



Ninepoint Silver Equities Class

April 2018 Commentary

April was an interesting month for silver as the metal rallied 5.4% mid-month, but gave up the gains closing the month essentially flat at US\$16.33/oz. For the month of April, the Sprott Silver Equities Fund gained 1.7% versus the MSCI Silver Select Index, which added 3.1% in the same period.

Thomson Reuters (GFMS) released their 2018 World Silver Survey which provided important data points for the supply and demand trends affecting silver. This report confirmed our suspicions that the physical silver market has tightened over the past twelve months. According to GFMS, industrial demand for silver increased in 2017, for the first time since 2013, while supply of silver declined driven by lower mine production and reduced recycling. Deficits in the silver market have now entered their sixth year despite declining investment demand for silver. Demand for coins, bars and ETFs was down 40% from 2016.

A stronger global economy increased demand for silver in semiconductor and solar applications. In the same timeframe, demand for silver in silverware and jewelry also increased. Demand for silver from the solar panel industry grew an impressive 19% in 2017 to 94 million ounces. Solar applications now represent approximately 10% of the total demand for silver according to GFMS while other industry sources peg the silver demand for solar panels at 107 million ounces[1]. Silver jewelry picked up strongly in North America (+12%) and in India (+7%), while silver used in silverware grew 12% in 2017. While demand increased in 2017, mine supply decreased for the second consecutive year as the amount of silver mined declined by 36.5 million ounces in 2017. This decline was due to a series of supply disruptions in the Americas as well as declines in primary silver production from underinvestment. Scrap supply was essentially unchanged from 2016 with losses in Asia being offset by the Western world.

The data confirms our thesis that the physical silver market remains extremely tight in spite of exceptionally weak investment demand for silver. On its own, either increased investment demand or continued demand increases in industrial applications or further disruptions to mine supply would provide a powerful catalyst for silver prices.

The three largest contributors to April fund performance were Industrias Penoles, Mag Silver and Torex Gold. Penoles rebounded from oversold levels. Mag reported 2017 results demonstrating progress in developing its Juanicipio project that is joint ventured with Fresnillo. Torex announced the ending of an illegal blockade at its ELG mine complex in Mexico and also announced that the Los Mineros Union has withdrawn its challenge to be the legally constituted union for the union-eligible ELG Mine Complex employees. The withdrawal demonstrated that the incumbent union has the support of the majority of union eligible employees and that disruptions would end.

The three largest detractors from April performance were Coeur Mining, Dolly Varden Silver and Chakana Copper. Coeur sold off despite releasing stronger than expected Q1 financial results

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driven by lower cash costs following pre-release of production results. Dolly Varden drifted after announcing an approved \$8.9 million exploration program for the 2018 season. The program will focus both on resource delineation and discovery of new mineralization. Chakana Copper is exploring its Soledad gold-silver-copper project in Peru and the company reported more encouraging drilling results.

¹ All returns and fund details are a) based on Series F units; b) net of fees; c) annualized if period is greater than one year; d) as at April 30, 2018; e) 2012 annual returns are from 02/28/12 to 12/31/12. The index is 100% MSCI ACWI Select Silver Miners IMI (CAD) Index and is computed by Ninepoint Partners LP based on publicly available index information.

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