PrimeWest Energy Trust

1998 annual report

[for unitholders

[profile

PrimeWest Energy Trust is a growing Calgary-based oil and gas royalty trust, actively managed for the benefit of unitholders. The trust is engaged in the acquisition, development, production and sale of crude oil, natural gas and natural gas liquids in Western Canada. The overriding objective of PrimeWest is to maximize monthly cash distributions to unitholders, while preserving the underlying value of the trust over the long term.

Formed in 1996 on a foundation of high-quality producing properties, PrimeWest can be considered a 'harvesting-of-value' investment vehicle, based on efficient production of already-discovered oil and gas reserves. Unlike conventional oil and gas companies, which retain cash flow to finance ongoing operations and exploration for new reserves, PrimeWest distributes essentially all cash generated, less specified expenses incurred, to trust unitholders on a monthly basis. To maintain distributions and improve underlying value, PrimeWest regularly upgrades its growing inventory of properties through acquisitions, dispositions and property enhancement.

PrimeWest represents a relatively lower-risk opportunity for investors to participate in the upstream oil and gas sector, as compared with an equity investment in an exploration-based oil and gas company. PrimeWest provides investors with a high current yield, on a tax-preferred basis, and a potentially high long-term total rate of return. As recipients of distributions, investors are free to make their own reinvestment decisions. An investment in PrimeWest also furnishes income-seeking investors with an upside opportunity to participate in potential future commodity-price increases.

[contents

Annual General Meeting The Annual General Meeting of unitholders will take place in the Lakeview room of the Westin Calgary on Tuesday, May 18, 1999, at 3:00 p.m. The Management Proxy Circular and Form of Proxy are being mailed to unitholders with this report.

PrimeWest Energy Trust trust units trade on the Toronto Stock Exchange under the symbol"PWI.UN".

[PrimeWest purpose

As stewards of each unitholder's investment, our purpose is to maximize ongoing cash distributions while preserving underlying asset value.

To do this:

[1 We enhance cash distributions by exerting control through operatorship over value-extraction from our assets.

[2 We preserve underlying value by continually upgrading and replenishing our asset base.

[3 We reduce our cost of capital by working to maintain our market value through delivery of a superior total return.

[Vision 2001

PrimeWest's vision is to be the leading royalty trust by 2001, as measured by total unitholder return. PrimeWest will be recognized as the investment of choice within the conventional oil and gas royalty trust sector.

PrimeWest will be characterized by five important qualities:

[1 We will deliver superior financial performance.

[2 We will develop and maintain a high-quality asset base.

[3 We will create additional value through operational excellence.

[4 We will be a success-driven organization.

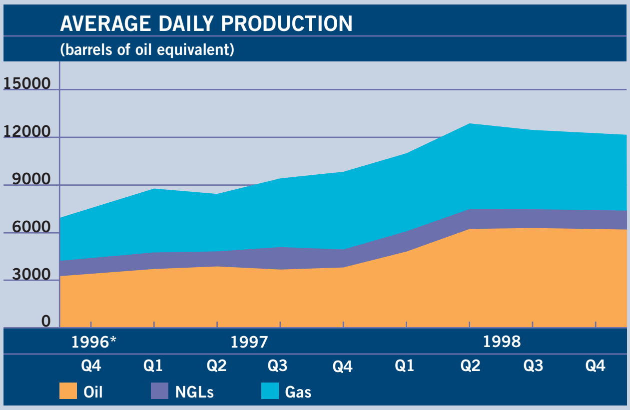
[5 We will have a reputation for being trustworthy.

[operating and financial highlights

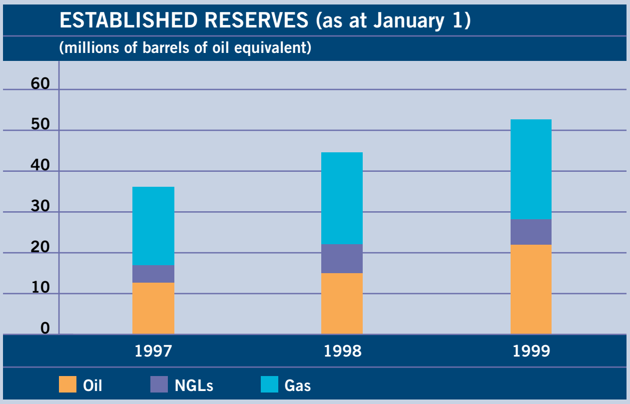
OPERATING HIGHLIGHTS

	1998	1997	Change
Production			
Crude oil and natural gas liquids (barrels per day)	**7,094**	4,874	46%
Natural gas (millions of cubic feet per day)	**50.41**	42.22	19%
Total (barrels of oil equivalent per day)	**12,134**	9,096	33%
Average selling prices			
Crude oil and natural gas liquids (dollars per barrel)	**$ 16.51**	$ 25.16	(34%)
Natural gas (dollars per thousand cubic feet)	**$ 1.83**	$ 1.85	(1%)
Total (dollars per barrel of oil equivalent)	**$ 17.34**	$ 22.19	(22%)
Established reserves			
Crude oil and natural gas liquids (millions of barrels)	**28.3**	22.0	29%
Natural gas (billions of cubic feet)	**243.5**	227.3	7%
Total (millions of barrels of oil equivalent)	**52.5**	44.6	18%
Net asset value (millions of dollars, except per-trust-unit)			
Established reserves[1]	**313.0**	298.0	
Unproved lands	**10.6**	8.4	
Other assets	**4.2**	3.5	
Long-term debt	**(73.0)**	(66.7)	
Total net asset value	**254.8**	243.2	5%
Per trust unit[2]	**$ 7.72**	$ 9.75	(21%)
Reserve-replacement costs (per barrel of oil equivalent)			
Drilling and development costs	**$ 3.09**	$ 3.28	(6%)
Acquisition costs, net of dispositions	**$ 4.92**	$ 5.42	(9%)
Weighted average reserve-replacement costs	**$ 4.09**	$ 4.61	(11%)

[1] Discounted at 10 percent
[2] The number of trust units increased by 32 percent year over year



*For the period September 1 through December 31

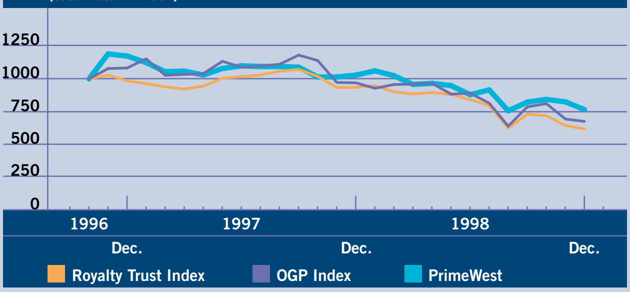


FINANCIAL HIGHLIGHTS

(thousands, except per-trust-unit and per-barrel-of-oil-equivalent data)	1998	1997	Change
Gross revenues	$ 76,815	$ 73,660	4%
per trust unit	$ 2.44	$ 2.95	(17%)
Operating netback	$ 33,397	$ 38,190	(13%)
per trust unit	$ 1.06	$ 1.53	(31%)
per barrel of oil equivalent	$ 7.53	$ 11.50	(35%)
Cash available for distribution to unitholders	$ 25,769	$ 33,409	(23%)
per trust unit	$ 0.82	$ 1.34	(39%)
percent tax-deferred	100	100	
Capital expenditures net of property dispositions	$ 65,192	$ 49,724	31%
per trust unit	$ 2.07	$ 1.99	4%
Average number of trust units outstanding	31,426	24,931	26%
Long-term debt including current portion	$ 73,113	$ 66,829	9%
per trust unit	$ 2.21	$ 2.68	(18%)
Number of trust units outstanding at year end	33,023	24,950	32%

RELATIVE MARKET PERFORMANCE

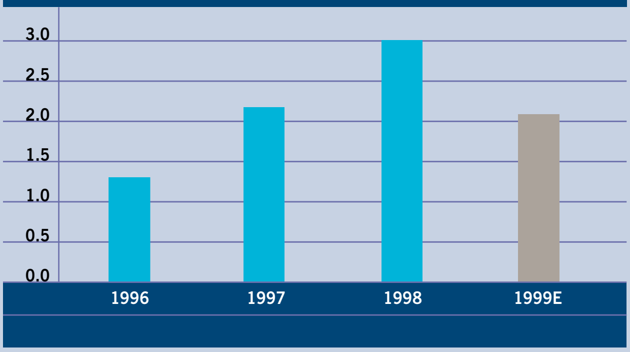
(total return index)



Since being listed for trading in October 1996, PrimeWest trust units have fallen with commodity price declines, but outperformed both the Royalty Trust Total Return Index and the TSE Oil and Gas Producers Index on a total return basis (market price plus cumulative distributions).

DEBT-TO-CASH FLOW (as at December 31)

(ratio)



Ratio is calculated using year-end debt and operating cash flow for the same year.

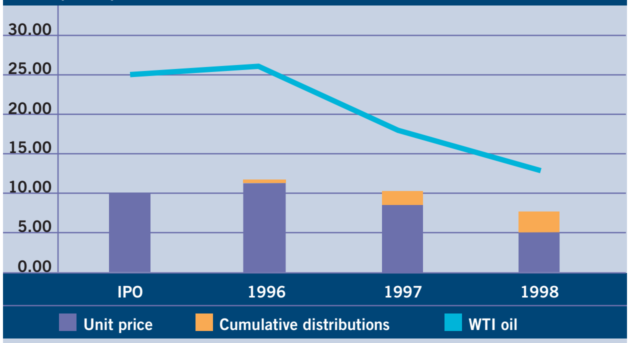
[performance by trust unit

Like many of our investors, we have been disappointed by the trading performance of PrimeWest trust units. Since the inception of PrimeWest in 1996, the entire oil and gas royalty trust sector has experienced a decline in market valuation. Several factors have influenced this, most notably the dramatic and sustained fall in crude oil prices and a proliferation of alternative yield products. Nevertheless, there are several other meaningful per-unit measures of performance and underlying value.

Note: At year-end 1998, the number of outstanding trust units was 33.0 million. Throughout 1998, the weighted average number of outstanding units had increased by 26 percent, from approximately 25 million in 1997, to approximately 31.5 million.

MARKET VALUE PLUS CUMULATIVE DISTRIBUTIONS per trust unit

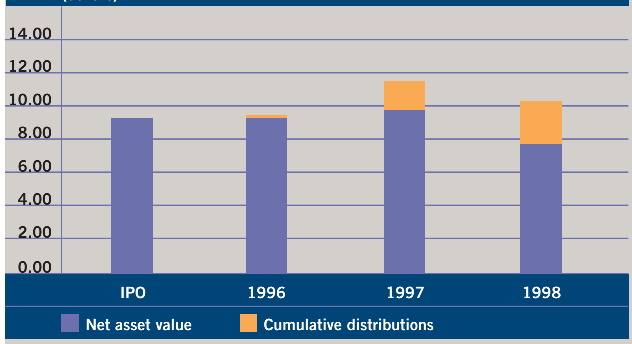
(dollars)



At year-end 1998, the market value of PrimeWest was $5.05 per trust unit, down from $8.50 per trust unit the year before – mainly due to dramatically lower oil prices and weak equity markets for the oil and gas sector. At December 31, 1998, PrimeWest's market value plus cumulative distributions since our initial public offering was $7.65 per trust unit.

NET ASSET VALUE[1] PLUS CUMULATIVE DISTRIBUTIONS per trust unit

(dollars)

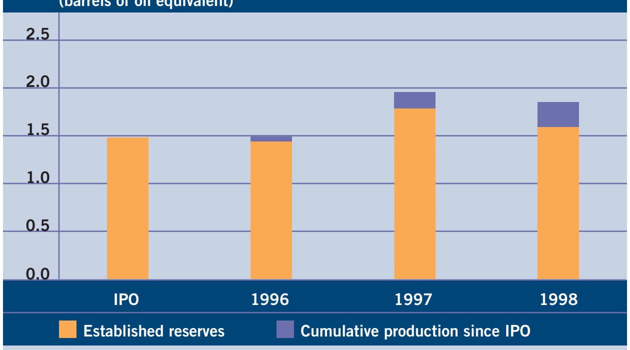


[1] Discounted at 10 percent

Net asset value per trust unit is a key indicator of the trust's capability to generate future distributions. At year-end 1998, the net asset value of PrimeWest was $7.72 per trust unit, down from the previous year due to a significant reduction in the price outlook for commodities, particularly crude oil. At December 31, 1998, net asset value plus cumulative distributions since initial public offering was $10.32 per trust unit.

ESTABLISHED RESERVES per trust unit

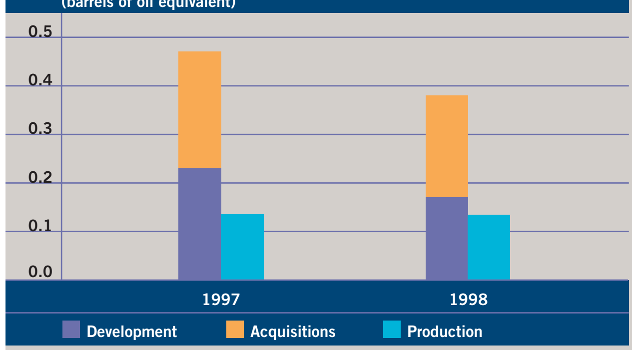
(barrels of oil equivalent)



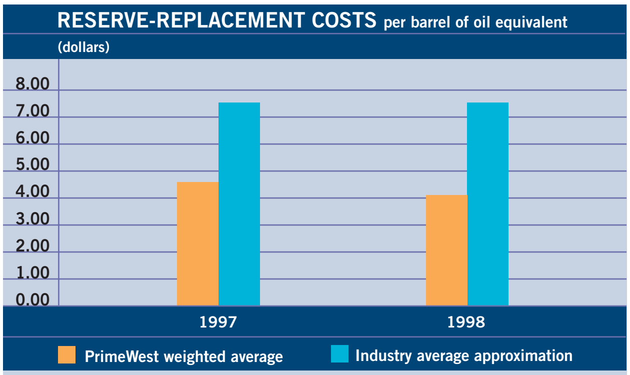
The primary measure of PrimeWest's underlying value is the volume of established reserves of crude oil, natural gas and natural gas liquids it owns. At year-end 1998, total established reserves per trust unit were 1.59 barrels of oil equivalent, down slightly from the previous year, yet still greater than at the time of the initial public offering. The 1998 reduction in reserves per trust unit is offset by reduced debt per trust unit.

