Calgary Portfolio Management Trust

2017 Annual Report

UNIVERSITY OF CALGARY
HASKAYNE SCHOOL OF BUSINESS

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Dear Stakeholders,

The Calgary Portfolio Management Trust (CPMT) Class of 2017 would like to extend our gratitude to the Board of Trustees for its continued commitment to, and engagement with the program. We would also like to sincerely thank the CFA Society of Calgary and CPMT alumni for their involvement and support. Finally, we would like to thank all of our supporters in the Calgary business community for their vested interest in the program.

The past quarter was eventful for the CPMT; we hosted a successful alumni anniversary event where we celebrated the 20th year anniversary of the CPMT program since the first investment, engaged over 40 business students from the faculty at a CPMT workshop in Kananaskis, and for the first time in CPMT history, the total value of the Fund exceeded $500,000 in AUM. We have continued to target success through following CPMT's stringent investment policy and maintaining a long term, value based approach to investing. We are committed to our proven strategy of owning companies with high caliber management teams, strong balance sheets, growing free cash flow, and tangible competitive advantages. Moving forward, the team is dedicated to enhancing our strategy of conviction based capital allocation.

The CPMT also recently added several members to the program. We would like to welcome six new Research Associates; Alfredo (A.J.) Bangloy (3rd year Finance & Economics), Maxim Bouianova (2nd year Finance), Wyatt Phillips (2nd year Finance), Alim Suleman (2nd year Finance), Lukas Sutherland (3rd year Finance & Geology), and Brodie Wilson (3rd year Finance).

Involvement in the CPMT program continues to offer invaluable exposure to a challenging and scholastic environment, creating an unrivaled experience for students. We look forward to placing the lessons learned from our mentors and supporters into practice, and aim to pass the knowledge on to future members of the program in order to preserve the strategy and discipline of the fund for years to come. We are eager to find new ways to continually improve the program, and will strive to maintain our commitment to excellence.

Sincerely,

Babbal Brar, Fund Manager

Hashim Chawdhry, Fund Manager

Bryton Hewitt, Fund Manager

George Huang, Fund Manager

Dan Morgan, Fund Manager

Class of 2017

Biographies

CPMT CLASS OF 2017

BABBAL BRAR
Fund Manager
4th Year, Finance

Babbal is thankful for the various experiences and opportunities provided by the CPMT and would like to thank the CPMT Board of Trustees, Calgary CFA Society, mentors, speakers, and alumni for their continued support. The program has provided Babbal with unparalleled opportunities for personal, academic and professional development. Babbal would like to extend a special thanks to his peers for their continued dedication, support and commitment to the program. During his two years with the program, Babbal has furthered his knowledge of the capital markets, developed cherished friendships, and learned valuable lessons from his peers, faculty advisers and mentors. This upcoming summer Babbal is excited to join the Bank of America Merrill Lynch team in Calgary as an Investment Banking Summer Analyst.

HASHIM CHAWDHRY
Fund Manager
4th Year, Finance

Hashim has been in the CPMT program since March 2014, and would specifically like to thank the Class of 2015 and 2016 for their continued support and mentorship. CPMT was the highlight of Hashim's degree and has opened up a global network of contacts which otherwise would not be available. Further, he would like to thank the Board of Trustees, Calgary CFA Society, and Professor Tom Holloway in making the program a success. His experience includes internships at Brookfield Property Partners, Paradigm Capital, and National Bank Financial. Upon graduation, Hashim will be joining J.P. Morgan as an Investment Banking Analyst.

BRYTON HEWITT
Fund Manager
5th Year, Finance / Psychology

As a graduating Fund Manager, Bryton is thankful for the CPMT's alumni support, the passionate oversight displayed by CPMT's Board, and the camaraderie bestowed by his peers and friends within the program. Beyond CPMT, Bryton is a member of the Scholars Academy and is a three-time medalist at the Inter-Collegiate Business Competition (ICBC), including the 2017 finance event gold medalist alongside teammate and fellow Fund Manager Daniel Morgan. After one summer working in internal strategy consulting and two summer terms working on the buy-side, Bryton is excited to begin his career in Toronto next autumn as a Rotational Equity Analyst with the Canada Pension Plan Investment Board. Outside of academics, Bryton enjoys acting in a local film guild, and is looking forward to travelling throughout the approaching summer.

GEORGE HUANG
Fund Manager
5th Year, Finance / Economics

George joined the CPMT in April 2015 and has enjoyed his tenure with the program. He would like to thank his peers, mentors and the Haskayne faculty for their tireless support. He would also like to extend a special thanks to the CFA Society of Calgary and the CPMT's Board of Trustees for making this experience possible. The CPMT has helped George develop a sound fundamental understanding of the capital markets landscape and develop lasting friendships. George looks forward to joining Raymond James as an Equity Research Associate in Toronto upon graduation.

CALEB KOSTYNIUK
Fund Analyst
4th Year, Finance

Caleb joined the CPMT program in November 2015 as a Fund Analyst. Caleb appreciates the many opportunities for learning and mentorship in the program, and has enjoyed his experience learning about portfolio management. Caleb was a member of the Rotman International Trading Competition Red Team in 2016, and is actively seeking career opportunities in capital markets. In addition to his interest in capital markets, Caleb is also involved in the fitness industry, serving as a writer for a personal training company based in London.

DANIEL MORGAN
Fund Manager
4th Year, Finance

Daniel Morgan is pleased to have spent three years in the CPMT program, where he first joined as a Fund Analyst and progressed to the Fund Manager role. He is grateful to the Board for investing in his development over these years, as well as all of the students he worked with in the program for their mentorship and friendship. Daniel built invaluable skills in the program which contributed to winning the gold medal in the finance event at the Inter-Collegiate Business Competition (ICBC) with his fellow Fund Manager Bryton Hewitt. Now, Daniel is looking forward to joining AltaCorp Capital's equity research team after graduation and is a CFA Level I Candidate. He hopes to continue his involvement in the program as an alumnus.

REBECCA WANG
Research Associate
4th Year, Finance

Rebecca joined the CPMT program in March 2016 as a Research Associate. She would like to thank the board, mentors, speakers, alumni, and current program members for contributing to one of the most memorable experiences of her undergraduate degree. The support she has received as a member of the program has been invaluable. During university, Rebecca completed Co-op terms in Investor Relations at Agrium Inc. and in the oil & gas sector, as well as an internship with the Investments office of the UofC. Rebecca is a CFA Level II candidate, writing this upcoming June. Outside of academics, she enjoys horseback riding, skiing, and playing volleyball. Rebecca is looking forward to joining TD Securities as an Investment Banking Analyst after graduation. She is eager to observe the continual development of the program in coming years and looks forward to being involved as an alumna.

CPMT CLASS OF 2018

ABDULRAHMAN ALNOAIMI
Fund Analyst
4th Year, Chemical Engineering and Economics

Abdulrahman is completing his fourth year of a double degree in Economics and Chemical Engineering, with a Minor in Petroleum Engineering. He is currently completing a 16-month internship at NOVA Chemicals as a Process Engineering Intern, where he focuses on process modelling and data analytics. Since joining CPMT in September 2016, Abdulrahman has developed a deeper understanding and appreciation of financials markets as he prepares to write the CFA Level I exam in June 2017. He is extremely grateful for all the support and guidance from faculty advisors, alumni, mentors and peers. In his spare time, Abdulrahman enjoys playing soccer and ultimate frisbee.

DANIEL CASSINO
Research Associate
3rd Year, Finance

Daniel joined the CPMT program in March 2016 as a Research Associate and would like to thank the board, speakers, and alumni for their continued support for the program. He looks forward to further developing his experience in portfolio management, equity research, and valuation over the coming year. Daniel previously worked at the City of Calgary in the Assessment Business Unit on residential and commercial property valuation and is looking forward to joining J.P. Morgan as an Investment Banking Summer Analyst in May. In addition to his interest in working in capital markets, Daniel enjoys playing baseball, snowboarding, and is an avid car enthusiast.

KRISTIN GORKOFF
Research Associate
3rd Year, Finance

Kristin joined the CPMT program in October 2016 as a Research Associate. Since joining the program, she has thoroughly enjoyed working with the team, gaining hands on experience in portfolio management, and expanding her knowledge about the capital markets. She is sincerely appreciates having been given the opportunity to participate in the program, as it has been one of the best experiences of her undergraduate degree. She would like to thank the board of directors, speakers, faculty, and alumni for their ongoing support of the program. She is currently on an 8-month co-op with Credit Union Central Alberta working in the treasury department. She is also a June Level I CFA candidate. Upon graduation, Kristin intends to pursue a career in the capital markets and obtain her CFA designation. Outside of her academic pursuits, she enjoys classical music, travelling, and being active.

JENNIFER LABINE
Research Associate
4th Year, Finance / Economics

Jennifer LaBine joined the CPMT program in October 2016 as a Research Associate, and is grateful for all the support she has received throughout the year. Between lessons learned from peers and guidance provided by mentors, she considers being a member of the CPMT to be the most invaluable experience of her undergraduate degree thus far. She looks forward to further developing her research and valuation skills, and conducting in-depth portfolio analysis alongside her peers and friends in the coming year. Jennifer will be joining RBC Capital Markets as an Investment Banking Summer Analyst in May, and plans to pursue the CFA designation in the coming school year. Outside of this, Jennifer has participated in the CFA Research Challenge, and will be assuming the role of President of Fuse Collective in the coming year. She is an avid reader and recreational pilot.

DARREN LUOMA
Research Associate
3rd Year, Finance

Darren joined the CPMT as a Research Associate in October 2016. He is a certified Journeyman B-pressure Rig Welder with a passion for financial markets who is ecstatic to be pursuing a degree in finance at the University of Calgary. Through the mentorship program, guidance from his FM, and collaboration with his fellow RAs he has stoked his passion for finance, trading, and equity research. He is exceptionally grateful to participate in the program, and is looking forward to contributing even more next year. He is currently on a Co-op term at TransCanada as a financial analyst for the compensation department. This work term will conclude in September 2017, and he will finish his last year of university. Outside of school and work he is a huge MotoGP fan, loves biking, skiing, rock climbing, and spending time with his wife and dog.

CHASE MACDOUGALL
Research Associate
4th Year, Finance

Chase MacDougall joined CPMT in October 2016 as a Research Associate. Chase is excited about improving his research and valuation skills, as well as conducting in-depth analysis of different industries, and gaining valuable experience in security selection and portfolio management. He is eager to join BMO Nesbitt Burns to fulfill a role as an Investment Banking Summer Analyst at the conclusion of the current academic year. Outside of CPMT, Chase was a member of the Haskayne Trading Team which competed at the Rotman International Trading Competition in both 2016 and 2017, achieving 3rd and 2nd place finishes respectively. In addition to his interest in financial markets, Chase enjoys participating in and spectating a variety of sports, including hockey, baseball, basketball, and squash.

KELSEY MILLS
Fund Analyst
3rd Year, Finance

Kelsey joined the CPMT program in October 2016 as a Fund Analyst. She has enjoyed working with the team and expanding her knowledge of capital markets. Additionally, she is thankful for the unique opportunities the program has provided her and is grateful for the support provided by the board of directors, faculty advisors, mentors and guest speakers. Kelsey is looking forward to the year ahead and the continued growth of the fund. She is pursuing a second bachelor's degree, having previously graduated from the University of Alberta. Before returning to school she worked for Aux Sable Canada as a Commercial Reporting Analyst. Kelsey is excited to join AltaCorp Capital as an Equity Research Summer Associate. As an active member of the community she sits on the board of directors for the Junior League of Calgary as Vice President Membership. In her spare time she enjoys reading and hiking.

MAHAD NADEEM
Research Associate
4th Year, Finance / Economics

Mahad joined the CPMT program in September 2015 as a Research Associate. He is enthralled by the learning opportunities that CPMT has provided. He accredits the CPMT program for helping him develop a tireless work ethic, attention to detail, and intellectual curiosity. He recently finished an internship with Azimuth Capital Management and prior to that, he interned at the Canadian Energy Research Institute (CERI). He is eager to join AIMCo to fulfill an Investment Valuations role in their Private Investment group. Upon graduation, he intends to pursue the CFA designation. In his spare time, Mahad loves to play and watch tennis and soccer, and is enthusiastic about current events.

ERICK NOH
Research Associate
3rd Year, Finance

Erick joined the CPMT program in March 2016 as a Research Associate. He is extremely grateful for the continued support of the CPMT's faculty advisors, board members and alumni. Erick is looking forward to working with his peers to further his knowledge of capital markets and portfolio management. In addition to this, Erick is excited to learn more about valuation and research during the remainder of his tenure as a CPMT member. For the upcoming summer, Erick will be joining Tudor, Pickering, Holt & Co. as an Investment Banking Summer Analyst. In addition to his interest in finance, Erick also enjoys going to the gym and playing hockey. He plans to pursue a career in investment banking as well as obtain his CFA designation in the future.

DANIIL ZHIGATOV
Research Associate
4th Year, Finance / Economics

Dan is in the fourth year of his studies and a Research Associate in the CPMT program. He joined the program in the spring semester of 2016. He is very excited to continue learning about financial analysis and portfolio management as well as delve deeper into his understanding of the overall Canadian economy. He is very grateful to the board, alumni and the CPMT faculty advisors for their mentorship and wisdom over the past year. Dan is looking forward to an eight-month work term at RS Energy as an Equity Research Associate and plans to pursue this career upon his graduation.

Speaker Series and Mentorship Program

The CPMT program continued to benefit from our speaker series events. Whether on campus or through downtown visits, we thoroughly enjoyed and gained valuable experience from speaking with the industry veterans that we look up to. This has provided an invaluable opportunity for students to gain insight regarding potential career paths and current views of capital markets. In addition, our industry contacts have been actively involved in portfolio mentoring. The following are among those we would like to thank for their involvement in and support of the program:

2016 - 2017 CPMT Speakers Series	
Firm	**Organizer(s)**
AltaCorp Capital	Christian Erana
BMO Capital Markets	Brian Osiowy & Curtis Boulanger
Barclays Capital	Jason Field
CIBC World Markets	CIBC Recruitment Team
Enbridge	Max Chan
J.P. Morgan	Blake Nishikawa & Matias Garcia
Mawer Investment Management	Vijay Viswanathan
National Bank Financial	Chris Haughn
RBC Capital Markets	Nick Sellmer
Ross Smith Asset Management	Brett Thiessen
Scotiabank Global Banking & Markets	Ian Huston & Lindsay Jones
TD Securities	David Krauss & Connor Luck
Thoma Bravo	Carl Chan
Tudor, Pickering, Holt & Co.	Derek Wheatley

CPMT Student Mentorship		
Firm	**Mentor**	**Mentee**
Amazon	Jacky Cheng	Chase MacDougall
Elbow River Marketing	Michelle Oel	Kelsey Mills
Enbridge	Max Chan	Dan Zhigatov
J.P. Morgan	Blake Nishikawa	Erick Noh
J.P. Morgan	Jesse Shouldice	Rebecca Wang
J.P. Morgan	Matias Garcia	Mahad Nadeem
Jarislowsky Fraser	Chad Van Norman	Kristin Gorkoff
Mawer Investment Management	Vijay Viswanathan	Daniel Cassino
McRock Capital	Jeremy Gilman	Bryton Hewitt
Odyssey Investment Partners	Harrison Kim	Hashim Chawdhry
Peters & Co.	Callum Moore	Babbal Brar
QV Investors	Ian Cooke	Daniel Morgan
QV Investors	Ryan Watson	Logan Heidt
Raymond James	Chris Cox	George Huang
Rayne Capital	James Anderson	Ian Gott
Scotia Wealth Management	Raid Naji	Abdulrahman Alnoaimi
TimberRock Private Ventures	Anil Tahiliani	Darren Luoma
University of Calgary	Jaclyn Perrot	Jenn LaBine

Macroeconomic Update

Despite hitting an all-time high of 15,922 on February 21, the S&P/TSX Composite Total Return Index (the Index) was relatively flat at ~2.4% over FQ4 2017. Top performing sectors over the quarter included Utilities, increasing 7.3%, followed closely by the Consumer Discretionary sector at 7.0% and the Information Technology sector at 7.0%. The Energy sector weighed on the index, seeing a total return of -5.5%. Over FY 2017, the Index returned 18.6%.

Uncertainty surrounding changes to certain key U.S. policies under the Trump administration was a major theme throughout the quarter. The primary policies in question were reductions to corporate taxes, an increase in protectionist measures, and promises to increase fiscal stimulus through infrastructure spending. These uncertainties appeared to put a pause on both fiscal and monetary policy moves in Canada for the time being.

The Federal Reserve (the Fed) elected to raise the key interest rate in the United States by 0.25% to bring the rate to 0.75% on March 15 as a result of strong inflation and employment data. At both the January 18 and March 1 policy announcements, the Bank of Canada (BoC) however, maintained the overnight rate target at 0.5% amidst the aforementioned uncertainty in the United States. Although economic data released over the quarter continues to indicate a strengthening Canadian economy, with Gross Domestic Product (GDP) seeing faster-than-expected growth of 2.6% over the fourth quarter of 2016 and the Canadian unemployment rate falling to 6.6%, its lowest level in over two years. Governor of the BoC, Stephen Poloz, maintains that there continues to be room for growth within the economy prior to another rate hike.

WTI crude oil prices stayed above the US$50 level for the majority of the quarter amidst the Organization of Petroleum Exporting Countries' (OPEC) compliance with their agreed upon volume cuts. However, when higher-than-anticipated U.S. crude inventory data was released prices tumbled to the low range of US$47 in mid-March. By the end of the quarter, prices recovered to the US$50 range. In a big win for Canadian oil sands producers, President Donald Trump approved the controversial Keystone XL pipeline, once thought to be a project dead in the water after the Obama administration rejected the pipeline back in November of 2015. Assuming full clearance, the construction of this pipeline will allow Canadian oil sands producers to ship larger volumes of the Canadian dilbit down to refineries on the Texas Gulf Coast who are well suited to process the product. The U.S. government officially signed the permit for the line on March 24.

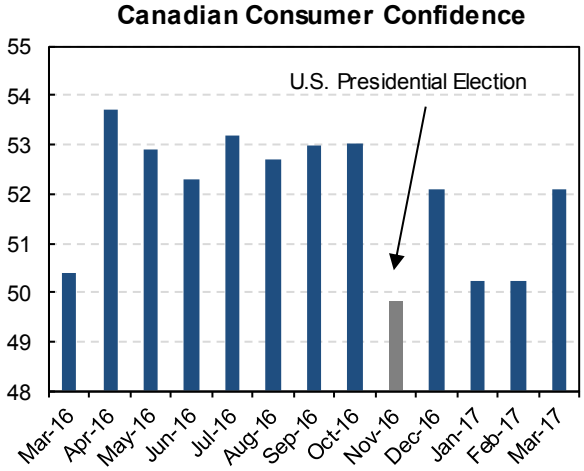
On a global scale, British Prime Minister Theresa May triggered Article 50 on March 29, commencing the two-year period the United Kingdom (U.K.) will have to negotiate its exit terms with the European Union. It is yet to be seen how this will impact nations such as Canada. The U.K. is one of Canada's most important European trading partners. The recently negotiated and ready-to-implement Comprehensive Economic and Trade Agreement (CETA) will no longer apply to the U.K. once they leave the European Union in two years' time. This is cause for concern for both nations and will see Canada and the U.K. looking to come to some form of agreement in order to ensure that the exit does not hurt trade, and subsequently the economies of either country.

Given all of the macro variables highlighted above, the CPMT continues to monitor the macro environment closely along with the underlying fundamentals to identify opportunities in the Canadian equity universe.

Annual Sector Updates

CONSUMER DISCRETIONARY & STAPLES

Consumer discretionary stocks have performed well, returning 7.0% over the CPMT's FQ4 2017, and 15.0% over FY 2017. Consumer discretionary spending is highly tied to levels of household debt, unemployment, and consumer confidence, each of which were favourable for spending over the last year. Canadian consumers' debt to disposable income ratio grew from 1.66x to 1.69x as of January 2017. Rising debt makes future consumer spending more volatile and likely to decline if interest rates rise. But, it also places more funds in consumers' pockets which helps facilitate more spending into the economy. One factor which reduces the risk of consumer debt is that Canadian unemployment dropped 60 basis points over the year ended February 2017 to 6.6%, a level that has not been reached since 2009H. Higher levels of employment bodes well for current and future discretionary spending. Another macroeconomic indicator that is crucial for discretionary spending is the Canadian Consumer Confidence level. March 2017 consumer confidence was pegged at 52.1 which is 1.8 above the prior year, but below the highs experienced earlier during the year. U.S. political events may have recently negatively impacted Canadian consumer confidence, as can be seen by polled public opinion displayed in the chart below.



