

Morning Coffee

– Canadian and U.S. Comments for Tuesday June 5, 2012

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ECON 101

CANADIAN Data Today: This morning, **Building Permits** (Apr) are expected to fall by 1.5%, after gaining 4.7% the previous month, while the **Bank of Canada** is expected to leave its target for the overnight rate at 1.0%.

U.S. Data Today: This morning, the **ISM Non-Manufacturing Composite** (May) is expected to remain at 53.5.

ECON 201

In U.S., **Factory Orders** (Apr) fell by 0.6%, after losing 1.5% the previous month.

MARKET MOVERS

Technical Indicators:

	TSX	TSX VENTURE	NYSE	AMEX	NASDAQ
Advancing Issues	391 (28%)	277 (24%)	1,072 (34%)	511 (35%)	1,089 (42%)
Declining Issues	826 (60%)	517 (44%)	2,040 (64%)	897 (62%)	1,419 (54%)
Unchanged Issues	170 (12%)	374 (32%)	81 (3%)	39 (3%)	101 (4%)
Total Issues	1,387	1,168	3,193	1,447	2,609
New Highs	39	6	26	15	18
New Lows	235	51	157	96	144
Up Volume (000s)	89,219	38,065	900,340	211,461	602,140
Down Volume (000s)	127,685	46,576	2,383,567	298,712	800,378
Unchanged Volume (000s)	11,994	22,613	21,422	12,257	17,547
Total Volume (000s)	2,288,986	1,072,534	33,053,291	5,224,307	14,200,656

Source: Yahoo! Finance

Notable 52-Week Highs:

Brookfield Infrastructure LP	BIP.UN	\$ 33.11	Liquor Stores N.A.	LIQ	\$ 18.14
C.A. Bancorp Inc.	BKP	\$ 2.78	Xceed Mortgage Corp.	XMC	\$ 1.65
Industrial Alliance Ins & Fin	IAG.PR.G	\$ 25.10	BMO 2020 Corporate Bd Maturity	ZXC	\$ 16.00

Notable 52-Week Lows:

Advantage Oil & Gas	AAV	\$ 2.62	Cathedral Energy Services	CET	\$ 5.37
ACTIVEnergy Income Fund	AEU.UN	\$ 6.68	Canaccord Financial	CF	\$ 5.46
AlarmForce Industries	AF	\$ 9.00	iShares Intl Fundamental Fund	CIE	\$ 10.82
AGF Management	AGF.B	\$ 11.13	iShares Intl Fundamental Fund	CIE.A	\$ 10.79
Adherex Technologies	AHX	\$ 0.15	iShares Japan Fundamental Fund	CJP	\$ 6.37
Aureus Mining Inc.	AUE	\$ 0.80	Coalspur Mines Ltd.	CPT	\$ 0.96
Anderson Energy	AXL	\$ 0.31	Cequence Energy	CQE	\$ 1.01
Canadian Banc	BK	\$ 7.61	Canoe Strategic Resources I.F.	CSR.UN	\$ 7.25
PowerShares Senior Loan ETF	BKL	\$ 19.44	Citadel Income Fund	CTF.UN	\$ 3.54
BNK Petroleum	BKX	\$ 0.65	Dundee Energy	DEN	\$ 0.37
Bank of Montreal	BMO	\$ 53.15	XTF Morningstar Cda Div 30 ETF	DXM	\$ 9.00
Bankers Petroleum	BNK	\$ 1.84	Energy Income Fund	ENI.UN	\$ 3.90
Bonavista Energy Corp.	BNP	\$ 16.50	Equal Energy Ltd.	EQU	\$ 2.77
Airboss of America	BOS	\$ 4.20	Enerplus Corp.	ERF	\$ 13.56
Bucking Horse Energy	BUC	\$ 1.75	Forbes and Manhattan Coal	FMC	\$ 1.20
iShares BRIC Index Fund	CBQ	\$ 21.81	Fortress Paper	FTP	\$ 17.00
iShares BRIC Index Fund	CBQ.A	\$ 21.68	Guide Exploration	GO	\$ 1.52
Corridor Resources	CDH	\$ 0.48	Hanwei Energy Services	HE	\$ 0.06

