Ninepoint Alternative Health Fund

May 2019 Commentary

The month of May saw weakness in many global equity markets. The S&P 500 was -6.58% for the month; the TSX was -3.28%; the North American Marijuana Index was -15.8% while the US Healthcare index was more resilient at -2.55%. The Ninepoint Alternative Health Fund held up well given the market backdrop and despite the volatility and risk present in equity markets with the monthly change -6.82%. As we continue to manage the Fund in choppy markets, our goal is to ensure we are owning the highest quality names, hold on to previous gains while reducing volatility relative to our primary benchmarks.

Investment Team

Charles Taerk,
President & Chief Executive Officer, Faircourt Asset Management - Sub-Advisor

Douglas Waterson, CPA, CA, CFA
Chief Financial Officer & Portfolio Manager, Faircourt Asset Managment - Sub-Advisor

The recent weakness in the cannabis sector has moved some people to the sidelines, however when analyzing select operators we see significant opportunities to exploit. The US MSO's share prices, given their institutional shareholder bases. have been more affected by global macro issues than by specific industry or fundamental challenges on a company specific basis. In the last three months, there has been a significant amount of M&A activity with several transactions now receiving regulatory and shareholder approvals. The implication is that US MSO's are building the number of states they distribute to or have dispensaries in, as well as adding SKU's to their product lines. In addition, several states have recently announced regulatory changes. The state of Texas recently legalized hemp derived CBD cultivation and extraction, a large market that is currently a high barrier to entry state. The state of Illinois has recently voted in favour of adult legalization which adds significant revenue potential to those MSO's with exposure to that state. In addition, as we mention below, the regulatory environment in the US continues to focus on reducing regulatory burden.

We also see a significant discount that is important to consider when analyzing US MSO's vs Canadian LP's. The chart below illustrates the significant discount that the US MSO's trade at relative to the Cdn LP's. As of the date of writing, the valuation discount of US MSO's to Cdn focused LP's is approximately 65%. Taking into consideration the larger domestic addressable market; (US vs Canada), the number of dispensaries in the US; branding and marketing that is allowed, in addition to the variety of products that already have significant market share, we believe that the Funds' capital will see continued growth.

Source: viii Capital

When markets are less buoyant, our wider portfolio allocation adds investment opportunities and stabilizes the NAV of the Fund. Outside of our focus in the North American cannabis industry, large-cap healthcare and health technology companies help diversify our portfolio. Investors will note the changing composition of our Top Ten that as at month end May 31 includes **Merck Inc (MRK)** and **UnitedHealth Group (UNH)**. These companies offer stability and lower correlation to the cannabis sector providing differentiated performance relative to other cannabis focussed funds and ETFs.

In this environment we also see select opportunities to invest in cannabis companies that previously traded at higher multiples that have now adjusted to better entry points. See our Options Section for further details.

Topics Covered:
Cowen Cannabis Conference
Canadian & US Regulatory Updates
Company Announcements
Quarterly & Annual Financial Results
Options Strategy

Cowen Cannabis Conference
On May 22nd our team attended the Cowen Cannabis Conference in Toronto, noteworthy as it was the first cannabis conference held by a US Investment Bank in Canada. The event was well attended almost exclusively by US institutional investors. Cowen has been one of the early US Investment Banks covering the global cannabis sector with its lead analyst Vivian Azer, a leading voice in bringing attention to the global growth of the sector, attracting capital investment south of the border and around the globe. It was a great opportunity to meet with Investment Managers from the

US comparing their views of the market to ours.

Canadian Regulatory Updates

Industry groups in Canada have been asking Ottawa for changes to the way CBD is treated within the prescription drug list. Health food and hemp industry groups are calling on Ottawa to change the regulations for CBD to treat the cannabinoid as a natural health product rather than a drug. As we have noted many times in the last five months, the 2018 US Farm Bill de-scheduled hemp derived CBD from the Controlled Substances Act in the U.S. and has facilitated the growth of products outside the cannabis dispensary network. Currently in Canada CBD is regulated identically to THC, while in the U.S., hemp derived CBD is widely available and is (currently) only subject t to minimal regulation. The Canadian Health Food Association and the Canadian Hemp Trade Alliance want CBD products carved out of Cannabis regulation, citing the lack of psycho-active effect and safety.

