

# Twelve Reasons For PrimeWest



Enhancement

Strength



Efficiency

Productivity



Sustainability

Durability



Strategy



Balance



Value



Reliability



Commitment



Focus



## Twelve Months of Cash Distributions

January	Enhancement of assets leads to solid cash distributions.
February	Strength describes our robust, long-life reserves delivering enduring cash distributions.
March	Efficiency means emphasizing the effective use of human and financial resources.
April	Productivity means our assets are managed to maximize output to meet our responsibility to pay monthly cash distributions.
May	Sustainability of cash distributions is a key PrimeWest goal.
June	Durability is reflected in the quality of PrimeWest's long-life reserves.
July	Strategy is the framework that guides PrimeWest through the external and internal influences that could impact our results.
August	Balance, as a risk management philosophy, means all inherent risks and returns are measured for optimal results.
September	Value in the form of a Unitholder's total return on investment is the primary goal that guides PrimeWest's strategies.
October	Reliability means meeting our commitment to provide regular cash distributions.
November	Commitment to our Unitholders drives our business strategy.
December	Focus on providing a valuable investment to our Unitholders. This drives all of our business activities.

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Unitholders Meeting:  
Unitholders are encouraged to attend the PrimeWest Energy Trust Annual and Special meeting at 3:00 p.m. on Thursday, May 21, 1998 at the Westin Hotel in Calgary, Alberta. If unable to attend, Unitholders should forward their completed proxies to Montreal Trust.

## Highlights of a Successful Year

(\$ millions, except where indicated)

	Twelve months 1997	Four months 1996	% change
Distributable cash (\$)	33.4	11.0	
Per unit (\$)	1.34	0.44	
Production			
Oil and NGLs (bbls per day)	4,874	4,365	
Natural gas (mmcf per day)	42.22	31.47	
Total (BOE per day)	9,096	7,512	21
Reserves (Proven plus half probable at December 31)			
Oil and NGLs (mmbbls)	22.0	17.1	
Natural gas (Bcf)	227.3	191.0	
Total (mmBOE)	44.6	36.2	23
Net Asset Value			
Established reserves	298.0	226.6	
Undeveloped land	8.4	2.3	
Other assets	3.5	3.5	
Total asset value	309.9	232.4	
Less: Long-Term Debt	(66.7)	(14.2)	
Net Asset Value	243.2	218.2	
Per unit (\$)	9.75	8.76	11
Units Outstanding at December 31 (000 Units)	24,950	24,900	
Trading Data			
High	\$11.45	\$12.15	
Low	\$ 7.50	\$11.20	
Close	\$ 8.50	\$11.30	
Volume (000 Units)	15,448	14,236	

**Value in the form of a Unitholder's total return on investment is the primary goal that guides PrimeWest's strategies. By acquiring high-quality properties and enhancing their performance, PrimeWest creates value for Unitholders through reliable, long-term distributions.**

## 1997 Performance Reflects Achievement

- Cash distributions of \$1.34 per unit, exceeding the projected \$1.05
- Net asset value increased to \$9.75 per unit, up from \$8.76
- Production averaged 9,096 BOE per day, exceeding a target of 8,950 BOE per day
- Reserve base expanded to 44.6 million barrels, up 23 percent from the previous year
- Production growth achieved an exit rate of 9,600 BOE per day

PrimeWest's 1997 performance is solid evidence that the strategic acquisition of high-performing assets offering even greater potential through enhancement generates reliable, long-term cash distributions.

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.

## Our Message to Unitholders

### RIGOROUS APPLICATION OF OUR STRATEGY

The achievements of 1997 and in years to come is the result of our business strategy, certain key objectives of which accounted for much of the past year's success. Our strategy includes:

- acquiring superior oil and natural gas assets, as they are the source of opportunity for future enhancement
- property enhancement, which is somewhat unique for a royalty trust, is facilitated by the high degree of control that PrimeWest exerts over its asset base. Almost half of PrimeWest's 1997 reserve additions were achieved by enhancing our existing asset base
- active property management through control, afforded by operatorship, permits us to streamline operations, reduce costs, improve production and add reserves
- maintaining a balanced portfolio between oil and natural gas reserves, as this provides a natural hedge against volatile commodity price fluctuations

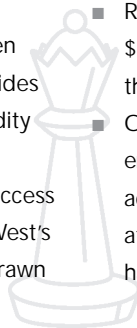
The execution of our strategy and its success depends on our management team. PrimeWest's management and senior technical team is drawn from experienced professionals who have

developed their expertise and track record at various high-performing companies.

### HIGHLIGHTS OF 1997

PrimeWest's first full year of activity generated exceptional results and exceeded targets.

- We distributed \$1.34 per unit to our Unitholders, representing a 28 percent premium over what had been originally projected at the time of our initial public offering.
- Average production reached 9,096 BOE per day, a 21 percent increase over 1996.
- By adding 12.1 million BOE through various acquisitions and a program of asset enhancement, we more than replenished our reserve base. More than 350 percent of 1997 production was replaced by the end of the year.
- Reserve additions were made at a cost of \$4.47 per BOE, one of the lowest costs in the industry.
- Our capital development program focused on enhancing our existing reserve base. In 1997, we added 4.8 million BOE of established reserves at \$3.28 per BOE, a cost approximately one-half of the 1997 industry average.



Good business strategy maximizes opportunities and minimizes risk. For PrimeWest, our business strategy drives every aspect of our business by addressing both external and internal influences that could impact our results. Whether it relates to balancing our commodity base or taking control of our operations, PrimeWest has a strategy to support our corporate objective of sustained, reliable cash distributions.

An overheated acquisition market in 1997 provided few opportunities to purchase quality properties at good prices. However, two significant and several smaller transactions added 6.0 million BOE of established reserves at \$5.42 per BOE, a cost approximately 18 percent below the 1997 industry average.

One area where PrimeWest can do better is to decrease the cost of operations. Actual operating expenses were \$6.41 per BOE, which we feel is high and above the target we set for 1997. While operating costs under our control were on target, non-operated, third-party expenses were over budget. In 1998, our objective is to continue focusing on cost control and achieve a target of less than \$6.00 per BOE.

#### AN EARLY 1998 ACQUISITION ENHANCES DISTRIBUTION

Softer commodity and capital markets in early 1998 led to an improved climate for acquisitions.

In March 1998, we invested \$60 million to acquire 9.7 million BOE of established reserves and 4,000 BOE per day of production. The acquisition, which adds to previously projected 1998 distributions, represents an exceptional value that could not have been achieved in the heated acquisition market of 1997. Furthermore, this acquisition also provides future opportunities for asset enhancement by allowing us to establish a new core area of activity.

The acquisition was financed by an equity issue of eight million trust units at a price of \$7.80 per unit. This improves PrimeWest's financial flexibility. Our debt-to-cash flow has been reduced to under 1.5 years and we expect our credit facility to be increased to \$120 million. This will provide PrimeWest with the flexibility to complete a similar sized transaction without returning to the equity market.



Sustainability of cash distributions is PrimeWest's goal. Through the implementation of an effective business strategy, we will deliver sustainable financial and operating performance that will support our ability to deliver sustainable cash distributions.

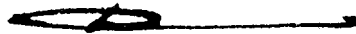
## OUTLOOK

PrimeWest will continue to build its track record by executing its strategy of acquiring and enhancing quality assets to deliver reliable distributions. Numerous acquisitions of up to \$100 million are under active consideration. Our plan is to propel PrimeWest to at least \$1 billion in market capitalization within the next three years.

We are confident that PrimeWest Energy Trust has the strategy and track record to outperform our competitors and provide superior long-term returns for our investors, despite inevitable fluctuations in the market.

The year's success was the result of a continuous and enthusiastic level of energy exuded by a team of solid professionals at PrimeWest — both at head office and in the field. I thank our employees for their efforts during 1997.

*On behalf of the Board,*



**KENT J. MACINTYRE**

*Vice Chairman and Chief Executive Officer*

*April 1, 1998*



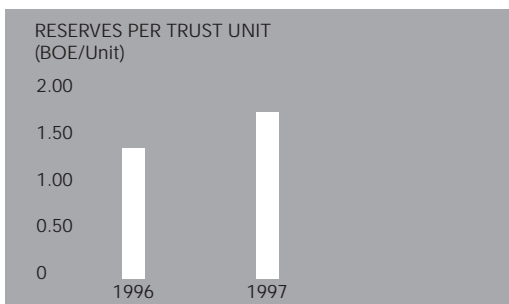
Our focus, which is to provide a valuable investment to our Unitholders, is maintained in all aspects of PrimeWest's business. Our focus starts with our strategies and ends with delivering reliable cash distributions.

## Unit Performance

### MEASURING RESULTS FOR OUR UNITHOLDERS

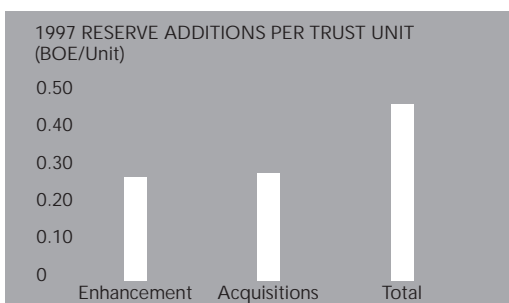
#### Adding Reserves

PrimeWest's activity is designed to support reliable cash distributions. Increasing reserves per trust unit is a primary indicator that Unitholders' underlying assets are being maintained.



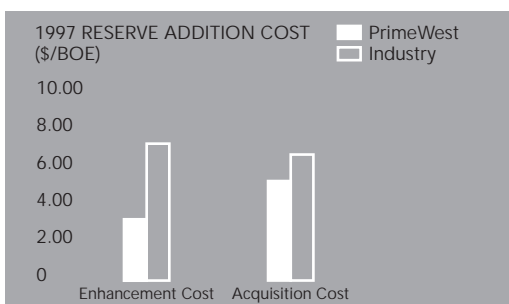
#### Renewing Reserves

New acquisitions and a property enhancement program replaced 12.1 million BOE, or over 350 percent of PrimeWest's production. This is solid evidence of PrimeWest's commitment to meet future expectations for cash distributions by renewing its underlying reserve base.



#### Low Cost Reserve Additions

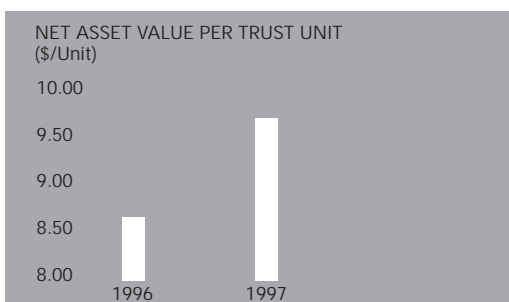
As with any oil and natural gas company, reserves must be added at low cost to create long-term value. Overall, our reserve addition cost was one of the lowest in the industry in 1997.



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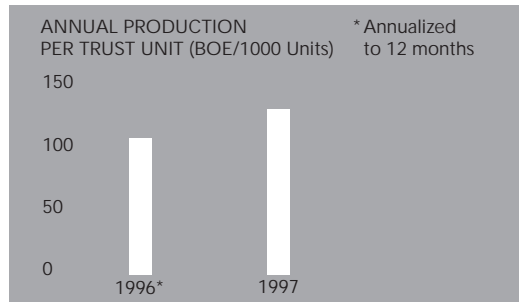
#### Improving Value

Net asset value assesses PrimeWest's ability to generate future distributions. PrimeWest achieved an 11 percent increase in net asset value despite distributing \$1.34 per unit. This reflects PrimeWest's capability of maintaining Unitholder value.



