ScotiaMcLeod

Daily Market Summary

Market Data as of Thursday April 14,2011 9:00 a.m.

World Indices

		Change	%	YTD
S&P / TSX Composite Index	13833.64	0.00	0.00%	2.93%
Dow Jones Industrial Average	12270.99	0.00	0.00%	5.99%
S&P 500	1314.41	0.00	0.00%	4.51%
Nasdaq	2761.52	0.00	0.00%	4.10%
FTSE-100 (London)	6010.44	45.97	0.77%	1.87%
CAC 40 (Paris)	3961.48	-44.75	-1.12%	4.12%
DAX (Frankfurt)	7120.62	-57.35	-0.80%	2.99%
Nikkei (Tokyo)	9653.92	12.74	0.13%	-5.62%
Hang Seng (H.K.)	24014.00	-121.03	-0.50%	4.25%

Commodities Highest Volume Futures

	Bid	Change	%
Aluminum (lb)	1.20	0.00	0.00%
Copper (lb)	4.27	-0.02	-0.36%
Nickel (lb)	11.84	-0.09	-0.78%
Zinc (lb)	1.09	-0.01	-1.20%
Gold (oz)	1458.00	3.10	0.21%
Silver (oz)	40.74	0.51	1.26%
Crude (bbl)	106.31	-0.80	-0.75%
Nat. Gas (mmBtu)	4.08	-0.06	-1.52%
Lumber (Mbf)	249.10	-1.90	-0.76%

Canadian Bonds

	Bid	Change
3 Month	0.94	-0.01
6 Month	1.10	-0.02
2 Year	1.79	-0.04
5 Year	2.72	-0.04
10 Year	3.35	-0.02
30 Year	3.77	-0.01
BoC Overnight Rate	1.00	0.00
Prime Rate	3.00	0.00

U.S. Bonds

	Bid	Change
3 Month	0.06	0.00
6 Month	0.11	0.00
2 Year	0.73	-0.00
5 Year	2.14	-0.03
10 Year	3.44	-0.02
30 Year	4.54	-0.01
Fed Funds Rate	0.25	0.00
Prime Rate	3.25	0.00

Currencies

	Bid	Change
$CDN/$U.S.	0.9655	-0.0004
$U.S./$CDN	1.0357	0.0004
$U.S./£Sterling	1.6337	0.0016
$U.S./$Euro	1.4431	0.0047
¥Yen/$U.S.	83.11	0.06

Index Futures

Dow Jones	12199.00	0.00
Nasdaq	2294.00	-14.50
S&P 500	1300.70	-8.00

Market Data is indicative. Source Reuters.

Economic Releases

Canada

None scheduled

United States

Apr 14	—	PPI Ex Food & Energy (YoY) for Mar - EST: 1.9%
Apr 14	—	Producer Price Index (MoM) for Mar - EST: 1.0%
Apr 14	—	Bloomberg Consumer Comfort - EST: --
Apr 14	—	Initial Jobless Claims - EST: 380K
Apr 14	—	Continuing Claims - EST: 3703K
Apr 14	—	Producer Price Index (YoY) for Mar - EST: 6.2%
Apr 14	—	PPI Ex Food & Energy (MoM) for Mar - EST: 0.2%
Apr 15	—	Consumer Price Index (YoY) for Mar - EST: 2.6%
Apr 15	—	Consumer Price Index (MoM) for Mar - EST: 0.5%
Apr 15	—	CPI Core Index SA for Mar - EST: --
Apr 15	—	Industrial Production for Mar - EST: 0.5%
Apr 15	—	CPI Ex Food & Energy (YoY) for Mar - EST: 1.2%
Apr 15	—	Net Long-term TIC Flows for Feb - EST: --
Apr 15	—	Total Net TIC Flows for Feb - EST: --
Apr 15	—	Consumer Price Index NSA for Mar - EST: 223.15
Apr 15	—	U. of Michigan Confidence for Apr - EST: 69
Apr 15	—	CPI Ex Food & Energy (MoM) for Mar - EST: 0.2%
Apr 15	—	Empire Manufacturing for Apr - EST: 17
Apr 15	—	Capacity Utilization for Mar - EST: 77.4%

