in arrears. Approximately \$3 million of the net proceeds from the debenture was loaned to the O&G GP for the acquisition of the Palliser assets.

On May 20, 2016, the Trust announced that it had acquired all of the issued and outstanding shares of Hytop Well Servicing Inc. ("**Hytop**") for a purchase price of \$472,486, effective as at April 1, 2016. Hytop operates 2 heavy oil well service rigs and ancillary well servicing equipment in the Lloydminster area of operations and has worked for a number of clients in the area, including Petrocapita. Hytop continues to operate as Hytop Well Servicing Inc.

On June 3, 2016, the Trust announced that it had acquired all of the issued and outstanding shares of 1701307 Alberta Ltd. operating as MJ Vallee Trucking ("**MJ Vallee**") for a purchase price of \$550,000, effective as at June 1, 2016. MJ Vallee operated 7 heavy oil well fluid transport trucks, 6 heavy oil fluid transport trailers, a fully equipped truck and trailer repair and maintenance facility in Lloydminster as well as a storage yard for Petrocapita's trucks, trailers and service rigs. A separate facility at the same site operates as a logistics office for fluid hauling and well servicing for Petrocapita and others. On August 2, 2016, 1701307 Alberta Ltd. changed its name to PCAP Trucking Inc. ("**PCAP Trucking**") and currently operates as PCAP Trucking Inc. exclusively in the Lloydminster area. PCAP Trucking works for a number of clients outside of its scope of operations for Petrocapita.

On July 11, 2016, Petrocapita announced that it has purchased all, or substantially all, of the assets of Palliser Oil and Gas Corporation ("**Palliser**") from its Receiver Manager, FTI Consulting Canada Inc. ("**FTI**") for \$3,000,000 (plus or minus any adjustments pursuant to the purchase and sale agreement post-closing) and a gross overriding royalty of 1.5% on the assets acquired in favor of Palliser's lender effective for a period of five (5) years from closing and in respect of any calendar month when the average daily selling price for the near month light, sweet crude oil future contracts as reported by the New York Mercantile Exchange in US dollars for West Texas Intermediate oil exceeds \$80.00 USD per barrel. The effective date of the transaction was May 1, 2016.

For the 4 months preceding the effective date, production from the Palliser assets averaged 342 boe/d. Average daily production from the same assets for 2013, prior to receivership, averaged 2,340 boe/d.

The acquisition of the Palliser assets increased Petrocapita's number of wells from 155 gross (147.4 net) to 521 gross (429.7 net). It also increased its operating and approved produced water disposal wells from 9 to 30, its associated produced water disposal facilities from 9 to 19, its multi-well oil batteries from 4 to 9, its custom treating facilities from 1 to 3, its pipelines from approximately 0.50 km to 72.51 km, and its natural gas compressor facilities from 0 to 2. Additionally, it increased Petrocapita's mineral land position from 10,165 gross acres (9,859 net) to 102,868 gross acres (68,643 net) and its proprietary seismic data base from 0 to 237 km of 2D and 10.3 square km of 3D.

On September 19, 2016, the Trust announced that it has raised over \$4.8 million to date through the sale, by private placement, of its 8% Debentures.

On October 1, 2016, the Trust acquired all of the issued and outstanding shares of Smartworks Oilfield Maintenance Ltd. ("**Smartworks**") for a purchase price of \$176,500, effective as at August 1, 2016. Smartworks operates 2 fully operational oilfield service trucks required to maintain oil and gas compression, pumping and hydraulic equipment, oil and gas drilling rigs, service rigs, transport trucks, trailers and custody transfer equipment oilfield service trucks. Smartworks operates largely in the Lloydminster area and works for a number of clients outside of its scope of operations for Petrocapita.

On December 15, 2016, the Trust announced that it has raised over \$6.525 million to date through the sale, by private placement, of its 8% Debentures.

On November 30, 2016, the Trust announced that it had acquired approximately 79% of all of the issued and outstanding shares of Crucible Resources Corporation ("**Crucible**") as at November 30, 2016. Petrocapita acquired all of the remaining issued and outstanding shares of Crucible on December 21, 2016 pursuant to the amalgamation of Crucible with Processing GP. The shares were acquired by issuance to the shareholders of a convertible debenture representing their respective shareholdings, which debenture is secured by the assets acquired in the total amount of \$434,965.00. The term of the debenture is 7 years, carries an interest rate of 6%, is amortized over 6 years beginning on December 1, 2017, and is convertible into common trust units of the Trust on or after December 31, 2017 at the volume weighted average trading price of such unit on the principal market for such units for each of the last 20 trading days prior to the date of conversion set by the exercise of the option to convert. Crucible owned 10 gross (1.8 net) medium gravity heavy oil wells, 3 gross (0.5 net) water disposal wells and an interest in a pipeline connected oil battery in Saskatchewan as well as 25,180 gross (12,016 net) acres of mineral land interests.

As at December 31, 2016, Petrocapita owned 105,652 acres of land (70,884 net) and 534 wells (434.6 net), and produced an average of 915 boe/d of gross heavy oil and gas production and 846 boe/d of net production including royalty income volumes for the month ended December 31, 2016. In addition, Petrocapita's salt water disposal program processed approximately 164,464 barrels of fluid for third parties and produced approximately 2,905 barrels of skim oil for the year ended December 31, 2016.

2017

On February 8, 2017, the Trust announced that it was proceeding with its offering of up to \$20,000,000 of Preferred Units and Class A Shares. The Trust has entered into arrangements with registered dealers to effect sales of the securities on a best efforts basis.

On February 10, 2017, the Trust announced that it had closed an acquisition on February 9, 2017 for all of the Canadian oil and gas properties and assets of Maha for \$1,650,000 (subject to closing adjustments). The effective date of the transaction is January 1, 2017. The assets were acquired by the issuance of a convertible debenture secured by the assets acquired in the aggregate principal amount of \$1,650,000. \$750,000 of the principal amount of the convertible debenture matures in 2017, while the remainder of the principal amount matures on January 1, 2024. The debenture carries an interest rate of 6% per annum, payable monthly, and is convertible, at the option of the holder, into Common Units on or after December 31, 2017 at the volume weighted average trading price of such units on the CSE for each of the last 20 trading days prior to the date of conversion set by the exercise of the option to convert.

On February 15, 2017, the Trust announced that that it had closed an acquisition on February 13, 2017 of 10 wells and associated production equipment in the Kitscoty area of Alberta from Twin Butte Energy Ltd. ("**Twin Butte**") through Twin Butte's Receiver Manager, FTI for \$21,825.29 (plus or minus any adjustments pursuant to the PSA post-closing). The Trust estimates future abandonment and reclamation obligations associated with these assets of approximately \$485,000. The effective date of the transaction was December 1, 2016.

On March 17, 2017, the Trust announced the initial closing of Preferred Units for proceeds of \$832,000.00 and Class A Shares for proceeds of \$191.36.

On April 25, 2017, the Trust announced a closing of Preferred Units for proceeds of \$1,338,000.00 and Class A Shares for proceeds of \$307.74.

On May 1, 2017, Petrocapita acquired 2 gross (2 net) gas wells, a compressor/dehydration battery and associated pipelines in Saskatchewan from Tower Ridge Resources for \$1 and the assumption of abandonment liabilities of approximately \$50,000.

2.4 Long Term Objectives

Petrocapita's long term objectives are to continue to build out a diversified portfolio of infrastructure/mid-stream assets, primarily by way of acquisition at the current highly attractive prices. We continue to believe that the integration of such assets together with a core base of production will result in increasing profitability, which is particularly beneficial in a low price environment. The principal event required to achieve Petrocapita's long term objectives is the acquisition of infrastructure in its core area of focus. To a large extent this was achieved by the acquisitions to date. Next steps include using the infrastructure assets acquired to develop reserves from "proved developed non-producing" to "proved developed producing". The timeframe and costs related to moving reserves from "proved undeveloped" to "proved developed producing" and from "probable" to "proved developed producing" will be evaluated continuously against acquisition of distressed properties in Petrocapita's area of focus and cannot be accurately predicted at this time.

2.5 Short Term Objectives and How We Intend to Achieve Them

The primary objective of Petrocapita for the ensuing 12 months is to complete the Internal Reorganization and raise capital and indirectly invest funds raised by the Offering in the business. Specifically, Petrocapita will invest funds in assets identified by the Chapman Reserve Report to move reserves from "proved developed" to "proved producing" and to configure the processing assets for cleaning and blending to heavy oil pipeline specifications or better.

What We Must Do and How We Will Do It	Target Completion Date	Cost to Complete (assuming a \$20,004,600 Combined Offering)
Acquire and develop, through its subsidiary entities, oil and gas properties, oil treatment, transportation and processing facilities and produced water disposal wells in the Lloydminster area of Alberta and Saskatchewan	6-12 months	Up to \$14,800,000

Assuming a Combined Offering of \$20,004,600, the funds available as a result of the Combined Offering is expected to be sufficient to accomplish Petrocapita's immediate objectives of moving "proved developed non-producing" reserves to "proved developed producing". While there is no assurance alternative additional financing will be available for its other longer term objectives, those will be achieved by a combination of future cash flow and such alternative financing as may be arranged based on such cash flow.

2.6 Insufficient Funds

The funds available as a result of the Combined Offering may not be sufficient to accomplish all of Petrocapita's proposed objectives and there is no assurance that alternative financing will be available. If the net proceeds from the Offering together with available cash flow from Petrocapita's assets is insufficient to pay Petrocapita's working capital deficiency, Petrocapita will need to seek other sources of capital, which may include a sale of assets. There can be no assurance that Petrocapita will be able to obtain sufficient additional capital to meet future working capital requirements or make additional investments.

2.7 Material Agreements

2.7.1 Declaration of Trust

The rights and obligations of Unitholders are governed by the Declaration of Trust. A copy of the Declaration of Trust is available at www.sedar.com under the Trust's profile.

The following is a summary only of certain terms in the Declaration of Trust which, together with other summaries of additional terms of the Declaration of Trust appearing elsewhere in this Offering Memorandum, are qualified in their entirety by reference to the actual text of the Declaration of Trust, a review of which is recommended to Subscribers.

Undertaking of the Trust

The Declaration of Trust provides that the activities and undertaking of the Trust are, in general, restricted to the following: (a) acquiring, holding, transferring, disposing of, investing in, lending to, and otherwise dealing with, assets, securities (whether debt or equity) and other interests or properties of whatever nature or kind of, or issued by, any person and making such other investments as the Trustees in their sole discretion determine; (b) holding cash and other investments in connection with and for the purposes of the Trust's activities, including paying liabilities of the Trust (including administration expenses), paying any amounts required in connection with the redemption of Units, and making distributions to Unitholders; (c) disposing of all or any part of the Trust's property; (d) issuing Units and other securities of the Trust (including debt instruments, securities convertible into or exchangeable for Units or other securities of the Trust, or warrants, options or other rights to acquire Units or other securities of the Trust), for the purposes of, without limitation, (i) conducting, or facilitating the conduct of, the activities and undertaking of the Trust (including for the purpose of raising funds for acquisitions), (ii) repayment of any indebtedness or borrowings of the Trust or any affiliate thereof, (iii) establishing and implementing Unitholder rights plans, distribution reinvestment plans, Unit purchase plans, and incentive option and other compensation plans of the Trust, if any, (iv) satisfying obligations to deliver securities of the Trust pursuant to the terms of securities convertible into or exchangeable therefor (whether or not such convertible or exchangeable securities have been issued by the Trust); (v) carrying out any of the transactions contemplated by any offering documents of the Trust and satisfying all obligations in connection with such transactions, and (vi) making non-cash distributions to Unitholders, including *in specie* redemptions as well as distributions; (e) repurchasing or redeeming Units or other securities of the Trust, subject to the provisions of the Declaration of Trust and applicable law; (f) issuing debt securities or otherwise borrowing funds, as well as mortgaging, pledging, charging, granting a security interest in or otherwise encumbering all or any part of the Trust's property, whether as security for obligations of the Trust or otherwise; (g) guaranteeing (whether as guarantor, surety or co-principal obligor, or otherwise) any obligations, indebtedness or liabilities, present or future, direct or indirect, absolute or contingent, matured or not, of any person for, or in pursuit of pursuing or facilitating the business and purposes of the Trust, and mortgaging, pledging, charging, granting a security interest in or otherwise encumbering all or any part of the Trust's property as security for such guarantee; (h) carrying out any of the transactions, and exercising, performing and satisfying any of the rights, liabilities and obligations of the Trust under any agreements or arrangements, entered into in connection with pursuing the business and purposes of the Trust; and (i) engaging in all activities, and taking all such actions, ancillary or incidental to any of those activities set forth in clauses (a) through (h) above.

Trustees

The Trust will have a minimum of two (2) and a maximum of eleven (11) trustees. The number of trustees within such range shall be determined by resolution of the Trustees, and that number may be changed by resolution of the Trustee from time to time. As at the date hereof, the Trustees have determined that there shall be four (4) trustees.

Subject only to the specific limitations and restrictions contained in the Declaration of Trust, the Trustees are vested with and have, without any further authorization, action or consent required, full, continuing, absolute and exclusive power, control and authority over the Trust's property and over the business and undertaking of the Trust to the same extent as if the Trustees were the sole and absolute beneficial owners of such property and may do all such acts and things as in their sole judgment and discretion are necessary or incidental to, or desirable for, the carrying out of the terms of the trust created by the Declaration of Trust.

All determinations of the Trustees and any agent to whom the Trustees have delegated duties (including the Administrator), where made in good faith with respect to any matters relating to the Trust, shall be final and conclusive and shall be binding upon the Trust and all Unitholders. Trustees may appoint from their number one or more committees of Trustees for any purpose they deem advisable from time to time, and may delegate to any such committee any, but not all, of the powers of the Trustees. Questions arising at any meeting of Trustees shall be decided by a majority of the votes cast.

The Trustees will be appointed at each annual meeting of Unitholders by Ordinary Resolution, to hold office for a term expiring at the close of the next annual meeting of Unitholders or until successors are duly elected or appointed, or their earlier death, resignation or removal in accordance with the Declaration of Trust. Trustees may be removed at any time by Ordinary Resolution. If a Trustee resigns, a majority of the Trustees remaining in office may appoint an individual as a replacement Trustee (and if they fail to do so then the Administrator may appoint such replacement).

The Trustees may, between annual meetings of Unitholders, appoint one or more additional Trustees to serve until the close of the next annual meeting of Unitholders, but the number of additional Trustees shall not at any time exceed one-third of the number of Trustees who held office at the expiration of the immediately preceding annual meeting of Unitholders.

A Trustee shall be an individual or a corporation duly authorized and registered to carry on the business of a trust company in Canada. An individual is disqualified from being a Trustee if he or she is less than 18 years of age, does not have the full exercise of his or her civil rights, is of unsound mind and has been so found by a court in Canada or elsewhere, or has the status of bankrupt. All Trustees must be residents of Canada within the meaning of the Income Tax Act.

Trustees are entitled to receive, for their services as Trustees, such reasonable compensation as the Trustees may determine from time to time, as well as reimbursement for out-of-pocket expenses incurred in acting as a Trustee. A Trustee shall not be required to devote his or her entire time to the affairs of the Trust.

The standard of care required of each Trustee under the Declaration of Trust is that, in exercising their powers and carrying out their functions thereunder, they do so honestly and in good faith with a view to the best interests of the Trust and that, in connection therewith, they exercise that degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Trustees shall be deemed to have satisfied this standard of care to the extent that the performance of certain duties and activities has been granted or delegated to the Administrator. In general, each Trustee shall be indemnified, saved harmless and reimbursed out of the Trust's property against all liabilities or claims against them or the Trust, and they shall have no liability to any holders of Units, where such liabilities or claims arise out of being or having been a trustee of the Trust, unless such liabilities or claims arise as a result of the Trustee failing to satisfy the expressed standard of care or, in the case of criminal or administrative action or proceeding that is enforced by monetary penalty, where such Trustee did not have reasonable grounds for believing that his conduct was lawful.

Administrator

The Trustees have delegated to the Administrator, under the terms of the Administration Agreement, the obligation to provide and perform for and on behalf of the Trust essentially all services that are or may be required or advisable, from time to time, in order to manage, administer and govern the operations of the Trust. The Administration Agreement sets forth all of the rights, restrictions and limitations (including, without limitation, limitations of liability and indemnification rights) which pertain to the performance by the Administrator of the duties delegated to it by the Trustees. Pursuant to the terms of the Declaration of Trust, those rights, restrictions and limitations also apply in all respects to the Administrator in the exercise and performance by it of all powers, duties and authorities conferred upon or delegated to the Administrator under the terms of the Declaration of Trust. See item 2.7.2 - *Administration Agreement*.

Conflict of Interest

In addition to his or her interest as a Trustee of the Trust, a Trustee may have other interests or associations of whatever nature or kind. By the terms of the Declaration of Trust, the Unitholders agree that any Trustee may be a securityholder, director, officer, trustee, employee, agent or consultant of (or otherwise involved with) the Administrator or any associate or affiliate of the Trust or the Administrator. Without limiting the foregoing, the Declaration of Trust expressly provides that each Trustee is permitted: (a) to be an associate, affiliate, securityholder, director, officer, trustee, employee, agent or consultant of, or otherwise involved with, a person

from or to whom assets of the Trust have been or are to be purchased or sold; (b) to be a person, or to be an associate, affiliate, securityholder, director, officer, trustee, employee, agent or consultant of (or otherwise involved with) a person, with whom the Trust contracts or deals or which supplies services to the Trust; (c) to acquire, hold and dispose of, for such Trustee's own account, any property (real, personal, tangible or intangible) even if such property is of a character which could be held by the Trust, and to exercise all rights of an owner of such property as if such Trustee were not a Trustee; (d) to acquire, hold and sell Units as principal, or as an affiliate or associate or fiduciary for any other person, and to exercise all rights of a holder thereof as if such Trustee was not a Trustee; and (e) to have business interests of any nature and to continue such business interests while a Trustee.

Under the terms of the Declaration of Trust, the Unitholders acknowledge and accept that there are, and will continue to be, potential or actual interests of one or more of the Trustees, or their associates or affiliates (including conflicts of interest) with respect to business or other interests held directly or indirectly by, and/or contractual arrangements or transactions directly or indirectly involving, one or more of the Trustees, or their respective associates or affiliates, and the Unitholders agree that:

- (a) any Trustee is permitted (notwithstanding any liability which might otherwise be imposed by law or in equity upon such Trustee as a trustee of the Trust) to derive direct or indirect benefit, profit or advantage from time to time as a result of dealing with the Trust or its affiliates or as a result of the relationships, matters, contracts, transactions, affiliations or other interests it may have and such Trustee shall not be liable in law or in equity to pay or account to the Trust, or to any Unitholder (whether acting individually or on behalf of itself and other Unitholders as a class) for any such direct or indirect benefit, profit or advantage nor, in such circumstances, will any contract or transaction be void or voidable at the instance of the Trust of any Unitholder or any other person; and
- (b) interests of any Trustee, or their respective associates or affiliates, including any conflicts of interest, will not form the basis for any claim against such Trustee, or their respective affiliate or associate, or for any attempt to challenge or attack the validity of any contract, transaction or arrangement (or renewal, extension or amendments of same) which the Trustees may enter into on behalf of the Trust;

provided, in each case, that the Trustee in question has otherwise exercised its powers and discharged its duties, as set out in the Declaration of Trust, honestly and in good faith in respect to the matter, contract, transaction or interest in question.

Units

Beneficial interests in the Trust are represented and constituted by two classes of Units – being Common Units and preferred units – of which an unlimited number of each class are authorized and may be issued. The rights, privileges, restrictions and conditions attached to the Common Units and the preferred units are set out in the Declaration of Trust and are summarized below. A summary of the rights, privileges, restrictions and conditions attached to the Preferred Units offered pursuant to this Offering Memorandum are set out in Item 5.1 – *Terms of Securities - Preferred Units*. Common Units and Preferred Units, as well as any other securities of the Trust, may be created, issued, sold and delivered at the times, to the persons, for the consideration, and otherwise on the terms and conditions determined by the Trustees in their absolute discretion.

Common Units

The Common Units are equity securities to which are attached the following principal rights, privileges, restrictions and conditions as provided in the Declaration of Trust:

- Voting Rights. Holders of Common Units are entitled to receive notice of and to attend all meetings of unitholders of the Trust and to one (1) vote in respect of each Common Unit held at all such meetings, except for meetings of holders of Preferred Units only. See "*Declaration of Trust – Meetings of Unitholders*".
- Distributions. Holders of Common Units are entitled to receive non-cumulative distributions only if, as and when declared by the Trustees in accordance with the provisions of the Declaration of Trust. See "*Declaration of Trust – Distribution Rights; Distributable Cash*", "*Distribution Policy*" and "*Risk Factors*".
- Redemption. Common Units are redeemable on demand by the holders thereof, at a redemption price based on 90% of the fair market value as determined by the Administrator or, if the Common Units are listed, traded or quoted on a stock exchange or market at the relevant time, the lesser of 90% of their Market Price or 100% of their Closing Market Price, subject to certain limitations on payment of the redemption price and the consideration therefor. See "*Declaration of Trust – Redemption Rights*".
- Liquidation, Dissolution or Winding Up. Holders of Common Units are entitled to share rateably in any distribution of the remaining assets of the Trust in the event of the liquidation, dissolution or winding up of the Trust or other distribution of Trust assets among its unitholders for the purpose of winding up its affairs, subject to the rights of the holders of any other class of units entitled to receive assets of the Trust upon such a distribution in priority to, or concurrently with, holders of Common Units.

No distributions have been declared or paid on the Common Units since January 1, 2012.

Preferred Units

The preferred units are generally non-voting securities except in the limited circumstances provided for under the Declaration of Trust (see "*Declaration of Trust – Meetings of Unitholders*"), and confer upon the holders thereof a preference over the holders of Common Units with respect to distributions and participation in a liquidation, dissolution or winding-up, and are subject to redemption, as follows:

- **Distributions.** Holders of preferred units have preferential rights to the extent Distributable Cash is available, to a preferential cumulative distribution per preferred unit per annum (adjusted for any portion of the Distribution Period during which the unit was not outstanding) at the rate set for that series of preferred unit. Such preferential cumulative distribution shall not exceed \$0.1025 per preferred unit per annum. See "*Declaration of Trust – Distribution Rights; Distributable Cash*".
- **Redemption.** Prior to the Series Redemption Date, preferred units are redeemable on demand by the holders thereof, at a redemption price based on 90% of the fair market value as determined by the Administrator or, if the preferred units are listed, traded or quoted on a stock exchange or market at the relevant time, 90% of their Market Price or 100% of their Closing Market Price, subject to certain limitations on payment of the redemption price and the consideration therefor.

Following the Series Redemption Date, upon receipt of a properly executed notice, the Trust shall, in respect of each preferred unit to be redeemed, make payment of an amount which is equal to the sum of: (1) one dollar (\$1.00); plus (2) all accrued and unpaid cumulative distributions in respect of such preferred unit whether or not declared, calculated to but excluding the date of redemption. The Series Redemption Date of the Preferred Units is the fourth (4th) anniversary of the date of issuance of the particular Preferred Unit.

In addition, the Trust may redeem at any time the whole or from time to time any part of the then outstanding preferred units, irrespective of series, from any one or more of the holders thereof as the Trustees may in their sole discretion determine. In respect of each preferred unit to be redeemed, the Trust shall make payment of an amount which is equal to the sum of one dollar (\$1.00), plus all accrued and unpaid cumulative distributions in respect of such preferred unit, whether or not declared, calculated to but excluding the date of redemption, with any combination of cash, Redemption Notes and trust property. See "*Declaration of Trust – Redemption Rights*".

- **Liquidation, Dissolution or Winding Up.** In the event of the liquidation, dissolution or winding up of the Trust or other distribution of Trust assets among its unitholders for the purpose of winding up its affairs, each holder of preferred units is entitled to receive from the assets of the Trust, for and in respect of each preferred unit held, before any amount is paid or any Trust property is distributed to any holder of Common Units or units of any other class ranking junior to the preferred units, the sum of (a) one dollar (\$1.00); plus (b) all accumulated and unpaid distributions in respect of such preferred unit (if any). After payment or distribution of such sum, holders of preferred units shall not participate any further in any further distribution of the remaining assets of the Trust.

The Trustees may, in their discretion, at any time and from time to time, subdivide or consolidate each or either class of Units outstanding.

Subject to any discounts that the Trustees may allow as consideration for agreeing to subscribe for Units, Units are only to be issued when fully paid, and they are not subject to future calls or assessment; provided, however, that Units issued under an offering may be issued for a consideration payable in instalments and the Trust may take security over any such Units for unpaid instalments and assign the benefit of all or part of such security. The consideration for any Unit issued by the Trust shall be paid in money or in property or in past services that are not less in value than the fair equivalent of the money that the Trust would have received if the Unit has been issued for money; provided that property may include a promissory note.

There are no pre-emptive rights attaching to either the Common Units or the preferred units as a class.

Distribution Rights; Distributable Cash

Holders of Common Units are entitled to receive non-cumulative distributions only if, as and when declared by the Trustees in accordance with the provisions of the Declaration of Trust. Any such distributions are discretionary and there is no assurance that they will be declared on a regular or consistent basis or at all. The discretionary distribution rights attached to the Common Units are also subject to preferential distribution rights attached to the Preferred Units (to the extent any Preferred Units are outstanding at the relevant time). See "*Distribution Policy*" and "*Risk Factors*".

The preferential distribution rights of the preferred units provide that to the extent Distributable Cash is available, the Trustees shall, in respect of each Distribution Period, declare and pay to holders of preferred units, in priority to any distributions payable to holders of Common Units, a fixed preferential cumulative distribution per preferred unit per annum (adjusted for any portion of the Distribution Period during which the unit was not outstanding) at the rate set for that series of preferred unit. The preferential cumulative distribution for any series of preferred unit shall not exceed \$0.1025 per preferred unit per annum.

The distribution provisions of the Declaration of Trust are contained in Article 5 thereof. Any distributions declared or deemed payable under Article 5 are to be paid in cash, unless the Trustees determine that the Trust does not have cash in an amount sufficient to make full payment of the amount of any distribution declared or deemed payable on the due date therefor, or where cash payment is otherwise determined undesirable in the discretion of the Trustees, in which case the payment may, at the option of the Trustees, include the issuance of additional Units of the same class as the Units on which the distribution is being paid.

The Trustees or the Administrator may from time to time determine the Distribution Period, which as at the date hereof means each three month period ending March 31, June 30, September 30 and December 31 in each calendar year.

The Trustees shall deduct or withhold from any distribution payment to a Unitholder all amounts required by law to be withheld from such payment, whether in the form of cash, additional Units or otherwise.

Redemption Rights

Common Units and preferred units of the Trust, prior to the Series Redemption Date are redeemable at any time on demand by the holders thereof, on sending a duly completed and properly executed notice, in form approved by the Trustees, to the head office of the Trust or to any of the principal offices of the transfer agent for the class of Units being redeemed together with the certificate or certificates representing the Units to be redeemed, at a redemption price per Unit equal to 90% of the fair market value thereof, as at the date upon which the Units were tendered for redemption, as determined by the Administrator in its sole discretion, acting reasonably, but having regard to: (i) all prices at which trades of Units of the same class have been transacted, and the issue prices for Units of the same class issued in any offering, during the preceding 6-month period (or such other period as the Administrator determines relevant and reasonable); (ii) the fair market value of equity interests in, or enterprise values of, comparable entities substantially similar to the Trust; and (iii) any other considerations which the Administrator, in its discretion, determines relevant for purposes of determining the redemption price; provided, however, that if at the time Units are tendered for redemption the outstanding Units of the same class are listed, traded or quoted on a stock exchange or market which the Trustees consider, in their sole discretion, provides representative fair market value prices for such Units (the "**Principal Market**") then the redemption price shall instead be the lesser of:

- (a) 90% of the Market Price of Units of such class, as determined on the Principal Market, during the ten (10) trading days immediately prior to the date on which the Units were tendered for redemption; and
- (b) 100% of the Closing Market Price of Units of such class, as determined on the Principal Market, on the date that the Units were tendered for redemption;

unless the normal trading of the outstanding Units of the same class as the Units being redeemed is suspended or halted on any stock exchange on which such Units are listed for trading or, if not so listed, suspended or halted on any market on which such Units are quoted for trading, for more than 10 trading days during the 20-day trading period immediately preceding the date on which the Units being redeemed were tendered for redemption (in which case the redemption price shall be as determined by the Administrator in its sole discretion, acting reasonably, having regard to the factors cited above).

If there is more than one exchange or market on which Units of the class being redeemed are listed or quoted for trading, the Principal Market shall be the exchange or market on which the Units are listed or quoted for trading that is designated by the Trustees in their absolute discretion; and if the Principal Market is not open for trading on the date on which the Units are tendered for redemption, then the reference date shall be the last day on which such Principal Market was open for trading.

Following the Series Redemption Date, if applicable, upon receipt of a properly executed notice, the Trust shall, in respect of each preferred unit to be redeemed, make payment of an amount which is equal to the sum of: (1) one dollar (\$1.00); plus (2) all accrued and unpaid cumulative distributions in respect of such preferred unit whether or not declared, calculated to but excluding the date of redemption.

The redemption price payable in respect of Units so redeemed during any calendar month shall be paid by cheque no later than the end of the month immediately following the end of the calendar month in which the Units were tendered for redemption; provided, however, that if the total redemption amount payable by the Trust in respect of all Units tendered for redemption in the same calendar month exceeds \$7,500, then the Trustees shall not be obligated to make cash payment greater than \$7,500 (but may elect to do so in their sole discretion), and any balance of the aggregate redemption price for Units redeemed that month that is not paid in cash shall, subject to receipt of any applicable regulatory approvals, be paid by the Trust, in the Administrator's discretion, through the issuance of Redemption Notes and/or an in specie distribution of property of the Trust having an aggregate fair market value equal to that portion of the aggregate redemption price not paid in cash. The cash portion of any such aggregate redemption price shall be paid pro rata to redeeming Unitholders based upon the proportion which the redemption amount payable to a redeeming Unitholder bears in relation to the aggregate redemption price payable in respect of all Units tendered for redemption in such calendar month.

Additionally, the Trust may at its election, at any time and from time to time, redeem all or any part of the outstanding preferred units (if any), as determined by the Trustees, on not less than 21 days' notice to the affected holders, at a redemption price per preferred unit equal to the sum of (a) one dollar (\$1.00); and (b) all accrued and unpaid cumulative distributions in respect of such preferred unit, whether or not declared, calculated to but excluding the date of redemption, with any combination of cash, Redemption Notes and trust property.

The Trustees shall deduct or withhold from any redemption payment to a Unitholder all amounts required by law to be withheld from such payment, whether in the form of cash, promissory notes or otherwise.

Meetings of Unitholders

The Declaration of Trust provides that meetings of Unitholders entitled to vote will be called and held annually for the election of Trustees and, if so determined by the Unitholders in accordance with the Declaration of Trust, the appointment of auditors of the Trust, the presentation of consolidated financial statements of the Trust for the preceding fiscal year, and the transaction of such other business as the Trustees or Administrator may determine or as may otherwise be properly brought before the meeting. The Unitholders will be entitled to pass resolutions that have binding effect upon the Trustees or the Trust only with respect to:

- the appointment or removal of one or more Trustees;
- the appointment or removal of the auditors of the Trust;
- any necessary consent to amendments to the Declaration of Trust proposed by the Trustees;
- wind-up and termination of the Trust;
- the sale of all or substantially all of the assets of the Trust; and
- any other matters required under applicable securities laws, stock exchange requirements or other laws or regulatory requirements to be submitted to Unitholders for consent or approval.

Except as specifically provided in the Declaration of Trust, no resolution or other action of Unitholders will in any way bind the Trustees.

Unless otherwise expressly provided in the Declaration of Trust, any action taken or resolution passed in respect of any matter at a meeting of Unitholders shall be by Ordinary Resolution. Such matters include the appointment or removal of Trustees, and the appointment or removal of auditors of the Trust.

Matters requiring Unitholder approval by Special Resolution include:

- any sale, lease, exchange, transfer or other disposition of all or substantially all of the property of the Trust, other than (i) pursuant to the wind-up and termination of the Trust and in specie redemptions or distributions permitted under the Declaration of Trust, (ii) in order to acquire securities of an affiliate of the Trust, or (iii) in conjunction with an "internal reorganization" of the Trust (and for this purpose an "internal reorganization" means the sale, lease, exchange, transfer or other disposition of the assets of a person, whether or not involving all or substantially all of the assets of such person, as a result of which such person has substantially the same interest, whether direct or indirect, in such assets that it had prior to the reorganization and, for greater certainty, may include an amalgamation, arrangement or merger of such person and its affiliates with any other entities); or
- an amendment to the Declaration of Trust, except as described below under "*Declaration of Trust – Amendments*"; and
- a wind-up and termination of the Trust upon the proposal, to the holders of Common Units, of the Administrator.

Every Ordinary Resolution and every Special Resolution passed in accordance with the provisions of the Declaration of Trust at a meeting of Unitholders shall be binding upon all the Unitholders, whether present at or absent from such meeting, and each and every Unitholder shall be bound to give effect to every such Ordinary Resolution and Special Resolution.

Holders of preferred units are not entitled to receive notice of, attend or vote at any meeting of Unitholders or to otherwise vote in respect of any matter requiring Unitholder approval unless the matter for which approval is being sought is:

- (a) to amend the rights, privileges, restrictions and conditions attaching to that series of preferred units in a manner materially prejudicial to holders of preferred units of that series, as determined in the discretion of the Trustees; or
- (b) to carry out and give effect to any of the following actions if, as determined in the discretion of the Trustees, the resulting affect to the holders of that series of preferred units would be materially prejudicial thereto: (i) effect an exchange, reclassification or cancellation of all or part of the preferred units of that series; or (ii) effect an exchange or create a right of exchange of all or part of the units of another class of Units of the Trust into preferred units of that series.

in which case (i) the Trust shall call and hold a meeting of Unitholders at which only holders of preferred units may attend and vote, and (ii) matters put forth at such meeting, to be approved, must be approved by Special Resolution of the holders of preferred units, voting separately as a class; and (iii) at the meetings, each holder of preferred units shall be entitled to one vote in respect of each preferred unit held.

A meeting of Unitholders may be called at any time and for any purpose by the Trustees or upon request of the Administrator, or if validly requisitioned in writing by holders of not less than 25% of the Units then outstanding (except in certain circumstances). A requisition must disclose the name, address and holdings of each person supporting the requisition and state in reasonable detail the business proposed to be transacted at the meeting.

Unitholders entitled to attend and vote at a meeting may do so in person or by proxy, and a proxyholder need not be a Unitholder. A quorum for any meeting of Unitholders shall be one or more persons present in person and being, or representing by proxy, Unitholders holding in aggregate not less than 5% of all votes entitled to be voted at the meeting.

The Declaration of Trust contains provisions as to the required notice and other procedures pertaining to the calling and holding of meetings of Unitholders.

Limitation on Non-Resident Ownership

At no time may Non-Residents be the beneficial owners of more than 49% of the outstanding Units, on both a non-diluted and fully-diluted basis (which includes, for greater certainty, Units which are issuable pursuant to any outstanding exchangeable securities of the Trust), and it shall be the responsibility of the Administrator to monitor compliance by the Trust with this Non-Resident restriction in accordance with the published policies of the relevant taxation authority. The Declaration of Trust grants the Administrator the power and authority to take all such action as it determines in its discretion is reasonable and practicable in the circumstances in order to ensure compliance by the Trust with the Non-Resident restriction, including the ability of the Administrator to sell Units beneficially owned by Non-Residents.

Amendments

Except where specifically provided otherwise in the Declaration of Trust, the Declaration of Trust may only be amended by Special Resolution.

The Trustees may, at any time and from time to time, without the consent, approval or ratification of the Unitholders or any other person, amend the Declaration of Trust for the purpose of:

- (a) ensuring continuing compliance by the Trust, with applicable laws, regulations, requirements or policies of any court or governmental or regulatory authority having jurisdiction over the Trustees or the Trust;
- (b) providing, in the opinion of the Trustees, additional protection for the Unitholders or to obtain, preserve or clarify the provision of desirable tax treatment to Unitholders;
- (c) making amendments hereto which, in the opinion of the Trustees, are necessary or desirable in the interests of the Unitholders as a result of changes in taxation laws or in their interpretation or administration (including changes in the administrative practices and assessing policies of the Canada Revenue Agency);
- (d) making corrections, or removing or curing any conflicts or inconsistencies between the provisions of this Declaration of Trust or any supplemental agreement and any other agreement of the Trust or any offering document with respect to the Trust, or any applicable law or regulation of any jurisdiction, provided that in the opinion of the Trustees the rights of the Unitholders are not materially prejudiced thereby;
- (e) making amendments hereto as are necessary or desirable for correcting typographical mistakes or for curing, correcting or rectifying any ambiguities, defective or inconsistent provisions, errors, mistakes or omissions;
- (f) making amendments hereto as are required to undertake an internal reorganization of the Trust or its affiliates (and for this purpose an "internal reorganization" means the sale, lease, exchange, transfer or other disposition of the assets of a person, whether or not involving all or substantially all of the assets of such person, as a result of which such person has substantially the same interest, whether direct or indirect, in such assets that it had prior to the reorganization and, for greater certainty, may include an amalgamation, arrangement or merger of such person and its affiliates with any other entities); or
- (g) making amendments hereto for any purpose in addition to those stated above, provided that, in the opinion of the Trustees, the rights of the Unitholders are not materially prejudiced thereby.

Holders of preferred units are not entitled to vote in respect of any Special Resolution on an amendment to the Declaration of Trust unless the proposed amendment triggers the limited voting rights of such holders described above under "*Meetings of Unitholders*".

Power of Attorney

Upon becoming a holder of Units, each Unitholder, pursuant to the terms of the Declaration of Trust, grants to the Trustees a power of attorney constituting the Trustees (whether acting individually or collectively), with full power of substitution, as the true and lawful attorney of such Unitholder to act on his behalf, with full power and authority to execute, under seal or otherwise, swear to, acknowledge, deliver, make, file or record (and to take all requisite actions in connection with such matters), when, as and where required: (a) the Declaration of Trust and any other instrument required or desirable to qualify, continue and keep in good standing the Trust as a mutual fund trust in all jurisdictions that the Trustees deem appropriate; (b) any instrument, deed, agreement or document in connection with carrying on the affairs of the Trust; (c) all conveyances, transfers and other documents required in connection with the dissolution, liquidation or termination of the Trust; (d) any and all elections, determinations or designations whether jointly with third parties or otherwise, under the Income Tax Act or any other taxation or other legislation or similar laws of Canada or of any other

jurisdiction in respect of the affairs of the Trust or of a Unitholder's interest in the Trust; (e) any instrument, certificate and other documents necessary or appropriate to reflect and give effect to any amendment to the Declaration of Trust which is authorized from time to time as contemplated by the terms of the Declaration of Trust; (f) all transfers, conveyances and other documents required to deal with Units and/or exchangeable securities of the Trust of non-tendering offerees pursuant to take-over bid, but subject to the provisions respect same as contained in the Declaration of Trust; and (g) any instrument, deed, agreement or document as may be necessary or appropriate in connection with carrying on the business and undertaking of the Trust.

Under the Declaration of Trust, each Unitholder is agreeing that the power of attorney is, to the extent permitted by applicable law, irrevocable and is a power coupled with an interest and shall survive the insolvency, death, mental incompetence, disability and any subsequent legal incapacity of the Unitholder and shall survive the assignment by the Unitholder of all or part of the holder's interest in the Trust and will extend to and bind the heirs, executors, administrators and other legal representatives and successors and assigns of the Unitholder. Each Unitholder agrees to be bound by any representations or actions made or taken by the Trustees pursuant to the power of attorney and waives any and all defenses which may be available to contest, negate or disaffirm any actions taken by the Trustees in good faith under the power of attorney. The power of attorney survives and continues not only in respect of the Trustees but also in respect of any successor trustee.

Term of the Trust and Distribution on Wind-Up

The Trust is obligated to commence its wind-up and termination upon the first of the following to occur: (a) a proposal to the holders of Common Units, by the Administrator, to wind-up and terminate the Trust, which proposal is approved by way of a Special Resolution; or (b) the date upon which each of the material businesses in which the Trust holds an interest, or has otherwise invested, have been liquidated.

2.7.2 Administration Agreement

The Trust has entered into an Administration Agreement with the Administrator pursuant to which the Trustees have delegated to the Administrator the obligation to provide and perform for and on behalf of the Trust certain services that are or may be required or advisable, from time to time, in order to manage and administer the operations of the Trust. The Administration Agreement sets forth all of the rights, restrictions and limitations (including, without limitation, limitations of liability and indemnification rights) which pertain to the performance by the Administrator of the duties delegated to it by the Trustees.