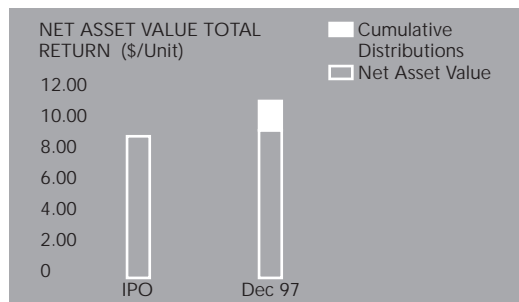
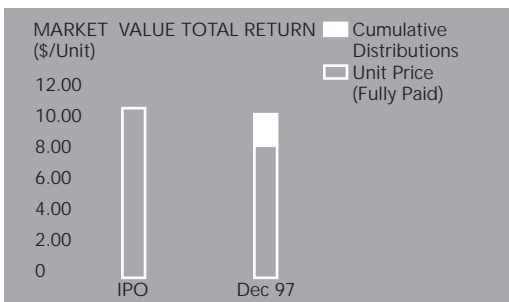
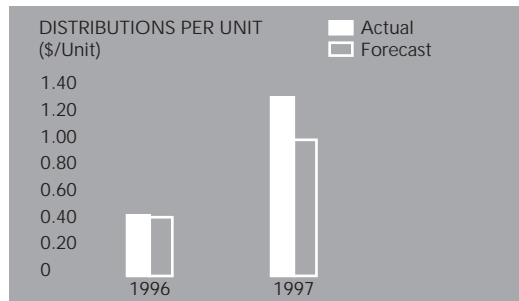
Growing Production

While reserves and net asset value measure long-term performance capability, evidence of the ability to generate increasing levels of distributions is reflected in production growth of 21 percent.



Improving Cash Distributions Per Unit

Investors in PrimeWest are seeking reliable cash distributions. In our short history, PrimeWest has demonstrated our ability not only to meet but to exceed expectations. In 1997, distributions exceeded our original forecast by 28 percent.



What 1997 Means To Our Unitholders

The issue price for PrimeWest in the marketplace was \$10 per unit. At the end of December 1997, the unit price was at \$8.50. This trend is reflective of a decline in market valuation for all royalty trusts, and is the result of several factors, including a drop in commodity prices and what we believe is a growing realization of the inherent risks associated with oil and natural gas production.

As Unitholders ourselves, the management at PrimeWest understands the frustrations of market value depreciation. We are taking every measure possible to counter market pressure by striving to deliver strong and reliable cash distributions to our Unitholders. Our success in this respect is demonstrated by a 25 percent increase in total return on net asset value for the year.

## Investor Services

PrimeWest is committed to our investors. Our goal is to make investing in PrimeWest as easy as possible by providing accurate and timely information to our Unitholders.

### Distribution Reinvestment Plan

The Distribution Reinvestment Plan (DRIP) and the Optional Trust Unit Purchase Plan, available to all Unitholders, provide an efficient and cost effective means of investing in PrimeWest. The DRIP permits each Unitholder to reinvest any portion of his distributions into new units with no brokerage cost. The Optional Trust Unit Purchase Plan gives any Unitholder the opportunity to purchase additional units in PrimeWest to a maximum of \$20,000 per calendar year. Investors can find out more about these plans by completing the tear-out card in this annual report.

### Tax Treatment of Distributions

One of the most commonly asked questions by our Unitholders is whether or not the cash distributions they have received are taxable as income. All distributions received in 1997 were return of capital and were therefore tax deferred.

To assist Unitholders with 1998 tax treatment, PrimeWest has taken the following steps.

- With each quarterly report, Unitholders will receive information from PrimeWest indicating whether or not the distributions received during that quarter are likely to be taxable as income.
- At the end of each year, the Company will provide a summary of all distributions received and their taxable status. To the extent distributions are taxable, a T3 form will be sent to Unitholders.



Efficiency means controlling all of the human and financial resources that go into PrimeWest's business. This ensures maximum return on our capital and optimal use of our assets to yield the highest possible cash distributions.

## SCHEDULE OF 1998 CASH DISTRIBUTIONS

Ex-Distribution Date	Record Date	Payment Date	
Jan 28	Jan 31	Feb 15	
Feb 25	Feb 28	Mar 15	
Mar 27	Mar 31	April 15	
April 28	Apr 30	May 15	Includes special distribution
May 27	May 31	June 15	
June 26	June 30	July 15	
July 29	July 31	Aug 15	Includes special distribution
Aug 27	Aug 31	Sept 15	
Sept 28	Sept 30	Oct 15	
Oct 28	Oct 31	Nov 15	Includes special distribution
Nov 26	Nov 30	Dec 15	
Dec 29	Dec 31	Jan 15/99	

## Keeping In Touch

To ensure our Unitholders are kept well informed, we have introduced several convenient services. Unitholders can reach us through our toll-free number **1-877-968-7878**. Tax information that might affect our Unitholders is accessible through this number. Soon to be operational is our website that investors may visit at <http://www.primewesttr.com>

## Monthly Distributions

During 1998, PrimeWest introduced its monthly distribution program. The initial monthly distribution level has been set at \$0.08 per unit. At the end of each quarter, cash flow permitting, a special distribution will be paid in addition to the regular monthly level.

Commitment to our Unitholders by keeping them well informed about PrimeWest is key to our business philosophy. From presentations at investor forums and meetings with specific brokers to a website and a toll-free number, we continually convey the PrimeWest story to the investing public and our Unitholders.

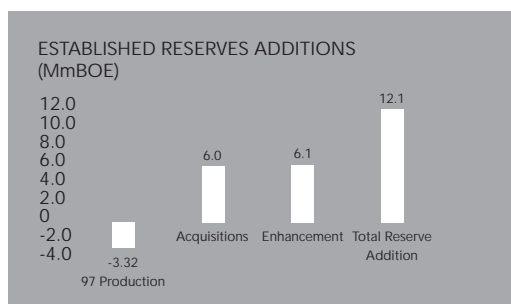
## Review of Operations

The goal of PrimeWest's strategy is to focus on ensuring that the Unitholder achieves maximum benefit, on a total return basis. Owning a unit of PrimeWest includes participation in cash flow related to oil and natural gas production from several western Canadian properties. The investor is participating in a carefully managed business system that is applied to those oil and natural gas assets for the sole purpose of delivering reliable cash distributions. Our skills, experience and expertise ensure we focus on reducing the uncertainties and take advantage of the opportunities inherent in the oil and natural gas business.

The following pages focus on three key elements of our strategy: enhancing already high-quality assets; ensuring reliable cash distributions through ownership of quality assets; and acquiring high-quality properties.

### ASSET ENHANCEMENT IS A KEY ELEMENT OF OUR STRATEGY

One of the key benefits of being a PrimeWest Unitholder is the potential for a high rate of return on investment. We are able to offer this benefit because of asset enhancement, a key



element of our business strategy. During 1997, PrimeWest chose to invest \$15.8 million in its properties, an investment from which it has achieved significant success. With a broad portfolio of high-quality properties over which PrimeWest exerts operating control, we were able to quickly define and implement an effective enhancement program. During the year, we invested in properties that would yield the best results, and limited spending on those that were not adding value. Through our program of asset acquisition and enhancement, PrimeWest achieved significant results: reserves were increased by 12.1 million BOE; daily average production grew from 7,512 barrels of oil equivalent during the last four months of 1996 to 9,096 barrels of oil equivalent in 1997.

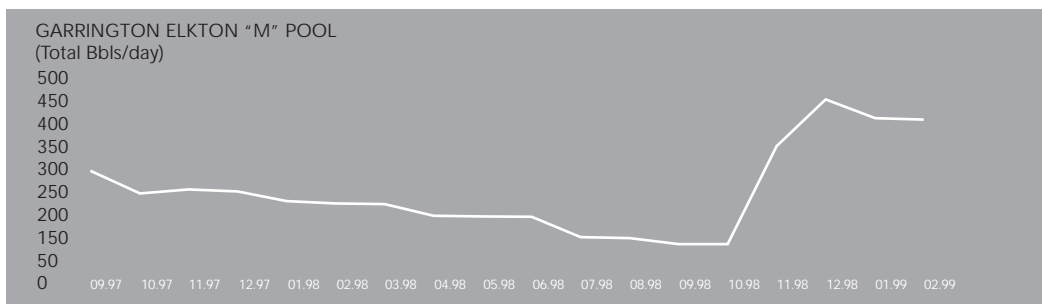
Balance is key to PrimeWest's risk management philosophy. From a balance between oil and natural gas to balancing the risk and reward of our enhancement program, everything we do is measured and directed towards ensuring the uncertainties associated with oil and natural gas are minimized to generate reliable distributions.

This chart demonstrates some of the activities that are representative of our asset enhancement strategy, and PrimeWest's ability to mitigate the natural decline in production from oil and natural gas properties.

#### PRODUCTION ENHANCEMENT AND PERFORMANCE OF KEY OPERATED PROPERTIES

	Production BOE/d		Established mBOE		1997 Program	1998 Plans
	1996	1997	1996	1997		
Kaybob	1,570	1,365	3,085	2,776	Drill 2 wells, unsuccessful Workover 23 wells	Improve waterflood
Laprise	1,035	1,171	5,895	7,284	Re-start 1 gas well Workover 4 gas wells	Modify compression
Crossfield	1,330	1,497	4,789	5,265	Re-start 3 gas wells Improve gas well liquid lift Improve hydrate control at 23 wells	Drill 2 horizontal wells
Boundary Lake	820	797	4,715	4,510	Workover 2 oil wells	Drill 2 wells
Garrington	1,144	1,093	3,748	3,915	Install larger oil well pumps Expand oil battery capacity Compressor modifications Tie-in 2 gas wells	Drill horizontal well Add compression Optimize gas wells
Caroline	732	692	5,701	5,927	Re-start oil wells	Re-start oil wells Stimulate oil and gas wells
Westward Ho	400	893	3,642	4,451	Re-start 15 wells Stimulate 4 oil wells	Improve waterflood

Productivity is a measure of the day-by-day performance of an asset. For PrimeWest, our responsibility to pay monthly distributions is paramount. Monitoring our productivity – both operationally and when enhancing assets – ensures we meet this responsibility.



DEMONSTRATED PROPERTY ENHANCEMENT

How We Increased Production

The Elkton "M" pool is a property situated within PrimeWest's Garrington field. Located mid-way between Calgary and Edmonton in central Alberta, Garrington is an established area, producing high-quality light oil and natural gas.

The Elkton "M" pool demonstrates how significant production growth can be achieved through low-risk enhancement opportunities. It is typical of the kinds of development opportunities that exist throughout the PrimeWest portfolio.

Early in 1997, PrimeWest identified potential production growth from the Elkton "M" pool. Engineering studies indicated that the installation of submersible pumps, expansion of the battery and obtaining the necessary regulatory approvals would increase production significantly. To ensure

the value potential was captured, the Elkton pool enhancement program became the highest priority in the Garrington area. The program was implemented in the fourth quarter of 1997 and the results have been very successful. Production from the Elkton "M" pool doubled. Further evidence of the success of the enhancement was reflected in the year-end reserve evaluation. This indicated a 26 percent increase in reserve volumes and a \$3.8 million increase in reserve value, up 28 percent compared to the date of acquisition. This is in addition to the \$2.0 million of cash flow extracted during 1997.