Rating Changes

Company	New	Old
ShaMaran Petroleum Corp.	1-Sector Outperform	2-Sector Perform

Target Price Changes

Company	New	Old
Armtec Infrastructure Inc.	$17.50	$18.00
Harry Winston Diamond Corporation	$22.00	$21.00
ShaMaran Petroleum Corp.	$1.50	$0.90

Companies Reporting Today

Company	Quarter	Scotia Estimates	Last Year	Previous Quarter
Astral Media Inc.*1*	2	$1.30	$0.98	$0.63
Corus Entertainment Inc.*2*	2	$0.51	$0.64	$0.19
Grupo Televisa, S.A.B.*3*	1	US$0.20	US$0.15	US$0.38

1 The conference call will be webcast simultaneously on Astral Media's Website at www.astralmedia.com.

2 The conference call is also available through a live webcast on the Corus Entertainment website at www.corusent.com under the Investor Information section.

3 Replay: 1 (800) 642 1687 (international: (706) 645 9291), passcode: 70306544

Canadian Equities

Armtec Infrastructure Inc. (ARF - $16.19) **Rating: 2-Sector Perform** **Target: $17.50**

- Resuming Coverage Following Equity Issue

Armtec announced the closing of a bought deal financing worth $57.8M. The deal represents the sale of approximately 3.6M common shares at a price of $16.20 per common share. Reduce indebtedness. The proceeds will be used to reduce indebtedness and for general corporate purposes. Following this offering, we estimate Armtec's total-funded-debt-to-EBITDA will drop to 3.40x for FY2011 from 4.42x; this is lower than its covenant statement of no more than 4.0x. Dilutive to earnings. We expect this equity issue to be dilutive to 2012E earnings by 3.5%-to $1.66/share from $1.72/share. Lowering one-year target price to $17.50. We have adjusted our oneyear target price to $17.50 to take into consideration earnings dilution from this equity issue. We remain neutral on Armtec shares as we do not see any short-term catalysts; however, supported by the 10% dividend yield, we see limited downside at this price. — **Zicha Anthony**

Disclosures*: *The Fundamental Research Analyst/Associate has visited material operations of this issuer.*

Scotia Capital USA Inc. or its affiliates has received compensation for investment banking services in the past 12 months.

Scotia Capital USA Inc. or its affiliates has managed or co-managed a public offering in the past 12 months.

Within the last 12 months, Scotia Capital Inc. and/or its affiliates have undertaken an underwriting liability with respect to equity or debt securities of, or have provided advice for a fee with respect to, this issuer.

Global Fertilizers

- Potash Capacity Expansion by ICL

Israel Chemicals (ICL) will undertake a multi-stage plan to improve efficiency and add capacity at its IberPotash production facilities in Spain. Stage 1: ICL will increase potash capacity at its Suria plant, through the addition of a ramp that should remove an ore transportation bottleneck. The expansion is expected to be completed by 2014 at a cost of .160M. Stage 2: ICL intends to increase potash capacity to 1.1M mt/y (from ~900k mt/y) and raise vacuum salt capacity to 1.5M mt/y at its Cabanasas/Suria facilities. The second stage has not yet been approved. ICL also plans to close IberPotash's Vilafrun/Sallent mine and production facility. Why? The company expects to achieve significant cost savings by processing larger quantities of potash at a single location. In our view, ICL's Iberpotash is among the highest cash cost mines in the world (it was temporarily shutdown in early 2010 due to low prices). We do not see the IberPotash capacity expansion project as having any meaningful negative impact to the global potash supply structure in 2014. Investors should view ICL's moves this week as positive steps to: (1) enhance its European market position; and (2) lower its potash cash costs. — **Isaacson Ben**

