



LETTER TO UNITHOLDERS

January 10, 2024

Dear Unitholder:

You are invited to attend a special meeting (the “**Trust Meeting**”) of holders (the “**Preferred Trust Unitholders**”) of preferred units (“**Preferred Trust Units**”) of Enercapita Energy Trust (the “**Trust**”) and a special meeting (the “**LP Meeting**”) of holders (the “**Preferred LP Unitholders**”) of preferred units (“**Preferred LP Units**”) of Enercapita Energy L.P. (the “**Partnership**”) and holders (the “**Common A LP Unitholders**”) of common A units (“**Common A LP Units**”) of the Partnership to consider and approve the Amendments (defined below).

The Trust Meeting and the LP Meeting (collectively, the “**Meeting**”) will be held virtually on February 5, 2024 at 9:00 a.m. and 9:10 a.m. (Calgary time), respectively.

The board of directors (the “**Board**”) of Enercapita Energy GP Ltd. (the “**Administrator/GP**”), the administrator of the Trust, and the general partner of the Partnership (the Partnership together with the Trust and Enercapita Energy Ltd., “**Enercapita**”), would like Preferred Trust Unitholders, Preferred LP Unitholders and Common A LP Unitholders to consider a proposal to make certain amendments to the declaration of trust of the Trust (the “**Declaration of Trust**”) and the limited partnership agreement of the Partnership (the “**Partnership Agreement**”) (collectively, the “**Amendments**”).

The Notice of Special Meeting of Preferred Unitholders of the Trust, Notice of Special Meeting of Preferred Unitholders and Common A Unitholders of the Partnership and Joint Information Circular dated January 10, 2024 (the “**Information Circular**”) contain important information with respect to the Meeting and the Amendments. Please give these Meeting materials careful consideration and, if you require assistance, consult your financial, legal, tax and other professional advisors.

The Board unanimously recommends that the Preferred Trust Unitholders vote for the special resolutions attached as “*Schedule A*” to the Information Circular. The Board unanimously recommends that the Preferred LP Unitholders and Common A LP Unitholders vote for the special resolutions attached as “*Schedule B*” to the Information Circular.

THE AMENDMENTS

In the last several years, Enercapita has focused on preservation and value growth while returning capital to investors through challenging market conditions, including high volatility and persistently low market valuations. Accordingly, Enercapita has not paid cash distributions and has instead prioritized a combination of debt repayment and providing unitholder liquidity through redemptions. This has proved to be a prudent strategy in light of the high interest rates and a lack of other viable liquidity options.

Meanwhile, investor demand for liquidity remains high. In the fourth quarter of 2023, Enercapita received an unsolicited proposal from an asset management firm which represents a majority of both the Preferred Units (as defined below) and the Common A LP Units. The proposal suggested that Enercapita consider amending the Declaration of Trust and the Partnership Agreement to allow the Trust and the Partnership to redeem the Preferred Trust Units and Preferred LP Units (collectively, the “**Preferred Units**”) at par while ensuring investors retain any potential upside through continued ownership of the Common A LP Units. After receipt of the proposal, management developed the Amendments in consultation with such asset management firm and the independent directors. The independent directors have been very engaged and proactive with management on the strategic direction of Enercapita, and have completed their own due diligence with respect to the proposed Amendments. The independent directors were first made aware of the proposal in October 2023 and had various meetings and correspondence with management throughout November and December 2023. The independent directors met with Enercapita’s external legal counsel on December 12, 2023, without the presence of management, to discuss the proposed Amendments. Furthermore, the independent directors met Enercapita’s independent financial advisor on December 19, 2023, and reviewed financial scenarios and views on the proposed Amendments.

The following is a summary of the relevant terms of the Amendments (if approved):

- the Partnership Agreement will be amended to, among other things, provide that:
 - redemption of Preferred LP Units by the Partnership shall be completed on a *pro rata* basis (with exceptions for smaller investors holding less than 10,000 Preferred LP Units);
 - redemption of Preferred LP Units by the Partnership shall be completed at \$1.00 per Preferred LP Unit rather than the lesser of \$1.00 and fair market value;
 - Preferred LP Unitholders shall be entitled to retain their Common A LP Units upon redemption of their Preferred LP Units initiated by the Partnership;
 - the Preferred LP Units will no longer accrue a “Preferred Return”;

