

**CONSOLIDATED BALANCE SHEETS**

As at December 31 (in thousands of Canadian dollars)

	2002	2001	2000
<b>ASSETS</b>			
Current Assets			
Accounts Receivable	\$ 71,635	\$ 60,609	\$ 40,561
Prepaid Expenses	9,759	9,112	4,398
Inventory	2,204	3,173	840
	<b>83,598</b>	72,894	45,799
Cash Reserved for Site			
Restoration and Reclamation	12	755	398
Property, Plant and Equipment	1,404,463	1,448,661	395,376
Other Assets	14,179	-	-
	<b>\$ 1,502,252</b>	\$ 1,522,310	\$ 441,573
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>			
Current Liabilities			
Bank Overdraft	\$ 3,057	\$ 14,613	\$ 834
Accounts Payable	43,109	26,207	19,057
Accrued Liabilities	23,950	39,350	13,440
Accrued Distributions to Unitholders	13,918	11,980	9,961
Due to Related Company	-	10,108	2,057
Current Portion of Long-term Debt	-	67	106
	<b>84,034</b>	102,325	45,455
Long-term Debt	225,000	195,000	78,940
Future Income Taxes	339,888	362,595	16,596
Site Restoration and Reclamation Provision	6,232	6,113	1,958
	<b>655,154</b>	666,033	142,949
Unitholders' Equity			
Net Capital Contributions	1,299,968	1,152,551	435,342
Capital Issued but Not Distributed	884	1,035	614
Long Term Incentive Plan Equity	10,068	7,932	8,930
Accumulated Income	123,170	122,550	43,014
Accumulated Cash Distributions	(578,934)	(420,983)	(186,518)
Accumulated Dividends	(8,058)	(6,808)	(2,758)
	<b>847,098</b>	856,277	298,624
	<b>\$ 1,502,252</b>	\$ 1,522,310	\$ 441,573

Commitments and Contingencies

**CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY**

For the Years Ended December 31 (in thousands of Canadian dollars)	2002	2001	2000
Unitholders' Equity - Beginning of Year, as	\$ 856,277	\$ 298,624	\$ 200,039
previously reported			
Future Income Tax Accounting	-	-	(10,219)
Change			
Net Income for the Year	620	79,536	55,612
Capital Contributions, Net of Costs	147,417	717,209	124,293
Cash Distributions	(157,951)	(234,465)	(79,033)
Dividends	(1,250)	(4,050)	(1,612)
Long Term Incentive Plan Equity	2,136	(998)	8,930
Capital Issued but Not Distributed	(151)	421	614
Unitholders' Equity - End of Year	\$ 847,098	\$ 856,277	\$ 298,624

**CONSOLIDATED STATEMENTS OF INCOME**

For the Years Ended December 31 (in thousands of Canadian dollars, except per unit amounts)	2002	2001	2000
<b>REVENUES</b>			
Sales of Crude Oil, Natural Gas & Natural	\$ 320,517	\$ 378,155	\$ 191,339
Gas Liquids			
Crown & Other Royalties, Net of ARTC	(56,496)	(73,156)	(35,157)
Other Income	227	1,516	379
	<b>264,248</b>	<b>306,515</b>	<b>156,561</b>
<b>EXPENSES</b>			
Depletion, Depreciation & Amortization	181,956	159,332	42,865
Operating	60,773	58,951	30,174
General & Administrative	11,281	10,394	4,140
Unit Appreciation Rights	6,125	4,158	10,296
Interest	10,788	13,800	6,359
Cash Management Fees	3,982	6,431	3,277
Non-Cash Management Fees	1,414	1,819	731
Cash Internalization Costs	3,598	-	-
Non-Cash Internalization Costs	13,124	-	-
	<b>293,041</b>	<b>254,885</b>	<b>97,842</b>
Income / (Loss) Before Taxes for the Year	<b>(28,793)</b>	51,630	58,719
Income and Capital Taxes	2,887	2,428	549
Future Taxes (Recovery) (Note 11)	(32,300)	(30,334)	2,558
	<b>(29,413)</b>	<b>(27,906)</b>	<b>3,107</b>
Net Income	\$ 620	\$ 79,536	\$ 55,612
<b>Net Income per Trust Unit</b>			
Basic	\$ 0.02	\$ 3.12	\$ 5.00
Diluted	\$ 0.02	\$ 3.08	\$ 4.84

**CONSOLIDATED STATEMENTS OF CASH DISTRIBUTIONS**

For the Years Ended December 31  
(in thousands of Canadian dollars, except  
per unit amounts)

	2002	2001	2000
Net Income for the Year	\$ 620	\$ 79,536	\$ 55,612
Add Back (Deduct)			
Depletion, Depreciation & Amortization	181,956	159,332	42,865
Cash (Retained) / Paid from Cash Available for Distribution	(7,315)	25,822	(29,266)
Contribution to Reclamation Fund	(4,078)	(3,499)	(2,964)
Management Fees Paid in Trust Units	1,414	1,819	731
Internalization Costs Paid in Trust Units	13,124	-	-
Unit Appreciation Rights Expense	6,125	4,158	10,296
Future Income Taxes (Recovery)	(32,300)	(30,334)	2,558
	<b>\$ 159,546</b>	<b>\$ 236,834</b>	<b>\$ 79,832</b>
Cash Distributions to Trust Unitholders (99%)	\$ 157,951	\$ 234,465	\$ 79,033
Cash Distributions per Trust Unit <sup>(1)</sup>	\$ 4.80	\$ 9.24	\$ 7.08

(1) After giving effect to 4 for 1 trust unit consolidation on August 16, 2002.

