

Rating: Buy
S&P 500: 1229

Penn West Energy Trust **Undiscovered by U.S. Investors**

<i>Symbol</i>	PWTFF	<i>Ebitda Next Twelve Months ending 6/30/06 (US\$mm)</i>	1,110
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	49
<i>Price (US\$/sh)</i>	27.26	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	8/10/05	<i>Adjusted Reserves/Production NTM</i>	8.0
<i>Shares (mm)</i>	172	<i>EV/Ebitda</i>	5.0
<i>Market Capitalization (US\$mm)</i>	4,700	<i>PV/Ebitda</i>	5.1
<i>Debt (US\$mm)</i>	900	<i>Undeveloped Reserves (%)</i>	11
<i>Enterprise Value (EV) (US\$mm)</i>	5,600	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	30.36
<i>Present Value (PV) (US\$mm)</i>	5,700	<i>Present Value Proven Reserves(US\$/boe)</i>	18.44
<i>Net Present Value (US\$/share)</i>	28	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.07
<i>Debt/Present Value</i>	0.15	<i>Earnings Next Twelve Months (US\$/sh)</i>	3.29
<i>McDep Ratio - EV/PV</i>	0.98	<i>Price/Earnings Next Twelve Months</i>	8
<i>Dividend Yield (%/year)</i>	9.5	<i>Indicated Annual Dividend (US\$/sh)</i>	2.58

Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.

Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.

Summary and Recommendation

We recommend current purchase of the units of **Penn West Energy Trust (PWTFF)** for high current income and a relatively untapped U.S. investor base. The current rate of distribution at 9.3% of stock price is less than 50% of cash flow. U.S. investors own less than 20% of the newly created trust that is the largest in Canada after **Canadian Oil Sands Trust (COSWF)** among resource owners. Not explicitly recognized in estimated present value of US\$28 a share, the trust's 35% share of Canada's billion-barrel Pembina Cardium field is expected to benefit from tertiary recovery beginning in 2008. Though present value implies a 7% per year real return at a constant real oil price of \$50, the average price for the next six years is above \$61 a barrel. Distributions are qualified dividend income subject to the maximum U.S. income tax rate of 15%.

Conventional Natural Gas and Oil Base

Until May 31, 2005, Penn West was a successful independent oil and gas producer. Canadian businessman, Murray Edwards, apparently was a driving force behind the company. As the conventional oil and gas business in Canada passed increasingly into the hands of royalty trusts frustration arose among some executives. Mr. Edwards was quoted in the Canadian press as complaining that the playing field was not level between corporations and trusts. The chief executive officer of Canadian Natural Resources (CNQ), another company influenced by Mr. Edwards, expressed similar reservations. Nonetheless, by a vote of the shareholders, Penn West was converted to a trust that is only now in its first full quarter of operations in the new form.

Historical independent energy investment analysis by Kurt Wulff doing business as McDep Associates is posted at www.mcdep.com. Analyses are prepared from sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Mr. Wulff is not paid by covered companies. Neither he nor his spouse trade a subject stock within a week before or after a change in rating.

The chief executive officer of the trust, Mr. Bill Andrews, a gruff, plain speaking, confidence-inspiring person confessed that he, too, was not enthusiastic about the trust idea. Mr. Andrews apparently had his epiphany only a few days before the shareholder vote. We heard him say that he was impressed at how well the U.S. royalty trusts had done relative to operating companies. As a result, he changed his mind and has become whole-heartedly committed to managing a superior investment vehicle.

We look for Mr. Andrews to engage in some innovative transactions that bring in other companies to make the capital investment to drill on trust properties. Generally skeptical about management's ability to add value that is not already inherent in trusts, we are optimistic that Mr. Andrews can do so in a unique situation.