The following is a summary only of certain material provisions of the Administration Agreement, which is qualified in its entirety by the complete text of the Administration Agreement, a copy of which is available at www.sedar.com under the Trust's profile.

Delegated Responsibility; Services

In accordance with the provisions of the Declaration of Trust, and pursuant to the terms and conditions of the Administration Agreement, the Trust and the Trustees appointed the Administrator as administrator of the Trust, and delegated to the Administrator responsibility for the general administration, management and governance of the affairs of the Trust, and in connection therewith the Administrator is required to provide and perform all administrative, management and governance services (with limited exceptions) as may be required or advisable from time to time in order to administer, manage and govern the operations of the Trust

For certainty, the Administration Agreement confirms that the Administrator's services include performance of those duties, and the exercise of those rights, referred to in the Declaration of Trust as being exercisable by, attributable to, or the responsibility of, the Administrator.

Limitation of Liability

In general, the Administrator's liability will be limited, and it will be entitled to indemnification from the Trust, in respect of demands, claims and liabilities of any nature provided that the Administrator has acted honestly and in good faith.

Permitted Interests

The Administrator and its directors and officers, as well as their respective affiliates and associates, are permitted to have business and other interests or associations of whatever nature or kind apart from their activities related to the Trust. The Trust and the Administrator have each acknowledged that there are and will continue to be potential or actual interests of the Administrator and its management (or their respective associates or affiliates), including conflicts of interest, with respect to interests held by, and/or contractual arrangements or transactions involving, one or more of the Administrator, the Administrator's management, the Trust or the Trustees, and any of the respective affiliates and associates of any of them, and the Trust has agreed that interests of the Administrator or the Administrator's management (or their respective associates or affiliates), including any conflicts of interest, will not form the basis for any claim against the Administrator, the Administrator's management or any respective affiliate or associate thereof, or their respective shareholders, directors, officers or employees, or for any attempt to challenge or attack the validity of any contract, transaction or arrangement (or renewal, extension or amendments of same), in each case, provided that the Administrator has otherwise exercised its powers and discharged its duties under the Administration Agreement honestly and in good faith.

Termination and Removal of Administrator

The Administration Agreement remains in effect until wind-up and dissolution of the Trust unless earlier terminated by the mutual agreement of the Administrator and the Trust, or an event of default occurs. The Administrator commits an act of default and may be removed as administrator of the Trust only in the following circumstances: (a) the Administrator (i) files a voluntary petition in bankruptcy or makes any assignment for the benefit of creditors of the Administrator, (ii) is involuntarily dissolved and commences its winding-up, or (iii) consents to or acquiesces to the appointment of a trustee, receiver or liquidator of the Administrator; (b) the following has been commenced against the Administrator (i) the institution of any proceeding or the taking of any action seeking to adjudicate it bankrupt or insolvent or seeking liquidation, dissolution, winding-up, reorganization or protection of its property, (ii) the making of a proposal with respect to it under any law related to bankruptcy, insolvency, reorganization or other similar law, or (iii) the seeking of the appointment of a receiver, trustee, agent or other similar official for it for a substantial part of its assets, provided that any such proceeding, petition or action under this paragraph (b) has been commenced against the Administrator or any of its assets by a bona fide party and is not stayed, vacated or dismissed within 90 days; or (c) the Administrator has breached any of its material covenants or obligations under the Administration Agreement and such breach is not cured within 60 days (or is in the process of being cured within 60 days and is not cured within 120 days) of the Trust formally notifying the Administrator of such default.

Upon the occurrence of one of the defaults set forth above, the Trust may remove the Administrator upon providing the Administrator with written notice stating the effective date of the removal, provided that the removal of the Administrator shall only take effect once the following has occurred: (i) the full and unconditional release of the Administrator and its affiliates or associates (as the case may be) is obtained in respect of any mortgage or other indebtedness, liability or obligation of the Trust to which they are subject; and (ii) the payment of all money owing by the Trust to the Administrator and its affiliates and associates.

Remuneration

There is no fee payable to the Administrator under the terms of the Administration Agreement but the Administrator will be entitled to the reimbursement of all costs and expenses reasonably incurred by the Administrator in carrying out its obligations and duties under the Administration Agreement, including payroll and payroll related costs, overhead, general and administrative costs, and out-of-pocket and third party fees and expenses.

2.7.3 Distribution Reinvestment Plan

The Trust has established a DRIP to enable holders of the Trust's preferred units to acquire additional preferred units through reinvestment of the cash distributions paid on their preferred units. Distributions on preferred units will be invested in the purchase of additional preferred units on behalf of participating eligible preferred unitholders.

Participation in the DRIP is voluntary and limited to residents of Canada. The DRIP is administered by the Administrator and no commissions are payable in connection with the DRIP. On each distribution payment date, the Trust will pay to the Administrator all distributions due (less any applicable withholding tax) in respect of the preferred units properly enrolled in the DRIP. The Administrator will use such funds to purchase preferred units either directly from the treasury of the Trust at a discretionary issuance price (adjusted fair market value) or from the market (at 97% of the trading price).

All administrative and other costs associated with the operation of the DRIP will be paid by the Trust.

2.7.4 Support Agreement

The Corporation has entered into the Support Agreement with the Trust to establish a procedure whereby the Trust will take certain actions and deliveries necessary to ensure that the Corporation will be able to deliver or cause to be delivered Common Units to the Class A Shareholders in satisfaction of the Corporation's obligations pursuant to an Exchange Request or a redemption of the Class A Shares by the Corporation. In accordance with the terms of the Support Agreement, the Trust will issue and deliver the requisite Common Units to the Corporation at the time that the Common Units are to be transferred to the Class A Shareholder. The Common Units so delivered will be fully paid and non-assessable, free and clear of any lien, claim, encumbrance, security interest or adverse claim or interest. The Trust has covenanted not to (i) make a Special Distribution; or (ii) effect an Event, unless the same or an economically equivalent change, issuance or distribution is simultaneously made to the Exchangeable Shares.

The Corporation shall, in consideration for the Trust issuing Common Units pursuant to the Support Agreement, issue to the Trust that number of Class B Shares of the Corporation equal to such number of Exchangeable Shares exchanged pursuant to an Exchange Request or redeemed pursuant to a Redemption.

For a summary of the exchange rights of the Class A Shares, See the offering memorandum of the Corporation dated May 29, 2017.

2.7.5 Shareholders' Agreement

The Trust and the Minor Shareholders, as the shareholders of the Class B and Class C Shares of the Corporation have entered into a shareholders' agreement, effective October 18, 2016 (the "**Shareholders' Agreement**") to record their agreement as to the manner in which the Corporation's affairs shall be conducted and to grant to each other certain rights and obligations with respect to their

ownership of the shares of the Corporation. All current and future Class B and Class C Shareholders must be party to the Shareholders' Agreement.

The Shareholders' Agreement grants the Minor Shareholders a general "put right", which allows each shareholder to require the Trust to purchase their Class C Shares at fair market value following the Put Right Vesting Date. The fair market value of the Class C Shares shall be agreed upon between the Trust and the holder of the Class C Shares, and failing such agreement, shall be determined by Petrocapita's then independent third party reserve and facilities evaluator as the (i) the net present value (utilizing a 15% discount rate) of the Corporation's total proved reserves and facilities value associated with such total proved reserves; plus (ii) the fair value of all other assets of the Corporation, without duplication with respect to those accounted for under subparagraph (i) of this subsection; less (iii) the fair value of all other indebtedness, liabilities and obligations of the Corporation, without duplication.

The Shareholders' Agreement grants the Class B and Class C Shareholders a pre-emptive right to participate rateably in any offering of securities, including any grant of stock options. If a shareholder chooses not to participate in an offering, the other shareholders have a first right to purchase the unsubscribed securities. This pre-emptive right does not apply if: (i) the consent of each of the Class B and Class C Shareholders to such issuance has first been obtained; (ii) upon the exercise of conversion or exchange rights of other securities properly issued by the Corporation in compliance with the Shareholders' Agreement; (iii) in connection with the acquisition of a business or assets by the Corporation from a party at arm's-length to the Corporation; and (iv) the issuance of Class A Shares of the Corporation pursuant to the offering memorandum of the Corporation dated October 18, 2016, and any other offering (including pursuant to a new offering memorandum) offering Class A Shares of the Corporation on substantially similar terms as set forth in the offering memorandum dated October 18, 2016.

The Shareholders' Agreement also grants the Class C Shareholders a "tag-along right" in the event the Trust proposes to transfer more than 25% of its Class B Shares to any person dealing at arm's-length to the Trust. Class C Shareholders will have the right to participate rateably in such a transfer and the Trust shall not complete any sale of Class B Shares to the third-party purchaser unless the third-party purchaser agrees to purchase the "tag-along" Class C Shares as well.

Similarly, the Shareholders' Agreement grants to the Trust a "drag-along right" in the event the Trust proposes to transfer all of its Class B Shares to any person dealing at arm's-length to the Trust. In this case, the Trust shall have the right to require each holder of Class C Shares to transfer to the third-party purchaser all of the Class C Shares on the same terms and conditions offered to the Trust in respect of the Class B Shares.

In the event the Trust enters into an agreement or proposal with a person who is not an affiliate of the Trust and which has as its object a transaction or series of related transactions intending to result in a Triggering Event, the Trust shall as soon as reasonably practicable provide notice of such Triggering Event to the Minor Shareholders. Upon such notice, the Minor Shareholders shall have the right to require the Trust to purchase their Class C Shares at fair market value in exchange for the receipt of Common Units, such that the Minor Shareholders can participate as a Common Unitholder in the Triggering Event.

ITEM 3 - INTERESTS OF TRUSTEES, DIRECTORS, MANAGEMENT AND PRINCIPAL HOLDERS

3.1 Compensation and Securities Held

The following table sets out information about the Trustees and directors and executive officers of the Administrator. To the knowledge of the Trustees and directors and executive officers of the Administrator, no person or company beneficially owns or controls or directs, directly or indirectly, more than 10% of the issued and outstanding Common Units.

Name and Municipality of Principal Residence/ Registered Office	Positions Held with Petrocapita and Date of Obtaining that Position	Compensation Paid by the Trust or related party in the most recently completed financial year and the compensation anticipated to be paid in the current financial year	Number, Type and Percentage ⁽¹⁾ of Securities of the Trust and the Corporation held after Completion of the Combined Offering
Alex Lemmens ⁽²⁾ Alberta, Canada	President and Chief Executive Officer of the Administrator since March 2015 Trustee and Chairman of the Board of Administrator since April 2015 President and Chief Executive Officer of the Corporation since September 26, 2016	2016: \$198,650 2017: \$200,000	140 8% Debentures (1.9%) 7,000,000 Warrants at \$0.06 (1.9%) 1,170,000 Class C Shares (30%)
Gregory Marr ⁽³⁾ Alberta, Canada	Chief Financial Officer of the Administrator since April 2016 Trustee and director of the Administrator since April 2015 Chief Financial Officer of the Corporation since September 26, 2016	2016: \$155,290 2017: \$160,000	70 8% Debentures (1%) 3,500,000 Warrants at \$0.06 (0.9%) 195,000 Class C Shares (5%)
Richard Mellis ⁽⁴⁾ Alberta, Canada	Vice President, Land and Environment and director of the Administrator since January 2014 Trustee since April 2015 Vice President, Land and Environment of the Corporation since September 26, 2016	2016: \$164,650 2017: \$160,000	100 8% Debentures (1.4%) 5,000,000 Warrants at \$0.06 (1.3%) 1,170,000 Class C Shares (30%)
Ben Van Rootselaar ⁽⁵⁾ Alberta, Canada	Director of the Administrator since April 2015 Trustee since April 2015 Director of the Corporation since October 18, 2016.	2016: \$15,000 2017: \$10,000	10 8% Debentures (0.1%) 500,000 Warrants at \$0.06 (0.1%)

Notes:

- (1) The percentages in the table indicate the percentage of the corresponding class of securities that is directly or beneficially owned by the director, officer or promoter.
- (2) Mr. Lemmens, who currently serves as President and Chief Executive Officer of the Administrator, was appointed to such offices effective March 15, 2015 and was not employed or otherwise engaged by Petrocapita in any capacity prior to that time. Mr. Lemmens is not an employee but rather provides his services as President and Chief Executive Officer to the Administrator on a contracted basis through a company controlled by Mr. Lemmens.
- (3) Mr. Marr, who currently serves as Chief Financial Officer of the Administrator, was appointed to such offices effective April 16, 2016 and was a director of the Administrator and trustee of the Trust prior to that time. Mr. Marr is not an employee but rather provides his services as Chief Financial Officer to the Administrator on a contracted basis as a contractor.
- (4) Mr. Mellis, who currently serves as Vice President, Land and Environment of the Administrator, was appointed to such offices effective January 2014 and was engaged by Petrocapita as a land consultant prior to that time. Mr. Mellis is not an employee but rather provides his services as Vice President, Land and Environment to the Administrator on a contracted basis through a company controlled by Mr. Mellis.
- (5) Mr. Van Rootselaar, who currently serves as director of the Administrator, was appointed to such offices effective March 15, 2015 and was not employed or otherwise engaged by Petrocapita in any capacity prior to that time.

3.2 Management Experience

Set forth below is a description of the principal occupation and business experience of each of the Trustees of the Trust and the directors and officers of the Administrator.

Alex Lemmens, P.Eng. – President, Chief Executive Officer and Director of both the Administrator and the Corporation; Chairman of the Administrator; Trustee of the Trust

Mr. Lemmens is a registered Professional Engineer with the Association of Professional Engineers and Geoscientists of Alberta, and has over 40 years' experience of senior management, production operations, drilling, optimization, reserves evaluation and economic analysis in the oil and gas industry. Mr. Lemmens was co-founder of Crucible Resources Inc., a medium oil production company in Saskatchewan, and of Birchwood Resources Inc., a private oil and gas exploitation company with a steam-assisted gravity drainage project in the Bonnyville area and a heavy oil play in Saskatchewan recently sold to Husky Energy Inc. As a senior oil and gas executive, Mr. Lemmens is experienced in the assembly and review of financial information and financial reporting matters, particularly with respect to oil and gas operations, and he has worked extensively with professionals directly responsible for the preparation and audit of financial statements in accordance with applicable accounting standards.

Gregory Marr – Chief Financial Officer and Director of both the Administrator and the Corporation; Audit Committee Chairman; Trustee of the Trust

Mr. Marr is a Chartered Accountant and has over 25 years of experience in the oil and gas industry having worked with various private and public companies in the sector. Mr. Marr is President of Montage Resources Inc., a financial management company specializing in oil and gas exploration and development companies in Western Canada. He has prepared and ensured consistent and compliant disclosure for financial statements, management's discussion and analysis, annual information forms and many other disclosure documents in accordance with GAAP, IFRS and applicable securities laws.

Richard Mellis – Vice President, Land and Environment and Director of both the Administrator and the Corporation; Trustee of the Trust

Mr. Mellis has over 25 years of experience in the oil and gas industry. Previous to Petrocapita he worked in the land, environmental and regulatory departments of various oil and gas companies and trusts. Mr. Mellis has served as vice president of land and environment for a number of junior oil and gas companies that were subsequently listed on public stock exchanges. Mr. Mellis has been involved in numerous oil and gas acquisition and disposition transactions and drilling projects.

Ben Van Rootselaar – Director of both the Administrator and the Corporation; Trustee of the Trust

Mr. Van Rootselaar is a registered Professional Engineer with the Association of Professional Engineers and Geoscientists of Alberta. He has over with 35 years of diversified engineering and supervisory experience in the oil and gas industry. Mr. Van Rootselaar is President of Tower Ridge Enterprises Corp., an engineering and project management company in oil and gas development, and has been involved in numerous projects including all aspects of operations, facilities, completions, evaluations and joint ventures. Mr. Van Rootselaar is currently working on a joint venture set-up to handle the waste and fluid disposal for a number of steam assisted gravity drainage (SAGD) projects. Mr. Van Rootselaar's project management and supervisory experience includes the preparation and review of financial information, including in connection with the financial reporting by public companies through annual and interim financial statements and related management's discussion and analysis.

3.3 Cease Trade Orders, Bankruptcies, Penalties or Sanctions

Cease Trade Orders

Except as disclosed below, to the knowledge of Petrocapita, no Trustee or director or executive officer of the Administrator (nor any personal holding company of any of such persons) is, as of the date of this Offering Memorandum, or was within ten years before the date of this Offering Memorandum, a director, chief executive officer or chief financial officer of any company that: (a) was subject to a cease trade order (including a management cease trade order) ("**CTO**"), an order similar to a CTO or an order that denied the relevant company access to any exemption under securities legislation, in each case that was in effect for a period of more than 30 consecutive days, that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or (b) was subject to any such order that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

During 2007, Gregory Marr served as Chief Financial Officer and a director of Landmark Oil & Gas Corp. ("**Landmark**"), Richard Mellis served as Vice President, Land and a director of Landmark, and Ben Van Rootselaar served as an independent director of Landmark. Landmark was subject to CTOs issued by the Alberta Securities Commission ("**ASC**") and the British Columbia Securities Commission ("**BCSC**") in May 2007 for failure to file audited annual financial statements for the year ended December 31, 2006. Landmark's audited annual financial statements for the year ended December 31, 2006 and unaudited interim financial statements for the three months ended March 31, 2007 were filed in July 2007, and the CTOs were subsequently revoked by the ASC and the BCSC in September 2007.

Prior to January 2011, Mr. Marr served as Chief Financial Officer and a director of Cromwell Resources Limited ("**Cromwell**"). Cromwell was subject to CTOs issued by the ASC and the BCSC in May 2007 for failure to file audited annual financial statements for the year ended December 31, 2006. Cromwell's audited annual financial statements for the year ended December 31, 2006 and unaudited interim financial statements for the three months ended March 31, 2007 were filed in August 2007.

Mr. Marr previously served as Chief Financial Officer (prior to October 2011) and a director (prior to June 2011) of Pan Terra Industries Inc. ("**Pan Terra**"). Pan Terra was subject to CTOs issued by the ASC in September 2009 and by the BCSC in October 2009 for failure to file audited annual financial statements for the year ended March 31, 2009 and unaudited interim financial statements for the three months ended June 30, 2009, together in each case with related management's discussion and analysis and officer certifications. Such filings were completed by Pan Terra in December 2009, and the CTOs were subsequently revoked by the ASC and the BCSC later that month.

Bankruptcies

Except as disclosed below, to the knowledge of Petrocapita, no Trustee or director or executive officer of the Administrator (nor any personal holding company of any of such persons), or shareholder holding a sufficient number of securities of the Trust to affect materially the control of the Trust: (a) is, as of the date of this Offering Memorandum, or has been within the ten years before the date of this Offering Memorandum, a director or executive officer of any company that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or (b) has, within the ten years before the date of this Offering Memorandum, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the Trustee, director, executive officer or shareholder.

Gregory Marr previously served as Chief Financial Officer and a director of Landmark (until May 2009), Richard Mellis previously served as Vice President, Land and a director of Landmark (until February 2008), and Ben Van Rootselaar previously served as an independent director of Landmark (until February 2008). In February 2008, Landmark filed a Notice of Intention to Make a Proposal under the *Bankruptcy and Insolvency Act* (Canada) ("**BIA**"), and in March 2008 submitted a proposal under Part III of the BIA to facilitate an orderly sale and wind-up of operations. The proposal was approved by Landmark's creditors on April 4, 2008 and by the Court of Queen's Bench of Alberta on June 3, 2008. Landmark became inactive after June 3, 2008 and was struck from the Alberta corporate registry in September 2010.

Penalties or Sanctions

To the knowledge of Petrocapita, no director or executive officer of the Administrator (nor any personal holding company of any of such persons), or Unitholder holding a sufficient number of securities of the Trust to affect materially the control of the Trust, has been subject to: (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Conflicts of Interest

Certain directors and executive officers of Petrocapita are also directors and/or officers of other companies engaged in the oil and gas business generally. As a result, situations may arise where the interest of such directors and executive officers conflict with their interests as directors and officers of other companies. The resolution of such conflicts is governed by applicable corporate laws, which require that directors and officers act honestly, in good faith and with a view to the best interests of the Administrator. Conflicts, if any, will be handled in a manner consistent with the procedures and remedies set forth in the ABCA. The ABCA provides that in the event that a director or an officer has an interest in a contract or proposed contract or agreement, the director or officer shall disclose his interest in such contract or agreement and the director shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided by the ABCA.

3.4 Indebtedness of Trustees, Directors, Executive Officers and Promoters

No person who is a promoter, Trustee or a director or executive officer of Petrocapita, or an associate of any such promoter, Trustee, director or executive officer, is indebted to the Trust or any of its subsidiaries, or to another entity where such debt is or was the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Corporation or the Trust or any of its subsidiaries.

3.5 Capital Market Managers

In addition to the officers and directors set out in Section 3.2, the Corporation has employed Mr. Stephen Johnston as a Manager – Capital Markets and Mr. Barclay Laughland as a Manager – Capital Markets. Messrs. Johnston and Laughland will primarily be involved in providing Petrocapita with management and strategic advice in respect of capital raising.

Stephen Johnston – Manager, Capital Markets

Mr. Johnston is a co-founder of Capita Funds Asset Management, Agcapita Partners LP, a farmland fund, Petrocapita Income Trust, an energy and mid-stream assets fund, Enercapita Energy Trust, an oil and gas fund and, Equicapita Income Trust, a private equity fund focused on acquiring controlling positions in small-medium enterprises, and Rhocore Income Trust, a credit opportunities fund. In 1994, Mr. Johnston joined the London, England office of AT Kearney, a global consulting firm, as a strategy consultant implementing trading risk management systems, with a focus on default risk metrics of commercial real estate loan portfolios of Swedish investment banking clients. Mr. Johnston was then engaged as a banker by the European Bank for Reconstruction and Development on the Telecommunications and Media Team, providing debt and equity financing to companies based in Eastern Europe and the former Soviet Union until 1998. In 1998, Mr. Johnston became the head of the private equity team at Société Générale Asset Management - Emerging Markets UK. In this capacity he was responsible for closed-end funds covering the Baltics, Central and Eastern Europe and the Middle East with US\$285 million under management. In 2000, he became a principal and part owner of a £12 million early stage technology fund based in London, UK, investing in European based start-ups. Mr. Johnston earned a Bachelor of Science Degree (1987) and a Bachelor of Laws Degree (1990) from the University of Alberta and, after being admitted to the Alberta Bar in 1991, graduated with a Masters of Business Administration (MBA) from the London Business School in 1994.

Barclay Laughland – Manager, Capital Markets

Mr. Laughland has over 20 years of experience in the areas of corporate finance, investment fund management, mergers and acquisitions, debt/equity financings, re-structurings and business management. He is presently a partner with Agcapita Partners L.P., a farmland investment fund and, until January 2016, was vice-president, corporate affairs for Mosaic Capital Corporation, a publicly-traded investment company. Prior to 2009, Mr. Laughland headed a private technology development company focused on hydrocarbon extraction technology. Until early 2007, Mr. Laughland was a partner in the corporate finance and mergers and acquisitions practice group in the Calgary office of McCarthy Tétrault LLP, where he advised public and private companies, venture capitalists and private equity funds covering a broad range of matters related to business transactions, corporate finance, reorganizations and mergers and acquisitions, including a focus on alternative transaction and investment structures. Mr. Laughland received a B.Comm (1991) and J.D. (1994), both from the University of Saskatchewan.

ITEM 4 - CAPITAL STRUCTURE

4.1 Unit Capital

Description of Security	Number Authorized to be issued	Price per Security	Number Outstanding as at May 29, 2017	Number Outstanding Assuming \$20,000,000 Offering ⁽¹⁾
Common Units ⁽²⁾	Unlimited	0.02 ⁽³⁾	1,109,731,962	1,287,091,962 ⁽⁴⁾
Preferred Units ⁽²⁾	Unlimited	\$1.00	2,171,585	22,171,585
Warrants	900,000,000	\$0.06 (exercise price)	430,770,000	430,770,000

Notes:

- (1) There is no minimum or maximum amount of funds to be raised pursuant to the Offering. It is therefore possible that the amount raised by the Offering is \$0. Assuming an Offering of \$20,000,000, the size of the Combined Offering will be \$20,004,600.
- (2) See Item 2.7.1 - *Declaration of Trust* and Item 5.1 *Terms of Securities - Preferred Units*, for a summary of the terms of the Common Units and Preferred Units of the Trust.
- (3) Closing price on the CSE on May 26, 2017, the last day business day before the date of this Offering Memorandum.
- (4) The number of Common Units assumes the exchange of all of the Class A Shares are exchanged into Common Units.

The Class A Shares being offered as part of the Combined Offering are convertible into Common Units on a one-for-32 basis, subject to adjustment, in accordance with their terms. Assuming a \$20,000,000 Offering, up to 5,542,500 Class A Shares will be issued and outstanding. For additional information on the Class A Shareholders' exchange right and the Corporation's redemption right, see the offering memorandum of the Corporation dated May 29, 2017.

4.2 Debt Securities and Long Term Debt

Petrocapita has the following long term debt outstanding:

Description	Interest Rate	Repayment Terms	Aggregate Amount Outstanding as of April 30, 2017
Credit Facility (secured)	Based on the Prime Rate	Monthly payments	\$165,000
6% Debentures	6%	Monthly payments	\$3,308,221 ⁽¹⁾
8% Debentures	8%	Quarterly payments	\$7,300,886
12.5% Debenture	12.5%	Quarterly Payments	\$5,000,000

Note:

(1) \$750,000 of the principal amount of the convertible debenture issued in connection with the acquisition of Maha matures in 2017.

Credit Facility

Hytop, a subsidiary of the Trust, has a \$175,000 demand revolving credit facility. As of April 30, 2017, the amount outstanding under the credit facility is \$165,000.

The credit facility is secured by all of the assets of Hytop, and is guaranteed by David Forrest and Monte Jones.

The credit facility bears interest at a rate based on the prime rate. The credit facility is available for Hytop's general corporate purposes, including capital expenditures.

Outstanding Debentures

6% Debentures

On June 30, 2015, the Trust completed the issuance of convertible secured debentures in the amount of \$217,000 in exchange for certain property and equipment of Pacific Oil Company. The convertible debentures bear interest at 6% per annum, payable monthly, mature on June 30, 2022, and are convertible at the option of the holder into Common Units at an amount equal to the average market trading price of such units for each of the last 20 trading days.

In connection with the acquisition of Hytop, the Trust issued convertible debentures in the amount of \$472,486 to the existing shareholders of Hytop. The convertible debentures are secured by the acquired assets. The convertible debentures mature on May 15, 2023, carry an interest rate of 6% per annum, payable monthly, and are convertible, at the option of the holder, into Common Units on or after December 31, 2017 at the volume weighted average trading price of such units on the CSE for each of the last 20 trading days prior to the date of conversion set by the exercise of the option to convert.

In connection with the acquisition of MJ Vallee, the Trust issued a convertible debenture to a shareholder of MJ Vallee in trust for the two sole shareholders in the amount of \$550,000. The convertible debenture is secured by the acquired assets. The convertible debentures mature on June 1, 2023, carries an interest rate of 6% per annum, payable monthly, and is convertible, at the option of the holder, into Common Units on or after December 31, 2017 at the volume weighted average trading price of such units on the CSE for each of the last 20 trading days prior to the date of conversion set by the exercise of the option to convert.

In connection with the acquisition of Smartworks, the Trust issued a convertible debenture to the shareholders of Smartworks in the amount of \$176,500. The convertible debenture is secured by the acquired assets. The convertible debenture mature on October 1, 2023, carries an interest rate of 6% per annum, payable monthly, and is convertible, at the option of the holder, into Common Units on or after December 31, 2017 at the volume weighted average trading price of such units on the CSE for each of the last 20 trading days prior to the date of conversion set by the exercise of the option to convert.

In connection with the acquisition of Crucible, the Trust issued a convertible debenture to the shareholders of Crucible in the amount of \$434,965. The convertible debenture is secured by the acquired assets. The convertible debentures mature on December 1, 2023, carries an interest rate of 6% per annum, payable monthly, and is convertible, at the option of the holder, into Common Units on or after December 31, 2017 at the volume weighted average trading price of such units on the CSE for each of the last 20 trading days prior to the date of conversion set by the exercise of the option to convert.

In connection with the acquisition of the assets of Maha, the Trust issued a convertible debenture to Maha in the amount of \$1,650,000. The convertible debenture is secured by the acquired assets. \$750,000 of the principal amount of the convertible debenture matures in 2017, while the remainder of the principal amount matures on January 1, 2024. The debenture carries an interest rate of 6% per annum, payable monthly, and is convertible, at the option of the holder, into Common Units on or after December 31, 2017 at the volume weighted average trading price of such units on the CSE for each of the last 20 trading days prior to the date of conversion set by the exercise of the option to convert.

Other than the convertible debenture issued to Maha, principal payments on the 6% convertible debentures begin one year from the date of issuance.

8% Debentures

As at May 29, 2017, the Trust has completed eleven separate tranches of the issuance of 8% Debentures.

12.5% Debentures.

In connection with the acquisition of Palliser, the O&G LP issued a debenture in the amount of \$5,000,000. The debenture has a maturity date of April 29, 2021, carries an interest rate of 12.5% per annum and is payable quarterly in arrears.

Intercompany Debt

Following the completion of the Internal Reorganization, Petrocapita expects to have the following intercompany debts outstanding:

The first intercompany debt is a promissory note issued by the Corporation to the Trust with an outstanding balance of approximately \$7,300,886. This promissory note has an interest rate of 8% per annum and tracks the outstanding principal amount of 8% Debentures, the proceeds of which are loaned by the Trust to the Corporation for the acquisition and operation of Petrocapita assets.

The second intercompany debt is a promissory note for approximately \$5,000,000 issued by the Corporation to the O&G LP. This promissory note has an interest rate of 12.5% per annum and tracks the funds raised for a targeted acquisition, the proceeds of which are loaned by the O&G LP to the O&G GP for the acquisition and operation of the Palliser assets.

The third intercompany debt is a promissory note for approximately \$3,500,000 and is between the O&G LP, as lender, and the Processing LP, as the debtor. This loan was entered into in connection with the acquisition by the Processing LP of all of the tangible assets of the O&G LP, including disposal facilities and well site processing equipment of the O&G LP.

The fourth intercompany debt is a promissory note for approximately \$1,650,000 and is between the Trust, as lender, and the Corporation, as debtor. This loan was entered into in connection with the acquisition by the Trust of the Maha assets .

The fifth intercompany debt is a promissory note issued by the Corporation to the Trust with an outstanding balance of approximately \$2,172,000. This promissory note has an interest rate of 9% per annum and tracks the funds raised by the sale of the Preferred Units by the Trust to date.

The sixth intercompany debt is a promissory note for approximately \$1,200,000 and is between O&G LP, as lender, and Processing LP, as debtor. This loan will be entered into in connection with the acquisition by the Processing LP of certain service assets of Hytop, PCAP Trucking and Smartworks from O&G LP.

4.3 Prior Sales

Date of Issuance	Type of Security Issued	Number of Securities Issued	Price per Security	Total Funds Received
March 8, 2017	Preferred Units	832,000	\$1.00	\$832,000
March 31, 2017 ⁽¹⁾	Preferred Units	1,585	\$1.00	\$1,585
April 24, 2017	Preferred Units	1,338,000	\$1.00	\$1,338,000

Note:

(1) These units were issued pursuant to the DRIP.

ITEM 5 - SECURITIES OFFERED

The Offering consists of Preferred Units, which are being issued as part of a Tied Unit. The Tied Units are made up of a combination of Preferred Units and Class A Shares, which are being offered concurrently by the Corporation pursuant to an offering memorandum dated May 29, 2017. For every 1,000 Preferred Units issued by the Trust, the Corporation will offer up to 230 Class A Shares to the Subscriber. The Agents will also receive up to 20 Class A Shares from the Corporation as part of their sales commission. The Class A Shares offered to Subscribers of Preferred Units will be priced at a nominal price of \$0.001 per Class A Share. Except for those Class

A Shares offered to the Agent, the Class A Shares cannot be purchased by a Subscriber without the purchase by that Subscriber of Preferred Units.

5.1 Terms of Securities - Preferred Units

The Preferred Units are generally non-voting securities except in the limited circumstances provided for under the Declaration of Trust (see Item 2.7.1 - *Declaration of Trust – Meetings of Unitholders*), and confer upon the holders thereof a preference over the holders of Common Units with respect to distributions and participation in a liquidation, dissolution or winding-up, and are subject to redemption, as follows:

- **Distributions.** Holders of Preferred Units have preferential rights to the extent Distributable Cash is available, to a fixed, preferential cumulative distribution of \$0.09 per Preferred Unit per annum, payable quarterly in arrears (adjusted for any portion of the Distribution Period during which the unit was not outstanding). See Item 2.7.1 - *Declaration of Trust – Distribution Rights; Distributable Cash*.
- **Redemption.** Prior to the Series Redemption Date, Preferred Units are redeemable on demand by the holders thereof, at a redemption price based on 90% of the fair market value as determined by the Administrator or, if the Preferred Units are listed, traded or quoted on a stock exchange or market at the relevant time, the 90% of their Market Price or 100% of their Closing Market Price, subject to certain limitations on payment of the redemption price and the consideration therefor.

Following the Series Redemption Date, upon receipt of a properly executed notice, the Trust shall, in respect of each Preferred Unit to be redeemed, make payment of an amount which is equal to the sum of: (1) one dollar (\$1.00); plus (2) all accrued and unpaid cumulative distributions in respect of such Preferred Unit whether or not declared, calculated to but excluding the date of redemption. The Series Redemption Date of the Preferred Units is the fourth (4th) anniversary of the date of issuance of the particular Preferred Unit.

In addition, the Trust may redeem at any time the whole or from time to time any part of the then outstanding Preferred Units from any one or more of the holders thereof as the Trustees may in their sole discretion determine. In respect of each Preferred Unit to be redeemed, the Trust shall make payment of an amount which is equal to the sum of one dollar (\$1.00), plus all accrued and unpaid cumulative distributions in respect of such Preferred Unit, whether or not declared, calculated to but excluding the date of redemption. See Item 2.7.1 - *Declaration of Trust – Redemption Rights*.

- **Liquidation, Dissolution or Winding Up.** In the event of the liquidation, dissolution or winding up of the Trust or other distribution of Trust assets among its unitholders for the purpose of winding up its affairs, each holder of Preferred Units is entitled to receive from the assets of the Trust, for and in respect of each Preferred Unit held, before any amount is paid or any Trust property is distributed to any holder of Common Units or units of any other class ranking junior to the Preferred Units, the sum of (a) one dollar (\$1.00); plus (b) all accumulated and unpaid distributions in respect of such Preferred Unit (if any). After payment or distribution of such sum, holders of Preferred Units shall not participate any further in any further distribution of the remaining assets of the Trust.

Reference should be made to the Declaration of Trust for a complete description of all the terms of the Preferred Units of the Trust.

5.2 Subscription Procedure

Subscribing for Preferred Units: An investor who wishes to subscribe for Preferred Units must:

- (1) complete and execute the subscription form which accompanies this Offering Memorandum, including all applicable Schedules thereto;
- (2) pay the subscription price by certified cheque or bank draft dated the date of the subscription in the amount of \$1.00 per Preferred Unit made payable to "Petrocapita Income Trust" (or as the Administrator otherwise directs); and
- (3) complete and execute any other documents deemed necessary by the Administrator to comply with applicable securities laws;

and deliver the foregoing to the Trust at #1400, 717 – 7th Avenue SW, Calgary, Alberta T2P 0Z3 or such other location which the Administrator may specify. The Preferred Units are being offered only as part of a Tied Unit. In order for the Preferred Unit subscription form to be accepted by the Administrator, a Subscriber must also complete the subscription form accompanying the offering memorandum of the Corporation. Each Subscriber must fully comply with the subscription procedures set out in both this Offering Memorandum and the offering memorandum of the Corporation.

In respect of a subscription for Preferred Units, subject to the exercise of discretion by the Administrator, the minimum individual subscription is \$1,000 representing 1,000 Preferred Units. Preferred Units may only be purchased in increments of \$1,000 (1,000 Preferred Units) thereafter. Cheques will be held until at least midnight on the second business day after the Subscriber signs the subscription agreement. Thereafter the funds will be deposited and held in escrow by the Trust pending closing of the sale of Preferred Units to the Subscribers. Closings will occur at such times and on such dates as may be determined by the Administrator from time to time. Interest will not be payable on a Subscriber's subscription funds held in escrow pending closing and interest earned, if any, will be paid to and retained by the Trust. Subscriptions will be received subject to rejection or allotment in whole or in part and

the Trust reserves the right to close the subscription books at any time and without notice. The Administrator has the right, in its sole and absolute discretion, to reject any subscription for Preferred Units, in whole or in part, for any reason. If subscriptions are not received and accepted and certain other conditions have not been satisfied or waived on or before the date selected by the Administrator (in its sole discretion), subscriptions and subscription funds will be returned to subscribers without interest or deduction.

Upon acceptance by the Administrator on behalf of the Trust of a Subscriber's subscription for Preferred Units and receipt of the subscription price therefore and satisfaction of Closing conditions, the Subscriber shall become a Preferred Unitholder. Following Closing, each Subscriber who becomes a Preferred Unitholder will be entered in the records and/or registers of the Trust as a Unitholder in respect of those Preferred Units subscribed for and accepted by the Trust. If so determined and instructed by the Trust, the registrar and transfer agent for the Trust will hold the Subscriber's Preferred Units in their book-based system which means that no physical certificate will be produced but the Subscriber's Preferred Units will be recorded in the unitholder registers. With Preferred Units being held in the book-based system there is no risk of losing Unit certificates which can be costly to replace. **Based on the foregoing, Unit certificates representing the Subscriber's Preferred Units may not be issued and sent to such Subscriber except where requested in writing by such Subscriber.**

None of the Trust, the Trustees, or the Administrator are responsible for, and undertake no obligation to, determine the general investment needs and objectives of a potential investor and the suitability of the Preferred Units having regard to any such investment needs and objectives of the potential investor.

Representation of Qualification to Purchase: By executing a subscription agreement for Preferred Units, each Subscriber will make the representation that the Subscriber meets the conditions of the applicable prospectus exemption in purchasing Preferred Units pursuant to this Offering and is thus entitled under such prospectus exemption to purchase such securities without the benefit of a prospectus qualified under applicable securities laws.

Acceptance of Subscription Form: The acceptance by the Administrator on behalf of the Trust of a Subscriber's subscription for Preferred Units, whether in whole or in part, constitutes an agreement between the Subscriber and the Trust upon the terms and conditions set out in such subscription agreement whereby the Subscriber, among other things: (i) agrees to purchase the Preferred Units; (ii) acknowledges that he or she, upon purchase of Preferred Units, is bound by the terms of the Declaration of Trust; (iii) makes various representations and warranties as more particularly set forth in the subscription agreement; (iv) irrevocably nominates, constitutes and appoints the Trustees as his or her true and lawful attorney with the full power and authority as set out in the subscription agreement and the Declaration of Trust.

ITEM 6 - CERTAIN INCOME TAX CONSIDERATIONS AND EXEMPT PLAN ELIGIBILITY

The following summary has been prepared by Counsel and describes the principal Canadian federal income tax considerations pursuant to the Income Tax Act generally applicable to a Subscriber that is an individual (other than a trust) who acquires Preferred Units pursuant to this Offering and who, for purposes of the Income Tax Act and at all relevant times, is resident in Canada, deals at arm's length with, and is not affiliated with, the Trust, and holds their Preferred Units as capital property (a "**Holder**"). Generally, Preferred Units will be capital property of a Holder provided the Holder does not hold such Preferred Units in the course of carrying on a business of trading or dealing in securities and has not acquired them in one or more transactions considered to be an adventure or concern in the nature of trade. Certain persons who might not otherwise be considered to hold their Preferred Units as capital property may, in certain circumstances, be entitled to make the irrevocable election permitted by subsection 39(4) of the Income Tax Act to have their Preferred Units and each other "Canadian security" (as defined in the Income Tax Act) owned by the person in the year in which the election is made, and in each subsequent year, treated as capital property.

This summary is not applicable to a Holder that has entered or will enter into a "derivative forward agreement" with respect to the Preferred Units, within the meaning of the Income Tax Act. Such Holders should contact their own tax advisors having regard to their own particular circumstances.

This summary is based upon information set out in this Offering Memorandum, the provisions of the Income Tax Act in force as of the date hereof, all specific proposals to amend the Income Tax Act that have been publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the "**Proposed Amendments**") and Counsel's understanding of the current published administrative and assessing policies of the Canada Revenue Agency (the "**CRA**") that have been made publicly available as of the date hereof. There can be no assurance that the Proposed Amendments will be enacted in the form proposed, or at all. This summary is not exhaustive of all possible Canadian federal income tax considerations applicable to the Offering and, except for the Proposed Amendments, does not take into account or anticipate any changes in the law, whether by legislative, governmental or judicial action or changes in the administrative policies or assessing practices of the Canada Revenue Agency. This summary does not take into account provincial, territorial or foreign tax considerations, which may differ significantly from those discussed herein.

