

**PRIMEWEST ENERGY TRUST  
1600, 530 - 8th AVENUE S.W.  
CALGARY, ALBERTA  
T2P 3S8**

**MANAGEMENT PROXY CIRCULAR**

**GENERAL PROXY INFORMATION**

**Solicitation of Proxy**

This Management Proxy Circular is furnished in connection with the solicitation of proxies on behalf of Montreal Trust Company of Canada (the "Trustee") by PrimeWest Management Inc. (the "Manager"), the manager of PrimeWest Energy Inc. ("PrimeWest") and PrimeWest Energy Trust (the "Trust") pursuant to the terms of the PrimeWest Management Agreement dated October 16, 1996, for use at the Special and Annual General Meeting (the "Meeting") of the holders (the "Unitholders") of trust units ("Trust Units") of the Trust to be held at the time and place and for the purposes set forth in the Notice of Special and Annual General Meeting of Unitholders. The Manager will be reimbursed by the Trust for costs of solicitation. In addition to the use of mails, proxies may be solicited by personal interviews, telephone, or facsimile by directors and officers of PrimeWest, without special compensation. Information contained herein is given as of the date hereof unless otherwise specifically stated.

For the purpose of this Management Proxy Circular, unless the context otherwise requires, capitalized terms shall have the meanings ascribed to such terms in the declaration of trust (the "Declaration of Trust") dated as of the 2nd day of August, 1996 (as amended) among PrimeWest, the Trustee and the Initial Unitholder (as defined therein). A copy of the Declaration of Trust is available to Unitholders from the head office of the Trust on demand and upon payment of reasonable reproduction costs.

**Appointment of Proxies**

Unitholders who wish to vote their Trust Units should complete and remit the attached form of proxy to the Trustee, 600, 530 - 8th Avenue S.W., Calgary, Alberta T2P 3S8, not less than 24 hours before the time for the holding of the Meeting or any adjournment thereof or with the Chairman of the Meeting prior to the commencement thereof. By a resolution of the directors of PrimeWest, the record date for the Meeting has been established as the close of business on April 8, 1998 (the "Record Date"). Only Unitholders of record as at the Record Date are entitled to receive notice of, and to vote at, the Meeting, subject to the following. In the event a Unitholder of record transfers his Trust Units and the transferee, upon producing properly endorsed certificates evidencing such Trust Units or otherwise establishing that he owns such Trust Units, requests no later than 10 days before the Meeting that the transferee be included in the list of Unitholders entitled to vote, such transferee shall be entitled to vote such Trust Units at the Meeting.

Please note that Unitholders who receive this Management Proxy Circular via Independent Investor Communications Corporation (IICC) or ADP Proxy Services (ADP) must return the proxy forms, once voted, to IICC or ADP for the proxy to be valid.

The document appointing a proxy shall be in writing and shall be executed by the Unitholder or his attorney authorized in writing or, if the Unitholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorized.

The persons named in the enclosed form of proxy are directors or officers of the Manager. A Unitholder submitting a form of proxy has the right to appoint a person to represent him at the Meeting (who need not be a Unitholder) other than the person or persons designated in the form of proxy furnished on behalf of the Trustee. To exercise such right, the names of the persons designated by the Manager should be crossed out and the name of the Unitholder's appointee should be legibly printed in the blank space provided.

### **Revocability of Proxy**

A Unitholder who has submitted a form of proxy as directed hereunder may revoke it at any time prior to the exercise thereof. If a person who has given a proxy attends personally at the Meeting at which such proxy is to be voted, such person may revoke the proxy and vote in person. In addition to the revocation in any other manner permitted by law, a proxy may be revoked by instrument in writing executed by the Unitholder or his attorney or authorized agent and deposited either at the registered office of the Trustee at any time up to and including the last business day preceding the date of the Meeting, or any adjournment thereof or with the Chairman of the Meeting on the day of the Meeting or any adjournment thereof, and upon either of such deposits, the proxy is revoked.

### **Exercise of Discretion By Proxy**

The Trust Units represented by proxy in favour of the listed nominees will be voted on any ballot at the Meeting and, where the Unitholder specifies a choice with respect to any matter to be acted upon, such Trust Units shall be voted on any ballot in accordance with the specification so made. In the absence of such specification, Trust Units will be voted to grant the Trustee approval to direct the Manager to vote Common Shares of PrimeWest in favour of the proposed resolutions of PrimeWest and to vote in favour of the proposed resolutions of the Unitholders. The persons appointed under the form of proxy furnished on behalf of the Trust by the Manager are conferred with discretionary authority with respect to amendments or variations of those matters specified in the proxy and notice of meeting and as to other matters which may properly come before the Meeting. At the time of mailing of this Management Proxy Circular, none of the Trustee, management of PrimeWest and the Manager know of any such amendment, variation or other matter.

## **SECURITIES AND PRINCIPAL HOLDERS THEREOF**

### **Trust Units**

The Trust is a closed-end investment trust which was formed for the purpose of acquiring a net production royalty (the "Royalty") in all of the oil and gas properties owned from time to time by PrimeWest and issuing Trust Units to the public. The sole beneficiaries of the Trust are the holders of the Trust Units. Currently, the Trust has 32,979,111 issued and outstanding Trust Units. Pursuant to the terms of the Declaration of Trust, Unitholders of record are entitled to notice of and to attend at the Meeting, in person or by proxy, and to one vote per Trust Unit held on any ballot thereat.

### **Common Shares of PrimeWest**

PrimeWest, the owner of the properties in respect of which the Royalty has been granted, presently has 100 issued and outstanding common shares ("Common Shares") to which are attached voting rights. All Common Shares are owned by the Manager. The Manager, pursuant to the terms of the PrimeWest Unanimous Shareholder Agreement is, except as specifically set forth therein, obligated to exercise the voting rights attached to the Common Shares in the manner directed by resolution of the Unitholders.