Agrium Inc. (AGU - U$88.90)	Rating: 1-Sector Outperform	Target: U$111.00

- Why the Redwater Blast Is Immaterial

AGU had a minor explosion and fire at its Redwater nitrogen complex. We spoke with AGU and view the production disruption as immaterial. The compressor-based fire occurred at its Redwater Plant #1 - a small swing ammonia plant with a capacity of 280,000 mt. The extent of the damage, and whether it is insured, was not disclosed. No injuries resulted from the explosion and fire. While the exact length of the outage is unknown, we expect the limited damage will likely allow for a fall re-commissioning. As a small swing ammonia facility, it is typically closed for the summer anyway. We see three reasons why the event is immaterial to AGU's 2011 earnings profile: (1) the 280,000 mt ammonia plant accounts for only 1% of our estimated replacement cost of AGU's assets; (2) the ammonia plant is typically shut-down over the summer months resulting in about three months of lost production; and (3) any pullback in sales will be directed to the U.S. industrial market (AGU's lowest nitrogen margins), with no impact to its high-margin Western Canadian business. We maintain our 1-SO rating and $111/sh one-year target price. — **Isaacson Ben**

Disclosures*: *Scotia Capital USA Inc. or its affiliates has received compensation for investment banking services in the past 12 months.*

Scotia Capital USA Inc. had an investment banking services client relationship during the past 12 months.

Shaw Communications Inc. (SJR.B - $19.80)	Rating: 1-Sector Outperform	Target: $26.00

- Q2/F11 Was Likely a Trough

Q2/F11 results were disappointing, with revenue growth of 4% and organic EBITDA growth of 1%. Subscriber results also missed. The company also decided to slow down its wireless deployment. We believe Q2 results were likely the trough as price increases impacted subscriber adds, while competitors remained active with promotions. At the same time, the price increases were financially absorbed by Shaw's own aggressive bundle promotions from previous quarters. We have kept our F11E EBITDA unchanged. Looking to the second half of 2011, we believe improving results will be supported by: (1) April price increases by Shaw (and this time matched by TELUS), (2) gradually less financial impact from Shaw's own aggressive promotions in F10, and (3) cost reduction from recent restructuring. The slowdown of wireless is a prudent move, in our view, given rapid LTE/4G advancements. Financially, we have lowered our 2011 wireless capex and start-up losses in 2012E, which raised our FCF estimates. We maintain our 1-SO and our $26/share one-year target price. — **Fan Jeff**

Disclosures*: *Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.*

The Fundamental Research Analyst/Associate has visited material operations of this issuer.

Scotia Capital USA Inc. or its affiliates has received compensation for investment banking services in the past 12 months.

Within the last 12 months, Scotia Capital Inc. and/or its affiliates have undertaken an underwriting liability with respect to equity or debt securities of, or have provided advice for a fee with respect to, this issuer.

Scotia Capital USA Inc. or its affiliates has managed or co-managed a public offering in the past 12 months.

TMX Group Inc. (X - $39.68) **Rating: 2-Sector Perform** **Target: $45.00**

- Ontario Legislators Expect to Support Merger?

Bloomberg reported that according to sources, the Ontario legislators committee will recommend supporting the LSE/TMX merger. The Ontario legislative committee's recommendation to support the transaction is expected to contain conditions, which are likely to include more clarity on regulatory roles and on the constituents of the newentity's board of directors. The committee report is expected be released on April 19. With the committee's recommendation expected to form the basis for the Ontario government's submission to the Investment Canada process, as well as influence the focus of the OSC hearings, we believe the potential support from the committee is a major step towards gaining full regulatory approval. We are maintaining a 50-50 probability of the merger receiving regulatory approval pending the release of details surrounding the conditions required for the committee's support. We maintain our 2-Sector Perform rating and $45.00 one-year target. — **Hardie Phil**

Disclosures*: Scotia Capital Inc. has a direct and indirect ownership interest in excess of 1% in Alpha ATS, which is positively correlated to its share of trading activity executed on Alpha ATS and is subject to redetermination at the end of each of the first two years of Alpha ATS's launch. SCI's Co-Head of Institutional Equity Sales and Trading serves on the Board of Directors of Alpha Inc. and Alpha ATS.*

Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.

