Annual Update 2016

PETROCAPITA

This annual update contains forward-looking information within the meaning of applicable Canadian securities laws and readers are encouraged to refer to the detailed disclosure concerning forward-looking information under the heading "Forward-Looking Information" at the end of this document.

OVERVIEW AND UPDATE

Petrocapita was established in January 2010 and is part of a group of alternative funds with over $700 Million in assets under management operating in farmland, private equity, non-bank lending and energy.

We have had success at raising and deploying approximately $50 Million in capital with a focused approach of obtaining high working interest assets in a concentrated area of high hydrocarbon potential by acquiring developed oil and gas properties and associated infrastructure at attractive metrics. In 2016, we saw what was most likely the bottom of the current price cycle in Q1 and were successful in acquiring the assets of Palliser oil and gas from its receiver manager. On a combined basis, this acquisition has secured an oil and natural gas production base valued at $120 million and an integrated associated infrastructure and fluid processing facility base valued at $202 million by our independent third-party evaluator (refer to Reserves and Midstream Assets Valuation, below).

2016 continued to be challenging year for the energy industry. Oil prices began a serious decline in Q3 2014 and continued to do so throughout 2015 and 2016.

Recognizing that successful energy companies are built at the bottom of cyclical lows in oil prices, we acquired the assets of Palliser at less than 5% of its bank debt (which typically utilizes a loan to value ratio of 0.5:1) or, less than 2.5% of the lender's perceived value. Most importantly, we increased our well count from 155 (147.4 net) to 536 (448.3 net), our processing facilities for produced water from 9 to 19, our pipeline infrastructure from 0.5 km to 72.75 km, our gas processing facilities from 0 to 4, our central oil processing facilities from 1 to 3, and our mineral land position from 10,615 ac (9,859 net) to 105,562 ac 970,884 net). Critically, we increased our undeveloped mineral land position from 2,123 ac (2,123 net) to 52,703 ac (44,062 net). Coincidentally, we acquired a fluid transportation company, a well servicing company and an oilfield maintenance company, all with vendor take-back financing at liquidation metrics to manage operating costs.

We are now positioned with a critical mass of mineral and infrastructure assets that we can build on and grow Into a substantial enterprise even in the current environment of low oil prices.

Now almost 3 years into a significant downturn in oil prices, we remain convinced that the combination of continued growth in consumption, lack of capital investment in drilling, and the global decline rate will drive a return to higher energy prices and improved profitability for western Canadian energy producers.

In 2016, we have already seen a price recovery of 140% in our realized price from lows reached in the first quarter of the year and third-party forecasts indicate material gains in 2017 and 2018. Critically, our realized price had been a discount to Western Canada Select oil price, the benchmark price for heavy oil, of some $3 per barrel. Subsequent to the Palliser purchase and as a direct result of owning our own infrastructure, our realized price achieved a premium to Western Canadian Select of some $4 per barrel. This amounts to a $7 per barrel gain in revenue for the company over pre-acquisition metrics.

Our approach at Petrocapita is unchanged. We remain financially disciplined and free of bank debt to protect our balance sheet. We remain focused on accretive transactions as we continue to aggregate a portfolio of high quality, heavy oil midstream and production assets in a year- round access area while also maintaining our focus on maximizing free cash flow moving forward.

Sincerely on behalf of the Petrocapita team:

Alex Lemmens
Trustee

Richard Mellis
Trustee

Greg Marr
Trustee

FINANCIAL HIGHLIGHTS

		2016	2015
Financial ($000s)			
	Revenues	5,259.0	3,659.7
	Operating Netback (1)	742.0	424.7
	Distributions (including DRIP)	656.9	847.7
	Acquisitions (Fair Value)	31,582.2	4,100.6
	Acquisitions (Cash Consideration)	3,139.8	15.0
	Reactivation Expenses - Capitalized	1,763.5	1,224.5
	Reactivation Expenses - Expensed	1,954.0	-
	Property, Plant & Equipment (Net Book Value)	50,430.6	28,769.1
Netback ($/bbl)			
	Heavy oil realized price	32.86	35.97
	Water disposal sales	0.55	0.68
	Royalties	(3.59)	(2.66)
	Operating expenses (1)	(24.90)	(26.11)
	Operating netback	4.92	4.25
Benchmark Pricing			
WTI (US$/bbl)		43.32	48.80
WCS(US$/bbl)		29.48	35.12
Heavy oil differential		32%	28%
Foreign exchange (US$/C$)		1.32	1.28
Share Information (000's)			
Preferred units		0	0
Common units		1,109,732.0	1,109,732.0
Total units		1,109,732.0	1,109,732.0

(1) Operating netback is calculated as revenues less expenses for royalties, production, transportation and disposal processing. 2016 Operating Netback is normalized to exclude costs associated with reactivating Palliser assets that were expensed to operations.

