Ninepoint Energy Strategy

August 2018 Commentary

Investment Team

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Will the most soul sucking, emotionally draining, gut wrenching, never ending stress inducing investment in history be worth it in the end?

Pardon the dramatics, but after a near 4 years of immense volatility and frustration caused by a constant bombardment of new worries/headlines (that are always debunked with the passage of time) ranging from demand destruction due to mass electric car adoption to improved US shale well efficiencies and a resulting "new normal" breakeven oil price of $40/bbl to a dynamic OPEC production policy (sentiment shifted from "they will never cap production" to "they will never cut production" to "well they may cut but will cheat in the end" to "oh, so they did cut after all") to now global growth worries (again…remember China hard landing concerns a few years ago?) due to trade disputes/wars/tweets, our opening title is the question that energy investors around the world find themselves asking. After so much heart ache, disappointment, stress, and financial losses (or opportunity cost) will all of the effort be worth it in the end?

The oil price action over the past few years has been wild. After trading at $100/bbl for 3 years between 2011 to mid-2014 it cracked in late 2014 following a historic move by Saudi Arabia to shun their role as the global swing producer. Falling to a low of $26.05/bbl in February 2016 the price of oil has now rallied by 165% (~146% in CAD$ terms) from the lows to ~$70/bbl. Along that crazy ride general market expectations for oil have swung from a **V shaped recovery** to a **U shaped recovery** to **no recovery** to **$50/bbl being the long-term outlook given US shale break evens** to now **$60-$70/bbl being the medium term trading range.** The remarkable change in market expectations has largely been due to evolving views on:

1) US shale oil annual production growth rate potential
2) OPEC's ability to manage the market through an effective production curtailment
3) Oil demand growth expectations

After such a protracted period of enormous volatility many investors have left the sector in search of easier returns [pot stocks that go up 10% a day, bitcoin (whoops!), AAPL and AMZN hitting trillion dollar valuations] and this is reflected in both a 15 year low energy sector weighting in several indices as well as energy stocks trading at a fraction of their historical multiples. At the current oil price ($70/bbl WTI) many Canadian oil stocks are trading at less than half of their historical multiples (3x-4x EV/CF versus 7x-8x) and at free cash flow yields of 10%-20%. Effectively over the past 4 years energy stocks have suffered from massive multiple contraction since the S&P TSX Capped Total Return index is only up 49% from the low in oil (February 2016) versus oil's rally of 146%. Since January 3, 2017 oil has rallied by 28% (26% in CAD$) yet the energy index has fallen by 8.6% resulting in an underperformance of a whopping 35% over the past 20 months. Even worse than the Energy Index's performance has been the midcap space (48% of the S&P TSX Capped Energy Index is Suncor and Canadian Natural and they have held up better versus midcaps since SU and CNQ acted as harbours of safety for generalist fund managers who had to maintain energy exposure) with

names like Crescent Point and Cardinal Energy DOWN 39% and 10% respectively while oil is UP 146%!

It is clear that there has been a complete breakdown between energy stocks and the price of oil due to the lack of market participants in the energy sector. The care factor for energy stocks today is close to zero and it is not an exaggeration to say that in Canada on some days it feels like we and two of our peers are the only ones involved in the space (my energy sales specialist friends tell me that "you can count the number of accounts involved in the energy sector on two hands").

Current valuations do not make sense to us...it is not normal to be able to purchase a business (using current oil prices!) at 3.6x its enterprise value to cash flow when it has 5.7 years of an existing cash flow stream with 56% operating margins that requires minimal capital spending to maintain (total reserve life of 13 years) and whose balance sheet is strong (debt to cash flow of 1 year). On a free cash flow yield basis (available cash flow after spending to keep production flat) the average Canadian midcap stock is trading at a 15% FCF yield. This is not normal!

	Torc	Whitecap	Cardinal	Baytex	Crescent Point	Bonterra	Tamarak	Surge	Obsidian	Average
EV/CF	3.8	3.5	3.4	4.0	3.4	4.8	3.6	3.4	2.5	3.6
PDP RLI	5.0	8.0	9.0	0.0	5.5	8.5	3.7	5.6	6.5	5.7
2P RLI	12.4	17.4	13.2	0.0	15.6	20.6	10.9	16.0	11.3	13.1
FCF Yield	16%	19%	23%	8%	13%	13%	9%	15%	19%	15%
D/CF	0.4	0.7	0.8	2.0	1.6	1.4	0.2	0.9	0.7	1.0
Cash flow margin	59%	63%	44%	50%	55%	60%	65%	54%	56%	56%

Source: Ninepoint Partners

So what will it take for energy stocks to start performing better and reclaim part or all of their lost historical multiples? In short, the energy sector needs buyers and for this to happen two beliefs must become adopted as consensus:

1) That oil is in a higher trading level for the next several years due to the many factors that we have previously written about (robust demand growth, curtailed US supply growth due to pipeline constraints until early 2020, exhausted OPEC spare capacity, and anemic/falling non-US/OPEC supply growth due to chronic underinvestment over the past 4 years) and is biased higher rather than lower (ie. $70+/bbl versus retracing back to $50/bbl). This should become readily apparent this Fall.
2) That oil companies will not squander their financial prosperity through aggressively increasing their capital expenditure programs (unlike what happened in Q2 reporting in the US) and erode the many efficiency gains made during the downturn but will instead focus on profitability and ultimately return of capital (ie. dividends and buybacks). This can only come from companies exercising discipline and is hence why we encourage all of our Fund holdings (if appropriate) to initiate a minimum 5% NCIB and constrain growth capital. Will this become an increasing theme with Q3 reporting?

Oil Macro Update – when will consensus see what we see as an incontrovertible truth?

We have for almost two years written about why oil is in a multi-year bull market and why we believe oil could trade above $100/bbl in the next year to two. Slowly consensus has been catching up to us and headlines like these were becoming (up until one month ago) increasingly common signaling an important shift in sentiment:

07/12/2018 08:01:00 [BFW]

OIL BRIEF: OPEC Output May Be Stretched to Limit, IEA Says

By Christopher Sell

(Bloomberg) -- OPEC's Gulf members may need to pump almost as much crude as they can to cover swelling supply losses, from Venezuela to Iran and beyond, the IEA said; Libya plans to ramp up its oil fields to feed reopened ports after a political standoff crippled exports for weeks; Saudi Arabia fails to comply with output cuts for the first time.

Source: Bloomberg

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As Oil Industry Recovers From a Glut, a Supply Crunch Might Be Looming

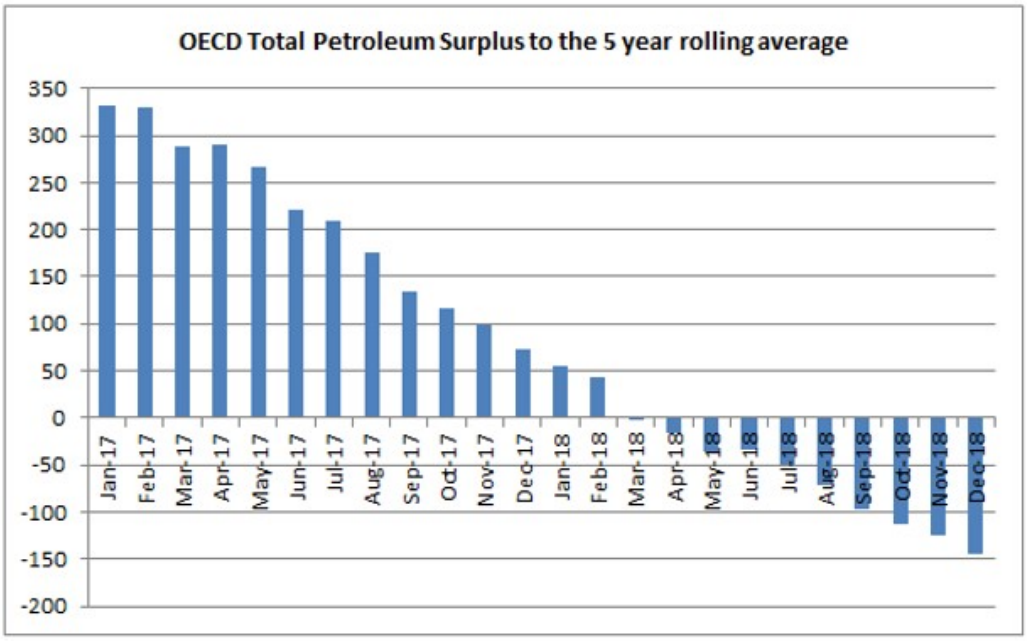
Dearth of investments in oil projects mean a spike in prices above $100 could be on the horizon

Source: Wall Street Journal, July 28, 2018

"The market is itching to take the price to $100. I think it could go well over $100," Peter Tertzakian, executive director of the ARC Energy Research Institute, told a conference in Calgary this week.

Source: Calgary Herald, July 12, 2018

So what exactly happened for consensus to shift so abruptly negative over the past 2 months (as evidenced by net speculative length in oil falling to an 8 month low)?!? First, Trump's tweeting tirade flamed worries about a global trade war and with it concerns about a global economic slowdown (not awesome for oil demand growth). Chinese oil consumption data from a few months ago seemed to back up these worries while at the same time Turkey's currency crisis became front page news (for about 2 weeks) and that ignited new worries about contagion within emerging economies. Secondly, in June OPEC and Russia increased production by about 1MM Bbl/d bringing output closer to 100% compliance with its historic (and highly effective) production cut. This production increase was meant to offset the pending reduction from Iran due to reimposed US sanctions, however this created a short-term mismatch in timing and therefore loosened the market temporarily. While it is impossible with certainty to speak to the outcome of the trade discussions, we can with some confidence speak to why inventory drawdowns will accelerate in the coming months and once again indicate the extreme tightness/undersupply in the market versus the past few months (where we observed more modest declines in inventory levels relative to the 5 year average):

