

*We're*  
B U I L D I N G

STABILITY,  
PREDICTABILITY  
&  
SUSTAINABLE GROWTH.

*1999 Report to Our Unitholders*

P R I M E W E S T E N E R G Y T R U S T

## PROFILE

PrimeWest Energy Trust is a Calgary-based conventional oil and gas royalty trust actively managed for the benefit of unitholders. We are listed on The Toronto Stock Exchange (TSE) under the symbol "PWLUN".

## INVESTMENT ATTRIBUTES AND PERFORMANCE

PrimeWest offers investors:

- an opportunity to participate in the Canadian upstream oil and gas industry with a lower level of investment risk than is typically the case with a traditional oil and gas equity investment;
- monthly cash distributions, representing a high cash-on-cash yield, derived from a balanced portfolio of long-life crude oil and natural gas properties;
- an attractive rate of return, and;
- an advantageous tax structure.

We distribute the bulk of cash generated from our portfolio of oil and gas properties, less specific expenses incurred, to unitholders on a monthly basis. From our inception in late 1996 to the end of 1999, we had declared \$3.70 per trust unit in distributions, all of which have been 100 percent tax deferred.

Since our trust units became fully paid in October 1997, PrimeWest has:

- provided top-quartile investment performance relative to the Canadian royalty trust sector total return index (unit price plus cumulative and reinvested distributions), and;
- outperformed The Toronto Stock Exchange Oil and Gas Producers' total return index by 28.5 percent (as at December 31, 1999).

## ANNUAL MEETING

The Annual General and Special Meeting of unitholders is scheduled to take place in the Strand/Tivoli room of the Metropolitan Centre in Calgary on Thursday, May 25, 2000, beginning at 3:00 p.m.

## FORWARD-LOOKING STATEMENTS

*This annual report contains forward-looking statements with respect to PrimeWest. Some of these statements include words to indicate that management 'intends', 'expects', or 'believes' that an outcome will occur. All estimates and statements about PrimeWest's vision, objectives, strategies and future performance are forward-looking.*

*Because forward-looking statements address future events and conditions, they involve risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking statements.*

*These risks and uncertainties include: commodity price levels and differentials; production levels; new information about the recoverability of reserves; operating and other costs; interest rates and currency-exchange rates; and changes in environmental and other legislation and regulations.*

*They also include other risks detailed from time to time in other publicly filed disclosure documents and securities commission reports of PrimeWest.*

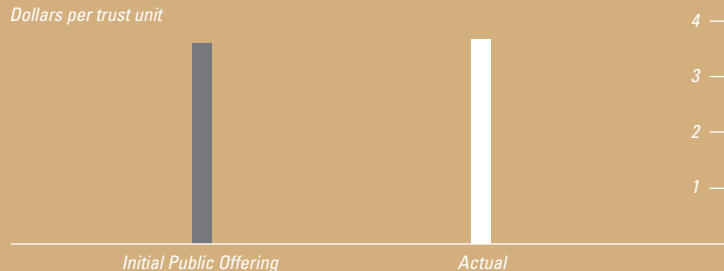


*We have honoured the distribution commitment  
we made to unitholders during our  
Initial Public Offering.*

YOUR INVESTMENT HAS BEEN  
**WORKING**

**Cumulative Distributions**

*Dollars per trust unit*



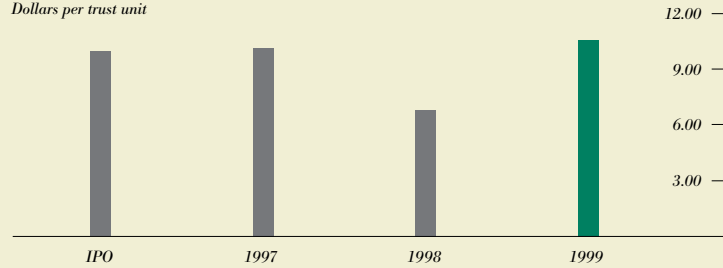
At the time of our IPO in 1996, we estimated that cumulative distributions to the end of 1999 would be \$3.62 per trust unit. Total distributions actually declared during the period were \$3.70 — slightly better than our initial commitment despite a weaker commodity price environment.

And, given PrimeWest's conservative policies in respect of distributing cash flow, an additional \$0.07 per trust unit has been generated as a reserve to reduce debt.

## 4 Message to Unitholders

We're maximizing distributions while preserving asset value.

**Total Unitholder Return per Trust Unit (As at December 31)**  
**Trust Unit Price Plus Cumulative and Reinvested Distributions**  
 Dollars per trust unit

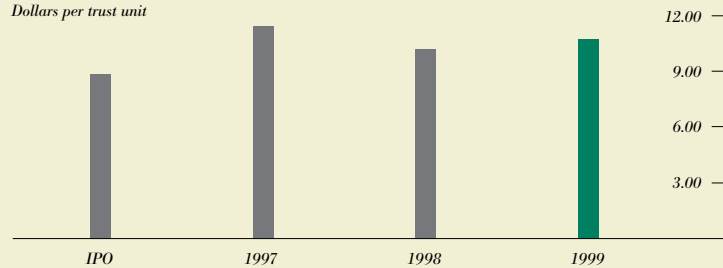


Total unitholder return increased by 56 percent from 1998.

## 8 Corporate Governance

To help maintain investor trust and confidence.

**Net Asset Value Plus Cumulative Distributions per Trust Unit**  
 Dollars per trust unit



The total of net asset value plus cumulative distributions rose by four percent.

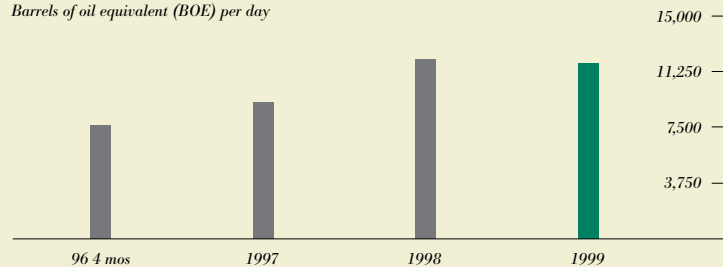
# MEASURING SUCCESS

*Results in 1999 reflect balanced performance.*

## 11 Strategies

We use four key strategies to create value for unitholders.

**Average Daily Production**  
 Barrels of oil equivalent (BOE) per day

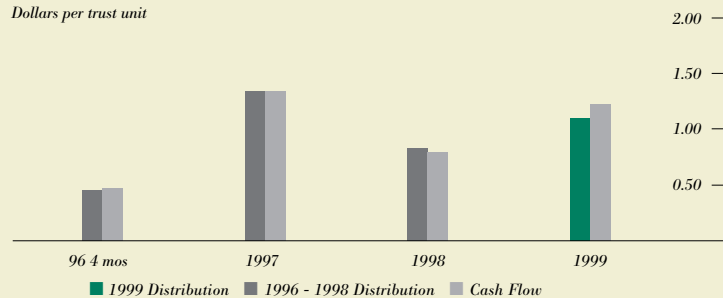


Average daily production was within two percent of 1998 levels.

## 24 MD&A

Our financial performance was greatly improved compared with 1998.