Not only has the enhancement success at the Elkton "M" pool had a substantial and positive impact on the area's reserve volume and value, but it has provided evidence that this high-quality area contains other enhancement potential.

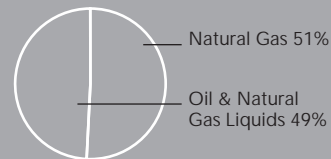
For PrimeWest, asset enhancement, means strategic investment in our existing properties to optimize production. It's unusual for a royalty trust to operate its properties, but for PrimeWest it's an important reason for our success. Control of our assets combined with our enhancement capabilities adds substantial value to our Trust, and is key to why we can consistently meet the expectations of our Unitholders.

## RELIABILITY IS ACHIEVED THROUGH QUALITY ASSETS

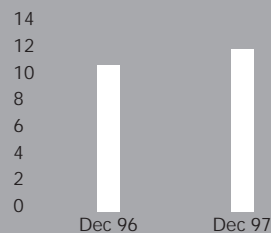
The characteristics of a high-quality oil and natural gas asset include highly productive wells that produce either light crude oil or natural gas from large accumulations of oil and natural gas. Many of PrimeWest's properties demonstrate these positive characteristics: 78 percent of reserves are derived from large pools; average productivity per well is 37 BOE per day, a rate that is above industry averages.

PrimeWest has been able to maintain the reliability of its cash distributions for two reasons. Firstly, our portfolio is balanced between oil and natural gas, which provides us with a 'natural hedge' against commodity price fluctuations and, secondly, through the addition of new reserves through property enhancement at low cost. By enhancing our already solid base of assets, PrimeWest replaced 180 percent of its 1997 production at a cost of \$3.28 per BOE, which is amongst the lowest in the industry.

1997 RESERVE BALANCE

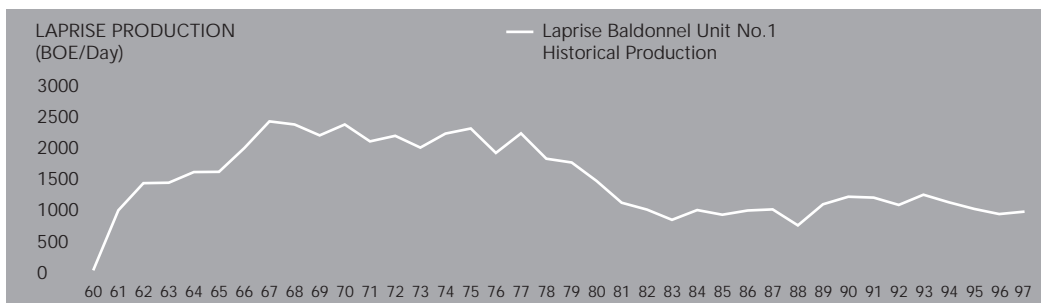


ESTABLISHED RESERVE LIFE INDEX (Years)



Durability is reflected in the quality of PrimeWest's reserves and measured by reserve life index.

Because of successful activity in 1997, PrimeWest's reserves life index increased to more than 12 years. Increasing both the life of the Company's established reserves and its production is a key measure of a high-quality operation.



## RELIABILITY OF CASH DISTRIBUTIONS

### A Case Study

#### Laprise Creek: A Steady Performing Asset

At Laprise Creek, PrimeWest realized outstanding performance in 1997. Laprise Creek is an example of an old oilpatch adage that a good quality property will offer more positive than negative surprises. Located approximately 160 kilometres north of Fort St. John, British Columbia, Laprise Creek produces high-quality, sweet natural gas and natural gas liquids from the Baldonnel formation. The property has been a long-standing performer with production dating from 1960.

For PrimeWest, the Laprise Creek property is significant, representing 15 percent of the company's total production and reserves at the beginning of 1997. To improve its production, we pursued several opportunities to modify plant facilities and perform well maintenance.

At year-end 1997, Laprise Creek was assessed at a value of \$46.4 million, an increase of nearly 20 percent. An investment of only \$1.9 million resulted in a 325 percent replacement of the reserves produced throughout 1997.

## ACQUISITIONS

PrimeWest pursues acquisitions as an opportunity to renew the cycle of asset enhancement and distribution reliability. Acquisitions add immediate and longer-term value when the assets include new opportunities to enhance value down the road. Enhancement through select capital investment will add more value to the bottom-line.

Oil and natural gas property sale prices were at a premium in 1997, limiting our ability to obtain high-quality assets for a reasonable price. More than 100 acquisition opportunities were reviewed, but only a select few offered fundamental value and enhancement capability. Those transactions were successfully completed at an efficient average cost of \$5.42 per BOE of established reserves compared to an industry average of \$6.59 per BOE.

### A Case Study: The Acquisition of a New Core Area

In early 1998, reserve acquisition costs decreased and the opportunity to acquire a property was, once again, more attractive. On March 3, 1998, PrimeWest announced a major transaction involving the investment of \$60 million to acquire 9.7 million BOE of established reserves.

Reliability is only meaningful for Unitholders when it leads to consistent regular cash distributions.

PrimeWest has built a business plan with a singular focus on ensuring that our monthly cash distributions meet the expectations we have set out for our investors.

Located in southeast Alberta, the acquisition, purchased at a very competitive price, represents a new core area on which PrimeWest will focus.

The significance of the transaction is immediate, and will have a positive impact on PrimeWest through the last ten months of 1998 and in years following. PrimeWest will operate the assets through its average working interest of 53 percent. Following its proven successful formula, we expect to add production and reserves by enhancing these assets over the next 24 months.

From a risk management viewpoint, the acquisition was also a good match with PrimeWest's corporate objectives. The acquisition shifts production to 58 percent crude oil and liquids and the reserves balance to 52 percent crude oil and liquids. The added production and reserves ensure that PrimeWest retains its balanced asset base.

A second risk management tactic incorporated in this transaction was a price collar mechanism negotiated as part of the terms of the acquisition. The collar, which provides PrimeWest with some protection against the volatility of oil

prices, ensures that oil production from the Grand Forks property will receive fixed prices in 1998 and 1999, defined within a specific range and up to a maximum payout of \$3 million.

The combined objectives of acquiring assets where PrimeWest has control and building in protection against the volatility of commodity prices are key to our strategy and particularly appropriate for a royalty trust that offers reliable distributions to its Unitholders.

#### ACQUISITION HIGHLIGHTS

- Production additions of 4,000 BOE per day, resulting in incremental cash distributions based on the outstanding 32.9 million units following the March issue of 8.0 million units.
- Additions of 9.7 million BOE to established reserves, an increase of 22 percent at a cost of \$5.19 per BOE.
- Replacement of 200 percent of estimated base production for 1998.
- Improved financial flexibility through relatively lower levels of debt and an increase in our credit facility to approximately \$120 million.

Strength is an attribute that applies to PrimeWest's underlying assets. With quality, long-life reserves and highly productive wells, PrimeWest has the strength to sustain production and provide cash for distributions over the long-term.

## Corporate Governance

### HOW PRIMEWEST MANAGES A ROYALTY TRUST TO BUILD A STRONG, HIGH-QUALITY COMPANY FOR OUR STAKEHOLDERS

Throughout PrimeWest, at all levels and in all aspects of operations, policies and practices are designed to recognize our Company's corporate responsibilities. PrimeWest touches many stakeholders: investors who own Trust units; management and employees who depend on it for their livelihoods; as well as the many suppliers and community constituents who interface with our Company at its various field locations throughout western Canada.

PrimeWest continues to actively address our responsibilities in appropriate and comprehensive ways.

### CORPORATE GOVERNANCE

PrimeWest Management Inc. provides administrative and management services to PrimeWest Energy Trust and PrimeWest Energy Inc., including the operating and administration of all oil and natural gas properties owned by PrimeWest Energy Inc.

The Board of Directors is ultimately responsible for the direction and stewardship of PrimeWest Energy Inc.

As part of its duties, the Board monitors the principal risks of the business and operations of PrimeWest Energy Inc. as well as reviews and approves:

- the acquisition of properties for a cost in excess of \$5 million and the disposition of properties for a sale price or proceeds in excess of \$2 million
- capital expenditure and operating expense budgets
- establishment of credit facilities
- risk management activities
- reclamation fund contributions
- management decisions that may have a significant impact on PrimeWest, our employees or other stakeholders

In addition, the Trustee of PrimeWest Energy Trust has delegated certain matters to the Board, including all decisions related to the approval of the issuance of additional Trust units, amendments to the management agreement and royalty agreement, as well as the annual report and all other disclosure materials sent to the Unitholders and released to the public.

The Board of Directors is made up of five members, two of whom are elected by PrimeWest Management Inc. and three of whom are

Value for PrimeWest and its Unitholders is realized in the form of total return on investment, and is the primary goal of our Company. By acquiring good-value properties and enhancing their performance, PrimeWest can create value for Unitholders through reliable cash distributions.

independent directors elected by Unitholders. The Chairman of the Board is one of the independent directors. The Board meets regularly both with and without management present.

The Board includes two committees. The Audit Committee supports the Board's stewardship responsibilities by reviewing financial and operating results. This function includes meeting with management and with the independent auditors. The Compensation Committee monitors the performance of management and administration of short and long-term incentive plans.

#### EMPLOYEE PROGRAMS

As an active operating company, PrimeWest has established competitive and extensive programs to ensure employees have the training to keep their competitive edge, the compensation structure that will motivate them and the alignment of performance rewards with the interests of Unitholders. A Trust Unit Incentive Plan is in place. It functions similar to a stock option plan and encourages employees to be Unitholders.

#### SAFETY AND ENVIRONMENT PROGRAMS

PrimeWest has 19 employees in the field along with many on-site suppliers and contract personnel. Since our inception, PrimeWest established comprehensive safety standards and procedures which include continual training and review of practices. PrimeWest employees have not had an industrial accident and we are making it a top priority to maintain this record.

The protection of the environment is taken seriously by PrimeWest and is reflected in its policies on environmental protection and funding for on-site reclamation. PrimeWest will continue to fund our well abandonment liability to ensure that the responsibility is carried equally among current and future Unitholders.

## Management's Discussion and Analysis

PrimeWest Energy Trust achieved exceptional growth and strong financial performance in 1997, surpassing expectations for average production rates and distributions paid to Unitholders. The culmination of our achievements in 1997 was distributable income of \$1.34 per unit, a full 28 percent higher than the distributable income forecast for 1997 when the Trust had its initial public offering in late 1996. This, combined with the \$0.44 per unit which was paid for the four months ended December 31, 1996, results in total distributions of \$1.78 per unit or \$44.3 million since the inception of PrimeWest.

The following discussion should be read in conjunction with the Consolidated Financial Statements of the Trust presented on pages 28 to 37. The 1997 results are discussed in relation to the results achieved for the four month period ended December 31, 1996.

### RESULTS OF OPERATIONS

#### Revenue Production Gains and A Balanced Portfolio

Revenue for 1997 totaled \$73.7 million compared to \$21.9 million for the four months of 1996. Of this amount, oil sales account for \$35.4 million, or 48 percent, natural gas sales

account for \$28.5 million or 39 percent with the remaining \$9.8 million or 13 percent from NGL and sulphur sales. This compares to 59 percent for oil sales, 28 percent for natural gas sales, and 13 percent for NGL sales in 1996. Revenues also include proceeds of \$1.05 million related to a price hedging program for our B.C. natural gas sales which expired at the end of 1997. This hedge established a floor price of \$1.35 per thousand cubic feet for 9,241 thousand cubic feet per day of natural gas production.