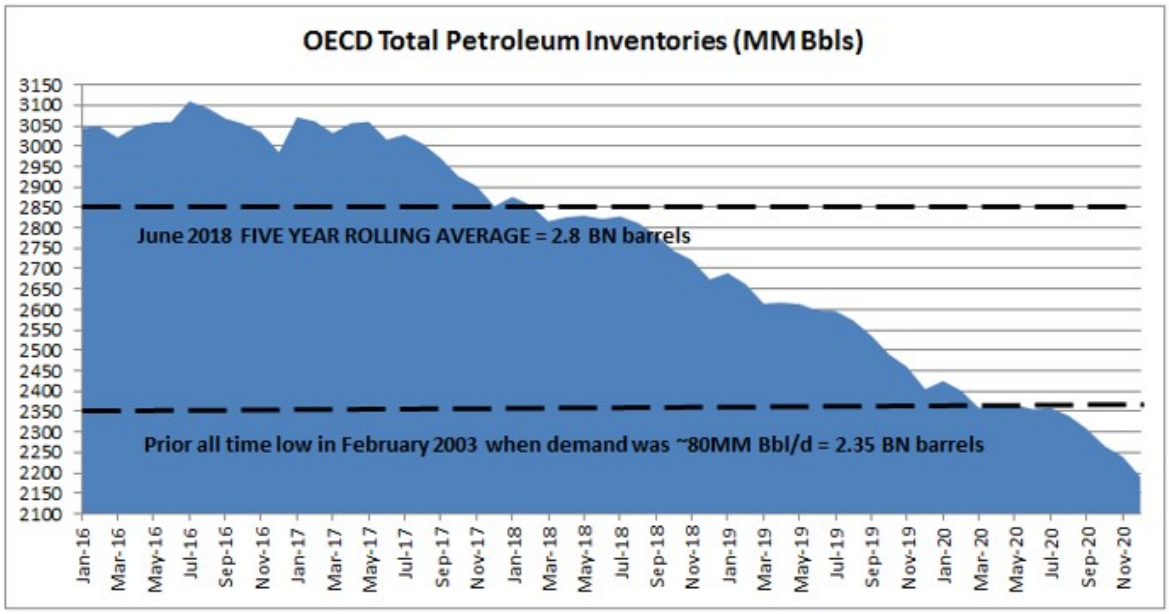


Source: Ninepoint Partners

In recent weeks, despite very strong underlying product demand as exemplified by the highest US refinery utilization for this time of year since 2001 (and gasoline demand last week was at an all-time high), US crude oil inventories have been building primarily due to a drop off in exports. The reason for this has been reduced Chinese buying (thank Trump for that one as well as Chinese inventory destocking in hopes of replenishing them at lower levels). This strategy has not worked. With China destocking 54MM Bbls over the past year this has resulted in a forward cover of less than 37 days, representing a record low and is a strong indicator that imports (from the US and elsewhere) will once again resume (especially with an incremental 1MM Bbl/d of refining capacity coming online in the next 6 months). US production growth is also about to hit the wall as Permian incremental pipeline capacity now amounts to only 100k bbl/d with no relief until early 2020. Recent well completion activity (down 3% month-over-month) corroborates this view as does updated guidance from SLB and HAL that their short term L48 outlooks have weakened materially (a bullish macro development). An imminent pickup in oil exports (this past week was up 0.6MM Bbl/d week over week) combined with a plateauing of US production should see better relative draws in the US for the remainder of 2018.

