



## LETTER TO UNITHOLDERS

June 24, 2019

Dear Unitholder:

You are invited to attend a special meeting (the "**Trust Meeting**") of each class of holders of PTUs (defined below) and a special meeting (the "**LP Meeting**") of each class of holders of Preferred LP Units (defined below) and Common A LP Units (defined below), to consider and approve the Amendments (defined below). The Trust Meeting and the LP Meeting will both be held at the offices of Norton Rose Fulbright Canada LLP, 400 3<sup>rd</sup> Avenue S.W., Suite 3700, Calgary, Alberta on August 7, 2019 at 11:00 a.m. (Calgary time).

The board of directors (the "**Board**") of Enercapita Energy GP Ltd., the administrator of Enercapita Energy Trust (the "**Trust**") and the general partner of Enercapita Energy L.P. (the "**Partnership**", and together with the Board, the Trust and Enercapita Energy Ltd., "**Enercapita**"), would like holders of preferred units of the Trust ("**PTUs**"), preferred units of the Partnership ("**Preferred LP Units**") and common A units of the Partnership ("**Common A LP Units**") 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 Board unanimously recommends that the holders of PTUs vote for the special resolutions attached as "Schedule A" hereto approving the Amendments. The Board unanimously recommends that the holders of Preferred LP Units and Common A LP Units vote for the special resolutions attached as "Schedule B" hereto approving the Amendments.**

Full details of the Amendments are set out in the accompanying 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 June 24, 2019 (the "**Information Circular**").

### THE 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:
  - the general partner of the Partnership may, as an extraordinary measure, suspend the redemption of Preferred LP Units or payment of redemption proceeds if the general partner of the Partnership determines the suspension to be appropriate in the circumstances;
  - the maturity date for redemption notes issued by the Partnership shall be five years or less from the date of issuance;
  - holders of Preferred LP Units will be entitled to distributions that reflect the cash flow available for distribution of Enercapita Energy Ltd. (up to a maximum), rather than being fully discretionary;
  - in the event that any Preferred LP Units are redeemed by the Partnership or tendered for redemption by a holder of Preferred LP Units (including for greater certainty, a redemption by the Trust in connection with PTUs being tendered for redemption), the Partnership is entitled to also redeem any Common A LP Units that were issued in connection with the Preferred LP Units being redeemed (including for greater certainty, Preferred LP Units that were issued to the Trust in connection with the issuance by the Trust of PTUs); and
  - the existing cap on indebtedness that can be incurred by the Partnership be removed; and
- the Declaration of Trust will be amended to, among other things, provide that:
  - the trustees of the Trust (the "**Trustees**") may, as an extraordinary measure, suspend the redemption of PTUs or payment of redemption proceeds if the Trustees, taking into account the advice of the administrator of the Trust, determine the suspension to be appropriate in the circumstances; and
  - the maturity date for redemption notes issued by the Trust shall be five years or less from the date of issuance;

The changes to the terms of the Partnership Agreement and the Declaration of Trust which would allow the suspension of the redemption of Preferred LP Units and/or PTUs are intended to permit the general partner of the Partnership and the Trustees

to protect the Partnership, the Trust and/or their unitholders, as the case may be, from the harm that would be caused by allowing redemptions when extraordinary and unusual circumstances are present. It is not intended to generally restrict the ability of unitholders to redeem their units.

In the event that the Amendments are approved, holders of PTUs and Preferred LP Units (all of which are currently entitled to a maximum distribution of eight percent (8%) annualized) will begin to receive the amended distributions in respect of the 2<sup>nd</sup> quarter of 2019, which is expected to be \$0.015 per unit (six percent (6%) annualized) and paid on or about August 15, 2019.

Further, if the Amendments are approved, the advisory services fee payable by Enercapita Energy Ltd. in the amount equal to two percent (2%) per annum of the net asset value of the Partnership will be reduced to \$0 effective at the end of April 2019 and replaced by market-based compensation for each of the advisors, provided that, if redemptions are not suspended and the value of the PTUs and Preferred LP Units are at par, such advisory services fee may be restored in lieu of other compensation to the advisors for any quarter at the same proportion as the distribution paid or payable to holders of PTUs and Preferred LP Units, relative to the maximum preferred return payable in respect of such PTUs or Preferred LP Units prior to the Amendments.

In the event that the Amendments are not approved, Enercapita expects that it will suspend distributions and, to the extent permitted, pay the redemption price of any units tendered for redemption with Redemption Notes (as defined in the Information Circular) until market conditions improve. Redemption Notes are not qualified investments for Exempt Plans (as defined in the Information Circular). See "*Certain Canadian Federal Income Tax Considerations*".

After a review of the business and careful consideration of a number of factors, including the rationale and market conditions described below, the Board unanimously determined that, subject to the approval of the holders of PTUs, Preferred LP Units and Common A LP Units, the Amendments are in the best interests of the Trust and the Partnership.

