

Alberta: NDP's effect on Canada's oil-rich economy

May 2015

NDP victory: knee-jerk reaction from the market

There is no ignoring the immediate impact that the New Democratic Party (NDP)'s landmark victory has had in Alberta, Canada. On the news of the NDP win, Suncor shares dipped 4.3%, Canada Oil Sands slipped 5.4% and overall, the energy sub-index dropped roughly 2% in a knee-jerk reaction in the May 6 trading session. NDP's win, after a campaign that revolved around hot button issues like oil royalties, corporate taxes, minimum wage and government spending, undoubtedly scared the market.

Riding a wave of popular support, the NDP has a mandate to shake up the well-established oil & gas sector. Over the next few months, they will realise that they may have to temper that populist enthusiasm and revert to the "norm", which we believe will yield reasonably positive developments for the province when the dust settles.

We here present our perspective on the market based on supporting research from *BMI Research*, *Mergermarket*, *KPMG* and *TD Economics*.

The campaign: promises from the NDP

- **Resource Owners' Rights Commission:** Review the appropriateness of royalty rates. Royalty rates are set according to oil prices (for example at \$60 per barrel, the royalty rate on a producer's gross revenue and net revenue is 1.62% and 26.15% respectively). Alberta took in \$8.7bn in royalties last year. The commission will also conduct research into measures that would promote greater processing / upgrading of the region's energy resources.
- **Income taxes:** Raise the corporate income tax rate from 10% to 12%, in line with other provinces; no change to the small business tax rate and also still no provincial sales tax (See Table 1).
- **Budget Proposal:** Spend a bit more and take in more revenues over the next five years than what the Progressive Conservative (PC)'s had set out (See Tables 2 & 3).
- **Minimum wage:** Raise the minimum wage from \$10.20 per hour to \$15 per hour by 2018.

Canada oil industry: optimism from senior corporate executives and investment bankers

In early January 2015, oil prices had dropped by more than 50% since June 2014. This was the first time since May 2009 that the global Brent benchmark had fallen below the threshold of \$50 per barrel.

In a survey conducted in December 2014 on the drop in oil prices and its effect on the industry, 80% of seasoned oil & gas professionals said that the decrease in crude oil prices would be a long-term phenomenon; but, interestingly enough, only 12% believed that these lower oil prices would negatively impact the investments in Canadian energy projects already underway (Figures 1 & 2).

Economic activity in Alberta is expected to remain slow for the remainder of 2015 at 0.5% real GDP. Until there is a moderate increase in oil prices, which most forecasts we see expect in early 2016, it is unlikely that Alberta's real GDP will soon return to the long term trend of 2-3%.

Bottom line: what is the takeaway?

Ultimately, it is too soon to forecast the direct impact, what the actual mix of NDP's policies will look like, and the speed at which any changes will take effect. However, it is unlikely that the NDP would do anything drastic that would cripple Alberta's economy with massive hatchet slashes against big oil. The reviews of corporate tax and royalty rates could impact investment decisions, but the NDP reassured investors that a possible outcome of their review may be that the system currently in place is competitive, fair and should remain as is.

With oil prices expected to hold at current prices over the medium term and with the anticipated accommodation of the presently popular NDP government, companies across the province should have a reasonable foundation to rebuild, of course if they have made it through the significant downswing in oil prices over the last year.

Province	Tax Rate (%)
British Columbia	11.0
Ontario	11.5
Quebec	11.9
Alberta*	12.0
New Brunswick	12.0
Manitoba	12.0
Saskatchewan	12.0
Newfoundland and Labrador	14.0
Nova Scotia	16.0
Prince Edward Island	16.0

(\$ billions)	2015/16	2016/17	2017/18	2018/19	2019/20
Revenue	44.74	46.64	50.64	53.22	55.48
% change	-8.6	4.2	8.6	5.1	4.2
Expenditure	50.13	50.96	51.18	53.20	54.89
% change	2.9	1.6	1.7	2.7	3.2
Surplus/Deficit	-5.40	-4.32	-1.17	0.00	0.59

(\$ billions)	2015/16	2016/17	2017/18	2018/19	2019/20
Revenue	43.40	45.83	49.83	52.39	54.41
% change	-11.4	5.6	8.7	5.2	3.8
Expenditure	48.39	48.88	49.12	50.68	51.92
% change	-0.7	1.0	0.5	3.2	2.4
Surplus/Deficit	-4.99	-3.05	0.71	1.71	2.49

Figure 1: Do you believe that the ongoing decrease in crude oil prices to be long term phenomenon?