Within the last 12 months, Scotia Capital Inc. and/or its affiliates have undertaken an underwriting liability with respect to equity or debt securities of, or have provided advice for a fee with respect to, this issuer.

Scotia Capital USA Inc. or its affiliates has received compensation for investment banking services in the past 12 months.

U.S. Equities

Global Equity Themes

- Japanese Supply Chain Update; A perspective from our proprietary PEERs database

In our report Japanese Supply Chain Disruptions, 17 March, we provided initial sensitivities to the impact on the global industrial supply chain following the earthquake and tsunami of 11th March. Since then the critical role Japan plays in so many aspects of industrial production has become ever more apparent. Statements in the Q1 reporting season will provide more clarity. In advance of that we provide a bottom-up update of the disruptions and use our proprietary PEERs relationship database to provide guidance to lateral impacts. We would note how sanguine most companies seem. Too sanguine? Since our initial report, there have been signs of output in Japan resuming. The picture is though far from straightforward with uncertainty over the levels of capacity utilisation returning and the threat of a return to rolling blackouts. Our Japanese utilities analyst estimates that supply will struggle to meet projected demand of 55,000 MW by July without energy conservation and a swift return and extension of off-line nuclear capacity. The problems for the Japanese auto OEMs remain a dominant theme. Component shortages point to output being down 37% in H1 and 19% for the year according to our analysts, with the outtage at micro-controller processor Renesas (30% global market share) a major and ongoing disabling impact. We continue to be wary of stocks dependent on sources of auto supply from Japan and also those who have demand based there. The technology space has been the other key sensitivity. The issues remain product by product. While there are areas of improvement, our analysts still see net reasons for concern in materials and components that may be reflected in Q1 reports. Wafer problems (Shin-Etsu) should alleviate but not for 2-3 months; BT Resin issues should ease if MGC (60% market share) recovers as it has indicated; areas of the aluminium capacitors, battery, LCD, lenses and filters and HDD chain remain a risk. The collective feedback from our analysts provides an overall picture of the inventory situation. Seeking other sources of supply has helped (presumably at a cost). However, inventory risk, particularly in tech, seems to really kick in at the end of Q2. The concern would be if that bites just as the power issues re-emerge. PEERs allows us to track these links to related stocks. We have shown earnings sensitivity and price reactions are correlated across the supply chain. Taking analyst feedback with our ranking of sensitivities in PEERs, for non-Japanese companies, areas of sensitivity include Nokia, GKN, Autoliv, Merck KGA, Unimicron, TSMC, Rockwell, Texas Instruments, LSI Logic, Danaher, Best Buy, Minth, Xinyi Glass, Donfeng and Guangzhou. Opportunities for other suppliers do emerge in PEERs (eg Samsung, Atlas Copco, Sandvik, SKF, Johnson Matthey, Umicore, Kennametal, United Micro, and the non-Japanese OEMs). — **R. Kersley**

