



Ninepoint Flow-Through Update

Q4 2022 Commentary

Resource Market Update

The most impactful market events in 2022 were the Russian-Ukraine war, surging inflation, Fed tightening and China's Covid lockdowns. Early in the year, the Russian-Ukraine war drove both resource prices and resource equities higher. Supply side concerns were front and center since Russia is a net exporter of numerous commodities. However, the market quickly shifted focus to potential demand destruction as China repeatedly locked down major cities and the Fed tightened financial conditions to address inflation which hit multi decade highs. Resource equities gave up their early year gains and then some. The exception were energy stocks which continued to hit multi-year highs into May but then sharply reversed some of those gains as recession fears entered investors psyche.

Microcap resource stocks, which comprise the majority of flow-through portfolios, sold off disproportionately as broader markets corrected and the Fed's tightening reduced liquidity while sparking recession fears. And the worst performing sector amongst the microcap correcting equities were the gold microcap stocks, which constitute the vast majority of the flow-through investment universe. This is quite frustrating considering the performance of gold bullion. Gold bullion ended the year effectively flat in USD terms, returning -0.3% in 2022. In every other major currency gold bullion posted positive returns including a 6.8% return in Canadian dollars.

Looking forward there is a strong possibility of a Fed reversal in 2023 as the economy is likely to fall into recession. A dovish pivot would drive gold bullion and gold equities considerably higher. The Fed's **record** pace of tightening has been effective in slowing economic activity. Housing activity, as measured by the National Association of Homebuilders Market Index, has plummeted to levels last seen in April 2020, the COVID trough. ISM orders have been slumping since March 2021 with the index finally contracting in both November and December 2022. Globally, 75% of countries have manufacturing PMIs that are in contractionary territory. Earnings likely peaked in June 2022. Analysts are expecting S&P 500 fourth quarter profits to post their first year over year loss since the height of the COVID-19 pandemic in 2020. Declining profits will ultimately drive weaker employment, which is the predominant collection of economic data giving the Fed pause to halt rate hikes. Of course, employment is a lagging indicator. Nonetheless, this is the same Fed that persistently claimed inflation was transitory.

Although 2022 was difficult for resource equities, a lack of excess capacity and underlying supply side constraints will persist and should drive commodity prices higher over the medium to long term. Increasing political instability, lower quality deposits, lack of investment, onerous regulatory environments and ESG concerns have all conspired to impair the future supply of essential commodities such as oil, natural gas, base metals and other materials like uranium. This backdrop should limit any cyclical correction to the lower end of the historic range although the severity and duration of a downturn and subsequent recovery will be dependent on the magnitude of any economic downturn.

2021 Flow-Through Fund Update

The Ninepoint 2021 Flow-Through Limited Partnership and the Ninepoint 2021 Short Duration Flow-Through Limited Partnership funds are scheduled to proceed with a tax-deferred transfer of the assets of the Partnerships into Ninepoint Resource Fund Class. The Mutual Fund Rollover Transaction will take place on or about February 3, 2023, after the close of business. We have always stressed to clients that commodities and resource equities are incredibly volatile. Performance of the flow-through funds will range from spectacular to

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awful. After two years of posting double digit after-tax returns in the 2019 and 2020 flow-through limited partnerships, the small cap resource trade had a terrible 2022. While digesting the performance of the 2021 LPs, I would like to remind investors of my track record and the need to evaluate returns on an after-tax basis. I would also like to remind clients of the importance to remaining committed to the flow-through strategy during poorly performing periods because the product track record clearly illustrates the benefit of consistent participation.

ISSUE	After-Tax Return [±]	Ninepoint/Sprott [†]	Peer Group
2013 LP	23%	\$18.41	\$16.07 ¹
2014 LP	-17%	\$12.31	\$10.23 ²
2014 II LP	57%	\$24.77	\$11.60 ³
2015 LP	51%	\$24.09	\$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%	\$27.02	\$28.13 ¹⁴
AVERAGE	61%	\$22.19	\$17.68

[±] 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)

Investors are routinely fixated 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 2021 National and 2021 Short Duration fund on December 31, 2022 was \$10.22/unit and \$12.68/unit, respectively

The Ninepoint 2022 National Flow-Through Fund Update

The fund successfully raised \$58M in April 2022. 100% of the initial proceeds were invested by year end. 70% had been allocated to gold mining equities, 21% to base metal equities while uranium and other metals account for the balance. The portfolio currently consists of 51 companies with a weighted average market capitalization of \$170M. The weighted average premium paid was 8%.

As disclosed in the 2022 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. Note that this breakeven figure does not account for the additional tax credits for critical mineral exploration that was announced in the 2022 Canadian federal budget. 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 NAV on December 31, 2022 was \$12.59/unit.

The Ninepoint 2022 Short Duration Flow-Through Fund Update

The fund successfully raised \$24M in October 2022. 100% of the initial proceeds were invested by year end. 49% had been allocated to gold mining equities, 26% to uranium equities and 19% to base metal equities. The portfolio currently consists of 24 companies with a weighted average market capitalization of \$135M. The weighted average premium paid to date is 12%.

As disclosed in the 2022 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. Note that this breakeven figure does not account for the additional tax credits for critical mineral exploration that was announced in the 2022 Canadian federal budget. 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 NAV on December 31, 2022 was \$17.85/unit.

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

Series A NAV Details (\$) Per Unit as at December 31, 2022 (Before Tax)

Fund Name	NAV (Series A)
Ninepoint 2021 Flow-Through LP - National	\$10.22
Ninepoint 2021 Flow-Through LP - Quebec	\$6.40
Ninepoint 2021 Short Duration Flow-Through LP	\$12.68
Ninepoint 2022 Flow-Through LP - National	\$12.59
Ninepoint 2022 Flow-Through LP - Quebec	\$14.09
Ninepoint 2022 Short Duration Flow-Through LP	\$17.85

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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