AUSPICE

GAS
THE ONLY PURE PLAY
IN CANADIAN NATURAL GAS

AUSPICE Capital Advisors

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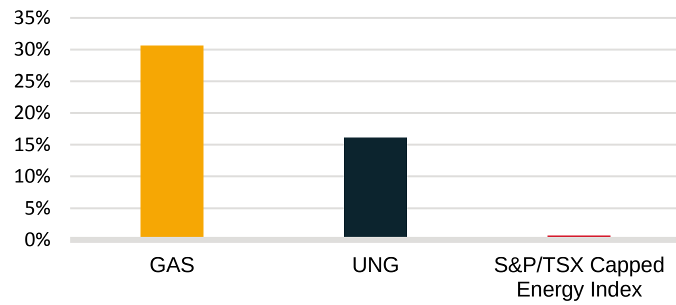
GAS

COMPETITIVE PERFORMANCE
(March 1 2017 - May 11 2017)



*Returns expressed in Canadian dollars

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OVERVIEW

While the current Canadian resource landscape may cause many investors to take pause, there may be an opportunity to capitalize on the price of Canadian natural gas. Currently, the Canadian Natural Gas Index, which tracks the price of natural gas produced in Canada, trades near $2.00 USD per mmBTU, which is a discount of over $1.00, or 38% less than the price of Nymex Natural Gas (see Chart 1).

Given that Canadian natural gas movements are strongly correlated to U.S. pricing, the discount presents an opportunity for investors, especially as domestic and global demand continues to strengthen, potentially causing the differential to narrow from its current discounted price point.

A NARROWING DIFFERENTIAL

While the U.S. produces gas domestically, they simply do not have enough to fulfil current demand levels, shipping 4 billion cubic feet (Bcf) of natural gas to Mexico and 2 billion cubic feet of liquified natural gas (LNG) globally every day (see Map 1). Given that U.S. LNG exports are expected to rise to 10 to 12 billion cubic feet per day by 2020, discounted Canadian natural gas will likely be increasingly relied upon to backfill the U.S. shortfall. Natural gas producers in Canada have recognized this opportunity, citing conversations with U.S. LNG participants about sending more discounted Canadian gas to their facilities, which could help drive demand, narrow the discount and lift pricing.

Surging US exports and low prices have also created a deficit in gas storage as we enter the winter season. For the first time in years, it may not be full when it is needed most (see chart 2). Thus, in addition to the potential for increased demand from global exports, seasonal demand may increase prices while the differential tightens.

CAPITALIZING ON THE PRICE GAP

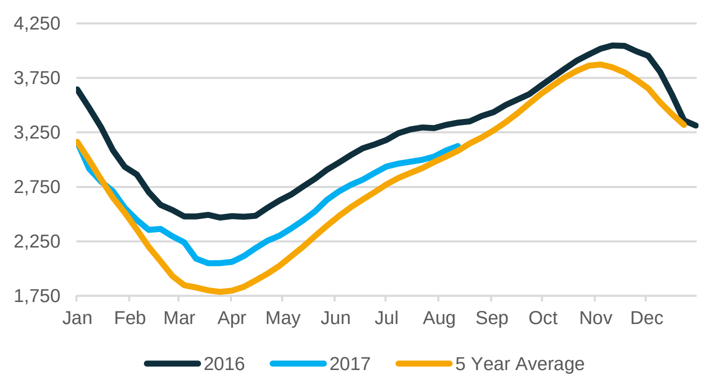
As an investor, one of the best ways to take advantage of the narrowing differential is by purchasing two units of the Canadian Gas Index ETF (TSX: GAS) for every unit of Horizons Betapro Natural Gas 2X Daily Bear (Inverse) ETF (TSX: HND).

By betting on Canadian natural gas and effectively shorting U.S. gas, investors can realize substantial returns when the gap narrows even slightly. For example, between April 12, 2016 and July 25, 2016, when the differential narrowed by $0.25, the trade as outlined above generated a net return of 34% (see Chart 3).

