Ninepoint Alternative Health Fund

November 2020 Commentary

Investment Team

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The month of November saw record performance with the Fund up +20.97% in the month and over 34.98% YTD through continued strength in our core cannabis names. The leading US MSO's and select Canadian producers gained traction as election results produced The Green Wave on November 3rd, with increased adult use legalization to different regions of the US. Driving Canadian producers was a view that with a Biden win for The White House, federal legalization may be in the offing. We do not believe that to be the case in the near term however the view has generated gains for the leading Canadian cannabis companies.

The Fund's position in US MSO's (TERR +66%, CL 37.8%, GTII +32.3%, HARV +27.2% CURA +13.5%) were significant contributors to the Fund's monthly performance (Class F) +20.97%. Also noteworthy were contributions from Canadian LP's (VFF +144%, APHA +82%). The Fund's weighting in pharma led by (PFE +13.98%) provided additional support as companies in the portfolio announced successful Stage 3 trials for their COVID-19 vaccines. In addition, the Fund's positioning in healthcare (UNH +10.1%) also provided additional growth with the incoming Biden Administration positioning healthcare as an industry that can be re-organized to provide additional services to main street America.

We believe it is important to address the recent strong performance of the Fund and discuss **where the US MSO's go from here**. Election results had an impact in leading investors to re-analyze the US cannabis sector this month, but there are also fundamentals leading to increased investor interest in US MSO's that are independent of election results. Investors have seen dramatic growth in operating cash flow this year as a result of capital expenditures during the first half of FY20 and into Q320 providing additional cultivation and processing to supply constrained States such as IL, PA and NJ. So even before we factor in the success of ballot initiatives and the effect of The Green Wave, we see continued growth in operating performance for the incumbent MSO's in the coming quarters.

When we add the positive results of the Ballot Initiatives in Arizona, New Jersey, South Dakota, Mississippi and Montana, we see the opportunity to expand the total addressable market (TAM) for those companies with multi-state operations. Neighbouring States to those noted above, with Governors and State Legislatures looking seriously at legislation further increases the TAM (we go into some detail about TAM implications below). As a result, we believe that the growth in US cannabis names should provide significant appreciation in 2021.

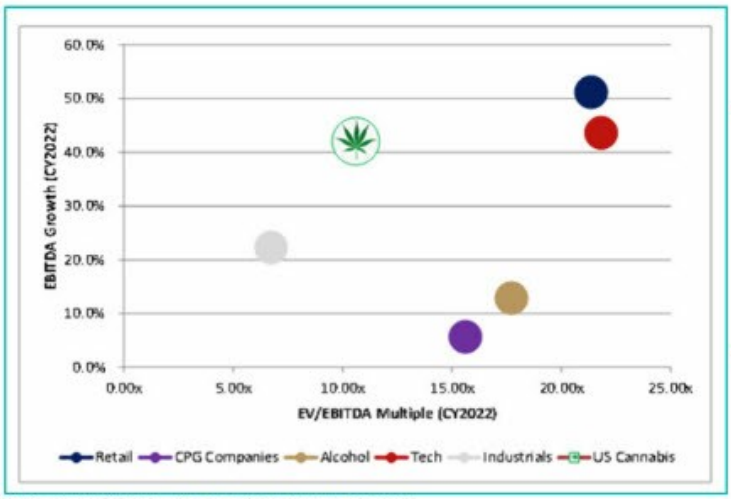
Chart: Cannabis Ballot Initiative States: Sales Forecasts

State Ballot Initiatives				
	18+ Population (mm)	18+ Past Yr Incidence	2022E Sales ($ in mm)	2025E Sales ($ in mm)
Adult Use				
Arizona	5.6	17.2%	$1,014	$1,740
Montana	0.8	20.1%	$237	$391
New Jersey	6.9	12.4%	$636	$1,091
South Dakota	0.7	12.3%	$95	$187
Medical				
Mississippi	2.3	11.7%	$50	$142
South Dakota	0.7	12.3%	$15	$43

Source: US Census Bureau, NSDUH, State Data & Cowen & Co

Despite their strong returns in the month, MSO's continue to have a valuation advantage which is another dynamic supporting growth in share price for the group. We believe that MSO's are undervalued relative to Canadian producers and to other high growth industries. Consider that US MSO's have high growth rates of quarterly cash flow generation similar to Technology or Retail leaders, yet MSO's trade at 10X EV/EBITDA vs Tech that trades at 23X and Retail that trades at 22X. The higher the multiple, the more investors end up paying for each dollar of EBITDA generated. We see opportunities for valuation expansion as investors realize the potential of MSO's reaching scale and operational efficiencies that can propel the valuations of the largest MSO's.

Chart: EBITDA Growth: US MSO's vs Other Industries



Large Cap Canadian LPs are outside the chart as their multiple is 43X EV/EBITDA.