**CONSOLIDATED STATEMENTS OF CASH FLOW**

For the Years Ended December 31 (in thousands of Canadian dollars)	2002	2001	2000
<b>OPERATING ACTIVITIES</b>			
Net Income for the Year	\$ 620	\$ 79,536	\$ 55,612
Add: (Deduct) Items Not Involving Cash			
Flow from Operations			
Depletion, Depreciation & Amortization	181,956	159,332	42,865
Non-Cash Internalization Costs	13,124	-	-
Unit Appreciation Rights Expense	6,125	4,158	10,296
Non-Cash Management Fees	1,414	1,819	731
Future Income Taxes	(32,300)	(30,334)	2,558
Cash Flow from Operations	170,939	214,511	112,062
Expenditures on Site Restoration & Reclamation	(3,909)	(3,769)	(3,561)
Change in Non-Cash Working Capital	(10,729)	(20,487)	(15,570)
	156,301	190,255	92,931
<b>FINANCING ACTIVITIES</b>			
Proceeds from Issue of Trust Units, Net of Costs	118,333	159,542	38,036
Acquisition of Trust Units pursuant to Normal Course Issuer Bid	-	-	(926)
Cash Distributions to Unitholders	(145,887)	(223,658)	(77,173)
Dividends Paid	(1,250)	(602)	(1,612)
Increase (Decrease) in Long-Term Debt	29,933	(62,980)	(41,449)
Change in Non-Cash Working Capital	1,797	2,019	6,291
	2,926	(125,679)	(76,833)
<b>INVESTING ACTIVITIES</b>			
Expenditures on Property, Plant & Equipment	(69,055)	(84,206)	(25,791)
Acquisition of Capital/Corporate Assets	(59,606)	(84,054)	(6,306)
Proceeds on Disposition Property Plant and Equipment	4,529	78,144	855
Expenditures for Future Acquisition	(14,179)	-	-
Cash Reserved for Future Site Restoration & Reclamation	743	(357)	661
Proceeds on Disposition of Short Term Investments	-	-	174
Change in Non-Cash Working Capital	(10,103)	12,118	7,971
	(147,671)	(78,355)	(22,436)
<b>Increase (Decrease) in Cash for the Year</b>	<b>11,556</b>	<b>(13,779)</b>	<b>(6,338)</b>
<b>Cash (Bank Overdraft), Beginning of Year</b>	<b>(14,613)</b>	<b>(834)</b>	<b>5,504</b>
<b>(Bank Overdraft), End of Year</b>	<b>\$ (3,057)</b>	<b>\$ (14,613)</b>	<b>\$ (834)</b>
<b>Cash Interest Paid</b>	<b>\$ 10,275</b>	<b>\$ 13,159</b>	<b>\$ 6,872</b>
<b>Cash Taxes Paid</b>	<b>\$ 3,960</b>	<b>\$ 460</b>	<b>\$ 453</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*(all amounts are expressed in thousands of Canadian dollars unless otherwise indicated)*

### 1. STRUCTURE OF THE TRUST

PrimeWest Energy Trust (the Trust) is an open-ended investment trust formed under the laws of Alberta in accordance with a declaration of trust dated August 2, 1996. The beneficiaries of the Trust are the holders of Trust Units (the unitholders).

The common shares of PrimeWest Energy Inc. (PrimeWest) are 100% owned by the Trust.

The principal undertaking of the Trust's operating company, PrimeWest, is to acquire and hold, directly and indirectly, interests in oil and gas properties. One of the Trust's primary assets is a royalty entitling it to receive 99% of the net cash flow generated by the oil and gas interests owned by PrimeWest. The royalty acquired by the Trust effectively transfers substantially all of the economic interest in the properties to the Trust.

On November 4, 2002, unitholders voted, by a 92% majority, to internalize management. PrimeWest Management Inc. received a total of \$26.3 million. Approximately \$13.2 million related to the acquisition of the 1% retained royalty and was recorded as an acquisition in property, plant and equipment. The balance was charged to non-cash internalization expense. In addition, retention provisions for senior management totaling \$3.5 million were agreed to and \$1.5 million was accrued relating to the termination of the management incentive program (see Note 10).

### 2. ACCOUNTING POLICIES

#### CONSOLIDATION

These consolidated financial statements include the accounts of the Trust and its wholly-owned subsidiaries, PrimeWest, PrimeWest Management Inc., and PrimeWest Gas Inc. The Trust, through the royalty, obtains substantially all of the economic benefits of the operations of PrimeWest. In addition, the unitholders of the Trust elect the Board of Directors of PrimeWest.

#### CASH AND SHORT TERM INVESTMENTS

Short term investments with maturities less than three months at date of acquisition are considered to be cash equivalents and are recorded at cost, which approximates market value.

#### INVENTORY

Inventory is measured at lower of cost and net realizable value.

#### PROPERTY, PLANT AND EQUIPMENT

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% or more.

#### **i) Ceiling test**

PrimeWest places a limit on the aggregate cost of capital assets which may be carried forward for depletion against net revenues of future periods (the ceiling test). The ceiling test is a cost recovery test whereby: capitalized costs, less accumulated depletion and site restoration, the lower of cost and market value of unproved land and future income taxes, are limited to an amount equal to estimated undiscounted future net revenues from proved reserves, less general and administrative expenses, site restoration, 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, 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 7).