This summary is of a general nature only and is not intended to be relied on as legal or tax advice or representations to any particular Subscriber. Consequently, Subscribers are urged to seek independent tax advice with respect to the consequences to them of an investment in Preferred Units having regard to their particular circumstances.

Status of the Trust

This summary assumes that the Trust qualifies, and will continue to qualify at all relevant times, as a "mutual fund trust" for purposes of the Income Tax Act. If the Trust were to not qualify as a mutual fund trust at any particular time, the income tax considerations applicable to the Trust and a Subscriber would be materially different from those contained herein.

The summary further assumes that the Trust qualifies, and will continue to qualify at all relevant times, as a "specified investment flow-through trust" or "SIFT Trust" for purposes of the Income Tax Act and is subject to the rules set out in the Income Tax Act in respect of SIFT Trusts (the "**SIFT Rules**").

Taxation of the Trust

Pursuant to the SIFT Rules, the Trust will generally be subject to Canadian federal income tax in a manner similar to Canadian corporations on income earned by the Trust in a year that qualifies as "non-portfolio earnings", where such income is paid or payable in the year to Unitholders. Non-portfolio earnings generally include, among other things: (i) income from a business carried on in Canada and income (other than income that is a taxable dividend received by the Trust) from "non-portfolio properties" (exceeding any losses for the taxation year from such properties); and (ii) taxable capital gains from dispositions of non-portfolio properties (exceeding allowable capital losses from the disposition of such properties). In addition, the Trust will generally be subject to Canadian federal income tax on non-portfolio earnings that are not paid or payable to Unitholders in the year they are earned.

For this purpose, "non-portfolio properties" generally include: (i) certain Canadian real, immovable and resource properties; (ii) a property that the Trust (or a non-arm's length person or partnership) uses in the course of carrying on a business in Canada; and (iii) "securities" of a "subject entity" (other than a "portfolio investment entity") if the Trust holds securities of the subject entity that have a total fair market value that is greater than 10% of the subject entity's equity value or if the Trust holds securities of the subject entity that, together with all securities held of affiliates of the subject entity, have a total fair market value that is greater than 50% of the Trust's equity value. A "subject entity" includes corporations resident in Canada, trusts resident in Canada, and "Canadian resident partnerships", all within the meaning of the Income Tax Act. The Corporation will qualify as a subject entity for these purposes, and any securities of or interests in the Corporation held by the Trust will generally qualify as non-portfolio properties.

In addition, the Trust will generally be subject to tax on all other income, less the portion of such income that is paid or payable in the year to Unitholders and which is deducted by the Trust in computing its income for purposes of the Income Tax Act. An amount will be considered to be payable to a Unitholder in a taxation year if it is paid in the year by the Trust or if the Unitholder is entitled in that year to enforce payment of the amount.

It is anticipated that all or substantially all of the assets of the Trust will constitute "non-portfolio property" and that substantially all of the Trust's income that is paid or that becomes payable to a Holder will constitute "non-portfolio earnings", and accordingly the Trust will be required to pay tax under the SIFT Rules on such income.

Taxation of the Corporation

The Corporation will be subject to tax in each taxation year on its taxable income for the year, including income earned by partnerships of which the Corporation is a member. In calculating the Corporation's taxable income, the Corporation will generally be entitled to deduct reasonable expenses incurred to earn income including interest paid on borrowed money. The Corporation will also generally be entitled to deduct certain resource expenditures it incurs, or that are incurred by a partnership of which the Corporation is a member, including Canadian exploration expenses, within the meaning of the Income Tax Act, at a rate of up to 100%, Canadian development expenses, within the meaning of the Income Tax Act, at a rate of up to 30% per annum on a declining balance basis, and Canadian oil and gas property expenses, within the meaning of the Income Tax Act, at a rate of up to 10% per annum on a declining balance basis. Any such resource expenditures not deducted in a taxation year may generally be carried forward by the Corporation indefinitely.

Computation of Partnership Income

A partnership is not itself liable for income tax. However, the income or loss of a partnership, including the Processing LP and the O&G LP, will generally be computed for each fiscal period as if the partnership was a separate person resident in Canada. The income or loss of a partnership for a fiscal period will generally be allocated to members of the partnership in accordance with the terms of the applicable partnership agreement.

In general, a member's share of any income or loss of a partnership from a particular source will retain its character and any provisions of the Income Tax Act applicable to that type of income will generally also apply in respect of such member.

The net income or loss of the O&G LP and the Processing LP for each fiscal period will be allocated among those persons who are limited partners, including the Corporation at the end of the applicable partnership's fiscal period, in accordance with the provisions of the limited partnership agreements of the O&G LP and the Processing LP, as applicable. The fiscal period of the O&G LP and the Processing LP ends on December 31.

Taxation of Holders

Trust Distributions from Non-Portfolio Earnings Earned in the Year

Pursuant to the SIFT Rules, an amount that is paid or payable in a taxation year by the Trust to a Holder (whether in cash, additional Preferred Units, trust property or otherwise) from non-portfolio earnings earned by the Trust in such year will generally be deemed to be an eligible dividend received by the Holder from a taxable Canadian corporation. Such deemed eligible dividend will be subject to the enhanced gross-up and dividend tax credit rules in the Income Tax Act ordinarily applicable to dividends received from taxable Canadian corporations. Taxable dividends deemed to be received by a Holder may result in such Holder being liable for alternative minimum tax under the Income Tax Act.

Trust Distributions other than from Non-Portfolio Earnings Earned in the Year

An amount that is paid or payable in a taxation year by the Trust to a Holder (whether in cash, additional Preferred Units, trust property or otherwise) from income earned by the Trust in such year (other than non-portfolio earnings) will generally be included in computing such Holder's income for such particular taxation year.

Provided that appropriate designations are made by the Trust, the portion of taxable capital gains arising from the disposition of any properties (other than non-portfolio properties) and any taxable dividends received by the Trust from taxable Canadian corporations that are paid or payable to a Holder will generally retain their character as taxable capital gains and taxable dividends to the Holder for purposes of the Income Tax Act. Where a Holder receives an amount from the Trust that retains its character as a taxable dividend, such amount will generally be subject to the gross-up and dividend tax credit rules ordinarily applicable to taxable dividends received from taxable Canadian corporations, including the enhanced gross-up and dividend tax credit rules in respect of dividends that are designated as eligible dividends. Income of the Trust that is received by a Holder as taxable dividends or as taxable capital gains may affect a Holder's liability for alternative minimum tax.

The non-taxable portion of net capital gains realized by the Trust that is paid or payable by the Trust to a Holder in a taxation year will not generally be included in computing the Holder's income for the year. Any other amount in excess of the income of the Trust for the taxation year that is paid or payable to a Holder in the year will generally not be included in the Holder's income for the year. However, where such other amount is paid or payable to a Holder (other than as proceeds of disposition of trust units), the Holder will generally be required to reduce the adjusted cost base of their Preferred Units by such amount. To the extent that the adjusted cost base of a Preferred Unit would otherwise be less than zero, the negative amount will be deemed to be a capital gain realized by the Holder from the disposition of the unit and the Holder's adjusted cost base in respect of the Preferred Unit will be increased by the amount of such deemed capital gain to zero.

Preferred Units issued to a Holder as a non-cash distribution of income or Preferred Units that are acquired through the DRIP by the reinvestment of income, will generally have a cost equal to the amount of such income. A Holder will generally be required to average the cost of all newly-acquired Preferred Units with the adjusted cost base of all other Preferred Units held by the Holder as capital property in order to determine the adjusted cost base of the Holder's Preferred Units at any particular time.

Disposition of Preferred Units

On the disposition or deemed disposition of Preferred Units (other than on a redemption of such Preferred Units), a Holder will generally realize a capital gain (or a capital loss) equal to the amount by which the Holder's proceeds of disposition are greater (or less) than the aggregate of the Holder's adjusted cost base of the Preferred Units and any reasonable costs incurred by the Holder in connection with the disposition. The taxation of capital gains and capital losses is described below under "*Capital Gains and Capital Losses*".

Redemption of Preferred Units

The redemption of Preferred Units in consideration for cash, trust property or Redemption Notes, as the case may be, will generally be a disposition of such Preferred Units for proceeds equal to the amount of such cash or the fair market value of such trust property or Redemption Notes, less any portion thereof that is considered to be a distribution of the income of the Trust. A Holder will generally realize a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition (less any portion thereof that is considered a distribution of the Trust's income) is greater (or less) than the Holder's aggregate adjusted cost base of the Preferred Units so redeemed and any reasonable costs of disposition.

Capital Gains and Capital Losses

Generally, one-half of any capital gain realized or deemed to be realized by a Holder in a taxation year will be included in the Holder's income for the year as a taxable capital gain. Subject to specific rules in the Income Tax Act, one-half of any capital loss realized or deemed to be realized by a Holder in a taxation year is an allowable capital loss which must be deducted from any taxable capital gain realized by the holder in the year of disposition. Allowable capital losses for a taxation year in excess of taxable capital gains for that year generally may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against net taxable capital gains realized in such years to the extent and under the circumstances provided for in the Income Tax Act. Capital gains realized by a Holder may affect the Holder's liability for alternative minimum tax.

If a Holder disposes of Preferred Units and would otherwise realize a capital loss, and the Holder, the Holder's spouse or another person affiliated with the Holder (including a corporation controlled by the Holder) has acquired Preferred Units of any series within 30 days before or after the Holder disposes of the Holder's Preferred Units (such newly acquired Preferred Units being considered "substituted property"), the Holder's capital loss may be deemed to be a "superficial loss". If so, the Holder's loss will be deemed to be nil and the amount of the loss will instead be added to the adjusted cost base of the Preferred Units which are "substituted property".

Eligibility for Investment by Exempt Plans

Provided that the Trust qualifies as a "mutual fund trust" for purposes of the Income Tax Act at all relevant times, the Preferred Units, when issued, will be a qualified investment under the Income Tax Act for an Exempt Plan.

Notwithstanding that the Preferred Units may be qualified investments for TFSAs, RRSPs and RRIFs, the holder of a TFSA or the annuitant under an RRSP or RRIF, as the case may be, will generally be subject to a penalty tax if the Preferred Units are a "prohibited investment" (as defined in the Income Tax Act) for the TFSA, RRSP or RRIF, as applicable. Preferred Units will not be a prohibited investment provided that the holder of the TFSA or the annuitant under the RRSP or RRIF, as applicable, deals at arm's length with the Trust for purposes of the Income Tax Act and does not have a "significant interest" (within the meaning of the Income Tax Act) in the Trust. Under Proposed Amendments to the Income Tax Act contained in the federal budget released on March 22, 2017, the prohibited investment rules will also apply to a trust governed by a RESP or RDSP. Holders should consult their own tax advisors as to whether the Preferred Units will be a prohibited investment in their particular circumstances.

Trust property and certain other property received as a result of a distribution or redemption of Preferred Units may not be a qualified investment for Exempt Plans, which may result in adverse tax consequences, including penalties, to an Exempt Plan or the annuitant, holder or beneficiary thereof. Holders holding Preferred Units in an Exempt Plan should consult with their own tax advisors prior to redeeming their Preferred Units to determine the tax consequences to them of a redemption.

ITEM 7 - COMPENSATION PAID TO SELLERS AND FINDERS

Petrocapita has retained the Agents to effect sales of the Tied Units. Where allowed by applicable securities legislation, the Trust intends to pay to the Agents a selling commission of 9% of the gross proceeds realized on the sale of Preferred Units in cash, plus an administrative fee of 1%. Assuming a \$20,004,600 Combined Offering, the Agents will earn a selling commission of \$1,800,000, plus an administrative fee of \$200,000 for total proceeds of \$2,000,000.

The Agents may also receive up to 20 Class A Shares from the Corporation for every 1,000 Tied Units sold. If the Offering is fully subscribed, the Agents will receive up to 400,000 Class A Shares as part of their selling commission.

The Trust may also incur marketing and other professional services expenses in connection with the Offering.

ITEM 8 - INDUSTRY CONDITIONS

The oil and gas industry is subject to extensive controls and regulations imposed by various levels of government and Petrocapita's oil and gas operations are subject to various Canadian federal, provincial and local laws and regulations. These laws and regulations may be changed in response to economic or political conditions, and regulate, among other things, land tenure and the exploration, development, production, handling, storage, transportation and disposal of oil and gas, oil and gas by-products, and other substances and materials produced or used in connection with oil and gas operations.

More particularly, matters subject to current governmental regulation and/or pending legislative or regulatory changes include the licensing for drilling of wells, the method and ability to produce wells, surface usage, transportation of production from wells, conservation matters, the discharge or other release into the environment of wastes and other substances in connection with drilling and production activities (including fracture stimulation operations), bonds or other financial responsibility requirements to cover drilling contingencies and well plugging and abandonment costs, reports concerning Petrocapita's operations, the spacing of wells, unitization and pooling of properties, and royalties and taxation. Failure to comply with the laws and regulations in effect from time to time may result in the assessment of administrative, civil, and criminal penalties, the imposition of remedial obligations, and the issuance of injunctions that could delay, limit, or prohibit certain of Petrocapita's operations. Petrocapita cannot predict the ultimate cost of compliance with these requirements or their effect on its operations.

Federal authorities do not regulate the price of oil and gas in export trade. Legislation exists, however, that regulates the quantities of crude oil and natural gas which may be removed from the provinces and exported from Canada in certain circumstances. At various times, regulatory agencies have imposed price controls and limitations on oil and gas production. In order to conserve supplies of oil and gas, these agencies may also restrict the rates of flow of oil and gas wells below actual production capacity.

Although Petrocapita does not expect that these controls and regulations will affect its operations in a manner materially different than they would affect other oil and gas companies of similar size, the controls and regulations should be considered carefully by investors in the oil and gas industry. All current legislation is a matter of public record and Petrocapita is unable to predict what additional legislation or amendments may be enacted. Outlined below are some of the principal aspects of legislation, regulations and agreements governing the oil and gas industry.

Regulatory Framework

The Alberta Department of Energy is responsible for administering the legislation that governs the ownership, royalty structure and administration of Alberta's oil, gas, oil sands, coal, metallic and other mineral resources. Prior to June 17, 2013, energy resource activities in Alberta were primarily regulated by the Energy Resources Conservation Board of Alberta ("**ERCB**") and Alberta Environment and Sustainable Resource Department ("**ESRD**"). On October 24, 2012, the Government of Alberta introduced Bill 2, the *Responsible Energy Development Act* ("**REDA**") which proposed to establish a single regulator for upstream oil, gas, oil sands and coal projects in Alberta. On December 10, 2012, Bill 2 was passed and on June 17, 2013, the ERCB was succeeded by the Alberta Energy Regulator ("**AER**") and jurisdiction for energy resource activities was transferred from ESRD to the AER. In addition, ESRD recently changed its name to Alberta Environment and Parks ("**AEP**").

In Saskatchewan, the Saskatchewan Ministry of the Economy is responsible for administering the legislation governing the ownership, royalty structure and administration of Saskatchewan's oil, gas, oil sands and other mineral resources.

Regulation of Operations

In Alberta, the regulation of the construction, operation, decommissioning, and reclamation of oil and wells, pipelines and associated facilities is generally undertaken by the AER under various statutes, including the *REDA*, the *Oil and Gas Conservation Act*, the *Water Act*, the *Environmental Protection and Enhancement Act*, the *Public Lands Act* and others. For example, AER approvals are required prior to the drilling and operation of wells, the construction of pipelines and associated facilities, and the legislation allows the AER to inspect and investigate operations. Inspection and investigations by provincial regulators may result, among other things, in remedial orders.

As described previously, the AER has assumed all of the functions of the ERCB and the jurisdiction for energy resource activities from ESRD pursuant to *REDA*. The current regulatory regime for oil and gas essentially has remained in place, with the primary change being the oversight and administration by a single regulatory body. The existing authorizations and approvals processes for oil and gas projects has remained similar, but such authorizations and approvals are administered by the AER. Under the *REDA*, the AER assumed all of the ERCB's responsibilities under energy resource legislation, including the *Oil and Gas Conservation Act*. On November 30, 2013 the AER assumed the ESRD's responsibilities in relation to energy resource activities under the *Public Lands Act* and Part 8 of the *Mines and Minerals Act*. On March 29, 2014 the AER also assumed the ESRD's responsibilities in relation to energy resources activities under the *Environmental Protection and Enhancement Act* and the *Water Act*.

The AER uses a liability management rating ("**LMR**") to estimate the ability of an AER-licensed company to pay for its future costs to abandon its wells, pipelines and facilities and to reclaim well and facility sites. The LMR is a measurement of a company's assets versus its liabilities. If a company's liabilities exceed its assets, the company must post security with the AER. In June and July 2016, the AER implemented interim measures to protect the province from unfunded liabilities in response to the Alberta Court of Queen's Bench decision in the bankruptcy of Redwater Energy Corporation, which has been upheld by the Alberta Court of Appeal, the decision of which has been appealed to the Supreme Court of Canada. The interim measures provide that, before the AER will approve the transfer of the applicable AER licences, approval, and permits, the transferee must either demonstrate an LMR of 2.0 or higher or provide other evidence that the transferee will be able to meet its obligations with an LMR of less than 2.0. In addition, the AER will consider and process all applications for licence eligibility as "non-routine". The industry faces a period of uncertainty while the AER works with industry and the Government of Alberta to develop regulatory measures that address the Redwater decision.

The AER also regulates the rates of production from wells and can regulate access to pipelines and facilities.

The regulation of the construction, operation, decommissioning and reclamation of oil and wells, pipelines and associated facilities in Saskatchewan is overseen by the Saskatchewan Ministry of the Economy through the Minister of Energy and Resources. The regulation is conducted under various statutes including The Mineral Resources Act, The Oil and Gas Conservation Act, The Energy and Mines Act and The Pipelines Act. The Ministry of the Economy carries out similar functions to the AER in Alberta. Similar to the LMR in Alberta, the Ministry of the Economy uses licensee liability rating ("**LLR**") to estimate the ability of a licensed company to pay its future abandonment costs. As a result of the Redwater decision and related factors, the Ministry of Economy is currently assessing and processing all applications for licence transfers as "non-routine", thereby, reserving additional discretion for itself in this regard.

Additionally, the construction, operation, decommissioning and reclamation of oil and gas wells, pipelines and associated facilities are subject to occupational health and safety laws, transportation of dangerous goods laws, and may be subject to regulation by the Government of Canada under various federal statutes and regulations, which may include the *Canadian Environmental Assessment Act*, 2012, the *Canadian Environmental Protection Act*, 1999, the *Fisheries Act*, the *Navigation Protection Act* and where applicable, the *National Energy Board Act*. Certain federal approvals or authorizations may be needed prior to construction, operation or modification of facilities. Inspections and investigations by federal regulators may result, among other things, in remedial orders.

Export and Pricing

Oil

In Canada, producers of crude oil negotiate sales contracts directly with oil purchasers, with the result that the market determines the price of such commodities. The price received by Petrocapita depends in part on product quality, prices of competing fuels, distance to market, the value of refined products, the supply/demand balance and other contractual terms.

Subject to certain exemptions, exports from Canada must be made pursuant to short-term export orders or long-term licences obtained from the National Energy Board (the "**NEB**"). An export order for light crude oil, defined to include blended oils with a density less than or equal to 875.7 kg/m³, may be granted for up to one year. An export order for heavy crude oil, defined to include blended oils with a density greater than 875.7 kg/m³, may be granted for a period not exceeding two years. If a longer term for export approval is required, an export licence must be obtained from the NEB. Licences for the export of light or heavy crude oil may be granted for a period not exceeding 25 years and require the approval of the Governor in Council. The NEB is currently undergoing a consultation process to update the regulations relating to the export and import regulatory framework pursuant to which the NEB Modernization Expert Panel delivered its report on May 15, 2017 to the Government of Canada. The Government of Canada will accept comments from the public on the report until June 14, 2017.

Natural Gas

In Canada, the price of natural gas sold in intraprovincial, interprovincial and international trade is determined by negotiations between buyers and sellers. Such price depends, in part, on natural gas quality, prices of competing natural gas and other fuels, distance to market, access to downstream transportation, length of contract term, weather conditions, the supply/demand balance and other contractual terms. Natural gas exported from Canada is subject to regulation by the NEB and the Government of Canada. Exporters are free to negotiate prices and other terms with purchasers, provided that the export contracts continue to meet certain criteria prescribed by the NEB and the Government of Canada. Natural gas exports for a term of less than two years or for a term of two to 20 years (in quantities not exceeding 30,000 m³ per day) are subject to an NEB order. Any natural gas exported under a contract of longer duration (to a maximum of 40 years) or in larger quantities requires the exporter to obtain an export licence from the NEB and the issuance of such licence requires the approval of the Governor in Council. As mentioned previously, the NEB is currently undergoing a consultation process to update the regulations relating to the export and import regulatory framework.

The Alberta and Saskatchewan governments also regulate the volume of natural gas that may be removed from the province for consumption elsewhere, based on such factors as reserve availability and other considerations.

Natural Gas Liquids

In Canada, the price of condensate and other natural gas liquids ("**NGLs**") sold in intraprovincial, interprovincial and international trade is determined by negotiation between buyers and sellers. Such price depends, in part, on the origin and quality of the NGLs, prices of competing product, distance to market, access to downstream transportation, length of contract term, the supply/demand balance and other contractual terms.

Subject to certain exemptions, exports of NGLs from Canada must be made pursuant to short-term export orders or long-term licences obtained from the NEB. An export order in respect of propane or butanes may be granted for up to one year and an export order in respect of ethane may be granted for up to two years. Licences for the export of NGLs may be granted for a period not exceeding 25 years and require the approval of the Governor in Council. Changes resulting from the current NEB consultation process relating to the export and import regulatory framework may also impact NGLs.

Pricing Capacity and use of Rail

Despite some recent oil pipeline capacity expansions, the overall pipeline capacity in Canada has been constrained. The space deficit is unlikely to be resolved quickly given that heavy oil production is set to increase, while the prospects for major increases in pipeline capacity in the near future are uncertain. In terms of increasing overall pipeline capacity, several projects are currently underway and some have been recently completed, including Enbridge Inc.'s Line 5 expansion project, completed in mid-2013, brought an additional 50,000 barrels/day of light oil into Sarnia, Ontario. Enbridge has also added 985,000 barrels/day of transport capacity between Western Canadian heavy oil and U.S. refineries in Gulf of Mexico through the twinning of the Seaway pipeline and completion of the Flanagan South pipeline. Enbridge's Line 9 expansion project added 60,000 from North Westover, Ontario, to Montreal, Quebec, which now delivers approximately 300,000 barrels of oil per day to Quebec refineries. The NEB approved the Line 9 project, subject to 30 conditions, on March 6, 2014. Kinder Morgan's Trans Mountain Expansion Project will twin its existing pipeline from Strathcona County, Alberta to Burnaby, British Columbia and deliver an additional capacity of 590,000 barrels per day to the Pacific Coast. The NEB and the federal government have approved the Trans Mountain Expansion Project subject to 157 conditions.

Current oil sands production is approximately 2.4 million barrels per day and the production rate is expected to increase to 3.7 million barrels per day by 2030 (CAPP Crude Oil Forecast Markets and Transportation June 2016). Accordingly, finding additional export capacity to deal with the increase in Canada's crude oil production is a primary concern. There are two pipeline proposals in the works that could help to alleviate access problems from Western Canada's Sedimentary Basin to the international markets: the Keystone XL Pipeline and TransCanada's Energy East. The President of the United States has signed an Executive Order inviting

TransCanada to re-submit their application for a permit to construct the Keystone XL Pipeline. While the use of rail transportation has significantly increased over the last few years, similar to the concern over the lack of pipeline capacity, issues with respect to capacity and uncertainty with respect to anticipated (but unknown) regulatory changes may also impact a producer's ability to access the market through this alternative method.

The North American Free Trade Agreement

The North American Free Trade Agreement ("**NAFTA**") among the Canadian, United States and Mexican governments came into effect on January 1, 1994. Under NAFTA, the Government of Canada is free to determine whether exports of energy resources to the United States or Mexico should be allowed, provided that export restrictions do not: (1) reduce the proportion of energy resources exported relative to the total supply of goods of the party maintaining the restriction (with the most recent 36 month period proportion used as the basis for comparison); (2) impose a higher export price than domestic price (subject to an exception relating to certain voluntary measures that restrict the volume of exports); and (3) disrupt normal channels of supply.

NAFTA prohibits discriminatory border restrictions and export taxes and also prohibits the imposition of minimum or maximum export or import price requirements except with respect to the enforcement of countervailing and anti-dumping orders and undertakings. Discipline on regulators is addressed as the signatories to NAFTA agree to ensure that their regulatory bodies provide equitable implementation of regulatory measures and minimize the disruption of contractual arrangements.

The Trump administration has indicated an intent to renegotiate the terms of NAFTA. At this time, it remains unclear what actions the Trump administration will or will not take with respect to NAFTA. If the Trump administration takes action to materially modify or withdraw from NAFTA, Petrocapita's business and financial condition could be adversely affected.

Land Tenure

Approximately 81% of the oil and gas mineral rights in Alberta are owned by the provincial Crown and managed by the Alberta Department of Energy. The remaining approximately 19% of oil and gas mineral rights are held "freehold" by individuals and companies, or by the federal Crown, for example in Indian Reserves, National Parks and military bases. In Saskatchewan, 80% of oil and natural gas rights are owned by the provincial Crown and managed by the Saskatchewan Ministry of the Economy and an additional 3.5% are owned by the federal Crown. The remaining 16.5% of oil and gas mineral rights in Saskatchewan, like Alberta, are held "freehold" by individuals.

Oil and gas owned by the Province of Alberta and the Province of Saskatchewan is produced under provincial Crown petroleum and natural gas leases made under the *Mines and Minerals Act*, in Alberta, and the *Crown Minerals Act*, in Saskatchewan. Crown petroleum and natural gas leases are issued for an initial 5-year term, which can be continued as to all or any portion as the responsible Minister of the respective province may determine. The regulations require that exploration or development activity be undertaken according to prescribed levels of evaluation or production. A Crown lease may generally be continued after the initial term as to all or any portion as the responsible Minister of the respective province may determine, provided certain minimum levels of exploration or production have been achieved and all lease rentals have been timely paid. The surface rights required for wells, pipelines and cogeneration and facilities are generally governed by leases, easements, rights-of-way, permits or licenses granted by landowners or governmental authorities.

Royalties and Incentives

Overview

For crude oil, natural gas and related production, the royalty regime is a significant factor in the profitability of production operations. Royalties payable on production from lands other than Crown lands are determined by negotiations between the mineral owner and the lessee, although production from such lands is subject to certain provincial taxes and royalties. Crown royalties are determined by governmental regulation and are generally calculated as a percentage of the value of the gross production. The rate of royalties payable generally depends in part on well productivity, geographical location and field discovery date and commodity prices.

The current oil and gas royalty framework establishes royalties for conventional oil, natural gas, and bitumen that are linked to price and production levels and applies to both new and existing conventional oil and natural gas activities and oil sands projects.

Alberta

Under the Alberta royalty regime, the calculation of conventional oil and natural gas royalties is made in accordance with sliding rate formulas, known as royalty curves, that adjust for market price and production volumes. Under the current framework, royalty rates for conventional oil range from 0 - 40% and natural gas royalty rates range from 5 - 36%.

On January 29, 2016, the Government of Alberta released the results of the Alberta Royalty Review Advisory Panel (the "**Panel**") and indicated that it will implement all of the Panel's recommendations. These recommendations include, among others, (1) adopting a single royalty framework for all hydrocarbons, which removes the current distinction between "oil" and "gas"; (2) replacing the multiple drilling incentive programs with a permanent royalty formula; and (3) applying the revised royalty framework to those wells drilled after January 1, 2017, with the current royalty framework continuing to apply to wells drilled prior to January 1, 2017 for a period of ten years.

Under the revised royalty framework, royalties on production will be determined on a "revenue-minus-costs" basis which uses a technical formula based on industry average drilling and completion costs (termed the Drilling and Completion Cost Allowance formula). Each well will be charged a flat royalty of 5% on the gross revenue from the well until the cumulative revenue from the well equals the drilling and completion costs, as determined by Drilling and Completion Cost Allowance formula. Afterwards, producers will pay an increased royalty ranging from 5 – 40% on all subsequent production, which will be determined based on commodity prices. Once production from the well drops below a certain rate (termed the Maturity Threshold), the royalty rate will be adjusted downward to reflect declining production rates.

At present, the Government of Alberta continues to work on further implementation details and additional strategic programs relating to the implementation of the Panel's recommendations.

From time to time, the Government of Alberta has established incentive programs for exploration and development. Such programs often provide for royalty reductions, credits and holidays, and are generally introduced when commodity prices are low. The programs are designed to encourage exploration and development activity by improving earnings and cash flow within the industry.

Saskatchewan

In Saskatchewan, taxes ("Resource Surcharge") and royalties are applicable to revenue generated by corporations focused on oil and natural gas operations.

A Resource Surcharge on the value of sales of oil, natural gas, potash, uranium and coal in Saskatchewan is levied under authority of The Corporation Capital Tax Act (Saskatchewan). For resource corporations, the Resource Surcharge rate is 3.0% of the value of sales of all potash, uranium and coal produced in Saskatchewan, and oil and natural gas produced from wells drilled in Saskatchewan prior to October 1, 2002. For oil and natural gas produced from wells drilled in Saskatchewan after September 30, 2002, the Resource Surcharge rate is 1.7% of the value of sales. The Resource Surcharge applies to resource trusts in addition to resource corporations. A Resource Surcharge rate of 1.7% to 3.0% is applicable to all oil and natural gas related sales that Petrocapita generates.

The amount payable as Crown royalty or freehold production tax in respect of oil depends on the type and vintage of oil, the quantity of oil produced in a month, the value of the oil produced and specified adjustment factors determined monthly by the provincial government. For Crown royalty and freehold production tax purposes, conventional oil is classified as heavy crude oil, southwest designated oil, or non-heavy crude oil other than southwest designated oil. The conventional royalty and production tax classifications (fourth tier oil, third tier oil, new oil and old oil) depend on the finished drilling date of a well and are applied to each of the 3 crude oil types slightly differently. Heavy crude oil is classified as third tier oil produced from a vertical well (having a finished drilling date on or after January 1, 1994 and before October 1, 2002 or incremental oil from new or expanded waterflood projects with a commencement date on or after January 1, 1994 and before October 1, 2002), fourth tier oil produced from a well (having a finished drilling date on or after October 1, 2002 or incremental oil from new or expanded waterflood projects with a commencement date on or after October 1, 2002) or new oil (not classified as either third tier oil or fourth tier oil). Southwest designated oil uses the same definition of fourth tier oil but third tier oil is defined as conventional oil produced from a vertical well having a finished drilling date on or after February 9, 1998 and before October 1, 2002 or incremental oil from new or expanded waterflood projects with a commencement date on or after February 9, 1998 and before October 1, 2002, and new oil is defined as conventional oil produced from a horizontal well having a finished drilling date on or after February 9, 1998 and before October 1, 2002. For non-heavy crude oil other than southwest designated oil, the same classification is used but new oil is defined as conventional oil produced from a vertical well completed after 1973 and having a finished drilling date prior to 1994, or conventional oil produced from a horizontal well having a finished drilling date on or after April 1, 1991 and before October 1, 2002, or incremental oil from new or expanded waterflood projects with a commencement date on or after January 1, 1974 and before 1994, whereas old oil is defined as conventional oil not classified as third or fourth tier oil or new oil. Production tax rates for freehold production are determined by first determining the Crown royalty rate and then subtracting the "Production Tax Factor" applicable to that classification of oil. Currently the "Production Tax Factor" is 6.9 for "old oil", 10 for "new oil" and "third tier oil" and 12.5 for "fourth tier oil". The minimum rate for freehold production tax is zero. The majority of Petrocapita's production is classified as "fourth tier oil".

Base prices are used to establish lower limits in the price-sensitive royalty structure for conventional oil. Where average wellhead prices are below the established base prices of \$100 per cubic metre for third and fourth tier oil and \$50 per cubic metre for new oil and old oil, base royalty rates are applied. Base royalty rates are 5% for all fourth tier oil, 10% for heavy crude oil that is third tier oil or new oil, 12.5% for southwest designated oil that is third tier oil or new oil, 15% for non-heavy crude oil other than southwest designated oil that is third tier or new oil, and 20% for old oil. Where average wellhead prices are above base prices, marginal royalty rates are applied to the proportion of production that is above the base oil price. Marginal royalty rates are 30% for all fourth tier oil, 25% for heavy crude oil that is third tier oil or new oil, 35% for southwest designated oil that is third tier oil or new oil, 35% for non-heavy crude oil other than southwest designated oil that is third tier or new oil, and 45% for old oil.

The amount payable as Crown royalty or freehold production tax in respect of natural gas production is determined by a sliding scale based on the actual price received, the quantity produced in a given month, the type of natural gas, and the vintage of the natural gas. Natural gas may be classified as non-associated natural gas or associated gas and royalty rates are determined according to the finished drilling date of the respective well. As an incentive for the production and marketing of natural gas which may have been flared, the royalty rate on natural gas produced in association with oil is less than on non-associated natural gas. Non-associated gas is classified as new gas (having a finished drilling date before February 9, 1998 with a first production date on or after October 1,

1976), third tier gas (having a finished drilling date on or after February 9, 1998 and before October 1, 2002), fourth tier gas (having a finished drilling date on or after October 1, 2002) and old gas (not classified as either third tier, fourth tier or new gas). A similar classification is used for associated natural gas except that the classification of old gas is not used, the definition of fourth tier gas also includes production from oil wells with a finished drilling date prior to October 1, 2002, where the individual oil well has a gas-oil production ratio in any month of more than 3,500 cubic metres of gas for every cubic metre of oil, and new gas is defined as gas produced from a well with a finished drilling date before February 9, 1998 that received special approval, prior to October 1, 2002, to produce oil and gas concurrently without gas-oil ratio penalties.

In December 2010, Saskatchewan enacted the *Freehold Oil and Gas Production Tax Act, 2010* (Saskatchewan) which replaced the existing *Freehold Oil and Gas Production Tax Act* (Saskatchewan) and is intended to facilitate more efficient payment of freehold production taxes by industry. Two new regulations with respect to this legislation are: (i) *The Freehold Oil and Gas Production Tax Regulations, 2012* (Saskatchewan) which sets out the terms and conditions under which the taxes are calculated and paid; and (ii) *The Recovered Crude Oil Tax Regulations, 2012* (Saskatchewan) which sets out the terms and conditions under which taxes on recovered crude oil that was delivered from a crude oil recovery facility on or after March 1, 2012 are to be calculated and paid.

As with conventional oil production, base prices are used to establish lower limits in the price-sensitive royalty structure for natural gas. Where average field-gate prices are below the established base prices of \$1.35/GJ for third and fourth tier gas and \$0.94/GJ for new gas and old gas, base royalty rates are applied. Base royalty rates are 5% for all fourth tier gas, 15% for third tier or new gas, and 20% for old gas. Where average wellhead prices are above base prices, marginal royalty rates are applied to the proportion of production that is above the base gas price. Marginal royalty rates are 30% for all fourth tier gas, 35% for third tier and new gas, and 45% for old gas.

The Saskatchewan government currently provides a number of targeted incentive programs. These include both royalty reduction and incentive volume programs, including the following:

- *Royalty/Tax Incentive Volumes for Vertical Oil Wells Drilled on or after October 1, 2002* providing reduced Crown royalty and freehold tax rates on incentive volumes of 8,000 cubic metres for deep development vertical oil wells, 4,000 cubic metres for non-deep exploratory vertical oil wells and 16,000 cubic metres for deep exploratory vertical oil wells (more than 1,700 metres or within certain formations) and after the incentive volume is produced, the oil produced will be subject to the fourth tier royalty tax rate;
- *Royalty/Tax Incentive Volumes for Exploratory Gas Wells Drilled on or after October 1, 2002* providing reduced Crown royalty and freehold tax rates on incentive volumes of 25,000,000 cubic metres for qualifying exploratory gas wells;
- *Royalty/Tax Incentive Volumes for Horizontal Oil Wells Drilled on or after October 1, 2002* providing reduced Crown royalty and freehold tax rates on incentive volumes of 6,000 cubic metres (approximately 37,740 bbls) for non-deep horizontal oil wells and 16,000 cubic metres (approximately 100,640 bbls) for deep horizontal oil wells (more than 1,700 metres or within certain formations) and after the incentive volume is produced, the oil produced will be subject to the fourth tier royalty tax rate; Petrocapita's Viking oil wells are considered non-deep horizontal oil wells under this incentive and are subject to a Crown royalty rate equal to the lesser of (a) the "fourth tier oil" Crown royalty rate and (b) 2.5% and a freehold production tax rate of 0% until 6,000 cubic metres (approximately 37,740 bbls) of oil have been produced;
- *Royalty/Tax Regime for Incremental Oil Produced from New or Expanded Waterflood Projects Implemented on or after October 1, 2002* treating incremental production from waterflood projects as fourth tier oil for the purposes of royalty calculation;
- *Royalty/Tax Regime Applicable to Enhanced Oil Recovery Projects (Excluding Waterflood Projects) Commencing Prior to April 1, 2005* providing Crown royalty and freehold tax determinations based in part on the profitability of enhanced recovery projects pre- and post-payout;
- *Royalty/Tax Regime Applicable to Enhanced Oil Recovery Projects (Excluding Waterflood Projects) Commencing On or After April 1, 2005* providing a Crown royalty of 1% of gross revenues on enhanced oil recovery projects pre-payout and 20% post-payout and a freehold production tax of 0% percent on operating income from enhanced oil recovery projects pre-payout and 8% post-payout;
- *Royalty/Tax Program for High Water-Cut Oil Wells* treating incremental oil resulting from qualified investments on eligible high water-cut oil wells as third tier oil for the purposes of royalty calculation; and
- *Royalty/Tax Incentive Volumes for Horizontal Gas Wells Drilled on or after June 1, 2010 and before April 1, 2013* providing reduced Crown royalty and freehold tax rates on incentive volumes of 25,000,000 cubic metres, by classifying horizontal gas wells as exploratory gas wells for the purposes of royalty calculation. After the incentive volume is produced, the oil produced will be subject to the fourth tier royalty tax rate.

Effective April 1, 2014, the Saskatchewan Ministry of the Economy streamlined fees related to licenses and applications in the oil and gas sector by eliminating 10 different licensing fees, which resulted in an aggregate of 20,000 fee transactions per year, and replacing them with a single annual levy based on a company's production and number of wells. While the fees have been streamlined, approvals to conduct the relevant activities are still required. These changes to the fee structure are part of ongoing work by the Saskatchewan government to streamline the licensing, regulation and monitoring processes in the oil and gas sector.

Production and Operation Regulation

The oil and gas industry in Alberta and Saskatchewan is highly regulated and subject to significant control by a provincial regulator in each province. Petrocapita must obtain regulatory approval for, among other things, the drilling of oil and natural gas wells, construction and operation of facilities, the storage, injection and disposal of substances and the abandonment and reclamation of well-sites. In order to conduct oil and natural gas operations and remain in good standing with the applicable provincial regulator, Petrocapita must comply with applicable legislation, regulations, orders, directives and other directions (all of which are subject to governmental oversight, review and revision, from time to time). Compliance with such legislation, regulations, orders, directives or other directions can be costly and a breach thereof may result in fines or other sanctions.

Environmental Regulation

Oil and gas activities are subject to provincial and federal environmental laws and regulations. Environmental laws and regulations require various approvals and provide for restrictions and prohibitions on releases or emissions of various substances produced or used in association with such projects. In addition, environmental laws and regulations require that wells, pipelines, facilities and other operating sites and roads be abandoned and reclaimed to the satisfaction of provincial or federal authorities (as the context requires). Compliance with such legislation can require significant expenditures. A breach of such legislation may, among other things, result in the imposition of material fines and penalties, the suspension or revocation of necessary licences and authorizations, and civil liability for pollution damage.

Water usage for oil and gas projects, including restrictions on amounts and type of water used, is regulated by the AER, in Alberta and the Water Security Agency, in Saskatchewan. In general, regulatory requirements maximize recycling of water and minimize use of fresh (non-brackish) water.

Petrocapita may be affected by regional plans created under the *Alberta Land Stewardship Act* (the "**ALSA**"), which came into effect on October 1, 2009 and is currently being implemented. A regional plan is a legislative instrument equivalent to regulations and is binding on the Government of Alberta and provincial regulators, including those governing the oil and gas industry. The Lower Athabasca Regional Plan ("**LARP**") was the first of an anticipated seven regional land-use plans in the province and applies to over two million hectares of land and, among other things, implements environmental management frameworks for air emissions, water use and land disturbance to control cumulative environmental effects of industrial development. The second regional plan to be implemented was the South Saskatchewan Regional Plan ("**SSRP**"), which came into force on September 1, 2014. The SSRP shares similarities with LARP, which is described below. The third regional plan to be implemented is the North Saskatchewan Regional Plan ("**NSRP**"). Phase one consultation for the NSRP is now complete and the NSRP Regional Advisory Council is preparing its recommendations to government.