## Principal Holders of Trust Units

To the best of the knowledge of the directors and officers of PrimeWest, no person beneficially owns directly or indirectly, or exercises control or direction over Trust Units carrying more than 10 percent of the votes attached to all of the issued and outstanding Trust Units of the Trust.

## MATTERS TO BE CONSIDERED AT THE MEETING

### Financial Statements

At the Meeting, the consolidated financial statements of the Trust for the year ended December 31, 1997 and the auditors' report thereon will be presented. These financial statements are included in the 1997 Annual Report of the Trust.

**Election of Directors** PrimeWest has a board of directors (the "Board of Directors") consisting of five members, three of whom are being nominated by the Trust pursuant to the terms of the PrimeWest Unanimous Shareholder Agreement and two of whom are being appointed by the Manager.

### Nominees of the Trust

The following persons (the "Independent Directors") are proposed by the Manager on behalf of the Trustee as the Trust's nominees for election as directors of PrimeWest to serve until the next annual meeting of Unitholders or until their successors are duly elected or appointed. If any vacancies occur in the slate of such nominees because any nominee is unable to serve or will not serve, the discretionary authority conferred by the proxies appointing management nominees will be exercised to grant approval to the Trustee to cause the Manager to vote for the election of any other person or persons nominated by the Trustee. The names of the nominees for election as directors, their municipalities of residence, principal occupations, year in which each became a director of PrimeWest and numbers of Trust Units beneficially owned or over which control or direction is exercised by such persons, as at March 31, 1998, are as follows:

Name and Present Principal Occupation or Employment	Director of PrimeWest Since	Municipality of Residence	Trust Units Beneficially Owned or over which Control or Discretion is Exercised as at March 31, 1998
<b>HAROLD P. MILAVSKY</b> Chairman Quantico Capital Corp.	1996	Calgary, Alberta	10,000
<b>BARRY E. EMES</b> Partner Stikeman, Elliott	1996	Calgary, Alberta	2,000
<b>HAROLD N. KVISLE</b> President, Fletcher Challenge Energy Canada Inc.	1996	Calgary, Alberta	3,000

Each of the foregoing persons has been engaged in the occupation set forth above or similar occupations with the same employer for the last five years.

### **Nominees of the Manager**

The Manager has advised that the following persons are the nominees of the Manager proposed for election as directors of PrimeWest:

<b>Name and Present Principal Occupation or Employment</b>	<b>Director of PrimeWest Since</b>	<b>Municipality of Residence</b>	<b>Trust Units Beneficially Owned or over which Control or Discretion is Exercised as at March 31, 1998</b>
<b>KENT J. MACINTYRE</b> Chief Executive Officer PrimeWest Energy Inc.	1996	Calgary, Alberta	62,562(1)
<b>JACOB ROORDA</b> Vice President, Corporate PrimeWest Energy Inc.	1996	Calgary, Alberta	7,429

**Note:** (1) Of these Trust Units, Mr. MacIntyre beneficially owns 49,666.

Neither Mr. MacIntyre nor Mr. Roorda have been employed in their current positions for more than five years. Prior to July, 1996 Mr. MacIntyre's principal occupation was Chief Executive Officer of Triad Energy Inc. (March, 1994 - July, 1996) and prior to March, 1994 was President and Chief Executive Officer of Olympia Energy Ventures Ltd. (1989 - June, 1993). Prior to July, 1996 Mr. Roorda's principal occupation was President of BeauVenture Resources Inc. (January, 1996 - July, 1996) and prior to January, 1996 Mr. Roorda was Manager, Business Development at Fletcher Challenge Petroleum Inc. (May, 1991 - December, 1995).

### **Appointment of Auditors**

Unless it is specified in a proxy that the Unitholder withholds approval for the Trustee to cause the Manager to vote the Common Shares for the appointment of Coopers & Lybrand ("Coopers") as auditors of PrimeWest and withholds approval for the voting on their appointment as auditors of the Trust, the persons named in the enclosed form of proxy intend to grant approval to the Trustee to cause the Manager to vote its Common Shares for the appointment of Coopers as auditors of PrimeWest and to grant approval for Coopers as auditor of the Trust, to hold office until the next annual meeting of Unitholders following the Meeting, with remuneration to be determined by the Manager and approved by the Board of Directors. Coopers was initially appointed as the auditors of PrimeWest and the Trust upon initiation of the Trust and have audited the consolidated comparative financial statements for the year ended December 31, 1997 and the consolidated financial statements for the period from August 2, 1996, the date of the Declaration of Trust, to December 31, 1996.

Representatives of Coopers will be present at the Meeting and will have the opportunity to make a statement and to respond to appropriate questions.

### **Amendment of Material Agreements**

The Manager and the Board of Directors have administered the Trust since its inception. During that time, the Manager has concluded that certain amendments to the Declaration of Trust and the royalty agreement dated October 16, 1996 (the "Royalty Agreement") between PrimeWest

and the Trustee would facilitate the efficient administration of the Trust and would allow the Trust and PrimeWest greater flexibility in undertaking acquisitions of petroleum and natural gas assets. The Manager has therefore determined to recommend to Unitholders the approval of the amendments to the Declaration of Trust and the Royalty Agreement described below.

### ***"Open-end" Reorganization***

The Manager has proposed a reorganization of the Trust that it believes will provide the Manager and PrimeWest with greater flexibility in the future to make value-enhancing acquisitions.

### ***Background***

The Trust is currently a "closed-end" investment trust formed under the laws of Alberta. The Trust currently qualifies, and must in the future continue to qualify, as a "unit trust" and "mutual fund trust" as those terms are defined in the Income Tax Act (Canada). In order to so qualify, the Trust must restrict its activities to the making of passive investments (such as the ownership of royalties in respect of Canadian resource properties) and must satisfy certain conditions, including, at least one of the following two conditions:

1. the Unitholders must be entitled to require the Trust to accept, on demand, the surrender of the Trust Units at prices determined and payable in accordance with the conditions attached to the Trust Units (that is, a right of redemption); or
2. (a) at least 80% of the assets of the Trust must consist of shares, bonds, mortgages, marketable securities, cash, notes or other similar obligations, Canadian real estate or Canadian resource royalties; (b) not less than 95% of its income (computed without regard to any distributions) for the year must be derived from, or from the disposition of, investments described in (a); and (c) not more than 10% of the assets of the Trust may consist of shares, bonds or securities of any one corporation or debtor.

