

UNITED NATIONAL FILM CORP  
Form 10-Q  
February 05, 2003

**FORM 10-Q**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended December 31, 2001

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number: \_\_\_\_\_

**UNITED NATIONAL FILM CORPORATION**

(Exact name of Small Business Issuer as specified in its charter)

Colorado 84-1092589  
(State or other jurisdiction of (I.R.S. Employer Identification No.)

incorporation or organization)

6363 Christie Avenue  
Emeryville, CA 94608  
(Address of Principal Executive Offices)

(510) 653-7020  
(Issuer's telephone number)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

The number of shares outstanding of the issuer's Common Stock, \$.001 par value, as of December 31, 2001 was 7,496,983 shares.

**UNITED NATIONAL FILM CORPORATION**  
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### **PART 1 FINANCIAL INFORMATION**

#### **Item 1. Financial Statements**

The condensed consolidated interim financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures made are adequate to make the information disclosed not misleading. It is suggested that the condensed consolidated interim financial statements be read in conjunction with the consolidated financial statement and the notes thereto included in the Company Annual Report on Form 10-K for the year ended June 30, 2001. The accompanying consolidated interim financial statements have been prepared, in all material respects, in conformity with the standards of accounting measurements set forth in Accounting Principles Board Opinion No. 28 and reflect, in the opinion of management, all adjustments, which are of a normal recurring nature, necessary to summarize fairly the financial position and results of operations for such periods. The results of operations for such interim periods are not necessarily indicative of the results to be expected for a full year.

**UNITED NATIONAL FILM CORP.**  
**(A DEVELOPMENT STAGE ENTERPRISE)**  
**CONSOLIDATED BALANCE SHEET**

(UNAUDITED)

December 31, December 31,  
2001      2000

**ASSETS**

**CURRENT ASSETS:**

Cash	\$	11	118
<b>TOTAL CURRENT ASSETS</b>	<b>\$</b>	<b>11</b>	<b>118</b>
FILM COSTS AND PRODUCTION RIGHTS		-	64,500
<b>Total</b>		<b>11</b>	<b>64,636</b>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

**CURRENT LIABILITIES:**

Accounts Payable Accrued Expenses	\$	30,886	10,400
Note payable		50,000	50,000
<b>TOTAL CURRENT LIABILITIES</b>		<b>80,886</b>	<b>60,400</b>
 <b>LOAN FROM SHAREHOLDER</b>		 <b>15,308</b>	 <b>8,000</b>

**STOCKHOLDERS' EQUITY:**

Preferred stock - \$.01 par, 3,000,000 shares authorized, 100,000 Series A shares issued and outstanding (in 2000 only) and 21,500 Series B issued and outstanding		215	1,215
Common stock - \$.001 par, 30,000,000 shares Authorized, 7,496,983 shares issued and outstanding		7,496	6,626
Paid in capital		469,318	205,313
Accumulated deficit		(573,212)	(216,918)
<b>TOTAL STOCKHOLDERS' EQUITY</b>		<b>(96,183)</b>	<b>( 3,764)</b>
 <b>Total</b>	 <b>\$</b>	 <b>11</b>	 <b>64,636</b>

See notes to financial statements

**UNITED NATIONAL FILM CORP.**  
**(A DEVELOPMENT STAGE ENTERPRISE)**  
**CONSOLIDATED STATEMENT OF OPERATIONS**

	Three Months ended December 31, 2001	Three Months ended December 31, 2000
REVENUE	\$ 0	\$ 0
COST OF REVENUES	0	0
GROSS PROFIT	0	0
<b>EXPENSES:</b>		
General and Administrative	29	794
NET LOSS	29	794
BASIC LOSS PER SHARE	0	0
WEIGHTED AVERAGE SHARES OUTSTANDING	7,496,983	6,626,983

See notes to financial statements

**UNITED NATIONAL FILM CORP.**  
**(A DEVELOPMENT STAGE ENTERPRISE)**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

	Three months ended December 31,	
	2001	2000
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income (Loss)	\$( 29)	(794)

Changes in operating assets and liabilities:		
Decrease (increase) in accounts	0	0
Total adjustments:	0	0
NET INCREASE (DECREASE) IN CASH	(29)	(794)
CASH AT BEGINNING OF PERIOD	40	912
CASH AT END OF PERIOD	\$ 11	118

