BANK OF NOVA SCOTIA /
Form 424B5
February 19, 2013

The information in this Preliminary Pricing Supplement is not complete and may be changed. We may not sell these Notes until the Pricing Supplement is delivered in final form. We are not selling these Notes, nor are we soliciting offers to buy these Notes, in any State where such offer or sale is not permitted.

PRELIMINARY PRICING SUPPLEMENT	**Filed Pursuant to Rule 424(b)(5)**
Subject to Completion:	**Registration No. 333-185049**
Dated February 15, 2013	

Pricing Supplement dated 2013 to the

Prospectus dated December 28, 2012,

Prospectus Supplement dated December 28, 2012 and Product Prospectus Supplement (Equity Linked Index Notes, Series A) dated December 28, 2012

The Bank of Nova Scotia

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Callable Contingent Interest Range Accrual Barrier Notes, Series A

Linked to the Russell 2000® Index

Due February 28, 2023

The Callable Contingent Interest Range Accrual Barrier Notes, Series A, linked to the Russell 2000® Index ("Reference Asset") due February 28, 2023 (the "Notes") offered hereunder are senior unsecured obligations of The Bank of Nova Scotia (the "Bank"). The Notes do not provide for the regular payment of interest or guarantee the return of any principal at maturity. The Notes are subject to investment risks including possible loss of the principal amount invested due to the negative performance of the Reference Asset and the credit risk of The Bank of Nova Scotia. As used in this pricing supplement, the "Bank," "we," "us" or "our" refers to The Bank of Nova Scotia.

The amount that you will be paid on your Notes at maturity will depend on the performance of the Reference Asset and will be calculated as follows:

- If the Closing Level of the Reference Asset on the Final Valuation Date is greater than or equal to 50% of the Initial Level (the "Barrier Level"): the Principal Amount
- If the Closing Level of the Reference Asset on the Final Valuation Date is less than the Barrier Level: (i) the stated Principal Amount plus (ii) Principal Amount multiplied by the Percentage Change

The Notes will not be listed on any U.S. securities exchange or automated quotation system.

A Contingent Interest Payment may be paid on the Notes on each monthly Contingent Interest Payment Date. The amount of interest you will receive will be based on the number of Valuation Dates in an Interest Period on which the Closing Level of the Reference Asset is equal to or greater than 75% of the Initial Level (the “Trigger Level”) in that Interest Period. The Contingent Interest Payment with respect to each Contingent Interest Payment Date will be determined by (i) dividing the number of Valuation Dates in the immediately preceding Interest Period on which the above condition is met by the total number of Valuation Dates in that Interest Period and (ii) multiplying the resulting fraction by (x) the Applicable Interest Rate, (y) Day Count Fraction and (z) $1000.00. It is possible that the Reference Asset will remain below the Trigger Level and/or the Barrier Level for extended periods of time or even throughout the entire term of the Notes which means you will receive no Contingent Interest Payments and you may not receive your Principal Amount at Maturity. **Accordingly, you may lose your entire initial investment in the Notes**.

The Notes may be called by us in whole, but not in part, on each stated Quarterly Call Payment Date, from and including the First Call Date, upon notice by us to DTC on or before the corresponding Call Notice Date, at an amount that will equal the Principal Amount of your Notes plus the Contingent Interest Payment, if any. If the Notes are called prior to the Maturity Date you will lose the opportunity to continue to be paid Contingent Interest Payments.

You will not participate in any appreciation of the Reference Asset. The Notes do not constitute a direct investment in any of the shares, units or other securities represented by the Reference Asset. By acquiring Notes, you will not have a direct economic or other interest in, claim or entitlement to, or any legal or beneficial ownership of any such share, unit or security and will not have any rights as a shareholder, unitholder or other security holder of any of the issuers including, without limitation, any voting rights or rights to receive dividends or other distributions. See “Additional Risks—You will not Participate in Any Appreciation in the Value of the Reference Asset and Your Return on the Notes is Expected to be Limited to the Contingent Interest Payments Paid on the Notes” in this pricing supplement.

The difference between the estimated value of your Notes and the original issue price reflects 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. 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 Trade Date and you may lose all or a substantial portion of your initial investment. The Bank’s profit in relation to the Notes will vary based on the difference between (i) the amounts received by the Bank in connection with the issuance and the reinvestment return received by the Bank in connection with those funds and (ii) the costs incurred by the Bank in connection with the issuance of the Notes and any hedging transactions. The Bank’s affiliates may also realize a profit that will be based on the (i) cost of creating and maintaining the hedging transactions minus (ii) the payments received on the hedging transactions.

Neither the United States Securities and Exchange Commission (“SEC”) nor any state securities commission has approved or disapproved of the Notes or passed upon the accuracy or the adequacy of this document, the accompanying prospectus, prospectus supplement or product prospectus supplement. Any representation to the contrary is a criminal offense. The NOTES ARE NOT INSURED BY THE Canada Deposit Insurance Corporation pursuant to the *Canada Deposit Insurance Corporation Act*, the United States Federal Deposit Insurance Corporation, or any other governmental agency of Canada, the United States or any other jurisdiction.

Scotia Capital (USA) Inc., our affiliate, will purchase the Notes from us for distribution to other registered broker dealers or will offer the Notes directly to investors. Scotia Capital (USA) Inc. or any of its affiliates or agents may use this pricing supplement in market-making transactions in Notes after their initial sale. Unless we, Scotia Capital (USA) Inc. or another of its affiliates or agents selling such Notes to you informs you otherwise in the confirmation of sale, the final pricing supplement to which this pricing supplement relates is being used in a market-making transaction. See “Supplemental Plan of Distribution (Conflicts of Interest)” in this pricing supplement and “Supplemental Plan of Distribution” on page PS-30 of the accompanying product prospectus supplement.

	Per Note	Total
Price to public	%	$
Underwriting commissions[1]	%	$
Proceeds to The Bank of Nova Scotia[2]	%	$

Investment in the Notes involves certain risks. You should refer to "Additional Risks" in this pricing supplement and "Additional Risk Factors Specific to the Notes" beginning on page PS-5 of the accompanying product prospectus supplement and "Risk Factors" beginning on page S-2 of the accompanying prospectus supplement and page 6 of the accompanying prospectus.

We may decide to sell additional Notes after the date of this pricing supplement, at issue prices and with underwriting discounts and net proceeds that differ from the amounts set forth above.

We will deliver the Notes in book-entry form through the facilities of The Depository Trust Company ("DTC") on or about February 27, 2013 against payment in immediately available funds.

Scotia Capital (USA) Inc.

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1 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 may pay varying discounts and underwriting commissions of up to $[25.00 – 35.00] per $1,000 Principal Amount of Notes in connection with the distribution of the Notes. The actual discounts and underwriting commissions will be determined on the Trade Date. Scotia Capital (USA) Inc. may also receive a structuring and development fee of up to $0.50 per $1,000 principal amount of Notes. See "Supplemental Plan of Distribution (Conflicts of Interest)" in this pricing supplement and "Supplemental Plan of Distribution" on page PS-30 of the accompanying product prospectus supplement.

2 Excludes profits from hedging. For additional considerations relating to hedging activities see "Additional Risks—The Inclusion of Dealer Spread and Projected Profit from Hedging in the Original Issue Price is Likely to Adversely Affect Secondary Market Prices" in this pricing supplement.

Summary

The information in this "Summary" section is qualified by the more detailed information set forth in this pricing supplement, the prospectus, the prospectus supplement, and the product prospectus supplement, each filed with the SEC. See "Additional Terms of Your Notes" in this pricing supplement.

Issuer:	The Bank of Nova Scotia (the "Bank")
Reference Asset:	The Russell 2000® Index (Bloomberg Ticker: RTY)
Minimum Investment and Denominations:	$1,000 and integral multiples of $1,000 in excess thereof
Principal Amount:	$1,000 per Note
Original Issue Price:	100% of the Principal Amount of each Note
Currency:	U.S. Dollars
Pricing Date:	Expected to be February 22, 2013
Trade Date:	Expected to be February 22, 2013
Original Issue Date:	Expected to be February 27, 2013 (to be determined on the Trade Date and expected to be the 3rd scheduled Business Day after the Trade Date).
Valuation Dates:	For each Interest Period, each scheduled trading day, and for purposes of calculating the Payment at Maturity, the "Final Valuation Date" shall be the scheduled trading day which is three Business Days prior to the Maturity Date. The Valuation Dates could be delayed by the occurrence of a market disruption event. See "General Terms of the Notes—Market Disruption Events" beginning on page PS-19 in the accompanying product prospectus supplement.
Interest Period:	The period from and including each Interest Determination Date (or the Original Issue Date, in the case of the Initial Interest Period) to but excluding the next succeeding Interest Determination Date.
Interest Determination Dates:	The fifth scheduled trading day prior to each Contingent Interest Payment Date.
Initial Interest Period:	Period from the Original Issue Date up to but excluding the next succeeding Interest Determination Date.
Maturity Date:	February 28, 2023, as may be postponed upon the occurrence of a market disruption event as described "General Terms of the Notes—Maturity Date" on page PS-17 in the accompanying product prospectus supplement.
Principal at Risk:	You may lose all or a substantial portion of your initial investment at maturity if the Final Level is below the Barrier Level.

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 reoffer the Notes to third party dealers at varying discounts and underwriting commissions of up to $[25.00 – 35.00] per $1,000 Principal Amount of Notes in connection with the distribution of the Notes. The actual discounts and underwriting commissions will be determined on the Trade Date. Scotia Capital (USA) Inc. may also receive a structuring and development fee of up to $0.50 per $1,000 Principal Amount of Notes.

Fees and Expenses:	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 Trade Date. See "Additional Risks—The Inclusion of Dealer Spread and Projected Profit from Hedging in the Original Issue Price is Likely to Adversely Affect Secondary Market Prices" in this pricing supplement.
Contingent Interest Payment Dates:	The last calendar day of each month, commencing on March 31, 2013 and up to and including the Maturity Date, or if such day is not a Business Day, the next following Business Day.
Contingent Interest Payment:	The Contingent Interest Payment will be based on the performance of the Reference Asset and will be calculated as follows: The amount of interest that will be paid each Interest Period, if any, will be based on the number of scheduled trading days, each a "Valuation Date", on which the Closing Level of the Reference Asset is equal or greater than the Trigger Level during such Interest Period. To determine your Contingent Interest Payment with respect to each Interest Payment Date, we will (i) divide the number of Valuation Dates in the immediately preceding Interest Period on which the Closing Level of the Reference Asset was equal to or greater than the Trigger Level by the total number of Valuation Dates in that Interest Period and (ii) multiply the resulting fraction by the (x) Applicable Interest Rate, (y) Day Count Fraction and (z) $1,000.00.
Applicable Interest Rate:	(i) 7.00% per annum for the first 48 monthly interest periods, (ii) 8.00% per annum for the next 36 monthly interest periods, and (iii) 9.00% per annum for the final 36 monthly interest periods
Day Count Fraction:	30/360, unadjusted, following business day convention (all as more fully described below). We describe payments as being based on a "day count fraction" of "30/360, unadjusted, following business day convention". This means that the number of days in the interest period will be based on a 360-day year of twelve 30-day months ("30/360") and that the number of days in the interest period will be based on the days on which interest would have been paid if each such day was a Business Day, not on the actual days on which payment is made ("unadjusted"). If any Contingent Interest Payment Date falls on a day that is not a Business Day (including any Interest Payment Date that is also the Maturity Date), the relevant payment of interest will be made on the next Business Day under the following business day convention.

Payment at Maturity:	The Payment at Maturity, excluding any interest payment, will be based on the performance of the Reference Asset and will be calculated as follows: If the Final Level is greater than or equal to the Barrier Level, then the Payment at Maturity will equal: Principal Amount If the Final Level is less than the Barrier Level, then the Payment at Maturity will equal: Principal Amount + (Principal Amount × Percentage Change) ***In this case you will suffer a loss on your initial investment in an amount equal to the negative Percentage Change. Accordingly, you could lose up to 100% of your initial investment.***
Initial Level:	The Closing Level of the Reference Asset on the Pricing Date.
Final Level:	The Closing Level of the Reference Asset on the Final Valuation Date.
Closing Level	For any date of determination, the closing level of the Reference Asset published on the Bloomberg page "RTY<Index>" or any successor page on Bloomberg or any successor service, as applicable. In certain special circumstances, the Closing Level will be determined by the Calculation Agent, in its discretion, and such determinations will, under certain circumstances, be confirmed by an independent calculation expert. See "General Terms of the Notes—Unavailability of the Level of the Reference Asset on a Valuation Date" and "General Terms of the Notes—Market Disruption Events" beginning on page PS-19 and "Appointment of Independent Calculation Experts" on page PS-22, in the accompanying product prospectus supplement.
Percentage Change:	The Percentage Change, expressed as a percentage, with respect to the Payment at Maturity, is calculated as follows: $\frac{\text{Final Level} - \text{Initial Level}}{\text{Initial Level}}$ For the avoidance of doubt, the Percentage Change may be a negative value.
Trigger Level:	75% of the Initial Level
Barrier Event:	Applicable
Barrier Level:	50% of the Initial Level
Monitoring Period:	Final Valuation Date Monitoring
Call Provision:	The Notes may be called by us in whole, but not in part, on each stated Quarterly Call Payment Date, from and including the First Call Date, upon notice by us to DTC on or before the corresponding Call

Notice Date, at an amount that will equal the Principal Amount of your Notes plus the Contingent Interest Payment, if any. If the Notes are called

	prior to the Maturity Date you will lose the opportunity to continue to be paid Contingent Interest Payments, if any, on the Notes.
Call Payment:	Call payment will be made in an amount equal to (i) the Principal Amount per Note *plus* (ii) the Contingent Interest Payment, if any.
First Call Date:	February 28, 2014
Call Notice Dates:	10 Business Days prior to the corresponding Quarterly Call Payment Date.
Quarterly Call Payment Date:	Quarterly, on the last calendar day of each February, May, August, and November, commencing on the First Call Date, if any, for which we have given a call notice for the Notes, on or before the corresponding Call Notice Date.
CUSIP/ISIN:	CUSIP 064159BS4 / ISIN US064159BS44
Form of Notes:	Book-entry
Type of Notes:	Callable Contingent Interest Range Accrual Barrier Notes, Series A
Calculation Agent:	Scotia Capital Inc., an affiliate of the Bank
Status:	The Notes will constitute direct, unsubordinated and unsecured obligations of the Bank ranking *pari passu* with all other direct, unsecured and unsubordinated indebtedness of the Bank from time to time outstanding (except as otherwise prescribed by law). Holders will not have the benefit of any insurance under the provisions of the *Canada Deposit Insurance Corporation Act*, the U.S. *Federal Deposit Insurance Act* or under any other deposit insurance regime.
Tax Redemption:	The Bank (or its successor) may redeem the Notes, in whole but not in part, at a redemption price determined by the Calculation Agent in a manner reasonably calculated to preserve your and our relative economic position, if it is determined that changes in tax laws or their interpretation will result in the Bank (or its successor) becoming obligated to pay additional amounts with respect to the Notes. See “Tax Redemption” below.
Listing:	The Notes will not be listed on any securities exchange or quotation system.
Use of Proceeds:	General corporate purposes
Clearance and Settlement:	Depository Trust Company
Business Day:	New York and Toronto
Terms Incorporated:	All of the terms appearing above the item under the caption “General Terms of the Notes” beginning on page PS-14 in the accompanying product prospectus supplement, as modified by this pricing supplement.

INVESTING IN THE NOTES INVOLVES SIGNIFICANT RISKS. YOU MAY LOSE YOUR ENTIRE PRINCIPAL AMOUNT. ANY PAYMENT ON THE NOTES, INCLUDING ANY REPAYMENT OF PRINCIPAL OR ANY CONTINGENT INTEREST PAYMENT, IS SUBJECT TO THE CREDITWORTHINESS OF THE BANK. IF THE BANK WERE TO DEFAULT ON ITS PAYMENT OBLIGATIONS YOU MAY NOT RECEIVE ANY AMOUNTS OWED TO YOU UNDER THE NOTES AND YOU COULD LOSE YOUR ENTIRE INVESTMENT.

