



Ninepoint Flow-Through Update

Q2 2023 Commentary

Resource Market Update

Most of the commodities impacting the resource portfolios, including the flow-through funds, sold off in the first half of 2023. Copper, nickel, zinc and crude oil were all down having returned -1%, -33%, -19% and -11% respectively. The Bloomberg Commodity Index, which is comprised of a broad basket of commodities, fell 10% during the H1/23 to levels last seen in January 2022. Gold bullion was one of the exceptions, having climbed 5% in the first half as the Federal Reserve became moderately less hawkish. An increasing Federal Funds Rate, a global economy flirting with recession, Europe's industrial slump, and China's sputtering post Covid recovery were the major contributors to weakening commodity prices.

Microcap resource stocks, particularly those focused on gold exploration, comprise most of the FT portfolio positions. Despite gold bullion's marginal performance, the gold component of the portfolios was the greatest portfolio laggard during H1/23. Sentiment towards all micro capitalization resource equities continues to be depressed as companies struggle to raise equity and trading volumes remain anemic. The chart below highlights the H1/23 stock price performance of a number of serial flow-through issuers.

Investment Team

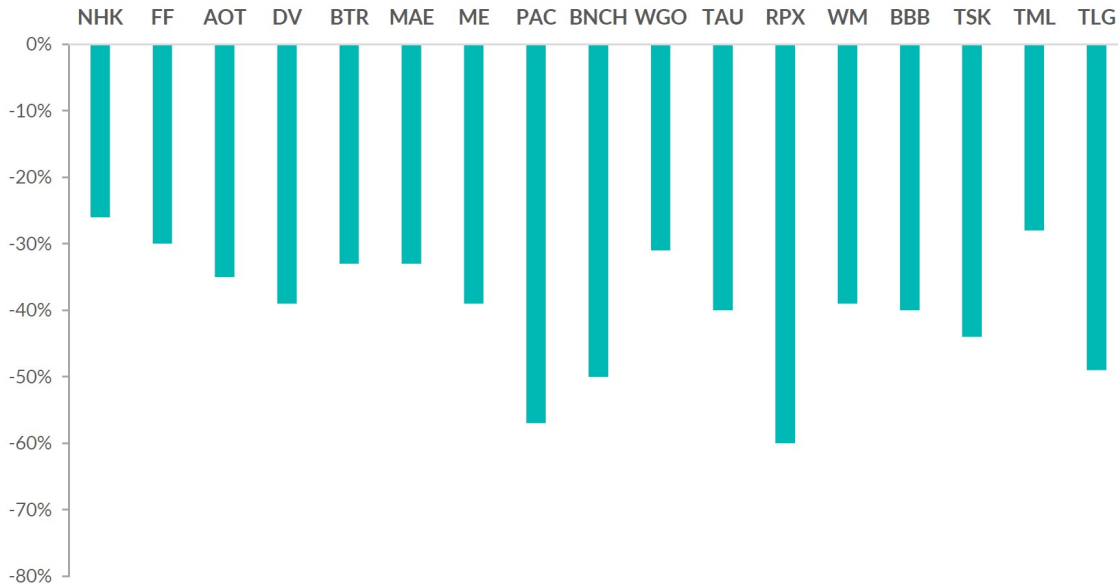


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Gold Equity Moves from Highs in H12023

Chart shows differences in stock prices for H12023 highs versus June 30, 2023



Source: Bloomberg

For the commodity trade to turn around, the US Federal Reserve needs to stop raising rates. Inflation is now under control following eleven straight months of declines in both the US CPI and PPI. Unfortunately, the Fed is almost entirely focused on the labor market, the most lagging of lagging indicators. However, an examination of a broader set of economic data clearly signals a slowing US economy that is likely to enter a recession later in 2023. The Index of Leading Indicators has declined for sixteen consecutive months. ISM manufacturing PMI has been contracting for eight straight months. In May, the ISM services PMI, which has consistently remained robust following the easing of COVID restrictions, posted its second lowest level since May 2020 before rebounding in June with the onset of the summer season. Real retail sales hit their lowest level outside of COVID since the 2008-2009 global financial crisis. Most importantly, as far as the US Federal Reserve is concerned, trends in initial and continuing unemployment insurance claims continue to deteriorate and are evolving in a manner consistent with an upcoming US recession.

