



Enhancement

Strength

Efficiency

Productivity

Sustainability

Durability

Strategy

Balance

Value

Reliability

Commitment

Focus



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HIGHLIGHTS

Three Months Ended June 30 (Unaudited)	1998	1997
<b>Sales Volumes</b>		
Crude Oil and NGL (bbl/d)	7,460	4,791
Natural Gas (Mcf/d)	54,000	36,240
BOE per day	12,860	8,415
<b>Average Selling Price</b>		
Crude Oil and NGL (Cdn \$/bbl)	\$ 16.59	\$ 25.90
Natural Gas (Cdn \$/Mcf)	\$ 1.65	\$ 1.73
Per BOE (Cdn \$/BOE)	\$ 16.56	\$ 22.18
<b>Operating Results (000's)</b>		
Revenues	\$ 19,519	\$ 16,988
Cash Flow	\$ 5,553	\$ 6,780
Distributions	\$ 7,255	\$ 7,478
EBITDA	\$ 6,611	\$ 7,063
Debt Outstanding	\$ 71,018	\$ 47,812
Units Outstanding at June 30	32,979	24,925
Weighted Average Number of Units for Quarter	32,976	24,917

Three Months Ended June 30 (Unaudited)	1998	1997
<b>(\$/BOE)</b>		
Revenue	\$ 16.73	\$ 22.23
Royalties	\$ 2.64	\$ 4.27
Operating Expenses	\$ 6.98	\$ 7.15
Netback	\$ 7.11	\$ 10.81

SECOND QUARTER HIGHLIGHTS

- During the second quarter, \$0.22 per Trust unit was distributed to unitholders.
- Combined production of oil, natural gas and NGL's during the second quarter was 18% higher than production in the first quarter of 1998 and 53% higher than the second quarter of 1997.
- Commodity prices weakened in the second quarter compared to the first quarter of 1998. However, due to increased production, cash flow remained at \$0.17 per Trust unit consistent with the first quarter.
- Operating costs were \$6.98 per BOE during the second quarter. The combination of efficiency initiatives and rising production will serve to reduce unit operating costs over the balance of 1998 and through 1999.
- During the quarter, long-term debt was reduced by \$7 million to \$71 million.

PrimeWest is a high-quality investment product offering unique features:

1. Monthly cash distributions derived from oil and natural gas properties.
2. A high rate of return.
3. Sound risk management strategies that increase the reliability of cash distributions.
4. Advantageous tax structure.

PrimeWest is based in Calgary, Alberta, the heart of the western Canadian oilpatch. PrimeWest is listed on The Toronto Stock Exchange, symbol PWI.UN.

#### DISTRIBUTION ENHANCEMENT ACTIVITIES

- PrimeWest invested approximately \$2 million into the horizontal drilling of two 100% natural gas wells in the Lone Pine Creek area of Alberta. The sales capacity of the wells has increased by over 1,000 BOE/d. Incremental distributions from these well enhancements will be approximately \$0.03 per Trust unit in 1998 and approximately \$0.10 - \$0.12 per Trust unit in 1999.
- PrimeWest identified an opportunity to increase its interest in the Lone Pine Creek area by acquiring certain lands. In the third quarter, PrimeWest will close the acquisition of approximately 100 BOE/d of gas and NGL production for \$2.3 million, to be funded by debt.
- PrimeWest successfully closed the sale of certain non-core natural gas properties in the second quarter for the premium sale price of \$8.10 per BOE of reserves, for total proceeds of \$8.3 million.
- To provide future distribution stability, PrimeWest has renegotiated its foreign exchange hedge on sales of approximately 40% of its crude oil and locked in interest rates on \$40 million of debt at approximately 5.5%.
- Due to low crude oil prices, PrimeWest has reduced its monthly distribution rate to \$0.06 per Trust unit, from \$0.08 per Trust unit, effective with the July 15 distribution for holders of record on June 30. Should income exceed this monthly distribution amount, it will be paid out through special distributions on a quarterly basis. PrimeWest has reduced its monthly distribution rate to mitigate the risk of funding distributions with debt. In doing so, PrimeWest is ensuring the long-term financial strength of the Trust.

#### DISTRIBUTION OUTLOOK

- To take advantage of strong natural gas price markets, PrimeWest is currently reviewing its property enhancement budget with the objective of placing more emphasis on natural gas development projects. Given the success experienced at Lone Pine Creek, we are planning to pursue at least two more horizontal drilling projects before year-end 1998. This will provide strength to our year-end production targets and set the base for a strong 1999.
- We anticipate securing the price on at least 25% of our 1999 natural gas sales, at prices in excess of \$2.50 per Mcf. This will further enhance and stabilize future distributions.
- Although there is expectation of some recovery in world crude oil pricing by the end of 1998, PrimeWest is basing its operational and capital plans and distribution forecasts on crude oil prices of US\$15 - \$16 per barrel. At these price levels for crude oil and an average natural gas sale price of \$1.95 per Mcf, distributions for 1998 should be approximately \$0.92 to \$1.00 per Trust unit.

