



THE Goods

A MONTHLY COMMODITY WATCH



BMO  Capital Markets

Commodities Mark Time in June With Mixed Performance Across Sectors

The **BMO Capital Markets Commodity Price Index** slipped 0.5% to 164.2 (2003 = 100) in June amid lingering worries that European sovereign debt problems and tightening measures by the Chinese government would slow the pace of global economic recovery and the demand for commodities. However, the decline was smaller than during the previous month and performance across the sub-indices was mixed. Metals & Minerals and Forest Products fell on an uncertain global economic outlook, while Oil & Gas and Agriculture gained on strong Chinese demand and weather-inspired supply concerns.

Commodity prices generally firmed in early July as global uncertainties, while still lingering, abated somewhat. However, any gains in the near term are likely to be capped as a result of seasonal demand weakness in some instances and ample supplies in others. In addition, volatility will likely remain substantial as markets sift news with any bearing on the economic outlook. Further out, we expect to see prices strengthen over the next year amid sustained global economic recovery and relatively sluggish supply growth for a number of commodities.

The **Oil & Gas Index** floated higher in June, fuelled by a sharp rise in natgas. However, much of this gain was reversed during the first half of July, despite unusually warm weather which increased the demand for air conditioning and thus for natgas in power generation. Despite improving fundamentals for demand and supply, the legacy of very high natgas inventories from last year's recession have continued to weigh upon prices. However, weakening imports of liquefied natural gas and strong growth in industrial demand should lead to a firmer market later in the year.

The **Metals & Minerals Index** suffered another setback in June as concerns about the sustainability of the global recovery, a firmer U.S. dollar, and the potential for slower demand growth in China pulled industrial metals prices lower. In contrast, precious metals, which benefited from the economic uncertainty, advanced despite the greenback's continued strength.

The **Forest Products Index** plunged in June, as recovery in the U.S. housing sector slowed and lumber prices dropped sharply. Pulp prices continued to rise but are expected to soften soon as more idle mills reopen. Newsprint prices also moved up as exports to offshore markets remained strong.

The **Agricultural Index** rose in June as grains and oilseeds got a fillip from adverse weather in major growing regions, which prompted expectations of reduced supplies. Livestock fell as a strengthening U.S. dollar hurt export prospects.

OIL AND GAS

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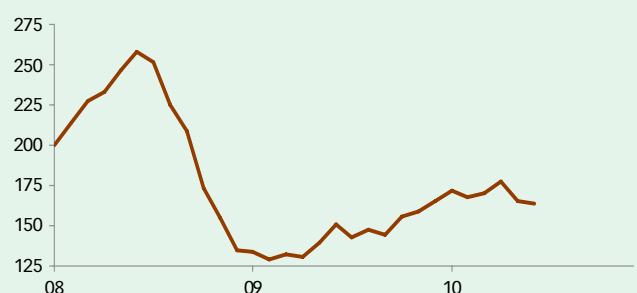
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BMO Capital Markets Commodity Price Index

All Commodities Index (2003 = 100)



	Jun. Level (2003=100)	% Change from Mth. Ago	% Change from Yr. Ago
All Commodities	164.2	-0.5	9.1
Oil & Gas	163.3	5.5	12.5
Metals & Minerals	232.1	-3.9	-0.2
Forest Products	113.9	-9.0	23.6
Agriculture	146.8	2.0	-3.9



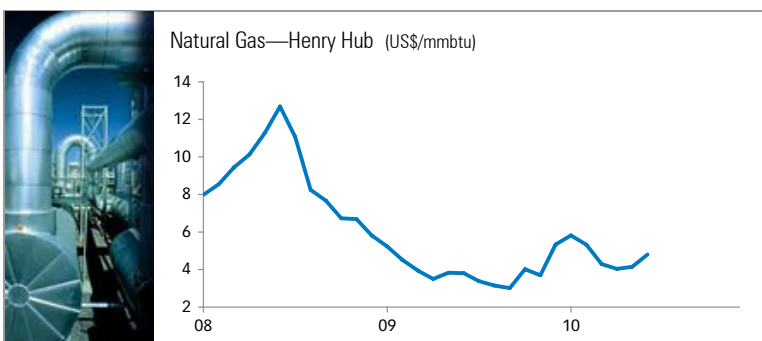
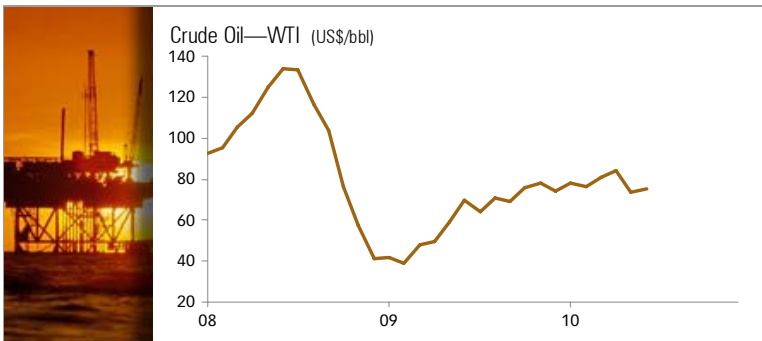
Oil and Gas