Ninepoint 2022 Flow-Through Fund Update

The fund exited the quarter weighted as follows: 72% precious metals, 20% base/other metals, 5% uranium and 3% energy. Of the current flow-through funds in existence, the 2022 flow-through LP has been the poorest performing. The single largest factor contributing to the fund's poor performance was timing. Unlike the management of non-flow-through portfolios, there is no flexibility in timing purchases and the investable universe is limited for the most part to micro capitalization resource equities. The fund must purchase flow-through shares when companies issue such shares from the treasury. The fund had invested 76% of the capital raised by the end of June 2022, which shortly followed the GDJX peak in mid-April 2022. Since its mid-April 2022 top, the GDJX is down 30%. The initial portfolio purchased flow-through shares from fifty-one companies. Forty-

eight of the fifty-one investments have posted negative returns. Thirty-seven of the fifty-one investments have returned losses in excess of 40% illustrating that the losses were broad and deep across the majority of the portfolio. Companies with relatively larger market capitalization did not mitigate the losses. Of those companies in the portfolio with a market capitalization greater than \$100M, the average loss was 52%. The chart below highlights the stock price performance from the 2022 highs of several of the fund's holdings.

Gold Equity Moves from Highs in 2022

Chart shows differences in stock prices for 52-week highs in 2022 versus June 30, 2023



Source: Bloomberg

Through the first half of 2023, the fund remained predominantly invested in the micro-capitalization gold exploration companies that were purchased on a flow-through basis. Despite the deep sell-off in late 2022, these equities continued to underperform in H1/23. It is important that clients remain committed to the flow-through strategy during poorly performing periods because the product track record clearly illustrates the benefit of consistent participation.

Ninepoint 2022 Short Duration Flow-Through Fund Update

The fund exited the quarter weighted as follows: 59% precious metals, 24% base/other metals and 18% uranium. Although the market for micro capitalization resource equities struggled in the latter half of 2022 and year to date in 2023, this fund was purchasing flow-through shares following a deep correction in resource equities. The GDXJ declined 44% from its mid-April 2022 peak to its late September trough. Many of the companies the fund purchased continued to sell off right up to year-end in conjunction with a ruthless tax loss selling season. Although many of the positions posted negative returns in H1/23, the fund benefited as its largest holding was taken out - Sabina Gold and Silver was acquired by B2 Gold in February 2023. The portfolio is well positioned to benefit from an improvement in micro capitalization resource equity sentiment in the latter half of 2023.

From previous write-ups, I would like to remind clients of the following; investors are routinely

fixed on pre-tax returns. This is surprising considering investors rarely capture those returns on an after-tax basis as most investors are taxed on capital gains and income. When evaluating the returns of a flow-through fund, the only meaningful measure of performance is on an after-tax basis considering it is a tax mitigating product. Although after-tax return figures are not calculated until the fund is terminated, investors should consider some of the following points when gauging how the investment is performing on an after-tax basis. Many investors incorrectly evaluate the performance of the fund based on the initial investment of \$25/unit thereby not accounting for any of the tax benefits.

It is also important to remember the \$25/unit is not adjusted for initial fees, premiums paid to acquire flow-through shares or tax benefits. Most importantly, it is critical that investors understand how impactful the tax benefits are to the per unit economics. As disclosed in the 2021 Flow-Through LP prospectus, the breakeven point on an after-tax basis for an Ontario investor taxed at the highest marginal rate is approximately \$12.40/unit. The bogey for a flow-through fund is the after-tax breakeven point, not the \$25/unit initial offering price. Investors need to understand this in order to correctly evaluate the performance of any flow-through fund.

The Net Asset Value (NAV) for the 2022 Short Duration fund on June 30, 2023 was \$16.08/unit.