*Signed on behalf of the Board,*



**KENT J. MACINTYRE**  
*Director*  
*Vice Chairman, CEO*



## Consolidated Balance Sheets

	As At June 30 1998 (Unaudited) 000\$	As At December 31 1997 (Audited) 000\$
<b>ASSETS</b>		
Current Assets		
Cash	–	10,713
Accounts Receivable	16,258	14,083
Prepaid Expenses	1,387	1,131
	17,645	25,927
Cash Reserved for Site Restoration & Reclamation	2,068	1,738
Capital Assets (Net)	302,591	258,100
	322,304	285,765
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
Current Liabilities		
Accounts Payable & Accrued Liabilities	13,504	13,353
Accrued Distributions to Unitholders	1,979	9,731
Due to Related Company	947	891
Bank Indebtedness	720	–
Current Portion of Long-Term Debt	106	106
	17,256	24,081
Long-Term Debt	71,018	66,723
Site Restoration & Reclamation Provision	3,234	1,597
	91,508	92,401
Unitholders' Equity		
Net Capital Contributions	292,077	232,987
Accumulated Income (Loss)	(2,452)	5,184
Accumulated Cash Distributions	(58,251)	(44,365)
Dividends	(578)	(442)
Total Unitholders' Equity	230,796	193,364
	322,304	285,765

### LONE PINE CREEK: BUYING AND ENHANCING ASSETS TO INCREASE UNITHOLDER VALUE

PrimeWest's strategy is quite simple: we acquire properties that provide solid value in terms of distributions, and then we work these properties to squeeze more value from them, creating a more stable and reliable distribution stream. Lone Pine Creek is an area that we have been focusing on, and is an excellent example of our strategy hard at work.

Effective April 1, 1998, PrimeWest increased its holdings in the area with the purchase of 401,700 established (proven plus one-half probable) BOE of natural gas reserves for a price of \$2.1 million.

We are very excited about this area since it shows promise for significant property enhancement opportunities. PrimeWest recently completed the production testing phase on two 100% working interest horizontal re-entry wells drilled into the Wabamum formation. Prior to this development, the combined sales from these wells were 1.8 million cubic feet per day (MMCFD). The combined initial sales from these new wells are approximately 11 MMCFD of natural gas and 180 barrels per day of natural gas liquids. In the near term, gathering system constraints will restrict sales to approximately 50% of the 11 MMCFD capability. We are currently investigating alternatives to de-bottleneck the gathering system to permit unrestricted production later this year.



## Consolidated Statements of Income and Cash Available for Distribution

(Unaudited) 000\$	Three Months Ended		Six Months Ended	
	June 30, 1998	June 30, 1997	June 30, 1998	June 30, 1997
<b>REVENUES</b>				
Sales of Products	19,519	16,988	37,283	36,180
Crown & Other Royalties	(3,087)	(3,271)	(6,891)	(7,572)
Other Income	63	33	158	53
	<u>16,495</u>	<u>13,750</u>	<u>30,550</u>	<u>28,661</u>
<b>EXPENSES</b>				
Operating	8,172	5,472	15,040	9,123
General & Administrative	1,388	885	2,557	1,762
Management Fees	324	330	613	735
Interest	1,175	402	2,280	872
Depletion, Depreciation & Amortization	10,143	7,167	17,695	14,549
	<u>21,202</u>	<u>14,256</u>	<u>38,185</u>	<u>27,041</u>
Net (Loss)/Income for the Period	<u>(4,707)</u>	<u>(506)</u>	<u>(7,635)</u>	<u>1,620</u>
Add Back (Deduct) Amounts				
to Reconcile to Distribution:				
Proceeds on Disposition of Properties	8,349	-	8,349	-
Repayment of Long-Term Debt	(6,155)	-	(4,203)	-
Depletion, Depreciation & Amortization	10,143	7,167	17,695	14,549
Contribution to Reclamation Fund	(418)	-	(418)	-
Reserve to Fund Future Costs	-	773	-	(45)
Management Fees Paid through Units	117	119	239	236
	<u>12,036</u>	<u>8,059</u>	<u>21,662</u>	<u>14,741</u>
Cash Available For Distribution	<u>7,329</u>	<u>7,553</u>	<u>14,027</u>	<u>16,360</u>
Cash Available to Trust Unitholders (99%)	<u>7,255</u>	<u>7,478</u>	<u>13,886</u>	<u>16,197</u>
Cash Available for Distribution per Trust Unit	<u>0.22</u>	<u>0.30</u>	<u>0.46</u>	<u>0.65</u>
Trust Units Issued and Outstanding	32,979,109	24,925,066	32,979,109	24,925,066
Weighted Average Number of				
Trust Units Outstanding	32,976,381	24,916,853	30,361,774	24,916,853