ESTABLISHED-RESERVE ADDITIONS per trust unit

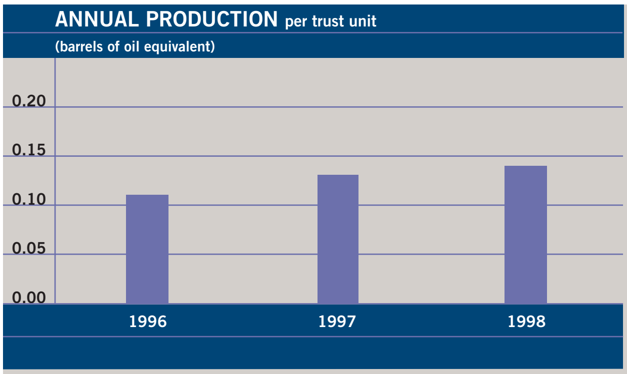
(barrels of oil equivalent)



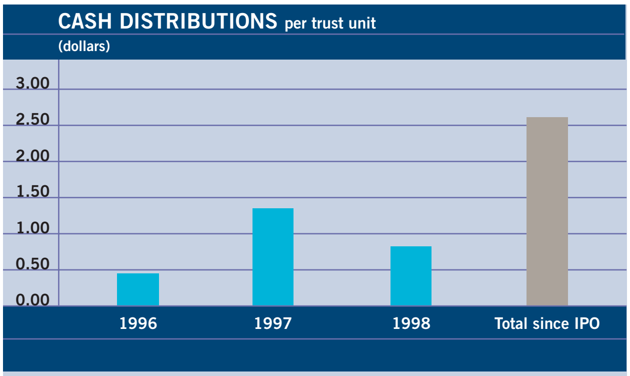
The main measure of the trust's ability to replenish its inventory of reserves and renew its underlying value is the level of additions to established reserves of crude oil, natural gas and natural gas liquids, relative to production. In 1998, PrimeWest's established-reserve additions totaled 12.4 million barrels of oil equivalent. This represents 280 percent of 1998 production.



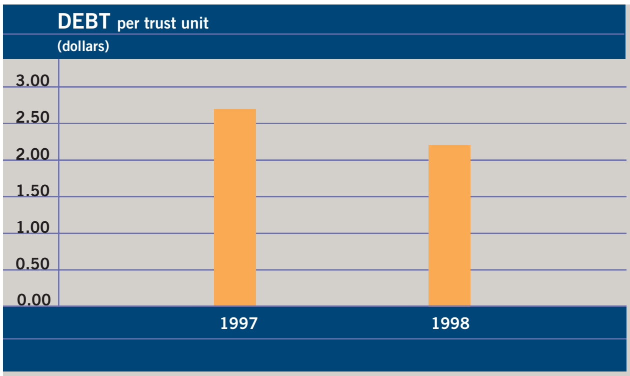
If additions to established reserves are to create long-term value, they must be made at low cost. In 1998, for the second consecutive full year, PrimeWest added reserves at costs significantly less than historical oil and gas industry averages. PrimeWest's 1998 reserve-replacement costs averaged $4.09 per barrel of oil equivalent, compared with industry averages in the $7 to $8 per barrel range.



While reserves and net asset value measure long-term performance capability, production is the chief operational driver of monthly cash distributions. Although PrimeWest boosted production by a striking 33 percent in 1998, this upsurge is not reflected on a per-unit basis, because of a corresponding increase (by 26 percent) in the number of outstanding trust units during the year.



The distribution of cash is a fundamental feature that attracts investors to royalty trusts. PrimeWest's cash distributions declined on a per-trust-unit basis by 39 percent in 1998, mainly reflecting the 30-percent fall in crude oil price in the year. Cash distributions were $0.82 per trust unit in 1998, compared with $1.34 per trust unit in 1997. On a cumulative basis, PrimeWest had distributed a total of $2.60 per trust unit by year-end 1998. In April 1999, PrimeWest increased its monthly distribution from $0.06 to $0.07 per trust unit.



Debt per trust unit is a measure of balance sheet strength and financial flexibility. PrimeWest's overall debt rose only slightly in 1998, despite an aggressive acquisition and property-enhancement program. On a per-trust-unit basis, debt declined by 18 percent, from $2.68 in 1997 to $2.21 in 1998.

[message to unitholders


Hugh Gillard


Kent MacIntyre


Harold Milavsky

For PrimeWest unitholders, 1998 was a test of patience. It was a year that saw world oil prices plummet by 30 percent. A year that ended with the TSE Oil and Gas Producers Index down by 30 percent, and the PrimeWest trust unit price off by 41 percent. Distributions for the twelve months totaled a modest $0.82 per trust unit, less than early-year forecasts.

It was not what we would like to have seen.

Yet, for PrimeWest unitholders, 1998 was also a year of consolidation, maturation and growth for their trust. A year of steady asset upgrading, property enhancements and value-extraction. A year in which we boosted production by 33 percent and increased established reserves by 18 percent.

Since inception in October 1996, our main objective has been to maximize current cash distributions while maintaining and building underlying net asset value – the source of future distributions. To accomplish this, PrimeWest has steadily implemented its strategy – in spite of commodity-price fluctuations – by focusing on what it can control.

While the past year was difficult, this strategy of focusing on what we can control has worked. In 1998, PrimeWest posted the best total return to unitholders of all the large-cap oil and gas royalty trusts. We are producing substantially more crude oil, natural gas and natural gas liquids than we were in 1997. Reserves are increasing, not dwindling. Your trust is growing, not shrinking. And yet, we have maintained a conservative balance sheet.

In a volatile commodity price environment, this is a prudent position to be in. And, the future is positive.

We are confident that oil prices will continue to improve to healthier levels. In the meantime, with a strong balance sheet and solid operations, PrimeWest is well positioned to take advantage of acquisition and enhancement opportunities.

Sustaining benefits for unitholders

PrimeWest is adamant about increasing value to individual unitholders. Everything we do – acquisitions, dispositions and property enhancements – is measured by three investment criteria that we know to be important to unitholders: reliable cash distributions, superior total return, and tax efficiency.

We are intent upon encouraging continued and further alignment between the PrimeWest management team and the interests of unitholders. PrimeWest's management fee structure is based on net production revenue, which is the basis for cash distributions. Most of our employees participate in a trust-unit ownership plan that pays trust units to them, based on the total return generated for unitholders.

PrimeWest is determined to build and retain the confidence of investors and their representatives. We understand the importance of setting expectations carefully in the market, and delivering on our promises.

Focusing on what we can control

We know we can't control the prices of crude oil or natural gas. But we can control our strategic responses to these. Guided by selective acquisitions and dispositions, an aggressive property-enhancement program, and physical and financial hedging instruments, the PrimeWest team has increased production and underlying value. And, we have done so at low cost.

In 1998, total established-reserve additions were a record 12.4 million barrels of oil equivalent. These additions replaced 280 percent of the year's production. We replaced 153 percent of production through acquisitions (net of dispositions) – at an average cost of $4.92 per barrel. And, we replaced 127 percent through development – at an average cost of $3.09 per barrel. Both these cost amounts are well below historical conventional oil and gas industry averages.

Operating costs are another story. Because royalty trust properties are typically more mature relative to those of the broader oil and gas industry, royalty trust operating costs, on a per-barrel-of-oil-equivalent basis, tend to be higher than overall industry averages. On such a basis, PrimeWest's operating costs were $6.90 in 1998, up from $6.41 in 1997. This rate of increase is not acceptable to us. We continue to explore all means to improve operating-cost performance, to contain the natural and expected increases in operating costs per unit of production.

PrimeWest's commodity mix remained well balanced at year-end. On an established-reserves basis, we were 54 percent oil and natural gas liquids, and 46 percent natural gas. On a production basis, we were 58 percent oil and natural gas liquids, and 42 percent natural gas. We operate more than 80 percent of our production, which enables us to actively manage our properties to maximize value for unitholders.

For the most part, these are excellent results. Low-cost reserve additions are meeting the objective of preserving underlying value and future distributions, but higher-than-acceptable operating costs have reduced current monthly distributions. We know what we need to do to improve them.

Extracting extra value while preserving our asset base

PrimeWest will continue to deliver the prudent maximum level of distributions in the near term, while at the same time renewing its underlying reserve base at low cost.

The operational driver for near-term distributions is production. In the slightly more than two years since our inception, production has grown by 62 percent. Growth in 1998 production partially mitigated the negative impact on distributions caused by the sharp decline in crude oil prices. Distributions for 1998 were $0.82 per trust unit, down from $1.34 in 1997. From inception to year-end 1998, PrimeWest has paid cumulative distributions of $2.60 per trust unit.

The foundation for sustained production is reserve life. In 1998, PrimeWest's established reserves grew by 18 percent, net of production. This is a particularly striking accomplishment when you consider the increase in production rates during the same period.

At the same time as we increased reserves and production, and maximized cash distributions, PrimeWest also improved its balance sheet. Our forecasted debt-to-cash flow ratio for 1999 is approximately two times. This ratio is among the best in the conventional oil and gas royalty trust sector. It positions PrimeWest to weather periods of low commodity prices, and to take advantage of the exceptional opportunities ahead.

In 1998, as part of our strategy for growth, PrimeWest successfully completed three major property acquisitions and established a new core operating area in southeastern Alberta.

In December 1998, PrimeWest announced its intention to acquire the outstanding units of two smaller conventional oil and gas royalty trusts. The proposed acquisitions were intended to create a combined entity with increased economies of scale and scope and improved trading liquidity for trust units. PrimeWest considers that its proposal was innovative and would have provided incremental value to all unitholders.

By February 1999, however, the purchase price had become too high. The two target trusts had agreed to an alternative business combination, and PrimeWest withdrew from the acquisition initiative. As part of the initiative, PrimeWest invested $3.2 million in units of the trusts, and incurred costs of $2 million. PrimeWest intends to monetize its interests in the trusts at an appropriate time. We will pursue other strategic opportunities for growth when it makes sense. When we do, we will follow our stringent acquisition criteria. Any transaction that we undertake must be, first and foremost, beneficial to PrimeWest unitholders.

Meanwhile, we have important work to do. We must continue to optimize production on a well-by-well basis, and develop new reserves through our property-enhancement programs. We must learn more about the way our newly acquired properties perform. And, we must continue efforts to minimize operating costs.

In 1999, PrimeWest expects to distribute $1.10 per trust unit, up 34 percent from the 1998 total of $0.82 per trust unit, although down somewhat from our early-year forecast of $1.18 per unit. Changes in the early-year forecast arose from updates in a number of assumptions. Production is expected to average 12,975 barrels of oil equivalent per day for the year, as compared with 13,690 barrels of oil equivalent per day in the January forecast. This reflects deferrals of some joint-interest drilling projects. The new estimate also uses a reference price of $US14.65 West Texas Intermediate (WTI) per barrel for crude oil, and a plant gate price of $2.30 per thousand cubic feet (Mcf) for natural gas, as compared with $US13.50 WTI per barrel for crude oil, and $2.32 per Mcf for natural gas. Investment in property enhancements is anticipated to be in the order of $16 million. If industry conditions improve, PrimeWest is capable of initiating additional capital projects.

With these opportunities and challenges in mind, we are very proud of the strengths and successes that PrimeWest has provided to unitholders. The board appreciates the contributions of Jacob Roorda, who resigned following a tenure of almost three years. It welcomes Hugh Gillard as Management Director, effective March 19, 1999. And together, we offer our sincere appreciation to our valued and dedicated employees, who have delivered sound results to date and who will position PrimeWest for greater success in the future.

Your trust has remained strong – even at the low end of the crude oil price cycle. We will make it stronger.

April 2, 1999

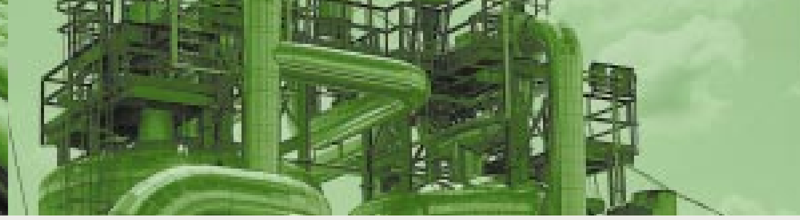
Harold Milavsky,
Chairman

Kent MacIntyre,
Vice-chairman and
Chief Executive Officer

Hugh Gillard,
President and
Chief Operating Officer

[why invest in a conventional oil and gas royalty trust?

Royalty trusts are high-yielding income products, which offer unique features.
Cash distributions are conveyed to unitholders on a regular basis. In the case of PrimeWest, these distributions are paid monthly from the sale of oil and natural gas production. Royalty trusts can offer **favourable current yields**, with the potential for upside appreciation from commodity-price increases. Distributions receive **advantageous tax treatment.**



[implementation of strategy

The PrimeWest approach

Most conventional oil and gas royalty trusts focus on a simple model: they acquire petroleum and natural gas properties and sell the associated production to create distributions. In the short term, this may work well. But over the long run, as the underlying reserve value is depleted through production, a unitholder's investment may also lose value.

The PrimeWest approach emphasizes one additional link in the value chain – property enhancement through operatorship.

PrimeWest provides extra value to its unitholders through this focus on property enhancement. We take existing properties, find untapped opportunities, and work them hard.

These enhancement programs provide much higher returns than property acquisitions, because the incremental production is developed within our core areas, where operating costs are already fixed.

The PrimeWest technical team has identified a great many extra-value opportunities for specific property enhancements. During our first years of operation, we have capitalized on the best of these. There is more we can do.

Exploiting these opportunities thoroughly – recognizing that commodity prices can cycle low or high, and equity markets can be weak or strong – is how we create long-term benefits for our unitholders.

Creating value through acquisition and property enhancements

Every trust acquires properties to increase production. PrimeWest acquires properties to increase production *and* to provide an inventory for its enhancement programs.

Our acquisition strategy targets individual properties or groups of properties, and other companies holding properties that generally comply with the following:

Return: The property, or group of properties, must provide a forecasted internal rate of return greater than 400 basis points above the yield of long-term (ten-year) Government of Canada bonds over the life of the associated reserves.