#### **iii) Depletion, depreciation and amortization**

## PrimeWest Energy Trust

Provision for depletion and depreciation is calculated on the unit-of-production method, based on proved reserves before royalties. Reserves are estimated by independent petroleum engineers. Reserves are converted to equivalent units on the basis of approximate relative energy content.

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

### 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.

### LONG-TERM INCENTIVE PLAN

Liabilities under the Trust's Long-term Incentive Plan are estimated at each balance sheet date, based on the amount of Unit Appreciation Rights that are in the money using the unit price as at that date. Expenses are recorded through non-cash general and administrative costs, with an offsetting amount in long term incentive plan equity. As Trust Units are issued under the plan, the exercise value is recorded in net capital contributions.

### INCOME TAXES

The Trust is considered 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 the unitholders.

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

Future income taxes are recorded for PrimeWest using the liability method of accounting. Future income taxes are recorded to the extent that the carrying value of PrimeWest's capital assets exceeds the available tax pools (see Note 11).

### FINANCIAL INSTRUMENTS

PrimeWest uses financial instruments to manage its exposure to fluctuations in commodity prices and interest rates. 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, or in the case of interest rate hedges, in interest expense, at the time of sale of the related hedged production, or when the monthly exchange contracts expire.

### MEASUREMENT UNCERTAINTY

Certain items recognized in the financial statements are subject to measurement uncertainty. The recognized amounts of such items are based on PrimeWest's best information and judgment. Such amounts are not expected to change materially in the near term. They include:

- the amounts recorded for depletion, depreciation and future site restoration costs which depend on estimates of oil and gas reserves or the economic lives and future cash flows from related assets.
- the amounts recorded for assets and liabilities of acquired companies which depend on estimates of their fair values on the acquisition date.

## **3. CORPORATE ACQUISITIONS**

- a) On March 29, 2001, PrimeWest Oil & Gas Corp. ("Oil & Gas") completed the acquisition of all of the issued and outstanding shares of Cypress Energy Inc. ("Cypress") pursuant to a takeover bid. In aggregate, PrimeWest issued 50.2 million Trust Units, and PrimeWest issued 5.2 million exchangeable shares of Oil & Gas and paid \$59.2 million in exchange for the shares of Cypress. Subsequent to the transaction, Cypress and Oil & Gas were amalgamated. The acquisition was accounted for using the purchase method of accounting with net assets acquired and consideration paid as follows:

# PrimeWest Energy Trust

NET ASSETS ACQUIRED AT ASSIGNED VALUES		CONSIDERATION PAID	
Petroleum and natural gas assets	\$ 1,201,485	Cash	\$ 59,235
Working capital (deficit) assumed	(19,174)	Trust Units issued	489,815
Long-term debt assumed	(179,000)	Exchangeable shares issued	50,254
Site restoration provision	(4,307)	Costs associated with acquisition	23,366
Future income taxes	(376,334)		
	\$ 622,670		\$ 622,670

- b) On April 19, 2000, PrimeWest Resources Ltd. (“Resources”) completed the acquisition of all of the issued and outstanding shares of Venator Petroleum Company Limited (“Venator”) on a unit/share for share exchange. Resources issued 0.657 Trust Units or 0.657 exchangeable shares for each Venator share. In aggregate, 2.4 million Trust Units and 2.0 million exchangeable shares were issued for total consideration, including debt assumed, of \$32.5 million. Subsequent to the transaction, the assets of Venator were transferred to Resources and Venator was dissolved. The acquisition was accounted for using the purchase method of accounting with the purchase price allocated as follows:

NET ASSETS ACQUIRED AT ASSIGNED VALUES		CONSIDERATION PAID	
Petroleum and natural gas assets	\$ 34,392	Trust Units issued	\$ 15,637
Working capital (deficit) assumed	(2,323)	Exchangeable shares issued	13,282
Future income taxes	(1,898)	Costs associated with acquisition	1,252
	\$ 30,171		\$ 30,171

- c) On July 27, 2000, PrimeWest Royalty Corp. (“Royalty Corp.”) completed the acquisition of all of the issued and outstanding shares of Reserve Royalty Corporation on a unit for share exchange. Royalty Corp. issued 0.65 Trust Units for each Reserve Royalty share. In aggregate, 6.67 million Trust Units were issued for total consideration, including debt assumed, of \$84.0 million. Subsequent to the transaction, Reserve Royalty was amalgamated into Royalty Corp. and the majority of its assets transferred to the Trust. The acquisition was accounted for using the purchase method of accounting with the purchase price allocated as follows:

NET ASSETS ACQUIRED AT ASSIGNED VALUES		CONSIDERATION PAID	
Petroleum and natural gas assets	\$ 85,860		
Working capital assumed	1,049		
Long term debt assumed	(28,210)	Trust Units issued	\$ 53,947
Future income taxes	(1,921)	Costs associated with acquisition	2,831
	\$ 56,778		\$ 56,778

As of January 1, 2002, Oil & Gas, Resources and Royalty Corp. were amalgamated with PrimeWest.

