

**Tristone Capital Inc.
Initiating Coverage**



**MegaWest Energy Corp. (MGWSF-OTC, US\$0.16)
12 Month Target US\$0.40, Speculative Outperform**

Chris Felton, P.Eng., Ph. 403.539.8544 cfelton@tristonecapital.com

Ray Kwan, P.Eng., (Associate) Ph. 403.539.4355 rkwan@tristonecapital.com

			FY2008*	FY2009E*	FY2010E*
Shares (basic, mm)	131.7	CFPS	(\$0.04)	(\$0.00)	\$0.09
Shares (FD, mm)	175.2	EPS	(\$0.23)	(\$0.01)	\$0.02
Market Cap \$mm	US\$15.2	EV/DACF	nmf	nmf	1.3x
Enterprise Value \$mm	US\$12.7	P/EPS	nmf	nmf	8.4x
		D/CF	0.7x	47.3x	-1.0x
Recommendation	Speculative OP	Oil & NGL mb/d	0.0	0.2	1.0
Current Price	US\$0.16	Gas mmcf/d	0	0	0
12 Month Target	US\$0.40	BOE (6:1) mboe/d	0.0	0.2	1.0
Expected Return	150%				

Note: Unless otherwise stated all per share figures are diluted, all production volumes are gross of royalties, and all financial information stated are in Canadian dollars.

Show Me Oil From the Show Me State

- **Dark Horse Heavy Crude Player.** Operating under the radar, MegaWest is a US-based company chasing heavy crude in overlooked and forgotten heavy oil reservoirs in the continental United States. The company has assets in Kentucky, Missouri, Kansas, Montana and Texas.
- **Cost Advantage Provides Superior Economics.** Relative to a SAGD project in the Alberta oil sands, MegaWest's thermal steam-flood projects provide numerous advantages. Capital intensities for MegaWest's projects are only \$10 K/b/d, relative to \$30-\$40 K/b/d for SAGD. The company's assets are strategically located near heavy crude refineries, which have historically paid a price of ~80% of WTI. Most importantly, the lead-time for production is months, rather than years. Thus, cash flow is achieved much sooner than SAGD, which drives higher NPV's, funds future growth and reduces the need for dilutive equity issues.
- **Current Capacity ~500 b/d; Stepwise Bite-Size Growth.** MegaWest currently has one project operational with a productive capacity of 500 b/d. A second was started October, which will increase capacity to 1,000 b/d, while a third is planned for 2009.
- **Very Early Stage; Listing On TSX Near-Term Catalyst.** Our heavily risked upside NAV on US\$110/b flat pricing is \$0.64/sh. MegaWest's share price has been pulled down by recent weakness in the financial markets, and now trades at 0.3x P/NAV. We believe a listing on the TSX Venture Exchange could provide some near-term momentum and expose the story to a larger investor base. We are initiating coverage with a \$0.40/sh target. We view the company as a Speculative Outperform, pending results from the initial steam floods, but note the unrisksed upside is ~\$3.24/sh.

Important Disclosures:
Please see back
two pages

Investment Themes

With many companies chasing heavy oil and bitumen resources, we believe the most attractive investments are those with a competitive advantage. MegaWest's strategy provides multiple benefits that we believe will allow it to outperform its peer group.

1. **Low Capital Intensity.** MegaWest's thermal heavy oil projects cost ~\$10 K/b/d, compared with \$30-\$40 K/b/d for SAGD in Canada.
2. **Stepwise Bite-Size Growth.** MegaWest envisions developing its acreage in small pods, each capable of 500 b/d of production. Each project is essentially identical, allowing for a "cookie-cutter", phased development.
3. **Large Resource Identified.** Independent Engineers GLJ Petroleum Consultants has estimated a Best Estimate (P50) recoverable resource estimate of 132 mmb on company lands. We see opportunity for this to increase with time as more lands are evaluated and should longer production history justify higher recovery factors.
4. **Captive Refining Market Drives High Realized Prices.** Being located near a refinery in Kansas, MegaWest has been able to sell its crude at only a 20% discount to WTI. The refinery actually sends trucks to pick up the crude produced, thus there is no need to purchase diluent for pipeline transportation. This combination results in much higher realized pricing than for a Canadian SAGD project.
5. **US Asset Base Avoids Oil Sands Pressures.** By focusing on developing previously identified heavy oil deposits in the US, MegaWest has been able to secure land at a low cost. The company also benefits from being able to tap into a construction market that is much lower cost than in the Alberta oil sands.
6. **Solid Heavy Oil Technical Team.** MegaWest has assembled a technical team that we would rank highly in terms of heavy oil experience. Most notably, the team is led by Bill Thornton, who held previous positions with Western Oil Sands, as well as VP Engineering, Petrovera Resources. The rest of the team have prior stints with thermal heavy oil with Total E&P, Deer Creek Energy and ConocoPhillips.
7. **Near-Term Production Growth.** Unlike oil sands developments, which take years to construct, the time to first oil for MegaWest's projects is a matter of months. This provides higher net present values, greater near-term cash flow growth, and reduced financing risk. Importantly, the company has six steam generators in inventory, each capable of supporting 500 b/d of production.

Management Team – Solid Heavy Oil Technical Experience

MegaWest's team brings a variety of hands-on oil and gas experience to the table. George Stapleton is CEO and Chairman, and is an engineer with 33 years of experience in offshore oil, oilfield services, project management and oil & gas exploration. On the heavy oil side, the technical team is led by Bill Thornton, who is President and COO. Mr. Thornton holds a Masters in Reservoir Engineering and held senior positions in two of Canada's most recognizable heavy oil companies, including General Manager, Engineering at Western Oil Sands and Vice President, Engineering at Petrovera Resources (a heavy oil JV between EnCana and ConocoPhillips). Pat McCarron is VP, Operations. Mr. McCarron has substantial new facilities construction and commissioning experience, and was previously Operations Team Lead for Gulf Canada's Surmont SAGD pilot and most recently Manager, Health and Safety at Harvest Energy Trust. Paul Krawchuk is the Manager of Production Engineering and has worked on multiple thermal heavy oil recovery projects including cyclic steam stimulation (CSS), steam assisted gravity drainage (SAGD) and solvent processes. Mr. Krawchuk was most recently at Total E&P and Deer Creek Energy, and prior to that ConocoPhillips Canada. The reservoir engineering team is headed up by Mohamed Beshry, who was previously Senior Reservoir Engineer at Total E&P Canada and Deer Creek Energy, and was previously a reserves / economic evaluation engineer with GLJ Petroleum Consultants.

