

Rating: Buy
S&P 500: 1221

Penn West Energy Trust Quality Income Stock

<i>Symbol</i>	PWTF	<i>Ebitda Next Twelve Months ending 9/30/06 (US\$mm)</i>	1,290
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	53
<i>Price (US\$/un)</i>	28.08	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	11/9/05	<i>Adjusted Reserves/Production NTM</i>	8.0
<i>Units (mm)</i>	176	<i>EV/Ebitda</i>	4.5
<i>Market Capitalization (US\$mm)</i>	4,900	<i>PV/Ebitda</i>	4.5
<i>Debt (US\$mm)</i>	900	<i>Undeveloped Reserves (%)</i>	11
<i>Enterprise Value (EV) (US\$mm)</i>	5,800	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	35.32
<i>Present Value (PV) (US\$mm)</i>	5,800	<i>Present Value Proven Reserves(US\$/boe)</i>	18.76
<i>Net Present Value (US\$/unit)</i>	28	<i>Present Value Proven Reserves(US\$/mcf)</i>	3.13
<i>Debt/Present Value</i>	0.15	<i>Earnings Next Twelve Months (US\$/un)</i>	4.44
<i>McDep Ratio - EV/PV</i>	1.00	<i>Price/Earnings Next Twelve Months</i>	6
<i>Distribution Yield (%/year)</i>	11.2	<i>Indicated Annual Distribution (US\$/un)</i>	3.14

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 unit revised only infrequently.

Summary and Recommendation

Buy-recommended **Penn West Energy Trust (PWTF)** offers monthly cash distributions at the rate of more than 11% per year at current stock price at the same time it reinvests half of equity cash flow. While the stock is priced at present value, our estimate may be understated. The trust has only completed its first quarter of operations. Taking account of latest quarterly results, our correlation of 30 companies indicates net present value about \$3 a share higher than estimated. Neither our estimate nor the correlation includes the contemplated application of tertiary recovery in the Pembina Cardium field potentially worth upwards of \$5 a unit in present value. Penn West is our top choice for investors who want predictable high income immediately in a security with multi-billion dollar liquidity.

Cash Flow and Reserve Life Point to Present Value

McDep analysis presumes that fundamental value is measured by the projection of cash flows far into the future and discounting them to the present at a rate of return, currently 7% a year before inflation. Next Twelve Months (NTM) cash flow represents the volumes and costs that form the base for future projections. Reserve life index tells how long cash flow will last. NTM cash flow and reserve life are the two main variables in our correlation by function for about 30 companies. Net present value indicated by the current combined correlation is about \$3 a share higher than our ongoing standard estimate for the company (see table Functional Cash Flow and Present Value).

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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	690	5.7	3.6	2,500	43%
Oil	600	10.1	5.5	3,300	57%
	1,290	8.0	4.5	5,800	100%
Debt (US\$mm)					900
Net Present Value (US\$mm)					4,900
Shares (mm)					176
Net Present Value (US\$/sh)					28
Over (-)/ Under (+) Correlation (US\$/sh)					3

Cash Flow by Quarter Depends on Latest Results and Futures Prices

Cash flow for the next year is projected from a base through the latest reported quarter (see table Next Twelve Months Operating and Financial Estimates). Company disclosures provide the clues for future volumes and costs as well as geographic and quality differences in price. Futures prices from the New York Mercantile Exchange determine industry benchmarks for the next year.

Industry Conditions Support Long-Term Price Expectation

Present value estimates that form the denominator of the McDep Ratio and change only occasionally for all companies, most recently in early August, are tied to expected constant real long-term prices. Recent futures price for oil delivered over the next six years at \$58 a barrel exceeds our long-term expectation of \$50. One-year futures for natural gas exceed our long-term expectation while six-year futures for natural gas also have appreciation potential, in our opinion.

Oil and Gas Commodity and Stock Price

	<i>Units</i>	<i>Futures Price</i> <i>6-Nov-2005</i>		<i>McDep Ratio</i> <i>Denominator</i>
		<i>Six-Year</i>	<i>One-Year</i>	
Crude Oil	\$/barrel	58.31	61.23	50
Natural Gas	\$/million btu	8.35	10.81	10
	<i>Stocks</i>			<i>Median</i> <i>McDep Ratio</i>
	Income			1.02
	PWTFF			1.00

Source: McDep Associates, Bloomberg, New York Mercantile Exchange, Yahoo and company disclosures