Crude Oil

In June, West Texas Intermediate (WTI) rose 2% to an average of US\$75.35/barrel. Pricing was volatile over the month, as markets struggled with the ebb and flow of concerns about European sovereign debt and the possibility of a double dip in the economy. This pattern continued during the first half of July, although recently, sentiment has started to improve, providing support to 'risk' assets such as commodities. While rising demand by China and other emerging markets and production restraint by OPEC are helping rebalance an oversupplied global oil market, conditions are still loose. In the United States, commercial inventories of crude oil and products (gasoline and distillates) are running 7.1% and 11.6%, respectively, above their five-year averages for this time of year. As for China, economic growth is projected to average close to 10% this year and next. Other emerging markets in Asia, Latin America and the Middle East should also register brisk growth, providing a firm underpinning to the demand for oil, which is expected to rise by an average of 1.5 million barrels per day (mmb/d) in 2010 and 2011 after remaining essentially flat in 2009. On the supply side, non-OPEC oil production is struggling to advance, as productivity in mature fields declines and given exploration and development risks of new resources in politically unstable areas and in deep waters. Thus, there will be an increasing call on OPEC oil. So far, OPEC has shown fairly good restraint in the face of excess global oil inventories. Over the medium term, rising demand will allow OPEC to increase production without exerting downward pressure on prices. We are maintaining our forecast that WTI will average \$78/barrel in 2010 and \$85 in 2011 and continue to expect considerable variability around those averages.

Natural Gas

Natural gas continued to rally in June but ran out of steam during the first half of July as markets fretted over high inventories, even in the face of very warm summertime temperatures. During May and June, the index for "cooling degree days", a measure of the demand for energy required to cool homes and businesses, measured 23.9% higher than the same period a year earlier and 16.5% above the five-year average for that time of year. Additionally, the use of natural gas by industry has recovered sharply from recession lows in 2009, surging 8.6% on a year-to-date basis through April. Yet, underground storage of natural gas is running near record highs for this time of year – 11.5%

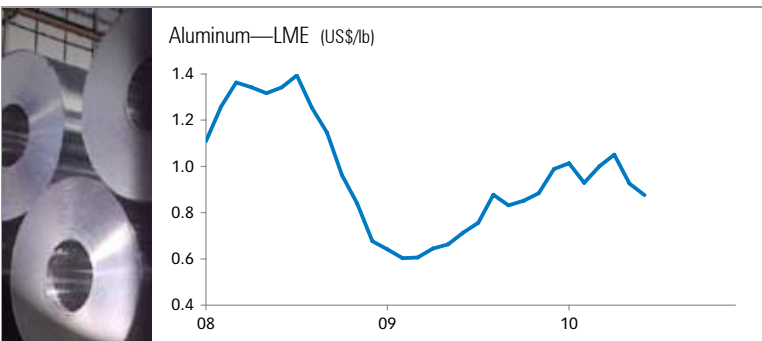
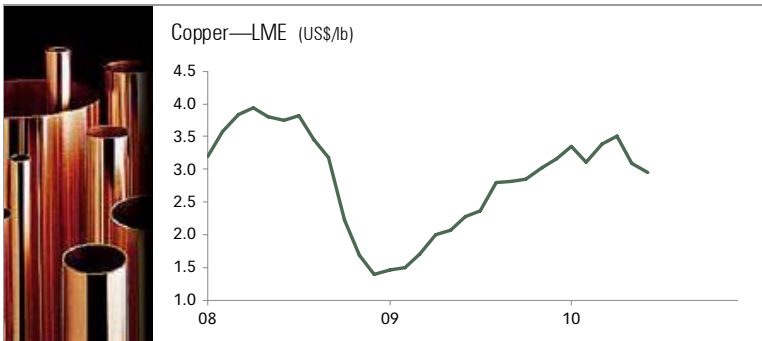
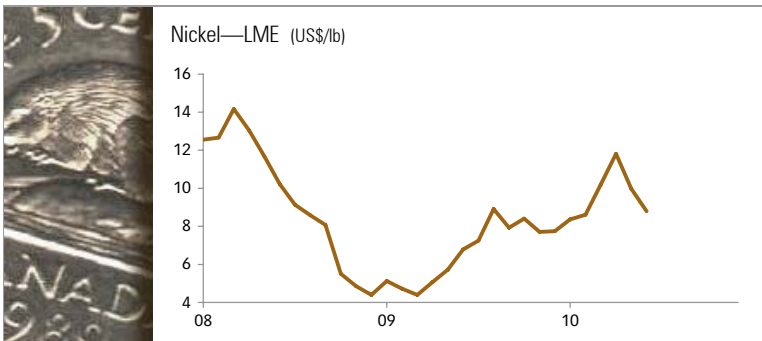