QUALCOMM Inc. (QCOM - U$52.25) **Rating: Outperform** **Target: U$65.00**

- FY2Q11 Preview

Results on April 20th. Our F2Q revenue/EPS estimates are $3.59bn/$0.82 versus consensus at $3.62bn/$0.80. While we note modest risk to the company's forward guidance due to uncertainties around near-term demand push outs in Japan, we retain our FY11/FY12 EPS estimates of $3.07/$3.32, and our Outperform rating (TP of $65) given Qualcomm is fundamentally well positioned to benefit from secular growth in the smartphone/tablet segments. Although it is difficult to quantify the impact from Japan, we estimate the region to account for 6-7% of group EBT in FY11, and we believe that both demand and supply chain issues could impact Qualcomm in 2H resulting in around 2-4% impact on our current FY11 EPS estimate. Expect robust growth in licensing revenue to continue. For F2Q, we expect QTL revenue of $1.47bn (+39% qoq/+51% yoy) based on our estimate of 195mn (+16% qoq/+30% yoy) CDMA/WCDMA based devices with an ASP of $196 (-4% qoq) driving industry revenue of $38.2bn (company guidance of $36.5bn to $38.5bn). For F3Q, we forecast QTL sales of $1.1bn (-25% qoq) driven by device volumes of 172mn (-11% qoq) and ASPs of $200 (+2% qoq). Driven by improving mix, we expect QTL ASPs to stabilize at $199/$195 in FY11/FY12 resulting in top-line growth of 33%/11%. Android and RIM are key drivers for QCT. We expect F2Q MSM volumes of 117mn (-1% qoq/+26% yoy) with ASPs of $16.8 (-6% qoq) to drive sales of $1.97bn and margins of 24%. For F3Q, our QCT sales forecast of $2.1bn (+7% qoq/+24% yoy) is predicated on MSM units of 127mn (+8% qoq) and ASPs of $16.6 (-1.3% qoq). Although supply chain disruptions do pose a risk to our near-term MSM unit estimate, we would highlight continued momentum of Android smartphones (we expect Android smartphone share to rise from 23% in CY10 to 38% in CY11) as well as increasing traction at RIM, especially on new product introductions expected in 2H11. Valuation - growth profile warrants a premium. Given a strong 18%/17% revenue/earnings CAGR between FY10-FY12 as well as a robust balance sheet (~$12 in net cash per share), we believe a premium multiple is warranted. Our $65 target price is based on 18x multiple to our taxed FY12 operating EPS and adding back net cash/share. — **K. Garcha**

Microsoft Corp. (MSFT - U$25.63) **Rating: Outperform** **Target: U$36.00**

- Gartner Confirms PC Weakness; Lowering Estimates

Gartner Q1 2011 PC Data. Gartner released preliminary Q1 2011 PC market data after the close, with the research firm estimating that worldwide PC unit shipments declined 1.1% year over year (IDC also released an estimate of a 3.2% decline this afternoon), compared to their previous estimate of a 3.0% increase. According to Gartner, the weakness in PC sell-in was due to weak demand in the consumer segment, with the U.S. and EMEA performing worse than expected as shipments declined. Japan's results were also worse than expected due to the earthquake tragedy in March. Demand in the enterprise market remained healthy. The consumer market's decline was worse than normal seasonal weakness, and Gartner noted that without the solid corporate PC shipment growth, which offset some of the consumer market weakness, driven by the continued corporate PC refresh cycle, the PC market would have experienced one of the worst declines in history. Both research firms noted that consumers in developed markets are extending their current PC life cycles, as consumers spend more of their disposable income on media tablets or as consumers pause in determining whether to purchase a media tablet, especially the iPad 2. Estimates. While we are adjusting our PC forecast to a decline of 1.1% for the March quarter, the relative strength in the corporate market should be positive for ASPs and attach rates, and we expect Windows OEM license inventory to normalize from the December quarter, which would result in licenses outshipping PCs during the March quarter. These changes reduce our March quarter revenue and EPS estimates from $16.6 billion to $16.3 billion and $0.60 to $0.58, respectively. We also lowered our calendar 2011 PC shipment forecast from 8.4% to 2.8%. Our fiscal 2012 estimates decrease to revenue of $73.1 billion and EPS of $2.81 from revenue of $74.4 billion and EPS of $2.90. Valuation. We are lowering our FY11/FY12/FY13 EPS estimates to $2.57/$2.81/$3.25 from $2.60/$2.90/$3.33 respectively. We maintain our Outperform rating and our target price of $36. At a 9.4x NTM P/E multiple, Microsoft currently trades at a 32.5% discount to the S&P 500 on a NTM price to earnings multiple basis. — **P. Winslow**

Fixed Income Morning Comments

Current PAG Recommendations

1. Term Call – Given the recent decline in yields, we no longer see value in the mid to long end of the curve and recommend investors stay short at this time.

2. Sector Call – Underweight Canada's, overweight provincials, municipals and corporates

3. Currency Call – We recommend Canadian investors remain in Canadian dollars for their fixed income holdings.

4. Alternative Strategies – Overweight high yield, market weight Emerging Markets Debt, underweight inflation protected debt.