On September 1, 2012, environmental management frameworks for air quality, surface water quality and groundwater came into force under LARP, subjecting future and existing operations in the region to more onerous environmental constraints and stringent operating parameters. As part of these frameworks, parties may be required to participate in regional monitoring and report on the progress of implementation. Further, conservation areas established under LARP may impact some oil and gas lease holders in the region, as there is the potential for specific oil and gas leases to be cancelled by the Government of Alberta. Should such a situation occur, the Government of Alberta would be responsible for compensation to the affected lease holders.

While the LARP or any other regional plans have not had a significant effect on Petrocapita, there can be no assurance that changes to the LARP or that future regional plans, laws or regulations will not adversely impact Petrocapita's ability to develop or operate its projects.

In Saskatchewan, on April 1, 2012, a bill enacting changes to *The Oil and Gas Conservation Act* (Saskatchewan) was proclaimed into force in conjunction with the release of *The Oil and Gas Conservation Regulations, 2012* (Saskatchewan) (the "**OGC Regulations**") and *The Petroleum Registry and Electronic Documents Regulations* (the "**Registry Regulations**"). The expressed aim of the amendments to the *The Oil and Gas Conservation Act* (Saskatchewan) and associated regulations was to provide resource companies investing in Saskatchewan's energy and resource industries with the best support services and business and regulatory systems available. With the enactment of the Registry Regulations and the OGC Regulations, Saskatchewan implemented a number of operational aspects, including the increased demand for record-keeping, increased testing requirements for injection wells and increased investigation and enforcement powers; and, procedural aspects including those related to Saskatchewan's participation as partner in the Petroleum Registry of Alberta.

Petrocapita currently operates or leases, and have in the past operated or leased, a number of properties that have been used for the exploration and production of oil and gas. Although Petrocapita utilizes and have utilized standard industry operating and disposal practices, hydrocarbons or other wastes may have been disposed of or released on or under the properties operated or leased by us or on or under other locations where such wastes have been taken for disposal. In addition, many of these properties have been operated by third parties whose treatment and disposal or release of hydrocarbons or other wastes was not under Petrocapita's control. These properties and the wastes disposed thereon may be subject to laws and regulations imposing joint and several or strict liability without regard to fault or the legality of the original conduct that could require us to remove previously disposed of wastes or remediate property contamination, or to perform well plugging or pit closure or other actions of a remedial nature to prevent future contamination.

The operations of Petrocapita are, and will continue to be, affected in varying degrees by laws and regulations regarding environmental protection. It is impossible to predict the full impact of these laws and regulations on Petrocapita's operations. However, it is not anticipated that Petrocapita's competitive position will be adversely affected by current or future environmental laws and regulations governing its current oil and gas operations. Petrocapita is committed to meeting its responsibilities to protect the environment wherever it operates and anticipates making increased expenditures of both a capital and expense nature as a result of increasingly stringent laws relating to environmental protection. Petrocapita also believes that it is likely that the trend in environmental legislation and regulation will continue toward stricter standards.

Greenhouse Gases and Industrial Air Pollutants

Climate Change Regulation

Internationally, Canada is a signatory to the United Nations Framework Convention on Climate Change ("**UNFCCC**") and previously ratified the Kyoto Protocol established thereunder, which set legally binding targets to reduce nation-wide emissions of carbon dioxide, methane, nitrous oxide and other greenhouse gases ("**GHG**") The first commitment period under the Kyoto Protocol was the five year period from 2008-2012. The Canadian federal government withdrew from the Kyoto Protocol in December, 2011. Earlier, in 2009, UNFCCC representatives met in Copenhagen, Denmark, where they reached an agreement known as the Copenhagen Accord, a successor to the Kyoto Protocol. The Copenhagen Accord represents a broad political consensus and reinforces commitments to reducing GHG emissions but is not a binding international treaty. On May 15, 2015, the federal government announced its intent to reduce GHG emissions by 30% below Canada's 2005 levels by 2030.

In December, 2011, the UNFCCC established the Ad Hoc Working Group on the Durban Platform for Enhanced Action ("**Durban Platform**"). The Durban Platform outlines the process for negotiating a new climate change treaty among UNFCCC countries that would include binding commitments. UNFCCC members went on to meet in Paris, France in December, 2015. Canada and several other parties signed the new climate agreement (the "**Paris Agreement**") Under the Paris Agreement, Canada is required to report and monitor its GHG emissions. Signatory countries agreed to meet every five years to review their individual progress on GHG emissions reductions and consider amendments to their targets. Generally, the Paris Agreement includes the goal of holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels. However, individual country targets designed to reach these levels are not legally binding. The Paris Agreement entered into force November 4, 2016. The Government of Canada ratified the Paris Agreement on October 5, 2016.

In March 2016, the Prime Minister met with the First Ministers of the provincial and territorial governments to discuss a national climate change plan. On March 3, 2016, they issued the Vancouver Declaration on Clean Growth and Climate Change, which outlines a pan-Canadian framework on clean growth and climate change. On December 9, 2016, the First Ministers released the Pan-Canadian Framework on Clean Growth and Climate Change, building on the Vancouver Declaration on Clean Growth and Climate Change, which requires provinces implement carbon pricing by 2018. The Government of Saskatchewan has announced that it will not adopt this most recent framework. In addition, on February 12, 2016, at the North American Energy Ministers' meeting, energy leaders from Canada, Mexico and the United States signed a memorandum of understanding on climate change and energy collaboration.

Government of Canada Regulations

In December 2014, the federal government published Canada's Action on Climate Change declaring its intention to take action on climate change by reducing GHG emissions through a sector-by-sector regulatory approach. So far, Canada has implemented GHG reducing regulations for renewable fuels, transportation, and coal-fired electricity.

In 2009, the Government of Canada announced its commitment to work with provincial governments to implement a North America-wide cap-and-trade system for GHG emissions, in cooperation with the United States, under which Canada would have its own cap-and-trade market for Canadian-specific industrial sectors that could be integrated into a North American market for carbon permits. In September 2016, the Government of Canada announced that it will impose a carbon price on provinces that do not adequately regulate carbon emissions by themselves. Further, the Government of Canada has proposed equivalency agreements with the provinces to establish a consistent regulatory regime for GHGs, but the success of any such plan is uncertain, and may possibly lead to overlapping levels of regulation. It is uncertain whether or when either Canadian federal GHG regulations for the oil and gas industry or an integrated North American cap-and-trade system will be implemented, or what obligations might be imposed under any such systems. As the details of the implementation of any federal legislation for GHGs that is applicable to the oil and gas industry have not been announced, the effect on Petrocapita's operations cannot be determined at this time.

Government of Alberta Regulations

Alberta introduced the *Climate Change and Emissions Management Act*, which provides a framework for managing GHG emissions by reducing specified gas emissions relative to gross domestic product, to an amount that is equal to or less than 50% of 1990 levels by December 31, 2020. The accompanying regulations include the *Specified Gas Emitters Regulation* (the "**SGER**"), which imposes GHG emissions limits, and the *Specified Gas Reporting Regulation* (the "**SGRR**"), which imposes GHG emissions reporting requirements.

The SGER, which was recently amended, applies to facilities in Alberta that have produced 100,000 or more tonnes of GHG emissions in 2003 or any subsequent year, and requires reductions in GHG emissions intensity (i.e. the quantity of GHG emissions per unit of production) from emissions intensity baselines that are established in accordance with the SGER. The SGER distinguishes between "established" facilities which have completed their first year of commercial operation before January 1, 2000 or have completed eight years of commercial operation, and "new" facilities which have completed their first year of commercial operation on December 31, 2000 or a subsequent year and have completed less than eight years of commercial operation.

On June 25, 2015, amendments to the SGER increased the maximum emission intensity reduction requirement for established facilities from 12% to 15% as of January 1, 2016 and to 20% as of January 1, 2017. Generally, the baseline for an established facility reflects the average of emissions intensity in 2003, 2004, and 2005.

For a new facility, the baseline emissions intensity is generally calculated based on a "rolling three-year baseline", which starts in the facility's third year of commercial operation. For a new facility, the required reduction from its baseline is phased in by annual increments beginning in the fourth year of commercial operation until the maximum emission intensity reduction requirement is reached, and once reached, such reduction must be maintained over time. For 2016, new facilities are required to reduce their emissions intensity (from baseline) by 3% in the fourth year, 5% in the fifth year, 8% in the sixth year, 10% in the seventh year, 13% in the eighth year and 15% in the ninth year. For 2017, new facilities are required to reduce their emissions intensity (from baseline) by 3% in the fourth year, 7% in the fifth year, 10% in the sixth year, 13% in the seventh year and 17% in the eighth year and 20% in the ninth year.

There are three methods for operators of facilities that are subject to the SGER to comply with the annual emission intensity reduction requirements: (1) improve emissions intensity at the facility; (2) purchase emission performance or emission offset credits in the open market, which are generated from Alberta based projects; and/or (3) purchase "fund credits" by contributing to the Alberta Climate Change and Emissions Management Fund (the "**Fund**") run by the Government of Alberta. Historically the contribution costs to the Fund have been set at \$15 per tonne, however this is subject to change by Ministerial order. On June 30, 2015, the Government of Alberta increased the contribution costs to the Fund from \$15 per tonne to \$20 per tonne in 2016 and to \$30 per tonne in 2017. Compliance reports for facilities subject to the SGER are due to AEP on March 31 annually.

The SGRR imposes GHG emissions reporting requirements on facilities that have GHG emissions of 50,000 tonnes or more in a year. In addition, Alberta facilities must currently report emissions of industrial air pollutants and comply with obligations imposed in permits and under other environmental regulations.

On November 22, 2015, the Government of Alberta announced its Climate Leadership Plan ("**Plan**") and released to the public the Climate Leadership Report to the Minister of Environment and Parks ("**Report**"). The Plan highlights four key strategies that the Government of Alberta will implement to address climate change: (1) the complete phase-out of coal-fired sources of electricity by 2030 and replacing two-thirds of that production with renewable energy; (2) an Alberta economy-wide carbon price on GHG emissions of \$30 per tonne (\$20 per tonne in 2017 and \$30 per tonne in 2018); (3) a cap on oil sands emissions to a province-wide total of 100 megatonnes per year; and (4) reduce methane emissions from oil and gas activities by 45% by 2025. Full details regarding how the Plan will be implemented have not been released yet. The Report proposes a Carbon Competitiveness Regulation to replace the SGER. This proposed regulation would include elements of a carbon tax regime

Saskatchewan

On June 22, 2011, the Saskatchewan government released the Upstream Petroleum Industry Associated Gas Conservation Standards, which aim to reduce emissions resulting from the flaring and venting of associated gas. These standards were jointly developed with industry, and their implementation commenced on July 1, 2012 for new wells and facilities. The standards apply to all existing licensed wells and facilities as of July 1, 2015.

The Management and Reduction of Greenhouse Gases Act (Saskatchewan) received Royal Assent in the Province of Saskatchewan on May 20, 2010 but still awaits proclamation. The new legislation would establish a provincial plan for reducing GHG emissions to meet provincial targets and promote investments in low-carbon technologies. The Province has indicated that it intends to enter into an equivalency agreement with the federal government to achieve equivalent environmental outcomes under provincial regulation. A draft of the proposed regulations to accompany the Act would require emissions to be reduced to 20% below 2006 levels by 2020. The Act was amended April 2013 to include a citizen's right to request an investigation for an infraction under the act as per the requirement under *Canadian Environment Protection Act* in order to obtain an equivalency agreement with the federal government. No regulations have been passed at this point. The Saskatchewan government announced in November 2014 the adoption of a new environmental code introducing a new results-based system although regulation of GHG emissions is not included in this first edition of the code.

Implications of Climate Change Regulations

The direct and indirect costs of the various GHG regulations, existing and proposed, may adversely affect Petrocapita's business, operations and financial results. Equipment that meets future emission standards may not be available on an economic basis and other compliance methods to reduce Petrocapita's emissions or emissions intensity to future required levels may significantly increase operating costs or reduce the output of the projects. Offset, performance or fund credits may not be available for acquisition or may not be available on an economic basis. Any failure to meet emission reduction compliance obligations may materially adversely affect

Petrocapita's business and result in fines, penalties and the suspension of operations. There is also a risk that one or more levels of government could impose additional emissions or emissions intensity reduction requirements or taxes on emissions created by Petrocapita. The imposition of such measures might negatively affect Petrocapita's costs and prices and have an adverse effect on earnings and results of operations.

Future federal legislation, including the implementation of potential international requirements enacted under Canadian law, as well as provincial emissions reduction requirements, may require the reduction of GHG or other industrial air emissions, or emissions intensity, from Petrocapita's operations and facilities. Mandatory emissions reduction requirements may result in increased operating costs and capital expenditures for oil and natural gas producers. Petrocapita is unable to predict the impact of emissions reduction legislation and it is possible that such legislation may have a material adverse effect on its business, financial condition, results of operations and cash flows.

Petrocapita believes that it is in material compliance with applicable environmental legislation and is committed to continued compliance. Petrocapita believes that it is reasonably likely that a trend towards stricter standards in environmental legislation will continue, and anticipates making increased expenditures of both a capital and an expense nature as a result of increasingly stringent environmental laws.

The Future of GHG Emission Regulations

There will likely be some financial impact of GHG emission regulation on most oil and gas industry participants and their projects, possibly including Petrocapita and its projects, however the full extent of that impact is not yet known. There is uncertainty regarding the ultimate GHG emission regulatory regime that will be applicable to Petrocapita due to, among other things, the potential for the harmonization of GHG emission regulatory regimes in Canada and the United States. In addition, there is no assurance that any new regulations implemented by the Government of Canada relating to the reduction of GHG emissions will be harmonized with the Government of Alberta's and the Government of Saskatchewan's GHG emissions reduction regulations. In such case, the costs of meeting new federal government requirements could be considerably higher than the costs of meeting each province's current or future requirements.

ITEM 9 - RISK FACTORS

The Offering should be considered highly speculative due to the nature of Petrocapita's business. An investment in Preferred Units should only be made after consultation with independent qualified sources of investment, tax and legal advice. The directors, officers, trustees, employees and consultants of the Administrator and the Trust do not provide investment or tax advice. There is no established market for the Preferred Units and none is expected to develop. Therefore, it may be difficult or impossible for a Subscriber to sell such securities. The subscription price per Preferred Unit (\$1.00) was determined arbitrarily by the Trust.

An investment in the Trust is speculative and involves a high degree of risk. There is a risk that an investment in the Trust will be lost entirely or in part. Only investors who do not require immediate liquidity of their investment and who can afford the loss of their entire investment should consider the purchase of Preferred Units.

The following is a summary of certain risk factors pertaining to Petrocapita, but does not purport to be a complete summary of all the risks associated with an investment in securities of the Trust or the Corporation. The business, operations, financial condition, revenues and profitability of Petrocapita could be materially adversely affected by any of these risks.

Risks Related to an Investment in Preferred Units

There is no guaranteed return or distributions.

The recovery of your initial investment is at risk, and the anticipated return on your investment is based on many performance assumptions. There is no guarantee that an investment in Preferred Units will earn any positive return in the short or long-term. While the Trust intends to make distributions to the Preferred Unitholders out of Distributable Cash, no assurance can be given that such distributions, if made, will continue or that they won't be reduced or eliminated. A return on, or of, investment in Preferred Units is dependent upon the success of the Corporation, the Processing LP and the O&G LP, in generating sufficient earnings on their assets in order for the Trust to service its obligations to its securityholders. As a result, there is no assurance or guarantee that the Trust and, correspondingly, the purchasers of Preferred Units pursuant to the Offering will earn a return on, or of, their investment.

There is no prior public market for the Preferred Units.

No public market currently exists for the Preferred Units. If an active public market does not develop or is not maintained, investors may have difficulty selling their Preferred Units.

The price of the Preferred Units may be volatile.

The market price for the Preferred Units may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond Petrocapita's control, including the following:

- actual or anticipated fluctuations in Petrocapita's results of operations;

- recommendations by securities research analysts;
- changes in the economic performance or market valuations of other companies or business entities that investors deem comparable to Petrocapita;
- the loss of executive officers and other key personnel of Petrocapita;
- sales or perceived sales of additional Preferred Units;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving Petrocapita or its competitors; and
- trends, concerns, technological or competitive developments, regulatory changes and other related issues in Petrocapita's business segments or target markets.

Financial markets have experienced significant price and volume fluctuations in the last several years that have particularly affected the market prices of equity securities of companies and that have, in many cases, been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the value or price of the Preferred Units may decline even if Petrocapita's operating results, underlying asset values or prospects have not changed. These factors, as well as other related factors, may cause decreases in asset values which may result in impairment losses.

Further sales of Preferred Units may dilute a Unitholder's position in Petrocapita.

Petrocapita may make future acquisitions or enter into financings or other transactions involving the issuance of securities of the Trust or its subsidiaries (including the O&G LP, the Processing LP and the Corporation). Such actions may dilute a Unitholder's position in the Trust specifically or in Petrocapita generally.

Nature of the Preferred Units.

The Preferred Units of the Trust do not represent a direct ownership interest in the assets of the Trust but rather a fractional beneficial interest in the Trust. The Preferred Units of the Trust should not be viewed by investors as shares or partnership units. Corporate law does not govern the Trust or the rights of Unitholders. As Preferred Unitholders, such holders will not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions. Further, in the event of insolvency or restructuring under the *Bankruptcy and Insolvency Act* (Canada) or the *Companies Creditors Arrangement Act* (Canada) a Unitholders' position may be quite different than that of a shareholder of a corporation.

The Preferred Units do not have voting rights.

The Preferred Units of the Trust are non-voting except in certain limited circumstances as set forth in the Declaration of Trust, which includes where there is a proposal to amend the rights, privileges, restrictions and conditions attaching to the Preferred Units of the Trust. Accordingly, Unitholders will have no ability to affect the governance or management of the Trust.

Unitholder liability.

The Declaration of Trust provides that no Unitholder will be subject to any liability in connection with the Trust or its assets or obligations and that, in the event that a Unitholder becomes subject to any such liabilities, the Unitholder shall be entitled to indemnity and reimbursement out of the trust property to the full extent of such liability. The Declaration of Trust further provides that the Trustees and the Administrator shall make all reasonable efforts to include as a specific term of any obligations or liabilities being incurred by the Trust, or the Trustees on behalf of the Trust, a contractual provision to the effect that neither the Unitholders nor the Trustees have any personal liability or obligations in respect of the obligations and liabilities of the Trust. The Trustees have waived any right at law to indemnification from any Unitholder. Notwithstanding the foregoing, there remains some risk that a Unitholder may be personally liable in respect of certain liabilities and obligations of the Trust.

Tax risks.

No assurance can be given that changes in the Income Tax Act, or changes in the administrative policies and assessing practices of the Canada Revenue Agency, or future court decisions, or the implementation of new taxes will not adversely affect the Trust or fundamentally alter the income tax consequences to Unitholders with respect to acquiring, holding or disposing of Preferred Units. Legal, tax or administrative changes that occur during the life of the Trust, could have an adverse effect on the Trust, the Unitholders or both. Investors are strongly encouraged to consult their tax advisors as to the tax consequences of acquiring, holding and disposing of Units purchased pursuant to the Offering. There can be no assurance that cash distributions, if any, made by the Trust will be sufficient to satisfy a Unitholder's tax liability for a year arising from its status as a Unitholder of the Trust. Exempt Plans that hold trust property or other securities distributed by the Trust may have adverse tax consequences under the Income Tax Act.

See Item 6 - *Certain Income Tax Considerations and Exempt Plan Eligibility.*

Pro Forma Financial Information

In preparing the unaudited pro forma consolidated financial statements of the Corporation appearing elsewhere in this Offering Memorandum, Petrocapita has given effect to certain transactions, as described in the notes to such financial statements. While management believes that the estimates and assumptions underlying the pro forma consolidated financial statements are reasonable, such assumptions and estimates may be materially different than the Corporation's actual results and experience in the future.

Petrocapita's forward-looking statements may be inaccurate, actual results may vary significantly from the historical and forecasted, and those variations may be material.

This Offering Memorandum contains forward-looking statements. By its nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward-looking statements or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate. As a result, there can be no assurance that the assumptions reflected in such estimates will prove to be accurate. Actual results of Petrocapita in the future may vary significantly from the historical and forecasted, if any, results and those variations may be material. There is no representation by Petrocapita that actual results achieved by it in the future will be the same, in whole or in part, as those included in this prospectus.

The factors discussed in this section entitled "Risk Factors" and in the section above entitled "Forward-Looking Statements" must be weighed carefully, and prospective investors must not place undue reliance on the forward-looking statements contained in this Offering Memorandum.

Risks Related to Petrocapita's Production, Development and Exploration Operations

Oil and natural gas prices are volatile. A substantial or extended decline in energy commodity prices may adversely affect Petrocapita's business, financial condition, results of operations, cash flows and future prospects and Petrocapita's ability to meet its capital expenditure obligations and financial commitments.

Petrocapita's results of operations, financial condition and the value of its reserves depend, in part, on the marketability and price of crude oil and natural gas, as applicable. Oil and gas prices are determined by a wide range of political and economic factors external to Petrocapita and beyond its control. These factors include economic conditions in the U.S., Canada and worldwide, the actions of OPEC, governmental regulation, political stability in the Middle East and elsewhere, weather conditions, including weather-related disruptions to the North American natural gas supply, the foreign supply of crude oil and natural gas, risks of supply disruption, the price of foreign imports and the availability of alternative fuel sources. Any substantial and extended decline in oil and gas prices would have an adverse effect on Petrocapita's carrying value of its reserves, borrowing capacity, revenues, profitability and cash flows from operations and may have a material adverse effect on Petrocapita's business, financial condition, results of operations, cash flows and future prospects. Lower commodity prices may render Petrocapita's development plans uneconomic.

Petroleum prices are expected to remain volatile in the near future as a result of market uncertainties regarding the supply and demand of these commodities that are caused by the current state of world economies, OPEC actions, increasing North American supplies, sanctions imposed on certain oil producing nations by other countries, ongoing credit and liquidity concerns and Middle East political concerns. Volatile oil and gas prices make it difficult to estimate the value of producing properties for acquisition and often cause disruption in the market for oil and natural gas producing properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for and project the return on acquisition and development and exploitation projects.

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas, and technological advances in fuel economy and energy generation devices could reduce the demand for oil and other liquid hydrocarbons. Petrocapita cannot predict the impact of changing demand for oil and natural gas products, and any major changes may have a material adverse effect on its business, financial condition, results of operations, cash flows and future prospects.

Petrocapita's operating cash flow will be directly affected by the applicable royalty regime.

Alberta and Saskatchewan receive royalties on the production of natural resources from lands in which it owns the mineral rights that are linked to price and production levels and that apply to both new and existing oil and natural gas projects. For further details, see Item 8 - *Industry Conditions – Royalties and Incentives* above. There can be no assurance that the provincial governments of Alberta or Saskatchewan or the federal government of Canada will not adopt new royalty regimes that may render Petrocapita's projects uneconomic or that will otherwise adversely affect Petrocapita's business, financial condition, results of operations, cash flows and future prospects. An increase in royalties would reduce Petrocapita's earnings and could make future capital investments or Petrocapita's operations uneconomic. It could also become more difficult to service and repay Petrocapita's debt. Any material increase in royalties would also significantly reduce the value of Petrocapita's assets.

Petrocapita is subject to significant and complex local, provincial, federal and other laws and regulations that could adversely affect the cost, manner or feasibility of conducting its operations or expose Petrocapita to significant liabilities.

Oil and natural gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government that may be amended from time to time. Failure to comply with such laws and

regulations, including any evolving interpretation and enforcement by governmental authorities, could have a material adverse effect on Petrocapita's business, financial condition, results of operations, cash flows and future prospects.

Petrocapita's operations may require licences, approvals, permits and other authorizations from various governmental authorities. Obtaining authorizations and complying with regulations and controls can be costly and cause delays in development and operations. The cost and timing of obtaining such authorizations and complying with regulations, including environmental regulations, could make certain projects, or parts of those projects, uneconomic and could delay development plans and operational timelines established by Petrocapita.

There can be no assurance that Petrocapita will be able to obtain all authorizations that are required to carry out exploration and development of its projects. Any delays or failures to obtain required governmental authorizations could have a material adverse effect on the business, financial condition, results of operations, cash flows and future prospects of Petrocapita.

In addition to regulatory requirements pertaining to the production, marketing and sale of oil and natural gas mentioned above, Petrocapita's business and financial condition could be influenced by federal legislation affecting, in particular, foreign investment, through legislation such as the *Competition Act* (Canada) and the *Investment Canada Act* (Canada). For further discussion of regulations governing the oil and gas industry in the areas in which Petrocapita operates, see Item 8 - *Industry Conditions*.

There can be no assurance that legislation that directly or indirectly regulates or affects the oil and gas industry will not be changed in a manner that will adversely affect Petrocapita. Such changes could occur locally, provincially, nationally or internationally in a wide variety of fields, including areas as diverse as derivatives trading, rail transportation, environmental and tax regulation.

Changes in the ratio of Petrocapita's deemed assets to deemed liabilities or changes to the requirements of any liability management program that Petrocapita must comply with may result in significant increases to the security deposit that Petrocapita must post.

Alberta and Saskatchewan have developed a licensee liability rating program (the "**LLR Program**"), which is designed to prevent taxpayers from incurring costs associated with suspension, abandonment, remediation and reclamation of wells, facilities and pipelines in the event that a licensee or permit holder becomes unable to pay such costs. This program involves an assessment of the ratio of a licensee's deemed assets to deemed liabilities. If a licensee's deemed liabilities exceed its deemed assets, a security deposit is required. Although Petrocapita is not presently required to post security under either Alberta or Saskatchewan's LLR Program, changes in the ratio of Petrocapita's deemed assets to deemed liabilities or changes to the requirements of the liability management program may result in significant increases to the security that must be posted. There can be no assurance that the Trust will have access to necessary funds in the event that an increased security deposit is required to be posted. See Item 8 – *Industry Conditions*.

Petrocapita's abandonment and reclamation costs depend on future regulatory requirements.

Petrocapita will need to comply with the terms and conditions of environmental and regulatory approvals and all legislation regarding the abandonment of its projects and reclamation of the project lands at the end of their economic life, which may result in substantial abandonment and reclamation costs. Any failure to comply with the terms and conditions of Petrocapita's approvals and legislation may result in the imposition of fines and penalties, which may be material. Generally, abandonment and reclamation costs are substantial and, while Petrocapita accrues a reserve in its financial statements for such costs in accordance with IFRS, no assurance can be given that such accruals will be sufficient.

It is not possible at this time to estimate abandonment and reclamation costs reliably since they will, in part, depend on future regulatory requirements. In addition, in the future, Petrocapita may determine it prudent, or be required by applicable laws, regulations or regulatory approvals, to establish and fund one or more reclamation funds to provide for payment of future abandonment and reclamation costs. If Petrocapita establishes a reclamation fund, its liquidity and cash flow may be adversely affected.

Capital expenditure requirements for replacing or maintaining capital assets are substantial, and will reduce and may exhaust funds otherwise available for potential distribution to Unitholders.

Like other oil and gas producers, Petrocapita faces substantial capital expenditures to maintain and replace capital assets, which must be funded either from cash flows, proceeds from asset sales or new equity or debt capital. Insofar as capital expenditures are funded from cash flows, the amount of funds available for distribution to Unitholders is necessarily reduced, and that reduction may adversely affect the market value of Common Units. Funding of capital expenditures through increased borrowings will also reduce cash available for distribution as a result of increased debt service costs and repayment requirements, and the dilutive effect of new unit issuances will reduce Distributable Cash on a per unit basis to the extent capital expenditures are funded through new equity capital. Distributable Cash may be eliminated entirely during times of substantial capital or other expenditures (including acquisitions).

Petrocapita's current operating budget contemplates capital expenditures to maintain, replace, improve the marketability of and extend the useful life of its assets of approximately \$3.0 million in 2017, of which approximately \$1.8 million was expended in the three months ended March 31, 2017. Similar annual capital expenditure levels are expected in order to sustain current production levels at projected prices. Based on current and projected operating costs and commodity prices Petrocapita anticipates being able to fund such expenditures through cash flow from operations, but improvements in the price obtained for its product will be necessary for material business expansion or cash distributions.

The exploration, development and production of oil and natural gas are high-risk activities with many uncertainties that could adversely affect Petrocapita's business, financial condition, results of operations, cash flows and future prospects.

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of Petrocapita depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, Petrocapita's aggregate reserves and the production therefrom will decline over time as such existing reserves are exploited. Future increases in Petrocapita's reserves will depend not only on its ability to explore and develop its properties, but also on its ability to select and acquire suitable producing properties or prospects. Petrocapita may not be able to continue to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, management may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. Further commercial quantities of oil and natural gas may not be discovered or acquired by Petrocapita.

Future oil and natural gas exploration and development may involve unprofitable efforts, not only from dry holes, but also from wells that are productive but do not produce sufficient petroleum substances to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from completed wells. These conditions include delays in obtaining governmental approvals or consents, shut-in of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions will eventually occur and can be expected to adversely affect revenue and cash flow levels to varying degrees. New wells drilled may not become productive and Petrocapita may not recover all or any portion of its investment in wells drilled. The cost of drilling, completing and operating a well is often uncertain, and cost factors can adversely affect the economics of a project. If operating costs increase or Petrocapita does not achieve its expected revenues, Petrocapita's earnings and cash flow will be reduced and its business, financial condition, results of operations, cash flows and future prospects may be materially adversely affected.

Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including, but not limited to, fire, explosion, blowouts, cratering, sour gas releases, and spills or other environmental hazards. These typical risks and hazards could result in substantial damage or injury to oil and natural gas wells, production facilities, other property, the environment and people.

Petrocapita may explore for and produce sour natural gas in certain areas. An unintentional leak of sour natural gas could result in personal injury, loss of life or damage to property and may necessitate an evacuation of populated areas, all of which could result in liability to Petrocapita.

Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations. Losses resulting from the occurrence of any of these risks may have a material adverse effect on Petrocapita's business, financial condition, results of operations, cash flows and future prospects.

Petrocapita's operations involve using some of the latest available vertical, slant, deviated, or horizontal drilling and completion techniques, which involve risks and uncertainties in their application.

Petrocapita's operations involve utilizing some of the latest drilling and completion techniques as developed by Petrocapita and its service providers. Risks that Petrocapita faces while drilling include, but are not limited to, the following:

- landing the wellbore in the desired drilling zone;
- loss of circulation in or at the base of the Mannville horizon;
- communication with other wellbores adjacent to the drilling wellbore;
- adequate cementing and sealing of zones above or below the prospective zone;
- staying in the desired drilling zone while drilling horizontally through the formation;
- running the casing the entire length of the wellbore; and
- being able to run tools and other equipment consistently through the horizontal wellbore.

Risks that Petrocapita faces while completing its wells include, but are not limited to, the following:

- adequate penetration of casing and cement by perforation at the prospective horizon;
- salt water flows from zones outside of the prospective zone;
- sand production from prospective zone;

- sufficient heavy oil flow to lift sand;
- bottom hole pump failure;
- ability to stimulate the zones of interest;
- the ability to run tools the entire length of the wellbore during completion operations; and
- the ability to successfully clean out the wellbore after completion.

If Petrocapita's drilling results are less than anticipated, the return on its investment for a particular project may not be as attractive as it anticipated, and it could incur material write-downs of unevaluated properties. Additionally, the value of Petrocapita's undeveloped acreage could decline in the future.

The substantial majority of Petrocapita's total reserves are non-producing and/or undeveloped, and may not ultimately be developed or produced.

The substantial majority of Petrocapita's total reserves are non-producing and/or undeveloped. These reserves may not ultimately be developed or produced, either because it may not be commercially viable to do so or for other reasons. Furthermore, not all of Petrocapita's undeveloped or developed non-producing reserves may be ultimately produced at the time periods Petrocapita has planned, at the costs it budgeted or at all.

Petrocapita's identified drilling locations are scheduled out over three years in the Chapman Reserve Report, making them susceptible to uncertainties that could materially alter the occurrence or timing of their drilling.

Petrocapita's proved and probable undeveloped reserves are attributed by Chapman Petroleum Engineering Ltd. in accordance with standards and procedures contained in the COGE Handbook. During the evaluation, Petrocapita presents its development plans to Chapman Petroleum Engineering Ltd. who, in turn, assess the merit of assigning reserves to the identified technical opportunities. Currently, Petrocapita plans to develop the majority of its proved and probable undeveloped reserves over the next several years. However, if the economic climate is not conducive to developing these reserves within this time period, Petrocapita may, in its discretion, defer the development into the future. There are a number of factors that could result in delays or the cancellation of development plans. These factors could include, but are not limited to, adverse changes in economic and technical conditions, surface access issues and the availability of services. Because of these uncertain factors, Petrocapita does not know if the potential drilling locations it has identified will ever be drilled or if it will be able to produce natural gas or oil from these or any other potential drilling locations. Any delays or cancellations in Petrocapita's development plans could reduce Petrocapita's earnings and cash flow and its business and financial condition may be materially adversely affected.

There are numerous uncertainties inherent in estimating quantities of recoverable oil reserves, including many factors beyond Petrocapita's control.

Estimates of economically recoverable petroleum and natural gas reserves and the related future net revenues are based upon a number of variables 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 from actual results. All such estimates are based on professional judgment and classifications of reserves, which, by their nature, have a high degree of subjectivity. For those reasons, estimates of the economically recoverable petroleum and natural gas reserves attributable to any particular group of properties, classification of such reserves based on the 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.

The reserves and recovery information contained in the Chapman Reserve Report are only estimates and the actual production and ultimate reserves from the properties may be greater or less than the estimates prepared by Chapman Petroleum Engineering Ltd. Such variations could be material. The Chapman Reserve Report has been prepared using certain commodity price assumptions, which are described above in Item 2.2.3 – *Selected Oil and Gas Information – Pricing Assumptions – Forecast Prices and Costs*. If Petrocapita realizes lower prices for oil, natural gas liquids and natural gas and if such realized prices are substituted for the price assumptions utilized in the Chapman Reserve Report, the present value of estimated future net revenues for Petrocapita's reserves and net asset value would be reduced and the reduction could be significant. The estimates in the Chapman Reserve Report are based in part on the timing and success of activities Petrocapita intends to undertake in future years. The reserves and the related estimated cash flows contained in the Chapman Reserve Report will be reduced, in future years, to the extent that such activities do not achieve the level of success assumed in the reports.

Estimates of proved undeveloped reserves are sometimes based upon volumetric calculations and by analogy to similar types of reserves rather than actual production history. Recovery factors and drainage areas are estimated by experience and analogy to similar producing pools. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history and production practices will result in variations in the estimated reserves and such variations could be material.

Petrocapita relies on third parties to operate certain of its productive oil and natural gas assets and have limited control over the timing of development, associated costs, or the rate of production on such non-operated acreage.

While Petrocapita operates nearly all of its production base, other companies operate the remainder of the productive oil and natural gas assets in which Petrocapita has an interest. Petrocapita has limited ability to exercise influence over the operation of those assets or their associated costs, which could adversely affect Petrocapita's financial performance. Petrocapita's return on assets operated by others depends upon a number of factors that may be outside of Petrocapita's control, including, but not limited to, the timing and amount of capital expenditures, the operator's expertise and financial resources, the approval of other participants, the selection of technology and risk management practices.

Seasonal weather conditions may adversely affect Petrocapita's drilling and producing activities and other oil and natural gas operations.

The level of activity in the Canadian oil and gas industry is influenced by seasonal weather patterns. A mild winter or wet spring may result in limited access to Petrocapita's properties and, as a result, reduced operations or a cessation of operations. Municipalities and provincial transportation departments enforce road bans that restrict the movement of drilling rigs and other heavy equipment during periods of wet weather, thereby reducing activity levels. Also, certain of Petrocapita's oil and natural gas producing areas are located in areas that are inaccessible other than during the winter months because the ground surrounding the sites in these areas consists of swampy terrain. Seasonal factors and unexpected weather patterns may lead to declines in exploration and production activity or increased costs and corresponding decreases in the demand for the goods and services of Petrocapita.

Expiration of licences and leases will have a negative effect on Petrocapita's business operations.

Certain of Petrocapita's properties are held in the form of licences and leases and working interests in licences and leases. If Petrocapita or the holder of the license or lease fails to meet the specific requirement of a license or lease, the license or lease may terminate or expire. There can be no assurance that any of the obligations required to maintain each license or lease will be met. The termination or expiration of Petrocapita's licences or leases or the working interests relating to a license or lease may have a material adverse effect on Petrocapita's business, financial condition, results of operations, cash flows and future prospects.

Changes to environmental regulations that affect the oil and gas industry, or the failure to comply with such regulations, could adversely affect Petrocapita.

The oil and gas industry is subject to significant and complex local, provincial and federal environmental laws and regulations that provide for restrictions and prohibitions on releases or emissions of various substances produced or utilized in association with certain oil and gas industry operations. In addition, legislation requires that well, pipeline and facility sites be remediated, abandoned and reclaimed to the satisfaction of the applicable regulatory authority. In certain circumstances, Petrocapita could also be liable for environmental damages caused by previous owners and operators. Non-compliance with such laws and regulations may result in the imposition of substantial fines and penalties, the suspension or revocation of necessary licences and authorizations to operate its properties and civil liability for pollution damage. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require Petrocapita to incur costs to remedy such discharge. Although management believes that Petrocapita is in material compliance with current applicable environmental regulations, no assurance can be given that compliance with current or future environmental laws will not result in a suspension or curtailment of production or a material increase in Petrocapita's costs of production, development or exploration activities or otherwise materially adversely affect Petrocapita's business, financial condition, results of operations, cash flows and future prospects. For further discussion of environmental regulations governing the oil and gas industry in the areas in which Petrocapita operates, see Item 8 - *Industry Conditions*.

Petrocapita's properties are concentrated in the Lloydminster area of Alberta and Saskatchewan, making it vulnerable to risks associated with operating in a limited geographic area.

Petrocapita's properties and production are focused in the Lloydminster area. As a result, Petrocapita may be disproportionately exposed to the impact of delays or interruptions of production caused by transportation capacity constraints, curtailment of production, availability of equipment, facilities, personnel or services, significant governmental regulation, natural disasters, adverse weather conditions, plant closures for scheduled maintenance or interruption of transportation of oil or natural gas produced from the wells in this area. In addition, the effect of fluctuations on supply and demand may become more pronounced within the specific geographic oil and natural gas producing areas in which Petrocapita's properties are located, which may cause these conditions to occur with greater frequency or magnify the effect of these conditions on Petrocapita. Due to the concentrated nature of Petrocapita's portfolio of properties, a number of Petrocapita's properties could experience one or more of the same conditions at the same time, resulting in a relatively greater impact on Petrocapita's results of operations than they might have on other companies that have a more diversified portfolio of properties. Such delays or interruptions could have a material adverse effect on the business, financial condition, results of operations, cash flows and future prospects of Petrocapita.

The marketability of Petrocapita's production is dependent upon transportation and other facilities, certain of which Petrocapita does not control. If these facilities are unavailable, Petrocapita's operations could be interrupted and its financial condition adversely affected.

The success of Petrocapita's projects and operations depends in part on the availability and successful operation of certain infrastructure that is owned and operated by third parties or joint ventures with third parties, including the following:

- pipelines for the transport of oil and natural gas;
- power transmission grids supplying and exporting electricity; and
- other third party transportation infrastructure such as roads, railways, airstrips, terminals and vessels.

For example, Petrocapita's projects will depend on the successful operation of the pipelines owned and operated by Husky Energy and Plains Midstream Pipelines. Any interruption in the operation of such pipelines could have a material adverse effect on Petrocapita by limiting its ability to transport oil and natural gas to market. The failure of any or all of these third parties to provide an adequate supply of such services in a timely, cost-efficient, reliable and effective manner could negatively impact Petrocapita's operations and thereby affect Petrocapita's results of operations and financial condition.

The implementation of strategies for reducing greenhouse gases may impose restrictions or costs on Petrocapita's business and may adversely affect Petrocapita.

Petrocapita's exploration and production facilities and other operations and activities emit GHGs which may subject Petrocapita to both provincial in Alberta and Saskatchewan and federal legislation regulating emissions of GHGs. Given the evolving nature of climate change regulation at both the provincial and federal level, it is not possible to predict its potential impact on Petrocapita and its operations and financial condition at this time. However, the adoption and implementation of any regulations imposing reporting obligations on, or reducing or limiting emissions of GHGs from, Petrocapita's equipment and operations could result in additional costs, which would adversely affect Petrocapita's business, financial condition, results of operations, cash flows and future prospects. See Item 8 - *Industry Conditions* for further details on GHG legislation.