above its five-year average. Thus, although Henry Hub jumped 15.9% in June to an average of US\$4.81 per million British thermal units (mmbtu), it subsequently retreated to \$4.40 by mid July. Despite the current bearishness, the natural gas market could be poised to tighten over the course of the next year. In the United States, production of the commodity has slowed, rising 1.3% through April, compared to an average gain of 4.2% during the past three years. Policymakers are also focusing more attention on the environmental impacts of hydraulic fracturing of shale formations. On the demand side, industrial consumption is likely to remain firm. And, expectations of above-average temperatures and hurricane activity this summer will, respectively, raise the demand for natural gas for cooling and power generation and potentially disrupt supply in the Gulf of Mexico. Additionally, strong imports of liquefied natural gas earlier this year have recently slowed significantly, reflecting tighter LNG markets and somewhat higher pricing in Europe. Overall, we are maintaining our forecast that Henry Hub will average \$4.75 in 2010 and \$5.75 in 2011.



Metals and Minerals

Nickel Ignoring the downward trend in LME inventories since January, nickel suffered a second straight double-digit decline in June, tumbling 11.9% to average US\$8.79/lb. The market remained in the throes of ongoing concerns that sovereign credit risk in Europe and Chinese government measures to cool the housing sector and the domestic economy might cause global demand to falter. Indeed, since flaring up in April, these two factors have been behind nickel's 26% dive. Even with last month's losses, nickel prices were still up almost 30% from a year ago, reflecting increased demand from stainless steel producers and buying by investment funds as the global economy recovered. So far in July, nickel has moved sideways as sovereign debt worries receded. Volatility is likely to be a feature of the market as concerns about global economic recovery linger. Moreover, the likelihood of any appreciable upward near-term momentum is small given the usual demand weakness during the summer. Further out, prices should firm as the global recovery becomes more sustained, though gains would be limited by still-high inventories and new production capacity coming on stream as well as increased substitution. We look for nickel to rise from an average of \$6.64/lb. in 2009 to \$9.50 in 2010 and \$9.85 in 2011.



Copper Even though LME inventories continued to shrink, signifying relatively strong demand, copper fell 5% in June to average of US\$2.95/lb. The decline reflected disappointing U.S. economic data on joblessness, housing markets, and consumer confidence, ongoing concerns about European sovereign debt, and a potential slowing of the Chinese economy. Year-over-year gains continued to narrow with last month's setback but remained noteworthy at 30%. Gains over the past year reflect recovering global industrial production, especially in emerging markets. Copper prices have firmed through mid-July largely because worries about sovereign risk have abated. While we expect seasonal weakness to act as a restraint in the near term, copper prices should strengthen over the next couple of years as sustained global economic growth promotes demand and supply remains constricted. Copper is slated to rise from an average of \$2.34/lb. in 2009 to \$3.30 in 2010 and \$3.50 in 2011.

Aluminum For similar reasons as the other industrial metals, aluminum fell a further 5.3% in June to US\$0.88/lb. With that decline, the monthly average price remained 23% higher than a year ago. So far in July, prices have averaged US\$ 0.89/lb., 1.9% above its level a month ago. While aluminum will remain subdued in the near term due to seasonal weakness, we expect to see prices firm over the rest of the year as demand picks up with sustained economic recovery. We look for aluminum to rise from an average of \$0.75/lb. in 2009 to \$0.98 in 2010 and \$1.05 in 2011.



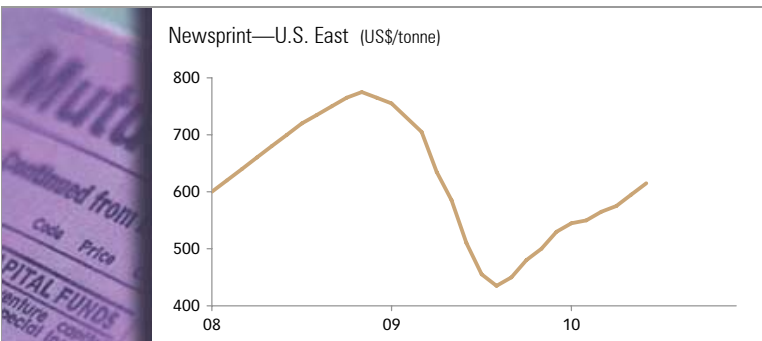
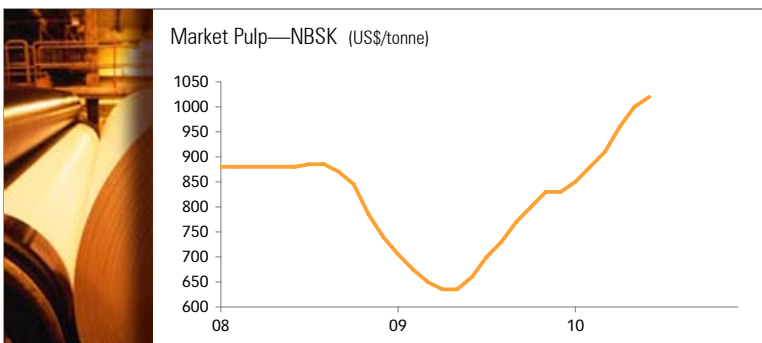
Forest Products