Yet the question is whether they will be able to generate positive EBITDA or does the multiple stretch to 60X because EBITDA is muted for many of

Note: Retail (NKE, PUM, BRBY, LULU, GOOS)
Note: Tech (AMZN, SHOP, AAPL, MSFT, LYFT, UBER, JE)
Source: VIII Capital

Our analysis of the chart above leads us to a few conclusions. First, Canadian producers have had a significant run since the Nov 3rd election on the hope of entering the US market based on a Democrat win of the White House. When we consider the run of Canadian cannabis producers and the US federal regulatory challenges that foreign operations have in terms of entry to that market, we would suggest that investors might want to consider taking profits as the run during November, in our opinion, is not sustainable for many of the leading Canadian names. We also note the incredible year that large cap tech names have had this year as work-from-home stocks were embraced at valuation metrics that reached extremely overbought levels. When you consider that you can get higher growth at lower multiples with expanding regulated markets in the US cannabis sector, we believe an investment in the Fund to capture the growth that we see in 2021 is an attractive option relative to the mega-cap tech names that have already been pushed to stretched valuations.

Healthcare

We also see strong growth in the healthcare service providers as COVID-19 has exposed government budgets to deficit funding that has not been anticipated. The U.S. still has significant issues in terms of spending on healthcare delivery. The system, even after enactment of the Affordable Care Act, is not an efficient deliverer of services; it is expensive and there are mounting pressures to contain this as a percentage of overall government budgets. The Democrats would like to expand access to health care, but the GOP is vehemently against any move towards more government involvement. Any changes will have to work within the existing system, a complete overhaul is not realistic. As a result, we believe that large healthcare insurance service providers, **Humana** (**HUM**) and **UnitedHealth Group** (**UNH**) are well positioned to benefit. HUM has invested significantly in technology and healthcare service businesses over past few years and is focused on the highest growth market within managed care, Medicare Advantage. UNH is the largest managed care provider combining growth and scale. Its Optum Division, the technology/services part of the business represented 48% of profit in 2019, continues to grow and is scalable. We believe that the significant investment in technology that both companies have spent act as a moat that will continue to build their value ahead of competition.

