



Canaccord Genuity Wealth Management
Morning Coffee

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Monday April 17, 2017

S&P/TSX Composite	-112.92	15535.48
Dow Jones	-137.44	20454.42
S&P 500	-15.89	2329.04
NASDAQ	-23.86	5812.30
S&P/TSX Venture	4.85	834.62
Crude Oil (US\$/brrl)	-0.06	53.05
Gas (US\$/mmbtu)	0.04	3.23
Copper (US\$/lb)	0.02	2.57
Gold (US\$/oz)	10.60	1288.70
Nickel (US\$/lb)	-0.05	4.40
Palladium (US\$/oz)	-0.40	795.75
Platinum (US\$/oz)	8.90	973.80
Silver (US\$/oz)	0.20	18.50
Uranium (US\$/lb)	0.00	23.50
Canadian Dollar	-0.0042	0.7502
10-Year Canada		1.30
10-Year U.S.		2.24
Volatility Index (VIX)	0.24	16.01

The Anger Room



Ever since coming to power, Donald Trump has stoked America's anger – but you won't hear Donna Alexander complaining. In fact, you probably won't hear anything at all, given the noise emanating from her warehouse.

Ever since Trump was elected U.S. President in November, the former restaurant marketing manager has seen a "yuge" surge in her business. Donna, 31, is the owner of the Anger Room in Dallas, where America's despair, pent-up emotion, exasperation and rage towards Trump are all being tackled – with the help of a baseball bat. She charges \$25 for five minutes of smashing up TVs, sofas, desks, computers, potted plants, old videos, printers, pictures and any other item asked for.

Prices rise to about \$500 for custom room set-ups, with the most expensive scene so far being a replica of the Oval Office, with a Trump mannequin sat at the desk.

CANADA

The S&P/TSX Composite traded lower on Thursday, weighed down by heavyweight financial stocks as U.S. bank earnings season kicked off, with losses offset by gains for gold miners. Manufacturing sales declined less than expected in February after three consecutive months of increases, weighed down by declines in the vehicle assembly sector, separate StatsCan data showed.

Richmont Mines (RIC) reported operating results that were much better than expected, with production above forecasts while also delivering lower cash costs. The flagship Island Gold mine had a particularly strong quarter, setting the mine on track to potentially attain the upper end of guidance. **Marathon Gold (MOZ)** shot higher late last week after the company released further results from its ongoing 35,000m drill program on the wholly owned Valentine Lake gold project in Central Newfoundland. The update focused on two successful drill holes targeting evidence of the extension of mineralization to depth on the Marathon deposit.

Select Sands (SNS) announced a maiden frac sand NI 43-101 resource calculation on its Bell Farm property in Arkansas that boasted 49.6M tonnes. The Bell Farm property covers 457 acres, has paved road access and available three-phase power.

UNITED STATES

Benchmark indexes edged lower on Thursday, as investors assessed the first rush of bank earnings and President Donald Trump's remarks on the U.S. dollar's strength and interest rates.

Citigroup (C) reported a higher-than-expected quarterly profit as the bank's fixed-income trading was boosted by clients adjusting their positions following rate hikes by the Federal Reserve and changes in the forex and credit markets. **JPMorgan Chase (JPM)** reported a 16.8 percent rise in quarterly profit, as the bank made more loans and racked up additional revenue from increased trading. **Wells Fargo (WFC)**, which has been mired in litigations stemming from a sales scandal, posted a flat Q1 profit, hurt by lower mortgage banking revenue and higher expenses.

ConocoPhillips (COP), the largest U.S. independent oil producer, said it would sell natural gas-heavy assets in San Juan basin to privately held Hilcorp Energy for about \$3B. **Boeing (BA)** said it could begin delivering the 737 MAX 10X aircraft in 2020 if airlines start ordering the largest version of its 737 MAX family this year, according to a senior executive. The comments came as the smaller 737 MAX 9 recently completed its first flight test in Seattle.

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ECON 101

CANADIAN Data Today: No scheduled releases.

U.S. Data Today: This morning, **Empire Manufacturing** (Apr) is expected to fall to 15.0 from 16.4 the previous month, while the **NAHB Housing Market Index** (Apr) should fall slightly to 70.0 from 71.0 before that.

MARKET MOVERS

Notable 52-Week Highs:

Pure Industrial Real Estate	AAR.UN	\$	6.34	Enbridge Inc.	ENB.PR.J	\$	21.15
AltaGas Ltd.	ALA.PR.A	\$	20.76	Enbridge Inc.	ENB.PR.N	\$	20.88
AltaGas Ltd.	ALA.PR.K	\$	26.35	Erdene Resource Development	ERD	\$	0.95
Automotive Properties REIT	APR.UN	\$	11.32	First Asset Invest. Grade Bond	FIG	\$	11.31
Badger Daylighting	BAD	\$	36.22	Fortis Inc.	FTS.PR.K	\$	21.55
Brookfield Asset Management	BAM.PF.B	\$	23.38	Granite REIT	GRT.UN	\$	48.52
Brookfield Asset Management	BAM.PF.E	\$	23.36	HZN ACT PREF SH	HPR.A	\$	9.46
Brookfield Asset Management	BAM.PF.I	\$	26.20	Husky Energy	HSE.PR.C	\$	24.11
Brookfield Asset Management	BAM.PR.B	\$	13.54	Husky Energy	HSE.PR.G	\$	24.81
Brookfield Asset Management	BAM.PR.C	\$	13.39	Interfor Corporation	IFP	\$	19.90
Brookfield Asset Management	BAM.PR.G	\$	16.88	Crius Energy Trust	KWH.UN	\$	10.75
Brookfield Asset Management	BAM.PR.K	\$	13.40	Lassonde Industries	LAS.A	\$	241.99
Brookfield Asset Management	BAM.PR.R	\$	20.67	Manulife Financial	MFC.PR.P	\$	15.50
Brookfield Asset Management	BAM.PR.T	\$	20.48	Marathon Gold Corp.	MOZ	\$	1.32
BCE Inc.	BCE.PR.F	\$	17.58	National Bank of Canada	NA.PR.X	\$	27.47
BCE Inc.	BCE.PR.N	\$	18.12	New Flyer Industries Inc.	NFI	\$	50.17
Brookfield Infrastructure LP	BIP.PR.D	\$	25.75	North West Company	NWC	\$	32.04
Ballard Power Systems	BLDP	\$	3.98	Oncolytics Biotech (D)	ONC	\$	1.13
Bank of Montreal	BMO.PR.B	\$	26.75	PIMCO Global Income Opportuni.	PGI.UN	\$	9.35
Bank of Montreal	BMO.PR.Z	\$	26.14	Pembina Pipeline Corp.	PPL	\$	44.43
Bank of Nova Scotia	BNS.PR.B	\$	24.23	Pembina Pipeline Corp.	PPL.PR.C	\$	22.50
Bank of Nova Scotia	BNS.PR.E	\$	27.49	Pembina Pipeline Corp.	PPL.PR.E	\$	24.32
Bank of Nova Scotia	BNS.PR.G	\$	27.52	Power Financial Corp.	PWF.PR.T	\$	23.55
Brookfield Office Properties	BPO.PR.A	\$	23.41	Rogers Communications	RCI.A	\$	61.12
CAP REIT	CAR.UN	\$	34.24	Rogers Communications	RCI.B	\$	60.65
iShares Bal. Income CorePortf	CBD	\$	22.38	RBC Canadian Preferred Share	RPF	\$	24.00
Cogeco Communications	CCA	\$	76.71	Richards Packaging Income Fund	RPI.UN	\$	27.30
Centamin plc	CEE	\$	3.21	FA Europe Low Risk Weight ETF	RWE	\$	25.20
COGECO Inc.	CGO	\$	65.77	Royal Bank of Canada	RY.PR.F	\$	25.45
iShares S&P/TSX Preferred Fund	CPD	\$	14.35	Royal Bank of Canada	RY.PR.Q	\$	27.55
Capstone Infrastructure Corp.	CSE.PR.A	\$	13.00	Royal Bank of Canada	RY.PR.R	\$	27.60
Canadian Tire Corporation	CTC.A	\$	163.56	Slate Office REIT	SOT.R	\$	8.14
Canadian Utilities	CU.PR.C	\$	22.97	TransAlta Corp.	TA.PR.F	\$	18.67
Canadian World Fund	CWF	\$	5.16	TransAtlantic Petroleum	TNP	\$	2.06
Consolidated HCl Holdings	CXA.B	\$	1.19	TransCanada Corp.	TRP.PR.A	\$	19.87
Dynamic iShares Active Pref.	DXP	\$	21.90	TransCanada Corp.	TRP.PR.G	\$	24.34
Emera Inc.	EMA.PR.C	\$	24.16	TransCanada Corp.	TRP.PR.H	\$	14.37
Emera Inc.	EMA.PR.F	\$	24.07	Village Farms International	VFF	\$	1.97
Enbridge Inc.	ENB.PF.A	\$	21.37	Vanguard Cdn. L-T Govt. Bond	VLB	\$	26.28
Enbridge Inc.	ENB.PF.E	\$	21.58	Valener Inc.	VNR.PR.A	\$	22.06
Enbridge Inc.	ENB.PF.G	\$	21.73	Vanguard Cdn. S-T Govt. Bond	VSG	\$	25.07
Enbridge Inc.	ENB.PF.I	\$	26.65	iShares S&P/TSX Cap. Utilities	XUT	\$	23.24
Enbridge Inc.	ENB.PR.B	\$	18.96	BMO MSCI Europe High Quality	ZEQ	\$	19.58
Enbridge Inc.	ENB.PR.H	\$	18.25	BMO Covered Call Utilities ETF	ZWU	\$	14.25

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Notable 52-Week Lows:

Aritzia Inc.	ATZ	\$ 14.69	Home Capital Group	HCG	\$ 21.52
BMO Global Banks Hedged to CAD BANK		\$ 19.36	Lydian International	LYD.WT	\$ 0.03
Cenovus Energy	CVE	\$ 14.20	Mediagrif Interactive Techn.	MDF	\$ 15.38
Difference Capital Financial	DCF	\$ 3.90	Valeant Pharmaceuticals Intl.	VRX	\$ 12.51
GMP Capital	GMP	\$ 3.41			

CANADIAN EQUITIES OF INTEREST

Listed Alphabetically by Symbol

Portfolio Strategy

THE LOVELIEST SLICE OF CHOCOLATE CAKE. Canaccord Genuity North American Portfolio Strategist Martin Roberge says, broadly speaking, investor concerns continue to revolve around geopolitical risk with regard to Syria and North Korea and policy uncertainty from President Trump. Trump has reversed some of his positions that led to his election victory. First, he told the Wall Street Journal last week that China is no longer a currency manipulator, and second, he mentioned that he could nominate Janet Yellen to another term leading the Federal Reserve. These opinion changes follow unsuccessful negotiations with the health care reform and a pushback in fiscal reflation (i.e. tax cuts and infrastructure spending). With market volatility spiking up, the question in most investors' minds is whether the recent market pullback is a pause that refreshes or the pause that gives way to a more meaningful correction. As he has argued, Roberge says defensive stocks in Canada have become so expensive that two possible scenarios could unfold: 1) investors rotate back into cyclical stocks and the market experiences a correction later this summer, or 2) the market is saturated and market volatility masks an imminent correction. Roberge remains in the correction camp but admittedly, timing is uncertain. For now, he reiterates near-term caution. Indeed, the uptrend in the relative performance of U.S. high-yield bonds (as represented by **iShares iBoxx High Yield Corporate Bonds (HYG)**) vs. Treasuries (as represented by **iShares 7-10 Year Treasury Bond (IEF)**) appears to be breaking down. Similar breaks in May 2011 and July 2014 preceded tactical market corrections. The key going forward is to monitor risk-aversion indicators such as gold, U.S. Treasuries and the Yen. While the former two have already violated key resistances/supports, a break of the Yen below its 200-dma (~108.7) would corroborate the bearish message from credit spreads and lift odds of a more pronounced correction.

Horizons Medical Marijuana Life Sciences (HMMJ : TSX : \$10.89), Net Change: -0.43, % Change: -3.80%
Canopy Growth* (WEED : TSX : \$9.93), Net Change: -0.38, % Change: -3.69%, Volume: 5,382,451
Aphria* (APH : TSX : \$7.21), Net Change: -0.65, % Change: -8.27%, Volume: 6,006,493
Cronos Group* (MJN : TSX-V : \$3.12), Net Change: -0.15, % Change: -4.59%, Volume: 802,648
Organigram Holdings* (OGI : TSX-V : \$2.82), Net Change: -0.28, % Change: -9.03%, Volume: 2,289,932
Cannimed Therapeutics* (CMED : TSX : \$12.11), Net Change: -0.47, % Change: -3.74%, Volume: 95,409
Emblem* (EMC : TSX-V : \$2.88), Net Change: -0.15, % Change: -4.95%, Volume: 1,328,135
Supreme Pharmaceuticals* (SL : \$1.72), Net Change: -0.05, % Change: -2.82%, Volume: 2,192,585
Cannaroyalty* (CRZ : \$2.57), Net Change: -0.13, % Change: -4.81%, Volume: 468,902
Emerald Health* (EMH : TSX-V : \$1.62), Net Change: -0.09, % Change: -5.26%, Volume: 2,311,388

SELL THE NEWS? The Federal Government introduced a series of bills to legalize recreational marijuana on Thursday. Here are some highlights: i) The Cannabis Act proposes that legal sales of cannabis would be restricted to people who are 18 years of age and over. Provinces and territories could increase the minimum legal age of sale, purchase and consumption; ii) The movement of cannabis and cannabis products across international borders would remain a serious criminal offence; iii) Following Royal Assent, the Government intends to bring the proposed Act into force no later than July 2018. At that time, adults would legally be able to possess up to 30 grams of legal cannabis in public, and to grow up to four plants per household at a maximum height of one metre from a legal seed or seedling. Until the new law comes into force, cannabis will remain illegal everywhere in Canada, except for medical purposes. iv) The provinces and territories would authorize and oversee the distribution and sale of cannabis, subject to minimum federal conditions. In those jurisdictions that have not put in place a regulated retail framework, individuals would be able to purchase cannabis online from a federally licensed producer with secure home delivery through the Canada Post or by courier; v) The proposed legislation would amend the Criminal Code to

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modernize and simplify the transportation provisions, strengthen the criminal law responses to impaired driving, and facilitate the effective and efficient investigation and prosecution of drug- and alcohol-impaired driving; and vi) To facilitate detection and investigation of drug-impaired driving, law enforcement officers will be authorized and equipped to use oral fluid drug screeners at the roadside. There was no mention of marijuana packaging in the government's release.

