Ninepoint Energy Fund Market View

June 22 2018

Investment Team

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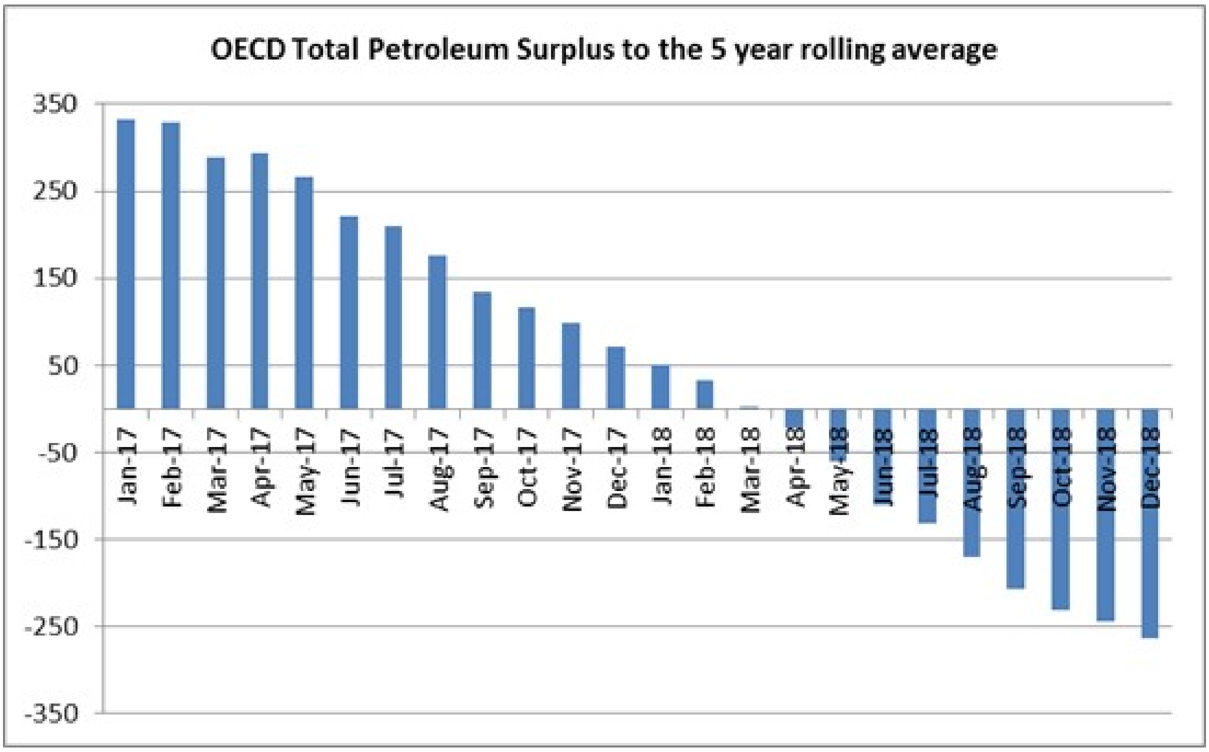
OPEC has agreed to an effective ~0.6MM Bbl/d production increase that will eliminate the "over compliance" or "under production" relative to the original quota struck by OPEC in 2016. I would remind you that Venezuela continues to implode (falling 60,000Bbl/d per month) and the impact of Iranian export restrictions is just beginning to be felt (likely to ultimately amount to a ~1MM Bbl/d loss of exports) so today's increase will likely not fully offset these two factors and as such the oil market should continue to further tighten. **Today's announcement is the best case scenario for the oil market**.