Topics Covered

1. US & Canada- Cannabis Market Updates
2. Company Announcements & Quarterly Financials
3. Options Strategy

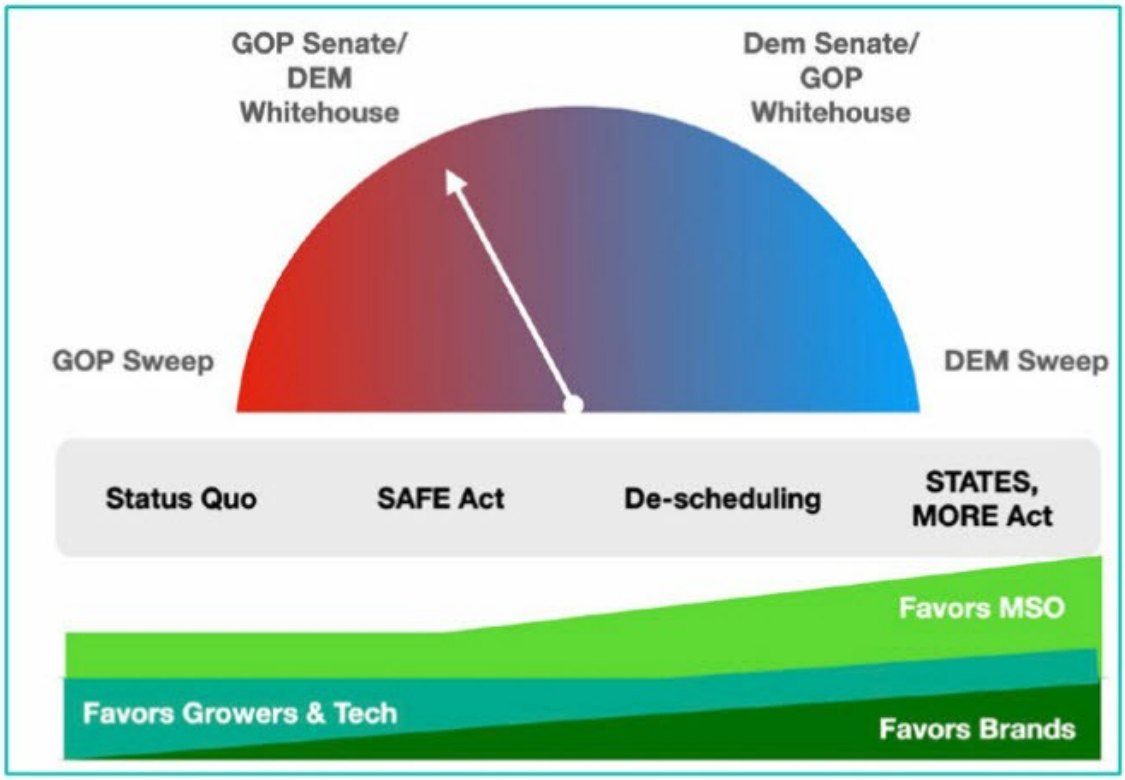
1. Regulatory Update

As mentioned above, November 3rd brought The Green Wave with 5 State ballot initiatives supporting growth of legal cannabis in various States. The Presidential election was also favourable to the cannabis industry as Democrat Joe Biden won the Presidency. The President-Elect is not necessarily a proponent of cannabis reform, however many of the key people in his Cabinet have been vocal supporters of changes in legislation. Vice President Kamala Harris, in her previous role as the junior Senator from California was the lead Senate sponsor of the Marijuana Opportunity, Reinvestment, and Expungement (MORE) Act. The MORE Act was designed to de-schedule cannabis from the Controlled Substances Act (CSA) as well as expunge previous convictions related to cannabis crimes. It is also noteworthy that initial Cabinet Posts in the new Administration are people from the Obama Administration. It was in 2013 that the Justice Department under President Obama drafted the Cole Memo, which essentially advised justice officials not to intervene in State run legal cannabis operations.

Countering the Democrats win in the White House is the fact that Republicans continue to control the Senate. To date, cannabis reforms have been stalled on the floor of the Senate, however we see the potential for compromise in the coming administration. Its important to note that many States where cannabis is legal have Republican Senators including Pennsylvania, Montana, South Dakota, Mississippi. If states that voted 57% and 62% for Donald Trump (South Dakota and Montana) also voted to legalize recreational marijuana, what signal does that send to legislators in conservative regions of the country?

There is an opportunity that within the next pandemic stimulus package that some type of legislation is provided to the cannabis industry and its workers. The SAFE ACT (Secure And Fair Enforcement) if enacted, provides a safer work environment for the industry's growing employment rolls. The SAFE ACT would allow financial institutions to work with cannabis companies without fear of retribution from federal law enforcement, allowing cannabis retailers the opportunity to take credit card and debit card transactions and not having to hold significant amounts of cash on site where employees fear the threat of robbery.

Chart: US Election - Cannabis Industry Impact: GOP Senate & Democrat White House



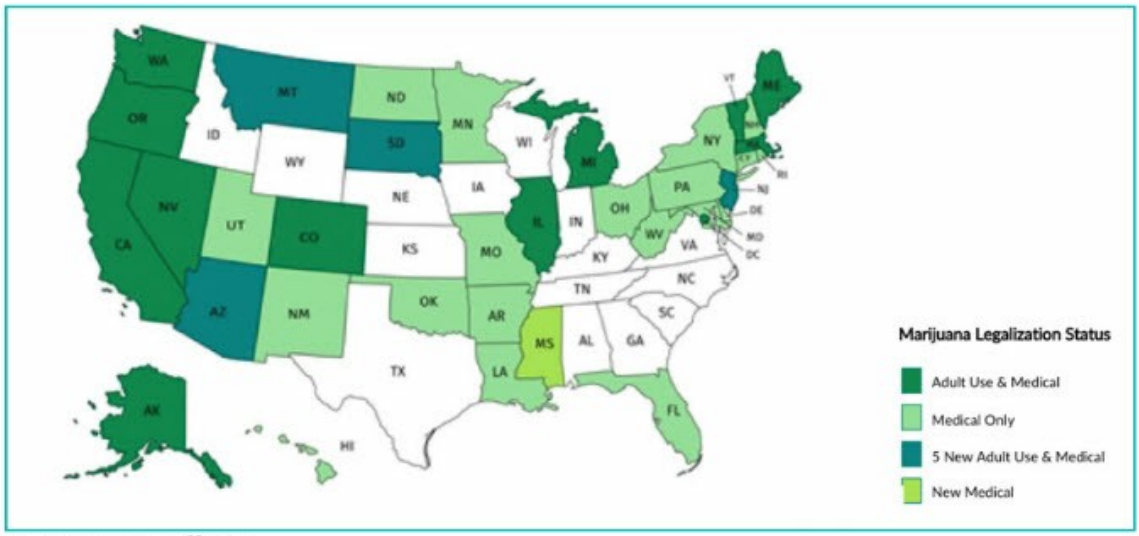
Source: HedgeEye

The industry employs over 250,000 voters, some of whom have elected Republican Senators. Cannabis is one of the few socio-economic issues all parties tend to agree with. Its not that congress is accepting of cannabis so much as elected officials realize the significant tax revenue can be generated to help offset the costs related to the COVID-19 lockdowns.

The implications of **The Green Wave** is that immediately 16 million Americans will join 93 million others who now live in states that allow adults to use marijuana legally after voters in New Jersey, Arizona, South Dakota, and Montana overwhelmingly approved ballot measures. This means that 1 in 3 Americans now live in states where marijuana is legal for anyone at least 21 years old.

The cannabis industry can create jobs and tax revenue for states facing high debt and unemployment. If nearby states do not legalize adult use, they will miss out on tax revenue from cross-border purchases or expansion of the black market. Timing of any regulatory change is hard to predict, but we believe legalization in NJ is an important step for change across the Northeast given the interconnectedness of States in the Northeast.

