

Kootenay Capital Management Monthly Commentary

Fund Performance and Portfolio Review as of February 28, 2014



KOOTENAY
CAPITAL MANAGEMENT

Monthly Review & Outlook

The Kootenay Global Energy Absolute Return Fund generated a positive return of 6.84%, net of fees in February, which compared with a gain on the S&P/TSX Capped Energy Total Return Index of 4.63% for the same period.

Return attribution for the month of February reflected an extension of our top-down thematic outlook for energy commodities and sub-sectors as we have articulated over the past several months. While Oil Field Services were the laggard in January, we continued to add exposure in that sub-group driven by our bottom-up assessment of Tier 1 rig and pressure pumping utilization. Elevating this group to the top sector weight in the fund yielded strong results in February, with the TSX Energy Services Index up 11.7% MoM. The Services segment accounted for just over one-third of our return attribution in February. Liquids-rich gas and special situation oil exposure generated approximately equal positive contribution behind the services performance. At the position level, Renegade, Trinidad, Storm, Calfrac and Precision were the top performing longs in the month.

While in last month's letter to unitholders we did call for US\$6.00/mmbtu NYMEX gas by 4Q14, little did we think we would push through that price level in a matter of weeks. Strong heating demand is the main driver, with the eastern half of the continent flirting with depletion of working gas storage and tapping into base gas. In the commodity world, degree of perceived scarcity and price volatility go hand-in-hand, and as we witnessed, the March NYMEX gas contract gave back much of the gain into contract expiry last week. Despite the US\$2.00/mmbtu swing on the March contract, we note that the calendar 2014 average NYMEX gas price fell only 14 cents during this period and today averages US\$4.68/mmbtu vs. the mean sell side assumption of US\$4.00/mmbtu. We expect street-wide positive revisions to energy commodities in March, with significant moves in natural gas and the C\$ having a compounding effect on Canadian producer cash flows.

Oil prices have surprised to the upside year-to-date 2014, with the combination of cold weather supporting heating oil and distillate demand, and a layering of geopolitical upside risks buoying the oil complex. The trifecta of yet another stalled restart of Libyan oil output, middle class revolt in Venezuela and the uprising in Ukraine have injected what we believe to be a ~US\$10/b risk premium in the oil market. With the 90c C\$, Canadian producer cash flows will be strong, yet our oil equity exposure remains focused in equities where we perceive there to be company specific catalysts. These include the new Spartan-Renegade, Legacy (a new add in the portfolio in 1Q14 and top ten performer in February) and BlackPearl, which recently closed the books on an equity offering to fund the first Phase of its Onion Lake 6kb/d small scale SAGD project.

Recent sell side reports have served to underpin our view on the oil field services sector in 2014. State-side, two US brokerages upgraded the US pressure pumping sector, while the outlook in Canada was aptly framed by an \$8 billion increase in industry cash flows on the combined change in natural gas and oil prices and the weaker Canadian dollar since the start of winter. Like the last 15 years of covering/investing in the sector, we have every expectation that Canadian producers will spend a minimum of cash flow, which we believe begins to swing the economic rent pendulum back in favour of the services industry. Higher day rates in 4Q13 were realized by the Tier 1 drillers and while Trican and Calfrac last week provided the book-ends on the bear/bull case in pumping, we believe fundamentals point to a bullish 2H14 for the services industry. With such similar geographic exposures, we differentiate these two pumpers more on management and execution, viewing Calfrac as the superior execution platform, while at this point in the cycle, Trican providing the operating leverage to top-down pressure pumping price fundamentals.

While the tabling of the BC budget was building up to be a launchpad for BC's LNG industry, its delivery proved vastly underwhelming. In as much as the Stelmach government's iterative approach to energy fiscal policy (aka the 2007 New Royalty Framework) provided a template for political fiscal incompetence, the BC government appears to be taking a page out of the Alberta playbook. One would think that a 'measure twice, cut once' philosophy would be well entrenched in the minds of fiscal policy makers, yet the path for the BC LNG fiscal framework appears to be charting a course of uncertainty and building a lack of confidence that risks sidelining Canada from seaborne gas trade. Time to batten down the hatches, take a holistic approach to fiscal take (LNG tax, define net proceeds, royalty changes, depreciation rates, corporate tax) and come to market with a fiscal plan that measures government take over the whole production-to-export value chain. Then and only then, can BC Premier Clark declare that her ship is in all aspects ready for sea.