Additional Terms Of Your Notes

You should read this pricing supplement together with the prospectus dated December 28, 2012, as supplemented by the prospectus supplement dated December 28, 2012 and the product prospectus supplement (Equity Linked Index Notes, Series A) dated December 28, 2012, relating to our Senior Note Program, Series A, of which these Notes are a part. Capitalized terms used but not defined in this pricing supplement will have the meanings given to them in the product prospectus supplement. In the event of any conflict, this pricing supplement will control. ***The Notes may vary from the terms described in the accompanying product prospectus supplement in several important ways. You should read this pricing supplement carefully.***

This pricing supplement, together with the documents listed below, contains the terms of the Notes and supersedes all prior or contemporaneous oral statements as well as any other written materials including preliminary or indicative pricing terms, correspondence, trade ideas, structures for implementation, sample structures, brochures or other educational materials of ours. You should carefully consider, among other things, the matters set forth in "Additional Risk Factors Specific to the Notes" in the accompanying product prospectus supplement, as the Notes involve risks not associated with conventional debt securities. We urge you to consult your investment, legal, tax, accounting and other advisors before you invest in the Notes. You may access these documents on the SEC website at www.sec.gov as follows (or if that address has changed, by reviewing our filings for the relevant date on the SEC website at

http://www.sec.gov/cgi-bin/browse-edgar?action=getcompany&CIK=0000009631):

Prospectus dated December 28, 2012:
http://www.sec.gov/Archives/edgar/data/9631/000119312512518291/d459446d424b3.htm

Prospectus Supplement dated December 28, 2012:
http://www.sec.gov/Archives/edgar/data/9631/000119312512518324/d457877d424b3.htm

Product Prospectus Supplement for Equity Linked Index Notes, Series A dated December 28, 2012:
http://www.sec.gov/Archives/edgar/data/9631/000119312512518388/d457883d424b5.htm

The Bank of Nova Scotia has filed a registration statement (including a prospectus, a prospectus supplement, and a product prospectus supplement) with the SEC for the offering to which this pricing supplement relates. Before you invest, you should read those documents and the other documents relating to this offering that we have filed with the SEC for more complete information about us and this offering. You may obtain these documents without cost by visiting EDGAR on the SEC Website at www.sec.gov. Alternatively, The Bank of Nova Scotia, any agent or any dealer participating in this offering will arrange to send you the prospectus, the prospectus supplement and the product prospectus supplement if you so request by calling 1-416-866-3672.

Investor Suitability

The Notes may be suitable for you if:

- You fully understand the risks inherent in an investment in the Notes, including the risk of losing your entire initial investment.
- You can tolerate a loss of all or a substantial portion of your initial investment and are willing to make an investment that has the downside market risk of an investment in the Reference Asset or in the Reference Asset constituent stocks.
- You do not believe that the Closing Level will be below the Trigger Level or that the Final Level will be below the Barrier Level.
- You understand and accept that you will not participate in any appreciation in the Reference Asset and that your potential return at maturity may be limited to the aggregate amount of the Contingent Interest Payments, if any on the Notes.

- You can tolerate fluctuations in the price of the Notes prior to maturity that may be similar to or exceed the downside fluctuations in the level of the Reference Asset.
- You seek current income from your investment but understand that the interest on the Notes is contingent on the performance of the Reference Asset.
- You are willing to hold the Notes to maturity, a term of approximately ten years, and accept that there may be little or no secondary market for the Notes.
- You are willing to tolerate the possibility of having the Notes called prior to the Maturity Date on a Quarterly Call Payment Date beginning on the First Call Date, eliminating any opportunity thereafter for receiving any Contingent Interest Payments.
- You are willing to assume the credit risk of the Bank for all payments under the Notes, and understand that if the Bank defaults on its obligations you may not receive any amounts due to you including any repayment of principal.

The Notes may not be suitable for you if:

- You do not fully understand the risks inherent in an investment in the Notes, including the risk of losing your entire initial investment.
- You require an investment designed to guarantee a full return of principal at maturity.
- You cannot tolerate a loss of all or a substantial portion of your initial investment and are not willing to make an investment that has the downside market risk as an investment in the Reference Asset or in the Reference Asset constituent stocks.
- You believe that the level of the Reference Asset will decline during the term of the Notes and that the Closing Level will likely be below the Trigger Level and the Final Level will likely be below the Barrier Level, or you believe the Reference Asset will appreciate over the term of the Notes by an amount in excess of the aggregate amount of Contingent Interest Payments received prior to and at maturity.
- You seek an investment that participates in the appreciation in the level of the Reference Asset or has unlimited return potential.
- You cannot tolerate fluctuations in the price of the Notes prior to maturity that may be similar to or exceed the downside fluctuations in the level of the Reference Asset.
- You do not seek current income from your investment or you are unwilling to receive interest that is contingent on the performance of the Reference Asset.
- You prefer to receive dividends paid on the stocks included in the Reference Asset.
- You are unwilling to hold the Notes to maturity, a term of approximately ten years, or you seek an investment for which there will be a secondary market.
- You are not willing to tolerate the possibility of having the Notes called prior to the Maturity Date on a Quarterly Call Payment Date beginning on the First Call Date, eliminating any opportunity thereafter for receiving any Contingent Interest Payments.
- You are not willing to assume the credit risk of the Bank for all payments under the Notes.

The investor suitability considerations identified above are not exhaustive. Whether or not the Notes are a suitable investment for you will depend on your individual circumstances and you should reach an investment decision only after you and your investment, legal, tax, accounting and other advisors have carefully considered the suitability of an investment in the Notes in light of your particular circumstances. You should also review ‘‘Additional Risks’’ in this preliminary pricing supplement and the ‘‘Additional Risk Factors Specific to the Notes’’ beginning on page PS-5 of the Product Prospectus Supplement for Equity Linked Index Notes, Series A for risks related to an investment in the Notes.

EVENTS OF DEFAULT AND ACCELERATION

If the Notes have become immediately due and payable following an event of default (as defined in the accompanying prospectus) with respect to the Notes, the Calculation Agent will determine the default amount as described below.

Default Amount

The default amount for your Notes on any day (except as provided in the last sentence under “Default Quotation Period” below) will be an amount, in the specified currency for the principal of your Notes, equal to the cost of having a qualified financial institution, of the kind and selected as described below, expressly assume all our payment and other obligations with respect to your Notes as of that day and as if no default or acceleration had occurred, or to undertake other obligations providing substantially equivalent economic value to you with respect to your Notes. That cost will equal:

- the lowest amount that a qualified financial institution would charge to effect this assumption or undertaking, plus
- the reasonable expenses, including reasonable attorneys’ fees, incurred by the trustees of your Notes in preparing any documentation necessary for this assumption or undertaking.

During the default quotation period for your Notes, described below, the trustees and/or the Bank may request a qualified financial institution to provide a quotation of the amount it would charge to effect this assumption or undertaking. If either party obtains a quotation, it must notify the other party in writing of the quotation. The amount referred to in the first bullet point above will equal the lowest — or, if there is only one, the only — quotation obtained, and as to which notice is so given, during the default quotation period. With respect to any quotation, however, the party not obtaining the quotation may object, on reasonable and significant grounds, to the assumption or undertaking by the qualified financial institution providing the quotation and notify the other party in writing of those grounds within two business days after the last day of the default quotation period, in which case that quotation will be disregarded in determining the default amount.

Default Quotation Period

The default quotation period is the period beginning on the day the default amount first becomes due (the “due day”) and ending on the third business day after that day, unless:

- no quotation of the kind referred to above is obtained, or
- every quotation of that kind obtained is objected to within five business days after the due day as described above.

If either of these two events occurs, the default quotation period will continue until the third business day after the first business day on which prompt notice of an objection is given as described above. If that quotation is objected to as described above within five business days after that first business day, however, the default quotation period will continue as described in the prior sentence and this sentence.

Qualified Financial Institutions

For the purpose of determining the default amount at any time, a qualified financial institution must be a financial institution organized under the laws of any jurisdiction in the United States of America, Europe or Japan, which at that time has outstanding debt obligations with a stated maturity of one year or less from the date of issue and that is, or whose securities are, rated either:

· A-1 or higher by Standard & Poor’s Ratings Services, or any successor, or any other comparable rating then used by that rating agency, or

· P-1 or higher by Moody’s Investors Service or any successor, or any other comparable rating then used by that rating agency.

If the Notes have become immediately due and payable following an event of default, you will not be entitled to any additional payments with respect to the Notes. For more information, see "Description of the Debt Securities We May Offer— Events of Default" beginning on page 21 of the accompanying prospectus.

Tax Redemption

The Bank (or its successor) may redeem the Notes, in whole but not in part, at a redemption price determined by the Calculation Agent in a manner reasonably calculated to preserve your and our relative economic position, upon the giving of a notice as described below, if:

- as a result of any change (including any announced prospective change) in or amendment to the laws (or any regulations or rulings promulgated thereunder) of Canada (or the jurisdiction of organization of the successor to the Bank) or of any political subdivision or taxing authority thereof or therein affecting taxation, or any change in official position regarding the application or interpretation of such laws, regulations or rulings (including a holding by a court of competent jurisdiction), which change or amendment is announced or becomes effective on or after the Pricing Date (or, in the case of a successor to the Bank, after the date of succession), and which in the written opinion to the Bank (or its successor) of legal counsel of recognized standing has resulted or will result (assuming, in the case of any announced prospective change, that such announced change will become effective as of the date specified in such announcement and in the form announced) in the Bank (or its successor) becoming obligated to pay, on the next succeeding date on which a payment is due, additional amounts with respect to the Notes; or

- on or after the Pricing Date (or, in the case of a successor to the Bank, after the date of succession), any action has been taken by any taxing authority of, or any decision has been rendered by a court of competent jurisdiction in, Canada (or the jurisdiction of organization of the successor to the Bank) or any political subdivision or taxing authority thereof or therein, including any of those actions specified in the paragraph immediately above, whether or not such action was taken or decision was rendered with respect to the Bank (or its successor), or any change, amendment, application or interpretation shall be officially proposed, which, in any such case, in the written opinion to the Bank (or its successor) of legal counsel of recognized standing, will result (assuming, that such change, amendment or action is applied to the Notes by the taxing authority and that, in the case of any announced prospective change, that such announced change will become effective as of the date specified in such announcement and in the form announced) in the Bank (or its successor) becoming obligated to pay, on the next succeeding date on which a payment is due, additional amounts with respect to the Notes;

and, in any such case, the Bank (or its successor), in its business judgment, determines that such obligation cannot be avoided by the use of reasonable measures available to it (or its successor).

The redemption price will be determined by the Calculation Agent in its discretion and such determination will, under certain circumstances, be confirmed by an independent calculation expert. See “Appointment of Independent Calculation Experts” on page PS-22 in the accompanying product prospectus supplement.

In the event the Bank elects to redeem the Notes pursuant to the provisions set forth in the preceding paragraph, it shall deliver to the trustees a certificate, signed by an authorized officer, stating that the Bank is entitled to redeem such Notes pursuant to their terms in whole only.

The Bank will give notice of intention to redeem such Notes to holders of the Notes not more than 45 nor less than 30 days prior to the date fixed for redemption specifying, among other things, the date fixed for redemption, and on or promptly after the redemption date, it will give notice of the redemption price.

Hypothetical Payments On the Notes

The examples set out below are included for illustration purposes only. The hypothetical Percentage Changes of the Reference Asset used to illustrate the calculation of the payment on the Notes (rounded to two decimal places) are not estimates or forecasts of the Initial Level, the Final Level or the Closing Level of the Reference Asset on any Valuation Date or on any trading day prior to the Maturity Date. All examples assume that a holder purchased Notes with an aggregate Principal Amount of $1,000.00, Initial Level of 913.03, the Trigger Level of 684.77 (75% of the Initial Level), the Barrier Level of 456.52 (50% of the Initial Level), 120 Interest Periods and that no market disruption event occurs on any Valuation Date. The Notes are not called. Amounts below may have been rounded for ease of analysis.

Example 1. During the first fifteen Interest Periods the number of days on which the Closing Level of the Reference Asset was greater than or equal to the Trigger Level was 100 Valuation Dates out of 300 Valuation Dates (assuming there are 20 Valuation Dates in each Interest Period):

= Number of Interest Periods x (Principal Amount x Applicable Interest Rate x Day Count Fraction) x 100/300

= 15 x ($1000.00 x 7.00% x 30/360 x 100/300)

= $29.17.

Example 2. The following table illustrates the method used to calculate the Contingent Interest Payment using the Applicable Interest Rate of 8.00%

#of Days* (A)	Number of trading days in an Interest Period (B)	Fraction A/B x 8.00%	Amount of interest to be paid on the related Contingent Interest Payment Date (30/360)
0	20	0.000	$0.00
10	20	0.040	$3.33
15	20	0.060	$5.00
20	20	0.080	$6.67

*The number of days for which the Reference Asset's Closing Level is greater than or equal to the Trigger Level in a given Interest Period.

Example 3. The following table illustrates the method used to calculate the Contingent Interest Payment using the Applicable Interest Rate of 9.00%

#of Days* (A)	Number of trading days in an Interest Period (B)	Fraction A/B x 9.00%	Amount of interest to be paid on the related Contingent Interest Payment Date (30/360)
0	20	0.000	$0.00
10	20	0.045	$3.75
15	20	0.068	$5.63
20	20	0.090	$7.50

*The number of days for which the Reference Asset's Closing Level is greater than or equal to the Trigger Level in a given Interest Period.

Any payment on the Notes, including any repayment of principal and Contingent Interest Payments, is subject to the creditworthiness of the Bank. If the Bank were to default on its payment obligations, you may not receive any amounts owed to you under the Notes and you could lose your entire investment.

ADDITIONAL RISKS

An investment in the Notes involves significant risks. In addition to the following risks included in this pricing supplement, we urge you to read "Additional Risk Factors Specific to the Notes" beginning on page PS-5 of the accompanying product prospectus supplement and "Risk Factors" beginning on page S-2 of the accompanying prospectus supplement and on page 6 of the accompanying prospectus.

You should understand the risks of investing in the Notes and should reach an investment decision only after careful consideration, with your advisors, of the suitability of the Notes in light of your particular financial circumstances and the information set forth in this pricing supplement and the accompanying prospectus, prospectus supplement and product prospectus supplement.

Your Investment is Subject to a Reinvestment Risk in the Event We Elect to Call the Notes.

We have the ability to call the Notes prior to the Maturity Date. In the event we decide to exercise the Call Provision, the amount of interest payable would be less than the amount of interest payable if you held the Notes until the Maturity Date. There is no guarantee that you would be able to reinvest the proceeds from an investment in the Notes at a comparable return for a similar level of risk following our exercise of the Call Provision. We may choose to call the Notes early or choose not to call the Notes early, in our sole discretion. In addition, it is more likely that we will call the Notes prior to maturity if a significant decrease in U.S. interest rates or a significant decrease in the volatility of U.S. interest rates would result in greater interest payments on the Notes than on instruments of comparable maturity, terms and credit worthiness then trading in the market.

The Inclusion of Dealer Spread and Projected Profit from Hedging in the Original Issue Price is Likely to Adversely Affect Secondary Market Prices

Assuming no change in market conditions or any other relevant factors, the price, if any, at which Scotia Capital (USA) Inc. or any other party is willing to purchase the Notes at any time in secondary market transactions will likely be significantly lower than the original issue price, since secondary market prices are likely to exclude underwriting commissions paid with respect to the Notes and the cost of hedging our obligations under the Notes that are included in the original issue price. The cost of hedging includes the projected profit that we and/or our subsidiaries may realize in consideration for assuming the risks inherent in managing the hedging transactions. These secondary market prices are also likely to be reduced by the costs of unwinding the related hedging transactions. In addition, any secondary market prices may differ from values determined by pricing models used by Scotia Capital (USA) Inc. as a result of dealer discounts, mark-ups or other transaction costs.

Risk of Loss at Maturity

Any payment on the Notes at maturity depends on the Closing Level of the Reference Asset. The Bank will only repay you the full Principal Amount of your Notes if the value of the Reference Asset on the Maturity Date is at or above the Barrier Level. If the level of the Reference Asset declines below the Barrier Level, you will lose all or a substantial portion of your initial investment in an amount equal to the negative Percentage Change. ***Accordingly, you may lose your entire investment in the Notes if the Closing Level on the Final Valuation Date is below the Barrier Level.***

You will not Receive Any Contingent Interest Payment for Any Monthly Period Where the Closing Level on the

Related Valuation Date is less than the Trigger Level

You are entitled to receive a Contingent Interest Payment on a monthly basis but the amount, if any, will depend on how many Valuation Dates the Reference Asset will close at or above the Trigger Level during that Interest Period. If the value of the Reference Asset does not close at or above the Trigger Level on any Valuation Date for that Interest Period you will not receive any Contingent Interest Payment for that Interest Period.