Chart: State Ballot Initiatives-Changing Landscape



Source: NCSL, Jefferies

New Jersey

Following the successful November 3rd Ballot Initiative legalizing adult use cannabis, State representatives have tabled enabling legislation in the Senate and the State Assembly. In addition to legalizing adult-use, the legislation modifies aspects of the medical cannabis program including adding additional although limited licenses. This legislation has been introduced as a 1st draft covering quick opening for the adult-use market (with the issuance of conditional licenses), social equity goals and objectives, small business issues while respecting the autonomy of municipalities to decide if they want adult use stores.

States that could go REC in 2021

The Green Wave on Nov 3rd set the process in motion for adult-use legalization in additional States in 2021. Looking at the northeast, New York, Pennsylvania, Connecticut, Maryland, New Mexico… for 2021", said Steve Hawkins, executive director of the Washington DC-based Marijuana Policy Project.

Pennsylvania

Gov. Tom Wolf (D) is on record pushing for adult use legalization to help generate much needed tax revenue, recognizing that neighbouring New Jersey will be taking the lead in the northeast. The result of NJ legalization will mean cannabis customers being siphoned from NY, PA, MD, RI, CT. Reports suggest that recreational marijuana markets in New York, Connecticut, Pennsylvania, Maryland could generate more than $2.5 billion in sales combined during the first full year of their adult use programs and up to $6.4 billion annually within four years.

New York

Gov. Cuomo of New York has been looking at adult use in NY for years and was attempting to pass a budget proposal last spring when COVID lockdowns changed his plans for the State Budget. He now has a new reality to deal with including huge economic costs related to unemployment and health issues caused by the pandemic. With two State neighbours (Massachusetts and New Jersey)

now legal for adult use, the concern is moving slowly results in not only the loss of tax revenues but also the loss of new jobs in the State. Massachusetts created approximately 10,000 new jobs in the first year of its adult-use cannabis market, and Illinois has added 9,000 new jobs since legalizing last year. In New York, it is anticipated that an additional 30,000 jobs could be created if adult-use cannabis is legalized.

New York congressional leaders need only look at other mature markets to see how the State can benefit. A good example is California, the largest state by population and the largest in terms of cannabis sales growth. The state's legal revenues could grow from nearly $3 billion in 2019 to $7.2 billion by 2024, according to the research company BDSA Analytics. As New York is the second largest State with nearly 20 million people, New York could become the next-biggest cannabis market. There is already strong public support as a recent Spectrum News/Ipsos poll shows 61% support cannabis legalization while only 30% were opposed.

The state's legislators could legalize in 2021 with an expectation that cannabis taxes could generate $300 million in revenue for the State in year one of the program, which is crucial at a time when job losses are significant and the coronavirus cases are on the rise once again. Since the pandemic began in March, close to 2 million people in New York City have applied for unemployment benefits.

Gov. Cuomo has stated "All states—but especially this state...we need revenue and we're going to be searching the cupboards for revenue." Lt. Gov. Kathy Hochul said that "it's absolutely going to be on the table for consideration in the next budget."

Unlike the sales of license processes in other States, New York could “auction” licenses or get “market rates” for licenses depending on the locations that are being offered. The market rate prices could add significantly to state coffers as MSO’s would want a piece of the NY market.

Virginia

Gov. Ralph Northam introduced his plan to legalize marijuana for the state in 2021. His government produced a report by the Joint Legislative Audit & Review Commission suggesting cannabis-derived tax revenues for the state could reach $300 million per year with a taxation rate of 25-30% of pre-tax sales at market maturity, with the potential to create 11,000 jobs.

West Virginia

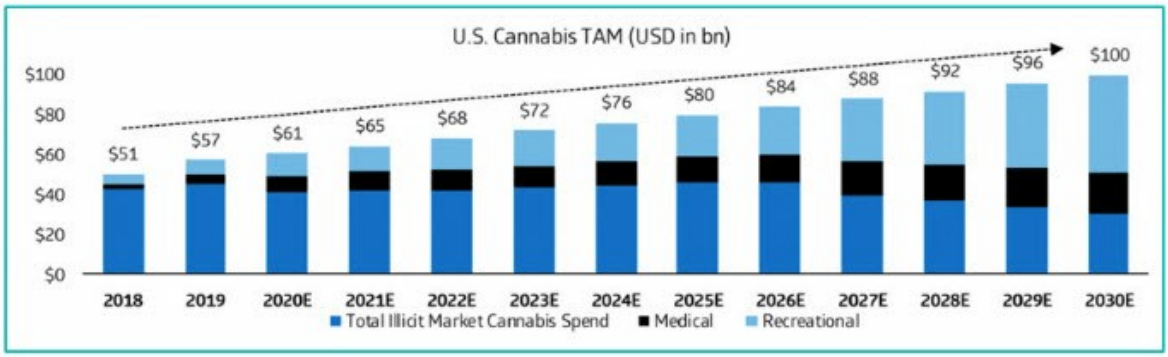
During November, the West Virginia Department of Health and Human Resources, Office of Medical Cannabis (OMC) announced the successful applicants for medical cannabis processor permits. These companies will process medical cannabis plant material into products allowed by law and sell them to permitted dispensaries for purchase by certified patients.