- the existing accrued “Preferred Return” of up to \$0.12 per Preferred LP Unit (which would be realized only upon a liquidity event that values the Preferred LP Units at greater than \$1.00 per Preferred LP Unit and only to the extent there is sufficient excess value) will be eliminated;
 - no distributions shall be made to holders of common units of the Partnership for so long as Preferred LP Units are outstanding;
 - the interest rate for redemption notes issued by the Partnership shall be the yield to maturity on marketable bonds of the same maturity as the applicable redemption note issued by the Government of Canada in Canadian dollars, based on the mid-market closing yields of such bonds as published by the Bank of Canada on the issuance date of the redemption note;
 - upon liquidation of the Partnership, Preferred LP Unitholders shall be entitled to \$1.00 per Preferred LP Unit held (to the extent sufficient assets remain in the Partnership) following payment of liabilities to third parties, provision for reserves and payment of the capital account balance and costs and expenses to the Administrator/GP, and such amount shall be paid before any amount shall be paid to any holder of Common A LP Units or any other common units of the Partnership; and
 - issued and outstanding unit certificates representing the Preferred LP Units and the Common A LP Units will be null, void and of no force and effect and the register of Preferred LP Unitholders and Common A LP Unitholders will be conclusive evidence of the legal owner of Preferred LP Units and Common A LP Units, respectively.
- the Declaration of Trust will be amended to, among other things, provide that:
 - redemption of Preferred Trust Units by the Trust shall be completed on a *pro rata* basis (with exceptions for smaller investors holding less than 10,000 Preferred Trust Units);
 - the interest rate for redemption notes issued by the Trust shall be the yield to maturity on marketable bonds of the same maturity as the applicable redemption note issued by the Government of Canada in Canadian dollars, based on the mid-market closing yields of such bonds as published by the Bank of Canada on the issuance date of the redemption note; and
 - issued and outstanding unit certificates representing the Preferred Trust Units will be null, void and of no force and effect and the register of Preferred Trust Unitholders will be conclusive evidence of the legal owner of Preferred Trust Units.

The Amendments would allow the Trust and the Partnership to begin returning capital to holders of Preferred Units by redeeming such Preferred Units at par, while allowing such holders to retain any potential upside through continued ownership of the Common A LP Units. Enercapita intends to allocate a portion of free cash flow on a quarterly basis to redemptions, subject to debt levels and obligations pursuant to lender credit/financing agreements.

If the Amendments are approved, the “Preferred Return” on the Preferred LP Units will be eliminated. Accordingly, any equity value in Enercapita in excess of \$1.00 per Preferred Unit will accrue to the common units of the Partnership, including the Common A LP Units. As holders of Preferred Units are expected to also own Common A LP Units (as they were initially sold together as a tied unit), such holders would participate in any equity value in excess of \$1.00 per Preferred Unit in their capacity as holders of Common A LP Units. Any value that accrues to common units of the Partnership would be shared among the common B units and common C units of the Partnership (all of which are held by current or former directors, management and employees of Enercapita). However, such value would accrue to the common units of the Partnership once all Preferred LP Units have been redeemed at par. See “**The Amendments – Comparison of Enercapita Before and After the Amendments – Allocation of Proceeds**” in the Information Circular for tables that outline, under various enterprise valuations, the difference between the allocation of proceeds before and after the Amendments.

In 2022 and 2023 combined, Enercapita generated approximately \$52 million of free cash flow (average WTI of 85.93 US\$/bbl) and has allocated over \$50 million of such free cash flow to redemptions, reducing the number of outstanding Preferred Units by 22% over two years. As a result, debt levels have remained elevated (approximately \$39 million of net debt as of December 31, 2023).

If the Amendments are approved, Enercapita plans to focus on preserving and enhancing unitholder value by: (a) allocating sufficient cash flow to develop its core assets and execute its strategy to position the company to attract a premium valuation on exit, while maximizing free cash flow to meet its debt reduction and unitholder return of capital objectives; and (b) allocating free cash flow to a combination of debt reduction, to strengthen the balance sheet and reduce interest costs, and returning capital to Preferred Unitholders through *pro rata* redemptions at par, a significant premium to current fair market value. Subject to debt levels and obligations pursuant to lender credit/financing agreements, Enercapita plans to allocate approximately 80% of free cash flow to debt repayment and 20% to redemption of Preferred Units until net debt reaches \$20 million. Management expects that Enercapita will achieve this target in early 2025 (assuming US\$70/bbl WTI; \$1.00 = US\$0.74 fx; realized oil price at 9% differential to WTI; \$2.00/mcf AECO; 5,834 boe/d average production (approximately 70% oil and 30% natural gas); 15% royalties; and \$29.35/boe opex/transportation). Once net debt reaches \$20 million, Enercapita plans to allocate approximately 50% of free cash flow to debt repayment and 50% to redemption of Preferred Units. Once net debt reaches \$10 million, Enercapita plans to allocate approximately 25% of free cash flow to debt repayment and 75% to redemption of Preferred Units.

After a review of the business and careful consideration of a number of factors, including the rationale and market conditions described below, the Board (including the independent directors of the Board) has unanimously determined that, subject to the required unitholder approvals, the Amendments are in the best interests of the Trust and the Partnership.

RATIONALE FOR THE AMENDMENTS

The Board makes its recommendations for the following reasons:

1. **A liquidity event is not in the best interests of unitholders at the current time due to an extreme disconnect between the underlying business and market valuations.**

Enercapita has a strong asset base that: (a) generates sustainable free cash flow; (b) has robust reserves value; and (c) has significant economic drilling upside and value potential. The market is currently valuing assets comparable to those of Enercapita's at a low multiple of cash flow. After consultation with an independent financial advisor to Enercapita and in consideration of Enercapita's recent non-core asset market test, the Board believes that Enercapita would not receive fair value for its assets (and that investors would receive materially less than \$1.00 per Preferred Unit) if it were to pursue a sales event under current market conditions. Therefore, it would not be prudent to pursue a monetization event in the context of current market conditions.