CPMT's consumer discretionary holdings underperformed compared to the relevant sector within the TSX Index, largely due to volatility in the retail sector impacting our holding in Aritzia. However, Aritzia has bolstered gross margins and achieved a three year EPS CAGR of 35%, so we remain constructive on the name.

Our top performing stock in the sector and in the Fund, returning 19% over the most recent quarter and 48% over the year, was goeasy. As such, goeasy has surpassed our target price and we have exited our position to make room for new ideas in the sector.

The consumer staples sector is driven by the same fundamental macroeconomic factors as the consumer discretionary sector. However, growth is usually below discretionary stocks with the exception of periods of market uncertainty. This is largely due to consumer staples' consistent cash flow characteristics. The consumer staples sector returned 3.0% over the year and 2.6% over the quarter. The CPMT underperformed the sector, which was a result of low diversification. Saputo was our only consumer staple holding, until the recent additions of Andrew Peller (TSX: ADW/A), with a 2.5% portfolio allocation. ADW is priced below Saputo on an EV/EBITDA and P/E basis yet exhibits stronger growth characteristics, albeit in slightly different consumer markets. We are confident that these new investments will both lower the overall volatility of the CPMT portfolio and provide upside potential.

ENERGY

Recap

The S&P/TSX Energy Total Return Index lost 5.5% over FQ4 2017, but appreciated 17.5% overall in FY 2017. Outperforming CPMT energy holdings within the portfolio for the entirety of FY 2017 included Whitecap Resources, while Suncor, Enbridge, and Raging River underperformed. During FQ4 2017, weakness in the share performance of Canadian E&P companies provided a chance for the CPMT to take advantage of what we believed to be a buying opportunity. During the period, the Fund swapped out Tamarack Valley to add to our position in Seven Generations and initiated a position in Advantage Oil and Gas. After these adjustments, the Fund became more heavily weighted in an already overweight sector. This then led to a trim of our Suncor position to lower the Fund's overall exposure within the energy sector.

Crude Oil

After the deal between OPEC and certain non-OPEC countries to cut 1.8mmbbls/d of production was finalized in November of 2016, there was a period of 60 trading days starting on December 8 during which WTI prices traded within a $4 range over $50/bbl**.** This is significant because there was no other period in the previous ten years in which this took place, demonstrating how exceptionally low volatility was over this time frame.

Global supply developments following this agreement varied widely across the globe. As the Joint OPEC-Non-OPEC Ministerial Monitoring Committee reported on March 26, compliance with agreed cuts totaled 94%, which, if accurate, would be approximately 1.7mmbbls/d. From an OPEC perspective, this number is consistent with the Monthly Oil Market Report, which showed total OPEC daily production sitting at 32.5mmbbls for February and in-line with the target set in November. This production level includes the amounts received through direct communication with OPEC members, when available, and secondary sources otherwise.

Offsetting the effects of this reduction in global supply, the U.S. added a significant level of attitude production following the announcement of the deal. This increased activity has resulted in an additional 450mbbls/d of crude oil supply. Additionally, with oil rig counts rising by 175 since the deal through March 24 and increasing IP rates across major plays, including the Bakken, Permian, and Eagle Ford, U.S. production is expected to continue rising in the near term.

While imports into the U.S. from Saudi Arabia have actually increased since the OPEC deal and exports from Canada have decreased, the narrowing differential of WCS to WTI to sub ($12) from ($15) could be seen as a sign of increased demand for Canadian heavy oil. Towards the end of March, planned maintenance at the Syncrude Mildred Lake Oil Sands operation was moved up following a fire, providing further tailwinds for WCS prices as a short-term effect in synthetic supply is expected to negatively affect supply. The outcome of the decision to extend the OPEC agreement another six months will not be known for weeks and will be dependent on a variety of factors, including any increase in U.S. production that is likely to be observed. While the CPMT believes strong OPEC compliance will be necessary to provide support for oil prices in the near term, the recent return to volatility in crude during March demonstrates the importance of the

WCS Differential to WTI (U.S./bbl)

Source: Bloomberg

supply cuts for short-medium term oil prices. Without an extension of the deal, the stability and floor for crude prices seen during the fourth quarter is likely to disappear, returning volatility to oil markets.

On the infrastructure front, the grant of a presidential permit for the construction of the Keystone XL Pipeline, which would have an initial capacity of 830mbbls/d, is an important step in adding takeaway capacity from Canada in anticipation of increased oil sands production in the coming years. The project does not have all approvals necessary to move forward, with the support of Nebraska, Montana, and South Dakota still required. Without additional capacity in the future, Canadian differentials to WTI are likely to be hurt, as lower prices would be needed to balance the market.

Natural Gas

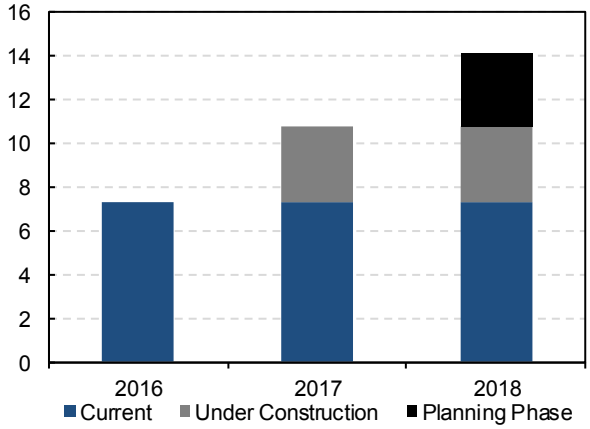
Along with crude, there have been significant developments in North American natural gas markets, which have significant implications for Canadian producers. Over the previous decade, dry gas production in the U.S. has skyrocketed, primarily due to progress in drilling techniques and technology, as well as the exploitation of the prolific Marcellus shale. With this progress, well IP rates have taken off, allowing production to be brought online faster than ever before.

The U.S., typically a net importer of natural gas, is well on its way to be producing more than

domestic consumption. This drastic increase in production resulted in decade-low natural gas prices of less than $2/mmbtu. There are currently two important developments taking place in North American gas markets: liquefaction capacity and cross-border pipeline capacity to Mexico.

As of the end of FY2017, EIA data shows U.S. LNG liquefaction capacity at 2.3bcf/d, of which the majority is provided by the Sabine Pass terminal, with expectations for country-wide capacity of 9.4bcf/d by the end of 2019. Additionally, U.S. cross-border pipeline capacity, which currently sits at 7.3bcf/d, is expected to increase 6.8bcf/d by the end of 2018. This will provide greater capacity to service Mexico's growing demand for natural gas as it retires older power generation facilities currently running on coal and fuel oil amid falling domestic production.

U.S./Mexico Cross-Border Natural Gas Pipelie Capacity (bcf/d)



Source: Energy Information Administration

This effect of increased exports out of the U.S. is positive for Canadian producers, as a trickle-down effect will ensure a more competitive price for Canadian molecules as U.S. production is pulled south to leave the country. Given this information, the important factor to consider is whether growth in export capacity, as well as pipeline capacity shipping south for the growing production in the Marcellus and Utica, will outpace the growth in production. If production increases outweigh demand and export capacity growth, there will be significant downward pressure on realized prices for Canadian producers as landlocked production competes in domestic markets. The CPMT believes the risk posed by the potential for oversupply of natural gas in North America makes it important to hold low cost producers, such as Advantage Oil and Gas, who will be able to better weather volatility and a low price environment.

FINANCIALS

The S&P/TSX Capped Financial Index returned an impressive 28.8% over the past fiscal year. The sector made quite a run after the election of Trump as U.S. President, who campaigned on relaxing regulations on financial institutions. Investors in Canada's financial institutions took cues to quickly buy shares of the banks and life insurance companies. The latter group performed particularly well as the market anticipated interest rate hikes in the U.S. to ensue. Investors were correct as the Fed raised its overnight rate to a target range of 0.75%-1.00% in March of 2017. This increase, however, was less hawkish than expected.

As for Canada's central bank policy, it has maintained its overnight rate target at 0.5% since cutting it from 0.75% in late 2015. The BoC cites lower food prices and slack in the labour market as the causes for sub 2.0% inflation, though a rise in energy prices and carbon taxes have partially offset these effects as of late. It forecasts real GDP to grow 2.1% in both 2017 and 2018, a level which would support growth for the banks.

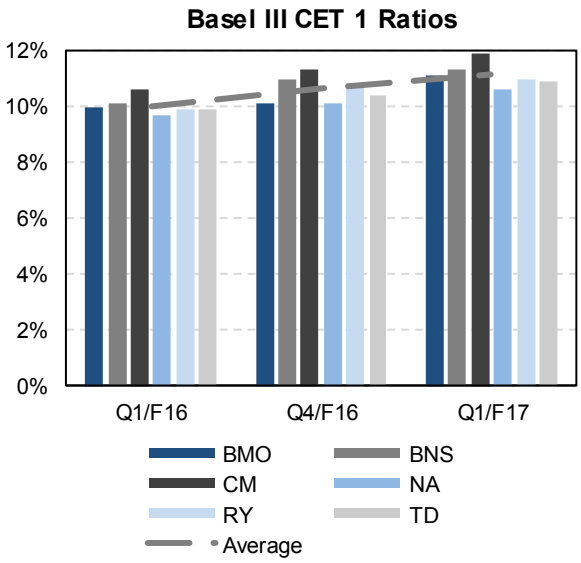
The banks have proven over the past year that they are able to navigate a lower interest and growth rate environment. Furthermore, loan losses from the energy sector proved to be much less damaging to earnings than feared. The resilience of Canada's banks from macro-economic headwinds has been tested, but now they face new challenges from consumer watchdogs and the fintech space.

A CBC news investigation brought public attention to sales tactics employed by the major banks which encouraged customers to open new credit card accounts or raise the limit of existing ones. As a result, bank shares pulled back after the Financial Consumer Agency of Canada (FCAC) announced that it would make its investigation of the practices a higher priority, and public. The regulator has the ability to fine institutions up to $500,000, a rather immaterial amount for one of the major banks, if found guilty of violating consumer protection rules. The

conclusion of the investigation may yet to be resolved for many months to come, though we do not expect it to materially impact the profitability of the banks over the long term. However, there may be other repercussions or regulations imposed on selling practices allowed by institutions.

A greater threat to the sustainability of the performance and market share of the major banks is posed by the fintech space. The industry has begun to flourish in Canada as robo-advisors offering wealth management services have began to scale. Alternative lending solutions have gone on more aggressive campaigns to gain traction, and infrastructure to support payments by mobile devices has become more commonplace. As a result, we expect the wealth management arms of banks to be affected materially over the next ten years. However, personal and commercial lending will remain a dominated market with the potential for new tech-based solutions to be introduced as millennials begin to demand financial services and products that tailor to their preferences.

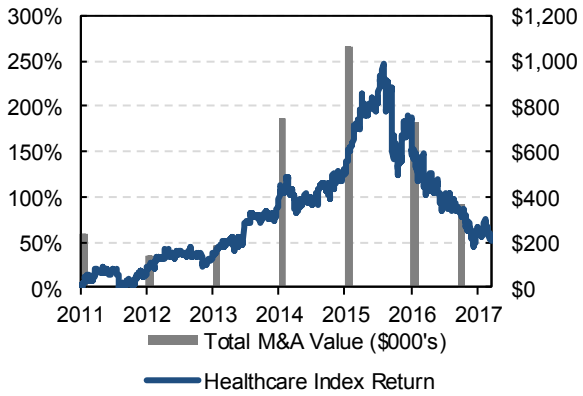
The major banks as a whole have shown growth and resilience as reflected in earnings and strengthening CET 1 ratios, respectively.



HEALTHCARE

The S&P/TSX Healthcare Capped Index lost 23.8% over FQ4 2017 and lost 40.7% over the year.

The healthcare space has been significantly less active over the past year as M&A deal value and equity offerings have decreased by 45%, which equates to a decrease of $409B from 2015 to 2016. Ever since Valeant's (TSX: VRX) collapse following its debt-loaded acquisition strategy, the



Canadian healthcare index has followed suit, largely due to the uncertainty of companies' debt-loads and investors' fears of drug price gouging.

The sector as a whole performed poorly over the past year, largely due to the negative contribution from Valeant Pharmaceuticals and Concordia International (TSX: CXR). The Canadian pharmaceutical giants fell 59.8% and 93.5% respectively over this period. The debt-fueled acquisition strategy has been the backbone of the poor performance of companies in this sector.

Among those who have shone is CPMT holding Knight Therapeutics Inc. (TSX: GUD), which outperformed the healthcare index by 73.2% over the year. GUD's success can be attributed to management's ability to maintain a disciplined acquisition strategy by only acquiring when the firm sees fit, and offering succesful strategic loans that generate significant rates of return, as seen with its successful exit of its investment in Apicore Inc. in early 2017. This endeavour generated a 24.8% pre-tax IRR. In addition to this, management has maintained a balance sheet with no debt and ~$736mm in cash and equivalents. Although the ample amount of cash on GUD's balance sheet may seem unjustified, the CPMT believes that Johnathan Goodman, Director and CEO, only deploys capital when he sees opportunity, and his previous success with Paladin Labs is expected to carry over to Knight. The CPMT remains convicted on the name, as it

continues to be one of the most defensive names in the sector, with limited exposure to the U.S. and guided by one of the best management teams in the space. Over the year, GUD completed $330mm in equity offerings and issued ~$31mm in strategic loans with a weighted average interest rate of 13.4%. GUD is currently a conviction of 2 in the portfolio and the Fund added 1% to adjust for the new sector allocation proposal.

On the U.S. front, the space has been significantly busier than Canada. Although U.S news does not significantly affect CPMT's lone healthcare holding, the uncertainty south of the border poses both risks and benefits for the industry as a whole. After the election of the new U.S. President, the proposed American Health Care Act (AHCA) raised concerns across the U.S. as up to 24mm citizens faced the risk of losing health care coverage.

The problems with the proposed AHCA is that it creates a hierarchy system in two ways. The first being that there is no longer a mandatory buy-in for health care which will mean more unhealthy people are buying into health insurance, and the wealthy and healthy people are opting out of insurance until they need it – at which point it will cost a premium to buy-in. This naturally pushes up the premium and creates a death spiral.

Secondly, the tax credits will now be based on age rather than income, which threatens people's retirement plans, as a 64 year-old earning $26,500 a year would pay $14,600 under the AHCA up from $1,700 under Obamacare.

As the process dragged along in the first few months of 2017, to many peoples' avail, the Republican leaders pulled their bill on March 24 to repeal Obamacare. The CPMT views this as a negative for American health insurers in the short-term as the AHCA had some measures that would repeal certain taxes.

In Canada, the Federal Government and the provinces have been slowly coming to agreements with the Health Accords. In mid-March the government of Alberta and the federal government agreed to target funding over 10 years, specifically for investment in mental health and home care. The deal provides Alberta with $1.3B of additional funding, of which, $703mm will be allocated to critical home care infrastructure and $586mm to support mental health initiatives. This signifies a large shift in focus on additional funding for mental health as there has been a significant increase in mental health concerns and campaigns to raise awareness. In addition, the aging population in Canada is rising significantly as people 60+ years old represent 17% of the Canadian population and this has caused a demand for an increase of spending in home care.

INDUSTRIALS

The S&P/TSX Capped Industrials Index returned 24.4% over the past year. This surge can be highly attributed to Canada's resounding performance in the manufacturing sector, which recorded a strong comeback as manufacturing recovered from the lows of 2015 to rebound in 2016. This rebound can in turn be attributed to both the recent recovery in commodity prices and also to the influx of stimulus in infrastructure from the federal government. Within the CPMT portfolio, we decided to re-examine some of the more volatile names of the past year, which included Ritchie Bros. (TSX: RBA), MacDonald Dettwiler & Associates Ltd Inc. (TSX: MDA), CAE Inc. (TSX: CAE) and Toromont Industries Ltd. (TSX: TIH).

Ritchie Bros. had another splendid year as auctions for the 2016 fiscal year were at a record high as it received gross auction proceeds of over US$4,335mm, which were about 2.1% higher than the previous year's proceeds of US$4,247mm. A significant portion of these proceeds came from 6 auctions conducted in Edmonton as over CA$728mm was contributed by auctions in the city. This trend continued in 2017 as well, over CA$62mm of auction proceeds were generated by the first Edmonton auction of

2017. RBA's business model of auctioning industrial goods provides it with a significant opportunity to capitalize and ramp up auction proceeds during the times of economic contraction. Over the past two years, the collapse of commodity prices has allowed them to take advantage of the weakness of the economy in Western Canada. The CPMT continues to closely monitor the company as crude oil prices seem to recover. That being said, the CPMT still believes the company's counter cyclical business model, which is spread throughout North America, allows it to perform well, regardless of economic weakness in a particular region.

MacDonald Dettwiler & Associates Ltd Inc. (TSX: MDA) embarked on an expansionary policy over the last twelve months as the company has aggressively pursued market share in the United States. The U.S. Access plan formally took the next step as it appointed executive officers for the previously established SSL MDA Holdings, Inc., a Delaware corporation, which will serve as the operating company for all MDA businesses, including both the U.S. and Canada. This was an instrumental step in the company's expansion into the U.S. The CPMT continues to monitor its position in the light of the U.S. Access plan. The CPMT does maintain a positive outlook as the new U.S. administration's pro isolationist policies could potentially help the company after its formal establishment in the U.S.

CAE Inc. has experienced a steady rally in its price over the past year and this has been led by its superior performance in its civil aviation and defense segments, though the healthcare revenue stream has taken a hit. The CPMT maintains a healthy sense of skepticism on the company as the dismal healthcare sector of the company can't be offset completely by an increase in the civil aviation and the defense space because the CPMT maintains a bearish view on the latter two sectors due to current U.S. isolationist policies.

The CPMT initiated a position in Toromont Industries Ltd. in the fourth quarter of the previous fiscal year and the company has performed steadily so far and recent major catalyst has been the most recent quarter, where Toromont recorded a growth in earnings and EPS of ~6.0% from the previous fiscal year. This announcement was also accompanied with an increase in its quarterly dividend of 6.0%. The equipment group of the company failed to perform adequately and the increase in earnings is primarily attributed to a solid performance shown by the refrigeration group. The CPMT isn't deterred by the weakness in the equipment group, as the CPMT holds a bullish longer-term view of the macroeconomic environment in the hard equipment industrials space. The stimulus plan of the federal government should eventually stimulate demand in the industrials space. This plan is structured across ten years, with the larger tranches expected to be spent during the latter half of the plan thus, the CPMT remains cautiously optimistic about this weakness and believes that the Equipment group would eventually benefit from the over-arching improvement in the macroeconomic environment for the sector.

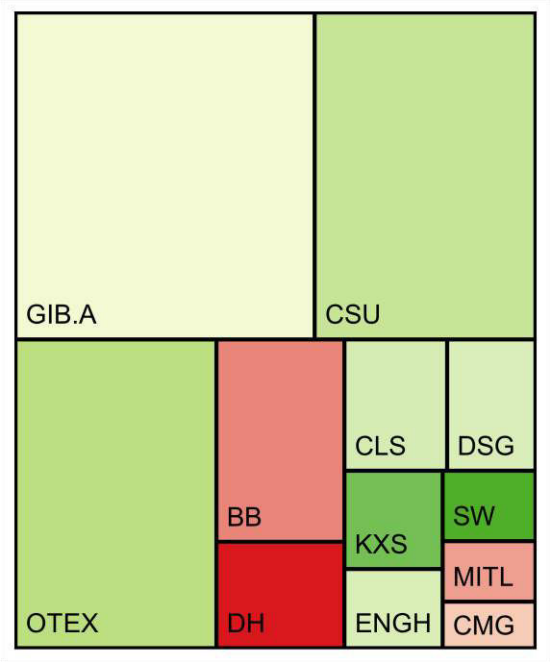
INFORMATION TECHNOLOGY

The S&P/TSX Capped Information Technology Index returned 12.3% over the FY 2017. Most of its gains have come on the back of solid earnings results achieved after the first quarter of the year. Of note, small-caps Kinaxis (TSX: KXS) and Sierra Wireless (TSX: SW) have lead the IT sector in returns. The former has been making strides for more than a year, quickly growing its market share in supply chain management solutions globally. Kinaxis serves as a prime example to observe Canada's future place in IT on the global stage. Software innovation, as well as IT services, are likely to continue to be the drivers behind Canada's IT sector. Blackberry's (TSX: BB) long-anticipated announcement earlier this year that it would no longer manufacture its own hardware marked the end of the nation's once infallible hardware innovation centres. Blackberry will now focus solely on software and its enterprise services, attempting to differentiate itself as the most secure platform for smartphones.