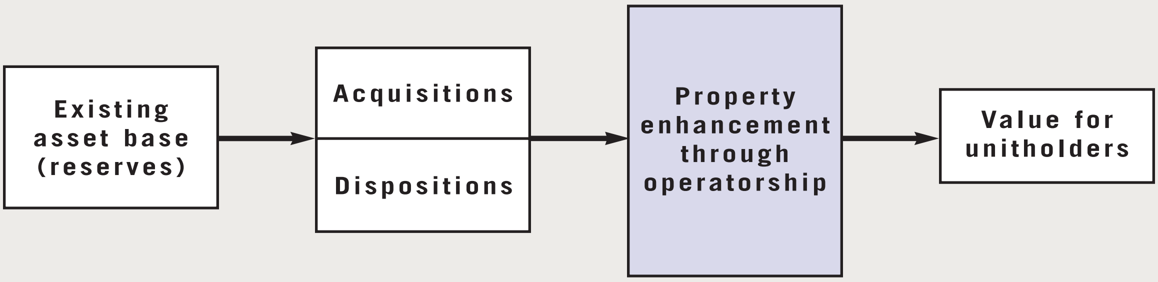
Influence: We strongly prefer properties where PrimeWest will become operator, so that we can actively manage enhancement strategies and value-extraction programs.

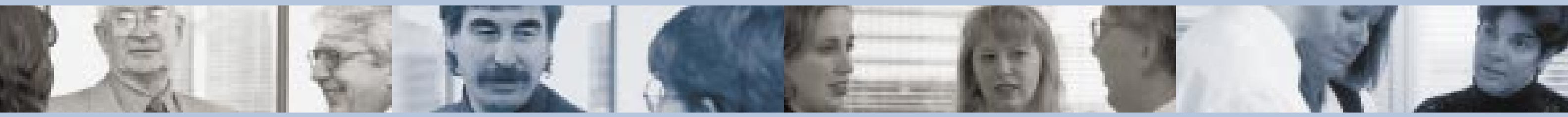
Objectivity: We obtain commodity-price and exchange-rate forecasts from a major independent petroleum engineering firm.

Stewardship: We base each acquisition having a purchase price of $5 million or more on an independent petroleum engineering report.

Risk diversification: At no time is more than 25 percent of the total reserve value of PrimeWest's properties attributable to a single property.

[emphasizing property enhancement in the value chain





Longevity: The expected economic life (not simply reserve life) of a property, or group of properties, acquired in a single transaction will be not less than 20 years.

The board of directors of PrimeWest may, at its discretion, approve acquisitions that do not conform to these guidelines, based on its consideration of other qualitative aspects of the subject properties.

During 1998, guided by these criteria, PrimeWest acquired $64.2 million dollars worth of oil and gas properties – at an average cost of $5.49 per barrel of oil equivalent.

Perhaps the best example of our value-creating strategy in implementation was the acquisition of a new core area in southeastern Alberta. In March 1998, PrimeWest announced two acquisitions of petroleum and natural gas reserves in the Grand Forks and Medicine Hat areas. We acquired approximately 9.7 million barrels of oil equivalent of established reserves, at $5.19 per barrel of oil equivalent. We also obtained interests in certain facilities, seismic and land. The aggregate purchase price was approximately $60.2 million.

In a short period of time following the acquisition of Grand Forks, PrimeWest assembled a highly qualified team, familiar with the area, and successfully drilled 10 new wells, nine of which are producing. The combined initial oil production rate from this program was 500 barrels per day, net to PrimeWest.

The 1998 drilling activity represents the first phase of a multi-year program that has identified 55 potential development-drilling locations. It is expected that the incremental production derived from this multi-year program will offset previously predicted production declines, and significantly extend the area's reserve life.

Disposition highlights

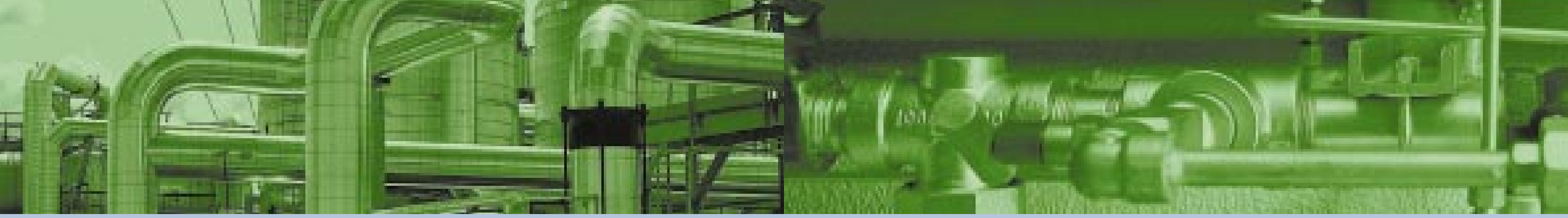
Consolidation is an important part of our strategy of building and maintaining a quality asset base and underlying value.

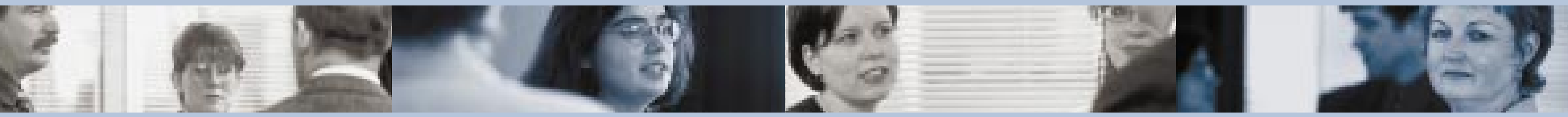
During the year, PrimeWest entered into agreements to dispose of $19.8 million worth of non-core assets, at an average price of $6.83 per barrel of oil equivalent. By buying 'low' and selling 'high', PrimeWest effectively upgraded its asset base, essentially recycling capital at an attractive pace and efficient rate.

In June 1998, PrimeWest achieved a $2-million gain on the sale of two natural gas properties in the Medicine Hat area. These properties, which were purchased two months earlier, netted the trust $8.25 million, or $8.10 per barrel of oil equivalent on an established-reserves basis. This gain was distributed to unitholders.

PrimeWest recorded particularly strong results in a fall program of divestments – mainly of non-operated, low-working-interest properties with short reserve-life indices. We achieved an average of $6.09 per barrel of oil equivalent on an established-reserves basis.

In 1998, PrimeWest established a new core operating area in southeastern Alberta. Among those responsible for the success of this area are (from left to right): Ron Ambrozy, Sherri Hoff, Hugh Mosher, Larry Ness, Al Roemer and Phil DeGagne.





Influencing results through operatorship

In 1998, PrimeWest was the operator of approximately 80 percent of total production, or 9,700 barrels of oil equivalent per day.

In addition to the value created through development drilling at the newly acquired Grand Forks property in southeastern Alberta, PrimeWest also scored success with horizontal drilling on the company-operated Kaybob property in west-central Alberta.

In late December, PrimeWest announced results of a successful horizontal re-entry well that initially delivered some 2,500 barrels of oil per day and doubled oil production in the Kaybob South Triassic Unit 2, in which PrimeWest has a 20 percent interest. The well was drilled utilizing a previously suspended vertical well bore, to exploit a pocket of unswept oil. The pocket was identified by extensive geological study and a computer simulation that modeled 20 years of water injection and oil production from the reservoir – both conducted by PrimeWest.

Similarly, on the sparsely drilled Lone Pine Creek property near Calgary, PrimeWest drilled two successful 100-percent-interest horizontal re-entry gas wells. The combined initial sales capability for the two wells was approximately 11 million cubic feet per day of natural gas.

Encouraged by the results of these two wells, PrimeWest conducted an extensive 3-D seismic program in the area. This program, which will be followed up by another program nearby in 1999, identified six locations for drilling.

PrimeWest recognizes that operatorship of properties generally involves higher general and administrative costs than is required for non-operated properties. Such costs are justified by the opportunities to increase value to unitholders through production enhancements, control of facilities, and increased access to acquisition opportunities in core areas. Greater net value is created than would be possible as a non-operator.

Isolating and managing costs

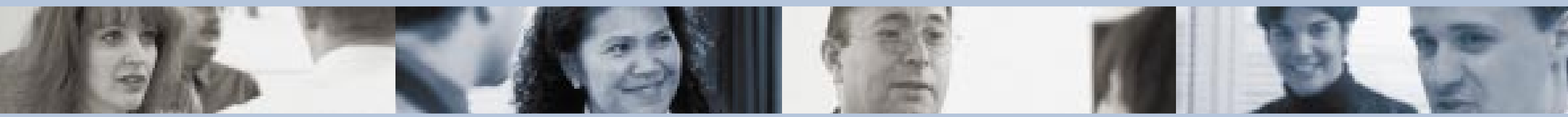
PrimeWest's 1998 operating costs were $6.90 per barrel of oil equivalent, up from $6.41 per barrel of oil equivalent in 1997. While it is natural for operating costs on mature properties to rise year over year on a per-unit-of-production basis, the 1998 rate of increase was greater than we would have liked.

The main area of challenge continues to be Crossfield, where 1998 operating costs averaged $11.35 per barrel of oil equivalent. Excluding Crossfield, PrimeWest's 1998 operating costs on the balance of its properties were a more acceptable $6.18 per barrel of oil equivalent.

Even though PrimeWest is operator for the production at Crossfield, unacceptable operating costs are being incurred at the partner-operated East Crossfield sour gas processing facility. Although PrimeWest has a 20-percent interest in the gas plant, it has paid approximately 55 percent of the facility's operating costs, based on its throughput.

During 1998, PrimeWest undertook a number of initiatives with the operator and other area stakeholders to reduce these costs. We successfully negotiated long-term processing agreements with a number of third-party producers, to connect new gas reserves to the East Crossfield plant. This will increase plant utilization to about 75 percent in 1999 and reduce PrimeWest's pro rata share of plant operating costs. Certain non-recurring maintenance and other costs were incurred in 1998 to enable the plant to process increased volumes.

PrimeWest has prepared an operating-cost reduction plan, and is working with the operator to implement its recommendations.



Attributes of properties

PrimeWest's properties include interests in crude oil and natural gas production from several major fields. The following characteristics make the properties particularly suitable for a conventional oil and gas royalty trust structure:

Quality reserves: The properties contain steady decline-rate reserves; they have an established reserve life index of 11.1 years, and a projected economic life exceeding 50 years. Most properties are in large-reserve pools having above-average productivity. These features facilitate our enhancement programs, which focus on improving recovery factors and extraction rates on already-discovered reserves.

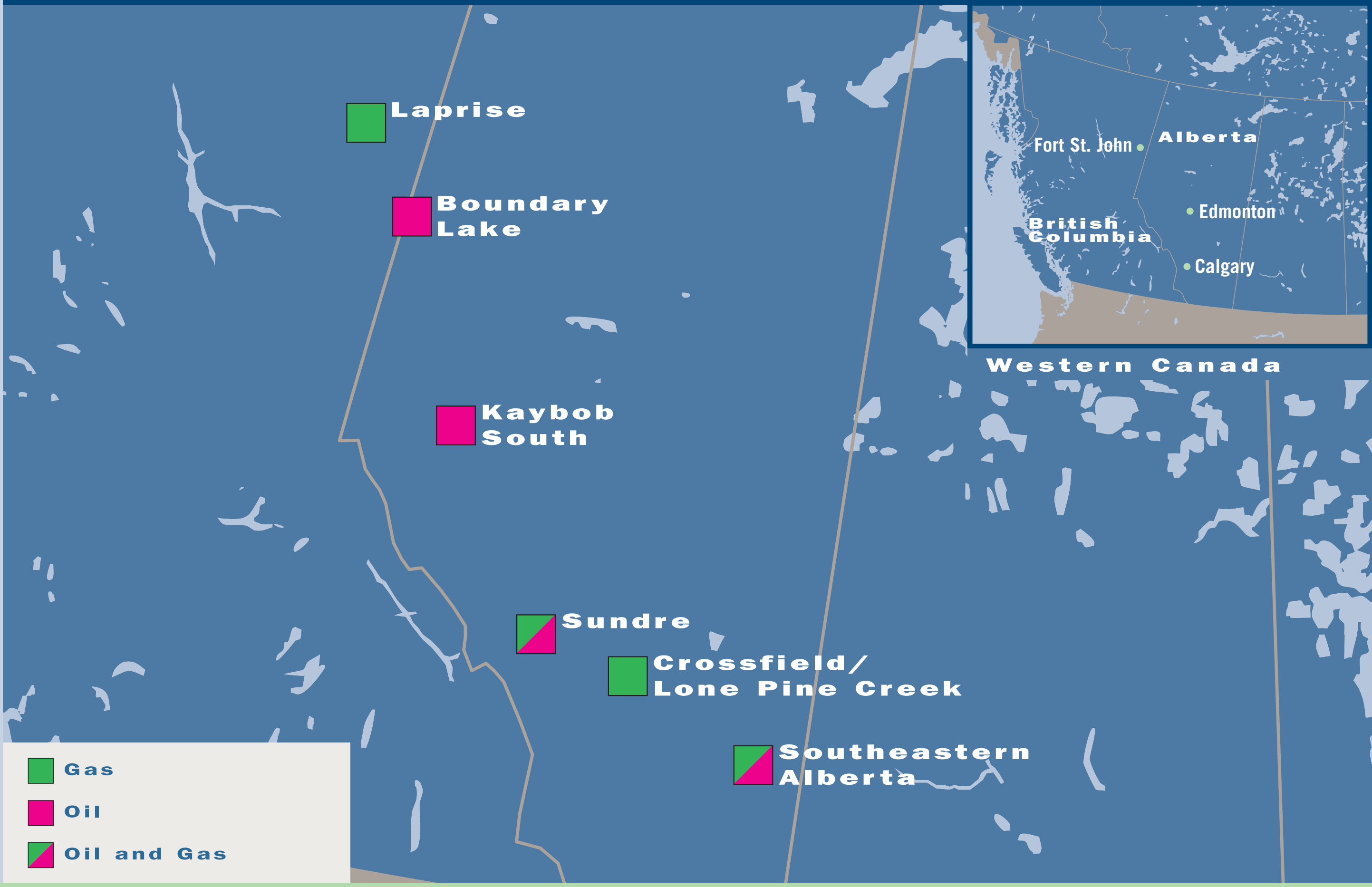
Operated properties: PrimeWest operates approximately 80 percent of total production from the properties.