Important Note: In this Annual Update the term "netback" is used in various places. Netback is a metric commonly used in the oil and natural gas industry. It assists management in better analyzing profitability of operations at the field level. Petrocapita calculates netback as revenue less expenses for royalties, production, transportation and disposal processing. The term "netback" does not have a standardized meaning and may not be comparable to similar measures presented by other companies and, therefore, should not be used to make such comparisons.

RESERVES AND MIDSTREAM ASSETS VALUATION

Petrocapita's principal properties are located in thirteen fields in two regions in the Lloydminster and Granlea area of operations, four fields in Alberta and nine fields in Saskatchewan. Its processing facilities include wellsite processing equipment at some 536 wells, 14 operating produced water disposal facilities (4 in Alberta and 10 in Saskatchewan), 5 produced water and disposal facilities approved or in process of approval (1 in Alberta and 4 in Saskatchewan), approximately 75 km of pipelines and 3 central processing and disposal facilities. all in Saskatchewan.

	2016		2015	
Total	MSTB	NPV 10% ($000)	MSTB	NPV 10% ($000)
Total Proved	1,919	119,879	1,043	44,416
Probable Undeveloped	6,430	202,983	3,081	58,058
Proved & Probable	8,320	322,861	4,124	102,474
Midstream (1)				
Total Proved	0	97,564	0	31,854
Probable Undeveloped	0	115,983	0	18,458
Proved & Probable	0	213,547	0	50,312
Oil Reserves (2)				
Total Proved	1,919	22,315	1,043	12,563
Probable Undeveloped	6,430	87,000	3,081	39,600
Proved & Probable	8,320	109,314	4,124	52,163

(1) *Midstream / Processing – Company Gross as evaluated by Chapman Petroleum Engineering Ltd. ("Chapman") as part of the annual independent third party valuation of reserves, resources and processing as at December 31, before tax and discounted at 10%. The estimated values do not necessarily represent fair market values and have been derived by Chapman utilizing various assumptions, including an assumed 50% value weighted utilization as between disposal facilities and the processing facilities of which approximately 47% are estimated third party volumes in the December 31, 2016 valuation and an assumed 48% utilization for disposal facilities only of which approximately 67% are estimated third party volumes in the December 31, 2016 valuation.*

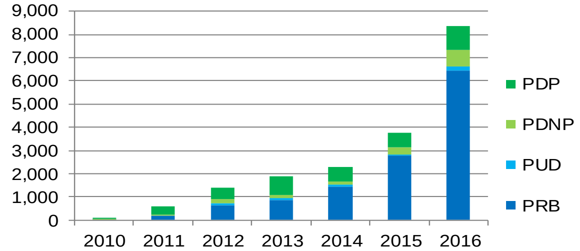
(2) *Oil Reserves – Company Gross per NI 51-101 as evaluated by Chapman Petroleum Engineering Ltd. as part of the annual independent third party valuation of reserves, resources and processing as at December 31, before tax, excluding Processing, and discounted at 10%*

RESERVES AND MIDSTREAM ASSETS HISTORY

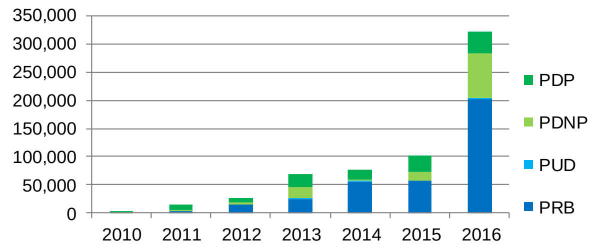
Petrocapita has consistently grown reserves valuations even during the last 24 months when many large operators have experienced significant reserve value declines. The overall value of its asset base has also continued to grow – a testament to the midstream investment strategy and the sharp and constant focus on operating costs.