Chart 1 **CGI REFERENCE PRICE V.S. HENRY HUB DIFFERENTIAL**
(January 2011 - August 2017)

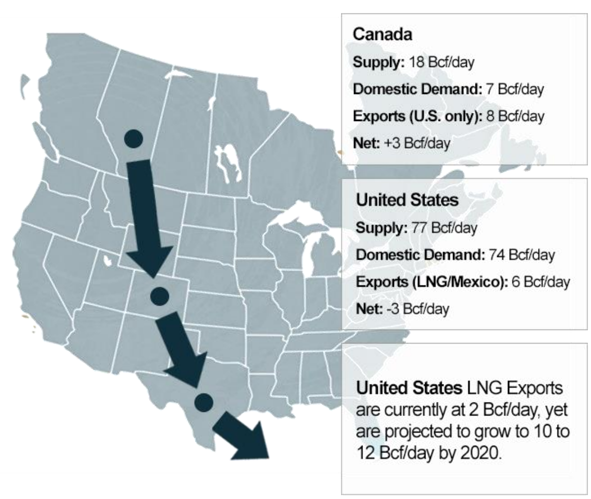
Source: Auspice Capital Advisors

Chart 2 **U.S. WORKING GAS STORAGE**
(Billion Cubic Feet)



Source: EIA, August 31, 2017

Map 1 **CANADIAN AND U.S. GAS STATISTICS**
(As of 2017)



Source: Auspice Capital Advisors, EIA

A DISCOUNTED OPPORTUNITY

Given that Canadian natural gas movements have historically been strongly correlated to their U.S. counterparts, its resultant discount in pricing presents investors with a unique opportunity. With better upside potential, Canadian natural gas offers investors more inherent leverage relative to U.S. gas. Simply, a $0.20 gain on a $2.00 commodity is a better return than a $3.00 commodity.

To date, the index that underlies the GAS ETF, the Canadian Natural Gas Excess Return Index (NYSE: CNGER), has outperformed both the Nymex gas market and ETFs, as well as the TSX Capped Energy Index, generating greater upside trends while insulating investors from sharper declines (see Table 1). Using the GAS ETF is the only way to achieve this outcome.

WHY INVEST DIRECTLY IN NATURAL GAS

Unlike producer equity, which may miss out on current opportunities present in the market, the Canadian Natural Gas Index ETF provides investors with a simple way to gain direct exposure to the underlying commodity and nothing else – meaning that no trend will ever be missed.

Instead of tying an investment to a variety extraneous factors, like a company's strategy, debt-and-equity financing and the current political environment, choosing a direct commodity exposure may be the best bet. By doing so, investors will be able to cleanly and efficiently take advantage of the discount and differential, capitalizing as pricing recovers or the differential narrows.

Chart 3 **HISTORICAL GROWTH OF A $1000 INVESTMENT**
(From April 12, 2016 to July 25, 2016)

Source: Auspice Capital Advisors

Table 1 **ABSOLUTE PERFORMANCE**

Dates	GAS.TO ETF	HNU.TO (2x) ETF	UNG (US gas ETF)	TSX Capped Energy Index
November 9, 2016	$8.45	$7.75	$7.21	$200.95
December 30, 2016	$12.07	$13.53	$9.34	$220.91
Total	42.8%	74.26%	29.5%	9.9%
January 3, 2017	$12.07	$13.53	$9.34	$220.91
February 28, 2017	$7.85	$6.70	$6.69	$197.65
Total	-35.0%	-50.5%	-28.4%	-10.5%
March 1, 2017	$7.85	$6.70	$6.69	$199.91
May 11, 2017	$10.25	$8.71	$7.77	$197.72
Total	30.6%	30.0%	16.1%	-1.1%
May 12, 2017	$10.25	$8.71	$7.77	$197.72
June 30, 2017	$8.63	$6.46	$6.78	$172.10
Total	-15.8%	-25.8%	-12.7%	-13.0%

Source: Auspice Capital Advisors

The Canadian Natural Gas Excess Return Index (CNGER) reflects the returns that an investor would expect to receive from holding and rolling the contracts that comprise the GAS™.

The Canadian Natural Gas Index ETF (GAS), seeks to replicate, to the extent possible, the performance of the Canadian Natural Gas Excess Return Index (CNGER) net of expenses, and allows investors to access the price of Oil produced in Canada. The ETF does not employ leverage, but in order to achieve its investment objectives, GAS will invest in derivatives and other financial instruments from time to time, which may include interest bearing accounts and T-Bills.

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