**4. PROPERTY, PLANT AND EQUIPMENT**

	2002		
	Cost	Accumulated depletion, depreciation and amortization	Net book value
Property acquisition oil and gas rights	\$ 1,682,592	\$ (430,636)	\$ 1,251,956
Drilling and completion	139,885	(34,684)	105,201
Production facilities and equipment	60,497	(15,395)	45,102
Head office furniture and equipment	5,209	(3,005)	2,204
	<b>\$ 1,888,183</b>	<b>\$ (483,720)</b>	<b>\$ 1,404,463</b>

  

	2001		
	Cost	Accumulated depletion, depreciation and amortization	Net book value
Property acquisition oil and gas rights	\$ 1,608,435	\$ (268,137)	\$ 1,340,298
Drilling and completion	103,583	(24,074)	79,509
Production facilities and equipment	38,198	(11,537)	26,661
Head office furniture and equipment	4,238	(2,045)	2,193
	<b>\$ 1,754,454</b>	<b>\$ (305,793)</b>	<b>\$ 1,448,661</b>

  

	2000		
	Cost	Accumulated depletion, depreciation and amortization	Net book value
Property acquisition oil and gas rights	\$ 474,091	\$ (135,256)	\$ 338,835
Drilling and completion	51,769	(10,216)	41,553
Production facilities and equipment	16,397	(3,249)	13,148
Head office furniture and equipment	3,199	(1,359)	1,840
	<b>\$ 545,456</b>	<b>\$ (150,080)</b>	<b>\$ 395,376</b>

Unproved land costs of \$ 44.2 million (2001 – \$55.7 million, 2000 – \$17.2 million) are excluded from costs subject to depletion and depreciation.

PrimeWest capitalized \$3.8 million of general and administrative costs in 2002 (\$2.2 million in 2001; \$0.9 million in 2000).

In accordance with stated accounting policies, PrimeWest has performed a ceiling test using commodity prices as at the measurement date of December 31, 2002. Using December 31, 2002 commodity prices of AECO \$5.59 per Mcf for natural gas and WTI \$US 29.39 per barrel for crude oil, results in a ceiling test surplus of \$900 million.

At December 31, 2001, PrimeWest performed its ceiling test using commodity prices as at that measurement date of AECO \$3.67 per Mcf for natural gas and WTI \$US 19.84 per barrel for crude oil. The ceiling test resulted in a deficiency of \$150 million. PrimeWest did not record a writedown at this time as the writedown occurred within the first two years of the acquisition of Cypress.

**5. OTHER ASSETS**

	2002	2001	2000
Deposit on Acquisition	\$ 10,850	\$ -	\$ -
Expenditures Incurred on Acquisition	3,329	-	-
	<b>\$ 14,179</b>	<b>\$ -</b>	<b>\$ -</b>

Other assets include expenditures required to effect the acquisition of all of the issued and outstanding shares of two private Canadian companies on January 23, 2003 (see Note 14).

**6. LONG-TERM DEBT**

	2002	2001	2000
Revolving credit facility	\$225,000	\$ 195,000	\$ 78,879
Capital lease obligation	-	-	61
	<b>225,000</b>	195,000	78,940
Current portion	-	67	106
	<b>\$225,000</b>	<b>\$195,067</b>	<b>\$ 79,046</b>

PrimeWest and the Trust (as co-borrowers) have a combined revolving credit facility in the amount of \$335 million (2001 – \$350 million; 2000 – \$150 million), with a borrowing base at December 31, 2002 of \$335 million (2001 – \$350 million; 2000 – \$150 million). The facility consists of a revolving term loan of \$310 million and an operating facility of \$25 million. The facility and borrowing base increased to \$390 million on January 23, 2003 upon the completion of the acquisition from two private Canadian companies. In addition, PrimeWest had \$100 million of bridge financing which was drawn on January 23, 2003 and was repaid in February, 2003 upon completion of the equity offering (see Note 14). In addition to amounts outstanding under the facility as indicated in the table above, PrimeWest has outstanding letters of credit in the amount of \$3.8 million (2001 – \$2.8 million; 2000 – \$4.3 million). Collateral for the credit facility is provided by a floating-charge debenture covering all existing and after acquired property in the principal amount of \$750 million. Each borrower under the facility has also provided an unconditional full liability guarantee in respect of amounts borrowed under the facility.

Advances under the facility are made in the form of Banker's Acceptances (BAs), prime rate loans or letters of credit. In the case of BA's, interest is a function of the BA rate plus a stamping fee based on the Trust's current ratio of debt to cash flow. In the case of prime rate loans, interest is charged at the bank's prime rate. While any amounts are outstanding under the bridge facility the interest rates and stamping fees increase by 50 basis points. For 2002, the effective interest rate was 4.6% (2001 – 5.6%; 2000 – 7.5%).

The credit facility revolves until April 30, 2003, by which time the lender will have conducted its annual borrowing base review. The lender also has the right to re-determine the borrowing base at one other time during the year. During the revolving phase, the facility has no specific terms of repayment. At the end of the revolving period, the lender has the right to extend the revolving period for a further 364-day period or to convert the facility to a term facility. If the lender converts to a non-revolving facility 60% of the aggregate principal amount of the loan shall be repayable on the date which is 366 days after such conversion date and the remaining 40% of the aggregate principal amount outstanding shall be repayable on the date which is 365 days after the initial term repayment date.

**7. CASH RESERVE FOR SITE RESTORATION AND RECLAMATION**

Commencing in 1998, funding for the reserve was provided for by reducing distributions otherwise payable based on an amount per BOE produced (\$0.15 per BOE produced for 1998 and 1999, \$0.24 per BOE produced in 2000, \$0.32 per BOE produced in 2001 and \$0.37 per BOE produced in 2002). The cash amount contributed, including interest earned, was \$4.1 million in 2002 (2001 – \$4.2 million; 2000 – \$3.0 million). Actual costs of site restoration and abandonment totaling \$3.9 million were paid out of this cash reserve for the year ended December 31, 2002 (2001 – \$3.8 million; 2000 – \$3.6 million).

