Ninepoint Energy Fund Oil Playbook

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Step 1: Inventory Surplus Normalization

Investment Team

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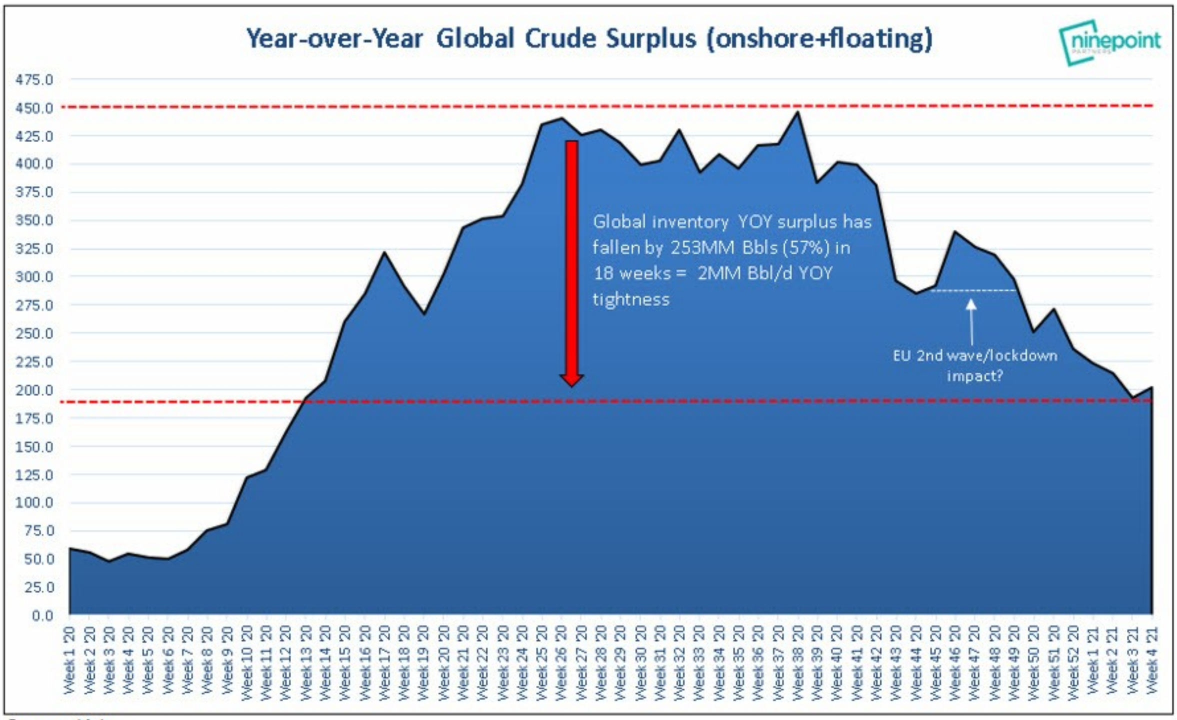
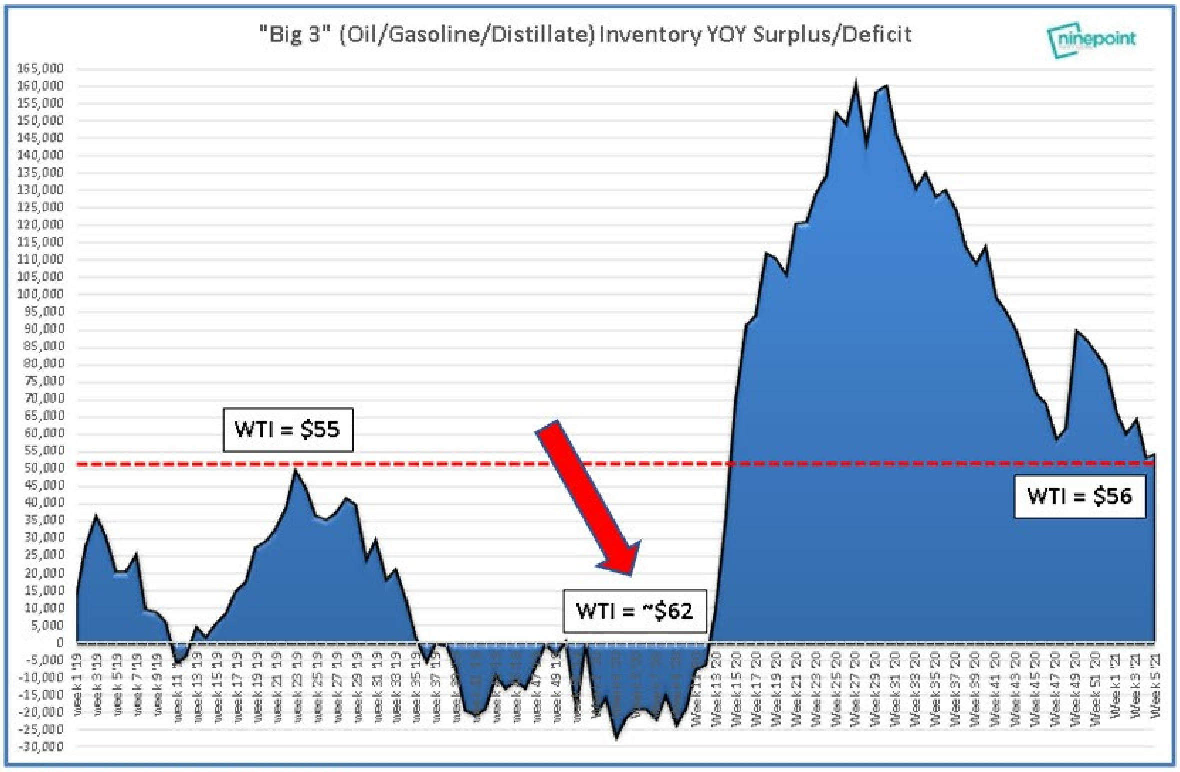
We track oil inventories very closely, both US and global as inventories are the nexus of supply and demand and are the best real-time indicator of an undersupplied/oversupplied market. Since inventories peaked ~ June 2020 from the COVID demand shock they have fallen by 57% globally to now 197MM Bbls falling at a pace of 2MM Bbl/d. This was before Saudi Arabia voluntarily decreased production by a further 1MM Bbl/d for February/March (i.e. 59MM Bbls). At the current pace we see normalized inventories by early Summer. The last time inventories were at such levels WTI was over $60WTI...hence our short-term target of $60WTI by Q3.



