Energy Investment Research

Tristone Capital Inc.
Producer Update

MegaWest Energy (MGSWF-OTC, $0.034)
12 Month Target $0.06 (from $0.15), Market Perform (from Speculative Outperform)

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				FY2008*	FY2009E*	FY2010E*
Shares (basic, mm)	132.9	CFPS		($0.04)	($0.02)	($0.02)
Shares (FD, mm)	161.0	EPS		($0.23)	($0.26)	($0.02)
Market Cap $mm	US$3.0	EV/DACF		nmf	nmf	2.6x
Enterprise Value $mm	US$0.5	P/EPS		nmf	nmf	nmf
		D/CF		0.7x	1.0x	-0.6x
Recommendation	**Market Perform**	Oil & NGL	mb/d	0.0	0.0	0.0
Current Price	US$0.03	Gas	mmcf/d	0	0	0
12 Month Target	US$0.06	BOE (6:1)	mboe/d	0.0	0.0	0.0
Expected Return	**88%**					

Note: Unless otherwise stated all per share figures are diluted and all production volumes are gross of royalties.

Steaming Halted as Oil Prices Remain Weak

- **Tough Market for Thermal Heavy Oil.** MegaWest has halted all steaming operations on its two Missouri projects, and has stopped all capital spending and is looking to reduce G&A costs. Management indicates the steam flood projects re-start in 2009, depending on oil prices and access to capital. However, production will fall to zero in the near-term and delay timing to reaching full production. On our US$50/b estimate for 2009, we do not believe these projects will be fired back up this year.

- **Evaluating All Options.** MegaWest is looking for ways to survive, including looking for JV partners, selling or farming-down assets or raising equity or debt (should market conditions improve). The company has net working capital of $4.8 mm (no debt) as of Oct.31/08 and expects a cash position can be maintained through 2009. We believe a asset or potentially corporate sale may be the ultimate outcome.

- **Large Write Down.** Reflecting challenging economics and lack of activity, MegaWest has incurred a total of $31 mm in write-downs on its assets (other than Missouri).

- **Risked NAV Falls to $0.10/sh.** We have pushed back the Missouri and Kentucky development by 2 years, while increasing the risk reflecting limited access to capital. Our NAV on strip pricing falls to $0.10/sh, down from $0.17/sh.

- **Reducing Target and Rating.** When we initiated coverage, we were anticipating a listing on a larger exchange; however, this has now been put on hold. MegaWest has had the misfortune of ramping up its heavy oil project as oil prices cratered. We agree with the decision to halt production as the project is uneconomic at current prices. We see significant risk with MegaWest as a going concern given lack of capital. We are reducing our target to $0.06/sh based on 0.7x our strip NAV and our rating to Market Perform as the company's asset are only economic north of US$65/b.

Important Disclosures: Please see back two pages

MEGAWEST ENERGY CORP (MGWSF-OTC) **Rating: Market Perform**

Target EV/DACF:	*na*	*Recent Price:*	*US$0.03*			
Target P/NAV Ratio:	*0.7x*	*Target Price:*	*US$0.06*			
NAV Weighting:	*94%*	*Expected Return:*	*88%*			

	FY2007*	FY2008*	FY2009E*	FY2010E*
Pricing				
WTI ($US/b)	72.30	101.30	50.00	70.00
Corporate Oil & Liquids Price ($/b)	na	na	58.51	na
Corporate Natural Gas Price ($/mcf)	6.11	7.88	8.06	6.89
Production Volumes				
Oil & Liquids (mb/d)	-	-	0.0	-
Natural Gas (mmcf/d)	-	-	-	-
Mboe/d (@ 6:1)	-	-	0.0	-
Production Growth	nmf	nmf	nmf	nmf
Production Per Share Growth (boe/mm shares)	nmf	nmf	nmf	nmf
Gas Production Ratio (6:1)	nmf	nmf	0%	nmf
Financial Results				
Cash Flow to Common ($mm)	(1.3)	(3.4)	(2.9)	(2.4)
CFPS (Basic $/Sh.)	(0.09)	(0.04)	(0.02)	(0.02)
CFPS (Diluted $/Sh.)	**(0.03)**	**(0.04)**	**(0.02)**	**(0.02)**
Earnings to Common ($mm)	(7)	(18)	(34)	(3)
EPS (Diluted $/Sh.)	**(0.14)**	**(0.23)**	**(0.26)**	**(0.02)**
Multiples				
Price/Cash Flow	nmf	nmf	nmf	-1.8x
EV/DACF	nmf	nmf	nmf	2.6x
P/E	nmf	nmf	nmf	nmf
EV/Reserves ($/boe)	nmf	nmf	nmf	nmf
EV/Production ($m/boe/d)	nmf	nmf	-$474.2	nmf
Capital Structure				
Basic Shares Outstanding (mm)	72.4	95.1	132.9	132.9
Market Capitalization ($mm)	2	3	4.3	4.3
Year End Net Debt ($mm)	(26)	(2)	(3)	2
Enterprise Value ($mm)	(24)	1	1	6
Debt/CF	20.2	0.7	1.0	(0.6)
Unit Costs and Netbacks - $/boe (6:1)				
Revenue	nmf	nmf	$85.07	nmf
Royalties	nmf	nmf	(8.78)	nmf
Operating Costs	nmf	nmf	(22.65)	nmf
Operating Netback	nmf	nmf	$53.65	nmf
G&A	nmf	nmf	(910.02)	nmf
Interest	nmf	nmf	4.57	nmf
Netback ($/boe)	**nmf**	**nmf**	**($851.80)**	**nmf**
Other Information				
Capex ($mm)	94	18	15	2
Capex/CF		(5.3)	(5.2)	(0.8)
Undeveloped acres (000s)		74		
Risked NAV $/Share		$0.10		
Price/Risked NAV		34%		

Valuation Methodology

	Weighting
12-month target established using a multiple of forecast Enterprise Value to Net Asset Value.	100%
12-month target established using a multiple of forecast Earnings Per Share.	0%

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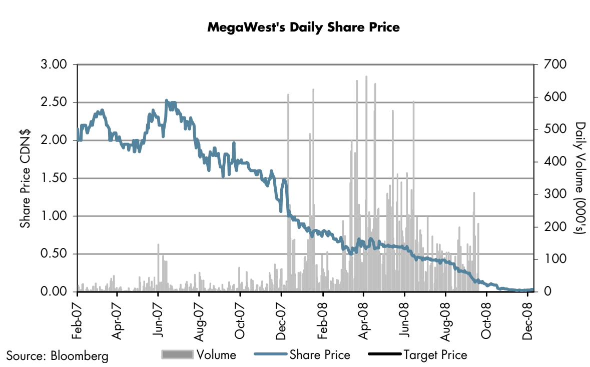
Rating	Expected returns versus the peer group or sector	% of Tristone Universe
Top Pick	The highest risk-adjusted return	7%
Outperform:	Greater than the average of their peer group or sector	46%
Market Perform:	On par with the average of their peer group or sector	40%
Underperform:	Below the average of their peer group or sector	2%
Speculative:	Companies that carry high operational and/or financial risk where a change in a limited number of business variables can significantly change the valuation	4%



Change Summary

Date	Rating	Target Price
16-Oct-08	Initiate at SOP	US$0.40
5-Jan-09	MP from SOP	US$0.06

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