Mid-month Health Canada announced significant changes to its cannabis licensing system. The changes, effective immediately, mean new applicants to cultivate, sell, or process medical cannabis must have a fully built facility that meets all the requirements of the regulations at the time of their application. For existing applications, Health Canada will complete a "high level review" of whether applications can proceed or need more action. This is a major change for those groups who have applied for licenses but do not have facilities built, delaying licensing timelines. For incumbents and those more well capitalized groups it could be argued as a positive, with Health Canada not having to review as many speculative applications, it will hopefully speed up the process for those applications that meet all aspects of the application guidelines.

Health Canada also provided market data updates as they have now licensed 600,000 sq. metres (64 million square feet) of cultivation space, which based on standard industry averages, should be enough to supply 1 million kg of cannabis, which was Health Canada's original estimated amount of legal cannabis to be consumed on an annual basis in Canada. We believe that estimate does not take into account several factors that are already playing out in the market. First, we have already witnessed inefficiencies including delays, lower than anticipated yields, logistical issues, and crop losses, meaning the square footage should not be the assumed metric to determine the amount produced. We can see from results, that not all producers have been able to ramp as successfully as others. Second, we believe the total amount actually required to meet the needs of Canadians (both Rec and Medical) including extracts for oils and other value added products to be much greater than original end-user estimates.

Supporting our thesis for increased demand was market data released by Health Canada at the end of May, with several positive takeaways. Sell through rates from cannabis dispensaries to consumers was up 10% MoM and was the highest monthly rate since legalization last October. In addition, finished inventory at retailers/ provincial distributors was up 52% from the prior month, to 22,928 kg. This suggests we could see stronger sell-through in coming quarters from some of the Canadian LP's.

U.S. Regulatory Changes

As part of a trend towards federal legalization, Illinois lawmakers approved recreational marijuana legalization on Friday May 31st. After lengthy debate in Springfield, Ill the State House of Representatives voted 66-47 to allow possession and sales beginning Jan. 1, 2020. The State Senate had approved the legislation in a vote earlier in the week. Gov. J.B. Pritzker plans to sign the bill into law, which would make Illinois the 11th state to legalize cannabis for recreational use. Illinois is the first state in which a legislature approved commercial sales. Vermont lawmakers legalized

possession, but not yet commercial sales while approval in other states came via referendum.

Cannabis in the state is meant to be taxed and regulated similarly to alcohol, with a lot of rules affecting its use. Sales will be taxed at 10 percent for THC levels at or less than 35 percent; 20 percent for cannabis-infused products such as edibles; and 25 percent for THC concentrations of more than 35%. That's in addition to standard state and local sales taxes.

We estimate, using other mature Rec state metrics that the Illinois rec market could reach approximately $2 billion in annual sales once it reaches maturation by 2024. The state is now poised to become the second state in the Midwest to legalize recreational marijuana, after Michigan, whose voters passed a referendum last November.

Existing medical marijuana license holders would get an early start and could begin adult-use sales on Jan. 1, 2020. They also each could open an additional store. Assuming all 55 licensees take advantage of that provision, 110 stores could be selling rec cannabis by early 2020.

Implications for MSO's and our portfolio:
The measure would give early approval to the state's existing medical dispensaries, allowing them to begin adult-use sales on Jan. 1, 2020. Dozens of stores, processing and cultivation licenses would be issued in two rounds beginning in mid-2020, with cultivation licenses focused on "craft" growers.

Key Points on Illinois Rec:
IL medical operators will see their store permissions double for each license held, with a maximum of 10 from the previous limit of 5.

We believe that this is a positive catalyst for fund holdings including **Green Thumb Industries (GTII)**, **Cresco Labs (CL)**, and **Harvest Health & Recreation (HARV)**, that already operate medical dispensaries in the state. GTII and CL are based in Illinois and each have 5 dispensaries under their own branded locations while also providing products in 100% of all dispensaries throughout the state. In addition, GTII has the largest production footprint at 100,000 sq ft within the state.

Medical operators will get licensing priority, with REC licenses for production and retail granted within ~60 days whereas new entrants for REC licenses are not expected to begin until May 1st for retailers, and July 1st for producers. The staggered processing reinforces first-mover advantage and brand recognition for existing medical marijuana dispensaries and brands.
New licenses for large-scale cultivation are not expected to increase immediately and will be subject to a maximum of 30 licenses, currently sitting at 20.
In Texas, State lawmakers have approved a bill to legalize industrial hemp production and clear up confusion about what CBD products can be sold in Texas. The State Senate voted unanimously in favor of House Bill 1325 after several amendments and House lawmakers approved the bill. The Bill now goes to Gov. Greg Abbott's desk for his signature. On June 10th, the governor signed the bill into law.

