Ninepoint Energy Fund Market View

September 16, 2019

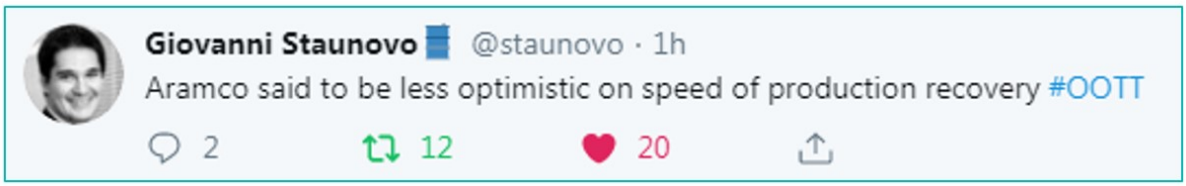
Investment Team

Eric Nuttall, CIM
Partner, Senior Portfolio Manager

What does Saturday's attack mean for energy stocks?

On Saturday morning, the Abqaiq oil processing facility in Saudi Arabia, described as the most important piece of oil infrastructure in the world, as well as the Khurais oil field were hit by either explosive laden drones or cruise missiles. Significant damage was incurred and Saudi Arabian productive capacity fell by about 5MM Bbl/d (ie. 5% of world oil supply). This is the largest and most important energy geopolitical event in modern history and should not be discounted as a short-term "sell the news" type of event.

It is unclear how long it will take to restore production as initially it was " a matter of days" but now headlines this morning indicate that Saudi Aramco is less confident in that assertion and that it could take weeks.

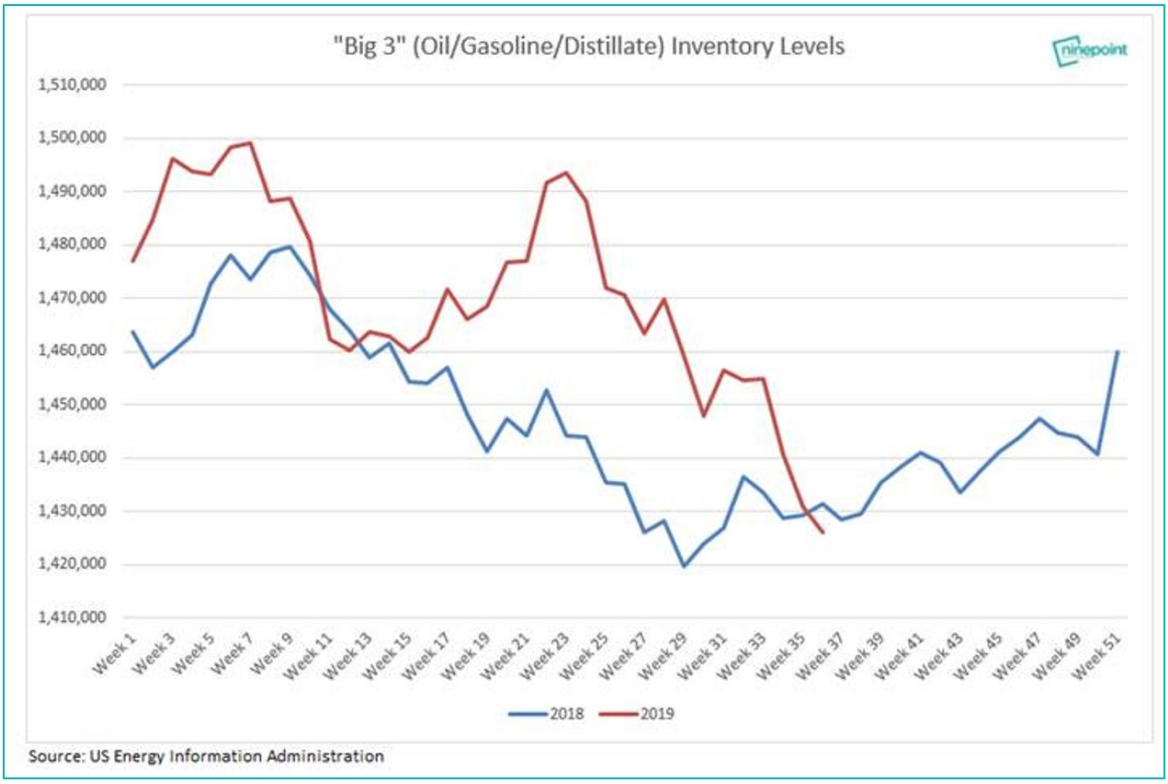


What are the implications of this event to oil and energy stocks in the short and medium term?

