

# Morning Coffee



Wednesday May 21, 2008

S&P/TSX Composite	+63.14	15047.34
Dow Jones	-199.48	12828.68
S&P 500	-13.23	1413.40
NASDAQ	-23.83	2492.26
S&P/TSX Venture	+49.82	2661.14
Philadelphia SOX	-11.71	406.64
Crude Oil (US\$/brrl)	+2.02	129.07
Gas (US\$/mmbtu)	+0.41	11.37
Copper (US\$/lb)	-0.01	3.79
Gold (US\$/oz)	+14.40	920.20
Nickel (US\$/lb)	-0.14	11.77
Palladium (US\$/oz)	-1.50	445.00
Platinum (US\$/oz)	-6.50	2146.00
Silver (US\$/oz)	+0.69	17.67
Uranium (US\$/lb)	-3.00	60.00
Zinc LME (US\$/lb)	-0.03	1.04
Canadian Dollar	-0.0005	1.0081
30 Year Canada	-0.02	4.024
30 Year U.S.	-0.04	4.529

## I Pity the Fuwa



Earthquake specialists in Sichuan are trying to quell rumours about earthquake omens contributing to public anxiety after the 7.9-magnitude tremor that hit China on May 12. The forecasting institute of Sichuan's Earthquake Bureau said that reports of spring water becoming murky, paddy fields bubbling and crowds of toads crossing roads were after effects of the earthquake and continuing shocks, not omens of more, Xinhua News Agency reported.

Internet messages have circulated in recent days noting that the dates associated with deadly snowstorms starting in January, riots in the Tibetan capital of Lhasa in March and the earthquake in Sichuan all add up to 8. Online posts have also linked the five Olympic mascots, called "fuwas," to the misfortunes China has experienced this year. The panda fuwa represents the Sichuan earthquake, the flame fuwa protests during the Olympic torch relay, the Tibetan antelope fuwa riots in Lhasa, and the swallow fuwa a train crash in Shandong. The posts speculate that the dolphin fuwa may signify the worst disaster to come.

## CANADA

The S&P/TSX Composite broke through the 15,000 level for the first time, supported by higher energy stocks on record high oil. Crude rose above US\$129 a barrel in New York for the first time after billionaire hedge-fund manager Boone Pickens said that oil will reach US\$150 a barrel this year. Energy companies also gained after Credit Suisse Group and Societe Generale raised their oil prices forecasts for 2008 and 2009, citing supply limitations.

**Research In Motion (RIM)**, the maker of the BlackBerry e-mail phone, led technology shares lower after U.S. mobile-phone shipments fell for the first time since 2005 last quarter, as consumers tightened budgets to contend with slowing economic growth, researcher Strategy Analytics said. **BCE (BCE)** declined after banks managing the telephone company's buyout sought to renegotiate financing terms.

Materials shares were led lower by fertilizer producer **Potash Corp. (POT)** and **Agrium (AGU)**. The National Post reported that the two companies were eyeing expansion of key West Coast ports to serve Asia.

**Bombardier (BBD.B)**, the world's third-largest aircraft maker, hovered near multi-year highs after agreeing to sell 35 planes and its charter unit to Swiss business-jet operator VistaJet Holding.

## UNITED STATES

The S&P 500 fell from a four-month high, as analysts forecast more credit losses and faster inflation and record oil prices threatened to reduce profitability. **Citigroup (C)**, **Bank of America (BAC)** and **JPMorgan Chase (JPM)** led financial shares to a third straight decline as Oppenheimer & Co. said banks may write off more than \$170 billion of additional reserves by the end of 2009.

**American International Group (AIG)**, the world's largest insurer, slid to the lowest level since 1998 on plans to raise more capital. **Home Depot (HD)** tumbled after the largest home-improvement retailer said profit slumped 66%. **Nucor (NUE)** fell after the largest U.S. steelmaker by market value said it will raise about \$3 billion from share sales and loans to fund expansions and acquisitions.

**Staples (SPLS)** was up after the world's largest office-supplies retailer said first quarter profit rose 1.5% and revenue exceeded some analysts' estimates as it sold more pens and paper to companies. **Medtronic (MDT)** rose after the world's biggest maker of heart rhythm devices said fiscal fourth quarter profit was unchanged, beating analysts' estimates on sales from the new Endeavor heart stent.

**Netflix (NFLX)** rallied after unveiling a new set-top box to be produced by privately held Roku that will allow subscribers to stream an unlimited number of movies and television shows directly to televisions.

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# Morning Coffee – Canadian and U.S. Comments for Wednesday May 21, 2008 2

## ECON 101

**CANADIAN Data Today:** This morning, the **Consumer Price Index** (Apr) is expected to rise by 0.4%, after also gaining 0.4% the previous month, while the **Bank of Canada CPI Core** (Apr) should rise by 0.2%, after also gaining 0.2% before that. **Leading Indicators** (Apr) are expected to rise by 0.1%, after being flat the previous month.

**U.S. Data Today:** No scheduled releases.

## MARKET MOVERS

### Technical Indicators:

	TSX	TSX-V	NYSE	NASDAQ	AMEX
Advancers	823	533	1105	1107	466
Decliners	831	529	2038	1746	649
Net	-8	+4	-933	-639	-183