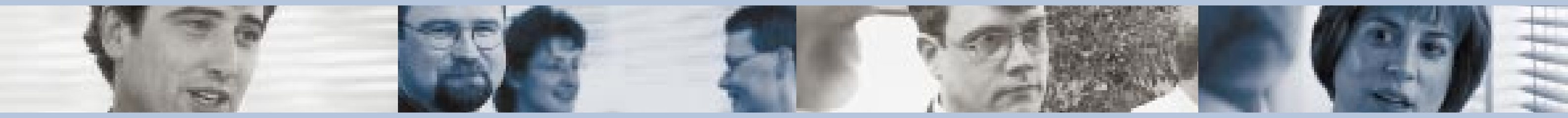
Balanced portfolio: PrimeWest's balanced portfolio provides diversification in product pricing and reduces volatility in distributions.

Concentrated portfolio: Although the properties are diversified geologically and geographically, PrimeWest generally holds the largest working interest in them.

Upside potential: Additional opportunities to enhance the value of PrimeWest's properties have been identified by us and confirmed by the independent reserves engineering firm of Gilbert Laustsen Jung Associates Ltd.

CORE PROPERTY AREAS





CORE PROPERTY SUMMARY		
Area	Production (barrels of oil equivalent per day)	Cash flow (thousands of dollars)
Sundre	2,779	8,163
Southeastern Alberta	2,717	7,539
Laprise Creek	1,343	4,284
Kaybob South	1,074	3,388
Crossfield/Lone Pine Creek	1,685	3,219
Boundary Lake	782	2,344
Others	1,754	4,116
ARTC	–	344
Total	**12,134**	**33,397**

Unproved lands

PrimeWest has an interest in 278,410 (176,312 net) acres of unproved lands, valued at $10.6 million, or about $60 per net acre. During 1998, 3,509 net acres were acquired in our major core property area of Crossfield/Lone Pine Creek.

PrimeWest is currently reviewing available seismic and other data related to these properties, and will develop exploitation, farm-out or disposition plans for them, in order to monetize an asset that would not otherwise generate cash flow.

The value of PrimeWest's unproved lands includes PrimeWest's 100-percent working interest in 2,400 acres (3.75 sections) of lands on the recently discovered Caroline Swan Hills 'B' play. Properties directly offsetting PrimeWest's lands were sold at Alberta Crown sales in 1998 for between $1,808 and $2,578 per acre ($1.16 million and $1.65 million per section).

Capital expenditures, farmouts or dispositions may result in future revenues from these unproved lands.

Marketing arrangements

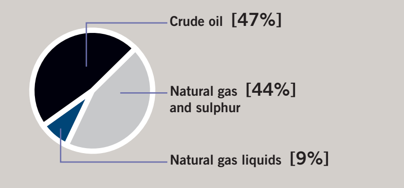
As with all oil and gas companies, exposure to commodity-price changes can have dramatic effects on cash flow, and, for royalty trusts, distributions.

PrimeWest has a balanced portfolio of commodities, which tends to mitigate some of the natural risks associated with the sale of cyclically priced commodities. In addition, PrimeWest has entered into a series of strategic marketing arrangements to further reduce downside risk.

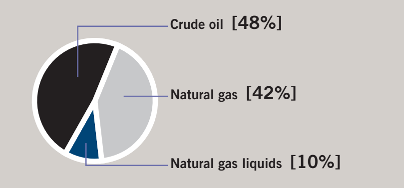
- Crude oil is sold under a number of different contracts at prevailing market prices.
- Natural gas is sold to a diversified market portfolio – 58 percent to aggregators in Alberta and British Columbia, and 42 percent into the Alberta short- and long-term markets. In 1998, essentially all natural gas liquids were sold to Amoco Canada Petroleum Company Ltd. at prevailing market prices.
- The bulk of PrimeWest's sulphur production (associated with sour natural gas) is marketed to Shell Canada Limited for sales into the North American domestic market, and to Prism Sulphur Corporation for sales into international markets.

Throughout 1998, PrimeWest maintained and instituted a number of physical and financial hedging instruments, which serve to moderate the influences of fluctuations in commodity prices and exchange rates.

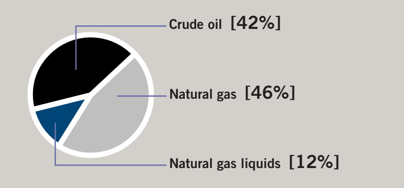
REVENUE BY PRODUCT AS A PERCENTAGE OF GROSS REVENUE



PRODUCTION BY PRODUCT AS A PERCENTAGE OF TOTAL PRODUCTION

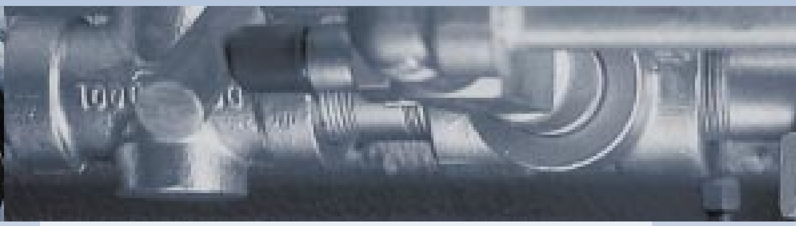


ESTABLISHED RESERVES BY PRODUCT AS A PERCENTAGE OF TOTAL ESTABLISHED RESERVES



[why invest in a conventional oil and gas royalty trust?

Distributions of cash to unitholders. With crude oil prices perhaps having been at their cyclical low, and the market valuation of oil and gas equities and royalty trust units perhaps having been near bottom, regular cash distributions have been a plus for investors. Cash distributions provide a near-term return for investors waiting for commodity prices and market values to cycle up again. PrimeWest distributions are paid monthly. Each unitholder is entitled to a pro-rata share of net cash flow as it is generated.



The following discussion and analysis of financial and operating results by management should be read in conjunction with the Consolidated Financial Statements for the years ended December 31, 1998 and 1997, included on pages 25 to 32 of this annual report.

1998 highlights and significant transactions

- Successfully completed an equity issue in March 1998, of eight million trust units, at a price of $7.80 per unit, for gross proceeds of $62.4 million.

- Completed three major property acquisitions, totaling 9.8 million barrels of oil equivalent of established reserves, at a cost of $5.49 per barrel of oil equivalent.

- Entered into agreements to sell 2.9 million barrels of oil equivalent of established reserves, for total proceeds of $19.8 million, or $6.83 per barrel of oil equivalent. These asset sales consisted of 12 non-core properties, 11 of which were non-operated.

- Total established reserves increased by 18 percent, from 44.6 million barrels of oil equivalent to 52.5 million barrels of oil equivalent in 1998, resulting in a reserve-replacement ratio of 280 percent of 1998 production.

- Production volumes averaged a record 12,134 barrels of oil equivalent per day for 1998, compared with 1997 average production volumes of 9,096 barrels of oil equivalent per day.

- In early 1998, PrimeWest accepted a revised credit facility commitment, which increased available credit from $80 million to $120 million. PrimeWest has a current borrowing base of $113 million. The forecast debt-to-cash flow for 1999 is approximately two times. Year-end 1998 debt to cash flow was approximately three times.

Results of operations

Production volumes

Production volumes for 1998 averaged 12,134 barrels of oil equivalent per day, an increase of 33 percent over 1997, primarily due to the addition of a new core area in southeastern Alberta. This new area represented approximately 22 percent of total production for 1998.

AVERAGE DAILY PRODUCTION SUMMARY

	1998	%	1997	%
Oil (barrels per day)	**5,868**	**48**	3,737	41
NGLs (barrels per day)	**1,226**	**10**	1,137	13
Gas (MMcf per day)	**50.41**	**42**	42.22	46
Total (boe per day)	**12,134**	**100**	9,096	100

PrimeWest employs a strategy of replacing reserves and growing production through an aggressive program of acquisition and enhancement of mature oil and natural gas properties. The objective of this strategy is to arrest and/or reverse – at relatively low cost – production declines that naturally occur in mature properties.

PRODUCTION RECONCILIATION

	(barrels of oil equivalent per day)
Average daily production rate – 1997	9,096
Enhancement program	1,056
Acquisitions	3,488
Dispositions	(338)
Natural decline	(1,168)
Average daily production rate – 1998	12,134

Sales revenues

Sales revenues for the year ended December 31, 1998, increased modestly – by four percent, to $76.8 million, from $73.7 million in 1997. Revenue increased primarily from the production-volume increase of 33 percent, which was offset by a 22-percent decline in the average selling price. Oil prices continued to weaken throughout 1998, with the West Texas Intermediate (WTI) oil price reaching a 14-year low of US$11.31

per barrel in December 1998. During 1998, a steadily weakening Canadian dollar offset the effects of low WTI oil prices, mitigating the reduction in revenues, as oil sales prices are denominated in US dollars. Natural gas prices remained firm, as demand remained relatively strong throughout the year.

Crude oil revenues were up marginally, by two percent in 1998, to $36.2 million, representing 47 percent of sales revenues. PrimeWest realized an average crude oil sales price of $16.92 per barrel during 1998, as compared with $25.93 per barrel in 1997. Prices were lower on average for 1998 due to a weak WTI reference price and an increase in the proportion of medium-quality crude-oil production, which receives lower prices, following the Grand Forks property acquisition. At year-end 1998, the average crude oil quality was 32 degrees API, compared with 40 degrees API at year-end 1997.

The crude oil sales price decline of 35 percent was offset by a 57-percent increase in crude oil sales volumes, which averaged 5,868 barrels per day in 1998, compared with 3,737 barrels per day in 1997. Crude oil revenues include a net $1.2-million hedging gain relating to a price collar on Grand Forks production, and a foreign-exchange swap entered into during 1998. Had we not entered into these hedging transactions, the average crude oil selling price for 1998 would have been $16.34 per barrel.

Natural gas revenues accounted for 43 percent of total revenues in 1998. Revenues increased by 18 percent, to $33.7 million from $28.5 million in 1997. Sales volumes increased by 19 percent, to 50.4 million cubic feet per day in 1998, from 42.2 million cubic feet per day in 1997. Average natural gas prices for 1998 were $1.83 per thousand cubic feet, compared with $1.85 per thousand cubic feet during 1997. Natural gas revenues for 1997 include proceeds of $1.05 million from a price hedge that established a floor price of $1.35 per thousand cubic feet on production of 9.24 million cubic feet per day from the Laprise Creek property. This price hedge expired on December 31, 1997.

Natural gas liquids revenues, which comprised nine percent of total revenues for 1998, decreased by 31 percent, to $6.5 million, compared with $9.4 million in 1997. Average prices received during 1998 were $14.55 per barrel, 36 percent lower than the 1997 average of $22.65 per barrel. This steep decline in natural gas liquids prices reflects oversupply in the market and low crude oil prices throughout the second half of 1998. The decrease in average sales price was offset by an increase of eight percent in natural gas liquids sales volumes, from 1,137 barrels per day in 1997, to 1,226 barrels per day in 1998.

Sulphur netbacks were $371,550, or $3.34 per long ton in 1998, compared with $391,090, or $4.50 per long ton in 1997. Sulphur sales make up approximately one percent of total gross revenues.

SALES PRICES

	1998	1997	Change
Oil ($/bbl)	**16.92**[1]	25.93	(35%)
Gas ($/Mcf)	**1.83**	1.85[2]	(1%)
NGL ($/bbl)	**14.55**	22.65	(36%)
Sulphur ($/lt)	**3.34**	4.50	(26%)

[1] Includes $0.58/bbl gain from hedging activities
[2] Includes $0.07/Mcf from hedging activities

Royalties

Total royalties paid were $12.9 million in 1998, a decrease of nine percent from $14.2 million paid in 1997. Royalty expense averaged 17 percent of total revenues for the year ended December 31, 1998, as compared with 19 percent for 1997. Royalty expense includes Crown and freehold royalties and mineral taxes.

Royalties decreased due to lower crude oil prices, combined with a lower royalty rate on production acquired during 1998 in the southeastern Alberta area. The Alberta Royalty Tax Credit (ARTC) is available for eligible Alberta Crown royalties paid during the year, to a maximum limit of $2 million for the year. ARTC for 1998 was $344,134, compared with $25,000 for 1997, due to eligible drilling activity undertaken by PrimeWest in 1998.

Operating expenses

Operating expenses, net of processing income, were $30.5 million for 1998, an increase of 44 percent, or $0.49 per barrel of oil equivalent, from 1997.

The acquisition of the southeastern Alberta area added $6.4 million, or 30 percent, to operating expenses during 1998. In addition, continuing operating-cost challenges were experienced at the East Crossfield natural gas processing plant. The cost

structure at this plant is primarily fixed, which results in higher operating costs per volume when plant utilization is low. Plant utilization during 1998 was approximately 50 percent.

During the year, PrimeWest took a leadership role, along with the other working-interest owners, to secure additional third-party gas volumes, which will increase plant utilization to approximately 75 percent in 1999. Initial portions of this third-party throughput began to be processed in late 1998. While the concerted effort to bring on additional volumes is not reflected in 1998 results, PrimeWest expects to realize ongoing benefits beginning in the first quarter of 1999.

Operating netback

PrimeWest's operating netback declined by 35 percent from 1997, primarily due to reduced average selling prices (lower benchmark prices and reduced margins for medium-quality crude).

OPERATING NETBACK

(dollars per barrel of oil equivalent)	1998	1997	Change
Selling price	$ 17.34	$ 22.19	(22%)
Royalties	(2.91)	(4.28)	(32%)
Operating costs	(6.90)	(6.41)	8%
Operating netback	$ 7.53	$ 11.50	(35%)

Other income

Other income for 1998 includes $1.8 million, or $0.06 per trust unit, as compensation from a settlement relating to a past property acquisition. PrimeWest has agreed that the details of this settlement will remain confidential.