Track Record and Flow-Through Relative Performance

Terminated LPs				Active LPs		
ISSUE	After-Tax Return [±]	Ninepoint/Sprott [†]	Peer Group	ISSUE*	Ninepoint	Peer Group
2013 LP	23%	\$18.41	\$16.07 ¹	2022 LP**	\$11.55	\$12.17 ¹⁷
2014 LP	-17%	\$12.31	\$10.23 ²	2022 II LP**	\$18.74	\$20.30 ¹⁸
2014 II LP	57%	\$24.77	\$11.60 ³			
2015 LP	51%	\$24.08	\$19.51 ⁴			
2016 LP	54%	\$22.16	\$19.52 ⁵			
2016 II LP	154%	\$35.33	\$16.36 ⁶			
2017 LP	-17%	\$11.14	\$11.48 ⁷			
2017 II LP	-3%	\$12.76	\$10.62 ⁸			
2018 LP	0%	\$13.34	\$12.87 ⁹			
2018 II LP	5%	\$13.51	\$14.92 ¹⁰			
2019 LP	162%	\$33.76	\$25.19 ¹¹			
2019 II LP	150%	\$32.38	\$26.32 ¹²			
2020 LP	130%	\$29.73	\$24.64 ¹³			
2020 II LP	111%	\$27.01	\$28.13 ¹⁴			
2021 LP	-13%	\$10.66	\$13.87 ¹⁵			
2021 II LP	-3%	\$12.09	\$12.79 ¹⁶			
AVERAGE	53%	\$20.84	\$17.13			

*NAV per unit as of March 31, 2023.

** Refers to NAV of the National Class Units

Based on a \$25 issue NAV. Referring to Class A for each respective LP (National Class, as applicable)

[±]Represents the after-tax return (net of fees) on capital at risk for the term of the LP for a resident of Ontario subject to the highest marginal tax rate.

[†]NAV per unit on Transfer Date

Source: SEDAR, Fund press release and/or Prospectus. Based on a \$25 issue NAV. Referring to Class A for each respective LP (National Class, as applicable)

Ninepoint 2023 Flow-Through Update

The fund successfully raised \$34M in early 2023. As of June 30, 2023 71% of the initial proceeds had been either invested or committed. Of the funds invested, 67% had been allocated to gold mining equities, 14% to base/other metal equities while uranium equities account for the balance. The portfolio currently consists of twenty-two companies with a weighted average market capitalization of \$135M. The weighted average premium paid to date is 7%.

Jason Mayer CFA, MBA
Sprott Asset Management
Sub-Advisor to the Fund

References

1. Peer Group includes: Middlefield, Frontstreet, NCE, Brompton, Maple Leaf, CMP
2. Peer Group includes: Middlefield, Frontstreet, NCE, Brompton, Maple Leaf, CMP, Canoe
3. Peer Group includes: Middlefield, Frontstreet, Maple Leaf
4. Peer Group includes: Middlefield, NCE, Brompton, Maple Leaf, CMP, Canoe
5. Peer Group includes: Middlefield, NCE, Maple Leaf, CMP, Canoe
6. Peer Group includes: Marquest, Maple Leaf
7. Peer Group includes: Middlefield, Brompton, Maple Leaf, CMP
8. Peer Group includes: Middlefield, Maple Leaf
9. Peer Group includes: Middlefield, Maple Leaf, CMP
10. Peer Group includes: Maple Leaf
11. Peer Group includes: Middlefield, CMP, Maple Leaf
12. Peer Group includes: Middlefield, Maple Leaf
13. Peer Group includes: Middlefield, CMP, Maple Leaf
14. Peer Group includes: Middlefield, Maple Leaf
15. Peer Group includes: Middlefield, CMP
16. Peer Group includes: Middlefield, Maple Leaf
17. Peer Group includes: Middlefield, Maple Leaf
18. Peer Group includes: Middlefield, Maple Leaf

Series A NAV Details (\$) Per Unit as at June 30, 2023 (Before Tax)

Fund Name	NAV (Series A)
Ninepoint 2022 Flow-Through LP - National	\$9.29
Ninepoint 2022 Flow-Through LP - Quebec	\$10.44
Ninepoint 2022 Short Duration Flow-Through LP	\$16.08
Ninepoint 2023 Flow-Through LP	\$22.71

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.

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