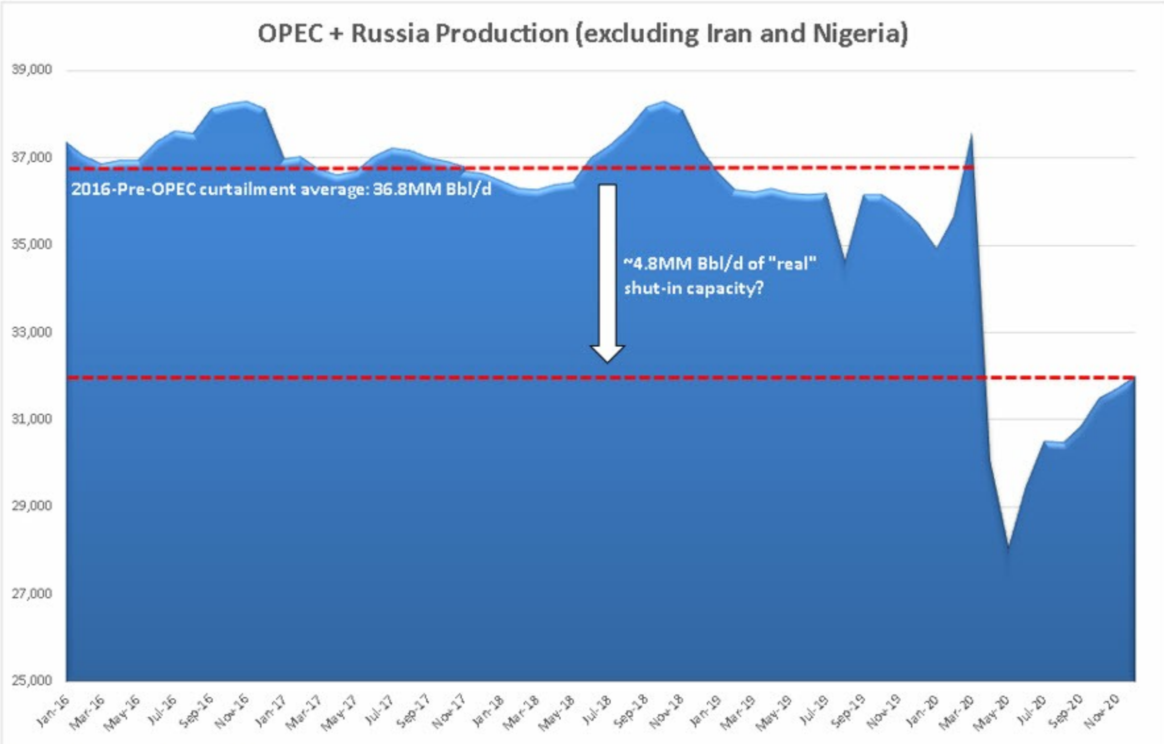
Source: Kpler



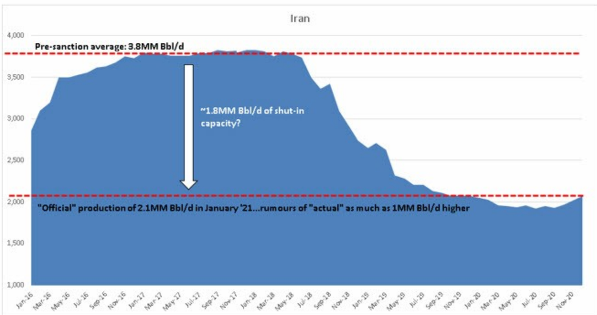
Source: US Energy Information Administration

Step 2: OPEC Spare Capacity Exhaustion

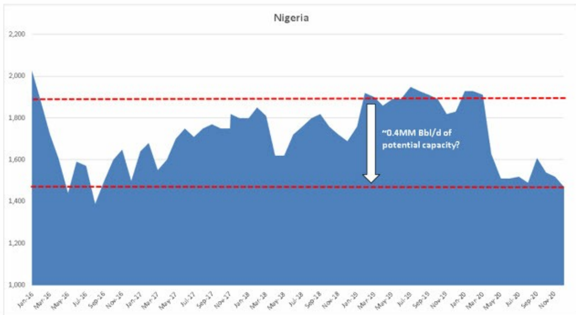
OPEC has about 5.2MM Bbl/d of shut-in production in addition to about 1.8MM Bbl/d of Iranian production shut-in due to trade sanctions which we expect to be softened this year (note: Iran is rumored to be exporting ~1MM Bbl/d higher than their official number via pipelines in Iraq and offshore ship-to-ship transfers). OPEC's primary goal is higher (yes still) oil prices as few of the member countries are going concerns in a sub $70 Brent world. We expect OPEC to gradually bring back shut-in production as demand normalizes in 2021. Why will demand normalize? Because it already has in much of the world! Oil demand in China, India, and Brazil are generally back to pre-COVID levels and we expect Europe and the United States to achieve this milestone by YE'21 as vaccine rollouts accelerate. You may think OPEC adding barrels to the market is a negative price signal…it is the opposite! OPEC has not been able to invest in additional capacity due to distressed revenue over the past several years due to oil's collapse. Once shut-in production is returned OPEC will effectively be out of spare capacity…this is the most bullish scenario one can imagine.