General and administrative expenses

General and administrative expenses, net of overhead recoveries, were $1.15 per barrel of oil equivalent in 1998, an increase of $0.03 per barrel of oil equivalent over 1997. Total general and administrative expenses rose from $3.7 million in 1997 to $5.1 million in 1998, an increase of 38 percent. The increase in general and administrative expenses is due mainly to the addition of a new core area in southeastern Alberta, an internal reorganization of employees into property teams, and increased costs associated with investor relations.

Management fees

PrimeWest Management Inc., as manager of PrimeWest Energy Inc. and PrimeWest Energy Trust, receives a management fee of 2.5 percent of net production revenue, plus a specified number of trust units on a quarterly basis. For the year ended December 31, 1998, management fees were $1.3 million, compared with $1.4 million in 1997. Of the $1.3 million, $882,081 was paid in cash and the balance was paid by the issuance of 66,247 trust units from treasury. This does not include acquisition or disposition fees, which are charged to capital assets as part of properties acquired, nor does it include the one-percent retained royalty, which is paid as a dividend by PrimeWest Energy Inc. to PrimeWest Management Inc.

Interest expense

Interest expense increased from $2.1 million in 1997 to $4.7 million in 1998 for a number of reasons. First, average debt increased year over year, from $44.3 million in 1997 to $74.7 million in 1998, to fund the property-enhancement program. In addition, higher prime interest rates and interest on the southeastern Alberta acquisition contributed to the increase. Debt was reduced by $0.46 per unit at year-end using proceeds from property dispositions.

In anticipation of an increase in the prime lending rate, PrimeWest entered into two interest-rate swaps in 1998. The first agreement fixed the Bankers Acceptance (BA) interest rate, on a notional balance of $25 million of debt, at 5.495 percent over the next two years. The second agreement fixed the BA interest rate, on a notional balance of $15 million, at 5.535 percent over the next three years. The weighted average cost of debt was 6.3 percent during 1998, as compared with 4.8 percent for 1997.

Corporate acquisition costs

In late 1998, PrimeWest made offers to acquire all of the issued and outstanding units of Starcor Energy Royalty Fund and Orion Energy Trust. Subsequent to year end, PrimeWest withdrew its offers, and costs of $962,266 incurred up to December 31, 1998, net of associated recoveries of $92,378, were expensed. Costs incurred in 1999, totaling approximately $950,000, will be expensed in 1999. PrimeWest invested $3.2 million in 604,100 trust units of the two target trusts in late 1998 prior to announcing its takeover bids. As at March 10, 1999, the date in which these units were exchanged for units of a third trust, the approximate gain on these investments was $823,000. This gain will be accounted for in the 1999 fiscal year.

Depletion, depreciation and amortization

The 1998 depletion, depreciation, and amortization rate was $8.35 per barrel of oil equivalent, compared with $8.41 per barrel of oil equivalent in 1997.

Site-restoration and abandonment costs are included in depletion, depreciation and amortization, and amounted to $3.1 million in 1998, compared with $1.9 million in 1997. These costs are estimated by PrimeWest, and charged to operations on a unit-of-production basis. To fund these costs, PrimeWest contributed $0.20 per barrel of oil equivalent during 1998, a total of $885,814, to the Site Restoration Reserve. A total of $753,479 was paid out of this reserve during 1998 for site restoration and abandonment activities.

In late 1997, the Alberta Energy and Utilities Board, in conjunction with the oil and gas industry, implemented the Long-term Inactive Well Program. The purpose of this program, is to reduce the number of old inactive wells in Alberta, by either returning them to production or abandoning them. This program will have the impact of accelerating abandonment and/or well re-start activity in Alberta. PrimeWest expenditures on abandonment activities will be accelerated over the next few years. PrimeWest intends to maintain prudent levels of cash funding to the Site Restoration Reserve, in order to meet its obligations under this program and maintain a reasonable reserve to meet future obligations for abandonment and reclamation work that arise from ongoing operations. The Site Restoration Reserve had a balance of $1.8 million at year-end and was owed $125,000 from general funds.

Income taxes

The trust is able to claim certain tax deductions, for the benefit of unitholders, that shelter some or all of the cash distributions from income tax. These tax deductions result from acquiring properties that have sufficient tax pools to shelter income in the trust. Distributions paid in 1998 and 1997 were fully tax-deferred, however they will reduce the adjusted cost base of trust units held by unitholders.

Cash available for distribution

Cash available for distribution to unitholders was $25.8 million, or $0.82 per trust unit in 1998, compared with $33.4 million, or $1.34 per unit in 1997. This $0.52-per-trust-unit decline is primarily the result of lower average selling prices for crude oil and natural gas liquids during 1998. Commencing with the January 1998 distribution (paid in February 1998), PrimeWest began paying distributions monthly, and set the initial distribution rate at $0.08 per trust unit. This rate was adjusted to $0.06 per trust unit effective July 1998, when it became apparent that commodity prices were not likely to recover during the year.

DISTRIBUTION RECONCILIATION

(dollars per trust unit)	
1997 distribution	1.34
1997 distribution adjusted for 1998 equity issue[1]	(0.11)
Net revenues	
Oil and NGL volumes	(0.03)
Oil and NGL price	(0.44)
Natural gas volumes	0.09
Natural gas price	0.01
Hedging income	0.01
Other income	0.06
Royalties, including ARTC	0.11
	(0.19)
Expenses	
Operating expense	(0.09)
General and administrative expense	(0.04)
Financing costs	(0.07)
	(0.20)
Other	
Proceeds from property dispositions	0.49
Repayment of debt	(0.46)
Site reclamation fund	(0.03)
Reserve to fund future production costs	(0.02)
	(0.02)
1998 distribution	0.82

[1] Eight million units were issued in March 1998


Net asset value

Net asset value is a measure of the net value of the trust’s underlying assets – oil and natural gas reserves. Because PrimeWest pays out essentially all cash flow to unitholders, total return measured by cumulative distributions plus changes to net asset value per unit is an appropriate measure of PrimeWest’s performance. Based on an independent evaluation of the trust’s established reserves discounted at 10 percent, the net asset value was $7.72 per unit at the end of 1998, down 21 percent from 1997. The decline in value is accounted for primarily by decreased commodity price forecasts used in the reserve report at year-end 1998, as compared with 1997.

NET ASSET VALUE

(millions, except per-trust-unit data)	**1998**	1997
Established reserves[1]	**$ 313.0**	$ 298.0
Unproved lands	**10.6**	8.4
Reclamation fund	**1.8**	1.7
Working capital	**2.4**	1.8
Long-term debt	**(73.0)**	(66.7)
Net asset value	**$ 254.8**	$ 243.2
Trust units outstanding	**33.02**	24.95
Net asset value per trust unit	**$ 7.72**	$ 9.75

[1] Discounted at 10 percent

Liquidity and capital resources

In early 1998, PrimeWest completed and financed the southeastern-Alberta-area property acquisition with the issuance of eight million trust units priced at $7.80 per unit, for total gross proceeds of $62.4 million. One minor property acquisition, which consolidated our interest in Lone Pine Creek, was financed through the existing credit facility.

Concurrent with closing the southeastern Alberta acquisition, the line of credit was increased to $120 million, of which $113 million was available for use to fund capital expenditures. During 1998, the property-enhancement program of $17.4 million, the acquisition of a toe-hold position in two conventional oil and gas royalty trusts of $3.2 million, and net transaction costs of $962,266 incurred on the attempted consolidation of these trusts were funded by the line of credit. During the year, PrimeWest received proceeds of $16.4 million from the disposition of non-core properties; $14.3 million, or $0.46 per trust unit, was used directly to reduce outstanding debt, with the balance distributed to unitholders. At year-end, outstanding long-term debt, including current portion, was $73.1 million, $2.21 per unit, as compared with $66.8 million, $2.68 per unit in 1997. In early January 1999, long-term debt was further reduced to $69.7 million, when proceeds from the disposition of a minor property were applied to outstanding debt.

DEBT ANALYSIS

(thousands of dollars)	**1998**	1997
Long-term debt	**73,006**	66,723
Working capital	**2,369**	1,845
Net debt	**70,637**	64,878
Market value of unitholders’ equity[1]	**166,767**	212,075
Total capitalization	**237,404**	276,953
Debt as a percentage of Total capitalization	**29.8%**	23.4%

[1] Based on December 31, 1998 and 1997 closing unit prices of $5.05 and $8.50 respectively.

Our year-end debt-to-unitholder-equity ratio was 34 percent, compared with 35 percent at December 31, 1997. At the end of 1998, PrimeWest’s ratio of debt to annual operating cash flow was three times, compared with 2.2 times at the end of 1997. This coverage indicates it would take about three years to fully repay our outstanding long-term debt, should operating cash flow and debt levels remain constant.

Based on our projected 1999 forecast, we expect the ratio of debt to operating cash flow to be in the range of 2.0 to 2.3 times. PrimeWest will continue to maintain a prudent balance sheet, to provide the financial flexibility to enable us to pursue property-enhancement activities in 1999. At December 31, 1998, the trust had cash of $1.2 million included in working capital of $2.4 million.

Business risks

The trust’s operating environment is affected by a number of underlying risks, both internal and external to the trust, and similar to other organizations operating in the conventional oil and gas royalty trust sector. The trust’s financial position, results of operations, and cash available for distribution to unitholders are directly impacted by these factors.

PrimeWest manages its exposure to these risks by operating within good industry practices, and by utilizing derivative financial instruments and commodity-hedging contracts when it is prudent to do so.

CAPITAL EXPENDITURES

(thousands of dollars)	1998	1997
Land and lease	535	129
Geological and geophysical	1,496	346
Development drilling	13,110	8,123
Plant and facilities	1,646	6,641
Property acquisitions	64,200	35,049
Property dispositions	(16,424)	(1,096)
Corporate	629	532
Total capital expenditures	65,192	49,724

Commodity-price, foreign-exchange and interest-rate risks

Fluctuations in commodity prices, foreign exchange and interest rates are outside the direct control of PrimeWest. In order to mitigate a portion of this risk, PrimeWest actively manages, monitors, and reports its hedging activities against criteria established under a commodity risk-assessment and management program, which is regularly reviewed by the board of directors.

Crude oil prices received for PrimeWest's production are impacted in varying degrees by market forces, such as OPEC actions, political events, and supply and demand fundamentals. Natural gas prices are determined by North American supply and demand dynamics.

To the extent that crude oil prices are referenced to WTI oil, which is denominated in US dollars, prices and revenue streams are impacted by changes in value between the Canadian and US dollars. As the Canadian dollar strengthens against its US counterpart, PrimeWest's crude oil revenue stream decreases. In anticipation that the Canadian dollar would strengthen during 1998, PrimeWest fixed the Cdn/US exchange rate on a notional amount of US$1.0 million dollars per month at $1.42 (Cdn/US) in early 1998, and renegotiated a new rate of $1.4487 (Cdn/US) mid-year. The effective date of this swap was January 1, 1998 and it expires December 31, 1999. The relative value of the Canadian dollar continued to decline during the year, however, and this foreign-exchange swap resulted in a reduction of revenue of $589,800 for 1998.

In March 1998, PrimeWest entered into an oil price collar arrangement, effective January 1, 1998 for a two-year period. For 1999, based on notional production volumes from the Grand Forks property, PrimeWest receives or pays a fixed price of $Cdn21.14 per barrel on notional production of 2,304 barrels of oil per day, within a collar of $3.00 per barrel above or below the fixed price. Throughout the period of this arrangement, the maximum payout by either party is $3 million. During 1998, PrimeWest received a total of $2.2 million under this arrangement and it is expected that the balance of $0.8 million will be received during the first and second quarters of 1999.

Approximately 40 percent of PrimeWest's crude oil production is medium-quality crude oil. Prices received for medium-quality crude oil are lower than prices received for light sweet crude oil. Medium-quality crude oil prices are based on the Hardisty-WTI price differential. As this differential narrows, the average selling price received for medium-quality crude oil improves. The price differential narrowed throughout 1998, from approximately $US6.25 per barrel in the first quarter, to a low of $US2.90 per barrel in the fourth quarter. Late in 1998, PrimeWest fixed the Hardisty-WTI price differential at $US3.85 per barrel on approximately 1,650 barrels per day of production for calendar 1999.

PrimeWest's strategy for marketing natural gas is to create a diversified market portfolio. Currently, this is accomplished by selling approximately 58 percent of natural gas production to aggregators and 42 percent of production into the Alberta short- and long-term markets. PrimeWest's contracts with aggregators vary in length, and are a blend of domestic and US markets, with fixed and floating prices, designed to provide diversity to the trust's revenue stream.

In order to take advantage of the current strong Alberta natural gas price market, PrimeWest entered into a series of natural gas hedging transactions at the end of 1998. These transactions fixed the price on approximately 55 percent of direct-market sales (12.5 million cubic feet per day), at $2.50 per thousand cubic feet for the November 1998 gas year (November 1998 to October 1999).

This will provide unitholders with greater certainty of receiving favourable gas prices over the coming year.

Operational risks

PrimeWest is exposed to a number of operational risks, which may result in the failure to achieve our corporate objective of maximizing cash available for distribution to unitholders. These risks include:

Acquisition risk: There is risk that PrimeWest may not be able to acquire, at low cost, producing properties that will renew the trust's inventory of assets.

Development risk: There is no certainty that the development and enhancement programs undertaken by PrimeWest will result in reserve additions on an economic basis or in quantities sufficient to replace annual production.

Production risk: Well operations, and processing and physical delivery of commodities are subject to unexpected delays and operating problems.

Marketing risk: Markets for oil and natural gas are not stable, and PrimeWest's access to markets via pipelines and trucking is also subject to interruption.

In order to mitigate these risks, the manager employs experienced senior-level personnel, who use a hands-on approach to operating PrimeWest's properties. Capital is spent only after strict economic criteria for production and reserve additions are applied. PrimeWest targets low-risk enhancement activities that will provide a steady stream of cash flow.

Year 2000 preparation

Under the direction of a steering committee chaired by a member of the company's executive, PrimeWest commenced its year 2000 (Y2K) assessment and remediation program in early 1998. This assessment began with an inventory of all date-sensitive hardware, software, and other equipment in the company's head office and operated field locations that could be affected by Y2K date changes. Tests were conducted and those items in inventory requiring remedial action were identified. Most non-compliant items in the company's head office have now been replaced or upgraded with compliant hardware, third-party-supplied software, or equipment. Plans are in place to remedy all remaining areas of concern. Critical systems have been identified in field locations, and have been or will be tested during annual turnaround maintenance.

