

## FORM 7

### **MONTHLY PROGRESS REPORT**

Name of Listed Issuer: Petrocapita Income Trust (the "Issuer").

Trading Symbol: PCE.UN

Number of Outstanding Listed Securities: 1,109,731,962 Common Trust Units

Date: August 5, 2016

This Monthly Progress Report must be posted before the opening of trading on the fifth trading day of each month. This report is not intended to replace the Issuer's obligation to separately report material information forthwith upon the information becoming known to management or to post the forms required by Exchange Policies. If material information became known and was reported during the preceding month to which this report relates, this report should refer to the material information, the news release date and the posting date on the Exchange website.

This report is intended to keep investors and the market informed of the Issuer's ongoing business and management activities that occurred during the preceding month. Do not discuss goals or future plans unless they have crystallized to the point that they are "material information" as defined in the Policies. The discussion in this report must be factual, balanced and non-promotional.

#### **General Instructions**

- (a) Prepare this Monthly Progress Report using the format set out below. The sequence of questions must not be altered nor should questions be omitted or left unanswered. The answers to the items must be in narrative form. State when the answer to any item is negative or not applicable to the Issuer. The title to each item must precede the answer.
- (b) The term "Issuer" includes the Issuer and any of its subsidiaries.
- (c) Terms used and not defined in this form are defined or interpreted in Policy 1 – Interpretation and General Provisions.

#### **Report on Business**

1. Provide a general overview and discussion of the development of the Issuer's business and operations over the previous month. Where the Issuer was inactive disclose this fact.

*Petrocapita Income Trust ("Petrocapita", "Trust" or "Company") became a public entity listed on the Canadian Securities Exchange under the trading symbol PCE.UN on November 19, 2015. As of that date the Trust became a Specified Investment Flow-Through Trust.*

*Petrocapita is an investment trust developing and acquiring largely heavy oil production and infrastructure assets in the Lloydminster area of east central Alberta and west central Saskatchewan through its wholly owned subsidiary, Petrocapita Oil and Gas L.P.. It owns and operates heavy oil wells, produced water disposal facilities, a central oil processing facility, service rigs, fluid haul tractors and trailers, graders and well site processing equipment. It is seeking accretive opportunities to acquire both oil production and complimentary midstream assets during a cyclical low in the oil markets. In July 2016, Petrocapita acquired all of the assets of Palliser Oil and Gas Corporation (the "Corporation") from the Corporation's receiver manager. Details are set in Item 3 below.*

2. Provide a general overview and discussion of the activities of management.

*Management continues to raise funds through private placements;*

*Petrocapita Income Trust (CSE: PCE.UN) ("**Petrocapita**" or the "**Trust**") entered into an agreement with Raintree Financial Solutions to proceed, on a best efforts basis, with an offering (the "**Offering**") of up to \$5,000,000 aggregate principal amount of 8% secured convertible debentures (the "**Debentures**") at a price of \$1,000 per Debenture.*

*The purchasers of the Debentures shall be entitled to 50,000 warrants per \$1,000 principal amount of Debentures subscribed for (the "**Warrants**"). Each Warrant may be exercised at a price of \$0.06 to purchase one common trust unit of the Trust until December 31, 2018.*

*Raintree Financial Solutions will be paid a cash commission and will receive 10,000 warrants per \$1,000 principal amount of Debentures sold (the "**Broker Warrants**"). Each Warrant may be exercised at a price of \$0.06 to purchase one common trust unit of the Trust until December 31, 2018.*

*Assuming an Offering of \$5,000,000 aggregate principal amount of Debentures and the full exercise of the Warrants and Broker Warrants, the Trust will receive an additional \$18,000,000.*

*The Debentures will 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 Debentures will have a maturity date of December 31, 2020 (the "**Maturity Date**").*

*On or after December 31, 2017, the Debentures will be convertible at the holder's option into common trust units of the Trust (the "**Units**") at a conversion price per Unit equal to the volume weighted average trading price of such Unit on the Canadian Securities Exchange for each of the last twenty (20) trading days prior to the date of conversion, subject to certain restrictions, conditions and adjustments in certain circumstances. The Debentures will not be redeemable*

*before December 31, 2018. On or after December 31, 2018, but prior to the Maturity Date, the Trust may, at its option, redeem the Debentures, in whole or in part, at a price equal to the principal amount of the Debentures plus all accrued and unpaid interest up to but excluding the date of redemption.*

