News Highlights

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Phone: 1-888-710-4242
Web: www.portlandic.com
Email: info@portlandic.com

PORTLAND INVESTMENT COUNSEL®

Our views on economic and other events and their expected impact on investments. May 16, 2016

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Energy Sector

Crescent Point Energy Corp. reported record production in Q1, which makes it on track to meet its annual average production guidance. It also announced a loss in the quarter that was narrower than expected. During the quarter, the company had an adjusted net loss of $5.2 million, or $0.01 per share, compared to last year's $28.3 million, or $0.06 per share, and better than the Thomson Reuters forecast for a loss of $0.11. Funds flow from operations were $378 million, or $0.74 per share, down 13% from 2015. Production was 178,241 barrels of oil equivalent per day (boe/d), up from last year's 153,854 boe/d, which positions the company to achieve its annual average production guidance of 165,000 boe/d. The company's guidance for 2016 and initial plans for 2017 remains unchanged with annual capital expenditures of $950 million each year. Crescent Point expects to generate significant excess free cash flow as commodity prices rebound, which would provide flexibility to improve its balance sheet and increase total returns for shareholders. If West Texas Intermediate (WTI) oil prices average US$45/bbl during 2016, the company estimates near $300 million of excess free cash flow over and above its capital spending plans and its dividend. Based on initial planning for 2017, Crescent Point expects to maintain production in the 165,000 boe/d range and balance cash inflows and outflows at a WTI price of near US$45/bbl. The company was able to save and re-assign $100 million of capital expenditure into the second half of 2016; and continued to show restraint in regards to its capital program for 2017 (which could change later should conditions change). Crescent Point's operating netback was $27.50, including $13.00 of hedging gains.

Whitecap Resources Inc. is paying $595 million for a package of southwestern Saskatchewan oil assets from Husky Energy Inc., the latest in a series of deals it has done through the energy-sector downturn. Whitecap also said it will issue $470 million shares to finance the deal, the latest of several sales by Husky. Under the deal, Whitecap will pick up production of 11,600 boe/d on lands that come with further development opportunities. Husky chief executive Asim Ghosh said the sales will help to make the company more efficient as it focuses on fewer plays. In recent weeks, the company, controlled by Hong Kong billionaire Li Ka-shing, agreed to sell royalty interests in oil and gas properties to Freehold Royalties Ltd. for $163 million. Husky also sold oil and gas processing assets near Lloydminster for $1.7 billion to Hong Kong-based Cheung Kong Infrastructure Holdings and Power Assets Holdings Ltd. Husky held on to a 35% stake in the facilities, which include about 1,900 kilometres of pipeline. Whitecap said issued 51 million subscription receipts for $9.20 each in an offering led by National Bank Financial And TD Securities Inc in a deal that was very well received by the markets.

U.S. land rig count fell 6 units to 382, led by horizontal oil (-5), vertical oil (-3), directional gas (-2), partially offset by vertical gas (+3) and horizontal gas (+1), while directional oil remained flat w/w. Total horizontal land rig count has declined 77% since the peak in November 2014.

U.S. horizontal oil land rigs decreased by 5 to 248 led by Permian (-3), Williston (-1), Eagle Ford (-1), DJ-Niobrara (-1), Mississippian (-1), and Woodford (-1), partially offset by gain in "Other" (+3), while Granite Wash remained flat w/w. This is the 20th consecutive week of declines for horizontal oil land rigs, but the 7th week of single digit declines as the trajectory of decline has begun to slow.

U.S. offshore rig count decreased 2 units to 21, and is down 61% since June 2014.

Canadian rig count was up 7 rigs but remains 45% off the level this time last year.

The Goldman Sachs Group, Inc. energy analysts have reversed their earlier opinion and now raised their short-term price outlook for U.S. crude, believing there to be steeper near-term cuts in global output which will reverse the earlier excess supply. Goldman now believes WTI prices will average $50/bbl in the second half of 2016. Goldman has raised its global demand growth forecast by 200,000 boe/d to 1.4 million barrels anticipating higher demand from Asia especially China. Goldman also notes the oil markets have been impacted from recent disruptions in Nigeria and also Canada due to the wildfire but further out it has lowered its WTI price outlook for 2017 from $57.50 to $52.50/bbl as it sees markets returning to surplus by first quarter 2017.