PrimeWest is currently assessing the preparedness of its key suppliers, customers, and joint-venture partners, whose continued operation is critical to PrimeWest's ability to minimize the impact of Y2K disruption on its operations. To date, PrimeWest has not identified any significant issues in this regard. In addition, PrimeWest is developing contingency plans in three key areas: field operations, including communications, safety, personnel and power; product-delivery interruption; and key financial functions.

The cost of Y2K assessment and remedial actions is not expected to be significant. The majority of these costs will be capitalized, as remedial action has generally involved upgrading, rather than repairing, third-party-supplied software.

Based on work performed to date, PrimeWest is confident that Y2K issues will not result in material financial loss to the trust. PrimeWest's assessment of Y2K readiness is an ongoing effort, and we are constantly responding to new information concerning potential Y2K issues.

1999 outlook and sensitivities

PrimeWest anticipates continued growth during 1999. We are optimistic that oil prices will continue to strengthen, and that gas prices will remain firm. We expect to invest $16 million over the year to increase production and reserve values on existing properties. PrimeWest also expects the environment will be conducive to growth through acquisition, and continues to assess opportunities for transactions that will create additional value for unitholders.

CASH FLOW SENSITIVITIES (for 1999)

Change	Impact on cash available for distribution per unit
PRICE	
Oil: US $1.00 per barrel WTI	$ 0.11
Natural gas: Cdn $0.10 per Mcf	$ 0.05
FINANCIAL	
Interest rate: 1 percent	($ 0.01)
Exchange rate: US$0.01	($ 0.01)

[why invest in a conventional oil and gas royalty trust?

Favourable current yield with upside potential. Conventional oil and gas royalty trusts currently provide an average cash-on-cash yield of about 13.5 percent. (PrimeWest currently delivers about 15 percent.) And now, oil and gas royalty trusts, including PrimeWest, have greater potential for upside appreciation from cyclical commodity-price increases.

[management's responsibility

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 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 judgement 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 comprises the independent directors of the board.

The manager, with approval of the board of directors, has appointed the external audit firm of PricewaterhouseCoopers LLP 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

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[auditors' report

To the unitholders of PrimeWest Energy Trust:

We have audited the consolidated balance sheets of PrimeWest Energy Trust as at December 31, 1998 and 1997, and the consolidated statements of income and cash available for distribution, unitholders' equity, and changes in financial position for the years then ended. 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 required that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free from 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, 1998 and 1997, and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants

February 26,1999, except for Note 10, which is at March 10, 1999
Calgary, Alber

[consolidated balance sheets

December 31,	**1998**	1997
Assets	(dollars)	(dollars)
Current assets		
Cash	**1,199,268**	10,713,258
Accounts receivable	**19,114,656**	14,082,138
Short-term investments (Note 2)	**3,212,000**	–
Capital assets held for sale (Note 3)	**3,400,000**	–
Prepaid expenses	**1,420,383**	1,130,986
	28,346,307	25,926,382
Cash reserved for site restoration and reclamation (Note 5)	**1,780,726**	1,738,034
Capital assets (Note 3)	**286,012,531**	258,100,470
	316,139,564	285,764,886
Liabilities and unitholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	**22,666,315**	13,353,224
Accrued distributions to unitholders	**1,981,385**	9,730,514
Due to related company (Note 8)	**1,223,160**	891,124
Current portion of long-term debt (Note 4)	**106,437**	106,437
	25,977,297	24,081,299
Long-term debt (Note 4)	**73,006,396**	66,722,719
Site restoration and reclamation provision	**3,942,554**	1,597,034
	102,926,247	92,401,052
Unitholders' equity (Note 6)		
Net capital contributions	**292,450,645**	232,987,334
Accumulated income (loss)	**(8,363,881)**	5,183,591
Accumulated cash distributions	**(70,134,002)**	(44,364,646)
Dividends	**(739,445)**	(442,445)
Total unitholders' equity	**213,213,317**	193,363,834
	316,139,564	285,764,886

Harold Milavsky
Chairman

Kent J. MacIntyre
Vice-chairman and Chief Executive Officer

[consolidated statements of income and cash available for distribution

For the year ended December 31,	1998	1997
REVENUES	(dollars)	(dollars)
Sales of oil, natural gas, natural gas liquids and sulphur	**76,815,459**	73,659,775
Crown and other royalties, net of ARTC	**(12,868,053)**	(14,199,153)
Other income	**2,109,558**	131,997
	66,056,964	59,592,619
EXPENSES		
Operating	**30,549,926**	21,270,162
General and administrative	**5,108,420**	3,708,307
Interest	**4,710,796**	2,139,974
Corporate acquisition costs (Note 10)	**962,266**	–
Management fees	**1,294,423**	1,395,733
Depletion, depreciation and amortization	**36,978,605**	27,908,371
	79,604,436	56,422,547
Net income (loss) for the year	**(13,547,472)**	3,170,072
Add back (deduct) amounts to reconcile to distribution:		
Proceeds on disposition of properties	**16,424,090**	1,018,342
Repayment of long-term debt	**(14,278,782)**	–
Reserve to fund future production costs	**–**	641,855
Corporate acquisition costs funded by debt	**962,266**	–
Depletion, depreciation and amortization	**36,978,605**	27,908,371
Contribution to reclamation fund	**(921,398)**	–
Structuring fee paid	**–**	535,000
Management fees paid in trust units	**412,342**	472,469
	39,577,123	30,576,037
Cash available for distribution	**26,029,651**	33,746,109
CASH AVAILABLE TO TRUST UNITHOLDERS (99%)	**25,769,356**	33,408,646
Cash available for distribution per trust unit	**0.82**	1.34
Net income (loss) per trust unit	**(0.43)**	0.13

[consolidated statements of unitholders' equity

For the year ended December 31,	1998	1997
	(dollars)	(dollars)
Unitholders' equity – beginning of year	**193,363,834**	223,505,274
Net income (loss) for the year	**(13,547,472)**	3,170,072
Net capital contributions	**59,463,311**	430,126
Cash distributions	**(25,769,356)**	(33,408,646)
Dividends	**(297,000)**	(332,992)
Unitholders' equity – end of year	**213,213,317**	193,363,834

[consolidated statements of changes in financial position

For the year ended December 31,	1998	1997
OPERATING ACTIVITIES	(dollars)	(dollars)
Net income (loss) for the year	**(13,547,472)**	3,170,072
Add: Items not involving cash from operations		
Depletion, depreciation and amortization	**36,978,605**	27,908,371
Corporate acquisition costs	**962,266**	–
Funds from operations	**24,393,399**	31,078,443
Change in non-cash working capital	**4,323,212**	4,172,621
	28,716,611	35,251,064
FINANCING ACTIVITIES		
Proceeds from issue of trust units (net of costs)	**59,463,311**	430,126
Cash distributions to unitholders	**(25,769,356)**	(33,408,646)
Dividends	**(297,000)**	(332,992)
Increase in long-term debt	**6,283,677**	52,600,910
Change in non-cash working capital	**(7,749,129)**	(1,225,486)
	31,931,503	18,063,912
INVESTING ACTIVITIES		
Expenditures on capital assets	**(17,415,828)**	(15,771,669)
Acquisition of capital assets	**(64,199,929)**	(35,048,615)
Proceeds on disposal of capital assets	**16,424,090**	1,096,179
Cash utilized (reserved) for future site restoration and reclamation	**(42,692)**	485,356
Expenditures on site restoration and reclamation	**(753,479)**	(485,356)
Acquisition of short-term investments	**(3,212,000)**	–
Corporate acquisition costs	**(962,266)**	–
	(70,162,104)	(49,724,105)
Increase (decrease) in cash for the year	**(9,513,990)**	3,590,871
Cash, beginning of year	**10,713,258**	7,122,387
Cash, end of year	**1,199,268**	10,713,258

1. Structure of the Trust

PrimeWest Energy Trust (the "Trust") is an open-ended 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 gas properties.

PrimeWest acquires oil and 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 receives reimbursement for all of its costs associated with these services, as well as management fees from the Trust and PrimeWest for its services (see Note 8). The Manager owns the shares of PrimeWest, and a director of PrimeWest controls the Manager.

2. Accounting policies

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, 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 gas properties and related development costs are capitalized and accumulated in one cost centre. Maintenance and repairs are charged against earnings. Renewals and enhancements that extend the economic life of the capital asset are capitalized.

Gains and losses are not recognized on disposition of oil and 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 that may be carried forward for depletion against net 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 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 income.

ii) Site restoration and reclamation provision: PrimeWest provides for the cost of future site restoration and reclamation based on estimates by management and 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 and amortization: Provision for depletion and depreciation is calculated on a unit-of-production method 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. Independent petroleum engineers estimate reserves. 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 to 30 percent.

Joint venture accounting

PrimeWest conducts substantially all of its oil and gas production activities through joint ventures, 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 that is not allocated to unitholders. No accounting for deferred income taxes is provided in these consolidated financial statements, as all taxable income, if any, is allocated to 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.

Short-term investments

Investments are reported on the balance sheet at the lower of cost or market value. The quoted market value approximated cost at December 31, 1998.

Financial instruments

PrimeWest uses financial instruments to manage its exposure to commodity price, foreign currency exchange and interest 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

CAPITAL ASSETS

	1998 Cost	1998 Accumulated depletion, depreciation and amortization	1998 Net book value	1997 Cost	1997 Accumulated depletion, depreciation and amortization	1997 Net book value
Property acquisition	**$320,578,868**	**$63,722,609**	**$256,856,259**	$275,668,473	$32,611,759	$243,056,714
Drilling and completion	**23,483,013**	**2,538,782**	**20,944,231**	8,877,315	820,754	8,056,561
Production facilities and equipment	**8,396,989**	**1,343,993**	**7,052,996**	6,750,119	585,353	6,164,766
Head office furniture and equipment	**1,680,188**	**521,143**	**1,159,045**	1,051,484	229,055	822,429
	$354,139,058	**$68,126,527**	**$286,012,531**	$292,347,391	$34,246,921	$258,100,470

Unproved land costs of $10,500,000 (1997 – $8,449,000) are excluded from costs subject to depletion and depreciation.

Capital assets held for sale

On January 18, 1999, PrimeWest closed the disposition of its Tweedie property, receiving the balance of the proceeds of $3.4 million. At December 31, 1998, the amount was recorded as capital assets held for sale in current assets, with an offsetting reduction in capital assets.

4. Long-term debt

	1998	1997
Revolving credit facility	**$ 72,757,378**	$ 66,386,135
Capital lease obligation	**249,018**	336,584
	$ 73,006,396	$ 66,722,719

PrimeWest and the Trust (as co-borrowers) have a combined revolving credit facility in the amount of $120 million, with a borrowing base at December 31, 1998 of $113 million. In addition to amounts outstanding under the facility, PrimeWest has outstanding letters of credit in the amount of $562,000. Collateral for the credit facility is provided by a floating-charge debenture in the principal amount of $150 million. PrimeWest has provided a guarantee on any advances made by the Trust under the facility.

Advances under the facility are made in the form of either Banker's Acceptances (BA's) or prime rate loans. In the case of BA's, interest is a function of the BA rate plus a stamping fee based on the current debt-to-cash flow ratio of the Trust. In the case of prime rate loans, interest is charged at the Bank's prime rate.

The credit facility will revolve until April 30, 1999, by which time the lender will have conducted its annual review. 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 instalments 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 5.0 percent and matures in September 2002. PrimeWest has the option, in May 2002, to purchase the asset for 10 percent of the lease cost. Payments on the lease, including principal and interest, total $106,437 per year.

5. Reserves

Cash reserved for site restoration and reclamation

In 1996, an amount of $2,720,000 was contributed to this reserve from the proceeds of the initial public offering, representing 1996 and 1997 funding contributions. Commencing in 1998, funding for the reserve was provided for by reducing distributions otherwise payable by approximately $0.20 per barrel of oil equivalent produced, or $885,814. Actual costs of site restoration and abandonment, totalling $753,479, were paid out of this cash reserve for the year ended December 31, 1998 (1997 – $485,356).

Pursuant to a royalty agreement between the Trust and PrimeWest, PrimeWest may establish the following reserves:

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. As at December 31, 1998, there is no balance in this reserve.

Reserve to hold certain excess revenues

A reserve will be established if other revenues exceed total revenues by 10 percent or more. For the years ended December 31, 1998 and 1997, other revenues did not exceed the threshold, and therefore no reserve has been established.

6. Unitholders' equity

Authorized

The authorized capital of the Trust consists of an unlimited number of trust units.

NET CAPITAL CONTRIBUTIONS

	Number of units	Amount
Balance, January 1, 1997	24,900,000	$ 232,557,208
Issued for payment of management fees	50,037	503,495
Issue expenses	–	(73,369)
Balance, December 31, 1997	24,950,037	$ 232,987,334
Issued for cash	8,000,000	62,400,000
Issue expenses	–	(3,437,096)
Issued for payment of management fees	62,194	437,611
Issued pursuant to Distribution Reinvestment Plan	10,853	62,796
Balance, December 31, 1998	33,023,084	$ 292,450,645

The weighted average number of units outstanding in 1998 was 31,426,041 (1997 – 24,931,385).

Cash Distributions

Distributions to unitholders were paid quarterly in 1997 and monthly commencing January 1998.

7. Trust unit incentive plan

Under the terms of the Trust Unit Incentive Plan, a maximum of 749,000 Trust units are reserved for issuance pursuant to the exercise of Unit Appreciation Rights granted to employees of the Manager. 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. The Board of Directors have the option of settling payouts under the plan in units or in cash.

At December 31, 1998, there were 3,117,109 (1997 – 1,653,520) Unit Appreciation Rights granted at prices ranging from $5.00 to $11.15 (1997 – $8.75 to $11.15) per Unit Appreciation Right. Of the Unit Appreciation Rights granted, 1,057,197 have vested and are available to be exercised as at December 31, 1998 (1997 – 362,100). As at December 31, 1998 and 1997, no amounts have been accrued in respect of this plan.