**Distributions Declared and Cash Flow per Trust Unit**  
 Dollars per trust unit



Cash distributions declared during 1999 climbed by 34 percent, and cash flow increased 56 percent.

1999 PRIMEWEST

# M E S S A G E T O

*As stewards of our unitholders'  
maximize ongoing cash distributions*

**Harold P. Milavsky, FCA**

*Chairman, Independent Director  
Chairman of Quantico  
Capital Corp., and director  
of several leading Canadian  
companies.  
(Left)*

**D. Hugh Gillard**

*President and  
Chief Operating Officer  
More than 28 years of oil  
and gas experience in  
accounting, business  
development, marketing,  
land, property rational-  
ization and senior  
management.  
(Middle)*

**Kent J. MacIntyre**

*Vice-chairman and  
Chief Executive Officer  
More than 20 years of oil  
and gas experience, the last  
11 as principal in the start-  
up and management of  
junior oil and gas ventures.  
Director of two other  
companies.  
(Right)*



ENERGY TRUST

# U N I T H O L D E R S

*investments, our purpose is to  
while preserving underlying asset value.*



## The Trust matures

The year 1999 was a transition year for PrimeWest. It was a year of many successes, some disappointments and meaningful change.

Our financial performance improved steadily through the year:

- Revenues, cash flow and operating netbacks were all up dramatically, driven by increased commodity prices.
- We maintained production near 1998 levels.
- We reversed the rising trend in operating costs – reducing them by six percent.
- We raised our stake in the Crossfield gas plant, and became operator so we can more directly influence costs downwards and volumes for processing upwards.
- We increased our regular monthly distribution rate from \$0.06 to \$0.10, paid three supplementals, and directed surplus cash flow towards debt reduction and a trust unit repurchase program.

Conversely, following our first two full years of operations, two great years, we were disappointed with our reserve-replacement performance in 1999. Production fell two percent from 1998 levels, although by the fourth quarter we were able to restore production to over 12,100 barrel of oil equivalent per day through a series of development successes and acquisitions. We have learned from our experiences throughout the year. They have made us stronger and better positioned for the future.

During 1999, we strengthened our senior management team; improved stewardship processes for financial and operational performance; and intensified the level and impact of corporate governance.

Hugh Gillard joined PrimeWest as President and Chief Operating Officer in January, and Tim Granger started with us mid-year as Vice-president, Production. We are confident that these additions, coupled with the strong skills of the remaining management team and employees, will enable PrimeWest to continue to deliver top-quartile trust sector performance over the long term.

During 1999 we made sound improvements in performance measurement and stewardship, operating cost reductions, risk diversification, and decision-making processes. These improvements alone reflect a Trust maturing. Our focus is to get the most cash from each barrel of production. These improvements – coupled with favorable commodity prices, a strong vision, clear strategies, and strengthening corporate governance – bode well for PrimeWest in the future.

**October 16, 1996**  
Inception, with issuance of 24.9 million trust units

**March 1998**  
Acquisition of \$60 million in properties. Issuance of eight million additional trust units

**January 2000**  
Acquisition of additional 34 percent interest in the Crossfield gas plant and facilities

**March 1997**  
Acquisition of \$35 million worth of additional properties

**July 1998**  
Disposition of \$19.8 million worth of non-core properties

**October 1999**  
Acquisition of properties for \$13.5 million. Issuance of 2.75 million additional trust units

**March 2000**  
Announced takeover bid for Venator Petroleum Company Ltd.

While we were frustrated with our inability to complete a major acquisition, we remained committed to our prudent approach in a market where transaction valuations were extraordinarily high. First and foremost, our acquisitions must create unitholder value. We remain committed to growing PrimeWest significantly through acquisitions, to provide greater strength to the Trust and improved liquidity for our unitholders.

**Building stability, predictability and sustainable growth**

In all of what we do, we have one balancing purpose – to maximize ongoing cash distributions while preserving underlying asset value. To this end, we have refined our vision, our key corporate objective and four main strategies. They are focused on the interests of our long-term investors.

Our vision is to be the best oil and gas royalty trust, as measured by total unitholder return, on a rolling three-year basis. To achieve this, we focus on four key strategies. These strategies have been solidified to exploit and capitalize on the inherent value of our existing asset base – reserves and infrastructure – and increase future value and returns to those who have invested in us.

The four strategies, complemented by a firm foundation of corporate governance, are:

- *Financial prudence* – We work to be prudent in managing our capital structure and are conservative in our distribution payout ratio.
- *Risk management* – We believe that an active risk-management strategy belongs in a trust that values stability and predictability in its distributions.
- *Operating excellence* – We are adopting a more conservative program of property development, one focused on lowering operating costs and arresting the natural production decline rates common to mature producing properties.
- *Asset replenishment* – We continue to grow and enhance our asset base – increasing the proved producing component of our reserves and reducing our operating cost structure. We will continue to seek an ‘impact’ transaction.

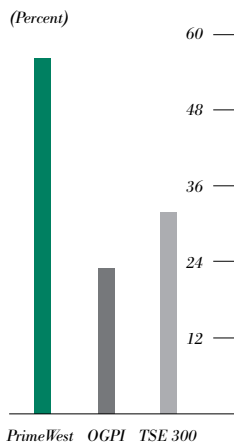
With these strategies at the core of our business and with the strength and maturation of our organization, PrimeWest is poised to achieve growth and success in 2000 and beyond.

**Strengthening corporate governance**

As PrimeWest matures, it is natural for us to seek continuous improvement in our business operations and processes, as well as in our relationships with key stakeholders who have a vested interest in us and our future.

On a total return basis, PrimeWest significantly outperformed both the TSE 300 and the TSE Oil and Gas Producers’ Index in 1999. Among royalty trusts, PrimeWest turned in top-quartile performance.

**Comparative Total Returns - 1999**





*We use four key strategies for building our asset base and creating value for unitholders. These strategies – financial prudence, risk management, operating excellence and asset replenishment – are complemented by a firm foundation of corporate governance.*

This adherence to continuous improvement applies most assuredly to corporate governance. We recognize that solid corporate governance is a fundamental prerequisite to maintaining investor confidence in PrimeWest. This has perhaps heightened importance, given the emphasis that the investment community is placing on this issue and the collateral effects of corporate failures during 1998 and 1999.

At a minimum, our corporate governance approach meets the current guidelines adopted by The Toronto Stock Exchange and in some instances goes further.

**Creating a positive outlook**

During 1999, we made fundamental strides financially, and we reoriented our strategic focus operationally. PrimeWest’s total return performance was top-quartile relative to the TSE Oil and Gas Producers’ Index and the Canadian royalty trust sector. Despite the high commodity price environment, the capital market is not giving recognition to the strong fundamentals. This has tested the patience of many of our investors, and induced us to apply and begin to implement a trust unit repurchase program.

We remain convinced, however, that there is fundamental value in an investment in PrimeWest Energy Trust – tax-efficient distribution income coupled with growth potential.

Our proposed acquisition of Venator Petroleum Company Ltd., initiated in March 2000, will bring tangible benefits to unitholders. Upon successful completion, Venator will add 1,300 barrels of oil equivalent per day of high netback production from a high quality reserve base and build positive momentum for us.