Please see bellow for our detailed recommendations

Government Bonds End the Day Stronger on the Back of Canada's MPR and Obama Deficit Comments

Yesterday bonds started the day weaker on the back of US retail sales data, as advanced retail sales missed the headline slightly, but the details were positive. Bonds did rally shortly afterwards on the back of the Monetary Policy Report release and comments from President Obama on cutting deficits in the U.S.

The comments surrounding the monetary policy report were similar to the January MPR but slightly less optimistic. Growth forecasts for 2011 were revised up with much of the strength expected to come in Q1 with some weakening afterwards. 2013 is expected to bring soft growth at around 2.1%, equal to potential output, suggesting low inflationary pressures. The Bank of Canada did mention that the risks to the inflation outlook are looking fairly balanced at this stage. They have pointed to higher than projected commodity prices and increased Canadian household spending, however the strength of the Canadian dollar and the possibility that household spending may come in weaker than expected were mentioned. The main takeaway from the MPR was the downside risks posed by the Canadian dollar on economic growth. The strong Canadian dollar is a concern because it hampers export growth in an export-oriented economy. Oil prices also turned lower yesterday, which also hurt the Canadian dollar.

In the U.S. yesterday, President Obama proposed to cut $4 trillion from cumulative deficits within 12 years through a combination of spending cuts and tax increases, which set the stage for a battle with congressional republicans over the nation's priorities. President Obama set a target of reducing the annual U.S deficit to 2.5% of GDP by 2015, versus the 10.9% of GDP projected for this year. One of the comments surrounding the budget was to end the Bush-era tax cuts for the wealthiest Americans, which are set to expire in 2012.

Corporate credit yesterday saw better selling as investors de-risked and shifted assets. Spreads finished about 1 bps wider with the cable sector being affected most. Shaw's disappointing earnings release pushed the company's spreads wider by about 5 bps followed by Rogers. Capital Power also came to market with a $300 million 5-year deal which was well received, and traded several basis points tighter in the secondary market.

Overnight we did see bonds fall in Europe's most indebted countries, pushing Portuguese and Greek yields to records, as there was talk that Greece may need to restructure its debt, which boosted demand for safe assets once again.

The bond market is opening a bit stronger this morning with yields down -0.01% to -0.03% bps in both Canada and the U.S. On tap for today we have, jobless numbers, and PPI data in the U.S as well as manufacturing sales in Canada. In terms of supply today the U.S. will auction $13 billion of 30-year bonds.

Scotia Capital Corporate Notes: Robert Follis

Shaw Communications Q2 results were more or less in-line with street expectations, with net income of $161 million, up 16%. EBITDA was also up 16%, both reflecting the addition of Canwest broadcast assets. However, subscriber growth has slowed in all categories, even falling to negative 0.7% in basic cable. This reflects tougher competition, openly discussed on the call. Although management affirmed its $600 million free cash flow guidance, and EBITDA guidance of just under 2010's 7.5% growth, they acknowledged that the competitive environment has moderated revenue growth. This was, in our view, a factor in the wireless build-out being pushed forward, to allow more capital and operational focus on the core cable business. Management explained that wireless delays were mainly to assess emerging technologies, to ensure a competitive product when it is launched, which is surely also the case. LTM Debt/EBITDA is unchanged from last quarter at 3.1x. Management confirmed that it planned to early-call the high 13.5% coupon Canwest debt issue in August. We see results as close enough to expectations to maintain spreads, but the outlook may not be strong enough to support spread tightening near-term.

Daimler AG had no surprises in its annual meeting. Management reiterated guidance for 2011 earnings to be up significantly from 2010, despite the earthquake in Japan, which disrupted Fuso's truck-making operations and could yet put a dent in global economic growth. Neutral for Daimler Canada Finance Inc. spreads, in our view.

Sun Life Financial finalized a $5 billion debt, preferred share, and common share shelf prospectus.

Current PAG Recommendations

1. Term Call – Scotia Economics is forecasting a flatter yield curve over the next 12-15 months. With current 10 and 30 year yields trading well below Scotia Capital's current rate forecast, we do not expect the rally in bonds to continue; therefore we recommend investors stay short at this time.