Lumber The downward correction in lumber prices continued in June, with Western SPF2x4 plunging \$65 to US\$207/mbf. Under the pressure of persistently high unemployment and the termination of the homebuyer tax credit, recovery in the U.S. housing sector has slowed in recent months, with both housing starts and new home sales falling substantially. While the demand in North America for softwood lumber strengthened during the first half of 2010, it has still remained relatively low at just 62% of industry capacity, compared with levels above 80% before the recession. Shipments to offshore markets, along with numerous supply curtailments, should prevent prices from returning to the lows reached early last year (under \$150). Given recent price declines, tariffs on Canadian lumber exports to the United States are expected to be reinstated in July, exacerbating the impact of currently weak demand on Canadian producers. Overall, we look for SPF2x4 to average US\$250/mbf in 2010 and \$260 in 2011, compared to a low of \$177 in 2009.

Market Pulp NBSK reached US\$1020/tonne in June, an all-time high after a 13-month climb. Buyers are postponing new purchases in hopes that prices will decline soon. For example, bleached softwood kraft (BSK) pulp shipments to China during the first five months of the year, which account for about 16% of total global exports, dropped 24% from the previous year. On the supply side, several Canadian pulp mills have reopened or will reopen soon, which is expected to push up producers' pulp inventories and help to pull down prices in the second half of this year. Global producer stocks of bleached hardwood kraft (BHK), for instance, jumped from 28 days of supply to 35 days in May, suggesting that the supply of this category is ramping up quickly. However, even if pulp prices were to retreat later this year, the downside is limited as paper production and pulp consumption in Asia and Europe are still rising modestly. Overall, NBSK is expected to jump from an average of \$718/tonne in 2009 to \$945 in 2010, before moderating to \$790 in 2011.

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Newsprint The U.S. East Coast benchmark continued advancing, up \$20 to US\$615/tonne in June. In North America, newsprint demand remains weak but declines are moderating, with year-to-date consumption in May only 1.5% below a year earlier. On the supply side, inventories held by mills and consumers have been falling, reaching 36 days of consumption in May, the lowest level in five years. In Latin America, domestic newsprint supply was temporarily disrupted by Chile's massive earthquake in late February, allowing shipments from North America to surge substantially in recent months. This has abated as most pulp and paper mills affected by the earthquake have returned to operation. Looking ahead, with demand in the United States recovering and exports to Asia and Latin America remaining strong, newsprint prices are expected to rise from an average of \$564/tonne in 2009 to \$605 in 2010 and \$685 in 2011.



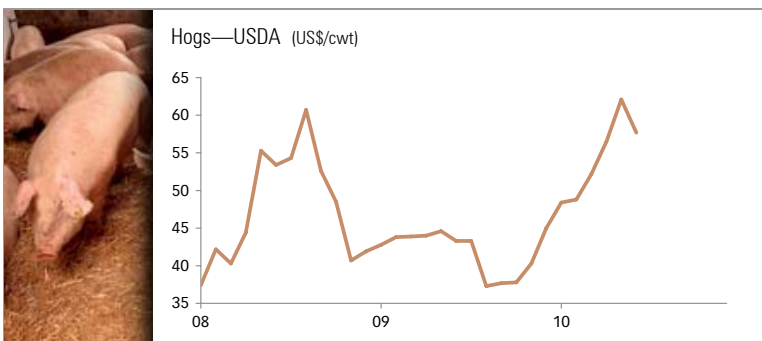
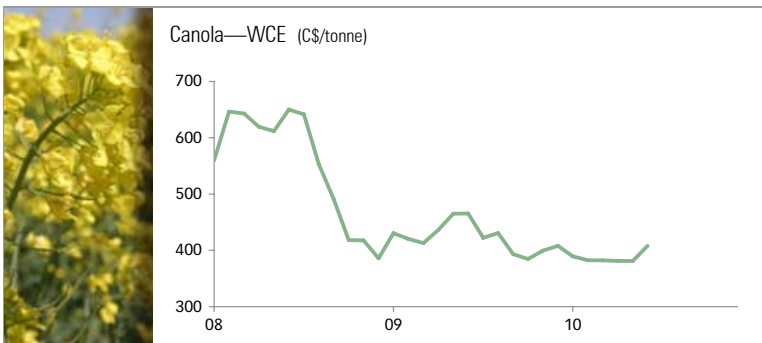
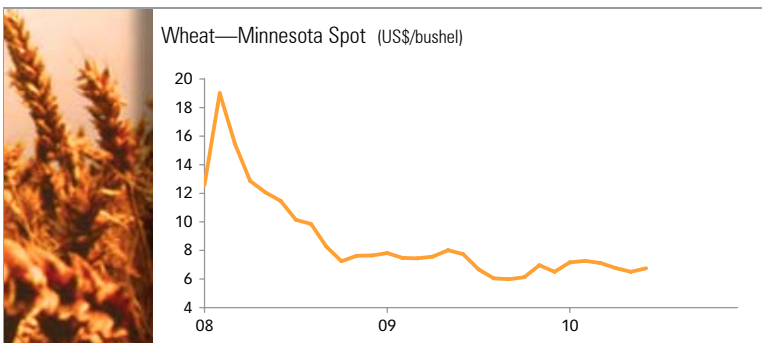