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Horizons Enhan. Income En. ETF	HEE	\$ 6.20	Potash Corp. of Saskatchewan	POT	\$ 38.31
Horizons Enhan. Income En. ETF	HEE.A	\$ 6.33	Polar Star Mining	PSR	\$ 0.13
Horizons Enhan. Incm. Eqty ETF	HEX	\$ 6.95	Penn West Petroleum	PWT	\$ 13.09
Fiera High Income Trust	HIT.UN	\$ 8.40	PowerShares FTSE RAFI Cdn ETF	PXC	\$ 18.21
HBP S&P/TSX GIBIBasMetBull+ETF	HMU	\$ 6.67	PowerShares FTSE RAFI US ETF	PXU	\$ 18.89
Horizons Crude Oil Yield ETF	HOY.A	\$ 7.68	Quest Rare Minerals Ltd.	QRM	\$ 1.53
Horizons Uni. Cdn. Black Swan	HUT	\$ 9.77	Reitmans (Canada)	RET	\$ 13.17
Horizons BetaP. 500 VIX ST ETF	HVI	\$ 6.68	Reitmans (Canada)	RET.A	\$ 12.92
Industrial Alliance Ins & Fin	IAG	\$ 22.25	Research In Motion	RIM	\$ 9.98
ENERGY INDEXPLUS Dividend Fund	IDE.UN	\$ 7.20	Senvest Capital	SEC	\$ 61.00
INDEXPLUS Dividend Fund	IDF.UN	\$ 8.76	SMART Technologies	SMA	\$ 1.16
Ivanhoe Energy	IE	\$ 0.70	Sonde Resources	SOQ	\$ 1.64
Ivanhoe Australia	IVA	\$ 0.58	Silver Predator Corp.	SPD	\$ 0.18
Brompton Lifeco Split	LCS	\$ 1.10	Strathmore Minerals	STM	\$ 0.29
Legacy Oil + Gas	LEG	\$ 6.58	Molson Coors Canada	TPX.B	\$ 39.52
Labrador Iron Mines Holdings	LIM	\$ 2.70	Transat A.T.	TRZ.B	\$ 4.56
Longview Oil	LNV	\$ 7.21	TVA Group	TVA.B	\$ 7.75
Lone Pine Resources	LPR	\$ 3.05	Tech Giants Covered Call ETF	TXF	\$ 9.33
Marret High Yield Strategies	MHY.UN	\$ 9.76	XTF Morningstar US Div 50 ETF	UXM	\$ 9.45
Genworth MI Canada	MIC	\$ 17.60	Vanguard MSCI Canada Index ETF	VCE	\$ 23.05
Mandalay Resources Corp	MND	\$ 0.52	World Financial Split Corp	WFS	\$ 0.65
Matrix Asset Management	MTA	\$ 0.42	Western Lithium USA	WLC	\$ 0.19
NovaCopper Inc.	NCQ	\$ 2.36	Walter Energy	WLT	\$ 47.00
Nevada Copper	NCU	\$ 1.92	Western Copper and Gold	WRN	\$ 0.81
Angle Energy	NGL	\$ 3.76	Xinergy Ltd.	XRG	\$ 1.18
Niko Resources	NKO	\$ 27.42	BMO China Equity Hedged to CAD	ZCH	\$ 10.53
Nautilus Minerals	NUS	\$ 1.01	BMO Junior Gas Index ETF	ZJN	\$ 16.11
Can-Energy Covered Call ETF	OXF	\$ 6.28	BMO S&P/TSX Base Metals E.T.F.	ZMT	\$ 11.57
Prime Dividend Corp.	PDV	\$ 5.22	BMO Covered Call Utilities ETF	ZWU	\$ 14.50
Polymet Mining	POM	\$ 0.66			

CANADIAN EQUITIES OF INTEREST

Listed Alphabetically by Symbol

Quantitative Easing

To QE3, or not to QE3? That is the question. What's the Fed's next move? With no Fed meeting in July and August, and Operation Twist ending later this month, we believe the Fed should use June's meeting to clarify its strategy. The discussion around QE3 is pretty divided. Goldman Sachs believes more QE is on the way and maybe as soon as June 20. Goldman said yesterday in a note called 'Crunch Time', "Our confidence that the FOMC will ease policy once more at the June 19-20 meeting has also grown...Our baseline remains that Fed officials will purchase a mixture of mortgages and long-term Treasuries, financed via balance sheet expansion and possibly coupled with an extension of the forward guidance into 2015. This would be considerably more powerful than an extension of Operation Twist or other ways of changing the composition of the balance sheet, which are possible alternatives but are limited by the relatively modest amount (\$200 billion) of short-term paper that is still available for sale on the Fed's balance sheet." Financial blog Zero Hedge muses..."global or Fed-based easing will most likely not come before the Greek June 17 elections after all Greek confidence has to be crushed heading into the Euro referendum, and the only way to do this is by facilitating collapsing markets. So those hoping for a groundbreaking ECB announcement on June 6 will be disappointed. But June 20? That is fair game." Meantime, David Kotok of Cumberland Advisors says the Fed is in permanent neutral, "In fact, the balance sheet of the Federal Reserve is gradually shrinking, because the Fed is permitting some runoff of its holdings. Operation Twist ends in June. QE3 is going nowhere. The rhetoric of the Fed, the message from the Fed, the discussions originating out of the members of the FOMC, coalesce to suggest that the Fed will do nothing. That is our outlook, unless there is a massive shock of some type or the economy goes into recession. Neither shock nor recession is likely. Thus, we expect no changes at the Fed until after the end of this year." Be sure to watch Bernanke's testimony to Congress on Thursday and other Fed speeches this week for more hints.