Chris Theal, CFA, CIM
Leon Knight, CFA

President, CEO & CIO
Managing Director & COO

Fund Objective

The Kootenay Global Energy Absolute Return Fund LP ("LP") investment objective is to maximize absolute returns in the energy sector while minimizing volatility. The Fund intends to achieve this objective through superior securities selection in both long and short investment positions.

The fund will vary the allocation of long and short positions depending on its view of energy macroeconomic fundamentals and investment opportunities. The Fund seeks to identify securities that trade above or below their intrinsic value and will take positions that anticipate share prices migrating to intrinsic value.

The Fund will overweight certain subsectors in the energy industry, as well as asset classes, including cash.

The Kootenay Energy RSP Fund ("Trust") investment objective is to realize capital appreciation by investing in Partnership Interests of the Kootenay Global Energy Absolute Return Fund LP.

Fund Details

Fund Type	Long / Short Equity
Inception Date	18-May-11
Fund Status	Open
LP Series 2011-07 Unit Price	1,083
Trust Class A Unit Price (KCM100)	11.34
Trust Class F Unit Price (KCM101)	11.39
Registered Tax Plan Status	Eligible through Trust
Eligibility	Accredited Investors
Valuations	Monthly
Purchase Frequency	Monthly
Redemptions	Monthly (30 days notice)
Min. Investment Term	180 Days
Management Fee	2% Class A; 1% Class F
Performance Distribution	20% above high water mark
High Water Mark	Yes. No reset
Hurdle Rate	None
Risk Tolerance	High

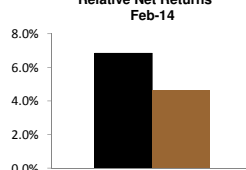
Monthly Returns (LP Class A Initial Series)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Kootenay Fund	S&P/TSX Energy ¹	Value Added
2014	0.10%	6.84%											6.95%	3.85%	3.10%
2013	1.05%	(3.75%)	1.29%	(3.86%)	3.03%	(3.17%)	4.55%	2.86%	(1.43%)	4.00%	1.00%	3.43%	8.79%	13.32%	(4.53%)
2012	1.07%	3.19%	(1.78%)	(2.64%)	(10.12%)	(2.36%)	10.01%	1.37%	1.07%	3.54%	(2.59%)	(0.68%)	(1.18%)	(4.83%)	3.65%
2011	-	-	-	-	-	-	0.19%	(3.76%)	(10.29%)	9.45%	(0.18%)	(0.36%)	(5.83%)	(12.93%)	7.10%
Since Inception (Annualized)													3.08%	(0.95%)	4.04%

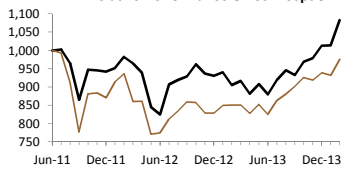
Current Month Performance Attribution

Unrealized Appreciation / Depreciation	7.14%
Realized Gain / Loss	1.79%
Dividend & Interest Income	0.00%
Commission & Fees	(0.38%)
Performance Fee Accrual	(1.71%)
Total	6.84%

Relative Net Returns Feb-14



Relative Performance Since Inception



Risk / Reward Analysis

	Kootenay Fund	S&P/TSX Capped Energy
1-Month Return	6.84%	4.63%
3-Month Return	10.62%	6.13%
6-Month Return	14.52%	10.85%
1-Year Return	19.62%	14.71%
2-Year Return (Annualized)	5.00%	2.09%
Since Inception (Annualized)	3.08%	(0.95%)
Standard Deviation (Since Inception)	14.0%	21.8%
Sharpe Ratio (Since Inception; 90-day T-bill)	0.15	(0.09)
Kootenay Fund Correlation		0.76
Kootenay Fund R-squared		0.57
Kootenay Fund Beta		0.48

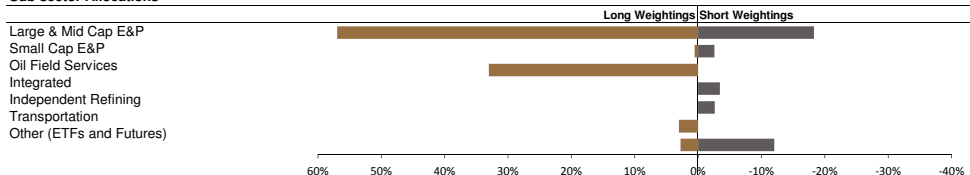
Portfolio Overview

Exposures:	
Gross Long	96.9%
Gross Short	38.9%
Net	58.0%
Cash	3.1%
Number of Long Holdings	26
Number of Short Holdings	13

Top 5 Long Equity Holdings

1	Encana Corp	5.9%
2	Legacy Oil + Gas	5.9%
3	Trinidad Drilling	5.9%
4	Tourmaline Oil	5.4%
5	Trilogy Energy	5.4%
Top 10 Holdings Concentration		54.3%

Sub-sector Allocations



Small Cap E&P includes market capitalization < \$300 million.