The Pembina Potential

Pembina is a magic name in Alberta. It refers to a giant field with some 6 billion barrels, or more, of oil-in-place. About 1.5 billion, 25% or less, has been produced. Perhaps 5% or less is considered proven today and included in current reserves. Most of the oil remains to be recovered. Penn West has been working on a project that would recover more oil through tertiary recovery using carbon dioxide. Coincidentally, carbon dioxide is the bogey man that the Kyoto treaty seeks to chase away. Thus Penn West is offering to take carbon dioxide off the hands of the "polluters" and put it to work cleaning up oil left behind after primary and secondary recovery.

The carbon dioxide technique is expected to recover at least 10% more of the original oil. Penn West's share before royalty appears to be at least a third, or at least 200 million barrels. Present value could be a nominal billion dollars or \$5 a share today. The passage of time, better-than-minimum results and the evolution of commodity price may make the ultimate value several times higher. Management expects commercial operations starting in 2008-2009.

Kurt H. Wulff, CFA

Functional Cash Flow and Present Value

	<i>NTM Ebitda</i> <i>(US\$mm)</i>	<i>Adjusted</i> <i>R/P</i>	<i>PV/</i> <i>Ebitda</i>	<i>Present</i> <i>Value</i> <i>(US\$mm)</i>	
North American Natural Gas	540	5.6	4.6	2,500	44%
Oil	570	10.3	5.6	3,200	56%
	1,110	8.0	5.1	5,700	100%
Debt (US\$mm)					900
Net Present Value (US\$mm)					4,800
Shares (mm)					172
Net Present Value (US\$/sh)					28

Penn West Energy Trust
Next Twelve Months Operating and Financial Estimates
 (Canadian dollars)

	<i>Q1</i> <i>3/31/05</i>	<i>Q2</i> <i>6/30/05</i>	<i>Q3E</i> <i>9/30/05</i>	<i>Q4E</i> <i>12/31/05</i>	<i>Year</i> <i>2005E</i>	<i>Q1E</i> <i>3/31/06</i>	<i>Q2E</i> <i>6/30/06</i>	<i>Next</i> <i>Twelve</i> <i>Months</i> <i>6/30/06</i>
Volume								
Natural Gas (mmcf)	289	296	296	296	294	296	296	296
Oil (mbd)	53	51	51	51	51	51	51	51
Total gas & oil (bcf)	55	55	55	55	220	55	55	220
Price								
Natural gas (\$/mcf)								
Henry Hub (US\$/mmbtu)	6.27	6.76	7.77	9.18	7.49	9.85	8.27	8.77
Company (C\$/mcf)	6.85	7.41	8.52	10.07	8.23	10.80	9.07	9.61
Oil (\$/bbl)								
WTI Cushing (US\$)	49.65	53.05	61.58	65.42	57.43	66.21	65.95	64.79
Company (C\$/bbl)	46.04	48.81	56.65	60.19	52.87	60.92	58.04	58.95
Total gas & oil (\$/mcf)	7.28	7.78	8.99	10.05	7.03	10.47	9.38	8.02
Revenue (\$mm)								
Natural Gas	180	200	232	274	886	291	244	1,041
Oil	223	225	264	280	992	281	267	1,092
Other	(73)	(74)	(86)	(97)	(330)	(100)	(90)	(374)
Total	330	350	410	458	1,548	471	422	1,760
Expense								
Production	84	86	93	99	362	100	95	387
Overhead	23	7	7	7	44	7	7	28
Ebitda (\$mm)	223	257	309	352	1,142	364	320	1,345
Deprec., Deplet., & Amort.	107	107	110	110	435	109	109	439
Hedging and other	24	51	51	51	176	51	51	203
Ebit	92	100	148	191	531	204	160	702
Interest	5	5	5	5	20	5	5	20
Ebt	87	95	143	186	511	199	155	682
Income Tax								
Net Income (\$mm)	87	95	143	186	511	199	155	682
Shares (millions)	165	169	169	169	168	169	181	172
Per share (\$)	0.53	0.56	0.85	1.10	3.03	1.18	0.86	3.98

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