A summary of MegaWest's Management team and Directors is presented in Exhibit 1.

Exhibit 1: MegaWest Management and Directors

Officers of MegaWest Energy

Name	Role in MegaWest Energy	Recent Positions
George Stapleton, II	CEO	Co-Founder & Director E-T Energy
William (Bill) Thornton	President and COO	Senior Manager, Western Oil Sands; VP Engineering, Petrovera Resources
George Orr	CFO	Director & CFO Valcent Products
Wayne Sampson	VP Land	VP Land, Harvest Energy; Petrovera Resources
Pat McCarron	VP Operations	Manager, EH&S Harvest Energy Trust; Surmont Pilot Team Lead, Gulf Canada
Kelly Sledz	VP Finance	First Calgary; KPMG
Paul Krawchuk	Manager, Production Engineering	Total E&P Canada; Deer Creek Energy; ConocoPhillips
Mohamed Beshry	Manager, Reservoir Engineering	Total E&P Canada; Deer Creek Energy; GLJ Petroleum Consultants
Bob Moore	Operations Manager	Connacher Oil & Gas; Deer Creek Energy; Shell Canada

Directors of MegaWest Energy

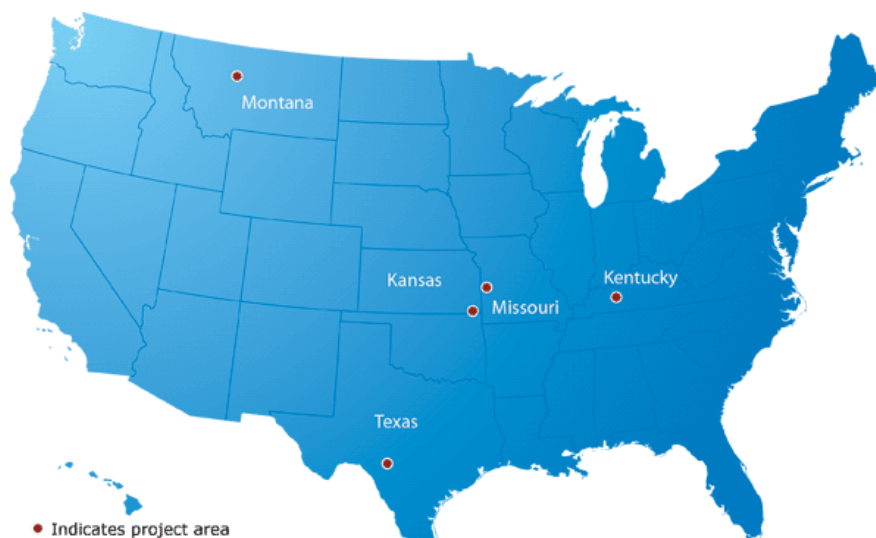
Name	Principal Occupation
George Stapleton, II	Chairman CEO, MegaWest Energy
Bill Thornton	President & COO, MegaWest Energy
George Orr	CFO, MegaWest Energy
Brad Kitchen	Founder & President, PBK Financial Engineering
Brian Evans	Executive Director, Werklund Group
Neil McCrank	Counsel to Borden Ladner Gervais; Prior Chairman Alberta EUB
Jack Holmes	CEO, Zikha Biomass Energy; Former CEO Syntroleum Corp.
Richard Skeith	Corporate Secretary Partner, Macleod Dixon Law Firm

Source: MegaWest Energy

Core Project Areas

MegaWest owns rights in over 146,500 acres in the United States, and has established five project areas (Exhibit 2). Near-term growth will come from projects in Missouri and Kentucky. Chetopa is a smaller-scale producing asset in Kansas. Further upside potential exists at the Big Sky and Devil's Basin projects in Montana. After an initial round of drilling in Texas, the company is less enthusiastic about prospects there, and this area will not be a core focus in the near-term.

Exhibit 2: MegaWest Project Locations



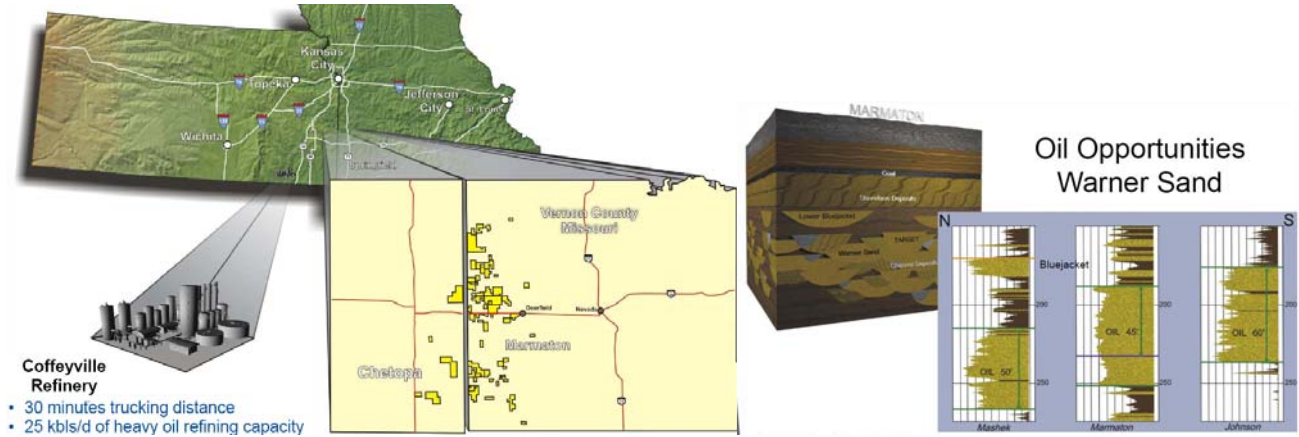
Source: MegaWest Energy

Marmaton (Missouri) – First Phase Up and Running

MegaWest holds a 100% WI position in 33,467 net acres in Missouri. Marmaton, MegaWest's initial project, recently achieved first production in August, 2008. The primary zone of interest is the Warner Sands (Exhibit 3), where the company is targeting ~16 °API heavy oil, utilizing a steam flood with vertical wells. The reservoir depth in this area is 200-300 ft (60-90 m), which results in extremely low drilling costs of \$20 K/well for a producer and \$15 K/well for an injector.