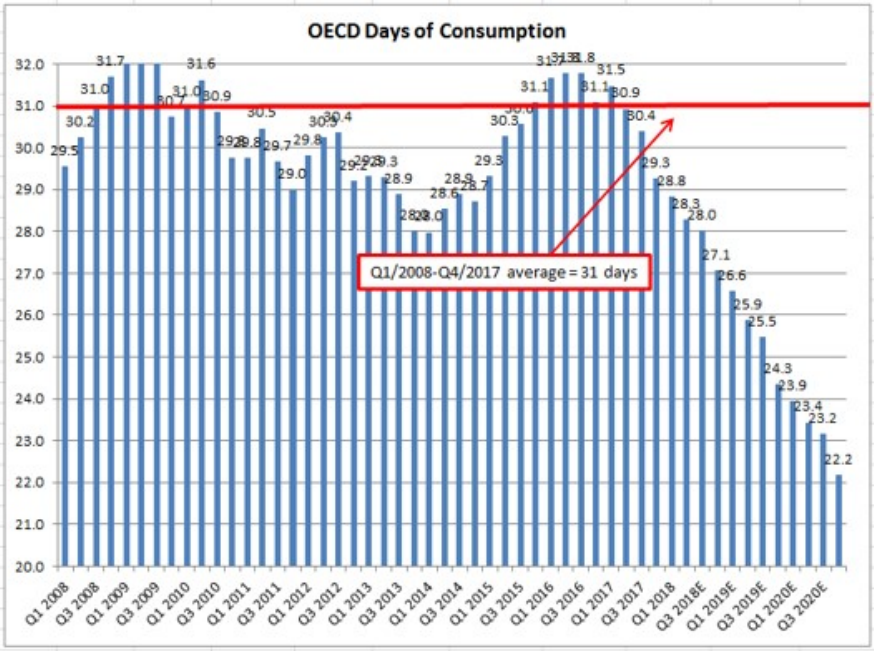
More holistically, the pace of OECD inventory drawdowns has been lessened somewhat by the factors mentioned above as well as the short-term impact of OPEC production growth (Venezuela and Iran being outweighed by Saudi, UAE, Iraq, and Russian growth) and weak Q2 European refining demand due to warm weather preventing refineries from running at full utilization. While the YTD pace of draws (January to June) has been slightly lower than what we had originally projected, it still amounted to 31MM Bbls versus a build last year of 31MM Bbls and 5 year average build of 76MM Bbls. The market is most definitively undersupplied. Recent data points suggest that European and Chinese demand have rebounded and that Indian demand remains strong. With Iranian export declines accelerating (September is estimated to be at 1.5MM Bbl/d...down 800k Bbl/d from June) we believe that they will soon offset the increase in OPEC+Russia production; when combined with a slowdown in US production growth we expect accelerated OECD inventory drawdowns on a YOY and relative to the 5 year average basis. We continue to forecast that OECD inventories will reach their

lowest level in history in late 2020:



Source: Ninepoint Partners

When inventories are measured on a days of supply basis (given that using the 5 year average is inaccurate as oil demand is up over 6MM Bbl/d over that same time frame so naturally inventories would have to be HIGHER to equate to the same level of overall supply on a demand adjusted basis) the level of chronic undersupply becomes more obvious. We are the first to admit that the below scenario is unlikely as refineries will have to bid up oil to increase their operating inventory levels and these actions will reduce oil demand resulting in both higher inventories and meaningfully higher oil prices. **Critically, demand growth historically only gets impacted when the global expenditure on oil approximates 5% of global GDP which today would correspond to an oil price of around $120/bbl.**



Source: Ninepoint Partners

We have been purposefully conservative in our estimates assuming that demand growth rates will fall even though there is no evidence of this occurring. As well, we assume the US will grow production by 1MM Bbl/d in 2019 even though Permian takeaway capacity will be full (the Permian has been about 2/3 of US recent production growth). We assume only a 1MM Bbl/d Iranian export reduction (could be as high as 1.7MM Bbl/d) and that Venezuelan oil production will only fall a further 200k bbl/d (likely to be as high as 500k bbl/d). The net result is the oil market remains undersupplied to the end of 2020 and inventory levels continue to fall, breaching the previous all-time low of 2.35BN barrels around August 2020. Our 0.9MM Bbl/d of undersupply compares to Energy Aspects 0.5MM Bbl/d estimate, Morgan Stanley's 0.3MM Bbl/d, and Cornerstone Analytics estimate of 1.1MM Bbl/d.

Global Oil Balances	2018	2019	2020
Beginning of year undersupply	0.7	0.4	0.9
Add: Demand Growth	1.7	1.4	1.2
Total amount of required supply growth to reach balance	2.4	1.8	2.1
US Supply Growth	1.2	1.0	1.4
OPEC+Russia Supply Growth	0.6	1.1	0.3
Political Disruptions (Iran, Venezuela)	0	-1.2	0
Non-OPEC/US Supply Growth	0.2	0	-0.2
Total estimated supply growth	2.0	0.9	1.5
End of year market balance	-0.4	-0.9	-0.6

Units: MM Bbl/d; Source: Ninepoint Partners

One theme that will become a dominant headline in 2019 will be the exhaustion of OPEC spare capacity. Given the 0.8MM Bbl/d increase in OPEC production over the past 3 months much of the

latent production capacity has been used up. Why do we believe this? First, the highest collective level for OPEC production over the past 2.5 years is 35.1MM Bbl/d (versus 32.4MM Bbl/d in August). You would naturally believe then that OPEC has 2.7MM Bbl/d of available volumes but this would be making a critical mistake in not separating the "haves" from the "have not's." By "haves" we mean countries with both the financial and political means of getting back to their prior high. "Have not" countries by contrast suffer from either political upheaval (Venezuela) or financial constraints (Nigeria).