Georgia

The State’s General Assembly legalized the treatment of medical cannabis for a limited number of conditions five years ago, and the Georgia Access to Medical Cannabis Commission has now approved the process that would allow roughly 14,000 registered patients to receive cannabis oil. State law allows licenses for six companies to grow medical cannabis but the level of THC cannot be higher than 5%. The commission plans to grant licenses to two 100,000 sq ft facilities and four 50,000 sq ft facilities. Once the commission issues licenses, which is expected to occur in March, manufacturers say it could take up to a year before they can supply the oil to patients. Next, the

commission plans to announce regulations for the granting of licenses to dispensaries to distribute the oil.

Chart: Long Term Growth of US Market: $100 Billion Market by 2030



Source: US Census Bureau, Cowen & Co

Statistics Canada

For the month of September 2020, StatsCan released adult use cannabis sales by province that showed overall gradual growth. Sales for the month reached $256.3 million up 2% from August, resulting in a $3.1 billion run-rate for the Canadian adult-use market and a $3.7 billion run-rate for the overall regulated cannabis market. Ontario had the top spot for sales at $77.9 million up 5% MoM. Six provinces had minor growth with BC (+3%), SK (+2%), and AB, QC, NS, and PEI all reported 1% growth.

Canadian Monthly Sales & Store Count

Source: VIII Capital

Driving the increased sales are increased brick and mortar retail dispensary locations that grew 4.6% in September to a total of over 1,200 licensed locations. By the end of November, we estimate over 1,300 stores are in operation nationwide. Alberta has almost half of the country's retail stores at present, and in terms of stores per capita, it ranks highest at 12 stores per 100,000 people vs Ontario at 1.5 stores per 100,000 people. The Canadian average is 3.2 stores per 100,000. We also

note that although the store count continues to grow in Ontario, there is a slowdown in retail store activity in Ontario given the number of new stores yet only soft monthly growth in sales. Ontario grew 22.6% sequentially in August, when adding roughly 25 stores, but has now slowed to 5%, despite a similar amount of stores being added in September.

European Court Rules CBD Is Not A Narcotic

During November, the EU changed its position on the legality of CBD ingestibles which has significant long term implications for those businesses with exposure to European markets. The EU had previously classified CBD as a novel food, then in July changed its stance, stating that CBD and other extracts from hemp flowers would be better regulated as narcotics under the United Nations (UN) Single Convention on Narcotics of 1961. Under such a scenario it would be very difficult for the CBD market to develop. The new EU ruling states that CBD does not “have any psychotropic effect or any harmful effect on human health”.

2. Company Announcements

Pfizer (PFE) became the first pharmaceutical company to provide very positive safety and efficacy data for its COVID-19 vaccine. At month end the successful trial was followed up with the announcement that PFE had received the first authorization in the world for its vaccine to combat COVID-19. The U.K.'s MHRA has authorized supply of COVID-19 mRNA vaccine for emergency supply and the company and its partner is ready to deliver the first doses to the U.K. immediately, supplying a total of 40MM doses to the U.K. with delivery in 2020 and 2021. We anticipate U.S. emergency authorization in December. Sales impact and bottom line results related to the vaccine have not been determined, however would be in addition to the company’s previous disclosure of 6% CAGR through 2025. Key to this new vaccine success is that PFE has the first mover advantage.

Primary efficacy analysis demonstrates the mRNA based vaccine to be 95% effective against COVID-19. This is an extremely high rate of effectiveness as compared to the annual flu vaccine with an efficacy rate of 40-60%, yet stands with other vaccines with broad based adoption, including the measles vaccine (97%), smallpox (95%), chicken pox (92%). Also encouraging is that efficacy was consistent across age, gender, race and ethnicity demographics, with observations of efficacy in adults over 65 years of age (a group that has suffered significantly) was over 94%. Safety data milestones that are required by the U.S. FDA for EUA have been achieved, with the data demonstrating the vaccine was well-tolerated across all populations of over 40,000 participants. The side effects observed included fatigue at 3.8% of trial participants and headache at 2.0%. PFE announced that up to 50 million doses of the vaccine can be delivered in 2020 and up to 1.3 billion doses by the end of 2021.

The vaccine is a two dose regimen similar to measles, so logistics of dosage and delivery is being developed. A challenge for global distribution is that the mRNA vaccine must be stored using ultra-low temp freezers (-70 degrees C) for up to 6 months. To facilitate distribution, it can be stored using the thermal shippers that it is delivered in (and which need to be refilled with dry ice) for 15 days, and it can be stored at normal refrigerator temps (2 to 8 degrees C) for 5 days. The big step forward is that the vaccine is effective, manufacturers are now focused on safe and effective global delivery. Pfizer is also working on a variant of the vaccine which does not require such extreme storage temperatures.