Canada's position in the IT services and software subsector will continue to serve it well. According to Gartner, 2017 is on pace to become the first year of worldwide IT spending growth since 2014. Over the next four years, IT spending is expected to grow an average of 2.7% to US$3.8B by 2020, with Communication and IT Consulting services leading the charge. However, a survey of 900 IT

professionals by Spiceworks suggests the contrary, indicating that global political uncertainty will hold down IT budgets for the foreseeable future. To this end, professionals are most skeptical of where new technology products are sourced from and where its business information is stored.

Fortunately for Canadian tech, these professionals indicated a marked increase in confidence in the U.S. economy and are less reluctant to invest in IT products and services. CGI Group (TSX: GIB.A) may benefit most from this dynamic as it holds a formidable position in winning contracts from the U.S. government.



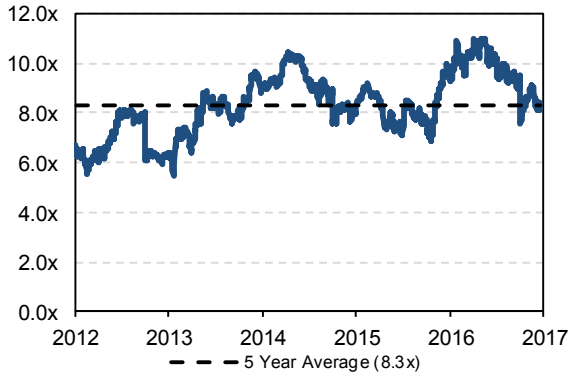
1-Year Returns | Source: CapIQ

Inorganic growth continues to boost the sector. M&A transactions in the Canadian IT sector totaled $7.4B over the past fiscal year, with participation from financial buyers (PE firms) expected to grow. Strategic buyers such as Constellation Software (TSX: CSU) and Open Text (TSX: OTEX) will face pressure from private equity firms during bids for the industry's most attractive assets or firms, especially if growth in IT spending remains stagnant. An ability to source targets outside of North America may allow for strategic acquirers to gain an edge over others and improve performance.

MATERIALS

The S&P/TSX Capped Materials Index gained 6.14% over FQ4 2017 and 24.9% over FY 2017. The space gained momentum from the recovery of precious and base metals prices over the year. Oversupply has been an over-arching theme in the sector as mining companies have increased production while taking on more debt in past years. FY 2017 was a breath of fresh air as mining companies switched gears and became more disciplined coming out of the downturn. Valuation of the sector looks to be in-line with the five year historical average, trading at a one-year forward 8.3x EV/EBITDA.

Materials Historical EV/EBITDA



On the precious metals front, gold was up 2.2% and silver was up 21.4% over the year. Projected interest rate hikes by the Federal Reserve have brought out gold bears, but geo-political risks, as well as equity market volatility, provide support for gold prices going forward.

After rising to a high of ~$300 USD/tonne in November of 2016, metallurgical coal has come down to a level of ~$150 USD/tonne at the end of FY 2017. The upswing in prices was due to a limit on working days for metallurgical coal miners put in place by the Chinese government, which restricted output. In response to displeasure from steel mills due to inflated prices, the Chinese government eased the restriction last November.

This act flooded the market with supply and sent prices tumbling back down to the $150 USD/tonne range. The possible increase in metallurgical coal capacity from major players such as Glencore and BHP Billiton in upcoming years will provide a substantial headwind for the commodity as more supply capacity comes

online.

The surge in cobalt prices of ~141.1% over FY 2017 can be attributed to the increase in demand and popularity of electric cars. Cobalt is required in the manufacturing of lithium-ion batteries used in electric cars and this demand has pushed cobalt prices to 10-year highs. Looking forward, cobalt has room to run, as the appetite for electric cars continue to increase in the developed world.

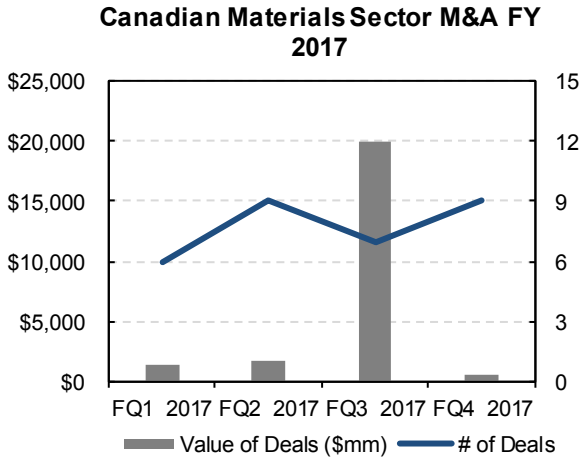
In addition to cobalt, the demand for lithium has increased in recent times for the same reasons. A few main players dominate the lithium mining industry, and these companies will greatly influence the price of the soft metal by controlling mine operating capacity.

FY 2017 has seen the negative themes around China slowly dissipate as Chinese economic growth numbers improve. Chinese GDP growth for FY 2017 is forecasted to be ~6.8%. China is the world's largest consumer of refined metals, accounting for over 50% of the world's metal. Although growth prospects look positive, recent developments concerning environmental protection in China may impact metal consumption negatively in the coming years.

M&A in the Canadian materials sector rebounded in FY 2017, as deal value increased ~374.9% YoY. The uptick seen in M&A in the sector was due to the increased commodity price environment but also due to the huge merger of equals between Agrium Inc. and PotashCorp. In addition, the uptick in Canadian materials sector M&A can also be attributed to the divestitures of assets by miners, to free up debt-riddled balance sheets. The CPMT expects M&A activity to continue to increase, but with smaller sized asset deals, versus large corporate takeovers. The rationale is that high-grade asset portfolios will be the main focus for mining companies in addition to the continuation of debt reduction.

CPMT holding CCL Industries (TSX: CCL.B) had another solid year appreciating 18.2% over FY 2017.

CCL.B continues to compound capital and grow sales at impressive rates. CCL.B grew sales at 30.8% YoY in its FQ4 2016. 7.2% of this growth was contributed by organic growth from the CCL Label segment. In addition to strong numbers from CCL Label, CCL Industries' newest segment Checkpoint, saw margin expansion as its



operating margin grew from 3.2% in FQ3 2016 to 14.3% in FQ4 2016. Part of this can be attributed to the continued integration of the segment. Cost cutting has been a theme for CCL.B and the Fund expects this to continue into the future.

During FY 2017, CCL Industries announced and closed the $1.13B acquisition of Innovia Group, a leading global producer of polypropylene films. Adding an incremental $155mm of EBITDA and $570mm of revenue, this acquisition positions CCL Industries for higher organic growth numbers going forward. Currently, polymer banknotes have ~3% penetration in the banknote market, which provides massive growth opportunities for the Innovia segment.

CCL.B continues to impress, growing inorganically and maintaining market share while integrating past acquisitions. This expansion into a technology driven space through the Innovia Group acquisition positions CCL.B well as the higher growth markets will fuel stock price appreciation.

CPMT's other holding, Stella-Jones Inc. (TSX: SJ) has shown signs of weakness throughout FY 2017 due to lower pricing and demand of its products, specifically railway ties. Although it had a weak last half of 2016, sales increased 17.9% YoY and net income increased 8.9% YoY. In order to counteract the lower pricing of SJ's products, management intends to continue to integrate and optimize efficiencies and synergies from past acquisitions. Management has also guided for relatively flat sales YoY in 2017 and

possible EBITDA margin compression into the 13%-14% range due to weaker product pricing. SJ is expecting to see improved demand for its products in the latter half of 2017 and the CPMT remains constructive on the name.

REAL ESTATE

The real estate sector is the most recent addition to the Global Industry Classification Standards (GICS), contributing ~3% of the S&P 500's total market capitalization. Separating real estate from the financial sector has caused the correlation between banks and REITs to decline substantially. Specifically, from January 2012 through August 31, 2016 (the day that the real estate sector was separated from financials), the correlation between the daily percentage changes of the iShares S&P/TSX Capped REIT Index (XRE) and the iShares S&P/TSX Capped Financials Index (XFN) was 39.3%. From August 31, 2016 to the end of FQ4 2017 (March 31, 2017), the correlation was a modest 6.3%.

One such reason is that real estate equities represented only a small proportion of the prior financials sector's market capitalization, meaning that many investors likely did not follow REITs as stand-alone investments, but rather invested in them as a proxy for banks and other such institutions within the former financials sector. Further, financials sector ETFs no longer contain real estate stocks, which results in financials and REITs being purchased in conjunction less frequently. Since the re-classification on August 31, 2016, nearly half the foreign fund flows into Canadian REITs have been from U.S. investors, and the majority of this was in the form of institutional investors. Finally, another reason that these sectors will continue to trade without a positive correlation is that the business models of financial and real estate companies are oppositely impacted by interest rate changes. As interest rates rise, the spread between short and long term interest yields often expands due to expected future rate increases. This directly benefits banks because they earn profit by issuing long-term loans and borrowing via short term securities, thus earning a greater interest rate spread on new loans. However, real estate companies are negatively impacted by rate increases because they rely heavily on debt to finance purchases and improve equity returns. Debt becomes more costly to service as interest rates expand. For these many reasons, the CPMT expects to see a long-term inverse correlation between financial and real estate stocks under this new GICS classification environment.

REITs returned 4.7% over the quarter and 8.1% over the year ended March 31, 2017. This has been largely attributed to US investors seeking yields which are less exposed to the rising interest rate environment in the U.S. The CPMT analyzed the sector, doing a full valuation and analysis of Slate Office REIT (SOT). Although the Fund likes SOT's low cost base, non-trophy assets, and the stable cash flow it generated thanks to a high percentage of leases to government, there were governance issues that kept us from buying the stock. Namely, SOT does not have internalized management of its properties. This can create a conflict of interest between unitholders and management, and for this reason, U.S. investors tend to avoid REITs with this added risk and complication. The incoming Fund Managers will have their hands full trying to find an undervalued real estate stock that is void of governance and management issues.

TELECOMMUNICATION SERVICES

The S&P/TSX Capped Telecommunication Services Index returned 8.0% over FY 2017. The sector received plenty of attention during the spring and summer of 2016 as investors sought stable dividend-paying investments as U.S. and Canadian bond yields headed lower. Moving into the New Year, the purely Canadian exposure offered by the telecoms has driven demand for shares of the "Big 3" carriers and Shaw Communications, as international trade uncertainty threatens to hinder the growth of other sectors. Such uncertainties would include a speculated border tax imposed on Canadian exports to the U.S., which telecoms would most likely come out unscathed by. While it is folly to predict the exact financial impact of such a change to the functioning of Canada's economy, we remain committed to investing in Canadian telecoms as a result of their continued growth through technological innovations, subscriber adoption, and an increasing hunger for media consumption by the nation's growing population.

The rare and long-awaited consolidation of the regional player Manitoba Telecom (TSX: MBT) by Bell (TSX: BCE) closed this year in a $3.9B deal. This marked a challenge to the Canadian Radio & Telecommunications Commission (CRTC) and other regulatory bodies' mission to nurture more carrier choices for Canadians, including regional ones. Though Bell will be forced to transfer one third of MBT's 480,000 subscribers to Telus (TSX: T) as a concession, the transaction indicates that the Canadian marketplace may be unable to economically support carriers other than the Big 3.

Shaw (TSX: SJR.B) stands to contend this challenge with its freshly rebranded "Freedom Mobile" (formerly known as "Wind"). With approximately one million subscribers, the service far from poses a challenge to the larger players yet. Freedom's discounted data plans could attract the lower-income customer segment, though its profitability and ability to serve crowded urban areas, where bandwidth is tight, could prove challenging to scale. Furthermore, Canadian consumers' growing data usage, rising average revenue per user (ARPU), and lower customer churn rates suggests that they are collectively willing to pay up for data services and stay on their contracts. A lower-priced option at the cost of speed and service may not work well for Freedom in the long run, but this will be closely watched.

Canada's appetite for internet usage wherever they go is most strongly reflected in the CRTC's decision to make high-speed Internet a basic service for Canadians. A $750mm fund will be created by the government body, available to telecoms to draw from on the condition the capital is used to build high-speed internet infrastructure in rural and remote areas of the nation at a guaranteed, affordable price.

The rollout as well as upgrading of Internet infrastructure has made up a fair portion of the capital budgets for the Big 3 over the past year. We see this as another indication that home internet services and mobile data plans will be the successors to cable television and home phone services. Telus may stand to gain the most from this paradigm with its mobile and fibre-optic home Internet services dominated strategy.

UTILITIES

The S&P/TSX Capped Utilities Index returned 15.2% and 7.3% over FY 2017 and FQ4 2017 respectively.

Utilities, a notoriously quiet sector, saw a lot of action this fiscal year; both here in Alberta and in the broader Canadian Market. Two main contributors to this return were payments to utility operators in Alberta, and the U.S. interest rate increase in December 2016 as the March 2017 increase appeared to have been gradually priced into most utilities. The payments from the Government of Alberta to various utilities arose from the Alberta Electric System Operator's (AESO) Renewable Energy Program and Capacity Market (CAP) transition recommendations. The payments came in response to the Government of Alberta's Climate Leadership Plan. The main beneficiaries of the payments included: Capital Power (TSX: CPX), TransAlta (TSX: TA) and Canadian Utilities (TSX: CU). The U.S. interest rate increase in March 2017 was not a shock to the market, but the increase in December 2016 did have an impact on the price of the Canadian Utilities Index.

As Alberta moves forward with the restructuring of its electricity system to a capacity market, the government has two primary objectives in mind. One is to help offer some level of certainty to independent power generators to incentivize more generation build out in the province. Secondly, the move to a capacity market will also support the development of renewable power projects in Alberta given the increased revenue certainty. This transition is in the early stages and leaves many questions unanswered, which impacts the investment prospects of many power generators like CPX and TA that are heavily exposed to the power market in Alberta. This market initiative leaves Alberta's future generation mix in flux, and the CPMT asking whether low-cost combined cycle gas or large scale renewable developments are the way forward for Alberta. The team continues to monitor this situation closely and notes the opportunity it presents to identify early movers as more clarity is offered by both the government and power providers. In addition to a market structure transition, the Alberta NDP has elected to retire coal-fired generating facilities in the

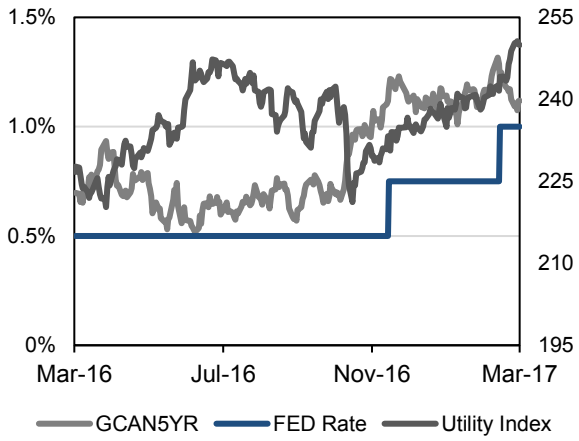
province ahead of schedule, unwinding their operations by 2030. Given that coal-fired generation is currently run as the baseload in the province, this could spike the price of power in Alberta if an economic replacement is not put in place as these plants are shut down. From a corporate perspective, the generators were compensated for the early-retirement of their facilities, lifting stock prices in November of 2016.

It is no secret that interest rates and utilities have a negative relationship. Typically as interest rates rise and bond yields become more attractive, capital will shift out of utilities into bonds. Utilities are often viewed as bond proxies. Canadian bonds are the most influential factor on the price of Canadian utility stocks, but the ramifications of U.S. interest rate increases have been historically strong, and remain strong. The graph below illustrates this relationship over the year.

Canadian 5-Year bond yields increased in late October and utilities traded down sharply. Shortly thereafter, the Federal Reserve announced its first rate hike of the year from 0.50% to 0.75%. This action was based on intentions of the Fed to raise rates. After this, bond yields continued to increase and the Fed announced another rate hike in March 2017. The price movement of the Utilities Index suggests this rate increase was already priced into the sector. We see a continued recovery in utilities from November 2016 to March 2017. The Fed is expected to announce at least one more increase this year to curtail potential inflationary pressures from the Trump Administration's aggressive spending proposals, though the Fund expects the Bank of Canada to hold Canadian interest rates steady until 2018. We expect this to temper heating Canadian bond yields over 2017.

An interesting area of the sector that commanded significant attention this year was grid scale energy storage solutions. The need for these 'grid scale storage solutions' has risen from the global shift to renewable power generation. Of the three main renewable power sources (solar, wind, and hydro) only hydro can produce on demand. The solution is to store the power generated by solar and wind when possible, then distribute accordingly rather than generate on demand. The National Research Council of Canada initiated a market study in November 2016 to determine if Canada is suitable to become a world leader in vanadium mining and production. Vanadium is a key input in the budding redox flow battery market (a grid storage solution). The outcome of this study is highly contingent on the economics of the vanadium redox flow batteries currently in development. This vanadium powered solution to the grid storage problem is in direct competition with the popular lithium-ion battery. Tesla Inc. is working primarily with lithium-ion batteries, while Lockheed Martin has chosen to investigate a redox flow battery. There are advantages to each; lithium-ion batteries essentially have more power generation capacity but a shorter life span, vanadium redox flow batteries have much longer

Utility Index vs. CDN 5-Year Bonds vs. FED Rate



life spans and can handle the constant cycling requirements, but have less upfront power and slightly higher input levels, hence the potential market for vanadium in Canada. Grid storage developments are promising and are admittedly interesting to cover, but are very much in their infancy, and as of now are not the types of investments the CPMT will chase down, rather we will closely monitor developments in the space.

Offbeat: Emera (with Cape Sharp Tidal & OpenHydro) successfully installed and are now operating a tidal powered under-sea turbine in the Bay of Fundy (in the Minas Passage trench). Despite the power being generated from the turbine costing $530/MWh, the company has redeemed itself from the 2009 disaster that was shredded by the tides and failed within days. The successful instalment of the turbine has

emboldened other companies to follow suit, and 4 groups are now approved to try their hands at harvesting the power of the tides in the Minas Passage.

In March 2017, the CPMT initiated coverage on its first utility in 3 years, and has initiated a position. The CPMT chose to evaluate Algonquin Power & Utilities (TSX: AQN), which operates Liberty Utilities in the U.S. This initiation was based on a best-in-sector approach. We found the blend of operations AQN achieves to offer superior cash flow visibility and moderate growth potential with a solid dividend, no small feat in the utility sector. Our take on the sector and view of AQN is found in the company valuation section of this report.

Algonquin Power & Utilities Corp

Utilities
TSX: AQN
Buy Recommendation

Calgary Portfolio Management Trust

ALGONQUIN Power & Utilities Corp.