OPEC/Russia Spare Capacity

The "Haves"	Prior 2 year high (MM Bbl/d)	When?	Current Production (MM Bbl/d)	Spare Capacity (MM Bbl/d)
Saudi Arabia	10.66	Jul-16	10.39	0.27
UAE	3.13	Sep-16	3.04	0.09
Qatar	0.67	Apr-16	0.62	0.05
Kuwait	2.96	Oct-16	2.83	0.13
Iraq	4.63	Aug-18	4.64	0.00
Neutral Zone	0.50	Apr-14	0.00	0.50
Russia	11.30	Oct-16	11.22	0.08
TOTAL	33.85		32.74	1.12
The "Have Nots"				
Venezuela	2.4	Jan-16	1.3	1.0
Ecuador	0.6	Sep-16	0.5	0.0
Iran	3.8	Jan-18	3.5	0.3
Angola	1.8	Feb-16	1.4	0.4
Algeria	1.1	Oct-16	1.1	0.1
Libya	1.1	Feb-18	1.0	0.1
Nigeria	2.0	Jan-16	1.8	0.3
TOTAL	12.8		10.6	2.2

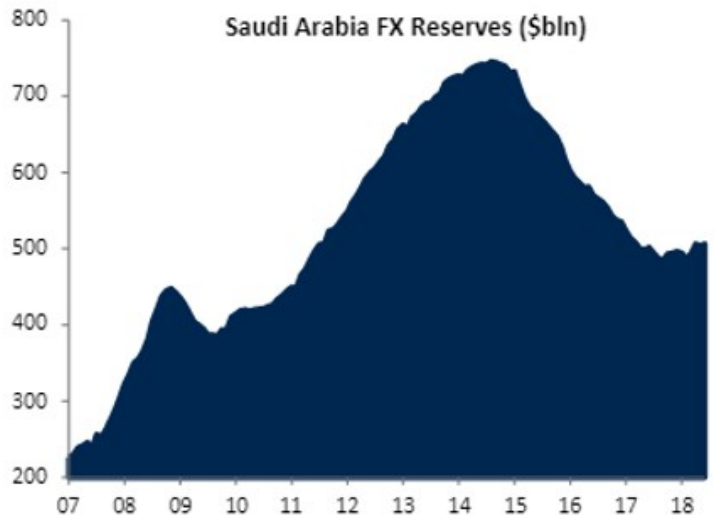
Source: OPEC, Bloomberg, Ninepoint Partners

To put 1.1MM Bbl/d of "real spare capacity" into a global context oil demand today is around 100MM Bbl/d and demand is growing this year by about 1.7MM Bbl/d. Therefore, total OPEC spare capacity likely amounts to only 1% of global production when one accounts for the countries that have "theoretical" but not "real" capability to regain their prior highs in the next year or so. We believe this level of OPEC spare capacity represents the lowest level in history. At the same time, it is highly plausible that Venezuelan production could fall a further 500k Bbl/d by the end of 2019 (production has been falling 40k bbl/d per month for the last 20 months) which would effectively eliminate 45% of the "haves" spare capacity. Also, with the potential for Iranian exports to fall a further 900k bbl/d on top of the already 800k bbl/d drop as of September this would further eliminate all of OPEC's "real" spare capacity. In this event there would be no slack in the system to make up for potential future disruptions in Libya, Nigeria, or any of the other political hotspots in the world which make headlines like this all the more meaningful:

Iran has full control of Gulf and Strait of Hormuz: Revolutionary Guards Navy Chief

Reuters • 2 days ago

One could prudently ask "haven't countries added to their productive capacity over the past 2.5 years and hence your baseline is too low?" We believe that this has largely NOT taken place. During the oil collapse many countries were facing their literal extinction as so much of their state revenue is driven from oil sales. Saudi Arabian state revenue as an example is approximately 90% oil weighted. Given the implosion in state revenue due to the oil price collapse from $100 to $26 priority was placed on maintaining social spending as a means of placating one's population over reinvestment in upstream projects (public service companies results would validate this). The last thing a country like Saudi Arabia would want to spend scarce dollars on at that time was on production that wasn't even going to be immediately cash flow generating. Further, while some countries like Saudi Arabia have stated that their production potential exceeds prior highs (12MM Bbl/d vs. 10.7MM Bbl/d all time high) we exclude this as it is our understanding that this represents incremental production from the Al-Ghawar field that could not be sustained over the long term.



Source: RBC, August 23, 2018

To summarize, the oil macro backdrop is overwhelmingly bullish. Demand continues to grow while supply is curtailed by the US running out of near-term pipeline takeaway capacity in its dominant growth engine, OPEC has exhausted most of its spare capacity, and Iranian export reductions are finally occurring (September exports down by 800k bbl/d in 3 months…) and could easily dwarf remaining OPEC spare capacity (don't forget about Venezuela). Given prior forecasts from the IEA that OPEC can only grow by 100,000Bbl/d a year to 2023 and non-OPEC/US production is about to flat line/decline we continue to believe that inventories will head meaningfully lower (ie. their lowest level in history) and that the price of oil will have to rally high enough to rationalize demand. Historically this has happened when the global oil burden (amount spend on oil) approximates 5% of global GDP which today would correspond to around $120/bbl.