8. Related-party transactions

For the year ended December 31, 1998, the Manager received management fees of $1,294,423 (1997 – $1,395,733). Of this amount, $882,081 was paid in cash (1997 – $923,264) and the balance was paid by the issuance of 66,247 Trust units (1997 – 50,062) from treasury.

Acquisition and disposition fees paid to the Manager during 1998 in the amount of $1,116,640 (1997 – $515,723) were included in capital assets as part of the cost, or net proceeds, relating to oil and gas properties acquired or disposed.

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 $297,000 for 1998 (1997 – $332,992).

The Manager was 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 charged to income during 1997.

As at December 31, 1998, the Trust and PrimeWest owed $1,223,160 (1997 – $891,124) 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 1998 or 1997, 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. PrimeWest also had no taxable income for 1998 or 1997, as tax-pool deductions and the royalty payable were sufficient to reduce taxable income to nil.

10. Corporate acquisition costs

In late 1998, PrimeWest made offers to acquire all of the issued and outstanding units of Starcor Energy Royalty Fund and Orion Energy Trust. Subsequent to year end, PrimeWest withdrew its offers, and costs incurred up to December 31, 1998, net of associated recoveries of $92,378, were expensed. Costs incurred in 1999, totaling approximately $950,000, will be expensed in 1999. Units acquired in connection with these offers are held as short-term investments. As at March 10, 1999, the date in which these units were exchanged for units of a third trust, the approximate gain on these investments was $823,000. This gain will be accounted for in the 1999 fiscal year.

11. Financial instruments

a) Commodity-price risk management

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

With the March 1998 acquisition of the Grand Forks properties, PrimeWest entered into an oil price collar agreement. The collar fixes the price on 2,304 barrels per day (1998 – 2,776 barrels per day) at $Cdn21.14/bbl (1998 – $Cdn18.51/bbl) within a collar of $3.00 per barrel above or below the fixed price. The fair value of this collar at December 31, 1998 was a gain of $763,321. This collar expires on December 31, 1999 or when the amount paid by either party reaches a cap of $3,000,000. PrimeWest collected $2,236,679 in respect of this collar in 1998.

b) Foreign-exchange-rate risk management

PrimeWest is exposed to foreign currency fluctuations on its operations, because crude oil prices received are referenced to United States dollar-denominated prices. Effective January 1, 1998, PrimeWest entered into a foreign-exchange swap agreement with a Canadian chartered bank to fix the exchange rate at $1.42 ($Cdn/$US), based on a notional principal amount of $US 1,000,000 per month. On June 19, 1998, PrimeWest renegotiated a new rate of $1.4487 ($Cdn/$US) with a maturity date of December 31, 1999. The fair value of the foreign-exchange swap at December 31, 1998, was a loss of $1,117,200 (1997 – loss of $42,000).

c) Interest-rate risk management

During 1998, PrimeWest entered into two agreements to fix the interest rate on $25 million of debt at BA rates of 5.495 percent until June 22, 2000, and $15 million of debt at BA rates of 5.535 percent until June 22, 2001. The fair value of the interest-rate swaps at December 31, 1998, was a loss of $420,458.

d) Fair value of financial instruments

Financial instruments include cash, short-term investments, accounts receivable, accounts payable and accrued liabilities, long-term debt, and the financial hedges. As at December 31, 1998 and 1997, the fair market value of the financial instruments, other than long-term debt and the financial hedges, 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 borrowing.

12. Uncertainty due to the year 2000 issue

The year 2000 issue arises because many computerized systems use two digits, rather than four, to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information that uses year 2000 dates is processed. In addition, similar problems may arise in some systems that use certain dates in 1999 to represent something other than a date. The effects of the year 2000 issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure, which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the year 2000 issue affecting the Trust, PrimeWest or the Manager, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

[why invest in a conventional oil and gas royalty trust?

Investment returns from royalty trusts are treated advantageously for tax purposes.

A royalty trust like PrimeWest distributes its cash flow, rather than reinvests it. Depending on the tax position of the trust – how much of its income it is sheltered with Canadian Oil and Gas Property Expense or other tax pools – unitholders may receive all, or a portion of, their distributions as a return *of* capital (tax-free) rather than a return *on* capital (taxed as income). Distributions received as a return *of* capital reduce the adjusted cost base of the trust units, and the unitholder may have to pay capital gains when the units are sold. Since inception, all distributions paid to unitholders by PrimeWest have been considered a return *of* capital.

The Toronto Stock Exchange has established guidelines for improved and effective corporate governance in Canada. These guidelines outline preferred approaches in such areas as duties and responsibilities, board composition and structure, and board independence from management. The board of directors of PrimeWest Energy Inc. considers that the practices and examples outlined below comply with these guidelines, and provide for sound corporate governance.

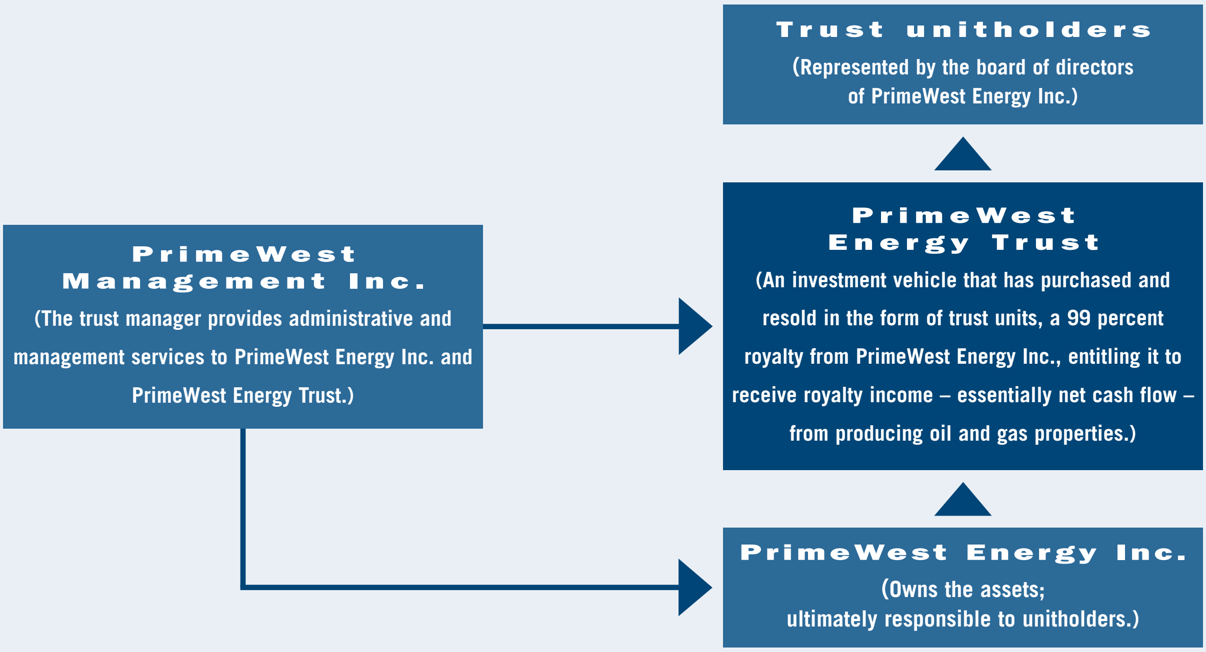
Mandate, duties and responsibilities

The board of directors is ultimately responsible for the direction and stewardship of PrimeWest Energy Inc. and PrimeWest Energy Trust.

At regularly scheduled meetings, the board and management consider issues relevant to the trust's strategies and business interests. The board also reviews, and if appropriate, approves:

- strategic plans, independent reserve engineering reports, operating and financial forecasts, and capital and operating budgets brought to it by management;
- significant capital investments outside the range of approved forecasts and budgets. (Board approval is required for all acquisitions having a cost greater than $5 million and for all dispositions having a sale price or proceeds greater than $2 million.);
- public disclosure documents, including annual and quarterly reports and material news releases;
- the establishment of credit facilities;
- the issuance of trust units;
- the determination of the amount of distributions to be made by the trust;
- risk-management programs;
- contributions to the reclamation fund;
- decisions by management that could have a significant impact on the trust, its employees, unitholders, or other stakeholders.

In 1998, the board met on 18 occasions. On most occasions, the independent members of the board also met in-camera, without management directors present.



Board composition, structure, and independence from management

The board is composed of five directors, three of whom are independent. Two directors are employees of the manager. Each of the three other directors, including the Chairman, are unrelated to the trust and independent of management, and none has any interest that could interfere with his ability to act in the best interests of the trust. None has received any remuneration from PrimeWest, other than director's fees. The board considers that its size, at five members, is appropriate.

The board has two committees consisting of the independent directors. The audit committee, which met twice in 1998, supports the board's stewardship responsibilities by reviewing operating and financial results prior to disclosure. This includes discussions with both management and the independent auditors, PricewaterhouseCoopers LLP. The compensation committee monitors the performance of management, and the administration of short- and long-term incentive compensation plans for employees.

Day-to-day management of PrimeWest Energy Trust is the responsibility of the Chief Executive Officer and senior management, including the newly appointed President and Chief Operating Officer, subject to limits on these individuals as set out in the management agreement and as established by the board. Activities are directed toward achieving both growth in distributable income paid to unitholders and renewal of the value of the properties owned by PrimeWest Energy Inc. (and consequently the royalty held by PrimeWest Energy Trust). These two objectives are fundamental to the operation of the Trust and are balanced to enhance benefits to the unitholders.

RESERVES SUMMARY	Crude oil (Mbbl)	Natural gas (MMcf)	Natural gas liquids (Mbbl)	Sulphur (Mlt)	Total reserves (Mboe)
As at January 1, 1999					
Proved producing	15,445	161,404	3,522	693	34,987
Total proved	17,015	195,572	4,458	712	40,910
Total proved and probable	26,470	291,450	8,630	953	64,086
Established	21,742	243,511	6,544	832	52,498
As at January 1, 1998					
Established	15,240	227,253	6,729	832	44,555

PRESENT WORTH OF RESERVES (thousands of dollars)	Discounted at 0%	Discounted at 10%	Discounted at 12%	Discounted at 15%
As at January 1, 1999				
Proved producing	384,979	220,228	203,888	183,943
Total proved	450,079	253,520	233,120	208,138
Total proved and probable	762,068	372,167	335,476	291,614
Established	606,073	312,844	284,298	249,876
As at January 1, 1998				
Established	627,402	298,011	268,345	233,217

PRICING ASSUMPTIONS	Oil			Natural gas		
	WTI[1] ($US/bbl)	Edmonton par[2] ($Cdn/bbl)	Exchange rate ($US/$Cdn)	Henry Hub ($US/MMBTU)	Alberta government market ($Cdn/MMBTU)	BC direct wellhead ($Cdn/MMBTU)
1999	$14.67	$21.06	0.66	$2.16	$2.25	$1.80
2000	$16.61	$23.07	0.69	$2.23	$2.28	$1.81
2001	$18.57	$24.98	0.71	$2.33	$2.31	$1.87
2002	$20.05	$26.37	0.73	$2.41	$2.37	$1.93
2003	$20.69	$27.18	0.73	$2.50	$2.45	$1.99
2004	$21.13	$27.70	0.73	$2.56	$2.53	$2.06
2005	$21.57	$28.25	0.73	$2.63	$2.61	$2.14
Next 10 years	2.0%	2.0%	0.73	2.0%	2.0%	2.0%
Thereafter	1.3%	1.3%	0.73	1.3%	1.3%	1.3%

[1] 40 degrees API, 0.4 percent sulphur [2] 40 degrees API

ESTABLISHED RESERVE RECONCILIATION (two-year)	Oil equivalent (MMboe)[1] 1998	1997
As at January 1,	**44.6**	36.0
Capital additions	**5.3**	4.8
Technical revisions	**0.4**	1.3
Acquisitions	**9.8**	6.0
Dispositions	**(2.9)**	(0.2)
Production	**(4.5)**	(3.3)
As at year-end	**52.5**	44.6

[1] Reconciliation may not add due to rounding

RESERVE REPLACEMENT	1998	1997	1996[1]
Established Reserve Life Index (forward-looking)	**11.1**	12.2	11.1
Recycle ratio (netback divided by finding costs)	**1.84**	2.49	N/A
Reserve replacement costs ($/boe)			
Capital development (includes technical revisions)	**3.09**	3.28	N/A
Net acquisitions	**4.92**	5.42	N/A
Weighted average	**4.09**	4.61	N/A
Reserve replacement (as a percentage of production)			
Capital development (includes technical revisions)	**153**	182	N/A
Acquisitions (net of dispositions)	**127**	183	N/A
Total reserve replacement ratio	**280**	365	N/A

[1] For the period September 1 to December 31, 1996

OIL RESERVES BY AREA (Mbbl)	Proved	Probable	Established
Sundre (Garrington/Westward Ho/Caroline)	2,725	2,470	3,959
Laprise Creek	–	–	–
Southeastern Alberta (Grand Forks/Medicine Hat)	5,256	3,848	7,180
Crossfield/Lone Pine Creek	266	75	304
Boundary Lake	3,975	1,009	4,479
Kaybob South	1,906	726	2,269
Others	2,887	1,327	3,551
Total (January 1, 1999)	17,015	9,455	21,742

NATURAL GAS RESERVES BY AREA (Bcf)	Proved	Probable	Established
Sundre (Garrington/Westward Ho/Caroline)	46.5	38.7	65.8
Laprise Creek	65.6	20.8	76.1
Southeastern Alberta (Grand Forks/Medicine Hat)	14.9	4.9	17.4
Crossfield/Lone Pine Creek	46.5	25.1	59.0
Boundary Lake	0.3	0.1	0.4
Kaybob South	1.4	0.5	1.6
Others	20.3	5.8	23.2
Total (January 1, 1999)	195.5	95.9	243.5

NATURAL GAS LIQUIDS RESERVES BY AREA (Mbbl)	Proved	Probable	Established
Sundre (Garrington/Westward Ho/Caroline)	2,363	1,952	3,339
Laprise Creek	687	1,621	1,497
Southeastern Alberta (Grand Forks/Medicine Hat)	23	8	27
Crossfield/Lone Pine Creek	586	350	761
Boundary Lake	10	3	12
Kaybob South	113	38	132
Others	676	200	776
Total (January 1, 1999)	4,458	4,172	6,544