Cannabix Technologies* (BLO : \$0.83), Net Change: -0.01, % Change: -1.19%, Volume: 3,034,540

ARE YOU IMPAIRED? Shares of Cannabix Technologies, maker of a marijuana breathalyzer device, came into focus after the Federal legislation on legalizing marijuana was unveiled. The proposed legislation would amend the Criminal Code to strengthen the criminal law responses to drug-impaired driving offences. The legislation would also create three new offences for having specified levels of a drug in the blood within two hours of driving. The penalties would depend on the drug type and the levels of drug or the combination of alcohol and drugs. For Tetrahydrocannabinol (THC), the main psychoactive compound in cannabis, the proposed levels would be: i) 2 nanograms (ng) but less than 5 ng of THC: Having at least 2 ng but less than 5 ng of THC per millilitre (ml) of blood within two hours of driving would be a separate summary conviction criminal offence, punishable only by a fine. This lower level offence is a precautionary approach that takes into account the best available scientific evidence related to cannabis. This offence would be punishable by a maximum fine of up to \$1,000. ii) 5 ng or more of THC: Having 5 ng or more of THC per ml of blood within two hours of driving would be a hybrid offence. Hybrid offences are offences that can be prosecuted either by indictment, in more serious cases, or by summary conviction, in less serious cases. iii) Combined THC and Alcohol: Having a blood alcohol concentration of 50 milligrams (mg) of alcohol per 100 ml of blood, combined with a THC level greater than 2.5 ng per ml of blood within two hours of driving would also be a hybrid offence. Both hybrid offences would be punishable by mandatory penalties of \$1,000 for a first offence and escalating penalties for repeat offenders (e.g., 30 days imprisonment on a second offence and 120 days on a third or subsequent offence). The maximum penalties would mirror the existing maximum penalties for impaired driving. These would be increased in Part 2 to two years less a day on summary conviction (up from 18 months), and to 10 years on indictment (up from 5 years). The latter would make a dangerous offender application possible in appropriate circumstances. Last month, Cannabix announced that preliminary human subject testing for its marijuana breathalyzer produced excellent results. The company is developing its FAIMS-based (field asymmetric waveform ion mobility spectrometry) marijuana breathalyzer for the detection of THC in human breath. Testing using the Cannabix marijuana breathalyzer beta prototype device with human subjects after smoking THC cigarettes demonstrated the successful detection of THC, in real time.

Critical Elements* (CRE : TSX-V : \$0.77), Net Change: 0.03, % Change: 4.05%, Volume: 129,984

I'M SO SICK OF THIS UNITED INCIDENT, WHAT I'M NOT SICK OF IS HEARING MORE ABOUT... Critical Elements on Thursday saw Canaccord Genuity Metals & Mining Analyst Eric Zaunscherb reiterate his bullish coverage on the stock, as the company is advancing the Rose lithium project in Quebec. Last week, CRE provided results for the next step in the formulation of its flowsheet process, the conversion of α -spodumene in concentrate to β -spodumene through decrepitation at a high temperature. The test program focused on the use of a fluid bed system developed by Outotec Oyj, an industry-leading mineral processing firm based in Finland. In process testing on Rose concentrates, α -spodumene was converted to β -spodumene with a yield of 97% or better, exceeding the industry average of 91% to 92%. Zaunscherb says this strong result speaks to the quality of the Rose concentrate (specifically low impurities) and the efficacy of the Outotec fluid bed process, but it also implies potential savings in initial capital costs and operating costs through energy efficiency. CRE is continuing to advance its metallurgical studies and Zaunscherb expects completion of tests on full conversion to lithium carbonate by mid-year. Assuming 85% lithium recovery to spodumene concentrate and 97% lithium recovery to β -spodumene, he will look for ~89% lithium recovery to lithium carbonate giving total lithium recovery of 78% as per Zaunscherb's model. A feasibility study is also expected mid-2017 incorporating significant metallurgical and other project optimization initiatives, as well as updated metal pricing.

Marathon Gold* (MOZ : TSX : \$1.26), Net Change: 0.16, % Change: 14.55%, Volume: 1,863,643

AND ASSAYS ARE STILL PENDING! Shares of Marathon Gold shot higher late last week after the company released further results from its ongoing 35,000m drill program on the wholly owned Valentine Lake gold project in Central Newfoundland. The update focused on two successful drill holes targeting evidence of the extension of mineralization to depth on the Marathon deposit. Results continue to confirm MOZ's exploration model, with drilling focused on infilling and expanding mineralization at the Marathon deposit central to the project. Highlight intersections include 2.10 g/t over 47.0m including 11.58 g/t over 5.0m with the other hole intersecting 1.72 g/t over 33.0m. Canaccord Genuity Precious Metals Analyst Eric Zaunscherb says importantly, the two holes were drilled ~200m apart to test for the extension of mineralization to depth beyond the current resource body. The holes tested to ~1,000m vertical depth, the deepest to date on the project. Wide intervals of shallow SW dipping en-echelon stacked quartz-tourmaline-pyrite (QTP) veining were encountered from near

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surface through almost the full lengths of the holes, including significant observations of visible gold. Complete assays are pending and are expected by April 21.