### Lone Pine Creek: Buying and Enhancing Assets to Increase Unitholder Value (continued)

The Lone Pine Creek horizontal re-entry wells will have a positive impact on unitholder distributions and net asset value, because this new production has a very high netback or profit margin. The marginal cost of the increased production is minimal because we can process this natural gas through spare capacity at the East Crossfield plant. As well, this natural gas is not dedicated to long-term sales contracts and we can take advantage of the higher prices we are currently seeing in the markets. This production is also eligible for Alberta Royalty Tax Credit, which significantly reduces the royalty burden. All of these factors contribute to higher netbacks and higher distributions.

PrimeWest believes there are additional natural gas production and reserve enhancement opportunities to be gained through horizontal drilling at East Crossfield and Lone Pine Creek. PrimeWest operates 78 gross (46.7 net) Wabamum natural gas wells and holds 16,000 gross (10,200 net) acres of undeveloped land in the Lone Pine Creek and East Crossfield areas. Based on our success, PrimeWest is now advancing into 1998 two horizontal wells previously budgeted for 1999.

## Consolidated Statements of Changes in Financial Position

	Six Months Ended June 30, 1998 (Unaudited) 000\$	Six Months Ended June 30, 1997 (Unaudited) 000\$
<b>OPERATING ACTIVITIES</b>		
Net Income (Loss) for the Period	(7,635)	1,620
Add: Items not Requiring an Outlay of Cash		
Depletion, Depreciation & Amortization	17,695	14,549
Funds from Operations	10,060	16,169
Change in Non-Cash Working Capital	(2,226)	2,608
	7,834	18,777
<b>FINANCING ACTIVITIES</b>		
Proceeds from Issue of Trust units (Net of Costs)	59,090	202
Cash Distributions to Unitholders	(13,886)	(16,197)
Dividends	(136)	(165)
Increase in Long-Term Debt	4,295	33,584
Change in Non-Cash Working Capital	(7,752)	(3,478)
	41,611	13,946
<b>INVESTING ACTIVITIES</b>		
Expenditures on Capital Assets	(7,336)	(2,123)
Acquisition of Oil & Gas Assets	(61,514)	(26,300)
Proceeds on Disposal of Oil & Gas Assets	8,350	-
Cash Utilized (Reserved) for Future Site Restoration	(330)	63
Expenditures on Site Restoration & Reclamation	(48)	(65)
	(60,878)	(28,425)
Increase (Decrease) in Cash for the Period	(11,433)	4,298
Cash, Beginning of Period	10,713	7,122
Cash (Bank Indebtedness), End of Period	(720)	11,420

### OPERATING COST REDUCTION UPDATE

In the first quarter we reported that our operating costs at the East Crossfield Gas plant were at levels that were causing us concern. We are pleased to report that we are making significant progress in reducing our unit costs at this facility. Although PrimeWest is not the operator of this plant, we have undertaken a number of activities to manage operating costs. For example, we have undertaken a comprehensive cost study to identify areas for improved efficiency and have taken a leadership role amongst the joint venture partners to ensure efficient operation. We have been instrumental in identifying and securing incremental natural gas production processing volumes from both third party and existing lands, with the objective of developing a larger base of natural gas production to spread fixed costs. As a result of these activities, we expect to reduce unit operating costs at the East Crossfield/Lone Pine Creek area by approximately 20 - 30% over the next six months, with further efficiencies expected in 1999.



#### MINOR PROPERTY DISPOSITION

##### **Improving Financial Flexibility without Impacting Distributions**

PrimeWest is in the business of providing strong, reliable unitholder distributions by maximizing property values. Normally, we optimize value through enhancement activities, but occasionally we recognize that the sale of a property is the optimum means of extracting value for our unitholders.

Effective June 30, 1998 PrimeWest sold a non-core natural gas property for \$8.3 million. At a premium price of \$8.10 per BOE, this sale price is substantially higher than the value we saw in the property. As well, PrimeWest was able to reduce debt by almost 10% and fund the recent Lone Pine Creek purchase with the proceeds from this sale.

The combined effect of this disposition and the recent Lone Pine Creek acquisition will have no material effect on anticipated 1998 distributions for PrimeWest unitholders.

#### PRIMEWEST INTENDS TO PURCHASE UNDERVALUED TRUST UNITS

PrimeWest Energy Trust announced on July 7, 1998, that it received Board of Director approval to make an application to the Toronto Stock Exchange for the implementation of a Normal Course Issuer Bid which will allow it to purchase its own units in the stock market. We wish to pursue the Normal Course Issuer Bid because we believe that our units have been trading at levels that do not adequately reflect the value of the Trust's assets, or its future growth potential. We expect approval from The Toronto Stock Exchange by early August.

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