

Penn West to Acquire Canetic

Summary and Recommendation

Buy-recommended **Penn West Energy Trust (PWT)** plans to acquire Canetic Resources Trust (CNE) for about US\$5.6 billion in cash and stock including the assumption of Canetic debt. Conventional light oil, the most valuable energy resource in today's market place, makes up some 60% of value in each trust. PWE chief, Bill Andrew, says that the new Alberta royalties do not have a net negative effect on the mostly mature oil production of the combined entity. The higher Alberta tax apparently would have a negative effect on natural gas and on Penn West's Peace River oil sands potential. Countering that, our view is the higher tax will get passed on to consumers in higher oil and gas price as already implied by recent market action. We adjust estimated net present value for PWE to \$34 a unit from \$36 a unit for expected dilution when the transaction becomes effective, perhaps about March 1, 2008. PWE and all the oil and gas income stocks at McDep Ratios near 1.0 or less have appreciation potential in direct proportion to oil price that is in a renewed uptrend.

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Natural Gas and Oil Income Stocks - Rank by McDep Ratio

	<i>Symbol/ Rating</i>	<i>Price (\$/sh) 1-Nov 2007</i>	<i>Shares (mm)</i>	<i>Market Cap (\$mm)</i>	<i>Net Present Value (\$/un)</i>	<i>Debt/ Present Value</i>	<i>McDep Ratio</i>
U.S. Royalty Trusts							
Sabine Royalty Trust	SBR	48.17	14.6	700	45.00	-	1.07
Mesa RoyaltyTrust	MTR	69.72	1.9	130	70.00	-	1.00
Permian Basin RT	PBT	15.66	46.6	730	16.50	-	0.95
San Juan Basin Royalty Trust	SJT	B	37.50	46.6	1,750	40.00	0.94
Cross Timbers Royalty Trust	CRT	41.12	6.0	250	46.00	-	0.89
Hugoton RoyaltyTrust	HGT	B	24.69	40.0	990	34.00	0.73
<i>Total or Median</i>				4,600			0.94
Canadian Income Trusts (US\$)							
Pengrowth Energy Trust	PGH	18.78	246.0	4,620	17.00	0.29	1.07
Canadian Oil Sands Trust	COSWF	B	37.02	479.0	17,730	39.00	0.07
Penn West Energy Trust	PWE	B	31.58	241.5	7,630	34.00	0.22
Enerplus Resources Fund	ERF	48.06	128.0	6,150	52.00	0.13	0.93
<i>Total or Median</i>				36,100		0.18	0.95
U.S. Master Limited Partnerships (MLPs)							
Kinder Morgan Energy Partners, L.P.	KMP	S	51.73	178.3	9,230	17.00	0.54
Linn Energy, LLC	LINE	28.98	114.0	3,300	25.00	0.31	1.11
Encore Energy Partners, L.P. (39%)	ENP	19.70	9.0	180	18.00	0.16	1.08
Dorchester Minerals, L.P.	DMLP	22.50	28.2	640	27.00	-	0.83
<i>Total or Median</i>				13,400		0.24	1.09

B = Buy, S = Sell

McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses

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Natural Gas and Oil Income Stocks - Rank by EV/Ebitda