Source: Bloomberg, Ninepoint Partners



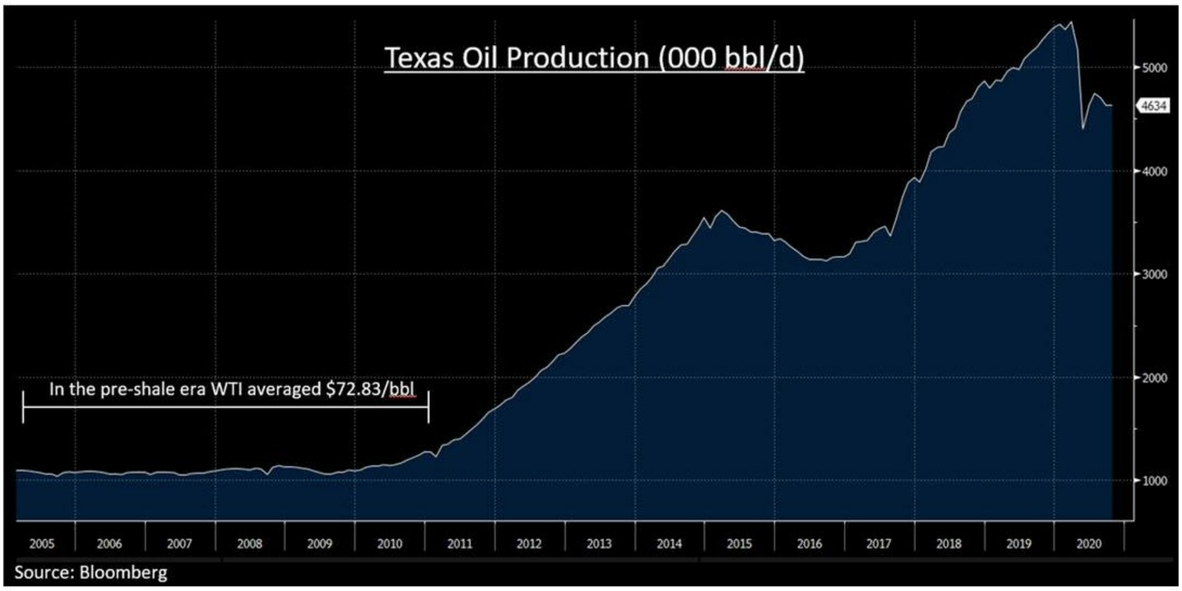
Source: Bloomberg, Ninepoint Partners



Source: Bloomberg, Ninepoint Partners

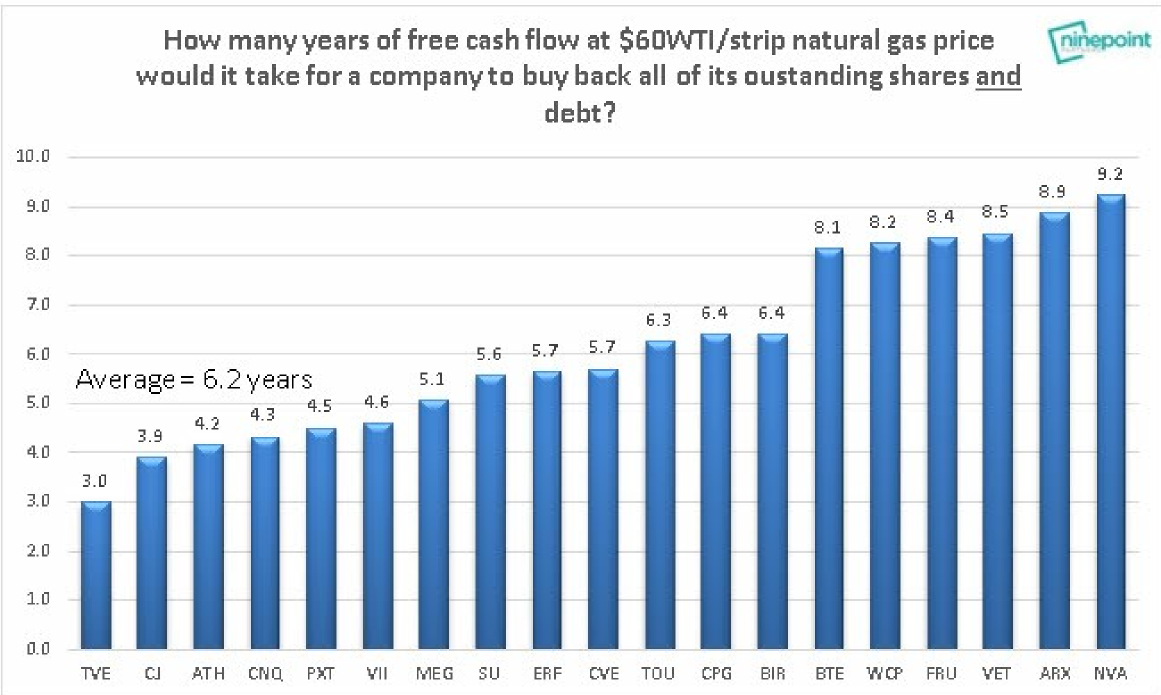
Step 3: We Enter a Post-shale World in 2022

