Canadian Oil Sands

June 6, 2005

VIA COURIER AND E-MAIL

To: Saskatchewan Securities Commission
Manitoba Securities Commission
Nova Scotia Securities Commission
New Brunswick Securities Commission
Office of the Attorney General, Prince Edward Island
Securities Commission of Newfoundland and Labrador
Registrar of Securities, Government of the Yukon
Registrar of Securities, Department of Justice, Government of the Northwest Territories
Registrar of Securities, Legal Registries Division, Department of Justice, Government Nunavut

c/o the Ontario Securities Commission

Ontario Securities Commission
20 Queen Street West
Suite 1900, Box 55
Toronto, Ontario M5H 3S8

Attention: John Stevenson, Secretary

Autorité des marchés financiers
Tour de la Bourse
800, Square Victoria
C.P. 246, 22e étage
Montréal, Québec H4Z 1G3

Attention: Anne-Marie Beaudoin,
Directrice du secrétariat

Alberta Securities Commission
Alberta Stock Exchange Tower
4th Floor, 300 – 5th Ave S.W.
Calgary, Alberta T2P 3C4

Attention: Kari Horn, Senior Legal Counsel

Alberta Securities Commission
Alberta Stock Exchange Tower
4th Floor, 300 – 5th Ave S.W.
Calgary, Alberta T2P 3C4

Attention: Fred Snell, Chief Accountant

Dear Sir/Madam:

Re: Comments on Proposed Multilateral Instrument and Companion Policy 52-111 (the "Internal Control/Attestation Rules")

With respect to the above noted Internal Control/Attestation Rules, Canadian Oil Sands Limited (the "Corporation") and Canadian Oil Sands Trust (the "Trust") (collectively, "Canadian Oil Sands"), would like to submit the following comments for your consideration. Both the

Canadian Oil Sands Limited
2500 First Canadian Centre
350 - 7th Avenue S.W.
Calgary, Alberta, T2P 3N9
Canada
Tel: (403) 218-6200
Fax: (403) 218-6201
www.cos-trust.com

Corporation, which manages the Trust, and the Trust are reporting issuers under the applicable securities legislation in Canada. The Trust has a market capitalization as at June 3, 2005 of approximately $7.6 billion but the Corporation has a staff of less than 15 individuals.

While Canadian Oil Sands supports a "top-down" attitude towards full disclosure and a proper internal control environment, we believe that the Proposed Internal Control/Attestation Rules do not create a control environment in a cost effective manner. In our opinion, rather than implementing auditor attestation rules, the current proposals regarding internal certifications of financial statements and the existence of appropriate internal controls by the Chief Executive Officer and the Chief Financial Officer are sufficient to provide the requisite assurances for investors that accurate and timely financial information is being disseminated and that senior management has instituted internal control processes and fostered an attitude of open, timely disclosure of all material information. Multilateral Instrument 52-109 and Companion Policy 52-109CP, as revised, requires management to focus on internal controls and ensure the appropriate control environment is instituted. The additional responsibility on the Chief Executive Officer and Chief Financial Officer to sign these certificates will, in turn, require such officers to ensure that there is an environment from the top of the organization downward to have the proper accounting and disclosure processes in place. We would refer you to commentary by various institutional investors to Arthur Korpach at the recent open forum held by the Alberta Securities Commission as to such investors' lack of interest in having further rules regarding controls applied. At such forum, you will recall there was a specific comment by the manager of the Alberta Teachers' Pension Fund that they did not support the Internal Control/Attestation Rules. Rather, that fund manager thought that the certification process was sufficient to provide whatever further assurances investors might need. From Canadian Oil Sands' perspective, we have not had any indications that our investors, most of whom are institutional holders, view auditor attestation as a priority.

A better approach is to have U.S. regulated entities and Canadian issuers that are "foreign private issuers" in the United States comply with the existing SOX certification rules and attestation rules. Those Canadian issuers not in this category would instead provide only the CEO/CFO certifications. In our opinion, in the context and size of the Canadian market, it is more appropriate to allow the marketplace to determine whether or not there is any added value in having Canadian public issuers who do not fall into the "foreign private issuer" category go through an internal control attestation process. It would then be up to any Canadian public issuer who is not a U.S. foreign private issuer to determine whether there was additional value in implementing these costly attestation measures.