Financial Sector

Barclays plc has struck a deal with Bottomline Technologies Inc. to offer UK companies a platform with which to send payments instantly to customers using their mobile phone number. Businesses from utilities to insurers will be able to make instant payments, such as refunds, to consumers directly without needing their bank account details. The launch comes amid the largest payments revolution in recent history, as businesses and consumers around the world are increasingly using mobile phones to make immediate payments instead of relying on old, slower methods, such as cheques. (Source: Financial Times)

Fifth Street Floating Rate Corp. (FSFR) reported core earnings of $0.20/share, as interest income missed estimates while professional fees were elevated due to preparations for its annual meeting that was held in early April. FSFR indicated on the call that professional

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fees will remain slightly higher in Q3 2016 before reverting back to normal levels. Net Asset Value fell ~2% quarter over quarter to $11.18/share, largely the result of write-downs due to credit markets volatility. Notably, net originations decreased 4% quarter over quarter, driven by continued weakness across credit markets and the energy and commodity sectors along with a slowdown on the private equity sponsors side due to broader market weakness, though management indicated a modest pick-up in volume towards the end of the quarter was a promising sign for future deal flow. We note FSFR has maintained the current monthly dividend rate of $0.075/share through August though we think FSFR's NAV could still come under pressure given volatility in the credit markets. As of the end of 2FQ16, FSFR's Glick Joint Venture had roughly $211 million of assets, up from $199 million the prior quarter that generated a 14.0% return on investment for the quarter and higher than the 10.5% return in the prior quarter. Management has previously mentioned that the Glick Joint Venture should generate a low teens Return On Equity as the fund reaches its targeted investment capacity of $300 million.

Goldman Sachs Group is hosting its first ever leveraged finance conference this week as the Wall Street bank tries to strengthen its position in debt underwriting and looks for new avenues of growth. The event is a key step for Goldman as it tries to convince clients to turn to it for debt financing rather than bigger competitors like JPMorgan Chase & Company, people familiar with the matter told Reuters. Goldman is searching for other sources of profit as strict regulations have pressured its once lucrative bond trading unit and volatility has essentially frozen the market for initial public offerings. (Source: Reuters).

ING Groep NV – reported Q1 2016 earnings – a 5% miss driven by expenses. ING Bank reported €842 million underlying net results vs. €890 million consensus. The 5% miss at Profit Before Tax level was driven by Retail (-9% vs. Consensus which had lower provisions) and Commercial Banking (-3% vs. Consensus). Revenues were 0.5% below expectation, expenses 5% higher (ex regulatory expenses, 3% higher), and Loan Loss Cover were 19% below consensus. 11.8% ING Bank Core Equity Tier 1 ratio versus. 11.6% in 4Q 2015 and 13.2% ING Groep Core Equity Tier 1 ratio on a pro forma full divestment of NN Groep (the insurance division of ING) basis versus 13.3% in Q4 2015. Overall a mixed set of results in our view with 5% miss on underlying pre-tax versus consensus but capital position has held up.

Activist Influenced Companies

Cable & Wireless Communications plc/Liberty Global plc – Liberty Global announced that it has completed its acquisition of Cable & Wireless (CWC) in a transaction valued at approximately $7.4 billion on an enterprise value basis. The CWC business will be attributed to Liberty's Latin American and Caribbean group (the LiLAC Group), which trades on the NASDAQ as a tracking stock of Liberty Global under the ticker symbols LILA and LILAK. The combination of CWC and the LiLAC Group creates the leading consumer and business-to-business communications provider in the region. These operations will serve 10 million video, voice, broadband and mobile subscribers in more than 20 countries, are expected to generate over $3.5 billion of revenue on an annualized basis, and will become the leading platform for further consolidation in Latin America and the Caribbean. Mike Fries, Liberty Global's CEO commented, "I would like to personally congratulate Phil Bentley, outgoing CEO of CWC, for his great work over the last two and a half years. I would also like to welcome John Reid as interim CEO of CWC. We look forward to working closely with John over the next six months as we evaluate how best to structure and integrate CWC into the LiLAC Group and jointly explore new opportunities for growth and expansion. John was previously President of CWC's Consumer Group and also held other high-profile management roles at Columbus Communications and Persona Communications."

