

Kootenay Capital Management Monthly Commentary

Fund Performance and Portfolio Review as of March 31, 2014



KOOTENAY
CAPITAL MANAGEMENT

Monthly Review & Outlook

The Kootenay Global Energy Absolute Return Fund generated a positive return of 2.81%, net of fees in March, which compared with a gain on the S&P/TSX Capped Energy Total Return Index of 5.58% for the same period. For the first quarter of 2014, the Fund generated a positive return of 10.0%, which compared with the Capped Energy Index of 9.7%. For the quarter, the Fund had a Beta to the Index of 0.78, which generated a risk-adjusted excess return of 2.4% for the period.

The Canadian energy sector broke out to the upside at the beginning of February and continued with strength through the remainder of 1Q14. Buoyed by supply risks in Libya and Nigeria, the global oil price complex has been resilient, with WTI prices hovering +/-US\$100/b and notable strength in all Canadian crude oil slates. Add a 90c dollar and Canadian oil price realizations will be incredibly strong in 1Q14. More importantly, largely depleted natural gas storage reservoirs have set the stage for robust pricing throughout 2014. In this environment, the service sector, our largest fund weight, and natural gas, our second largest weight, were, and should continue to be, the clear outperformers in the energy complex. For the first quarter, our top five performing stocks were Renegade (now Spartan Energy), Legacy, Encana, Trinidad and Paramount.

As we enter the traditional seasonal lull in global energy consumption, we believe any seasonal commodity price weakness will be shallow and of short duration. Outside of the oil supply risks highlighted above, Russia-Ukraine tensions and the prospect for additional sanctions creates further supply risks and upside oil price potential. Moreover, with North American gas storage levels finishing winter at record lows, pipeline flow constraints in Canada and drought conditions in the western US and BC, gas distributors face the ominous challenge of sufficiently refilling storage on either side of the border ahead of the 2014/2015 heating season. We see incremental demand to refill storage YoY at +4bcf/d, which has to come in the form of higher supply or lower demand. Yet, with the horizontal rig count in the US relatively flat and the gas rig count setting a new six-year low of 318 rigs, it is abundantly clear that industry requires higher prices to reverse the trend in drilling dry or lean gas plays. Said differently, absent what the Marcellus can debottleneck via pipeline capacity this year, the rest of the lower 48 states is in decline mode. That puts the onus on loosening the gas market squarely on rationing demand (remember the days of demand elasticity in North America), which in our view points to higher natural gas prices for the balance of the year (>US\$4.80/mmbtu in 2H14) to incentivise a material switch from gas to coal. Mid-1Q14, we allocated to thermal coal producers in the US, as we think they will be the beneficiaries of higher coal-fired power demand.

In Canada, gas storage is 225bcf lower YoY and 180bcf below the 5-year average. With pipeline depressuring directives from the NEB, we stack on a deliverability deficit of 500mmcf/d on top of an already steep storage deficit. All said, we believe the underlying deficit of gas in the Canadian market could very well make for a premium gas market this summer, with AECO trading above the NYMEX benchmark price. This clearly creates a bullish environment for gas producer cash flows and for the commensurate increase in activity in the basin after spring break-up.

While heading into a period of seasonal strength for heavy oil prices, high gas prices may temper improvement in bitumen netbacks, as the rise in prices will impact fuel costs for producing/upgrading/refining bitumen. As such, we favour cold flow heavy oil, as it should yield the highest netbacks in the heavy oil space. In our view, BlackPearl offers the best risk/reward in heavy oil today as its existing production base does not require steam injection, and future growth from the first phase of its Onion Lake thermal project is now fully funded.

To conclude, we believe energy fundamentals continue to point strength in commodity prices, which combined with the level of the C\$ should continue to bode well for Canadian energy equity outperformance vs. its US counterparts in 2014.

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 | 1,113 |
| Trust Class A Unit Price (KCM100) | 11.66 |
| Trust Class F Unit Price (KCM101) | 11.72 |
| Registered Tax Plan Status | Eligible through Trust |
| Eligibility | Accredited & Eligible 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)

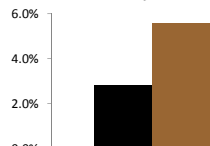
| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Kootenay Fund | S&P/TSX Energy ¹ | Value Added |
|------------------------------|-------|---------|---------|---------|----------|---------|--------|---------|----------|-------|---------|---------|---------------|-----------------------------|-------------|
| 2014 | 0.10% | 6.84% | 2.81% | | | | | | | | | | 9.96% | 9.65% | 0.31% |
| 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) | | | | | | | | | | | | | 4.05% | 1.09% | 2.96% |

Current Month Performance Attribution

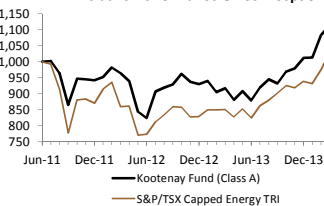
| | |
|----------------------------------------|--------------|
| Unrealized Appreciation / Depreciation | 1.93% |
| Realized Gain / Loss | 1.69% |
| Dividend & Interest Income | 0.17% |
| Commission & Fees | (0.33%) |
| Performance Fee Accrual | (0.65%) |
| Total | 2.81% |

Relative Net Returns

Mar-14



Relative Performance Since Inception



Risk / Reward Analysis

| | Kootenay Fund | S&P/TSX Capped Energy |
|-----------------------------------------------|---------------|-----------------------|
| 1-Month Return | 2.81% | 5.58% |
| 3-Month Return | 9.96% | 9.65% |
| 6-Month Return | 19.45% | 14.24% |
| 1-Year Return | 21.42% | 21.04% |
| 2-Year Return (Annualized) | 7.41% | 9.41% |
| Since Inception (Annualized) | 4.05% | 1.09% |
| Standard Deviation (Since Inception) | 14.0% | 21.5% |
| Sharpe Ratio (Since Inception; 90-day T-bill) | 0.22 | 0.01 |
| Kootenay Fund Correlation | | 0.75 |
| Kootenay Fund R-squared | | 0.56 |
| Kootenay Fund Beta | | 0.48 |

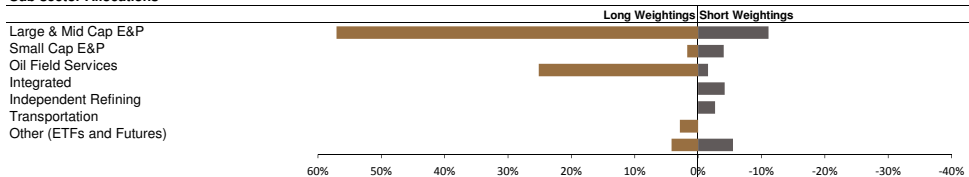
Portfolio Overview

| | |
|--------------------------|-------|
| Exposures: | |
| Gross Long | 91.0% |
| Gross Short | 29.0% |
| Net | 62.0% |
| Cash | 9.0% |
| Number of Long Holdings | 25 |
| Number of Short Holdings | 12 |

Top 5 Long Equity Holdings

| | | |
|-------------------------------|---------------------------|-------|
| 1 | Spartan Energy | 6.7% |
| 2 | Encana Corp | 5.9% |
| 3 | Legacy Oil + Gas | 5.7% |
| 4 | Tourmaline Oil | 5.5% |
| 5 | Canyon Technical Services | 5.1% |
| Top 10 Holdings Concentration | | 53.0% |

Sub-sector Allocations



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

Dated: April 04, 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.

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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

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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.