QUARTERLY PRODUCTION VOLUMES	1998	1997	1996[1]
Oil (bbl/d)			
1st quarter	**4,780**	3,680	–
2nd quarter	**6,206**	3,843	–
3rd quarter	**6,264**	3,646	–
4th quarter	**6,201**	3,778	–
Annual average	**5,868**	3,737	3,372
Natural gas (MMcf/d)			
1st quarter	**49.18**	40.25	–
2nd quarter	**54.00**	36.24	–
3rd quarter	**49.95**	43.31	–
4th quarter	**48.51**	48.97	–
Annual average	**50.41**	42.22	31.47
Natural gas liquids (bbl/d)			
1st quarter	**1,278**	1,045	–
2nd quarter	**1,254**	948	–
3rd quarter	**1,185**	1,416	–
4th quarter	**1,188**	1,134	–
Annual average	**1,226**	1,137	993
Total (boe/d)			
1st quarter	**10,976**	8,750	–
2nd quarter	**12,860**	8,415	–
3rd quarter	**12,445**	9,393	–
4th quarter	**12,240**	9,809	–
Annual average	**12,134**	9,096	7,512

[1] For the period September 1 to December 31, 1996

AVERAGE SELLING PRICES	1998	1997	1996[1]
Crude oil ($/bbl)	**16.92**	25.93	30.93
Natural gas ($/Mcf)	**1.83**	1.85	1.59
NGLs ($/bbl)	**14.55**	22.65	23.87
Price per boe ($)	**17.34**	22.19	23.87

OPERATING NETBACK ($/boe)	1998	1997	1996[1]
Revenue	**17.34**	22.19	23.87
Royalties	**(2.91)**	(4.28)	(4.19)
Operating expenses	**(6.90)**	(6.41)	(5.69)
Netback	**7.53**	11.50	13.99

[1] For the period September 1 to December 31, 1996

PRODUCTION BY AREA	Oil (bbl/d)	Natural gas (Mcf/d)	NGLs (bbl/d)	Total (boe/d)
1998				
Sundre (Garrington/Westward Ho/Caroline)	**1,074**	**11,252**	**581**	**2,779**
Laprise Creek	**37**	**11,521**	**154**	**1,343**
Southeastern Alberta (Grand Forks/Medicine Hat)	**2,329**	**3,797**	**8**	**2,717**
Crossfield/Lone Pine Creek	**80**	**14,416**	**163**	**1,685**
Boundary Lake	**753**	**240**	**5**	**782**
Kaybob South	**898**	**393**	**137**	**1,074**
Others	**697**	**8,790**	**178**	**1,754**
Total	**5,868**	**50,409**	**1,226**	**12,134**

	Oil (bbl/d)	Natural gas (Mcf/d)	NGLs (bbl/d)	Total (boe/d)
1997				
Sundre (Garrington/Westward Ho/Caroline)	895	11,746	609	2,679
Laprise Creek	32	10,492	120	1,200
Southeastern Alberta (Grand Forks/Medicine Hat)	–	–	–	–
Crossfield/Lone Pine Creek	71	12,708	154	1,497
Boundary Lake	786	67	4	797
Kaybob South	1,223	613	80	1,364
Others	730	6,595	169	1,559
Total	3,737	42,221	1,137	9,096

SELECTED ANNUAL FINANCIAL HIGHLIGHTS (thousands of dollars, except per-trust-unit data)	1998	1997	1996[1]
For the year ended December 31			
Total revenues, net of royalties	**66,057**	59,592	18,043
Total expenses, excluding depreciation, depletion and amortization	**42,625**	28,514	7,112
Total expenses, including depreciation, depletion and amortization	**79,604**	56,422	16,030
Net income (loss)	**(13,547)**	3,170	2,013
per trust unit	**(0.43)**	0.13	0.24
Cash available for distribution	**26,030**	33,746	11,067
Cash available for distribution to unitholders (99%)	**25,769**	33,409	10,956
per trust unit	**0.82**	1.34	0.44
Cumulative cash distributions to unitholders (99%)	**70,134**	44,365	10,956
per trust unit	**2.60**	1.78	0.44
Cash flow from operations	**24,393**	31,078	10,931
Capital expenditures	**65,192**	49,724	242,623
(thousands)			
Weighted average number of trust units outstanding	**31,426**	24,931	8,323
Number of trust units outstanding at year end	**33,023**	24,950	24,900

[1] For the period September 1 to December 31, 1996

Balance sheet information as at December 31			
(thousands of dollars)			
Working capital	**2,369**	1,845	1,308
Site restoration and reclamation fund	**1,781**	1,738	2,223
Total assets	**316,140**	285,765	254,480
Long-term debt, including current portion	**73,112**	66,829	14,228

DEBT ANALYSIS	1998	1997	1996
Debt-to-cash flow (year end)	**3.0**	2.2	1.3
Debt-to-equity ratio	**34.2%**	34.5%	6.4%
Interest coverage ratio	**6.0**	15.5	115.6
Cost of debt	**6.3%**	4.8%	3.8%

TAX POOLS (thousands of dollars)	1998	1997	1996
Canadian oil and gas property expense (COGPE)	**263,400**	225,600	221,800
Canadian exploration expense (CEE)	**1,850**	300	–
Canadian development expense (CDE)	**–**	7,200	–
Capital cost allowance (CCA)	**32,330**	25,000	13,600
Trust unit issue expenses	**14,600**	11,900	15,100

TRADING PERFORMANCE	1996[1]	1997[1]	1998	1998 1Q	1998 2Q	1998 3Q	1998 4Q
Trust unit trading performance							
Unit price: High	$12.10	$11.45	**$8.75**	$8.75	$7.65	$7.10	$6.50
Low	$11.30	$7.95	**$4.78**	$7.35	$6.30	$5.15	$4.78
Close	$11.30	$8.50	**$5.05**	$7.55	$6.55	$5.80	$5.05
Daily volume traded (millions)	273,763	42,323	**55,318**	40,758	79,432	43,901	57,212
[1] Unit price for 1996 and 1997 represents fully paid trust unit							
Market indicators							
WTI – average ($US per barrel)	$22.00	$20.61	**$14.42**	$15.95	$14.69	$14.15	$12.91
Exchange rate – average ($US/$Cdn)	0.73	0.72	**0.67**	0.70	0.69	0.66	0.65
Government of Canada 10-year bond yield (closing)	6.41%	5.62%	**4.91%**	5.37%	5.36%	4.96%	4.91%
TSE 300 Index (closing)	5,927.0	6,699.4	**6,485.9**	7,558.5	7,366.9	5,614.1	6,485.9
TSE Oil and Gas Producers Index (closing)	6,486.8	6,670.3	**4,643.2**	6,573.1	6,069.6	5,246.0	4,643.2

DISTRIBUTIONS Record date[1]	Distribution date	Cash distribution (per unit)	Cumulative cash distributions (per unit)	Portion taxable
1996				
December 31	January 15, 1997	$0.44	$0.44	0%
1997				
March 31	April 15	0.35		
June 30	July 15	0.30		
September 30	October 15	0.30		
December 31	January 15, 1998	0.39		
		1.34	1.78	0%
1998				
January 31	February 15, 1998	0.08		
February 28	March 15	0.08		
March 31	April 15	0.08		
April 30	May 15	0.08		
May 31	June 15	0.08		
June 30	July 15	0.06		
July 31	August 15	0.06		
August 31	September 15	0.06		
September 30	October 15	0.06		
October 31	November 15	0.06		
November 30	December 15	0.06		
December 31	January 15, 1999	0.06		
		$0.82	$2.60	0%

[1] Ex-distribution date is two trading days prior to the record date

[directors and senior officers

Ronald Ambrozy, P.Eng.
Vice-president, Business Development

Mr. Ambrozy has been active in the oil and gas industry since 1975, holding progressively more responsible positions with Gulf Canada. During the last ten years of his career, he has led the evaluation of properties and completion of transactions worth more than $1.5 billion. He joined PrimeWest in 1997.

Susan M. Duncan, CA
Vice-president, Finance

Ms. Duncan has more than 14 years of experience in finance, accounting, auditing and tax. She worked in public practice for ten years, and was a principal at Coopers and Lybrand. Prior to joining PrimeWest in 1996, Ms. Duncan was Treasurer of Triad Energy Inc.

Barry Emes, LL.B.
Independent director

Mr. Emes is Managing Partner of the Calgary office of Stikeman, Elliott and a partner in the firm's corporate/commercial group. In his practice, he has counselled borrowers and lenders in financings; sellers and purchasers of shares and other assets; and independent committees and financial advisors with respect to take-overs.

D. Hugh Gillard
President and Chief Operating Officer,
Management director effective March 19, 1999

Mr. Gillard joined PrimeWest in early 1999, as President and Chief Operating Officer. He has more than 26 years of oil and gas industry experience – in accounting, business development, marketing, land, property rationalization, and senior management. Most recently, he was President and Chief Executive Officer of CanWest Gas Supply Inc.

Allan F. Kiernan, P.Eng.
Vice-president, Production

Mr. Kiernan has more than 35 years of experience in petroleum engineering and production operations. Prior to joining PrimeWest in 1996, he was Senior Vice-president at AEC Oil and Gas, and Senior Vice-president, Production for Chieftain Development Co. Ltd. Before Chieftain, Mr. Kiernan held progressively more senior positions at Dome Petroleum Limited and Hudson's Bay Oil and Gas.

Harold N. Kvisle, P.Eng.
Independent director

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

Kent J. MacIntyre
Vice-chairman and Chief Executive Officer, director

Mr. MacIntyre has more than 19 years of oil and gas industry experience, the last ten as a principal in the start-up and management of junior oil and gas ventures. Prior to establishing PrimeWest, he was President and Chief Executive Officer of Triad Energy Inc., and before that, President and Chief Executive Officer of Olympia Energy Ventures Ltd. He currently serves as a director of Citadel Diversified Management Ltd. and Talon Petroleums Ltd.

Harold Milavsky, FCA
Chairman, Independent director

Mr. Milavsky is Chairman of Quantico Capital Corp., a privately held company engaged in merchant banking, principal investments and acquisitions. Mr. Milavsky is also a director of Aspen Properties Ltd., BCT.TELUS Corporation Inc., Citadel Diversified Management Ltd., Encal Energy Ltd., Enmax Corporation, Torode Realty Limited and TransCanada Pipelines Limited.

Jacob Roorda, P.Eng.
Management director until March 19, 1999

Mr. Roorda has 20 years of engineering, financial and general management experience in the oil and gas industry. Before joining PrimeWest, he held senior management positions at Fletcher Challenge Energy Canada. He is currently President of BeauVenture Resources Inc.

TERMS USED IN THIS ANNUAL REPORT

bbl	barrels
Mbbl	thousands of barrels
bbl/d	barrels per day
Mcf	thousands of cubic feet
MMcf	millions of cubic feet
Bcf	billions of cubic feet
MMcf/d	millions of cubic feet per day
boe	barrels of oil equivalent
boe/d	barrels of oil equivalent per day
MMboe	millions of barrels of oil equivalent
lt	long tons
Mlt	thousand long tons
MMBTU	millions of British thermal units
boe conversion	10 Mcf of natural gas equals one boe
Established reserves	total proved plus one-half of total probable reserves

[corporate information

Directors

Barry E. Emes [1, 2]
Partner
Stikeman, Elliott

D. Hugh Gillard [3]
President and Chief Operating Officer
PrimeWest Energy Inc.

Harold N. Kvisle [1, 2]
President
Fletcher Challenge Energy, Canada

Kent J. MacIntyre [4]
Vice-chairman and Chief Executive Officer
PrimeWest Energy Inc.

Harold P. Milavsky [1, 2]
Chairman
Quantico Capital Corp.

Jacob Roorda [5]
President
BeauVenture Resources Inc.

1 Member of Audit Committee
2 Member of Compensation Committee
3 Nominee of the manager, effective March 19, 1999
4 Nominee of the manager
5 Nominee of the manager, resignation effective March 19, 1999

Officers

Harold P. Milavsky
Chairman

Kent J. MacIntyre
Vice-chairman and Chief Executive Officer

D. Hugh Gillard
President and Chief Operating Officer

Ron 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

Head Office

1600, 530 - 8 Avenue SW
Calgary, AB Canada T2P 3S8
Telephone: 403-234-6600
Fax: 403-234-6654
Toll-free: 1-877-968-7878
Website: www. primewestenergy.com

Trust units traded

The Toronto Stock Exchange (PWI.UN)

Registrar and transfer agent

Montreal Trust Company of Canada, Calgary
Toll-free: 1-800-558-0046

Auditor

PricewaterhouseCoopers LLP, Calgary

Engineering consultant

Gilbert Laustsen Jung Associates Ltd.

Legal counsel

Stikeman, Elliott

For further information:

General inquiries: 403-234-6600
Investor Relations toll-free: 1-877-968-7878
Investor Relations fax: 403-234-6654
e-mail: investor@primewestenergy.com

Distribution Reinvestment Plan

The Distribution Reinvestment Plan provides for the automatic purchase of additional trust units from cash distributions received each month. Participants do not pay any costs associated with this plan, including brokerage commissions.

For further information, or to join the plan, contact Investor Relations via e-mail at investor@primewestenergy.com, fax at 403-234-6654, or toll-free at 1-877-968-7878.

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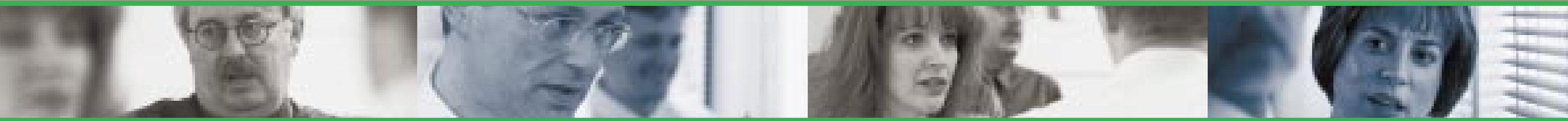

PrimeWest Energy Trust

[1600, 530 – 8 Avenue SW
[Calgary, AB Canada T2P 3S8
[Phone: 403-234-6600 Fax: 403-234-6654
[Toll-free: 1-877-968-7878
[www.primewestenergy.com