See notes to financial statements

**UNITED NATIONAL FILM CORP.**  
**(A DEVELOPMENT STAGE ENTERPRISE)**  
**NOTES TO FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**1. ORGANIZATION AND BUSINESS DESCRIPTION**

United National Film Corp. (the Company) is a Colorado corporation. The Company is engaged in the acquisition and development of properties for, and the production of, television series, television specials, made-for-home television motion pictures and feature length motion pictures for domestic and international distribution.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Accounting Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

B. Film Costs and Program Rights - Film costs and program rights (project cost) which include acquisition and development costs such as story rights, scenario and scripts, direct production costs including salaries and costs of talent, production overhead and post-production costs are deferred and amortized by the individual-film-forecast-computation method as required by Statement of Financial Standards No. 53.

c. Fair Value of Financial Instruments:

The carrying amounts reported in the balance sheet for cash, accounts and notes payable and accrued expenses approximate fair value based on the short term maturity of these instruments.

d. Principles of Consolidation:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All significant intercompany balances and transactions have been eliminated.

e. Revenue Recognition:

The business of the Company is to derive revenues primarily from providing production services to third parties and exploiting projects originally developed by the Company in which it retains an ownership interest. Revenues from being a provider of contract production services are recognized using the percentage of completion method,

recognizing revenue relative to the proportionate progress on such contracts as measured by the ratio which project costs incurred by the Company to date bear to the total anticipated costs of each project. Amounts advanced under such contracts are deferred and not recognized as revenue until obligations under such contracts are performed. Revenue from licensing company-owned projects is recognized when the film is delivered and available for showing, costs are determinable, the fee is known and collectibility is reasonably assured.

### 3. RELATED PARTY TRANSACTIONS

None.

### 4. NOTES PAYABLE

Pursuant to the acquisition of the screenplay titled, Molly and Lawless John, a note was issued for \$50,000 which was due on January 15, 1999. The payment date on this note has been indefinitely extended by the holder of the note.

### 5. LOANS DUE TO SHAREHOLDER

In April 1999, a non-interest bearing loan was made to the Company from the Chief Executive Officer in the amount of \$1,500. This note remains outstanding. In January 2001, the president of the company loaned the company \$750. The loan is non-interest bearing and is to be paid out of future revenues. The Chief Executive Officer has continued to make advances to the Company to cover general overhead costs. The total amount advance as of the end of this reporting period is \$15,308.

### 6. STOCK ISSUED.

None.

### 7. GENERAL

Reference is made to the financial statements included in the Company's Annual Report (Form 10-K) filed with the Securities and Exchange Commission for the year ended June 30, 2001. The Company began its operation in February 1998. The financial statements for the period ended December 31, 1999 are unaudited but include all adjustments which, in the opinion of management, are necessary for a fair presentation of the results of operations for the period then ended. All such adjustments are of a normal recurring nature. The results of the Company's operations for any interim period are not necessarily indicative of the results of the Company's operations for a full fiscal year.

## **ITEM 2: Managements Discussion and Analysis of Financial Condition and Results of Operations.**

The Company is a development stage enterprise with no expenses incurred during the period. The Company is engaged in active negotiations with a potential funding source from Ireland for one or more of its screenplays. In addition, the Company is continuing to seek funding for the distribution of its children's animation film, "Snappy Sings", an educational short. The Company is exploring the licensing of film rights to Internet broadcasting companies and has discussed through third parties the suitability of several films in the Western genre to which the Company has access.

The company has been approached by more than one suitor company, each of which is requesting an ownership take-over of the company. A preliminary terms sheet has been issued by one suitor company. However, no terms sheet has been agreed upon or signed by the company. Active negotiations continue with the suitor companies and any definitive agreement will be subject to shareholder approval.

## **PART II - OTHER INFORMATION**

### **Item 1. Legal Proceedings**

The Company has initiated legal proceedings to cancel certain common stock certificates. The basis of the lawsuit is the failure of the recipients of the stock certificates to deliver consideration for the shares. Settlement negotiations relating to the lawsuit are in progress. The company is hopeful that the lawsuit will be settled during the next fiscal

year.