US Congressmen have brought a Bill to the floor of US House of Representatives to assist with cross border traveller issues, especially involving Canadians. The Bill's focus is that if travellers use marijuana in compliance with state or foreign law, or work in the legal industry, shouldn't disqualify people from entering the U.S. The legislation, titled the Maintaining Appropriate Protections for Legal Entry (MAPLE) Act, would create exceptions in the U.S. immigration code to ensure that non-citizens aren't penalized under federal law for engaging in cannabis-related activity

made lawful in those various jurisdictions.

Much has been stated about the fact that Canada is the world's second largest producer of industrial hemp. It is noteworthy that in this time of significant trade tensions between the U.S. and China, strength in hemp cultivation is interesting to point out. China is the world's largest producer of hemp while China has some of the strictest drug laws in the world, and cannabis legalisation isn't likely to be approved any time soon. However the emergence of CBD in North America and elsewhere has resulted in 2 of China's 34 regions gaining permission to extract CBD. China has a long history of growing hemp for industrial uses, so much of the agriculture infrastructure is already in place. CBD is legal in China for use in cosmetics, but not consumption, so much of the extracted CBD is exported overseas.

Company Announcements:
Organigram Holdings (OGI) one of the Fund's Top Ten holdings began trading on NASDAQ mid-month which added US liquidity and investor awareness to the company's operations. OGI also announced that it's ANKR product line for adult recreational use has been certified organic by Pro-Cert Organic Systems Ltd, in addition to its ECO-Cert certified organic medical products.

OGI announced that its $140 million credit facility had been finalized with Bank of Montreal. This is significant as access to reasonably priced credit will be increasingly important for cannabis companies to generate solid shareholder returns going forward.

Village Farms (VFF) made several announcements on its North American cultivation capacity in May. It's Pure Sun Farms (PSF) JV that it operates with Emerald Health Therapeutics (EMH) received its processing license for its Delta BC #3 facility. The license allows PSF to develop and manufacture products such as oils, concentrates and edibles. PSF will be able to store cannabis oil on site which allows PSF to purchase oils from 3rd party players for the manufacture of concentrate and edibles ahead of having its own extraction operations fully in place. The company has guided to reaching full run-rate of D3 in Q3/FY19 with the conversion of D2 starting this year. Full run-rate of both D3 and D2 is anticipated in Q4/FY20. Total sq footage of D3 and D2 brings PSF to a total of 2.2million sq.ft. , putting it among the largest cultivators in Canada

In the US, VFF made several significant US hemp cultivation and extraction announcements to further its push into the growing US hemp derived CBD Market. Village Fields, its 65% owned JV in the US Hemp and CBD market, has begun planting more than 800 acres of hemp in 2019. The full acreage will be planted by mid-June and harvests will commence in July. The JV is on track to meet its previous guidance to begin selling CBD oil wholesale in early 2020 followed by white label and branded products thereafter. Village Fields will target VFF's existing network of national big box and grocery customers for these products.

VFF also announced the formation of a JV with Arkansas Valley Hemp for outdoor hemp grow in Colorado. The JV will be owned 60% by VFF, 35% by Arkansas Valley and 5% by Village Fields Hemp (which is 65% owned by VFF). VFF, therefore, owns 63% of the JV with Arkansas Valley Hemp. This JV plans to be in production on 120 acres in Arkansas Valley, Colorado in 2019 and 500 acres in 2020. Coupled with the 820 acres currently being planted in Virginia, North and South Carolina, VFF will have almost 1000 acres planted and harvested this year. The amount of cultivation could translate into revenue of over US$30 million.

Given the changes taking place in Texas (the "Texas Hemp Legislation"), VFF has begun conversion of

half of its 1.3 million square foot, ultra-high-tech Permian Basin greenhouse. The Texas Hemp Legislation will require VFF to apply for both cultivation and extraction licenses and permits which it will file once those are available to do so.

FINANCIALS

It is important to note that our cannabis weighting is more focussed on US MSO's (multi-state operators) at this stage and near term are outperforming many Cdn LP's from a revenue generation and profitability standpoint. Below is a brief review of select US and Cdn operators and their most recent quarterly financial results.