## 8. UNITHOLDERS' EQUITY

### PRIMEWEST ENERGY TRUST

The authorized capital of the Trust consists of an unlimited number of Trust Units (\$000's).

Trust Units	Number of Units	Amounts
Balance, December 31, 1999	35,768,801	\$ 311,049
Issued for cash	4,830,000	40,331
Issue expenses	–	(2,741)
Retired pursuant to Normal Course Issuer Bid	(141,900)	(926)
Issued to acquire Venator Petroleum Company Ltd.	2,368,936	15,637
Issued to acquire Reserve Royalty Corporation	6,660,082	53,947
Issued for payment of management fees	82,203	616
Issued on exchange of exchangeable shares	922,073	5,940
Issued pursuant to Distribution Reinvestment Plan	215,035	1,860
Issued pursuant to Long-term Incentive Plan	226,423	1,841
Issued pursuant to Optional Trust Unit Purchase Plan	50,440	447
Balance, December 31, 2000	50,982,093	\$ 428,001
Issued for cash	1,979,000	165,234
Issue expenses	–	(9,013)
Issued to acquire Cypress Energy Inc.	50,234,771	489,815
Issued for payment of management fees	199,841	1,635
Issued on exchange of exchangeable shares	2,415,363	20,298
Issued pursuant to Distribution Reinvestment Plan	1,623,171	10,807
Issued pursuant to Long-term Incentive Plan	577,840	5,155
Issued pursuant to Optional Trust Unit Purchase Plan	142,528	3,321
Balance, December 31, 2001	125,965,607	\$ 1,115,253
Restated giving effect for 4 for 1 trust unit consolidation on August 16, 2002	31,491,402	
Issued for cash	4,200,000	110,040
Issue expenses	–	(5,641)
Issued for payment of management fees	66,853	1,832
Issued on exchange of exchangeable shares	106,934	2,698
Issued pursuant to Distribution Reinvestment Plan	476,106	10,126
Issued pursuant to Long-term Incentive Plan	153,749	4,000
Issue of Units Pursuant to Odd Lot Program	111	-
Issue of Fractional Units Pursuant to 4:1 Consolidation	6,264	-
Issued pursuant to Optional Trust Unit Purchase Plan	503,103	13,936
<b>Balance, December 31, 2002</b>	<b>37,004,522</b>	<b>\$ 1,252,244</b>

The number of units below was restated giving effect of four for one trust unit consolidation effective August 16, 2002.

The weighted average number of Trust Units and exchangeable shares outstanding in 2002 was 34,134,230 (2001 – 25,633,250; 2000 – 11,162,900). For purposes of calculating diluted net income per Trust Unit, 341,315 Trust Units (2001 – 311,789; 2000 – 249,516) issuable pursuant to the long-term incentive plan were added to the weighted average number. The per unit cash distribution amounts paid or declared reflects distributions paid or declared to Trust Units outstanding on the record dates.

### PRIMEWEST EXCHANGEABLE CLASS A SHARES

In connection with the Cypress transaction (see Note 3a), PrimeWest Oil & Gas Corp. (now amalgamated with PrimeWest Energy Inc.) amended its articles to create an unlimited number of exchangeable shares. The exchangeable shares are exchangeable into PrimeWest Trust Units at any time up to March 29, 2010, based on an exchange ratio that adjusts each time the Trust makes distribution to its unitholders. The exchange ratio, which was 1:1 on the date that the transaction closed, is based on the total monthly distribution, divided by the closing unit price on the distribution payment date. The exchange ratio on December 31, 2002 was 0.37454 (2001 – 0.3126:1) (restated effecting 4 for 1 trust unit consolidation).

## PrimeWest Energy Trust

Exchangeable Shares	# of shares	Amounts
Balance, December 31, 2000	-	\$ -
Issued to acquire Cypress Energy Inc.	5,154,225	50,254
Exchanged for Trust Units	(1,837,483)	(17,916)
Balance, December 31, 2001	3,316,742	32,338
Issued for internalization	1,363,714	13,124
Conversion of Class B shares	710,795	4,287
Exchanged for trust units	(211,973)	(2,025)
<b>Balance, December 31, 2002</b>	<b>5,179,278</b>	<b>\$ 47,724</b>

### PRIMEWEST EXCHANGEABLE CLASS B SHARES

In connection with the Venator transaction (see Note 3b), PrimeWest Resources Ltd. (now amalgamated with PrimeWest Energy Inc.) amended its articles to create an unlimited number of exchangeable shares. At special meetings held in May and June of 2002, holders of Class B Exchangeable Shares and Class A Exchangeable shares voted to approve a special resolution amending the articles of the Corporation to convert all Class B Exchangeable shares to Class A Exchangeable Shares. As at June 14, 2002 649,561 Class B Exchangeable shares were converted to Class A Exchangeable Shares using an exchange ratio of 1.09427:1.