### Notable 52-Week Highs:

Arsenal Energy	AEI	\$ 0.89	Metallica Resources	MR	\$ 7.89
ARC Energy Trust	AET.UN	\$ 31.14	Morguard Real Estate Inv Trust	MRT.UN	\$ 15.75
ACTIVEnergy Income Fund	AEU.UN	\$ 11.58	NAL Oil & Gas Trust	NAE.UN	\$ 16.22
Brompton Adv Eq Wght Oil & Gas	AOG.UN	\$ 7.86	New Gold	NGD	\$ 9.41
Augusta Resource	AZC	\$ 4.49	NuVista Energy	NVA	\$ 20.23
Bombardier	BBD.B	\$ 7.70	Nexen	NXY	\$ 40.80
Big Bank Big Oil Split Corp.	BBO	\$ 16.35	Brompton Eq Wght Oil & Gas	OGF.UN	\$ 8.85
Burmis Energy	BME	\$ 4.54	Oil Sands Sector Fund	OSF.UN	\$ 11.22
Bonavista Energy Trust	BNP.UN	\$ 34.50	Oil Sands & Energy Mega-Proj.	OSM.UN	\$ 9.81
Baytex Energy Trust	BTE.UN	\$ 30.00	Oil Sands Split Trust	OST.UN	\$ 245.68
Bucking Horse Energy	BUC	\$ 4.00	Pro-AMS U.S. Trust	PAM.UN	\$ 22.95
Cardero Resource	CDU	\$ 3.59	Progress Energy	PGE	\$ 24.00
Connacher Oil and Gas	CLL	\$ 4.97	Pengrowth Energy Trust	PGF.UN	\$ 21.09
Consol. Thompson Iron Mines	CLM	\$ 9.56	Pembina Pipeline Income Fund	PIF.UN	\$ 18.28
Canadian Natural Resources	CNQ	\$ 105.68	PC Gold	PKL	\$ 1.18
Canadian Oil Sands Trust	COS.UN	\$ 54.17	Rock Energy	RE	\$ 4.40
Crescent Point Energy Trust	CPG.UN	\$ 38.00	Cdn. Resources Income Trust	RTU.UN	\$ 20.15
Crew Energy	CR	\$ 16.85	SCITI Trust	SIN.UN	\$ 17.00
CVTech Group	CVT	\$ 1.80	Storm Cat Energy	SME	\$ 1.45
EnCana	ECA	\$ 96.25	Canadian Superior Energy	SNG	\$ 4.32
Eldorado Gold	ELD	\$ 7.94	Sustainable Production Energy	SPU.UN	\$ 6.97
Enbridge	ENB	\$ 45.57	Sentry Select Commodities	SSJ.UN	\$ 10.65
EnerVest Energy and Oil Sands	EOS.UN	\$ 10.99	SCITI Total Return Trust	STF.UN	\$ 10.51
Epsilon Energy	EPS	\$ 5.48	Suncor Energy	SU	\$ 72.57
Energy Split Corp.	ES	\$ 21.44	Sixty Split Corp.	SXT	\$ 25.50
CHC Helicopter	FLY.A	\$ 32.19	Technicoil	TEC	\$ 1.40
Gerdau AmeriSteel	GNA	\$ 17.97	Talisman Energy	TLM	\$ 24.89
Gran Tierra Energy	GTE	\$ 6.40	TUSK Energy	TSK	\$ 2.89
Hemisphere GPS	HEM	\$ 4.75	Vermilion Energy Trust	VET.UN	\$ 43.12
Husky Energy	HSE	\$ 53.86	Velocity Minerals	VLC	\$ 0.65
Ivanhoe Energy	IE	\$ 2.48	Vero Energy	VRO	\$ 9.88
Keyera Facilities Income Fund	KEY.UN	\$ 22.50	Breaker Energy	WAV.A	\$ 12.00
Lassonde Industries	LAS.A	\$ 44.50	Westport Innovations	WPT	\$ 4.00
Mirabela Nickel	MNB	\$ 7.50			

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**Notable 52-Week Lows:**

AutoCanada Income Fund	ACQ.UN	\$ 7.30	Liberty Mines	LBE	\$ 0.70
Carlisle Goldfields	CGJ	\$ 0.11	Migenix	MGI	\$ 0.21
Dynetek Industries	DNK	\$ 0.51	Merge Cedara ExchangeCo	MRG	\$ 0.44
Extendicare REIT	EXE.UN	\$ 9.75	Mundoro Capital	MUN	\$ 0.50
Grey Horse	GHC	\$ 6.21	Peregrine Diamonds	PGD	\$ 0.22
Guyana Goldfields	GUY	\$ 4.51	Pure Diamonds Exploration	PUG	\$ 0.06
Helix BioPharma	HBP	\$ 1.15	Sprott	SII	\$ 9.13
Innergex Renewable Energy	INE	\$ 9.00	San Anton Resource	SNN	\$ 0.36
Kaboose	KAB	\$ 0.86	Softchoice	SO	\$ 11.78
Keystone North America	KNA	\$ 1.06	Tahera Diamond	TAH	\$ 0.04
Keystone North America	KNA.UN	\$ 5.59	Vaaldiam Resources	VAA	\$ 0.31

## CANADIAN EQUITIES OF INTEREST

Listed Alphabetically by Symbol

**Platinum (US\$2,146 : COMEX), Net Change: 6.50, % Change: -0.30%**

*“Crying, crying over you!”* – Platinum Blonde. Escalation of a power crisis in South Africa, as well as an election dispute in Zimbabwe, have caused global platinum supplies to fall by 4.1% to 6.55 million ounces. South Africa, which accounts for over three-quarters of global platinum supply, saw production in 2007 fall 260,000 ounces to 5.04 million ounces. Metals consultancy Johnson Matthey stated this week that even if South Africa manages to maintain electricity supply throughout the winter and power is available for new and expanding operations, the overall effect of production will still be a shortfall of about 200,000 ounces of platinum, although less than initially feared. To add fuel to fire, Zimbabwe, which holds the second-largest reserve of platinum after South Africa, has its production shifted back as it battles political crisis over a disputed presidential vote. Last year, platinum supplies from Zimbabwe rose 2.3% to 171,000 ounces. Meanwhile, on the Asian continent, platinum demand in Japan has fallen 6%, as platinum prices continue to soar from current levels near US\$2,000/ounce. Purchases of new platinum by Japanese jewellery makers fell for the fifth straight year to 280,000 ounces in 2007, down 22% from 360,000 ounces a year. However, all is not lost as Johnson Matthey believes that platinum’s loss is palladium’s gain – carmakers have been shifting to cheaper palladium in auto catalysts and consumption of the latter has been rising in Japan by more than 3%.