#### **RATIONALE FOR THE AMENDMENTS**

The Board makes its recommendations to the holders of PTUs, Preferred LP Units and Common A LP Units for the following reasons:

- **Liquidity event is not in best interests of unitholders at the current time due to the extreme disconnect between the underlying business and market valuations:** Enercapita has aggregated a strong portfolio of long-life, low-decline, light oil producing assets which generate sustainable free cash flow, and has had tremendous success executing its strategy. However, the Canadian oil and gas sector has been facing considerable challenges and significant headwinds remain. This has led to an exodus of capital from the sector, pushing valuations to historic lows and causing M&A activity to stagnate. There is currently a major disconnect between cash flows and valuations of companies in the Canadian oil and gas sector. Given these low valuations and the lack of capital and transaction activity in the marketplace, the time for Enercapita to monetize its assets is not now.
- **Manage redemption schedule:** Enercapita has reached the fifth anniversary of its initial capital raise and understands that certain investors desire liquidity in the near term. However, absent a liquidity event, redemptions pose a significant risk to Enercapita's cash flow, ability to pay distributions, and ultimately its balance sheet and sustainability, potentially jeopardizing Enercapita. This risk can be mitigated by allowing the administrator of the Trust and the general partner of the Partnership to suspend redemptions when it is prudent to do so, and allowing redemptions/retractions when cash flows and the balance sheet can support them. Similarly, the maturity date of the Redemption Notes issued in connection with the redemption of units of the Trust or the Partnership will be amended from the first anniversary of the date of issuance of such Redemption Note (or the sixth anniversary of the date that the unit being redeemed was issued, whichever is later) to the fifth anniversary of the date of issuance of such Redemption Note in order to permit the general partner of the Partnership and the Trustees to protect the balance sheet of the Trust and Partnership until market conditions improve.
- **Amended distributable cash flow model protects the balance sheet and replaces discretionary distribution:** The current distribution is 100% discretionary. The proposed distributable cash flow formula links the distribution with the cash flows of Enercapita Energy Ltd. up to a maximum. This protects Enercapita's balance sheet by ensuring distributions do not result in negative cash flow resulting in increased debt. It also ensures positive cash flow is used first for distributions.
- **Advisor support:** The advisors of Enercapita have agreed to suspend advisory services fees after April 2019 provided that the Amendments are approved, until such time as redemptions are restored and the PTU value is at par. The cost savings associated with the suspension of the advisory services fees will accrue to the benefit of all unitholders and further endorses the Trustees' intentions to maximize unitholder value.
- **Greater access to Capital:** The removal of the existing 30% cap on indebtedness is expected to allow Enercapita to obtain debt financing at rates and market levels similar and competitive with comparable entities. Currently, there are revolving and operating loan facilities established in favour of Enercapita Energy Ltd. of up to \$120 million from a syndicate of lenders.

**Your vote is very important. Whether or not you attend the Trust Meeting and the LP Meeting, please take the time to vote your PTUs, Preferred LP Units and/or Common A LP Units in accordance with the instructions contained in the applicable form of proxy for the Trust Meeting and the LP Meeting and submit your proxy via the internet, by fax or through the mail in the enclosed envelope as soon as possible to ensure your representation in the votes. If you are a non-registered unitholder and hold your PTUs, Preferred LP Units and/or Common A LP Units through a broker, bank, trust company or other intermediary, you should carefully follow the instructions of your intermediary to ensure that your PTUs, Preferred LP Units and/or Common A LP Units are voted at the Trust Meeting and the LP Meeting, as applicable, in accordance with your instructions.**

For the Amendments to become effective, the special resolutions of the holders of PTUs (the "**Trust Resolutions**") and the special resolutions of the holders of Preferred LP Units and Common A LP Units (the "**LP Resolutions**") described in the accompanying Notice of Special Meeting of Preferred Unitholders of the Trust and Notice of Special Meeting of Preferred Unitholders and Common A Unitholders of the Partnership must each be approved by the affirmative vote of more than 66% of the votes cast by holders of PTUs (in the case of the Trust Resolutions) and by the affirmative vote of more than 66% of the votes cast by holders of Preferred LP Units and Common A LP Units (in the case of the LP Resolutions), in each case by holders of each class of PTUs, Preferred LP Units and Common A LP Units, who are entitled to vote and do vote on the resolutions.

If all necessary approvals are obtained and all other conditions to the implementation of the Amendments are satisfied or waived, then the Trust and the Partnership anticipate that the Amendments will become effective on or about August 9, 2019.

As the holders of PTUs are not direct holders of Preferred LP Units, if the Trust Resolutions are approved by holders of PTUs, Enercapita Energy GP Ltd., as administrator of the Trust, shall either: (i) vote all of the Preferred LP Units held by the Trust in favour of the LP Resolutions; or (ii) execute and deliver a written resolution approving the LP Resolutions in respect of the Preferred LP Units held by the Trust.

The accompanying Information Circular contains detailed information about the Trust, the Partnership, Enercapita Energy GP Ltd. and their respective businesses. Please consider this material carefully and, if you require assistance, consult your financial, legal, tax and other professional advisors.

Yours very truly,

*"Craig Hruska"*  
Director

*"Greg Tisdale"*  
Director

*"Stephen Johnston"*  
Director

*"Michael Cook"*  
Director

*"Greg Tooth"*  
Director