	Symbol/ Rating		Price (\$/sh) 1-Nov 2007	Adjstd Resrvs/ Prod NTM	PV/ Ebitda NTM	EV/ Ebitda NTM	P/E NTM	Divd or Distrib NTM (%)
U.S. Royalty Trusts								
San Juan Basin Royalty Trust	SJT	B	37.50	10.3	12.9	12.1	14.7	6.8
Cross Timbers Royalty Trust	CRT		41.12	13.9	12.0	10.7	11.4	8.8
Mesa RoyaltyTrust	MTR		69.72	21.9	10.4	10.4	11.8	8.5
Sabine Royalty Trust	SBR		48.17	9.6	9.4	10.0	10.0	10.0
Hugoton RoyaltyTrust	HGT	B	24.69	13.8	11.2	8.1	11.9	8.4
Permian Basin RT	PBT		15.66	8.1	8.0	7.6	9.2	10.8
	<i>Median</i>			<i>12.1</i>	<i>10.8</i>	<i>10.2</i>	<i>11.6</i>	<i>8.6</i>
Canadian Income Trusts (US\$)								
Canadian Oil Sands Trust	COSWF	B	37.02	21.7	8.4	8.0	9.3	8.6
Pengrowth Energy Trust	PGH		18.78	7.1	6.5	7.0	28.4	15.8
Enerplus Resources Fund	ERF		48.06	9.4	7.7	7.2	13.5	10.9
Penn West Energy Trust	PWE	B	31.58	7.7	6.5	6.2	11.2	13.6
	<i>Median</i>			<i>8.5</i>	<i>7.1</i>	<i>7.1</i>	<i>12.3</i>	<i>12.2</i>
U.S. Master Limited Partnerships (MLPs)								
Linn Energy, LLC	LINE		28.98	21.1	12.9	14.3	42.4	7.9
Kinder Morgan Energy Partners, L.P.	KMP	S	51.73	7.6	7.9	15.3	32.4	6.8
Dorchester Minerals, L.P.	DMLP		22.50	9.1	11.2	9.3	14.0	10.7
Encore Energy Partners, L.P.	ENP		19.70	12.2	7.4	7.9	46.0	7.1
	<i>Median</i>			<i>10.7</i>	<i>9.5</i>	<i>11.8</i>	<i>37.4</i>	<i>7.5</i>

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 30, 2008; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

Natural Gas and Oil Income Stocks - Rank by NTM Distribution Yield

	<i>Symbol</i>	<i>Revenue Royalty (%)</i>	<i>Natural Gas/Ebitda (%)</i>	<i>Dist/Ebitda</i>	<i>Dist/Equity Ebitda</i>	<i>NTM Distribution (\$mm)</i>	<i>Dist. Yield (\$/un)</i>	<i>Dist. Yield (%)</i>	
U.S. Royalty Trusts									
	San Juan Basin Royalty Trust	SJT	-	98	0.82	0.82	119	2.56	6.8
	Hugoton Royalty Trust	HGT	-	87	0.69	0.69	83	2.08	8.4
	Mesa Royalty Trust	MTR	-	67	0.88	0.88	11	5.90	8.5
	Cross Timbers Royalty Trust	CRT	84	67	0.94	0.94	22	3.61	8.8
	Sabine Royalty Trust	SBR	100	53	1.00	1.00	70	4.81	10.0
	Permian Basin RT	PBT	35	33	0.82	0.82	79	1.70	10.8
	<i>Total or Median</i>			67	0.85	0.85	400		8.6
Canadian Income Trusts (US\$)									
	Canadian Oil Sands Trust	COSWF	-	(6)	0.64	0.68	1,525	3.18	8.6
	Enerplus Resources Fund	ERF	-	38	0.67	0.78	671	5.24	10.9
	Penn West Energy Trust	PWE	-	32	0.64	0.82	1,036	4.29	13.6
	Pengrowth Energy Trust	PGH	-	37	0.80	1.14	729	2.96	15.8
	<i>Total or Median</i>			34	0.66	0.80	4,000		12.2
U.S. Master Limited Partnerships (MLPs)									
	Kinder Morgan Energy Partners, L.P.	KMP		-	0.75	1.64	628	3.52	6.8
	Encore Energy Partners, L.P.	ENP		15	0.48	0.57	13	1.40	7.1
	Linn Energy, LLC	LINE		64	0.81	1.17	260	2.28	7.9
	Dorchester Minerals, L.P.	DMLP	64	69	1.00	1.00	68	2.41	10.7
	<i>Total or Median</i>			40	0.78	1.09	1,000		7.5

NTM = Next Twelve Months Ended September 30, 2008

Ebitda = Earnings before interest, tax, depreciation and amortization

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