**Item 2. Changes in Securities.**

None

**Item 3. Defaults Upon Senior Securities.**

None

**Item 4. Submission of Matters to a vote of Security Holders.**

None.

**Item 5. Other Information.**

None.

**Item 6. Exhibits and Reports on Form 8-K.**

(a) Exhibits

none

(b) Reports on Form 8-K.

None.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**UNITED NATIONAL FILM CORP.**

By: /s/ Deno Paoli  
Chief Executive Officer

Date: February 5, 2003

ily:Times New Roman" SIZE="1">® Index, monitoring and completing the adjustments for company additions and deletions, adjusting for stock splits and stock dividends and adjusting for other corporate actions.

#### Divisor Adjustments

The two types of adjustments primarily used by S&P are divisor adjustments and adjustments to the number of shares (including float adjustments) used to calculate the S&P 500<sup>®</sup> Index. Set forth below is a table of certain corporate events and their resulting effect on the divisor and the share count. If a corporate event requires an adjustment to the divisor, that event has the effect of altering the market value of the affected underlier stock and consequently of altering the aggregate market value of the underlier stocks following the event. In order that the level of the S&P 500<sup>®</sup> Index not be affected by the altered market value (which could be an increase or decrease) of the affected underlier stock, S&P derives a new divisor by dividing the post-event market value of the underlier stocks by the pre-event index value, which has the effect of reducing the S&P 500<sup>®</sup> Index's post-event value to the pre-event level.

#### Constituent Changes

Constituent changes are made on an as-needed basis and there is no schedule for constituent reviews. Constituent changes are generally announced one to five business days prior to the change. Relevant criteria for additions to the S&P 500<sup>®</sup> Index that are employed by S&P include an unadjusted market capitalization of \$4.0 billion or more, adequate liquidity, reasonable price, U.S. domicile, public float of 50% or more, industry sector, financial viability and, for IPOs, a seasoning period of six to twelve months. Stocks are deleted from the S&P 500<sup>®</sup> Index when they are involved in mergers, acquisitions or significant restructurings such that they no longer meet the inclusion criteria, and when they violate one or more of the inclusion criteria. Companies that experience a trading halt may be retained or deleted in S&P's discretion. S&P evaluates additions and deletions with a view to maintaining S&P 500<sup>®</sup> Index continuity.

Companies that experience a trading halt may be retained or deleted in S&P's discretion. S&P evaluates additions and deletions with a view to maintaining S&P 500<sup>®</sup> Index continuity.

#### Changes to the Number of Shares of a Constituent

The index maintenance process also involves tracking the changes in the number of shares included for each of the index companies. The timing of adjustments to the number of shares depends on the type of event causing the change, public availability of data, local market practice, and whether the change represents more than 5% of the float-adjusted share count. Changes as a result of mergers or acquisitions are implemented when the transaction occurs, regardless of the size of the change to the number of shares. At S&P's discretion, however, de minimis merger and acquisition changes may be accumulated and implemented with the updates made at the quarterly share updates as described in the next sentence. Other changes will be implemented as soon as practicable if the change to the float-adjusted share count is more than 5%. For smaller changes, on the third Friday of the last month in each calendar quarter, S&P updates the share totals of companies in the S&P 500<sup>®</sup> Index as required by any changes in the float-adjusted number of shares outstanding. S&P implements a share freeze the week of the effective date of the quarterly share count updates. During this frozen period, shares are not changed except for certain corporate action events (merger activity, stock splits, rights offerings and certain share dividend payable events). After the float-adjusted share count totals are updated, the divisor is adjusted to compensate for the net change in the total market value of the S&P 500<sup>®</sup> Index. In addition, any changes over 5% in the current common shares outstanding for the index companies are carefully reviewed by S&P on a weekly basis, and when appropriate, an immediate adjustment is made to the divisor.

In addition, the S&P 500<sup>®</sup> Index is float-adjusted, meaning that the share counts used in calculating the S&P 500<sup>®</sup> Index reflect only those shares available to investors rather than all of a company's outstanding shares. To this end, S&P defines three groups of shareholders whose holdings are presumed to be for control, rather than investment purposes. The groups are:

- holdings by other publicly traded corporations, venture capital firms, private equity firms, or strategic partners or leveraged buyout groups;
- holdings by government entities, including all levels of government within the United States or foreign countries; and
- holdings by current or former officers and directors of the company, funders of the company, or family trusts of officers, directors or founders. Second, holdings of trusts, foundations, pension funds, employee stock ownership plans or other investment vehicles associated with and controlled by the company.