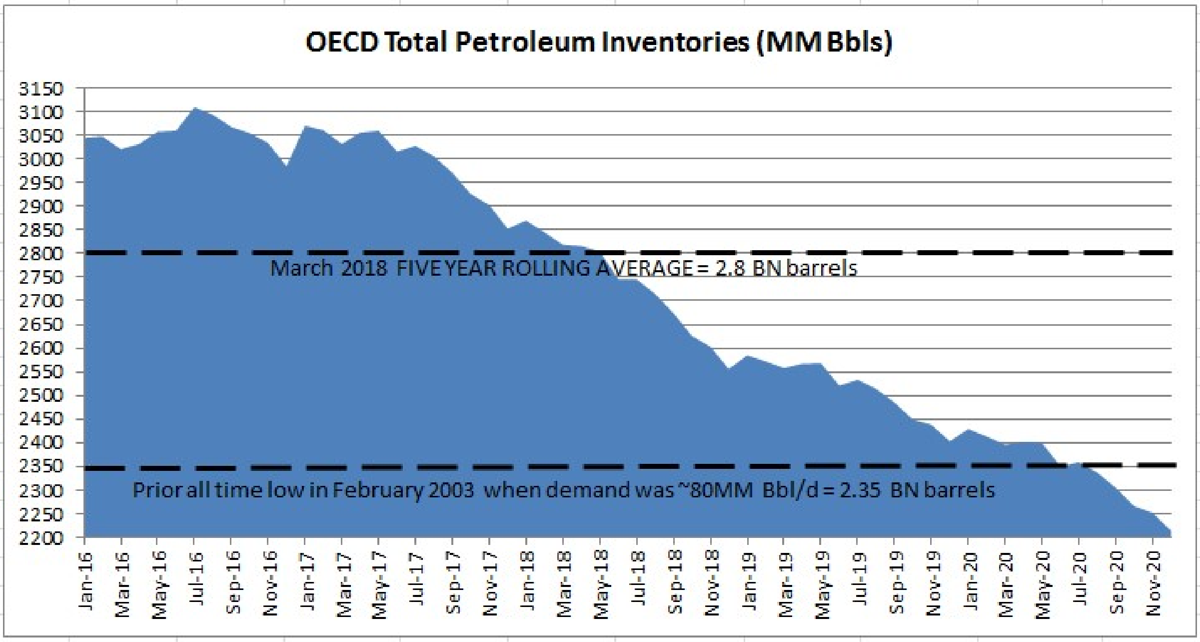
Today's announcement also has a more subtle and less obvious bullish signal. Why is OPEC now increasing production? It is simply because the oil market is extremely tight/undersupplied and OPEC acknowledges the trend that we have been writing about over the past several months: inventories were on a path to go from a 330MM barrel glut (January 2017) to a 325MM barrel deficit by December 2018 and would likely have resulted in a price spike (not in anyone's best long term interests). Our initial take at modelling the incremental production now suggests that the deficit relative to the 5 year average will hit 250MM Bbls by YE'18 versus 325MM barrels previously. As today's action simply moves some of the barrels that we had assumed would come online in 2019 to late 2018 our medium and long term thesis on oil is unchanged. Again, implicit in these numbers is no impact from further erosion in Venezuela nor any impact from Iran and thus we are effectively embedding a 1.5MM Bbl/d safety cushion in our assumptions:

Global Oil Balances	2018	2019	2020
Beginning of year undersupply	0.7	0.5	0.1
Add: Demand Growth	1.8	1.6	1.4
Total amount of required supply growth to reach balance	2.5	2.1	1.5
US Supply Growth	1.2	1.2	1.2
OPEC+Russia Supply Growth	0.6	0.9	0.3
Political Disruptions (Iran, Venezuela)	0	0	0
Non-OPEC/US Supply Growth	0.2	-0.1	-0.2
Total estimated supply growth	2.0	2.0	1.3
End of year market balance	-0.5	-0.1	-0.2
Units: MM Bbl/d; Source: Ninepoint Partners			