Through its ownership of the Royalty, the Trust satisfies the second condition set forth above. The Trust does not currently provide a right of redemption to Unitholders and therefore does not satisfy the first condition.

The ability of the Trust to increase future Unitholder distributions is dependent in part upon the ability of the Manager and PrimeWest to make value-enhancing acquisitions in the future. The Manager believes that, in addition to the acquisition of Canadian resource properties which may presently be made, other opportunities exist to effect oil and gas acquisitions structured in the form of corporate acquisitions. A conversion to "open-end" status would allow PrimeWest to make such acquisitions.

A conversion to "open-end" status would require several amendments to the Trust structure.

### ***Permitted Investments***

The permitted investments of the Trust would be expanded from the acquisition and holding of royalties on petroleum and natural gas properties and related assets to include the acquisition and holding of all forms of petroleum and natural gas related assets and the securities of entities holding such assets (which may include securities of PrimeWest or securities of a wholly-owned subsidiary corporation).

### ***Redemption Right***

A conversion to "open-end" status would necessitate an amendment to the Declaration of Trust that would add to the rights attached to the Trust Units a right of a Unitholder to require the Trust at any time on the demand of the Unitholder to redeem his or her Trust Units. Upon such

redemption, all of such Unitholder's rights to and under the Trust Units tendered for redemption would be surrendered and the Unitholder would be entitled to receive a price per Trust Unit as determined by a market price formula, subject to a proposed monthly aggregate cash cap for all Trust Units tendered for redemption in such month of \$100,000. The redemption price payable by the Trust would be satisfied by way of a cash payment or, in certain circumstances, including where such payment would cause the monthly cash cap to be exceeded, by way of an *in specie* distribution (that is, a proportionate distribution of the assets of the Trust). As with most other open-end funds, it is anticipated that trading on The Toronto Stock Exchange and not the right of redemption would continue to be the primary mechanism for Unitholders to dispose of their Trust Units. Any assets of the Trust which may be distributed *in specie* to Unitholders in connection with a redemption will not be listed on any stock exchange and no market is expected to develop for such assets. Any securities so distributed may be subject to resale restrictions under applicable securities laws and may not be qualified investments for trusts governed by registered retirement savings plans, registered retirement income trusts and deferred profit sharing plans. For more detailed information regarding the right of redemption, see [Appendix A](#) to this Management Proxy Circular.

### ***Use of Proceeds of Trust Unit Offerings***

The Trust may currently use the proceeds of offerings of Trust Units only for certain limited purposes, including to fund a deferred royalty purchase obligation as designated by PrimeWest (that is, to fund PrimeWest's capital expenditure program, including the acquisition of additional properties). The Declaration of Trust would be amended to permit the Trust to use the proceeds of offerings of Trust Units for such purposes as the Board of Directors may determine to facilitate acquisitions or which would otherwise be in the best interests of the Unitholders.

### ***Trust Expenses***

The Declaration of Trust currently provides that the Trust may use amounts it receives on account of the Royalty to pay expenses of the Trust. In order to provide greater flexibility to the Trust in structuring and financing acquisitions, the Manager proposes that the definition of Trust Expenses in the Declaration of Trust be amended to include repayments of amounts borrowed by the Trust and which the Trust has elected or has become obligated to repay.

### ***Application of the Acquisition Fee to Corporate Acquisitions***

The Management Agreement presently provides that fees are payable to the Manager in respect of, among other things, acquisitions, dispositions and exchanges of interests in petroleum and natural gas properties. If the Trust is converted to an "open-end" trust, PrimeWest will be able to acquire such interests indirectly through the purchase of securities of the entity that owns such interests. The Management Agreement does not provide for the payment of fees to the Manager in respect of the indirect acquisition of interests in petroleum and natural gas properties through the purchase of securities of the entity that owns such interests.

The Board of Directors has determined that it is in the best interests of PrimeWest and the Trust to amend the Management Agreement to specifically provide that a fee will be payable in connection with the acquisition or disposition of any securities, other than acquisitions of all of the issued and outstanding securities of any entity controlled by the Trust or managed by the Manager. Such amendments will ensure that the Manager is properly compensated for all services performed directly or indirectly on behalf of the Trust, PrimeWest or any other managed entity and will provide the Manager with incentive for future growth.

### ***Special Resolution***

The foregoing "open-end" reorganization is subject to the approval of the Unitholders and, if so approved, will be effective at some time thereafter upon the approval of the reorganization by the

Board of Directors. Unitholders will therefore be asked at the Meeting to consider and, if thought fit, approve the "open-end" reorganization by passing the following resolutions:

**BE IT RESOLVED AS A SPECIAL RESOLUTION THAT:**

1. The conversion of the Trust to an "open-end" trust pursuant to an amendment to the Declaration of Trust to include a new Article entitled "Redemption of Units", the text of which will provide for the rights described in Appendix A to the Management Proxy Circular of the Trust dated April 8, 1998, is hereby approved;
2. Such additional amendments to the Declaration of Trust, the Royalty Agreement and the Management Agreement:
  - a. to permit the Trust to use the proceeds of an offering of Trust Units for such purposes as the Board of Directors may determine to facilitate an acquisition or which would otherwise be in the best interests of the Unitholders;
  - b. to amend the definition of "Trust Expenses" in the Declaration of Trust to include repayments of amounts borrowed by the Trust and which the Trust has elected or has become obligated to repay; and
  - c. to cause the fees payable to the Manager under the PrimeWest Management Agreement to apply to all assets of the Trust and PrimeWest, without duplication, without regard to the method or structure of acquisition thereof,

are hereby approved; and

3. The Trustee and the Board of Directors are hereby authorized to (i) settle the form of the amendments to the Declaration of Trust, the Royalty Agreement and the Management Agreement in accordance with the foregoing resolutions; and (ii) effect all such further and consequential amendments to the Declaration of Trust, the Royalty Agreement and other relevant agreements and to cause all such further agreements to be entered into and such further documents to be executed or amended as they may consider necessary or desirable to give effect to and fully carry out the intent of the foregoing resolutions.