Agricultural Products

Wheat A mostly bearish tone early in June, dictated by ever-improving crop prospects, later gave way to supply concerns as adverse weather in key growing regions (e.g., Canada, the European Union and Russia) caused prices to rally through mid-month. Even though prices subsequently retreated, the upshot was that Minneapolis dark spring wheat advanced 3.9% to average US\$6.75/bu., breaking a three-month losing streak. Over the past year, prices have fallen 13% amid ever-increasing global supplies and limited demand growth. Despite last month's bounce, with global supplies still ample – the ratio of stocks relative to consumption is above longer-term averages – wheat may be hard-pressed to see substantial or sustained price appreciation over the next several months. Indeed, through mid-July, wheat was down 3.4% from the previous month. Further out, prices should strengthen as the focus shifts toward expectations of a reduction in global production in response to the current weak pricing environment. We see wheat averaging \$7.10/bu. in 2010, almost unchanged from 2009, before rising to \$7.40 in 2011 on firming demand and lower output.

Canola After marking time for the last four months, canola jumped 7.2% in June to average C\$408/tonne. Prices got a major boost from extensive rains in western Canada, which are expected to significantly reduce planting area. However, a rally in soybeans fuelled by strong demand and a tight 'old-crop' balance and firmer crude oil prices also played a role. The monthly average price of canola has fallen 12.3% over the past year on the rising Canadian dollar and rising estimates of overall global oilseed supplies. While economic recovery has bolstered the outlook for demand, ample oilseed supplies and comparatively high canola ending stocks will contain any gains over the remainder of the year. Expectations of lower global production and a tighter market balance are expected to push prices higher in 2011. From an average of C\$422/tonne in 2009, canola is projected to ease to C\$406 in 2010 before recovering to C\$444 in 2011.

Hog prices shed some of the previous month's gains, falling 7.1% in June to US\$57.70/cwt. The setback reflected lingering concerns about European sovereign debt and the related strengthening of the U.S. dollar, which reduced export prospects. The decline snapped a nine-month winning streak that was driven by tightening supplies as a result of shrinking herds, lower imports of live animals, a pick-up in domestic and foreign demand for pork, and the removal of import restrictions in some markets. Even with the setback, average prices remained 33% higher than a year earlier. We look for hog prices to remain relatively strong over the next two years on tight supplies and continued firm demand as the global economy moves onto a sustainable growth path. Prices are projected to rise from an average of \$42/cwt. in 2009 to \$53 in 2010 and \$55 in 2011.





Energy and Materials

		Crude Oil	Natural Gas		Lumber	Pulp	Newsprint
		(WTI)	(Henry Hub)	(Alta. Empress)			
		US\$/bbl	US\$/mmbtu		US\$/mbf	US\$/tonne	
	1997	20.58	2.50	1.41	379	590	555
	1998	14.37	2.08	1.53	312	543	596
	1999	19.25	2.27	2.04	368	541	509
	2000	30.30	4.31	3.81	282	685	564
	2001	25.92	3.96	3.48	275	558	585
	2002	26.10	3.36	2.63	262	490	465
	2003	31.14	5.50	4.82	268	553	503
	2004	41.44	5.91	5.25	386	640	550
	2005	56.46	8.81	7.51	347	647	610
	2006	66.10	6.74	5.92	290	722	667
	2007	72.36	6.98	6.32	245	824	593
	2008	99.57	8.86	8.09	215	858	701
	2009	61.69	3.95	3.46	177	718	564
	y-t-d 2010	78.05	4.70	3.96	257	937	574
2009	July	64.09	3.38	2.62	180	700	455
	August	71.06	3.15	2.45	196	730	435
	September	69.46	3.01	2.56	183	770	450
	October	75.82	4.02	3.80	185	800	480
	November	78.08	3.70	3.30	206	830	500
	December	74.30	5.33	4.77	214	830	530
2010	January	78.22	5.81	5.02	234	850	545
	February	76.42	5.33	4.63	282	880	550
	March	81.24	4.29	3.62	276	910	565
	April	84.48	4.03	3.40	312	960	575
	May	73.84	4.15	3.48	273	1000	595
	June	75.35	4.81	3.65	207	1020	615
	m-t-d July	75.26	4.56	3.31	213	n.a.	n.a.
Forecast	2010 Avg.	78.00	4.75	4.05	250	945	605
	2011 Avg.	85.00	5.75	5.15	260	790	685

Commodity price forecasts are by BMO Capital Markets Economics and are independent of those used by BMO Capital Markets Equity Research.