March 31, 2017

George Huang, Fund Manager
Mahad Nadeem, Research Associate
Darren Luoma, Research Associate

Return on Investment

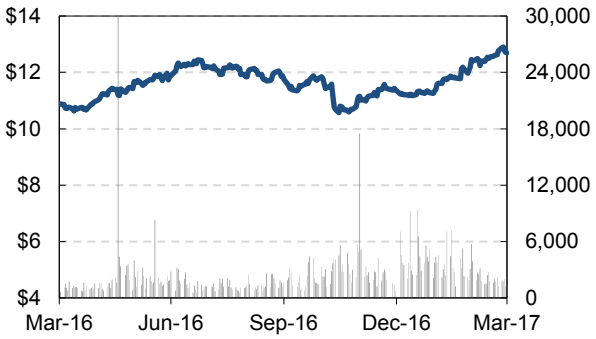
Current Share Price	$12.78
Target Price	$14.50
Dividend Yield	4.62%
Holding Period Return	18%
Conviction Rating	2

Market Profile

52-Week Range	$10.47 - $12.98
Shares Outstanding (mm)	274
Average 30-Day Vol (000's)	2,170
Market Capitalization (mm)	$4,888
Preferred Shares (mm)	$2,600
Net Debt (mm)	$2,022
Enterprise Value (mm)	$9,510
Beta (5-Year Daily)	0.62

Metrics	2017E	2018E	2019E
Revenue (mm)	$1,215	$1,345	$1,492
EBITDA (mm)	$466	$515	$572
EBITDA Margin	38.3%	38.3%	38.3%
EPS	$0.56	$0.66	$0.77
EV/EBITDA	20.4x	18.5x	16.6x
P/E	22.9x	19.4x	16.5x

Historical Trading Performance



Source: CPMT Estimates, Bloomberg

Utilities Sector Overview

The case for a utility company – which offers sustainable growth and high dividends – begins to make more and more sense with decreases in interest rates. However, currently we are likely at a rate bottom, and rate increases are anticipated to be slow and gradual. Utilities offer market downside resiliency, plus an increased upside potential from recent shifts in the industry (large opportunities for expansion exist in the renewable power generation space). These opportunities more than outweigh the risk of potential hits from capital allocation shifts out of high dividend yielding stocks due to interest rate increases. The range in dividend yields in the Canadian utility universe (n=14) is tight, with an average of ~4.5% and a median of the same. Algonquin (TSX: AQN) has a yield which is marginally higher at ~4.75%. Why then choose AQN over any other utility in the market? Growth potential. The sector is split into companies with high clean energy exposure and those playing catch up. Fortis and Emera are both progressive companies, but fall into the category of those companies vying for more clean energy, and their multiples reflect this. Both companies have hydroelectric power and have expanded to the Caribbean, but are quite heavy in coal and natural gas (we see no mid-term downside to natural gas fueled power generation, only long-term). Companies like Brookfield Renewables and Innergex have excellent clean power generation capacity, but lack substantial distribution/transmission exposure and the accompanying cash flow visibility.

Merchant vs. Contracted Power Generation

Much of the commercial generation around North America is secured by Power Purchase Agreements (PPA). However, depending on the jurisdiction of the power plant, there is the possibility that it participates in a merchant power market.

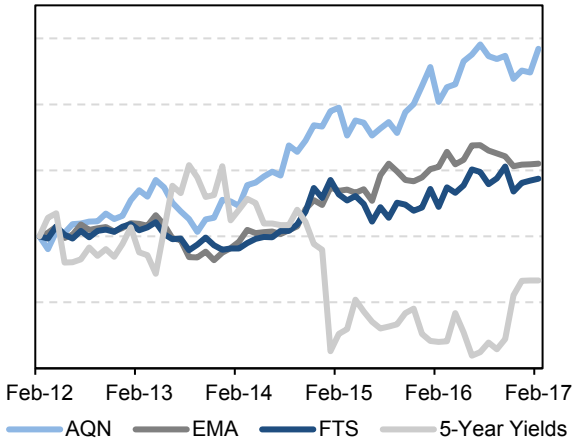
For Canadian utilities, merchant market exposure largely comes from operations in Alberta. The Alberta market is currently experiencing lower per unit power prices relative to recent history. To remedy this and incent further generation buildout, the Alberta government has elected to transition the market into a capacity market. This would ultimately improve market prices and help give producers (particularly renewable producers) more revenue stability. This initiative was taken to achieve the longer run goal of the Alberta government to make the province's generation mix greener. This process would be accelerated by the retirement of coal powered generation in the province by 2030.

Given the uncertainty surrounding the sweeping changes in the Alberta power market, the CPMT has elected to look at utilities whose operations are largely unexposed to Alberta. However, the Fund does recognize the opportunity presented by the restructuring in the market and will revisit the issue once there is more visibility surrounding the long-term future of the Alberta utilities market. At this time, the Fund favours large–scale utilities with the ability to secure long-term PPAs for its generation assets or have significant exposure to the distribution/transmission business segment. Furthermore, the Fund views renewable generation exposure as a possible tailwind for the portfolio given recent international climate accords.

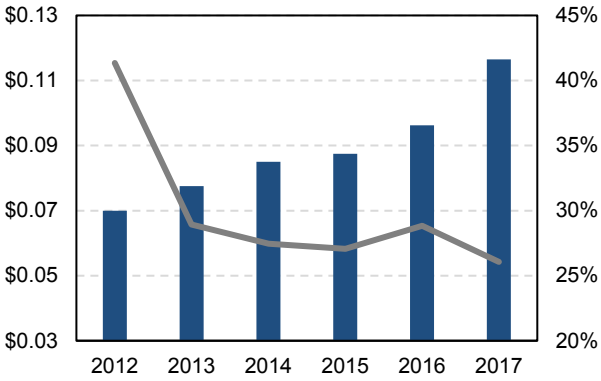
Investment Thesis

AQN has both high clean energy generation capacity and significant exposure to distribution, with a burgeoning transmission segment. However, favourable business segments do not currently guarantee future growth, but successful acquisitions and capital projects do. AQN has completed accretive acquisition after accretive acquisition (shown in YoY EPS growth) in deals involving both distribution and generation. Distribution deals - AQN acquired Empire District

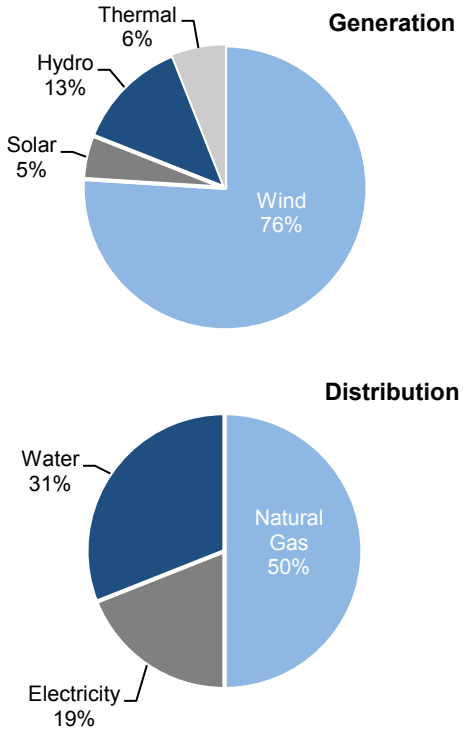
Algonquin, Emera, and Fortis vs. 5-Year Bond Yields



Historic Quarterly Dividend Growth & EBITDA Payout



Generation and Distribution EBITDA Mix



Electric in February 2016 in a $3.4B deal, AQN's largest to date, securing the type of steady cash flows the distribution segment is known for. Generation deals - 400MW wind facility in 2013, 200MW wind facility in 2014, over 250MW worth of wind capacity in 2016. AQN is surgical in their acquisition target selection and project construction. AQN plans to increase its wind generation mix from 76% EBITDA to 81% EBITDA, and for solar from 5% EBITDA to 8% EBITDA over the next five years. Doing so while largely avoiding high cost hydroelectric acquisitions under PPAs shows focus and discipline on AQN's part. In the next 5 years, AQN also plans to continue their 2 thirds 1 third split between distribution (including regulated water) and generation. This high mix of distribution will secure cash flows and allow for funding of generation projects, making their guidance of 15% CAGR over the next 5 years very reasonable. B.C., Alberta, and Ontario all have aggressive targets for clean energy generation, and the provincial governments are acting on them. The political climate around energy generation will be a huge catalyst for AQN, along with their carving out of the most profitable section of that segment, with wind as their niche. This is all backed by AQN's unquenchable appetite for accretive distribution/transmission acquisitions/projects, and the cash flows it provides.

Business Description

AQN is a renewable energy focused regulated utility company with assets across Canada and the U.S. AQN acquires renewable power generation facilities including hydroelectric, solar, biomass, and is increasingly targeting wind. The company operates through two subsidiaries (Algonquin and Liberty Utilities), and has three main business units (Generation, Distribution, and Transmission). Liberty Utilities operates mainly in the U.S. and focuses on electricity, gas, and water. Algonquin focuses on green energy generation in both Canada and the U.S. Generation accounts for ~29% of AQN's revenue, and Distribution accounts for ~67%. In 2014 AQN created the Transmission Group, which focuses on natural gas pipeline and electrical transmission investment opportunities, with the segment now responsible for ~4% of revenue and only continuing to grow. The high visibility to cash flows offered by its three operating segments allows AQN's management to put forward guidance of a 10% CAGR on the dividend for the next 5 years, which currently has a 4.75% yield.

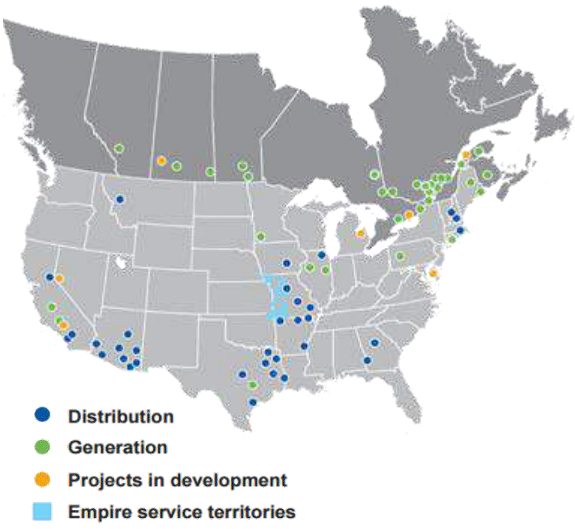
Industry Overview

Much like AQN's 2 core operating segments, the utilities industry in North America is cut into companies with varying mixes of generation and distribution/transmission capacity. These companies are further distinguished by their amount of renewable power generating capacity, which is becoming increasingly important in the political arena and in commanding higher valuations**.** The industry has been historically characterized by steady, low growth companies with high cash flows, liberal use of debt, and substantial dividends.

Valuation

Utility companies have excellent disclosure in terms of installed capacity, price realization, forecast generation, and distribution connections. Explicit growth guidance is also offered, as such the parameters in the valuation were quite strict. Therefore, we see more value in peeling out dividends from a DCF, which can include more justification for growth and offer more flexibility, versus building a dividend discount model. The next 5 years of dividends were modelled per company guidance, as were the increases in generation capacity, but a haircut is built into distribution connection growth because it is more difficult for a company to forecast these types of acquisitions. Considering the aforementioned factors, a combination of a DCF and comparable company analysis was used to arrive at the target price, with weightings at 50% Gordon Growth, 25% EBITDA exit, and 25% 1 year forward P/E.

Algonquin Asset Map



TSX Utilities Index

n=14	Mkt Cap	Div Yld.	P/E FY1	EBITDA/ Interest
Average	**6,342**	**4.65**	**25.50**	**3.98**
Median	**4,431**	**4.64**	**18.92**	**3.85**
AQN	4,647	5.03	18.71	3.27
ACO/X	5,623	2.67	15.22	4.63
BEP-U	11,267	6.45	91.18	2.39
CU	10,292	3.72	16.97	4.53
CPX	2,457	6.11	19.36	6.26
EMA	9,504	4.62	16.74	2.45
FTS	17,082	3.76	17.00	3.80
H	13,780	3.63	19.12	4.40
INE	1,532	4.67	32.21	2.81
JE	1,154	6.40	2.54	3.91
NPI	4,214	4.41	31.67	3.22
SPB	1,799	5.63	21.40	5.88
TA	2,053	2.24	38.75	4.59
RNW	3,384	5.83	16.20	3.59

Comprables Selected

n=9	Mkt Cap	Div Yld.	P/E FY1	EBITDA/ Interest
Average	**6,643**	**4.68**	**29.88**	**3.69**
Median	**4,431**	**4.64**	**19.03**	**3.43**
AQN	4,647	5.03	18.71	3.27
BEP	11,267	6.45	91.18	2.39
CU	10,292	3.72	16.97	4.53
CPX	2,457	6.11	19.36	6.26
EMA	9,504	4.62	16.74	2.45
FTS	17,082	3.76	17.00	3.80
INE	1,532	4.67	32.21	2.81
NPI	4,214	4.41	31.67	3.22
TA	2,053	2.24	38.75	4.59
RNW	3,384	5.83	16.20	3.59

Although modelled adhering to guidance, conservative adjustments were taken where deemed necessary; a small WACC premium was added, distribution growth was scaled back, and green electricity premiums were modelled at minimums.

Corporate Governance

The CEO and Vice Chairman, Ian Robertson and Chris Jarratt respectively, both sit on the eight-member board of directors (75% board independence). Both are founders and have been with AQN since 1988. The CFO, David Bronicheski, has been with AQN since 2007. The executive compensation structure, share ownership guidelines, and change in control/termination agreements raise no red flags. AQN has the standard 3-2-1x salary share ownership guidelines for the CEO, CFO and EVPs, and all executives meet these requirements. Total direct compensation for the executive leadership team range from 730k to 2mm,, including the CEO. The CEO and Vice Chairman have a 1/3-1/3-1/3 split between salary, short-term incentive, and long-term incentive plans. The remaining NEOs have a 1/2-1/4-1/4 split. The short-term and long-term incentives are paid out based on performance factors including target EBITDA, safety results, and customer service achievement results. Termination with change in control entitles executives to 18 months' salary with a corresponding bonus and a long-term incentive. Termination without cause entitles executives to 12 months' salary with a corresponding bonus and a long-term incentive.

Risks

The distribution group has prices that are predominantly determined by their respective regulatory bodies, mitigating market risk. The generation group enters into PPAs with certain states in the U.S. as exceptions. In these cases, small amounts of market risk exist. Currency fluctuations are a large risk as ~90% of AQN's revenues are USD denominated, so is AQN's debt, thus mitigating certain amounts of this foreign exchange risk. Large increases in interest rates are a risk to the sector as a whole in terms of driving down market demand for utilities because of capital allocation shifts. Most AQN's debt is fixed rate, though it should be noted that a 100bps increase in interest rates would cause AQN's interest expense to increase by US$5.2mm. We do not view political policy as a risk, nor do we view geography as a risk for AQN. We see the North American Power Markets as stable, with increasing demand posing no risk above the normal course of business.

Sensitivity to Generation and Distribution Growth Rates

Generation Growth \ Distribution Growth	7%	8%	9%	10%	11%
13%	$11.77	$12.49	$13.24	$14.02	$14.83
14%	$12.45	$13.17	$13.93	$14.71	$15.52
15%	$13.17	$13.89	**$14.64**	$15.43	$16.24
16%	$13.10	$14.64	$15.39	$16.17	$16.99
17%	$14.69	$15.41	$16.17	$16.95	$17.77

Andrew Peller Ltd

Consumer Staples
TSX: ADW/A
Buy Recommendation

Calgary Portfolio Management Trust

ANDREW PELLER LIMITED

March 31, 2017

Hashim Chawdhry, Fund Manager
Erick Noh, Research Associate

Return on Investment

Current Share Price	$11.27
Target Price	$14.00
Dividend Yield	1.3%
Holding Period Return	26%
Conviction Rating	2

Market Profile

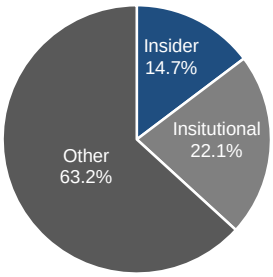
52-Week Range	$8.37 - $13.33
Shares Outstanding (mm)	34
Average 30-Day Vol (000's)	30
Market Capitalization (mm)	$378
Net Debt (mm)	$86
Enterprise Value (mm)	$464
Beta (2-Year Weekly)	0.76

Metrics	2016A	2017E	2018E
Revenue (mm)	$334	$348	$376
EBITDA (mm)	$37	$41	$45
EBITDA Margin	11.2%	11.7%	12.0%
EV/EBITDA	12.4x	11.4x	10.3x
Total Debt/Market Cap.	22.7%	24.3%	22.9%
Interest Coverage Ratio	7.7x	11.6x	21.1x

Historical Trading Performance

Source: CPMT Estimates, Bloomberg

Andrew Peller Limited Class A Ownership



Business Description

Andrew Peller Limited (TSX: ADW.A) is one of the largest producers and marketers of award-winning wines in Canada. ADW also imports wine from international markets to complement domestic brands so as to serve the desires of the Canadian wine consumer. In addition, ADW owns and operates six wineries across Canada and plans to open a seventh in the spring of 2017. ADW also has over 100 retail locations under its control as well as a wholly owned subsidiary, GVI, a leader in personal winemaking products.

Industry Overview

ADW operates in the Canadian wine industry, fulfilling the needs of wine consumers with domestic and international products. This market segment is popular among many Canadian adults, and is gaining traction with younger generations. Generally, wine will be marketed towards an older segment of the population as they generally have more cultured taste when it comes to alcoholic beverages. The bulk of industry wine production in Canada comes from British Columbia and Ontario. In the respective provinces, there are independent authorities named: Vintners Quality Alliance B.C. (VQA B.C.) and Vintners Quality Alliance Ontario (VQA Ontario). These independent authorities label and rate bottles of wine, signaling to consumers that the wine has gone through a strict quality-assurance program. The grapes that are harvested to produce the labeled wine are either 100% B.C. grapes or 100% Ontario grapes. This level of regulation in the industry is an advantage for ADW since the majority of its premium branded wines are VQA brands.

Competitive Advantages

The main metrics companies are evaluated on in the Canadian wine industry are quality, price, brand recognition, and distribution. ADW can compete on both quality and price, as its product portfolio is able to cover the complete spectrum of price levels within the Canadian wine market due to its industry leading size. ADW was named “Canadian Winery of the Year” at the WineAlign National Wine Awards in British Columbia in June of 2014. In addition to this, the International Wine and Spirit Competition named it the “Canadian Wine Producer of the Year” in 2015. The various awards won by ADW build brand recognition for its products, which is crucial in an industry with such a wide array of selection available. Lastly, by having a diverse network spanning the major wine provinces of Canada, and with over 100 retail locations in Ontario, ADW Limited is able to compete on distribution.

Corporate Governance

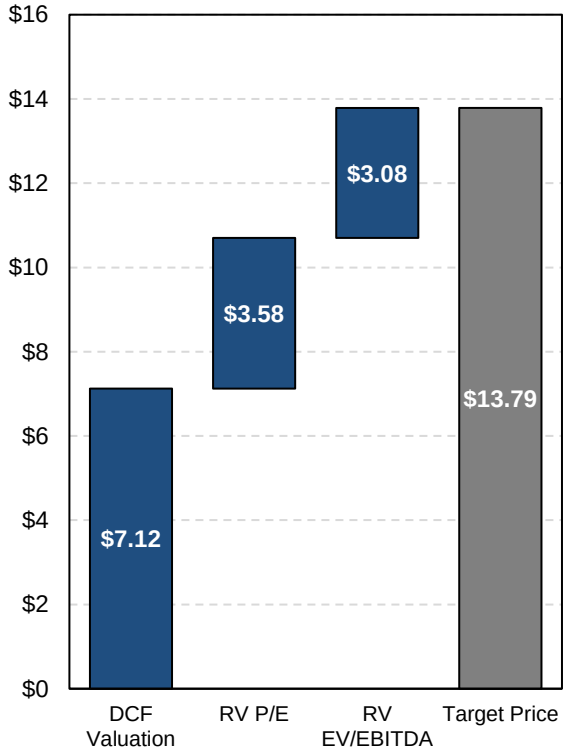
John E. Peller leads the management team as Chairman of the Board and CEO. He has been the CEO since 1995, when he took over from his father, Dr. Joseph Peller. John E. Peller has displayed a great track record of creating value for sfhareholders over his tenure. John E. Peller grew EPS at a CAGR of 12.1% from 2011-2016 and has grown the dividend per share at a CAGR of 6.3% over the same time period. The Board of Directors has seven independent members and two non-independent members (John E. Peller and A. Angus Peller). The Peller family owns ~24% of all outstanding shares (Class A and Class B). We believe the Peller family has managed the business well since the first winery opened in 1961. The Peller family has successfully grown a small winery into the largest publically traded winemaker in Canada.