The estimated PV-10 value of Petrocapita's proved and proved plus probable reserves will not be the same as the current market value of its estimated oil reserves.

Readers should not assume that the estimated PV-10 value of Petrocapita's proved reserves is the current market value of Petrocapita's estimated oil, NGL and natural gas reserves. NI 51-101 permits disclosure of the estimated PV-10 value of Petrocapita's proved and proved plus probable reserves using only forecast prices and costs. Actual future net cash flows from Petrocapita's oil, NGL and natural gas properties will be affected by factors such as:

- the actual prices Petrocapita receives for oil;
- the actual cost of development and production expenditures;
- the amount and timing of actual production; and
- changes in governmental regulations or taxation.

The timing of both Petrocapita's production and its incurrence of expenses in connection with the development and production of oil, NGL and natural gas properties will affect the timing and amount of actual future net revenues from proved and probable reserves, and thus their actual present value. In addition, the 10% discount factor Petrocapita used when calculating estimated PV-10 value may not be the most appropriate discount factor based on interest rates in effect from time to time and risks associated with Petrocapita or the oil and gas industry in general. Actual future prices and costs may differ materially from those used in the present value estimates included in this prospectus, which could have a material effect on the value of Petrocapita's reserves.

Petrocapita participates in a variety of projects and may have more concentrated risk in certain areas of its operations.

Petrocapita manages a variety of small and large projects in the conduct of its business. Project delays may delay expected revenues from operations. Significant project cost overruns could make a project uneconomic. Petrocapita's ability to execute projects and market oil and natural gas depends upon numerous factors beyond Petrocapita's control, including the availability of processing capacity; the availability and proximity of pipeline or other transportation capacity; the availability of storage capacity; the availability of, and the ability to acquire, water supplies needed for drilling and hydraulic fracturing, or Petrocapita's ability to dispose of water used or removed from strata at a reasonable cost and within environmental regulations; the supply of and demand for oil and natural gas; the availability of alternative fuel sources; the effects of inclement weather; the availability of drilling rigs and related equipment (typically leased from third parties) in the particular areas where exploration and development activities are to be conducted; unexpected cost increases; accidents; currency fluctuations; changes in regulations; the availability and productivity of skilled labour; and the regulation of the oil and gas industry by various levels of government and governmental agencies. As a result of these factors, Petrocapita could be unable to execute projects on time, on budget or at all, and may not be able to effectively market the oil and natural gas that it produces.

The amount of oil and natural gas that Petrocapita can produce and sell is subject to the accessibility, availability, proximity and capacity of gathering and processing facilities, pipeline systems and railway lines.

Petrocapita delivers its products through gathering, processing and pipeline systems, some of which it does not own, and by rail. The amount of oil and natural gas that Petrocapita can produce and sell is subject to the accessibility, availability, proximity and capacity of these gathering and processing facilities, pipeline systems, and railway lines. The lack of availability of capacity in any of the gathering facilities, pipeline systems, railway lines, and in particular the processing facilities used by Petrocapita, could result in it being unable to realize the full economic potential of its production or in a reduction of the price offered for its production. Although pipeline expansions and new projects are ongoing they are in various stages of review and approval and such regulatory approvals may not be secured on a timely basis or at all. The lack of firm pipeline capacity affects the oil and gas industry and may limit Petrocapita's ability to market oil and natural gas production. In addition, the pro-rationing of capacity on inter-provincial pipeline systems also continues to affect the ability to export oil and natural gas. Furthermore, producers are increasingly turning to rail as an alternative means of transportation. In recent years, the volume of crude oil shipped by rail in North America has increased significantly and it is projected to continue in this upward trend. Any significant change in market factors or other conditions affecting these infrastructure systems and facilities, as well as any delays in constructing new infrastructure systems and facilities could harm Petrocapita's business, financial condition, results of operations, cash flows and future prospects.

Due to the current shortage of pipeline capacity, Canadian oil and natural gas producers have turned to shipping crude oil by rail as a short-term alternative. However, as the amount of crude oil shipped by rail has increased, there have been a number of regulatory and safety developments which may affect the cost and availability of crude oil rail shipments moving forward. Following major accidents in Lac-Mégantic, Québec and North Dakota, the Transportation Safety Board of Canada and the U.S. National Transportation Safety Board issued recommendations to Transport Canada, the responsible Canadian federal ministry, to improve the safe transportation of crude oil by rail. In response, the federal Transport Minister announced an order removing approximately 5,000 DOT-111 tanker rail cars from Canadian railways within a short period of time, with another 65,000 DOT-111 tanker rail cars to be removed or retrofitted within 3 years, and the federal Transport Minister plans to establish speed limits of 50 miles-per-hour or less for trains carrying 20 cars or more of crude oil or ethanol in areas that are built up or are near drinking water. Further, Transport Canada has unveiled a proposal that would require tank cars used to haul crude oil to employ thicker steel, thermal protection, full shields and more protection over the valves. The increased regulation of rail transportation may reduce the ability of railway lines to alleviate pipeline capacity issues and add additional costs to the transportation of oil by rail.

A portion of Petrocapita's production may, from time to time, be processed through facilities owned by third parties and over which it does not have control. From time to time these facilities may discontinue or decrease operations either as a result of normal servicing requirements or as a result of unexpected events. A discontinuation or decrease of operations could have a materially adverse effect on Petrocapita's ability to process its production and deliver the same for sale.

Unforeseen title defects in Petrocapita's properties may result in a loss of rights to production and reserves.

Although title reviews may be conducted prior to the purchase of oil and natural gas producing properties or the commencement of drilling wells, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat Petrocapita's claim. Petrocapita's actual interest in properties may, therefore, vary from Petrocapita's records. Such a defect in the chain of title could have a material adverse effect on Petrocapita's business, financial condition, results of operations, cash flows and future prospects. There may be valid challenges to title, or proposed legislative changes that affect title, to the oil and natural gas properties Petrocapita controls that, if successful or made into law, could impair Petrocapita's activities on them and result in a reduction of the revenue received by Petrocapita.

Legislative and regulatory initiatives relating to hydraulic fracturing as well as governmental reviews of such activities could result in increased costs and additional operating restrictions or delays in the completion of oil and natural gas wells and adversely affect Petrocapita's production.

Petrocapita uses hydraulic fracturing in its operations. Hydraulic fracturing involves the injection of water, sand and small amounts of additives under pressure into rock formations to fracture such formations and thereby stimulate oil and natural gas production. Specifically, hydraulic fracturing is used to produce commercial quantities of oil and natural gas from reservoirs that were previously unproductive. Negative public perception of hydraulic fracturing has put pressure on governments to implement additional regulatory requirements or limitations on the utilization of hydraulic fracturing, which in turn could restrict Petrocapita's operations and increase its costs. It is believed that the trend in environmental legislation and regulation in Alberta and Saskatchewan will continue towards stricter standards in regards to hydraulic fracturing. For further information see Item 8 - *Industry Conditions* above. Any new laws, regulations or permitting requirements regarding hydraulic fracturing could lead to operational delays, increased operating costs, third party or governmental claims, and could increase Petrocapita's costs of compliance and doing business as well as delay the development of oil and natural gas resources from shale formations, which are not commercial without the use of hydraulic fracturing. Restrictions on hydraulic fracturing could also reduce the amount of oil and natural gas that Petrocapita is ultimately able to produce from its reserves.

Petrocapita operates in heavy oil production, exploration and development in the Alberta and Saskatchewan Mannville heavy oil play of western Canada and expansion into new activities or geographic areas may increase its risk exposure.

The operations and expertise of Petrocapita's management are currently focused primarily on heavy oil production, exploration and development in the Mannville formation. In the future Petrocapita may acquire or move into new industry-related activities or new geographical areas or may acquire different energy-related assets, which may require substantial management effort, time and resources and may divert management's focus and resources from current operational matters. As a result of venturing into new activities or new areas, Petrocapita may face new or unexpected risks or alternatively may significantly increase Petrocapita's exposure to one or more existing risk factors, which may in turn result in Petrocapita's future operational and financial conditions being adversely affected.

Aboriginal claims could have an adverse effect on Petrocapita and its operations.

Aboriginal peoples have claimed Aboriginal title and rights to a substantial portion of western Canada. Petrocapita is not aware that any claims have been made in respect of its assets. However, if a claim arose and was successful, such claim could have a material adverse effect on Petrocapita and its business, financial condition, results of operations, cash flows and future prospects. The duties owed to Aboriginal peoples by the Canadian federal and provincial governments have the potential to affect federal and provincial regulatory practices and framework and affect Petrocapita's ability to obtain permits, leases, licences and other approvals, or to meet the terms and conditions of those approvals. Opposition by Aboriginal peoples may also negatively impact Petrocapita in terms of public perception, diversion of management time and resources, legal and other advisory expenses, potential blockades or other interference by third parties in Petrocapita's operations, or court-ordered relief impacting Petrocapita's operations.

Petrocapita may be unable to implement new technologies in a timely and economic manner.

The oil industry is characterized by rapid and significant technological advancements and introductions of new products and services utilizing new technologies. Other oil companies may have greater financial, technical and personnel resources that allow them to enjoy technological advantages and may in the future allow them to implement new technologies before Petrocapita. There can be no assurance that Petrocapita will be able to respond to such competitive pressures and implement such technologies on a timely basis or at an acceptable cost. One or more of the technologies currently utilized by Petrocapita or implemented in the future may become obsolete. If Petrocapita is unable to utilize the most advanced commercially available technology, its business, financial condition, results of operations, cash flows and future prospects could be materially adversely affected.

Risks Related to Petrocapita's Business, Financial Matters and Tax Matters

Loss of Petrocapita's key management and other personnel, or an inability to attract, retain and motivate such management and other personnel, could negatively impact Petrocapita's business.

Successfully developing and commercializing oil and natural gas interests depends on a number of factors, including the technical skill of the personnel involved. Petrocapita's success will be, in part, dependent on the performance of its key managers and consultants. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of Petrocapita's managers and consultants. Failure to retain the managers and consultants, or to attract or retain additional key personnel, with the necessary skills and experience could have a materially adverse impact upon Petrocapita's growth and profitability. Petrocapita does not carry key person insurance.

The labour force in the specific areas in Alberta and Saskatchewan in which Petrocapita's properties are located is limited and there can be no assurance that all of the required employees with the necessary expertise will be available. Similar projects or expansions will proceed in the same area during the same time frame as Petrocapita's projects. Petrocapita's projects will compete with these other projects for experienced employees and such competition may result in increases to compensation paid to such personnel or in a lack of qualified personnel. Increased labour costs could materially adversely affect Petrocapita's business, financial condition, results of operations, cash flows and future prospects.

General Economic Conditions and Geopolitical risks may adversely impact Petrocapita.

Changes in general economic conditions may affect Petrocapita. Petrocapita exposed to local, regional, national and international economic conditions and other events and occurrences beyond its control, including, but not limited to the following: credit and capital market volatility, business investment levels, government spending levels, consumer spending levels, changes in laws, rules or regulations, trade barriers, commodity prices, currency exchange rates and controls, national and international political circumstances (including wars, terrorist acts or security operations), changes in interest rates, inflation rates, the rate and direction of economic growth, and general economic uncertainty. Changes in any of the above may have a material adverse effect on the performance of Petrocapita. No assurance can be given as to the effect of these events on Petrocapita.

In addition, economic conditions in North America and globally may be affected, directly or indirectly, by political events throughout the world. In particular, any attempt by the United States to withdraw from or materially modify the North American Free Trade Agreement and certain other international trade agreements as well as conflicts or, conversely, peaceful developments, arising in the Middle East or Eastern Europe and other areas of the world have a significant impact on the price of oil and natural gas. Any particular event could result in a material decline in prices and result in a reduction of Petrocapita's net production revenue.

Variations in foreign exchange rates and interest rates could adversely affect Petrocapita's financial condition.

Most of Petrocapita's revenues are based on the U.S. dollar, since revenue received from the sale of oil is generally referenced to a price denominated in U.S. dollars, while Petrocapita incurs most of its operating and other costs in Canadian dollars. Petrocapita is therefore exposed to exchange rate fluctuations between the U.S. dollar and the Canadian dollar. Any strengthening of the Canadian dollar relative to the U.S. dollar could negatively impact Petrocapita's operating margins and cash flow. In addition, as Petrocapita reports its operating results in Canadian dollars, fluctuations in product pricing and in the rate of exchange between the U.S. dollar and Canadian dollar affect Petrocapita's reported results.

To the extent that Petrocapita engages in risk management activities related to foreign exchange rates, there is a credit risk associated with counterparties with which it may contract.

An increase in interest rates could result in a significant increase in the amount Petrocapita pays to service debt, resulting in a reduced amount available to fund its exploration and development activities, and if applicable, cash available for distributions and could negatively impact the market price of its Units.

Petrocapita may require additional financing in order to carry out its acquisition, exploration and development activities and there can be no assurance that such financing will be available to Petrocapita.

Petrocapita's cash flow from its reserves may not be sufficient to fund its ongoing activities at all times and from time to time, Petrocapita may require additional financing in order to carry out its oil and natural gas acquisition, exploration and development activities. There is risk that if the economy and banking industry experienced unexpected and/or prolonged deterioration, Petrocapita's access to additional financing may be affected.

Because of global economic volatility, Petrocapita may from time to time have restricted access to capital and increased borrowing costs. Failure to obtain such financing on a timely basis could cause Petrocapita to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If Petrocapita's revenues from its reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect Petrocapita's ability to expend the necessary capital to replace its reserves or to maintain its production. To the extent that external sources of capital become limited, unavailable or available on onerous terms, Petrocapita's ability to make capital investments and maintain existing assets may be impaired, and its assets, liabilities, business, financial condition, results of operations, cash flows and future prospects may be affected materially and adversely as a result. In addition, the future development of Petrocapita's petroleum properties may require additional financing and there are no assurances that such financing will be available or, if available, will be available upon acceptable terms. Failure to obtain any financing necessary for Petrocapita's capital expenditure plans may result in a delay in development or production on Petrocapita's properties.

Petrocapita's acquisition, exploration, development and production projects require substantial capital expenditures. Petrocapita may be unable to obtain required capital or financing on satisfactory terms, which could prevent Petrocapita from achieving its business plan.

Petrocapita anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. As future capital expenditures will be financed out of cash generated from operations, borrowings and possible future equity sales, Petrocapita's ability to do so is dependent on, among other factors:

- the overall state of the capital markets;
- Petrocapita's creditworthiness (if applicable);
- interest rates;
- royalty rates;
- tax burden due to current and future tax laws; and
- investor appetite for investments in the energy industry and Petrocapita's securities in particular.

Further, if Petrocapita's revenues or reserves decline, it may not have access to the capital necessary to undertake or complete future acquisitions. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to Petrocapita. The inability of Petrocapita to access sufficient capital for its operations could have a material adverse effect on its business, financial condition, results of operations, cash flows and future prospects.

Instability in global financial markets may cause significant volatility in commodity prices and hinder Petrocapita's ability to obtain equity or debt financing.

Recent market events and conditions, including the significant drop in oil prices, disruptions in the international credit markets and other financial systems and the American and European sovereign debt levels, have caused significant volatility in commodity prices. These events and conditions have caused a decrease in confidence in the broader United States and global credit and financial markets and have created a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency,

increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions have negatively impacted credit markets and caused stock markets to experience significant volatility. While there are signs of economic recovery, these factors have negatively impacted company valuations and are likely to continue to impact the performance of the global economy going forward. Oil and natural gas prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and demand of these commodities due to the current state of the world economies, actions taken by OPEC, events in the Ukraine, ongoing global credit and liquidity concerns and Middle East political concerns. This volatility may in the future affect Petrocapita's ability to obtain equity or debt financing on acceptable terms. To the extent that external sources of capital become limited, unavailable or available on onerous terms, Petrocapita's ability to pursue acquisitions, make capital investments and maintain existing assets may be impaired, and its assets, liabilities, business, financial condition, results of operations, cash flows and future prospects may be materially and adversely affected as a result.

Failure to realize anticipated benefits of acquisitions and dispositions may have a material adverse effect on Petrocapita's business.

Petrocapita makes acquisitions and dispositions of businesses and assets in the ordinary course of business. Achieving the benefits of acquisitions depends, in part, on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner, as well as Petrocapita's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with Petrocapita's business and operations. There can be no assurance that Petrocapita will be able to successfully realize the anticipated benefits of any acquisition. Further, the costs involved and time required to realize the anticipated benefits of acquisitions may exceed those benefits and may detract from available resources that could have been committed elsewhere for general benefit. The integration of acquired businesses may require substantial management effort, time and resources and may divert management's focus from other strategic opportunities and operational matters. Assets determined by management to be non-core are periodically disposed of so that Petrocapita can focus its efforts and resources more efficiently. Depending on the state of the market for such non-core assets, certain non-core assets of Petrocapita, if disposed of, could be expected to realize less than their carrying value on the financial statements of Petrocapita.

Additionally, such acquisitions may result in Petrocapita's capitalization and results of operations changing significantly. Investors will not have the opportunity to evaluate the economic, financial and other relevant information that Petrocapita will consider in determining the application of its funds and other resources with respect to such acquisitions.

Competition in the oil and gas industry is intense, making it more difficult for Petrocapita to acquire properties, market oil and natural gas and secure trained personnel.

The Canadian and international oil and gas industry is highly competitive in all aspects, including the exploration for, and the development of, new sources of supply, the acquisition of property leases and the distribution and marketing of petroleum products. Some of the producers have competitive operating costs and some of them have greater resources to source, attract and retain the personnel, materials and services that Petrocapita requires to conduct its operations. The oil and gas industry also competes with other industries in supplying energy, fuel and related products to consumers. Some of these industries benefit from less regulation, lower taxes and higher subsidies. In addition, certain of these industries are less capital intensive.

Other companies may announce plans to enter the petroleum business or expand existing operations. Expansion of existing operations and development of new projects could significantly increase the supply of commodities in the marketplace. Depending on the levels of future demand, increased supplies could have a negative impact on prices of oil and, accordingly, Petrocapita's business, financial condition, results of operations, cash flows and future prospects. In addition, expansion of existing operations and development of new projects could materially increase the costs of inputs such as labour, equipment, materials or services which, in turn, may have a material adverse effect on Petrocapita's results of operations and financial condition.

Oil and natural gas exploration and development activities are dependent on a range of operational and non-operational factors of production. These include drilling rigs, related equipment and qualified personnel, processing facilities and refineries, transportation facilities and other equipment, many of which are controlled by third parties and which Petrocapita has no assurance of obtaining access to. Petrocapita competes with a substantial number of other organizations for access to these factors, many of which will have greater technical and financial resources than Petrocapita. There is no assurance that Petrocapita will obtain or maintain such access and at an economically viable cost, in a sufficient quantity or at all. Such competition may delay Petrocapita's exploration and development activities.

Certain of Petrocapita's directors and officers are involved in other oil and natural gas interests and have the ability to take actions that could conflict with Petrocapita's interests.

Some of Petrocapita's directors and officers are engaged and will continue to be engaged in the oil and natural gas business on their own behalf and on behalf of others, and situations may arise where the directors or officers will acquire and hold interests in businesses that compete directly or indirectly with Petrocapita or that supply Petrocapita with goods and services. These directors, officers or shareholders may also pursue acquisition opportunities that may be complementary to, or competitive with, Petrocapita's business, and as a result those acquisition opportunities may not be available to Petrocapita. Conflicts of interest, if any, which arise will be subject to and be governed by procedures prescribed by ABCA which require a director or officer of a corporation who is party

to a material contract or proposed material contract with Petrocapita to disclose such director's or officer's interest and, with respect to a director, to refrain from voting on any matter in respect of such contract unless otherwise permitted under the ABCA.

The outcome of outstanding, pending or future legal proceedings could have a material adverse effect on Petrocapita's business.

In the normal course of Petrocapita's operations, it may become involved in, named as a party to, or be the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions related to personal injuries, property damage, property tax, land rights, the environment and contract disputes. The outcome of outstanding, pending or future proceedings cannot be predicted with certainty and may be determined adversely to Petrocapita and, as a result, could have a material adverse effect on its business, financial condition, results of operations, cash flows and future prospects.

Non-GAAP Measures

This Offering Memorandum makes reference to certain non-GAAP measures, including operating netback. These non-GAAP measures and other financial estimates of management are based upon variable components. The non-GAAP measures do not have any standardized meaning prescribed by IFRS and as such may not be directly comparable to measures for other companies where similar terminology is used. There can be no assurance that these components and future calculations of non-GAAP measures will not vary.

Petrocapita is susceptible to the potential difficulties associated with significant growth and expansion.

Petrocapita may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The effective management of the growth of Petrocapita will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of Petrocapita to deal with this growth may have a material adverse effect on its business, financial condition, results of operations, cash flows and future prospects.

Petrocapita's internal controls may not be adequate.

Effective internal controls are necessary for Petrocapita to provide reliable financial reports and to help prevent fraud. Although Petrocapita has undertaken and will undertake a number of procedures in order to help ensure the reliability of its financial reports, including those that may become applicable to it under Canadian securities laws, Petrocapita cannot be certain that such measures will ensure that it will maintain adequate control over financial processes and reporting. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm Petrocapita's results of operations or cause it to fail to meet its reporting obligations. Additionally, implementing and monitoring effective internal controls can be costly. If Petrocapita or its independent auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in Petrocapita's financial statements and harm the value or price of the Units.

Income tax laws or other laws or government incentive programs or regulations relating to Petrocapita's industry may in the future be changed or interpreted in a manner that adversely affects Petrocapita.

Petrocapita has filed all required income tax returns and believes that it is in full compliance with the provisions of the Income Tax Act and all other applicable provincial tax legislation. Notwithstanding this, such returns are subject to reassessment by the applicable tax authority and it is possible that the tax authorities could successfully challenge any prior transactions and tax filings of Petrocapita. In the event of a successful reassessment, Petrocapita may be subject to higher than expected past or future income tax liability as well as potentially interest and penalties.

Income tax laws relating to the oil and gas industry, such as the treatment of resource taxation or dividends, may in the future be changed or interpreted in a manner that adversely affects Petrocapita's business, financial condition, results of operations, cash flows and future prospects. Furthermore, there can be no assurance that the relevant tax authorities will agree with Petrocapita's calculation of its income for tax purposes or that such tax authorities will not change their administrative practices to the detriment of Petrocapita.

Internal Reorganization.

It is intended that the Internal Reorganization will be completed on a tax-deferred basis. However, the Internal Reorganization may not be completed in the manner intended and/or the transfer of assets as part of the Internal Reorganization may create an income tax liability for Petrocapita. Furthermore, certain assets may not be able to be transferred from the O&G LP to the Processing LP as a result of new liability management plan changes recently implemented in Alberta.

Petrocapita's risk management activities and hedging strategies may negatively impact Petrocapita's income and its financial condition.

Petrocapita may use hedging instruments to manage its exposure to fluctuations in commodity prices, exchange rates and interest rates. If Petrocapita engages in any such hedging activities, it will be exposed to credit-related losses in the event of non-performance by counterparties to the physical or financial instruments. Additionally, if commodity prices, interest rates or exchange rates increase above or decrease below those levels specified in any future hedging agreements, such hedging agreements may prevent Petrocapita from realizing the full benefit of such increases or decreases. In addition, any future commodity hedging arrangements

could cause Petrocapita to suffer financial loss if it is unable to produce sufficient quantities of the commodity to fulfill its obligations, if it is required to pay a margin call on a hedge contract or if it is required to pay royalties based on a market or reference price that is higher than Petrocapita's fixed ceiling price.

To the extent that risk management activities and hedging strategies are employed to address commodity prices, exchange rates, interest rates or other risks, risks associated with such activities and strategies, including counterparty risk, settlement risk, basis risk, liquidity risk and market risk, could impact or negate such activities and strategies, which would have a negative impact on Petrocapita's business, financial condition, results of operations, cash flows and future prospects.

Petrocapita may incur substantial losses and be subject to substantial liability claims as a result of its operations. Additionally, Petrocapita may not be insured for, or its insurance may be inadequate to protect Petrocapita against these risks.

Petrocapita's involvement in the exploration for and development of oil and natural gas properties may result in it becoming subject to liability for pollution, blow outs, leaks of sour natural gas, property damage, personal injury or other hazards.

Although Petrocapita maintains insurance in accordance with industry standards to address certain of these risks, such insurance has limitations on liability and may not be sufficient to cover the full extent of such liabilities. In addition, such risks are not, in all circumstances, insurable or, in certain circumstances, Petrocapita may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of any uninsured liabilities would reduce the funds available to Petrocapita. The occurrence of a significant event that Petrocapita is not fully insured against, or the insolvency of the insurer of such event, may have a material adverse effect on Petrocapita's business, financial condition, results of operations, cash flows and future prospects.

In addition, Petrocapita's wells and other facilities could be subject to a terrorist attack or physical sabotage, which may also have a material adverse effect on Petrocapita insofar as any such action caused property damage or personal harm or disrupted operations. Petrocapita does not have insurance to protect against such risks.

A failure of or error caused by Petrocapita's information and computer systems could adversely affect Petrocapita's business.

Petrocapita is heavily dependent on its information systems and computer based programs, including its well operations information, seismic data, electronic data processing and accounting data. If any of such programs or systems were to fail or create erroneous information in its hardware or software network infrastructure, possible consequences include a loss of communication links or reliable information, inability to find, produce, process and sell oil and natural gas and inability to automatically process commercial transactions or engage in similar automated or computerized business activities. Any such consequence that results in a loss of data or is not resolved within a short period of time could have a material adverse effect on Petrocapita's business.

Risks Relating to the Trust Structure

Unitholders may have liability beyond their investment in limited circumstances.

The Declaration of Trust generally provides that no Unitholder or beneficial Unitholder, in their capacity as such, will be subject to any liability in connection with the Trust or its obligations and affairs or for any act or omission of the Trustees, provided that in the event that a court determines Unitholders are subject to any such liabilities, the liabilities will be enforceable only against, and will be satisfied only out of, the Trust's assets. In addition, the Declaration of Trust provides that no Unitholder is liable to indemnify the Trustee or any other person for any liabilities incurred by the Trustee, including with respect to taxes payable by the Trust or the Trustee, and all such liabilities will be enforced only against, and will be satisfied only out of, the Trust's assets.

Effective July 1, 2004, the Alberta government implemented section 2(1) of the *Income Trust Liability Act* (Alberta), which specifically provides that beneficiaries, as beneficiaries, are not liable for any act, default, obligation or liability of the trustee of any Alberta income trust. The Trust is an Alberta income trust. However, a Unitholder who has been actively involved in the direction or management of the Trust beyond voting Common Units at Unitholder meetings may incur liability beyond their investment.

In conducting its affairs, the Trust has incurred and will in the future incur obligations and liabilities. Although the Declaration of Trust provides that, in respect of any obligations or liabilities incurred by the Trust (or a Trustee or the Administrator on behalf of the Trust), the Trustees and the Administrator will make all reasonable efforts to include, as a specific term of any such obligation or liability, a contractual provision to the effect that such obligations or liabilities are not personally binding upon the Trustees, the Administrator or any Unitholder, a contractual modification to such effect may not be obtained in all cases. To the extent that any such obligations or liabilities are not satisfied by Petrocapita, there is a risk that a Unitholder may be held personally liable for obligations of the Trust where the same is not expressly disavowed.

Reliance on the Administrator.

All decisions with respect to the trust property and the operations of the Trust are expected to be made exclusively by the Administrator or the Trustees. Unitholders will have no right to make any decisions with respect to the management, disposition or other realization of any investment, or other decisions regarding the Trust's business and affairs. No prospective investor should

purchase a Preferred Unit of the Trust unless such prospective investor is willing to entrust all aspects of the management of the Trust to the Administrator and/or the Trustees.

Mutual Fund Trust Status.

There can be no assurance that the Trust will not cease to qualify as a "mutual fund trust" under the Income Tax Act.

To qualify as a "mutual fund trust" for purposes of the Income Tax Act, the Trust must continuously satisfy certain requirements as to the nature of its undertakings (primarily that it must restrict its activities to the investment of funds), its ability to distribute Units to the public, the dispersal of ownership of its Units and the requirement that, unless it meets certain exceptions, it must not be reasonable to consider that it was established or is maintained primarily for the benefit of Non-Residents.

Should the Trust cease to qualify as a mutual fund trust, the income tax considerations respecting the Trust would be materially different from those described in the summary under Item 6 - *Certain Income Tax Considerations and Exempt Plan Eligibility*, and adverse income tax consequences may result, including:

- The Preferred Units of the Trust would cease to be qualified investments for Exempt Plans with the result that an Exempt Plan may become subject to a penalty tax (or other adverse consequences), the beneficiary of such Exempt Plan may be deemed to have received income therefrom or, in the case of an RESP, the RESP may have its tax exempt status revoked.
- The Trust may be subject to alternative minimum tax under the Income Tax Act.
- The Trust may be required to pay tax under Part XII.2 of the Income Tax Act.
- The Trust will cease to be eligible for the capital gains refund mechanism available to mutual fund trusts.

The Trust may take certain measures in the future to the extent the Trust believes them necessary to ensure that it maintains its status as a mutual fund trust. These measures could be adverse to certain Unitholders.

Lack of Independent Counsel Representing Unitholders.

The Trust, the Trustees and the Administrator have consulted with and retained for their benefit Counsel to advise them in connection with the formation and terms of the Trust and the offering of Units. Unitholders have not, however, as a group been represented by independent legal counsel. Therefore, to the extent that the Unitholders could benefit by further independent review, such benefit will not be available unless individual Unitholders retain their own legal counsel.

Changes in Applicable Law.

Legal, tax and regulatory changes in law may occur that can adversely affect the Trust and Unitholders. There can be no assurance that income tax, securities and other laws will not be changed in a manner which adversely affects the distributions received by the Trust or by the Unitholders. There can be no assurance that Canadian federal income tax laws and the administrative policies and assessing practices of the Canada Revenue Agency respecting the treatment of mutual fund trusts will not be changed in a manner which adversely affects the Unitholders.

Liability for Return of Distributions.

Generally, the Unitholders do not have personal liability for the obligations of the Trust. However, under applicable law, Unitholders could be required to return distributions previously made by the Trust if it is determined that such distributions were wrongfully made or in certain other circumstances under the terms of the Declaration of Trust. Where a Unitholder has received the return of all or part of the amount contributed to the Trust, the Unitholder is nevertheless liable to the Trust or, where the Trust is terminated, to its creditors for any amount, not in excess of the amount returned with interest, necessary to discharge the liabilities of the Trust to all creditors who extended credit or whose claims otherwise arose before the return of the contribution. Additionally, Unitholders may have to return all or a portion of distributions made to them to the extent the Trust has an obligation to withhold any amounts from such distribution for tax purposes.

Preferred Units of the Trust Not Insured.

The Preferred Units of the Trust are not "deposits" within the meaning of the *Canada Deposit Insurance Corporation Act* (Canada) and are not insured under the provisions of that act or any other legislation. Furthermore, the Trust is not a trust company and, accordingly, is not registered under any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company. In addition, although the Trust qualifies as a "mutual fund trust" as defined by the Income Tax Act, the Trust is not a "mutual fund" as defined by applicable securities legislation.

Indemnification.

The Trustees, each former Trustee, and the Administrator are entitled to indemnification and reimbursement out of the trust property, except under certain circumstances, from the Trust. Such indemnification obligations could decrease the returns which would otherwise be available to the Unitholders of the Trust.

The foregoing list of risk factors does not purport to be a complete enumeration or explanation of the risks involved in an investment in the Trust. Prospective investors should read this entire Offering Memorandum and consult their own counsel and financial advisors before deciding to invest in the Trust.

Neither the Trust, the Trustees or the Administrator are responsible for, and undertakes no obligation to, determine the general investment needs and objectives of a potential investor and the suitability of the Preferred Units having regard to any such investment needs and objectives of the potential investor.

ITEM 10 - REPORTING OBLIGATIONS

The Trust will send to Unitholders within 140 days after the end of each fiscal year (or within such shorter time as may be required by applicable securities law): (i) the unaudited annual consolidated financial statements of the Trust for such fiscal year, together with comparative unaudited financial statements for the preceding fiscal year, if any.

The Declaration of Trust provides that on or before March 31 in each year (or such other date as may be required under applicable law) the Trust will provide to each Unitholder who received distributions from the Trust in the prior taxation year, such information regarding the Trust as is required by Canadian law to be submitted to Unitholders for income tax purposes to enable Unitholders to complete their tax returns in respect of the prior calendar year.

The Trust is a reporting issuer and its constating documents, material agreements, financial statements and other public filings can be found under the Trust's profile on www.SEDAR.com.

The Corporation will send to shareholders (or make available if sending is not required by applicable laws) within 120 days after the end of each fiscal year (or within such shorter time as may be required by applicable securities law): (i) the audited annual consolidated financial statements of the Corporation for such fiscal year, together with comparative audited financial statements for the preceding fiscal year, if any; and (ii) so long as required by applicable securities laws, a notice of the Corporation disclosing in reasonable detail the use of the aggregate gross proceeds raised by the Corporation under Section 2.9 of NI 45-106.

The Corporation shall send to shareholders (or make available if sending is not required by applicable laws) a notice of specified events under subsection 2.9(17.20) of NI 45-106.

The Corporation is not a "reporting issuer" or equivalent under the securities legislation of any jurisdiction. Accordingly, other than the disclosure set forth above, the Corporation is not subject to the "continuous disclosure" requirements of any securities legislation and there is no requirement that the Corporation make ongoing disclosure of its affairs including, without limitation, the disclosure of financial information on a quarterly basis or the disclosure of material changes in the business or affairs of the Corporation.

ITEM 11 - RESALE RESTRICTIONS

The Preferred Units will be subject to a number of resale restrictions, including a restriction on trading. Until the restriction on trading expires, you will not be able to trade the Preferred Units unless you comply with an exemption from the prospectus and registration requirements under applicable securities legislation.

Unless permitted under securities legislation, you cannot trade the securities before the date that is four (4) months and a day after the distribution date for the Preferred Units.

Unless permitted under securities legislation, you must not trade the securities without the prior written consent of the regulator in Manitoba unless: (a) the Corporation has filed a prospectus with the regulator in Manitoba with respect to the securities you have purchased and the regulator in Manitoba has issued a receipt for that prospectus, or (b) you have held the securities for at least 12 months. The regulator in Manitoba will consent to your trade if the regulator is of the opinion that to do so is not prejudicial to the public interest.

The Administrator must approve of any proposed disposition of Preferred Units. The Declaration of Trust provides that no transfer or other disposition of Preferred Units shall be effective unless the transferor provides the proper documentation described in the Declaration of Trust, reports to the Administrator the details of the disposition and all outstanding liabilities of the transferor to the Trust have been paid, or arrangements made satisfactory to the Administrator for the assumption of such liabilities by the transferee.

The foregoing is a summary only of resale restrictions relevant to a purchaser of the securities offered hereunder. It is not intended to be exhaustive. All subscribers under this Offering should consult with their legal advisors to determine the applicable restrictions governing resale of the securities purchased hereunder including the extent of the applicable hold period and the possibilities of utilizing any further statutory exemptions or obtaining a discretionary order.

ITEM 12 - PURCHASERS' RIGHTS

If you purchase Preferred Units you will have certain rights, some of which are described below. These rights may not be available to you if you purchase the Preferred Units pursuant to a prospectus exemption other than the offering memorandum exemption in Section 2.9 of NI 45-106. For complete information about your rights, you should consult a lawyer.

Two Day Cancellation Right

You can cancel your agreement to purchase these Preferred Units. To do so, you must send a notice to us by midnight on the second (2nd) business day after you sign the agreement to buy the Preferred Units.

Rights of Action in the Event of a Misrepresentation

Securities legislation in certain of the provinces of Canada provides purchasers with a statutory right of action for damages or rescission in cases where an offering memorandum or any amendment thereto contains an untrue statement of a material fact or omits to state a material fact that is required to be stated or is necessary to make any statement contained therein not misleading in light of the circumstances in which it was made (a "**misrepresentation**"). These rights, or notice with respect thereto, must be exercised or delivered, as the case may be, by purchasers within the time limits prescribed and are subject to the defenses and limitations contained under the applicable securities legislation. Purchasers of Preferred Units resident in provinces of Canada that do not provide for such statutory rights will be granted a contractual right similar to the statutory right of action and rescission described below for purchasers resident in Ontario and such right will form part of the subscription agreement to be entered into between each such purchaser and the Trust in connection with this Offering.

The following summaries are subject to the express provisions of the securities legislation applicable in each of the provinces of Canada and the regulations, rules and policy statements thereunder. Purchasers should refer to the securities legislation applicable in their province along with the regulations, rules and policy statements thereunder for the complete text of these provisions or should consult with their legal advisor. The contractual and statutory rights of action described in this Offering Memorandum are in addition to and without derogation from any other right or remedy that purchasers may have at law.

Rights of Purchasers in Alberta

If you are a resident of Alberta, and if there is a misrepresentation in this Offering Memorandum, you have a statutory right to sue:

- (a) the Trust to cancel your agreement to buy these securities, or
- (b) for damages against the Trust, every person who was a director of the Administrator at the date of this Offering Memorandum and every person or company who signed this Offering Memorandum.

If you elect to exercise a right to cancel your agreement to buy these securities against the Trust, you will have no right of action against the persons described in (b) above.

This statutory right to sue is available to you whether or not you relied on the misrepresentation. However, there are various defences available to the persons or companies that you have a right to sue. In particular, they have a defence if you knew of the misrepresentation when you purchased the securities. In an action for damages, the amount recoverable shall not exceed the price at which the securities were offered and the defendant will not be liable for all or any portion of such damages that the defendant proves does not represent the depreciation in value of the securities as a result of the misrepresentation.

If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence your action to cancel the agreement within 180 days after the date that you purchased the securities. You must commence your action for damages within the earlier of 180 days after you first had knowledge of the facts giving rise to the cause of action and three (3) years after the date you purchased the securities.

Rights of Purchasers in British Columbia

If you are a resident of British Columbia, and if there is a misrepresentation in this Offering Memorandum, you have a statutory right to sue:

- (a) the Trust to cancel your agreement to buy these securities, or
- (b) for damages against the Trust, every person who was a director of the Administrator at the date of this Offering Memorandum and every person who signed this Offering Memorandum.

If you elect to exercise a right to cancel your agreement to buy these securities against the Trust, you will have no right of action against the Trust.

This statutory right to sue is available to you whether or not you relied on the misrepresentation. However, there are various defences available to the persons or companies that you have a right to sue. In particular, they have a defence if you knew of the misrepresentation when you purchased the securities. In an action for damages, the amount recoverable shall not exceed the price at which the securities were offered and the defendant will not be liable for all or any portion of such damages that the defendant proves does not represent the depreciation in value of the securities as a result of the misrepresentation.

If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence your action to cancel the agreement within 180 days after the date that you purchased the securities. You must commence your action for

damages within the earlier of 180 days after you first had knowledge of the facts giving rise to the cause of action and three (3) years after the date you purchased the securities.

Rights of Purchasers in Saskatchewan

If you are a resident of Saskatchewan and if there is a misrepresentation in this Offering Memorandum, you have a statutory right to sue:

- (a) the Trust to cancel your agreement to buy these securities, or
- (b) for damages against the Trust to, every promoter of the Trust, every person who was a director of the Administrator at the date of this Offering Memorandum, every person whose consent has been filed respecting the offering but only with respect to reports, opinions or statements that have been made by them, every person who or company that signed this Offering Memorandum and every person who or company that sells securities on behalf of the Trust under this Offering Memorandum.

If you elect to exercise a right to cancel your agreement to buy these securities against the Trust, you will have no right of action against the Trust.

This statutory right to sue is available to you whether or not you relied on the misrepresentation. However, there are various defences available to the persons or companies that you have a right to sue. In particular, they have a defence if you knew of the misrepresentation when you purchased the securities. In an action for damages, the amount recoverable shall not exceed the price at which the securities were offered and the defendant will not be liable for all or any portion of such damages that the defendant proves does not represent the depreciation in value of the securities as a result of the misrepresentation.

If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence your action to cancel the agreement within 180 days after the date that you purchased the securities. You must commence your action for damages within the earlier of one year after you first had knowledge of the facts giving rise to the cause of action and six (6) years after the date you purchased the securities.

Rights of Purchasers in Manitoba

If you are a resident of Manitoba, and if there is a misrepresentation in this Offering Memorandum, you have a statutory right to sue:

- (a) the Trust to cancel your agreement to buy these securities, or
- (b) for damages against the Trust, every person who was a director of the Administrator at the date of this Offering Memorandum and every person or company who signed this Offering Memorandum.

If you elect to exercise a right to cancel your agreement to buy these securities against the Trust, you will have no right of action against the persons described in (b) above.