Tightly Spaced / Low Rate Wells. MegaWest will ultimately develop 215 gross acres at Marmaton, though Phase 1 only developed 10 of these acres. The drilling density for the steam flood was at 0.75 acres, with 40 producing wells and 13 steam injection wells. Total productive capacity is 500 b/d, which would imply an average well rate of 12.5 b/d. MegaWest's plan is to develop future phases of Marmaton in 10-20 acre increments, to maintain production capacity at 500 b/d.

Exhibit 3: MegaWest Missouri Lands



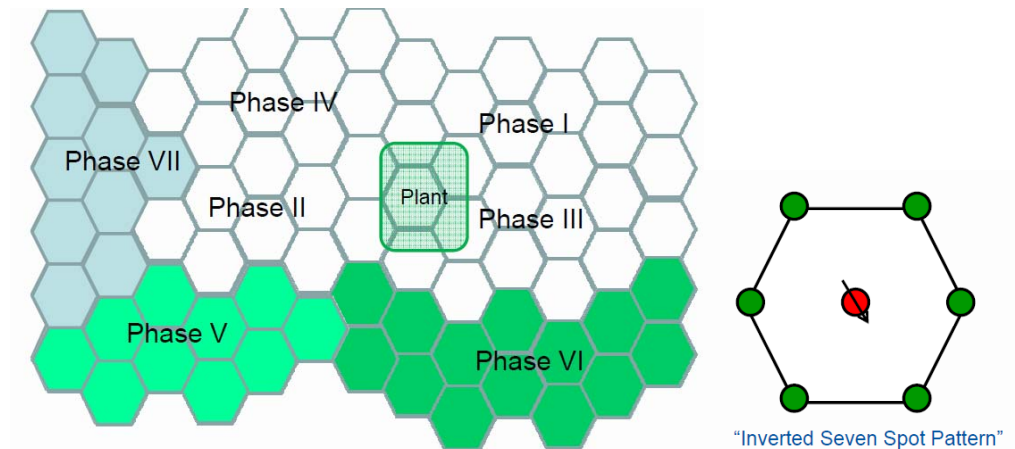
Source: MegaWest Energy

Development Strategy

MegaWest intends to develop numerous steam-flood projects using an inverted 7-spot pattern (Exhibit 4). Each project will have a productive capacity of 500 b/d. A single pattern will be developed on 0.75-1.25 acres, while each phase will develop 10-15 acres. At any one time, each project will have multiple phases producing to maintain production at this level. Referring to the generalized development map in Exhibit 4, MegaWest believes after 8 years, that Phases 1-4 would be reclaimed, while Phases 5-7 would be steaming. The targeted project life is 20 years, with each project recovering 3 mmb.

MegaWest believes its current acreage would support 12 or more concurrent projects, which implies an ultimate production potential of 6,000 b/d.

Exhibit 4: Development Strategy



Source: MegaWest Energy

Grassy Creek (Missouri) – Phase 1 Essentially Complete

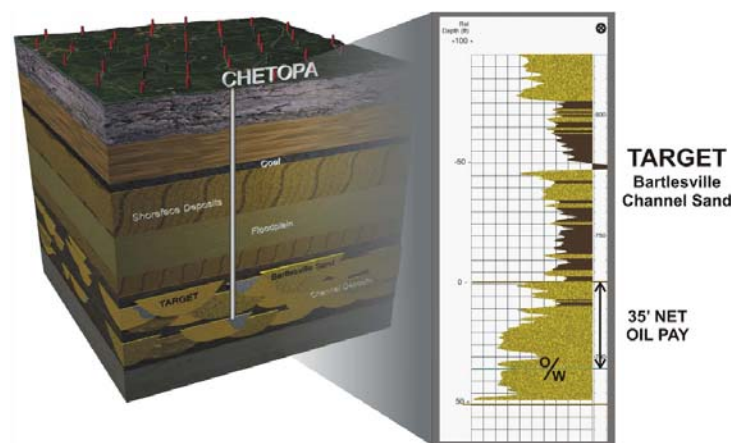
Another 500 b/d Capacity by Q4/08. MegaWest is nearing completion of construction of its second project in Missouri at Grassy Creek. Phase 1 of this project will consist of 46 production wells and 15 injection wells. The company is trying a lower well density of 1.25 acres (versus 0.75 acres at Marmaton), and Phase 1 will see 18.75 acres of 320 gross acres developed. MegaWest plans to complete construction of the Grassy Creek project and commence steam injection in Oct/08. Production rates are anticipated to grow to 500 b/d over the next 6-12 months.

Chetopa (Kansas) – Demonstration Project

The Chetopa project is a 100% interest producing asset that MegaWest purchased primarily for surface facilities; however, the company decided to refurbish a steam generator and establish production from this play. Approximately 15 acres have been developed, including 33 producing wells and 20 injection wells. To date, 11.5 mb have been produced, and subsequently sold to the nearby Coffeyville refinery at prices >80% of WTI.

The Chetopa project is important for proving the viability of heavy oil from the Bartlesville Sand, but is a minor contributor to MegaWest's resource upside (discussed later). Near-term activities will be focused on further delineation and leasing in the region to potentially shore up additionally heavy oil resource for future development.