Before US shale production the world relied on long-cycle (4-6 year lead time) projects and without US shale non-OPEC production growth would have been slightly negative over the past 5 years while demand grew by 6MM Bbl/d (pre-COVID). Given enormous pressure to prioritize return of capital over production growth we believe the era of meaningful US shale production growth is over. The years of hyper growth were achieved by spending 140% of cashflow...today companies are pledging to spend only 70% with the remaining 30% going towards deleveraging and investor returns. We are in a completely different world going forward. Further, this is year 6 of the global supermajors insufficiently investing in new projects while facing a 7%-10% offshore decline rate hence we believe non-OPEC/US production is entering a multi-year period of declines. The oil price pre-US shale averaged $72 and was for a period of time over $100/bbl. The setup today is no less bullish than then.

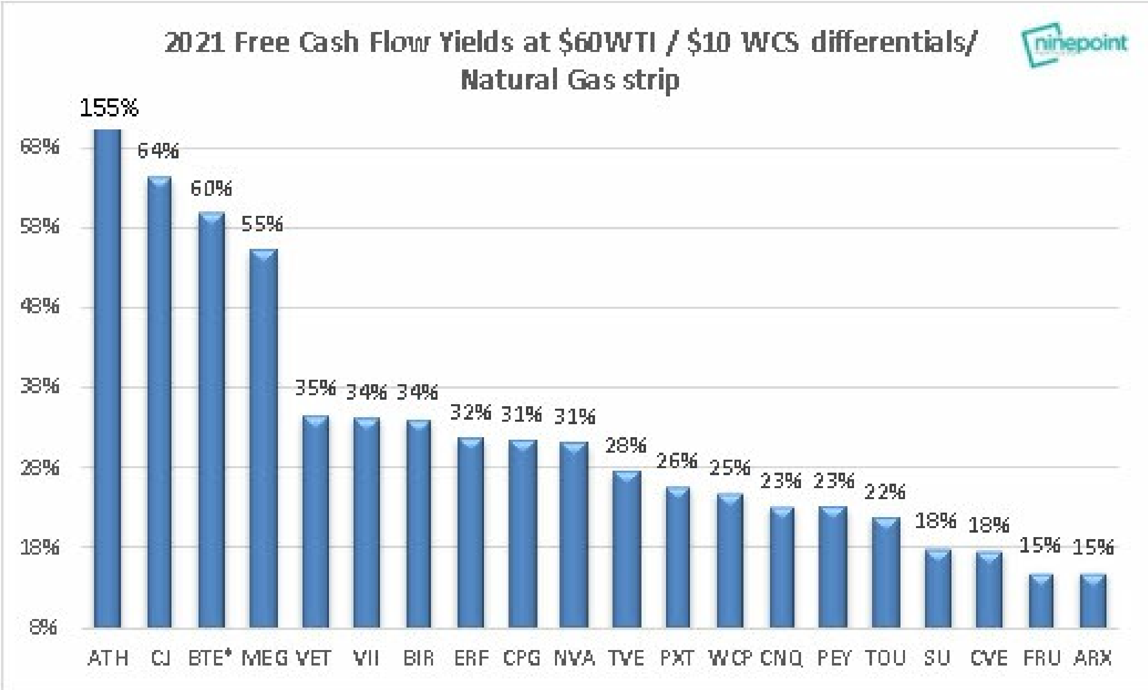


Step 4: The Re-Rate

Our forecasts for $60WTI are no longer as heretical as they appeared in early 2020 with Goldman Sachs, JP Morgan, Morgan Stanley, RBC, and others joining us. Using $60WTI energy stocks are trading at generational lows with many at 1/3 of historical cashflow multiples and at 30%+ free cash flow yields. Such valuations will not last. Despite the sharp rally from the lows we still see many stocks with over 100% upside in using $60WTI.