To be approved, the foregoing resolutions must be passed by a majority of not less than 66 2/3% of the votes cast by Unitholders who vote in person or by proxy in respect of these resolutions at the Meeting.

***Amendment to Minimum Quorum Requirements***

Unitholders will be asked to consider and, if deemed advisable, to pass a Special Resolution in the form set forth below to amend the Declaration of Trust to reduce the percentage of Unitholders that is necessary to achieve the quorum required to constitute a meeting of the Unitholders of the Trust at which a Special Resolution may be passed.

The Manager believes that it would be more appropriate to have a quorum requirement which reflects the fact that the trust is a widely held public entity and that obtaining the 20% quorum threshold is difficult given the widely held nature of the Trust Units. Accordingly, the Manager recommends that two or more persons holdings not less than 5% of the outstanding units should constitute a quorum in respect of a meeting at which a Special Resolution may be passed, which is a common quorum requirement of existing public oil and gas entities. The Manager believes that the proposed reduction in the quorum will not prejudice Unitholders, who will continue to receive appropriate notice and information in advance of any ordinary or special meeting of Unitholders at which a Special Resolution may be passed, but will ensure that the Trust is able to expeditiously deal with matters properly brought before the Unitholders. Other than as set forth in this Management Proxy Circular, the Board of Directors is not aware, at this time, of any such matters which would be brought before the Unitholders.

Unitholders will therefore be asked at the Meeting to consider and, if thought fit, approve the necessary amendments to the Declaration of Trust by passing the following resolution:

**BE IT RESOLVED AS A SPECIAL RESOLUTION THAT:**

1. Section 10.7 of the Declaration of Trust be amended by replacing the figure "20%" with the figure "5%".

To be approved, the foregoing resolution must be passed by a majority of not less than 66 2/3% of the votes cast by Unitholders who vote in person or by proxy in respect of that resolution at the Meeting.

***Facilitation of Monthly Distributions***

Cash distributions by the Trust to Unitholders were made on a quarterly basis from the commencement of operations of the Trust to the end of 1997. The Declaration of Trust provides that the dates on which distributions are made to Unitholders may be changed, and distributions have been made on a monthly basis since February 15, 1998, at which time the Trust distributed income in respect of January, 1998. Unitholders are currently paid a monthly pre-determined amount per Trust Unit, and the excess of distributable income over that amount, if any, is calculated and paid to Unitholders on a quarterly basis.

The Royalty Agreement provides that PrimeWest is required to pay amounts to the Trust under the Royalty on a quarterly basis. In order to harmonize future payments under the Royalty with the monthly distribution of income by the Trust to Unitholders, the Manager has proposed that the Royalty Agreement be amended so as to allow for monthly, rather than quarterly, payments to the Trust under the Royalty.

Unitholders will therefore be asked at the Meeting to consider and, if thought fit, approve the necessary amendments to the Royalty Agreement by passing the following resolution:

**BE IT RESOLVED AS A SPECIAL RESOLUTION THAT:**

1. The Royalty Agreement be amended as may be necessary or desirable to provide for the calculation and payment of amounts under the Royalty to the Trust on a monthly basis, and the Trustee is instructed to do all such acts, including the execution of amendments to the Royalty Agreement, as are necessary to give effect to the foregoing.

To be approved, the foregoing resolution must be passed by a majority of not less than 66 2/3% of the votes cast by Unitholders who vote in person or by proxy in respect of that resolution at the Meeting.

## **EXECUTIVE COMPENSATION**

PrimeWest's officers received no direct compensation from PrimeWest in 1997. However, all officers of PrimeWest are also officers of the Manager and were compensated by the Manager. Pursuant to the PrimeWest Management Agreement, the Manager is reimbursed by PrimeWest and the Trust for all of its general and administrative expenses, including executive compensation. A more detailed description of this arrangement can be found under the heading "Interest of Insiders in Material Transactions and Management Contracts".

### **Report on Executive Compensation**

The Independent Directors act as the Compensation Committee for PrimeWest and the Trust. Pursuant to the terms of the PrimeWest Management Agreement the compensation paid to the

senior officers of the Manager is subject to the approval of the Board of Directors. The Independent Directors have reviewed the compensation structure of the Manager with respect to its executive officers to ensure that the Manager is able, and continues to be able, to attract and retain quality and experienced individuals to its management team and to motivate these individuals to perform to the best of their ability and in the best interests of the Trust. In order to provide assistance to the Independent Directors, PrimeWest retained the independent compensation consultants, William M. Mercer, to provide comparative surveys of compensation packages in the oil and gas industry.

The Manager's policy with respect to the compensation of its executive officers is to provide base salaries which when combined with both short and long term incentives are approximately equal to the 50th percentile of compensation paid to executive officers of Canadian oil and gas companies of a similar size and market capitalization and with a similar performance to that of the Trust.

Employees of the Manager, including executives, participate in a group registered retirement savings plan (the "Employee Group RRSP") set up by the Manager. The Employee Group RRSP is administered on behalf of the participants by Mutual Life of Canada. Under the terms of the Employee Group RRSP, the Manager contributes 5% of the base salary paid to an employee to the plan on behalf of the employee. Contributions to the Employee Group RRSP vest immediately and there are no plan restrictions on employees in respect of the withdrawal or transfer of funds contributed to the plan on their behalf.