**Oil Futures June '08 (OILC : NYMEX : US\$129.07), Net Change: 2.02, % Change: 1.59%**

*Round and round she goes, where she stops, nobody knows...* Credit Suisse became the latest broker to increase its oil price forecasts yesterday. In a move that they called “significant,” Credit Suisse increased its 2008 WTI forecast to \$120/bbl from \$91 (~32% increase), and their 2009 forecast has been increased to \$110/bbl from \$90 (~22% increase). What does this mean for Canadian energy stocks? Names like **Canadian Natural Resources (CNQ)**, **EnCana (ECA)** and **Nexen (NXY)** saw their price targets increase by 20-40%. This should draw some pretty big wows, considering Canadian Natural is up 45% year to date, while EnCana has risen by 42% and Nexen is up 27%. Who’s been the biggest laggard amongst the Canadian integrations year to date? **Petro-Canada (PCA)** – up only 11.4%. Outside of Credit Suisse, some analysts have increased their price forecasts to as much as \$152/bbl. Watch for more analysts to play catch-up in the coming days.

**BCE (BCE : TSX : \$37.40), Net Change: -1.42, % Change: -3.66%, Volume: 8,672,429**

*Ethics vs. concessions.* What we are witnessing here is the age-old business tactic of emotionally and financially committing your partner to a deal and then, in the final hour, attempting to change the terms in your favour. It works if your partner is desperate, fails if they are not. Either way, it is widely considered an offensive, stressful, and a dirty way of doing business. Moreover, the money saved and concessions won may be charged directly against the practitioner’s reputation. The banks know BCE is desperate to close the deal (unlike **Yahoo!’s (YHOO)** board, they harbour no illusions where their stock belongs without the bid) while the buyers have held steadfast in their commitment to see the deal through, no matter the turmoil in the credit markets. If the banks had issues with this deal, they could have spoken up about it in late March during the worse of the credit crisis. But they said nothing as it was not yet the final hour. Reports are that the banks are not trying to walk away. That’s because they know the legal ramifications against such a move would be onerous and painful. According to Credit Suisse, with a decision on the bondholder suit from the Quebec Court of Appeal today (7pm Eastern, results to be posted on the BCE web

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# Morning Coffee – Canadian and U.S. Comments for Wednesday May 21, 2008 4

site), the BCE parties have a tight timeline to work through any differences. The bondholders could appeal again, but unless they seek an injunction as well, the appeals court judgment counts as a final order and the marketing period should begin. So a funding date could come the week of June 9.

## **Cardero Resource\* (CDU : TSX : \$3.26), Net Change: 0.10, % Change: 3.16%, Volume: 253,127**

*It's all about the pig iron.* Shares of Cardero had an exciting run last week, trading more than five million shares and jumping about 25% on Friday. The momentum continued on Tuesday, as Cardero announced that it had completed processing of the 40-tonne concentrate at the company's Peru-based Pampa El Toro Iron Sands project, achieving the milestone ahead of schedule. The iron ore, base and precious metal company said the concentrate will now be shipped to a testing facility in the U.S. for extensive commercial-scale melting tests aimed at producing a premium-quality pig iron product (96-98% iron, 2-4% carbon and less than 0.05% deleterious elements), along with a vanadium- and titanium-enriched slag. Cardero also highlighted that the pilot-plant throughput was increased from 2.8 tonnes per hour during commissioning to 18 tonnes per hour during concentrate production (up to a maximum of 27 tonnes per hour), resulting in significant time saving and an interpreted increase in magnetic concentrate grade to 52-55% Fe. This has important implications for proposed mining at the Iron Sands project, as greater throughput means that a smaller magnetic separation plant would be required for commercial production and this, in turn, would require a smaller capital expenditure for the plant, thereby enhancing the projects economics. Digging deeper into the pig iron, Cardero mentioned in its press release yesterday that previous bench-scale testing of samples from the Iron Sands project has successfully produced high-grade pig iron on three separate occasions and Cardero is therefore very confident about demonstrating the viability of high-grade pig iron production at the industrial level. Furthermore, successful production of the pig iron will allow Cardero to complete off-take agreements with end users for which negotiations are currently in progress.

## **Gran Tierra Energy\* (GTE : TSX : \$6.21), Net Change: 0.29, % Change: 4.90%, Volume: 875,978**

### **Solana Resources (SOR : TSX-V : \$4.44), Net Change: 0.17, % Change: 3.98%, Volume: 1,437,697**

*“Really Big Crown Energy” just doesn't have the same ring.* An analyst upgrade helped fuel Gran Tierra's run-up yesterday. The South America-focused oil and gas explorer reported Q1/08 financial and operational results last week. Production after royalties of 2,842 bbl/d was 13% higher than Canaccord Adams' estimate of production for Q1/08, whereas cash flow for the quarter was US\$10.6 million, compared to our estimate of US\$8.8 million. The company's successful quarter is credited to the increased production from the Colombian Costayaco and Juanambu field discoveries as well as the company's amendments to production constraints by expanding pipeline and trucking capacity from the area. Also, the strong world oil prices were ahead of estimates in the quarter. According to Canaccord Adams Oil & Gas Analyst Frederick Kozak, the company's next catalyst will be well-log results from Costayaco #4, currently being drilled. This well is an infill well and unless it is a dry hole, the results are not material. Costayaco #5 will be drilled starting in early June to finding the oil-water contact in the upper oil formation. Also, with additional work, the company plans to utilize a combination of trucking and pipeline capacity to accommodate production growth in the second half of 2008 of between 6,000 bbl/d and 9,000 bbl/d of gross crude oil production from the Costayaco field. Shares of Solana also moved higher in sympathy to the Gran Tierra upgrade.