2. Sector Call – We recommend investors look to the provincial, municipal, and corporate sectors for yield enhancement. Credit spreads (the yield pick-up over Canada bonds) still remain attractive.

3. Currency Call – Scotia Economics' and consensus forecast expectations are for the Canadian dollar to outperform most major currencies over the next year, therefore we recommend Canadian investors remain in Canadian dollars for their fixed income holdings at this time.

4. Alternative Strategies: Within a broadly diversified portfolio our recommendations are as follows:

a) High Yield – In conjunction with our continued positive equity market outlook for the next 12 months (based on the outlook for economic recovery), we continue to recommend investors maintain an overweight position in high yield debt. Although the yield pick up on this asset class has narrowed, we see still see some room for further narrowing, and absolute yields of over 8.5% remain attractive.

b) Emerging Markets – Emerging markets sovereign debt has rallied significantly over the past 12 months. With the benchmark JP Morgan Emerging Markets Bond Index now yielding just 4.6%, for a spread of just 2.3% over U.S. Treasuries (versus the 4.8% average), we now feel this sector is fully valued. Although there remains value in the corporate and local currency sector, we favour being overweight high yield rather than Emerging Markets debt at this juncture.

c) Inflation Protected Bonds – with current real yields in the area of 1.3%, and the market pricing in an effective long term inflation rate of just 2.2%, we see limited value in Canadian Real Return Bonds, and hence recommend an underweight exposure to the sector.

Amy Billinghurst - Associate, Portfolio Advisory Group – Fixed Income

Important Disclosures

%API, %KCL, AGU, ARF, CF.N, HF, HW, IPI, MAA, MBC, MGO, MOS, POT, SDF, SJR.B, SNM, SQM, WPX, X, YAR

Company	Ticker	Disclosures*
AGU	Agrium Inc.	I,,N1,,P
ARF	Armtec Infrastructure Inc.	G,,I,,T,,U
HF	Hanfeng Evergreen Inc.	T
HW	Harry Winston Diamond Corporation	P,,T
IPI	Intrepid Potash, Inc.	P
SDF	K+S AG	T
MAA	MagIndustries Corp.	P
MGO	Migao Corporation	T
POT	Potash Corporation of Saskatchewan, Inc.	G,,N1,,T,,U
SNM	ShaMaran Petroleum Corp.	T
SJR.B	Shaw Communications Inc.	G,,I,,S,,T,,U
SQM	Sociedad Quimica y Minera de Chile	P
X	TMX Group Inc.	I,,S,,U,,U7
WPX	Western Potash Corp.	G,,I,,S,,U

Each research analyst named in this report or any subsection of this report certifies that (1) the views expressed in this report in connection with securities or issuers that he or she analyzes accurately reflect his or her personal views; and (2) no part of his or her compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by him or her in this report.

The Fundamental Research Analysts' compensation is based on various performance and market criteria and is charged as an expense to certain departments of Scotia Capital Inc., including investment banking.

Scotia Capital Inc. and/or its affiliates: expects to receive or intends to seek compensation for investment banking services from issuers covered in this report within the next three months; and has or seeks a business relationship with the issuers referred to herein which involves providing services, other than securities underwriting or advisory services, for which compensation is or may be received. These may include services relating to lending, cash management, foreign exchange, securities trading, derivatives, structured finance or precious metals.

For Scotia Capital Research analyst standards and disclosure policies, please visit http://www.scotiacapital.com/disclosures