Employees of the Manager, including executives, also participate in a short term incentive plan (the "Short Term Incentive Plan") under which annual cash bonuses are payable to employees in an amount to be determined based on a combination of individual and Trust performance. The first payments under the plan were made on February 28, 1998. The maximum amount payable under the Short Term Incentive Plan for executives, other than the chief executive officer, is 35% of base salary and 50% of base salary for the chief executive officer. One-half of the amount of any bonus under the Short Term Incentive Plan is determined strictly on the basis of the Trust meeting distribution targets set by the Board of Directors at the beginning of each calendar year. The second half of any such bonus is determined based on individual performance. In the case of executives, other than the chief executive officer, individual performance is assessed by the chief executive officer. In the case of the chief executive officer, individual performance is assessed by the Board of Directors.

Unit Appreciation Rights under the Trust Unit Incentive Plan are granted at the discretion of the Board of Directors to executive officers from time to time as a long term performance incentive. Subject to the discretion of the Board of Directors, the Manager has adopted a policy for future grants of new Unit Appreciation Rights to employees, including the executive officers, on an annual basis. Under the terms of the Trust Unit Incentive Plan, participating executive officers may be eligible to receive Trust Units or a cash payment, based on the total return to Unitholders (measured by both changes in Trust Unit prices and cash distributions made to Unitholders) being in excess of a threshold of five percent per annum.

The Board of Directors and the Manager undertake a review of the compensation package of its executive officers annually with a view to ensuring that the compensation paid to its executive officers is commensurate with compensation packages provided by operating Canadian oil and gas companies and royalty trusts of a similar size and capitalization and with a similar performance to that of the Trust on an ongoing basis.

### **Compensation of the Chief Executive Officer**

Mr. MacIntyre, the chief executive officer of the Manager, is paid an annual base salary of \$260,000. Mr. MacIntyre is also entitled to participate in the Employee Group RRSP, the Short Term Incentive Plan and the Trust Unit Incentive Plan. Mr. MacIntyre became an employee of the

Manager effective April 1, 1997. Prior to that date, Mr. MacIntyre provided contract services to the Manager at a rate equivalent to his annual base salary entitlement plus benefits under the Employee Group RRSP and benefits plan. Under the Short Term Incentive Plan, Mr. MacIntyre is entitled to an annual cash bonus determined in accordance with the plan of up to \$157,000 (50% of his base salary for the period from October 16, 1996 to December 31, 1997). In accordance with the Trust Unit Incentive Plan and as a long term incentive, Mr. MacIntyre was awarded 390,000 Unit Appreciation Rights for the period October 16, 1996 to October 15, 1997 which included a one-time grant of approximately twice the anticipated annual grant size and 142,077 Unit Appreciation Rights for the period October 16, 1997 to October 15, 1998.

### Performance Graph

The following graph compares the change in the cumulative total unitholder return over the year ended December 31, 1997 of a \$100 investment in the Trust Units with the cumulative total return of the TSE 300 Composite Total Return Index and the TSE Oil & Gas Producers Total Return Index, assuming the reinvestment of dividends, where applicable, for the comparable period. The total unitholder return shown in the following graph is based on a first instalment payment of \$6.00 per Trust Unit at the time of the Trust's initial public offering on October 16, 1996 and assumes that the \$4.00 final instalment payment was made by Unitholders in 1997 and on or before October 16, 1997, as was required of Unitholders who had acquired Trust Units on an instalment payment basis.

	October 16, 1996	December 31, 1996	December 31, 1997
<b>Index</b>			
PrimeWest	\$100	\$129.00	<b>\$102.23</b>
TSE 300	100	108.62	<b>124.89</b>
TSE Oil & Gas Producers	100	110.83	<b>99.24</b>

**Note:** The first trading date of the Trust Units, then represented by instalment receipts, on The Toronto Stock Exchange was October 16, 1996.

### Summary Compensation Table

The following table sets forth information concerning the total compensation paid to "named executive officers" of the Manager for which the Manager was reimbursed by PrimeWest or the Trust during the year ended December 31, 1997. Aspects of this compensation are dealt with in the following tables.

Name and Principal Position	Annual Compensation		Long-Term Compensation			All Other Compensation (\$)
	Year (1)	Salary (\$)(2)	Other Annual Compensation (\$)(3)(4)	Awards Unit Appreciation Rights Granted (#)(5)	Payouts LTIP Payouts	
<b>Kent J. MacIntyre</b> Chief Executive Officer	1997	195,000	88,039	142,077	—	—
	1996	—	59,583	390,000	—	—
<b>Allan F. Kiernan</b> Vice President, Production	1997	140,000	38,966	45,902	—	—
	1996	—	67,200	126,000	—	—
<b>Jacob Roorda</b>	1997	108,750	55,593	39,617	—	—

Vice President, Corporate	1996	—	33,229	108,750	—	—
<b>Ronald Ambrozy</b> Vice President, Corporate Development	1997	28,167	1,925	103,723	—	15,000
<b>Susan M. Duncan</b> Vice President, Finance	1997	114,583	18,386	34,153	—	—
	1996	—	36,300	93,750	—	—