## **Intrinsyc Software\* (ICS : TSX : \$0.60), Net Change: -0.08, % Change: -11.76%, Volume: 353,000**

*The Destinator: “One phased plasma rifle in the 40-Watt range.” Shopkeeper: “Hey, just what you see, pal.” The Destinator: “Then make it the Uzi 9 mm.”* Intrinsyc announced that it has entered into an agreement to acquire certain assets of Destinator Technologies, a provider of GPS and navigation software for personal navigation devices and wireless devices, which is currently filing for bankruptcy protection. The purchase price is about \$16 million in cash (53%) and stock (47%). The deal is subject to higher bids being solicited in a court-run auction process. The break fee is 3% of the purchase price and the deal is expected to close in July 2008. Canaccord Adams Global Technology Strategist Peter Misek views the acquisition as being very positive, with key benefits including: 1) Expansion of addressable market – Misek believes that Destinator's LBS (location based services) applications could double the ASP (average selling price) of Intrinsyc's software from the current base of US\$3-4 per unit; ability to cross-sell to Destinator's customers, which include tier one OEMs like **Motorola (MOT)**, **ASUSTek** and **LG**; 2) Ability to reduce costs with minimal risk – Destinator is filing for bankruptcy protection, which allows Intrinsyc to pick and choose only select assets; should prevent a long and complex integration, which mitigates disruptions to the core business; 3) Compelling valuation – the deal translates into a 1.5x multiple of trailing revenue (net of map data resale); reasonable price to pay for technology, which includes 17 patents, two global development centers, and several tier-one customers.

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# Morning Coffee – Canadian and U.S. Comments for Wednesday May 21, 2008 5

**Migao\* (MGO : TSX : \$8.46), Net Change: 0.11, % Change: 1.32%, Volume: 674,215**

**Sociedad Quimica (SQM : NYSE : US\$34.28), Net Change: 2.15, % Change: 6.69%, Volume: 1,203,897**

*Sociedad knows best.* Migao announced a 50/50 joint venture with Chile's top fertilizer producer, Sociedad Quimica y Minera de Chile S.A. The first step of this joint venture will be the construction of a new 40,000-metric-tonne potassium nitrate (NOP) facility in China, which will require a total investment of US\$20 million and should be operational by Q1/09. In addition, the joint venture will handle exports of all Migao's products, including potassium sulphate and NOP, as well as imports of SQM's NOP into China. Canaccord Adams Analyst Michael Deng estimates the new NOP facility will add 3-4% to Migao's 2009 EPS. However, the near-term export opportunity is limited given China has a 100% export tariff on potassium fertilizer (effective April-September 2008, and can be extended to December 31 according to Consultants ICIS).

**Petrobank Energy and Res. (PBG : TSX : \$59.00), Net Change: 3.54, % Change: 6.38%, Volume: 1,236,993**

**Pearl Exploration and Prod.\* (PXX : TSX-V : \$2.45), Net Change: 0.10, % Change: 4.26%, Volume: 2,994,489**

**Tanganyika Oil (TYK : TSX-V : \$24.85), Net Change: 1.73, % Change: 7.48%, Volume: 3,300**

*"Riddle me this, riddle me that."* – The Riddler. According to media reports, ONGC Videsh, the foreign investment arm of India's state-run Oil and Natural Gas Corporation, is in talks to take over a mid-sized, Canadian-listed company. The unnamed target company, listed on the TSX Venture Exchange in Canada and the Stockholm Stock Exchange in Sweden, has hydrocarbon blocks including oil sand assets, the report said. The target company is also reported to hold stakes in three oilfields in two production sharing contracts in a third country. Unnamed sources told the Economic Times that the board of the targeted company has approved the submission of a non-binding bid for acquiring 100% of its shares. According to the report, ONGC had apparently made an earlier attempt to acquire the company, which the seller deemed insufficient. Names speculators were throwing around yesterday included: Petrobank, Pearl and Tanganyika.

**Paladin Energy (PDN : TSX : \$5.47), Net Change: 0.27, % Change: 5.19%, Volume: 7,688,036**

*Regaining an appetite for yellowcake?* There is no need to dwell on the near-linear decline in spot uranium since it topped out in the spring of 2007. However, we do need to bring it up at least one more time: the year-long meltdown in uranium companies has now created an industry more attractively priced for consolidation. According to the Australian Financial Review, the CEO of Cameco (CCO), the world's largest producer of uranium, said last week that the declining uranium spot price made acquisitions "more reasonable." The Australian newspaper was also behind Paladin's stock price jump Tuesday, as the daily reported that the Australian uranium producer is more likely to attract a takeover offer, given the recent decline in its share price. More specifically, Paladin, whose shares are trading at about half the level they were a year ago, has been rumoured to be of interest to Cameco. The Australian Financial Review also highlighted a May 15 report by Citigroup that stated, "We expect ongoing consolidation in the uranium sector and Paladin could potentially be a candidate for downstream technology suppliers, countries, and/or reactors looking to secure raw material supply." Separately, the Review said Paladin may also be interested in acquiring the Honeymoon uranium project in South Australia, which may be put up for sale by Uranium One (UUU). On May 14, Paladin said it was suspending development of the Honeymoon project in South Australia as it focuses on developing its principal assets in Kazakhstan, South Africa and the U.S. The Review mentioned that Deep Yellow and WildHorse Energy, two rival Australian uranium explorers, may also be interested in the Honeymoon project. This week, spot remains at US\$60.00/lb while long-term U3O8 remains at US\$90.00/lb.