For 2000, we anticipate that our cash flow stream should be more than sufficient to support our monthly distribution level of \$0.10 per trust unit. Commodity pricing – both crude oil and natural gas, are both currently near historical highs – and look to remain healthy for some time based on strong supply-demand fundamentals. Combined with solid operational performance, PrimeWest expects that record cash flow will be recorded in 2000. Our Board of Directors continues to consider prudent options for the use of surplus cash flow – debt reduction, a reserve for the ‘rainy day’ when commodity prices ultimately cycle down, supplementary distributions, and/or a trust unit repurchase program.

As we progress through the year, we remain grateful to the employees of PrimeWest. It is through their individual and collective efforts that distributions will continue to be delivered to you and that underlying value will be preserved over time.

Your trust has grown stronger. We will build on its strength to provide stability, predictability and sustainable growth.

March 23, 2000

**Harold P. Milavsky**  
Chairman

**Kent J. MacIntyre**  
Vice-chairman and  
Chief Executive Officer

**D. Hugh Gillard**  
President and  
Chief Operating Officer



# PROTECTING YOUR INVESTMENT WITH CORPORATE GOVERNANCE

*We understand that proper corporate governance is a key for maintaining investor trust and confidence in PrimeWest.*

## COMMITMENT

We believe that a top-performing trust must have strong corporate governance as an underlying foundation. We believe that effective corporate governance improves our performance and results in benefits to all unitholders. We understand that proper governance is a key for maintaining investor trust and confidence in PrimeWest.

PrimeWest's Board of Directors and management team are committed to an increasing standard of corporate governance, and have taken meaningful steps during the past year to strengthen processes and scrutiny. At a minimum, PrimeWest's corporate governance shall comply with the guidelines adopted by The Toronto Stock Exchange provided by the Dey Committee Report.

## MANDATE OF THE BOARD OF DIRECTORS

The Board of Directors of PrimeWest Energy Inc. is responsible under law to supervise the management of the business affairs of PrimeWest Energy Inc., including the affairs of PrimeWest Energy Trust. The Board has the statutory authority and obligation to protect and enhance the assets of PrimeWest in the interest of all unitholders.

## BOARD INDEPENDENCE

The Board manages its own affairs, including the planning of its composition, the selection of its chairman, the establishment of committees, the appointment of members and the determination of directors' compensation. The Board also regularly evaluates its performance in a continuing effort to improve.

To broaden the capabilities and balance of the Board, the Board has set forth the objective of expanding the Board to seven members, which will involve the appointment of two additional independent members.

## KEY BOARD RESPONSIBILITY AREAS

The Board of Directors takes a leadership role in corporate strategy – overseeing the development and approval of PrimeWest's mission, objectives and strategies. The Board is responsible for monitoring PrimeWest's success in implementing strategies, and for ensuring that there is congruence between PrimeWest's strategic plans, performance and unitholder expectations.

The Board is responsible for ensuring that adequate systems are in place to effectively monitor and manage risks associated with the business and affairs of PrimeWest, with a view to ensuring the long-term viability of PrimeWest. This includes establishing a balance between risks incurred and potential returns to unitholders.

**Harold N. Kvisle, P.Eng.***Independent Director**Senior Vice-president of TransCanada Pipelines Limited, and director of several companies and limited partnerships.***Barry E. Emes, LLB***Independent Director**Managing Partner, Calgary office, Stikeman Elliott.***Harold P. Milavsky, FCA***Chairman, Independent Director**Chairman of Quantico Capital Corp., and director of several leading Canadian companies.*

The Board of Directors functions on behalf of unitholders by delegating functions and authorities to PrimeWest's senior management. The Board therefore must remain actively involved in objective-setting and performance management and compensation of PrimeWest's senior management team. The Board must also ensure adequate provisions have been made for senior management succession.

The Board of Directors is responsible for ensuring that PrimeWest's continuous disclosure is full, plain and true and in compliance with securities legislation and the guidelines of The Toronto Stock Exchange.

To effectively discharge its duties, the Board ensures that PrimeWest has effective controls and information systems in place to track corporate performance against targets and objectives. This includes an adequate audit system.

The Board is also responsible for ensuring that routine legal requirements have been met, and that documents and records have been properly prepared, approved and maintained.

The Board of Directors must develop and voice objective judgements about the affairs of PrimeWest, independently. As such, it shall have a majority of independent directors. Specified tasks, suited to independent judgements, are delegated to committees of the Board, which consist exclusively of independent directors.

## COMMITTEES OF THE BOARD

PrimeWest's Board of Directors has two standing committees, each comprised of independent directors only.

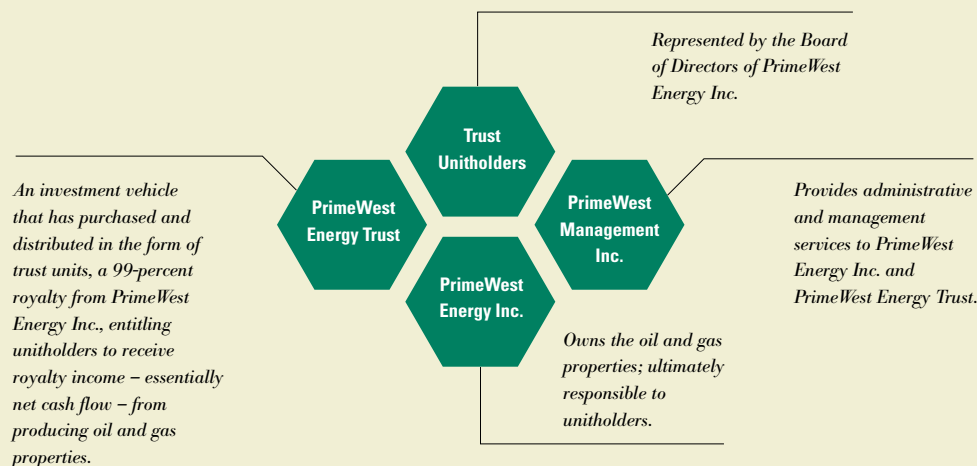
### *Audit Committee*

The Audit Committee reviews PrimeWest's financial reporting processes; the systems of internal control; the audit process; the management of financial risks, including risk-management programs such as hedging; and the corporate processes for monitoring compliance with laws and regulations, including environmental compliance.

The Audit Committee supports the Board's stewardship responsibilities by reviewing all operating and financial results prior to public disclosure.

This scrutiny process was enhanced in early 2000 with the adoption of stringent written policies governing communications, disclosure and insider trading. It also includes direct discussions with management, and in-camera discussions with PrimeWest's external auditor, PricewaterhouseCoopers LLP.

The Audit Committee also functions as the Board's Reserves Committee, a recently expanded role. In response to the investment community's concerns about the integrity of oil and gas reserves reports, the Reserves Committee has a number of critical responsibilities. It reviews the selection and engagement of the independent engineering firm (currently Gilbert Laustsen Jung Associates Ltd.); and it reviews the annual reserves evaluation process and the annual reserves evaluation and report prepared by the independent engineering firm.



Members of the Reserves Committee meet directly with the independent engineering firm – partly in-camera, without PrimeWest management present. In reviewing the annual reserves evaluation, the Committee requests explanations for significant changes in scope, assumptions, methodologies, and major revisions from prior-year reports.