Canadian Dividend Payers

Northland Power Inc. – "Northland's first quarter results reflect continued progress in several key areas," said John Brace, Chief Executive Officer. "We delivered our Grand Bend project into operations, while continuing to make significant advancements on both of our offshore wind projects currently under construction. We were pleased to see the Ontario Court of Appeal uphold the original decision relating to the price escalators for power sold under our affected power purchase agreements. Our adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) continues to increase, and we have reaffirmed our 2016 guidance in anticipation of another successful year." Gross profit of $129.3 million for the first quarter of 2016 was in line with the first quarter of 2015 primarily due to higher PPA (power purchase agreement) rates at Iroquois Falls and contributions from the newly operating ground-mounted solar facilities, offset by lower base-load gas-fired PPA rates at Kirkland Lake and the loss of revenue from Cochrane in 2016. Quarterly adjusted EBITDA for the first quarter of 2016 increased by 7% over the same period in 2015 to $103.9 million primarily driven by positive contributions from thermal and renewable operating segments and the establishment of decommissioning reserves in 2015 related to the Cochrane facility; Quarterly free cash flow per share was $0.26 in the first quarter of 2016 versus $0.33 in the first quarter of 2015 primarily due to net proceeds received in 2015 from the sale of the Frampton wind farm and higher debt payments relating to the newly operating ground-mounted solar facilities. Gemini - 600 MW offshore wind farm, North Sea-Construction continues to progress with the project remaining on time and within budget. In February, Northland announced that the first wind turbine was installed and commenced producing power. Presently, 50 wind turbines, representing over a third of the total wind turbines, have been installed with 27 wind turbines producing power and earning pre-completion revenues. Installation of the wind turbines will continue throughout 2016, and may continue into early 2017. Full commercial operations are expected by mid 2017. Nordsee One - 332 MW offshore wind farm, North Sea-Nordsee One continues to progress as expected with the project remaining on time and within budget. In April 2016, the project announced that all 54 foundation monopiles and transition pieces had been successfully installed. The offshore substation jacket foundation was also successfully installed in early May 2016. Construction of the offshore substation topside continues on schedule for installation in the summer of 2016. Production of in-field cables is nearly complete and production of the wind turbines has commenced. Full commercial operations are expected by the end of 2017. Grand Bend - 100 MW onshore wind farm, Ontario-The project declared commercial operations on April 19, 2016 with all 40 wind turbines producing revenues and operating as planned. Commercial operations was ahead of previously disclosed timing due to the contractors and suppliers taking advantage of favourable weather conditions and providing additional staff to advance commissioning. Capital cost of the project was within budget. Management continues to re-iterate 2016 adjusted EBITDA and free cash flow per share guidance.

Petrowest Corporation (a holding of Crown Capital Fund IV, LP (2015) via the Portland Private Income Fund) posted Q1 2016 revenue and EBITDA of $37 million (-4% year/year) and $2 million (+$3.5 million year/year), both in line with consensus estimates. The $1.6 million year/year decline in revenue was primarily attributable to a decrease in the Construction segment (-23% year/year), the Transportation segment (-24% year/year), following increased competitive pressure and pressure on rates, and Environment (-91% year/year), with a reduction in hazardous waste remediation from the energy sector. Partially offsetting was the Civil segment, where revenue increased 44% year/year on the back of new awards, such as the Fort St. James mine and Regina Ring Road. EBITDA benefited from stronger gross margins in Civil and a $0.5 million y/y decrease in expenses. The Peace River, Alberta, Site C dam project had limited impact on the quarter, with results expected to begin flowing through in Q2 2016. Management provided an update on the project noting work is still in the early stages (site development), with earthworks expected to begin in the near term. Management reiterated its 2016 EBITDA guidance of $45 million. With Site C expected to generate $25 million in EBITDA this year, and the base business having $100 million in contracts on hand entering the year. In addition, we believe Petrowest is well positioned to secure its fair share of new awards as it has a bid funnel of over $250 million at present that includes the Grand Prairie Road project, Calgary Ring Road, additional Site C work, and emerging BC LNG pipelines. Management exhibited capital discipline with capital expenditure decreasing 57% year/year to $1.5 million. In addition, Petrowest sold $6.2 million of equipment in Q1/16 with a subsequent $4.3 million in April, disposing of aged equipment not suiting the company's strategy. Its estimated the net debt-to-EBITDA ratio will improve from 8.3x in Q4 2015 to 1.1x by year end, which takes into consideration $10.5 million of net proceeds from an equity issuance in April.