The Downside Market Exposure to the Reference Asset is Subject to the Barrier Level Only at Maturity

You should be willing to hold your Notes to maturity. If you are able to sell your Notes prior to maturity in the secondary market, you may have to sell them at a loss relative to your initial investment even if the level of the Reference Asset at such time is not below the Barrier Level.

Higher Interest Rates are Generally Associated with a Greater Risk of Loss

Greater volatility with respect to a Note's Reference Asset reflects a higher expectation as of the Trade Date that the price of the Reference Asset could decline below the Trigger Level on any Valuation Date and/or the Barrier Level on the Final Valuation Date. This greater expected risk will generally be reflected in a higher Applicable Interest Rate on that Note. The Reference Asset's volatility can change significantly over the term of the Notes. The level of the Reference Asset could fall sharply, which could result in a significant loss of principal and little or no Contingent Interest Payments.

The Notes Differ from Conventional Debt Instruments

The Notes are not conventional notes or debt instruments. The return that you will receive on the Notes, which could be negative, may be less than the return you could earn on other investments. Even if your return is positive, your return may be less than the return you would have earned if you bought a conventional senior interest bearing debt security of the Bank.

You will not Participate in Any Appreciation in the Value of the Reference Asset and Your Return on the Notes is Expected to be Limited to the Contingent Interest Payments Paid on the Notes

You will not participate in any appreciation in the value of the Reference Asset from the Initial Index Level, and the return of the Notes will be limited to the Contingent Interest Payments, if any, that are paid on the Notes. For example, if on the Final Valuation Date, the Reference Asset has appreciated 25% from the Initial Level, the payment at maturity would be limited to the stated Principal Amount of $1,000 and the Contingent Interest Payments, if any per Note. Under this scenario, although the value of the Reference Asset has substantially increased, your payment at maturity does not correspondingly increase and, at maturity, the Notes only provide for the payment of your initial investment and the final Contingent Interest Payment.

Your Investment is Subject to the Credit Risk of The Bank of Nova Scotia

The Notes are senior unsecured debt obligations of the Bank, and are not, either directly or indirectly, an obligation of any third party. As further described in the accompanying prospectus, prospectus supplement and product prospectus supplement, the Notes will rank on par with all of the other unsecured and unsubordinated debt obligations of the Bank, except such obligations as may be preferred by operation of law. Any payment to be made on the Notes, including the Payment at Maturity, depends on the ability of the Bank to satisfy its obligations as they come due. As a result, the actual and perceived creditworthiness of the Bank may affect the market value of the Notes and, in the event the Bank were to default on its obligations, you may not receive the amounts owed to you under the terms of the Notes. If you sell the Notes prior to maturity, you may receive substantially less than the Principal Amount of your Notes.

The Notes are Subject to Market Risk

The return on the Notes is directly linked to the performance of the Reference Asset and indirectly linked to the value of the Reference Asset constituent stocks, and the extent to which the Percentage Change is positive or negative. The levels of the Reference Asset can rise or fall sharply due to factors specific to the Reference Asset constituent stocks, as well as general market factors, such as general market volatility and levels, interest rates and economic and political conditions.

The Monthly Contingent Interest Payment, if Any, is Paid on a Monthly Basis and is Based Solely on the Closing Level of the Reference Asset on the Valuation Dates

The amount of the Contingent Interest Payment will be determined based on how many Valuation Dates the Reference Asset closes above the Trigger Level in an applicable Interest Period As a result, you will not know the amount of your Contingent Interest Payment until the related Contingent Interest Payment Date. If the value of the Reference Asset does not close above the Trigger Level on any Valuation Date for that Interest Period you will not receive any Contingent Interest Payment for that Interest Period.

The Payment at Maturity Is Not Linked to the Level of the Reference Asset at Any Time Other Than the Final Valuation Date

The Payment at Maturity will be based on the Final Level (subject to adjustments as described). Therefore, for example, if the closing level of the Reference Asset declined substantially as of the Final Valuation Date compared to the Trade Date, the Payment at Maturity may be significantly less than it would otherwise have been had the Payment at Maturity been linked to the closing levels of the Reference Asset prior to the Final Valuation Date. Although the actual level of the Reference Asset at maturity or at other times during the term of the Notes may be higher than the Final Level, you will not benefit from the closing levels of the Reference Asset at any time other than the Valuation Dates.

If the Levels of the Reference Asset or the Reference Asset Constituent Stocks Change, the Market Value of Your Notes May Not Change in the Same Manner

Your Notes may trade quite differently from the performance of the Reference Asset or the Reference Asset constituent stocks. Changes in the levels of the Reference Asset or the Reference Asset constituent stocks may not result in a comparable change in the market value of your Notes. We discuss some of the reasons for this disparity under "—The Price at Which the Notes may be Sold prior to Maturity will Depend on a Number of Factors and May Be Substantially Less Than the Amount for Which They Were Originally Purchased" below.

Holding the Notes is Not the Same as Holding the Reference Asset Constituent Stocks

Holding the Notes is not the same as holding the Reference Asset constituent stocks. As a holder of the Notes, you will not be entitled to the voting rights or rights to receive dividends or other distributions or other rights that holders of the Reference Asset constituent stocks would enjoy.

No Assurance that the Investment View Implicit in the Notes Will Be Successful

It is impossible to predict with certainty whether and the extent to which the level of the Reference Asset will rise or fall. There can be no assurance that the level of the Reference Asset will remain above the Trigger Level and/or the Barrier Level. The Final Level may be influenced by complex and interrelated political, economic, financial and other factors that affect the Reference Asset constituent stocks. You should be willing to accept the risks of the price performance of equity securities in general and the Reference Asset constituent stocks in particular, and the risk of losing some or all of your initial investment.

Furthermore, we cannot give you any assurance that the future performance of the Reference Asset or the Reference Asset constituent stocks will result in your receiving an amount greater than or equal to the Principal Amount of your Notes. Certain periods of historical performance of the Reference Asset or the Reference Asset constituent stocks would have resulted in you receiving less than the Principal Amount of your Notes if you had owned notes with terms similar to these Notes in the past. See “Information Regarding The Reference Asset” in this pricing supplement for further information regarding the historical performance of the Reference Asset.

The Reference Asset Reflects Price Return Only and Not Total Return

The return on your Notes is based on the performance of the Reference Asset, which reflects the changes in the market prices of the Reference Asset constituent stocks. It is not, however, linked to a ‘‘total return’’ index or strategy, which, in addition to reflecting those price returns, would also reflect dividends paid on the Reference Asset constituent stocks. The return on your Notes will not include such a total return feature or dividend component.

Past Performance is Not Indicative of Future Performance

The actual performance of the Reference Asset over the life of the Notes, as well as the amount payable at maturity, may bear little relation to the historical performance of the Reference Asset or to the hypothetical return examples set forth elsewhere in this pricing supplement. We cannot predict the future performance of the Reference Asset.

Changes Affecting the Reference Asset Could Have an Adverse Effect on the Value of the Notes

The policies of Frank Russell Company the sponsor of the Reference Asset (the ‘‘Sponsor’’), concerning additions, deletions and substitutions of the Reference Asset constituent stocks and the manner in which the Sponsor takes account of certain changes affecting those Reference Asset constituent stocks may adversely affect the level of the Reference Asset. The policies of the Sponsor with respect to the calculation of the Reference Asset could also adversely affect the level of the Reference Asset. The Sponsor may discontinue or suspend calculation or dissemination of the Reference Asset. Any such actions could have a material adverse effect on the value of the Notes.

The Bank Cannot Control Actions by the Sponsor and the Sponsor Has No Obligation to Consider Your Interests

The Bank and its affiliates are not affiliated with the Sponsor and have no ability to control or predict its actions, including any errors in or discontinuation of public disclosure regarding methods or policies relating to the calculation of the Reference Asset. The Sponsor is not involved in the Notes offering in any way and has no obligation to consider your interest as an owner of the Notes in taking any actions that might negatively affect the market value of your Notes.

The Price at Which the Notes May Be Sold Prior to Maturity will Depend on a Number of Factors and May Be Substantially Less Than the Amount for Which They Were Originally Purchased

The price at which the Notes may be sold prior to maturity will depend on a number of factors. Some of these factors include, but are not limited to: (i) actual or anticipated changes in the level of the Reference Asset over the full term of the Note, (ii) volatility of the level of the Reference Asset and the market's perception of future volatility of the level of the Reference Asset, (iii) changes in interest rates generally, (iv) any actual or anticipated changes in our credit ratings or credit spreads, and (v) time remaining to maturity. In particular, because the provisions of the Note relating to the Payment at Maturity behave like options, the value of the Note will vary in ways which are non-linear and may not be intuitive.

Depending on the actual or anticipated level of the Reference Asset and other relevant factors, the market value of the Notes may decrease and you may receive substantially less than 100% of the issue price if you sell your Notes prior to maturity.

The Notes Lack Liquidity

The Notes will not be listed on any securities exchange or automated quotation system. Therefore, there may be little or no secondary market for the Notes. Scotia Capital (USA) Inc. or any other dealer may, but is not obligated to, make a market in the Notes. Even if there is a secondary market, it may not provide enough liquidity to allow you to trade or sell the Notes easily. Because we do not expect that other broker-dealers will participate significantly in the secondary market for the Notes, the price at which you may be able to trade your Notes is likely to depend on the price, if any, at which Scotia Capital (USA) Inc. is willing to purchase the Notes from you. If at any time Scotia Capital (USA) Inc. or any other dealer was not to make a market in the Notes, it is likely that there would be no secondary market for the Notes. Accordingly, you should be willing to hold your Notes to maturity.

Hedging Activities by the Bank May Negatively Impact Investors in the Notes and Cause Our Respective Interests and Those of Our Clients and Counterparties to Be Contrary to Those of Investors in the Notes

The Bank or one or more of our affiliates has hedged or expects to hedge the obligations under the Notes by purchasing futures and/or other instruments linked to the Reference Asset. The Bank or one or more of our affiliates also expects to adjust the hedge by, among other things, purchasing or selling any of the foregoing, and perhaps other instruments linked to the Reference Asset or one or more of the Reference Asset constituent stocks, at any time and from time to time, and to unwind the hedge by selling any of the foregoing on or before the Final Valuation Date.

The Bank or one or more of our affiliates may also enter into, adjust and unwind hedging transactions relating to other basket- or index-linked Notes whose returns are linked to changes in the level or price of the Reference Asset or the Reference Asset constituent stocks. Any of these hedging activities may adversely affect the level of the Reference Asset—directly or indirectly by affecting the price of the Reference Asset constituent stocks—and therefore the market value of the Notes and the amount you will receive, if any, on the Notes. In addition, you should expect that these transactions will cause the Bank or our affiliates or our respective clients or counterparties, to have economic interests and incentives that do not align with, and that may be directly contrary to, those of an investor in the Notes. The Bank or our affiliates will have no obligation to take, refrain from taking or cease taking any action with respect to these transactions based on the potential effect on an investor in the Notes, and may receive substantial returns with respect to these hedging activities while the value of the Notes may decline.

The Calculation Agent Can Postpone the Valuation Dates for the Notes if a Market Disruption Event with Respect to the Reference Asset Occurs

If the Calculation Agent determines, in its sole discretion, that, on a day that would otherwise be a Valuation Date, a market disruption event with respect to the Reference Asset has occurred or is continuing for the Reference Asset, the Valuation Date will be postponed until the first following trading day on which no market disruption event occurs or is continuing, although the Valuation Date will not be postponed by more than seven scheduled trading days. Moreover, if a Valuation Date is postponed to the last possible day, but a market disruption event occurs or is continuing on that day, that day will nevertheless be a Valuation Date, and the Calculation Agent will determine the applicable Closing Level or Final Level that must be used to determine the Contingent Interest Payment and or Payment at Maturity. Under certain circumstances, the determinations of the Calculation Agent will be confirmed by an independent expert. See “General Terms of the Notes—Unavailability of the Level of the Reference Asset on a Valuation Date” beginning on page PS-17, “General Terms of the Notes—Market Disruption Events” beginning on page PS-19 and “Appointment of Independent Calculation Experts” on page PS-22, in the accompanying product prospectus supplement.

Uncertain Tax Treatment

Significant aspects of the tax treatment of the Notes are uncertain. You should consult your tax advisor about your own tax situation. See "Certain Canadian Income Tax Consequences" and "Certain U.S. Federal Income Tax Considerations" in this pricing supplement.

Information Regarding The Reference Asset

The Russell 2000® Index, which we refer to as the Russell 2000® Index , is an index calculated, published and disseminated by Russell Investment Group ("Russell"), and measures the composite price performance of stocks of 2,000 companies in the U.S. equity market. Additional information about the Russell 2000® Index is available on the following website: www.russell.com/Indexes/data/fact_sheets/us/Russell_2000_Index.asp. We are not incorporating by reference the website or any material it includes in this prospectus supplement.

As of January 28, 2013, the 2,000 companies included in the Russell 2000® Index were divided into nine Russell Global Sectors. The Russell Global Sectors include (with the approximate percentage currently included in such sectors indicated in parentheses): Consumer Discretionary (15.06%), Consumer Staples (3.08%), Financial Services (23.23%), Health Care (12.41%), Materials & Processing (7.83%), Other Energy (5.95%), Producer Durables (14.60%), Technology (13.71%) and Utilities (4.12%). (Sector designations are determined by the index sponsor using criteria it has selected or developed. Index sponsors may use very different standards for determining sector designations. In addition, many companies operate in a number of sectors, but are listed in only one sector and the basis on which that sector is selected may also differ. As a result, sector comparisons between indices with different index sponsors may reflect differences in methodology as well as actual differences in the sector composition of the indices.)

The index includes approximately 2,000 of the smallest securities that form the Russell 3000® Index. The Russell 3000® Index is comprised of the 3,000 largest companies, or 98% based on market capitalization, of the investable U.S. equity market. The Russell 2000 Index represents approximately 10% of the total market capitalization of the Russell 3000® Index. The Russell 2000® Index is designed to track the performance of the small capitalization segment of the U.S. equity market.

Selection of Constituent Stocks of the Russell 2000® Index

The Russell 2000® Index is a sub-index of the Russell 3000® Index. To be eligible for inclusion in the Russell 3000® Index, and, consequently, the Russell 2000® Index, a company's stocks must be listed on the last trading day of May of a given year and Russell must have access to documentation verifying the company's eligibility for inclusion. Eligible initial public offerings are added to Russell U.S. Indices at the end of each calendar quarter, based on total market capitalization rankings within the market-adjusted capitalization breaks established during the most recent reconstitution. To be added to any Russell U.S. index during a quarter outside of reconstitution, initial public offerings must meet additional eligibility criteria.

A company is included in the U.S. equity markets and is eligible for inclusion in the Russell 3000® Index, and consequently, the Russell 2000® Index, if that company incorporates in, has its headquarters in and also trades with the highest liquidity (as defined by a two-year average daily dollar trading volume from all exchanges) in the United States or its territories. If a company satisfies any one of these criteria and the primary location of that company's assets or its revenue, based on an average of two years of assets or revenues data, is also in the United States, that company will also be considered part of the U.S. equity market. In addition, if there is insufficient information to assign a company to the U.S. equity markets based on its assets or revenue, the company may nonetheless be assigned to the U.S. equity markets if the headquarters of the company is located in certain "benefit-driven incorporation countries", or "BDIs", and that company's most liquid stock exchange is also in the United States. The BDI countries are Anguilla, Antigua and Barbuda, Aruba, Bahamas, Barbados, Belize, Bermuda, Bonaire, British Virgin Islands, Cayman Islands, Channel Islands, Cook Islands, Curacao, Faroe Islands, Gibraltar, Isle of Man, Liberia, Marshall Islands, Panama, Saba, Sint Eustatius, Sint Maarten and Turks and Caicos Islands. ADRs and ADSs are not eligible for inclusion in the Russell 2000® Index.

Exclusions from the Russell 2000® Index

Russell specifically excludes the following companies and securities from the Russell 2000® Index : (i) preferred and convertible preferred stock, redeemable shares, participating preferred stock, warrants, rights and trust receipts; (ii) royalty trusts, limited liability companies, closed-end investment companies (business development companies are eligible), blank check companies, special purpose acquisition companies and limited partnerships; (iii) companies with a total market capitalization less than $30 million; (iv) companies with only a small portion of their shares available in the marketplace (companies with 5% or less float); (v) bulletin board, pink sheets or over-the-counter traded securities; and (vi) real estate investment trusts and publicly traded partnerships that generate, or have historically generated, unrelated business taxable income and have not taken steps to block their unrelated business taxable income to equity holders.