Oncolytics Biotech* (ONC : TSX : \$1.10), Net Change: 0.10, % Change: 10.00%, Volume: 1,084,774

FIGHTING THE GOOD FIGHT. Canaccord Genuity Life Sciences Analyst Neil Maruoka significantly raised his view of Oncolytics recently. The company has outlined a strategy for future development of Reolysin, including a pivotal program in metastatic breast cancer. Given the strength of the recent data, Maruoka says he is not surprised that the company plans to move its lead drug forward in this indication. While he had viewed the recent study to be very positive, he was surprised by the muted response of the stock. However, now that the market has additional clarity on the path forward for Reolysin, Maruoka thinks that investors are finally beginning to give credit for these results. As he had expected, Oncolytics plans to move Reolysin forward in a registration study in patients with metastatic breast cancer using Overall Survival as the primary endpoint. Moreover, the company also plans to explore the immune-oncologic effect of Reolysin through development in combination with IMiDs and checkpoint inhibitors. Maruoka views this to be a good strategy, but one that will likely require additional resources to complete.

Rogers Communications* (RCI'B : TSX : \$60.41), Net Change: 0.31, % Change: 0.52%, Volume: 665,959

BLUE WHAT? BLUE JAYS! Rogers is scheduled to report Q1/17 on April 18 after market close. Canaccord Genuity Media & Telecommunications Analyst Aravinda Galappathige is looking for robust EBITDA growth of 3.2% y/y to \$1,145M in line with consensus. This is to be led by wireless EBITDA growth of 3.2% as he expects the strong service revenue growth we have been seeing of late to flow through to the bottom line. Galappathige also has adj EPS of \$0.63 vs \$0.66 consensus. Consolidated revenue growth is projected at \$3,363M, up 3.6% led by 4.9% growth in wireless. RCI is up 14.3% since the Q4 results. While Galappathige would revisit his estimates and target post Q1, given the strength in wireless fundamentals over the past 12 months and healthy outlook he remains positive on RCI. While the more outsized stock returns investors had seen maybe behind us now, it is by no means expensive relative to peers, trading at 7.9x EV/EBITDA 2018E and a FCF yield of 6.5%. Moreover, it remains a preferred vehicle to play the two dominant current trends in Canadian Telco, namely the resurgent strength in wireless and swing in advantage to cablecos in wireline. Galappathige also has to consider post 2017 catalysts, especially the resumption of dividend growth and likely easing cable capex intensity.

Richmont Mines* (RIC : TSX : \$11.27), Net Change: 0.28, % Change: 2.55%, Volume: 747,897

Richmont Mines were looking rich on Thursday after the company reported operating results were much better than expected, with production 6% above Canaccord Genuity Precious Metals Analyst Rahul Paul's forecast while also delivering 16% lower cash costs. While both assets beat expectations, the flagship Island Gold mine had a particularly strong quarter setting the mine on track to potentially attain the upper end of guidance. There was a significant beat on Q1/17 consolidated production and costs, with production of 29,401 oz (sales of 28,528 oz) above Paul's 27,795 oz estimate. Also pleasing investors were total cash costs of US\$598/oz, this was substantially below Paul's \$716/oz estimate. Paul says an updated expansion case for a Preliminary Economic Assessment (Q2/17E) remains a key upcoming catalyst. He says this will incorporate recently upgraded reserves/resource and evaluate the most optimal means to mine the deeper resource over an expanded area (relative to the 2014 PEA). Paul says Richmont trades at 0.82x P/NAV, a 26% premium to the mid-cap average. He believes a premium is warranted for the robust grades, expanding margins and exploration potential at Island Gold in addition to the very low geopolitical risk profile and excellent management track record.

Select Sands* (SNS : TSX-V : \$1.77), Net Change: 0.22, % Change: 14.19%, Volume: 1,715,746

CAN ALSO BE USED IN SAND TRAPS. Select Sands announced a maiden frac sand NI 43-101 resource calculation on its Bell Farm property in Arkansas that boasted 49.6M tonnes. The Bell Farm property covers 457 acres, has paved road access and available three-phase power. The new property is located about 2 miles northwest of the company's existing Sandtown project. Sandtown is currently producing finer mesh Northern White sand (40/70 and 100 mesh) and in February of 2016 completed a NI 43-101 resource calculation with 41.98M tonnes of Indicated Mineral Resources. The Bell Farm property consists of the middle Ordovician-aged St. Peter Sandstone, generally a massive bedded, medium- to fine-grained, well-rounded, white sandstone. Forty NQ diameter core holes have been drilled on the property in three separate drilling programs. Sieve analyses indicate a grain size distribution of 23.5% of 30/50 mesh, 48% of 40/70 mesh and 42.1% of 100 mesh (70/140 mesh). Average thickness of the sandstone on the property is 49 feet (ranging from 1 foot to a maximum thickness of 108 feet on the property).