Source: Ninepoint Partners



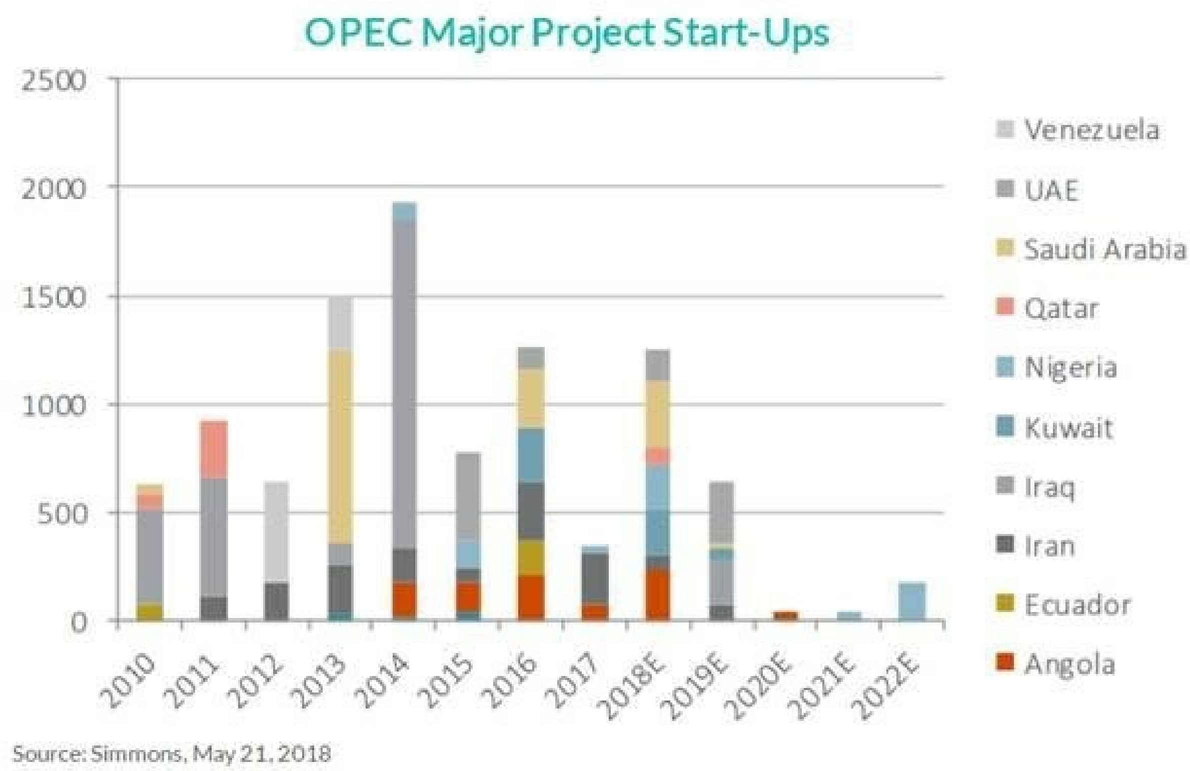
Source: Ninepoint Partners



Source: Ninepoint Partners

<u>The market's focus should now turn to spare capacity</u>. If one accounts for the difference between current production levels within OPEC+Russia versus their previous high going back 2.5 years the difference is an underproduction of 3.5MM Bbl/d. Adjusting this number for countries that while producing below their previous highs lack the ability to increase production due to political reasons (Venezuela, Iran, Nigeria, Libya) results in a real "effective latent production potential" of

1.7MM Bbl/d. As the action today will reduce this number by 0.6MM Bbl/d OPEC's spare capacity will fall to 1.1MM Bbl/d = ~1% of global production. <u>The last time effective spare capacity was this low coincided with the last oil price spike to $147/bbl</u>. **This is incredibly important, especially in the context of underinvestment in long lead (4-6 year) projects resulting in OPEC only have the ability to organically grow production by 0.1MM Bbl/d per year until 2023**.



Oil has fallen from $72 to $65 over the past month due to uncertainty around today's outcome. We would expect oil to over the next few days begin to recoup much of these losses. Over the same time frame the average Fund holding has fallen 15% from their recent highs and we would expect over the near-term as investors "gross up" their energy exposure much/all of these losses to be regained.

Oil remains in a multi-year bull market and we believe will hit $100/bbl in 2020. If you haven't read our May Commentary in which we go through our thesis it is worth the 10-15 minutes. Click here to read. **Using $80/bbl we see 106% upside in Fund holdings**.