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Shanghai

8-6-7-5-3-0-9. As reported in the L.A. Times, whether a cosmic joke or coincidence, or as some talking heads suggested, an act of God, the Shanghai stock market index fell 64.89 points on Monday, which happened to be June 4, the 23rd anniversary of the 1989 crackdown on pro-democracy demonstrators at Tiananmen Square. In the numerology of censorship, nothing is more sensitive. There is a ritualized cat-and-mouse game every year on this date between Chinese censors and those who want to commemorate the death of hundreds, perhaps thousands. The 64.89-point drop wasn't the only strange omen. The Shanghai Composite Index opened at 2346.98, which with a little creativity could be seen as a reference to June 4, 1989, 23rd anniversary.

S&P/TSX Capped REIT Index (RTRE : TSX : 161.41), Net Change: -1.73, % Change: 1.06, Volume: 1,092,185

Who's your Jedi master? WHO'S your Jedi Master? On a year-to-date basis, Canadian REITs have delivered an impressive 9.2% total return (S&P/TSX Capped REIT Index), materially outpacing the 2.6% decline posted by the S&P/TSX Composite. Similar to 2011, Canadian REITs are dramatically outperforming other high yielding sectors, which we believe reflects a continuation of the "safe haven yield" theme. With low vacancies across all major property subsectors, and healthy underlying fundamentals, most Canadian REITs have delivered strong cash flow per unit growth, which was evident during the Q1/12 reporting season. To the extent that underlying property fundamentals hold up, and credit markets continue to function properly, it appears that the recent sharp decline in government bond yields could be a major windfall for the REITs. With declining interest rates, the positive impact of refinancing debt is likely to accelerate and should contribute to further cash flow growth in the foreseeable future. However, some headwinds remain. The U.S. 10-year Treasury yields have dropped below 1.5% as job growth posted a surprisingly sharp slowdown in May, following a string of datapoints, which indicate the U.S. economic recovery is losing steam. Overall it appears that softness in China and the ongoing European financial crisis are notably impacting global growth. Volatility remains below the levels observed in the summer of 2011 when the European sovereign debt crisis took centre stage, but we have seen a moderate spike with the recent turmoil with Spain quickly becoming a source of global anxiety. Fortunately, there doesn't appear to be any cracks showing up in North American inter-bank lending. The strength of the REITs is critically dependent on the availability of credit at attractive borrowing rates. Year to date, **Boardwalk REIT (BEI.UN)** has been the top performer in S&P/TSX Capped REIT Index (up 17.6%) while **Extencicare REIT (EXE.UN)** has been the laggard (down 6.7%).

Iron Ore

Maybe they can bring back the iron lung to boost demand? Shares of iron ore stocks continue to be under pressure as reports indicate that Chinese demand for the commodity is continuing to wane. As reported in the Sydney Morning Herald, The Port of Qingdao, through which a seventh of all iron ore imports to China pass, has run out of space to take in more goods, as the number of truck and trains leaving the port facility have decreased dramatically, despite the fact incoming ships continue to arrive. One of the largest private iron ore traders in Qingdao said that some commodity traders now see the conditions as being worse than during the 2008 global financial crisis. The CEO of Fortescue Metals, Neville Power, warned yesterday that iron ore prices would fall 19% before finding a "long-term sustainable" level in China. Canadian companies with iron ore exposure include **Labrador Iron Ore Royalty (LIF.UN)**, **Labrador Iron Mines (LIM)**, **Champion Minerals (CHM)** and **New Millennium Iron (NML)**.

Gold & Silver Royalty Companies

Franco-Nevada* (FNV : TSX : \$47.17), Net Change: 1.00, % Change: 2.17%, Volume: 602,302

Silver Wheaton* (SLW : TSX : \$28.02), Net Change: 0.30, % Change: 1.08%, Volume: 1,257,333

Royal Gold (RGLD : NASDAQ : US\$77.00), Net Change: 2.25, % Change: 3.01%, Volume: 5,328,054

Sandstorm Gold* (SSL : TSX-V : \$8.61), Net Change: 0.18, % Change: 2.14%, Volume: 205,868

In a position of power. Over the weekend, Reuters published an interesting report, highlighting, "Royalty companies that have raked in cash from strong precious metal prices in the last three years look poised to drive a wave of deal activity in the Canadian mining sector, especially among junior players hungry for financing." Reuters stated the with the recent pullback in precious metal prices and punishing stock markets, the royalty companies could be the saviours for small and mid-tier miners who are eager to grow but strapped for capital. Junior miners are not keen to issue equity when their share prices are so severely depressed (many couldn't if they wanted to!), leaving few alternatives to royalty and stream deals for small miners looking to fund project development. Commenting on the developing landscape, one Bay Street lawyer noted, "A lot of the juniors we work with are looking at turning over whatever rock they can in order to get financing. They are exploring it. But as to whether

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they are going to get it is really going to come down to the quality of the project." Reuters highlighted that royalty companies like Franco-Nevada, Silver Wheaton, Royal Gold, Sandstorm Gold and **Anglo Pacific Group (APY)** now find themselves in the perfect spot to strike new deals and secure their own future growth.