Initial List of Eligible Securities

The primary criterion Russell uses to determine the initial list of securities eligible for the Russell 3000® Index and consequently, the Russell 2000® Index , is total market capitalization, which is calculated by multiplying the total outstanding shares for a company times the market price as of the last trading day in May. All common stock share classes are combined in determining market capitalization. If multiple share classes have been combined, the price of the primary vehicle (usually the most liquid) is used in the calculations. In cases where the common stock share classes act independently of each other (e.g., tracking stocks), each class is considered for inclusion separately. Stocks must trade at or above $1.00 on their primary exchange on the last trading day of May of each year to be eligible for inclusion in the Russell 2000® Index. In order to reduce unnecessary turnover, if an existing member’s closing price is less than $1.00 on the last trading day of May, it will be considered eligible if the average of the daily closing prices from their primary exchange during the month of May is equal to or greater than $1.00.

Annual Reconstitution

The Russell 2000® Index is reconstituted annually by Russell to reflect changes in the marketplace. The list of companies is ranked based on total market capitalization on the last trading day in May, with the actual reconstitution effective on the first trading day following the final Friday of June each year, unless the final Friday in June is the 28th, 29th or 30th, in which case reconstitution will be effective on the preceding Friday. Changes in the constituents are preannounced and subject to change if any corporate activity occurs or if any new information is received prior to release.

Index Calculation and Capitalization Adjustments

As a capitalization-weighted index, the Russell 2000® Index reflects changes in the capitalization, or market value, of the underlier stocks relative to the capitalization on a base date. This discussion describes the “price return” calculation of the Russell 2000® Index. The current Russell 2000 Index value is the compounded result of the cumulative daily (or monthly) return percentages, where the starting value of the index is equal to the base value (100) and base date (December 31, 1978). Returns between any two dates can then be derived by dividing the ending period index value (IV_1) by the beginning period (IV_0) index value, so that the return equals $[(IV_1 / IV_0) - 1]*100$. The ending period index value, for purposes of calculating the Russell 2000® Index value, on any date is determined by adding the market values of the underlier stocks, which are derived by multiplying the price of each stock by the number of available shares, to arrive at the total market capitalization of the 2,000 stocks. To calculate the Russell 2000 Index, last sale prices will be used for exchange-traded and NASDAQ stocks. In the event of a market disruption resulting in any underlier stock price to be unavailable, Russell will generally use the last reported price for such underlier stock for the purpose of performance calculation.

Constituent stocks of the index are weighted in the Russell 2000® Index by their free-float market capitalization, which is calculated by multiplying the primary closing price by the number of free-float shares. Free-float shares are shares that are available to the public for purchase as determined by Russell. Russell determines shares available to the public for purchase based on information recorded in corporate filings with the Securities and Exchange Commission and other reliable sources in the event of missing or questionable data. Russell removes the following types of shares from total market capitalization to arrive at free-float market capitalization:

Corporate cross-owned shares — shares of a company in the index that are held by another company that is included in any other Russell index;

Large private and corporate holdings —shares held by an individual, a group of individuals acting together or a corporation (that is included in the index) if such shareholdings constitute 10% or more of the shares outstanding. Institutional holdings, including investment companies, partnerships, insurance companies, mutual funds, banks or venture capital firms, are not excluded unless the firm has a direct relationship to the company, such as board representation, in which case they are considered strategic holdings and excluded;

ESOP or LESOP shares — shares held by employee stock ownership plans and leveraged employee stock ownership plans that comprise 10% or more of a company’s outstanding shares;

Unlisted share classes — classes of common stock that are not traded on a U.S. securities exchange;

Initial public offering lock-ups — shares locked-up during an initial public offering are not available to the public and will be excluded from the market value at the time the initial public offering enters the index; and

Government holdings — shareholdings listed as "government of". Shares held by government investment boards and/or investment arms are treated like shares held by large private shareholdings and are excluded if the number of shares is greater than 10% of outstanding shares. Shares held by a government pension plan are considered institutional holdings and will not be excluded.

Corporate Actions Affecting the Index

Russell adjusts the index on a daily basis in response to certain corporate actions and events. Therefore, a company's membership in the index and its weight in the index can be impacted by these corporate actions. The adjustment is applied based on sources of public information, including press releases and Securities and Exchange Commission filings. Prior to the completion of a corporate action or event, Russell estimates the effective date. Russell will then adjust the anticipated effective date based on public information until the date is considered final. Depending on the time on a given day that an action is determined to be final, Russell will generally either (1) apply the action before the open on the ex-date or (2) apply the action after providing appropriate notice to its clients regarding the impact of the action and the effective date. Russell applies the following methodology guidelines when adjusting the index in response to corporate actions and events:

No Replacement" Rule — Securities that are deleted from the Index between reconstitution dates, for any reason (e.g., mergers, acquisitions or other similar corporate activity) are not replaced. Thus, the number of securities in the Index over the past year will fluctuate according to corporate activity.

Mergers and Acquisitions —

Between constituents: When mergers and acquisitions take place between companies that are both constituents of a Russell index, the target company is deleted and its market capitalization simultaneously moves to the acquiring company's stock. Russell categorizes the surviving entity based on a weighted average of the market value of the two companies prior to the merger using market values as of the day immediately before Russell determines that the action or event is final. Given sufficient market hours after confirmation, Russell effects this action after the close on the last day of trade of the target company.

Between a constituent and a non-constituent: If the target company is a member of the Russell 2000 Index, it is deleted from the index after Russell determines that the action or event is final. If the acquiring company is a member of the Russell 2000 Index, its shares are adjusted by adding the target company's market capitalization. If the target company is not a member of a Russell index, Russell will also analyze the transaction to determine whether it constitutes a reverse merger. A reverse merger occurs when the acquiring company is a private, non-publicly traded company or OTC company, and the acquisition results in a transaction whereby a new publicly traded company is created that meets all of the requirements for inclusion in a Russell index based on market capitalization using the opening price on the day after the merger or acquisition is considered final. In such a case, the newly formed entity will be placed in the Russell 2000® Index, if appropriate, and the target company simultaneously removed from the Russell 2000® Index, after the close of the market on the day after the merger is considered final. If the event does not qualify as a reverse merger, the target company is deleted after the action is determined to be final.

Reincorporation — Members of a Russell U.S. index, like the Russell 2000® Index , that reincorporate to another country and continue to trade in the United States and companies that reincorporate to the United States during the year are analyzed for assignment by Russell during annual reconstitution. Members that reincorporate in another country and no longer trade in the United States are immediately deleted from the Russell U.S. indices.

Rights Offerings — Rights offered to shareholders are reflected in the index only if the subscription price of the rights is at a discount to the market price. Provided that Russell has been alerted to the rights offer prior to the ex-date, it will adjust the price of the stock for the value of the rights and increased shares according to the terms of the offering before the open on the ex-date. If Russell is unable to provide prior notice, it will delay the price adjustment until the appropriate notice has been given. This treatment applies for both transferable and non-transferable rights. Rights issued as part of a poison pill arrangement or entitlements that give shareholders the right to purchase ineligible securities such as convertible debt are excluded from this treatment.

Spin-offs and Initial Public Offerings — Spun-off companies are added to the parent company's index if the spun-off company meets all the eligibility requirements of the index and its total market capitalization is greater than the market-adjusted total market capitalization of the smallest security in the Russell 3000E™ Index at the latest reconstitution. Spun-off companies are added to the index at the same time as they are spun-off from their parent company, which is on the completion date of the spin-off. The parent company's market value will be reduced simultaneously on the Russell effective date.

Initial Public Offerings — Eligible initial public offerings are added to the Russell 2000® Index at the end of each calendar quarter, except that fourth quarter IPO additions will be processed after the close on the third Friday of each December.

Tender Offers — A company acquired as a result of a tender offer is removed if (i) the tender offer period ends; (ii) shareholders have validly tendered, not withdrawn, and the shares have been accepted for payment; (iii) all regulatory requirements have been fulfilled; and (iv) the acquiring company is able to finalize the acquisition via a short-form merger, top-up option or other compulsory mechanism. In the case where all the above requirements have been fulfilled except for the acquiring company being able to finalize the acquisition through a compulsory mechanism, Russell will make a share adjustment to the target company's shares, on a date pre-announced by Russell, in cases where the float-adjusted shares have decreased by 30% or more and the tender offer has fully completed and closed.

Delisted and Halted Stocks — When stocks are deleted from the index as a result of exchange de-listing or reconstitution, the price used will be the closing primary exchange price on the day the action is final (t), or the following day (t+1) using the closing OTC bulletin board price. Halted securities are not removed from the index until the time they are actually delisted from the exchange. If a security is halted, it remains in the index at the most recent closing price until the security resumes trading or is officially delisted. If, however, a stock is (i) halted due to financial difficulty/debt or cash flow issues for a period longer than 40 calendar days or (ii) suspended due to exchange listing rules or legal regulatory issues longer than one calendar quarter, Russell will review for removal on a case-by-case basis. Determinations will be made based upon reasonable likelihood of trade resumption and likelihood of residual value returned to equity holders. If removal is deemed appropriate, Russell will remove the stock at zero value at the end of the month. Stocks that are scheduled for removal but suspended or not trading through reconstitution due to low liquidity or those suspended by the exchange or other governing body due to liquidity issues will be monitored for trade resumption. Once trading resumes, the securities will be removed from the index using the closing price on the primary exchange of the securities.

Bankruptcy and Voluntary Liquidations — Companies that file for a Chapter 7 liquidation bankruptcy or have filed a liquidation plan will be removed from the index at the time of the bankruptcy filing; whereas companies filing for a Chapter 11 reorganization bankruptcy will remain a member of the index, unless the company is de-listed from the primary exchange, in which case normal de-listing rules apply. If a company files for bankruptcy, is delisted and it can be confirmed that it will not trade OTC, Russell may remove the stock at a nominal price of $0.0001.

Change of Company Structure — If a company changes its corporate designation from that of a Business Development Company, Russell will remove the company from the index after giving two days' notice of its removal.

Stock Distributions — A price adjustment for stock distributions is applied on the ex-date of the distribution. When the number of shares for the distribution is fixed, Russell increases the number of shares on the ex-date. When the number of shares is an undetermined amount based on future earnings and profits, Russell increases the number of shares on the pay-date.

Dividends — Russell includes gross dividends in the daily total return calculation of the index on the basis of their ex-dates. If a dividend is payable in stock and cash and the stock rate cannot be determined by the ex-date, the dividend is treated as all cash. Regular cash dividends are reinvested across the index at the close on the dividend ex-date, while special cash dividends are subtracted from the price of the stock before the open on the ex-date.

Updates to Share Capital — Changes to shares outstanding due to buybacks (including Dutch auctions), secondary offerings, merger activity with a non-index member and other potential changes are generally updated at the end of the month in which the change is reflected in vendor-supplied updates. Russell verifies this information using publicly available information filed with the Securities and Exchange Commission. Russell only applies such changes if the aggregate change in the number of shares outstanding is greater than 5%. The float factor determined during the most recent annual reconstitution is applied to this figure, and only the available shares will be added to the index. No such changes are made in June due to the most recent annual reconstitution. Month-end changes in November and December will be processed as one event after the close on the third Friday of each December due to low liquidity in the financial markets at the end of the year.

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 February 14, 2013 was 923.76. ***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
1/4/2010	3/31/2010	690.30	586.49	678.64
4/1/2010	6/30/2010	741.92	609.49	609.49
7/1/2010	9/30/2010	677.64	590.03	676.14
10/1/2010	12/31/2010	792.35	669.45	783.65
1/3/2011	3/31/2011	843.55	773.18	843.55
4/1/2011	6/30/2011	865.29	777.20	827.43
7/1/2011	9/30/2011	858.11	643.42	644.16
10/3/2011	12/30/2011	765.43	609.49	740.92
1/3/2012	3/30/2012	846.13	747.28	830.30
4/2/2012	6/29/2012	840.63	737.24	798.49
7/02/2012	9/28/2012	864.70	767.75	837.45
10/3/2012	12/31/2012	852.49	769.48	849.35
1/2/2013*	2/14/2013	923.76	872.60	923.76

* As of the date of this pricing supplement, available information for the first calendar quarter of 2013 includes data for the period from January 2, 2013 through February 14, 2013. 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 first calendar quarter of 2013.

The graph below illustrates the performance of the Reference Asset from January 2, 2003 through February 14, 2013. The lower dotted line represents a hypothetical Barrier Level of 461.88, which is equal to 50% of the closing level of the Reference Asset on February 14, 2013. The upper dotted line represents a hypothetical Trigger Level of 692.82, which is equal to 75% of the closing level of the Reference Asset on February 14, 2013. ***Past performance of the Reference Asset is not indicative of the future performance of the Reference Asset.***

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

We have not undertaken an independent review or due diligence of the information obtained from Bloomberg Financial Markets. 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.

License Agreement

Frank Russell Company and The Bank of Nova Scotia (the "Bank") have entered into a non-exclusive license agreement, granting The Bank, and certain of its affiliates, in exchange for a fee, permission to use the Russell 2000 Index in connection with the offer and sale of the Notes. The Bank is not affiliated with Russell; the only relationship between Russell and The Bank is the licensing of the use of the Russell 2000® Index (a trademark of Russell) and trademarks relating to the Russell 2000® Index. The Bank does not accept any responsibility for the calculation, maintenance or publication of the Russell 2000 Index or any successor index.

The Notes are not sponsored, endorsed, sold or promoted by Russell. Russell 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 Russell 2000® Index to track general stock market performance or a segment of the same.

Russell's publication of the Russell 2000® Index in no way suggests or implies an opinion by Russell as to the advisability of investment in any or all of the securities upon which the Russell 2000® Index is based. Russell's only relationship to The Bank is the licensing of certain trademarks and trade names of Russell and of the Russell 2000® Index which is determined, composed and calculated by Russell without regard to The Bank or the notes. Russell is not responsible for and has not reviewed the notes nor any associated literature or publications and Russell makes no representation or warranty express or implied as to their accuracy or completeness, or otherwise. Russell reserves the right, at any time and without notice, to alter, amend, terminate or in any way change the Russell 2000® Index. Russell has no obligation or liability in connection with the administration, marketing or trading of the notes.

RUSSELL DOES NOT GUARANTEE THE ACCURACY AND/OR THE COMPLETENESS OF THE RUSSELL 2000® INDEX OR ANY DATA INCLUDED THEREIN AND RUSSELL SHALL HAVE NO LIABILITY FOR ANY ERRORS, OMISSIONS, OR INTERRUPTIONS THEREIN. RUSSELL MAKES NO WARRANTY, EXPRESS OR IMPLIED, AS TO RESULTS TO BE OBTAINED BY THE BANK, INVESTORS, OWNERS OF THE NOTES, OR ANY OTHER PERSON OR ENTITY FROM THE USE OF THE RUSSELL 2000® INDEX OR ANY DATA INCLUDED THEREIN. RUSSELL 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 RUSSELL 2000® INDEX OR ANY DATA INCLUDED THEREIN. WITHOUT LIMITING ANY OF THE FOREGOING, IN NO EVENT SHALL RUSSELL HAVE ANY LIABILITY FOR ANY SPECIAL, PUNITIVE, INDIRECT, OR CONSEQUENTIAL DAMAGES (INCLUDING LOST PROFITS), EVEN IF NOTIFIED OF THE POSSIBILITY OF SUCH DAMAGES.

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 reoffer the Notes to third party distributors at a discount and with an underwriting commission of $[25.00 – 35.00] per $1,000 Principal Amount of Notes in connection with the distribution of the Notes. The actual discounts and underwriting commissions will be determined on the Trade Date. 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.

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. and its 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. and its 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. and its 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. and its 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 “Canadian Taxation ” at page 37 of the accompanying prospectus.

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, any Contingent Interest Payment that is paid by us (including on the maturity date or upon call) should be included in your income as ordinary income in accordance with your regular method of accounting for U.S. federal income tax purposes. Additionally, you should generally recognize capital gain or loss upon the sale, exchange, redemption or payment on maturity in an amount equal to the difference between the amount you receive at such time (excluding the amount attributable to any Contingent Interest Payment) 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 “United States Taxation” of the accompanying prospectus. In particular, U.S. holders (as defined in the prospectus) 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) 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 “—Treasury Regulations Requiring Disclosure of Reportable Transactions”, “—Information With Respect to Foreign Financial Assets” and “—Backup Withholding and Information Reporting” under “United States Taxation” in the prospectus.