The Committee also reviews any problems experienced by the firm in preparing the reserves report, including any restrictions imposed by PrimeWest’s management or significant areas of disagreement. It also receives confirmation from the independent engineering firm that the reserves evaluation and report was not inappropriately influenced by PrimeWest management.

*Corporate Governance and Compensation Committee*

This Committee’s purpose is to provide a focus on corporate governance to enhance the performance of PrimeWest and to ensure, on behalf of the Board and all unitholders, that PrimeWest’s corporate governance system is effective.

The Committee’s responsibilities include a duty to assess and make recommendations about Board effectiveness, and to establish a process for nominating and providing ongoing education and development for directors.

The Committee also monitors PrimeWest’s compensation programs, practices and the performance of management to ensure congruence between the performance of senior officers and the objectives and strategies of PrimeWest. In this regard, PrimeWest is the first and only royalty trust to publicly disclose senior executive compensation.

The Corporate Governance and Corporation Committee also functions as the Board’s Health, Safety and Environment Committee.

This mandate provides that the Committee monitor the health, safety and environmental practices of PrimeWest to ensure that they comply with applicable legislation and regulations, and conform with industry standards, with a view to preventing or mitigating losses.

**BOARD COMPOSITION**

The Board is currently composed of five directors, three of whom are independent. Two directors, the Vice-chairman and CEO and the President and COO, are management directors and related. The Corporate Governance and Compensation Committee, consisting of three independent directors, are currently undertaking a selection process to identify appropriate candidates in order to appoint two additional, unrelated independent directors. This will increase the size of the Board to seven persons, consisting of five independent directors.

**BOARD MEETINGS**

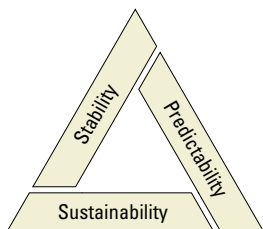
The Board of Directors of PrimeWest Energy Inc. met on fourteen occasions in 1999. The Audit Committee met on five occasions and the Corporate Governance and Compensation Committee met on four occasions.

*We have refined our vision, corporate objective and strategies. They are aligned with the long-term interests of our unitholders.*



## KEEPING YOUR INVESTMENT WORKING USING FOUR STRATEGIES

*Our primary corporate objective is to deliver distributions that are sustainable, stable and predictable. We know these investment features are valued by our unitholders.*



### **Purpose**

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

### **Vision**

*Our vision is to be the best oil and gas royalty trust, as measured by total unitholder return (trust unit price plus cumulative and reinvested distributions), on a rolling three-year basis.*

### **Corporate objective**

*Our primary corporate objective is to develop a consistent track record of excellent distribution performance – distributions with sustainability, stability and predictability.*

### *Sustainability*

We have always managed PrimeWest as a ‘going concern’, notwithstanding the fact that our distributions are based on a depleting asset. We have done this, with expertise and experience, to maximize the stream of cash made available to unitholders while preserving underlying asset value.

Our acquisition and development strategies are critical to achieving sustainability. Through these, we replenish our reserve base through acquisitions and exploit our reserve base for maximum value. Our programs work to optimize production and moderate the natural production decline rates of our producing properties.

We intend to keep providing distributions for many years to come – through a combination of acquisitions, development, cost reduction and production optimization.

### *Stability*

It is a key priority for us to build more stability into our distribution stream.

Of course, the level of distributions is affected directly by the prices we receive when we sell crude oil and natural gas. Both commodities have natural price cycles, and these cycles drive increases and decreases in the cash available for distribution.

We have listened to our unitholders express the desire to see less volatility in distributions. While we can’t control the price of crude oil or natural gas, we will continue to use commodity price hedging to mitigate the volatility associated with commodity price fluctuations.

### *Predictability*

We have enhanced our management processes and controls, and are improving our ability to set realistic expectations in the market – and then to deliver results accordingly.

*We work to be prudent in managing  
our capital structure and providing for the future.*

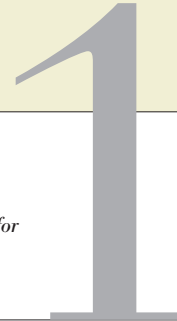


# FINANCIAL PRUDENCE



**Susan Duncan** *Vice-president, Finance*

*Fifteen years experience in finance, accounting, audit and tax. "We will use surplus cash flow in the best combination of debt reduction, additions to a stability reserve for future 'rainy days,' trust unit repurchase, and/or supplementary distributions."*



Financial prudence supports all three aspects of our main objective – sustainability, stability and predictability of distributions. It means two things to us – managing our capital structure and providing for the future.

## MANAGING OUR CAPITAL STRUCTURE

Financial prudence is particularly important for royalty trusts. Most companies have three sources of capital for growth – debt, equity, and cash flow. Royalty trusts have only two sources – debt and equity. This is because we don't reinvest cash flow; we pay the bulk of it to our unit-holders. For this reason, capital structure is an important business risk that royalty trusts need to manage well.

In late 1998, with a program to dispose of some non-core properties, we built one of the more conservative balance sheets in the sector going into the crude oil price downturn.

At year-end 1999, our debt-to-cash-flow ratio was an acceptable two to one and expected to decline even further in 2000. To manage debt during 2000, we plan to apply a portion of cash flow that is in excess of our regular monthly distribution rate of \$0.10 per trust unit.

Financial prudence also has permitted greater flexibility in the timing of new equity, which we issued most recently in October 1999. We tied our issue to a natural gas property acquisition, not just debt retirement, to minimize dilution to existing unitholders. And, by positioning PrimeWest's balance sheet to weather cyclical downturns in commodity prices, we were able to issue equity on a much more favorable basis than other trusts going to market, under duress, earlier in the year.

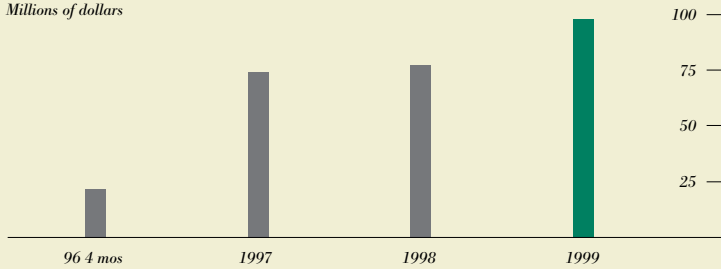
## PROVIDING FOR THE FUTURE

In 1999, PrimeWest's distribution payout ratio as a proportion of available cash flow was 90 percent. This represents one of the most conservative payout ratios among the royalty trusts. On top of our distributions, we built an undistributed reserve of \$0.07 per trust unit and applied \$0.05 per trust unit from investment gains and income towards debt reduction and capital expenditures.

We anticipate that our 2000 cash flow stream will be more than sufficient to meet our monthly distribution level of \$0.10 per trust unit. With this in mind, our Board of Directors regularly reviews the best combination of the following alternatives for the uses of surplus cash flow:

- debt reduction;
- additions to our distribution stability reserve for a future 'rainy day' when commodity prices ultimately cycle down and impinge on cash flow;
- trust unit repurchases, and/or;
- supplementary distributions.

**Revenue**  
Millions of dollars



Gross sales revenues from crude oil, natural gas and natural gas liquids rose by 28 percent for the year ended December 31, 1999, to \$98 million.