**Reserves reported by Chapman as of Dec. 31 each year*

Reserves (MSTB)



Reserve and Midstream Value (NPV10)



KEY ATTRIBUTES OF PORTFOLIO

- large reserve base with significant undeveloped multi- zone oil potential

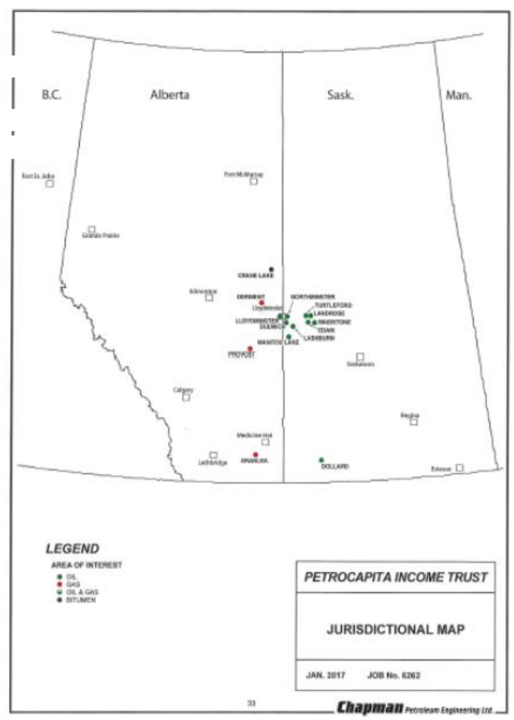
- large number of temporarily suspended oil wells that can be re-activated quickly and inexpensively as they become economic with oil price improvements

- high working interest ownership
- infrastructure assets in transportation, processing and disposal

- focused land position

- Low and sustainable drilling and development costs
-
- Opportunity to accretively add to asset base in a low cost environment

- 19 water disposal facilities and 3 treating facilities



CAPITAL RAISED

At December 31, 2016, Petrocapita had raised $49.5 million with an additional $2.1 million raised in Q1 2017.

GOING PUBLIC TRANSACTION

Petrocapita common units are listed on the Canadian Securities Exchanges ("CSE"). The units commenced trading on the CSE at market opening on Thursday, November 19, 2015 under the symbol "PCE.UN". Since that time units have traded between from between $0.005 and $0.035, averaging approximately $0.002 per unit for an average market capitalization of some $22 million and an enterprise value of some $35 million.

As at December 30, 2016, common units traded at $0.025, for a market capitalization of $ 27.5 million and an enterprise value of $42 million as against a net book value of property, plant and equipment of $50 million.

ACQUISITIONS COMPLETED

In 2016, Petrocapita acquired the assets of Palliser Oil and Gas from its receiver manager at a significant discount to fair market value. It provides the infrastructure and developed oil reserves from which to build production by reactivation as opposed to drilling. The acquisition added 2 fully functional treating facilities, 10 produced water disposal facilities, 2 compressor facilities, 72 km of pipelines, 366 wells (282.3 net), and 92,703 acres (58,784 net) of mineral lands. Coincident with this we acquired a fluid transport company, a service rig company and an oil field maintenance company all at liquidation prices and with vendor takeback financing.

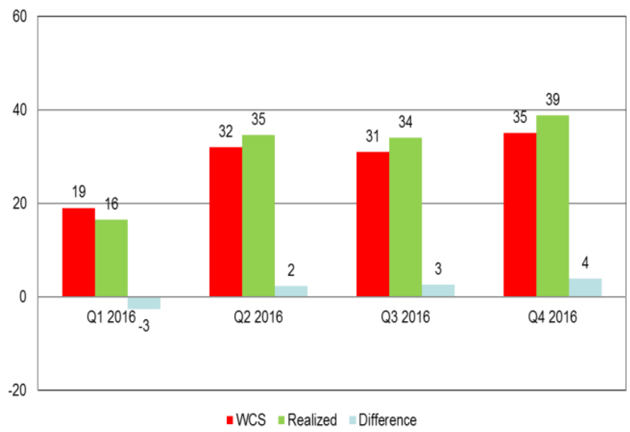
ACQUISITIONS PENDING

Non-binding letters of intent have been sent to various distressed operators to acquire land, wells and facilities at highly accretive metrics. To date none have advanced beyond this stage.