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 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 single debt instrument subject to the special tax rules governing contingent payment debt instruments. Alternatively, the IRS may 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.

Non-U.S. Holders. The U.S. federal income tax treatment of the Contingent Interest Payment is unclear. We currently do not intend to withhold any tax on any Contingent Interest Payment made to a non-U.S. holder that provides us with a fully completed and validly executed applicable IRS Form W-8BEN. However, it is possible that the IRS could assert that such payments are subject to U.S. withholding tax, or that we or another withholding agent may otherwise determine that withholding is required, in which case we or the other withholding agent may withhold up to 30% on such payments (subject to reduction or elimination of such withholding tax pursuant to an applicable income tax treaty).

Section 871(m) of the Code requires withholding (up to 30%, depending on the applicable treaty) on certain financial instruments to the extent that the payments or deemed payments on the financial instruments are contingent upon or determined by reference to U.S.-source dividends. Under proposed U.S. Treasury Department regulations, certain payments that are contingent upon or determined by reference to U.S.-source dividends, including payments or adjustments for extraordinary U.S.- source dividends, with respect to equity-linked instruments, including the Notes, may be treated as dividend equivalents subject to U.S. withholding tax. To the extent any final regulations may impose a withholding tax on payments or adjustment made on the Notes on or after January 1, 2014 that are treated as U.S.-source dividend equivalents, we (or the applicable paying agent) would be entitled to withhold taxes without being required to pay any additional amounts with respect to amounts so withheld. Further, non-U.S. holders may be required to provide certifications prior to or upon the sale, redemption or maturity of the Notes in order to minimize or avoid U.S. withholding taxes.

Foreign Account Tax Compliance Act. Sections 1471 through 1474 of the Internal Revenue Code (which are commonly referred to as "FATCA") generally impose a 30% withholding tax on certain payments, including "pass-thru" payments to certain persons if the payments are attributable to assets that give rise to U.S.-source income or gain.

However, the IRS has issued final regulations extending the FATCA "grandfathering" date such that FATCA withholding tax would not apply to any payment made under obligations outstanding on January 1, 2014 (and not materially modified after December 31, 2013). If the Notes are not materially modified, FATCA withholding generally is not expected to be required on the Notes. If, however, withholding is required as a result of future guidance, we (and any paying agent) will not be required to pay additional amounts with respect to the amounts so withheld.

Significant aspects of the application of FATCA are not currently clear. Investors should consult their own advisors about the application of FATCA, in particular if they may be classified as financial institutions under the FATCA rules.

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.

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Neiman Marcus Group Inc., Senior Secured Notes

7.125%

6/1/28

1,800,000

1,656,000

Specialty Retail 2.3%

American Greetings Corp., Senior Notes

7.375%

12/1/21

1,570,000

1,597,475

Edcon Proprietary Ltd., Senior Secured Notes

9.500%

3/1/18

1,970,000

1,546,450

(a)

Gymboree Corp., Senior Notes

9.125%

12/1/18

2,110,000

1,856,800

Michaels Stores Inc., Senior Subordinated Bonds

11.375%

11/1/16

1,230,000

1,309,827

Michaels Stores Inc., Senior Subordinated Notes

13.000%

11/1/16

2,880,000

3,081,312

Spencer Spirit Holdings Inc./Spencer Gifts LLC/Spirit Halloween Superstores, Senior Notes

11.000%

5/1/17

830,000

817,550

(a)

Total Specialty Retail

10,209,414

See Notes to Schedule of Investments.

WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

Schedule of investments (unaudited) (cont d)

December 31, 2011

SECURITY	RATE	MATURITY DATE	FACE AMOUNT		VALUE
Textiles, Apparel & Luxury Goods 0.8%					
Empire Today LLC/Empire Today Finance Corp., Senior Secured Notes	11.375%	2/1/17	600,000	$	562,500(a)
Oxford Industries Inc., Senior Secured Notes	11.375%	7/15/15	2,570,000		2,827,000
Total Textiles, Apparel & Luxury Goods					*3,389,500*
TOTAL CONSUMER DISCRETIONARY					84,857,823
CONSUMER STAPLES 1.4%					
Food Products 1.3%					
Del Monte Corp., Senior Notes	7.625%	2/15/19	2,374,000		2,290,910
Harmony Foods Corp., Senior Secured Notes	10.000%	5/1/16	570,000		575,700(a)
Simmons Foods Inc., Senior Secured Notes	10.500%	11/1/17	2,980,000		2,495,750(a)
Smithfield Foods Inc., Senior Secured Notes	10.000%	7/15/14	233,000		272,028
Total Food Products					*5,634,388*
Household Products 0.0%					
Reynolds Group DL Escrow Inc./Reynolds Group Escrow LLC, Senior Secured Notes	8.750%	10/15/16	100,000		*105,750*(a)
Tobacco 0.1%					
Alliance One International Inc., Senior Notes	10.000%	7/15/16	446,000		*403,630*
TOTAL CONSUMER STAPLES					6,143,768
ENERGY 12.6%					
Energy Equipment & Services 2.9%					
Complete Production Services Inc., Senior Notes	8.000%	12/15/16	1,150,000		1,201,750
Hercules Offshore LLC, Senior Secured Notes	10.500%	10/15/17	2,285,000		2,233,588(a)
Parker Drilling Co., Senior Notes	9.125%	4/1/18	1,480,000		1,565,100
Petroleum Geo-Services ASA, Senior Notes	7.375%	12/15/18	630,000		645,750(a)
Pioneer Drilling Co., Senior Notes	9.875%	3/15/18	810,000		850,500(a)
Precision Drilling Corp., Senior Notes	6.625%	11/15/20	360,000		369,900
SESI LLC, Senior Notes	7.125%	12/15/21	1,990,000		2,094,475(a)
Vantage Drilling Co., Senior Secured Notes	11.500%	8/1/15	3,520,000		3,823,600
Total Energy Equipment & Services					*12,784,663*
Oil, Gas & Consumable Fuels 9.7%					
Berry Petroleum Co., Senior Notes	10.250%	6/1/14	1,155,000		1,312,369
Calumet Specialty Products Partners LP/Calumet Finance Corp., Senior Notes	9.375%	5/1/19	2,990,000		2,915,250(a)
Chesapeake Energy Corp., Senior Notes	7.250%	12/15/18	425,000		471,750
Chesapeake Energy Corp., Senior Notes	6.625%	8/15/20	1,530,000		1,648,575
Coffeyville Resources LLC/Coffeyville Finance Inc., Senior Secured Notes	9.000%	4/1/15	1,060,000		1,128,900(a)
Compagnie Generale de Geophysique-Veritas, Senior Notes	9.500%	5/15/16	560,000		607,600
Compagnie Generale de Geophysique-Veritas, Senior Notes	7.750%	5/15/17	410,000		417,175
CONSOL Energy Inc., Senior Notes	8.250%	4/1/20	1,410,000		1,565,100

Corral Petroleum Holdings AB, Senior Notes	15.000%	12/31/17	3,178,521	2,447,461(a)(b)(e)
Crosstex Energy LP/Crosstex Energy Finance Corp., Senior Notes	8.875%	2/15/18	350,000	384,125
El Paso Corp., Medium-Term Notes	7.800%	8/1/31	870,000	1,007,025
Energy Transfer Equity LP, Senior Notes	7.500%	10/15/20	1,370,000	1,503,575
Enterprise Products Operating LLP, Junior Subordinated Notes	8.375%	8/1/66	1,270,000	1,360,190(d)
Enterprise Products Operating LLP, Subordinated Notes	7.034%	1/15/68	790,000	822,605(d)
EXCO Resources Inc., Senior Notes	7.500%	9/15/18	2,130,000	2,023,500
Kodiak Oil & Gas Corp., Senior Notes	8.125%	12/1/19	1,180,000	1,224,250(a)
MarkWest Energy Partners LP/MarkWest Energy Finance Corp., Senior Notes	6.750%	11/1/20	430,000	452,575
MarkWest Energy Partners LP/MarkWest Energy Finance Corp., Senior Notes	6.500%	8/15/21	260,000	272,025
Milagro Oil & Gas Inc., Secured Notes	10.500%	5/15/16	1,530,000	1,078,650

See Notes to Schedule of Investments.

WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

Schedule of investments (unaudited) (cont d)

December 31, 2011

SECURITY	RATE	MATURITY DATE	FACE AMOUNT		VALUE
Oil, Gas & Consumable Fuels continued					
Overseas Shipholding Group Inc., Senior Notes	8.125%	3/30/18	2,855,000	$	1,766,531
Peabody Energy Corp., Senior Notes	7.875%	11/1/26	470,000		506,425
Petroplus Finance Ltd., Senior Notes	6.750%	5/1/14	1,090,000		664,900(a)(h)
Petroplus Finance Ltd., Senior Notes	7.000%	5/1/17	780,000		397,800(a)(h)
Plains Exploration & Production Co., Senior Notes	10.000%	3/1/16	1,305,000		1,451,813
Plains Exploration & Production Co., Senior Notes	8.625%	10/15/19	1,195,000		1,318,981
PT Adaro Indonesia, Senior Notes	7.625%	10/22/19	400,000		438,520(a)
Quicksilver Resources Inc., Senior Notes	11.750%	1/1/16	2,255,000		2,570,700
Quicksilver Resources Inc., Senior Notes	9.125%	8/15/19	780,000		830,700
Range Resources Corp., Senior Subordinated Notes	8.000%	5/15/19	100,000		112,000
SandRidge Energy Inc., Senior Notes	7.500%	3/15/21	460,000		458,850
Teekay Corp., Senior Notes	8.500%	1/15/20	2,280,000		2,205,900
Tennessee Gas Pipeline Co., Senior Notes	8.375%	6/15/32	3,270,000		4,164,992
TNK-BP Finance SA, Senior Notes	7.875%	3/13/18	1,525,000		1,645,094(a)
Whiting Petroleum Corp., Senior Subordinated Notes	6.500%	10/1/18	550,000		577,500
Xinergy Ltd., Senior Secured Notes	9.250%	5/15/19	1,340,000		1,139,000(a)
Total Oil, Gas & Consumable Fuels					*42,892,406*
TOTAL ENERGY					55,677,069
FINANCIALS 5.9%					
Capital Markets 0.2%					
Goldman Sachs Group Inc., Subordinated Notes	6.750%	10/1/37	1,100,000		*1,026,557*
Commercial Banks 1.1%					
BankAmerica Institutional Capital A, Junior Subordinated Bonds	8.070%	12/31/26	520,000		470,600(a)
BankAmerica Institutional Capital B, Junior Subordinated Bonds	7.700%	12/31/26	600,000		535,500(a)
CIT Group Inc., Senior Secured Bonds	7.000%	5/1/16	1,130,700		1,132,113
CIT Group Inc., Senior Secured Bonds	7.000%	5/1/17	1,294,694		1,296,312
Credit Agricole SA, Subordinated Notes	8.375%	10/13/19	830,000		626,650(a)(d)(i)
Royal Bank of Scotland Group PLC, Junior Subordinated Bonds	7.648%	9/30/31	790,000		542,138(d)(i)
Total Commercial Banks					*4,603,313*
Consumer Finance 1.0%					
Ally Financial Inc., Senior Bonds	0.000%	12/1/12	1,800,000		1,696,500
GMAC International Finance BV, Senior Bonds	7.500%	4/21/15	730,000EUR		902,287
SLM Corp., Medium-Term Notes	8.000%	3/25/20	920,000		931,500
SLM Corp., Medium-Term Notes, Senior Notes	8.450%	6/15/18	965,000		998,775
Total Consumer Finance					*4,529,062*
Diversified Financial Services 2.9%					
Bank of America Corp., Senior Notes	6.500%	8/1/16	350,000		352,819
Bankrate Inc., Senior Secured Notes	11.750%	7/15/15	1,148,000		1,315,895
Capital One Capital V, Junior Subordinated Notes, Cumulative Trust Preferred Securities	10.250%	8/15/39	1,120,000		1,169,000

International Lease Finance Corp., Medium-Term Notes	6.375%	3/25/13	744,000	744,000
International Lease Finance Corp., Medium-Term Notes, Senior Notes	5.625%	9/20/13	1,670,000	1,638,687
International Lease Finance Corp., Senior Notes	8.625%	9/15/15	820,000	843,575
International Lease Finance Corp., Senior Notes	8.875%	9/1/17	3,810,000	3,962,400
International Lease Finance Corp., Senior Notes	8.250%	12/15/20	1,580,000	1,599,750
MBNA Capital A, Junior Subordinated Notes	8.278%	12/1/26	1,250,000	1,164,063
Total Diversified Financial Services				*12,790,189*
Insurance 0.7%				
American International Group Inc., Senior Notes	8.250%	8/15/18	1,465,000	1,554,660
Dai-ichi Life Insurance Co., Ltd., Subordinated Notes	7.250%	7/25/21	520,000	524,345(a)(d)(i)

See Notes to Schedule of Investments.

WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

Schedule of investments (unaudited) (cont d)

December 31, 2011

SECURITY	RATE	MATURITY DATE	FACE AMOUNT		VALUE
Insurance continued					
ING Capital Funding Trust III, Junior Subordinated Bonds	4.179%	3/31/12	410,000	$	323,865(d)(i)
MetLife Capital Trust IV, Junior Subordinated Notes	7.875%	12/15/37	590,000		615,075(a)
Total Insurance					*3,017,945*
TOTAL FINANCIALS					25,967,066
HEALTH CARE 6.4%					
Biotechnology 0.2%					
Grifols Inc., Senior Notes	8.250%	2/1/18	700,000		*738,500*
Health Care Equipment & Supplies 0.2%					
Biomet Inc., Senior Notes	10.000%	10/15/17	180,000		195,300
Biomet Inc., Senior Toggle Notes	10.375%	10/15/17	650,000		706,875(b)
Total Health Care Equipment & Supplies					*902,175*
Health Care Providers & Services 6.0%					
Acadia Healthcare, Senior Notes	12.875%	11/1/18	720,000		716,400(a)
American Renal Associates Holdings Inc., Senior Notes	9.750%	3/1/16	1,503,823		1,485,149
American Renal Holdings, Senior Secured Notes	8.375%	5/15/18	1,130,000		1,192,150
AMERIGROUP Corp., Senior Notes	7.500%	11/15/19	880,000		910,800
Community Health Systems Inc., Senior Notes	8.000%	11/15/19	1,960,000		1,984,500(a)
CRC Health Corp., Senior Subordinated Notes	10.750%	2/1/16	4,265,000		4,073,075
ExamWorks Group Inc., Senior Notes	9.000%	7/15/19	850,000		773,500(a)
Fresenius Medical Care U.S. Finance Inc., Senior Notes	6.875%	7/15/17	700,000		749,000
Fresenius Medical Care U.S. Finance Inc., Senior Notes	6.500%	9/15/18	280,000		294,700(a)
Fresenius U.S. Finance II Inc., Senior Notes	9.000%	7/15/15	1,920,000		2,162,400(a)
HCA Inc., Debentures	7.500%	11/15/95	3,920,000		3,038,000
HCA Inc., Senior Secured Notes	7.875%	2/15/20	1,860,000		2,018,100
INC Research LLC, Senior Notes	11.500%	7/15/19	640,000		576,000(a)
InVentiv Health Inc., Senior Notes	10.000%	8/15/18	1,320,000		1,214,400(a)
Tenet Healthcare Corp., Senior Secured Notes	10.000%	5/1/18	1,320,000		1,514,700
Tenet Healthcare Corp., Senior Secured Notes	8.875%	7/1/19	770,000		868,175
Universal Hospital Services Inc., Senior Secured Notes	8.500%	6/1/15	1,990,000		2,019,850(b)
US Oncology Inc. Escrow			1,015,000		17,763*
Vanguard Health Holdings Co., II LLC, Senior Notes	8.000%	2/1/18	1,025,000		1,022,437
Total Health Care Providers & Services					*26,631,099*
TOTAL HEALTH CARE					28,271,774
INDUSTRIALS 14.3%					
Aerospace & Defense 2.1%					
Ducommun Inc., Senior Notes	9.750%	7/15/18	870,000		887,400(a)
FGI Operating Co. Inc., Senior Secured Notes	10.250%	8/1/15	1,768,000		1,882,920
Huntington Ingalls Industries Inc., Senior Notes	6.875%	3/15/18	890,000		876,650(a)
Huntington Ingalls Industries Inc., Senior Notes	7.125%	3/15/21	630,000		620,550(a)
Kratos Defense & Security Solutions Inc., Senior Secured Notes	10.000%	6/1/17	2,220,000		2,286,600
Triumph Group Inc., Senior Notes	8.625%	7/15/18	800,000		880,000
Wyle Services Corp., Senior Subordinated Notes	10.500%	4/1/18	2,105,000		2,083,950(a)

Total Aerospace & Defense				*9,518,070*
Airlines 2.0%				
American Airlines Pass-Through Trust, Secured Notes	7.000%	1/31/18	705,313	627,729(a)
Continental Airlines Inc., Pass-Through Certificates	9.250%	5/10/17	150,881	155,407
Continental Airlines Inc., Pass-Through Certificates, Subordinated Secured Notes	7.339%	4/19/14	1,471,537	1,434,749
DAE Aviation Holdings Inc., Senior Notes	11.250%	8/1/15	3,870,000	4,044,150(a)
Delta Air Lines Inc., Pass-Through Certificates, Secured Notes	8.021%	8/10/22	745,726	731,706

See Notes to Schedule of Investments.

WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

Schedule of investments (unaudited) (cont d)

December 31, 2011

SECURITY	RATE	MATURITY DATE	FACE AMOUNT		VALUE
Airlines continued					
Delta Air Lines Inc., Pass-Through Certificates, Subordinated Secured Notes	9.750%	12/17/16	348,656	$	362,603
Delta Air Lines Inc., Senior Secured Notes	9.500%	9/15/14	519,000		537,165(a)
United Air Lines Inc., Senior Secured Notes	9.875%	8/1/13	819,000		841,522(a)
Total Airlines					*8,735,031*
Building Products 0.8%					
Ashton Woods USA LLC/Ashton Woods Finance Co., Senior Subordinated Notes, step bond	0.000%	6/30/15	520,400		398,106(a)(g)
Building Materials Corp. of America, Senior Notes	6.750%	5/1/21	2,110,000		2,220,775(a)
Shea Homes LP, Senior Secured Notes	8.625%	5/15/19	890,000		834,375(a)
Total Building Products					*3,453,256*
Commercial Services & Supplies 1.6%					
Altegrity Inc., Senior Subordinated Notes	10.500%	11/1/15	210,000		190,050(a)
Altegrity Inc., Senior Subordinated Notes	11.750%	5/1/16	2,605,000		2,292,400(a)
American Reprographics Co., Senior Notes	10.500%	12/15/16	1,500,000		1,342,500
Geo Group Inc., Senior Notes	7.750%	10/15/17	1,620,000		1,729,350
JM Huber Corp., Senior Notes	9.875%	11/1/19	780,000		822,900(a)
RSC Equipment Rental Inc./RSC Holdings III LLC, Senior Notes	8.250%	2/1/21	730,000		742,775
Total Commercial Services & Supplies					*7,119,975*
Construction & Engineering 0.3%					
Abengoa Finance SAU, Senior Notes	8.875%	11/1/17	1,310,000		*1,316,550*(a)
Electrical Equipment 0.3%					
NES Rentals Holdings Inc., Senior Secured Notes	12.250%	4/15/15	1,620,000		*1,377,000*(a)
Industrial Conglomerates 0.3%					
Leucadia National Corp., Senior Notes	8.125%	9/15/15	1,220,000		*1,288,625*
Machinery 0.5%					
Dematic SA, Senior Secured Notes	8.750%	5/1/16	2,050,000		*2,034,625*(a)
Marine 1.0%					
Horizon Lines LLC, Senior Secured Notes	11.000%	10/15/16	880,000		849,200(a)
Horizon Lines LLC, Senior Secured Notes	13.000%	10/15/16	1,160,000		1,084,600(a)(b)(e)
Navios Maritime Acquisition Corp./Navios Acquisition Finance U.S. Inc., Senior Secured Notes	8.625%	11/1/17	2,700,000		1,971,000
Navios Maritime Holdings Inc./Navios Maritime Finance II U.S. Inc., Senior Notes	8.125%	2/15/19	740,000		555,000
Total Marine					*4,459,800*
Road & Rail 3.6%					
Avis Budget Car Rental LLC/Avis Budget Finance Inc., Senior Notes	9.625%	3/15/18	410,000		426,400
Avis Budget Car Rental LLC/Avis Budget Finance Inc., Senior Notes	9.750%	3/15/20	900,000		929,250
Florida East Coast Holdings Corp., Senior Notes	10.500%	8/1/17	3,351,031		2,483,359(b)
Florida East Coast Railway Corp., Senior Secured Notes	8.125%	2/1/17	860,000		853,550
Jack Cooper Holdings Corp., Senior Secured Notes	13.250%	12/15/15	2,194,000		2,194,000(a)(e)

Kansas City Southern de Mexico, Senior Notes	12.500%	4/1/16	681,000	796,770
Kansas City Southern de Mexico, Senior Notes	8.000%	2/1/18	2,805,000	3,099,525
Kansas City Southern Railway, Senior Notes	8.000%	6/1/15	285,000	303,881
Quality Distribution LLC/QD Capital Corp., Secured Notes	9.875%	11/1/18	2,675,000	2,768,625
RailAmerica Inc., Senior Secured Notes	9.250%	7/1/17	1,872,000	2,054,520
Total Road & Rail				*15,909,880*
Trading Companies & Distributors 0.3%				
Ashtead Capital Inc., Notes	9.000%	8/15/16	108,000	113,130(a)
H&E Equipment Services Inc., Senior Notes	8.375%	7/15/16	1,370,000	1,407,675
Total Trading Companies & Distributors				*1,520,805*

See Notes to Schedule of Investments.

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WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

Schedule of investments (unaudited) (cont d)

December 31, 2011

SECURITY	RATE	MATURITY DATE	FACE AMOUNT		VALUE
Transportation 1.4%					
CMA CGM, Senior Notes	8.500%	4/15/17	2,680,000	$	1,199,300(a)
Hapag-Lloyd AG, Senior Notes	9.750%	10/15/17	2,630,000		1,946,200(a)
Syncreon Global Ireland Ltd./Syncreon Global Finance US Inc., Senior Notes	9.500%	5/1/18	3,120,000		2,893,800(a)
Total Transportation					*6,039,300*
Transportation Infrastructure 0.1%					
Aguila 3 SA, Senior Secured Notes	7.875%	1/31/18	540,000		*526,500*(a)
TOTAL INDUSTRIALS					63,299,417
INFORMATION TECHNOLOGY 3.4%					
Communications Equipment 0.5%					
Lucent Technologies Inc., Debentures	6.450%	3/15/29	3,140,000		*2,268,650*
Electronic Equipment, Instruments & Components 0.9%					
NXP BV/NXP Funding LLC, Senior Secured Notes	9.750%	8/1/18	3,460,000		*3,788,700*(a)
IT Services 1.1%					
First Data Corp., Senior Notes	10.550%	9/24/15	4,476,986		4,169,041
First Data Corp., Senior Notes	12.625%	1/15/21	420,000		367,500
First Data Corp., Senior Secured Notes	7.375%	6/15/19	120,000		113,400(a)
Sterling Merger Inc., Senior Notes	11.000%	10/1/19	270,000		264,600(a)
Total IT Services					*4,914,541*
Semiconductors & Semiconductor Equipment 0.9%					
CDW LLC/CDW Finance Corp., Senior Notes	11.000%	10/12/15	710,000		749,050
CDW LLC/CDW Finance Corp., Senior Notes	11.500%	10/12/15	590,000		622,450(b)
Freescale Semiconductor Inc., Senior Secured Notes	9.250%	4/15/18	860,000		923,425(a)
Freescale Semiconductor Inc., Senior Subordinated Notes	10.125%	12/15/16	1,785,000		1,887,638
Total Semiconductors & Semiconductor Equipment					*4,182,563*
TOTAL INFORMATION TECHNOLOGY					15,154,454
MATERIALS 8.3%					
Chemicals 1.4%					
Georgia Gulf Corp., Senior Secured Notes	9.000%	1/15/17	1,175,000		1,248,437(a)
Ineos Finance PLC, Senior Secured Notes	9.000%	5/15/15	1,160,000		1,183,200(a)
Kerling PLC, Senior Secured Notes	10.625%	1/28/17	955,000EUR		1,100,048(a)
Lyondell Chemical Co., Senior Secured Notes	8.000%	11/1/17	465,000		510,338
Lyondell Chemical Co., Senior Secured Notes	11.000%	5/1/18	683,766		750,433
Solutia Inc., Senior Notes	8.750%	11/1/17	45,000		49,388
Solutia Inc., Senior Notes	7.875%	3/15/20	1,210,000		1,321,925
Total Chemicals					*6,163,769*
Containers & Packaging 2.9%					
ARD Finance SA, Senior Secured Notes	11.125%	6/1/18	211,928		182,258(a)(b)
Ardagh Packaging Finance PLC, Senior Notes	9.125%	10/15/20	1,330,000		1,323,350(a)
	7.375%	10/15/17	560,000EUR		713,908(a)

Ardagh Packaging Finance PLC, Senior Secured Notes				
Berry Plastics Corp., Secured Notes	9.750%	1/15/21	1,410,000	1,413,525
Longview Fibre Paper & Packaging Inc., Senior Secured Notes	8.000%	6/1/16	1,120,000	1,125,600(a)
Pretium Packaging LLC/Pretium Finance Inc., Senior Secured Notes	11.500%	4/1/16	2,060,000	2,029,100
Reynolds Group Issuer Inc./Reynolds Group Issuer LLC, Senior Notes	9.250%	5/15/18	1,180,000	1,135,750(a)
Reynolds Group Issuer Inc./Reynolds Group Issuer LLC, Senior Notes	9.875%	8/15/19	920,000	897,000(a)
Reynolds Group Issuer Inc./Reynolds Group Issuer LLC, Senior Notes	8.250%	2/15/21	1,600,000	1,424,000(a)
Reynolds Group Issuer Inc./Reynolds Group Issuer LLC, Senior Secured Notes	6.875%	2/15/21	350,000	350,000(a)

See Notes to Schedule of Investments.

WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

Schedule of investments (unaudited) (cont d)

December 31, 2011

SECURITY	RATE	MATURITY DATE	FACE AMOUNT		VALUE
Containers & Packaging continued					
Viskase Cos. Inc., Senior Secured Notes	9.875%	1/15/18	2,260,000	$	2,299,550(a)
Total Containers & Packaging					*12,894,041*
Metals & Mining 2.7%					
FMG Resources (August 2006) Pty Ltd., Senior Notes	7.000%	11/1/15	300,000		304,500(a)
FMG Resources (August 2006) Pty Ltd., Senior Notes	8.250%	11/1/19	2,540,000		2,597,150(a)
Midwest Vanadium Pty Ltd., Senior Secured Notes	11.500%	2/15/18	3,400,000		2,499,000(a)
Mirabela Nickel Ltd., Senior Notes	8.750%	4/15/18	1,190,000		1,073,975(a)
Novelis Inc., Senior Notes	8.750%	12/15/20	2,040,000		2,198,100
Optima Specialty Steel Inc., Senior Secured Notes	12.500%	12/15/16	1,050,000		1,047,375(a)
Ryerson Holding Corp., Senior Secured Notes	0.000%	2/1/15	2,850,000		1,282,500
Ryerson Inc., Senior Secured Notes	12.000%	11/1/15	30,000		30,450
Tempel Steel Co., Senior Secured Notes	12.000%	8/15/16	860,000		821,300(a)
Total Metals & Mining					*11,854,350*
Paper & Forest Products 1.3%					
Appleton Papers Inc., Senior Secured Notes	11.250%	12/15/15	3,415,000		3,090,575
PE Paper Escrow GmbH, Senior Secured Notes	12.000%	8/1/14	560,000		599,200(a)
Sappi Papier Holding GmbH, Senior Secured Notes	6.625%	4/15/21	600,000		517,500(a)
Verso Paper Holdings LLC, Senior Secured Notes	11.500%	7/1/14	36,000		36,900
Verso Paper Holdings LLC, Senior Subordinated Notes	11.375%	8/1/16	330,000		136,950
Verso Paper Holdings LLC/Verso Paper Inc., Senior Secured Notes	8.750%	2/1/19	2,110,000		1,297,650
Total Paper & Forest Products					*5,678,775*
TOTAL MATERIALS					36,590,935
TELECOMMUNICATION SERVICES 7.5%					
Diversified Telecommunication Services 4.7%					
Cogent Communications Group Inc., Senior Secured Notes	8.375%	2/15/18	1,530,000		1,572,075(a)
Inmarsat Finance PLC, Senior Notes	7.375%	12/1/17	2,120,000		2,226,000(a)
Intelsat Jackson Holdings Ltd., Senior Notes	11.250%	6/15/16	580,000		610,813
Intelsat Jackson Holdings Ltd., Senior Notes	8.500%	11/1/19	610,000		648,125
Intelsat Jackson Holdings SA, Senior Notes	7.250%	10/15/20	1,800,000		1,831,500
Intelsat Luxembourg SA, Senior Notes	11.250%	2/4/17	2,150,000		2,085,500
Level 3 Financing Inc., Senior Notes	9.250%	11/1/14	639,000		656,572
Primus Telecommunications Holding Inc., Senior Notes	10.000%	4/15/17	239,771		233,177(a)
Satmex Escrow SA de CV, Secured Senior Notes	9.500%	5/15/17	1,000,000		1,030,000
TW Telecom Holdings Inc., Senior Notes	8.000%	3/1/18	1,430,000		1,530,100
West Corp., Senior Notes	8.625%	10/1/18	1,570,000		1,593,550
West Corp., Senior Notes	7.875%	1/15/19	1,840,000		1,835,400
Wind Acquisition Finance SA, Senior Notes	11.750%	7/15/17	1,070,000		963,000(a)
Wind Acquisition Finance SA, Senior Secured Notes	7.250%	2/15/18	780,000		711,750(a)
Wind Acquisition Holdings Finance SpA, Senior Notes	12.250%	7/15/17	1,166,753		793,678(a)(b)
Windstream Corp., Senior Notes	7.500%	6/1/22	300,000		300,000(a)
Windstream Corp., Senior Notes	7.500%	4/1/23	2,130,000		2,114,025
Total Diversified Telecommunication Services					*20,735,265*
Wireless Telecommunication Services 2.8%					

MetroPCS Wireless Inc., Senior Notes	7.875%	9/1/18	1,080,000	1,100,250
MetroPCS Wireless Inc., Senior Notes	6.625%	11/15/20	1,010,000	944,350
Sprint Capital Corp., Global Notes	6.900%	5/1/19	870,000	719,925
Sprint Capital Corp., Senior Notes	6.875%	11/15/28	1,400,000	1,006,250
Sprint Capital Corp., Senior Notes	8.750%	3/15/32	6,415,000	5,220,206
Sprint Nextel Corp., Senior Notes	9.000%	11/15/18	1,840,000	1,936,600(a)

See Notes to Schedule of Investments.

WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

Schedule of investments (unaudited) (cont d)

December 31, 2011

SECURITY	RATE	MATURITY DATE	FACE AMOUNT		VALUE	
Wireless Telecommunication Services continued						
Syniverse Holdings Inc., Senior Notes	9.125%	1/15/19	1,720,000	$	1,823,200	
Total Wireless Telecommunication Services					*12,750,781*	
TOTAL TELECOMMUNICATION SERVICES					33,486,046	
UTILITIES 7.5%						
Electric Utilities 2.1%						
AES Red Oak LLC, Secured Notes	9.200%	11/30/29	3,920,000		3,998,400	
Astoria Depositor Corp., Pass-Through Certificates	8.144%	5/1/21	1,550,000		1,364,000	(a)
Reliant Energy Mid-Atlantic Power Holdings LLC, Senior Notes	9.681%	7/2/26	2,570,000		2,550,725	
Texas Competitive Electric Holdings Co. LLC/TCEH Finance Inc., Senior Secured Notes	11.500%	10/1/20	1,720,000		1,468,450	(a)
Total Electric Utilities					*9,381,575*	
Gas Utilities 0.3%						
Southern Natural Gas Co., Senior Notes	8.000%	3/1/32	60,000		74,511	
Suburban Propane Partners LP/Suburban Energy Finance Corp., Senior Notes	7.375%	3/15/20	1,210,000		1,264,450	
Total Gas Utilities					*1,338,961*	
Independent Power Producers & Energy Traders 5.1%						
Atlantic Power Corp., Senior Notes	9.000%	11/15/18	1,080,000		1,088,100	(a)
Calpine Corp., Senior Secured Notes	7.875%	7/31/20	460,000		497,950	(a)
Calpine Corp., Senior Secured Notes	7.500%	2/15/21	640,000		688,000	(a)
Calpine Corp., Senior Secured Notes	7.875%	1/15/23	2,610,000		2,818,800	(a)
Dynegy Inc., Bonds	7.670%	11/8/16	220,000		134,200	(c)
Edison Mission Energy, Senior Notes	7.625%	5/15/27	1,195,000		711,025	
Energy Future Holdings Corp., Senior Notes	10.875%	11/1/17	5,813,000		4,708,530	
Energy Future Holdings Corp., Senior Notes	11.250%	11/1/17	1,593,489		1,313,403	(b)
Energy Future Intermediate Holding Co. LLC, Senior Secured Notes	9.750%	10/15/19	290,000		291,450	
Energy Future Intermediate Holding Co. LLC/EFIH Finance Inc., Senior Secured Notes	10.000%	12/1/20	1,050,000		1,113,000	
First Wind Holdings Inc., Senior Secured Notes	10.250%	6/1/18	1,090,000		1,076,375	(a)
Foresight Energy LLC/Foresight Energy Corp., Senior Notes	9.625%	8/15/17	3,190,000		3,285,700	(a)
Mirant Americas Generation LLC, Senior Notes	9.125%	5/1/31	4,573,000		4,161,430	
Mirant Mid Atlantic LLC, Pass-Through Certificates	10.060%	12/30/28	652,777		675,624	
Total Independent Power Producers & Energy Traders					*22,563,587*	
TOTAL UTILITIES					33,284,123	
TOTAL CORPORATE BONDS & NOTES (Cost $390,560,434)					382,732,475	

COLLATERALIZED MORTGAGE OBLIGATIONS 0.2%				
Countrywide Home Loan Mortgage Pass-Through Trust, 2004-HYB5 7A1 (Cost - $632,711)	2.412%	4/20/35	964,542	702,213(d)
COLLATERALIZED SENIOR LOANS 3.1%				
CONSUMER DISCRETIONARY 1.5%				
Diversified Consumer Services 0.6%				
Realogy Corp., Term Loan	13.500%	10/15/17	2,500,000	*2,509,375*(j)
Hotels, Restaurants & Leisure 0.3%				
CityCenter Holdings LLC, Term Loan	7.500%	1/21/15	45,000	44,972(j)
El Pollo Loco Inc., First Lien Term Loan	9.250%	7/14/17	1,383,050	1,279,321(j)
Total Hotels, Restaurants & Leisure				*1,324,293*
Media 0.3%				
Newsday LLC, Term Loan B	10.500%	8/1/13	1,500,000	*1,552,500*(j)
Specialty Retail 0.3%				
BCBG Maxazria International, Term Loan B	9.800%	5/19/15	1,336,650	*1,250,325*(j)
TOTAL CONSUMER DISCRETIONARY				6,636,493

See Notes to Schedule of Investments.

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WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

Schedule of investments (unaudited) (cont d)

December 31, 2011

SECURITY	RATE	MATURITY DATE	FACE AMOUNT		VALUE
ENERGY 0.5%					
Oil, Gas & Consumable Fuels 0.5%					
Samson Investment Co.		12/20/12	2,060,000	$	2,060,000(e)(g)(k)
INDUSTRIALS 0.1%					
Marine 0.1%					
Trico Shipping AS, Term Loan A	10.000%	5/13/14	205,770		205,770(g)(j)
Trico Shipping AS, Term Loan B		5/13/14	362,292		362,292(g)(k)
TOTAL INDUSTRIALS					568,062
INFORMATION TECHNOLOGY 0.2%					
IT Services 0.2%					
SRA International Inc., Term Loan B	6.500%	7/20/18	965,714		909,381(j)
TELECOMMUNICATION SERVICES 0.7%					
Wireless Telecommunication Services 0.7%					
Vodafone Americas Finance 2 Inc., Term Loan A	6.875%	8/11/15	2,964,804		2,964,804(j)
UTILITIES 0.1%					
Electric Utilities 0.1%					
Texas Competitive Electric Holdings Co. LLC, Term Loan	4.776%	10/10/17	1,056,225		672,463(j)
TOTAL COLLATERALIZED SENIOR LOANS (Cost $14,034,906)					13,811,203
CONVERTIBLE BONDS & NOTES 0.8%					
CONSUMER DISCRETIONARY 0.4%					
Diversified Consumer Services 0.4%					
Realogy Corp., Senior Subordinated Bonds	11.000%	4/15/18	3,230,000		1,938,000(a)
INDUSTRIALS 0.3%					
Marine 0.3%					
Horizon Lines Inc., Secured Senior Notes	6.000%	4/15/17	2,329,090		1,439,877
MATERIALS 0.1%					
Chemicals 0.1%					
Hercules Inc.	6.500%	6/30/29	410,000		327,231
TOTAL CONVERTIBLE BONDS & NOTES (Cost $4,698,687)					3,705,108
SOVEREIGN BONDS 0.2%					
Russia 0.2%					
Russian Foreign Bond-Eurobond, Senior Bonds (Cost - $979,406)	7.500%	3/31/30	894,285		1,040,724(a)
			SHARES		
COMMON STOCKS 2.5%					
CONSUMER DISCRETIONARY 1.6%					
Automobiles 0.0%					

General Motors Co.	1,064	*21,568**
Media 1.6%		
Charter Communications Inc., Class A Shares	126,481	*7,201,828**
TOTAL CONSUMER DISCRETIONARY		7,223,396
ENERGY 0.5%		
Energy Equipment & Services 0.5%		
KCAD Holdings I Ltd.	214,823,305	*2,164,989**(e)(g)
Oil, Gas & Consumable Fuels 0.0%		
SemGroup Corp., Class A Shares	3,597	*93,738**
TOTAL ENERGY		2,258,727

See Notes to Schedule of Investments.

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WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

Schedule of investments (unaudited) (cont d)

December 31, 2011

SECURITY		SHARES	VALUE
INDUSTRIALS 0.4%			
Building Products 0.0%			
Nortek Inc.		2,857	$ *74,739**
Marine 0.4%			
DeepOcean Group Holding AS		97,019	1,649,323*(e)
Horizon Lines Inc., Class A Shares		16,636	72,368*
Total Marine			*1,721,691*
TOTAL INDUSTRIALS			1,796,430
TOTAL COMMON STOCKS (Cost $7,623,268)			11,278,553

	RATE	SHARES	VALUE
CONVERTIBLE PREFERRED STOCKS 0.2%			
FINANCIALS 0.2%			
Diversified Financial Services 0.2%			
Citigroup Inc. (Cost - $1,173,018)	7.500%	9,900	804,375
PREFERRED STOCKS 2.0%			
CONSUMER DISCRETIONARY 0.1%			
Automobiles 0.1%			
Corts-Ford Motor Co.	7.400%	11,720	294,523
Escrow GCB General Motors		31,700	12,878*
Escrow GCB General Motors		10,100	4,103*
Escrow GCB General Motors		2,200	894*
Escrow GCB General Motors		900	366*
TOTAL CONSUMER DISCRETIONARY			312,764
FINANCIALS 1.8%			
Consumer Finance 0.7%			
GMAC Capital Trust I	8.125%	165,966	*3,209,782*(d)
Diversified Financial Services 1.1%			
Citigroup Capital XII	8.500%	99,800	2,510,968(d)
Citigroup Capital XIII	7.875%	85,025	2,215,752(d)
Total Diversified Financial Services			*4,726,720*
Thrifts & Mortgage Finance 0.0%			
Federal National Mortgage Association (FNMA)	8.250%	37,200	*51,336**(d)
TOTAL FINANCIALS			7,987,838
INDUSTRIALS 0.1%			
Road & Rail 0.1%			
Jack Cooper Holdings Corp.	20.000%	4,107	410,700(d)(e)
TOTAL PREFERRED STOCKS (Cost $10,278,238)			8,711,302

EXPIRATION DATE	WARRANTS

WARRANTS 0.2%			
Buffets Restaurant Holdings	4/28/14	1,980	20*(e)(g)
Charter Communications Inc.	11/30/14	2,238	31,802*
General Motors Co.	7/10/16	24,437	286,646*
General Motors Co.	7/10/19	24,437	191,097*
Jack Cooper Holdings Corp.	12/15/17	1,974	123,375*(e)
Jack Cooper Holdings Corp.	5/6/18	921	57,562*(e)
Nortek Inc.	12/7/14	5,518	14,899*(e)(g)
SemGroup Corp.	11/30/14	9,492	53,060*(e)(g)
TOTAL WARRANTS (Cost $3,382,382)			758,461
TOTAL INVESTMENTS BEFORE SHORT-TERM INVESTMENTS (Cost $433,363,050)			$ 423,544,414

See Notes to Schedule of Investments.

WESTERN ASSET HIGH INCOME OPPORTUNITY FUND INC.

Schedule of investments (unaudited) (cont d)

December 31, 2011

SECURITY	RATE	MATURITY DATE	FACE AMOUNT		VALUE
SHORT-TERM INVESTMENTS 0.0%					
U.S. Government Agencies 0.0%					
Federal National Mortgage Association (FNMA), Discount Notes	0.100%	1/9/12	183,000	$	182,997(l)(m)
Federal National Mortgage Association (FNMA), Discount Notes	0.100%	1/10/12	20,000		20,000(l)(m)
TOTAL SHORT-TERM INVESTMENTS (Cost $202,997)					202,997
TOTAL INVESTMENTS 95.6% (Cost $433,566,047#)					423,747,411
Other Assets in Excess of Liabilities 4.4%					19,274,320
TOTAL NET ASSETS 100.0%				$	443,021,731

Face amount denominated in U.S. dollars, unless otherwise noted.

* Non-income producing security.

(a) Security is exempt from registration under Rule 144A of the Securities Act of 1933. This security may be resold in transactions that are exempt from registration, normally to qualified institutional buyers. This security has been deemed liquid pursuant to guidelines approved by the Board of Directors, unless otherwise noted.

(b) Payment-in-kind security for which part of the income earned may be paid as additional principal.

(c) The coupon payment on these securities is currently in default as of December 31, 2011.

(d) Variable rate security. Interest rate disclosed is as of the most recent information available.

(e) Security is valued in good faith in accordance with procedures approved by the Board of Directors (See Note 1).

(f) Value is less than $1.

(g) Illiquid security.

(h) Subsequent to December 31, 2011, the issuer filed for bankruptcy.

(i) Security has no maturity date. The date shown represents the next call date.

(j) Interest rates disclosed represent the effective rates on collateralized senior loans. Ranges in interest rates are attributable to multiple contracts under the same loan.

(k) All or a portion of this loan is unfunded as of December 31, 2011. The interest rate for fully unfunded term loans is to be determined.

(l) Rate shown represents yield-to-maturity.

(m) All or a portion of this security is held at the broker as collateral for open futures contracts.

Aggregate cost for federal income tax purposes is substantially the same.

Abbreviation used in this schedule:

EUR - Euro

See Notes to Schedule of Investments.

Notes to schedule of investments (unaudited)

1. Organization and significant accounting policies

Western Asset High Income Opportunity Fund Inc. (the Fund) was incorporated in Marlyland and is registered as a diversified, closed-end management investment company under the Investment Company Act of 1940, as amended (the 1940 Act). The Fund s primary investment objective is to seek high current income. Capital appreciation is a secondary objective.

The following are significant accounting policies consistently followed by the Fund and are in conformity with U.S. generally accepted accounting principles (GAAP).

(a) Investment valuation. The valuations for fixed income securities and certain derivative instruments are typically the prices supplied by independent third party pricing services, which may use market prices or broker/dealer quotations or a variety of fair valuation techniques and methodologies. Short-term fixed income securities that will mature in 60 days or less are valued at amortized cost, unless it is determined that using this method would not reflect an investment s fair value. Futures contracts are valued daily at the settlement price established by the board of trade or exchange on which they are traded. Equity securities for which market quotations are available are valued at the last reported sales price or official closing price on the primary market or exchange on which they trade. If independent third party pricing services are unable to supply prices for a portfolio investment, or if the prices supplied are deemed by the manager to be unreliable, the market price may be determined by the manager using quotations from one or more broker/dealers. When the Fund holds securities or other assets that are denominated in a foreign currency, the Fund will normally use the currency exchange rates as of 4:00 p.m. (Eastern Time). When reliable prices are not readily available, such as when the value of a security has been significantly affected by events after the close of the exchange or market on which the security is principally traded, but before the Fund calculates its net asset value, the Fund values these securities as determined in accordance with procedures approved by the Fund s Board of Directors.

The Fund has adopted Financial Accounting Standards Board Codification Topic 820 (ASC Topic 820). ASC Topic 820 establishes a single definition of fair value, creates a three-tier hierarchy as a framework for measuring fair value based on inputs used to value the Fund s investments, and requires additional disclosure about fair value. The hierarchy of inputs is summarized below.

- Level 1 quoted prices in active markets for identical investments
- Level 2 other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 significant unobservable inputs (including the Fund s own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The Fund uses valuation techniques to measure fair value that are consistent with the market approach and/or income approach, depending on the type of security and the particular circumstance. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable securities. The income approach uses valuation techniques to discount estimated future cash flows to present value.

Notes to schedule of investments (unaudited) (continued)

The following is a summary of the inputs used in valuing the Fund s assets and liabilities carried at fair value:

ASSETS

DESCRIPTION	QUOTED PRICES (LEVEL 1)	OTHER SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	TOTAL
Long-term investments :				
Corporate bonds & notes		$ 377,006,414	$ 5,726,061	$ 382,732,475
Collateralized mortgage obligations		702,213		702,213
Collateralized senior loans		11,751,203	2,060,000	13,811,203
Convertible bonds & notes		3,705,108		3,705,108
Sovereign bonds		1,040,724		1,040,724
Common stocks:				
Consumer discretionary	$ 7,223,396			7,223,396
Energy	93,738		2,164,989	2,258,727
Industrials	147,107		1,649,323	1,796,430
Convertible preferred stocks	804,375			804,375
Preferred stocks:				
Consumer discretionary	294,523	18,241		312,764
Financials	7,987,838			7,987,838
Industrials			410,700	410,700
Warrants	477,743	31,802	248,916	758,461
Total long-term investments	$ 17,028,720	$ 394,255,705	$ 12,259,989	$ 423,544,414
Short-term investments		202,997		202,997
Total investments	$ 17,028,720	$ 394,458,702	$ 12,259,989	$ 423,747,411
Other financial instruments:				
Forward foreign currency contracts		$ 393,961		393,961
Total	$ 17,028,720	$ 394,852,663	$ 12,259,989	$ 424,141,372

LIABILITIES

DESCRIPTION	QUOTED PRICES (LEVEL 1)	OTHER SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	TOTAL
Other financial instruments:				
Futures contracts	$ 80,545			$ 80,545

See Schedule of Investments for additional detailed categorizations.

The following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining fair value:

INVESTMENTS IN SECURITIES	CORPORATE BONDS & NOTES	COLLATERALIZED SENIOR LOANS	COMMON STOCKS	
			ENERGY	INDUSTRIALS
[redacted]				

Notes to schedule of investments (unaudited) (continued)

INVESTMENTS IN SECURITIES	PREFERRED STOCKS CONSUMER DISCRETIONARY	INDUSTRIALS	WARRANTS	TOTAL
Balance as of September 30, 2011	$ 11,225	$ 390,165	$ 217,171	$ 12,132,943
Accrued premiums/discounts				4,604
Realized gain (loss)(1)				170,663
Change in unrealized appreciation (depreciation)(2)	7,016	20,535	10,487	(317,737)
Purchases				2,196,874
Sales				(170,663)
Transfers into Level 3(3)			53,060	53,060
Transfers out of Level 3(4)	(18,241)		(31,802)	(1,809,755)
Balance as of December 31, 2011		$ 410,700	$ 248,916	$ 12,259,989
Net change in unrealized appreciation (depreciation) for investments in securities still held at December 31, 2011(2)		$ 20,535	$ 3,863	$ (203,163)

The Fund s policy is to recognize transfers between levels as of the end of the reporting period.