## Notes

1. 1996 compensation relates to the period from October 16, 1996 in respect of Mr. MacIntyre and Mr. Roorda, from August 26, 1996 in respect of Mr. Kiernan and from August 12, 1996 in respect of Ms. Duncan, in each case to December 31, 1996.
2. Mr. Kiernan, Mr. Roorda and Ms. Duncan provided services to PrimeWest during 1996 on a contract basis. Effective February 1, 1997 Mr. Kiernan and Ms. Duncan and effective April 1, 1997 Mr. Roorda and Mr. MacIntyre became employees of the Manager at annual salaries of \$168,000, \$125,000, \$145,000 and \$260,000, respectively. Mr. Ambrozy became an employee of the Manager on October 13, 1997 at an annual salary of \$130,000.
3. Pursuant to terms of the purchase and sale agreement in respect of the initial properties acquired by PrimeWest, PrimeWest was reimbursed portions of the amounts paid to Mr. Kiernan and Ms. Duncan in 1996 by the vendor of such properties. The amounts reimbursed to PrimeWest in respect of Mr. Kiernan and Ms. Duncan were \$35,200 and \$19,250, respectively.
4. These amounts include amounts paid as compensation for contract services provided by these persons to PrimeWest prior to the date on which each became an employee of the Manager, in the case of Mr. MacIntyre, Mr. Kiernan and Mr. Roorda, to companies with which they were associated, and in the case of Ms. Duncan, directly to Ms. Duncan. 1997 amounts also include benefits paid to the employee such as the Group RRSP and other taxable amounts.
5. Unit Appreciation Rights (as defined below) have been granted to Mr. MacIntyre, Mr. Kiernan, Mr. Roorda and Ms. Duncan effective as of October 16, 1996 and to Mr. Ambrozy effective as of October 13, 1997. See "Executive Compensation - Unit Appreciation Rights".
6. Mr. MacIntyre, Mr. Roorda and Ms. Duncan are indirect shareholders of the Manager and accordingly receive an indirect benefit through amounts paid to the Manager. See "Interest of Insiders in Material Transactions and Management Contracts".

## Unit Appreciation Rights

Except as set out below, no options or other Trust Unit purchase rights have been granted to any officer or director of PrimeWest or the Manager. Under the terms of the Trust Unit Incentive Plan, personnel entitled to participate in the plan will be entitled to exercise the unit appreciation rights ("Unit Appreciation Rights") granted to them in one-third increments over each of the first three anniversaries of the effective date of the grant thereof. The named executive officers of PrimeWest have been issued Unit Appreciation Rights under the Trust Unit Incentive Plan effective October 16, 1996, the date of the closing of the Trust's initial public offering, subject to the approval of such plan by the Unitholders at the Meeting. The following table sets forth certain information relating to the Unit Appreciation Rights issued to the named executive officers under the Trust Unit Incentive Plan, during the year ended December 31, 1997.

Name	Unit Appreciation Rights Granted (#)	% of Total Unit Appreciation Rights Granted in Fiscal Period	Base Price of Trust Units underlying Unit Appreciation Rights (\$/Unit)	Market Value of Trust Units Underlying Unit Appreciation Rights on the Date of Grant (\$/Unit)	Expiration Date
<b>Kent J. MacIntyre</b>	14,076	13.3%	\$ 9.15	\$ 9.15	October 15, 2004
<b>Allan F. Kiernan</b>	45,902	4.3%	\$ 9.15	\$ 9.15	October 15, 2004
<b>Jacob Roorda</b>	39,617	3.7%	\$ 9.15	\$ 9.15	October 15, 2004
<b>Ronald Ambrozy</b>	103,723	9.7%	\$ 9.40	\$ 9.40	October 12, 2003
<b>Susan M. Duncan</b>	34,153	3.2%	\$ 9.15	\$ 9.15	October 15, 2004

The following table and the notes thereto set forth information concerning aggregated exercises of Unit Appreciation Rights by the named executive officers during the year ended December 31, 1997 together with the number and value of unexercised Unit Appreciation Rights held by each of the named executive officers as at December 31, 1997.

Name	Trust Units Acquired on Exercise	Aggregate Value Realized	Unexercised Unit Appreciation Rights at Year End		Value of Unexercised in-the-money Unit Appreciation Rights at Year End(2)	
			Vested(1)	Unvested(1)	Vested	Unvested(1)
<b>Kent J. MacIntyre</b>	—	—	130,000	402,077	—	—
<b>Allan F. Kiernan</b>	—	—	42,000	129,902	—	—
<b>Jacob Roorda</b>	—	—	36,250	112,117	—	—
<b>Ronald Ambrozy</b>	—	—	—	103,723	—	—
<b>Susan M. Duncan</b>	—	—	31,250	96,653	—	—

**Notes:**

1. The board of directors of PrimeWest has the ability to accelerate the vesting of all unvested Unit Appreciation Rights on the occurrence of any one of a number of specified events.
2. Calculated on the basis of the difference between the December 31, 1997 closing price of the Trust Units on The Toronto Stock Exchange and the base price of the Trust Units underlying the Unit Appreciation Rights.

**Directors' Fees**

The Chairman of PrimeWest is paid an annual retainer of \$12,500 and an additional \$1,250 for each meeting attended. Each of the other Independent Directors of PrimeWest receive an annual retainer of \$10,000 and an additional \$1,000 for each meeting attended. Each director is

compensated for all reasonable out-of-pocket expenses incurred incidental to attending a Board of Directors meeting. In addition, each Independent Director has been granted a total of 30,000 Unit Appreciation Rights under the Trust Unit Incentive Plan. The Independent Directors receive an annual grant of a number of Unit Appreciation Rights determined by the formula applicable to Independent Directors.

### **Liability Insurance of Directors and Officers**

PrimeWest maintains directors' and officers' liability insurance coverage for losses to PrimeWest if it is required to reimburse directors and officers, where permitted, and for direct indemnity of directors and officers where corporate reimbursement is not permitted by law. The insurance protects PrimeWest against liability (including costs), subject to standard policy exclusions, which may be incurred by directors and/or officers acting in such capacity for PrimeWest. All directors and officers of PrimeWest are covered by the policy and the amount of insurance applies collectively to all.

## **INTEREST OF INSIDERS IN MATERIAL TRANSACTIONS AND MANAGEMENT CONTRACTS**

Montreal Trust Company of Canada is the Trustee and also acts as the transfer agent for the Trust Units. The Trustee is paid a reasonable fee in connection with the administration of the Trust and is also reimbursed for all of its expenses properly incurred, as agreed by the Trustee and PrimeWest.