Exchangeable Shares	# of shares	Amounts
Balance, December 31, 1999	-	\$ -
Issued to acquire Venator Petroleum Company Ltd.	2,012,422	13,282
Exchanged for Trust Units	(900,052)	(5,940)
Balance, December 31, 2000	1,112,370	7,342
Exchanged for Trust Units	(360,838)	(2,382)
Balance, December 31, 2001	751,532	4,960
Exchanged for Trust Units	(101,971)	(673)
Converted to Class A Exchangeable Shares	(649,561)	(4,287)
<b>Balance, December 31, 2002</b>	<b>-</b>	<b>\$ -</b>

### NORMAL COURSE ISSUER BID

On November 29, 1999, the Trust received approval from the Toronto Stock Exchange to make a normal course issuer bid. During 2000, the Trust acquired 141,900 Trust Units pursuant to the bid at an average cost of \$6.53 per Trust Unit. This bid expired on November 29, 2000. On December 15, 2000, the Trust received approval from the Toronto Stock Exchange to renew its bid for a further one year period. During 2001, no purchases were made under the renewed bid. This bid expired on December 15, 2001 and was not renewed in 2002.

TRUST UNITS AND EXCHANGEABLE SHARES ISSUED & OUTSTANDING<sup>(1)</sup>

	<b>2002</b>	2001	2000
Trust Units issued & outstanding	<b>37,004,522</b>	31,491,402	12,745,523
Exchangeable shares			
PrimeWest Resources Ltd. <sup>(2)</sup>			
(2001 - 751,532 shares exchangeable at 0.34201	-	257,035	304,039
(2000 - 1,112,370 shares exchangeable at 0.2733)			
PrimeWest Oil and Gas Corp. <sup>(2)</sup>			
5,179,278 shares exchangeable at 0.37454			
(2001 - 3,316,742 shares exchangeable at 0.3126)	<b>1,939,864</b>	1,036,648	-
Total units and exchangeable shares issued & outstanding	<b>38,944,386</b>	32,785,085	13,049,562
Unit appreciation rights	<b>341,315</b>	311,788	249,516
Total units and exchangeable shares issued & outstanding - diluted	<b>39,285,701</b>	33,096,873	13,299,078

(1) Restated trust units to give effect to 4 for 1 unit consolidation effective August 16, 2002.

(2) Amalgamated with PrimeWest Energy Inc. effective January 1, 2002

## 9. TRUST UNIT INCENTIVE PLAN

Under the terms of the Trust Unit Incentive Plan, a maximum of 622,500 Trust Units are reserved for issuance pursuant to the exercise of Unit Appreciation Rights (UARs) granted to employees of PrimeWest. Payouts under the plan are based on total unitholder return, calculated using both the change in the Trust Unit price as well as cumulative distributions paid. The plan requires that a hurdle return of 5% per annum be achieved before payouts accrue. UARs have a term of 6 years and vest equally over a 3-year period, except for the independent members of the Board, whose UARs vest immediately. The Board of Directors has the option of settling payouts under the plan in PrimeWest Trust Units or in cash. To date, all payouts under the plan have been in the form of Trust Units.

Effective January 1, 2002 the method of accounting for the long-term incentive plan was changed to comply with new CICA accounting standard 3870. The calculation of the long-term incentive liability now includes vested and unvested UARs. Previously, only vested UARs were included. In addition, the long-term incentive liability has been reclassified as equity on the balance sheet as the Trust intends to settle the liability in the form of Trust Units.

<i>As at December 31, 2002</i>	UARs	UARs	Current	Total	Trust
<i>Year of Grant</i>	issued &	vested	return per	equity	unit
	outstanding		"in the	'000	dilution
			money"		
			UARs		
1997	52,927	52,927	22.98	\$ 1,216	47,883
1998	105,798	105,798	33.99	3,596	141,563
1999	115,215	114,667	22.38	2,578	101,076
2000	187,984	125,661	8.22	1,546	37,831
2001	515,634	185,780	2.12	635	12,861
2002	1,120,142	82,097	\$1.97	497	101
<b>Total</b>	<b>2,097,700</b>	<b>666,930</b>		<b>\$10,068</b>	<b>341,315</b>

*As at December 31, 2001*

<i>Year of Grant</i>	UARs	UARs	Current	Total	Trust
	issued &	vested	return per	equity	unit
	outstanding		"in the	'000	dilution
			money"		
			UARs		
1996	131,719	131,719	\$ 15.84	\$ 2,086	82,010
1997	79,839	79,839	13.76	1,098	43,165
1998	127,956	127,957	24.80	3,171	124,654
1999	148,416	89,566	14.76	1,323	52,025
2000	240,914	86,951	2.92	254	9,935
2001	629,343	25,211	-	-	-
<b>Total</b>	<b>1,358,187</b>	<b>541,243</b>		<b>\$ 7,932</b>	<b>311,789</b>

*As at December 31, 2000*

<i>Year of Grant</i>	UARs	UARs	Current	Total	Trust
	issued &	vested	return per	equity	unit
	outstanding		"in the	'000	dilution
			money"		
			UARs		
1996	135,969	135,969	\$ 20.96	\$ 2,849	79,607
1997	94,452	94,452	18.20	1,718	48,011
1998	161,887	100,903	17.32	2,785	77,794
1999	253,605	74,024	21.20	1,482	41,409
2000	342,372	23,679	7.96	96	2,695
<b>Total</b>	<b>988,285</b>	<b>429,027</b>		<b>\$ 8,930</b>	<b>249,516</b>

Cumulative to December 31, 2002, 640,503 (2001 – 399,199; 2000 – 184,836) UARs have been exercised, resulting in the issuance of 358,369 Trust Units from treasury (2001 – 205,003; 2000 – 60,543).