PrimeWest's production for 1997 averaged 9,096 BOE per day, marginally higher than 8,950 BOE per day forecast for 1997 and 21 percent higher than the 7,512 BOE per day produced in the four months of 1996.

#### PRODUCTION SUMMARY

	1997	%	1996	%
Oil (bbls/d)	3,737	41	3,372	45
Gas (mmcf/d)	42.2	46	31.4	42
NGLs (bbls/d)	1,137	13	993	13
<b>Total (BOE/d)</b>	<b>9,096</b>	<b>100</b>	<b>7,512</b>	<b>100</b>

PrimeWest Energy Trust was launched in October 1996 when the Company acquired oil and natural gas properties from Amoco Canada Petroleum for a purchase price of \$243 million. This acquisition was financed by applying net proceeds of the initial public offering of the Trust (\$231 million) and bank financing (\$12 million). Through this transaction, the Trust became entitled to 99 percent of the net cash flow generated from the oil and natural gas properties less general and administrative costs, management fees, financing costs and other expenses. The Trust also receives 99 percent of any future cash flow generated from acquisitions completed subsequent to the initial acquisition.

PrimeWest acquires mature producing oil and natural gas properties as these properties provide stable cash flows without the requirement for significant capital investment to maintain performance. However, mature properties, by their nature, will experience a natural decline in production rates over time. The challenge is to counter the effect of this natural decline. PrimeWest was successful in increasing daily production in 1997, by increasing the value of our existing properties through an intensive capital maintenance and enhancement program and by purchasing new producing oil and natural gas properties on a low cost basis.

#### PRODUCTION RECONCILIATION

	BOE/d
Average daily rate - 1996	7,512
Enhancement program	1,351
Acquisitions	1,059*
Natural decline	(826)
Average daily rate - 1997	9,096

\*based on effective date of acquisition

PrimeWest achieved average prices of \$25.93 per barrel of crude oil compared to \$30.93 per barrel in 1996; \$22.65 per barrel for its natural gas liquids compared to \$23.87 per barrel in 1996; and \$1.85 per thousand cubic feet for natural gas compared to \$1.59 per thousand cubic feet for 1996. Oil prices experienced a 16 percent decline, year over year, whereby natural gas prices were strong in both the first and fourth quarters with some seasonal price softening experienced through the second and third quarters. Oil prices have continued to weaken

in 1998 while natural gas prices have gained strength. Given PrimeWest's balanced portfolio between natural gas and oil, the steep decline in oil prices is mitigated by natural gas price strength.

#### Royalties

Royalties include oil royalties paid in kind and natural gas royalties paid in cash to the provincial governments, freehold royalties paid to landowners, and gross overriding royalties paid to industry partners. This royalty expense framework is typical in western Canada. Royalty expense totaled \$14.2 million in 1997 compared to \$3.8 million in 1996. As a percentage of revenue, royalties averaged 19 percent in 1997 compared to 17 percent in 1996. The two percent increase in royalties is due to an increase in natural gas production, year over year, as natural gas royalties are generally higher than oil royalties on a percentage basis. PrimeWest expects that, the royalty rate will continue at 19 percent for 1998. Alberta Royalty Tax Credit (ARTC) receipts in 1997 were \$25,000. This amount is not significant due to the fact that the properties acquired in our original acquisition were not eligible to receive ARTC credits. As PrimeWest acquires other properties which are eligible, the amount received for ARTC should increase in the future.

#### EXPENSES FOCUS ON COST CONTROL

Operating expenses are the largest component of expense for PrimeWest and represent the single largest cost within the Company's control. It is the opportunity to reduce operating expenses through our direct hands-on approach that will be a key factor in achieving long-term and

sustainable cash flows from these mature properties. During 1997, PrimeWest made significant progress in reducing per unit operating expenses in many of our operated areas.

Difficulties were encountered in our non-operated area, Crossfield, due to a lengthier than anticipated turnaround at the Crossfield plant and technical difficulties with the natural gas gathering system during the winter. We have embarked on a major cost study at the Crossfield plant and gathering system to ensure that cost-cutting recommendations are tabled to the plant operator. We are working to have an additional 25 mmcf per day of third party natural gas processed through the facility, reducing overall processing costs to us. In addition, effective March 1, 1998, PrimeWest became the operator of the Lone Pine Creek area which produces some of the natural gas that is processed at the Crossfield plant. These steps, along with others that we are undertaking in many of our significant operated areas, will ensure that operating costs in 1998 are controlled.

Operating costs, net of processing offsets, were \$21.3 million in 1997 compared to \$5.2 million for the four months in 1996. On a per BOE basis, operating costs were \$6.41 per BOE in 1997 compared to \$5.69 per BOE in 1996.

#### OIL AND GAS NETBACK

	1997	1996
Revenue	\$ 22.19	\$ 23.87
Royalties	(4.28)	(4.19)
Operating Expenses	(6.41)	(5.69)
Netback per BOE	\$ 11.50	\$ 13.99

#### General and Administrative Expenses

General and Administrative Expenses are another area which can be controlled by effective management of resources. As the operator of most of our significant properties, PrimeWest hires superior technical staff to ensure that our properties are continually monitored and enhancement programs carried out in a timely and consistent fashion. General and administrative costs totaled \$3.2 million in 1997 compared to \$787,000 for the four months in 1996. On a per BOE basis, general and administrative costs were \$0.96 per BOE in 1997 compared to \$0.85 per BOE in 1996. While these costs have increased on a BOE basis, we believe the costs to be within an acceptable range given the highly skilled nature of our staff. For 1998, we expect G&A costs to approximate \$1.00 per BOE.

#### Management Fees

Management Fees are paid to the manager of the Trust and PrimeWest and are based on a set percentage of cash flow. In addition, the Manager is paid a portion of the management fee in PrimeWest Trust Units, to better align the Manager's interests with those of the Unitholder and to increase overall cash flow and distributions. In 1997, management fees totaled \$1.4 million compared to \$477,000 in 1996. Of the \$1.4 million paid, \$923,000 was paid in cash and the remainder paid by the issuance of 50,037 Trust Units from treasury.

#### Interest Expense

Interest costs totaled \$2.1 million in 1997 compared to \$95,000 for the four months in 1996. Overall debt levels increased in 1997 to fund new acquisitions and capital program.

The year-end debt level was \$66.7 million compared to \$14.2 million at the end of 1996. The average cost of borrowing was 4.25 percent in 1997 compared to 5.1 percent in 1996.

#### Depletion, Depreciation and Amortization

Depletion, Depreciation and Amortization costs were \$27.9 million in 1997 compared to \$8.9 million for the four months in 1996. This expense is a measure of the capital cost of acquiring oil and natural gas properties which is charged to expense as the property generates production. This expense does not affect cash flow, however, it is important as a reflection of the Company's ability to find new reserves cost effectively. Year over year, PrimeWest's depletion and depreciation expense decreased, on a BOE basis, from \$9.72 in 1996 to \$8.41 in 1997, clearly demonstrating PrimeWest's achievements in enhancing the reserve base in a cost effective manner.

#### Site Restoration and Abandonment Costs

Site Restoration and Abandonment Costs, which are due in a future period when the wells producing oil and natural gas are fully depleted, are independently estimated and charged to expense on a unit of production basis. A total of \$1.9 million has been included in depletion, depreciation and amortization costs and reflected as a liability on the balance sheet for 1997. This compares to \$660,000 charged in 1996. In addition to the charge to earnings, PrimeWest sets aside cash to fund these future costs. At the end of 1996, the fund contained \$2.2 million and was reduced to \$1.7 million by the end of 1997 due to costs incurred in abandoning a number of wells during 1997. In 1998, the Company will set aside approximately \$0.20 per BOE to fund future

abandonment liabilities. This practice ensures that all Unitholders of the Trust, both present and future, share in liabilities being created by PrimeWest's oil and natural gas activities.

#### Income Taxes

Income Taxes are not reflected in the financial statements of the Trust as neither the Trust nor PrimeWest were taxable in 1997. One of the considerations in enhancing the level of distributions paid to Unitholders is to do so on a tax effective basis by purchasing properties that have sufficient tax basis to shelter income and to employ tax management strategies where available. As a result, all of the distributions paid in 1997 to Unitholders are considered a return of capital and are not currently taxable in the hands of the Unitholder. However, non-taxable distributions will reduce the adjusted cost base of the units, which will be a consideration when the units are ultimately sold. For 1998, it is anticipated that only 25 percent of the distributions paid in 1998 will be taxable in the hands of the Unitholder.

#### DISTRIBUTABLE CASH SIGNIFICANTLY HIGHER THAN FORECAST

Cash Available for Distribution to Unitholders totaled \$33.4 million in 1997 representing \$1.34 per unit which is significantly higher than the \$1.05 per unit forecast at the time of the Trust's initial public offering. Distributable income increased due to higher than forecasted commodity prices and higher than anticipated production resulting from our property enhancement program and property acquisitions funded by PrimeWest's line of credit.

## DISTRIBUTIONS

(per unit)	
April 15, 1997	\$0.35
July 15, 1997	\$0.30
October 15, 1997	\$0.30
January 15, 1998	\$0.35
Special Distribution	\$0.04*
Before Tax Distributions	\$1.34

\*paid January 15, 1998

The special distribution represented proceeds from the sale of certain non-producing assets and other minor dispositions.

Commencing with the February 15, 1998 distribution, the Trust will be making monthly distributions with the initial rate set at \$0.08 per unit. Adjustments will be made to the distributions on a quarterly basis if the distributable cash is greater than the distributions for the prior two months.

## NET ASSET VALUE

Net Asset Value is a measure of the 'worth' of the assets of PrimeWest and, when expressed on a per unit basis, provides an indication of the net value of the underlying assets for comparison to stock market trading value. The assets of the Company consist primarily of PrimeWest's share of oil and natural gas reserves, the value of which is established by Gilbert Laustsen Jung and Associates (GLJA), an engineering firm independent of PrimeWest.

## NET ASSET VALUE

(\$ millions)	1997	1996
Established Oil and Gas		
Reserves*	298.0	226.6
Undeveloped Land	8.4	2.3
Reclamation Fund	1.8	2.2
Working Capital	1.9	1.3
	309.9	232.4
Less: Long-Term Debt	(66.7)	(14.2)
Net Asset Value	243.2	218.2
Number of Units Outstanding	24.95	24.90
Net Asset Value per Unit	9.75	8.76
Year Over Year Increase		11%

\*discounted at 10%

It should be noted that the increase in net asset value was achieved despite a lower commodity price forecast applied at the end of 1997 compared to 1996.

## LIQUIDITY AND CAPITAL RESOURCES APPROPRIATELY LEVERAGED

PrimeWest has an interim available line of credit of \$80 million of which \$66.7 million was drawn at year end. This line is subject to bank review by June 30, 1998 and will be adjusted upward to reflect the acquisitions completed in 1997 and additional acquisitions in 1998. The bank line was utilized in 1997 to fund acquisitions totaling \$35 million and the capital enhancement program of \$15.8 million. No additional equity was raised in 1997, resulting in an overall increase in the debt-to-equity ratio to 35 percent from six percent at the end of 1996. PrimeWest considers the current debt-to-equity ratio to be appropriate and provides adequate leverage to its

Unitholders. Debt to 1997 cash flow was under two times at the end of 1997 and well within covenants established by both the bank and the Royalty Agreement.