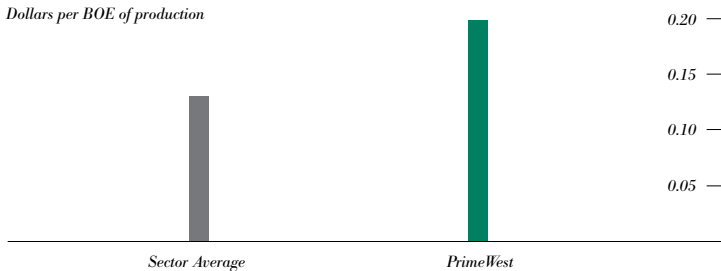
*PrimeWest employs one of the most conservative capital structures and distribution payout ratios in the royalty trust sector.*

Adequate provision for the future also includes judicious contributions to a reclamation fund. This fund is set aside to pay for the future abandonment of wells and shutdown of facilities. For 2000, contributions to the PrimeWest reclamation fund will total \$0.30 per BOE of production, up from \$0.20 per BOE in 1999.

We have historically reserved about two times more than the sector average. This helps to ensure that the short-term trader in PrimeWest is paying for future abandonment and clean up costs in the same proportion as the long-term investor.

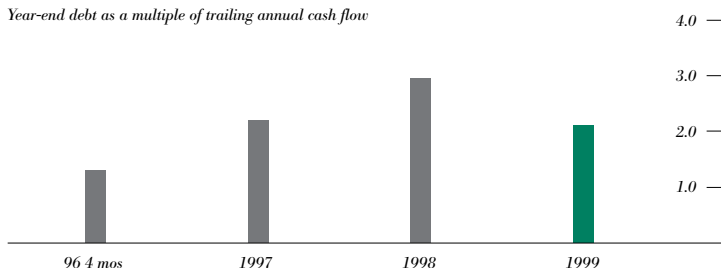
This is an important element of financial prudence that should not be overlooked when evaluating investment performance.

**1999 Reclamation Fund Contributions**  
Dollars per BOE of production



To fund future abandonment and clean-up costs, we reserve nearly twice as much per unit of production than the average for the conventional oil and gas royalty trust sector.

**Debt-to-Cash Flow**  
Year-end debt as a multiple of trailing annual cash flow



Our trailing debt-to-cash-flow ratio dropped from three times to just over two times during 1999. We will continue to strengthen our balance sheet to increase our flexibility to pursue reserve replenishment and property enhancement in 2000 and beyond.

*We believe that a risk-management strategy belongs in a trust that values stability and predictability in its distributions.*



# RISK MANAGEMENT

*Our risk management strategies aim to reduce the natural volatility inherent in a commodity-based cash flow stream.*

Our second strategy for achieving top distribution performance is risk management. Within restrictions set out by the Board of Directors, this includes the management of commodity-market-driven volatility in components of our revenues and cash flows.

The key aim of our risk management strategy is to provide an element of stability and predictability in our monthly distributions, while maintaining the opportunity to capture benefits from commodity price upside potential.

## OUR PHILOSOPHY

PrimeWest's revenues and cash flows are directly tied to the market prices of crude oil, natural gas and the other market-driven commodities that we produce. The market prices that we receive for these commodities may fluctuate greatly, and if we were to do nothing, this could translate into distribution volatility.

Given our unitholders' stated desire for improved predictability in distributions, we endeavour to minimize volatility in distributions. Accordingly, PrimeWest regularly monitors its commodity risk exposure and actively manages a portfolio of pricing mechanisms designed to achieve stability in our distribution stream.

This said, it is important to note that we do not speculate on future price levels. Rather, we prudently craft our portfolio of forward-market sales to provide predictability – in whatever pricing scenario that unfolds. Our aim is not to predict the top of the price curve, but to mitigate the downside exposure to price drops.

Likewise, PrimeWest also prudently employs risk management programs in respect of interest rates and exchange rates, when it makes sense.

## HIGHLIGHTS

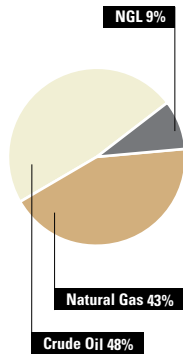
In 1999, we layered in commodity hedging as insurance to underpin the stability of monthly distributions at \$0.10 per trust unit. While this did not optimize our realized prices, we ensured ourselves a floor to protect our monthly distribution rate.

In 2000, PrimeWest is taking much the same approach. We are selectively entering into pricing structures for the sale of our commodities to support the regular monthly distribution rate of \$0.10 per trust unit. At the same time, we are retaining the opportunity to substantively participate in the upside potential from continuing strong commodity prices.

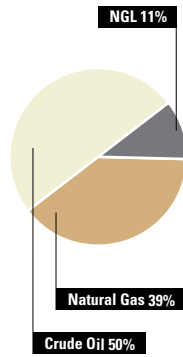
Importantly, there is also a natural risk-mitigation element within PrimeWest's unhedged revenue stream. It comes from the relatively even balance in our mix of crude oil and natural gas production. Price fluctuations of crude oil and natural gas do not necessarily correlate, mainly because crude oil prices are determined on a worldwide basis and natural gas prices are determined by North American supply and demand dynamics.

PrimeWest's active risk management process – monitoring, analysing and managing the risk profile of commodity-driven components of our revenue stream – is regularly reviewed by the Board of Directors.

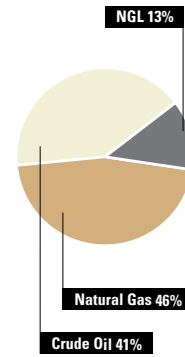
**Revenue by Product as a % of Gross Revenue**



**Production by Product as a % of Total Production**

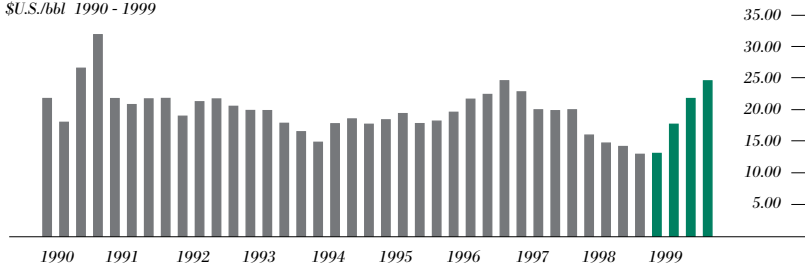


**Established Reserves by Product as a % of Total Established Reserves**



*PrimeWest's relatively balanced product portfolio provides a natural risk-mitigation element to our cash flow streams.*

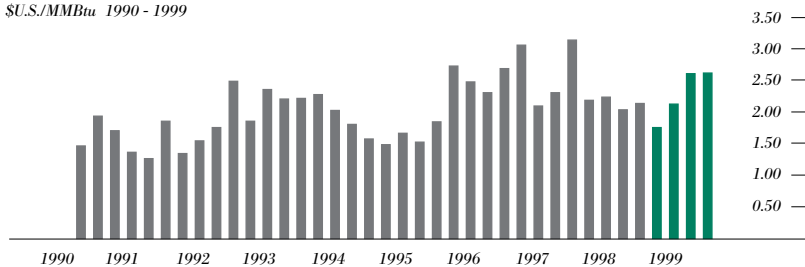
**WTI Crude Oil Quarterly Averages**  
\$U.S./bbl 1990 - 1999