Within each group, holdings are totaled, and in cases where holdings of a group exceed 10% of the outstanding shares of a company, the holdings of that group will be excluded from the float-adjusted share count to be used in S&P 500<sup>®</sup> Index calculations.

For each stock an Investable Weight Factor (IWF) is calculated:

$$\text{IWF} = (\text{available float shares}) / (\text{total shares outstanding})$$

where available float shares is defined as total shares outstanding less shares held in one or more of the three groups listed above, where the group holdings exceed 10% of the outstanding shares.

#### Adjustments for Corporate Actions

There are a large range of corporate actions that may affect companies included in the S&P 500<sup>®</sup> Index. Certain corporate actions require S&P to recalculate the share count or the float adjustment or to make an adjustment to the divisor to prevent the value of the S&P 500<sup>®</sup> Index from changing as a result of the corporate action. This helps ensure that the movement of the S&P 500<sup>®</sup> Index does not reflect the corporate actions of individual companies in the S&P 500<sup>®</sup> Index. Several types of corporate actions, and their related adjustments, are listed in the table below.

<b>Corporate Action</b>	<b>Share Count Revision Required?</b>	<b>Divisor Adjustment Required?</b>
Stock split	Yes share count is revised to reflect new count.	No share count and price changes are off-setting
Change in shares outstanding (secondary issuance, share repurchase and/or share buy-back)	Yes share count is revised to reflect new count.	Yes divisor adjustment reflects change in market capitalization
Spin-off if spun-off company is not being added to the S&P 500 <sup>®</sup> Index	No	Yes divisor adjustment reflects decline in index market value (i.e. value of the spun-off unit)
Spin-off if spun-off company is being added to the S&P 500 <sup>®</sup> Index and no company is being removed	No	No
Spin-off if spun-off company is being added to the S&P 500 <sup>®</sup> Index and another company is being removed	No	Yes divisor adjustment reflects deletion
Special dividends	No	Yes calculation assumes that share price drops by the amount of the dividend; divisor adjustment reflects this change in index market value
Change in IWF	No	Yes divisor change reflects the change in market value caused by the change to an IWF
Company added to or deleted from the S&P 500 <sup>®</sup> Index	No	Yes divisor is adjusted by the net change in market value
Rights Offering	No	Yes divisor adjustment reflects increase in market capitalization (calculation assumes that offering is fully subscribed at the set price)

#### *Disruptions due to Exchange Closure*

When an exchange is forced to close early due to unforeseen events, such as computer or electric power failures, weather conditions or other events, S&P will calculate the closing level of the S&P 500<sup>®</sup> Index based on (1) the closing prices published by the exchange, or (2) if no closing price is available, the last regular trade reported for each stock before the exchange closed. In all cases, the prices will be from the

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primary exchange for each stock in the S&P 500<sup>®</sup> Index. If an exchange fails to open due to unforeseen circumstances, the S&P 500<sup>®</sup> Index will use the prior day's closing prices. If all exchanges fail to open, Standard & Poor's may determine not to publish the S&P 500 Index for that day.

### *License Agreement between S&P and the Bank*

S&P and the Bank have entered into a non-exclusive license agreement providing for the license to the Bank, and certain of its affiliates, in exchange for a fee, of the right to use the S&P 500<sup>®</sup> Index in connection with securities, including the Notes. The S&P 500<sup>®</sup> Index is owned and published by S&P.

The license agreement between S&P and the Bank provides that the following language must be set forth in this pricing supplement:

The Notes are not sponsored, endorsed, sold or promoted by S&P. S&P makes no representation or warranty, express or implied, to the owners of the Notes or any member of the public regarding the advisability of investing in securities generally or in the Notes particularly, or the ability of the S&P Index to track general stock market performance. S&P's only relationship to the Bank is the licensing of certain trademarks and trade names of S&P and of the S&P Index which is determined, composed and calculated by S&P without regard to the Bank or the Notes. S&P has no obligation to take the needs of the Bank or the owners of the Notes into consideration in determining, composing or calculating the S&P Index. S&P is not responsible for and has not participated in the determination of the timing of, prices at, or quantities of the Notes to be issued or in the determination or calculation of the equation by which the Notes are to be converted into cash. S&P has no obligation or liability in connection with the administration, marketing or trading of the Notes.