Exhibit 5: MegaWest Kansas Project Geology



Source: MegaWest Energy

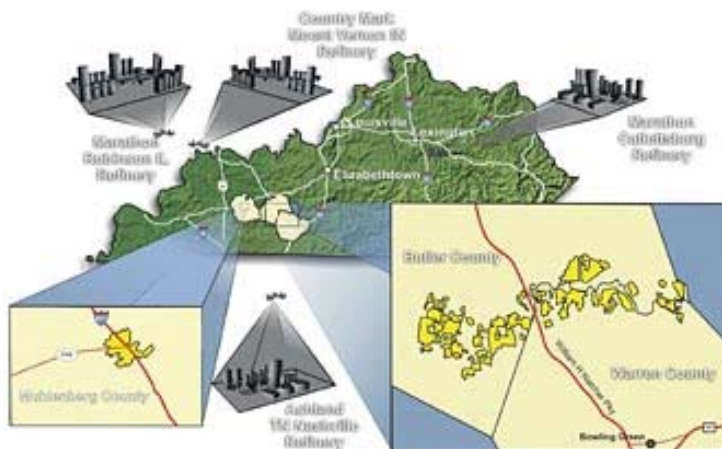
Kentucky

MegaWest holds a 62.5% WI in shallow rights (above Beech Creek limestone) and 37.5% WI in deep rights on 36,008 gross acres in Kentucky (Exhibit 6). The company has committed to fund a work program with the goal of proving the viability of commercial heavy oil development in the area. MegaWest drilled 8 exploration wells in the 12 months ended April 2008, and has confirmed the prospectivity of heavy oil in three separate formations, ranging in depth from 60-180 m (200-600 ft).

First Project Identified. Based on positive drilling results to date, MegaWest has identified one project on which it will proceed with development. The project will consist of a steam drive, enhanced oil recovery scheme. The project has already been designed and well licenses have been submitted for approval.

2009 Start-up. MegaWest believes the Kentucky project can be constructed and operating by mid-2009. The company needs to obtain water injection approval from a Federal regulatory body, which takes ~6 months. The first phase of the Kentucky project is expected to add 500 b/d of productive capacity.

Exhibit 6: MegaWest Kentucky lands



Source: MegaWest Energy

New Albany Shale Gas Upside. MegaWest has farmed-out 4,300 acres of its Kentucky lands, which are prospective for the New Albany shale. A third party will pay the capital to test the shale's potential on the lands, with MegaWest retaining a 34.64% working interest. The farmor has already drilled and logged two wells on the play, and will follow-up with fracture stimulations to test rates. We have not accounted for any upside from these shales in our valuation, and represents a free option for MegaWest.

Montana – Future Resource Upside Potential

Montana represents exploration upside. Relative to projects in Missouri and Kentucky, these lands are far less defined. There are three key projects in Montana covering 42,650 net acres: Teton, Loma and Devils Basin.

Teton: Thermal Heavy Oil. MegaWest is targeting heavy oil on its Teton prospect, and anticipates this play may ultimately be developed with steam assisted gravity drainage (SAGD) or cyclic steam stimulation (CSS). MegaWest has a 40% WI in 30,000 acres in this play with a right to earn an additional 20% by completing a \$2 mm farm-in.

Loma: High Netback Light Oil. The Loma play could provide some higher quality oil to the production mix. The primary target in this region is the Madison formation. MegaWest has a 40% WI on over 7,000 acres with the right to earn another 20% by completing a \$0.5 mm farm-in.

Devils Basin: Light Oil Shale. MegaWest acquired this play in July 2008 for \$105,000 cash, 100,000 shares of MegaWest and a 25% carry in the cost of the first well to be drilled. Upon earn-in, MegaWest will hold a 75% interest in 4,933 acres. Production of light oil from the Heath shale has previously been proven in the area with vertical wells. MegaWest intends to use seismic to high-grade prospects on this play and plan to drill a horizontal well to test if improved rates and recoveries can be achieved. The Heath shale is naturally fractured in some areas, which may mean that mechanical fracture stimulation may not be necessary. Gross costs for wells in this area are ~\$600 K to drill, case and equip.

MegaWest acquired approximately 82 km of trade 2D seismic and shot 50 km of new seismic on Teton and Loma. Processing is ongoing and locations identified could lead to new drills as early as Q4/08.

Resource Estimates

MegaWest has had a portion of its heavy oil lands evaluated by GLJ. A summary of MegaWest's resource estimates is provided in Exhibit 7.

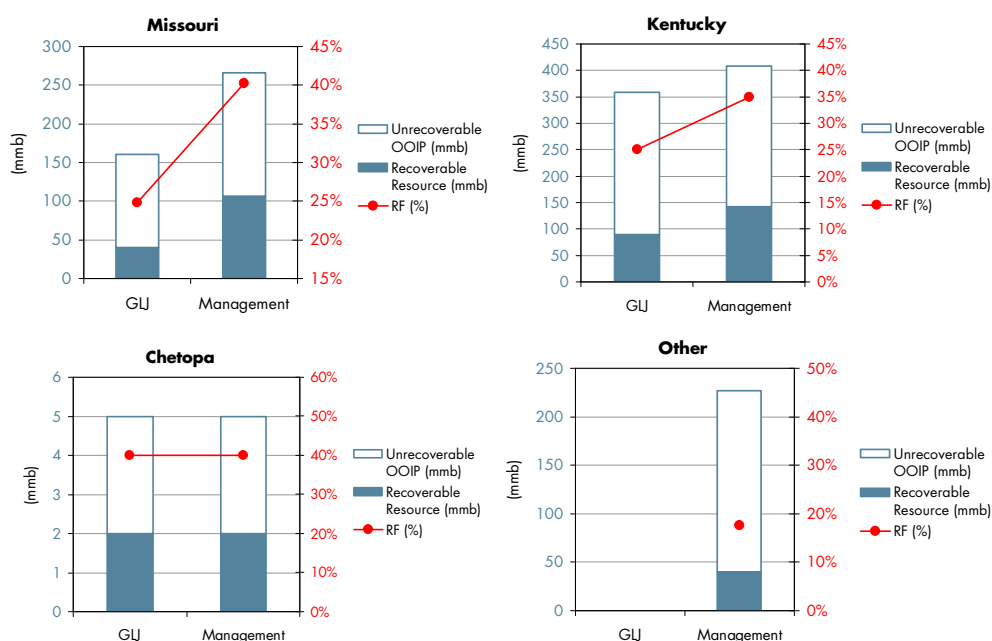
132 mmb Recoverable on 37% of Lands. To date, GLJ has evaluated the resource potential on only 37% of MegaWest's lands. The Best Estimate (P50) contingent recoverable resource estimate is 132 mmb, while the Best Estimate (P50) recoverable estimate is 55 mmb. Most of this resource is located in Kentucky, with Missouri forming the second largest resource.