Target Price Sensitivity

Exit EBITDA Multiple \ WACC	5.45%	5.95%	6.45%	6.95%	7.45%
12.3x	$14.85	$14.65	$14.45	$14.26	$14.08
11.8x	$14.50	$14.31	$14.12	$13.94	$13.76
11.3x	$14.15	$13.97	**$13.79**	$13.61	$13.44
10.8x	$13.80	$13.63	$13.46	$13.29	$13.13
10.3x	$13.45	$13.29	$13.12	$12.96	$12.81

Market Growth Rate \ WACC	5.45%	5.95%	6.45%	6.95%	7.45%
5.00%	$14.65	$14.46	$14.27	$14.09	$13.91
4.50%	$14.40	$14.21	$14.03	$13.85	$13.68
4.00%	$14.15	$13.97	**$13.79**	$13.61	$13.44
3.50%	$13.91	$13.73	$13.55	$13.38	$13.22
3.00%	$13.66	$13.49	$13.32	$13.15	$12.99

Valuation Waterfall



Investment Thesis

ADW Limited holds a market leading position in the Canadian wine industry, which has high barriers to entry primarily due to the high capital requirements of starting a full-scale winery. ADW is currently the largest publicly traded winemaker in the Canadian space, with a market share of 14.4%. In addition to its market leading position, ADW's diverse selection of award-winning brands makes ADW's brands the front-runners among a premium selection of wines at over 30 prestigious Michelin Star restaurants. These restaurants include fine culinary establishments such as Gordon Ramsay at Royal Hospital Road, which offers two bottles of Peller Estates wine. ADW has demonstrated a strong record of accomplishment as it has grown its market share by 1.9% CAGR over the last eight years. Residing in a fragmented industry, ADW has the option to grow inorganically, as all but one competitor in the Canadian wine market has a market share of less than ~3%. With a clean balance sheet sporting a Debt/Market Capitalization of ~20%, total Debt/EBITDA of 2.1x, and a 2018E Interest Coverage Ratio of 21.0x alongside an undrawn credit facility, ADW is well capitalized and able to fund projects in the pipeline.

Catalysts for Growth

Ontario and British Columbia grocery stores are now selling wine in store as of 2015, which allows for a higher volume of wine sales. This should help ADW grow its top line in the upcoming years. As older generations are the main consumers of wine, ADW will be able to capitalize on the fact that Canadian citizens aged 65 and above will represent over 30% of the total population by 2020, as reported by Euromonitor. In addition, there is an opportunity to expand into the e-commerce platform business; the CPMT believes ADW will be able to take advantage of the resulting higher sales volumes. Lastly, the Wayne Gretzky Winery and Distillery will be opening to the public in the spring of 2017. This is an opportunity for ADW Limited to continue to grow the Wayne Gretzky brand and attract a higher volume of sales

Valuation

To value ADW, we conducted a five-year discounted cash flow analysis with an exit EBITDA multiple of 11.6x to determine the terminal value. The multiple was derived from taking an average of ADW's competitors and is in-line with precedent transactions. One of the most recent transactions we looked at was the Ontario Teachers' Pension Plan acquisition of the Canadian wine division of Constellation Brands for 12.0x EBITDA. Our relative valuation was based on a 12.0x EV/EBITDA multiple combined with a 18.3x P/E multiple, equally weighted. The target price was derived by the following weightings: 50% discounted cash flow, and 50% relative valuation based on EV/EBITDA and P/E multiples. This yielded a target price of $14.00, implying a ~25% upside to the current trading price.

Risks

One risk that is apparent for ADW is the Canada-U.S. trade dynamic at a time of political instability. Fortunately, only a small portion of ADW's revenue comes from exports. A decrease in the popularity of wines can lead to an appreciable reduction in sales for ADW. The CPMT does not believe this will occur as wine is poised to become more popular in Canada, due to an aging population. As climate change becomes more topical and relevant, swings in climate may affect ADW in a greater way. Concerning ice-wine making, temperatures need to fall to around -8º Celsius during winter in order for the harvesting of grapes to begin. The climate also needs to be above 10º Celsius for 150-170 days of the year in order for grapes to grow. Lastly, tarnished brand equity could influence sales negatively and hurt ADW going forward. Since ADW has a diverse array of brands, this risk poses less of a threat.

Ceapro Inc

Materials
TSXV: CZO
Hold Recommendation

March 31, 2017

George Huang, Fund Manager
Chase MacDougall, Research Associate
Darren Luoma, Research Associate

Return on Investment

Current Share Price	$1.42
Target Price	$1.69
Dividend Yield	0%
Holding Period Return	19%
Conviction Rating	1

Market Profile

52-Week Range	$0.48 - $2.47
Shares Outstanding (mm)	75
Average 30-Day Vol (000's)	243
Market Capitalization (mm)	$107
Net Debt (mm)	($6)
Enterprise Value (mm)	$101
Beta (5-Year Monthly)	1.88

Metrics	2017E	2018E	2019E
Revenue (mm)	$19	$24	$32
EBITDA (mm)	$10	$14	$18
EBITDA Margin	54%	56%	57%
EPS	$0.09	$0.12	$0.16
EV/EBITDA	10.0x	7.4x	5.5x
P/E	16.5x	12.1x	9.0x

Historical Trading Performance

Source: CPMT Estimates, Bloomberg

Business Description

Ceapro (TSXV: CZO) is a biotechnology company that specializes in the isolation, extraction, and purification of active ingredients from mainly oats, but increasingly other botanical sources as well. Specifically, beta glucan (BG) and avenanthramides (AVs) are extracted from avena sativa (oats), both compounds have known and recognized therapeutic or cosmetic properties. BG stimulates collagen synthesis and thus healing: AV - exclusively found in oats in low quantities - are antioxidants known for their anti-inflammatory properties. CZO is also the only company worldwide producing a natural AV product. Examples of brand names containing CZO's extracts are: Aveeno, Neutrogena, The Body Shop, Dove, Burt's Bees, and Lubriderm. CZO has recognized huge improvements in physical product yields, and operating margins largely due to 'pressurized gas expanded technology' (PGX) which CZO licensed from the University of Alberta in 2014. CZO holds worldwide rights to PGX. In addition to chemical extraction CZO is developing veterinary products derived from Sweet Blue Lupin, functional foods including CeaProve for diabetes detection and diagnosis confirmation, lifestyle drugs, and is rapidly scaling up an automated PGX operation. Although CZO is a biotechnology company, the main revenue drivers are the chemical compounds extracted and supplied to the cosmeceutical, nutraceutical, and pharmaceutical industries, and is currently classified as a materials company under the GICS.

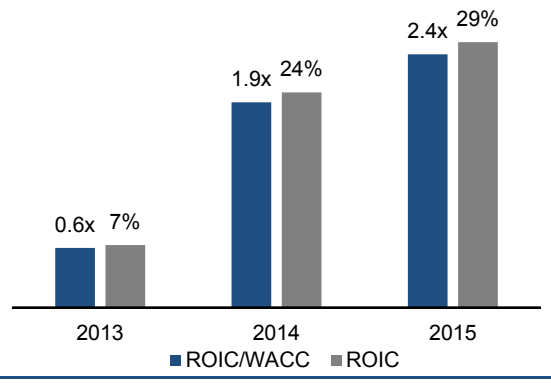
Investment Thesis

The investment thesis for CZO is based on multiple factors. First, CZO has shown strong growth in demand for its main products, BG and AV, which have contributed to 60% revenue growth over the previous year as of the quarter ended September 30th. Revenue performance has come from the increase in sales of BG and AVs for use in cosmeceuticals and personal care products. Given that these inputs are naturally sourced, CZO is positioned well to take advantage of growing market demand for naturally sourced products. Additionally, the strong growth prospects for the firm come from the potential to use BG and AVs as inputs in pharmaceutical products, which is another market for the materials produced. CZO has a strong balance sheet, with only $1.5mm in long-term debt, and a 0.6x D/CF multiple. Furthermore, CZO has paid down debt six quarters in a row, with an average of $230,000 coming off of its books each quarter. Backed by the demand for its products, it provided stakeholders with strong returns on invested capital during both 2014 and 2015, at 24% and 29%, respectively. Given the technology being incorporated into the extraction and production process, gross margins are expected to improve, creating a lower cost product to defend against current and future competition. Finally, given its high ROIC, tremendous growth potential with its product pipeline, and the potential for expanded gross margins, CZO offers an attractive valuation trading at just 16.5x 2017 earnings.

Catalysts for Growth and Price Performance

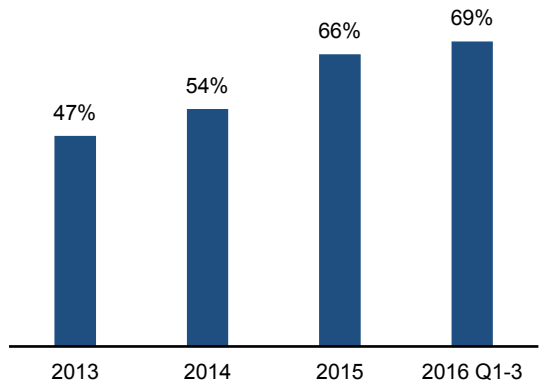
There are currently several ways in which CZO can realize growth. CZO is positioned well to supply growing demand for natural/organic based ingredients in cosmetics and healthcare products. Additionally, the potential for both AV's and BG to be used as active pharmaceutical ingredients would create an additional area in which CZO can market its active ingredients. AV's are currently undergoing clinical studies in men and women to confirm the anti-inflammatory benefits for consumer use. This could result in the ingredient being used in the development of a natural alternative to treat diseases such as inflammatory bowel disease.

Historical ROIC

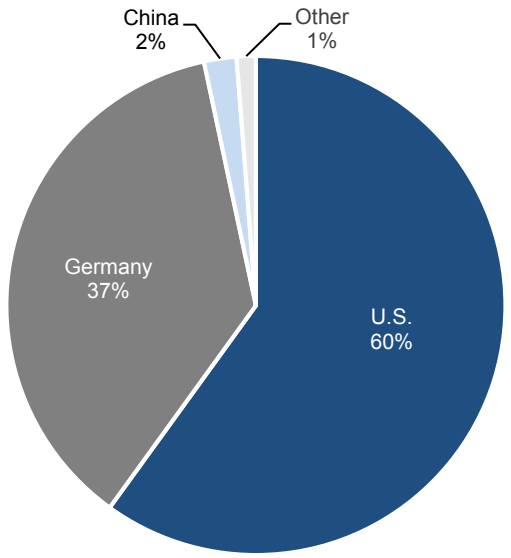


Source: CPMT Analysis, Ceapro Financials

Gross Margin



Revenue Breakdown by Geography



Additionally, BG is currently undergoing a study to develop a prototype for a "functional drink" using the dried BG produced by the PGX technology. There is also evidence of the ability of BG to contain cholesterol lowering properties, as well as help control glucose metabolism. This could pave the way for BG to be used in production of pharmaceutical products to treat metabolic diseases such as diabetes. The PGX technology is going through a consistent improvement process, including the transition from batch processing to semi-continuous processing. Once refined, this should improve the capacity to produce dried BG. Dried BG has a higher purity and longer shelf life than the liquid form, and should be lighter weight and have reduced volume from its current formulation. Once rolled out in its production process, the technology should improve its operating margins. Furthermore, the technology used to increase the concentration of AVs in oats has yet to be completely implemented in the production process as the final product is currently undergoing tests to confirm specifications with the currently distributed version. Mass production of dried AVs, as with BG, have a longer shelf life than the liquid form with increased purity. Its PGX technology could also serve as a method to create additional powdered substances besides BG, which means additional revenue could be produced from either licensing the technology or running it for other materials producers.

Valuation

CZO was valued using a five-year forecasted DCF driven by five years of historic financials. Given the small market capitalization of the company, as well as higher risk relative to other CPMT holdings, conservative assumptions were used in the valuation. Conservative assumptions include: no success from projects in the research pipeline, high R&D expense relative to historical values, no reinvestment from future retained earnings, and minimum payments continued on the royalty schedule until termination of the agreement. Additionally, the historical average quarterly growth was curtailed when forecasting future growth, and when combined with the other conservative assumptions, this still yields an approximate 20% upside to the current market price. Comparable companies were selected from the specialty chemicals space (where CZO fits in), companies that specialize in extraction of active ingredients, and companies that are reliant on product or drug discovery. Companies in the space are mired by problems including: ineffective products, failure to innovate, and investor speculation. Though a comparable company analysis was carried out, none of the results were factored into the valuation. This is because many of the comparable businesses in the space are earnings negative, and those that are not have hyper-inflated valuations, which creates an unreliable peer group from a valuation perspective.

Management Team

CEO Gilles Gagnon has extensive industry experience, including his previous tenure at Æterna Zentaris as President and CEO, which saw the company's stock price rise ~50% during his time in the position. Gagnon has also served as a director on the board of Spectrum Pharmaceuticals since 2012, and founded his own pharmaceutical consultancy firm, Prodev Pharma, in 2007. CFO Stacy Prefontaine is well suited for the role, given her experience as a Principal of Grant Thornton LLP, Partner at Stout & Company LLP, and tenure in client service accounting with Collins Barrow Calgary LLP. These roles amount to nearly twenty years of experience where she has had the opportunity to hone the skills necessary to succeed in her role.

Governance

After reviewing the board structure, it is the contention of the CPMT that there are currently governance issues which result in CZO presenting itself as a riskier investment than is generally held by the Fund. One main concern is the lack of apparent financial literacy of the Audit Committee members. Aside from Glenn Rourke, who holds an MBA, as well as previous experience with the Corporate Banking division of BMO, no other member

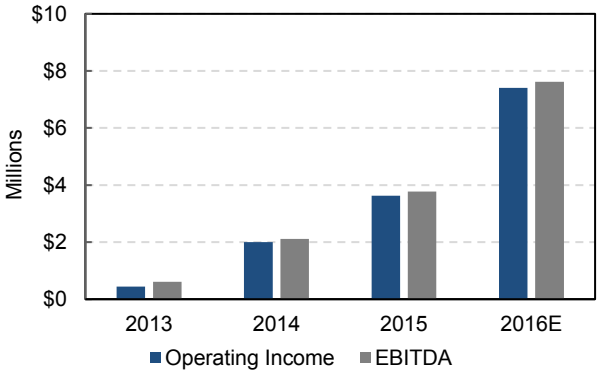
Sensitivity of Revene and R&D Expense Growth

R&D Change \ Revenue Growth Assumption Change	(2%)	(1%)	0%	1%	2%
2%	$1.12	$1.37	$1.67	$2.03	$2.45
1%	$1.13	$1.38	$1.68	$2.04	$2.46
0%	$1.14	$1.39	**$1.69**	$2.05	$2.47
(1%)	$1.15	$1.40	$1.70	$2.06	$2.49
(2%)	$1.16	$1.41	$1.71	$2.07	$2.50

Sensitivity of Revenue Growth and COGS/Sales

COGS Change \ Revenue Growth Assumption Change	(2%)	(1%)	0%	1%	2%
(0.24%)	$0.96	$1.17	$1.42	$1.71	$2.05
(0.12%)	$1.05	$1.28	$1.56	$1.88	$2.26
0.00%	$1.14	$1.39	**$1.69**	$2.05	$2.47
0.12%	$1.23	$1.50	$1.83	$2.22	$2.69
0.24%	$1.32	$1.61	$1.97	$2.39	$2.90

Operating Income and EBITA



Brands Utilizing Ceapro's Active Ingredients

of the Audit Committee appears to have extensive financial experience either by education or throughout the course of their careers. Additionally, the compensation structure of CZO is highly arbitrary, with bonuses currently awarded on a completely subjective basis. The failure to tie executive compensation to performance metrics has the potential to harm shareholders as executives could be awarded stock options which dilute shareholders without improving firm performance. Additionally, there could be a conflict of interest for the auditors used by the company, Grant Thornton LLP, given that the recently appointed CFO, Stacy Prefontaine, was previously a Principal of Grant Thornton immediately before joining CZO.

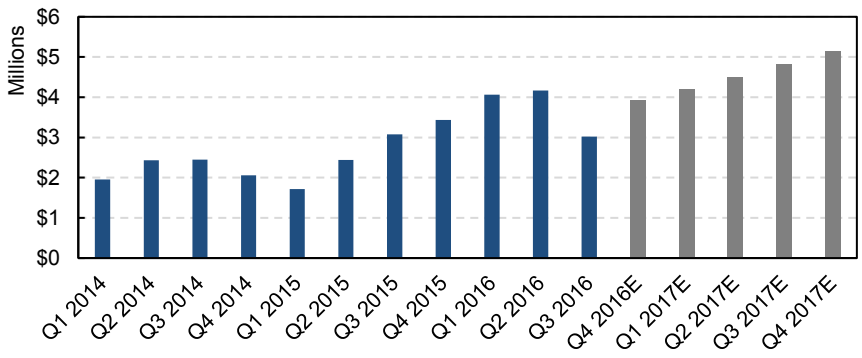
Risks

CZO's notable risks are dependence on limited customers, foreign exchange exposure, risks inherent in the bio-tech industry, and talent acquisition/retention. In 2015 CZO racked up 87% of revenue from two customers: in 2016, 88% of receivables are due from one customer. The CPMT views this as a significant risk because loss or default of one of these customers would be detrimental for CZO. Approximately 60% of CZO's revenues come from the U.S., and 35% from Germany. CZO is fully exposed to foreign exchange risk in this respect (a +1/-1% change in FX rate equates to a +1/-1% change in foreign revenue), having only a small hedge in the form of minimal Euro-denominated debt, which is rapidly being paid down. Interestingly, CZO is completely insulated from interest rate fluctuations. Like any bio-tech company, CZO must pour dollars into R&D or risk obsolescence. The industry moves quickly and leading is critical as obsolescence can easily occur. In this same vein, talent acquisition and retention is a constant struggle for small bio-tech companies. Remaining competitive in the job market is crucial to maintaining an industry leading status. We do not currently view increasing drug scrutiny or environmental concerns as risks. CZO supplies naturally occurring ingredients via extraction, not chemical synthesis. This type of product does not typically attract much regulatory attention. CZO extracts mainly water soluble ingredients. This keeps industrial solvent use to a minimum, flying well under the radar of most environmental groups in hydrocarbon heavy Alberta. Another risk to CZO's operations would be the creation of substitute products to serve the same purpose as CZO's with reduced cost. As a result, CZO must continue to strive for operational efficiency to improve margins and keep the cost of its products competitive.

Committee Membership

	Audit	HR & Compensation	Environment, Health, & Safety	Governance & Nomination
Glenn Rourke	✓			✓
Donald J. Oborowsky		✓	✓	
John Zupancic	✓	✓	✓	✓
Gilles Gagnon			✓	
Dr. William Li			✓	✓
Dr. Ulrich Kosciessa	✓	✓		

Historical and Projected Revenue



Empire Co. Ltd.

Consumer Staples
TSX:EMP/A
Hold Recommendation

Calgary Portfolio Management Trust

EMPIRE COMPANY LIMITED

March 31, 2017

Daniel Morgan, Fund Manager
Daniil Zhigatov, Research Associate

Return on Investment

Current Share Price	$20.32
Target Price	$27.00
Dividend Yield	2%
Holding Period Return	35%
Conviction Rating	2

Market Profile

52-Week Range	$14.74 - $22.72
Shares Outstanding (mm)	271
Average 30-Day Vol (000's)	989
Market Capitalization (mm)	$5,509
Net Debt (mm)	$1,916
Enterprise Value (mm)	$7,424
Beta (5-Year Monthly)	0.60

Metrics	2017E	2018E	2019E
Revenue (mm)	$24,742	$25,039	$25,339
EBITDA (mm)	$1,567	$1,610	$1,651
EBITDA Margin	6%	6%	7%
EPS	$2.78	$2.88	$2.96
EV/EBITDA	4.7x	4.6x	4.5x
P/E	7.3x	7.1x	6.9x

Historical Trading Performance

Source: CPMT Estimates, Bloomberg

Business Description

Founded in 1907 and headquartered in Stellarton, NS, Empire Company Ltd (TSX: EMP/A) is best known as the owner and operator of approximately 1,500 grocery retail locations under the banners: Sobeys, Safeway, IGA, Foodland, FreshCo, Thrifty Foods, and Lawton's Drug Stores. The company also operates 350 retail gas stations in a partnership with Shell Canada. Outside of its retail operations, EMP/A holds a 41.5% stake in Crombie REIT (TSX: CRR.UN), the owner of approximately 19mm sq. ft. of retail space. Additionally, it holds a 39% interest in the residential real estate development company Genstar (see Non-Retail Subsidiaries section of this report for more details).

