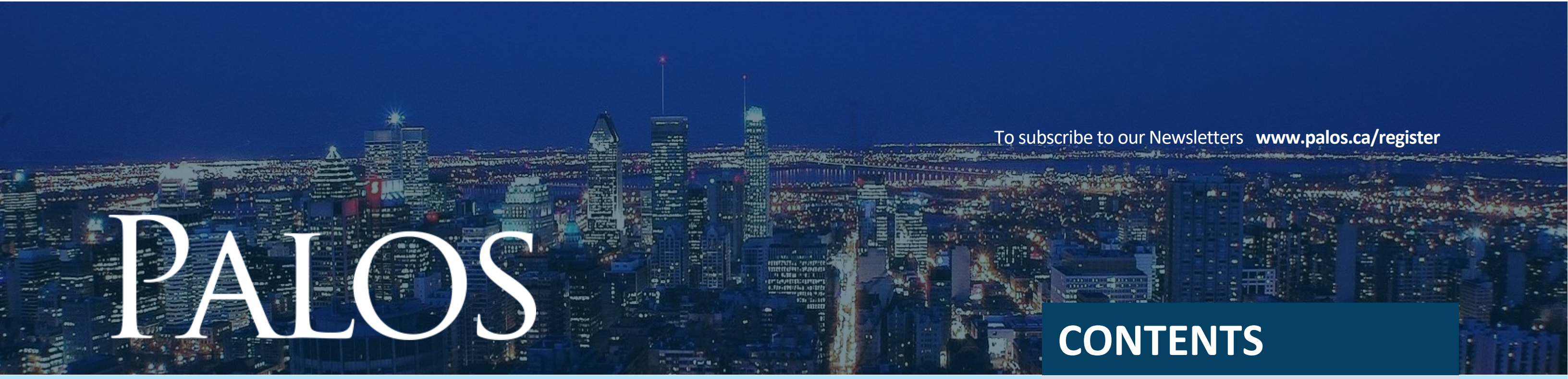

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Weekly Commentary

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By Charles Marleau CIM® and William Mitchell CIM®

Climate Change:
The Important Role of Governments

For Canada to meet its Paris Accord CO_2 reduction targets, federal and provincial governments will play a critical role. Governments must work together to create a transparent regulatory system and a framework that offers participants incentives to decarbonize industrial activity. Government initiatives must target a variety of objectives; these include the development of renewable energy, supporting research and new technologies, and the establishment of a reliable carbon pricing regulatory system that includes market-based CO_2 pricing, tax credits, caps on emissions, clean fuels standards, and a viable system for measuring and regulating CO_2 emissions.

On April 19, 2021, Ottawa announced plans to incentivize the transition to a 'green' future. Among the proposed measures, the government highlighted the **Carbon Capture and Storage (CCUS)** industry as playing a crucial role if we are to achieve our CO_2 reduction targets. The budget includes a $17 billion commitment to decarbonization spending and tax incentives. The goal is to advance technology, lower costs, and ensure that Canada remains a world leader in the industry. A consultation process aimed at environmental and industry groups was launched on June 7. The government is seeking input from interested parties on how to advance the CCUS industry. The deadline for submissions was last week (Sept. 7).

Any initiative in CCUS must be supported by incentives. This will include a CCUS investment tax credit framework that supports commitment of capital invested in the industry. Tax credits will be directed at carbon capture projects in the materials (e.g., concrete, fertilizers, plastics), oil and gas (oil sands, natural gas, refining), and energy (coal or natural gas fired power plants). It's expected that the budget proposal will come into effect in 2022. The plan also addresses the hydrogen production industry. While hydrogen-based technologies remain in the early development/adoption stage, it is expected that hydrogen will assume a key role in reducing industrial emissions. Of note, enhanced oil recovery (EOR) has been excluded.

At the provincial level, the Alberta government is seeking to advance a storage-rights system that will stimulate the creation of pipeline infrastructure and storage hubs. The Alberta government has requested expressions of interest (EOI) from companies that are interested in developing CCUS infrastructure. The goal

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is to efficiently manage an open access regulatory system that will award carbon sequestration rights, which in turn will further the development of CCUS transportation and storage hubs. The inclusion of carbon credits and tax incentives will be included in the process.

On Sept. 7, the government of Saskatchewan announced plans to make Saskatchewan "the most competitive jurisdiction in Canada to invest in CCUS technology and infrastructure", according to Energy and Resources Minister Bronwyn Eyre. Further, Eyre stated that to reach Paris accord goals, energy enhanced recovery methods that incorporate CCUS produce fewer emissions by 82%. The government's strategy aims to simplify the regulatory process, develop a GHG (greenhouse gas) credit program and expand the provincial pipeline infrastructure and storage hub system.

Next week we will be in the midst of a federal election. While leaders on the campaign trail address their commitments to environmental issues, we will only learn in the coming months how, and to what extent, Canada will incorporate spending and tax incentives into Canada's emissions reduction strategy. The Conservative platform promises to commit $5 billion to developing the CCUS industry via tax credits and direct investment in capture technologies. This is viewed as supportive of the oil and gas sector. Canada holds the third largest reserves, and the energy sector should remain one of the most important contributors to national GDP. If the Liberals retain power, we expect that the current agenda will remain in place (current CCUS proposal for 2022). Regardless of which party governs, it is clear that CCUS initiatives are destined to assume a growing importance in helping us reduce Canada's carbon footprint.

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Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) [1]	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	$10.11	20.41%
Palos Equity Income Fund - RRSP	PAL101	$7.65	20.75%
Palos Merchant Fund L.P. (Dec 31, 2020) [2]	PAL500	$1.35	-21.15%
Palos WP Growth Fund - RRSP	PAL210	$24.04	50.60%
Palos-Mitchell Alpha Fund [3]	PAL300	$11.62	24.68%
S&P TSX Composite (Total Return with dividends reinvested)			20.55%
S&P 500 (Total Return with dividends reinvested)			19.89%
S&P TSX Venture (Total Return with dividends reinvested)			3.27%
Chart 2: Market Data [1]			**Value**
US Government 10-Year			1.34%
Canadian Government 10-Year			1.24%
Crude Oil Spot			US $69.72
Gold Spot			US $1789.90
US Gov't10-Year/Moody BAA Corp. Spread			190 bps
USD/CAD Exchange Rate Spot			US $0.7880

[1] *Period ending September 10, 2021. Data extracted from Bloomberg*

[2] *Fund is priced annually*

[3] *Fund is priced weekly on Tuesdays*

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