Short-term

1) Oil had fallen from $58/bbl to $54/bbl on worries that Trump was about to soften Iranian oil sanctions and allow for ~0.7MM Bbl/d to return to the market. With Secretary Pompeo directly blaming Iran for this attack and headlines out now saying that Trump and Rouhani will NOT be meeting at the United Nations this possibility seems incredibly unlikely. If anything Trump's resolve at effecting regime change will only be strengthened. With oil only just recouping these "Iranian-fear losses" the oil price is only up ~$2/bbl while having 5% of global supply offline which looks like an underreaction.

2) It appears that Saudi exports will not be impacted in the short-term as they have adequate emergency inventories around the world (1 month of supply). An inevitable SPR release will take about 2 weeks to become effected and an unlikely US shale response would take 3-6 months (not happening given our much discussed producer focus on return of capital). However, a barrel lost today and removed from inventories has to be replaced in the future so this interruption does serve to further tighten the oil market (which had already been showing signs of tightness over the past several months).



Medium term

1) Trump tweeted on Sunday that he had expedited approval of all pipelines in queue. This should bode well for Line 3 and Keystone XL. Why? **The most important dynamic of Saturday's event was not the short-term loss of supply. Rather, it was that the holder of the majority of the world's spare capacity is not impregnable to supply disruptions**. With US shale growth rates on the decline this new paradigm on Saudi Arabia should meaningfully improve the strategic importance of Canadian supply to the United States. This has important read throughs not just on the likelihood of infrastructure approvals but also on the valuation that one places on oil sand companies (which are still trading at their lowest valuation levels in history).

First Squawk @FirstSquawk · 14h

TRUMP SAYS HE HAS INFORMED ALL APPROPRIATE U.S. AGENCIES "TO EXPEDITE APPROVALS OF THE OIL PIPELINES CURRENTLY IN THE PERMITTING PROCESS IN TEXAS AND VARIOUS OTHER STATES"

2) Investors have been struggling to find reasons for why they had to care about the energy sector (that had fallen to near irrelevant index weightings.... 4.4% weight in the S&P500 and around 15% in the TSX). We will see significant momentum buying today along with short covering that will propel stocks significantly higher (we have many holdings +10% in pre-market trading). It is very possible that this positive momentum will beget more momentum which **will set off the "Fear of missing out" in the generalist investor community which DOES NOT OWN ENERGY. This sector is extremely under owned!!!! There will be no liquidity at the open and names will gap up as what was a buyers strike will turn into a sellers strike.**

Important concluding points:

1) The energy sector is very, very under owned. Money has been hiding in Suncor and CNQ. No one ones CDN midcap oil stocks (other than us) and the valuations are incredibly compelling. We were already seeing positive divergence last week where names were beginning to rally despite oil falling. Today will be napalm to that trend.

2) This event will ignite quant buying (20% of AUM in the US) which will ignite "fear of missing out" and bring generalist money off the sidelines – critical!

3) Energy stocks were discounting ~ $47WTI as of Friday and trading at their lowest valuations levels in history. 2020 strip is $55.

4) To get back to a fraction of historical valuations many energy stocks and Fund holdings are likely doubles or more

5) This is not a short term "sell the news" type of event. An enduring political risk premium will be introduced into the oil price

6) The value of Canadian production and security of supply just went up meaningfully. Equity valuations will reflect this.

The Ninepoint Energy Fund is perfectly positioned for this event. We own strategic positions in meaningfully undervalued midcap energy stocks which people will be tripping over themselves to try to buy today. We are not sellers. We view this weekend as an important turning point in sentiment.

Reach out directly with any questions.