Management Estimates Twice as High. MegaWest management believes GLJ's initial estimates are conservative, due to the limited production history from the plays. Ultimately, management believes recovery factors for the Kansas, Missouri and Kentucky projects could be higher than estimated by GLJ, and that a larger proportion of lands could be developed.

MegaWest believes that 252 mmb could ultimately be recovered from Kansas and Missouri, with another 40 mmb from Montana, net to the company.

Exhibit 7: MegaWest Resource Estimates

	GLJ		Management Estimate	
	OOIP (mmb)	Recoverable (mmb)	OOIP (mmb)	Recoverable (mmb)
Missouri	161	40	266	107
Kentucky	359	90	409	143
Chetopa	5	2	5	2
Montana			227	40
Total	525	132	907	292



Source: MegaWest Energy

Project Valuation: Better Than SAGD

Since most of MegaWest’s development consists of thermal heavy oil projects, the question that comes to the forefront for investors is: How do MegaWest’s economic returns compare to other thermal projects, such as SAGD? We have prepared a comparison between MegaWest’s steam floods and SAGD to highlight the relative economic upside. A summary of the assumptions we have used for modelling purposes is presented in Exhibit 8.

Exhibit 8: MegaWest Project Economic Assumptions

	MegaWest Steam Flood		Cdn SAGD
	Management	Tristone	Tristone
	Estimate	Estimate	Estimate
US Realized Heavy Differential (% of WTI)	20%	20%	na
Lloyd-WTI Differential (% WTI)	na	na	30%
Diluent Blending Ratio	na	na	30%
Diluent Premium (% of Edmonton Light)	na	na	106%
Natural Gas Equivalency	9:1	9:1	9:1
Steam Oil Ratio	5:1	5:1	3:1
Royalties	13-18%	18%	NRF
Tax Rate	30%	30%	28%
Non-Energy Op Costs	\$4	\$5	\$8
Capital Intensity (\$/b/d)	\$10	\$15	\$35
Maintenance Capital (\$/b)	\$7	\$7	\$3
Peak Production (mb/d)	10	10	10
Project Life (years)	20	20	25

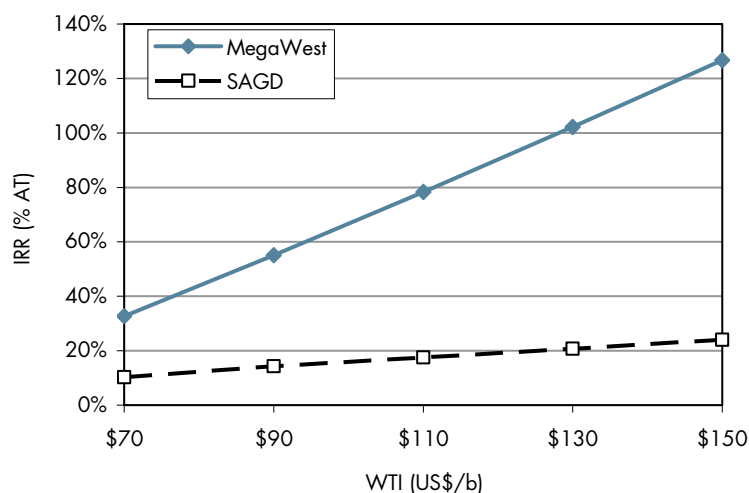
Notes:

NRF = Alberta's New Royalty Framework

Source: Tristone Capital

IRR's Multiples Higher Than Conventional SAGD

Reflecting a low capital intensity of less than half of SAGD, combined with achieving first oil in a matter of months as opposed to ~3 years for SAGD, the internal rates of return generated from MegaWest's steam flood projects are very attractive. As shown in Exhibit 9, we estimate MegaWest's projects generate an IRR of >30% at an oil price of US\$70/b. A SAGD project return at that price is ~8% on our assumptions, lower than the prevailing cost of capital for SAGD projects.

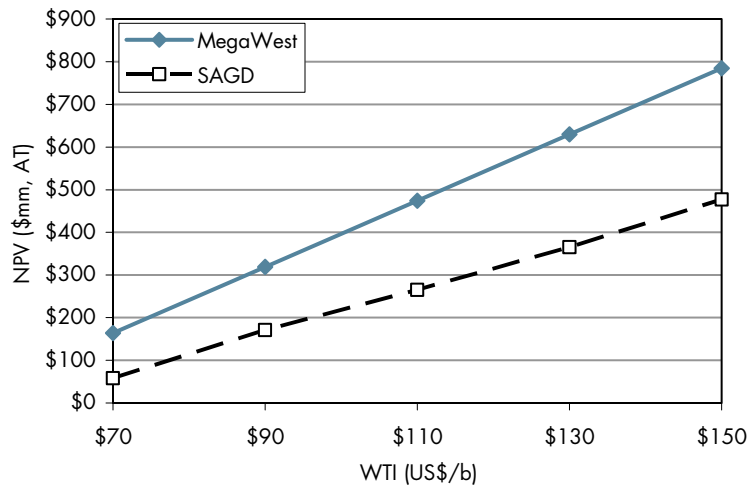
Exhibit 9: MegaWest Steam Flood vs SAGD IRR