*The Trust intends to use the net proceeds from the Offering to finance future growth opportunities, (including acquisitions and investments), to finance capital expenditures, and for general corporate purposes.*

*Completion of the Offering has been extended and is expected to close in the coming months. The Offering will be made by way of private placement in Canada and may be offered in other jurisdictions where they can be issued, exempt from any prospectus, registration or other similar requirements. The Offering is subject to certain conditions including, but not limited to, the receipt of all necessary approvals, including the approval of the Canadian Securities Exchange, and other securities regulatory authorities as applicable.*

*The first closing was completed on December 18, 2015. 222 convertible debenture units at \$1,000 per unit or \$222,000 of Debentures and 11,300,000 warrants were issued.*

*A second closing was completed on February 19, 2016. 509 convertible debenture units at \$1,000 per unit or \$509,000 of Debentures and 30,540,000 warrants were issued.*

*A third closing was completed on April 12, 2016. 589 convertible debenture units at \$1,000 per unit or \$589,000 of Debentures and 34,140,000 warrants were issued.*

*A fourth closing was completed on April 27, 2016. 220 convertible debenture units at \$1,000 per unit or \$220,000 of Debentures and 13,200,000 warrants were issued.*

*On May 20, 2016, the Trust issued convertible debentures in the total amount of \$472,486.04, for the acquisition of Hytop Well Servicing Inc. The debentures are for a term of 7 years, carry an interest rate of 6%, are amortized over 6 years beginning on May 15, 2017 and are convertible into Units of Petrocapita 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 twenty (20) trading days prior to the date of conversion set by the exercise of the option to convert.*

*On June 1, 2016, the Trust issued a convertible debenture in the total amount of \$550,000.00, for the acquisition of 1701307 Alberta Ltd. operating as MJ Vallee Trucking. The term of the debenture is 7 years, carries an interest rate of 6%, is amortized over 6 years beginning on June 1, 2017 and is convertible into Units of Petrocapita 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 twenty*

*(20) trading days prior to the date of conversion set by the exercise of the option to convert. Concurrent with the issuance of this debenture, the debenture in the principal amount of \$460,000 issued by Petrocapita Oil and Gas LP to MJ Vallee for purchase of fluid haul trailers with an interest rate of 6%, a 7year term beginning June 01, 2015 and principal payments scheduled to commence on June 01, 2016 will be eliminated on consolidation.*

*A fifth closing was completed on June 2, 2016. 435 convertible debenture units at \$1,000 per unit or \$435,000 of Debentures and 26,100,000 warrants were issued.*

*On June 8, 2016, the Trust issued a debenture in the total amount of \$5,000,000.00, for a targeted acquisition. The term of the debenture is 5 years, and carries an interest rate of 12.5% per annum, payable quarterly in arrears.*

*On June 17, 2016, The Trust announced that it has executed a distribution agreement ("Distribution Agreement") with Raintree Financial Solutions ("Raintree") to proceed, on a best efforts basis, with an offering of 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 will proceed on the basis of a tied offering of Preferred Units of the Trust and Class A common shares (the "Shares") of Petrocapita Energy Corp. (the "Corporation"), a wholly owned subsidiary of the Trust which is to be formed as part of an internal reorganization of the Trust to hold both the limited partnership units of Petrocapita Oil and Gas L.P. and Petrocapita Processing LP (which will be formed as par of the planned internal reorganization of the Trust), the material operating subsidiaries 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 shall be 1,000 Preferred Units which will entitle the subscriber to subscribe for up to 250 Shares. Raintree will be paid a cash commission and administrative fee (equal in aggregate to 10% of the gross proceeds raised by Raintree) and will be entitled to subscribe for 20 Shares of the 250 shares subscribed for in the minimum subscription of the 1,000 Preferred Units sold through Raintree.*

*The Preferred Units will be non-voting, provide for annual distributions of \$0.09 per Preferred Unit payable quarterly in arrears, be redeemable by the holder from and after the 4th year anniversary of their issuance date, and be retractable by the Trust.*

*The Shares shall be non-voting but will otherwise rank equally with other classes of common shares of the Corporation as to dividends and participation in the assets of the Corporation upon wind-up.*

*The Trust intends to use the net proceeds from the Offering to finance future growth opportunities (including acquisitions and investments), to finance capital expenditures and for general corporate purposes.*