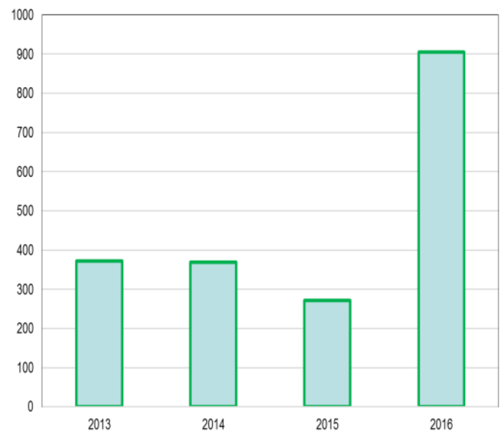
NETBACK IMPROVEMENT

Petrocapita is planning to actively reactivate a number of wells currently suspended for mechanical or re-completion issues since the collapse of oil prices in 2014 and as a result of the receiver manager operating the Palliser assets at minimum cost. We currently have an inventory of some 130 such wells that can be reactivated at a similar cost per flowing barrel as the acquisition of Palliser in mid-2016 and the cost of reactivating wells to date to achieve the production targets realized. Each tranche of 1000 barrels per day of production is anticipated to reduce fixed cost of operations of some $3 million annually by some 50%from current levels. Key to this strategy at current prices is the integrated infrastructure acquired with the Palliser assets which has already improved netbacks by increasing the realized price. The charts below outline net back improvements from realized price alone and production gains since the Palliser acquisition in 2016.

Realized Price ($ per Barrel)



Exit Net Production (Barrels per Day)



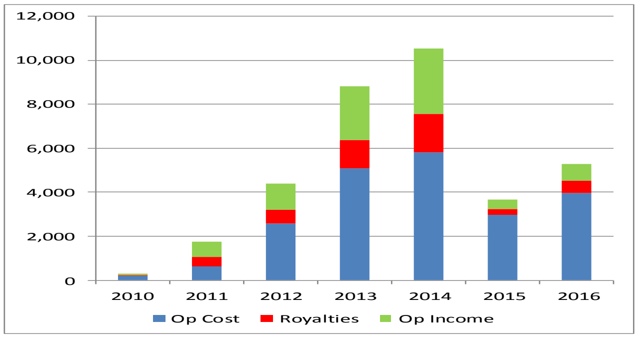
Beginning in June 2015 and throughout 2016, management began the process of consolidating its ownership of the oil and gas properties of Petrocapita and acquiring the infrastructure necessary to operate profitably in a low oil price environment. Fixed field costs were reduced with staffing reductions and variable field costs were also reduced through measures which included the purchase of fluid hauling and well servicing equipment which resulted in operating cost savings of some $550,000 in fluid transportation and well servicing over third party costs.

In addition to the net gain in realized price noted above, the upgrading of its treating and disposal facilities (the majority interest of which was acquired in 2016) would make them capable of cleaning oil to pipeline specifications and blending with lighter oils to offset the realized price to WCS differential and ultimately, much of the WTI to WCS differential.

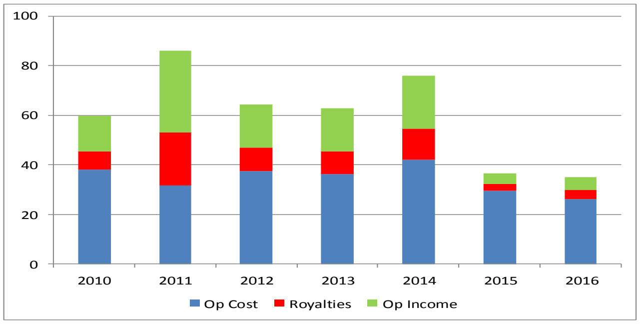
REPORT ON OPERATIONS

Petrocapita has been successful in maintaining positive netbacks even in this current extremely low price environment. The primary driver for this achievement has been the improvement in realized price from the infrastructure acquired with Palliser and the improvement in operating costs from increased production reducing the per barrel cost of fixed operating expenses. Significantly, these costs can be improved again by reactivating more of the currently shut in wells.

Operating Netback ($000)



Operating Netback ($ per Barrel)



Operating netback is calculated as revenues less expenses for royalties, production, transportation and disposal processing. 2016 Operating Netback is normalized to exclude expenses associated with reactivating Palliser assets

TEAM UPDATES

Arvid Nash, P.Eng. is Operations Manager, has extensive experience in heavy oil operations, joined us from Palliser and has been instrumental in integrating operations and developing a reactivation strategy.

Doug Forrest is Operations Superintendent – Alberta. Doug has over 18 years of experience in heavy oil operations and service business management all in the Lloydminster area of Alberta.

Ryan McGowan is Operations Superintendent – Sask. Ryan joins us from Palliser and has over 20 years of experience in heavy oil operations in the Lloydminster area.

Angela Lin, CA, is Vice President Finance, joins us from Palliser and is responsible for integrating financial reporting and control systems.

Lesley Caswell is Administration Manager, Oilfield Services, has over 15 years of experience in oilfield and resource field operations and is responsible for logistics and cost control of fluid transport and oil well servicing operations.