AstraZeneca (AZN) also announced a breakthrough in the fight against COVID-19 with its vaccine candidate, developed with the University of Oxford, at 90% effective when administered as a half

dose followed by a full dose at least a month apart. While this is below the ~95% efficacy levels from the Pfizer/BioNTech vaccine, there are advantages to the AZN dosage regimen. The most notable advantage is the fact that relative to the ultra-low temperatures required for the mRNA drugs mentioned above, the AZN spike protein based vaccine can be stored in a regular refrigerator, as opposed to the freezer needed for the other two vaccines, which makes it much more practical for global distribution. It also comes at a lower cost to manufacture.

Village Farms International (VFF) had two significant announcements this month. First, the company announced that its products will be featured as part of a limited-edition Lane Crawford Found CBD-infused gift set to be sold in luxury department store's holiday pop-up shops in Hong Kong this holiday season. The luxury gift sets will feature Pure Sunfarms branded CBD gummies, chocolates, bath salts, and tea bags. The co-branded Lane Crawford and Found holiday pop-up shops aim to educate consumers and elevate their awareness of CBD. In August 2020, Village Farms acquired 6.6% of Australia-based Altum, one of the Asia-Pacific's leading cannabinoid platforms.

The company also announced that its products will now be carried by Shoppers Drug Mart. This medical distribution agreement with Canada's largest pharmacy chain is important to illustrate the quality and consistency of PSF products. Shoppers has had distribution relationships with **Tilray (TLRY)**, **Aurora Cannabis (ACB)** (through MedReleaf) and **Aphria Inc (APHA)** since 2018.

Canopy Growth Corp (WEED) announced the release of Martha Stewart CBD Wellness Gummies in the US. Each Martha Stewart CBD Gummies Sampler includes 60 10mg CBD wellness gummies. This special edition Martha Stewart CBD gift box retails for $64.99 and is available for pre-order on November 11 at Canopy Growth's ecommerce platform, ShopCanopy.com, with shipping to begin for the holiday season.

Trulieve Cannabis Corp. (TRUL) announced it has been awarded a processor permit by the West Virginia Office of Medical Cannabis. This represents the sixth State that TRUL has presence in. The company has purchased a property for cultivation in Huntington, WV, and they plan to make an $11 million investment in improvements to the property. The facility will create between 60 and 80 new jobs for the State. TRUL is the #1 market leader in Florida, and now has operations in PA, MA, CA, CT in addition to FL and WV with 67 stores in Florida, and 72 stores nationwide.

Green Peak Innovations/ Skymint is a vertically integrated cannabis company based in Lansing, MI (a private investment in the Fund) has established the Skymint Farms, a 200-acre sun grown cannabis farm in the Huron-Manistee National Forest. Joining the company's two sustainable cultivation facilities, the farm aims to achieve Sun+Earth status within the next two years, which certifies cannabis brands that farm using organic methods, holistically, responsibly, and regeneratively.

Terrascend (TERR) has received the last permit required to open its dispensary in Phillipsburg, NJ which is located across the Delaware River from Pennsylvania. TERR is already operating in PA and will draw on its current operating structure to provide leadership and operational expertise to its new NJ location. TERR is 1 of 12 companies licensed to operate in New Jersey (pop. 8.9M), and 1 of just 4 operating in the North region of NJ, adjacent to New York City.

Earlier in November the company entered a new state market, Maryland, with the acquisition of **CURA's** license and cultivation facility. The sale took place as **CURA** acquired Grassroots and had

overlapping licenses. The transaction value we believe is accretive at $27 million, further providing a strong east coast, limited license operation for TERR to incorporate into its operations, leveraging talent in neighbouring NJ and PA. As management states, this will enhance the company's 3 state common play book. The MD facility produces dried flower and oil products for the medical cannabis market and has the capability to produce edibles upon regulatory approval.

Financials

US Multi-State Operators
Q320 financial results for the Fund's core US cannabis holdings were reported in November, all meeting or beating consensus, all generating solid top line and positive EBITDA growth.

Green Thumb Industries (GTII) announced Q320 revenues of $157.1 million, results that were 16% ahead of consensus. Revenue grew 37% QoQ, while gross margin hit 55%. Revenue was driven by capacity expansion in IL, PA, OH and NJ, where production started ahead of schedule, as well as a recovery in sales momentum in Nevada and Massachusetts that were shut down during the COVID-19 lockdowns in Q2. During the quarter, branded sales reached 11 states with a total of 49 retail locations. Same store sales growth was up 17.9% QoQ. Despite SG&A rising to 32% from 25% in the quarter, adj. EBITDA was $53.2 million, 32% ahead of consensus. For the first time in the company's history, GTII generated $9 million in net income or $0.04/sh, ending the quarter with $78 million in cash on the balance sheet.

