March 30, 2023

I had the good fortune last week in meeting Eric Nuttall, the Partner and Senior Portfolio Manager for the NinePoint Energy Fund. Eric has received industry awards recognizing his top performance as an industry specialist, in fact his Mutual Fund had the world's best performance than any other energy fund. I had the opportunity to speak with Eric specifically about the current issues impacting the Oil and Gas industry.

The following is a collection of his answers to questions I asked of him, and information distributed by NinePoint Energy Fund at the March 28th presentation when he addressed the Investment Advisors and other Portfolio Managers here in Ottawa.

The takeaway overall is that Eric believes that we are in a multi-year bull market for oil that will last 6+ years and result in oil and energy stocks trading at all time highs. He believes that energy stocks (still) represent a generational opportunity given severely depressed valuations caused by energy ignorance. Even at the current ($70 WTI), meaningful upside still exists offering free optionality on higher oil prices.

2022/early 2023 - Climbing the wall of worry

-Largest SPR (Strategic Petroleum Reserves) release in history (260MM Bbl globally) aimed at offsetting a reduction in Russian oil production that never occurred.

-China Covid Zero Policy lasted much longer than thought, impacting demand by 0.5-1.0 MM Bbl/d

-EU embargo on Russian crude imports resulted in a surge in Russian exports pre-implementation

-Banking "crisis" panic induced crude futures liquidation (117 MM barrels…largest 1 week drop since September 2020)

-Despite China largely remaining under lockdown (0.5- 1MM Bbl/day hit) and the largest release from Strategic petroleum reserves in history (260MM Bbls)…inventories fell by 206MM Bbls. What happens in 2023 with China opening and SPR releases largely over? US "Big 3" inventories have continued to fall despite the largest release from SPR reserves in history and softened gasoline demand.

-Assuming China opens up in 2023, global demand growth of 2MM Bbl/d (China~ 42% of that) would lead to historic lows for global stockpiles adjusted for demand.

- The US SPR is now down to levels last seen 40 years ago, and while China inventories sit above pre-covid levels, we do not anticipate a "mass release" as they are not driven by 4 year election cycles and normalized demand is higher than pre-covid levels.

- Even under an extreme scenario of rapid electric vehicle/hydrogen adoption and moderating GDP growth, global oil demand still grows to the mid 2030's.

- ARAMCO chief warns of possible oil supply shortages, as Chinese demand set to surge- Source: CNBC, January 18, 2022.

-Investment in new productive capacity has been insufficient for years, stifled by the need to repair balance sheets, satisfy investors with dividend increase, and invest in decarbonization initiatives.

<u>Conclusion-</u>

If supply growth remains structurally challenged due to insufficient investment with 4-6 year long-cycle time, and short-cycle US shale growth has peaked due to geologic maturity/investor demand for "returns", then inventories will continue to fall as demand continues to grow for many years to come.

Eric and his team believe that eventually (2023/2024), inventories will go low enough to send a price signal to the market that demand destruction is necessary as supply growth can no longer balance the market.

The oil price must <u>stay high enough</u> for <u>long enough</u> kill both discretionary demand (not easy to do!) while incentivizing long-cycle development (Is this even possible in an environment of uber decarbonization and energy sector vilification?).