*Our aim, through active risk management, is to stabilize commodity prices received, a main driver of distributions. We won't necessarily hit the peaks, but we will mitigate the valleys.*

*Historical price curves for crude oil and natural gas demonstrate the volatility of each commodity.*

**NYMEX Natural Gas Quarterly Averages**  
\$U.S./MMBtu 1990 - 1999

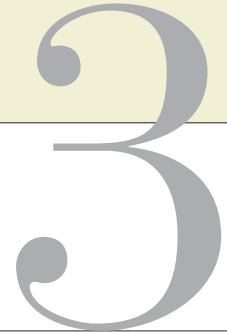


*Driven by strong supply-demand fundamentals, both crude oil and natural gas prices are near ten year highs. WTI crude oil is now trading above U.S. \$29.00/bbl and NYMEX natural gas is now trading at about \$U.S. 2.90/MMBtu (March 16, 2000)*

*Being the operator of 85 percent of our production gives us direct influence over our current and future operating results.*



## OPERATING EXCELLENCE



**Tim Granger** *Vice-president, Production*

*Twenty years of experience in drilling, production operations and property development. "Our operating strategy has shifted to a higher level of project diversification coupled with an increased emphasis on technology and stewardship. We expect that this shift in strategy will lower our development risk."*

Another key strategy for PrimeWest is operating excellence. Being the operator of 85 percent of our production gives us direct control over our current and future operating results.

### EXPLOITATION

Our operating strategy going forward is shifting to a higher level of project diversification coupled with an increased emphasis on technology and stewardship. We believe that the bulk of the opportunities contained in the initial suite of Amoco-heritage properties have been identified, and this shift in strategy will lower our development risk.

We have now adopted a more conservative program of property development, one focused on lowering operating costs and arresting the natural decline rates common to mature producing properties.

To replenish our asset base, we will rely on our acquisition program – the purchase of mature crude oil and natural gas producing properties. And, of course, once these properties have been acquired, we will work to enhance their value through productivity gains and operating cost reductions.

### HIGHLIGHTS

Our notable 1999 development achievements were in our southeastern Alberta and Kaybob core areas.

In southeastern Alberta at Grand Forks, a multi-well development program and continuing production optimization programs have been successful in arresting the field's annual production decline rate. This decline rate was about 25 percent per year when we purchased the property, and we have reduced it to less than half this rate over the past two years. Incremental production was added at less than \$15,000 per producing BOE per day.

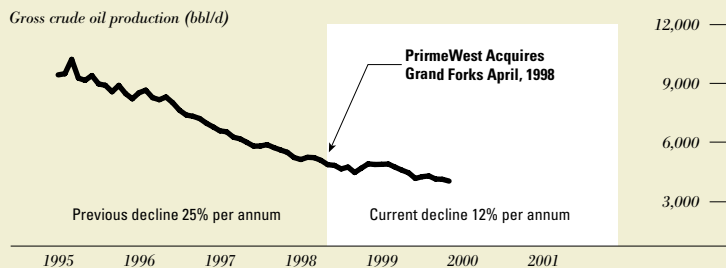
At Kaybob, in west-central Alberta, we re-entered two existing vertical well bores and drilled horizontally into the producing formation late last year. This drilling both accelerated and increased the recovery of reserves. Initial production from the wells were 180 BOE per day and 600 BOE per day, respectively. A third followup well drilled in March, 2000 added an additional 400 BOE per day. PrimeWest's interests in these wells range from 20 to 32 percent.

### REDUCING COSTS

At a time when commodity prices appear to have reached their cyclical highs, we are positioning PrimeWest to weather the lows. This includes reducing operating costs.

We brought operating costs down this year – six percent on an absolute basis and four percent on a per-BOE basis – and we expect to reduce costs further in 2000. In all operating areas, we will move towards automation and an increased focus on stewardship.

**Grand Forks Decline Curve Arrest**



*The Grand Forks property provides a good example of how PrimeWest's production teams work to mitigate production declines and preserve value. The property was purchased from an operator in April 1998, when the annual production decline rate was 25 percent; PrimeWest has arrested the decline to less than half that rate. By mid-2000, this acquisition will have paid out its \$32 million purchase price, yet production will have dropped only about 20 percent.*

PrimeWest's operating costs per BOE have historically been higher than the average for the conventional oil and gas royalty trusts. The Crossfield area has had a significant impact on this measure, in that the balance of our properties have a cost structure lower than the royalty trust average. Accordingly, we have moved to increase our strategic influence over the Crossfield area.

In December 1999, we announced that we were increasing our stake, to 54 percent, in the Crossfield gas processing plant and associated gathering system. And, we have assumed operatorship.

As the new operator, we have implemented a program to improve operations and reduce operating costs. Already, we have made changes that will save at least \$1 million annually in facility labor costs. We have just completed the plant turnaround for one-third the historical cost, and reduced plant turnaround downtime to one-tenth historical norms. We anticipate further efficiencies through automation projects and co-generation over the next 12 months. At the same time, we are in negotiations to increase third-party volumes for processing. The Crossfield gas plant has the capacity to process 107 MMcf of raw gas per day, with current throughput at about 70 MMcf per day. More throughput provides leverage to drive down the costs on a per-unit basis.

Success in these initiatives will have a significant impact on costs and profitability associated with our assets in this area, and, by extension, our overall operating costs.

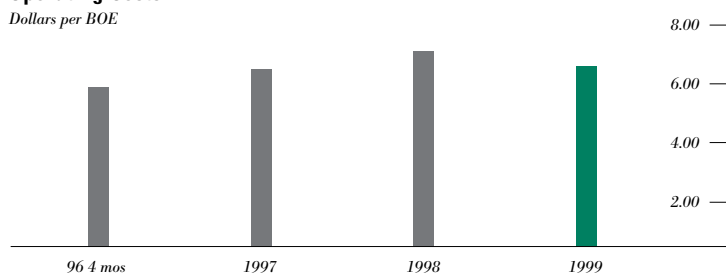
**RESPONSIBLE STEWARDSHIP**

PrimeWest is committed to responsible stewardship of its crude oil and natural gas properties, taking into account the environment, public health and safety. We try to work co-operatively with individual landowners and with communities where we have operations.

As part of our environmental commitment, we participated in a voluntary program aimed at minimizing our greenhouse gas emissions. During 1999, we received special recognition for our efforts.

The Voluntary Challenge and Registry Inc. (VCR), based in Ottawa, awarded PrimeWest a Bronze Level designation for a 1999 submission that outlined our approach and activities. For an organization of our size, this is quite an accomplishment. PrimeWest is the only oil and gas royalty trust that obtained the VCR's Champion Level. Of the 597 1998 reports filed in 1999 with the VCR, only 98 attained the Champion Level.