This statutory right to sue is available to you whether or not you relied on the misrepresentation. However, there are various defences available to the persons or companies that you have a right to sue. In particular, they have a defence if you knew of the misrepresentation when you purchased the securities. In an action for damages, the amount recoverable shall not exceed the price at which the securities were offered and the defendant will not be liable for all or any portion of such damages that the defendant proves does not represent the depreciation in value of the securities as a result of the misrepresentation.

If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence your action to cancel the agreement within 180 days after the date that you purchased the securities. You must commence your action for damages within the earlier of 180 days after you first had knowledge of the facts giving rise to the cause of action or two (2) years after the date you purchased the securities.

Rights of Purchasers in Ontario

If you are a resident of Ontario, and if there is a misrepresentation in this Offering Memorandum, you have a right to sue:

- (a) the Trust to cancel your agreement to buy these securities, or
- (b) for damages against the Trust.

If you elect to exercise a right to cancel your agreement to buy these securities against the Trust, you will have no right of action against the Trust.

This statutory right to sue is available to you whether or not you relied on the misrepresentation. However, there are various defences available to the persons or companies that you have a right to sue. In particular, they have a defence if you knew of the misrepresentation when you purchased the securities. In an action for damages, the amount recoverable shall not exceed the price at

which the securities were offered and the defendant will not be liable for all or any portion of such damages that the defendant proves does not represent the depreciation in value of the securities as a result of the misrepresentation.

If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence your action to cancel the agreement within 180 days after the date that you purchased the securities. You must commence your action for damages within the earlier of 180 days after you first had knowledge of the facts giving rise to the cause of action and three years after the date you purchased the securities.

Securities legislation in Ontario does not extend the statutory rights of action for damages or rescission to a purchaser who is purchasing the securities in reliance on the "accredited investor" exemption set out in Section 2.3 of NI 45-106 if the purchaser is: (a) a "Canadian financial institution" or a "Schedule III Bank" (each as defined under applicable securities laws); (b) the Business Development Bank of Canada; or (c) a subsidiary of any person referred to in (a) or (b), if the person owns all the voting securities of the subsidiary, except the voting securities required by law to be owned by the directors of that subsidiary (collectively, the "**Excluded Ontario Purchasers**"). The Excluded Ontario Purchasers will be entitled to a contractual right of action for damages or rescission that is equivalent to the statutory right of action for damages or rescission available to purchasers resident in Ontario as described above (including insofar as such rights may be subject to the defences and limitations provided for under the Securities Act (Ontario)).

Rights of Purchasers in Nova Scotia

If you are a resident of Nova Scotia and if there is a misrepresentation in this Offering Memorandum, you have a statutory right to sue:

- (a) the Trust to cancel your agreement to buy these securities, or
- (b) for damages against the Trust, every person who was a director of the Administrator at the date of this Offering Memorandum and every person who signed this Offering Memorandum.

If you elect to exercise a right to cancel your agreement to buy these securities against the Trust, you will have no right of action against the persons described in (b) above.

This statutory right to sue is available to you whether or not you relied on the misrepresentation. However, there are various defences available to the persons or companies that you have a right to sue. In particular, they have a defence if you knew of the misrepresentation when you purchased the securities. In an action for damages, the amount recoverable shall not exceed the price at which the securities were offered and the defendant will not be liable for all or any portion of such damages that the defendant proves does not represent the depreciation in value of the securities as a result of the misrepresentation.

If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence your action not later than 120 days after the date on which payment was made for the securities or after the date on which the initial payment for the securities was made where payments subsequent to the initial payment are made pursuant to a contractual commitment assumed prior to, or concurrently with, the initial payment.

Rights of Purchasers in New Brunswick

If you are a resident of New Brunswick and if there is a misrepresentation in this Offering Memorandum, you have a statutory right to sue:

- (a) the Trust to cancel your agreement to buy these securities, or
- (b) for damages against the Trust.

If you elect to exercise a right to cancel your agreement to buy these securities against the Trust, you will have no right of action against the Trust.

This statutory right to sue is available to you whether or not you relied on the misrepresentation. However, there are various defences available to the persons or companies that you have a right to sue. In particular, they have a defence if you knew of the misrepresentation when you purchased the securities. In an action for damages, the amount recoverable shall not exceed the price at which the securities were offered and the defendant will not be liable for all or any portion of such damages that the defendant proves does not represent the depreciation in value of the securities as a result of the misrepresentation.

If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence your action to cancel the agreement within 180 days after the date that you purchased the securities. You must commence your action for damages within the earlier of one year after you first had knowledge of the facts giving rise to the cause of action and six years after the date you purchased the securities.

Rights of Purchasers in Newfoundland and Labrador

If you are a resident of Newfoundland and Labrador and if there is a misrepresentation in this Offering Memorandum, you have a statutory right to sue:

- (a) the Trust to cancel your agreement to buy these securities, or
- (b) for damages against the Trust, every person who was a director of the Administrator at the date of this Offering Memorandum and every person or company who signed this Offering Memorandum.

If you elect to exercise a right to cancel your agreement to buy these securities against the Trust, you will have no right of action against the persons described in (b) above.

This statutory right to sue is available to you whether or not you relied on the misrepresentation. However, there are various defences available to the persons or companies that you have a right to sue. In particular, they have a defence if you knew of the misrepresentation when you purchased the securities. In an action for damages, the amount recoverable shall not exceed the price at which the securities were offered and the defendant will not be liable for all or any portion of such damages that the defendant proves does not represent the depreciation in value of the securities as a result of the misrepresentation.

If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence your action to cancel the agreement within 180 days after the date that you purchased the securities. You must commence your action for damages within the earlier of 180 days after you first had knowledge of the facts giving rise to the cause of action and three years after the date you purchased the securities.

Rights of Purchasers in Prince Edward Island, Northwest Territories, Yukon and Nunavut

If you are a resident of Prince Edward Island, Northwest Territories, Yukon or Nunavut and if there is a misrepresentation in this Offering Memorandum, you have a statutory right to sue:

- (a) the Trust to cancel your agreement to buy these securities, or
- (b) for damages against the Trust, every person who was a director of the Administrator at the date of this Offering Memorandum and every person who signed this Offering Memorandum.

If you elect to exercise a right to cancel your agreement to buy these securities against the Trust, you will have no right of action against the persons described in (b) above.

This statutory right to sue is available to you whether or not you relied on the misrepresentation. However, there are various defences available to the persons or companies that you have a right to sue. In particular, they have a defence if you knew of the misrepresentation when you purchased the securities. In an action for damages, the amount recoverable shall not exceed the price at which the securities were offered and the defendant will not be liable for all or any portion of such damages that the defendant proves does not represent the depreciation in value of the securities as a result of the misrepresentation.

If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations. You must commence your action to cancel the agreement within 180 days after the date that you purchased the securities. You must commence your action for damages within the earlier of 180 days after you first had knowledge of the facts giving rise to the cause of action and three years after the date you purchased the securities.

ITEM 13 - FINANCIAL STATEMENTS

Petrocapita Income Trust
Consolidated Financial Statements
For the years ended
December 31, 2016 and 2015
(in Canadian dollars)

Independent Auditors' Report

To the Trustees of
Petrocapita Income Trust

We have audited the accompanying consolidated financial statements of Petrocapita Income Trust, which comprise the consolidated balance sheets as at December 31, 2016 and December 31, 2015, and the consolidated statements of loss and comprehensive loss, statements of changes in unitholders' equity (deficiency) and statements of cash flows for the years ended December 31, 2016 and December 31, 2015, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Petrocapita Income Trust as at December 31, 2016 and December 31, 2015, and its financial performance and its cash flows for the years ended December 31, 2016 and December 31, 2015 in accordance with International Financial Reporting Standards.

Other Matter

Without modifying our opinion, we draw attention to note 3 to the consolidated financial statements as at December 31, 2015 and for the year then ended which indicates that prior year comparatives have been restated.

Collins Barrow Calgary LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

Calgary, Canada
May 1, 2017

Petrocapita Income Trust

Consolidated Balance Sheets

(in Canadian dollars)

	Note	December 31 2016	December 31 2015 (restated-note 3)
Assets			
Current assets			
Cash		\$ 2,532,582	\$ 763,065
Accounts receivable	22(b)	1,907,822	330,546
Crude oil inventory	3, 5	836,831	178,661
Prepaid expenses and deposits		546,845	65,947
Total current assets		5,824,080	1,338,219
Non-current assets			
Property and equipment	6	50,430,656	28,769,143
Exploration and evaluation assets	7	2,789,952	1,007,141
Total assets		\$ 59,044,688	\$ 31,114,503
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	22(c)	\$ 6,188,075	\$ 1,651,782
Bank debt	8	95,000	-
Loans payable	9	211,442	-
Current portion of obligation under finance leases	10	79,214	-
Current portion of debenture	11(a)	-	44,722
Current portion of convertible debentures	12	160,204	21,097
Total current liabilities		6,733,935	1,717,601
Non-current liabilities			
Decommissioning provisions	13	23,129,666	7,806,230
Obligation under finance leases	10	158,296	-
Debenture	11(a)	4,565,987	415,278
Convertible debentures	12	5,510,911	287,443
Conversion feature of convertible debentures	12	2,679,931	37,932
Deferred tax liability	14	116,000	-
Total liabilities		42,894,726	10,264,484
Unitholders' Equity			
Common units	15	37,368,608	37,368,608
Warrants	16	309,461	4,929
Deficit		(21,528,107)	(16,523,518)
Total unitholders' equity		16,149,962	20,850,019
Total liabilities and unitholders' equity		\$ 59,044,688	\$ 31,114,503

Commitments (notes 11, 23)

Subsequent events (note 13, 25)

See accompanying notes to the consolidated financial statements.

Approved by the Trustees:

(signed) "Alex Lemmens" Trustee

(signed) "Richard Mellis" Trustee

Petrocapita Income Trust

Consolidated Statements of Loss and Comprehensive Loss

(in Canadian dollars)

	Note	Year ended	
		December 31 2016	December 31 2015 (restated-note 3)
Revenue			
Revenue	18	\$ 5,259,118	\$ 3,659,716
Royalties expense		(542,010)	(265,141)
Revenue, net of royalties		4,717,108	3,394,575
Expenses			
Operating	18	5,929,092	3,185,410
General and administrative	24(b)	3,154,266	1,048,332
Transaction costs		97,100	379,104
Depletion and depreciation	6	1,391,533	1,410,496
Total expenses		10,571,991	6,023,342
Operating loss		(5,854,883)	(2,628,767)
Finance expenses	20	(1,416,693)	(1,040,671)
Loss on corporate acquisitions	4(a)	(885,062)	-
Gain on asset acquisitions / swaps	4(b)(c)(d)	4,357,561	461,176
Unrealized gain (loss) on conversion feature of convertible debentures	12	(694,718)	29,008
Impairment of property and equipment	6	(73,733)	-
Impairment of exploration and evaluation assets	7	(375,233)	(335,624)
Loss before taxes		(4,942,761)	(3,514,878)
Current tax		(61,828)	(26,903)
Loss and comprehensive loss		\$ (5,004,589)	\$ (3,541,781)
Loss per common unit, basic and diluted	17	\$ (0.005)	\$ (0.005)

See accompanying notes to the consolidated financial statements.

Petrocapita Income Trust

Consolidated Statements of Changes in Unitholders' Equity (Deficiency)

(in Canadian dollars)

	Note	Common Units	Equity Component of Preferred Units	Warrants	Equity Component of Debenture	Deficit (restated-note 3)	Total Unitholders' Equity (Deficiency)
Balance at December 31, 2014		\$ 3,571,402	\$ 3,353,797	\$ -	\$ -	\$ (12,981,737)	\$ (6,056,538)
Redemption of Preferred Units		-	(4,698)	-	-	-	(4,698)
Issuance of Preferred Units		-	30,622	-	-	-	30,622
Conversion of Preferred Units into Common Units		33,797,206	(3,379,721)	-	-	-	30,417,485
Issuance of warrants	12,16	-	-	4,929	-	-	4,929
Loss and comprehensive loss for the year		-	-	-	-	(3,541,781)	(3,541,781)
Balance at December 31, 2015		\$ 37,368,608	\$ -	\$ 4,929	\$ -	\$ (16,523,518)	\$ 20,850,019
Balance at December 31, 2015		\$ 37,368,608	\$ -	\$ 4,929	\$ -	\$ (16,523,518)	\$ 20,850,019
Issuance of warrants	12,16	-	-	304,532	-	-	304,532
Loss and comprehensive loss for the year		-	-	-	-	(5,004,589)	(5,004,589)
Balance at December 31, 2016		\$ 37,368,608	\$ -	\$ 309,461	\$ -	\$ (21,528,107)	\$ 16,149,962

See accompanying notes to the consolidated financial statements.

Petrocapita Income Trust

Consolidated Statements of Cash Flows

(in Canadian dollars)

	Note	Year ended	
		December 31 2016	December 31 2015 (restated-note 3)
Cash provided by (used in):			
Cash flows provided by (used in) operating activities			
Loss for the year		\$ (5,004,589)	\$ (3,541,781)
Adjustments for:			
Depletion and depreciation	6	1,391,533	1,410,496
Distribution to Preferred Unitholders	20	-	847,730
Accretion of decommissioning provision	13	257,000	153,248
Accretion of convertible debenture	12, 20	152,489	2,494
Convertible debentures issued under DRIP		15,886	-
Amortization of financing costs	20	324,164	12,787
Interest on note receivable		-	(287)
Gain on asset acquisitions/swaps	4(b)(c)(d)	(4,361,403)	(461,176)
Loss on corporate acquisitions	4(a)	885,062	-
Unrealized loss (gain) on conversion feature of convertible debentures	12	694,718	(29,008)
Impairment of property and equipment	6	73,733	-
Impairment of exploration and evaluation assets	7	375,233	335,624
Actual abandonment expenditures	13	(63,278)	-
Changes in non-cash working capital	21	1,244,072	868,813
Net cash used in operating activities		(4,015,380)	(401,060)
Cash flows provided by (used in) investing activities			
Additions to property and equipment	6	(1,766,709)	(764,544)
Additions to exploration and evaluation assets	7	-	(4,032)
Cash paid on acquisitions/swaps net of cash acquired	4(a)(b)	(3,136,575)	(15,000)
Repayment of notes receivable		-	22,077
Changes in non-cash working capital	21	646,175	253,382
Net cash used in investing activities		(4,257,109)	(508,117)
Cash flows provided by (used in) financing activities			
Redemption of Preferred Units	15	-	(42,279)
Proceeds from issue of convertible debentures	12(a)	6,303,000	222,000
Costs related to issue of convertible debentures	12	(726,431)	(78,570)
Proceeds from issue of debentures	11(a)	5,000,000	-
Costs related to issue of debentures	11(a)	(501,587)	-
Repayment of principal on convertible debentures	12(d)	(21,097)	-
Repayment of loans payable		(16,591)	-
Repayment of bank debt	9	(80,000)	-
Repayment of finance leases	11	(50,740)	-
Interest and Preferred Unit distributions paid		-	(1,111,918)
Changes in non-cash working capital	21	135,452	84,861
Net cash provided by (used in) financing activities		10,042,006	(925,906)
Change in cash		1,769,517	(1,835,083)
Cash, beginning of year		763,065	2,598,148
Cash, end of year		\$ 2,532,582	\$ 763,065

See accompanying notes to the consolidated financial statements.

Petrocapita Income Trust
Consolidated Financial Statements
For the years ended December 31, 2016 and 2015

(in Canadian dollars)

1. 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. The Trust has been established with the objective of investing indirectly in a diversified portfolio of petroleum producing properties through its acquisition of debt and equity securities issued by Petrocapita Oil and Gas L.P. (the "Partnership") and its investment in related entities involved in oilfield services. The Partnership and related entities were formed solely to 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 petroleum and natural gas and related products, and such other business activities as are in any way related, ancillary or incidental thereto. The Partnership is managed by Petrocapita GP I Ltd. (the "General Partner").

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. Costs of \$379,104 associated with issuing the non-offering prospectus and becoming listed have been included in profit or loss as transaction costs.

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".

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

On May 1, 2017, the Board of Trustees authorized these consolidated financial statements for issue.

(b) Reporting entity

The consolidated financial statements of the Trust, comprise the Trust and its wholly-owned subsidiaries: Petrocapita Oil and Gas L.P., Petrocapita GP I Ltd., Petrocapita Energy Corp., Petrocapita GP II Ltd., Petrocapita Processing L.P., Hytop Well Servicing Inc., PCap Trucking Inc. (formerly 1701307 Alberta Ltd.) and Smartworks Oilfield Maintenance Ltd.

Petrocapita Energy Corp. ("PEC"), was incorporated on September 26, 2016 under the *Business Corporations Act (Alberta)* for the purpose of completing a reorganization of the corporate structure of the Trust as part of the Offering Memorandum described in note 25(a). In addition, Petrocapita GP II Ltd. and Petrocapita Processing L.P., wholly owned subsidiaries of PEC were incorporated under the *Business Corporations Act (Alberta)* and *Alberta Partnership Act* on October 18 and 19, 2016 respectively.

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(c) Basis of measurement and presentation

The consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments which are measured at fair value.

Operating expenses in the statement of loss and comprehensive loss are presented as a combination of function and nature in conformity with industry practice. Depletion and depreciation expense is presented on a separate line by their nature, while general and administrative expenses are presented on a functional basis. Significant expenses such as salaries, wages and fees are presented by their nature in the notes to the consolidated financial statements.

The Trust presents cashflows related to interest and capital taxes (Saskatchewan resource surcharge) paid as operating activities in conformity with industry practice.

(d) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Trust and its subsidiaries.

(e) Use of estimates and judgments

The preparation of financial statements requires management to make estimates and assumptions and use judgment based on currently available information that may affect the application of accounting policies and the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year. 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 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

Petrocapita Income Trust
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For the years ended December 31, 2016 and 2015
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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 (note 4(b)). 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.

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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 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.

Petrocapita Income Trust
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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 (see note 4(b)). 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.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to the years presented in these consolidated financial statements except as noted below.

(i) Change in accounting policy

Crude oil inventory

In previous reporting periods, the Trust did not recognize crude oil inventories. During the year ended December 31, 2016, management determined that the timing between production and sale of crude oil often results in amounts held in tanks at the end of each reporting period. Furthermore, management determined a change to their accounting policy was necessary to provide more reliable and useful information to the users of the financial statements related to crude oil volumes held at each reporting period. Accordingly, at December 31, 2016, the Trust recorded crude oil volumes based on the lower of cost using the weighted average cost method and net realizable value. Costs of crude oil inventory include all costs of production, storage and transportation on

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produced but unsold crude oil. Net realizable value is the estimated selling price in the ordinary course of business, less selling expenses and transportation costs, if applicable.

In accordance with *IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors*, the change in accounting policy was accounted for retrospectively and has the following impact on comparative figures as at December 31, 2015 and for the year then ended:

- Crude oil inventory – increase of \$178,661
- Operating expenses – increase of \$215,596
- Loss and comprehensive loss – increase of \$215,596
- Deficit – decrease of \$178,661
- Loss per common unit, basic and diluted – no impact
- Cash flows from operating activities – no impact

The change in accounting policy had the following impact on comparative figures as at January 1, 2015:

- Crude oil inventory – increase of \$394,257
- Deficit – decrease of \$394,257

(ii) Correction of error

Saskatchewan resource surcharge

During the year ended December 31, 2016, management determined that the Trust did not record capital taxes (Saskatchewan resource surcharge) related to Saskatchewan resource revenues in previous reporting periods. Accordingly, for the year ended December 31, 2016, the Trust recorded a current tax provision related to the amounts owing for capital tax (Saskatchewan resource surcharge).

Furthermore, in accordance with *IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors*, the correction of the error was accounted for retrospectively and has the following impact on comparative figures as at December 31, 2015 and for the year then ended:

- Accounts payable and accrued liabilities – increase of \$219,773
- Current tax – increase of \$26,903
- Loss and comprehensive loss – increase of \$26,903
- Deficit – increase of \$219,773
- Loss per common unit, basic and diluted – no impact
- Cash flows from operating activities – no impact

The change in accounting policy had the following impact on comparative figures as at January 1, 2015:

- Accounts payable and accrued liabilities – increase of \$192,870
- Deficit – increase of \$192,870

(a) Basis of consolidation:

(i) Subsidiaries

Subsidiaries are entities controlled by the Trust. The Trust controls an entity when it is exposed to, or has rights to, variable returns from its investment with the entity and has the

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ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Trust, using uniform accounting policies.

(ii) Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

(b) Joint arrangements

A portion of the Trust's activities are conducted jointly with others through unincorporated jointly controlled operations and the consolidated financial statements reflect only the Trust's proportionate interest in such activities. The Trust has assessed the nature of its joint arrangements and determined them to be joint operations. The Trust accounts for its joint operations by including its proportionate interest in assets, liabilities, revenue and expenses in the consolidated financial statements. Joint control exists for contractual arrangements governing the Trust's assets whereby the Trust has less than 100 percent working interest, all of the partners have control of the arrangement collectively and spending on the project requires unanimous consent of all parties that collectively control the arrangement and share the associated risks. The Trust does not have any joint arrangements that are material to the Trust or that are structured through joint venture arrangements.

(c) Business combinations and asset acquisitions

Business combinations are accounted for using the acquisition method where the acquisitions of companies and/or assets meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The acquired identifiable assets and liabilities are measured initially at their fair value at the date of acquisition. The fair value of exploration and evaluation assets and property and equipment is the estimated amount for which these assets could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests is estimated with reference to discounted cash flows expected to be derived from oil and natural gas production based on internally and externally prepared reserve reports as well as undeveloped lands in similar areas. The market values for transport and disposal assets and oilfield service assets is based on independent appraisals and comparison to similar equipment. The risk-adjusted discount rate is specific to the asset with reference to general market conditions. Any excess of the purchase price over the fair value of the identifiable assets and liabilities acquired is recognized as goodwill. If there is no identifiable additional value to attribute to the excess, a loss on acquisition is recognized in profit or loss. If the cost of acquisition is less than fair value of the identifiable assets and liabilities, the difference is recorded as a gain in profit or loss. Associated transaction costs are expensed when incurred.

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(d) Inventory

Crude oil inventory is valued at the lower of cost using the weighted average cost method and net realizable value. Costs of crude oil inventory include expenditures incurred in bringing the crude oil to its existing location and condition. Crude oil inventory includes all costs of production, storage and transportation on produced but unsold crude oil. Net realizable value is the estimated selling price in the ordinary course of business, less selling expenses and transportation costs, if applicable.

(e) Exploration and evaluation assets and property and equipment

(i) Exploration and evaluation assets

Pre-license expenditures incurred before the Trust has obtained legal rights to explore an area are expensed.

Exploration and evaluation costs include the costs of acquiring licenses, exploratory drilling, geological and geophysical activities, seismic acquisition, acquisition of mineral and surface rights and technical studies. Exploration and evaluation costs are capitalized as exploration and evaluation assets and accumulated in cost centres by well, field or exploration area when the technical feasibility and commercial viability of extracting petroleum reserves have yet to be determined. Exploration and evaluation assets are measured at cost and are not depleted or depreciated until after these assets are reclassified to property and equipment. Exploration and evaluation assets, net of any impairment loss, are transferred to property and equipment when proved and/or probable reserves are determined to exist. If an area is determined not to be technically feasible and commercially viable, or the Trust discontinues its exploration and evaluation activities, the unrecoverable costs are expensed. A review of each exploration license or field/area is carried out, at least annually, to ascertain whether proved and/or probable reserves have been discovered.

Exchanges, farm-outs or swaps that involve only exploration and evaluation assets are accounted for at cost. Any gains or losses from the divestiture of exploration and evaluation assets are recognized in profit or loss.

(ii) Property and equipment

Heavy oil properties

All costs directly associated with the development of heavy oil property interests are capitalized on an area-by-area basis if they extend or enhance the recoverable reserves of the underlying assets and are measured at cost less accumulated depletion and depreciation and accumulated net impairment losses. Development costs include expenditures for areas where technical feasibility and commercial viability has been determined. These costs include property acquisitions with proved and/or probable reserves, development drilling, completion, gathering and infrastructure, decommissioning costs and transfers of exploration and evaluation assets.

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Transport and disposal assets and oilfield service assets

All costs directly associated with the development of disposal assets are capitalized if they enhance the underlying capacity/use of the assets and are measured at cost less accumulated depreciation and accumulated net impairment losses. These costs include property acquisitions of disposal assets, development drilling, completion, gathering and infrastructure and decommissioning costs.

Transport equipment and oilfield service equipment is measured at cost less accumulated depreciation and accumulated impairment losses. Costs include expenditures that are directly attributable to the acquisition of the items. Subsequent costs are included in the equipment's carrying amount or recognized as a separate asset as appropriate only when it is probable that future economic benefits associated with the item will flow to the Trust and the cost of the item can be measured reliably.

The costs of routine maintenance and the day-to-day servicing of property and equipment are recognized in profit or loss as incurred. The carrying amount of a replaced part is derecognized.

Exchanges or swaps of property and equipment are measured at fair value unless the transaction lacks commercial substance or neither the fair value of the asset received nor the asset given up can be reliably estimated. The cost of the acquired asset is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. When fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. Any gains or losses from the divestiture of property and equipment are recognized in profit or loss.

Gains and losses on disposal on an item of property and equipment including oil and natural gas interests, are determined by comparing the proceeds or fair value of the asset received or given up with the carrying amount of property and equipment and are recognized in profit or loss.

(iii) Depletion and depreciation

Heavy oil property interests included in property and equipment are depleted on an area-by-area basis using the unit-of-production method by reference to the ratio of production in the period to the related proved and probable reserves, taking into account estimated future development costs. Heavy oil property interests, including processing facilities and well equipment, are componentized into groups of assets with similar useful lives for purposes of performing depletion calculations. Changes in estimates used in prior periods that affect the unit-of-production calculations, such as proved and probable reserves, do not give rise to prior period adjustments and are dealt with on a prospective basis.

Transport and disposal assets and service rigs and related equipment are depreciated on a straight-line basis over the useful lives of each component of the assets since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets.

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The estimated useful lives of the Trust's transport and disposal assets and oilfield service assets are as follows:

Water disposal wells	25 years
Service rigs	10 years
Tractors, trailers, trucks and tankers	7 years
Shop equipment	7 years
Office furniture and equipment	5 years
Computer equipment	4 years

Methods of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate.

(f) Impairment of property and equipment and exploration and evaluation assets

The carrying amounts of the Trust's property and equipment and exploration and evaluation assets are reviewed for indicators of impairment or impairment reversals at each reporting date. These indicators include but are not limited to, extended decreases/increases in prices or margins for heavy oil commodities or products or disposal services, a significant downward/upward revision in estimated reserves or an upward/downward revision in future developments costs, extended increases/decreases in consumer demand for transport, disposal or oilfield services and /or increases/decreases in margins for services provided.. If indicators of impairment or reversals of impairment exist, the recoverable amount of the asset is estimated.

For the purposes of assessing impairment, exploration and evaluation assets and property and equipment are tested separately and are grouped into CGUs, defined as the lowest levels for which there are separately identifiable independent cash inflows. Proximity and internal management operations and processes are key factors considered when determining the Trust's CGU's for purposes of impairment.

Exploration and evaluation assets are assessed separately for impairment when they are reclassified to property and equipment and if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. Indicators of impairment may include the decision to no longer pursue the evaluation project, an expiry of the rights to explore in an area, or failure to receive regulatory approval. If, at any time, it is determined that the Trust has no future exploration plans and commercial production cannot be achieved in relation to an area, the associated costs are written down to the estimated recoverable amount, or fully de-recognized and the amount of the write-down is expensed in profit or loss.

The recoverable amount of a CGU is the greater of its fair value less costs of disposal and its value in use. Fair value is determined to be the amount for which the asset could be sold in an arm's length transaction between knowledgeable and willing parties. Value in use is determined by estimating the present value of the future net cash flows to be derived from the continued use of the cash-generating unit in its present form. Unless otherwise indicated, the recoverable amount used in assessment of impairment losses (reversals) is fair value less costs of disposal for heavy oil properties and value in use for transport and oilfield service equipment. Fair value less costs of disposal may be determined based on discounted future net cash flows of proved and probable reserves using forecast prices and costs and including future development costs. Cash flows are discounted at an appropriate discount rate which would be applied by a market participant and at a rate based on the time value of money and risks specific to the CGU.

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An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized. Reversals of impairment are recognized in profit or loss.

(g) Provisions and contingent liabilities

Provisions are recognized by the Trust when it has a legal or constructive obligation as a result of past events, it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the amount of that obligation.

Decommissioning provision

An obligation to incur restoration, rehabilitation, remediation, reclamation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production of heavy oil properties and water disposal assets.

A decommissioning provision is recognized as a liability for obligations associated with the abandonment of petroleum and natural gas wells, removal of equipment from leased acreage and returning such land to its original condition as set by standards of environmental regulations.

The Trust records the fair value of each decommissioning obligation in the year a well or related asset is drilled, constructed or acquired. Decommissioning obligations are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are determined by discounting the expected future cash flows at a pre-tax risk-free rate. The expected future cash flows reflect current market assessments and the risks specific to the liability.

The discounted obligation is initially capitalized as part of the carrying amount of the related property and equipment or exploration and evaluation assets, and a corresponding liability is recognized. The increase in heavy oil property interests is depleted on the same basis as the related heavy oil component, while the liability is accreted to profit or loss until it is settled or sold. Subsequent to the initial measurement, the obligation is adjusted at the end of each year to reflect the passage of time, changes in the estimated future cash flows underlying the obligation and changes in the pre-tax risk-free rate. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows or changes in the risk free rate are capitalized. Actual costs incurred upon settlement of the decommissioning provisions are charged against the provision to the extent the provision was established.

The obligation is reviewed regularly by the Trust's management based on current regulations, costs, technologies and industry standards.

Contingencies

Contingent liabilities are possible obligations whose existence will only be confirmed by future events not wholly within the control of the Trust. When a contingency is substantiated by confirming events, can be reliably measured and will likely result in an economic outflow, a liability is recognized in the financial statements as the best estimate required to settle the obligation. A contingent liability is disclosed where the existence of an obligation will only be

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confirmed by future events, or where the amount of a present obligation cannot be measured reliably or will likely not result in an economic outflow.

Contingent consideration is based on the use of estimates to determine the likelihood of factors being met related to the contingent consideration.

(h) Convertible debentures

The components of compound financial instruments are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement as they can be converted to common units at the option of the holder. At the issue date, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability and thereafter accounted for using amortized cost using the effective interest method until the instrument is converted or the instrument matures. The liability component accretes up to the principal balance at maturity. The equity component is determined by deducting the liability component from the total fair value of the compound financial instrument at inception and is recognized as equity, with no subsequent re-measurement. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

The conversion feature of the convertible debentures does not meet the criteria for equity classification due to a variable conversion price. Accordingly, the conversion feature is accounted for as an embedded derivative liability as the fair value of the conversion feature is affected by changes in the fair value of the Trust's common units. The embedded derivative liability is calculated first, using the Black-Scholes option pricing model, and the residual value is assigned to the debt host liability component. Changes in the fair value of the embedded derivative liability are recognized in profit or loss at each reporting date.

(i) Leases

Leases with terms where the Trust assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Minimum lease payments made under finance leases are apportioned between finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases and the leased assets are not recognized in the Trust's balance sheet. Payments under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

(j) Revenue

Revenue is measured at the fair value of the consideration received or receivable. The Trust recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Trust's activities, as described below.

Revenue from the sale of heavy oil is recognized based on volumes delivered to customers at contractual delivery points and rates when the significant risks and rewards of ownership of the product is transferred to the buyer, which is usually when title passes from the Trust to the customer. For heavy oil, this is generally at the time the product reaches a trucking terminal.

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Revenue from the transport and disposal of water is recognized on a fee-for-service basis based on disposed volumes when the service has been performed in accordance with the applicable third-party agreements.

Oilfield services revenue is recognized in the accounting period in which the services are rendered, with reference to the stage of completion of the specific transaction and assessed on the basis of the actual services provided as a proportion of the total services to be provided and only when collectability is reasonably assured.

(k) Finance expenses

Finance expenses comprise accretion of decommissioning provisions, the excess of carrying value over redemption costs on Preferred Units, distributions paid to Preferred Unitholders, accretion of convertible debentures, finance and interest costs, amortization of debt issue costs and impairment losses recognized on financial assets.

(l) Financial instruments

Financial assets and liabilities are recognized when the Trust becomes a party to the contractual provisions of the instrument and are measured at fair value on initial recognition of the instrument.

(i) *Classification and measurement*

The Trust's non-derivative financial instruments are comprised of cash, accounts receivable, accounts payable and accrued liabilities, bank debt, loans payable, obligations under finance leases, debentures and convertible debentures.

The Trust has designated cash as "held for trading" which is measured at fair value through profit or loss.

The Trust has designated accounts receivable as "loans and receivables", accounts payable and accrued liabilities, bank debt, loans payable, obligations under finance leases, debentures and convertible debentures as "financial liabilities measured at amortized cost". These assets and liabilities are measured at amortized cost at the settlement date using the effective interest method of amortization.

(ii) *Derivative financial instruments – conversion feature of convertible debentures*

All financial derivative contracts are classified as "fair value through profit or loss". Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related. Changes in the fair value of separable embedded derivatives are recognized immediately in profit or loss. The convertible debentures have an embedded derivative because the fair value of the conversion feature is affected by change in the fair value of the Trust's common units (note 12). The fair value of the conversion feature is calculated using the Black-Scholes option pricing model, based on the stock price and the estimated exercise price (specified in the terms of the convertible debenture agreements) at inception and at the reporting date.

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(iii) *Issue costs*

Issue costs related to financial instruments classified as fair value through profit or loss are expensed as incurred. All other issue costs related to financial instruments are recorded as part of the instrument and are amortized using the effective interest method.

(iv) *Equity instruments*

Common Units and Warrants are classified as equity. Incremental costs directly attributable to the issue of units or warrants are recognized as a deduction from equity.

Preferred Units are considered a compound financial instrument with a liability and equity component whereby the liability component is measured based on the unitholders redemption feature. Upon initial issuance, the units are bifurcated into the liability and equity components.

(v) *Impairment*

The Trust assesses at each balance sheet date whether there is objective evidence that financial assets, other than those designated as “fair value through profit or loss” are impaired. (one or more events have had a negative effect on the estimated cash flows of the asset). When impairment has occurred, the cumulative loss is recognized in the profit or loss. For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate. Impairment losses may be reversed in subsequent periods.

(m) *Taxes*

Taxes comprise current and deferred taxes. Current tax and deferred tax are recognized in profit or loss, except to the extent that it relates to a business combination or items recognized directly in the unitholders’ equity or in other comprehensive income (loss).

Current tax is the expected taxes payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to taxes payable or receivable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset only in certain circumstances.

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(n) Earnings (loss) per common unit

The Trust presents basic and diluted earnings (loss) per common unit (“EPU”) data for its units. Basic EPU is calculated by dividing the earnings (loss) attributable to common unitholders of the Trust by the weighted average number of common units outstanding during the period. Diluted EPU is determined by adjusting the earnings (loss) attributable to common unitholders and the weighted average number of common units outstanding for the effects of all dilutive potential units, including preferred distributions and convertible debentures into common units. This method assumes that the potential common units converted into common units at the beginning of the period (or at the time of issuance, if not in existence at beginning of the period). The number of dilutive potential common units is determined independently for each period presented. For convertible securities that may be settled in cash or shares at the holder’s option, returns to preferred unitholders and income charges are added back to net earnings (loss) used for basic EPU and the maximum number of common units that could be issued on conversion is used in the computing diluted earnings (loss) per common unit.

(o) Fair value determination

A number of the Trust’s accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. The Trust classifies the fair value of financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instruments:

- Level 1: Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets and liabilities.
- Level 2: Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.
- Level 3: Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

(p) Future accounting policies

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.

(q) Certain comparative amounts have been reclassified to conform with the current year’s presentation.

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4. Acquisitions

2016 Transactions

(a) Corporate acquisitions

During the year ended December 31, 2016, the Trust acquired all of the issued and outstanding shares of Hytop Well Servicing Inc., PCap Trucking Inc., Smartworks Oilfield Maintenance Ltd. and Crucible Resources Corp. As part of the acquisitions, the Trust acquired service rigs and ancillary well servicing equipment, oil fluid transport tankers, trailers and leases, oilfield service trucks and exploration and evaluation assets. The acquisitions were completed to continue the growth of the Trust's transport and disposal business as well as its oilfield service business.

The aggregate shares were acquired by issuance of convertible debentures (note 12) to the existing shareholders of the entities for a total consideration of \$1,633,951. The convertible debentures are secured by the related equipment acquired.

The acquisitions were accounted for as a business combination using the acquisition method as the acquired assets and liabilities assumed constituted a business. The fair value of the related property and equipment and exploration and evaluation assets was based on independent third party appraisals.

These financial statements incorporate the results of operations of the entities from the dates of acquisition onward. The assets' revenues and net incomes since the acquisition date, and pro forma revenues and net income giving effect to the corporate acquisitions as if they had occurred at the beginning of the fiscal year are not significant to determine.

The net purchase price has been allocated to the assets and liabilities acquired based on their estimated fair value at the date of acquisitions and allocated as follows:

Recognized amounts of identifiable assets acquired and liabilities assumed:

Cash	\$	3,236
Accounts receivable		373,777
Prepaid deposit		89,255
Note receivable		460,000
Exploration and evaluation assets – transport and disposal assets (note 7)		508,044
Property and equipment – transport and disposal and oilfield service assets (note 6)		968,356
Bank debt (note 8)		(175,000)
Accounts payable and accrued liabilities		(707,496)
Obligation under finance leases (note 10)		(288,250)
Loans payable (note 9)		(228,033)
Deferred tax liability (note 14)		(116,000)
Decommissioning provisions (note 13)		(139,000)
Net assets acquired		748,889
Total consideration transferred		1,633,951
Loss on corporate acquisitions	\$	(885,062)

Non-cash consideration:

Convertible debentures (note 12)	\$	1,633,951
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Total consideration transferred exceeded the net assets acquired, accordingly a loss on corporate acquisitions of \$885,062 has been included in profit or loss.

As part of the corporate acquisitions, the Trust acquired certain tax pools whereby approximately \$1.7 million have not been recognized on the acquisition date related to deductible temporary differences in respect of non-capital losses that expire between 2032 and 2035 as it is not probable that future taxable income will be available against which these tax benefits will be utilized.

The purchase price allocations represent the amounts assigned to the net assets acquired based on information available at the time of the preparation of the consolidated financial statements. Subsequent adjustments related to provisional amounts recognized in the purchase price allocation will be adjusted retrospectively during the measurement period (from the acquisition date up to a maximum of one year) which may include the recognition of additional assets or liabilities should new information be obtained related to facts and circumstances that existed as of the acquisition date.

(b) Asset acquisitions

On July 11, 2016, the Trust acquired certain oil and natural gas properties (“the properties”) for total cash consideration of \$3.2 million including acquisition costs and a Gross Overriding Royalty (“GORR”) of 1.5% on the assets acquired, in favour of the vendor’s lender effective for a period of five years from closing and in respect of any calendar month when the average daily selling price for the near month light, sweet crude oil future contracts as reported by the New York Mercantile Exchange in US dollars for West Texas Intermediate oil exceeds \$80.00 USD per barrel.

The acquisition was accounted for as a business combination using the acquisition method as the acquired assets and liabilities assumed constituted a business. The Trust acquired the properties for the producing cash flows and additional facilities.

The fair value of the property and equipment acquired of \$28,000,000 was determined with reference to an externally generated engineering report at December 31, 2015 and internally updated to reflect current period production, current forecast pricing estimates and other internal assumptions (“Palliser Report”). The reserve values were discounted at a rate of approximately 15% using proved producing and total proved reserve estimates.

The fair value of exploration and evaluation assets of \$1,650,000 was determined with reference to recent undeveloped land acquisitions in close proximity to the acquired lands and management’s best estimate of the value of acquired seismic assets.

The Trust determined the fair value of the decommissioning provisions assumed using estimates of abandonment and reclamation costs as published by regulatory bodies, a risk-free rate at the date of acquisition and the timing of obligations based on information contained in the external reserve report prepared by qualified engineers at December 31, 2015.

On the acquisition date and at December 31, 2016, the Trust determined the contingent consideration related to the GORR had no value and therefore no amounts were recorded at the acquisition date or December 31, 2016. This determination was made with reference to forecast prices of West Texas Intermediate oil published by external reserve engineers over a period of five years.

These financial statements incorporate the results of operations of the acquired assets from the dates of acquisition onward. The acquisition has provided revenue of approximately \$2,133,000 and a net loss of approximately \$178,000 since July 11, 2016. The pro forma revenue and net loss giving

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effect to the acquisition as if it had occurred on January 1, 2016, are approximately \$3,061,000 and \$854,000, respectively.