S&P DOES NOT GUARANTEE THE ACCURACY AND/OR THE COMPLETENESS OF THE S&P INDEX OR ANY DATA INCLUDED THEREIN AND S&P SHALL HAVE NO LIABILITY FOR ANY ERRORS, OMISSIONS OR INTERRUPTIONS THEREIN. S&P MAKES NO WARRANTY, EXPRESS OR IMPLIED, AS TO RESULTS TO BE OBTAINED BY THE BANK, OWNERS OF THE NOTES, OR ANY OTHER PERSON OR ENTITY FROM THE USE OF THE S&P INDEX OR ANY DATA INCLUDED THEREIN. S&P MAKES NO EXPRESS OR IMPLIED WARRANTIES, AND EXPRESSLY DISCLAIMS ALL WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE WITH RESPECT TO THE S&P INDEX OR ANY DATA INCLUDED THEREIN.

WITHOUT LIMITING ANY OF THE FOREGOING, IN NO EVENT SHALL S&P HAVE ANY LIABILITY FOR ANY SPECIAL, PUNITIVE, INDIRECT, OR CONSEQUENTIAL DAMAGES (INCLUDING LOST PROFITS), EVEN IF NOTIFIED OF THE POSSIBILITY OF SUCH DAMAGES.

Standard & Poor<sup>®</sup>, S&P 500 and Standard & Poor's 500 are trademarks of Standard & Poor's Financial Services LLC and have been licensed for use by the Bank. The Notes are not sponsored, endorsed, sold or promoted by S&P and S&P makes no representation regarding the advisability of investing in the Notes.

**Historical Information**

The following table sets forth the quarterly high and low closing levels for the Reference Asset, based on daily closing levels. The closing level of the Reference Asset on July 3, 2012 was 1,374.02. *Past performance of the Reference Asset is not indicative of the future performance of the Reference Asset.*

Quarter Begin	Quarter End	Quarterly High	Quarterly Low	Quarterly Close
1/2/2009	3/31/2009	934.70	676.53	797.87
4/1/2009	6/30/2009	946.21	811.08	919.32
7/1/2009	9/30/2009	1,071.66	879.13	1,057.08
10/1/2009	12/31/2009	1,127.78	1,025.21	1,115.10
1/4/2010	3/31/2010	1,174.17	1,056.74	1,169.43
4/1/2010	6/30/2010	1,217.28	1,030.71	1,030.71
7/1/2010	9/30/2010	1,148.67	1,022.58	1,141.20
10/1/2010	12/31/2010	1,259.78	1,137.03	1,257.64
1/3/2011	3/31/2011	1,343.01	1,256.88	1,325.83
4/1/2011	6/30/2011	1,363.61	1,265.42	1,320.64
7/1/2011	9/30/2011	1,353.22	1,119.46	1,131.42
10/3/2011	12/30/2011	1,285.09	1,099.23	1,257.60
1/3/2012	3/30/2012	1,416.51	1,277.06	1,408.47
4/2/2012	6/29/2012	1,419.04	1,278.04	1,362.16
7/2/2012*	7/3/2012*	1,374.02	1,365.51	1,374.02

\* As of the date of this pricing supplement, available information for the third calendar quarter of 2012 includes data for the period from July 2, 2012 through July 3, 2012. Accordingly, the Quarterly High, Quarterly Low and Quarterly Close data indicated are for this shortened period only and do not reflect complete data for the third calendar quarter of 2012.