**Operating Costs**



*We believe we turned the corner on operating costs during 1999. We reduced operating costs by six percent in total (four percent on a per-BOE basis), and look to continue this trend in 2000. Our aim is to drive operating costs below the royalty trust sector average.*

*We will continue to grow and enhance our asset base – increasing the proved producing component and the quality of our reserves.*

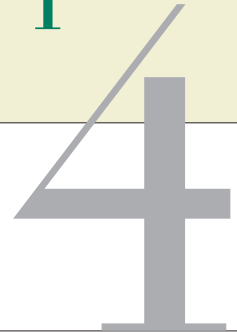


# ASSET REPLENISHMENT



**Ron Ambrozy** *Vice-president, Business Development*

*Twenty-three years of oil and gas experience, including property evaluation and transactions. “We have refined and made more strategic our acquisition criteria. They fall into two main categories – those that contribute to the quality of our future cash flow, and those that contribute to the quality of our overall reserves.”*



Asset replenishment is another key to the long-term sustainability of PrimeWest and its distributions. We firmly intend to continue to increase the size, diversity and quality of our asset base.

## REFINED ACQUISITION CRITERIA

To focus our consideration on the many acquisition opportunities that become available to us, we have refined and focused in on a limited number of key acquisition criteria. These criteria fall into two main categories – those that contribute to the quality of our future cash flows, and those that contribute to the quality of our overall reserves.

## QUALITY OF CASH FLOW

We will assess the quality of cash flow derived from potential acquisitions mainly by how stable and predictable the netback can be expected to be. These features, in turn, will be affected by such factors as:

- product quality and related price differentials;
- the level of royalty burden;
- operating expense per BOE, and;
- the required amount of future development capital.

## QUALITY OF RESERVES

We will assess the quality of reserves associated with potential acquisitions mainly by their anticipated production predictability and by their level of proved producing reserves. We will also take into account other factors, such as:

- historical performance;
- stage of recovery method, such as water flood;
- reserve life index, and;
- potential production performance and reserve upside.

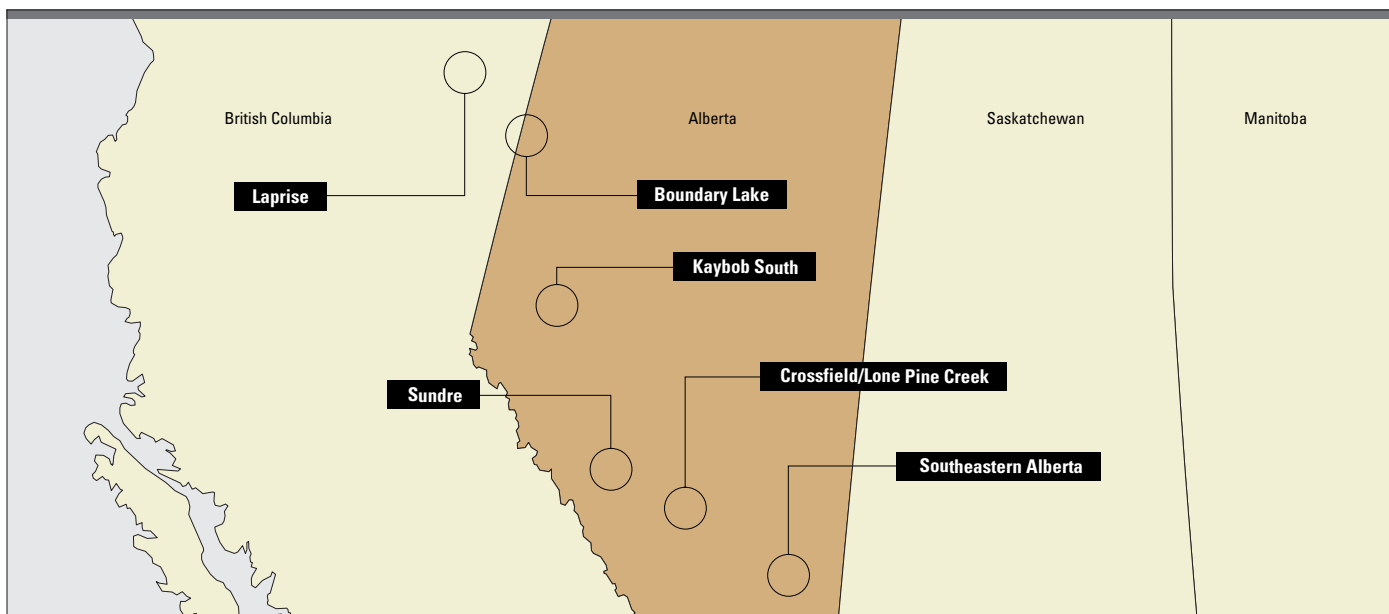
From a financial perspective, acquisitions must provide, as a minimum, a return better than that provided by Canada Ten-year Bonds plus 400 basis points.

## 1999/2000 HIGHLIGHTS

The acquisition market in 1999 was highly competitive, with large transactions overshadowing smaller ones. We were active, yet discerning. We found the best value in more modest-sized deals.

In 1999, we acquired properties with an initial production rate of 1,300 BOE per day – all on a distribution- and NAV-accretive basis – to help offset the natural decline of our existing asset base.

Our largest transaction occurred in November, when we invested \$13.5-million on long-reserve-life, essentially all proved producing, natural gas properties in the Patricia/



*PrimeWest operates in six core areas, providing a high degree of focus to our asset base.*

Dinosaur area of southern Alberta. Since the acquisition, we have optimized facility performance, increasing production and lowering operating expenses. We also have identified a natural gas development opportunity at a deeper horizon that will be exploited in 2000. PrimeWest's 1999 asset acquisition total was more than \$24 million.

In early 2000, there were a large number of assets and companies up for sale. Our proposed acquisition of Venator Petroleum Company Ltd., initiated in March, will bring tangible benefits to unitholders upon successful completion, and builds positive momentum for us. Using our screening process, we are continuing to pursue acquisition opportunities that would add value to the Trust.

In the same way, we are continuing to look for a large-impact transaction – at either the property or corporate level – to substantially add to our asset base and improve unitholder liquidity.

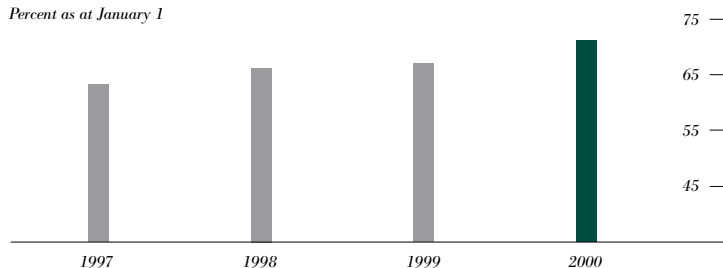
	Established Reserves	Production	Property Cash Flow <sup>(3)</sup>	Main products produced
<b>Core Property Summary</b>	Thousands of BOE	BOE/d	(Thousands of dollars)	
Sundre <sup>(1)</sup>	12,907	2,950	15,225	Oil/Gas
Southeastern Alberta <sup>(2)</sup>	9,797	3,256	15,821	Oil/Gas
Others	6,554	1,304	6,400	Oil/Gas
Crossfield/Lone Pine Creek	6,543	1,565	6,312	Gas
Laprise Creek	6,141	1,170	6,125	Gas
Boundary Lake	4,472	757	3,988	Oil
Kaybob South	2,104	895	4,986	Oil