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

	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Next Twelve Months</i>
	<i>3/31/05</i>	<i>6/30/05</i>	<i>9/30/05</i>	<i>12/31/05</i>	<i>2005E</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>9/30/06</i>
Volume									
Natural Gas (mmcf)	289	296	289	289	291	289	289	289	289
Oil (mbd)	53	51	52	52	52	52	52	52	52
Total gas & oil (bcf)	55	55	55	55	220	54	54	55	219
Price									
Natural gas (\$/mcf)									
Henry Hub (US\$/mmbtu)	6.27	6.76	8.56	13.22	8.70	12.48	9.97	9.99	11.42
Company (C\$/mcf)	6.85	7.41	8.88	13.71	9.21	12.94	10.34	10.36	11.84
Oil (\$/bbl)									
WTI Cushing (US\$)	49.65	53.05	62.52	60.43	56.41	60.95	61.52	61.59	61.12
Company (C\$/bbl)	46.04	48.81	62.92	60.82	54.65	61.34	54.14	54.20	57.62
Total gas & oil (\$/mcf)	7.28	7.78	9.71	11.86	7.53	11.54	9.66	9.67	8.79
Revenue (\$mm)									
Natural Gas	180	200	236	365	980	340	272	276	1,252
Oil	223	225	299	289	1,035	288	254	257	1,089
Other	(73)	(74)	(95)	(116)	(358)	(112)	(93)	(95)	(416)
Total	330	350	440	537	1,658	517	433	438	1,926
Expense									
Production	84	86	89	99	358	97	89	90	375
Overhead	23	7	5	6	41	6	6	6	24
Ebitda (\$mm)	223	257	346	433	1,259	414	338	343	1,527
Deprec., Deplet., & Amort.	107	107	109	110	433	109	109	110	438
Hedging and other	24	51	(6)	(6)	62	(6)	(6)	(6)	(25)
Ebit	92	100	243	329	764	311	235	239	1,114
Interest	5	5	7	7	23	7	7	7	26
Ebt	87	95	237	322	741	305	229	232	1,088
Income Tax			35	48	83	46	34	35	163
Net Income (\$mm)	87	95	202	274	657	259	194	197	925
Shares (millions)	165	169	171	171	170	171	183	183	176
Per share (\$)	0.53	0.56	1.18	1.60	3.87	1.51	1.06	1.08	5.26
Ebitda Margin - O&G	73%	78%	82%	84%	80%	84%	82%	82%	83%
Tax Rate	0%	0%	15%	15%	11%	15%	15%	15%	15%

Buy Natural Gas and Oil Income Stocks

Energy is necessary for world economic growth and clean energy provides a better quality of life. Some North American natural gas and oil producers are suppliers of clean energy and pay cash distributions at a high rate (see table Rank by EV/Ebitda).

Distributions paid by Penn West are amply covered by equity cash flow. For that measure we start with estimated cash flow (NTM Ebitda) and subtract a debt component proportional to the ratio of debt to present value. Distributions at the current rate amount to 51% of "equity cash flow". In contrast, the sell recommended partnership in our coverage pays distributions at the rate of 166% of equity cash flow.

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Oil and Gas Producers

Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

				<i>Price</i> <i>(\$/sh)</i>	<i>Adjstd</i> <i>Resrvs/</i>	<i>PV/</i>	<i>EV/</i>	<i>Divd or</i> <i>Distrib</i>
	<i>Symbol/</i>		<i>9-Nov</i>	<i>Prod</i>	<i>Ebitda</i>	<i>Ebitda</i>	<i>P/E</i>	<i>NTM</i>
	<i>Rating</i>		<i>2005</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>(%)</i>
Income								
Kinder Morgan Energy Partners, L.P.	KMP	S3	49.87		7.9	16.1	23	6.3
Kinder Morgan Management, LLC	KMR	S3	46.20		7.9	15.2	21	6.8
Canadian Oil Sands Trust (US\$)	COSWF	B	95.64	20.0	11.4	8.4	9	3.5
San Juan Basin Royalty Trust	SJT		40.95	12.1	7.7	7.9	8	11.9
Pengrowth Energy Trust	PGH		21.60	7.6	5.6	5.9	9	10.8
Enerplus Resources Fund	ERF		41.80	9.8	5.6	5.6	8	10.2
Penn West Energy Trust	PWTFF	B	27.90	8.0	4.5	4.5	6	11.2
	<i>Median</i>			<i>9.8</i>	<i>7.7</i>	<i>7.9</i>	<i>9</i>	<i>10.2</i>

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Research Methodology/Ratings Description: McDep Associates is an independent research originator focused on oil and gas stocks exclusively. The firm applies the thirty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.

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