Base and Precious Metals

		Copper	Aluminum	Zinc	Nickel	Gold	Silver
		US\$/lb				US\$/oz	
	1997	1.03	0.73	0.60	3.15	331	4.91
	1998	0.75	0.62	0.46	2.10	294	5.55
	1999	0.71	0.62	0.49	2.73	279	5.22
	2000	0.82	0.70	0.51	3.91	279	4.96
	2001	0.72	0.66	0.40	2.71	271	4.37
	2002	0.71	0.61	0.35	3.08	310	4.60
	2003	0.81	0.65	0.38	4.37	364	4.88
	2004	1.30	0.78	0.48	6.27	409	6.65
	2005	1.67	0.86	0.63	6.69	445	7.31
	2006	3.05	1.17	1.48	11.00	605	11.58
	2007	3.23	1.20	1.47	16.89	697	13.40
	2008	3.15	1.17	0.85	9.57	872	15.01
	2009	2.34	0.75	0.75	6.64	973	14.67
	y-t-d 2010	3.21	0.96	0.96	9.52	1158	17.66
2009	July	2.37	0.76	0.72	7.25	934	13.39
	August	2.80	0.88	0.83	8.91	950	14.41
	September	2.81	0.83	0.85	7.92	997	16.37
	October	2.85	0.85	0.94	8.40	1044	17.24
	November	3.03	0.88	0.99	7.71	1126	17.84
	December	3.17	0.99	1.08	7.74	1134	17.66
2010	January	3.35	1.01	1.10	8.36	1120	17.78
	February	3.11	0.93	0.98	8.60	1096	15.87
	March	3.38	1.00	1.03	10.18	1116	17.12
	April	3.51	1.05	1.07	11.80	1147	18.12
	May	3.10	0.93	0.89	9.98	1204	18.42
	June	2.95	0.88	0.79	8.79	1232	18.45
	m-t-d July	2.98	0.89	0.82	8.66	1205	18.05
Forecast	2010 Avg.	3.30	0.98	0.94	9.50	1150	17.90
	2011 Avg.	3.50	1.05	1.00	9.85	1200	19.00

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Agriculture

		Wheat	Canola	Cattle	Hogs
		US\$/bushel	US\$/tonne		US\$/cwt
	1997	4.48	284	63.34	52.03
	1998	4.02	264	59.73	32.50
	1999	3.69	204	63.28	32.33
	2000	3.62	176	68.37	42.89
	2001	3.69	201	71.20	44.08
	2002	4.14	242	66.61	33.28
	2003	4.24	261	79.97	37.55
	2004	4.56	271	85.58	51.21
	2005	4.78	224	89.55	49.62
	2006	5.19	257	87.08	46.25
	2007	7.10	379	90.02	46.66
	2008	11.19	528	89.23	47.64
	2009	7.03	371	80.36	41.98
	y-t-d 2010	6.88	379	89.95	54.28
2009	July	6.68	375	80.90	43.30
	August	6.05	396	80.40	37.30
	September	5.99	363	80.50	37.70
	October	6.12	363	79.20	37.80
	November	6.97	377	79.60	40.30
	December	6.49	386	78.50	45.00
2010	January	7.16	373	82.10	48.40
	February	7.26	362	85.50	48.80
	March	7.12	373	90.50	52.20
	April	6.77	378	95.70	56.50
	May	6.50	366	94.80	62.10
	June	6.75	393	91.10	57.70
	m-t-d July	6.47	420	n.a.	n.a.
Forecast	2010 Avg.	7.10	390	91	53
	2011 Avg.	7.40	440	94	55

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Commodity Indices and Forecasts