Continental Gold* (CNL : TSX : \$7.38), Net Change: 0.28, % Change: 3.94%, Volume: 984,498

Off the hook. Shares of Continental Gold were up strongly after the company reported more excellent drill results from their Buritica gold project in Colombia. Ten drills are currently on site as part of the company's Phase III diamond drill program budgeted for 2012. Highlights from the drill results include hole BUSY255, which yielded 16.75 m grading 38.8 g/t gold and 43 g/t silver, including 3.1 m grading 109.6 g/t gold and 121 g/t silver. Drilling in the southern vein families has demonstrated that the Yaragua system exhibits more than 1,300 m of vertical extent and is still open at depth and along strike. A high-grade intercept of 4.5 m of 20.3 g/t gold and 102 g/t silver of BUSY258 is approximately 650 m vertically below the deepest point of the company's last mineral resource estimate and is an approximate 500 m step-out vertically in the Yaragua system. CNL's CEO Ari Sussman was very positive on the results and noted that the results, "Significantly extend the vertical dimension of high-grade mineralization in the Yaragua system, and highlights the untapped growth potential of our resource". CNL also noted that there is a large back-log of samples in the lab presently, including lateral and vertical step-out holes at Veta Sur, lateral step-out holes at Yaragua and exploratory holes into both the La Mano and La Estera geochemical targets. The company anticipates that this back-log will relieve itself in short order and results will become available in a more timely fashion.

DragonWave* (DWI : TSX : \$3.16), Net Change: -0.07, % Change: -2.17%, Volume: 3,693

DragonWave* (DRWI : NASDAQ : US\$3.05), Net Change: -0.05, % Change: -1.61%, Volume: 217,788

Puff the magic... DragonWave announced that it will eliminate 68 employees from the company's workforce in Canada and Israel. The company noted that it expects to save \$6 million annually in operating expenses as a result of the staff reductions. DragonWave anticipates restructuring charges in the first quarter fiscal year 2013 as a result of the elimination of these positions to be approximately US\$0.8 million, and a one-time cash usage in the second quarter of 2013 of approximately US\$1.5 million. DWI also noted that to support the new organization, the company has set up a distribution center in the Netherlands and is currently staffing new regions such as Mexico and Brazil. A Bay Street analyst noted that today news is neutral for the stock and he sees today's move as part of the NSN transaction thus eliminating any duplications the company would have had with the staff transfer from NSN and the company's new outsourcing agreement.

Energizer Resources* (EGZ : TSX : \$0.27), Net Change: 0.01, % Change: 1.89%, Volume: 154,900

Impressive depth. Energizer Resources announced that it has intersected wide intercepts of graphite mineralization from its recently initiated NI 43-101 graphite resource drill program on the Molo deposit. The Molo deposit is located on the Green Giant Graphite project joint venture (JV) property with Malagasy Minerals in Madagascar, in which Energizer has a 75% ownership interest and is the operator. Management highlighted that drilling has intersected 434 m of graphite mineralization in hole MOLO-12-01. Samples collected from the drill core have been sent out for assay, and the receipt of the first assay results is expected in approximately six weeks. Energizer noted that previous metallurgical analysis conducted at two different laboratories have confirmed that the Molo deposit contains jumbo flake (i.e. +50 mesh) graphite at an average purity of 93% C and can be easily liberated through simple crushing. The company has completed five diamond drill holes at the Molo as part of its 2012 resource drill program. Energizer management stated that it can now confirm that the Molo deposit begins immediately at surface, and extends to a vertical depth of over 300 m as evidenced by drill hole MOLO-12-01. The confirmation of graphite mineralization at surface should allow for cost-effective open pit mining.

Kaminak Gold* (KAM : TSX-V : \$2.16), Net Change: -0.01, % Change: -0.46%, Volume: 362,454

Can I get a double ristretto venti non-fat organic chocolate brownie frappuccino extra hot with foam and whipped cream upside down double blended? Kaminak kicked off its drilling season with results for 39 reverse-circulation (RC) holes and 24 diamond core holes from the Coffee Gold Project, Yukon Territory. Assays are from three gold trends comprising the T3 and T5 zones at Supremo and the east to west trending Double Double zone. Highlight drill holes are largely from the Double Double zone (4 holes total), where KAM suggests it has extended mineralization 100 m along strike (target 600 m soil anomaly). Results include: 36.3 g/t Au over 3.5 m, 16.5 g/t Au over 4.5 m, and 5.8 g/t Au over 8.0 m. The remaining results are from Supremo where the company continues to test the strike extension of the mineralized trends (T3, T4/T5) to the south. Results include narrow, moderate grade intercepts with occasional highlights such as: 13.1 g/t Au over 6.1 m; 4.3 g/t Au over 13.7 m; 19.1 g/t Au over 6.0 m; 2.6 g/t Au over 32.0 m; 10 g/t Au over 4.0 m. Four drills are operating on the Coffee property and a fifth will be added by early July. Over 20,000m has been drilled to date in 2012. Kaminak suggests it is on schedule to complete its