## 10. RELATED-PARTY TRANSACTIONS

On September 26, 2002, the Trust announced the planned elimination, effective October 1, 2002, of its external management structure and all related management, acquisition and disposition fees, as well as the acquisition of the right to mandatory quarterly dividends commonly referred to as the "1% retained royalty". The transaction was approved by the Unitholders and the holders of Exchangeable Shares on November 4, 2002 and closed November 6, 2002. The transaction resulted in the elimination of the 2.5% management fee on net production revenue, quarterly incentive payments payable in the form of Trust Units, the 1.5% acquisition fee and the 1.25% disposition fee, which resulted in payments to PrimeWest Management Inc. in 2002 totaling \$5.8 million (2001 – \$21.3 million; 2000 – \$5.7 million). In addition, the amount of the 1% retained royalty paid in 2002 was \$1.3 million (2001 – \$3.4 million; 2000 – \$0.8 million).

As at December 31, 2002, the Trust and PrimeWest owed \$ nil (2001 – \$10.1 million; 2000 – \$2.1 million) to PrimeWest Management Inc. for unpaid management and other fees and reimbursement of general and administrative costs.

The internalization transaction was achieved through the purchase by PrimeWest of all of the issued and outstanding shares of the PrimeWest Management Inc. for a total consideration of approximately \$26.3 million comprised of a

cash payment of \$13.2 million and the issuance of Exchangeable Shares exchangeable, based on an agreed exchange ratio, for approximately 491,000 Trust Units and valued at approximately \$13.1 million based on the closing price of the Trust Units on the TSX on September 26, 2002. The \$13.2 million that related to the acquisition of the 1% retained royalty was capitalized; an additional \$9.5 million was capitalized with an offset to future tax liability as a result of the property, plant and equipment having no tax basis. In addition, PrimeWest agreed to issue Exchangeable Shares valued at \$1.5 million to certain senior managers to terminate a management incentive program of PrimeWest Management Inc. and to create a special executive retention plan for those senior managers which provides for long term incentive bonuses in the form of Exchangeable Shares valued, in the aggregate, at \$3.5 million. Exchangeable Shares will be issued pursuant to the retention plan on each of the second, third, fourth and fifth anniversaries of the completion of the internalization transaction.

## 11. INCOME TAXES

The Trust, and consequently the unitholders of the Trust, had taxable income totaling \$86.9 million for 2002 representing approximately 55% of distributions paid in the year (2001 – \$155.8 million representing 67%; 2000 – \$38.3 million representing 53%).

PrimeWest and its subsidiaries had no taxable income for 2002, 2001, and 2000, as tax-pool deductions and the royalty payable were sufficient to reduce taxable income in these entities to nil.

Effective January 1, 2000, the Company changed the method of accounting for income taxes from the deferral method to the liability method. The new method was applied retroactively without restatement of prior periods. The effect of the change in accounting policy on the financial statements was to decrease unitholders' equity by \$10.2 million with a corresponding increase in the provision for future income tax liabilities on the balance sheet. The effect on the provision for income taxes for 2000 as a result of this change in accounting policy was to decrease future income tax liability by \$2.6 million. The future income tax liability results from the carrying value of the capital assets exceeding the available tax pools.

The future tax provision results from temporary differences in the recognition of revenues and expenses for income taxes and accounting purposes as follows:

	2002	2001	2000
Loss carry forwards	\$ (4,977)	\$ (10,601)	\$ -
Capital assets	350,014	378,015	21,455
Site restoration provision	(1,969)	(2,283)	(874)
Long term incentive liability	(3,180)	(2,536)	(3,985)
	<b>\$ 339,888</b>	<b>\$ 362,595</b>	<b>\$ 16,596</b>

The provisions for income taxes varies from the amounts that would be computed by applying the combined Canadian federal and provincial income tax rates for the following reasons:

	2002	2001	2000
Net income (loss) before taxes	\$ (28,793)	\$ 51,630	\$ 58,719
Computed income tax expense (recovery) at the Canadian statutory rate of 42.12% (2001 – 43.12%; 2000 - 44.62%)	(12,128)	22,263	26,200
Increase (decrease) resulting from:			
Non-deductible crown royalties and other payments, net of ARTC	5,725	273	157
Federal resource allowance	(3,466)	(9,729)	(1,447)
Amounts included in trust income and other	(22,431)	(43,141)	(22,352)
Future income taxes	<b>\$ (32,300)</b>	<b>\$ (30,334)</b>	<b>\$ 2,558</b>

## 12. FINANCIAL INSTRUMENTS

### a) COMMODITY PRICE RISK MANAGEMENT

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

A summary of these contracts in place at December 31, 2002 follows:

#### CRUDE OIL

Period	Volume (bbl/d)	Type	WTI Price (U.S.\$/bbl)
Jan – Jan 2003	500	Swap	30.50
Jan – Jan 2003	500	Swap	\$28.95
Jan – Mar 2003	1,000	Costless Collar	21.00/27.70
Jan – Mar 2003	1,000	Costless Collar	20.50/25.50
Jan – Mar 2003	500	Costless Collar	22.00/30.01
Jan – Mar 2003	500	Swap	27.28
Jan – Mar 2003	500	3 Way	19.50 / 24.50 / 29.90
Jan – Mar 2003	1000	Purchase Call	\$34.00
Jan – June 2003	1,000	3 Way	18.50 / 22.50 / 27.70
Feb – Feb 2003	500	Swap	\$28.75
Feb – Feb 2003	500	Swap	\$30.60
Mar – Mar 2003	500	Swap	\$29.00
Apr – Apr 2003	500	Swap	27.20
Apr – Jun 2003	500	Costless Collar	22.00/30.10
April – Dec 2003	1,000	3 Way	17.00 / 20.50 / 25.50
May – May 2003	500	Swap	27.05
June – June 2003	500	Swap	27.10
July – Dec 2003	1,000	3 Way	18.50 / 22.50 / 27.20