The net purchase price has been allocated to the assets and liabilities acquired based on their estimated fair value at the date of acquisition and allocated as follows:

Recognized amounts of identifiable assets acquired and liabilities assumed:

Property and equipment – heavy oil property interests (note 6)	\$	28,000,000
Exploration and evaluation assets (note 7)		1,650,000
Inventory (note 5)		152,000
Prepaid expenses		298,214
Decommissioning provisions (note 13)		(18,795,000)
Net assets acquired	\$	11,305,214
Total cash consideration	\$	3,139,811
Contingent consideration – GORR		-
Total consideration		3,139,811
Bargain purchase gain on acquisition, net of GORR disposition	\$	4,361,403

In conjunction with the closing of the acquisition of assets and in accordance with the terms of the debenture (note 11(a)), the Trust sold a gross overriding royalty (“GORR”) on the acquired properties to the debenture holders. The carrying amount of the GORR was determined with reference to the Palliser Report and applying a discount rate between 15% and 20% to the reserve cash flows. The Trust recorded a loss in the amount of \$3,804,000 (note 6) related to the GORR disposition which has been included in profit or loss resulting in a net gain/loss on the acquisition/disposition of oil and natural gas interests of \$4,361,403 related to the asset acquisition.

As part of the asset acquisition, the Trust acquired certain tax pools whereby approximately \$30.1 million have not been recognized on the acquisition date related to deductible temporary differences in respect of resource tax pools as it is not probable that future taxable income will be available against which these tax benefits will be utilized.

The purchase price allocations represent the amounts assigned to the net assets acquired based on information available at the time of the preparation of the consolidated financial statements. Subsequent adjustments related to provisional amounts recognized in the purchase price allocation will be adjusted retrospectively during the measurement period (from the acquisition date up to a maximum of one year) which may include the recognition of additional assets or liabilities should new information be obtained related to facts and circumstances that existed as of the acquisition date.

2015 Transactions

(a) Asset swaps

During the year ended December 31, 2015, the Trust completed two asset swaps. The first asset swap was completed with a joint interest partner to acquire additional working interest in a heavy oil property. The second asset swap was completed to acquire the working interest in a water disposal well and other assets which would allow for operational efficiencies. The exchange transactions are considered to have commercial substance as the configuration of the cash flows of the assets received differs significantly from the configuration of the cash flows of the assets transferred. As a result, the cost on initial recognition of the assets received during the swap was measured at the fair value of the assets received as it was more readily determinable.

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The Trust recognized the fair value of the assets received and the resulting gain was recognized in profit or loss as follows:

Fair value of assets received – property and equipment (note 6)	\$ 1,569,447
Fair value of liabilities assumed – decommissioning provisions (note 13)	(1,447,866)
	\$ 121,581
Carrying value of assets given up – property and equipment (note 6)	\$ 50,847
Carrying value of liabilities given up – decommissioning provisions (note 13)	(15,000)
Cash consideration given	15,000
	\$ 50,847
Gain on asset swap	\$ 70,734

The fair value of the net assets exchanged exceeded the purchase price by \$70,734 and accordingly, a gain on asset swaps has been included in profit or loss for the year ended December 31, 2015.

(b) Asset acquisition

During the year ended December 31, 2015, the Trust acquired additional working interests in heavy oil properties including certain non-producing property interests from one of its joint interest partners 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 in the asset swaps and property acquisition were determined with reference to an internal reserve report prepared by management using proved developed producing reserves discounted at approximately 15% - 20%.

Recognized amounts of identifiable assets acquired and liabilities assumed:

Property and equipment (note 6)	\$ 2,203,306
Decommissioning provisions (note 13)	(1,429,668)
Net assets acquired	773,638
Bargain purchase gain	(390,442)
Purchase consideration transferred	\$ 383,196
Consideration:	
Convertible debentures (note 12)	\$ 217,000
Settlement of accounts receivable (joint interest partner receivable)	166,196
Total non-cash consideration	\$ 383,196

The fair value of the assets exchanged exceeded the purchase price by \$390,442 and accordingly, a bargain purchase gain has been included in profit or loss for the year ended December 31, 2015. These consolidated financial statements reflect the results of operations of the asset swaps and property acquisition as of the closing dates. The acquired assets' revenues and net income since the acquisition dates and pro forma revenues and net income giving effect to the transactions noted above, as if they occurred on January 1, 2015 are approximately \$540,000 and \$140,000, respectively.

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5. Crude oil inventory

	(restated-note 3)
	2016
	2015
Crude oil inventories	\$ 836,831
	\$ 178,661

Crude oil inventory has been recorded at net realizable value at December 31, 2016 and 2015.

6. Property and equipment

	Heavy Oil Property Interests	Transport and Disposal Assets	Oilfield Service Assets	Total
Cost				
Balance at December 31, 2014	\$ 30,053,289	\$ 2,372,037	\$ -	\$ 32,425,326
Capital expenditures	382,524	842,020	-	1,224,544
Asset acquisitions/swaps (note 4)	2,584,906	1,137,000	-	3,721,906
Change in decommissioning costs (note 13)	(1,282,028)	8,773	-	(1,273,255)
Balance at December 31, 2015	31,738,691	4,359,830	-	36,098,521
Capital expenditures	1,610,605	75,625	80,479	1,766,709
Asset acquisitions (note 4 (b))	28,000,000	-	-	28,000,000
Corporate acquisitions (note 4 (a))	-	293,500	674,856	968,356
GORR disposition (note 4 (b))	(3,804,000)	-	-	(3,804,000)
Change in decommissioning costs (note 13)	(3,076,286)	(187,000)	-	(3,263,286)
Balance at December 31, 2016	\$ 54,469,010	\$ 4,541,955	\$ 755,335	\$ 59,766,300

Accumulated depletion and depreciation

Balance at December 31, 2014	\$ 5,441,180	\$ 477,702	\$ -	\$ 5,918,882
Depletion and depreciation for the year	1,196,092	214,404	-	1,410,496
Balance at December 31, 2015	6,637,272	692,106	-	7,329,378
Depletion and depreciation for the year	1,601,053	291,581	39,899	1,932,533
Impairment loss	-	73,733	-	73,733
Balance at December 31, 2016	\$ 8,238,325	\$ 1,057,420	\$ 39,899	\$ 9,335,644

Net book value

Balance at December 31, 2015	\$ 25,101,419	\$ 3,667,724	\$ -	\$ 28,769,143
Balance at December 31, 2016	\$ 46,230,685	\$ 3,484,535	\$ 715,436	\$ 50,430,656

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(a) Depletion and depreciation

The calculation of depletion and depreciation expense for the year ended December 31, 2016 included future development costs of \$36,013,000 (2015-\$8,486,000) associated with the development of the Trust's proved and probable reserves.

(b) Capitalized general and administrative and borrowing costs

The Trust has not capitalized any general and administrative expenses or interest in the year ended December 31, 2016 or 2015.

(c) Secured assets

The net book value of all assets included in property and equipment have been pledged by the Trust as security of the debenture and convertible debentures.

(d) Impairment

Management assesses at each reporting date whether there is any objective evidence that the carrying value of property and equipment may be impaired. As at December 31, 2016 and 2015, the Trust conducted an assessment of impairment indicators for each of the Trust's CGU's. In performing the review, management determined that the current commodity price environment and the impact of these commodity prices on the economic performance of each of the Trust's CGU's justified the calculation of the recoverable amounts of all CGU's as at December 31, 2016 and 2015.

The recoverable amounts of heavy oil property interests were estimated at the fair value less costs of disposal based on discounted before tax future net cash flows of proved and probable reserves using forecast prices and costs estimated by the Trust's external reserve evaluators. The future net cash flows were discounted at a rate of 10% per annum (2015 – 10%). The recoverable amounts of transport and disposal assets were estimated using a value in use calculation based on discounted before tax future net processing revenues using forecast prices and costs estimated by the Trust's external reserve evaluators. The future net processing revenues were discounted at a rate of 10% per annum. As a result of impairment tests performed on heavy oil properties and transport and disposal assets, no impairment loss was required at December 31, 2016 or 2015.

The recoverable amounts of oilfield service assets were estimated using management's estimate of fair values of similar equipment and based on discounted before tax future cashflow estimates determined by management. The recoverable amount of oilfield service assets was determined to be \$715,436, accordingly an impairment loss of \$73,733 was recognized in profit or loss for the year ended December 31, 2016.

Key assumptions used in the determination of cash flows from proved and probable reserves include crude oil prices and the discount rate as well as estimates of service fees and disposal rates. A 5% increase in the assumed discount rate over the life of the reserves of heavy oil properties, estimated disposal cashflows from transport and disposal assets and estimated service fee cashflows, would not result in the recognition of an impairment loss at December 31, 2016.

The forecast prices used for impairment tests of the Trust's CGU's to determine fair value reflect the following actual prices used which are based on benchmark prices adjusted for basis differentials to determine local reference prices, transportation costs and tariffs and quality.

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2016 Forecast Prices (average for year)	Western Canada Select \$CDN/STB	2015 Forecast Prices (average for year)	Western Canada Select \$CDN/STB
2017	51.24	2016	46.00
2018	56.11	2017	52.18
2019	58.57	2018	59.38
2020	63.02	2019	62.41
2021	63.73	2020	65.29
2022	65.91	2021	67.91
2023	68.08	2022	70.52
2024	70.26	2023	74.00
constant thereafter		constant thereafter	

7. Exploration and evaluation assets

Balance at December 31, 2014	\$ 1,338,733
Capital expenditures	4,032
Impairment loss	(335,624)
Balance at December 31, 2015	1,007,141
Asset acquisitions (note 4(b))	1,650,000
Corporate acquisitions (note 4(a))	508,044
Impairment loss	(375,233)
Balance at December 31, 2016	\$ 2,789,952

Exploration and evaluation assets consist of the Trust's exploration projects for which proved and/or probable reserves have not yet been determined, equipment not in use and seismic assets.

Management assesses at each reporting date whether there is any objective evidence that the carrying value of exploration and evaluation assets may be impaired. As at December 31, 2016 and 2015, the Trust conducted an assessment of impairment indicators for its' exploration and evaluation assets. In performing the review, management determined that the current commodity price environment and the impact of these commodity prices on the recoverable amounts as well as management's intentions on future exploration justified the calculation of the recoverable amounts as at December 31, 2016 and 2015.

During the year ended December 31, 2016, the Trust expensed certain costs previously capitalized as exploration and evaluation assets as the lease term of undeveloped lands expired in the amount of \$375,233 (2015 - \$nil). Recent land sales of similar properties were reviewed and compared to the carrying value per acre of the Trust's exploration and evaluation lands.

During the year ended December 31, 2015, certain of the Trust's exploration and evaluation assets were considered to be impaired as the recoverable amount as at December 31, 2015 was \$1,007,141. Accordingly, an impairment loss of \$335,624 was recorded for the year ended December 31, 2015.

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8. Bank Debt

In conjunction with the corporate acquisitions described in note 4(a), the Trust acquired a revolving demand facility (the "facility") in the amount of \$175,000 with an interest rate of prime plus 2.25% per annum paid monthly. The facility is secured by a General Security Agreement over the acquired assets and was drawn by \$95,000 at December 31, 2016. The facility is guaranteed in the amount of \$700,000 by the former shareholders of Hytop and any amounts outstanding under the facility take priority claim over the loans payable amounts to the same shareholders (note 9). Under the terms of the facility, the Trust is subject to certain financial and reporting covenants. As at December 31, 2016, the Trust was in compliance with all covenants under this facility.

During the year ended December 31, 2016, the Trust established a revolving demand facility with a Canadian bank to a maximum of \$150,000. The revolving demand facility is available by way of letters of guarantee. As at December 31, 2016, the Trust has a letter of guarantee outstanding of \$150,000 with a specific vendor related to operating expenses that expired March 31, 2017. In conjunction with the revolving demand facility, the Trust was required to deposit \$150,000 in a guaranteed investment certificate. This amount has been included in cash on the consolidated balance sheet at December 31, 2016.

9. Loans payable

In conjunction with the corporate acquisitions described in note 4(a), the Trust acquired various loans payable to the previous shareholders of Hytop. The loans have no fixed terms of repayment, are unsecured and are non-interest bearing. The balances at December 31, 2016 are as follows:

	December 31 2016	December 31 2015
Loans payable (note 4)	\$ 211,442	\$ -

10. Obligation under finance leases

In conjunction with the corporate acquisitions described in note 4(a), the Trust acquired finance leases on certain transport and disposal assets that it will continue to use in operations. The leases contain a notional annual interest rate of 18%, and are for terms that encompass substantially all the assets' useful lives. The obligations are secured by the underlying assets. The future minimum lease payments under finance leases at the inception of the leases were \$462,567 and are now as follows:

	December 31 2016	December 31 2015
Total future minimum lease payments	\$ 298,741	-
Interest included in installments	61,231	-
Obligation under finance leases	237,510	-
Current portion	79,214	-
Long-term portion	\$ 158,296	-

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The Trust is required to make payments under the lease agreements of approximately \$9,600 per month. Future minimum lease payments under the finance leases, on a calendar year basis, are as follows:

2017	\$ 79,210
2018	94,710
2019	63,590
<hr/>	
Total obligations under finance leases	\$ 237,510

11. Debenture

- (a) On April 29, 2016, the Trust completed through private placement the issuance of a secured debenture in the amount of \$5,000,000 with a maturity date of April 29, 2021. The debenture bears interest at 12.5% per annum, payable quarterly. A total of \$501,587 in administration and due diligence fees were paid to secure the debenture. The debenture has been recorded net of the related financing costs which will be amortized over the term of the debenture.

The debenture holder was granted a first security interest in all of the oil and gas properties of Petrocapita Oil and Gas L.P., including the oil and gas properties associated with the asset acquisition (note 4(b)). The debenture will rank "*pari-passu*" with the private placements of the secured convertible debentures described in note 12(a). As part of the agreement, the debenture holder shall be paid a gross overriding royalty ("GORR") of 3% for 12 production months after the closing of the acquisition, increasing to 5% thereafter on all oil and gas properties acquired in the Palliser acquisition and a 3% royalty ("SWD Royalty") on all produced water disposed at any salt water disposal facility or well acquired in the acquisition. The Trust has the option to purchase the GORR and the SWD Royalty at any time for \$5,000,000. On issuance of the debenture, no value was assigned to the GORR or the option to purchase by the Trust as management determined that the likelihood of the amounts being payable or the option being exercised to be nil. A value of \$3,804,000 was assigned to the GORR on closing of the acquisition on July 11, 2016 and was recorded as a disposition of property and equipment (notes 4(b) and 6).

During the year ended December 31, 2016, \$358,562 (2015-\$nil) of interest expense and \$67,574 (2015 - \$nil) of amortization of debt issue costs were included in finance expenses (note 20).

- (b) On June 1, 2015, the Trust completed the issuance of a secured debenture in the aggregate principal amount of \$460,000 in exchange for property and equipment with a fair value of \$460,000. The debenture bore interest at 6% per annum, payable monthly, with principal repayments of \$6,389 commencing on June 1, 2016 and maturing on June 1, 2022. In conjunction with the acquisition as described in note 4, this debenture was effectively cancelled.

During the year ended December 31, 2016, \$11,461 (2015 - \$16,138) of interest expense was included in finance expenses (note 20).

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12. Convertible debentures

The following tables summarize changes in the convertible debentures:

Year ended December 31, 2016	Debt Component	Conversion Feature Component	Warrants	Total
Balance at December 31, 2015	\$ 308,540	\$ 37,932	\$ 4,929	\$ 351,401
Debt issued for cash	4,905,005	1,351,408	46,587	6,303,000
Debt issued for acquisitions	1,038,078	595,873	-	1,633,951
Debt issue costs	(796,506)	-	257,945	(538,561)
Debt issued under DRIP	15,886	-	-	15,886
Accretion of discount (note 20)	152,489	-	-	152,489
Amortization of financing costs (note 20)	68,720	-	-	68,720
Principal repayments	(21,097)	-	-	(21,097)
Change in fair value of conversion feature	-	694,718	-	694,718
Balance at December 31, 2016	\$ 5,671,115	\$ 2,679,931	\$ 309,461	\$ 8,660,507
Less current portion	160,204			
Long-term portion	\$ 5,510,911			

Year ended December 31, 2015	Debt Component	Conversion Feature Component	Warrants	Total
Balance, December 31, 2014	\$ -	\$ -	\$ -	\$ -
Debt issued for equipment	193,816	23,184	-	217,000
Debt issued for cash	173,709	43,756	4,535	222,000
Debt issue costs	(61,479)	-	394	(61,085)
Accretion of discount (note 20)	2,494	-	-	2,494
Change in fair value of conversion feature	-	(29,008)	-	(29,008)
Balance at December 31, 2015	\$ 308,540	\$ 37,932	\$ 4,929	\$ 351,401
Less current portion	21,097			
Long-term portion	\$ 287,443			

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(a) Convertible debentures issued for cash

During the year, the Trust completed eight separate tranches of the issuance of convertible secured subordinated debentures. In addition, a total of 315,150,000 (2015-11,100,000) warrants (note 16) were issued in conjunction with each issuance. The convertible debentures have the following terms and conditions:

Total face value	\$6,303,000 (2015-\$222,000)
Interest rate	8% per annum, payable quarterly
Maturity date	December 31, 2020
Conversion option	At the option of the holder, conversion into common units of the Trust on or after December 31, 2017, 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
Warrants	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.
Security	Secured subordinated note issued by the Partnership

During the year ended December 31, 2016, \$216,580 (2015 - \$633) of interest expense was included in finance expenses (note 20) relating to these convertible debentures.

(b) Convertible debentures issued for corporate acquisitions

During the year ended December 31, 2016, the Trust completed several corporate acquisitions to acquire all of the issued and outstanding common shares of each entity (note 4(a)). The shares were acquired by issuance of convertible debentures to the existing shareholders of each entity as follows:

Total face value	\$1,633,951
Interest rate	6% per annum, payable quarterly
Principal repayments	Monthly payments between \$1,368 to \$7,639, commencing on the first anniversary date from issuance
Maturity dates	May 15, 2023 to January 31, 2023
Conversion option	At the option of the holder, conversion into common units of the Trust on or after December 31, 2017, 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
Security	Acquired assets of each entity

During the year ended December 31, 2016, \$41,737 (2015-\$nil) of interest expense was included in finance expenses (note 20) relating to these convertible debentures.

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(c) Convertible debentures issued for property and equipment

On June 30, 2015, the Trust completed the issuance of convertible secured debentures of \$217,000 in exchange for certain property and equipment. The convertible debentures bear interest at 6% per annum, payable monthly, with monthly principal repayments of \$3,014 commencing on June 30, 2016, mature on June 30, 2022, 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.

During the year ended December 31, 2016, \$12,719 (2015-\$7,612) of interest expense was included in finance expenses (note 20).

(d) Hybrid financial instrument

The convertible debentures have been classified as a compound financial instrument and presented in the consolidated financial statements in their component parts.

(i) The conversion feature has been determined to be an embedded derivative and accordingly, the fair value of the conversion feature was calculated on the date of issue using the Black Scholes option pricing model. The conversion feature is carried at fair value through profit or loss and re-measured at each reporting date using the Black Scholes option pricing model.

At December 31, 2016, the fair value of the embedded derivative liability was \$2,679,931 (2015 – \$37,932) and a fair value adjustment of \$694,718 (2015 - \$29,008) was recognized in profit or loss for the year ended December 31, 2016.

(ii) The debt component was calculated at the present value of the required interest and principal payments discounted at a rate approximating the interest rate that would have been applicable to non-convertible debt at the time the debenture was issued. The effective interest rate of the convertible debentures ranged from 15% to 24%. The debt portion will accrete up to the original face value of the debentures at maturity. The accretion and the interest paid are expensed in finance expenses.

(iii) The residual amount, after considering the conversion feature and the debt component compared to the total fair value of the compound financial instrument, was allocated to equity related to the warrants issued to the debenture holders, if that debenture included an issuance of warrants.

The fair value of the conversion feature and warrants was estimated using the Black-Scholes option pricing model with the following assumptions:

	Conversion feature (date of issue)	Conversion feature December 31, 2016)	Warrants
Fair value per unit range	\$0.005-\$0.01	\$0.01	\$0.005-\$0.01
Exercise price range	\$0.005-\$0.02	\$0.02	\$0.06
Unit price on grant/value date	\$0.005-\$0.03	\$0.025	\$0.005-\$0.03
Risk-free rate	0.73%	0.73%	0.73%
Expected volatility	75%	75%	75%
Dividend yield	0%	0%	0%
Expected forfeiture rate	0%	0%	0%
Expected life	4.0-6.8 yrs	4.0-6.8 yrs	2.0-2.9 yrs

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Expected volatility was determined based on a comparison to other companies in the business of exploration, development and production of oil and natural gas. A forfeiture rate of 0% was used as it is expected that holders will exist until maturity.

Option pricing models require the input of subjective assumptions regarding the expected volatility. Changes in assumptions can materially affect the estimate of fair value, and therefore, use of Black-Scholes option pricing model, may not provide a realistic measure of the fair value of the Trust's convertible debentures at the date of issue or the conversion feature at each reporting date.

(e) Debt issue costs

The Trust paid cash debt issue costs of \$726,431 (2015 - \$78,570) and issued 60,280,000 (2015-200,000) broker warrants (note 16) that have been included as debt issue costs with a fair value determined using the Black-Scholes option pricing model of \$257,945 (2015 - \$1,999) for total debt issue costs incurred of \$984,376 (2015 - \$80,569).

The debt issue costs have been allocated to their related component on a pro-rated basis in relation to the face value of the convertible debenture. The debt issue costs allocated to the convertible debenture component have been netted against the gross proceeds and will be amortized to finance expense over the anticipated life of the convertible debentures using the effective interest rate method. During the year ended December 31, 2016, \$68,720 (2015-nil) in debt issue costs were amortized. The debt issue costs allocated to the conversion feature component have been recorded as a finance expense as the conversion feature is accounted for at fair value. During the year ended December 31, 2016, \$187,870 (2015-nil) in debt issue costs were expensed as finance costs related to the conversion feature.

(f) Distribution reinvestment plan ("DRIP")

During the year ended December 31, 2016, the Trust adopted a reinvestment plan whereby eligible holders of convertible debentures can elect to have their quarterly interest payments reinvested in additional convertible debentures. During the year, the Trust issued \$15,886 of additional debentures under the DRIP plan.

(g) Principal repayments

In accordance with the convertible debenture agreements issued for corporate acquisitions and property and equipment noted above, the Trust must make the following principal repayments:

Within 1 year	2 to 5 years	After 5 years	Total
\$160,204	\$7,774,822	\$435,713	\$8,370,739

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13. Decommissioning provisions

The Trust's decommissioning provisions are an estimate of the future reclamation and abandonment costs arising from the Trust's ownership interest in heavy oil properties and water disposal wells and facilities.

The following table presents the reconciliation of the beginning and ending aggregate carrying amounts of the decommissioning provisions associated with the retirement of heavy oil property interests and transport and disposal assets:

	December 31	December 31
	2016	2015
Balance, beginning of year	\$ 7,806,230	\$ 6,063,703
Liabilities acquired on acquisitions (note 4)	18,934,000	2,862,534
Change in estimated cash flows (note 6)	-	(1,973,984)
Change in discount rate (note 6)	(3,804,286)	700,729
Actual costs incurred on abandonment	(63,278)	-
Accretion (note 20)	257,000	153,248
Balance, end of year	\$ 23,129,666	\$ 7,806,230

The total undiscounted amount of estimated cash flows required to settle the obligation as at December 31, 2016 was approximately \$34,157,000 (December 31, 2015 - \$9,287,000) which has been discounted using a risk-free rate of 2.31% at December 31, 2016 (December 31, 2015 - 1.39%). An inflation rate of approximately 2% was used at December 31, 2016 and December 31, 2015. All of these obligations are estimated to be incurred in approximately 2026 and 2033 and will be funded from general Trust resources at the time of the retirement.

During the year ended December 31, 2016, the Trust was required to deposit funds with the Alberta Energy Regulator for future abandonment costs of \$212,183 and has been included in prepaid expenses and deposits at December 31, 2016. Subsequent to year-end, the Trust was required to make a further deposit of \$133,257.

The fair value of certain heavy oil properties and disposal assets acquired in the asset acquisition (note 4(b)) by the Trust is \$nil. Accordingly, the adjustment required related to the change in rates for these certain properties as at December 31, 2016 was recorded as an adjustment to depletion and depreciation expense in the amount of \$541,000 for the year ended December 31, 2016.

During the year ended December 31, 2015, the Trust reduced cash flow estimates and changed the estimates of timing based on a review of third party and internal information.

The risk-free rate used in the calculation of the net present value has a significant impact on the carrying value of decommissioning provisions. A 0.5% increase in the risk-free rate would decrease the decommissioning provisions by approximately \$ 1,769,000 at December 31, 2016.

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14. Taxes

The provision for taxes in the consolidated statements of loss and comprehensive loss represents an effective tax rate different than the Canadian tax rate applicable to trusts on undistributed income of 41% (2015- 40%).

The differences for the year ended December 31, 2016 and 2015 are as follows:

	2016	2015 (restated-note 3)
Loss before taxes	\$ (4,942,761)	\$ (3,514,878)
Tax recovery at Canadian tax rate	\$ (2,026,500)	\$ (1,406,000)
Income not subject to tax	-	339,000
Recognition of previously unrecognized tax benefits	-	(3,153,600)
Other	(87,200)	(37,400)
Gain/loss on acquisitions not taxable	(1,425,300)	-
Capital tax	61,828	26,903
Effect of tax rate differences	384,300	-
Change in tax assets not recognized, net of tax assets not recognized on acquisitions	3,154,700	4,258,000
Current tax	\$ 61,828	\$ 26,903

Deferred tax liabilities of \$116,000 have been recognized on acquisitions related to certain subsidiaries of the Trust (note 4(a)) and are attributable to property and equipment. There was no change in this liability during the year ended December 31, 2016.

Deferred tax assets have not been recognized for the following temporary differences:

	2016	2015
Deductible (taxable) temporary differences	\$ 8,372,000	\$ (1,071,000)
Losses carried forward	7,767,000	5,329,000
	\$ 16,139,000	\$ 4,258,000

The Trust and its subsidiaries have non-capital loss carry-forwards of approximately \$19.8 million (2015-\$13 million), which will expire between 2017 and 2035. Deferred tax assets have not been recognized in respect to these items as it is not probable that future taxable income will be available against which these tax benefits will be utilized.

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15. Trust capital

(a) Common units

Authorized - Unlimited number of Common Units

Each holder of common units of the Trust is entitled to one vote per unit and shall be entitled to receive non-cumulative distributions if, and when, declared by the trustees. All units are redeemable on demand by the unitholder. The redemption price is determined by the Administrator of the Trust. The Administrator shall determine the redemption price as the lesser of: (i) 90% of the market price for the last ten trading days before the unit is tendered for redemption as determined using a volume weighted trading average; or (ii) 100% of the closing market price on the day the unit is tendered for redemption. Redemptions are limited to \$7,500 per month, and any redemptions requested in excess of that amount will be repaid through the issuance of a note payable or distribution of the property of the Trust.

Issued and outstanding	Number of Common Units	Total Stated Amount
Balance at December 31, 2016 and 2015	1,109,731,962	\$ 37,368,608

(b) Preferred units

Authorized - Unlimited number of Preferred Units, issuable in series, redeemable and retractable

During the year ended December 31, 2016, the Trust created a new series of Preferred Units, Series 1. Each holder of preferred units of the Trust will not be entitled to vote, however will have the right to receive a fixed, preferential cumulative distribution of \$0.09 per preferred unit per annum, payable quarterly in arrears to the extent of distributable cash is available. Prior to the redemption date (fourth anniversary of the date of issuance), preferred units are redeemable on demand by the holders thereof, at a redemption price based on 90% of their market price or 100% of their closing market price, subject to certain limitations on payment of the redemption price and the consideration thereof. Following the redemption date, each preferred unit will be redeemed for \$1.00 per unit plus all accrued and unpaid cumulative distributions. In addition, the Trust may redeem at any time the preferred units for \$1.00 per unit plus all accrued and unpaid cumulative distributions.

At December 31, 2016, the Trust had not yet issued any Series 1 preferred units. (note 25 (a))

During the year ended December 31, 2015, the Trust redeemed 46,977 Preferred Units at a price of \$1.00 per Preferred Unit. The redemption was accounted for as a reduction in the Preferred Units liability of \$442,279 and a reduction in the equity component of the Preferred Units of \$4,698. The excess of the carrying value over the redemption price of \$4,698 was recorded as a component of finance expenses. In addition, the final quarterly distribution was paid to all outstanding preferred unitholders as at September 30, 2015. A total of \$847,730 was paid out in distributions as of September 30, 2015 with \$306,212 re-invested in preferred shares under the distribution re-investment program (DRIP).

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(c) Share-based payment plan

On May 26, 2016, the Board of Trustees approved a stock option plan that provides for the issuance of stock options to employees, directors and officers of the Trust. The plan allows the Trustees at their sole discretion to grant options and determine the vesting provisions of those options subject to applicable regulatory approvals. Since the inception of the plan, there have been no options granted by the Trust.

16. Warrants

During the year ended December 31, 2016, the Trust issued 315,150,000 (2015-11,100,000) warrants with the offering of the secured subordinated convertible debentures (note 12). In addition, 60,280,000 (2015-200,000) warrants were issued to the agent as part of debt issue costs related to the secured subordinated convertible debentures (note 12). Each warrant is exercisable on the date of issuance at a price of \$0.06 per warrant and expires on December 31, 2018.

There were no warrants exercised during the year ended December 31, 2016 or 2015.

A summary of warrants outstanding and exercisable is as follows:

	December 31 2016		December 31 2015	
	Number	Stated value	Number	Stated value
Balance, beginning of year	11,300,000	\$ 4,929	-	\$ -
Issued to debenture holders	315,150,000	46,587	11,100,000	4,535
Issued to agents	60,280,000	257,945	200,000	394
Balance, end of year	386,730,000	\$ 309,461	11,300,000	\$ 4,929

17. Loss per common unit

The following reflects the loss and common unit data used in the basic and diluted income (loss) per common unit computations:

	2016	2015
Numerator:		
Net loss for the year	\$ (5,004,589)	\$ (3,299,282)
Adjustment for effects of Preferred Unit distributions	-	84,773
Adjusted net loss	\$ (5,004,589)	\$ (3,214,508)
Denominator:		
Weighted average number of common units – basic	1,109,731,962	1,109,731,962
Weighted average number of common units - diluted	1,109,731,962	1,109,731,962

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For the year ended December 31, 2016 and 2015 the potential conversion of the convertible debentures and warrants has not been included as the effect on loss per common unit would be anti-dilutive.

18. Revenue and operating expenses

The following summarizes the breakdown of revenues:

	2016	2015
Heavy oil	\$ 4,869,771	\$ 3,530,343
Transport and disposal	182,193	129,373
Oilfield service	207,154	-
Total revenue	\$ 5,259,118	\$ 3,659,716

The following summarizes the breakdown of operating expenses:

	2016	2015 (restated- note 3)
Production and transportation	\$ 5,258,050	\$ 3,017,072
Transport and disposal	428,372	168,338
Oilfield service	242,670	-
Total operating expenses	\$ 5,929,092	\$ 3,185,410

19. General and administrative expense

General and administrative expenses include the following:

	2016	2015
Personnel costs	1,936,138	649,867
Professional fees	286,613	216,529
Rent	138,246	59,738
Other	797,111	122,198
General and administrative	\$ 3,158,108	\$ 1,048,332

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20. Finance expenses

	2016	2015
Finance expenses		
Distributions to Preferred Unitholders (note 15)	-	847,730
Accretion of decommissioning provisions (note 13)	257,000	153,248
Accretion of convertible debentures (note 12)	152,489	2,494
Financing costs (notes 11 and 12)	324,164	26,514
Interest on finance leases (note 10)	33,151	-
Interest on secured debentures (note 11)	370,023	16,138
Interest on convertible debentures (note 12)	271,036	8,245
Interest on bank debt	5,415	-
Other	3,415	(13,698)
Finance expenses	\$ 1,416,693	\$ 1,040,671

21. Supplemental cash flow information

(a) Components of cash and cash equivalents

	2016	2015
Deposits in banks	\$ 2,377,582	\$ 763,065
Guaranteed investment certificates (1 year term)	155,000	-
	\$ 2,532,582	\$ 763,065

(b) Changes in non-cash working capital are comprised of:

	2016	2015 (restated-note 3)
Accounts receivable	\$ (1,203,499)	\$ 303,310
Prepaid expenses and deposits	(93,429)	33,765
Crude oil inventory	(506,170)	215,596
Accounts payable and accrued liabilities	3,828,797	83,985
Change in Preferred Unit distributions payable	-	570,400
	\$ 2,025,699	\$ 1,207,056
Related to:		
Operating activities	\$ 1,244,072	\$ 868,813
Investing activities	646,175	253,382
Financing activities	135,452	84,861
Changes in non-cash working capital	\$ 2,025,699	\$ 1,207,056

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(c) Non-cash transactions:

The following non-cash transactions were excluded from the consolidated statements of cash flows:

2016 Transactions:

- Corporate acquisitions in exchange for convertible debentures in the amounts of \$1,633,951 (notes 4(a)).
- Re-invested distributions of \$15,886 during the year ended December 31, 2016 from the Trust's DRIP into convertible debentures (note 12).

2015 Transactions

- Re-invested distributions of \$306,212 during the year ended December 31, 2015 from the Trust's DRIP into Preferred Units.
- The conversion of 33,797,206 Preferred Units into 1,103,888,605 Common Units in June of 2015 using a specified formula set out in the Declaration of Trust
- Asset swaps whereby the net assets received exceeded the purchase price of \$70,734 and accordingly, a gain on the asset swaps was included in profit or loss for the year ended December 31, 2015.
- Asset acquisitions in exchange for a convertible debenture in the amount of \$217,000 and the settlement of an outstanding accounts receivable balance of \$166,196.

(d) Interest and taxes paid in cash:

	2016	2015
Capital taxes paid	\$ -	\$ -
Interest paid	\$ 679,625	\$ 872,113

22. Financial risk management, fair values and capital management

(a) Overview

The Trust's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities such as:

- credit risk;
- liquidity risk; and
- market risk.

The Trust employs risk management strategies and policies to ensure that any exposure to risk is in compliance with the Trust's business objectives and risk tolerance levels. While the Board of Trustees has the overall responsibility for the establishment and oversight of the Trust's risk management framework, management has the responsibility to administer and monitor these risks.

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This note presents information about the Trust's exposure to each of the above risks, the Trust's objectives, policies and processes for measuring and managing risk, and the Trust's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements. In addition, this note presents information regarding the fair value of financial instruments. There have been no changes to these policies during the year ended December 31, 2016.

(b) Credit risk

Credit risk is the risk of financial loss to the Trust if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The following table outlines the maximum credit risk exposure, however management believes all amounts will be collected.

	December 31 2016	December 31 2015
Credit risk exposure		
Cash	\$ 2,532,582	\$ 763,065
Accounts receivable	1,907,822	330,546
Maximum exposure to credit risk	\$ 4,440,404	\$ 1,093,611

Cash

The Trust manages the credit exposure related to cash by selecting financial institutions with high credit ratings. Given these credit ratings, management does not expect any counterparty to fail to meet its obligations.

Accounts receivable

All of the Trust's operations are conducted in Canada. The Trust's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Trust's accounts receivable are from companies in the oil and natural gas industry and are subject to normal industry credit risks. Significant changes in industry conditions and risks that negatively impact customers' ability to generate cash flow will increase the risk of not collecting receivables. Management believes the risk is mitigated by the size and reputation of the companies to which they extend credit. Management monitors the credit ratings of its customers to ensure no collection issues arise.

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The Trust's accounts receivable was comprised of the following amounts:

	December 31 2016	December 31 2015
Heavy oil marketers	\$ 1,139,796	\$ 179,528
Service rig customers	237,231	-
Joint interest partners	311,805	33,674
Transport and disposal customers	56,653	16,493
Other	78,280	75,029
Goods and services tax	84,057	25,822
Total accounts receivable	\$ 1,907,822	\$ 330,546

The Trust markets its heavy oil primarily to two marketers which comprise 60% (2015 – 54%) of accounts receivable at December 31, 2016. Receivables from heavy oil marketers and water disposal customers are normally collected on the 25th day of the month following production. During 2016 and 2015, the Trust has not experienced any collection issues with its heavy oil marketers or transport and disposal customers.

The receivables from joint interest partners are generally with heavy oil producers and arise with the Trust conducts joint operations on behalf of its partners and invoices for their share of costs. Joint interest receivables are generally collected within one to three months of the joint interest bill being issued to the partners. The Trust attempts to mitigate the risk from joint interest receivables by obtaining partner approval of significant capital expenditures prior to expenditure and in certain circumstances may elect to cash call a joint interest partner in advance of the work. The Trust does not typically obtain collateral from joint interest partners, however, the Trust does have the ability to withhold production from joint interest partners in the event of non-payment. During 2016 and 2015, the Trust has not experienced any collection issues with its joint interest partners.

Receivables from service rig customers are generally collected 30 days following performance of the service. During 2016 and 2015, the Trust has not experienced any collection issues with its service rig customers.

The accounts receivable is aged as follows:

	December 31 2016	December 31 2015
Current (not past due)	\$ 1,497,352	\$ 307,358
Greater than 90 days (past due)	410,470	23,188
	\$ 1,907,822	\$ 330,546

The Trust considers all accounts receivable to be fully collectible and no allowance is required. When determining whether past due accounts are collectible, the Trust factors in the past credit history of the counterparties. The Trust considers all amounts greater than 90 days as past due. Management follows up and takes necessary steps to ensure collection of all accounts receivable which are past due. The Trust has no allowance for doubtful accounts as at December 31, 2016 and 2015. During the year ended December 31, 2016, the Trust expensed \$nil (2015 - \$38,073 recovery) of accounts receivable deemed uncollectible. Accounts

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receivable past due have increased from prior year as a result of the corporate acquisitions (note 4) completed during the year and past due receivables assumed on acquisition.

(c) Liquidity risk

Liquidity risk is the risk that the Trust will not be able to meet its financial obligations as they are due. The Trust's approach to managing liquidity is to ensure it will have sufficient liquidity to meet its liabilities when due. The Trust's ongoing liquidity is impacted by various external events and conditions, including commodity price fluctuations. Commodity prices experienced during 2015 and 2016 have negatively impacted earnings and cashflows.

Net loss for the year ended December 31, 2016 was \$5,004,589 (2015 – \$3,541,781). Cash flows used in operating activities for the year ended December 31, 2016 was \$4,015,380 (2015 - \$401,060). At December 31, 2016, the Trust has a negative working capital position (excluding derivative financial instruments of \$909,855 (2015 - \$379,382)). The Trust is required to meet certain financial commitments as described in notes 10 and 11.

The Trust's accounts payable and accrued liabilities were comprised of the following amounts:

	December 31 2016	December 31 2015
Operating	\$ 4,711,429	\$ 973,057
Capital	746,574	183,952
Accruals	730,072	494,773
Total accounts payable and accrued liabilities	\$ 6,188,075	\$ 1,651,782

Accounts payable consist of invoices payable to trade suppliers for operating (e.g., general, administrative, royalty, production and transportation), capital (e.g., drilling, completion and equipping oil wells) financing (interest on debt, commissions and other costs for the issue of common units) expenditures and capital taxes and are due within one year.

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	\$ 6,188,075	\$ -	\$ -	\$ 6,188,075
Bank debt	95,000	-	-	95,000
Loans payable	211,442	-	-	211,442
Obligations under finance leases	79,214	158,296	-	237,510
Debentures	-	5,000,000	-	5,000,000
Convertible debentures	160,204	7,774,822	435,713	8,370,739
	\$ 6,733,935	\$ 12,933,118	\$ 435,713	\$ 20,102,766

The Trust will require additional funding to reduce its exposure to liquidity risk. The Trust has been actively seeking private equity, facility financings and reviewing potential mergers and

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acquisitions to strengthen cash flows from operating activities. Subsequent to year-end, the Trust has raised an additional \$2,930,000 related to private placements of convertible debentures as well as through the issuance of preferred units of the Trust (note 25(a)(d)). In addition, the Trust continually monitors its actual and forecast cash flows to review whether there are adequate reserves available to meet its obligations as well as continues to focus on operating and general and administrative cost structures and enhancing operational efficiencies to preserve the Trust's financial health and sustainability in the current commodity price environment. The Trust cannot provide any assurance that sufficient cash flows will be generated from operating activities or proceeds from other activities noted above will improve its working capital.