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U.S. EQUITIES OF INTEREST

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Bill Gross' Investment Outlook

A GROSS OUTLOOK, INDEED. Stocks and other assets are priced at unrealistic levels based on the outlook for global growth, according to billionaire bond guru Bill Gross. "Equity markets are priced for too much hope, high yield bond markets for too much growth, and all asset prices elevated to artificial levels that only a model driven, historically biased investor would believe could lead to returns resembling the past six years," Gross, manager of the Janus Global Unconstrained Bond Fund, wrote in a monthly investment outlook. "High rates of growth, and the productivity that drives it, are likely distant memories from a bygone era." Economists including Federal Reserve Chair Janet Yellen seem puzzled as to why productivity over the last five years has averaged just 0.5%, when it totalled +2% before the financial crisis, Gross said. The answer was made pretty clear to Gross, however, in a report from the International Monetary Fund (IMF). "Slowing business investment/trade and an ongoing level of low to negative interest rates have resulted in a misallocation of capital to low-risk projects and a slowdown in small business creation. Longer-term secular demographic factors such as an aging population also play a significant part since older consumers consume less of almost everything except health care," Gross says. Gross also implies President Trump's agenda and other populist movements popping up around the world - with tenets like higher tariffs and curbs on immigration - could make the productivity slowdown worse.

Apple (AAPL : US\$141.09), Net Change: -0.69, % Change: -0.49%, Volume: 17,411,026

Walt Disney (DIS : US\$113.21), Net Change: 0.17, % Change: 0.15%, Volume: 6,080,572

JUST IMAGINE THE CORPORATE BRAINWASHING OF YOUTH. A Wall Street analyst is floating the idea of a mega-merger of Apple and Disney, though unlikely, would make sense strategically for the iPhone maker. "We have seen increased discussions among investors regarding 'How could AAPL gain scale in media/content and what could it do with potential cash repatriation?' the analyst wrote Thursday. "We see a confluence of events that make an acquisition of DIS a 'greater than 0 percent' probability event (while odds are low). AAPL's focus on services and its inability (so far) to replicate its music/iTunes strategy into content/media make acquiring DIS logical in our view." The analyst cited Apple CEO Tim Cook's comments that "deal size isn't a negating factor" for its future mergers and acquisitions. The resultant company would be massive, with enough cash and balance sheet capacity to change the nature of the hardware, service, and content industries," the analysts wrote. Apple has the cash for a deal - in theory. It has about \$230B stashed overseas and is waiting to repatriate it back to the U.S. But it's not as simple as transferring it from one account to another - it could incur a huge tax bill when it does, so it wants to ensure it gets the best deal it can. CEO Tim Cook has said he's "optimistic" about changes to U.S. tax laws in 2017, meaning repatriation without paying a huge corporate tax penalty may be a real possibility. If it ever happened, a merger would be a monumental corporate event, giving the combined entity "unrivaled scale in content creation and distribution with the potential to create an instantly competitive global SVOD/streaming service. And, a massive balance sheet and technical capability to pursue future sports rights and protect live viewership moats, and integration of AAPL technologies into DIS Parks and Consumer Products."

Boeing Company (BA : US\$175.66), Net Change: -0.39, % Change: -0.22%, Volume: 1,816,260

LOW RISK TO QUARTERLY RESULTS. Boeing said it could begin delivering the 737 MAX 10X aircraft in 2020 if airlines start ordering the largest version of its 737 MAX family this year, according to a senior executive. The comments came as the smaller 737 MAX 9 completed its first flight test in Seattle last week. Boeing began marketing the 737 MAX 10X as an option to customers this year but has yet to receive any orders for the fuel-efficient single-aisle jetliner, which competes against the popular Airbus A321neo. Separately, Boeing has been reminding analysts that its Q1 EPS are guiding to ~20% of the full-year EPS (\$1.85) and that its free cash flow number faced headwinds in Q1. Canaccord Genuity Aerospace Analyst Kenneth Herbert adjusted his Q1 EPS estimate to \$1.94 and said that lower 737 deliveries in the quarter, as well as softer deliveries of several military platforms, are driving the lower estimates. His Q1 FCF estimate is now basically break-even, which is roughly in line with expectations. Herbert says that he doesn't expect Boeing to lower their 2017 estimates any further this quarter and therefore expects limited downside risk associated with the Q1 results out later this month.