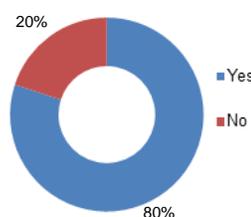
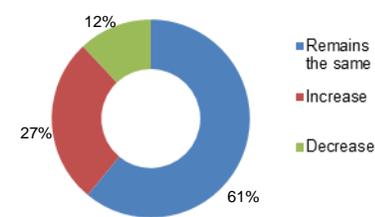


Figure 2: What impact will current low oil prices have on investments in current Canadian energy projects already underway?



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LOWER MID-MARKET INSIGHTS

Who are we?

FirePower Capital is Canada's entrepreneurial investment bank. We focus exclusively on advising private lower mid-market companies in Canada on their strategic M&A and non-dilutive capital financing transactions.

We formed the firm in 2012 because **we believe that private lower mid-market companies in Canada should have access to the sophisticated transactional advisory services that are typically reserved for much larger companies.**

The need proved to be real: we are now one of the largest independent firms in Canada. As of May 2015, we are managing **10 active sell- and**

buy-side mandates worth an estimated \$98 million, and 9 financing assignments worth \$26 million.

Our team of 16 dealmakers are smart, passionate and driven by a fierce determination to not only succeed, but exceed our clients' expectations. **We love what we do, we are good at it, and our clients love us for it.**

What do we do?

Our **Mergers & Acquisitions Practice** understands the difficulties and complexities around the decision and process of selling or buying a business. Typical transaction sizes range from \$5 to \$50 million, and span most industries except for resources and life sciences. We deliver on the full spectrum of M&A transactions:

- Sell-side
- Buy-side
- Asset sales & purchases
- Cross-border
- Hostile acquisition or defense
- Spin-offs and other corporate restructurings

Our **Capital Advisory Practice** provides objective transactional advice and seamless execution capabilities to our clients with respect to non-dilutive capital financings. Typical transaction sizes range from \$1 to \$30 million, and span most industries except for resources and life sciences. We have extensive experience raising debt capital for most situations:

- Growth
- Leveraged buyouts
- Turnarounds & special situations
- Acquisitions
- Refinancing
- Shareholder events, e.g. dividend recaps or management buyouts

Why work with FirePower?

We're not typical Bay Street guys: We have made it our mission to excel in the lower mid-market, and not be 'tempted' by the larger, headline-grabbing deals. That means developing a deep understanding of how to overcome the challenges unique to this segment.

Our track record is extensive: During our short history, our team has already built a reputation for crafting deals the market has never seen before, providing expert transactional advice and getting deals closed.

We do things differently: We have built FirePower like a start-up, not a traditional advisory firm. We rely heavily on new technologies to produce competitive tension between buyers or investors, and thus create

multiple options for our clients.

We put our money where our mouth is: Most of our compensation is based on closing a deal that works for our clients. We are aligned with them: we succeed only if our clients succeed.

We have a global reach, but nurture deep Canadian roots: Exposing a deal to hundreds of buyers or investors worldwide is easier than ever, but doing it intelligently is still difficult, time-consuming and extremely complex. A strong network of relationships at home in Canada helps us balance our global efforts.

Our track record (recent sample transactions)

CONFIDENTIAL

Sale of Majority Stake
\$5,002,000

The undersigned acted as the exclusive advisors to the Sellers

Nautilus Explorer

Subordinated Debt
US\$3,000,000

The undersigned acted as the exclusive advisors to the Company

CONFIDENTIAL

Senior & Subordinated Debt
for Management Buy-Out
\$16,000,000

The undersigned acted as the exclusive advisors to the Company

KINGSMAN
RESOURCES

Reverse Takeover
\$28,200,000

Contagious **GG**
GAMING

TELOS

The undersigned acted as the special advisors to the Company