**SunOpta\* (SOY : TSX : \$6.37), Net Change: 0.33, % Change: 5.46%, Volume: 55,562**

**SunOpta\* (STKL : NASDAQ : US\$6.47), Net Change: 0.10, % Change: 1.57%, Volume: 800,482**

*Time now for some HARD-CORE CORN:* Last week, the U.S. Congress passed a draft of the farm bill, helping the further development of the cellulosic ethanol industry. This will allow technology to get closer to commercial viability, thus adding value to SunOpta's bioprocess subsidiary. Some of the highlights of the legislation include: 1) A provision of biofuel production tax credit of US\$1.01 per gallon; 2) US\$320 million in loan guarantees to build commercial scale biorefineries, US\$300 million in mandatory funding to support production of fuels like cellulosic ethanol, US\$70 million in mandatory funding through 2009 to 2012 to encourage farmers to establish and grow biomass crops for sustainable biofuels; 3) Reduction in corn ethanol subsidy from 51 cents to 45 cents; and 4) A multi-agency study to analyze current and future biofuels production and its impact on the environment. Hence, Canaccord Adams Health, Wellness & Lifestyle Analyst Scott Van Winkle believes that the legislation is clearly a positive for SunOpta's proprietary technology, which pre-treats biomass so that it can be transformed into ethanol. The passing of this farm bill, combined with the hiring of new executives and acquisition of Tradin Organic Agriculture (#1 issue in organic food industry), SunOpta is poised for strong growth and improved value with food manufacturers, distributor and

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# Morning Coffee – Canadian and U.S. Comments for Wednesday May 21, 2008 6

retailers. The ethanol boom has increased prices of corn and grains, and raised food industry supply concerns, which increasingly makes cellulosic ethanol a viable alternative.

## **Talisman Energy (TLM : TSX : \$24.90), Net Change: 0.96, % Change: 4.01%, Volume: 7,614,586**

*They're going to be a part of it. New York, New York.* The company released its long-awaited strategic plan and announced that it expects to reposition its portfolio over the next 18 months, with production expected to grow at an average annual rate of 5-8%. As the rationalization program finishes, the company expects to increase production by 5-10% annually from the end of 2009 through 2012. The company plans on spending \$1.1-1.3 billion evaluating a material part of the natural gas potential within its 2.5 million net acres of unconventional, with \$900 million budgeted for early success development areas, including drilling approximately 200 wells in the Outer Foothills, Montney and Bakken areas. Additionally, up to \$420 million will be spent on pilot programs in other parts of the Outer Foothills and Montney, as well as in Quebec and Appalachia. Exploration spending is expected to average \$700 million per year through 2010. The plan is to increase capital spending by \$500 million this year, to a total of \$4.9 billion, with the increment due to unconventional gas programs in North America. Depending on the success and pace of these unconventional natural gas programs, capital spending in 2009 could be as much as \$5.8 billion. (\$2.6 billion North America, \$1.2 billion Norway, \$1.0 billion U.K., \$1.0 billion Southeast Asia & other). Management's focus on larger pool sizes will mean disposing of 35,000-45,000 boe/d of production, with expected proceeds of \$1.5-2.0 billion by the end of next year. Cash generated is expected to more than fund the additional capital requirements. Management is presenting its plan today in New York.

## **Allen-Vanguard\* (VRS : TSX : \$2.96), Net Change: 0.36, % Change: 13.85%, Volume: 767,435**

*More acronyms than you can throw an IED at.* This bomb disposal and protection equipment company announced that it signed agreements with Science Applications International Corporation (SAI) to develop CBRNE (Chemical, Biological, Radiation, Nuclear and Explosive) Defence technologies in order to: 1) pursue international decontamination and counter-IED (improvised explosive device) opportunities; and 2) for SAIC to distribute Allen-Vanguard products to U.S. federal agencies and international customers. The initial term of the deal is two years. SAIC and Allen-Vanguard agree to jointly develop CBRNE defence technologies and training solutions in order to meet emerging U.S. and Canadian requirements. The technologies will have applications in North American defence and security programs with potential sales in international markets. SAIC has provided Allen-Vanguard products and training services to U.S. and overseas clients for many years. The distributor agreement allows SAI to pass favourable pricing on to existing and new clients via a number of contract vehicles. Allen-Vanguard said that the potential value of the agreements with SAIC would become apparent in stages over the next 12-18 months. Management believes that the deal with SAI can substantially improve our positioning in large programs in the U.S. and Canada. Shares are down substantially since December when it was announced that Vanguard missed out on some substantial DOD contracts.

## **Western GeoPower (WGP : TSX-V : \$0.45), Net Change: 0.05, % Change: 12.50%, Volume: 1,304,032**

*"Nothing is wrong with California that a rise in the ocean level wouldn't cure."* – Ross MacDonald. The renewable energy development company announced yesterday the signing of a Power Purchase Agreement (PPA) with Northern California Power Agency (NCPA) of Roseville, California, for the supply of approximately 265,000 MWh per year of clean, renewable, baseload electricity. The levelized price for this "green" energy is \$98.00 per MWh for 20 years, and it will be supplied from WGP's 35 Mwe Unit 1 geothermal power plant, scheduled to come on line in early 2010 at The Geysers Geothermal Field in Northern California. The Geysers Geothermal Field is the largest producer of geothermal electricity in the world. The agreement represents ~\$26 million per year in revenue to WGP, and \$520 million over the 20-year term of the contract. "The execution of this PPA reflects the tremendous spirit of cooperation that has been created between NCPA and WGP and is a significant milestone in the development of our Unit 1 project," said WGP President and CEO Kenneth MacLeod. By securing the geothermal power from the WGP Unit 1, NCPA can now expand their geothermal production from four to five plants. This PPA increases the amount of geothermal power used by NCPA and its customers in Northern California by ~30% and will emit ~4 billion less pounds of carbon dioxide.