The acquisitions completed in March 1998 will be funded by issuing an additional eight million units of the Trust for total proceeds of \$62.4 million. It is expected that the debt-to-equity ratio will be 29 percent after this financing is completed. Given our expectations concerning increases in the bank line to \$120 million, PrimeWest will have sufficient capital resources to fund its 1998 capital program (\$16-18 million) and to capitalize on property acquisition opportunities.

At December 31, 1997, working capital was \$1.8 million compared to \$1.3 million at the end of 1996.

#### BUSINESS RISKS AND OUTLOOK: MANAGING RISK AND ENHANCING VALUE

PrimeWest's results of operations and financial condition and, consequently, the amounts paid to the Trust pursuant to the Royalty Agreement are subject to a number of risk factors similar to other companies operating in the oil and natural gas industry. These risks include both factors external to the organization such as availability of capital, world economic conditions, changes in legislation, environmental concerns, commodity and foreign exchange markets and interest rates. The Company is also subject to a number of risks internally such as operational risk, production risk and capital program risk.

#### COMMODITY AND FOREIGN EXCHANGE RISK

The most significant impact on the level of distributable income is the effect of commodity prices. Prices are largely determined by supply and demand for that commodity. Many factors affect the relationship between supply and demand such as weather conditions, world economic conditions, and actions by other producing nations of the world. Prices have historically been volatile and event-driven evidenced by sudden, often unpredictable, surges or drops in prices.

PrimeWest has developed, on a collaborative basis with an industry-leading authority on risk, a commodity risk assessment and management program. This assessment sought to objectively quantify the risk related to commodity pricing embedded in PrimeWest's revenue stream. The results of the assessment indicate that there is a natural risk mitigation element within PrimeWest's unhedged production portfolio. Our balanced oil and natural gas production mix, being 54 percent oil and natural gas liquids and 46 percent natural gas in 1997, as well as the geographical markets in which we sell our products provides a 'natural hedge', which is a form of portfolio diversification.

Given PrimeWest's diversified commodity portfolio, the assessment and management program identified three basic objectives for the implementation of our risk management program.

- Effectively manage commodity price volatility to reduce cash distribution volatility;
- Continually evaluate the markets in which we sell our products to reduce overall volatility of the production portfolio;

- Effectively manage foreign exchange rates to stabilize commodity netbacks; and
- Balance these objectives with retaining substantial upside potential for Unitholders.

PrimeWest intends to manage these objectives by entering into, from time to time, commodity hedge transactions, forward exchange contracts, or the use of other derivative instruments. As a principle, PrimeWest will continue to base budgets and forecasts on forward market curves and to focus on short term risk management activity, which will still provide significant medium and long-term exposure to commodity prices.

Foreign exchange rate is an important variable in determining distributions. Since crude oil prices are denominated in U.S. dollars, PrimeWest receives a Canadian dollar revenue stream each month from crude sales tied directly to the U.S. and Canadian dollar exchange rate. When the Canadian dollar moves lower in relative value to the U.S. dollar, PrimeWest's revenue received from oil sales increases in Canadian dollar terms. Conversely, when the Canadian dollar moves higher in relative value to the U.S. dollar, PrimeWest's revenue decreases.

#### PRODUCTION HEDGING SUMMARY

for 1998 and 1999

##### Natural Gas Forward Sales

April 98	April 99	2,500GJ/d @\$2.12/mcf
April 98	Oct 98	2,000GJ/d @\$1.82/mcf
April 98	Oct 98	4,000GJ/d @\$1.65/mcf floor

##### Crude Oil Price Collar

1998	2,776 bbl/d	\$18.51 per bbl (field) with \$3.00 per bbl collar
1999	2,304 bbl/d	\$21.14 per bbl (field) with \$3.00 per bbl collar

##### Foreign Exchange

1998	Fixed U.S.\$1 million per month at \$0.704 U.S./Cdn.
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#### PRODUCTION RISK

PrimeWest looks for low risk investment opportunities in properties that are currently providing a stable level of cash flow but can be enhanced by increasing production and reserves with low risk capital. The success of this strategy was clearly demonstrated in 1997 with substantial reserve additions made from both acquisitions and capital activity, at an overall cost of \$4.47 per BOE. However, there remains a risk that these reserves will not be ultimately recovered. PrimeWest mitigates this risk by taking a hands-on approach to operating our major properties, employing superior technical staff, utilizing senior level experience and gaining an in-depth understanding of our properties. We ensure that capital is appropriately spent by applying strict economic criteria for production and reserve additions before funds are committed.

## YEAR 2000

All businesses that rely on date-sensitive hardware or software in their operating activities are subject to risk of system slow down or failure at the dawn of the 21st century. PrimeWest has retained the services of an outside agency to assist us in identifying the hardware, software and systems that are not Year 2000 compliant and planning the course to ensuring that these systems are made compliant. Phase 1 consists of a complete inventory of all date-sensitive systems, hardware and applications both in the Calgary office and all of the operated field locations. Phase 2 will map out, and put into action, strategies to convert or replace non-compliant systems. Phase 1 is scheduled to be completed by June 30, 1998 and Phase 2 is scheduled to be completed no later than September 1999.

Given that PrimeWest has only been in operation for 19 months, we are not expecting significant concerns with our current hardware and operating systems. All systems supporting accounting and land applications are supplied by third-party vendors who have confirmed that work is underway to make their systems compliant. More significant risk is seen in the field locations which rely on data gathering systems that have been in existence for many years. The extent of the actions required to convert these systems will be known by June 30, 1998 at the conclusion of Phase 1 of the review. Sufficient funds have been set aside in the budget for 1998 to fund system conversions or replacements where non-compliance is discovered.

## OUTLOOK

PrimeWest confidently enters 1998 with a successful first year completed and active plans for 1998 capital enhancement. PrimeWest expects to spend \$16 million to \$18 million in 1998 on improving the production and reserve value of existing properties. In addition, with the completion of the property acquisitions in March 1998, PrimeWest expects to add 4,000 BOE per day of production in 1998, averaging 13,000 BOE per day in 1998.

## CASH FLOW SENSITIVITIES

Commodity Price Changes		Impact Per Unit
Crude Oil	(U.S.\$1.00/bbl)	
	Within collar	\$0.05
	Outside collar	\$0.09
Natural Gas	(\$0.10/mcf)	\$0.05
Financial Changes		
Interest Rate	(1%)	\$0.02
Exchange Rate	(U.S.\$0.01) (with hedge)	\$0.02

## Management's and Auditors' Reports

### MANAGEMENT'S RESPONSIBILITY STATEMENT

The consolidated financial statements of PrimeWest Energy Trust were prepared by, and are the responsibility of, the management of PrimeWest Management Inc. as agreed in the Management Agreement between PrimeWest, the Manager and the Trust. These statements have been prepared in accordance with accounting principles generally accepted in Canada. The financial and operating information presented in this annual report is consistent with that shown in the consolidated financial statements.

Management has designed and maintains a system of internal controls to safeguard assets and to ensure that transactions are properly authorized and recorded and form part of these financial statements. Where estimates are used in the preparation of these financial statements, management has ensured that careful judgment has been made and that these estimates are reasonable based on all information known at the time the estimate is made.

The Board of Directors of PrimeWest is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements. The Board carries out this responsibility through the Audit Committee which is comprised of the independent directors of the Board.

The Manager, with the approval of the Board of Directors, has appointed the external audit firm of Coopers & Lybrand to examine the corporate and accounting records of PrimeWest and the Trust in order to express their opinion on the consolidated financial statements. The auditors have full and unrestricted access to the Audit Committee to discuss their findings.



**KENT J. MACINTYRE**

*Vice Chairman and Chief Executive Officer*



**SUSAN M. DUNCAN**

*Vice President, Finance*

## AUDITORS' REPORT

To the Unitholders of PrimeWest Energy Trust

We have audited the consolidated balance sheets of PrimeWest Energy Trust as at December 31, 1997 and 1996 and the consolidated statements of income and Unitholders' equity, cash available for distribution to Unitholders and changes in financial position for the year ended December 31, 1997 and for the period from August 2, 1996, the date of declaration of trust, to December 31, 1996. These financial statements are the responsibility of the management of the Trust. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 1997 and 1996 and the results of its operations and the changes in its financial position for the year then ended and the period from August 2, 1996, date of declaration of trust, to December 31, 1996 in accordance with generally accepted accounting principles.

The logo for Coopers & Lybrand, featuring the company name in a stylized, cursive script font.

**COOPERS & LYBRAND**  
*Chartered Accountants*

**MARCH 20, 1998**  
*Calgary, Alberta*

## Consolidated Balance Sheets

	As At December 31 1997 \$	As At December 31 1996 \$
<b>ASSETS</b>		
Current Assets		
Cash & Short-Term Investments	10,713,258	7,122,387
Accounts Receivable	14,082,138	9,953,767
Prepaid Expenses	1,130,986	814,507
	<u>25,926,382</u>	<u>17,890,661</u>
Cash Reserved for Site Restoration & Reclamation (Note 5)	1,738,034	2,223,390
Capital Assets (Note 3)	258,100,470	234,365,736
	<u>285,764,886</u>	<u>254,479,787</u>
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
Current Liabilities		
Accounts Payable & Accrued Liabilities	13,353,224	4,116,854
Accrued Distributions to Unitholders	9,730,514	10,956,000
Due to Related Parties (Note 8)	891,124	1,510,023
Current Portion of Long-Term Debt (Note 4)	106,437	-
	<u>24,081,299</u>	<u>16,582,877</u>
Long-Term Debt (Note 4)	66,722,719	14,228,246
Site Restoration & Reclamation Provision	1,597,034	163,390
	<u>92,401,052</u>	<u>30,974,513</u>
Unitholders' Equity	193,363,834	223,505,274
	<u>285,764,886</u>	<u>254,479,787</u>

Signed on behalf of the Board,



**HAROLD P. MILAVSKY**

Director



**KENT J. MACINTYRE**

Director

## Consolidated Statements of Income and Unitholders' Equity

	Year Ended December 31, 1997	For the Period from August 2, 1996 to December 31, 1996
	\$	\$
<b>REVENUES</b>		
Sales of Oil, Natural Gas, Natural Gas Liquids & Sulphur	73,659,775	21,879,947
Crown & Other Royalties	(14,224,221)	(3,838,034)
Other Income	157,065	1,490
	<u>59,592,619</u>	<u>18,043,403</u>
<b>EXPENSES</b>		
Operating	21,270,162	5,217,840
General & Administrative	3,173,307	787,020
Structuring Fee	535,000	535,000
Management Fees	1,395,733	477,115
Interest	2,139,974	95,359
Depletion, Depreciation & Amortization	27,908,371	8,917,550
	<u>56,422,547</u>	<u>16,029,884</u>
Net Income for the Period	<u>3,170,072</u>	<u>2,013,519</u>
Unitholders' Equity - Beginning of Period	223,505,274	-
Capital Contributions (Note 6)	503,495	249,000,100
Cost of Issuing Trust Units (Note 6)	(73,369)	(16,442,892)
Cash Distributions	(33,408,646)	(10,956,000)
Dividends	(332,992)	(109,453)
Unitholders' Equity - End of Period	<u>193,363,834</u>	<u>223,505,274</u>