After 110 years in operation, EMP/A has grown to become Canada's second-largest grocery retailer under the leadership and ownership of the Sobey family, which controls 88% of the voting rights.

Investment Thesis

EMP/A's nationwide grocery retail footprint and potential for improvement is currently undervalued by investors. However, the market is beginning to recognize the potential that the new CEO will bring the company back on a growth track, and also integrate Safeway Canada at last. The Company's new strategy, should it be executed well, will: *1) simplify its organizational structure to reduce SG&A costs.* This may also include the restructuring of its non-retail investments, such as its stake in a residential property development business. *2) Improve operational productivity and efficiency to realize margin improvements. 3) Reverse its negative same-store-sales growth trend via a reformed marketing and product pricing strategy.* This may include the introduction of a new loyalty program on top of AirMiles, as well as a grocery pick-up or delivery offering that its competitors have implemented. *4) Win back market share in Western Canada.* This final objective will prove to be the most difficult without a discount grocery banner in Alberta or Saskatchewan. We expect the Company will be well-positioned to begin testing FreshCo. stores (its discount banner) in the region by 2019, before making a full rollout.

EMP/A was poorly managed by its previous CEO and deservedly lost favour with investors as it fell behind other grocers in growth, margins, and customer loyalty. With its new strategy and management team to shake the company up, its stock is currently in the discount aisle for a limited time.

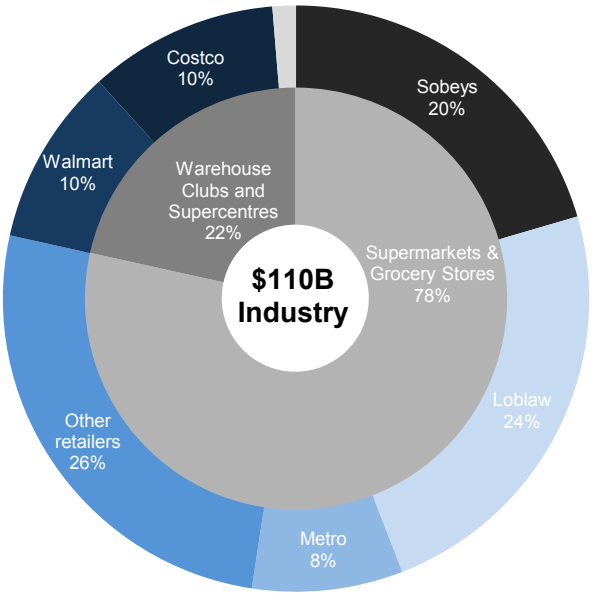
Growth & Catalysts

At this time, investors in the Company will need to be willing to play the long game while it reforms its corporate structure and implements material changes to improve operations. Noticeable margin improvements from its change in strategy over the course of the next 18 months will likely drive up the share price. Otherwise, a reversal in the deflationary food price environment being experienced by Canadian grocers will change growth expectations for investors in the near term.

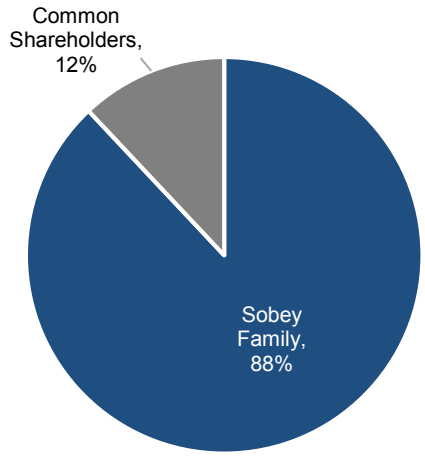
Industry Overview

The Canadian food and beverage retail industry generates total sales of more than $110B per year, making up just over one-fifth of Canada's total retail trade. The highly competitive nature of the industry contributes to firms achieving, on average, gross margins of approximately 20% and operating margins of approximately 7%. In recent years, lower disposable incomes in Canada has caused consumers to seek lower-priced private label brands, take advantage of coupons and promotions, and increasingly shop at discount

Grocery Market Share



Empire Company Voting Rights



Valuation Ranges

Valuation Method:	*Estimated Value*	*Weight*	*Contribution*
Discounted Cash Flow	$26.60	33.3%	$8.87
Comparables	$28.96	33.3%	$9.65
Dividend Discount Model	$24.20	33.3%	$8.07
Target Price			**$26.59**
Current share price			$20.32
Upside Potential			**31%**

retailers (such as FreshCo. & No Frills) or Warehouse & Supercentres (Costco and Walmart). The latter category has increased its market share considerably, posing a serious threat to industry incumbents Sobeys, Loblaw's, and Metro Inc., which hold approximately 52% of industry sales volume.

Corporate Governance

Since the company's humble beginnings in 1907, the Sobey family of Nova Scotia has controlled its direction. The Sobey family controls 88% of the Company's voting rights through ownership of the class B shares, despite comprising only 32% of the total equity outstanding.

Of EMP/A's 15 directors, eight are independent, including its Chairman, Robert Dexter. CEO Michael Medline and EVP Francois Vimard were the most recent appointees to the board and are deemed non-independent. The five other non-independent directors on the board are members of the Sobey family. John Robert Sobey is classified by the Company as an Independent Director, although we view his membership in the family and ownership of Class B shares as indications of non-independent status.

As for the management team, Michael Medline was appointed as permanent CEO to replace the interim leader, Francois Vimard, in January of 2017. The transition came after Marc Poulin's (who preceded Vimard) tenure as CEO and President ended following four years of disappointing performance, with the infamously poor handling of the Safeway integration of note. Medline joins the Company following his surprising departure from Canadian Tire (TSX: CTC) as its President and CEO. Medline faces much greater challenges at EMP/A than at CTC, with many investors questioning the transferability of his acumen in the hardware and sport equipment categories to the razor-thin-margin grocery business. The CPMT is of the view that Medline's experience in improving margins, exposure to large-scale integrations, and ability to enhance customer engagement makes him the right leader to turn the Company's operations around.

Valuation

We estimated the intrinsic value of EMP/A using a DCF model, comparable companies analysis, and the dividend discount model. The combination of these methods on an equal-weight basis implies a blended target price of $27.00.

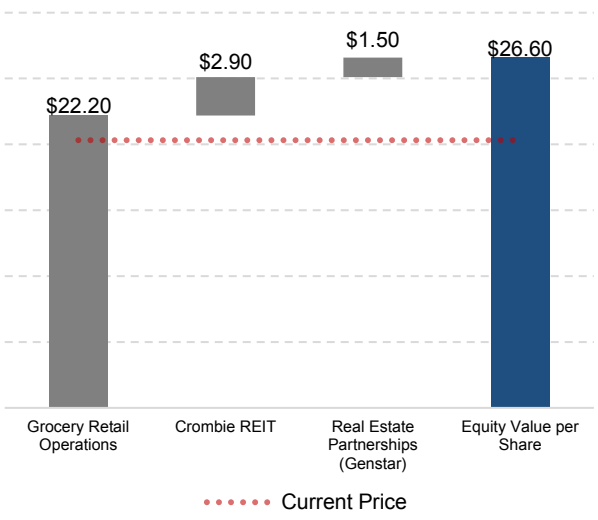
Our 10-year DCF model values each segment of the Company's business separately (grocery retail operations, its stake in Crombie REIT, and its interest in real estate partnerships) although the vast majority of the value is derived from its retail operations. Our base case DCF assumed revenue growth of 1.2% YoY, in line with the forecasted growth rate of the sector by IBISWorld. This implies the expectation that the Company can return to growth under its new initiatives. We also assumed gross margins and capital expenditures as a percent of revenue would hold steady at its 10-year averages of 24% and 3%, respectively (with adjustments for the Safeway acquisition).

We assumed a terminal growth rate of 1% after 2026 and discounted cash flows at the estimated WACC of 5.05%.

In our comparables method, we applied a 9.9x multiple to our NTM EBITDA estimate of $1,350mm. This multiple is based on the Canadian grocery peer group average and is adjusted one turn lower as EMP/A is not yet performing in-line with its peer group.

Lastly, our DDM assumes an estimated sustainable growth rate of 9% and cost of equity of 5.1%.

Sum-of-the-Parts DCF Valuation (Base Case)



Risks

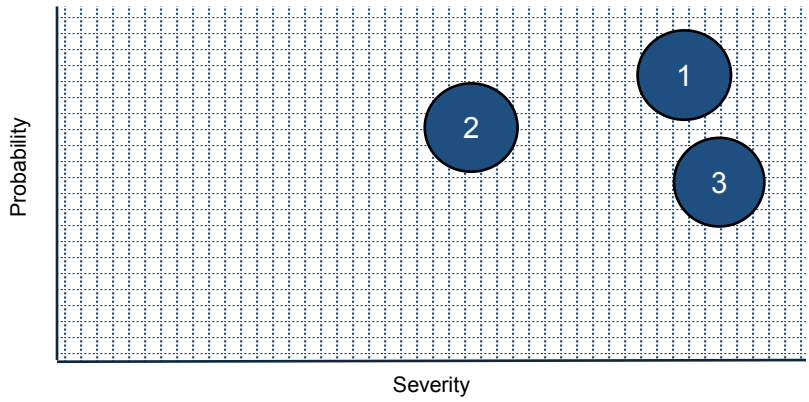
A high severity, high probability risk to the Company is the continuation of its loss of market share due to competition from warehouse clubs and supercentres, as well as its competitors which operate discount retail banners. Should EMP/A fail to implement material changes to its operations and customer engagement strategy, including the introduction of a discount banner in the west, competition will eat away shareholder value.

Additionally, near-term food deflation poses a moderate severity, high probability risk. Canada's grocers have recently faced muted sales growth as a result of the weakened Loonie.

Lastly, a food-borne illness arising from unsanitary processes within the Company's operations or a suppliers would have a material impact on its grocery retail operations. The impact of the risk would last long after it becomes resolved, as customer confidence in potentially all products associated with the affected brands or food category would be suspect.

Major Risks to Empire Company

1. Competition
2. Deflation
3. Food Contamination



Intrinsyc Technologies Corp

Information Technology
TSX: ITC
Buy Recommendation

Calgary Portfolio Management Trust

INTRINSYC EMBEDDED & IoT SOLUTIONS

March 31, 2017

George Huang, Fund Manager
Mahad Nadeem, Research Associate
Darren Luoma, Research Associate

Return on Investment

Current Share Price	$2.35
Target Price	$2.93
Dividend Yield	0.00%
Holding Period Return	25%
Conviction Rating	3

Market Profile

52-Week Range	$1.06 - $2.88
Shares Outstanding (mm)	21.1
Average 30-Day Vol (000's)	89.0
Market Capitalization (mm)	$49.6
Net Debt (mm)	($4.0)
Enterprise Value (mm)	$45.6
Beta (3-Year Daily)	0.55

Metrics	2017E	2018E	2019E
Revenue (mm)	$23.32	$29.92	$36.69
EBITDA (mm)	$1.51	$1.89	$2.29
EBITDA Margin	6.5%	6.3%	6.2%
EPS	$0.06	$0.08	$0.10
EV/EBITDA	30.3x	24.1x	19.9x
P/E	37.4x	29.2x	23.8x

Historical Trading Performance

Source: CPMT Estimates, Bloomberg

Business Description

Intrinsyc Technologies Corporation (TSX: ITC) is an electronic product development company that combines Single Board Computers (SBCs) with software expertise for rapid commercialization of embedded Internet of Things (IoT) products. These products, along with ITC's accompanying engineering and support services, comprise the company's main revenue generators. The result is a highly functional line of modules that ITC has dubbed the Open-Q series of System on Modules (SOMs). These modules are used by Original Equipment Manufacturers (OEMs) to rapidly develop new waves of integrated IoT products. ITC has designed systems for: drones & robotics, wearables, mobile phones, smart homes, automotive, augmented reality, and military & security. This business breaks down into two intuitive segments: Services & Software and Embedded Computing Hardware, representing 65% and 35% of revenue respectively.

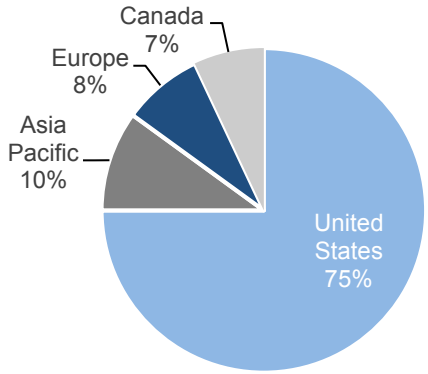
Industry Overview

The technology sector is notoriously competitive, characterized by rapid growth and rapid obsolescence. The Embedded IoT Solutions space is among the most contemporary in the sector. The Internet of Things is generally referred to as the interconnecting of the increasing plethora of physical assets including vehicles, buildings, robots, and smart devices to the pre-existing network. Most large businesses offering IoT products are only recently discovering the true capabilities of the technology. This forces companies competing in the industry (on both the hardware and software side) to be exceptionally flexible and innovative, as such, constantly working on a breadth of projects and adding to a portfolio of capabilities is considered a huge advantage.

Investment Thesis

For a company to be successful in the hyper competitive IoT Embedded Solutions arena, not only must management optimize operations and allocate capital effectively, but they must be flexible enough to make huge changes in strategic direction quickly enough to continually lead the market and push innovation. Currently, ITC has 3 wholly owned subsidiaries; one in the U.S., one in Europe, and one in China. These 3 subsidiaries were discontinued in 2012 and 2013 in order to refocus on the core business and grow the Embedded IoT Solutions Segment. Since the end of the shift in 2013, the Embedded Solutions segment has grown from 38% of revenue, to 90% in 2015. In early 2016 it was virtually the entire business, so the Embedded IoT Solutions segment was further broken into the two segments previously mentioned, Embedded Computing Hardware and the Services and Software which was necessary to support the use of that hardware. R&D expenditures have increased by 26% over the past 3 years, a sales team has been developed, an expanding trade show circuit established, a media and web campaign launched, and the executive leadership team increased investment in engineering talent to handle the accelerating growth. The company carries no debt, has a board comprised of capital market veterans, and an executive team that focuses on engineering innovation, marketing, and capital allocation. In 2016, foreign operations were rebooted in U.S. and China to better support the expanding international customer base. This flexibility and willingness to make large strategic shifts in this direction are not rewarded more greatly in any other sector than technology. The definitive catalyst for ITC is the combination of thirst for innovation and breaking into the right industry at the right time. Embedded IoT Solutions are a burgeoning high growth, high potential industry, as illustrated by the recent launches of the Apple watch, Google's self driving car, and Amazon Prime Air drone delivery. All these types of projects require Embedded IoT Solutions and ITC is

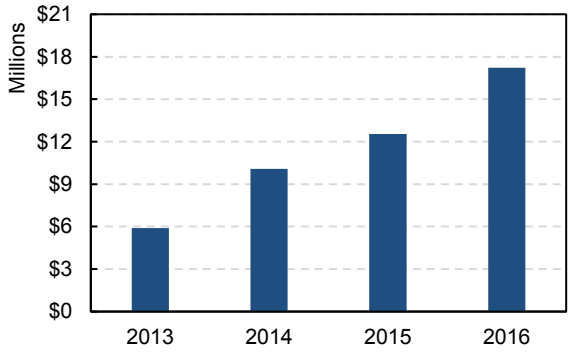
Revenue Geography



Sensitivity Table

Terminal Growth \ WACC	9.0%	9.5%	10.0%	10.5%	11.0%
2.0%	$3.03	$2.95	$2.87	$2.81	$2.74
2.5%	$3.06	$2.98	$2.90	$2.83	$2.76
3.0%	$3.10	$3.01	**$2.93**	$2.85	$2.78
3.5%	$3.15	$3.05	$2.96	$2.88	$2.81
4.0%	$3.20	$3.09	$3.00	$2.91	$2.83

Revenue Growth



Comps Analysis

	EV/EBITDA	*ROIC*	*ROA*	*ROE*	*N Prof MGN*
ITC	12.06	17.52	17.53	21.22	13.1%
Avg.	18.96	13.30	6.40	18.17	7.6%
Median	15.69	9.32	4.66	11.66	6.0%

Case Analysis

	Target Price	*Gains*
Stagnation (Current)	**$ 2.93**	**25%**
Moderate Growth	$ 3.62	54%
Continued Growth	$ 4.73	101%

providing industry solutions and getting in at ground zero. ITC has enjoyed enormous success after the business was remodelled in 2013, as such 3 cases were considered; stagnation, moderate, and continued growth (see chart, bottom left). The case of stagnation was used for this report.

Valuation

ITC was valued intrinsically using a DCF driven off 5 years of quarterly historic financials. The financial statements were projected out 5 years and a blended terminal value of 25% Gordon Growth and 75% EBITDA exit multiple. This represents a conservative blend. Revenues were forecasted using a 20% decreasing YoY growth assumption. Expenses, capital expenditures, and ITC's unique deferred tax assets were all modelled and taken into account. Large changes in net working capital of the growing company weighed most heavily on the DCF. ITC has a very low beta of 0.55, so a size premium of 5% was added. This still yielded an overly optimistic valuation, so a WACC of 10% was used for calculations. A terminal growth of 3% is reasonable for a technology company, but this felt aggressive, therefore the exit multiple was weighted more heavily. In a comparable company analysis ITC trades at a discount compared to its peer group on an EV/EBITDA and P/E basis with 11.72x vs. 18.76x and 13.95x vs. 25.46x respectively. This is a steep discount considering ITC's ROIC, ROA, and ROE is 17.52, 17.53, and 21.22 vs. the peer group average of 13.30, 6.40, and 18.17 respectively. Based on these multiples the market is giving them a steep discount because of their size. From an operational perspective its net profit margin is 5% higher than the peer group average, and operating income margin is 0.5% lower.

Management

The CEO Tracy Rees has been with ITC since 2007, is an expert in mobile/embedded technology, and led a successful turn around for Annasoft Systems (a hardware/custom development tools company with a similar story) in the early 2000's. Victor Gonzalez, the VP of Engineering, has been with ITC since 2005, and has held nearly every engineering post during his time with the company. George Reznik, CFO, has spent his last 15 years with public technology companies, and previously led IPOs in the space. The Board of Directors has 5 members, all are capital markets experts with technology sector experience, with 1 exception, who is heavily involved in the distribution of RedBull Energy drinks in B.C. and Ontario.

Risks

The usual risks in the technology space apply to ITC, which are fierce and intensifying competition, risk of obsolescence, and top talent retention in such a dynamic sector. Risks specific to ITC are its growth management, a history of losses, and shareholder dilution. Growth management is crucial for small technology companies. ITC's officers will need to manage expanding operations, potentially increasing financial complexity, and talent retention/attraction. The company was incorporated in 1992 and has historically been focused on engineering rather than running the business. ITC had a huge turn around and tactical refocusing in 2013 and has been improving thereafter. Due to this history of losses prior to 2013 the company has a little over $100mm deficit in shareholders equity that is slowly being eroded, however ITC holds no debt. In the event of dissolution there would be nothing left for equity holders, as there rarely is. The company has 7.8% of current outstanding shares in options granted, of which 3.2% are exercisable. Although heavy use of stock options is common with small, rapidly expanding technology companies, shareholder dilution remains a minor concern.