## **Westport Innovations\* (WPT : TSX : \$3.98), Net Change: 0.38, % Change: 10.56%, Volume: 750,812**

*"I think Icahn, I think Icahn, I think Icahn....I know Icahn, I know Icahn, I know Icahn."* – The Little (natural gas) Engine that Could. Shares of this natural gas engine company were rallying yesterday. While there was no direct news apparently affecting the shares, we speculate that they were helped by news that T. Boone Pickens had followed Carl Icahn's investment in

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# Morning Coffee – Canadian and U.S. Comments for Wednesday May 21, 2008 7

Yahoo! Last week, it became apparent that notorious corporate raider and activist shareholder Carl Icahn was accumulating shares of **Yahoo! (YHOO)** to start a proxy battle. Yesterday, Mr. Pickens (as we call him) announced on CNBC that he had acquired 10 million shares and acquired options to acquire another 49 million shares. “Because of Carl Icahn, I’m a shareholder in Yahoo! too,” Mr. Pickens said in an interview on CNBC. “I’ll jump in with Carl. He goes in first, I jump in behind him.” Mr. Pickens is Westport’s largest single shareholder and owns 11.4 million shares, or 12.2% of Westport. So if Mr. Pickens follows Mr. Icahn into Yahoo! it’s obvious (!!?) that Mr. Icahn would follow Mr. Pickens into Westport (they’re BFF). We shared these thoughts with our analyst, and she commented that a more likely (sane) rationale for yesterday’s action could be that oil is approaching US\$130 a barrel and that the shares have broken out technically. To us, that sounds about as crazy as Britney Spears in a Las Vegas chapel. Anyways, you decide.

## U.S. EQUITIES OF INTEREST

Listed Alphabetically by Symbol

### Economy

**“It’s the economy, stupid.”** – A phrase coined by the Bill Clinton campaign in 1992, helping deemphasize Bush Sr.’s strong foreign policy platform and emphasize the recession he presided over. In a typically strong Jacqueline Thorpe article in yesterday’s Financial Post titled “U.S. may not drag us all down”, she illustrated that Q1 earnings around the world were not exactly flirting with economic ruin. Germany, the biggest economy in Europe, grew 6.3%, its strongest quarter in a dozen years thanks to strong corporate investment. Japan’s economy grew 3.3%, well above expectations, while France’s GDP rose 2.6% and the U.K. grew 1.8%. The Eurozone averaged 2.8%. China, of course, is still sprinting over 10% while Goldman Sachs sees 7.4% emerging market growth and expects global growth to hit 3.8%. And what of all that unprecedented central bank stimulus that typically kicks in 6-9 months out? In theory, much of those efforts won’t be felt until the second half of this year. “Beware of economists slicing and dicing data until they show almost the opposite of what the headline figures say,” she wisely warned. We can think of one stand-out example of a strategist with a certain Wall Street brokerage firm that terminated its “Be Bullish” moniker at the bottom of the last bear market. To his credit, he nailed the housing crisis.

**Apple (AAPL : NASDAQ : US\$185.90), Net Change: 2.30, % Change: 1.25%, Volume: 34,597,487**

**Research In Motion (RIMM : NASDAQ : US\$138.60), Net Change: 0.97, % Change: 0.70%, Volume: 15,586,765**

**A World Wide Developers Conference or a Bob Marley convention – which attendees are pastier?** Apple is all set to take the stage June 9, when it presents at the World Wide Developers Conference (WWDC) in sunny California (a little sun wouldn’t hurt some of these “developers”). The company is slated to conduct the keynote speech, in which it is expected to announce its 3G iPhone and other recent projects. The speech will likely take two different angles, one focusing on enterprise developments and the second on consumer developments. With respect to enterprise news, Apple is expected to provide updates on its corporate iPhone applications - joint projects with Bloomberg and **Oracle (ORCL)**. Similarly, Apple will probably showcase **Microsoft (MSFT)** Exchange operability on the iPhone. The company claims this is a push email solution. However, its technical architecture is distinct from RIM’s and said to be largely inferior. Apple is also certain to make noise about enterprise strength given recent iPhone interest from around 250 corporations. Keep in mind that RIM has over 50,000 very large enterprise clients, and thus Apple has a long way to go before RIM starts sweating. Regarding consumer-related developments, Canaccord Adams expects Apple to announce: a) new iTunes features; b) streaming capabilities through Apple TV; c) better iPhone third-party application integration; d) improved iPhone web browsing; and possibly e) gaming initiatives. Most of the highlights of the event will be iPhone related, but other announcements could include a new/revamped MacBook Pro, a new touch-screen iPod Nano, and a wireless keyboard for Apple TV. What sort of effect should RIM investors expect? Little, actually. Most of the applications and initiatives showcased by Apple will soon be released for the BlackBerry, and the BlackBerry is still technically superior with regards to battery life and email capabilities.

**American Intl. Group (AIG : NYSE : US\$38.12), Net Change: -0.83, % Change: -2.13%, Volume: 46,452,717**

**Insurance is a safe bet. HA!** The world’s largest insurer by assets said it would raise up to \$20 billion after two quarterly losses tied to the sub-prime mortgage collapse. That’s 60% more than they had previously planned. As recently as May 9, AIG’s capital cushion became “too low for comfort”, according to its CEO, after their most recent writedowns. This, despite having already written down more assets. They lost almost \$8 billion in Q1 as a result. According to Bloomberg, banks and brokerage

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# Morning Coffee – Canadian and U.S. Comments for Wednesday May 21, 2008 8

dealers have announced plans to raise a combined total of \$260 billion since last summer. Does AIG see a bleak future for the value of many of these troubled assets? They did raise their quarterly dividend by 10% to \$0.22 per share despite the loss. They said it was because the core operating business is doing well. But AIG is halting share buybacks, having bought 76.4 million shares in 2007 and 12.2 million shares through February 15. The stock hit a 52-week low.