PrimeWest is a corporation established under the laws of the Province of Alberta. Pursuant to the terms of the Royalty, PrimeWest has granted a 99% net profits royalty to the Trust on all oil and gas properties owned now and in the future by PrimeWest.

The Manager is a corporation established under the laws of the Province of Alberta whose business is restricted to managing the oil and gas properties owned by PrimeWest and to managing the Trust. Pursuant to the provisions of the PrimeWest Management Agreement, the Manager provides management services to PrimeWest and the Trust. A description of the compensation received by the Manager for providing management services to PrimeWest and the Trust is set out below.

All of the shares of the Manager are indirectly beneficially owned by certain officers of the Manager and their family members. The Manager is effectively controlled by Mr. MacIntyre. Mr. Emes, a director of PrimeWest, and Mr. Bruvall, the Secretary of PrimeWest and the Manager, are partners in Stikeman, Elliott, a law firm which provides legal services to the Trust, PrimeWest and the Manager.

### **Management Fees**

Pursuant to the PrimeWest Management Agreement, the Manager receives (a) a management fee, payable on the 15th day following each March 31, June 30, September 30 and December 31 equal to 2.5% of the total of Net Production Revenue (as defined in the PrimeWest Management Agreement) plus Alberta royalty tax credit, if any, less Crown royalties and other Crown charges attributable to the properties of PrimeWest; (b) an annual sum of \$500,000 for each of the first two years of the term of the PrimeWest Management Agreement, which amount was paid by the Trust to the Manager in advance in a single payment on closing of the initial public offering of the Trust of \$1,000,000; and (c) quarterly incentive payments. The quarterly incentive payments for the year ended December 31, 1997 amounted to 50,061 Trust Units. The incentive payments are adjusted quarterly based on the total issued and outstanding Trust Units so that the quarterly incentive payments will be in the same proportion as 12,500 is to the outstanding Trust Units on the closing of the initial public offering of the Trust. The Manager is not permitted to sell any Trust

Units received as incentive payments for a period of three years after October 16, 1996, the date of closing of the initial public offering of the Trust. Thereafter, any sales of any of those Trust Units will be subject to applicable laws and regulations.

### **Acquisition and Disposition Fees**

The Manager is paid an acquisition fee equal to 1.5% of the purchase price of any properties acquired by PrimeWest. In the event that PrimeWest disposes of any properties, the Manager receives a disposition fee equal to 1.25% of the sale price of the properties sold. In the case of property exchanges or swaps, the Manager receives the 1.5% acquisition fee up to the purchase price of any assets acquired and receives the 1.25% disposition fee to the extent the value of the properties being disposed of exceeds the value of the properties being acquired. During the year ended December 31, 1997, an aggregate of \$515,723 in acquisition and disposition fees was paid to the Manager.

### **General and Administrative Costs**

The Manager is reimbursed for all of its general and administrative costs by either PrimeWest or the Trust. Overhead recoveries by PrimeWest as operator of those properties which are operated by PrimeWest are used to offset general and administrative costs incurred by the Manager.

### **Residual Royalty Income**

Pursuant to the PrimeWest Royalty Agreement, the Trust has been granted a royalty equal to 99% of the net profits from the properties of PrimeWest. The remaining 1% of such net profits remain with PrimeWest, all of the Common Shares of which are held by the Manager. Pursuant to the PrimeWest Unanimous Shareholder Agreement, the Manager is entitled to receive dividends equal to such amount payable quarterly.

### **Total Compensation for the Year Ended December 31, 1997**

In total, the Manager received \$2,244,448, inclusive of the 1% residual royalty dividend of \$332,992 and the 50,061 Trust Units issued to the Manager as the quarterly incentive payments (which were given a value equal to the closing price of Trust Units on The Toronto Stock Exchange on the date of issuance), for services provided under the PrimeWest Management Agreement during the year ended December 31, 1997. These amounts include compensation to the Manager for taking the initiative in setting up and organizing PrimeWest and the Trust and acquiring the initial properties purchased by PrimeWest.

## **CORPORATE GOVERNANCE**

The Toronto Stock Exchange Committee on Corporate Governance in Canada has issued a series of proposed guidelines (the "TSE Guidelines") for effective corporate governance. The TSE Guidelines address matters such as the constitution and independence of corporate boards, the functions to be performed by boards and their committees and the effectiveness and education of board members.

The Trustee as well as PrimeWest's Board of Directors and senior management consider good corporate governance to be central to the effective and efficient operation of PrimeWest and the Trust and have addressed the TSE Guidelines below.

### **Composition of the Board of Directors and Independence**

An "unrelated" director for the purposes of the TSE Guidelines is a director who is free from any interest and any business or other relationship which could, or could reasonably be perceived to,

materially interfere with the director's ability to act in the best interests of the corporation, other than interests arising from shareholdings. In defining an unrelated director, the TSE Guidelines placed emphasis on the ability of a director to exercise objective judgment, independent of management. The TSE Guidelines also made an informal distinction between inside and outside directors. The TSE Guidelines consider an inside director a director who is an officer or employee of the corporation or any of its affiliates.

The composition of PrimeWest's Board of Directors is prescribed by the PrimeWest Unanimous Shareholder Agreement, which provides that a number of directors equal to the number of directors nominated by the Trust less one (presently Messrs. MacIntyre and Roorda) are to be nominees of the Manager. Messrs. MacIntyre and Roorda are officers of PrimeWest and the Manager and are not independent directors. Three directors (presently Messrs. Emes, Kvisle and Milavsky) are nominees of the Trust pursuant to the PrimeWest Unanimous Shareholder Agreement. The three nominees of the Trust are independent directors. Although Mr. Emes is a partner in a law firm which provides services to PrimeWest, the Board of Directors does not believe that this interferes in any way with Mr. Emes' ability to act with a view to the best interests of PrimeWest. Pursuant to the terms of the PrimeWest Unanimous Shareholder Agreement, an independent director is to be elected the chairman of the Board of Directors by the directors from among their number. Mr. Milavsky is the independent director so elected as chairman.