The graph below illustrates the performance of the Reference Asset from January 2, 2002 through July 3, 2012. The dotted line represents the Buffer Level of 1,167.917 which is equal to 85% of the Initial Level. In addition, below the graph is a table setting forth the year on year percentage gain or loss in the level of the Reference Asset. *Past performance of the Reference Asset is not indicative of the future performance of the Reference Asset.*

Start of Period	End of Period	Percentage Increase or Decrease
7/3/2002	7/3/2003	3.32%
7/3/2003	7/3/2004	13.24%
7/3/2004	7/3/2005	7.95%
7/3/2005	7/3/2006	6.24%
7/3/2006	7/3/2007	19.11%
7/3/2007	7/3/2008	-17.18%
7/3/2008	7/3/2009	-28.84%
7/3/2009	7/3/2010	14.39%
7/3/2010	7/3/2011	30.14%
7/3/2011	7/3/2012	2.70%

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We obtained the information regarding the historical performance of the Reference Asset in the tables and graph above from Bloomberg Financial Markets.

We make no representation or warranty as to the accuracy or completeness of the information obtained from Bloomberg Financial Markets and have not undertaken an independent review or due diligence of the information. The historical performance of the Reference Asset should not be taken as an indication of its future performance, and no assurance can be given as to the Final Level of the Reference Asset. We cannot give you assurance that the performance of the Reference Asset will result in any positive return on your initial investment.

#### **SUPPLEMENTAL PLAN OF DISTRIBUTION (CONFLICTS OF INTEREST)**

Scotia Capital (USA) Inc. or one of our affiliates will purchase the Notes at the Principal Amount and, as part of the distribution of the Notes, will sell the Notes to Goldman, Sachs & Co. at a discount and underwriting commissions of \$2.50 per \$1,000 Principal Amount of Notes in connection with the distribution of the Notes. In accordance with the terms of a distributor accession letter, Goldman, Sachs & Co. has been appointed as a distribution agent under the distribution agreement and may purchase Notes from The Bank of Nova Scotia or its affiliates. Scotia Capital (USA) Inc. will also receive a structuring and development fee of up to \$0.50 per \$1,000 Principal Amount of Notes.

In addition, Scotia Capital (USA) Inc. or another of its affiliates or agents may use the product prospectus supplement to which this pricing supplement relates in market-making transactions after the initial sale of the Notes. While Scotia Capital (USA) Inc. may make markets in the Notes, it is under no obligation to do so and may discontinue any market-making activities at any time without notice. See the sections titled Supplemental Plan of Distribution in the accompanying prospectus supplement and product prospectus supplement.

The price at which you purchase the Notes includes costs that the Bank or its affiliates expect to incur and profits that the Bank or its affiliates expect to realize in connection with hedging activities related to the Notes, as set forth above. These costs and profits will likely reduce the secondary market price, if any secondary market develops, for the Notes. As a result, you may experience an immediate and substantial decline in the market value of your Notes on the Issue Date.

We expect that delivery of the Notes will be made against payment therefor on or about the fifth business day following the date of pricing of the Notes (this settlement cycle being referred to as T+5). Under Rule 15c6-1 of the Securities and Exchange Act of 1934, as amended, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes on the Trade Date will be required, by virtue of the fact that each Note initially will settle in five business days (T+5), to specify alternative settlement arrangements to prevent a failed settlement.

#### **Conflicts of Interest**

Each of Scotia Capital (USA) Inc., and Scotia Capital Inc. is an affiliate of the Bank and, as such, has a conflict of interest in this offering within the meaning of FINRA Rule 5121. In addition, the Bank will receive the gross proceeds from the initial public offering of the Notes, thus creating an additional conflict of interest within the meaning of Rule 5121. Consequently, the offering is being conducted in compliance with the provisions of Rule 5121. Neither Scotia Capital (USA) Inc. nor Scotia Capital Inc. is permitted to sell Notes in this offering to an account over which it exercises discretionary authority without the prior specific written approval of the account holder.

Scotia Capital (USA) Inc., Goldman, Sachs & Co., and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. Scotia Capital (USA) Inc., Goldman, Sachs & Co., and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the Bank, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, Scotia Capital (USA) Inc., Goldman, Sachs & Co., and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related

derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments of the Bank. Scotia Capital (USA) Inc., Goldman, Sachs & Co., and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

#### **CERTAIN CANADIAN INCOME TAX CONSEQUENCES**

See Certain Income Tax Consequences Certain Canadian Income Tax Considerations at page S-20 of the Prospectus Supplement dated February 29, 2012.

