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Sustainable Oil Sands Sector Index™ (SOSSI) July 2008 Commentary

Two new members qualified for inclusion in the index as of the June 30, 2008 rebalance date. The first of the two is Ivanhoe Energy (IE - Toronto) which is developing its own pilot plant to upgrade heavy crude and oil sands using a proprietary heavy to light (HTL) process. The other addition is Baytex Energy Trust (BTE.un - Toronto) which is focused on heavy oil production in the Peace River and Cold Lake area. The index now consists of 17 companies, matching the previous peak prior to the consolidation in the energy sector in 2007.

The recent trend whereby energy prices have outpaced the gains in energy stocks continued in June. This is the third month in a row that energy prices have gained more than 10%. The Canadian energy sector managed to gain a paltry 1.6% despite one of the greatest crude oil bull market in decades.

Index	Symbol	Region	June 2008 Return
NYMEX Natural Gas	NGAS	US	14.1%**
NYMEX Crude Oil	OIL	US	9.9%**
Oil Sands Sector Index™	SOSSI	Canada	4.6%*
S&P/TSX Capped Energy	TTEN	Canada	1.6%*

* Return in Canadian dollar terms.

**Return in US dollar terms.

There was a huge range of returns for individual stocks in the index during the month. The larger companies such as Suncor, Imperial Oil and Husky Energy struggled this month while royalty trusts and some of the recent additions to the index such as Ivanhoe Energy, Baytex Energy Trust and Oilsands Quest had incredible one month returns.

Top Performing Stocks June 2008

Oilsands Quest	42.2%
Ivanhoe Energy	29.0%
Baytex Energy Trust	21.0%
Canadian Oil Sands Trust	11.9%
Penn West Energy Trust	6.6%

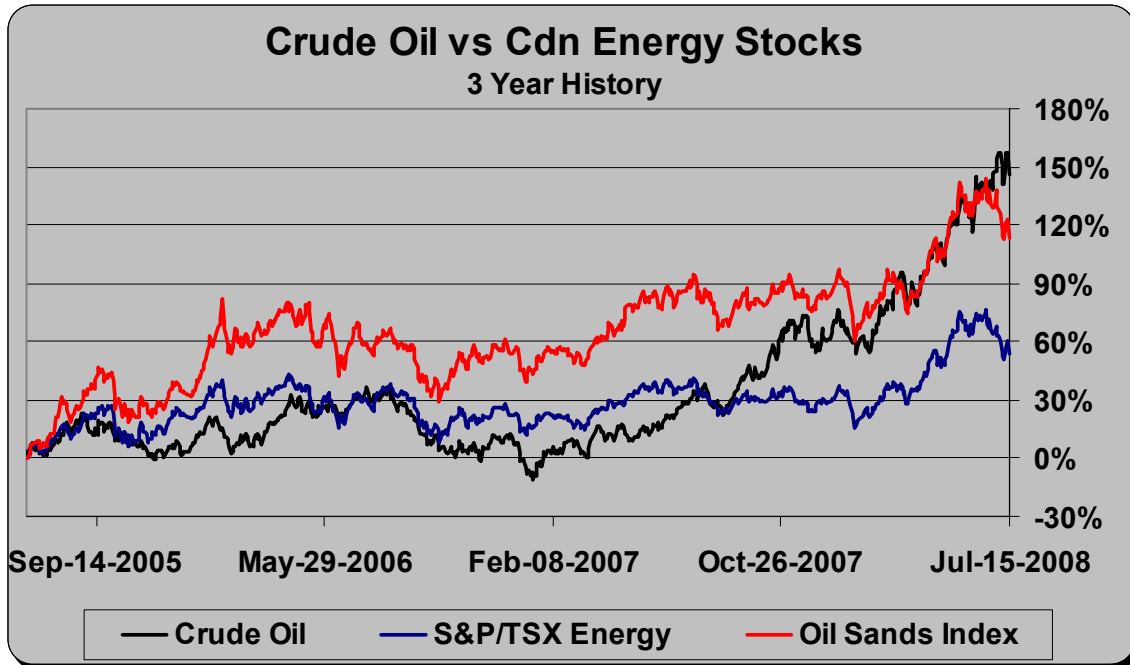
Worst Performing Stocks June 2008

Suncor Energy	-12.6%
Connacher Oil & Gas	-7.3%
Petrobank Energy	-7.3%
Imperial Oil	-2.6%
Husky Energy	-2.1%



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Crude oil has been rocketing upward since early 2007 yet energy company stocks are not keeping pace with the advance. Over the last three years crude oil is up 146% compared to 114% for the Oil Sands Sector index and a frustrating 54% gain for the benchmark TSX Energy index (see chart below). Most of the appreciation in crude oil is recent, occurring in just the last twelve months.



The following are some future possibilities.

Possible Scenarios	Opportunity/Risk	Probability
Global Recession	Expect a 25% drop in energy stocks	20%
US \$ Collapse	Energy prices & stocks will soar	20%
Oil Supply Shock	Energy prices & stocks will soar	30%
Stagflation	Energy prices & stocks will soar	30%

The highest probability events are that we experience a supply shock (weather, war, political) and that we experience a low growth and high inflation economy similar to the 1970s. The only scenario that would hurt the case for strong energy prices in the future is a global recession combined with a flood of new oil supply. The global recession is a real possibility but raising crude oil supply is a lower probability given the rising cost of finding and developing crude oil resources around the world.



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My own assessment is that Canadian energy stocks will outperform crude oil for the remainder of 2008 even if energy prices go down. Between 2005 and 2007, crude oil was flat and natural gas prices were down significantly yet energy stocks gained 30 to 60%. Currently, energy stocks are cheap on an intrinsic value basis and many analysts believe that shares are trading based on only a \$100 crude oil price.

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