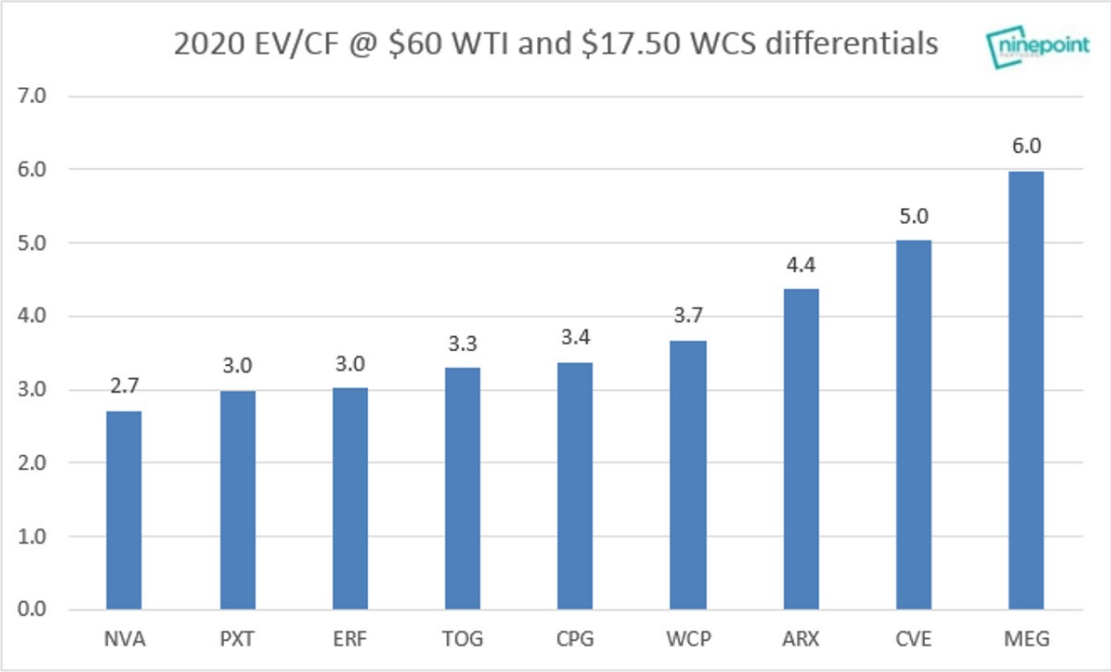
Eric

Addendum – September 16, 2019 11:11AM

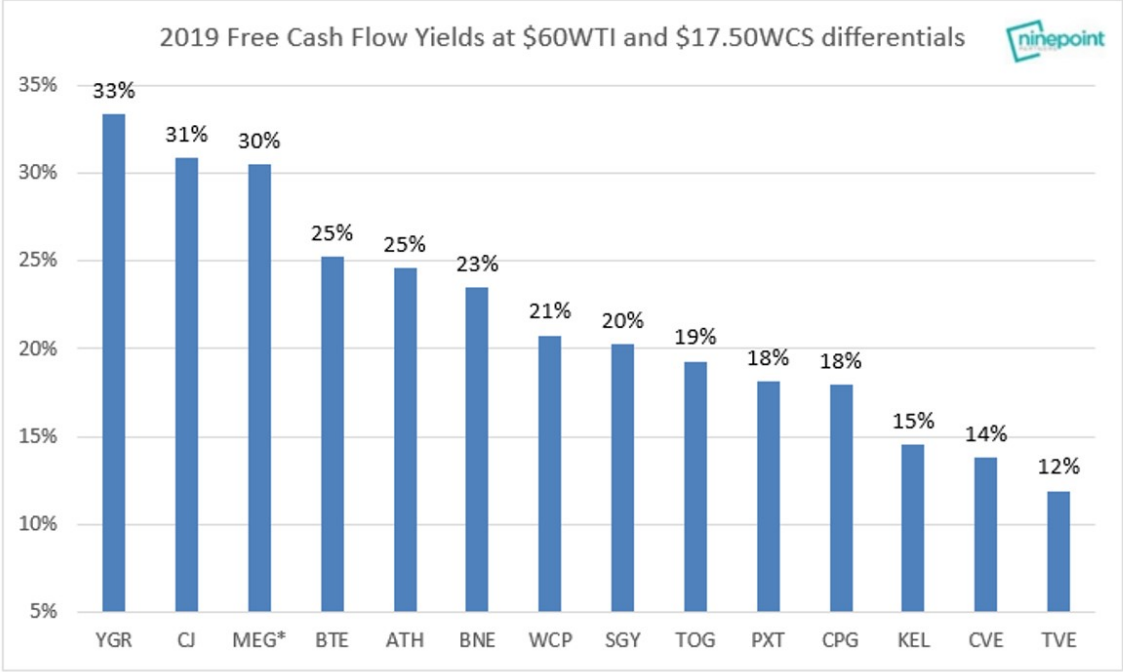
Indications from several sources are now indicating that damage at the Abqaiq facility are worse than originally reported. 5.7MM Bbl/d of production is currently offline. Saudi has 190MM Bbls in