*Petrocapita Oil and Gas L.P. is a limited partnership formed to hold oil and gas leases and production, and is focussed on development of its own properties and on accretive acquisitions in its area of focus, heavy oil in the Lloydminster area of east central Alberta and west central Saskatchewan.*

*Petrocapita Processing L.P. is a limited partnership being formed to hold all of the tangible oil and gas wellsite production treating, storage and transportation assets, well servicing rigs and equipment, fluid transportation equipment, produced water disposal facilities, and oil treating and blending facilities of the Trust. It is also focussed on accretive acquisitions in the Trust's area of focus and on improving the Trust's oil and gas production netbacks through vertical integration.*

*The Offering will be made by way of private placement in Canada and is subject to certain conditions including, but not limited to, the receipt of all necessary approvals, including the approval of the Canadian Securities Exchange and other securities regulatory authorities as applicable.*

*The securities offered have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "U.S. Securities Act") or any U.S. state securities laws, and may not be offered or sold in the United States or to, or for the account or benefit of, United States persons absent registration or any applicable exemption from the registration requirements of the U.S. Securities Act and applicable U.S. state securities laws.*

3. Describe and provide details of any new products or services developed or offered. For resource companies, provide details of new drilling, exploration or production programs and acquisitions of any new properties and attach any mineral or oil and gas or other reports required under Ontario securities law.

*On July 11, 2016, the Trust received approval by Order of the Court of Queen's Bench of Alberta for the purchase of all, or substantially all, of the assets of Palliser Oil and Gas Corporation ("Palliser") from its Receiver Manager, FTI Consulting Canada Inc. ("FTI") for \$3,000,000.00 (plus or minus any adjustments pursuant to the PSA post-closing) and a Gross Overriding Royalty of 1.5% on the assets acquired in favour 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 is May 01, 2016. Details of the transaction may be found on the FTI website. The purchase was completed the same day.*

*In July, the Trust completed re-activations of 3 heavy oil wells in the Landrose area, 2 wells in the Edam area and 2 wells in the Manitou Lake area, all in Saskatchewan.*

4. Describe and provide details of any products or services that were discontinued. For resource companies, provide details of any drilling, exploration or production programs that have been amended or abandoned.

*None.*

5. Describe any new business relationships entered into between the Issuer, the Issuer's affiliates or third parties including contracts to supply products or services, joint venture agreements and licensing agreements etc. State whether the relationship is with a Related Person of the Issuer and provide details of the relationship.

*None.*

6. Describe the expiry or termination of any contracts or agreements between the Issuer, the Issuer's affiliates or third parties or cancellation of any financing arrangements that have been previously announced.

*None.*

7. Describe any acquisitions by the Issuer or dispositions of the Issuer's assets that occurred during the preceding month. Provide details of the nature of the assets acquired or disposed of and provide details of the consideration paid or payable together with a schedule of payments if applicable, and of any valuation. State how the consideration was determined and whether the acquisition was from or the disposition was to a Related Person of the Issuer and provide details of the relationship.

*On July 5, 2016, the Trust announced that it had executed a Purchase and Sale Agreement ("PSA") to acquire all, or substantially all, of the assets of Palliser Oil and Gas Corporation ("Palliser") from its Receiver Manager, FTI Consulting Canada Inc. ("FTI"), subject to approval of the Court of Queen's Bench of Alberta. If approved, the effective date of the transaction is May 01, 2016.*

*Please see 3 above. The Trust received court approval and closed the acquisition of all or substantially all the assets of Palliser Oil and Gas Corporation on July 11, 2016.*

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

*The acquisition of the Palliser assets results in increasing the Trust's number of wells from 155 gross (147.4 net) to 521 gross (429.7 net). It also increases 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 increases its 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.

Based on the reserve report prepared by third party evaluators of both the Trust and Palliser as at December 31, 2015, proved plus probable reserves increase from 4.1 million barrels with an NPV10 value of \$50.3 million to 10.0 million barrels with an NPV10 value of \$87 million. In separate valuations prepared by the same evaluators and not included in the reserve valuations, the NPV10 value of facilities increases from \$52.2 million to \$67.8 million.

Finally, as a result of acquiring all, or substantially all, of the assets of Palliser, and filing of joint elections under Section 66.7 of the Income Tax Act (Canada) and Sub Section 167(1) of the GST Legislation, the Trust, or its subsidiaries, shall acquire the cumulative resource expenses of Palliser to the extent permitted under the Act and limit payment of the GST on the Tangible portion of the assets acquired.