As a result of the PrimeWest Unanimous Shareholder Agreement and the Declaration of Trust, the TSE Guidelines requiring (i) that boards consider a reduction in their size, and (ii) that a committee be made responsible for the appointment and assessment of directors and committees of the board, are inapplicable to PrimeWest. As well, PrimeWest does not provide formal education programs for new directors, but does provide such orientation and information as individual directors may request. All directors, notwithstanding the manner in which they were nominated, are required to act in the best interests of PrimeWest.

### **Board Committees**

PrimeWest's Board of Directors has an Audit Committee, which is made up of the Independent Directors, all of which are outside directors as required by the TSE guidelines. The Independent Directors also act as the Compensation Committee of PrimeWest. PrimeWest believes that the size of its Board of Directors is sufficiently small that certain matters that might otherwise be delegated to committees can be dealt with effectively by the entire Board of Directors, such as the consideration of corporate governance issues. PrimeWest therefore does not have a committee specifically responsible for corporate governance issues. The Board as a whole has reviewed the compensation of the directors in light of their risks and responsibilities, as required by the TSE Guidelines. In addition, PrimeWest's Board of Directors has the ability to function independently of management and has the ability to engage outside advisors, at PrimeWest's expense, should the Board of Directors or individual directors so wish, as specified in the TSE Guidelines.

### **Delegation of Authority**

The PrimeWest Management Agreement dictates the role of the Board of Directors of PrimeWest as supervisor of the Manager, as manager of PrimeWest and the Trust, and as the Trustee's delegate. PrimeWest's Board of Directors is responsible under applicable law for the management of the business and affairs of PrimeWest and consequently ensuring that the Manager fulfils its obligations under that agreement. The Board retains all powers which are not expressly delegated to the Manager.

## **APPROVAL AND CERTIFICATION**

The contents and mailing of this Management Proxy Circular have been approved by the directors of PrimeWest.

The foregoing contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made.

**DATE: April 8, 1998**

**PRIMEWEST ENERGY TRUST  
BY: PRIMEWEST MANAGEMENT INC., AS MANAGER**



(Signed) **KENT J. MACINTYRE**  
*Director and Chief Executive Officer*



(Signed) **SUSAN M. DUNCAN**  
*Vice President, Finance*

## APPENDIX A REDEMPTION RIGHT

Trust Units will be redeemable at any time on demand by the holders thereof upon delivery to the Trust of the certificate or certificates representing such Trust Units, accompanied by a duly completed and properly executed notice requesting redemption. Upon receipt of the redemption request by the Trust, all rights to and under the Trust Units tendered for redemption shall be surrendered and the holder thereof shall be entitled to receive a price per Trust Unit (the "Redemption Price") equal to the lesser of (i) 95% of the "market price" of the Trust Units on the principal market on which the Trust Units are quoted for trading during the ten trading day period commencing immediately after the date on which the Trust Units are surrendered for redemption; and (ii) the "closing market price" of the Trust Units on the principal market on which the Trust Units are quoted for trading on the date that the Trust Units are surrendered for redemption.

"Market price" will be an amount equal to the simple average of the closing price of the Trust Units for each of the ten trading days on the principal market on which the Trust Units are quoted for trading and on which there was a closing price; provided that if the applicable exchange or market does not provide a closing price but only provides the highest and lowest prices of the Trust Units traded on a particular day, the "closing price" shall be an amount equal to the simple average of the highest and lowest prices for that trading day if there was a trade; and provided further that if there was a trade on the applicable exchange or market for fewer than five of the ten trading days, the "market price" shall be the simple average of the "closing market price" on each of the ten trading days. The "closing market price" on a particular day shall be an amount equal to the closing price of the Trust Units if there was a trade on that day; an amount equal to the average of the highest and lowest prices of Trust Units if there was trading and the exchange or other market provides only the highest and lowest prices of Trust Units traded on that day; and the average of the last bid and last ask prices of the Trust Units if there was no trading on that day.

The aggregate cash Redemption Price payable by the Trust in respect of any Trust Units surrendered for redemption during any calendar month shall be satisfied by way of a cash payment on the last day of the following month; provided that the entitlement of Unitholders to receive cash upon the redemption of their Trust Units is subject to the limitations that (i) the total amount payable by the Trust in respect of such Trust Units and all other Trust Units tendered for redemption in the same calendar month shall not exceed \$100,000, provided that such limitation may be waived at the discretion of the Board of Directors; (ii) at the time such Trust Units are tendered for redemption the outstanding Trust Units of the Trust shall be listed for trading on a stock exchange or traded or quoted on any other market which the Board of Directors considers, in its sole discretion, provides representative fair market value prices for the Trust Units; or (iii) the normal trading of Trust Units is not suspended or halted on any stock exchange on which the Trust Units are listed (or, if not listed on a stock exchange, on any market on which the Trust Units are quoted for trading) on the date that the Trust Units are tendered for redemption or for more than five trading days during the ten day trading period commencing immediately after the date on which the Trust Units are tendered for redemption.

If a Unitholder is not entitled to receive cash upon the redemption of Trust Units as a result of the foregoing limitations, then the Redemption Price for such Trust Units shall be the Unitholder's share of the proportionate underlying fair market value of the Trust's assets, as determined by the Board of Directors and shall, subject to any applicable regulatory approvals, be paid and satisfied by way of a distribution *in specie* of the Trust's assets. No fractional securities owned by the Trust (the "Securities") will be distributed and where a number of Securities to be received by a Unitholder includes a fraction, such number shall be rounded to the next lowest whole number. The Trust shall be entitled to all interest paid or accrued and unpaid and to all dividends paid or declared payable on the Securities on or before the date of the distribution *in specie*. The holders

of Securities will be subject to the provisions of all material agreements that relate to such Securities.