In the alternative, if the Commissions continue to press for an attestation process, we strongly urge the Canadian securities regulators to approach any attestation rules slowly and to ensure that any attestation rules are focused on a "top-down", "risk-based" assessment. Commentary from various U.S. public issuers, including those at the SEC Roundtable have indicated that U.S. issuers have, on average, spent between 0.5% (for larger companies) to 2.5% (for smaller companies) of their revenues in complying with the SOX attestation rules. As Canadian public issuers are smaller in market cap, it would appear that there will be an even higher cost for public issuers to undertake the same work. In our view, these high costs are not justified.

Based on information from a survey conducted at the Policy Forum 2005 held by the Chartered Accountant Association of Canada and the Institute of Corporate Directors, 80% of those in attendance indicated that in the first year of complying with the SOX attestation rules they expected the costs to exceed the improvement or benefit in the disclosure or control processes. Even in the second year, two thirds of those surveyed indicated that there was no clear benefit

which would outweigh the costs incurred for such processes. Recent commentary, including comments out of the SEC, have noted that reasonability is not necessarily being applied under the SOX test. We would strongly urge that Canadians not blindly follow the American route. Auditing firms in the U.S. have been criticized for taking too conservative approach to implementing Section 404 of SOX, resulting in expensive, time consuming testing of process controls and retesting of controls already tested by management and internal auditors. The accounting firms justify this approach on the basis they did not want to be second guessed and open to liability claims. The SEC has subsequently stated that taking a top-down, risk-based approach employing reasonable judgement is appropriate. If we proceed with attestation, this concept must be embedded in the Canadian legislation. The Canadian Securities Administrators should also undertake a communication and consultation process whereby they clarify the appropriate application of the proposed Internal Control/Attestation Rules prior to their enactment. The Canadian Securities Administrators have the opportunity to avert any similar problems here in Canada and make expectations clear before the implementation process begins. This will help better focus the efforts of management and auditors on the aspects of financial reporting that are most important, resulting in improvements to the quality and reliability of the reporting while more appropriately balancing costs and benefits. In our view, such a proactive communication would help maintain and enhance the reputation of Canada's capital markets.

In particular, there are a number of principles that, if adopted by the Canadian Securities Administrators, will help prevent the types of implementation problems experienced in the U.S. with SOX Section 404. Most of these principles are reflected in the *Staff Statement on Management's Report on Internal Control over Financial Reporting* released by the SEC on May 16, 2005 (some of their language has been replicated here) and include:

- Management is responsible for determining the form and level of controls for each organization and the scope of their assessment and testing appropriately. One size doesn't fit all and control effectiveness is affected by many factors requiring distinct approaches by each organization.

- Management is to use a risk-based approach to control reviews and should ensure that the policies, Board oversight and auditing processes are designed to ensure proper "tone from the top", as this is where the highest level of risk resides.

- A central purpose of assessment of internal control over financial reporting is to identify material weaknesses that have more than a remote likelihood of leading to a material misstatement in the financial statements. Each company should use informed judgement in documenting and testing to obtain a reasonable level of evidence.

- "Reasonable" is defined as a high level of assurance but it doesn't mean absolute assurance, nor does it imply coming to a single conclusion or using a single methodology.

- Management and auditors should take a top-down and risk-based approach and avoid "check-the-box" exercises. Resources should be devoted to those areas of greatest risk to focus efforts and avoid wasted effort. Entity-level controls are of prime importance for external auditors, with process-level controls that do not directly impact financial reporting in a meaningful way best handled by internal audit and/or management.

- Independent auditors should use, and need to be allowed to use, professional judgement when evaluating management's assessments and testing. The traditional Canadian "principles-based" approach to accounting and audit should be encouraged.

- Control deficiencies should be evaluated by: their nature; cause; the relevant financial statement assertion they were designed to support; effect on the broader control environment; and whether other compensating controls are effective. All material errors in reporting are not the result of material weaknesses and shouldn't be treated that way.

- Dialogue between auditors and management must continue as before and should not be affected by the proposed regulations.

We have also responded to your specific comment requests as outlined in the CSA Notice Request for Comments below. We have used the same numbering systems as contained in the Notice for ease of reference.

Scope of Application

Questions 1 and 2

As indicated above, we believe that there should be no requirements for auditor attestation for Canadian public issuers. Rather, any Canadian public issuer who is a foreign private issuer under the SEC rules would have to comply with U.S. laws and the remaining Canadian public issuers would need to determine whether there was a market benefit in undertaking the costly process of auditor attestation. If the Canadian Securities Administrators do not accede to this position, we believe that it is appropriate that all reporting issuers listed on the Toronto Stock Exchange (the "TSX") be required to comply with the attestation rules. However, any entity that is only listed on the TSX Venture Exchange should be exempt. Investors generally and inherently understand that there is a different risk profile for TSX Venture issuers compared to issuers listed on the TSX.