Lassonde Industries Inc

Consumer Staples
TSX: LAS/A
Buy Recommendation

March 31, 2017

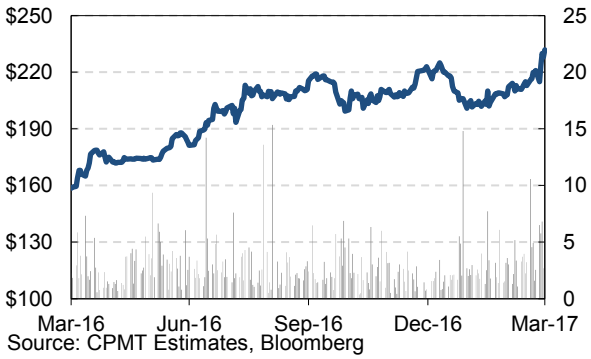
Bryton Hewitt, Fund Manager
Jennifer LaBine, Research Associate

Return on Investment	
Current Share Price	$231.90
Target Price	$279.00
Dividend Yield	0.82%
Holding Period Return	20%
Conviction Rating	2

Market Profile	
52-Week Range	$162.38 - $236.25
Shares Outstanding (000's)	3,235
Average 30-Day Vol	3,494
Market Capitalization (mm)	$1,651
Net Debt (mm)	$258
Enterprise Value (mm)	$1,909
Beta (5-Year Monthly)	0.38

Metrics	2017E	2018E	2019E
Revenue (mm)	$1,717	$1,885	$2,071
EBIT (mm)	$136	$149	$164
EBIT Margin	7.9%	7.9%	7.9%
EPS	$10.67	$12.05	$13.51
EV/EBITDA	14.1x	12.8x	11.7x
P/E	21.7x	19.2x	17.2x

Historical Trading Performance



Source: CPMT Estimates, Bloomberg

Business Description

Lassonde Industries (TSX: LAS) is a North American leader in the fruit and vegetable juice market. Roughly 60% of LAS's sales are situated in the US due to a transformational acquisition of Clement Pappas and Company (now Lassonde Pappas and Company) in 2011. Clement is one of the largest producers of cranberry juice and sauce, and therefore experiences a large revenue boost every fourth quarter around the holiday season. LAS also owns Arista Wines which imports, packages, and distributes wines within Canada. Arista has a patented unbreakable and 100% recyclable packaging that looks distinct from the standard bottle design used by its competitors, giving the brand eye-catching ability on store shelves. LAS also has access to the high margin quality food segment through its subsidiary Lassonde Specialties. Lassonde Specialties produces and markets a variety of sauces, bruschetta, marinades, soups, and the Canadian Club brand. After being acquired in 2014, Apple and Eve provides LAS additional U.S. juice market exposure, and enjoys a synergy under LAS's ownership by utilizing the same packaging that Arista uses for its wines. And finally, the original legacy LAS brand has operated for 99 years in Canada and operates well-known brands including Del Monte and Oasis. At a corporate level, LAS is a vertically diversified North American staples company that has succeeded through organic growth of brands combined with synergistic acquisitions.

Industry Overview

The Canadian juice production industry, with revenues of $1.2B in 2016, is highly competitive. More than 80% of total market share is held between LAS, PepsiCo and The Coca-Cola Company (Exhibit I). The juice production industry in the US, though larger (revenues of $11.9B in 2016), is less competitive, with the top four companies holding just 65% of total market share. Per capita disposable income and health spending are key drivers for this market. This industry is expected to experience continued growth as consumers continue shifting towards healthy foods. To remain competitive, companies within this industry must adapt to rapidly evolving consumer preferences, and offer wide product ranges in high volumes. These abilities allow competitors to benefit from economies of scope. 40-55% of goods produced within this industry are supplied to grocers and supermarkets. Greater opportunities for organic growth exist for suppliers to this market in the U.S., as it is less concentrated than in Canada, and is composed primarily of small-chains and independent grocers.

Corporate Governance and Management

The Board of Directors consists of 4 independent and 5 non-independent directors, and is chaired by CEO Pierre-Paul Lassonde. Lassonde assumed the role of CEO in April, 1999, and has been the Chairman of the Board since 1973. Compensation is composed of base salaries, determined on the basis of compensation of similar firms, as well as an annual non-equity performance bonus. Bonuses are determined based on a number of metrics including EPS, EBITDA, and sales. These incentives have been effective, as illustrated by LAS's 10-year EPS CAGR of 22.6%, and a 5-year EBITDA CAGR of 7.4%. A lack of equity-based compensation, however, represents a governance concern, as all executives hold a cumulative total of less than 2% of the firm's equity, and are not given any stock compensation to maintain their dedication to the stock's performance.

P/E Valuation

Peer Average Forward P/E	20.8x
LAS 2017E EPS	10.7
Implied Share Price	**$221**

EV/EBITDA Valuation

Peer Average Forward EV/EBITDA	15.3x
LAS 2017E EBITDA (mm)	175
Implied Enterprise Value (mm)	2,684
Implied Equity Value (mm)	2,429
Implied Share Price	**$348**

DCF Valuation

Sum FCF	420.5
WACC	5%
EV/EBITDA Multiple	10.3x
Terminal Value	2,204
Enterprise Value (mm)	2,190
Equity Value (mm)	1,935
Implied Share Price	**$277**

Exhibit I. Canadian Juice Production (by revenue)

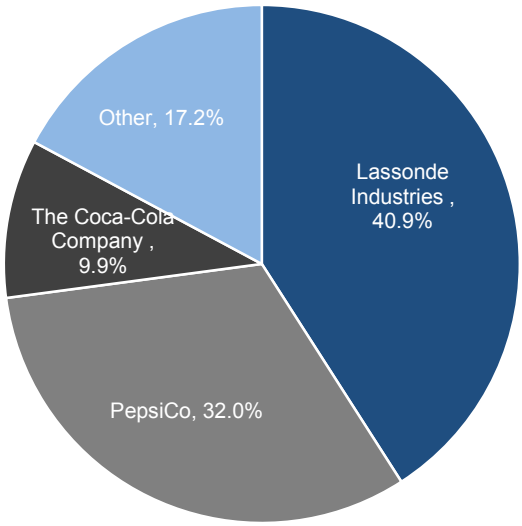
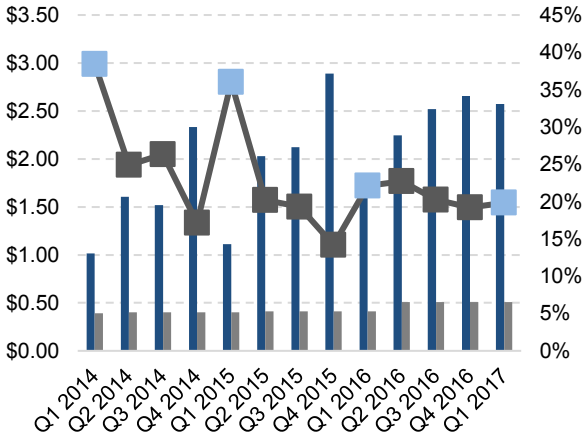


Exhibit II. Dividends and Dividend Payout Ratio



Investment Thesis

One of LAS's competitive advantages is its diverse and robust offering of low-cost, high-quality products. From the grocer's perspective, it is easier and cheaper to manage relations with one supplier than multiple. For this reason, LAS's wide array of quality products that it can place on grocery store shelves increases its bargaining power with the grocers it sells to. This results in better shelf placement and stable, long-term sales contracts. Another key thesis point is that growth over the last few years has been accelerated by the company's strategy of acquiring complementary subsidiaries, such as Lassonde Pappas (2011) and Apple and Eve (2014). These acquisitions have helped LAS further enter the U.S. market. The U.S. market is a more attractive growth avenue for LAS than Canada because LAS already has high market penetration in Canada with limited room to grow. Displaying this point, LAS's U.S. operations have grown organically by 12% annually since 2014, versus a lower yet still impressive 6% same time frame growth rate in Canada. Additionally, acquisitions have proven accretive as LAS enjoys economies of scale benefits from the additional units produced and can reduce the operating costs of the integrated brands by adding them to its efficient operating lines. Displaying this fact that LAS invests its capital wisely, LAS has earned a stable ROIC of 9.9% over the past 10 years, a return that exceeds many of its consumer staple peers. And finally, the CPMT believes there is room for dividend growth looking forward. The dividend has grown each of the last 10 years, and the quarterly payout ratios before the most recent three dividend increases were 40%, 35%, and 27%. Given next quarter's payout ratio is modeled to be just 25%, a sizeable dividend increase appears reasonable (Exhibit II).

Valuation

We arrived at a target price of $279 using a blended valuation including a DCF and a comparables analysis. For the DCF, revenues for the "Canadian" and "United States" segments were grown at their respective historical 2-year CAGRs, while the "Other" segment was grown at 2.0% to reflect growth similar to inflation. Capital expenditures were forecasted at historical percentages of revenues, and payments of existing credit were forecasted as per management guidance. A weighted average cost of capital (WACC) of 5.0% was applied to free cash flows. This is a premium over the company's calculated intrinsic WACC of 3.0%, which was incredibly small due to LAS's adjusted beta of 0.54. Using a larger 5.0% WACC reflects our expectations for an increasing rate environment and the potential increased risk inherent to continued expansion into the United States. Due to the risks inherent to the competitive, low-margin food industry, assuming just a 3.0% WACC did not appear to truly reflect the risk profile of this investment. For informational purposes, it would require a WACC of 11.4% (above the 10% used for the CPMT's much more risky upstream energy investments) to produce a 0% implied return to LAS's current share price (Exhibit III).

An exit multiple of 10.3x was applied to LAS's 2021 expected EBITDA to produce a terminal value. This multiple represents the median forward EV/EBITDA that LAS has traded at over the last five years. This DCF produces an intrinsic share price of $277. The comparable analysis applied the median EV/EBITDA and P/E ratios of its competitors to LAS's 2017 expected EBITDA and EPS, respectively, to arrive at a blended comparable value of $285. This was weighted as 25% of the total valuation, with the DCF creating the remaining 75%. The final valuation was weighted more heavily towards our DCF to reflect both our confidence in the intrinsic valuation and a lack of 100% pure play Canadian-listed comparables.

Exhibit III. Target Price Sensitivity

Exit EBITDA Multiple	WACC 3%	4%	5%	6%	7%
8.3x	$258	$250	$242	$235	$227
9.3x	$278	$269	$260	$252	$244
10.3x	$298	$288	**$279**	$270	$261
11.3x	$318	$308	$297	$288	$278
12.3x	$338	$327	$316	$305	$295

Risks

Competition Risk:

The juice market in North America is low-margin and low-growth. This forces competitors to compete fiercely to gain more market share because minimal growth is occurring in the market itself. To this end, LAS competes against giants of the industry including Tropicana and Minute Maid. Tropicana is owned by PepsiCo and owns its own orange grove production which lowers its input costs by eliminating the transaction cost of purchasing oranges. Minute Maid does not own its own orange supply, but the brand is owned by Coca Cola and therefore has some of the largest buyer bargaining power in the industry. LAS competes against these mass-market low cost competitors through marketing its juices as premium products that command a slight premium price instead of attempting to compete on price alone. LAS has also diversified into the wine, cranberry juice, and specialty product markets to avoid over-leverage to the saturated juice market. On the other end of the spectrum, niche juice bars are becoming popular in urban centers, but these are too small to pose a major threat to LAS's market currently.

Concentration Risk:

The vast majority of LAS's sales are direct to food retailers, wholesalers, and grocers. This is worrying because these markets are very concentrated in the U.S. and Canada. Five retailers control more than 70% of this market in Canada, and although the U.S. is slightly more competitive, ten retailers still make up 60% of the market. Because of this, relationships with buyers are incredibly important in order to maintain and expand access that consumers have to LAS's offerings. LAS mitigates this risk by offering a wide breadth of products, making LAS as a whole an important supplier to these grocers, which raises its corporate-level bargaining power and access to quality shelf placement.

Park Lawn Corp

Consumer Discretionary
TSX: PLC
Sell Recommendation

Calgary Portfolio Management Trust

Since 1892 PARK LAWN CORPORATION

March 31, 2017

Daniel Morgan, Fund Manager
Dan Zhigatov, Research Associate
Kristin Gorkoff, Research Associate

Return on Investment

Current Share Price	$17.50
Target Price	$14.50
Holding Period Return	(17.1%)
Conviction Rating	0

Market Profile

52-Week Range	$12.01 - $18.00
Shares Outstanding (000's)	7,994
Average 30-Day Vol (000's)	16
Market Capitalization (000's)	$139,903
Net Debt (000's)	$22,820
Enterprise Value (000's)	$162,723
Beta (2-Year Weekly)	0.31

Metrics	2016A	2017E	2018E
Revenue (000's)	$59,195	$64,720	$66,190
EBITDA (000's)	$3,795	$6,677	$7,561
EBITDA Margin	6.4%	10.3%	11.4%
EV/EBITDA	42.9x	24.4x	21.5x
Total Debt/Market Cap.	15.7%	13.3%	9.6%
Interest Coverage Ratio	7.1x	7.7x	12.1x

Historical Trading Performance

Source: CPMT Estimates, Bloomberg

Business Description

Park Lawn Corporation (TSX: PLC) is the only TSX-listed funeral, cemetery and cremation company. The company operates through its subsidiaries in the Greater Toronto Area, Ottawa, Western Quebec, Manitoba, Saskatchewan and as of Q1 2016 in Michigan, U.S through Midwest Memorial Group (MMG). The company operates 34 cemeteries and mausoleums, 16 cremation facilities, and 22 funeral homes, chapels and planning offices. The company originated its operations in the Greater Toronto Area, and is now a serial acquirer of funeral companies across Canada and the U.S. The companies acquired by PLC have a trend of good customer reviews (albeit from a limited sample of clients), but also high turnover rates and mediocre employee ratings from websites such as Indeed and Glassdoor.

Business Model

The company operates a business model focused on developing its assets to build an inventory of crypts, mausoleums, and traditional burial plots. PLC then sells this inventory to clients on both a 'pre-need' and 'at-need' basis. The sales made on a 'pre-need' basis are from customers who would like to have funeral and memorial arrangements made for either themselves or a loved one prior to that person's death. Sales made on an 'at-need' basis are sales made upon someone's death. In addition, the Company provides cremation services, which make up approximately 85% of its generated revenue and funeral services make up the remaining 15%.

The revenues from pre-need sales are deposited in the company's pre-need trust fund, where the money remains until the purchase is redeemed at a future date. Upon redemption of services paid for, PLC receives the current market value of the services from the fund to cover the costs. A portion of all lot, crypt, and niche sales is contributed to the company's Care and Maintenance Trust Fund, a mandatory trust held by the government for regulatory purposes.

The company is focused on consolidation within the death services industry. Its growth strategy consists of acquiring smaller companies to capitalize on the current industry trend of family-run businesses looking to be bought out, as owners of family-run businesses are looking to exit the industry or retire. PLC has doubled in size through its strategy over the past couple of years. Continuing this growth, in February of 2017, the company announced its first acquisition of the year. This acquisition in the Okanagan Valley marks PLC's first acquisition in British Columbia and offers further diversification within its current portfolio. The majority of the company's existing operations are primarily in Ontario and in Michigan in the U.S. PLC also owns a few properties in Saskatchewan and Manitoba.

Industry Overview

PLC operates within the Canadian and the U.S. funeral home services industries. In Canada, the funeral services market consists of around $1.6B dollars compared to the $14.2B in the U.S. market. The services included are: cremation, transportation, funeral planning, resale of merchandise (coffins and urns), and body preparation. Around 75% of clients are the population over 65 years old for both U.S. and Canada, with the largest portion coming from the 80-89 year old group, representing 32% in Canada and 46% in the U.S. profit margins across the two countries are around 10% on average and industry revenues tend to not fluctuate with economic cycles, as demographic factors such as age govern growth.

Target Price Sensitivity

Long Term Growth

WACC	1.00%	1.25%	1.50%	1.75%	2.00%
7.65%	$12.82	$13.05	$13.30	$13.56	$13.85
7.15%	$13.27	$13.53	$13.82	$14.13	$14.48
6.65%	$13.79	$14.10	**$14.44**	$14.82	$15.24
6.15%	$14.41	$14.78	$15.20	$15.66	$16.18
5.65%	$15.16	$15.62	$16.14	$16.73	$17.39

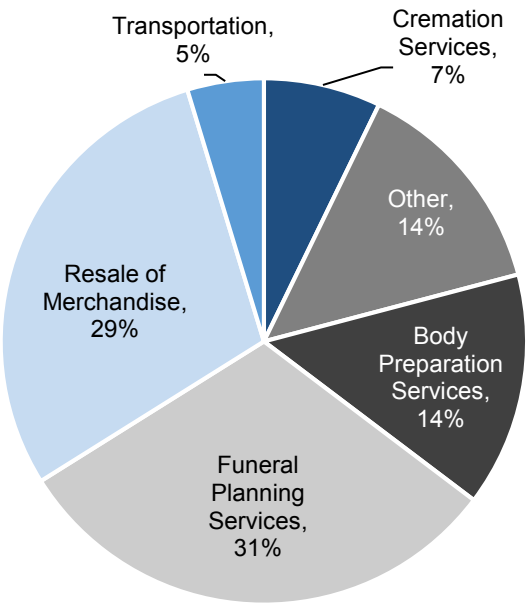
EV/EBITDA Multiple

WACC	11x	12x	13x	14x	15x
7.65%	$12.18	$12.74	$13.30	$13.85	$14.41
7.15%	$12.71	$13.26	$13.82	$14.37	$14.93
6.65%	$13.33	$13.89	**$14.44**	$15.00	$15.55
6.15%	$14.09	$14.65	$15.20	$15.76	$16.31
5.65%	$15.03	$15.59	$16.14	$16.70	$17.25

% Revenues From Canada

% Revenues from U.S.	39%	44%	49%	54%	59%
61%	$14.36	$14.47	$14.58	$14.69	$14.80
56%	$14.29	$14.40	$14.51	$14.62	$14.73
51%	$14.22	$14.33	**$14.44**	$14.55	$14.66
46%	$14.15	$14.26	$14.36	$14.47	$14.58
41%	$14.08	$14.18	$14.29	$14.40	$14.51

Revenue Segments



Industry Regulation

The industry is heavily regulated by the government, requiring companies to maintain Care and Maintenance Funds as well as Pre-Need Trust Funds. The two funds exist for maintaining existing facilities and ensuring that companies have the capital to expand capacity when needed. After maintenance expenses are netted from the interest income of the maintenance funds the remaining income cannot be distributed to shareholders and must be reinvested within the fund.

Industry Threats

Revenues largely depend on external factors such as disposable income, life expectancy, number of deaths, and the proportion of population aged over 65 years old. Firstly, breakthroughs in science and healthcare are a beneficial factor to nearly every industry in the world, but delay the timing of purchase of funeral services. An elongated life expectancy could have a negative impact on the industries' revenues. Secondly, around 30% of total industry sales consist of selling caskets and urns. Sales are under pressure from online retail stores, which give customers the ability to easily compare prices of any funeral related products.

Investment Thesis

PLC is unique in that it is the only Canadian publicly-traded owner and manager of cemeteries, crematoriums, mausoleums and funeral services. It operates in an industry with a stable flow of clients, allowing it the opportunity to generate stable and growing cash flows. The company is pursuing a growth-by-acquisition strategy in an industry which is in a state of consolidation. This provides PLC with ample opportunity to benefit from smaller funeral operations looking to become acquired. The company has proven, through its acquisition record over the past couple of years, that it has the ability to successfully acquire and integrate companies into its current operations. This subsequently allows the company to benefit from economies of scale as it continues to grow.

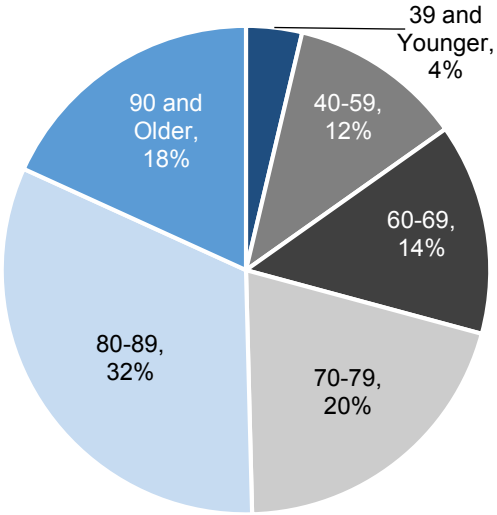
Growth Catalysts

Religious people such as Catholics and Protestants traditionally request burials rather than cremations as per tradition. A rising percentage of the agnostic and atheist populations has led to a drop in demand for traditional burials and a rising demand for cremations. In the U.S., belief in a God has fallen from around 92% in 2007 to 89% in 2014, while in Canada the percentage of people who claim to not have religious beliefs has risen to around 24%.