Fund Positioning

Earlier we had mentioned the second requirement for energy stocks to regain part of their lost trading multiples and more closely reflect the current oil price is for the clear demonstration of a continued commitment to improving ROIC and ROCE metrics that would allow for better overall corporate returns and improve companies' ability to return cash to shareholders via buy backs and dividends. This shift in focus (from growth for growth's sake) began in the Fall of 2016 and continued

throughout 2017/early 2018 as companies largely disavowed increasing capex budgets and instead used conservative price decks ($50-$55/bbl) in their 2018 budgeting allowing for incremental free cash flow to go towards debt repayment and share buybacks. Investors applauded...until Q2 results came out. The average US company increased their 2018 capex budget by 6.2% while at the same time only increasing their production guidance by 1%. What did this mean? A return to their old spending ways? Not likely.

Given the success investors had in 2017/2018 in altering executive compensation plans to reward such previously ignored performance attributes like ROIC, ROE, ROCE we are not worried about companies blowing their brains out with rampant spending increases and rather explain the Q2 deviation with the loss of drilling efficiencies (poorer labour quality, increased service costs, and increased impact from more child versus parent wells). Given the bloodletting of many stocks post Q2 results we would anticipate that CEO's will go out of their way on Q3 conference calls to reiterate their focus on return of capital and debt repayment. This should help improve the recent dip in investor buying enthusiasm. We would encourage our Fund holdings that are in the position to do so to immediately enact a minimum 5% NCIB (if they haven't done so already). When a company is trading at a discount to their proved developed producing reserve life index and at free cash flow yields in excess of 15% with balance sheets that are rock solid a buyback would:

1) demonstrate the improper valuation between the value of the company and the value of the stock
2) achieve approximately the same level of debt adjusted per share production growth
3) moderate corporate decline rates
4) extend inventory life
5) hopefully get the stock moving in the right direction

Investors need to see, through the action of executives and Boards, that there is a reason to be invested in energy stocks when every other sector on the planet feels like they are making new highs and making people rich overnight (ie. pot stocks). Buybacks are critical to regaining investor attention.

Given the widest dislocation in history between the current oil price and oil stocks we are extremely bullish on the outlook for outsized returns (eventually). In fact we had thought 2018 would be the "year to get rich" but this has been deferred by:

1) Trump stoking worries (via twitter) about global trade wars
2) NASDAQ stocks and pot stocks continuing to steal mind share away from the energy sector
3) Confusion about the OPEC+Russia production increase and what it meant for the supply outlook
4) Demand worries due to emerging market volatility

As we look to 2019 we see a world in which:

1) OPEC is largely out of spare capacity and therefore Iranian export reductions will likely exceed OPEC's ability to add incremental barrels
2) Venezuela continuing to decline by another 500k bbl/d
3) The United States being growth constrained due to pipeline congestion until 2020
4) Non-OPEC/US production growth hitting a wall due to the largest collapse in history in spending on long lead mega projects from 2014-2017
5) The consequent continuation of inventory drawdowns to their lowest level in history while demand hits its highest level in history

It is only a matter of time until the market realizes that the oil market is heading towards a multi-year chronic undersupply. At that point stocks that have lagged the commodity by over 50% can easily double (or more).

Given this outlook our largest exposure is to long life, higher cost oil producers which naturally brings us to the WCS exposed Canadian heavy oil stocks. We have meaningful positions in MEG Energy, Athabasca Oil, and Baytex. Despite near term headwinds with WCS differentials blowing out to $30/bbl recently (down to $23.75/bbl now) and a highly unexpected decision by the Canadian Federal Court of Appeals that invalidated the 2016 approval of the Transmountain Pipeline project we believe that each of these names offers us over 100%+ upside potential over the next year. Sentiment towards WCS exposed names (and Canada for that matter) is very poor as Canada has struggled to get a pipeline across the finish line and rail companies have been slow to increase adequate capacity. As a result takeaway options are maxed out and with production increases from 2 oil sand projects this year the WCS differential has widened to a multi-year high. The time to buy is when sentiment is at its worst (and when stocks are discounting $25+/bbl long term differentials which is 50% above rail economics) and we see several potential catalysts which should narrow the WCS differential in the next year:

1) Rail capacity potentially expanding to 500k bbl/d by Q3/2019 – GE on September 5th announced an order from CN for an additional 60 more locomotives (260 locomotive backlog) which to us suggests incremental capacity adds of 90,000Bbl/d (a 60,000Bbl/d unit train requires a total of 40 locomotives) if all 60 are dedicated to their oil division
2) Mainline nomination process evolving to a fixed nomination process which should eliminate "air barrels" and increase throughput
3) Continuing decline in Mexican and Venezuelan heavy oil exports to the US increasing demand for Canadian heavy oil
4) Ramp in throughput of the North West Upgrader which will increase heavy oil demand by ~ 80k bbl/d
5) The end of the BP Whiting Refinery turnaround which is affecting ~ 250k bbl/d of heavy oil demand and will no longer be reflected in spot WCS differentials in a month
6) Pipeline initiatives: Line 3 coming online in the 2H'19 (380k bbl/d of incremental capacity; Enbridge reached a key land access agreement with the Fond du Lac Band this week), Transmountain (late 2021/early 2022 assuming a 1 year delay with 590k bbl/d of new capacity reaching tidewater), and Keystone XL (Nebraska Supreme Court ruling by year-end, BLM and US Army Corps decision regarding permit in January/February 2019, 830k bbl/d of new capacity reaching the US Gulf Coast)

Given the 2019 strip for WCS differentials of $23.45/bbl is well above rail economics ($17-$18/bbl) consensus is essentially saying that there is a zero possibility of either rail or pipelines aiding in clearing the congestion and as a result we are getting a free option on any positive development as stocks are discounting the worst possible case for WCS differentials.

Specifically on the Federal Court of Appeals invalidation of Transmountain's approval, we believe the level of pessimism (which we may have contributed to) is somewhat unfounded. After going through the 272 page decision it became obvious that the Court's decision was not as damning as initially perceived. Specifically, the court indicated that consultation with the Indigenous community could be "brief" resulting in a "short delay" and that the Government could place a strict timeline on consultations:

[769] In that redetermination the Governor in Council must refer the Board's recommendations and its terms and conditions back to the Board, or its successor, for reconsideration. Pursuant to section 53 of the *National Energy Board Act*, the Governor in Council may direct the Board to conduct that reconsideration taking into account any factor specified by the Governor in Council. As well, the Governor in Council may specify a time limit within which the Board shall complete its reconsideration.

[772] As mentioned above, the concerns of the Indigenous applicants, communicated to Canada, are specific and focussed. This means that the dialogue Canada must engage in can also be specific and focussed. This may serve to make the corrected consultation process brief and efficient while ensuring it is meaningful. The end result may be a short delay, but, through possible accommodation the corrected consultation may further the objective of reconciliation with Indigenous peoples.

Source: Federal Court of Appeals Decision, August 30,2018

The remaining uncertainty is how long it will take to figure out if one incremental tanker a day entering the Port will affect the Southern Resident killer whale population:

> For the threat is not just collision, but rather the impact of shipping noise and vibrations and still not fully understood reasons for the declining population of orcas in the waters that will be traversed by the tankers.
>
> The board would not be asked to weigh the impact on the orca population of existing marine traffic, including ferries, cruise ships, containers ships and tankers serving the five refineries in Washington state. Nor assess the provincial capital's long-standing and still unchecked dumping of untreated sewage into those same waters.
>
> Rather, the question would be whether the addition of one large tanker per day would provide the tipping point for the orca population.

Source: Calgary Herald, September 1, 2018

It now appears that the worst case is about a 1 year delay to the pipeline. So long as Line 3 moves ahead in 2H'19, rail capacity increases by ~ 200,000 Bbl/d next year (you would think the Court's decision will motivate a CVE to sign a deal that we perceive they were previously dragging their feet on), and either Keystone XL or Transmountain comes into service in 2021/2022 we believe that WCS differentials should fall below rail economics. Given the enormous sensitivity to long term WCS differential assumptions we believe that several names offer us "multi-bagger" potential. Should there be further hiccups on any of these 3 solutions then the stocks are already reflecting them.

The following table demonstrates the upside potential of 24 different Canadian oil stocks at an oil

price of $70-$100/bbl. Note that even at CURRENT oil prices there are many stocks that offer highly meaningful upside. Our current Fund's projected upside potential at $70/$80/$90/$100 is 58%/104%/150%/192%.