---

*	Legend
A	Scotia Capital Restriction -- U.S. (American)
A1	This entity is a connected issuer of Scotia Capital Inc. Scotia Capital Inc. acts as administrator for a fee and is an influential securityholder.
A2	This entity is a connected issuer of Scotia Capital Inc. Scotia Capital Inc. acts as administrator for a fee and has certain directors and employees in common.
A3	Scotia Capital Inc. acts as administrator for a fee.
B1	The CEO and President of Petro-Canada is a director of The Bank of Nova Scotia.
B2	The Executive Vice-Chairman of Cascades Inc. is a director of The Bank of Nova Scotia.
B3	The President & CEO of Empire Company Limited is a director of The Bank of Nova Scotia.
B4	The Chairman & CEO of Onex Corporation is a director of The Bank of Nova Scotia.
B6	The Non-Executive Chairman of MDS Inc. is a director of The Bank of Nova Scotia.
C	Scotia Capital Restriction -- Canada
D5	Robert Williams, Vice Chairman, Equity Capital Markets is a Director for Enerflex Systems Ltd (TSX).
D6	Brian McChesney, Managing Director, Industry Head Structured Products is a Director for Gold World Resources Inc (TSX Ventures).
H	The Fundamental Research Analyst/Associate, in his/her own account or in a related account, owns securities of the following issuer(s) under his/her coverage:
H3	The Head of Equity Research/Supervisory Analyst, in his/her own account or in a related account, owns securities of the following issuer(s):
H4	The Canadian Index Analyst/Associate, in his/her own account or in a related account, owns securities of the following issuer(s):
H6	The Portfolio Strategist/Associate, in his/her own account or in a related account, owns securities of the following issuer(s):
H7	The Quantitative Analyst/Associate, in his/her own account or in a related account, owns securities of the following issuer(s):
P	The issuer paid a portion of the travel-related expenses incurred by the Fundamental Research Analyst/Associate to visit material operations of the following issuer(s):
R	Scotia Capital Restriction
S	Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of the following issuer(s):
S1	The Bank of Nova Scotia (“the Bank”) is the parent company of Scotia Capital Inc. (“SCI”). This Report includes comparative information regarding a substantial number of competitors of the Bank where such comparable information is known or ascertainable by SCI and in equal prominence to the information in respect of the Bank.
T	The Fundamental Research Analyst/Associate has visited material operations of the following issuer(s):
T2	The Fundamental Research Associate has visited material operations of the following issuer(s):
U	Within the last 12 months, Scotia Capital Inc. has undertaken an underwriting liability with respect to equity securities of, or has provided advice for a fee with respect to, the following issuer(s):

Definition of Scotia Capital Equity Research Ratings & Risk Rankings

We have a three-tiered rating system, with ratings of 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

Ratings

1-Sector Outperform
The stock is expected to outperform the average total return of the analyst's coverage universe by sector over the next 12 months.

2-Sector Perform
The stock is expected to perform approximately in line with the average total return of the analyst's coverage universe by sector over the next 12 months.

3-Sector Underperform
The stock is expected to underperform the average total return of the analyst's coverage universe by sector over the next 12 months.

Other Ratings
Tender – Investors are guided to tender to the terms of the takeover offer.

Under Review – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

Risk Rankings

Low
Low financial and operational risk, high predictability of financial results, low stock volatility.

Medium
Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

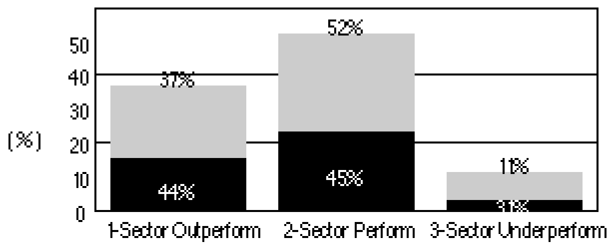
High
High financial and/or operational risk, low predictability of financial results, high stock volatility.

Caution Warranted
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

Venture
Risk and return consistent with Venture Capital. For risk-tolerant investors only.

Scotia Capital Equity Research Ratings Distribution*

Distribution by Ratings, Equity, and Equity-Related Financings



* As at March 31, 2011.

Percentage of companies covered by Scotia Capital Equity Research within each rating category.

Percentage of companies within each rating category for which Scotia Capital has undertaken an underwriting liability or has provided advice for a fee within the last 12 months.

Source: Scotia Capital.

For the purposes of the ratings distribution disclosure the NASD requires members who use a ratings system with terms different than "buy," "hold/neutral" and "sell," to equate their own ratings into these categories. Our 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to buy, neutral and sell ratings, respectively.

Disclaimer