Global Dividend Payers

Nothing new to report.

Economic Conditions

U.S. retail sales beat expectations in April, surging 1.3% in the month, the biggest monthly advance since March 2015. Autos were the big contributor as unit sales hit a record high for that month. But even excluding the auto sector, sales jumped 0.8%, also firmly above expectations. Gains were broadly based………particularly in those key discretionary areas such as furniture, electronics, sporting goods, and dining out…..areas one would cut back on in tough times. Clothing buttoned up a 1.0% rise, the most in nearly a year. Only building/garden equipment fell in April, but the 1% decline was only the 2nd this year. For the purposes of GDP, core sales (excluding autos, gas, and building materials) rose 0.9%, the largest in over two years, which starts the quarter off on a very solid footing.

The Bank of England (BOE) said last Thursday that a vote to leave the European Union could slam the brakes on growth in the UK, push up unemployment and stoke inflation, in its clearest warning yet about the potential economic costs surrounding a referendum on membership next month. In a statement accompanying its monthly policy decision, the BOE's Monetary Policy Committee said that a vote in favour of exiting from the EU in a referendum scheduled for June 23 could prompt households to put off spending, cause businesses to delay investment and lead to a sharp fall in sterling that could fuel a surge in prices. The UK could also face "a major financing difficulty" if doubts about the UK's prospects outside the EU spooked the foreign investors on which the nation depends to fund a yawning gap between what it spends and what it earns, the Band Of England said. (Source: The Australian)

Financial Conditions

The **Bank of England**, as expected, stayed on hold (Bank Rate left at 0.5%, and the Asset Purchase Facility was maintained at £375 billion). Currently, future outlook in UK is all about what happens on June 23rd and whether the UK stays in the EU. The results will determine what the Bank of England will do……and because of that, it "makes macroeconomic and financial market indicators less informative than usual", according to BOE Governor Carney in his letter to Chancellor of the Exchequer Osborne. In other words, the data are interesting but it is the vote that will determine when the BOE moves again. In our view if the vote is to remain in the EU, then a rate hike before year-end is still a possibility whereas a 'Brexit' would likely require a further cut in rates.

The U.S. 2 year/10 year treasury spread is now .96% and the UK's 2 year/10 year treasury spread is 1.01% - meaning investment banks remain constrained from profiting from a steep yield curve and instead are seeking operational efficiencies, including job cuts and lower compensation, to maintain acceptable levels of profit, i.e. above their costs of capital.

Influenced by the withdrawal of quantitative easing, the U.S. 30 year mortgage market rate has increased to 3.57% (was 3.31% end of November 2012, the lowest rate since the Federal Reserve began tracking rates in 1971). Existing U.S. housing inventory is at 4.5 months supply of existing houses. So the combined effects of low mortgage rates, near record high affordability, economic recovery, job creation, and low prices are finally supporting the housing market with housing inventory well off its peak of 9.4 months and we believe now in a more normal range of 4-7 months.

The VIX (volatility index) is 15.89 (compares to a post-recession low of 10.7 achieved in early June) and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 augurs well for quality equities.

Mutual Funds

Portland Investment Counsel Inc. currently offers 7 Mutual Funds:

- Portland Advantage Fund
- Portland Canadian Balanced Fund
- Portland Canadian Focused Fund
- Portland Global Income Fund
- Portland Global Banks Fund
- Portland Global Dividend Fund
- Portland Value Fund

Private/Alternative Products

Portland also currently offers private/alternative products:

- Portland Focused Plus Fund LP
- Portland Focused Plus Fund
- Portland Private Income Fund
- Portland Global Energy Efficiency and Renewable Energy Fund LP
- Portland Advantage Plus Funds
- Portland Private Growth Fund
- Portland Global Aristocrats Plus Fund

We want to share our insights with you and welcome your feedback. Our website has the latest, as well as archived videos, company profiles, and press articles. Please visit us at www.portlandic.com.

Portland Investment Counsel Inc., 1375 Kerns Road, Suite 100, Burlington, Ontario L7P 4V7 Tel.:1-888-710-4242 • www.portlandic.com • info@portlandic.com

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