Trulieve (TRUL) announced another strong quarter with record revenue of $136.3 million, an increase of 13% quarter-over-quarter, 93% YoY. Gross margin was 75% or $102 million while Adj EBITDA reached $67.5 million, 49.5% ahead of consensus, which represented the 11th quarter of consecutive growth and profitability. The EBITDA beat was driven primarily by stronger-than-expected gross margins despite the fact that the company was impacted by start-up costs from the launch of edibles in FL and the build out of operations in MA. Despite these operational costs, the company generated $73.7 million in cash flows from operations for the nine months ended September 30th, 2020. The company anticipates revenues from MA by mid 2021. While FL is the primary driver for TRUL, its CT store continues to maintain 10% market share in the state despite being the only store out of the 18 operating stores. TRUL also continued its expansion outside FL with the acquisition of PA based PurePenn and Solvevo. Key to its expansion outside FL is the company's focus on limited license states in the North East US that includes entry into MA, CT, PA, and most recently West Virginia.

Curaleaf (CURA) reported solid Q320 revenue to $193 million in line with consensus, up 59% QoQ. When looking at the acquisitions that CURA closed during the quarter, pro forma revenue reached $215 million, an increase of 30% QoQ, with new store openings in FL, MA, AZ and NY. Adj. gross margin of 50% was slightly below consensus of 53% however adj. EBITDA came in at ~$42m, up 51% QoQ, and well above consensus of ~$38m, driven by a lower SG&A ratio of ~30% of revenue. Key operational success includes the doubling of cultivation capacity in key states AZ, FL, IL, MD, MA, NJ, with PA cultivation completed in '21. The company now has operations in 23 States with a strong balance sheet sitting with $84.6 million in cash and only $280 million of debt.

Acquisitions closed during the second half of 2020 include Grassroots that expands CURA's presence from 18 to 23 states, building CURA to 135 dispensary licenses, 88 operational dispensary locations, 30 processing facilities and 22 cultivation sites with 1.6 million square feet of current cultivation capacity. In addition, the company closed its Alternative Therapies Group's ("ATG")

licensed cultivation and processing operations in MA in early November. We believe that CURA is well positioned in new adult use markets like AZ and NJ, with the potential of future adult-use regulatory changes in NY, PA, and CT.

Terrascend (TERR), new to the Fund, since September had a very strong Q320. Q3 revenue reached $51 million while generating EBITDA of $17.8 million, a 35% margin beating consensus of $14.4 million and estimated 27% margin. The company's EBITDA margins improved from 24% in Q2, and 14% in Q1 showing that operations are scaling efficiently. Cost control measures have been effective as sales and operations have grown yet SG&A was $13.7 million, 27% as a percentage of sales vs 33% in Q2. Driving growth is the additional 25% cultivation expansion at the company's Pennsylvania facility completed in Q3. In addition, additional dispensaries in PA and CA, as well as the 37,000-sq ft New Jersey greenhouse that has started cultivation operations.

From talks with management, Q4 growth will be driven by increased cultivation in PA and CA, ramp up of dispensaries in PA and CA, combined with initial sales in NJ. We must also not forget that TERR has operations in Canada and has launched a gummies line that the company anticipates adding revenue and cash flow from Canadian operations. The company raised its 2020 guidance for revenue/adjusted EBITDA of $192M+/$45M+ to $196M+/$54M+ showing strength continuing into Q4. In addition TERR provided 2021 guidance for revenue of $360-$380M and EBITDA of $140-$160M. Guidance is well above current consensus illustrating that the street is not including metrics the company sees from its new markets, increased cultivation and new dispensaries.

Cresco Labs (CL) reported record quarterly revenue in Q320 and adjusted EBITDA that significantly outperformed consensus. Revenues reached $153 million ahead of consensus of $116 million while EBITDA came in at $46 million, also well ahead of the streets' $20 million estimate. Revenue improved 63% QoQ and 323% from $36M in Q3/19. Sales were driven by better wholesale revenue in Illinois, Pennsylvania, and California. CL generated gross profit of $81 million, or 53% of revenue, compared to Q2/20 at $44 million or 47% of revenue. Key to generating the growth in EBITDA was strong cost measures that saw SG&A decline as a percentage of sales despite the noted sales growth. Revenue strength was driven by wholesale revenue of $90 million up 66% sequentially vs. Q220, as a result of the company's capacity expansion undertaken in 1H20. The company finished the quarter with $58 million in cash on the Balance Sheet well-positioned for future growth in PA and in NY, as these markets could have recreational marijuana when legalization occurs in the next 12-24 months.

Canadian Cannabis Financial Results

Results from most Canadian cannabis operations continue to focus on right-sizing initiatives, challenges with SG&A expenses and moderate sales growth. We highlight one of the select Canadian holdings as a standout in an otherwise challenging Canadian market-Village Farms. By comparison, we also provide the results for more well-known Canadian operations; **Canopy Growth (WEED)** and **Aurora Cannabis (ACB)**.