2. **Investors will begin receiving redemption proceeds of Preferred Units at par while Enercapita works toward a full liquidity event.**

The Amendments will allow investors to begin recovering their initial capital contributions with respect to Preferred Units redeemed by the Trust or the Partnership regardless of their fair market value. Such redemption is expected to generate a tax efficient quarterly cash flow stream for all investors while Enercapita works to position itself to pursue a full liquidity event in the future.

The pursuit of a liquidity event which would provide full return of capital to Preferred Unitholders is largely dependent on commodity prices and market conditions. However, as Enercapita further positions its asset base to attract a premium valuation, reduces debt, and uses free cash flow to return capital to Preferred Unitholders, the likelihood of a subsequent liquidity event which would provide full return of capital and return on investment is expected to increase.

3. **Investors will receive liquidity over time while retaining the ability to participate in the upside of Enercapita.**

Prior to the Amendments, an investor that has its Preferred Units redeemed by the Trust or the Partnership will also have its Common A LP Units redeemed at nominal value.

The Amendments will allow investors to retain their Common A LP Units upon redemption of Preferred Units by the Trust or the Partnership. This ensures that investors will participate in any potential equity value of Enercapita beyond \$1.00 per Preferred Unit even as their investment capital is returned.

4. **The Amendments will result in better alignment of strategy, investors and management.**

Prior to the Amendments, the "Preferred Return" on the Preferred Units was designed to incentivize management to grow Enercapita's asset base through re-investment of cash flow. Management would only be entitled to performance compensation if management could compound the growth of Enercapita's asset base at a rate that exceeds the "Preferred Return". This model does not align with Enercapita's proposed strategy, which is to use free cash flow to reduce debt and return investor capital at par.

The Amendments (by eliminating the "Preferred Return") will align strategy, Preferred Unitholders and management by allowing Enercapita to reduce debt and returning capital to holders of Preferred Units at par (as management, being the holders of common units of the Partnership, can only participate in the value accrued to such units after the Preferred Units have been redeemed at par) rather than using free cash flow to pursue growth in a low value market.

5. **Investors will experience less volatility with respect to the redemption price of the Preferred Units.**

Prior to the Amendments, the redemption price in respect of Preferred Units redeemed by the Partnership or the Trust is equal to the lesser of \$1.00 per Preferred Unit and the fair market value of such Preferred Unit. This has resulted in a redemption price of less than \$1.00 per Preferred Unit since 2018 (with the exception of three quarters). Further, in a volatile market, the fair market value of the Preferred Units fluctuates significantly from quarter to quarter. Preferred Units are subjected to a "point in time" valuation upon redemption, making it difficult for investors to anticipate the redemption value of their Preferred Units when requesting redemption. There is also significant risks and uncertainties with any method of determining fair market value, which may differ materially from the price realized upon a full liquidity event.

The Amendments will provide more certainty to investors as it pertains to the value of their Preferred Units upon redemption by the Trust or the Partnership, as these redemptions will occur at a fixed price of \$1.00 per Preferred Unit, a significant premium to the current fair market value.

REQUIRED UNITHOLDER APPROVAL

For the Amendments to become effective:

- (a) the special resolution approving the amendments to the Declaration of Trust must be approved by the affirmative vote of more than 66⅔% of the votes cast by holders of Preferred Trust Units who are entitled to vote and do vote on the resolutions (all classes of Preferred Trust Units voting as a single class);
- (b) the special resolution approving the amendments to the Partnership Agreement must be approved by the affirmative vote of more than 66⅔% of the votes cast by holders of Preferred LP Units who are entitled to vote and do vote on the resolutions (all classes of Preferred LP Units voting as a single class); and
- (c) the special resolution approving the amendments to the Partnership Agreement must be approved by the affirmative vote of more than 66⅔% of the votes cast by holders of Common A LP Units who are entitled to vote and do vote on the resolutions.

As the holders of Preferred Trust Units are not direct holders of Preferred LP Units, the special resolution approving the amendments to the Declaration of Trust, if approved, shall also direct the Administrator/GP, as the administrator of the Trust, to: (a) vote all of the Preferred LP Units held by the Trust in favour of the special resolution approving the amendments to the Partnership Agreement; or (b) execute and deliver a written resolution approving the special resolution approving the amendments to the Partnership Agreement in respect of the Preferred LP Units held by the Trust.

Subject to the required unitholder approvals, the Trust and the Partnership anticipate that the Amendments will become effective on or about February 6, 2024.

Your vote is very important. Whether or not you attend the Meeting, please take the time to vote your Preferred Trust Units, Preferred LP Units and/or Common A LP Units in accordance with the instructions contained in the form of proxy for the Meeting or other voting instruction form, as applicable.

Yours very truly,

“Craig Hruska”