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2012 objective of 50,000m of drilling on budget. The 2012 Coffee Gold Project drilling program is designed to connect known gold zones along trend and discover additional near-surface gold mineralization, building towards the maiden National Instrument 43-101 mineral resource estimate expected early 2013. In addition, the 2012 program will include the first ever drilling of the Sugar gold-in-soil anomaly, located 20km east of Coffee.

North Country Gold* (NCG : TSX-V : \$0.28), Net Change: 0.00, % Change: 0.00%, Volume: 431,000

More Stuff from Three Bluffs. The company reported assays from a further five drill holes (previous results reported on May 24, 2012) from its 2012 spring drilling program at its 100% owned Three Bluffs deposit in Nunavut. Results from wide-spaced exploration drilling, including 11.95 g/t Au over 9.00 metres (Hole 12TB137), 7.71 g/t Au over 6.00 metres (12TB142) and 4.81 g/t Au over 7.00 metres (12TB141B), extending high-grade mineralization to depth. True widths are estimated to be 50-60% of intersect length. Drilling is currently targeting high-grade gold mineralization over a strike length of 1,200 metres and a vertical extent of 300 metres from the interval between 300 and 600 metres below surface, below the currently defined Three Bluffs resource, which includes 4.30 Mt at 4.90 g/t gold for 678,000 ounces gold (Indicated) and 4.53Mt at 5.69 g/t gold for 829,600 ounces gold (Inferred).

Suncor Energy* (SU : TSX : \$27.71), Net Change: 0.24, % Change: 0.87%, Volume: 5,035,703

Earth, Wind & Firebag 3. SU reported a 46% MoM increase in its May oil sands (ex-Syncrude) production; averaging 346 MBbl/d, with volumes having averaged 300 MBbl/d YTD. As per SU, they had some planned maintenance at Firebag which is wrapping up now and some unplanned work at the U1 upgrader. The company's full year oil sands production (ex-Syncrude) guidance remains unchanged at 325-355 MBbl/d. To that end, Canaccord Genuity Oil & Gas Analyst Phil Skolnick estimates that production will need to average 342 to 368 MBbl/d to achieve the low to mid-point of the target range. While investors may be sceptical right now on SU's ability to fall comfortably within the guidance range, recall that production averaged 361 MBbl/d in February before unplanned maintenance occurred earlier this year. Also, Skolnick reiterated his belief that the focus should be on Firebag 3 ramp up and the infill well program at Firebag 1&2. Firebag 3 has seen decent relative ramp-up in production and averaged almost 15 MBbl/d in March. Additionally, the company's first eight wells (three new wells came on in February and March according to Accumap) averaged ~7.7 MBbl/d collectively in March. Five of the eight wells averaged over 1.0 MBbl/d each; and three of those averaged over 1.3 MBbl/d. SU plans to have a total 10-12 of these wells in place by year-end to help further increase overall production. Of note, Skolnick recently published a report highlighting that if crude price continues downward, investors should find shelter with clean balance sheets. In the Senior E&P/Integrated space: **Husky Energy (HSE)** – This has been the most defensive name in his coverage as it has a strong balance sheet and a fully integrated business model. This was evident during the crude price decline during 7/22/11 to 10/4/11 when it outperformed its peers by 13%. Of note, **Cenovus (CVE)** was also a very defensive stock during this time, underperforming HSE by only 1%. Ultimately, Skolnick believes investors should start to view SU as a defensive play (although it historically hasn't been that way), and favour it over HSE, given that we believe SU has the strongest financial flexibility (even at US\$80 WTI, he estimates it would end 2012 with \$8.5 billion of financial capacity--net cash + unused credit) and good visible yearly growth.

TAG Oil* (TAO : TSX : \$8.58), Net Change: -0.18, % Change: -2.05%, Volume: 175,877

Increases high-impact portfolio. New Zealand-focused oil & gas company TAG Oil announced that it has entered into an agreement with Rawson Taranaki Limited and Zeanco (NZ) Ltd. to acquire three New Zealand exploration permits; Petroleum Exploration Permit 52589, Petroleum Exploration Permit 52676 and Petroleum Exploration Permit 53674. TAG's management highlighted that these permits comprise of approximately two-million acres and are situated in favourable geological areas offering high-impact exploration opportunities in the East Coast Basin and in the Canterbury Basin. Further stating that this acquisition is complementary to TAG's existing East Coast Basin exploration portfolio, expanding its current play area to the southern extents of the basin. This new acquisition also provides TAG with more than one-million acres in the lightly-explored Canterbury Basin. The Canterbury Basin is an emerging frontier play area, where large international energy companies are planning to test major offshore oil and gas prospects. Under the terms of the agreement, TAG will undertake all future exploration work program commitments and pay \$2,300,000 for 100% interest in the permits.