Eric

OPEC Production at Peak Level	35,144
Current Level	31,900
Difference	3,244
Less: Red Countries	1,814
Implied Max Theoretical Latent OPEC Productive Capacity	1,430
Add: Russia	301
Total Theoretical OPEC +Russia Latent Productive Capacity	1,731
Less: Announced "real" production increase June 22, 2018	600
Implied Spare Capacity	1,131

OPEC Monthly Production (MBpd)																		
	Algeria	Angola	Ecuador	Iran	Iraq	Kuwait	Qatar	Saudi Arabia	U.A.E	Venezuela	Gabon	Equatorial Guinea	OPEC Production ex. Libya and Nigeria	MOM Difference	Libya	Nigeria	Total OPEC	Russia
May-18	1,020	1,530	520	3,810	4,480	2,710	600	10,010	2,870	1,440	180	120	29,290	160	990	1,620	31,900	10,997
Apr-18	990	1,500	520	3,750	4,430	2,700	610	9,900	2,860	1,550	190	130	29,130	-63	990	1,810	31,930	10,975
Mar-18	1,000	1,570	513	3,810	4,430	2,700	610	9,870	2,860	1,510	190	130	29,193	-160	990	1,850	32,033	11,023
Feb-18	1,040	1,600	513	3,830	4,430	2,700	620	9,880	2,800	1,610	200	130	29,353	-220	1,050	1,800	32,203	11,005
Jan-18	1,020	1,620	513	3,830	4,430	2,710	600	9,960	2,850	1,710	200	130	29,573	-107	980	1,800	32,353	11,011
Dec-17	1,030	1,640	520	3,800	4,420	2,690	610	9,950	2,880	1,810	200	130	29,680	-40	970	1,820	32,470	10,965
Nov-17	1,010	1,610	520	3,820	4,390	2,700	600	9,970	2,910	1,860	200	130	29,720	-100	1,000	1,750	32,470	11,005
Oct-17	1,020	1,710	530	3,810	4,350	2,750	570	10,010	2,910	1,860	190	110	29,820	-260	980	1,750	32,550	10,997
Sep-17	1,040	1,640	540	3,830	4,470	2,720	610	10,000	2,930	1,970	210	120	30,080	10	920	1,770	32,770	10,970
Aug-17	1,060	1,680	530	3,790	4,490	2,710	610	10,000	2,920	1,970	200	130	30,070	-60	890	1,750	32,710	11,124
Jul-17	1,060	1,680	530	3,790	4,500	2,700	610	10,030	2,910	1,970	200	150	30,130	60	1,010	1,710	32,850	11,003
Jun-17	1,060	1,670	530	3,760	4,480	2,710	620	10,020	2,900	1,970	200	150	30,070	240	840	1,750	32,660	11,012
May-17	1,040	1,630	530	3,760	4,420	2,710	620	9,930	2,860	1,980	200	150	29,830	-65	760	1,700	32,290	11,019
Apr-17	1,040	1,660	530	3,760	4,410	2,700	615	9,950	2,900	1,980	200	150	29,895	(20)	550	1,600	32,045	11,061
Mar-17	1,040	1,630	530	3,785	4,430	2,705	610	9,940	2,915	2,000	180	150	29,915	(150)	620	1,550	32,085	11,135
Feb-17	1,040	1,690	535	3,780	4,440	2,710	620	9,940	2,950	2,030	180	150	30,065	15	700	1,680	32,445	11,195
Jan-17	1,040	1,670	530	3,800	4,490	2,710	615	9,870	2,950	2,030	195	150	30,050	(1,110)	690	1,640	32,380	11,186
Dec-16	1,110	1,670	550	3,730	4,630	2,860	620	10,480	3,070	2,080	210	150	31,160	(170)	630	1,500	33,290	11,223
Nov-16	1,120	1,690	550	3,750	4,620	2,910	620	10,530	3,060	2,120	210	150	31,330	70	580	1,650	33,560	11,294
Oct-16	1,130	1,520	560	3,680	4,590	2,960	620	10,580	3,130	2,140	200	150	31,260	(160)	520	1,600	33,380	**11,298**