(1) This amount is included in net realized gain (loss) from investment transactions.

(2) Change in unrealized appreciation (depreciation) includes net unrealized appreciation (depreciation) resulting from changes in investment values during the reporting period and the reversal of previously recorded unrealized appreciation (depreciation) when gains or losses are realized.

(3) Transferred into Level 3 as a result of the unavailability of a quoted price in an active market for an identical investment or the unavailability of other significant observable inputs.

(4) Transferred out of Level 3 as a result of the availability of a quoted price in an active market for an identical investment or the availability of other significant observable inputs.

(b) Repurchase agreements. The Fund may enter into repurchase agreements with institutions that its investment adviser has determined are creditworthy. Each repurchase agreement is recorded at cost. Under the terms of a typical repurchase agreement, the Fund acquires a debt security subject to an obligation of the seller to repurchase, and of the Fund to resell, the security at an agreed-upon price and time, thereby determining the yield during the Fund s holding period. When entering into repurchase agreements, it is the Fund s policy that its custodian or a third party custodian, acting on the Fund s behalf, take possession of the underlying collateral securities, the market value of which, at all times, at least equals the principal amount of the repurchase transaction, including accrued interest. To the extent that any repurchase transaction maturity exceeds one business day, the value of the collateral is marked-to-market and measured against the value of the agreement in an effort to ensure the adequacy of the collateral. If the counterparty defaults, the Fund generally has the right to use the collateral to satisfy the terms of the repurchase transaction. However, if the market value of the collateral declines during the period in which the Fund seeks to assert its rights or if bankruptcy proceedings are commenced with respect to the seller of the security, realization of the collateral by the Fund may be delayed or limited.

(c) Futures contracts. The Fund uses futures contracts generally to gain exposure to, or hedge against, changes in interest rates or gain exposure to, or hedge against, changes in certain asset classes. A futures contract represents a commitment for the future purchase or sale of an asset at a specified price on a specified date.

Upon entering into a futures contract, the Fund is required to deposit cash or cash equivalents with a broker in an amount equal to a certain percentage of the contract amount. This is known as the initial margin and subsequent payments (variation margin) are made or received by the Fund each day, depending on the daily fluctuation in the value of the contract. For certain futures, including foreign denominated futures, variation margin is not settled daily, but is recorded as a net variation margin payable or receivable. Futures contracts are valued daily at the settlement price established by the board of trade or exchange on which they are traded.

Futures contracts involve, to varying degrees, risk of loss. In addition, there is the risk that the Fund may not be able to enter into a closing transaction because of an illiquid secondary market.

Notes to schedule of investments (unaudited) (continued)

(d) Forward foreign currency contracts. The Fund enters into a forward foreign currency contract to hedge against foreign currency exchange rate risk on its non-U.S. dollar denominated securities or to facilitate settlement of a foreign currency denominated portfolio transaction. A forward foreign currency contract is an agreement between two parties to buy and sell a currency at a set price with delivery and settlement at a future date. The contract is marked-to-market daily and the change in value is recorded by the Fund as an unrealized gain or loss. When a forward foreign currency contract is closed, through either delivery or offset by entering into another forward foreign currency contract, the Fund recognizes a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value of the contract at the time it is closed.

When entering into a forward foreign currency contract, the Fund bears the risk of an unfavorable change in the foreign exchange rate underlying the forward foreign currency contract. Risks may also arise upon entering into these contracts from the potential inability of the counterparties to meet the terms of their contracts.

(e) Foreign currency translation. Investment securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts based upon prevailing exchange rates on the date of valuation. Purchases and sales of investment securities and income and expense items denominated in foreign currencies are translated into U.S. dollar amounts based upon prevailing exchange rates on the respective dates of such transactions.

Foreign security and currency transactions may involve certain considerations and risks not typically associated with those of U.S. dollar denominated transactions as a result of, among other factors, the possibility of lower levels of governmental supervision and regulation of foreign securities markets and the possibility of political or economic instability.

(f) Written options. When the Fund writes an option, an amount equal to the premium received by the Fund is recorded as a liability, the value of which is marked-to-market daily to reflect the current market value of the option written. If the option expires, the premium received is recorded as a realized gain. When a written call option is exercised, the difference between the premium received plus the option exercise price and the Fund s basis in the underlying security (in the case of a covered written call option), or the cost to purchase the underlying security (in the case of an uncovered written call option), including brokerage commission, is recognized as a realized gain or loss. When a written put option is exercised, the amount of the premium received is subtracted from the cost of the security purchased by the Fund from the exercise of the written put option to form the Fund s basis in the underlying security purchased. The writer or buyer of an option traded on an exchange can liquidate the position before the exercise of the option by entering into a closing transaction. The cost of a closing transaction is deducted from the original premium received resulting in a realized gain or loss to the Fund.

The risk in writing a covered call option is that the Fund may forego the opportunity of profit if the market price of the underlying security increases and the option is exercised. The risk in writing a put option is that the Fund may incur a loss if the market price of the underlying security decreases and the option is exercised. The risk in writing an uncovered call option is that the Fund is exposed to the risk of loss if the market price of the underlying security increases. In addition, there is the risk that the Fund may not be able to enter into a closing transaction because of an illiquid secondary market.

(g) Swaptions. The Fund purchases and writes swaption contracts to manage exposure to an underlying instrument. The Fund may also purchase or write options to manage exposure to fluctuations in interest rates or to enhance yield. Swaption contracts written by the Fund represent an option that gives the purchaser the right, but not the obligation, to enter into a previously agreed upon swap contract at a future date. Swaption contracts purchased by the Fund represent an option that gives the Fund the right, but not the obligation, to enter into a previously agreed upon swap contract at a future date.

When the Fund writes a swaption, an amount equal to the premium received by the Fund is recorded as a liability, the value of which is marked-to-market daily to reflect the current market value of the swaption written. If the swaption expires, the Fund realizes a gain equal to the amount of the premium received.

When the Fund purchases a swaption, an amount equal to the premium paid by the Fund is recorded as an investment, the value of which is marked-to-market daily to reflect the current market value of the swaption purchased. If the swaption expires, the Fund realizes a loss equal to the amount of the premium paid.

Swaptions are marked-to-market daily based upon quotations from market makers.

Notes to schedule of investments (unaudited) (continued)

(h) Swap agreements. The Fund may invest in swaps for the purpose of managing its exposure to interest rate, credit or market risk, or for other purposes, including to increase the Fund s return. The use of swaps involves risks that are different from those associated with other portfolio transactions.

Swap contracts are marked-to-market daily and changes in value are recorded as unrealized appreciation (depreciation). Gains or losses are realized upon termination of the swap agreement. Collateral, in the form of restricted cash or securities, may be required to be held in segregated accounts with the Fund s custodian in compliance with the terms of the swap contracts. Securities posted as collateral for swap contracts are identified in the Schedule of Investments.

Credit default swaps

The Fund may enter into credit default swap (CDS) contracts for investment purposes, to manage its credit risk or to add leverage. CDS agreements involve one party making a stream of payments to another party in exchange for the right to receive a specified return in the event of a default by a third party, typically corporate or sovereign issuers, on a specified obligation, or in the event of a write-down, principal shortfall, interest shortfall or default of all or part of the referenced entities comprising a credit index. The Fund may use a CDS to provide protection against defaults of the issuers (i.e., to reduce risk where the Fund has exposure to an issuer) or to take an active long or short position with respect to the likelihood of a particular issuer s default. As a seller of protection, the Fund generally receives an upfront payment or a stream of payments throughout the term of the swap provided that there is no credit event. If the Fund is a seller of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the maximum potential amount of future payments (undiscounted) that the Fund could be required to make under a credit default swap agreement would be an amount equal to the notional amount of the agreement. These amounts of potential payments will be partially offset by any recovery of values from the respective referenced obligations. As a seller of protection, the Fund effectively adds leverage to its portfolio because, in addition to its total net assets, the Fund is subject to investment exposure on the notional amount of the swap. As a buyer of protection, the Fund generally receives an amount up to the notional value of the swap if a credit event occurs.

Implied spreads are the theoretical prices a lender receives for credit default protection. When spreads rise, market perceived credit risk rises and when spreads fall, market perceived credit risk falls. The implied credit spread of a particular referenced entity reflects the cost of buying/selling protection and may include upfront payments required to enter into the agreement. Wider credit spreads and decreasing market values, when compared to the notional amount of the swap, represent a deterioration of the referenced entity s credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement. Credit spreads utilized in determining the period end market value of credit default swap agreements on corporate or sovereign issues are disclosed in the Notes to the Schedule of Investments and serve as an indicator of the current status of the payment/performance risk and represent the likelihood or risk of default for credit derivatives. For credit default swap agreements on asset-backed securities and credit indices, the quoted market prices and resulting values, particularly in relation to the notional amount of the contract as well as the annual payment rate, serve as an indication of the current status of the payment/performance risk.

The Fund s maximum risk of loss from counterparty risk, as the protection buyer, is the fair value of the contract (this risk is mitigated by the posting of collateral by the counterparty to the Fund to cover the Fund s exposure to the counterparty). As the protection seller, the Fund s maximum risk is the notional amount of the contract. Credit default swaps are considered to have credit risk-related contingent features since they require payment by the protection seller to the protection buyer upon the occurrence of a defined credit event.

Entering into a CDS agreement involves, to varying degrees, elements of credit, market and documentation risk. Such risks involve the possibility that there will be no liquid market for these agreements, that the counterparty to the agreement may default on its obligation to perform or disagree as to the meaning of the contractual terms in the agreement, and that there will be unfavorable changes in net interest rates.

(i) Loan participations. The Fund may invest in loans arranged through private negotiation between one or more financial institutions. The Fund s investment in any such loan may be in the form of a participation in or an assignment of the loan. In connection with purchasing participations, the Fund generally will have no right to enforce compliance by the borrower with the terms of the loan agreement related to the loan, or any rights of off-set against the borrower and the Fund may not benefit directly from any collateral supporting the loan in which it has purchased the participation.

The Fund assumes the credit risk of the borrower, the lender that is selling the participation and any other persons interpositioned between the Fund and the borrower. In the event of the insolvency of the lender selling the participation, the Fund may be treated as a general creditor of the lender and may not benefit from any off-set between the lender and the borrower.

Notes to schedule of investments (unaudited) (continued)

(j) Unfunded loan commitments. The Fund may enter into certain credit agreements all or a portion of which may be unfunded. The Fund is obligated to fund these commitments at the borrower s discretion. The commitments are disclosed in the accompanying Schedule of Investments. At December 31, 2011, the Fund had sufficient cash and/or securities to cover these commitments.

(k) Credit and market risk. The Fund invests in high-yield instruments that are subject to certain credit and market risks. The yields of high-yield obligations reflect, among other things, perceived credit and market risks. The Fund s investment in securities rated below investment grade typically involves risks not associated with higher rated securities including, among others, greater risk related to timely and ultimate payment of interest and principal, greater market price volatility and less liquid secondary market trading.

(l) Foreign investment risks. The Fund s investments in foreign securities may involve risks not present in domestic investments. Since securities may be denominated in foreign currencies, may require settlement in foreign currencies or pay interest or dividends in foreign currencies, changes in the relationship of these foreign currencies to the U.S. dollar can significantly affect the value of the investments and earnings of the Fund. Foreign investments may also subject the Fund to foreign government exchange restrictions, expropriation, taxation or other political, social or economic developments, all of which affect the market and/or credit risk of the investments.

(m) Counterparty risk and credit-risk-related contingent features of derivative instruments. The Fund may invest in certain securities or engage in other transactions, where the Fund is exposed to counterparty credit risk in addition to broader market risks. The Fund may invest in securities of issuers, which may also be considered counterparties as trading partners in other transactions. This may increase the risk of loss in the event of default or bankruptcy by the counterparty or if the counterparty otherwise fails to meet its contractual obligations. The Fund s investment manager attempts to mitigate counterparty risk by (i) periodically assessing the creditworthiness of its trading partners, (ii) monitoring and/or limiting the amount of its net exposure to each individual counterparty based on its assessment and (iii) requiring collateral from the counterparty for certain transactions. Market events and changes in overall economic conditions may impact the assessment of such counterparty risk by the investment manager. In addition, declines in the values of underlying collateral received may expose the Fund to increased risk of loss.

The Fund has entered into master agreements with certain of its derivative counterparties that provide for general obligations, representations, agreements, collateral, events of default or termination and credit related contingent features. The credit related contingent features include, but are not limited to, a percentage decrease in the Fund s net assets or NAV over a specified period of time. If these credit related contingent features were triggered, the derivatives counterparty could terminate the positions and demand payment or require additional collateral.

As of December 31, 2011, the Fund did not have any open derivative transactions with credit related contingent features in a net liability position.

(n) Security transactions. Security transactions are accounted for on a trade date basis.

2. Investments

At December 31, 2011, the aggregate gross unrealized appreciation and depreciation of investments for federal income tax purposes were substantially as follows:

[redacted]

At December 31, 2011, the Fund had the following open futures contracts:

	NUMBER OF CONTRACTS	EXPIRATION DATE	BASIS VALUE	MARKET VALUE	UNREALIZED LOSS
Contracts to Sell:					
U.S. Treasury 5-Year Notes	158	3/12	$19,394,190	$19,474,735	$(80,545)

During the period ended December 31, 2011, written option transactions for the Fund were as follows:

	Notional Amount	Premiums
[redacted]		
Written options, outstanding as of December 31, 2011		

Notes to schedule of investments (unaudited) (continued)

At December 31, 2011, the Fund had the following open forward foreign currency contracts:

FOREIGN CURRENCY	COUNTERPARTY	LOCAL CURRENCY	MARKET VALUE	SETTLEMENT DATE	UNREALIZED GAIN
Contracts to Sell:					
Euro	Citibank, N.A.	2,833,937	$3,668,946	2/16/12	$249,752
Euro	Royal Bank of Scotland PLC	1,706,017	2,208,689	2/16/12	144,209
Net unrealized gain on open forward foreign currency contracts					$393,961

3. Derivative instruments and hedging activities

Financial Accounting Standards Board Codification Topic 815 requires enhanced disclosure about an entity s derivative and hedging activities.

The following is a summary of the Fund s derivative instruments categorized by risk exposure at December 31, 2011.

	Futures Contracts	Forward Foreign Currency Contracts	
Primary Underlying Risk Disclosure	**Unrealized Depreciation**	**Unrealized Appreciation**	Total
Interest Rate	$(80,545)		$(80,545)
Foreign Exchange		$393,961	393,961
Total	$(80,545)	$393,961	$313,416

During the period ended December 31, 2011, the volume of derivative activity for the Fund was as follows:

Average Market Value

[redacted]

At December 31, 2011, there were no open positions held in this derivative.

4. Recent accounting pronouncement

In May 2011, the Financial Accounting Standards Board issued Accounting Standard Update No. 2011-04, Fair Value Measurement (Topic 820) - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU No. 2011-04). ASU No. 2011-04 establishes common requirements for measuring fair value and for disclosing information about fair value measurements. ASU No. 2011-04 is effective during interim and annual periods beginning after December 15, 2011. Management is currently evaluating the impact the adoption of ASU No. 2011-04 will have on the Fund s financial statements and related disclosures.

ITEM 2. CONTROLS AND PROCEDURES.

(a) The registrant s principal executive officer and principal financial officer have concluded that the registrant s disclosure controls and procedures (as defined in Rule 30a- 3(c) under the Investment Company Act of 1940, as amended (the 1940 Act)) are effective as of a date within 90 days of the filing date of this report that includes the disclosure required by this paragraph, based on their evaluation of the disclosure controls and procedures required by Rule 30a-3(b) under the 1940 Act and 15d-15(b) under the Securities Exchange Act of 1934.

(b) There were no changes in the registrant s internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act) that occurred during the second fiscal quarter of the period covered by this report that have materially affected, or are likely to materially affect the registrant s internal control over financial reporting.

ITEM 3. EXHIBITS.

Certifications pursuant to Rule 30a-2(a) under the Investment Company Act of 1940, as amended, are attached hereto.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Western Asset High Income Opportunity Fund Inc.

By	/s/ R. Jay Gerken R. Jay Gerken Chief Executive Officer
Date:	February 27, 2012

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By	/s/ R. Jay Gerken R. Jay Gerken Chief Executive Officer
Date:	February 27, 2012
By	/s/ Richard F. Sennett Richard F. Sennett Principal Financial Officer
Date:	February 27, 2012