storage which = 27 days of inventories at a 7MM Bbl/d export level. There is a very real prospect that Saudi Arabian storage levels will run dry in the coming months. This is historic. I cannot emphasize this enough. Saturday's strike was the biggest geopolitical event in the energy markets in modern history. Anyone who believes today is a "sell the news" type of event is uninformed. Stocks rallied hard at the open and then endured some short term profit taking. This is a gift to new money. I strongly believe today marks the beginning of what will be a very powerful rally in energy stocks. We came into the weekend with the worst possible sentiment and the lowest valuations in history despite oil having rallied by 27% YTD. We were suffering from a SENTIMENT problem...not a FUNDAMENTAL one. Today fixes that. Further, there are more and more indications that the strike did not come from Yemen and was highly targeted (19 points of contact) using Iranian weaponry. How can there not be a military retaliatory strike? At current oil prices stocks are trading at 33%-50% of their historical valuation levels and at 15%+ free cash flow yields. Once the market figures out that Saturday's strike is not a one or two day event but rather one of several months (with an enduring political risk premium beyond that) I think we will look back on today as the beginning of a very powerful rally in energy stocks.

We are positioned to maximumly benefit from this call.



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

Source: Bloomberg

NINEPOINT ENERGY FUND - COMPOUNDED RETURNS[1] AS OF JUNE 30, 2023 (SERIES F NPP008) | INCEPTION DATE: APRIL 15, 2004

	1M	YTD	3M	6M	1YR	3YR	5YR	10YR	15YR	INCEP
Fund	1.1%	-9.9%	-6.6%	-9.9%	-1.5%	83.1%	15.3%	7.7%	-0.4%	6.8%
S&P/TSX Capped Energy TR	4.3%	-5.0%	-0.8%	-5.0%	3.0%	48.7%	5.7%	2.6%	-1.3%	4.5%

[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 August 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.

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.

Ninepoint Partners LP is the investment manager to the Ninepoint Funds (collectively, the "Funds"). Commissions, trailing commissions, management fees, performance fees (if any), other charges and expenses all may be associated with mutual fund investments. Please read the prospectus carefully before investing. The indicated rate of return for series F units of the Fund for the period ended August 31, 2019 is based on the historical annual compounded total return including changes in unit value and reinvestment of all distributions and does not take into account sales, redemption, distribution or optional charges or income taxes payable by any unitholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. The information contained herein does not constitute an offer or solicitation by anyone in the United States or in any other jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation. Prospective investors who are not resident in Canada should contact their financial advisor to determine whether securities of the Fund may be lawfully sold in their jurisdiction.

The opinions, estimates and projections ("information") contained within this report are solely those of Ninepoint Partners LP and are subject to change without notice. Ninepoint Partners makes every effort to ensure that the information has been derived from sources believed to be reliable and accurate. However, Ninepoint Partners assumes no responsibility for any losses or damages, whether direct or indirect, which arise out of the use of this information. Ninepoint Partners is not under any obligation to update or keep current the information contained herein. The information should not be regarded by recipients as a substitute for the exercise of their own judgment. Please contact your own personal advisor on your particular circumstances. Views expressed regarding a particular company, security, industry or market sector should not be considered an indication of trading intent of any investment funds managed by Ninepoint Partners. Any reference to a particular company is for illustrative purposes only and should not to be considered as investment advice or a recommendation to buy or sell nor should it be considered as an indication of how the portfolio of any investment fund managed by Ninepoint Partners is or will be invested. Ninepoint Partners LP and/or its affiliates may collectively beneficially own/control

1% or more of any class of the equity securities of the issuers mentioned in this report. Ninepoint Partners LP and/or its affiliates may hold short position in any class of the equity securities of the issuers mentioned in this report. During the preceding 12 months, Ninepoint Partners LP and/or its affiliates may have received remuneration other than normal course investment advisory or trade execution services from the issuers mentioned in this report.

Ninepoint Partners LP: Toll Free: 1.866.299.9906. DEALER SERVICES: CIBC Mellon GSSC Record Keeping Services: Toll Free: 1.877.358.0540