Management's Assessment of Internal Controls Over Financial Reporting

Questions 3 and 4

The term "Management" need not be formally defined, but instead guidance should be provided in the Companion Policy so that entities can appropriately choose who management includes as part of their control process. Management for a small entity is a much different group than that of a larger organization and therefore organization and there each issuer has its own specific attributes that they should be allowed to consider in their own context. As noted above, the legislation should clearly allow management to use their reasoned judgement and not force management and auditors into taking a conservative approach in order to avoid a potential liability.

Scope of Evaluation

Question 5

Canadian Oil Sands believes that the process should include joint ventures and other entities in which the issuer holds an interest. However, we do believe that the attestation rules need to allow for the reliance on the operator of a joint venture and the certification by such operator's

auditors as to the operator's internal control process. Without such reliance, there will be a several fold multiplication costs in the oil and gas industry as each entity would have to have their own auditors review and double check the control process. This makes for inefficient use of business personnel time and potentially impacts the overall profitability and operations of the public issuers. The cost would be exponentially higher as each joint venture partner would have to have its own auditor engaged in the attestation of the joint venture operations.

Section 2.6 of the Instrument should be deleted. The entire oil and gas industry is based on reliance on an operator's processes for joint ventures and partnerships. It is inappropriate for regulators to interfere with the business negotiations and industry practice. As noted above, investors should derive comfort from the certifications and attestations of the operator without forcing the joint venture partners to replicate the oversight and double checks already undertaken by the operator.

The Guidelines set out in the proposed internal control policy with respect to the scope of the evaluation of internal controls over financial reporting are not adequate. There needs to be more emphasis on the process being a "top-down" approach which has as its key focus the provision of "reasonable" assurance (not a guarantee) and which approach allows use of a reasonable person's judgement having regard to the size and nature of operations of the issuer as well as the risks associated with such issuer. Only those risks that are material should be the focus of the attestation. It makes no sense to have auditors check internal controls over minor elements of the business which would have little or no impact on the financial results of the organization. We would refer you to our commentary above as to possible clarifications.

Suitable Control Framework

Questions 6 and 7

We do not believe it is appropriate to determine what control frameworks should be identified in the proposed internal attestation policy.

Evidence

Questions 8 and 9

More guidance should be given on what type of evidence is sufficient. The Canadian Securities Administrators should consider the excessiveness seen in the U.S. and give guidance on how much "documentation" need be created in providing the necessary evidence. In smaller entities, it makes no sense to require additional paper documentation for simple processes.

Internal Control Report

Questions 11 and 12

The internal control reports should be consider with the financial statements but should not require "specific" Board approval.

Exemptions

Questions 13 and 14

As noted previously, we do not feel that the benefits of the Internal Control/Attestation Rules outweigh the costs and would suggest not introducing the legislation. However, if legislation is to be introduced, all TSX Venture Issuers should be exempt. All other issuers should be required to comply with the Internal Control/Attestation Rules.

Effective Date and Transition

Questions 15 and 16

We believe that there should be a phased in approach but believe that an additional two years would be beneficial. This additional time would allow the Canadian issuers and regulators to learn from the errors that the US SOX drafting and implementation has caused. The SEC Roundtable forum clearly recognized that there are improvements that needed to be addressed. The Canadians should allow sufficient time to have the US regulators and issuers modify their practices and then implement a process that makes sense for our Canadian market place.

Anticipated Costs and Benefits

Questions 17 and 18

We do not believe that the benefits outweigh the costs.

Alternatives

Questions 19 and 20

See our suggestions earlier.

Changes to Certification Forms

Questions 21, 22 and 23

We have no issues with the proposed changes to the certification forms.

In closing, Canadian regulators should be more cognizant of investors' bottom line and take a cautious approach, allowing the U.S. to work through their attestation rules so that we in Canada benefit from any mistakes the U.S. made. In short, we believe that any proposed attestation rules should be delayed a further 2 years (i.e. for compliance June 30, 2008) so that there is a better understanding of how the auditor attestation process and control testing process should work.

Should you have any questions, or require anything further, please do not hesitate to contact me directly at (403) 218-6240.

CANADIAN OIL SANDS LIMITED

Per: _____
Trudy M. Curran
General Counsel and Corporate Secretary

Per: _____
Allen R. Hagerman
Chief Financial Officer