US\$-terms : 2003 = 100

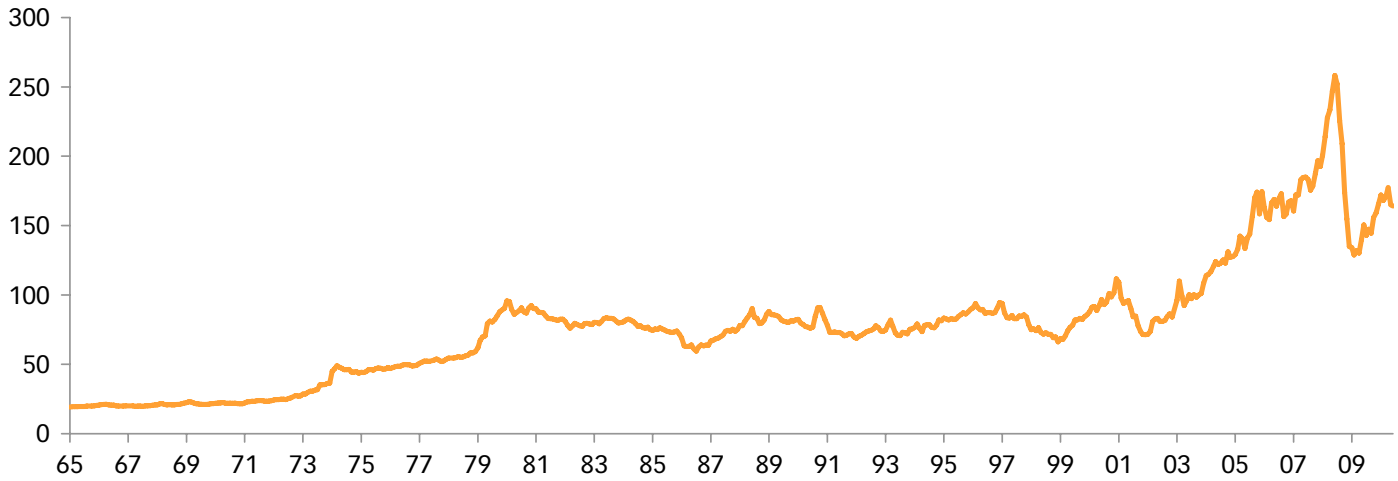
		All Commodities	Oil & Gas	Metals & Minerals	Forest Products	Agricultural Products	All Commodities	
		C\$-terms						
Annual								
	2001	87.1	77.5	89.2	101.9	88.4	96.1	
	2002	81.7	72.2	89.0	90.0	92.5	91.6	
	2003	100.0	100.0	100.0	100.0	100.0	100.0	
	2004	122.4	120.0	128.4	124.7	109.5	113.7	
	2005	149.8	170.6	150.3	121.7	109.0	129.3	
	2006	163.7	166.7	229.6	115.6	114.5	132.6	
	2007	181.0	178.8	284.0	108.2	146.5	138.5	
	2008	210.9	239.0	272.4	112.5	204.2	158.4	
	2009	144.2	133.9	227.1	95.2	141.2	117.1	
Forecast	2010	170.7	167.0	249.7	117.4	149.5	127.0	
	2011	185.7	187.3	274.4	116.4	157.8	133.9	
Quarterly								
	2009	Q1	131.6	110.0	216.9	96.9	145.0	116.9
		Q2	140.2	128.3	221.9	91.5	152.1	117.0
		Q3	145.0	137.0	229.5	92.6	132.3	113.7
		Q4	160.1	160.2	240.1	99.8	135.3	120.9
	2010	Q1	170.2	171.6	243.3	113.4	146.3	126.6
		Q2	168.9	162.9	244.6	122.5	145.9	124.0
Forecast		Q3	167.7	160.4	246.3	119.3	153.3	124.7
		Q4	176.1	173.1	264.7	114.4	152.4	132.7
	2011	Q1	184.9	188.4	271.4	114.1	157.3	137.7
		Q2	184.8	183.7	276.6	117.1	159.0	133.3
Monthly								
	2009	Jun	150.5	145.1	232.6	92.1	152.8	120.7
		Jul	142.9	132.4	230.8	90.7	138.0	114.9
		Aug	147.4	141.2	231.2	93.5	130.9	114.5
		Sep	144.5	137.4	226.6	93.6	127.8	111.7
		Oct	155.8	156.8	234.6	95.6	128.9	117.7
		Nov	159.2	157.4	239.9	100.7	140.3	120.4
		Dec	165.2	166.5	246.0	103.2	136.6	124.6
		2010	Jan	172.1	177.2	247.6	107.3	144.9
	Feb		168.1	169.8	234.7	115.6	146.2	126.7
	Mar		170.5	167.8	247.4	117.3	147.9	124.6
	Apr		177.4	170.6	260.2	128.6	146.8	127.6
	May		165.0	154.8	241.4	125.2	144.0	122.7
	Jun		164.2	163.3	232.1	113.9	146.8	121.6

Commodity price indices and forecasts are by BMO Capital Markets Economics.
Forecasts are independent of those used by BMO Capital Markets Equity Research.