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U.S. EQUITIES OF INTEREST

Listed Alphabetically by Symbol

Apple (AAPL : NASDAQ : US\$564.29), Net Change: 3.30, % Change: 0.59%, Volume: 19,690,456

Facebook (FB : NASDAQ : US\$26.90), Net Change: -0.82, % Change: -2.96%, Volume: 34,843,684

iDo. Rumours sparked after Apple CEO Tim Cook hinted at a possible Facebook integration feature in upcoming iPhones and iPads. There has been a lot of flirting going on in recent months between Apple and Facebook and the two may finally seal the deal. In February, Cook told a group of investors that Facebook was “the one company that is closest to being like Apple” and described their relationship as “solid.” The iPhone maker considered joining forces with the social media giant for its last operating system (iOS5), but ended up with Twitter instead. In an interview at the D10 technology conference last week, AllThingsD asked Cook if Apple planned to strike a deal with Facebook to add a share option on its devices. Cook responded with a vague but provocative response to “stay tuned.” In light of the tumbling state of Facebook’s stock, the partnership could be just the boost it needs to set itself in the right (upward) direction. We will see whether rumours are affirmed or crushed next week at the unveiling at the annual Worldwide Developer Conference.

Bed Bath & Beyond (BBBY : NASDAQ : US\$71.02), Net Change: 0.24, % Change: 0.34%, Volume: 2,714,376

Frank the Tank approves. Bed Bath & Beyond announced it bought Linen Holdings LLC for about \$105 million in cash, marking the second acquisition deal for the home furnishings retailer in as many months. Linen Holdings is a privately held distributor of bath, bed and table linens and other textile products to customers in the hospitality, cruise-line, food-service, health-care and other industries. The news came just weeks after Bed Bath agreed to buy home goods retailer Cost Plus for about \$495 million, also aimed at boosting its sourcing capabilities and customer base. Bed Bath & Beyond said the acquisition of Linen Holdings will have no effect on results for its fiscal first quarter ended May 26 since the deal occurred during the fiscal second quarter. Additionally, it believes the benefit of this acquisition will not have a material effect on the overall results or financial condition of Bed Bath & Beyond for fiscal 2012.

Chesapeake Energy (CHK : NYSE : US\$16.51), Net Change: 0.93, % Change: 5.97%, Volume: 37,503,625

Shake it up. Chesapeake Energy announced it has agreed to add four new independent directors to replace four existing independent directors. Three will be proposed by Southeastern Asset Management, which owns 13.6% of shares outstanding, while the fourth will be Carl Icahn (7.6% owner) or a person selected by Icahn. Additionally, a fifth independent director is retiring and will be replaced by a new Non-Executive Chairman. Including Lou Simpson, six of the nine board members are truly independent in the view of Canaccord Genuity Energy Analyst John Gerdes. Chesapeake indicated that if shareholders approve the amendment to implement majority voting in director elections, it will be immediately applied. Finally, the Board will seek relief from an Oklahoma statute with the goal of allowing shareholders the opportunity to elect the entire board of directors at the 2013 meeting. Aubrey McClendon will remain CEO and a director. The board reconstitution is positive from a corporate governance and strategy standpoint in Gerdes’ view. He believes the independent directors will push for a more conservative capital plan and aggressive asset monetization. Additionally, he believes the reconstituted board would be more amenable to a potential takeover. The potential to lower Chesapeake’s risk profile while increasing receptivity to a change of control should be seen positively by shareholders in his opinion.

SalesForce.com (CRM : NYSE : US\$131.15), Net Change: 0.16, % Change: 0.12%, Volume: 3,455,070

Have you met my Buddy? Salesforce.com has agreed to buy social media marketing company Buddy Media for about \$689 million in cash and stock, and cut its full-year earnings per share forecast as a result of the deal. The transaction includes \$467 million in cash, \$184 million in Salesforce stock and \$38 million in vested options and restricted stock. Salesforce said by combining Buddy Media with its Radian 6 social media listening platform, the company will offer a marketing cloud allowing users to “listen, engage, gain insight, publish, advertise and measure social marketing platforms.” Buddy Media’s customers include **Ford Motor (F)**, **Hewlett-Packard (HPQ)** and **Mattel (MAT)**. The deal, Salesforce’s biggest ever, is the latest sign that the social media marketing sector may be a new battlefield for large tech companies as it follows rival **Oracle’s (ORCL)** acquisition of social media marketing company Vitruv. Meanwhile, Salesforce cut its adjusted full-year profit to \$1.45-1.49 per share, from \$1.60-1.63 per share, to factor in charges from the deal. The company then raised its revenue outlook to \$2.99-3.03 billion, from \$2.97-3.00 billion. The deal is expected to be completed during the third quarter.

