



Ninepoint Energy Fund Market View

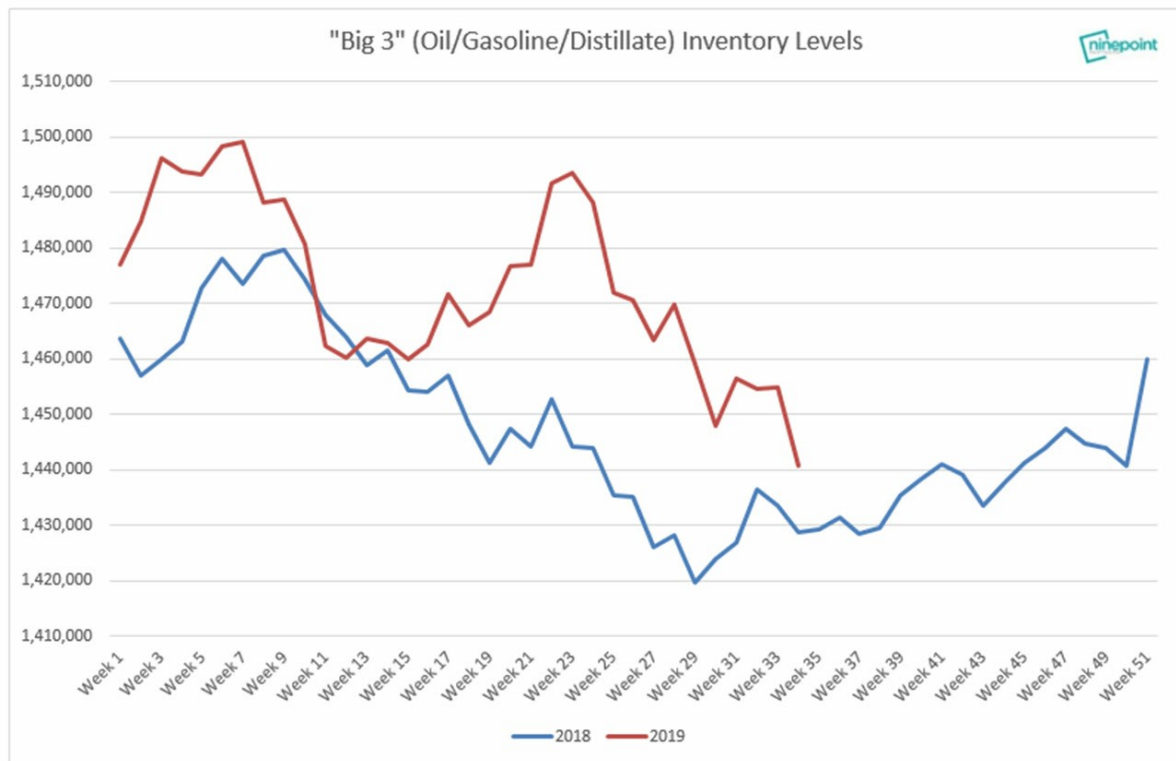
August 29, 2019

There has been a significant improvement in crude fundamentals over the past few months. While demand weakened significantly in Q2 (we think skewed by destocking), notably in Europe, indicators point to a sharp inflection in July with the YOY run rate back to 1.3MM Bbl/d. At the same time, US inventory draws have accelerated and the YOY surplus has shrunk from 56MM Bbls in July to now 22MM Bbls and the "Big 3" category (oil + gasoline + distillate) has shrunk from a surplus of 49MM bbls to now only 12MM bbls:

Investment Team



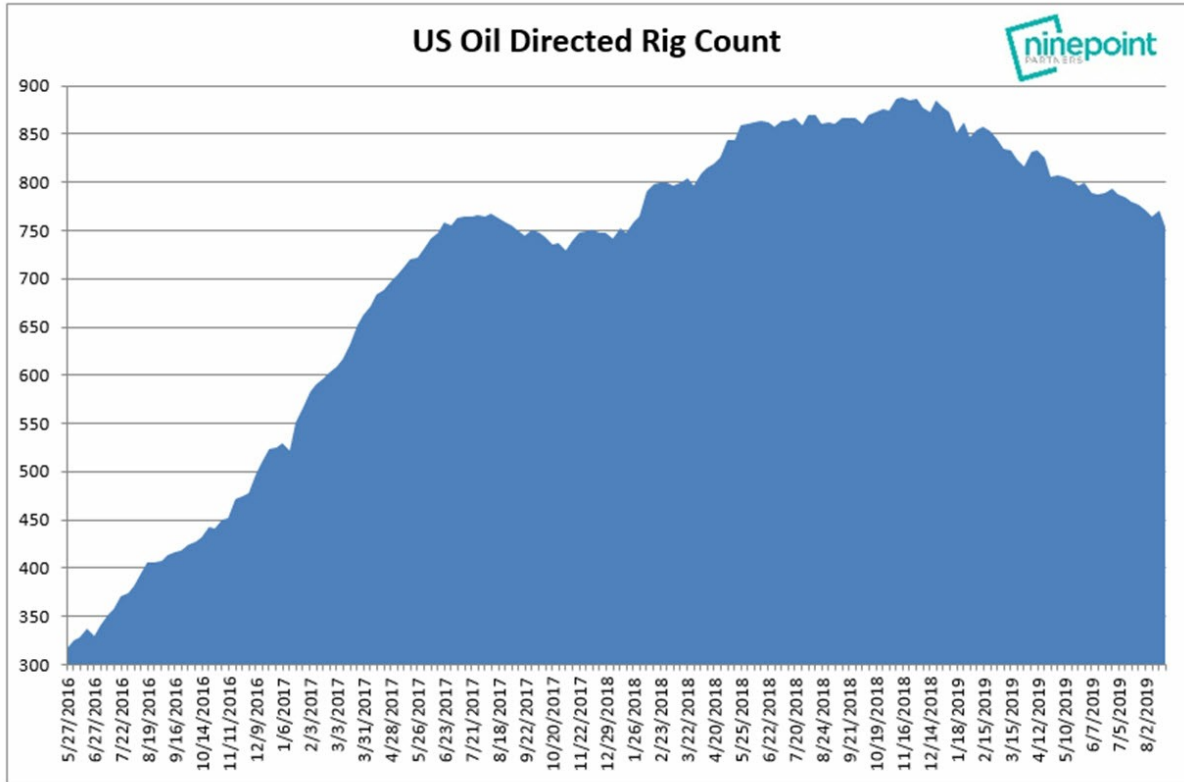
Eric Nuttall, CIM
Partner, Senior Portfolio
Manager