CONTACTS

Alex Lemmens Trustee
587.393.3460 alemmens@petrocapita.om

Richard Mellis Trustee
587.393.3465 rmellis@petrocapita.com

Greg Marr Trustee
587.393.3462 gmarr@petrocapita.com

#1400 – 717 – 7 Ave SW
Calgary, AB T2P 0Z3
Tel: +1-587-393-3456
www.petrocapita.com

FORWARD LOOKING INFORMATION:

Certain statements and information contained in this update constitute forward-looking statements and forward-looking information as defined under applicable securities legislation (collectively, "forward-looking statements"). These forward-looking statements relate to future events or Petrocapita's future performance. All statements other than statements of historical fact are forward-looking statements. The use of any of the words "anticipate", "plan", "contemplate", "continue", "estimate", "expect", "intend", "propose", "might", "may", "will", "shall", "project", "should", "could", "would", "believe", "predict", "forecast", "pursue", "potential" and "capable" and similar expressions are intended to identify forward-looking statements. In particular, and without limitation, these statements contain forward-looking statements pertaining to pending acquisitions, netback trends, reserves and valuation of Petrocapita's disposal facilities and treater ("facilities"). These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Although management believes that the expectations conveyed by any forward-looking statements are reasonable, no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this update should not be unduly relied upon. In addition, this update may contain forward-looking statements attributed to third party industry sources. With respect to forward-looking statements contained in this update, assumptions have been made regarding, among other things: future crude oil prices; the magnitude of Petrocapita's water disposal margins; the magnitude of Petrocapita's operating expenses (including royalties); the magnitude of increase in positive netback which may be realized by Petrocapita through upgrading its central treating facility; the ability of Petrocapita to increase future production levels; the level of future utilization of Petrocapita's facilities; the magnitude of net future revenues derived from utilization of Petrocapita's facilities; the duration over which future revenues may be derived from Petrocapita's facilities; the ability of Petrocapita to maintain reasonably stable operating and general administrative expenses. The forward-looking statements contained in this update involve significant risks and uncertainties and should not be read as guarantees of future performance or results. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to, the risks related to: volatility in market prices and demand for crude oil; general economic, market and business conditions; difficulties encountered in the development and production of Petrocapita's reserves; difficulties encountered in the construction, upgrading and/or operation of Petrocapita's facilities; the loss of key personnel; the failure to realize the benefits of upgrading Petrocapita's central treating facility; the inability to generate sufficient cash flow from operations to meet current and future obligations; the inability to obtain required debt and/or equity capital on acceptable terms or at all; changes in tax law or other adverse regulatory, royalty or tax changes; diversion of management to manage unforeseen business or operating issues; current global financial conditions.

Information and statements in this update relating to valuation of Petrocapita's facilities have been prepared by a third-party engineering firm and are based on various estimates and assumptions, many of which have been referred to above. Estimates of future net revenues associated with Petrocapita's facilities as prepared by different engineers, or by the same engineers at different times, may vary. Petrocapita's actual future net revenues associated with its facilities will vary from estimates thereof and such variations could be material. In addition, information and statements in this update relating to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated, and that the reserves described can be profitably produced in the future. There are numerous uncertainties inherent in estimating quantities of oil and natural gas and the future cash flows attributed to such reserves. The reserves and associated cash flow information set forth in this update are estimates only. In general, estimates of economically recoverable oil and natural gas and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates, ultimate reserve recovery, timing and amount of capital expenditures, marketability of oil and natural gas, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary materially. For these reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues associated with reserves prepared by different engineers, or by the same engineers at different times, may vary. Petrocapita's actual production, revenues, taxes and development and operating expenditures with respect to its reserves will vary from estimates thereof and such variations could be material.

Readers are cautioned that the risk factors set forth above should not be construed as exhaustive. Additional information on risks, uncertainties and factors that could affect the foregoing forward-looking information and/or Petrocapita's operations or results therefrom is included in its filings with the securities commissions which have been filed under Petrocapita's profile on SEDAR (www.sedar.com).

Although the forward-looking statements contained in this update are based upon what Petrocapita's management believes to be reasonable assumptions, Petrocapita cannot assure investors that actual results will be consistent with such information. Forward-looking statements reflect management's current beliefs and are based on information currently available to Petrocapita. Petrocapita cautions readers not to place undue reliance on Petrocapita's forward-looking statements. The forward-looking statements are made as of July 25, 2017 and Petrocapita assumes no obligation to update or revise such information to reflect new events or circumstances, except as may be required by applicable securities laws.

This update is for information only and does not constitute, nor should it be construed as, an offer to sell or a solicitation to buy securities of Petrocapita.