Source: Tristone Capital

NPV's Higher: Benefit Increases as Prices Rise

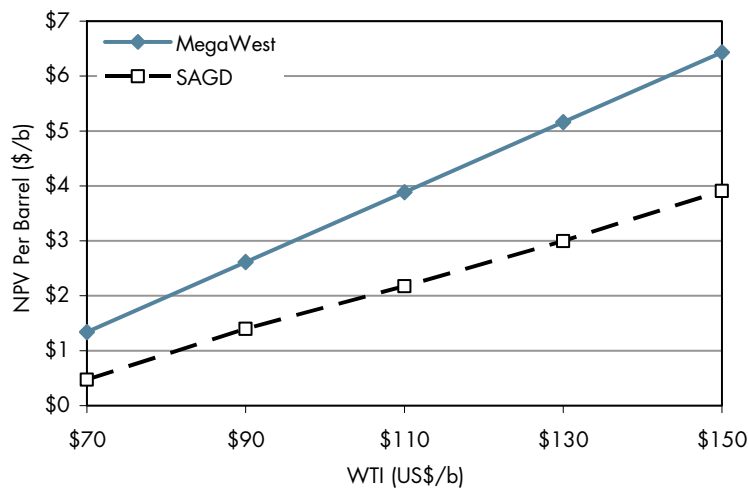
MegaWest's projects provide approximately 1.5-2.0x the net present value of a SAGD project. As shown in Exhibit 10, the NPV of MegaWest's projects (assuming peak rate of 10 mb/d) provides an NPV of \$175 mm at an oil price of US\$70/b. A 10 mb/d SAGD project would need an equivalent price of US\$90/b to deliver the same net present value. Thus, MegaWest's projects are economic at much lower oil prices than SAGD.

Exhibit 10: MegaWest Steam Flood vs SAGD Net Present Value



Source: Tristone Capital

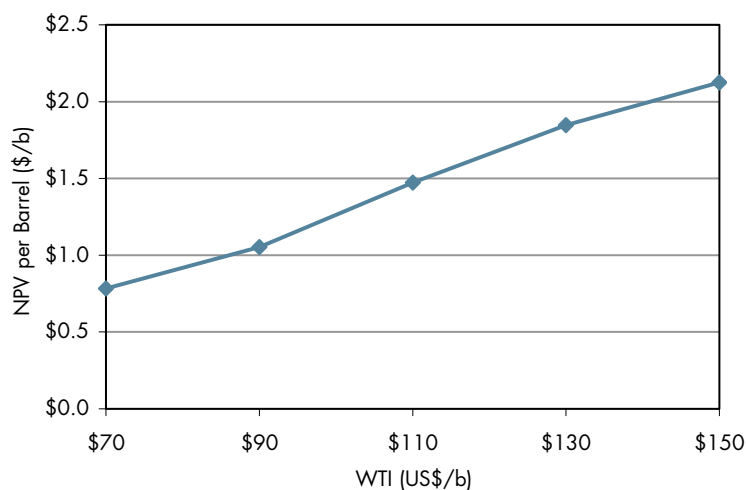
Exhibit 11: MegaWest Steam Flood vs SAGD NPV Per Barrel



Source: Tristone Capital

Since the Net Present Value of MegaWest's value increases at a faster rate than a SAGD producer as oil prices rise, there is an embedded call option associated with MegaWest's net asset value. Said differently, MegaWest's NAV would increase to a greater degree as oil prices rise compared to a SAGD producer. We present this benefit on a NPV per barrel basis in Exhibit 12.

Exhibit 12: MegaWest NPV Benefit vs SAGD vs Oil Price



Source: Tristone Capital

Risked Net Asset Value of \$0.64/sh

We estimate a heavily risked net present value for MegaWest of \$0.64/sh, based on our US\$110/b flat price on discounted future cash flows of the P50 recoverable resource as evaluated by GLJ (Exhibit 13). We have risked the Missouri projects at 30% COS as the company has only developed 1 mb/d of capacity to date of an estimated 3 mb/d ultimate capacity. Similarly, we have only recognized 10% of the value for the Kentucky assets, as the company is just completing the first phase of development. Estimated ultimate production from this state could be ~7 mb/d.

At its current share price of \$0.15/sh, MegaWest is trading at only 0.3x its Risked NAV on our flat US\$110/b price deck. We believe this discount can largely be attributed to the company's small size, very early stage of development and the fact it trades over the counter. The company intends to list on a larger exchange over the next few months. We believe this is a necessary hurdle to gain exposure to a larger investor base and subsequently value for assets.

Unrisked NAV of \$3.24/sh. On an unrisked basis, we estimate the NPV of the P50 recoverable resource assigned by GLJ is \$3.24/sh. Thus, as the company executes on its future phases, there is significant upside from current valuations.

Exhibit 13: MegaWest Net Asset Value

Resource (10% AT)	Recoverable Resource (mmb) *	Strip Pricing				Flat Pricing			
		Unit Value (\$/boe)	Risky		Unrisky	Risky		Unrisky	
			NPV AT (US\$mm)	(\$/sh)		NPV AT (US\$mm)	(\$/sh)		
Project									
Missouri (Risky at 30%)	40	\$0.78	\$31	\$0.18	\$0.60	\$44	\$0.25	\$0.84	
Kentucky (Risky at 10%)	90	\$0.33	\$29	\$0.17	\$1.67	\$39	\$0.22	\$2.23	
Total Heavy Resource	130	\$0.47	\$61	\$0.35	\$2.27	\$83	\$0.48	\$3.07	
(Net Debt) / Cash (\$mm)			\$21	\$0.12	\$0.12	\$21	\$0.12	\$0.12	
Net Undeveloped Land (73,700 acres @ \$100/acre)			\$7.4	\$0.04	\$0.04	\$7	\$0.04	\$0.04	
Net Asset Value				\$0.51	\$2.44	\$0.64		\$3.24	