Sep-16	1,110	1,730	560	3,630	4,540	2,940	640	10,600	3,110	2,200	210	150	31,420	80	340	1,500	33,260	11,174
Aug-16	1,110	1,770	550	3,620	4,480	2,930	660	10,640	3,030	2,190	210	150	31,340	230	260	1,390	32,990	10,794
Jul-16	1,080	1,760	550	3,560	4,410	2,860	680	10,660	3,000	2,200	220	150	31,110	280	300	1,570	32,980	10,964
Jun-16	1,080	1,750	550	3,530	4,350	2,900	660	10,470	2,920	2,250	220	150	30,830	400	320	1,590	32,740	10,939
May-16	1,090	1,740	550	3,500	4,370	2,830	650	10,260	2,860	2,210	220	150	30,430	(10)	280	1,440	32,150	10,922
Apr-16	1,100	1,800	560	3,500	4,420	2,770	670	10,200	2,800	2,250	220	150	30,440	509	310	1,610	32,360	10,908
Mar-16	1,100	1,780	551	3,200	4,150	2,860	650	10,190	2,760	2,320	220	150	29,931	(52)	330	1,720	31,981	10,909
Feb-16	1,110	1,801	551	3,100	4,200	2,850	650	10,200	2,820	2,331	220	150	29,983	(128)	370	1,889	32,242	10,990
Jan-16	1,100	1,751	534	2,860	4,510	2,860	650	10,200	2,930	2,346	220	150	30,111		370	2,028	32,509	10,922
Avg. of first 6 months of 2016	1,097	1,770	549	3,282	4,333	2,845	655	10,253	2,848	2,285	220	150	30,288		330	1,713		10,945
First 6 month avg vs. peak	13	(40)	11	348	207	95	(15)	347	262	(85)	(10)	0	1,133					
Diff. now vs. peak month	(90)	(200)	(40)	180	(60)	(230)	(40)	(590)	(240)	(760)	(30)	(30)	(2,130)		650	120		301
OPEC QUOTA	1,039	1,673	522	3,797	4,351	2,707	618	10,058	2,874	1,972	193	121	29,925		826	1,572	32,323	
+/- vs. quota	(19)	(143)	(2)	13	129	3	(18)	(48)	(4)	(532)	(13)	(1)	(635)		164	48	(423)	
Compliance	102%	109%	100%	100%	97%	100%	102%	100%	100%	137%	107%	101%	102%		83%	97%	101%	
Current Oil Production	1,020	1,530	520	3,810	4,480	2,710	600	10,010	2,870	1,440	180	120	29,290		990	1,620	31,900	10,997
Highest Production Level in the past 2.5 years	1,130	1,800	560	3,830	4,630	2,940	670	10,660	3,130	2,346	220	150	32,066		1,050	2,028	35,144	11,298
Difference	**110**	**270**	**40**	**20**	**150**	**230**	**70**	**650**	**260**	**906**	**40**	**30**	**2,776**		**60**	**408**	**3,244**	**301**

Source: Bloomberg - manual entry; Russian data is Energy Intelligence from Bloomberg

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Source: Bloomberg, Energy Intelligence

NINEPOINT ENERGY FUND - COMPOUNDED RETURNS[1] AS OF JULY 31, 2022 (SERIES F NPP008) | INCEPTION DATE: APRIL 15, 2004

	1M	YTD	3M	6M	1YR	3YR	5YR	10YR	15YR	I
Fund	6.5%	46.8%	0.8%	19.3%	112.3%	59.4%	22.4%	8.2%	2.8%	
S&P/TSX Capped Energy TR	4.1%	47.8%	-0.6%	25.5%	97.8%	25.8%	9.6%	2.8%	0.4%	

[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, 2018; 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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small capitalization natural resource company risk; specific issuer risk; tax risk.

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