#### **CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS**

The U.S. federal income tax consequences of your investment in the Notes are uncertain. No statutory, judicial or administrative authority directly discusses how the Notes should be treated for U.S. federal income tax purposes. We intend to treat the Notes as pre-paid cash-settled derivative contracts. Pursuant to the terms of the Notes, you agree to treat the Notes in this manner for all U.S. federal income tax purposes. If your Notes are so treated, you should generally recognize capital gain or loss upon the sale, exchange or payment on maturity in an amount equal to the difference between the amount you receive at such time and the amount that you paid for your Notes. Such gain or loss should generally be long-term capital gain or loss if you have held your Notes for more than one year.

For a more detailed discussion of the United States federal income tax consequences with respect to your Notes, you should carefully consider the discussion set forth in Supplemental Discussion of U.S. Federal Income Tax Consequences in the accompanying product prospectus supplement and the discussion set forth in Certain United States Income Tax Considerations of the accompanying prospectus supplement. In particular, U.S. holders (as defined in the prospectus supplement) should review the discussion set forth in Supplemental Discussion of U.S. Federal Income Tax Consequences Supplemental U.S. Tax Considerations U.S. Holders in the product prospectus supplement and Non-U.S. Holders (as defined in the prospectus supplement) should review the discussion set forth in Supplemental Discussion of U.S. Federal Income Tax Consequences Supplemental U.S. Tax Considerations Non-U.S. Holders in the product prospectus supplement. U.S. holders should also review the discussion under Medicare Tax, Treasury Regulations Requiring Disclosure of Reportable Transactions, Information With Respect Foreign Financial Assets and Information Reporting and Backup Withholding under Certain Income Tax Consequences Certain United States Income Tax Considerations in the prospectus supplement.

We will not attempt to ascertain whether the issuer of any of the Reference Asset constituent stocks would be treated as a passive foreign investment company within the meaning of Section 1297 of the Internal Revenue Code of 1986, as amended (the Code) or a United States real property holding corporation within the meaning of Section 897 of the Code. If the issuer of one or more of such stocks were so treated, certain adverse U.S. federal income tax consequences could possibly apply. You should refer to any available information filed with the SEC by the issuers of the Reference Asset constituent stocks and consult your tax advisor regarding the possible consequences to you in this regard.

In this regard and in regard to a potential application of the constructive ownership rules, U.S. Holders (as defined in the Prospectus Supplement) should review the discussion set forth in Supplemental Discussion of U.S. Federal Income Tax Consequences Supplemental U.S. Tax Considerations U.S. Holders in the product prospectus supplement.

Because other characterizations and treatments are possible the timing and character of income in respect of the Notes might differ from the treatment described above. You should carefully review the discussion set forth in Alternative Treatments in the product prospectus supplement for the possible tax consequences of different characterizations or treatment of your Notes for U.S. federal income tax purposes. It is possible, for example, that the Internal Revenue Service ( IRS ) might treat the Notes as a series of derivative contracts, each of which matures on the next rebalancing date of the reference asset, in which case you would be treated as disposing of the Notes on each rebalancing date in return for a new derivative contract that matures on the next rebalancing date, and you would recognize capital gain or loss on each rebalancing date.





The IRS has also issued a notice that may affect the taxation of the Notes. According to the notice, the IRS and the Treasury Department are actively considering whether the holder of an instrument such as the Notes should be required to accrue ordinary income on a current basis, and they are seeking comments on the subject. It is not possible to determine what guidance they will ultimately issue, if any. It is possible, however, that under such guidance, holders of the Notes will ultimately be required to accrue ordinary income currently and this could be applied on a retroactive basis. Holders are urged to consult their tax advisors concerning the significance, and the potential impact, of the above considerations. We intend to treat the Notes for U.S. federal income tax purposes in accordance with the treatment described above unless and until such time as the Treasury Department and the IRS determine that some other treatment is more appropriate.

PROSPECTIVE PURCHASERS OF THE NOTES SHOULD CONSULT THEIR TAX ADVISORS AS TO THE FEDERAL, STATE, LOCAL AND OTHER TAX CONSEQUENCES TO THEM OF ACQUIRING, HOLDING AND DISPOSING OF NOTES AND RECEIVING PAYMENTS UNDER THE NOTES.