Trulieve Cannabis Corp (TRUL) reported Q1/19 revenues of $44.5m, up 24% QoQ, above consensus of $42m. Adj. EBITDA margins remain strong at 42.7% $19 million was also ahead of consensus of $17.2m, and was up 24% QoQ as well. We estimate TRUL's Q1 revenues position their market share during the quarter at ~50% (dollar market share).

TRUL updated their 2019 guidance calling for revenues to come in at a range of $220–240m, which at the midpoint is 7% higher than the last iteration of 2019 guidance at $214m, slightly above prior consensus of $224m. The updated guidance suggests TRUL is already seeing strong enough traction with smokable flower products to provide the confidence to raise their 2019 outlook. Adj. EBITDA guidance for 2019 was also updated to a range of $95–105m, up 8% from prior guidance and above prior consensus of $96m.

Village Farms (VFF) reported Q119 results that were well above analyst estimates. Revenue at its 50% owned JV, Pure Sunfarms (PSF) Delta BC facility, was C$14.4m, while EBITDA came in at $8.6 million or 60%. Its EBITDA margin is among the highest of all cannabis companies and similar to the gross margins of some LPs which have much longer track records of cultivation.

MediPharm (LABS) announced Q119 revenue of $22 million, a 115% increase over Q418, leading the Canadian cannabis extraction-only industry. Gross profit reached $6.9 million, gross margin 31% Adjusted EBITDA was $4.3 million. In addition to its strong quarterly results, the company announced that it has entered into a $30 million multi-year contract to provide high quality private label cannabis concentrate to Cronos Group (CRON). This solidifies LABS focus as a private label provider of oils and extracts and we anticipate further announcements building LABS business throughout Canada and into foreign markets.

Aurora Cannabis (ACB) reported Q3FY19 revenues of $65m, slightly below consensus of $68m. On a positive note, ACB gross margins increased to 55% with cash costs of $1.42/g in Q3FY19, a significant reduction from the previous quarter where cash costs/gram reached $1.92. We believe that as production continues to ramp at Aurora Sky, capacity utilization improves, margins should also continue to move in the right direction. Although operating expenses are still high and resulting in negative EBITDA, we see positive trends.

GW Pharmaceuticals (GWPH) reported their financial results for the quarter ended March 31, 2019 bolstered by the recent introduction of its FDA approved drug to control seizures in child onset of epilepsy, Epidiolex. Revenues for the quarter totalled US$39.2 million, significantly beating consensus estimates of US$13.2M almost 200% to the upside. US sales of Epidiolex accounted for US$33.5M, eclipsing sales of the previous best selling cannabis based medication, Sativex at $ (call David Kedeckel) and the only other approved cannabinoid based drug sold in Europe and Canada

(not approved in the US). This shows the importance of the US market. This was GWPH's first full quarter of Epidiolex sales in the US, primarily among patients with two rare forms of childhood epilepsy: Lennox-Gastaut Syndrome and Dravet Syndrome.

In concert with its Q1 results, GWPH announced positive outcomes data from its Phase 3 clinical trial that evaluated Epidiolex's capacity to reduce seizure frequency associated with Tuberous Sclerosis Complex (TSC), another rare form of severe childhood epilepsy. As at end of Q1/19, over 7,600 patients had received Epidiolex prescriptions since its launch. GWPH also reported positive phase 3 pivotal results for Epidiolex in the treatment of TSC which marks the fifth consecutive positive Phase 3 trial for Epidiolex. Management intends to submit a supplemental New Drug Application (sNDA) in the fourth quarter of 2019 with commercialization expected for approval in H2/2020.

Option Strategy:
During May the Fund continued using its option strategy to enhance risk adjusted returns. With the extreme volatility in the cannabis sector, we are able to generate significant option premium, while lowering the overall volatility of the fund. Where we believe we are being well compensated through the premium income earned, we are writing cash secured puts on specific names we would like to own to increase our exposure to such names in the Fund; we are writing covered calls on names we feel have richer valuations; and we are writing short straddles (puts and calls written on the same name with similar strike prices) and short strangles (puts and calls written on the same name but with different strike prices) on names we feel will trade range bound. Depending on the strike price chosen, all three strategies are neutral to slightly bullish strategies that allow us to generate option premium or enter and exit positions at more attractive prices during periods of elevated volatility.