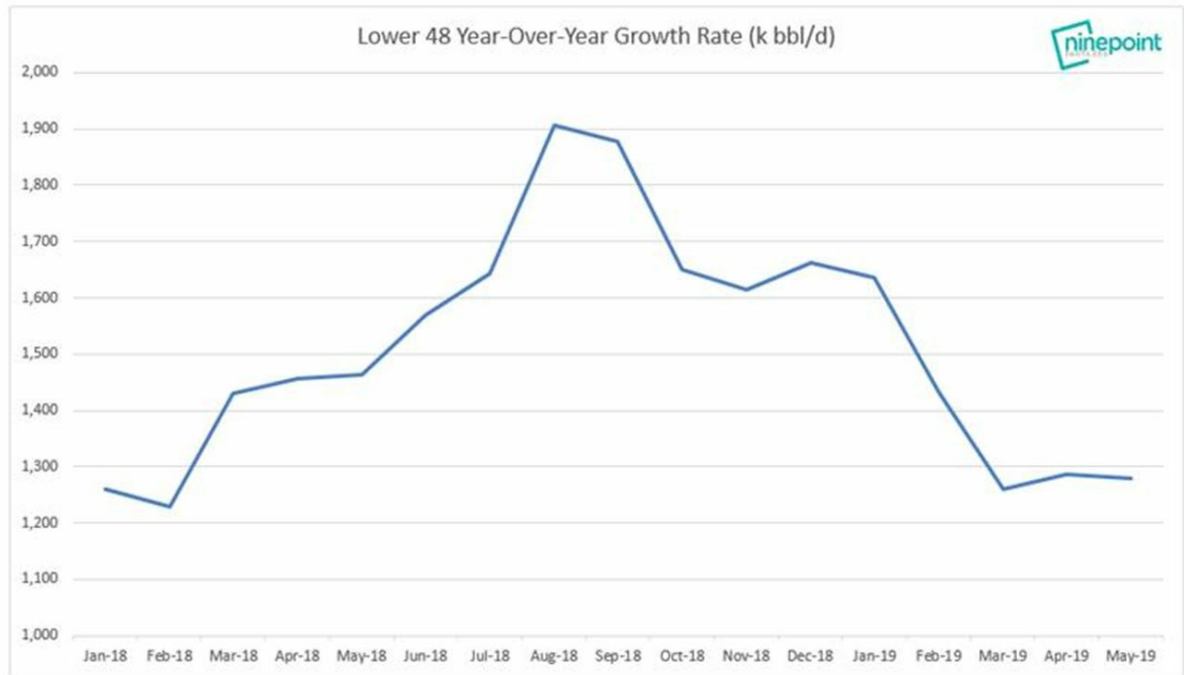
Source: US Energy Information Administration

While ongoing worries about the health of the global economy persist (due to Trump's trade war with China) and oil is indeed exposed to daily tweeting volatility I believe the near-term direction of crude oil will be dictated by 2 fundamental factors: inventory declines and the US production growth rate.

With all but a handful of US E&P's embracing buybacks + dividends over growth we have seen the US oil directed rig count fall by 131 rigs and with it a deceleration of the YOY growth rate of US production. This trend should accelerate in the coming months as company's approach budget exhaustion:

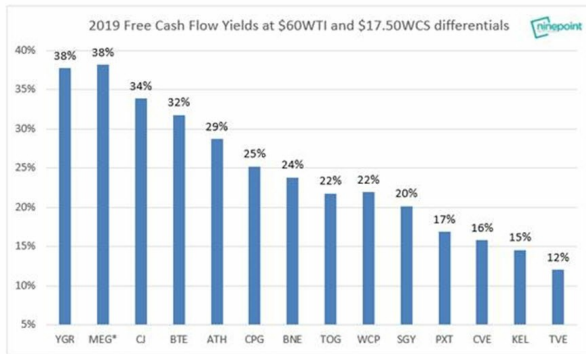


Source: Baker Hughes



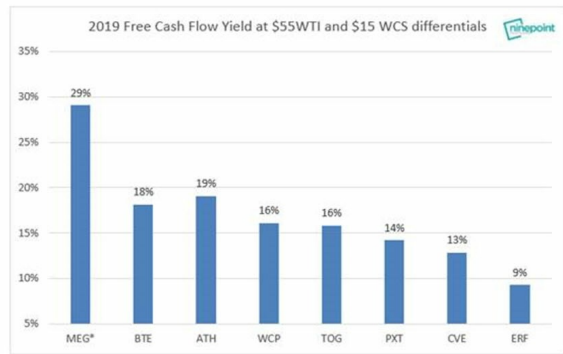
Source: EIA

It looks like the US production growth rate in 2020 is going to disappoint consensus expectations as E&P's will continue to underspend cashflow and prioritize return of capital. To us it appears that US oil growth will be less than 1MM Bbl/d in 2020 which means that a further cut from OPEC will not be required. With this backdrop we are comfortable with a \$55-\$60 price band in our company cash flow forecasting and in that context oil stock valuations remain at their **cheapest levels in history**:



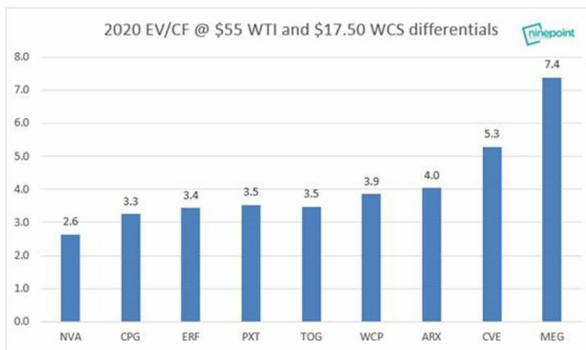
Free cash flow = operating cash flow (pre-hedging) minus capex required to keep production flat
MEG estimate is for 2020

Source: Bloomberg, Ninepoint Partners

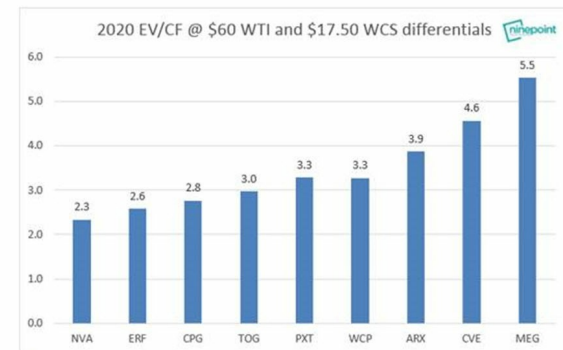


Free cash flow = operating cash flow (pre-hedging) minus capex required to keep production flat
MEG estimate is for 2020

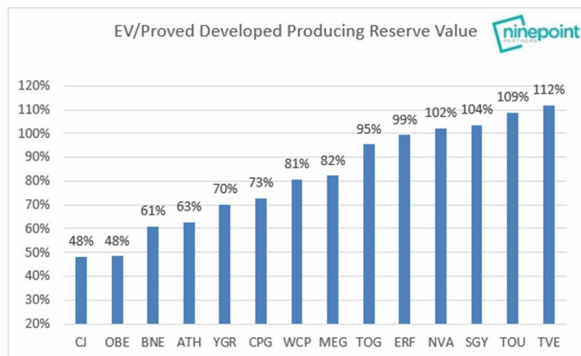
Source: Bloomberg, Ninepoint Partners



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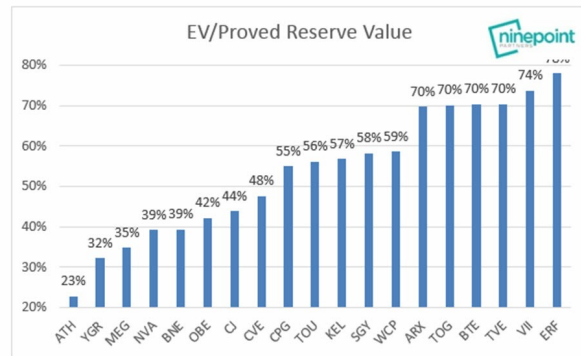


