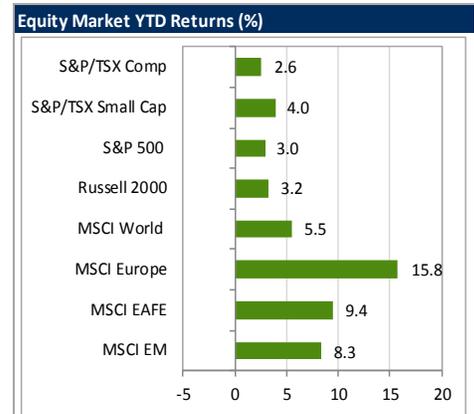


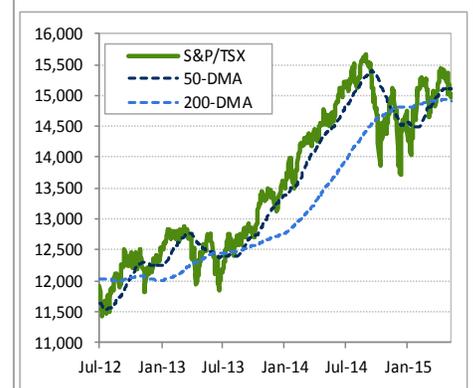
## What Does An NDP Win Mean For Alberta And The Energy Sector?

- Last week marked an historic moment for Alberta with the New Democratic Party (NDP) winning the provincial election. With this “sea change” in the political landscape of Alberta we’ve fielded numerous queries on the implications of this NDP win.
- Our assessment of the NDP platform is for a clear shift to the left, with public policy and a review of energy sector royalty payments being the two central pillars of the platform.
- On the public policy front the NDP government will look to raise taxes for corporations (from 10% to 12%) and for individuals in the top 10%, increase government spending in health care and education, increase the minimum wage, and shift to a more eco-conscious government.
- On energy reform, the government will review royalty payments paid by the oil & gas industry to the government, place an emphasis on processing and refining, and look to strengthen environmental standards.
- All told, these policies would likely increase costs and reduce profits and investment in the province. At first blush these policies are clearly disconcerting to the industry. However, we believe the impact will be more muted, and therefore do not support investors having a kneejerk, emotional reaction and sell their energy holdings on this election outcome. Ultimately, we believe cooler heads will prevail, and that the Alberta NDP party will not bring about the demise of our incredibly important and profitable Alberta oil & gas industry.



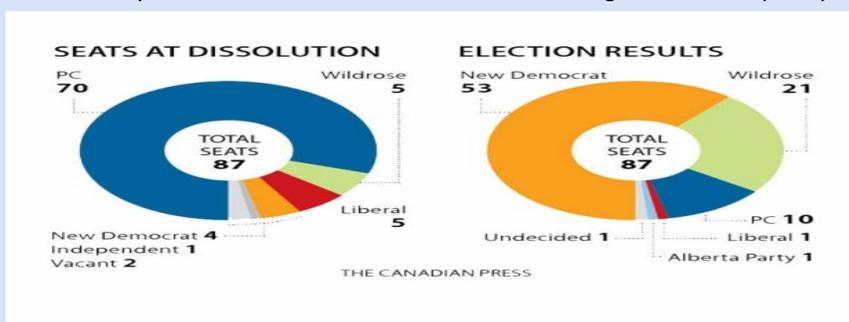
Canadian Sector	TSX Weight	Recommendation
Consumer Discretionary	6.5	Overweight
Consumer Staples	3.6	Market weight
Energy	20.8	Market weight
Financials	35.0	Market weight
Health Care	5.5	Underweight
Industrials	7.9	Overweight
Information Technology	2.4	Overweight
Materials	11.3	Underweight
Telecom	4.7	Market weight
Utilities	2.1	Underweight

Technical Considerations	Level	Reading
S&P/TSX Composite	15,013.8	
50-DMA	15,108.9	Downtrend
200-DMA	14,923.2	Uptrend
RSI (14-day)	41.8	Neutral



### Chart of the Week

NDP Party Secures 53 Seats In Alberta Election Ending 44 Year PC Dynasty



Source: The Canadian Press

Source: Bloomberg, Raymond James Ltd.

Please read domestic and foreign disclosure/risk information beginning on page 4

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### The NDP Wins In Alberta

Last week marked an historic moment for Alberta with the NDP winning the provincial election, ending the 44 year Progressive Conservative (PC) dynasty. With this “sea change” in the political landscape of Alberta we’ve fielded numerous queries on the implications of this NDP win. In this week’s publication we outline the key aspects of the NDP platform and what it could portend for the province and energy sector.

While we are far from experts on the nuances of Alberta politics, our assessment of the NDP platform is for a clear shift to the left, with public policy and a review of energy sector royalty payments being the two central pillars of the platform. On public policy, we believe the key items for Albertans include:

- It should come as no surprise that higher taxes will be an essential aspect of the NDP’s platform. NDP leader, Rachel Notley outlined in her election platform that corporate taxes would increase from 10% to 12%. While a significant jump, which is likely to impact investment and reduce the province’s competitiveness, the increase would put Alberta on an even keel with Saskatchewan and Manitoba, and below the provincial average of 12.8% (see sidebar).
- Personal income taxes are also expected to increase for the top 10% of tax filers. The NDP’s proposal is for a more progressive tax regime with the introduction of additional tax brackets. The new proposed tax rates would be 12% on taxable income over \$125,000 to \$150,000; 13% on income over \$150,000 to \$200,000; 14% on income \$200,000 to \$300,000; and 15% on income over \$300,000. With the Federal Liberals recently announcing their new economic plan which calls for higher taxes on those earning above \$200,000, higher income Albertans could see a significant increase in taxes over the next year.
- An increase in government spending (\$12 billion cumulative increase relative to 2015 Budget), which would be concentrated in the health care, education and early child care programs. The net result of the increased spending could be for the budget to be balanced one year later (2018 versus 2017) than the previous PC projection.
- Other notable items include a ban on corporate and union donations to political parties, an increase in the minimum wage from \$10.20 per hour to \$15 by 2018, and a shift to more eco-conscious government.