Village Farms (VFF), the sole Canadian LP to remain in the Funds top holdings reported headline revenue of US$43 million in sales (produce) and US$4.6 million of EBITDA which includes the ~60% share ownership of PSF. During the quarter the acquisition of the minority interest in PSF closed. The EBITDA number was much better than consensus estimates of US$1.9 million. The company's cannabis division, now wholly owned, **Pure SunFarms (PSF)** generated revenue was $22.6 million up 75% from Q219. Retail sales accounted for $12 million vs $8.6 million QoQ while wholesale was

$10.6 million versus $4.3 million QoQ. VFF continues to be a low-cost operator, producing flower at an estimated $0.82/gr allowing it to continue to generate stable gross margins despite its focus in the growing value category. Gross Margin came in at 40% while Adj. EBITDA came in at $7 million or 31%, $5.6 million after an inventory write-down. Management estimates that PSF market share of branded flower in October represented 15.2% of the Ontario market. Overall, VFF produced $10 million of EBITDA in the quarter, beating consensus estimates. The Company ended the quarter with US$54 MM in cash and equivalents.

Canopy Growth (WEED-TSX) reported Q2/21 net revenue was $135.3 mm up 23% QOQ well ahead of consensus $116.5. However the company is still challenged to get its operations in order as Adj. EBITDA was a loss was $85.7 million vs consensus -$86.9 million and a net loss was $96.6 million or $0.09/share. Management has stated that it is accelerating on its path to profitability, however results still show significant barriers to positive cash flow. Sales reached $135.3 million, 13% ahead of consensus with more than half of the beat driven by non-cannabis ancillary businesses such as vaporizers (Storz & Bickel), sports beverages (BioSteel) and skin-care products (ThisWorks) helped to increase "other revenue" 34% to $43M. Gross margins remain below 20%, with the Sep Qtr coming in at 19%. The company's reliance on value flower is having a delay on building a gross margin recovery. Despite the growth in sales in the quarter, the company still has operational cash flow challenges as Adj. EBITDA was -$85.7Mn. The company cash burn was $300 million in the quarter while stating that it has identified $150-200Mn in annualized savings (28-40% of rev). FCF did not improve (-$190Mn vs. -$180Mn in the Jun Qtr), and cash equivalents dropped to $1.7Bn from $2Bn in the Jun Qtr.

A note of caution in our opinion when reviewing investment in Canadian cannabis names (at the time of writing) is that the results of the U.S. election has created a run in the Canadian names in terms of valuation metrics. WEED's regular premium multiple as a result of it being a "go to name" for generalists has expanded from 15x to 20x our 2022 Revenues (Enterprise Value to Sales) which is at the high end of its Canadian cannabis peers. As a result, we continue to be cautious on the name.

Aurora Cannabis (ACB-TSX) announced Q1/21 results that continue to show that the company is early in its efforts to pivot to profitability. Net revenue was $67.8 million, beating on revenue vs consensus at $63.6 million. The company reported adj. gross margin of 48% on net cannabis revenues lower QoQ. ACB is committed to reducing operating costs and reported that its OPEX spend was down 25% QoQ, however the company still generated adj. EBITDA loss of $57.9 million compared to $32.3 million in FQ4/20 and was a much larger loss than consensus loss estimates of $9.9 million. SG&A expenses of $46.9 million underperformed management's expectation of low being in the low $40 million range. ACB saw adult-use dried flower sales down by ~16% QoQ as the company continues to more 'premium' products. As a net result, the company saw its consumer cannabis sales come down by ~2.8% to C$34.3 million. We continue to avoid this name as the company continues to struggle operationally.

3. Options Strategy

With the above average volatility in the cannabis and health sectors, we are able to generate significant option premium, while lowering the overall volatility of the Fund relative to its underlying benchmark. 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 also write 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. Since inception of the option writing program in September 2018, the Fund has generated significant income from option premium of approximately $3.30 million. We will continue to utilize our option program to look for attractive opportunities given the above average volatility in the sector as we strongly believe that option writing can continue to add incremental value going forward.

During the month we used our options strategy to assist in rebalancing the portfolio in favor of names we prefer while generating approximately $49,000 in option income. We continue to write covered calls on names we feel are range bound near term and from which we could receive above average premiums. Examples of such trades include GW Pharma (GWPH) and Aphria (APHA). We also continue to write cash secured puts out of the money at strike prices that offered opportunities to increase our exposure, at more attractive prices, to names already in the Fund including Humana (HUM) and Industrial Properties (IIPR), with weekly cash secured puts on HUM having been especially rewarding. Going forward, we will continue using our option strategy to enhance risk adjusted returns.

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 daily. Utilizing our actively managed approach we are able to generate industry leading risk adjusted returns.

Charles Taerk & Douglas Waterson
The Portfolio Team
Faircourt Asset Management
Sub-Advisor to the Ninepoint Alternative Health Fund

Ninepoint Alternative Health Fund - Compounded Returns[1] as of November 30, 2020 (Series F NPP5421)

	MTD	YTD	3MTH	6MTH	1YR	3YR	INCEPTION(ANNUALIZED)
FUND	21.08%	36.34%	21.21%	35.07%	32.02%	20.54%	27.59%
INDEX	23.82%	-7.84%	19.55%	10.14%	-5.20%	-0.66%	4.21%

Statistical Analysis

	FUND	INDEX
Cumulative Returns	124.88%	14.64%
Standard Deviation	30.44%	33.03%
Sharpe Ratio	0.87	0.09

[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 November 30, 2020. 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 • 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

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