

Investment Highlight: Paramount Resources

The NorthStream Credit Strategies Fund generated a return of 3.40% for the month of July, driven by capital appreciation in several names, such as Paramount Resources' ("Paramount") bonds maturing in 2019. In May 2016, Paramount monetized its midstream assets with the sale of its gas and liquids-rich processing facility to Pembina Pipeline Corp. for approximately \$600m. Paramount used the proceeds to pay down a significant portion of its credit facility, reducing its nearest-term obligation.

We viewed the asset sale as a positive catalyst as the company signaled that it was committed to strengthening its balance sheet. The management team, led by the Riddell Family, also had significant motivation in addressing Paramount's leverage and liquidity given their material equity stake in the company. We felt that management would be proactive in unlocking the considerable value of its large, liquids-rich asset play in west Central Alberta over the next 24 months. Given that Paramount had addressed its nearest maturity by reducing its credit facility, we believed that the 2019 notes provided the more attractive risk/reward profile, compared to the company's notes due 2023. We also noted the way the Riddell Family effectively navigated the high leverage and limited liquidity at Perpetual Energy by negotiating an asset sale to Tourmaline Energy. In May, we purchased Paramount's 7.625% Senior Unsecured Notes of 2019 at \$89.50, believing that the company would retire this obligation at least 12 months prior to it becoming a current maturity in December 2018.

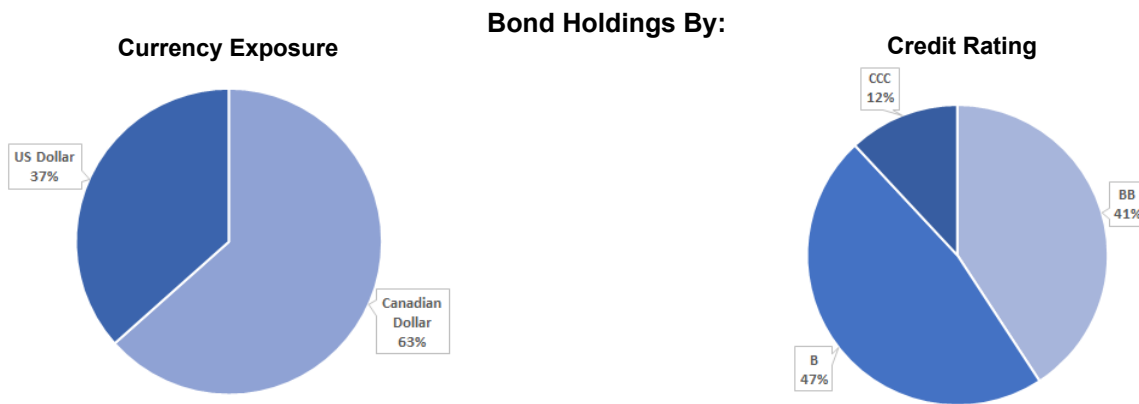
On July 6, 2016 Paramount announced an agreement to sell 310 net sections of its oil and gas properties in the Musreau/Kakwa area to Seven Generations Energy for approximately \$1.90bn. Concurrently, the company announced a conditional redemption of its 2019 notes at a price of \$103.81, generating a capital gain on our Paramount bond position of over 14 points, or 16.0%.

Market View

In July, the demand for risk assets increased as evidence of weak global economic growth continued. Euro area GDP growth slowed in the second quarter to .3% from .6% in the first quarter. US second quarter GDP grew 1.25% at an annualized rate, compared to estimates of 2.5%. Oil entered bear market territory after falling 22% from its June peak amid renewed concerns of a global supply glut. By contrast, the US high yield market broke free from its recent correlation with oil and was up 2.29%¹. After moving in lockstep with oil markets for much of the last two years, US high yield bond indexes increased while commodity and energy bonds softened in July. A material component of the recent high yield returns has been the appreciation of CCC-rated credits.

Portfolio Composition

We continue to maintain our defensive positioning with exposure to higher-rated names and shorter maturities, with 66% of our positions maturing on or before 2020 and 79% of our positions maturing before December 2021. Our bond holdings by rating for June were 41% BB, 47% B and 12% CCC. Our Canadian dollar denominated positions comprised 63% of the portfolio. The NorthStream Credit Strategies Fund generated a return of 3.40% in July and a cumulative return of 4.75% for the three months since inception.



¹ BlackRock iShares iBoxx \$ High Yield Corporate Bond ETF July 2016 Total Return: 2.29%

Information obtained from this commentary is not intended to be used as financial or investment product advice and is not meant for making investment decisions. This commentary does not constitute a solicitation or offering for the sale or purchase of investment or securities in any products. The information contained herein, while believed to be reliable and complete, is not guaranteed as to its accuracy or completeness. NorthStream Capital Inc. ("NorthStream") cannot guarantee its accuracy or completeness and accepts no responsibility for any loss arising from any use of or reliance on the information contained herein. Material information about the NorthStream Credit Strategies Fund LP ("the Fund") is made available in the Confidential Offering Memorandum that should be read carefully before investing. To obtain complete information relating to the Fund, please refer to the Confidential Offering Memorandum.