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Morning Coffee

– Canadian and U.S. Comments for Tuesday June 5, 2012

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Delta Air Lines (DAL : NYSE : US\$10.18), Net Change: -1.33, % Change: -11.56%, Volume: 28,950,588
United Continental (UAL : NYSE : US\$22.53), Net Change: -1.83, % Change: -7.51%, Volume: 8,768,196
US Airways Group (LCC : NYSE : US\$11.18), Net Change: -1.46, % Change: -11.55%, Volume: 13,376,122

Turbulence. Airline stocks got hit by a wave of selling amid a report from Delta Air Lines that said a closely watched revenue metric missed expectations in May. Delta Air Lines, United Continental and US Airways were among the biggest decliners. The selloff also comes as the sector has enjoyed a big run-up this year, but economic concerns in the U.S. and Europe are once again roiling markets. Delta was the first major airline to report operating performance for May, and its disappointing results suggest that airlines' capacity cuts and fare hikes aren't boosting profits quite as fully as they had hoped. Delta said monthly consolidated passenger unit revenue or PRASM came in 1 point below expectations, at 6% growth, as it ran into fare discounting by a competitor. However, the company noted that it still expects strong revenue during peak summer flying months. Capacity dropped 0.9% to 19.65 billion available seat miles or ASMs, from 19.82 billion ASMs in the same period last year. While system load factor edged up 0.2% to 84.1% from 83.9% a year ago. Domestic traffic decreased 2%, but was partially offset by a 1.5% gain in international flying as Pacific flying rebounded after the March 2011 earthquake in Japan.

Hewlett-Packard (HPQ : NYSE : US\$21.06), Net Change: -0.19, % Change: -0.89%, Volume: 17,369,232
Oracle (ORCL : NASDAQ : US\$26.20), Net Change: 0.20, % Change: 0.77%, Volume: 28,446,181

Clash of the Tech Titans. Hewlett-Packard and Oracle faced off in court on Monday for opening statements in a bitter lawsuit over Oracle's decision to end support for H-P's Itanium-based servers. The trial, in which H-P seeks up to \$4 billion in damages, comes just days after Oracle lost a separate high stakes case against **Google (GOOG)** over smartphone technology. In March 2011, Oracle said it would stop creating software that would run on H-P's Itanium-based servers, saying Intel made it clear that the chip was nearing the end of its life and that **Intel (INTC)** was shifting its focus to its x86 microprocessor. H-P claims that it and Oracle had agreed that to continue support for the high-end Intel-made chip, or would render the Itanium-based H-P equipment obsolete. The PC manufacturer stated that commitment was affirmed when it settled an earlier lawsuit over Oracle's hiring of former H-P CEO Mark Hurd. H-P sued Oracle in California state court last year, calling Oracle's recruitment of Hurd "anti-customer." Oracle says HP's claims "cannot support" its damages estimate, and has countersued HP for false advertising, asserting that HP failed to disclose the terms of its contract with Intel.

Johnson & Johnson (JNJ : NYSE : US\$62.34), Net Change: 0.56, % Change: 0.91%, Volume: 8,922,184
Medivation (MDVN : NASDAQ : US\$81.64), Net Change: -1.04, % Change: -1.26%, Volume: 1,844,772
Dendreon (DNDN : NASDAQ : US\$5.91), Net Change: -0.85, % Change: -12.57%, Volume: 14,404,933

Goodbye, latex glove. Hello, oral treatment! Medivation said enzalutamide, a drug for treatment of advanced prostate cancer in men, met secondary endpoints in a phase 3 study. Men who took the treatment experienced a better health-related quality of life versus those who took the placebo, and the trial's co-principal investigator said, "The success of this trial could give doctors a new therapy option for men with advanced prostate cancer." Separately, Johnson & Johnson said its prostate cancer treatment, Zytiga, slowed the growth of cancer in a clinical trial of men with prostate cancer who had not undergone chemotherapy. The upbeat news from Johnson & Johnson and Medivation sent shares of Dendreon as each drug presents a threat to Dendreon's Provenge treatment. As a result, one Wall Street brokerage cut its estimates for Dendreon and cautioned against viewing Dendreon as a takeover target. Another analyst said that Zytiga's results were "beyond anything shown" by Provenge. Zytiga was approved by regulators last year and is expected to generate \$1 billion in sales this year, for use at earlier stages of the disease.