## Consolidated Statements of Cash Available for Distribution

	Year Ended December 31, 1997	For the Period from August 2, 1996 to December 31, 1996
	\$	\$
<b>REVENUES</b>		
Sales of Oil, Natural Gas, Natural Gas Liquids & Sulphur	73,659,775	21,879,947
Crown & Other Royalties	(14,224,221)	(3,838,034)
Other Income	157,065	1,490
	<u>59,592,619</u>	<u>18,043,403</u>
<b>EXPENSES</b>		
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Depletion, Depreciation & Amortization	27,908,371	8,917,550
	<u>56,422,547</u>	<u>16,029,884</u>
Net Income for the Period	<u>3,170,072</u>	<u>2,013,519</u>
Add Back (Deduct) Amounts to reconcile to		
Cash Available for Distribution		
Depletion, Depreciation & Amortization	27,908,371	8,917,550
Reserve to Fund Future Production Costs	641,855	(541,902)
Proceeds on Dispositions	1,018,342	-
Structuring Fee	535,000	535,000
Management Fees Payable by the Issuance of Trust Units	472,469	142,500
	<u>30,576,037</u>	<u>9,053,148</u>
Cash Available for Distribution	<u>33,746,109</u>	<u>11,066,667</u>
Cash Available to Trust Unitholders (99%)	<u>33,408,648</u>	<u>10,956,000</u>
Cash Available for Distribution per Trust Unit	1.34	0.44

## Consolidated Statements of Changes in Financial Position

	Year Ended December 31, 1997	For the Period from August 2, 1996 to December 31, 1996
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net Income for the Period	3,170,072	2,013,519
Add: Items not Requiring an Outlay of Cash		
Depletion, Depreciation & Amortization	27,908,371	8,917,550
Funds from Operations	31,078,443	10,931,069
Change in Non-Cash Working Capital	4,172,621	(5,141,397)
	35,251,064	5,789,672
<b>FINANCING ACTIVITIES</b>		
Proceeds from Issue of Trust Units (Net of Costs)	430,126	232,557,208
Cash Distributions to Unitholders	(33,408,646)	(10,956,000)
Dividends	(332,992)	(109,453)
Increase in Long-Term Debt	52,600,910	14,228,246
Change in Non-Cash Working Capital	(1,225,486)	10,956,000
	18,063,912	246,676,001
<b>INVESTING ACTIVITIES</b>		
Expenditures on Capital Assets	(15,771,669)	(1,036,336)
Acquisition of Oil & Gas Assets	(35,048,615)	(241,586,950)
Proceeds on Disposal of Oil & Gas Assets	1,096,179	-
Cash Utilized (Reserved) for Site Restoration & Reclamation	485,356	(2,223,390)
Expenditures on Site Restoration & Reclamation	(485,356)	(496,610)
	(49,724,105)	(245,343,286)
Increase in Cash & Short-Term Investments for the Period	3,590,871	7,122,387
Cash & Short-Term Investments, Beginning of Period	7,122,387	-
Cash & Short-Term Investments, End of Period	10,713,258	7,122,387

## Notes to Consolidated Financial Statements

for the Year Ended December 31, 1997

### 1. STRUCTURE OF THE TRUST

PrimeWest Energy Trust ("The Trust") is a closed-end investment trust formed under the laws of Alberta pursuant to a declaration of trust dated August 2, 1996. The beneficiaries of the Trust are the holders of the trust units (the "Unitholders"). Operations of the Trust consist of acquiring and holding, as the Trust's principal asset, a Royalty entitling the Trust to receive 99 percent of the net cash flows generated by PrimeWest Energy Inc. ("PrimeWest") from its oil and natural gas properties. Operations for PrimeWest effectively commenced on September 1, 1996, the date on which the initial oil and natural gas assets were acquired.

PrimeWest acquires oil and natural gas properties for its own account, and sells a Royalty to the Trust. The Royalty acquired from PrimeWest effectively transfers substantially all of the economic interest in the properties acquired by PrimeWest to the Trust.

Pursuant to a management agreement between PrimeWest, the Trust and PrimeWest Management Inc. ("The Manager"), the Manager is responsible for the administration of the Trust, the management of the business affairs of PrimeWest and the operation of the properties acquired by PrimeWest. The Manager is paid management fees by the Trust and PrimeWest for its services. The shares of PrimeWest are wholly-owned by the Manager and the Manager is controlled by a director of PrimeWest Energy Inc.

### 2. ACCOUNTING POLICIES

These consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimated.

#### Consolidation

These consolidated financial statements include the accounts of the Trust and PrimeWest. Although there is no legal ownership between these entities, the Trust, through the Royalty, obtains substantially all of the economic benefits of the operations of PrimeWest. In addition, the Unitholders of the Trust elect the majority of the Board of Directors of PrimeWest. The accounts of the Manager are not included in these financial statements.

#### Capital Assets

PrimeWest follows the full cost method of accounting. All costs of acquiring oil and natural gas properties and related development costs are capitalized and accumulated in one cost centre. Maintenance and repairs are charged against earnings and renewals and enhancements which extend the economic life of the property, plant and equipment are capitalized.

Gains and losses are not recognized on disposition of oil and natural gas properties unless that disposition would alter the rate of depletion by 20 percent or more.

#### i) Ceiling Test

PrimeWest places a limit on the aggregate cost of capital assets which may be carried forward for amortization against revenues of future periods (the "ceiling test"). The ceiling test is a cost recovery test whereby the capitalized costs less accumulated depletion and site restoration are limited to an amount equal to estimated undiscounted future net revenues from proved reserves less recurring general and administrative expenses, site restoration, management fees, future financing costs and applicable income taxes. Costs and prices at the balance sheet date are used. Any costs carried on the balance sheet in excess of the ceiling test limitation are charged to earnings.

#### ii) Site Restoration & Reclamation Provision

PrimeWest provides for the cost of future site restoration and reclamation based on estimates by management using the unit of production method. Actual site restoration costs are charged against the accumulated liability. PrimeWest places cash in reserve to fund actual expenditures as they are incurred (see Note 5).

#### iii) Depletion, Depreciation & Amortization

The provision for depletion and depreciation is calculated on the unit of production basis based on proved reserves before royalties. Depreciation of major facilities is provided on a straight-line basis over the estimated useful life of the facilities. Reserves are estimated by independent petroleum engineers. Reserves are converted to equivalent units on the basis of approximate relative energy content.

Depreciation and amortization of head office furniture and equipment is provided for at rates ranging from 10 percent to 30 percent.

#### Joint Venture Accounting

PrimeWest conducts substantially all of its oil and natural gas production activities on a joint venture basis and the accounts reflect only PrimeWest's proportionate interest in such activities.

#### Income Taxes

The Trust is an inter vivos trust for income tax purposes. As such, the Trust is subject to tax on any taxable income which is not allocated to the Unitholders. No accounting for deferred income taxes is provided in these consolidated financial statements as all taxable income, if any, is allocated to the Unitholders.

Periodically current taxes may be payable by PrimeWest, depending upon the timing of income tax deductions. Should these taxes prove to be unrecoverable, they will be deducted from royalty income in accordance with the Royalty Agreement.

#### Financial Instruments

PrimeWest uses financial instruments to manage its exposure to commodity price and foreign currency exchange rate fluctuations. PrimeWest does not use financial instruments for speculative trading purposes and accordingly, they are accounted for as hedges. Gains and losses on hedging activity are reflected in revenue at the time of sale of the related hedged production or when the monthly exchange contract expires.

## 3. CAPITAL ASSETS

	1997			1996		
	Cost	Accumulated Depletion, Depreciation & Amortization	Net Book Value	Cost	Accumulated Depletion, Depreciation & Amortization	Net Book Value
Property Acquisition:						
Oil & Gas Rights	\$259,221,711	\$30,818,498	\$228,403,213	\$228,403,328	\$7,787,434	\$220,620,894
Production						
Facilities &						
Equipment	16,446,762	1,793,261	14,653,501	13,178,619	410,046	12,768,573
Drilling & Completion	8,877,315	820,754	8,056,561	408,127	13,955	394,172
Production						
Facilities &						
Equipment	6,750,119	585,353	6,164,766	109,068	3,430	105,638
Head Office Furniture						
& Equipment	1,051,484	229,055	822,429	519,144	42,685	476,459
	\$292,347,391	\$34,246,921	\$258,100,470	\$242,623,286	\$8,257,550	\$234,365,736

Undeveloped land costs of \$8,449,000 (1996 - \$2,321,000) are excluded from costs subject to depletion and depreciation.

## 4. LONG-TERM DEBT

	1997	1996
Revolving Credit Facility	\$ 66,386,135	\$ 14,228,246
Capital Lease Obligation	336,584	
	\$ 66,722,719	\$ 14,228,246

PrimeWest has a revolving credit facility in the amount of \$80,000,000, which is reduced by outstanding letters of credit in the amount of \$507,000. On December 30, 1997 PrimeWest, The Trust and the lender entered into an amending agreement which resulted in the Trust becoming a co-borrower under the existing revolving credit facility, with a guarantee provided by PrimeWest. Collateral for the credit facility is provided by a floating charge debenture in the principal amount of \$100,000,000.

Interest payable in respect of the credit facility is a function of the lender's prime rate, United States base rate, adjusted interbank deposit rate or the lender's usual stamping fee or discount rate, depending on the form of borrowing by PrimeWest.

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The credit facility will revolve until June 30, 1998 by which time the lender will have conducted its annual review. The lender has confirmed that it fully expects to extend the revolving period for a further 365 days. During this phase, the facility has no specific terms of repayment. If the lender converts the revolving facility to a non-revolving facility, the amounts outstanding under the facility become repayable in ten equal semi-annual installments commencing six months from the maturity date of the facility. The Manager does not expect the lender to require any principal repayments within the next year.

During 1997, PrimeWest entered into a capital lease in an amount of \$471,328, to finance the purchase of field equipment. The lease bears interest at 5 percent and matures on September 2002.

PrimeWest has the option, in May 2002, to purchase the asset for ten percent of the lease cost. Payments on the lease, including principal and interest, total \$106,347 per year in each of the next five years.

#### 5. CASH RESERVE FOR SITE RESTORATION & RECLAMATION

In 1996 an amount of \$2,720,000 was contributed by PrimeWest to this reserve representing 1996 and 1997 funding contributions. Actual costs of site restoration and abandonment totaling \$485,356 (1996 - \$496,610) were paid out of this reserve for the year ended December 31, 1997 resulting in a balance of \$1,738,034 (1996 - \$2,223,390). For 1998 and future years, the funding of this reserve will reduce cash available for distribution to Unitholders.

#### 6. UNITHOLDERS' EQUITY

##### Authorized

The authorized capital of the Trust consists of an unlimited number of Trust Units.

##### Trust Units Issued

	Number of Units	Amount
Issued for Cash	24,900,000	\$249,000,100
Issue expenses	-	(16,442,892)
<u>Balance, December 31, 1996</u>	<u>24,900,000</u>	<u>232,557,208</u>
Issued for Payment of Management Fees	50,037	503,495
Issue expenses	-	(73,369)
<u>Balance, December 31, 1997</u>	<u>24,950,037</u>	<u>\$232,987,334</u>

The weighted average number of units outstanding in 1997 was 24,931,385 (1996 - 24,900,000).

##### Cash Distributions

Cash distributions represent the cash received by the Trust from PrimeWest in payment of the Royalty. Distributions were paid quarterly to the Unitholders in 1997.

##### Reserves

Pursuant to a Royalty Agreement between the Trust and PrimeWest, PrimeWest may establish the following reserves:

##### i) Reserve to Fund Future Production Costs

This reserve must be used to pay operating expenses in a future period or, should the funds not be required for this purpose, the Unitholder shall be entitled to 99 percent of these funds. At December 31, 1997 the reserve was fully depleted and \$99,953 was drawn on the revolving credit facility to fund cash distributions (1996 - \$541,902 reserve outstanding).

ii) Reserve to Hold Certain Excess Revenues

A reserve will be established if other revenues exceed total revenues by ten percent or more. For the periods ended December 31, 1997 and 1996 no excess revenue was generated and therefore no reserve has been established.