## **Home Depot (HD : NYSE : US\$27.37), Net Change: -1.50, % Change: -5.20%, Volume: 39,807,386**

*“Is it progress if a cannibal uses a knife and fork?”* – Stanislaw Lee. The largest home renovation retailer earned \$356 million, or \$0.21 a share, in the three months ending May 4, compared with a profit of \$1.05 billion, or \$0.53 a share, a year earlier. These results reflect a non-recurring charge of \$543 million due to the recently-announced closing of 15 stores and removal of 50 stores from the future growth pipeline. Without this charge, they would have earned \$0.41 per share. The “decision to close stores and remove planned stores from our pipeline demonstrates our commitment to disciplined capital allocation,” said CEO Frank Blake. They had better be disciplined considering the carnage in the home market in America. Our longstanding fears that plummeting home prices inhibit remodelling the kitchen continue to reflect the operations and shares of Home Depot. To prove our point that the problem is larger than Home Depot, the second-largest home improvement retailer, **Lowe’s Company (LOW)**, also experienced lower Q1 earnings, which were down 17.9 % to \$607 million, while diluted earnings per share declined 14.6% to \$0.41. Some analysts and large investors have worried in the past that as Home Depot gets bigger, it would invariably put stores, such as Lowe’s, in direct competition with existing stores. It’s what your old, dusty finance textbooks refer to as “cannibalization.” In the past, the company had justified the practice saying it would increase the company’s overall market share. Blake said when he announced the store closings that Home Depot’s goal now is to “reduce cannibalization and drive higher returns.” Bigger picture, keep your eyes on the S&P/Case-Shiller Home Price Index, updated on a two-month lag based on every last Tuesday of the month (May 27 being the next one).

## **Herbalife (HLF : NYSE : US\$39.00), Net Change: -1.17, % Change: -2.91%, Volume: 3,771,399**

*Something smells funny – and it’s not the fish oil...* Shares of Herbalife were selling off yesterday, after a web site linked to a long-time critic of the firm posted information asserting that six dietary supplements sold by Herbalife contain dangerous amounts of lead if taken in the recommended dosages. Herbalife disputed the claim, saying its weight-loss and nutritional products met regulatory requirements in all of its markets. Canaccord Adams views the sell-off as yet another buying opportunity, as the negative headlines continue to create an inconsistency between the stock performance and the fundamental business performance. The reported lab results show lead levels that exceed California’s Prop. 65 upper limits and thus require a warning label. The products were nowhere near the upper limits allowed by the FDA. Canaccord Adams sees no issue with safety, just compliance, and this is an issue across the nutritional supplement industry. At worst, Herbalife has label compliance issues, and only in California. The web site causing the stir is run by the Fraud Discovery Institute, which in its letter said the recommended daily doses of six Herbalife products contained levels of lead that are dangerous and in excess of what California law allows under its Safe Drinking and Toxic Environment Act. It urged the state to order Herbalife to place “clear and reasonable warnings” on those products. Of particular interest is the founder of the Fraud Discovery Institute, Barry Minkow, who has \$50,000 invested in Herbalife put options, betting that the company’s shares will fall. Wait, the story gets better: Minkow, is a San Diego pastor who served more than seven years in jail for stock fraud, and now works to uncover fraud through the institute. He has a history of criticizing Los Angeles-based Herbalife.

## **Medtronic (MDT : NYSE : US\$48.96), Net Change: 1.08, % Change: 2.26%, Volume: 14,615,230**

*Not getting all bent out of shape.* This medical device giant posted a healthy financial report yesterday. Q4 revenue jumped 18% to \$3.86 billion, driven by a rebound of its defibrillators business and new product launches, while adjusted EPS of 78 cents beat analysts’ consensus by a penny. Medtronic’s global share of the defibrillator market, its largest business line, rose back above 50% from a dip below 48% following a recall last October, putting to rest fears about losing market share to competitors. Other divisions also saw strong revenue growth. In particular, the Endeavor drug-eluting stent, which was only introduced in February, captured more than 20% of the market by the end of Q4. By launching Endeavor, Medtronic became the third player in the drug stent market following **Boston Scientific (BSX)** and **Johnson & Johnson (JNJ)**. With **Abbott Laboratories (ABT)** to enter the market with its Xience V stent, can Medtronic hold on to its gains? Apparently, management is confident that better times are ahead, expecting 2009 profit of \$2.94-3.02 a share on revenue of \$15.0-15.5 billion. On average, analysts are looking for 2009 earnings of \$2.96 a share on revenue of \$15.1 billion.

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# Morning Coffee – Canadian and U.S. Comments for Wednesday May 21, 2008 9

## **Netflix (NFLX : NASDAQ : US\$31.63), Net Change: 0.65, % Change: 2.10%, Volume: 4,463,548**

*Watch Gigli as many times as you like.* Netflix investors were all smiles yesterday after the DVD rental provider announced the release of its “Netflix Player”, a set-top box co-developed with streaming innovator Roku. The new device will allow Netflix customers to instantly transmit a growing library of movies and TV episodes to their television sets (10,000 titles at present). The set-top box is approximately the size of a paperback book, and will easily integrate into existing home entertainment systems. According to CEO Reed Hastings, “The key breakthroughs of The Netflix Player by Roku are simplicity and cost,” with the product boasting an intuitive user interface and retailing for a mere \$99.99. In addition to up-front expenses, customers will be required to have an “unlimited” Netflix subscription that sells for \$8.99 a month. Subscribers will be able to “watch as much as they want and as often as they want, without paying more or impacting the number of DVDs they receive.” This move should be witnessed as another attempt to establish a footprint in consumer living rooms, as already demonstrated by **Apple (AAPL)** and **Microsoft (MSFT)** with their respective Apple TV and Xbox devices. While analysts at Kaufman don’t feel these competing services will be a roadblock for the company, they think that the \$100 cost and limited access to Netflix’s inventory is not a compelling offering and that the uptake from this initiative will be relatively minimal. While Netflix’s move certainly represents a step in the right direction, both content and adoption issues are likely to be major hurdles near-term.