Dated: March 05, 2014

Kootenay Global Energy Absolute Return Fund LP

Important Disclosures

Kootenay Capital Management Corp.

Kootenay Capital Management Corp. is the Adviser to the Kootenay Global Energy Absolute Return Fund LP. The company is registered in Alberta, Ontario, British Columbia, Saskatchewan and Quebec under the provisions of the Securities Act in the categories of Portfolio Manager, Investment Fund Manager and Exempt Market Dealer.

Suite 1920, 215 9th Avenue SW
Calgary, AB T2P 1K3
403.258.2555

info@kootenaycapital.com
www.kootenaycapital.com

Kootenay Global Energy Absolute Return Fund LP

The Kootenay Global Energy Absolute Return Fund Limited Partnership is a limited partnership formed under the laws of Alberta. The primary objective of the Partnership is to maximize absolute returns in the global energy sector for the purpose of realizing capital gains and investment income from such investments.

Kootenay Energy RSP Fund

The Kootenay Energy RSP Fund is an unincorporated, open-ended mutual fund trust governed by the laws of Alberta. The primary objective of the Fund is to realize capital appreciation and investment income by investing in Partnership Interests of the Kootenay Global Energy Absolute Return Fund Limited Partnership. Units of the Fund are listed on FundSERV under the symbol KCM100 for Class A Units and KCM101 for Class F Units.

Benchmark

The constituents of the S&P/TSX Capped Energy Total Return Index (SPTSEN) are a subset of the constituents of the S&P/TSX Composite Index that have been classified according to the Global Industry Classification Standard. The relative weight of any single index constituent is capped at 25%. The S&P/TSX indices are calculated and managed by S&P Indices and set forth the performance of well known, broad-based market statistics. The benchmark is not necessarily representative of our management style and is included for discussion purposes only.

Confidentiality

The information contained herein, including any attachment(s), is provided by Kootenay to the intended recipient solely for information purposes. Any dissemination, re-distribution or other use of this message by any recipient is unauthorized. The information contained herein is confidential and proprietary. Any reproduction of this information, in whole or in part, without Kootenay's prior written consent is prohibited. Past performance may not necessarily be repeated and is no guarantee or projection of future results.

Eligibility

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.

For accredited investor requirements please consult the Fund's offering documents or a financial advisor.

Definitions

Alpha - a risk-adjusted measure of active return on an investment in excess of a benchmark (value added by active fund management). Sharpe Ratio can be used to measure relative Alpha.

Beta - represents the tendency of the fund's return to respond to market swings. <1 means the fund has less volatile returns than the index.

Correlation - measures how two instruments (fund and index) move in relation to each other: +1 is perfect positive correlation.

Sharpe Ratio - is a measure of the excess return (or risk premium) per unit of standard deviation in an investment. Excess return is defined as return in excess to the yield on the Canadian 90-day Treasury Bill.

Standard Deviation - is a measurement of investment volatility (up and down) that illustrates how much dispersion there is from the mean. The lower standard deviation the closer the data points are to the mean.

Kootenay Service Providers

Prime Broker - CIBC World Markets
Fund Administrator - Pinnacle Canada Fund Administration
Auditor - KPMG LLP
Legal Counsel - Bennett Jones LLP

Notes:

¹ Fund benchmark is the S&P/TSX Capped Energy Total Return Index.

Benchmark performance is measured from commencement of asset allocation of the Kootenay fund, prices are based from July 18, 2011 close.

Returns are in Canadian dollars.

Kootenay Fund returns are the initial Kootenay LP Class 'A' series calculated net of transaction costs, management and performance fees.

Cash excludes proceeds held from securities sold short.

Top 10 Holdings Concentration is the ratio of the top ten positions as percentage of assets under management.

Sector weightings calculated as percentage of assets under management.

The above is provided for information purposes only and is qualified in its entirety by way of the offering memorandum, which is available to qualified investors.