Recently our put writing assisted the Fund in establishing a new position in **Aurora Cannabis (ACB)**, an equity we haven't held in over a year. Our portfolio team decided that the improved cash costs associated with production at Aurora Sky as noted above coupled with increased European revenues as well as the strategic advisory work being done with Nelson Peltz, we decided that if the opportunity presented itself, we would begin to establish a position. Using put writing, we were able to begin building a position cautiously as financial metrics continue to improve. We took advantage of the recent weakness in ACB and analyzed the volatility (a key component of measuring option premium). Over the last month, we have been writing puts earning on average 3% strike yield/wk or the equivalent of 126% for a year establishing our initial position in the $8.00 USD range. We will continue to use this strategy in weaker markets or when specific companies we desire have challenges in the market. These opportunities give the Fund an opportunity to gain a bigger foothold in names we want to own.

Since inception of the option writing program in September 2018, the Fund has generated significant income from option premium of approximately $1.59 million. We will continue to look for such attractive opportunities given the above average volatility in the sector and we continue to believe that option writing can add incremental value going forward.

The Ninepoint Alternative Health Fund, launched in March of 2017 is Canada's first actively managed mutual fund with a focus in the cannabis sector and remains open to new investors, available for purchase on a daily basis. Utilizing our actively managed approach we are able to invest when we see new opportunities arise.

As a result of the market weakness experienced in the month of May, we see many compelling areas upon which to invest. There are significant near term catalysts and we continue to see solid returns

for the cannabis sector and the entire alternative health space in the coming months.

Charles Taerk & Douglas Waterson
Portfolio Team
Ninepoint Alternative Health Fund

Compounded Returns[1]

	1MTH	YTD	3MTH	6MTH	1YR	INCEPTION
FUND	-6.82	23.00	-1.87	13.05	37.82	115.12
Index	-9.56	17.43	-7.12	2.34	11.08	52.36

Statistical Analysis

	FUND	INDEX
Cumulative Returns	115.12	52.36
Standard Deviation	31.84	34.57
Sharpe Ratio	1.61	0.73

[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 May 31, 2019. The index is 70% Thomson Reuters Canada Health Care Total Return Index and 30% Thomson Reuters United States Healthcare Total Return Index and is computed by Ninepoint Partners LP based on publicly available index information.

The Fund is generally exposed to the following risks. See the prospectus of the Fund for a description of these risks: Cannabis sector risk; Concentration risk; Currency risk; Cybersecurity risk; Derivatives risk; Exchange traded fund risk; Foreign investment risk; Inflation risk; Market risk; Regulatory risk; Securities lending, repurchase and reverse repurchase transactions risk; Series risk; Specific issuer risk; Sub-adviser 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), and other expenses all may be associated with investing in the Funds. Please read the prospectus carefully before investing. The indicated rate of return for series F shares of the Fund for the period ended May 31, 2019 is based on the historical annual compounded total return including changes in share 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.

The opinions, estimates and projections ("information") contained within this report are solely those of Ninepoint Partners LP and are subject to change without notice. Ninepoint Partners makes every effort to ensure that the information has been derived from sources believed to be reliable and accurate. However, Ninepoint Partners assumes no responsibility for any losses or damages, whether direct or indirect, which arise out of the use of this information. Ninepoint Partners is not under any obligation to update or keep current the information contained herein. The information should not be regarded by recipients as a substitute for the exercise of their own judgment. Please contact your own personal advisor on your particular circumstances. Views expressed regarding a particular company, security, industry or market sector should not be considered an indication of trading intent of any investment funds managed by Ninepoint Partners. Any reference to a particular company is for illustrative purposes only and should not to be considered as investment advice or a recommendation to buy or sell nor should it be considered as an indication of how the portfolio of any investment fund managed by Ninepoint Partners is or will be invested. Ninepoint Partners LP and/or its affiliates may collectively beneficially own/control 1% or more of any class of the equity securities of the issuers mentioned in this report. Ninepoint Partners LP and/or its affiliates may hold short position in any class of the equity securities of the issuers mentioned in this report. During the preceding 12 months, Ninepoint Partners LP and/or its affiliates may have received remuneration other than normal course investment advisory or trade execution services from the issuers mentioned in this report.

Ninepoint Partners LP: Toll Free: 1.866.299.9906. DEALER SERVICES: CIBC Mellon GSSC Record Keeping Services: Toll Free: 1.877.358.0540