## **NVIDIA (NVDA : NASDAQ : US\$23.28), Net Change: -0.62, % Change: -2.59%, Volume: 19,276,762**

*All-caps are sexy.* Graphics card maker NVIDIA provided a company performance update yesterday, as it attended the 36th annual JPMorgan Tech Conference. NVIDIA affirmed that it was not concerned with product inventory levels, quelling any worries of channel efficiency. The company agreed that while price cuts would be detrimental to financial results, there were no plans to do any in the near future. NVIDIA’s current inventory is mostly new and with the back-to-school and Christmas seasons quickly approaching, the company should have no problems moving it. NVIDIA was extremely pleased with its recent design wins and says that it plans to break into several new markets including PNDs (Personal Navigation Devices) and handsets by 2009. There is still major potential for NVIDIA chipsets in the financial modelling, weather forecasting and medical device sectors, which previously depended on super computers for processing. However, the company said that it will continue to target the mainstream consumer desktop market, with the exception of the low-cost segment, where **Intel (INTC)** is a dominant player. Speaking of Intel, a recent Chinese report claims that the company may actually place orders for northbridge chips from NVIDIA to help compensate for a drop in supply after Monday’s earthquake halted production at one of its plants.

## **Pacific Ethanol (PEIX : NASDAQ : US\$5.65), Net Change: 0.51, % Change: 9.92%, Volume: 21,251,639**

*So this would imply which efficient market hypothesis?* Shares of this embattled ethanol producer have been making a strong bounce over the past two days after it reported its March quarterly results. After rising by more than 60% on Monday, shares continued to rally. The quarter saw net sales of \$161.5 million a 63% increase over last year, and up 24% from the preceding quarter. Sales volumes increased by 58% to 59.2 million gallons while average sales price of ethanol decreased by \$0.04 per gallon, or 2%, to \$2.30 per gallon compared to an average sales price of \$2.34 per gallon in the first quarter of 2007. Increased corn costs were partially offset with derivative gains of \$2.2 million. Including a non-cash goodwill impairment charge of \$0.96 per share, EPS loss was \$0.90, compared to \$0.05 last year. Excluding the impairment charge, the company’s profit was \$0.06, well ahead of the \$0.09 EPS loss expected by analysts. It appears that while these results exceeded analyst expectations, they came right in line with the preliminary results the company released in an 8-K filing last week on May 13. The company filed notice that its Q1 results would be delayed until Monday May 19, but it reported a few key headline numbers, including revenue and earnings. Apparently the market failed to click on that news item on Yahoo! Finance, because, you know, SEC filings like suck! An analyst commented that he was perplexed by the market’s reaction to the news, with short coverings and technical breakthroughs being the likely culprit. The analyst still has concerns about Pacific’s liquidity and financial constraints, and its higher cost and more capital-intensive West Coast-based business model. Professor Fama (Father of the modern efficient market hypothesis), we’re not impressed.

## **Sandisk (SNDK : NASDAQ : US\$29.01), Net Change: -1.01, % Change: -3.36%, Volume: 16,801,123**

*And now for some flash action...* Investors in memory-card maker SanDisk probably want to forget everything that’s happened since CEO Eli Harari said the company is likely to repeat mediocre Q1 numbers, blaming “relatively soft” sales of consumer electronics in the U.S. Harari said conditions in April were similar to those earlier in the year, with the high cost of gas burdening consumers and lowering discretionary spending. Strength in Europe, the Middle East, and Africa did offset some U.S. weakness, but not all of it. The company admits to facing tough times, but says results should bottom out in Q2. Sales are forecasted to pick up in the second half of the year, with 13-16% operating margins expected to continue through 2010. While

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# Morning Coffee – Canadian and U.S. Comments for Wednesday May 21, 2008 10

these numbers are less than desirable, SanDisk reiterated its positive long-term outlook, largely due to potential in the mobile phone arena. According to Strategy Analytics, “Mobile phone usage for multimedia activities, such as digital photography, music downloads, videos, and GPS functionality has doubled over the last two years, and spending on mobile media globally is expected to surpass \$100 billion by 2012.” Mobile phones are purportedly only in their “second inning”, with more and more models including memory card slots every day. Just yesterday, SanDisk announced a new “Mobile Ultra” product line designed for such devices.

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## COFFEE BEAN

– U.S. purchases of new cellphones declined in the first quarter for the first time in several years, two studies show. (WSJ)

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## GO FIGURE



*From the New York Times article “Economic Tide Is Rising for Repo Man”...*

Some people lose their house or their boat to abrupt setbacks: illness, job loss, divorce. Mr. Dahmen, who works as a technology manager for a car manufacturer, belongs to a second, probably larger group: he simply spent beyond his means. He is one of the millions of reasons the consumer-powered American economy did so well for most of this decade, and one of the reasons its prospects look so bleak now. “There’s a certain sense of failure about all this, to tell you the truth,” Mr. Dahmen said. “There really is.”


He originally bought a smaller, more affordable boat, but a salesman talked him into an upgrade. “Oh yeah, I said, that would be cool.” And it was: There were many pleasant cruises during the brief Michigan summers.

The merriment came at a price, though. The boat, “Toy Box”, cost \$175,000. With the trade-in and a down payment, Mr. Dahmen ended up with a \$125,000 loan. “You pay the interest up front,” he observed, “and the principal never goes down.” After seven years he still owed \$111,000, about twice what the boat is worth. Meanwhile, he lost his condominium when his mortgage readjusted and those payments went up. His 401(k) is down to \$9,000. “I oversaturated myself with long-term debt,” he said. “It was a risk, a calculated risk. I obviously lost.” He is declaring bankruptcy. As soon as the Harrison Marine crew winched Toy Box out of the water, Mr. Dahmen boarded for the last time. He removed a wooden wine rack, life preservers, a case of Absopure water, paper plates, swizzle sticks and yachting shoes. His S.U.V. was soon full.

From now on, Mr. Dahmen said, the consumer economy would have to get by without him. “I have no intention of ever buying anything, ever,” he said. “I don’t think I could if I wanted to.”

Mr. Dahmen gave Toy Box a hug. “O.K., I’m gonna go cry now,” he said. He drove away without looking back.

**THE LAST DROP:** I took it before, I’ll take it again. After I take it a few more times, he’ll be eligible for a Christmas card. One guy, I took his boat four times.

– Jeff Henderson, a busy repo man 

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