7. TRUST UNIT INCENTIVE PLAN

Under the terms of the Trust Unit Incentive Plan, a maximum of 2,490,000 Trust Units are reserved for issuance in Unit Appreciation Rights to certain employees, key management and directors. No options to purchase Trust Units will be issued under this plan. Unit Appreciation Rights have a term of up to six years and vest equally over a three year period.

At December 31, 1997 there were 1,653,520 Unit Appreciation Rights granted at prices ranging from \$8.75 to \$11.15 per Unit Appreciation Right. Of the Unit Appreciation Rights granted, 362,100 are available to be exercised as at December 31, 1997.

8. RELATED PARTY TRANSACTIONS

For the year ended December 31, 1997, the Manager received management fees of \$1,395,733 (1996 - \$477,115). Of this amount, \$923,264 was paid in cash (1996 - \$334,615) and the balance was paid by the issuance of Trust Units from Treasury.

Acquisition and disposition fees paid to the Manager during 1997 in the amount of \$515,723 (1996 - nil), are capitalized as part of the cost or net proceeds relating to oil and natural gas properties acquired or disposed.

The Manager is also entitled to an annual fee of \$535,000 for each of the first two years of the management term. This obligation was paid by the Trust in advance in a single \$1,070,000 payment on closing from the proceeds of the public offering, and recorded as a prepaid expense at that time. This was fully amortized to expense during 1997.

The Manager is entitled to receive a one percent retained royalty from the net cash flow from the properties and is paid by dividend from PrimeWest to the Manager. This amounted to \$332,992 for 1997 (1996 - \$109,453).

As at December 31, 1997, the Trust and PrimeWest owed \$891,124 (1996 - \$1,510,023) to the Manager for reimbursement of general and administrative and other costs incurred by the Manager on behalf of the Trust and PrimeWest.

9. INCOME TAXES

The Trust, and consequently the Unitholders of the Trust, had no taxable income for 1997 and 1996 as the Trust calculates its taxable income on a cash basis and the Trust's tax pool deductions available were sufficient to reduce taxable income to nil.

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PrimeWest also had no taxable income for 1997 and 1996 as tax pool deductions and the Royalty payable were sufficient to reduce taxable income to nil.

10. FINANCIAL INSTRUMENTS

i) Commodity price risk management

PrimeWest generally sells its oil and natural gas under short-term market-based contracts. Occasionally, derivative financial instruments, options and swaps may be used to hedge the impact of oil and natural gas price fluctuations.

## ii) Foreign exchange rate risk management

PrimeWest is exposed to foreign currency fluctuations on its operations to the extent crude oil prices received are referenced to United States dollar denominated prices. At December 31, 1997, PrimeWest had entered into a foreign exchange swap agreement with a Canadian chartered bank, effective January 1, 1998, to hedge approximately two-thirds of its budgeted oil production, by fixing the exchange rate at \$1.42 (\$Cdn./\$U.S.) based on a notional principal amount of U.S. \$1 million per month.

## iii) Fair value of financial instruments

Financial instruments include cash and short-term investments, accounts receivable, accounts payable and accrued liabilities, long-term debt and the foreign exchange hedge. As at December 31, 1997 and 1996, the fair market value of the financial instruments, other than long term debt and foreign exchange hedge approximate their carrying value due to the short-term maturity of these instruments. The fair value of long-term debt approximates its carrying value due to the cost of borrowing approximating the market rate for similar borrowings. The fair value of the foreign exchange swap at December 31, 1997 was a loss of \$42,000.

## 11. SUBSEQUENT EVENTS

On March 3, 1998 the Trust announced that PrimeWest entered into two separate agreements to purchase oil and natural gas properties for a purchase price totaling \$60,200,000. The agreements are effective January 1, 1998 and March 1, 1998.

As part of the acquisitions, PrimeWest has entered into an oil price collar which will provide for oil price stability on approximately 88 percent of the acquired oil production for a period of two years, commencing January 1, 1998. The oil price collar agreement fixes the field oil price received or paid, within established price collar thresholds, based on a notional fixed volume in barrels per day and limits the payout to either party to \$3,000,000 over the two year period. Details of the oil price collar are:

Year	Quantity (bbls/d)	Fixed Price (\$/bbl)	Collar Thresholds (\$/bbl)	
			Low	High
1998	2,776	\$18.51	\$15.51	\$21.51
1999	2,304	\$21.14	\$18.14	\$24.14

Concurrently, the Trust entered into an agreement with a syndicate of underwriters to issue eight million trust units at a price of \$7.80 per unit to raise net proceeds of approximately \$59,100,000 which will be used to finance the acquisitions. On March 13, 1998 the Trust filed a final prospectus with respect to this issue of Trust units.

## Biographies

### MANAGEMENT AND BOARD OF DIRECTORS

Ronald Ambrozy, P. Eng., Vice President, Business Development

Since 1975, Mr. Ambrozy has been involved in the oil and gas industry, and for the last ten years has been instrumental in evaluating and completing more than \$1 billion in property transactions during his career. Mr. Ambrozy has held senior management positions both domestically and internationally.

Susan M. Duncan, B. Comm., CA, Vice President, Finance

Ms. Duncan has been responsible for the establishment of the Company's accounting and related systems, and is responsible for all of its accounting, finance and reporting requirements. Ms. Duncan was in public practice with Coopers & Lybrand for ten years before pursuing a corporate accounting career.

Barry E. Emes LL.B., Independent Member of the Board of Directors

Mr. Emes is Managing Partner of the Calgary office of Stikeman, Elliot and a partner in the firm's corporate/commercial group. His practice has included lead involvement in several significant transactions, including acting as counsel to borrowers and lenders in substantial financings, as counsel to sellers and purchasers with respect to the acquisition and disposition of shares and other assets, and as counsel to independent committees and financial advisors with respect to take-overs.

Allan F. Kiernan, P. Eng., Vice President, Production

Mr. Kiernan has more than 34 years of experience in petroleum engineering and production operations. Mr. Kiernan was most recently Senior Vice President at AEC Oil and Gas, a division of Alberta Energy Company Ltd., where he was responsible for drilling, production and natural gas storage operations, as well as development activities. Prior to joining AEC, Mr. Kiernan was Senior Vice President, Production for Chieftain Development Co. Ltd. Before joining Chieftain, he worked at Hudson's Bay Oil & Gas Company Limited and Dome Petroleum Limited.

Harold N. Kvisle, P. Eng., MBA, Independent Member of the Board of Directors

Mr. Kvisle is President of Fletcher Challenge Energy Canada, a Calgary oil and gas exploration and production company. Mr. Kvisle acts as a director of several companies within the Fletcher Challenge Group, in addition to PrimeWest.

Kent J. MacIntyre, MBA, Chief Executive Officer and Director

Mr. MacIntyre has more than 18 years of experience in the oil and natural gas industry, the last nine years as principal to the capitalization, start-up and management of several junior energy companies including Olympia Energy Ventures Ltd. and Triad Energy Inc. He currently serves as a director of Citadel Diversified Investment Trust, Talon Petroleum Ltd., Richillont Resources Ltd. and Triad Resources Ltd.

Harold P. Milavsky, Chairman and Independent Member of the Board of Directors

Mr. Milavsky is the Chairman of Quantico Capital Corp., a privately-held company engaged in merchant banking, principal investments and acquisitions. In addition to PrimeWest, he also serves as Director to many leading corporations including Citadel Diversified Management Ltd., Encal Energy Inc., ENMAX Corporation, NOVA Corporation, Telus Corporation and TRL Realty Ltd. Mr. Milavsky served as President and CEO of Trizec Corporation Ltd, from 1976 to 1986 and Chairman from 1986 to 1993.

Jacob Roorda, P. Eng., MBA, Vice President, Corporate Development and Director

Mr. Roorda has 19 years of engineering, financial and general management experience in the oil and natural gas industry. Before joining PrimeWest, Mr. Roorda held senior management positions at Fletcher Challenge Energy Canada where his responsibilities included the evaluation of more than \$1 billion and the closing of more than \$400 million in oil and natural gas asset transactions.

## Statistical Summary

### Laprise Creek at a Glance

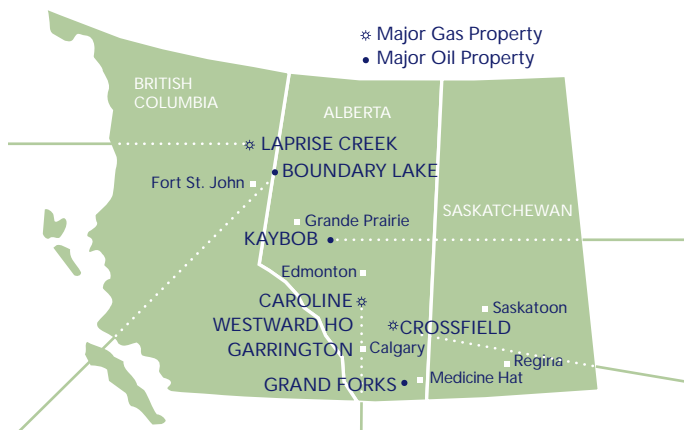
Description: Sweet gas and NGLs  
 Date Acquired: September 1996  
 1997 Daily Oil Equivalent Production: 1,171 BOE/d  
 Average Working Interest: 87%  
 Percentage Operated by PrimeWest: 100%  
 Remaining Established Reserves: 7,283 MBOE  
 Reserve Life Index: 17.0 years  
 Remaining Economic Life: 29 years

### Boundary Lake at a Glance

Description: Sweet, light gravity oil, with solution gas and NGLs  
 Date Acquired: September 1996  
 1997 Daily Oil Equivalent Production: 797 BOE/d  
 Average Working Interest: 20%  
 Percentage Operated by PrimeWest: 90%  
 Remaining Established Reserves: 4,510 MBOE  
 Reserve Life Index: 15.5 years  
 Remaining Economic Life: 50 years

### Garrington/Caroline/Westward Ho

Description: Sweet and sour, light gravity oil with solution gas and NGLs  
 Date Acquired: September 1996  
 1997 Daily Oil Equivalent Production: 2,678 BOE/d  
 Average Working Interest: 69%  
 Percentage Operated by PrimeWest: 90%  
 Remaining Established Reserves: 14,196 MBOE  
 Reserve Life Index: 14.5 years  
 Remaining Economic Life: 43 years



### Reserves Summary

	Crude Oil (Mbbbl)	Natural Gas (Mmcf)	Natural Gas Liquids (Mbbbl)	Sulphur (Mlt)	Total Reserves (MBOE)	Reserve Life Index
As of December 31, 1997						
Proved Producing	11,246	154,591	3,613	632	30,197	
Total Proved	12,303	184,099	4,563	720	35,156	
Probable	5,874	86,306	4,330	224	18,799	
Total Proved and Probable	18,177	270,405	8,893	944	53,955	
Established: December 31, 1997	15,240	227,252	6,728	832	44,556	12.2
Established: December 31, 1996	12,562	190,974	4,500	638	36,159	11.1
% Increase	+21%	+19%	+50%	+30%	+23%	

### 1997 Established Reserve Reconciliation

	Oil Equivalent (MMBOE)
As of December 31, 1996	36.1
Capital Additions	4.8
Technical Revisions	1.3
Acquisitions	6.0
Dispositions	(0.2)
Production	(3.3)
As of December 31, 1997	44.6