Source: Bloomberg, Ninepoint Partners



Excludes value for land and seismic

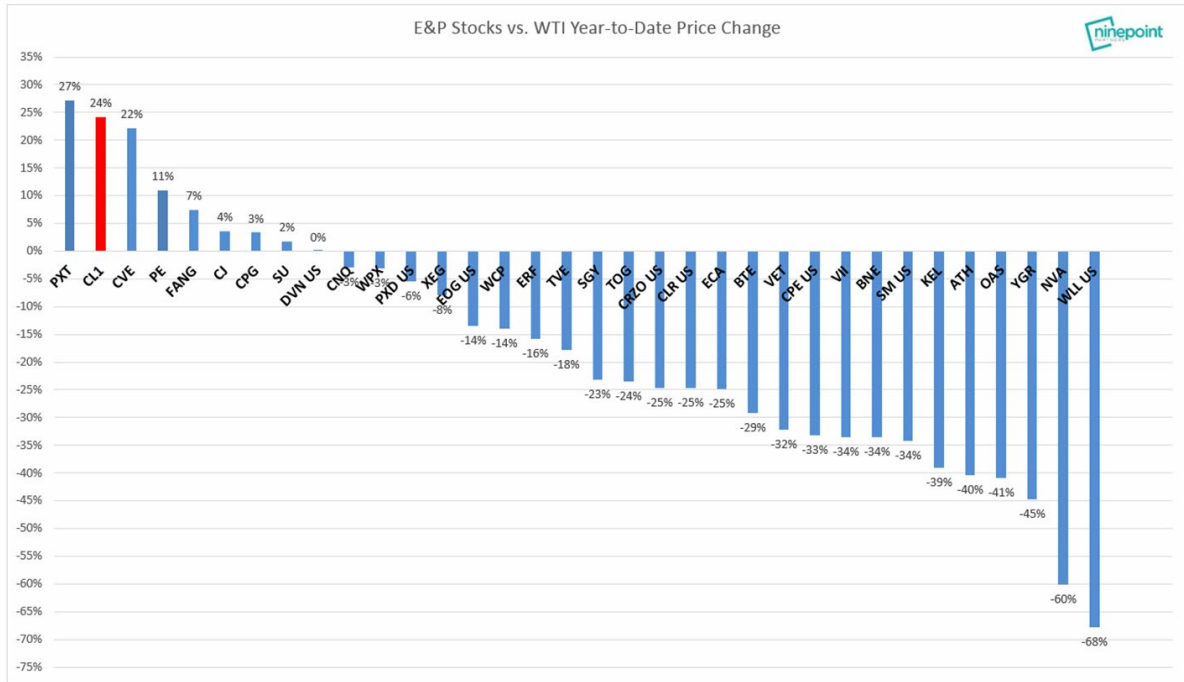
Source: Company Reports, Ninepoint Partners



Excludes value for land and seismic

Source: Company Reports, Ninepoint Partners

Given sound fundamentals yet deplorable sentiment we see several near-term catalysts that could shift sentiment in our favour, and with a 50%+ YTD performance gap between WTI versus many midcap stocks we see the potential for a meaningful Fall rally (coinciding with seasonal strength for crude oil):



Source: Bloomberg

Potential near-term catalysts:

- 1) Continued signs of US production growth deceleration
- 2) Lack of trade war rhetoric escalation and commensurate lessening of daily doomsday headlines which is killing sentiment
- 3) Canadian producers adopting meaningful share buyback programs in Q4/19 and 2020 given FCF yields of 20%+ and absolutely zero reward for growing their production
- 4) Pipeline progress: TMX shovels in the ground last Friday, KXL won their final significant court challenge, rail capacity is ramping by 150,000Bbl/d by YE, and pipeline throughput due to DRA and additional compression = 300,000Bbl/d of increased capacity (the WCS differential by the way is below \$17/bbl for the next 13 months)

The oil market is much tighter today than a \$56 price would suggest and with oil equities discounting ~\$45/bbl we see highly meaningful upside when the shift in sentiment occurs. In the meantime companies continue to generate mountains of free cash flow with which to pay down debt and buy back shares that are trading at discounts to their liquidation value.

Eric Nuttall
 Senior Portfolio Manager
 Ninepoint Energy Fund

NINEPOINT ENERGY FUND - COMPOUNDED RETURNS¹
 AS OF MARCH 31, 2020 (SERIES F NPP008)

	1M	YTD	3M	6M	1YR	3YR	5YR	10YR	15YR	INCEPTION
Fund	-63.5%	-74.7%	-74.7%	-71.0%	-71.9%	-46.9%	-32.6%	-17.0%	-11.0%	-7.4%
Index	-46.8%	-58.0%	-58.0%	-54.6%	-58.9%	-30.7%	-20.2%	-11.9%	-6.0%	-3.7%

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 July 31, 2019; 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.

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