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Cliffs Natural Resources (CLF : US\$7.13), Net Change: -0.24, % Change: -3.26%, Volume: 15,306,552

Vale (VALE : US\$8.72), Net Change: -0.02, % Change: -0.29%, Volume: 23,722,674

BHP Billiton (BHP : US\$36.10), Net Change: -0.48, % Change: -1.31%, Volume: 2,269,195

Rio Tinto (RIO : US\$38.93), Net Change: -0.35, % Change: -0.89%, Volume: 2,814,513

IRON ORE DEEPENS ITS SELLOFF. According to Bloomberg, iron ore is at risk of extending declines in the coming weeks after a bout of pullback warnings sent the commodity into its biggest one-day slump in more than a year last week. At time of writing the spot price for benchmark 62% fines plummeted 8.5% to \$68 a tonne, leaving it at the lowest level since November 7 last year. Underlining just how severe the sell-off has been in recent days, the benchmark price has fallen ~16% in the last five trading sessions, extending the decline from the multi-year high of \$94.86 a tonne on February 21. "It just appears to be a real capitulation phase going on in iron ore at the moment," said Ric Spooner, chief market analyst at CMC Markets in Sydney. Iron ore entered a bear market last week as analysts, Australia's government and even some miners said that YTD gains to 2014 prices were unsustainable. The potential for a significant drop was foreseen, given a possible downturn in Chinese construction, increased supplies and high inventory levels at ports, according to Spooner. Steel prices in China, the top customer for seaborne ore, have also been sinking. Inventories of iron ore at Chinese ports have climbed to 134M tonnes this year, up more than a third from the first half of 2016, according to analysts at a Wall Street firm. Iron ore producers to watch include Rio Tinto, BHP, Vale and Cliffs Natural Resources.

DaidsTea (DTEA : US\$6.05), Net Change: -1.50, % Change: -19.87%, Volume: 474,316

THERE IS ABSOLUTELY NOTHING WRONG WITH DRINKING TEA. IN FACT, IT'S FOR REAL MEN. Joel Silver, new CEO of DavidsTea, said the retailer has "distracted" and "overwhelmed" customers with a weekly flow of new and often unappealing products. The chain is reducing its new product introductions to a monthly basis, investing in pumping up its digital business and conducting consumer research to help it return to its tea roots. "While we have our work cut out for us, we are focused on reinvigorating our sales and customer experience in order to achieve the full potential that we believe exists for the DavidsTea brand," Silver said late last week as the chain released disappointing Q4 results and warned of an even worse Q1. In its Q4, DavidsTea's profit tumbled to \$2M, or 8 cents a share, from \$14.7M, or 61 cents, a share a year earlier. Sales rose to \$86.3M from \$75.8M. Same-store sales at outlets open a year or more picked up just 0.4% in the quarter compared with a 6.6% gain a year earlier. As a result of its troubles, DavidsTea is taking a \$13M charge in the quarter tied to underperforming stores. At year-end, it had 231 outlets, 181 in Canada and 50 in the U.S., where it is having difficulty building brand awareness.

Alphabet (GOOG : US\$822.56), Net Change: -1.76, % Change: -0.21%, Volume: 1,095,577

#FAKENEWS. Weeks after scores of advertisers boycotted YouTube, Google is still trying to mitigate the damage. Meanwhile, long-struggling competitors in the digital ad market are seizing the moment. MediaMath, a seller of software for automated online ad buying, is introducing a new service to ensure that ads only run alongside hand-picked, "high quality" content. The "curated market" offering comes amid concern over some big brand ads appearing against racist, violent and offensive YouTube videos. The long list includes household names such as **Starbucks (SBUX), Pepsi (PEP), Walmart (WMT), HSBC (HSBC), AT&T (T), Verizon (VZ)**, the BBC and the U.K. Government. "We're developing for the largest brands in the world who need to be assured of a safe environment for digital advertising," said Erich Wasserman, MediaMath's Co-Founder. "We're happily able to do this at a time when the market is shouting for it." After the first wave of advertiser defections, Google introduced new controls to address the problem. When more advertisers left, Google added even more features and shifted resources into new technology that flags offensive videos and disable ads on them. Last week, NBCUniversal announced a deal with mobile ad company Kargo Global to place ads on 300 premium digital properties from 70 media companies. Google executives have argued that, given YouTube's size, brand safety guarantees for every single video are impossible. But they've reassured marketers the issue will subside.

JPMorgan Chase (JPM : US\$84.40), Net Change: -1.00, % Change: -1.17%, Volume: 30,310,599

USERER! JPMorgan Chase reported a nearly 17% jump in quarterly profit on Thursday, thanks to a surge in trading activity and securities issuance that helped its Wall Street businesses. The largest U.S. bank earned \$6.4B in Q1, or \$1.65 per share, up from \$5.5B, or \$1.35 per share a year earlier. Analysts had expected earnings of \$1.52 a share. "We are off to a good start for the year with all of our businesses performing well and building on their momentum from last year," CEO Jamie Dimon said. "U.S. consumers and businesses are healthy overall and with pro-growth initiatives and improving collaboration between government and business, the U.S. economy can continue to improve," he said. The bank's markets-related revenue, particularly in fixed income, grew as investors repositioned portfolios in response to the Federal Reserve hiking interest rates as well as elections in Europe and Britain's progress in leaving the European Union. Revenue came in at \$25.586B versus \$24.877B expected, while Trading revenue was \$6.515B, easily surpassing estimates of \$5.51B. The mortgage business was a

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dark spot in the bank's results, with mortgage fees and loan servicing revenue tumbling 39% to \$406M, from \$667M. Higher rates have dissuaded borrowers from refinancing, and JPMorgan executives said in February they expected non-interest mortgage revenue to fall throughout the year.