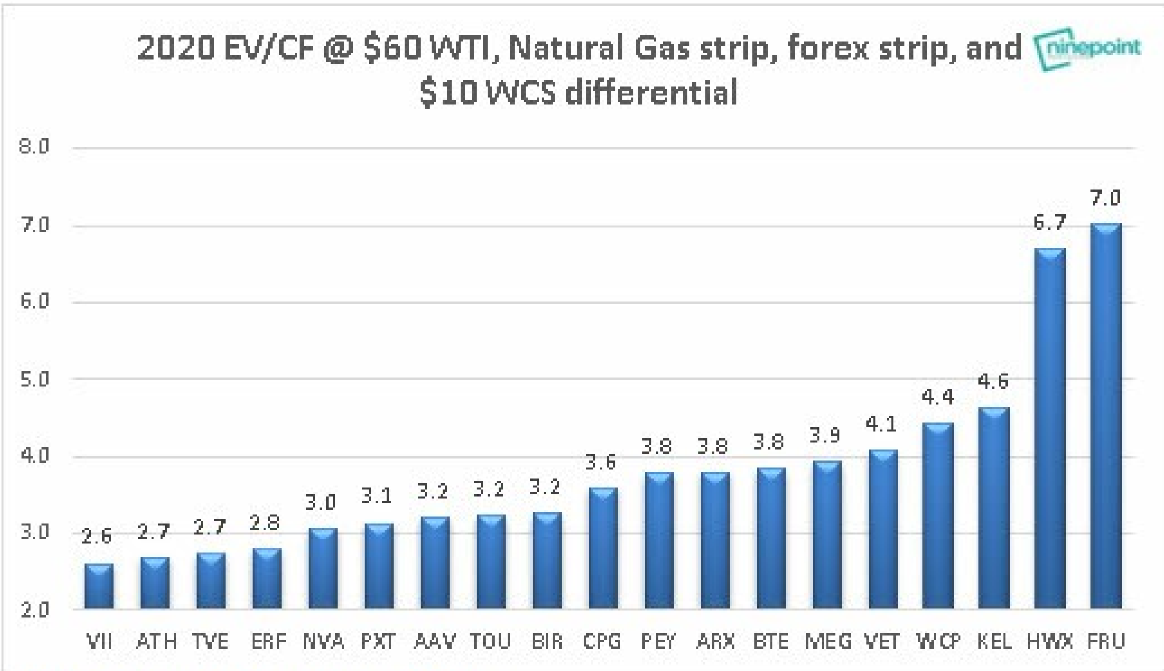


Source: Ninepoint Partners
Assumptions: $60WTI, strip natural gas and USD/CAD exchange, $10WCS differentials, before hedge programs
For illustrative purposes only



Free cash flow = operating cash flow (pre-hedging) minus capex required to keep production flat.* = BTE is pre-hedges

Source: Bloomberg, Ninepoint Partners (for illustrative purposes)
For illustrative purposes only



Source: Bloomberg, Ninepoint Partners
For illustrative purposes only / does not include hedging impact

Conclusion

IT IS NOT TOO LATE BUT THE WINDOW IS CLOSING. The energy sector was one of the biggest losers from COVID19 in 2020…does it not make sense that it will be one of the largest beneficiaries in 2021 as vaccine rollout leads to a normalizing economy? The Ninepoint Energy Fund has achieved maximum upside capture in 2020 and YTD and is ideally positioned for the improving oil fundamentals that get better by the day. Why would you try to choose energy stocks yourself when we live and breathe this sector, have relationships that allow us to do things like buy 9.9% of Athabasca Oil from Equinor at a distressed price and see it rally by 120% in 1.5 weeks, have large embedded tax losses in the Fund, and dynamically reweight positions on a constant basis?

Our performance speaks for itself.

Eric Nuttall
Senior Portfolio Manager
Ninepoint Partners

NINEPOINT ENERGY FUND - COMPOUNDED RETURNS[1] AS OF JANUARY 31, 2021 (SERIES F NPP008)

	1MTH	YTD	3MTH	6MTH	1YR	3YR	5YR	10YR	15YR	INCEPTION
FUND	2.8	2.8	57.6	61.4	0.7	-15.6	-7.4	-9.2	-5.9	-0.4
INDEX	0.9	0.9	41.9	22.6	-27.1	-18.4	-7.9	-9.7	-6.0	-0.9

[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 January 31, 2021. The index is 100% S&P/TSX Capped Energy TRI 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: 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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