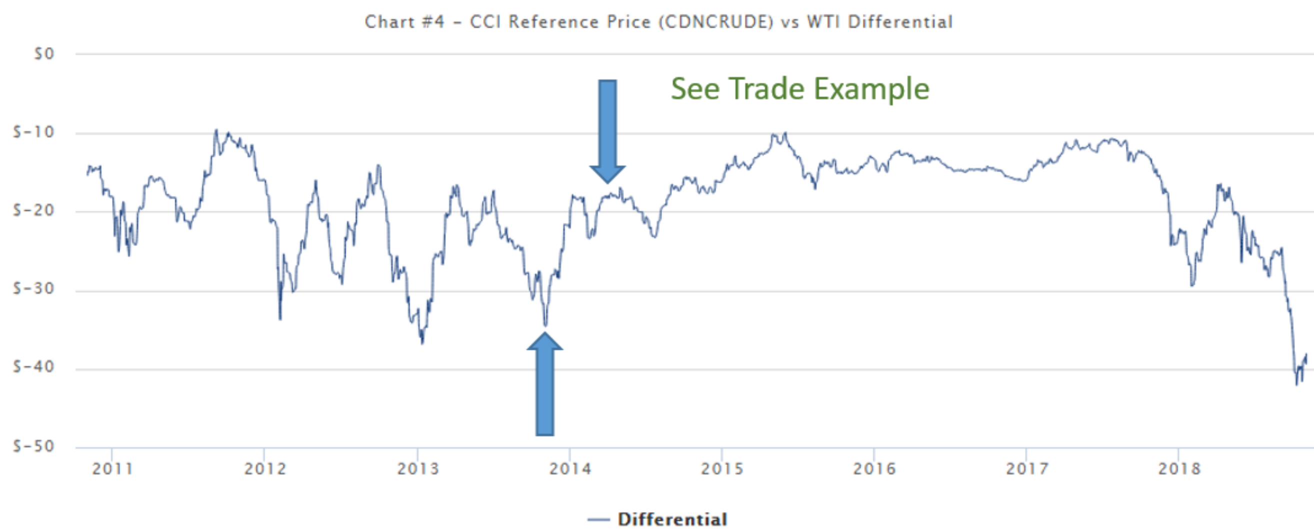
AUSPICE

Canadian Crude – Trading the Spread

The differential between West Texas Intermediate (WTI) and the Canadian Crude Index (CCI), often referred to as "WCS" or Western Canadian Select, has recently hit all time deep discount levels. The CCI has recently traded near $20 US/barrel, or 60 percent less than WTI, a discount greater than $40 US per barrel. (For reference, CCI = WTI + WCS in US per barrel on a rolling 90 day term).

While the price of CCI regularly disconnects from WTI, the discount average has been $18 US/bbl since 2010. As a spread to the CCI index, the WCS discount has ranged from $42 at widest to as narrow as $9 as depicted below. The current level is near 4 standard deviations from average. (Note this chart is updated daily on the Auspice website under the CCI index since publication inception).



Trade Example: for illustration purpose only

To place a trade to take advantage of a narrowing WCS discount, we use the example highlighted above as the differential moved from a wide level of -$34.51 in November 2013 to an average level of -$17.94 in April 2014.

Steps:

1. Buy units of CCX.TO: Canadian Crude Index ETF
2. Sell (ratio*) units of USO: USCF United States Oil ETF (US WTI)
    a. (*ratio determined by normalizing shares per barrel of CCI versus WTI – see current example below)

Using the underlying CCI index (as a proxy for CCX prior to launch) and USO, the following component market moves and returns can be observed:

1. CCI: 886.6536 – 1097.99 = +24%
2. USO: 34.13 – 36.32 = -6%. (or -12% currency adjusted to CAD$).

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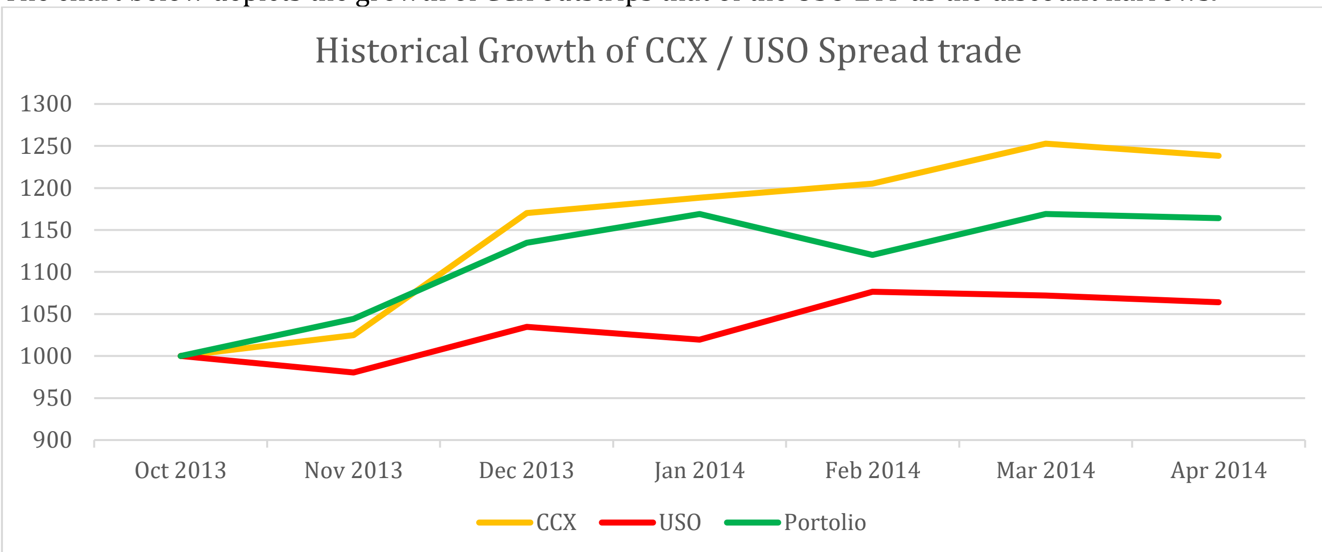
Theoretical result:

Net trade return estimate = +12% (CAD$ adjusted, no fees considered)

The chart below depicts the growth of CCX outstrips that of the USO ETF as the discount narrows.



In the past year, the discount has widened from $10 to $42 with spot months even trading near a $50 discount. While the reasons for this is beyond the scope of this paper, suffice it to say a combination of rising supply, high storage levels and a lack of immediate takeaway capacity have all contributed. If and when Canada makes progress on the Trans Mountain pipeline or other pipeline projects such as Enbridge Line 3 or Keystone XL as well as add storage and rail capacity, that could mean a significant narrowing of the differential from these historically deep discount levels.

Ratio example:

In order to keep the balance of CCX to USO on a 1:1 ratio (by barrel) it is necessary to normalize the number of shares purchased and sold as illustrated in the following table. Note the prices of the CCX and USO ETFs in USD. Dividing the USO shares required into the CCX shares will give the estimated ratio of CCX to USO to use. In this example, if one wanted to use 100,000 shares of CCX, the shares of USO shares to short would be 100,000/1.13 = 88,757.

	CCI	WTI
Barrel price	25.00	62.50
CCX or USO (in USD)	4.62	13.00
Shares per bbl =	5.42	4.81
Ratio	**1.13**	**CCX to USO**
Shares	100,000	88,757

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The Canadian Crude Oil Index ETF (CCX), seeks to replicate, to the extent possible, the performance of the Canadian Crude Excess Return Index (CCIER) net of expenses, and allows investors to access the price of Oil produced in Canada. The ETF does not employ leverage, but in order to achieve its investment objectives, CCXTM will invest in derivatives and other financial instruments from time to time, which may include interest bearing accounts and T-Bills.

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