Tesla (TSLA : US\$304.00), Net Change: 7.20, % Change: 2.43%, Volume: 9,187,012

THE STOCK IS BREAKING ALL-TIME-HIGHS. WHAT IS THERE TO COMPLAIN ABOUT?!? A group of Tesla investors has urged the luxury electric car maker to add two new independent directors to its board, without ties to CEO Elon Musk, to "provide a critical check on possible dysfunctional group dynamics." A defiant Musk took to **Twitter (TWTR)** to suggest the investors buy stock in **Ford Motor (F)** instead, adding that "their governance is amazing." The Ford family controls the Detroit automaker through two classes of stock. In a letter from five investment groups including the California State Teachers Retirement System, Hermes Equity Ownership Services and CtW Investment Group urged Tesla to have all of its directors re-elected annually. "We expect that as companies make the transition to publicly traded status, the governance structures and practices in place at the time of the IPO will evolve to align with the company's changing strategy. However, Tesla's seven-member board is largely unchanged from its pre-IPO days." Musk tweeted that he had already said Tesla would add new independent members to the board. He said the announcement would come soon, but had nothing to do with the investor group. Musk's dig at Ford comes after Tesla surpassed it in market value. Last week, Tesla briefly became the most valuable carmaker in America when it overtook **General Motors (GM)** for a while.

GO FIGURE



The U.S. Pentagon said last Thursday that it had used the largest non-nuclear bomb in its arsenal against ISIS, prompting questions about what exactly this weapon is.

Most of what is publicly available about the GBU-43 comes from a 2008 article from the Eglin Air Force Base. The piece, which marked the five-year anniversary of the bomb, says that the GBU-43 weighs a massive 21,600 pounds. During testing, the weapon created a mushroom cloud that could be seen 20 miles away from the blast, according to the Air Force story.

Each MOAB costs around US\$16M, according to military information website Deagel. With 20 made so far, the site says the U.S. military has spent some US\$314M on the production of the explosive.

The original goal of the so-called MOAB – either standing for "Massive Ordinance Air Blast" or "Mother Of All Bombs," depending on who you ask – was to act as a non-nuclear deterrent against former Iraq dictator Saddam Hussein.

The bomb was rapidly developed by the Air Force starting in 2002 as a replacement for the BLU-82 Daisy Cutter. While the MOAB was bigger, it was also smarter, with GPS-capable targeting allowing for more accurate bombing operations.

But while the weapon was initially deployed to the Middle East back in 2003, this is the first time it has been used. Originally designed as a deterrent, it's now being deployed as an active tool in the war on terror.

Source: CNBC

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COFFEE BEANS

- Alabama’s Briarwood Presbyterian Church is one step closer to creating its own police force, a move that seems to be without precedent in the U.S. The state’s Senate has approved legislation that would give church police officers the same powers other law enforcement officers have in Alabama. (npr.org)
- U.S. President Donald Trump, who said Syrian President Bashar Al Assad was to blame for the suspected chemical weapons attack, told Fox News Business host Maria Bartiromo the details of the moment he knew the missiles were on their way in a segment that aired Wednesday. “I was sitting at the table. We had finished dinner. We’re now having dessert. And we had the most beautiful piece of chocolate cake that you’ve ever seen, and President Xi (Jinping) was enjoying it,” Trump recalled. (Fox News)
- NHL coaches have more technology on the bench than ever before as the Stanley Cup playoffs continue. Three iPad Pros are available for coaches on every bench and officials also have them to review coach’s challenges. All 16 playoff arenas have been outfitted with the iPads and also Macs for video coaches as part of collaboration with **Apple (AAPL)**. (Associated press)
- A new, 1,000-pound, seven-foot-high bronze statue of Tupac Shakur will be built this fall in suburban Atlanta. The likeness of the slain rapper will be located on the grounds of what used to be the Tupac Amaru Shakur Center for the Arts and replaces a former sculpture of Tupac that was removed when the centre closed in 2015. While the original sculpture featured Tupac in a suit, the replacement would reportedly be more “gangster.” (TMZ)
- ValueAct Capital's Jeff Ubben is "sceptical" of the market's high valuation. The firm is returning \$1.25B to investors and will fund future purchases mostly by taking profits in current holdings. Ubben said, "The broader market context is explicit to us. The S&P 500's median P/E ratio is 18 times. For most high quality companies we follow, it is much higher. These valuations can only be justified by assuming cyclically high corporate margins will persist, a certainty of lower corporate tax rates and a risk-free rate that stays near all-time lows. We are skeptical of all of the above." ValueAct has more than \$16B of assets under management. (CNBC)
- “Certainly there are strong fundamentals in that housing market. But you can only explain so much, even if you got heroic about it. Nobody can explain 30%. That suggests to us that some of the demand is purely speculative.” (Bank of Canada Governor, Stephen Poloz, at a loss to explain the scorching home price gains in Toronto)

THE LAST DROP: Sean Spicer might be the only press secretary who needs a press secretary.

– Jimmy Kimmel 

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