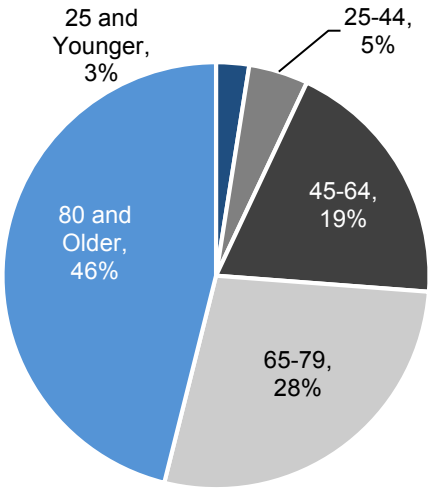
Suppliers such as Walmart and Costco have utilized e-commerce and economies of scale to flood the casket and urn market with discounted products. A casket and urn can be bought in Walmart for as low as $950 and $150 respectively. This combined with a customer's ability to easily compare online prices has led to reduction in the ability of funerals homes to resell products with a healthy mark up.

These two conditions have led to a market of struggling funeral homes, and has created an environment ripe for consolidation. PLC and select private firms such as Service Corporation International and Arbor Memorial Services Inc. have taken advantage of this phenomenon through inorganic expansion, in hopes of reducing costs and increasing market share to order to obtain pricing power. A large number of funeral service providers are or were family run businesses. Those that continue to operate today, however, are beginning to face problems with succession planning. As the current family owners near retirement, the next generation within these family-run businesses have no desire to continue the family business. This presents an opportunity for companies like PLC to acquire these companies and as a result, the industry is becoming more consolidated.

Canadian Age Demographics



American Age Demographics



Corporate Governance

Andrew Clark, Chairman and Chief Executive Officer, first joined PLC as the Chief Operating Officer in 2011. In 2013, he then transitioned to his current role as CEO. Clark initially entered the company after successfully leading a group of investors to buy 15% of the company. Prior to joining PLC, Clark began his career working in both financial analysis and relationship management roles at Toronto-Dominion bank in its mid-market commercial lending business. He then went on and founded a successful tourism and hospitality company. Although he has no direct experience related to the death-care industry, he does have proven experience growing a company as shown through his previous ventures. He is also supported by the board of directors, two of whom have direct death-services industry related experience.

Four of seven directors are independent of Park Lawn Corporation, while CEO Andrew Clark, along with CFO Joseph Leeder are the non-independent board members. Board member John Ward has direct death-services-related experience as he is a current member of the Board of Funeral Services in Ontario as well as a fourth-generation funeral director for Ward Funeral Homes Ltd. Other board member backgrounds include strategy-related experience.

A concern that we have is the company's Employee Share Loan Plan. This was a scheme that allowed the board of directors, including the CEO and CFO, the ability to approve loans from the company to employees for the purpose of purchasing shares of PLC. Through this scheme, employees who participate do not pay interest on the loans, as the dividend payments from the stocks fulfill these payments. Employees have 10 years to pay back the loan and any after-tax compensation received by participants goes towards paying back the loan. The main benefactors of this scheme were the current CEO and CFO. The company has discontinued the program, although the outstanding agreements will be honoured. However, PLC has implemented a new Employee Incentive Plan which grants shares as part of compensation to those in its organization. The program allows it to provide equity-based awards in the form of Deferred or Restricted Share Units (DSU's or RSU's) which both give the employees' rights to shares after a period of time.

Risks

Firstly, the death-services business is high fixed-cost in nature. This presents a potential risk to PLC should its revenues decrease significantly as it will continue to have to cover these costs regardless. Secondly, competition within the death-services industry as a whole has increased over the past decade as consumer trends have changed in favor of increasingly minimal and low-cost alternatives to the traditional services provided. Thirdly, there is the potential for medical advancements that will allow the population to extend their life spans and therefore reduce the number of potential clients for companies offering funeral and memorial services. Finally, the company's management has outlined that it intends to continue growing the company primarily via its acquisition-driven strategy. In order for this to work in its favor, the company will need to continue its success in identifying suitable acquisition targets. Although limited information is available regarding acquisition multiples, as the company primarily acquires small, private companies, it's largest acquisition, Midwest Memorial Group, was made at a 0.6x EV/LTM revenue multiple. If PLC fails to do so, it could severely impact its valuation. Should it continue identifying successful acquisition targets, the next risk would be difficulty or failure of successfully integrating acquisitions into its current operations, due to the synergies failing to meet management forecasts.

Gordon Growth Model	
PV of UFCF (000's)	$24,070
WACC %	*6.65%*
LT Growth Rate %	*1.50%*
PV of Terminal Value (000's)	$112,670
Implied EV (000's)	$136,740
Less: Net Debt (000's)	$22,820
Implied Equity Value (000's)	$113,920
Diluted Shares Outstanding (000's)	7,994
Target Price	**$14.25**

EBITDA Exit Multiple	
PV of UFCF (000's)	$24,070
WACC %	*6.65%*
Exit EBITDA Multiple	13x
PV of Terminal Value (000's)	$115,657
Implied EV (000's)	$139,727
Less: Net Debt (000's)	$22,820
Implied Equity Value (000's)	$116,908
Diluted Shares Outstanding (000's)	7,994
Target Price	**$14.62**

Blended Target Price	
Gordon Growth Model	50%
EBITDA Exit Multiple	50%
Target Price	**$14.44**

Valuation

To value PLC, we conducted a five-year discounted cash flow analysis, with an estimated WACC of 6.65% and an exit EV/EBITDA multiple of 13.03x. The exit multiple was derived from taking the median EV/EBITDA from four of PLC's closest comparable companies, which also employ an acquisition strategy. In estimating the WACC we added a 3% size premium to compensate for the size of the company's market capitalization. Our target price was weighted 50% towards a 1.5% terminal growth rate in a Gordon Growth model, and 50% towards the 13.03x EV/EBITDA exit multiple. Our approach yielded a $14.44 target price. Compared the $17.50 current price, this implies a 17% downside.

Conclusion

Although PLC presents a unique investment opportunity in a stable industry in the midst of consolidation, we do not believe the valuation is attractive, nor is it a great investment opportunity which would fit well within the CPMT portfolio at this time. This is primarily due to the company's growth by acquisition strategy, having relatively no track record of success at this point along with the stock being overvalued according to our valuation. If we were to look at investing in the company in the future, we would like to wait until the company demonstrates the viability of its business model and acquisition acumen. Although they have had a strong couple of years of acquisitions and have been able to grow the company through this strategy, this is no indication of future success. In addition, the company currently has no plans to compete with growing industry trends, which is another concern we have with the company's growth strategy. Low-cost alternatives to funeral products and services are growing in popularity and the company does not indicate any strategies to directly compete on these trends. Because of these reasons we are placing a sell recommendation on PLC at this time, but will remain vigilant on the company's potential.

Raging River Exploration Inc

Energy
TSX: RRX
Update

March 31, 2017

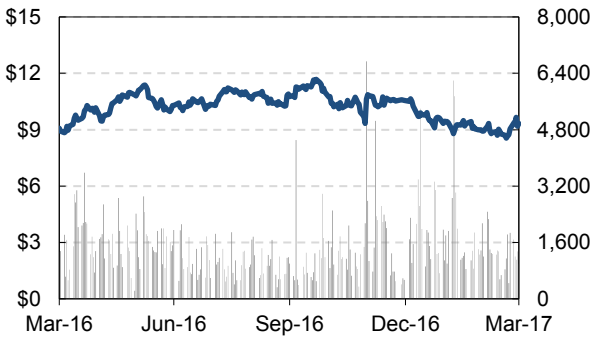
Babbal Brar, Fund Manager
Chase MacDougall, Research Associate

Return on Investment	
Current Share Price	$9.31
Target Price	$12.00
Dividend Yield	0.00%
Holding Period Return	29%
Conviction Rating	2

Market Profile	
52-Week Range	$8.33 - $11.87
Shares Outstanding (mm)	231
Average 30-Day Vol (000s)	1,777
Market Capitalization (mm)	2,152
Net Debt (mm)	$168
Enterprise Value (mm)	$2,320
Beta (5-Year Monthly)	1.42

Metrics	2017E	2018E	2019E
Revenue (mm)	$497	$571	$570
Production (boe/d)	22,319	25,648	28,086
Operating Netback (boe)	$40.10	$40.09	$37.86
Cash Flow (mm)	$334	$384	$378
P/CF	6.4x	5.6x	5.7x

Historical Trading Performance



Source: CPMT Estimates, Bloomberg

Business Description

Raging River Exploration Inc. (TSX: RRX) is a light-oil focused exploration and production company focused on the Viking play in the Dodsland area in southwestern Saskatchewan and southeastern Alberta. The company had a 2016 annual production of 17,900 boe/d with a 93% liquids weighting and 24% growth in PDP reserve as well as 13% growth in 2P reserves.

Original Investment Thesis

The CPMT's original thesis behind purchasing RRX is based on its excellent management team which has a great track record of building successful junior upstream companies. President and Chief Executive Officer Neil Roszell is a professional engineer with 20 years of industry experience. Mr. Roszell has sucessfully started and sold off two E&P businesses prior. RRX also has a clean balance sheet, with industry leading D/CF metrics and a disciplined growth strategy. The combination of an excellent management team, solid financial position, focused asset base, disciplined growth strategy, and efficient operations allows RRX to acquire assets at attractive valuations and complement its organic growth.

Holding Period Developments

RRX made two acquisitions over the last year. The $109mm Rock Energy acquisition added 2,550boe/d in production with 1,950bbls/d of heavy oil, and 450bbls/d of light oil. We believe that the strategic rationale behind the deal is heavily weighted on the $208mm in increased tax pools. Heavy oil has not been a focus for management and this sudden shift in strategy makes us question management's ability to grow its premium light oil assets. The second acquisition was for Dodsland Viking assets purchased at $58mm from an undisclosed seller. The purchase also included a natural gas processing facility valued at $5mm. RRX paid $93,000 on a per flowing barrel metric. Lastly, U.S. President Donald Trump's comments about the border tax have depressed Canadian E&P valuations, though we believe that the U.S. policy speculation in the market will have limited impact on the long-term value of E&P companies like RRX.

Revised Valuation

We revised our commodity price deck to reflect the lower price environment. In our Net Asset valuation (NAV) model, production was grown in line with management guidance until year 2018 and blown down thereafter. Assuming a price to NAV multiple of 1.9x we arrived at a NAV of $10.81. In our relative valuation method we assumed a 2018E EV/DACF multiple of 7.5x, which yields an implied value of $11.73. Weighing the DACF multiple and NAV methods 75% and 25% respectively, we arrived at a target price of $12.00. Given the cyclycal nature of the commodity price and the valuation volatility thats comes with it, our current conviction for the investments sits at a 2.

Current Investment Rationale

Given the premium valuation of the business during the low commodity price environment, the CPMT believes that RRX failed to acquire assets at attractive valuations, which was a key rationale for investing. That being said, RRX is still one of the highest netback business in the upstream energy space. In addition, RRX management has proven its ability to manage the business in a volatile commodity price environment. Given the asset base and management history, we are confident in management's ability to deploy capital effectively going forward and generate shareholder value. The CPMT continues to hold the company in its portfolio and is actively monitoring its position.

Whitecap Resources Inc

Energy
TSX: WCP
Update

Calgary Portfolio Management Trust

WHITECAP RESOURCES INC

March 31, 2017

Rebecca Wang, Research Associate
Babbal Brar, Fund Manager
Bryton Hewitt, Fund Manager

Return on Investment

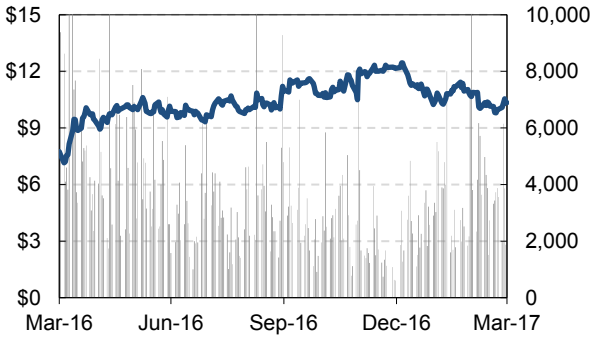
Current Share Price	$10.35
Target Price	$13.25
Dividend Yield	2.71%
Holding Period Return	31%
Conviction Rating	2

Market Profile

52-Week Range	$8.20 - $12.90
Shares Outstanding (mm)	369
Average 30-Day Vol (000's)	3,671
Market Capitalization (mm)	$3,818
Net Debt (mm)	$773
Enterprise Value (mm)	$4,592
Beta (2-Year Monthly)	2.11

Metrics	2017E	2018E	2019E
Revenue (mm)	$1,173	$1,282	$1,369
Production (boe/d)	57,000	62,000	67,000
DACF (mm)	$715	$836	$892
EV/DACF	6.4x	5.5x	5.1x

Historical Trading Performance



Source: CPMT Estimates, Bloomberg

Business Description

Whitecap Resources Inc. (TSX: WCP) acquires, explores for, develops, and produces crude oil and natural gas properties in the Western Canada Sedimentary Basin (WCSB). As an oil-weighted producer, WCP's primary properties are located in the Cardium, Viking, SW Saskatchewan, Deep Basin, and Boundary Lake resource plays. WCP is known for creating value through water-flooding to improve well pressure, paying a monthly dividend to shareholders, and a two-pronged growth strategy including asset development and strategic acquisitions. In today's lower-for-longer commodity environment, WCP has made stability a core tenant by declaring corporate goals of maintaining D/CF metrics below 1.5x and growing its dividend without exceeding a 25% cash flow payout ratio.

Investment Thesis and Catalysts

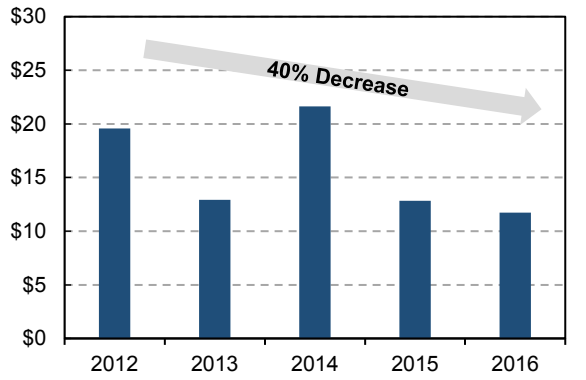
The CPMT considers WCP to be a superior light-oil weighted producer in the WCSB due to its robust balance sheet, strong low-decline asset base, industry-leading capital efficiencies, demonstrated operational efficiency, and comprehensive risk management program.

Of the company's substantial $1.1B total credit facility, approximately 30% is unutilized capacity, providing significant financial flexibility for WCP's future growth strategies. Additionally, while WCP recorded a low annualized net debt to cash flow (ND/CF) ratio of 1.7x for 2016 as well as an interest coverage ratio of ~7.7x, it seeks to further improve its financial position moving forward, with a target ND/CF ratio of 1.2x-1.5x. In contrast, the peer group of comparable companies currently averages a ND/CF ratio of 2.3x.

WCP has displayed conscentious financial management and this has translated into operational excellency, as can be seen by WCP's substantial reduction in operational costs over the past five years. The company has decreased combined operating and transportation costs per boe by an overall ~41% since 2012, and general and administrative costs per boe by ~28%. This operational efficiency enables WCP to further capitalize on the high revenues it already enjoys as a result of its high netback, light oil asset base. Excluding hedging effects, for 2016 the company generated operating netbacks per boe of $22.02, notably higher than the oil-weighted peer group average of $17.26.

Lastly, WCP possesses industry-leading capital efficiencies, with 2016 2P FD&A costs of $11.51/boe (including FDC). The company also impressively increased its recycle ratio from 5.2x in 2015, to 11.3x in 2016. This compares to the peer group average of 2.6x, meaning that WCP has been able to realize higher levels of profitability even in a lower commodity pricing environment. The CPMT calculates 2017E capital efficiencies to be ~$14,430/boe, with management forecasting 2017E daily production to grow by 25% (57,000 boe/d) compared to 2016. The company has ambitious production growth targets in place, with daily production forecasted to grow to 91,000 boe/d by 2019. Given these factors, the CPMT remains confident that WCP will efficiently and responsibly execute its capital development program, and we await what appears to be an attractive growth story in the coming years.

Δ in Operating and G&A Cost (per boe)



Net Asset Value

NPV10	$3,657,743
Undeveloped Land	$40,172
Less: Net Debt	$818,995
2P NAV (000's)	$2,878,920
Current Shares Outstanding (000's)	339,735
2P NAV/Share	**$8.47**
NAV Multiple (Upside Adjustment)	1.3x
Implied Share Price	$11.04

Relative Valuation

2017E DACF (000's)	$714,675
Peer Group Average EV/DACF	7.9x
Implied EV	$5,663,797
Less: Net Debt	$818,995
Implied Equity Value	$4,844,802
Current Shares Outstanding (000's)	339,735
Implied Share Price	$14.26

Target Price

30/70 Blended Target Price	$13.25
Current Price	$10.35
Implied Upside	**28%**

Management and Corporate Governance

No single person or company owns, or controls more than 10% of oustanding WCP common shares. Insider ownership represents ~1.8% of shares outstanding. The Board of Directors consists of seven members, all of whom have extensive experience in the Canadian energy industry. Grant Fagerheim is the current Chief Executive Officer (CEO) and Chairman of the Board. Mr. Fagerheim possesses over 30 years of experience in both the upstream and downstream segments of the oil and gas industry. Prior to starting WCP in 2008, Mr. Fagerheim successfully exited two other upstream energy startups, Cadence Energy and Ketch Resources. The company has an executive compensation structure that aligns management incentives with shareholder interests. The CEO's base salary was decreased to $297,000 from $330,000 in 2015 to reflect the lower-for-longer commodity price environment. Cash bonuses and performance based stock option awards are evaluated on three performance measures: total shareholder return, 2P FD&A funds flow recycle ratio, and the development and execution of WCP's strategic plan. The company also has a claw-back policy in place on executive incentive compensation, which applies to bonuses, stock options, and share awards that have been awarded to executive officers. The policy is triggered in the event of fraud or misrepresentation of financial statements. A corporate governance drawback, as is the case with many other upstream companies in Canada, is WCP's interconnected Board. All seven Board members are not entirely independent from the company as Board members are either current or former executives or directors of other companies in the industry. However, given the executive compensation structure and management experience, the CPMT believes that WCP is well-managed.

Valuation

The CPMT conducted a net asset value (NAV) valuation on WCP using management production guidance up to 2023, with a blowdown of the Company's proved plus probable reserves (2P) thereafter. Strip pricing, adjusted for hedging effects, was used in order to take a conservative approach. After applying a discount rate of 10%, this yielded a core 2P NAV of $8.47/share. To account for the potential upside of WCP's resources beyond its 2P reserves, we risked our core NAV value using a Price/2PNAV multiple of 1.3x, derived from a peer group of comparable companies. This resulted in an implied share price of $11.04. The CPMT also valued the company on a relative basis using a peer group average 2017E EV/DACF multiple of 7.9x. For our blended target price of $13.25, we applied a weighting of 70% to the implied share price from the EV/DACF valuation method and 30% to the risked NAV implied share price. We believe this better captures the company's potential upside, particularly given its propensity for growth and targeted D/CF range.

Risks

As is common for all oil and gas companies, WCP is subject to fluctuations in commodity prices. To minimize this risk, the company engages in an active hedging program, hedging up to 75% percent of after-Crown royalty volumes. As of March 2017, the company has hedged 40% of H2 2017 oil volumes and 45% of H2 2017 gas volumes. The hedging program provides stability for WCP's cash flows, enabling it to maintain its dividend payout and capital deployment strategy, which is a vital part of WCP's growth strategy moving forward. The company also faces USD to CAD exchange rate risk, as is unavoidable when servicing multiple markets. However, WCP also partially hedges this on an ongoing basis. Variability in drilling program results poses another risk for WCP, but the company has capably executed in this area in the past, posting 4% per-share reserves growth in 2016 vs. 2015, and low 2P FD&A costs of $11.51/boe (including FDC). WCP also faces interest rate risk, however the company possesses a strong balance sheet with a FY 2016 interest coverage ratio of ~7.7x and annualized ND/CF of 1.7x.