### Corporation 2015 Tax Rates

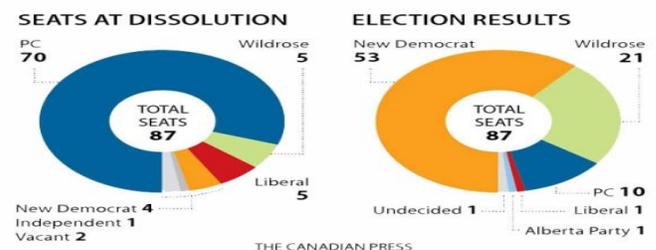
British Columbia	11.0%
Alberta*	12.0%
Saskatchewan	12.0%
Manitoba	12.0%
Ontario	11.5%
Quebec	11.9%
New Brunswick	12.0%
Nova Scotia	16.0%
Prince Edward Island	16.0%
Newfoundland and Labrador	14.0%
<b>Average</b>	<b>12.8%</b>

Source: KPMG, NDP Platform\*

### NDP Budget Versus Previous PC 2015 Budget

	In Millions	2015/16	2016/17	2017/18	2018/16	2019/20
PC 2015 Budget	Revenue	43,397	45,828	49,827	52,394	54,407
	Expenditure	48,388	48,875	49,118	50,684	51,919
	<b>Deficit/Surplus</b>	<b>-4,991</b>	<b>-3,047</b>	<b>709</b>	<b>1,710</b>	<b>2,488</b>
NDP Platform	Revenue	44,742	46,643	50,640	53,228	55,481
	Expenditure	50,139	50,965	51,810	53,203	54,895
	<b>Deficit/Surplus</b>	<b>-5,397</b>	<b>-4,322</b>	<b>-1,170</b>	<b>25</b>	<b>586</b>

### Alberta 2015 Election Results



Source: Alberta 2015 Budget, NDP Election Platform, The Canadian Press

## Impact To Energy Sector

NDP leader, Rachel Notley was recently quoted saying “they’ll come to realize that things are going to be just A-OK over here in Alberta.” The “they” is the Alberta oil & gas industry, and currently few are feeling “OK” about the outlook for their industry. In the NDP platform they outlined a number of potential energy reforms that are surely to impact the industry, should they be implemented. First, and most important, is the establishment of a Resource Owners’ Rights Commission, which will conduct a “careful review of how Alberta will promote resource processing and fair royalties”. In layman’s terms this independent commission will review the current royalty payments that energy companies pay to the government, and possibly result in higher royalty payments to the government. The second policy reform would encourage energy companies to invest and upgrade processing and refining facilities. Lastly, the government will look to phase out coal-fired electricity plants while “strengthen environmental standards, inspection, monitoring and enforcement.” All told, these policies, should they be enacted, would likely increase costs and reduce profits and investment in the province. At first blush these policies are clearly disconcerting to the industry, which explains the sell off in the Canadian energy sector the day after the NDP win. However, we ultimately believe the impact will be more muted, and therefore do not support investors having a kneejerk, emotional reaction and sell their energy holdings on this election outcome. This view is predicated on comments from our energy team and our own personal beliefs.

From our energy team, while there is no clear consensus, some believe that after consultation from industry leaders that the NDP party will: 1) not “kill the golden goose”; 2) possibly “move to the center” and tone down the political rhetoric; and 3) employ a measured and rationale approach to energy reform. Kurt Molnar, our junior oil & gas equity analyst, made a convincing argument that the oil & gas sector is one of the most progressive industries in Canada. He cited the facts that there is little ability to avoid taxation (unlike technology companies like Apple and Google for example), the industry requires significant and constant capital investment, and that this investment creates thousands of high-quality jobs with the income generated going back into the economy and government tax coffers. As such, it makes little sense to enact reform that will prove deleterious to the industry.

Our take is more rooted in our experience and understanding of human behaviour and politics. Time and time again we see politicians “play to their base” by focusing on policies important to their core supporters. Then, after elected, they tack to the center employing a more moderate approach. Examples of this include President Clinton in his second term, President Obama in his first term, and even Prime Minister Stephen Harper who we would argue has proved to be more moderate than many initially expected. The reason for this is twofold. First, the majority of people, particularly in Canada, generally fall in the middle of the political spectrum, with fewer people on the fringe, right or left. Second, politicians want to get re-elected, and if they govern too far on the left or right, it often results in them losing the next election. Applying this to the NDP win, in addition to comments made from the NDP leader, we don’t believe she will enact painful energy reforms that would put the industry and province at risk. After all, that would not be in-line with what most Albertan’s want, nor would it help in her re-election campaign.

To conclude, we believe cooler heads will prevail, and that the Alberta NDP party will not bring about the demise of our incredibly important and profitable Alberta oil & gas industry.

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