8. Describe any new developments or effects on intangible products such as brand names, circulation lists, copyrights, franchises, licenses, patents, software, subscription lists and trade-marks.

*None.*

9. Report on any employee hiring, terminations or lay-offs with details of anticipated length of lay-offs.

*Associated with the closing of the Palliser acquisition, the trust engaged the services of a number of contractors for accounting and operations.*

10. Report on any labour disputes and resolutions of those disputes if applicable.

*None.*

11. Describe and provide details of legal proceedings to which the Issuer became a party, including the name of the court or agency, the date instituted, the principal parties to the proceedings, the nature of the claim, the amount claimed, if any, if the proceedings are being contested, and the present status of the proceedings.

*None.*

12. Provide details of any indebtedness incurred or repaid by the Issuer together with the terms of such indebtedness.

*Please see item 2 above.*

13. Provide details of any securities issued and options or warrants granted.

Security	Number Issued	Details of Issuance	Use of Proceeds <sup>(1)</sup>
Convertible debentures (8%)	435 units @ \$1,000 per unit or, \$435,000 aggregate proceeds	Matures Five (5) years from date of	\$391,500 reserved for capital expenditures and

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		issuance, bears interest at 8% and is Convertible two (2) years after the date of issuance.	\$43,500 commission expense
<i>Secured non-convertible debenture (12.5%)</i>	1 unit, \$5,000,000 aggregate proceeds	Maturity date of April 29, 2021 (5 years) and bearing interest at a rate of 12.5% per annum, payable quarterly in arrears.	Acquisition of Palliser.
<i>Convertible debentures (6%)</i>	1 unit, \$550,000.00 aggregate proceeds	Term of 7 years, carries an interest rate of 6%, is amortized over 6 years beginning on June 1, 2017 and are convertible into common trust units of Petrocapita 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.	Acquisition of 1701307 Alberta Ltd.
<i>Warrants</i>	26,100,000	Exercise price \$0.06	Not applicable

(1) *State aggregate proceeds and intended allocation of proceeds.*

*On May 26, 2016 the board of directors of the administrator approved a stock option plan. No options have been granted to directors, officers, employees and/or consultants to date.* Provide details of any loans to or by Related Persons.

*None.*

14. Provide details of any changes in directors, officers or committee members.

*None.*

15. Discuss any trends which are likely to impact the Issuer including trends in the Issuer's market(s) or political/regulatory trends.



- a) *The continuance of low heavy oil prices could impact the Trust's cash flow from operations and result in reduced capital spending.*
- b) *Government regulations, including those regulations governing the protection of the environment, taxes, labour standards, occupational health, waste disposal, safety and other matters, could have an adverse impact on Petrocapita.*
- c) *Changes to Provincial royalties could have an adverse impact on Petrocapita.*
- d) *Recent changes to the liability management ratio within Alberta could have an impact on future acquisitions made by the Trust.*

## **Certificate Of Compliance**

The undersigned hereby certifies that:

1. The undersigned is a director and/or senior officer of the Issuer and has been duly authorized by a resolution of the board of directors of the Issuer to sign this Certificate of Compliance.
2. As of the date hereof there is no material information concerning the Issuer which has not been publicly disclosed.
3. The undersigned hereby certifies to the Exchange that the Issuer is in compliance with the requirements of applicable securities legislation (as such term is defined in National Instrument 14-101) and all Exchange Requirements (as defined in CNSX Policy 1).
4. All of the information in this Form 7 Monthly Progress Report is true.

Dated August 5, 2016.

Alex T. Lemmens  
Name of Director or Senior  
Officer

"Alex T. Lemmens"  
Signature

Director, President & CEO  
Official Capacity

<b>Issuer Details</b> Name of Issuer Petrocapita Income Trust	For Month End July	Date of Report YY/MM/D 2016/08/05
Issuer Address Suite 1400, 717 – 7 <sup>th</sup> Avenue SW		
City/Province/Postal Code Calgary, Alberta T2P 0Z3	Issuer Fax No. None	Issuer Telephone No. (587) 393-3450
Contact Name Alex Lemmens	Contact Position President	Contact Telephone No. (587) 393-3460
Contact Email Address alemmens@petrocapita.com	Web Site Address www.petrocapita.com	