FD Shares (mm) 175.2

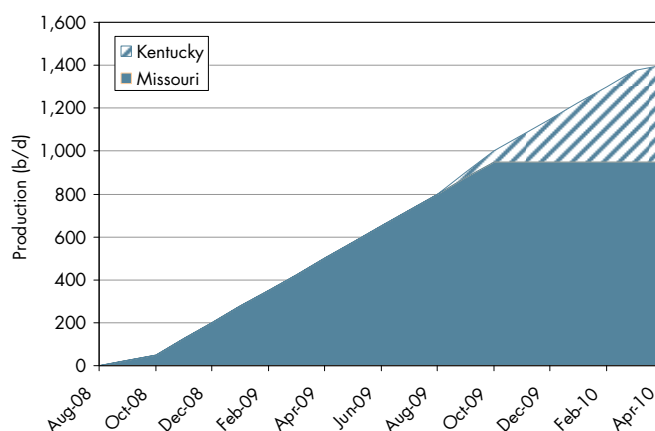
Current Share Price \$0.16 P/NAV 0.31x 0.07x 0.25x 0.05x

* As per GLJ Apr. 30, 2008

Source: Tristone Capital

Outlook

MegaWest has just recently achieved first production from its first Missouri project at Marmaton and a second project will be steaming by October 2008. Thus, the productive capacity of two 500 b/d projects at the end of 2008 will be 1,000 b/d. We have assumed production will ramp up to this level by end-2009. We have also assumed one more 500 b/d project (Kentucky) is brought online in calendar 2009, taking exit 2009 capacity to 1,500 b/d. We present our ramp-up forecast for these three projects in Exhibit 14.

Exhibit 14: Forecast Production

Source: Tristone Capital

With our production forecast, we estimate that positive cash flow will be achieved later in 2009. Starting from a base of zero, it takes time for rates to increase to a point where fixed costs such as G&A are covered by cash flow.

For Fiscal year 2009 (ending April 2009) we estimate average annualized production will be 164 boe/d, increasing to ~ 1 mb/d in fiscal 2010 (ending April 2010) as shown in Exhibit 15.

Spending Assumptions Keep Cash on Balance Sheet. As shown in Exhibit 15, we are forecasting spending of \$12 mm in 2009 and \$10 mm in 2010, which will be enough to see Grassy Creek brought on in calendar 2009, with another potential project by April 2010. With these assumptions, the cash flow growth from the two Missouri projects and Grassy Creek alone is expected to allow MegaWest to maintain a cash position. Thus, the company does not need to access significant capital for the foreseeable future.

Exhibit 15: MegaWest 2008/0910 Estimates

	2008*	2009*	2010*
Production (b/d)	0	164	1,017
Cash Flow (\$mm)	(\$3.4)	(\$0.4)	\$9.4
CFPS	(\$0.04)	(\$0.00)	\$0.07
Y/E Debt (Cash) (\$mm)	(\$2.5)	(\$9.4)	(\$8.9)
D/CF	nmf	nmf	-0.9x
Capital (\$mm)	\$18	\$12	\$10

**Fiscal years end April 30th (e.g. FY 2009 ends Apr. 30th 2009)*

Source: Tristone Capital

Financial Position

MegaWest recently released its Q1/09 results for the period ended April 30th, 2009. As of this date, the company had a net cash position of \$14 mm.

MegaWest anticipates its remaining capital commitments for 2008 are \$19.5 mm, which is associated with bringing productive capacity to 1 mb/d, while moving the Kentucky project towards first production in 2009. The company is well positioned to complete this third project based on our forecast.

Investment Risks

Small Size, Traded Over the Counter. MegaWest currently trades over the counter, with increased risk of limited liquidity. Many institutions cannot invest in companies traded over the counter, which limits the marketability of MegaWest currently. This will likely be remedied to a large degree when MegaWest lists on an exchange.

Technical Risk. MegaWest's heavy oil recovery projects are technically intensive, utilizing steam flood technology. As with any project of this type, there is risk regarding ultimate recovery factors and production rates. We believe MegaWest presents less risk than SAGD projects in this regard as each phase is completed in 500 b/d steps at a much lower all-in cost. Thus the capital risk and execution risk is lower. More importantly, investors do not have to wait long for validation of results.

Financing Risk. With numerous future projects to develop, MegaWest will need to raise funds to progress these projects in a timely manner. Relative to SAGD, we see this as a much smaller concern for MegaWest, as the first project is already producing and contributing to cash flow. Since first production is achieved in a matter of months instead of years, most future development can be funded with cash flow. Financings will likely only be needed in the early projects to accelerate initial production growth, which minimizes future dilution.

Initiating with \$0.40/sh Target and Speculative Outperform

We believe MegaWest offers a compelling way for investors to play thermal heavy oil resource. With economics that are far more resilient than SAGD, the breakeven oil prices are much lower than other heavy oil resources in North America. We believe the combination of near-term production and cash flow growth combined with a multi-year inventory of development opportunities provides a low-risk resource play exposure.

We are initiating coverage on MegaWest with a 12-month target of \$0.40/sh and an Speculative Outperform rating. Our 12-month target is based on a combination on a 50% weighting to FY2010 EV/DACF target multiple of 5.0x, a discount reflecting current market uncertainties and technical risk associated with production growth. We are also weighting 50% of our target price on a target P/NAV multiple of 0.8x our risked NAV of \$0.51.

Admittedly, MegaWest is a small company which some investors may not be able to play. That said, we believe the longer-term visibility and technical upside is compelling from current discounted valuations. We would keep MegaWest on the radar screens and look for a listing on the Toronto Venture Exchange as the first step towards realizing some of this upside.