(d) Market risk

Market risk is the risk that changes in market prices, such as commodity prices, interest rates and foreign exchange rates will affect the Trust's net earnings or the value of financial instruments. The Trust manages and mitigates market risk exposures within acceptable limits, while maximizing returns. There have been no changes to the Trust's policies or processes for managing market risk during the year ended December 31, 2016 and 2015.

Commodity price risk

The nature of the Trust's operations results in exposure to fluctuations in commodity prices. Commodity prices for petroleum are impacted by global economic and political events that dictate the levels of supply and demand. Management continuously monitors commodity prices and may consider instruments to manage exposure to these risks when it deems appropriate. The Trust did not enter into any derivative financial contracts related to commodity prices during the years ended December 31, 2016 and 2015 nor does it currently have any derivative financial contracts.

Foreign currency risk

Prices for petroleum are determined in global markets and generally denominated in United States dollars. The Trust had no forward exchange rate contracts in place nor any working capital items denominated in foreign currencies as at or during the years ended December 31, 2016 and 2015.

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 Trust has no interest bearing debt at December 31, 2016 or 2015 and the debentures and convertible debentures bear interest at fixed rates. Consequently, the Trust is not directly exposed to material interest rate risk.

(e) Fair value of financial instruments

The fair values of accounts receivable and accounts payable and accrued liabilities approximate their carrying values due to the relatively short-term nature of these instruments.

The fair value of bank debt approximates its carrying value as it bears a floating rate of interest.

The fair value of loans payable approximates its carrying value as there is not set terms of repayment.

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The fair value of obligations under finance leases approximates its carrying value as the implicit interest rate charged by the lessor is indicative of current credit spreads.

The debentures and convertible debentures bear interest at fixed rates of 6%, 8% or 12.5%, however the carrying values have been determined using an interest rate of 15% which approximates a market rate for similar financing transactions. The face amount of debentures and convertible debentures at December 31, 2016 and 2015 can be summarized as follows:

	Face value	Carrying value
8% convertible debentures, maturing Dec 30, 2020	\$ 6,540,886	\$ 4,421,891
6% convertible debentures, maturing May 15, 2023	472,486	336,896
6% convertible debentures, maturing June 1, 2023	550,000	350,170
6% convertible debentures, maturing October 1, 2023	176,500	115,152
6% convertible debentures, maturing Nov 30 & Dec 21 2023	434,965	270,970
6% secured debenture, maturing June 1, 2022	195,902	176,036
12.5% secured debenture, maturing April 29, 2021	5,000,000	4,565,987
	\$13,370,739	\$10,237,102

Cash is measured at fair value using level 1 fair value measurements.

The Trust's debentures and convertible debentures are not actively traded; therefore, management estimated the fair value using valuation techniques that require inputs that are unobservable (level 3 fair value measurements).

The fair value of the liability component of the conversion feature of the convertible debentures is measured based on level 2 fair value measurements.

In testing for impairment of property and equipment and exploration and evaluation assets and accounting for asset and corporate acquisitions, a level 3 fair value measurement model is used to determine the recoverable amount of a CGU. Property and equipment and exploration and evaluation assets are recognized at fair value in a business combination. The fair value of property and equipment and exploration and evaluation assets is the estimated amount for which property and equipment and exploration and evaluation assets could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. For impairment testing, the fair value less costs of disposal model used contains inputs that are not readily observable or corroborated, such as forecasted cash flows over the estimated life of reserves.

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(f) 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 year ended December 31, 2016 and 2015.

Total capital managed is determined as follows:

	December 31 2016	December 31 2015 (restated – note 3)
Bank debt	\$ 95,000	\$ -
Loans payable	211,442	-
Obligations under finance leases	237,510	-
Debenture	4,565,987	460,000
Convertible debentures	5,671,115	308,540
Unitholders' equity	16,149,962	20,850,019
	\$ 26,931,016	\$ 21,618,559

Total capital has increased from the prior year end due to the debentures and convertible debentures issued during the period offset in part by the net loss for the year ended December 31, 2016.

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The Trust monitors its working capital closely, which is determined on the following basis:

	December 31 2016	December 31 2015 (restated – note 3)
Cash	\$ 2,532,582	\$ 763,065
Accounts receivable	1,907,822	330,546
Crude oil inventory	836,831	178,661
Prepaid expenses and deposits	546,845	65,947
Accounts payable and accrued liabilities	(6,188,075)	(1,651,782)
Bank debt	(95,000)	-
Loans payable	(211,442)	-
Current portion of obligation under finance lease	(79,214)	-
Current portion of debenture	-	(44,722)
Current portion of convertible debenture	(160,204)	(21,097)
Working capital deficiency	\$ (909,855)	\$ (379,382)

Working capital deficiency has increased from the prior year end due to assumed liabilities as part of the corporate acquisitions completed in the year as well as the active capital program near year-end.

The Trust is not subject to any externally imposed capital requirements other than certain financial and reporting covenants as a result of bank facility described in note 8 and the conversion features of the debentures (note 12).

23. Commitments

The Trust has entered into lease agreements for office space and equipment which expire in March 2017, 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	\$ 252,000
2018	195,000
2019	190,000
2020	179,000
2021	182,000
Thereafter	45,000
	<u>\$ 1,043,000</u>

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24. Related parties

(a) Transactions

During the year ended December 31, 2016, a director of the Trust owned directly and indirectly, approximately 5.4% of Crucible at the time of the acquisition of Crucible by the Trust (note 4(a)). In addition, an officer of a wholly-owned subsidiary of the Trust owned approximately 10% of Crucible at the time of the acquisition of Crucible by the Trust. As part of the acquisition, a total of \$66,800 in convertible debentures as described in note 12(b) were issued to the two individuals noted above.

During the year ended December 31, 2016, the Trust issued convertible secured subordinated debentures as described in note 12(a) to certain officers and directors for aggregate principal amounts of \$245,000 (2015 - \$180,000). Total convertible secured subordinated debentures outstanding to certain officers and directors at December 31, 2016 is \$425,000 (2015 - \$180,000).

(b) 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 year ended December 31, 2016 was approximately \$758,000 (2015 - \$511,000).

As at December 31, 2016 \$218,613 (2015 - \$72,969) remains outstanding to key management and is included in accounts payable and accrued liabilities.

25. Subsequent events

(a) Offering Memorandum

The Trust is currently offering up to \$20,000,000 of series 1 preferred trust units of the Trust ("Preferred Units") by way of an exempt market offering (the "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.

Each Preferred Unit is priced at \$1.00 and each Share is priced at \$0.001. Each Share shall be exchangeable for 32 of the publicly traded common units of the Trust (CSE:PCE.UN) at any time on or after 18 months from the date of issuance of the Shares, subject to certain restrictions, conditions and adjustments in certain circumstances.

The minimum subscription of Preferred Units of the Trust shall be 1,000 Preferred Units which will entitle the subscriber to subscribe for up to 230 Shares. Accordingly, the minimum subscription of the Shares shall be \$0.23. The Shares must be purchased as part of a Tied Unit. A Tied Unit means a combination of 0.23 Shares and one Series 1 Preferred Unit.

The agent will be paid a cash commission and administrative fee (equal in aggregate to 10% of the gross proceeds raised by the agent) and will be entitled to subscribe for 20 Shares of the 230 shares subscribed for in the minimum subscription of the 1,000 Preferred Units sold through the agent.

At May 1, 2017, the Trust has closed the first two tranches of Preferred Units for aggregate principal amounts of approximately \$2.17 million. Transaction costs incurred in the prior year relating to the Offering of approximately \$256,000, included in prepaid expenses and deposits at December 31, 2016, will be allocated proportionately to each tranche received during the year. Total cash commissions paid to the agent to date amount to \$217,000.

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Accordingly, 2,170,000 Preferred Units of the Trust and 525,860 Class A Shares of Petrocapita Energy Corp. were issued subsequent to year end.

(b) Acquisition of assets

Subsequent to year end, the Trust acquired ten wells and associated production equipment for cash consideration of \$21,825. Future abandonment and reclamation obligations associated with these assets are estimated at approximately \$485,000.

(c) Acquisition of assets

Subsequent to year end, the Trust acquired all of the Canadian oil and gas properties and assets of Maha Energy Inc. for \$1,650,000. 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 \$10,700 beginning December 15, 2017 through February 9, 2024. The convertible debenture has the same convertible option as the convertible debentures issued for corporate acquisitions as described in more detail in note 12(b).

(d) Private placement of convertible debentures

Subsequent to year end, the Trust closed two additional tranches of secured convertible debentures for total aggregate principal amounts of approximately \$760,000. Total debt issue costs were approximately \$59,500. In conjunction with the issue of these convertible debentures, the Trust issued 38,000,000 warrants to debenture holders and 6,040,000 broker warrants. The convertible debentures and warrants have the same term and conditions as the convertible debentures previously issued on December 18, 2015 as described in more detail in note 12(c).

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Independent Auditors' Report

To the Shareholders of
Petrocapita Energy Corp.

We have audited the accompanying financial statements of Petrocapita Energy Corp., which comprise the balance sheet as at December 31, 2016, and the statement of loss and comprehensive loss, statement of changes in shareholders' deficiency and statement of cash flows for the period from date of incorporation, September 26, 2016 to December 31, 2016, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Petrocapita Energy Corp. as at December 31, 2016, and its financial performance and its cash flows for the period from date of incorporation, September 26, 2016 to December 31, 2016 in accordance with International Financial Reporting Standards.

Collins Barrow Calgary LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

Calgary, Canada
May 29, 2017

Petrocapita Energy Corp.

Balance Sheet

December 31, 2016

(in Canadian dollars)

	Note		
Assets			
Current asset			
Cash		\$	3,285
Total current asset			3,285
Investment in associate	4		10
Total assets		\$	3,295
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	8(c)	\$	41,934
Due to related company	5		22,000
Total current liabilities			63,934
Total liabilities			63,934
Shareholders' Deficiency			
Share capital	7(b)		3,901
Deficit			(64,540)
Total shareholders' deficiency			(60,639)
Total liabilities and shareholders' deficiency		\$	3,295

Subsequent events (note 1 and 10)

See accompanying notes to the financial statements.

On behalf of the Board:

(signed) "Alex Lemmens" Director

(signed) "Richard Mellis" Director

Petrocapita Energy Corp.

Statement of Loss and Comprehensive Loss

For the period from date of incorporation September 26, 2016 to December 31, 2016

(in Canadian dollars)

	Note		
Expenses			
General and administrative	9(b)	\$	64,540
Total expenses			64,540
Loss and comprehensive loss		\$	(64,540)
Loss per common share, basic	7(d)	\$	(0.02)

See accompanying notes to the financial statements.

Petrocapita Energy Corp.

Statement of Changes in Shareholders' Deficiency

For the period from date of incorporation September 26, 2016 to December 31, 2016

(in Canadian dollars)

	Note	Share Capital	Deficit	Total Shareholders' Deficiency
Balance, beginning of period		\$ -	\$ -	\$ -
Private placement of shares - class B	7(b)	1	-	1
Private placement of shares - class C	7(b)	3,900	-	3,900
Loss and comprehensive loss for the period		-	(64,540)	(64,540)
Balance at December 31, 2016		\$ 3,901	\$ (64,540)	\$ (60,639)

See accompanying notes to the financial statements.

Petrocapita Energy Corp.

Statement of Cash Flows

For the period from date of incorporation September 26, 2016 to December 31, 2016

(in Canadian dollars)

	Note	
Cash provided by (used in):		
Cash flows provided by (used in) operating activities		
Loss for the period		\$ (64,540)
Adjustments for:		
Changes in accounts payable and accrued liabilities		41,934
Net cash used in operating activities		(22,606)
Cash flows used in investing activities		
Initial contribution to investment in associate	4	(10)
Net cash used in investing activities		(10)
Cash flows provided by financing activities		
Proceeds from issuance of common shares	7(b)	3,901
Advance from related company	5	22,000
Net cash provided by financing activities		25,901
Cash inflow, being cash, end of period		\$ 3,285

See accompanying notes to the financial statements.

Petrocapita Energy Corp.

Financial Statements

For the period from date of incorporation September 26, 2016 to December 31, 2016

(in Canadian dollars)

1. General business description

Petrocapita Energy Corp. ("Petrocapita Energy" or "the Company") was incorporated under the *Business Corporations Act (Alberta)* on September 26, 2016. The address and principal place of business is #1400, 717 – 7 Avenue SW, Calgary, Alberta, T2P 0Z3.

Petrocapita Energy was incorporated for the purpose of completing a reorganization of the entity structures of Petrocapita Income Trust (the "Trust"), the parent of the Company, in conjunction with the Offering Memorandum described in note 10.

Internal Reorganization

Effective January 1, 2017, the Company and the Trust completed a reorganization of the entity structures whereby:

- Petrocapita Energy purchased all of the outstanding units of the following wholly-owned entity of the Trust:
 - Petrocapita Oil & Gas L.P. ("Oil & Gas LP"), for total consideration of \$39,711,655 through the issuance of a secured note payable with interest payable at 0% per annum.
 - Following the purchase by Petrocapita Energy of the Oil & Gas LP, the Company issued 39,711,655 Class B common shares to the Trust for consideration by way of cancelling the \$39,711,655 secured note payable.
- Petrocapita Energy purchased all of the assets ("Palliser assets") of the following wholly-owned subsidiary of the Trust:
 - Petrocapita GP I Ltd, total consideration of \$5,000,000 paid through the assumption of a secured note payable with interest payable at 12.5% per annum.
- Subsequent to the purchase of the Palliser assets, Petrocapita Energy disposed of its interest in these assets whereby:
 - certain tangible assets were sold to Petrocapita Processing L.P. ("Processing LP") for total consideration of \$1,000,000 through the issuance of 1,000,000 partnership units of the Processing LP
 - certain intangible assets were sold to Oil & Gas LP for total consideration of \$4,000,000 through the issuance of 4,000,000 partnership units of the Oil & Gas LP
 - in addition, as part of the corporate reorganization, the Oil & Gas LP disposed of all its tangible assets to Processing LP for total consideration of \$3,474,558 through the issuance of a secured note payable with interest payable at 6% per annum.

As a result of the internal reorganization described above and subsequent to year-end, the Company has the following subsidiaries:

- Petrocapita Oil & Gas L.P., limited partner interest of 99.9999% (9,833,382 partnership units held) of the total partnership units outstanding (9,833,392 partnership units)
- Petrocapita Processing L.P., limited partnership interest of 99.9999% (1,000,001 partnership units held) of the total partnership units outstanding (1,000,002 partnership units)
- The General Partners of the Oil & Gas L.P. and Processing L.P., being, Petrocapita GP I Ltd. and Petrocapita GP II Ltd., respectively, continue to be wholly-owned subsidiaries of the Trust.

Following the internal reorganization, the Trust has the objective of investing directly in the Company, who, through its ownership in the Processing LP and Oil & Gas LP, will carry on the

Petrocapita Energy Corp.

Financial Statements

For the period from date of incorporation September 26, 2016 to December 31, 2016

(in Canadian dollars)

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 primary business carried on by the Oil & Gas LP will consist of drilling and development of its heavy oil assets and production thereof in the Lloydminster area of Alberta and Saskatchewan.

The primary business carried on by the Processing LP will consist of oil and gas transport, disposal and processing activities and conduct of waste disposal activities.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

On May 29, 2017, the Board of Directors authorized these financial statements for issue.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the functional currency of the Company.

(d) Use of estimates and judgments

The preparation of financial statements requires management to make estimates and assumptions and use judgment based on currently available information that may affect the application of accounting policies and the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the 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.

Petrocapita Energy Corp.

Financial Statements

For the period from date of incorporation September 26, 2016 to December 31, 2016

(in Canadian dollars)

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

Investment in associate

The Company applied judgment in assessing whether it has control or significant influence over Petrocapita Processing L.P. The judgment is based on a review of all contractual agreements to determine if the Company has control over the activities, projects, financial and operating policies of the Processing LP. The Company and the General Partner each hold a 50% interest in the voting rights of Processing LP, however, the General Partner of the Processing LP has the control to make the decisions regarding the business of the Processing LP. Therefore, the Company concluded that it only has significant influence over the Processing LP.

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.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to the period presented in these financial statements.

(a) Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument and are measured at fair value on initial recognition of the instrument.

(i) *Classification and measurement*

The Company's non-derivative financial instruments are comprised of cash, accounts payable and accrued liabilities and due to related company.

The Company has designated cash as "held for trading" which is measured at fair value through profit or loss.

The Company has designated accounts payable and accrued liabilities and due to related company as "financial liabilities measured at amortized cost". These assets and liabilities are measured at amortized cost at the settlement date using the effective interest method of amortization.

Petrocapita Energy Corp.

Financial Statements

For the period from date of incorporation September 26, 2016 to December 31, 2016

(in Canadian dollars)

(ii) *Equity instruments*

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

(iii) *Impairment*

The Company assesses at each balance sheet date whether there is objective evidence that financial assets, other than those designated as "fair value through profit or loss" are impaired. (one or more events have had a negative effect on the estimated cash flows of the asset). When impairment has occurred, the cumulative loss is recognized in the profit or loss. Impairment losses may be reversed in subsequent periods.

(b) Investment in associate

Associates are entities over which the Company has significant influence, but not control. Significant influence is generally presumed to exist where the Company has between 20 percent and 50 percent of the voting rights of the associate. Significant influence may also be evidenced by factors such as the Company's representation on the board of directors, participation in policy-making of the investee, material transactions with the investee, or interchange of managerial personnel. The Company accounts for its investment in associate using the equity method, under which, the investment is initially recognized at cost and the carrying amount is adjusted thereafter to include the Company's share of post-acquisition profits or losses of associates. recognized in the statement of loss and comprehensive loss.

The amount of the adjustment is included in the determination of net earnings (loss) and the investment account is also increased or decreased to reflect the Company's share of capital transactions. Profit distributions received or receivable from an associate reduce the carrying value of the investment.

The Company periodically assesses its investments to determine whether there is any indication of impairment. When there is an indication of impairment, the Company tests the carrying amount of the investment to ensure it does not exceed the higher of the present value of cash flows expected to be generated (value in use) and the amount that could be realized by selling the investment (fair value less cost to sell). When a reduction to the carrying amount of an investment is required after applying the impairment test, an impairment loss is recognized equal to the amount of the reduction.

(c) Taxes

Current tax and deferred tax are recognized in profit or loss, except to the extent that it relates to items recognized directly in equity or in other comprehensive income (loss).

Current tax is the expected taxes payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to taxes payable or receivable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and

Petrocapita Energy Corp.

Financial Statements

For the period from date of incorporation September 26, 2016 to December 31, 2016

(in Canadian dollars)

jointly controlled entities to the extent that is probable that they will not reverse in the foreseeable future. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset only in certain circumstances.

(d) Earnings (loss) per common share

Basic earnings (loss) per common share is calculated by dividing the earnings (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period.

(e) Fair value determination

A number of the Company's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. 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 instruments:

- Level 1: Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets and liabilities.
- Level 2: Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.
- Level 3: Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

(f) Provisions and contingent liabilities

Provisions are recognized by the Company when it has a legal or constructive obligation as a result of past events, it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the amount of that obligation. The obligation is not recorded and is disclosed as a contingent liability if it is not probable that an outflow will be required, if the amount cannot be estimated reliably or if the existence of the outflow can only be confirmed by the occurrence of a future event.

(g) Future accounting policies

The Company 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 Company:

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 Company is currently evaluating the impact of adopting IFRS 9 which is effective for years beginning on or after January 1, 2018.

Petrocapita Energy Corp.

Financial Statements

For the period from date of incorporation September 26, 2016 to December 31, 2016

(in Canadian dollars)

4. Investment in associate

As at December 31, 2016, the Company holds a 50% interest in Petrocapita Processing L.P. Processing LP was incorporated under the *Alberta Partnership Act* on October 19, 2016 whereby, both the Company and the General Partner of Processing LP, Petrocapita GP II Ltd., made an initial contribution of \$10 for the issuance of one partnership unit.

Limited Partnership Agreement (the "Processing LP Agreement")

The Processing LP Agreement provides that the General Partner, being Petrocapita GP II Ltd., a wholly-owned subsidiary of the Trust, has unlimited liability for the debts, liabilities and obligations of the Processing LP to the extent of its assets. The interests in the Processing LP are divided into partnership units (authorized to issue an unlimited number) and each interest is represented by the proportion of the total number of partnership units issued and outstanding. The General Partner will also hold partnership units. Each Limited Partner will be entitled to one vote for each partnership unit held.

Under the terms of the LP Agreement, the income(loss) allocations (including tax allocations) and distributions to all partners will be distributed based on each partner's proportion of the total number of partnership units issued and outstanding. Distributions will be at the sole discretion of the General Partner.

Other than the initial contribution to the Processing LP by the partners, there have been no business activities to December 31, 2016 in Processing LP. Accordingly, the Company's share of profit(loss) is \$nil for the period ended December 31, 2016. The following table summarizes the change in investment in associate for the period ended December 31, 2016:

Balance beginning of period	\$	-
Investment in Petrocapita Processing L.P.		10
Balance at December 31, 2016	\$	10

The Processing LP has a year-end reporting date of December 31, whereby it applies the same accounting policies and standards as the Company. The table below discloses the financial information of Processing LP at December 31, 2016 on a 100% basis:

Total assets	\$	20
Net assets attributable to unitholders	\$	20

5. Due to related company

The due to related company amount relates to advances from the Trust. The amount is non-interest bearing, unsecured and has no fixed terms of repayment.

Petrocapita Energy Corp.

Financial Statements

For the period from date of incorporation September 26, 2016 to December 31, 2016

(in Canadian dollars)

6. Taxes

The Company has not recognized any current or deferred tax provision for the period ended December 31, 2016 as detailed below:

	2016
Loss before taxes	<u>\$ (64,540)</u>
Tax recovery at Canadian tax rate (27%)	\$ (17,426)
Tax assets not recognized	<u>17,426</u>
Current tax	<u>\$ -</u>

Deferred tax assets have not been recognized for the following temporary differences:

	2016
Non-capital losses carried forward	<u>\$ 17,426</u>

The Company has non-capital loss carry-forwards of approximately \$64,500, which will expire in 2036. Deferred tax assets have not been recognized in respect to these items as it is not probable that future taxable income will be available against which these tax benefits will be utilized.

7. Share capital

(a) Authorized

Authorized - unlimited number of Class A common shares, exchangeable, retractable, non-voting, each without nominal par value

Authorized - unlimited number of Class B common shares, voting, each without nominal par value

Authorized - unlimited number of Class C common shares, non-voting, each without nominal par value

Authorized - unlimited number of Class D preferred shares, non-voting, each without nominal par value

Exchange rights of holders

A holder of Class A common shares, shall not be entitled to exercise its right of exchange, unless either:

(a) The Trust announces, approves or enters into a "Triggering Event", being, an acquisition of at least 50% of outstanding Common Units of the Trust; a reclassification of the Commons Units or a capital reorganization of the Trust; any merger, take-over bid or similar arrangement representing 50% or more of the voting or equity securities of the Trust or any of its subsidiaries or 50% or more of the consolidated assets of the Trust; a change in the composition of the trustees of the Trust or board of directors of the administrator of the Trust; and any transactions or arrangements similar to, or having the same effect or consequences, as the foregoing; or

Petrocapita Energy Corp.

Financial Statements

For the period from date of incorporation September 26, 2016 to December 31, 2016

(in Canadian dollars)

(b) at least eighteen (18) months has elapsed from the date of original issuance of such Class A common share.

Subject to the limitation set forth above, a holder of Class A common shares shall be entitled at any time to require the Company to redeem any or all of the Class A common shares held. The exchange shall be settled by issuing to the Class A common share holder, 32 Common Units of the Trust for each Class A common share held or if a Triggering Event has occurred, a cash payment of an amount per Class A common share equal to the product obtained when the current market price of a Common Unit of the Trust on the last business day prior to the exchange date is multiplied by 32 for each Class A common share held.

In addition, as consideration for the Trust issuing Common Units in exchange for Class A shares when initiated by the Class A shareholders, the Company will issue to the Trust that number of Class B shares equal to such number of exchanged Class A shares.

Redemption rights of the Company

In the event that the Trust announces, approves or enters into a Triggering Event, the Company shall be entitled to redeem all of the then outstanding Class A common shares. The redemption shall be settled by issuing to the Class A common share holder, 32 Common Units of the Trust for each Class A common share held or if a Triggering Event has occurred, a cash payment of an amount per Class A common share equal to the product obtained when the current market price of a Common Unit of the Trust on the last business day prior to the exchange date is multiplied by 32 for each Class A common share held.

(b) Issued and outstanding

Class B common shares	Number	Stated Amount
Balance at December 31, 2016	100	\$ 1

Upon incorporation, the Company issued 100 Class B shares to the Trust at a subscription price of \$0.01 per share.

Class C common shares	Number	Stated Amount
Balance at December 31, 2016	3,900,000	\$ 3,900

Put rights

In respect of Class C shareholders, upon the occurrence of a Triggering Event or at any time following the put right vesting dates being, 1/3 vesting October 18, 2016, 1/3 vesting October 18, 2017 and 1/3 vesting October 18, 2018, the Class C shareholders shall be entitled to require the Trust to purchase such Class C shares at a purchase price equal to the fair market value (as determined by the shareholder and the Trust). The purchase price shall be paid through the issuance of equivalent Common Units of the Trust whereby the amount of Common Units issued is equal to the purchase price divided by the current market price of a Common Unit.

Petrocapita Energy Corp.

Financial Statements

For the period from date of incorporation September 26, 2016 to December 31, 2016

(in Canadian dollars)

(c) Employee share issuance plan

During the period ended December 31, 2016, the Company adopted an employee share issuance plan whereby directors, officers, employees and consultants of the Company may be granted, from time to time, shares of the Company. The terms and conditions of the grant will be determined by the Board of Directors at the time of grant. 3,900,000 Class C shares at a subscription price of \$0.001 per share were granted under this plan to employees and directors during the period ended December 31, 2016.

(d) Loss per common share

The following reflects the loss and common share data used in the basic income (loss) per common share computations:

	<u>2016</u>
Numerator:	
Net loss for the period	<u>\$ (64,540)</u>
Denominator:	
Weighted average number of common shares – basic	<u>2,600,100</u>

8. Financial risk management, fair values and capital management

(a) Overview

The Company's activities expose it to a variety of financial risks that arise as a result of its operations and financing activities such as:

- credit risk;
- liquidity risk; and
- market risk.

The Company employs risk management strategies and policies to ensure that any exposure to risk is in compliance with the Company's business objectives and risk tolerance levels. While the Board of Directors has the overall responsibility for the establishment and oversight of the Company's risk management framework, management has the responsibility to administer and monitor these risks.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. In addition, this note presents information regarding the fair value of financial instruments. There have been no changes to these policies during the period ended December 31, 2016.

Petrocapita Energy Corp.

Financial Statements

For the period from date of incorporation September 26, 2016 to December 31, 2016

(in Canadian dollars)

(b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Credit risk exposure	2016
<hr/>	
Cash	\$ 3,285
<hr/>	
Maximum exposure to credit risk	\$ 3,285
<hr/>	

Cash

The Company manages the credit exposure related to cash by selecting financial institutions with high credit ratings. Given these credit ratings, management does not expect any counterparty to fail to meet its obligations.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's approach to managing liquidity is to ensure it will have sufficient liquidity to meet its liabilities when due.

The Company's accounts payable and accrued liabilities and due to the related company totaling \$63,934 have contractual maturities less than one year. Accounts payable and accrued liabilities were comprised of \$41,934 in accrued liabilities and consisted of amounts payable related to payroll and payroll remittances.

At December 31, 2016, the Company has no source of operational cash inflows and will require additional funding from the Trust to settle its current obligations. See note 1 regarding the corporate reorganization and note 10 regarding the potential equity raise. There are no other contractual obligations or commitments as at December 31, 2016.

(d) Market risk

Market risk is the risk that changes in market prices, such as commodity prices, interest rates and foreign exchange rates will affect the Company's net earnings or the value of financial instruments. The Company manages and mitigates market risk exposures within acceptable limits, while maximizing returns. The Company is currently not exposed to any market risks.

(e) Fair value of financial instruments

Cash is measured at fair value using level 1 fair value measurements.

The fair value of the investment in associate approximates its carrying value as the Processing LP has not yet commenced business operations.

The fair values of accounts payable and accrued liabilities and amounts due to a related company approximate their carrying values due to the relatively short-term nature of these instruments.

Petrocapita Energy Corp.

Financial Statements

For the period from date of incorporation September 26, 2016 to December 31, 2016

(in Canadian dollars)

(f) **Capital management**

The Company's capital includes shareholders' deficiency of \$60,639. The Company'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 Company 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 Company is not subject to externally imposed capital requirements as at December 31, 2016.

9. Related parties

Compensation of key management personnel

Key management includes the Company's directors and officers. Total remuneration for key management included in general and administrative expenses during the period ended December 31, 2016 was approximately \$64,376.

As at December 31, 2016, \$22,441 remains outstanding to key management and is included in accounts payable and accrued liabilities.

10. Subsequent event

Offering Memorandum

The Trust is currently offering up to \$20,000,000 of series 1 preferred Trust units of the Trust ("Preferred Units") by way of an exempt market offering (the "Offering"). The Offering consists of a tied offering of Preferred Units of the Trust and Class A Shares of Petrocapita Energy.

Each Preferred Unit is priced at \$1.00 and each Share is priced at \$0.001. Each Share shall be exchangeable for 32 of the publicly traded common units of the Trust (CSE:PCE.UN) at any time on or after 18 months from the date of issuance of the Shares, subject to certain restrictions, conditions and adjustments in certain circumstances.

The minimum subscription of Preferred Units of the Trust shall be 1,000 Preferred Units which will entitle the subscriber to subscribe for up to 230 Shares. Accordingly, the minimum subscription of the Shares shall be \$0.23 per Class A Share. The Shares must be purchased as part of a Tied Unit. A Tied Unit means a combination of 0.23 Shares and one Series 1 Preferred Unit.

The agent will be paid a cash commission and administrative fee (equal in aggregate to 10% of the gross proceeds raised by the agent) and will be entitled to subscribe for 20 Shares of the 230 shares subscribed for in the minimum subscription of the 1,000 Tied Units sold through the agent.

At May 29, 2017, the Trust has closed the first two tranches of Tied Units for aggregate principal amounts of approximately \$2.17 million. Total cash commissions paid to the agent to date amount to \$217,000.

Accordingly, 2,170,000 Preferred Units of the Trust and 499,100 Class A Shares of Petrocapita Energy were issued subsequent to year end. In addition, 43,400 Class A Shares were issued to the agent.

Petrocapita Energy Corp.
Pro Forma Consolidated Balance Sheet
As at December 31, 2016
(Unaudited)
(in Canadian dollars)

	Petrocapita Income Trust	Petrocapita Energy Corp.	Internal reorganization	Petrocapita Energy Corp. Pro Forma
	December 31 2016	December 31 2016	(note 2)	
Assets				
Current assets				
Cash	\$ 2,532,582	\$ 3,285	\$ (1,280,992)	\$ 1,254,875
Accounts receivable	1,907,822	-	-	1,907,822
Crude oil inventory	836,831	-	-	836,831
Prepaid expenses and deposits	546,845	-	(256,069)	290,776
Total current assets	5,824,080	3,285	(1,537,061)	4,290,304
Non-current assets				
Investment in associate	-	10	(10)	-
Property and equipment	50,430,656	-	-	50,430,656
Exploration and evaluation assets	2,789,952	-	-	2,789,952
Total assets	\$ 59,044,688	\$ 3,295	\$ (1,537,071)	\$ 57,510,912
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	\$ 6,188,075	\$ 41,934	\$ (684,952)	\$ 5,545,057
Bank debt	95,000	-	-	95,000
Loans payable	211,442	-	-	211,442
Due to related party	-	22,000	(22,000)	-
Current portion of obligation under finance	79,214	-	-	79,214
Current portion of convertible debentures	160,204	-	(160,204)	-
Total current liabilities	6,733,935	63,934	(867,156)	5,930,713
Non-current liabilities				
Decommissioning provisions	23,129,666	-	-	23,129,666
Due to related company	-	-	3,827,718	3,827,718
Obligation under finance leases	158,296	-	-	158,296
Debenture	4,565,987	-	-	4,565,987
Convertible debentures	5,510,911	-	(5,510,911)	-
Conversion feature of convertible debentures	2,679,931	-	(2,679,931)	-
Deferred tax liability	116,000	-	-	116,000
Total liabilities	42,894,726	63,934	(5,230,280)	37,728,380
Equity				
Share capital	-	3,901	39,711,657	39,715,558
Common units	37,368,608	-	(37,368,608)	-
Warrants	309,461	-	(309,461)	-
Deficit	(21,528,107)	(64,540)	1,659,621	(19,933,026)
Total equity	16,149,962	(60,639)	3,693,209	19,782,532
Total liabilities and equity	\$ 59,044,688	\$ 3,295	\$ (1,537,071)	\$ 57,510,912

See accompanying notes to the unaudited pro forma consolidated financial statements.

Petrocapita Energy Corp.

Pro Forma Consolidated Statement of Loss and Comprehensive Loss

For the Year Ended December 31, 2016

(Unaudited)

(in Canadian dollars)

	Petrocapita Income Trust	Petrocapita Energy Corp.	Internal reorganization (note 2)	Petrocapita Energy Corp. Pro Forma
	Year ended December 31 2016	Year ended December 31 2016		
Revenue				
Revenue	\$ 5,259,118	\$ -	\$ -	\$ 5,259,118
Royalties expense	(542,010)	-	-	(542,010)
Revenue, net of royalties	4,717,108	-	-	4,717,108
Expenses				
Operating	5,929,092	-	-	5,929,092
General and administrative	3,154,266	64,540	(323,468)	2,895,338
Transaction costs	97,100	-	-	97,100
Depletion and depreciation	1,391,533	-	-	1,391,533
Total expenses	10,571,991	64,540	(323,468)	10,313,063
Operating loss	(5,854,883)	(64,540)	323,468	(5,595,955)
Finance expenses	(1,416,693)	-	680,114	(736,579)
Loss on corporate acquisitions	(885,062)	-	-	(885,062)
Gain on asset acquisitions / swaps	4,357,561	-	-	4,357,561
Unrealized gain (loss) on conversion feature of convertible debentures	(694,718)	-	694,718	-
Impairment of property and equipment	(73,733)	-	-	(73,733)
Impairment of exploration and evaluation assets	(375,233)	-	-	(375,233)
Loss before taxes	(4,942,761)	(64,540)	1,698,300	(3,309,001)
Current tax	(61,828)	-	61,828	-
Loss and comprehensive loss	\$ (5,004,589)	\$ (64,540)	\$ 1,760,128	\$ (3,309,001)
Loss per share - basic				\$ (0.08)

PETROCAPITA ENERGY CORP.

NOTES TO THE UNAUDITED PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

As at December 31, 2016 and for the year ended December 31, 2016

1. BASIS OF PRESENTATION

The unaudited pro forma consolidated balance sheet and unaudited pro forma consolidated statement of loss and comprehensive loss (the "unaudited pro forma consolidated financial statements") of Petrocapita Energy Corp. ("PEC") have been prepared by management for illustrative purposes only for inclusion in the Offering Memorandums (the "Offerings") dated May 29, 2017 consisting of preferred trust units, Series 1 ("Preferred Units") of Petrocapita Income Trust (the "Trust") and Class A shares of PEC. The Preferred Units may only be purchased as part of a "Tied Unit". A Tied Unit means the combination of one Preferred Unit of the Trust and 0.23 Class A Shares of PEC offered concurrently pursuant to the Offerings of the Trust and PEC, respectively, dated May 29, 2017.

These unaudited pro forma consolidated financial statements of PEC are presented to reflect the Internal Reorganization as described in Note 2.

The unaudited pro forma consolidated financial statements have been prepared from information derived from, and should be read in conjunction with:

- (i) the audited consolidated financial statements of the Trust as at December 31, 2016 and for the year then ended, and the related notes attached thereto; and
- (ii) the audited financial statements of PEC as at December 31, 2016 and for the period from the date of incorporation September 26, 2016 to December 31, 2016, and the related notes attached thereto; and

all of which were prepared in accordance with International Financial Reporting Standards. Accounting policies used in preparation of the unaudited pro forma consolidated financial statements are in accordance with those disclosed in the audited financial statements described above.

The historical audited financial statements noted above have been adjusted in the unaudited pro forma consolidated financial statements to give effect to events that are (i) directly attributable to the internal reorganization, and (ii) factually supportable. The underlying assumptions for the pro forma adjustments provide a reasonable basis for presenting the significant financial effects directly attributable to the Internal Reorganization, however, the unaudited pro forma consolidated financial statements may not necessarily be indicative of financial position or results that actually would have occurred if the events reflected therein had been in effect on the dates indicated or of the results which may be obtained in the future. In the opinion of management, these unaudited pro forma consolidated financial statements include all adjustments necessary for fair presentation. Furthermore, management believes that as a result of the Internal Reorganization, the deferred tax assets and liabilities of each entity will not change significantly.

2. PRO FORMA CONSOLIDATED FINANCIAL STATEMENT ASSUMPTIONS AND ADJUSTMENTS

Internal Reorganization

The following are the pro forma adjustments made to the unaudited pro forma consolidated financial statements to illustrate the impact of the Internal Reorganization as if it occurred on January 1, 2016. The transactions completed include the following events as described in the Offerings:

- PEC will acquire the assets formerly owned by Palliser Oil and Gas Corporation ("Palliser") from Petrocapita GP I Ltd. ("O&G GP") for the assumption of a 12.5% promissory note issued by O&G GP to Petrocapita Oil & Gas L.P. ("O&G LP").
- PEC will acquire all of the partnership units of O&G LP held by the Trust and assume a 0% promissory note issued by O&G LP to the Trust in the aggregate principal amount of \$39,711,655 which includes intercompany promissory notes between the Trust, as lender, and the O&G LP, as borrower, securing the purchase of Pacific Oil, Hytop, PCap Trucking and Smartworks.
- The Trust will subscribe for 39,711,655 Class B shares of PEC in exchange for cancellation of the 0% promissory note in the aggregate principal amount of \$39,711,655 between the Trust and PEC.
- Petrocapita Processing L.P. ("Processing LP") will acquire certain tangible assets of O&G LP in return for a promissory note issued by Processing LP to O&G LP.
- O&G LP will acquire the intangible assets formerly owned by Palliser from PEC in return for partnership units of O&G LP being issued to PEC.

PETROCAPITA ENERGY CORP.

NOTES TO THE UNAUDITED PROFORMA CONSOLIDATED FINANCIAL STATEMENTS

As at December 31, 2016 and for the year ended December 31, 2016

- Processing LP will acquire the tangible assets formerly owned by Palliser from PEC in return for partnership units of Processing LP being issued to PEC.
- Processing GP will be acquired by PEC from the Trust through an issuance of 1 Class B share of PEC.
- O&G GP will be acquired by PEC from the Trust through an issuance of 1 Class B share of PEC.
- Hytop Well Servicing Inc., PCAP Trucking Inc. and Smartworks Oilfield Maintenance Ltd. will be amalgamated with PEC . The assets of these companies secure intercompany notes in the O&G LP as noted above and will be transferred to Processing LP for promissory notes.

The unaudited pro forma consolidated financial statements assume that the corporate acquisitions completed in the historical audited financial statements of the Trust during the year ended December 31, 2016, were completed on their respective acquisition dates. In addition, the unaudited pro forma consolidated financial statements assume that PEC was incorporated on January 1, 2016.

3. PRO FORMA COMMON SHARES OUTSTANDING

Pro forma common shares issued and outstanding

Class B common shares	Number	Stated Amount
Issued on incorporation	100	\$ 1
Issued in exchange for cancellation of promissory note	39,711,655	39,711,655
Issued on acquisition of Processing GP	1	1
Issued on acquisition of O&G GP	1	1
Balance at December 31, 2016	39,711,757	\$ 39,711,658

Class C common shares	Number	Stated Amount
Issued under employee share purchase plan	3,900,000	\$ 3,900
Balance at December 31, 2016	3,900,000	\$ 3,900
Total pro forma common shares outstanding	43,611,757	\$ 39,715,558

ITEM 14 - DATE AND CERTIFICATE

Dated: May 29, 2017

This Offering Memorandum does not contain a misrepresentation.

PETROCAPITA INCOME TRUST, by its Administrator, PETROCAPITA GP I LTD.

"Alex Lemmens"

Alex Lemmens
President and Chief Executive Officer

"Gregory Marr"

Gregory Marr
Chief Financial Officer

PETROCAPITA GP I LTD., as Administrator

"Alex Lemmens"

Alex Lemmens
President and Chief Executive Officer

"Gregory Marr"

Gregory Marr
Chief Financial Officer

By the Board of Directors of PETROCAPITA GP I LTD.

"Alex Lemmens"

Alex Lemmens

"Gregory Marr"

Gregory Marr

"Richard Mellis"

Richard Mellis

"Ben Van Rootselaar"

Ben Van Rootselaar