### Oil Reserves by Major Property (Mstb)

Major Property	Proven	Probable	Established
Crossfield	241	62	272
Kaybob South	2,066	796	2,464
Laprise Creek	0	0	0
Garrington/Westward Ho/Caroline	2,857	2,553	4,134
Boundary Lake	3,808	1,289	4,453
Others	3,330	1,173	3,917
<b>TOTAL</b>	<b>12,303</b>	<b>5,874</b>	<b>15,240</b>

### Kaybob at a Glance

Description: Sour, light gravity oil, NGL's and Solution Gas  
 Date Acquired: September 1996  
 1997 Daily Oil Equivalent Production: 1,365 BOE/d  
 Average Working Interest: 28%  
 Percentage Operated by PrimeWest: 100%  
 Remaining Established Reserves: 2,776 MBOE  
 Reserve Life Index: 5.6 years  
 Remaining Economic Life: 21 years

1998 Southeast Alberta Acquisition			
Reserves (million BOE)	Proved	Probable	Established
Oil/NGL	4.95	3.02	6.46
Natural Gas	2.72	0.99	3.22
<b>Total</b>	<b>7.67</b>	<b>4.01</b>	<b>9.67</b>

1998 Estimated Production			
Effective March 1/1998	Grand Forks	Medicine Hat	Total
Oil/NGL (bbl/d)	2,805	462	3,267
Natural Gas (mcf/d)	161	7,719	7,880
<b>Total BOE/d</b>	<b>2,821</b>	<b>1,234</b>	<b>4,055</b>

### Crossfield at a Glance

Description: Sour gas and NGL's  
 Date Acquired: September 1996  
 1997 Daily Oil Equivalent Production: 1,496 BOE/d  
 Average Working Interest: 60%  
 Percentage Operated by PrimeWest: 100%  
 Remaining Established Reserves: 5,264 MBOE  
 Reserve Life Index: 9.6 years  
 Remaining Economic Life: 50 years

Southeast Alberta Reserve Acquisition				
January 1, 1998 (\$000's)	Discounted @0%	Discounted @10%	Discounted @12%	Discounted @15%
Proved Producing	\$ 60,184	\$ 49,779	\$ 47,477	\$ 44,312
Total Proved	\$ 69,288	\$ 54,482	\$ 51,682	\$ 47,898
Probable	\$ 49,770	\$ 21,470	\$ 18,808	\$ 15,659
Total Proved and Probable	\$ 119,058	\$ 75,952	\$ 70,490	\$ 63,557
Established	\$ 94,173	\$ 65,217	\$ 61,086	\$ 55,727

### Natural Gas Reserves by Major Property (Mmcf)

Major Property	Proven	Probable	Established	Established BOE Total
Crossfield	35,970	14,931	43,436	4,344
Kaybob South	1,484	562	1,765	177
Laprise Creek	51,674	11,787	57,568	5,757
Garrington/Westward Ho/Caroline	48,343	40,820	68,754	6,875.4
Boundary Lake	316	97	365	37
Others	46,311	18,110	55,366	5,536.6
<b>TOTAL</b>	<b>184,099</b>	<b>86,306</b>	<b>227,252</b>	<b>22,725</b>

### Natural Gas Liquids by Major Property (Mstb)

Major Property	Proven	Probable	Established
Crossfield	462	373	649
Kaybob South	115	40	135
Laprise Creek	687	1,680	1,527
Garrington/Westward Ho/Caroline	2,353	1,956	3,330
Boundary Lake	18	5	20
Others	930	277	1,067
<b>TOTAL</b>	<b>4,563</b>	<b>4,330</b>	<b>6,728</b>

### Acreage Summary - Undeveloped Land

December 31, 1997	Gross Acres	Net Acres	Net Undeveloped Value (\$000's)
Alberta	210,530	142,451	8,187,950
British Columbia	12,726	8,430	263,600
<b>TOTAL</b>	<b>223,256</b>	<b>150,881</b>	<b>8,450,550</b>

### Present Worth of Reserves December 31, 1997 (\$ million)

	Discounted @0%	Discounted @10%	Discounted @12%	Discounted @15%
Proved Producing	405.2	205.5	187.8	166.7
Total Proved	465.1	240.6	219.1	193.3
Probable	324.5	114.9	98.5	79.9
Total Proved and Probable	789.7	355.4	317.6	273.2
Established	627.4	298.0	268.3	233.2

## Pricing Assumptions

The following sets forth the commodity price and exchange rate forecasts used in the year-end reserve evaluation:

	OIL			NATURAL GAS		
	WTI (1) (\$US/bbl)	EDM.PAR (\$C/bbl)	Exchange Rate (\$US/\$C)	TCGS (\$/MMBTU)(2)	ALBERTA SPOT (\$/MMBTU)	CANWEST (\$/MCF)
1998	\$19.67	\$26.26	\$0.72	\$1.70	\$1.48	\$1.09
1999	\$20.52	\$27.18	\$0.73	\$1.96	\$1.84	\$1.39
2000	\$21.15	\$27.86	\$0.73	\$2.09	\$2.09	\$1.60
Next 15 years	2.50%	2.50%	\$0.73	2 to 3%	2 to 3%	3 to 4%
Thereafter	1.30%	1.30%	\$0.73	1.30%	1.30%	1.30%

(1) 40 degrees API, 0.4% sulphur

(2) TransCanada Gas Services Limited

## 1997 Volumes by Area

## Company Working Interest Production

	Oil bbl/d	Gas mcf/d	NGLs bbls/d	1997 Total BOE/d	% of 1997 Total	1996 Total BOE/d	% of 1996 Total
Crossfield	71.3	12,707.8	154.4	1,496.5	16%	1,330	18%
Kaybob South	1,223.0	612.8	80.3	1,364.6	15%	1,567	21%
Laprise Creek	29.8	10,219.1	119.6	1,171.3	13%	1,035	14%
Garrington/Westward Ho/ Caroline	894.6	11,746.1	609.2	2,678.4	30%	2,272	30%
Boundary Lake	785.9	67.1	4.1	796.7	9%	820	11%
Others	732.0	6,867.5	169.5	1,588.3	17%	488	6%
<b>TOTAL</b>	<b>3,736.6</b>	<b>42,220.4</b>	<b>1,137.1</b>	<b>9,095.8</b>	<b>100%</b>	<b>7,512</b>	<b>100%</b>

## Reserve Addition Costs

	MBOE	\$000	\$/BOE
Acquisitions			
AEC Acquisition	3,901	\$26,250	
Jumping Pound	1,910	\$7,025	
Others	169	\$220	
	5,980	\$33,495	\$5.60
Less: Undeveloped Land and Processing Value		(\$1,060)	
		\$32,435	\$5.42
Capital Development	4,800	\$15,772	\$3.28

Natural Gas Sales in 1997  
(\$/mcf)

	Volume	Price
<b>Alberta</b>		
Short-Term	20%	\$1.82
Fixed Price	15%	\$1.86
Aggregators	65%	\$1.85
Overall	100%	\$1.85

## Revenue, Expenses and Netbacks

	Year ended 1997	Four Months of 1996
Average Daily Production		
Oil (bbls/d)	3,737	3,372
Gas (mmcf/d)	42.22	31.47
NGLs (bbls/d)	1,137	993
Total (BOE/d)	9,096	7,512
Average Price Received		
Oil (\$/bbl)	\$ 25.93	\$ 30.93
Gas (\$/mcf)	\$ 1.85	\$ 1.59
NGLs (\$/bbl)	\$ 22.65	\$ 23.87
Operating Expenses (\$/BOE)	\$ 6.41	\$ 5.69
Operating Netbacks		
Revenue	\$ 22.19	\$ 23.87
Royalties	\$ (4.28)	\$ (4.19)
Operating Expenses	\$ (6.41)	\$ (5.69)
Netback per BOE	\$ 11.50	\$ 13.99

## Debt Analysis

	Year ended 1997	Four Months of 1996
Debt to Equity Ratio	35%	6%
Debt to Cash Flow	1.99 times	1.29 times
Interest Coverage Ratio	16 times	117 times
Cost of Debt	4.25%	5.11%

## Quarterly Distribution

(\$000's except as indicated)	Q1	Q2	Q3	Q4
Production (BOE/day)	8,750.2	8,414.9	9,393.4	9,809.4
Revenue from Oil, Natural Gas, NGLs & Sulphur	\$ 19,192	\$ 16,988	\$ 17,117	\$ 20,362
Royalties	\$ (4,302)	\$ (3,271)	\$ (2,973)	\$ (3,679)
Expenses	\$ 12,728	\$ 14,244	\$ 14,383	\$ 15,068
Net Income	\$ 2,216	\$ (506)	\$ (191)	\$ 1,651
Cash Available for Distribution	\$ 8,720	\$ 7,478	\$ 7,481	\$ 9,731
Distributions per Unit	\$ 0.35	\$ 0.30	\$ 0.30	\$ 0.39

## Tax Pools

(\$000's)	Dec. 31, 1997	Dec. 31, 1996
COGPE	\$ 225,600	\$ 221,800
Unit Issue Expenses	\$ 11,900	\$ 15,100
CEE	\$ 300	-
CDE	\$ 7,200	-
CCA	\$ 25,000	\$ 13,600

## Corporate Information

### HEAD OFFICE

1600, 530 - 8th Avenue S.W.  
Calgary, Alberta T2P 3S8  
Phone: (403) 234-6600  
Fax: (403) 266-2825  
Toll-free: 1-877-968-7878

### DIRECTORS

**BARRY E. EMES (1) (2)**

Partner  
Stikeman, Elliott

**HAROLD N. KVISLE (1) (2)**

President  
Fletcher Challenge Energy, Canada

**HAROLD P. MILAVSKY (1) (2)**

Chairman  
Quantico Capital Corp.

**KENT J. MACINTYRE (3)**

Vice Chairman and Chief Executive Officer  
PrimeWest Energy Inc.

**JACOB ROORDA (3)**

Vice President  
PrimeWest Energy Inc.

(1) Member of the Audit Committee

(2) Member of the Compensation Committee

(3) Nominee of the Manager

### AUDITORS

**COOPERS & LYBRAND**

Calgary, Alberta

### BANKERS

**CANADIAN IMPERIAL BANK OF COMMERCE**

Calgary, Alberta

### LEGAL COUNSEL

**STIKEMAN, ELLIOTT**

Calgary, Alberta

### OFFICERS - PRIMEWEST ENERGY INC.

**HAROLD P. MILAVSKY**

Chairman

**KENT J. MACINTYRE**

Vice Chairman and Chief Executive Officer

**RONALD AMBROZY**

Vice President  
Business Development

**JAMES T. BRUVALL**

Secretary

**SUSAN M. DUNCAN**

Vice President  
Finance

**ALLAN F. KIERNAN**

Vice President  
Production

**ANN C. LANIEL**

Land Manager

**TRACIE L. NOBLE**

Controller

**JACOB ROORDA**

Vice President  
Corporate

### REGISTRAR AND TRANSFER AGENT

**MONTREAL TRUST**

Calgary, Alberta

### ENGINEERING EVALUATORS

**GILBERT LAUSTSEN JUNG ASSOCIATES**

Calgary, Alberta

### ANNUAL AND SPECIAL MEETING

May 21, 1998 at 3:00 p.m.  
Westin Hotel  
Calgary, Alberta





**PrimeWest**  
Energy Trust

1600, 530 - 8th Avenue S.W. Calgary, Alberta T2P 3S8 Telephone: (403) 234-6600 1-877-968-7878