MEGAWEST ENERGY CORP (MGWSF-OTC)Rating: **Speculative Outperform**

Target EV/DACF:	5.0x	Recent Price:	US\$0.16		
Target P/NAV Ratio:	0.8x	Target Price:	US\$0.40		
NAV Weighting:	50%	Expected Return:	150%		
				FY2007*	FY2008*
				FY2009E*	FY2010E*
Pricing					
WTI (\$US/b)		72.30	108.80	95.00	95.00
Corporate Oil & Liquids Price (\$/b)		na	na	86.42	80.00
Corporate Natural Gas Price (\$/mcf)		6.11	7.88	8.43	7.90
Production Volumes					
Oil & Liquids (mb/d)		-	-	0.2	1.0
Natural Gas (mmcf/d)		-	-	-	-
Mboe/d (@ 6:1)		-	-	0.2	1.0
Production Growth		nmf	nmf	nmf	521%
Production Per Share Growth (boe/mm shares)		nmf	nmf	nmf	511%
Gas Production Ratio (6:1)		nmf	nmf	0%	0%
Financial Results					
Cash Flow to Common (\$mm)		(1.3)	(3.4)	(0.2)	12.2
CFPS (Basic \$/Sh.)		(0.09)	(0.04)	(0.00)	0.09
CFPS (Diluted \$/Sh.)		(0.03)	(0.04)	(0.00)	0.09
Earnings to Common (\$mm)		(7)	(18)	(1)	3
EPS (Diluted \$/Sh.)		(0.14)	(0.23)	(0.01)	0.02
Multiples					
Price/Cash Flow		nmf	nmf	nmf	1.7x
EV/DACF		nmf	nmf	nmf	1.3x
P/E		nmf	nmf	nmf	8.4x
EV/Reserves (\$/boe)		nmf	nmf	nmf	nmf
EV/Production (\$m/boe/d)		nmf	nmf	\$24.8	\$1.8
Capital Structure					
Basic Shares Outstanding (mm)		72.4	95.1	131.7	131.7
Market Capitalization (\$mm)		12	15	21.1	21.1
Year End Net Debt (\$mm)		(26)	(2)	(10)	(12)
Enterprise Value (\$mm)		(15)	13	11	9
Debt/CF		20.2	0.7	47.3	(1.0)
Unit Costs and Netbacks - \$/boe (6:1)					
Revenue		nmf	nmf	\$87.48	\$80.00
Royalties		nmf	nmf	(12.96)	(12.00)
Operating Costs		nmf	nmf	(21.65)	(21.58)
Operating Netback		nmf	nmf	\$52.87	\$46.42
G&A		nmf	nmf	(57.17)	(10.78)
Interest		nmf	nmf	2.47	0.13
Netback (\$/boe)		nmf	nmf	(\$1.83)	\$35.77
Other Information					
Capex (\$mm)		94	18	12	10
Capex/CF			(5.3)	(59.4)	0.8
Undeveloped acres (000s)			74		
Risked NAV \$/Share		\$0.51			
Price/Risked NAV		31%			
Sensitivities (2009 Diluted CFPS)					
Oil WTI +/- US\$1.00/b	2.7%		Oil +/- 100 b/d		13.9%
Gas +/- C\$0.25/mcf	0.0%		Gas +/- 1.0 mmcf/d		9.3%

* Fiscal Year end April 30th

Valuation Methodology**Weighting**

12-month target established using a multiple of forecast Enterprise Value to Debt-Adjusted Cashflow.	50%
12-month target established using a multiple of Net Asset Value	50%

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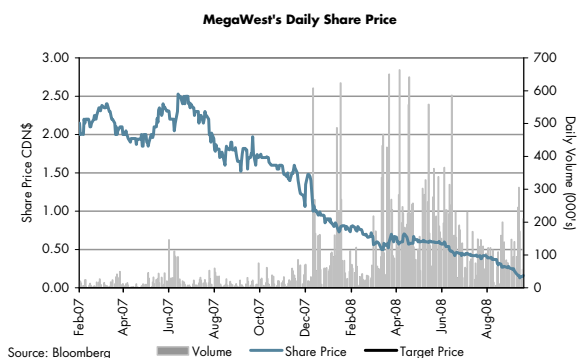
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Change Summary

Date	Rating	Target Price
06-Oct-08	Initiate at OP	US\$0.40

CALGARY

Tristone Capital Inc.
Suite 2020, 335 – 8th Avenue SW
Calgary, Alberta, Canada T2P 1C9
Tel. 403 294 9541
Fax 403 294 9543

DENVER

Tristone Capital Co.
1225 17th Street, Suite 1600
Denver, Colorado, USA 80202
Tel. 303 952 2800
Fax 303 952 2799

BUENOS AIRES

Tristone Capital S.A. Ltd.
Alejandro M. de Aguado 2853, P.B. "B"
C1425CEA Buenos Aires, Argentina
Tel 54 11 4809 3223
Fax 54 11 4808 9114

LONDON

Tristone Capital Limited
77 Grosvenor Street
London, UK, W1K 3JR
Tel. +44 20 7355 5800
Fax +44 20 7355 5888

HOUSTON

Tristone Capital LLC
333 Clay Street, Suite 4200
Houston, Texas, USA 77002
Tel. 713 651 4200
Fax 713 651 4202

Chairman, President & CEO

George F.J. Gosbee 403-303-8652

Canadian Trading

David M. Vankka, CFA 403-539-4364
F. Andrew Abbott 403-303-8659
Kelly Grosky 403-539-4346
Eric Bruce 403-539-8518

Canadian Sales

David G. Street 403-539-4362
Rob Colcleugh 403-539-4363
Kerk Hilton 403-539-8561
Warren Robinson 403-539-4357
Michael Rayton 403-539-4361

Canadian Research

Chris Theal, CFA 403-539-4349
Don Rawson 403-539-4356
Cristina Lopez, CFA 403-539-8542
Chris Feltin, P.Eng. 403-539-8544
John Tasdemir 403-539-8558

US Trading

Brian Racanelli 303-952-2740
Michael Chewning 303-952-2741

US Sales

Tyler Davis 203-637-9397
Karen Acierno 303-952-2730
Jim Ulrich 303-952-2731
Larry Busnardo 303-952-2750

US Research

Chi Chow 303-952-2757
Joe Magner, CFA 303-952-2751
Waqar Syed 303-952-2753

International Research

Peter Nicol +44-20-7355-5811
Toby Pierce +44-20-7355-5812

UK Trading

Chris Wellesley +44-20-7355-5823
Chris Maurer +44-20-7355-5828

UK Sales

Charles Lesser +44-20-7355-5827
Chris Grudniewicz +44-20-7355-5826
Mark Hodgson +44-20-7355-5825

Canadian Operations

Rita Sivasdas 403-539-4347

Email: first initial and last name @tristonecapital.com

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