	$70	Upside	$80	Upside	$90	Upside	$100	Upside
Oil Company #1	$415	120%	$541	198%	$673	280%	$787	350%
Oil Company #2	$2,804	111%	$3,096	143%	$3,493	186%	$3,890	229%
Oil Company #3	$1,112	60%	$1,461	133%	$1,752	194%	$2,043	255%
Oil Company #4	$4,935	80%	$6,058	131%	$7,396	191%	$8,733	252%
Oil Company #5	$251	72%	$315	123%	$348	149%	$412	201%
Oil Company #6	$1,040	26%	$1,455	124%	$1,874	224%	$2,279	320%
Oil Company #7	$14,965	63%	$18,185	103%	$21,730	147%	$25,317	192%
Oil Company #8	$2,275	66%	$2,533	89%	$2,789	111%	$3,046	133%
Oil Company #9	$1,093	59%	$1,290	92%	$1,447	118%	$1,630	149%
Oil Company #10	$3,585	33%	$4,174	58%	$4,840	87%	$5,506	115%
Oil Company #11	$410	40%	$464	60%	$546	91%	$629	122%
Oil Company #12	$133	-2%	$157	53%	$183	81%	$210	110%
Oil Company #13	$5,113	30%	$5,856	51%	$6,791	76%	$7,725	102%
Oil Company #14	$1,432	16%	$1,546	50%	$1,779	76%	$2,012	101%
Oil Company #15	$253	36%	$279	54%	$327	89%	$374	123%
Oil Company #16	$920	34%	$1,018	48%	$1,109	62%	$1,197	75%
Oil Company #17	$302	27%	$352	50%	$390	68%	$423	83%
Oil Company #18	$6,137	21%	$7,361	47%	$8,890	79%	$10,420	111%
Oil Company #19	$16,492	21%	$19,453	44%	$22,889	71%	$26,326	98%
Oil Company #20	$50	27%	$52	42%	$56	72%	$59	95%
Oil Company #21	$289	16%	$323	30%	$373	52%	$424	74%
Oil Company #22	$207	48%	$227	31%	$264	99%	$302	133%
Oil Company #23	$196	4%	$228	28%	$270	59%	$312	90%
Oil Company #24	$196	-36%	$258	26%	$311	79%	$367	135%

Source: Ninepoint Partners

To conclude, there is little doubt that the past several years have been incredibly frustrating for energy investors. To have oil rally by nearly 150% from the lows and make a near 4-year high and yet watch the stocks basically do nothing defies logic. We had thought that we would be much wealthier with oil trading at a near 4 year high. The irony of the situation is that over the past few years during the downturn oil companies have become extremely lean so their overall cost structure today is meaningfully lower than when oil was last at $70. Many of our companies today would have 60% operating margins which comes close to rivaling the margins of movie theatre popcorn. In the coming months we will see the confluence of Permian Basin pipelines reaching full capacity, Iranian exports continuing to fall by a highly meaningful amount (1MM+ Bbl/d), Venezuelan production likely to continue its collapse, and hopefully some positive developments with NAFTA/Europe/China tariff discussions.

Valuations within the energy sector have simply become too insanely cheap to ignore for much longer. We are witnessing companies announce buybacks for more than 10% of their shares outstanding (using excess free cash flow, not debt), companies merge to become more meaningful to a larger group of investors, companies announce hostile takeovers, as well as the beginnings of investor activism as a means of unlocking shareholder value. At a time in the not too distant future (purposefully vague) we will look back on today as what was likely the investment opportunity of a lifetime even though in the moment it sure doesn't feel great. Despite the heartache, the frustration, and the disappointment in the poor performance of energy stocks over the past several years we shall be rewarded with exceptional gains. At that point we will look back and say "yes, it was worth it."

Eric Nuttall
Partner, Senior Portfolio Manager
Ninepoint Energy Fund / Ninepoint Energy Opportunities Trust

COMPOUNDED RETURNS (%) AS AT AUGUST 31, 2018

	1MTH	YTD	3MTH	6MTH	1YR	3YR	5YR	10YR	ANNUALI INCEPTIC
Ninepoint Energy Fund, Series F[1]	-4.82	-1.83	-7.64	15.98	22.98	-2.17	-2.90	-5.09	3.28
Ninepoint Energy Opportunities Trust	-5.10	-1.16	-8.51	16.35	22.58	-	-	-	-24.16
S&P/TSX Capped Energy TR	-4.59	4.28	-1.22	17.55	19.09	5.37	-2.48	-4.08	3.73[†]

[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 August 31, 2018; e) 2004 annual returns are from 04/15/04 to 12/31/04. The index is 100% S&P/TSX Capped Energy TRI and is computed by Ninepoint Partners LP based on publicly available index information.[†] Since inception of fund Series F.

The Fund is generally exposed to the following risks. See the prospectus of the Fund for a description of these risks: concentration risk; credit risk; currency risk; cybersecurity risk; derivatives risk; exchange traded funds risk; foreign investment risk; inflation risk; interest rate risk; liquidity risk; market risk; regulatory risk; securities lending, repurchase and reverse repurchase transactions risk; series risk; short selling risk; small capitalization natural resource company risk; specific issuer risk; tax risk.

Ninepoint Partners LP is the investment manager to the Ninepoint Funds (collectively, the "Funds"). Commissions, trailing commissions, management fees, performance fees (if any), other charges and expenses all may be associated with mutual fund investments. Please read the prospectus carefully before investing. The indicated rate of return for series F units of the Fund for the period ended August 31, 2018 is based on the historical annual compounded total return including changes in unit value and reinvestment of all distributions and does not take into account sales, redemption, distribution or optional charges or income taxes payable by any unitholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. The information contained herein does not constitute an offer or solicitation by anyone in the United States or in any other jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation. Prospective investors who are not resident in Canada should contact their financial advisor to determine whether securities of the Fund may be lawfully sold in their jurisdiction.

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