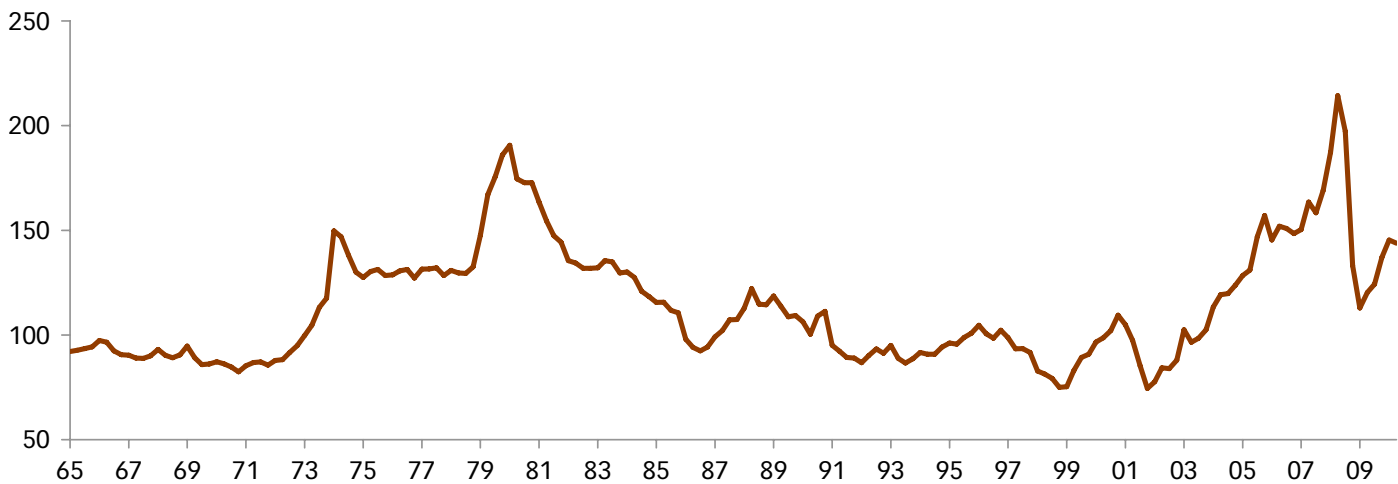


Historical Charts: All-Commodity Index

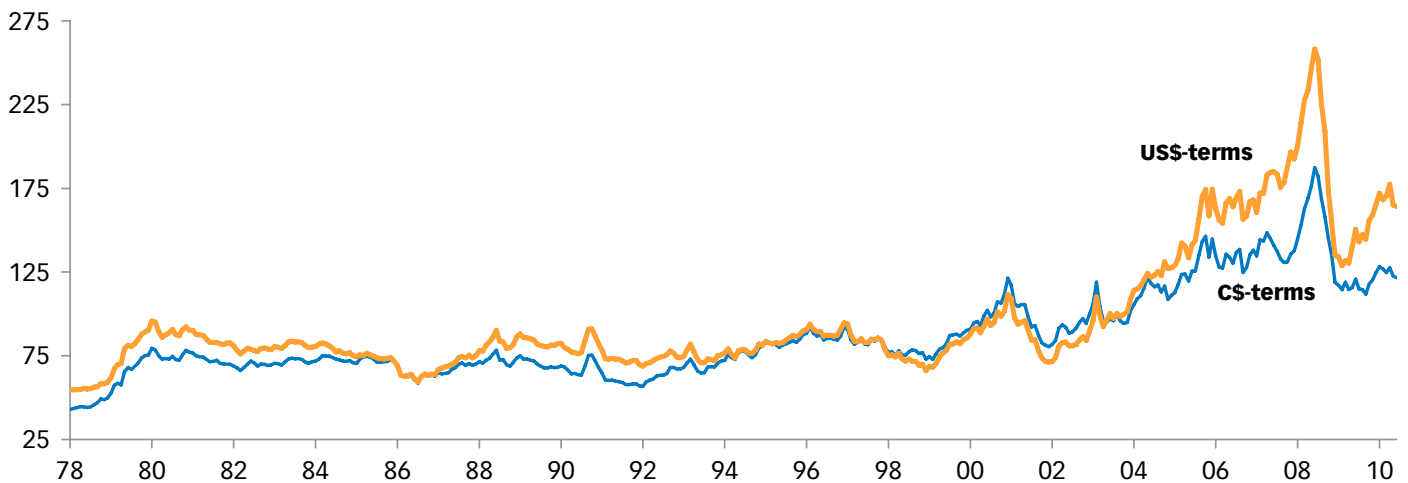
Nominal US\$-Terms (2003 = 100)



Real US\$-Terms (2003 = 100)



Nominal (2003 = 100)





Technical Note

The BMO Capital Markets Commodity Price Index is a fixed-weight, export-based index that encompasses the price movement of 19 commodities key to Canadian exports. Weights are each commodity's average share of export values during the period 2002-06. Similarly, weights of sub-index components reflect the relative importance of commodities within their respective product group.

The all-commodities index and sub-indices consist of the following:

Percent	Weight in All-Commodities Index	Weight in Sub-Index	Weight in All-Commodities Index	Weight in Sub-Index
Metals & Minerals	21.5	100.0	Forest Products	26.3
Gold	3.1	14.5	Newsprint	5.0
Silver	0.4	1.9	Market Pulp	5.9
Aluminum	8.3	38.7	Supercalendered Paper	3.4
Copper	2.3	10.4	Lumber	9.3
Nickel	3.3	15.2	OSB	2.7
Zinc	1.0	4.4		
Uranium	1.1	5.0	Agricultural Products	5.9
Potash	2.1	9.8	Wheat	2.8
			Canola	1.2
Oil and Gas	46.3	100.0	Hogs	0.6
Crude Oil	22.7	49.1	Beef Cattle	1.3
Canadian Natural Gas	23.6	50.9		
			All Commodities	100.0

Unless otherwise specified, all indices reported in this publication correspond to prices in U.S. dollars.

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