#### NATURAL GAS (AECO)

Period	Volume (MMcf/d)	Type	AECO Price (Cdn\$/Mcf)
Jan 2002 – Oct 2003	4.7	Swap	3.98
Jan 2002 – Oct 2003	4.7	Swap	4.17
Nov 2002 – March 2003	4.7	Costless Collar	4.22 by 5.96
Nov 2002 – March 2003	4.7	3 Way	3.17 / 4.48 / 6.59
Nov 2002 – March 2003	4.7	3 Way	3.17 / 3.96 / 5.46
Nov 2002 – March 2003	4.7	3 Way	4.22 / 5.28 / 7.04
Nov 2002 – March 2003	4.7	Swap	5.43
Nov 2002 – Oct 2004	9.5	3 Way	3.17 / 4.22 / 6.09
Jan 2003 – Mar 2003	4.7	Costless Collar	5.28/6.35
Jan 2003 – Mar 2003	23.7	Put	5.28
Feb – Feb 2003	4.7	Swap	7.02

## PrimeWest Energy Trust

Period	Volume (MMcf/d)	Type	AECO Price (Cdn\$/Mcf)
April – June 2003	4.7	Put Swaption	5.28
April – Oct 2003	4.7	Fixed Price	4.75
April – Oct 2003	4.7	Swap	5.05
April – Oct 2003	4.7	3 Way	3.17 / 4.48 / 6.26
April – Oct 2003	4.7	3 Way	3.17 / 3.96 / 5.39
April – Oct 2003	4.7	3 Way	3.69 / 4.75 / 6.65
April – Oct 2003	9.5	Put Swaption	5.28
Nov 2003 – March 2004	4.7	3 Way	4.22 / 5.28/8.23

### NATURAL GAS (Basis differential \$US / mcf)

Period	Volume (MMcf/d)	Type	WTI Price (US\$/mcf)
Nov. 2002 – March 2003*	5.0	Basis Swap	0.425
April 2003 – October 2003*	5.0	Basis Swap	0.450

In 2002, the financial impact of contracts settling in the year was an increase in sales revenues of \$28.1 million (2001 – \$39.5 million increase in sales revenues; 2000 – \$2.2 million decrease in sales revenues).

The mark-to-market value of the hedges in place as at December 31, 2002 is a \$13.6 million loss of which \$11.7 million is attributable to natural gas and \$1.9 million is attributable to crude oil.

### b) INTEREST RATE RISK MANAGEMENT

PrimeWest has the following interest rate swaps outstanding at December 31, 2002.

Term	Notional Amount \$ millions	Fixed BA rate	Mark-to- Market value \$ millions
Dec 18/02 – May 05/03	\$ 20	4.50%	\$ (0.3)
Dec 04/01 – Dec 04/03	\$ 25	3.21%	\$ (0.1)
May 24/98 – May 25/04	\$ 25	6.48%	\$ (1.3)
Nov 26/01 – May 26/04	\$ 25	3.85%	\$ (0.3)

The effect of these swaps was to increase interest paid in 2002 by \$1.5 million (2001 – \$0.4 million, 2000 – \$0.7 million).

### c) FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments include cash, accounts receivable, accounts payable and accrued liabilities, accrued distributions to unitholders, long-term debt and financial hedges. As at December 31, 2002, 2001, and 2000, the fair market value of the financial instruments, other than long-term debt and 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, because the cost of borrowing approximates the market rate for similar borrowings.

### **13. COMMITMENTS AND CONTINGENCIES**

- a) PrimeWest has lease commitments relating to office buildings. The estimated annual minimum operating lease rental payments for the buildings, after deducting sublease income will be \$1.5 million in 2003, \$1.2 million in 2004, \$1.1 million in 2005, \$1.1 million in 2006 and \$2.4 million in 2007 – 2009, the remaining term of the leases.
- b) As part of PrimeWest's internalization transaction (see Note 10), PrimeWest agreed to pay \$3.5 million in exchangeable shares as a special executive retention plan. One quarter of the exchangeable shares will be issuable to the Senior Managers of PrimeWest on each of the second, third, fourth and fifth anniversary of transaction closing, November 6, 2002.
- c) PrimeWest is engaged in a number of matters of litigation, none of which could reasonably be expected to result in any material adverse consequence.

### **14. SUBSEQUENT EVENTS**

- a) On November 25, 2002, PrimeWest and PrimeWest Gas Inc. ("PrimeWest Gas"), a wholly owned subsidiary of PrimeWest, entered into an acquisition agreement with two private Canadian companies for an aggregate purchase price of \$206.1 million, net of adjustments (including working capital) in cash. Of the purchase price, \$191.1 million is attributed by PrimeWest to oil and gas reserves and \$15 million is attributed by PrimeWest to certain natural gas processing midstream assets. The acquisition closed on January 23, 2003.
- b) On February 13, 2003, PrimeWest received net proceeds of \$146.8 million from the issuance of 6.0 million trust units.

### **15. PRIOR YEARS COMPARATIVE NUMBERS**

Certain prior years' comparative numbers have been restated to conform with the current year's presentation.