Under Armour (UA : NYSE : US\$97.30), Net Change: 1.55, % Change: 1.62%, Volume: 874,428

Armed and dangerous. In his recent meetings with Under Armour CFO Brad Dickerson and Director of Investor Relations Tom Shaw, Canaccord Genuity Consumer Products Analyst Camilo Lyon's key takeaways were two-fold: 1) there are multiple growth drivers that can support consistent mid-20% growth; and 2) the risk around achieving both near- and long-term goals has been significantly reduced due to the experienced hires over the last year. Lyon notes that gross margin expansion in H2/12 from easing cost inflation and early supply chain improvements/fewer sales allowances is tracking to plan and could result in +30bps to margin. He expects these margin contributors to accelerate in 2013, driving robust gains. Expanded distribution via underwear in department stores is also going well. He expects Under Armour will get into more department store doors while also growing its **Foot Locker (FL)** presence (600 doors going to 800 by year end). Footwear is approaching an inflection point as more retailers are embracing new UA product (e.g., UA Spine). Lyon expects this pace of acceleration to continue into 2013 as footwear becomes a more meaningful contributor to growth. He believes UA's professional talent more closely than ever matches its top-tier brand, which should result in greater consistency and execution of sales and earnings growth.

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Walgreens (WAG : NYSE : US\$30.49), Net Change: 0.56, % Change: 1.87%, Volume: 7,740,453

A healthy relationship. Walgreens, America's largest drugstore chain, announced an extended, multi-year agreement in which it will build on its strategic partnership with **UnitedHealth's (UNH) OptumRx**, one of the largest pharmacy benefit managers in the United States. The agreement provides continued, long-term access to Walgreens pharmacy services at more than 7,800 locations nationwide for members of prescription drug benefit plans managed by OptumRx. The contract extension comes as Walgreens has posted four straight months of same-store sales declines since the drug-store chain left **Express Scripts (ESRX)** pharmacy-benefits manager's network on Jan. 1. Last week, Walgreens and Express Scripts agreed to dismiss a lawsuit Express Scripts filed last year over Walgreens marketing tactics when the relationship between the drugstore chain and pharmacy-benefit manager was breaking down.

COFFEE BEANS

– The NHL has North America's top two TV markets in its 2012 Stanley Cup final but what it doesn't have is a strong start on the U.S. TV ratings front. [Last] Wednesday's Game 1 between the Los Angeles Kings and New Jersey Devils drew just 2.59 million on NBC, down 33% from last year's opener between the Original Six Boston Bruins and Vancouver Canucks. It was the lowest rated Stanley Cup opener since 2007, despite scoring very well in both the New York Designated Market Area and LA DMA. (The Sport Market)

– Swearing is the most difficult habit to break, beating the likes of drinking too much caffeine, smoking, and chewing fingernails, according to a poll. More than a quarter of the 600 people questioned in a recent U.K. survey said that using too many expletives in conversations was their biggest vice. Drinking too much caffeine came second in the poll, with 18% saying giving up their daily cups of tea and coffee was the hardest thing to quit. (ECigaretteDirect.co.uk)

– No joke: Bill Maher owns a stake in the New York Mets. The stand-up comic and political satirist was at Citi Field on Sunday and revealed that he bought a minority share of the team months ago. Mets senior vice president of marketing and communications David Newman confirmed the deal is done and that Maher is a new limited partner. Maher, who grew up nearby in New Jersey and said he has been a Mets fan his whole life, would not disclose how much he spent or how large a stake he owns. (CTV News)

– The U.S. is a heavyweight champion in fat. It has the most obese population of any industrialized nation. About two-thirds of all adults in the country are overweight and one-third are fully obese, according to the World Health Organization. This, however, is yet another area where U.S. leadership is being challenged by upstart contenders from the developing world. Already, a larger proportion of people in Panama, Saudi Arabia, and six different Pacific Island nations are obese than in America...From 1980 to 2008, according to the World Health Organization, worldwide obesity rates almost doubled. A recent study in the Lancet medical journal concluded that in 2008, about 146 million adults globally were overweight and 502 million were obese. Around half of the adult population in Brazil, Russia, and South Africa are overweight and about 8% of all African adults are obese. (BusinessWeek)

– Ex-trader Jerome Kerviel began his appeal on Monday against a three-year prison sentence for his role in France's biggest rogue trading scandal, arguing he was not responsible for a 4.9 billion euro (US\$6.1 billion) loss at banking group Societe Generale. (Reuters)

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GO FIGURE



Seabreeze Partners Founder and President Doug Kass' on when you should buy stocks:

1. You no longer want to watch your stock screen
2. If you have a stock broker, you no longer take his calls
3. You no longer want to watch CNBC and Bloomberg
4. You want to throw up in your mouth during trading hours
5. You are upset when the market opens
6. You are relieved when the market closes
7. You have trouble sleeping
8. You are generally despondent and depressed
9. You relive your investment mistakes over the weekend
10. You wish you had become a doctor or dentist

THE LAST DROP: I've been saying it for a long time, I will not hire an assistant until I see his wife. If she looks the part and she's a D1 recruit, then you got a chance to get hired. That's part of the deal. There's a very strong correlation between having the confidence, going up and talking to a women, and being quick on your feet and having some personality and confidence and being articulate and confident, than it is walking into a high school and recruiting a kid and selling him.

– James Franklin, Vanderbilt Football Coach



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