<sup>(1)</sup> Includes Garrington, Caroline, Westward Ho and Ricinus

<sup>(2)</sup> Includes Grand Forks, Medicine Hat, Patricia/Dinosaur and Etzikom

<sup>(3)</sup> Excludes hedging, G&A, interest and management fees

**Proved Producing as a Percentage of Established Reserves**  
Percent as at January 1



*As at January 1, 2000, the proved producing component of our established reserves increased from 66 percent to 71 percent, meaning more reserves are working to provide distributions to our unitholders. While overall reserves declined due to technical revisions mainly in the probable category, acquisitions, such as the Patricia/Dinosaur properties, improved overall asset quality.*



## OPERATIONAL HIGHLIGHTS

	1999	1998	Change
<b>Daily sales volumes</b>			
Crude oil ( <i>barrels per day</i> )	<b>5,958</b>	5,868	2%
Natural gas liquids ( <i>barrels per day</i> )	<b>1,293</b>	1,226	5%
Natural gas ( <i>millions of cubic feet per day</i> )	<b>46.46</b>	50.41	(8%)
Total ( <i>barrels of oil equivalent per day</i> )	<b>11,897</b>	12,134	(2%)
<b>Average selling prices</b>			
Crude oil ( <i>dollars per barrel</i> )	<b>\$ 21.69</b>	\$ 16.92	28%
Natural gas liquids ( <i>dollars per barrel</i> )	<b>\$ 19.09</b>	\$ 14.55	31%
Natural gas ( <i>dollars per thousand cubic feet</i> )	<b>\$ 2.51</b>	\$ 1.83	37%
Total ( <i>dollars per barrel of oil equivalent</i> )	<b>\$ 22.72</b>	\$ 17.34	31%
<b>Established reserves</b>			
Crude oil ( <i>millions of barrels</i> )	<b>20.0</b>	21.7	(8%)
Natural gas liquids ( <i>millions of barrels</i> )	<b>6.2</b>	6.5	(5%)
Natural gas ( <i>billions of cubic feet</i> )	<b>224.5</b>	243.5	(8%)
Total ( <i>millions of barrels of oil equivalent</i> )	<b>48.5</b>	52.5	(8%)
Percent proved producing reserves	<b>71</b>	66	8%
Percent proved reserves	<b>80</b>	78	3%
<b>Net asset value (pre-tax) - see discussion on page 29</b>			
<i>(millions of dollars, except per-trust-unit)</i>			
Established reserves ( <i>discounted at 10 percent</i> )	<b>\$ 328.0</b>	\$ 313.0	5%
Unproved lands	<b>10.2</b>	10.6	(4%)
Other assets	<b>6.9</b>	4.2	64%
Long-term debt	<b>(92.2)</b>	(73.0)	26%
Total net asset value	<b>\$ 252.9</b>	\$ 254.8	(1%)
Per trust unit	<b>\$ 7.07</b>	\$ 7.72	(8%)
Cumulative distributions per trust unit	<b>3.70</b>	2.60	42%

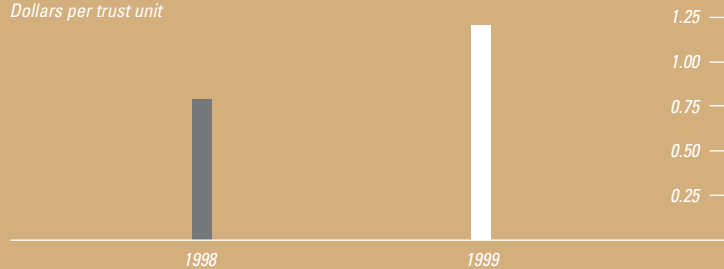
## FINANCIAL HIGHLIGHTS

<i>(thousands of dollars except per BOE and per-trust-unit amounts)</i>	<b>1999</b>	1998	Change
Cash flow from operations	<b>41,081</b>	24,806	66%
per BOE	<b>9.46</b>	5.60	69%
per trust unit	<b>1.21</b>	0.79	53%
Operating revenues, net of royalties	<b>81,065</b>	63,947	27%
per BOE	<b>18.67</b>	14.44	29%
per trust unit	<b>2.39</b>	2.03	18%
Operating expenses	<b>28,609</b>	30,550	(6%)
per BOE	<b>6.59</b>	6.90	(4%)
per trust unit	<b>0.84</b>	0.97	(13%)
Cash G&A expenses	<b>5,321</b>	5,108	4%
per BOE	<b>1.23</b>	1.15	7%
per trust unit	<b>0.16</b>	0.16	-
Cash management fees	<b>1,386</b>	882	57%
per BOE	<b>0.32</b>	0.20	60%
per trust unit	<b>0.04</b>	0.03	33%
Financing costs	<b>4,885</b>	4,711	4%
per BOE	<b>1.13</b>	1.06	7%
per trust unit	<b>0.14</b>	0.15	(7%)
Operating netback	<b>52,456</b>	33,397	57%
per BOE	<b>12.08</b>	7.54	60%
per trust unit	<b>1.54</b>	1.06	45%
Cash distributed to unitholders	<b>37,351</b>	25,769	45%
per BOE	<b>8.60</b>	5.82	48%
per trust unit	<b>1.10</b>	0.82	34%
Capital expenditures net of property dispositions	<b>32,910</b>	65,192	(50%)
Net debt (long-term debt net of working capital)	<b>86,330</b>	70,637	22%
Net debt-to-trailing-cash flow (annualized)	<b>2.10</b>	2.85	(26%)
Weighted average number of trust units outstanding	<b>33,965</b>	31,426	8%
Number of trust units outstanding at year end	<b>35,769</b>	33,023	8%

*Your Investment's*

# PERFORMANCE

**Cash Flow from Operations**  
*Dollars per trust unit*

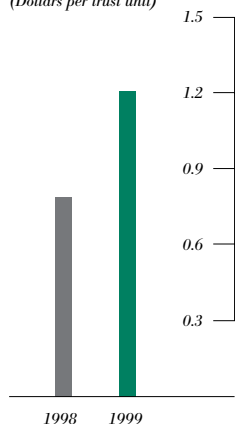


PERFORMANCE STEADILY IMPROVED YEAR  
OVER YEAR. HIGHER REVENUES WERE  
USED TO INCREASE CASH DISTRIBUTIONS,  
RETIRE DEBT, AND REPURCHASE TRUST  
UNITS FOR CANCELLATION.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*Our financial performance was greatly improved by strong crude oil and natural gas prices and lower operating costs, partially offset by a slight decline in average daily production.*

**Cash Flow From Operations**  
(Dollars per trust unit)



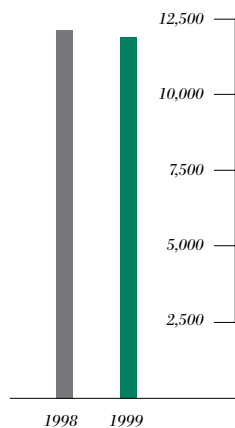
### Year ended December 31, 1999 compared with year ended December 31, 1998

The following discussion is management's opinion about PrimeWest's operating and financial results for 1999 and previous years, and about the Trust's future outlook based on currently available information. This discussion and analysis should be read in conjunction with the Trust's audited consolidated financial statements for the years ended December 31, 1999 and 1998, together with the accompanying notes. These are included on pages 32 through 42 of this annual report.

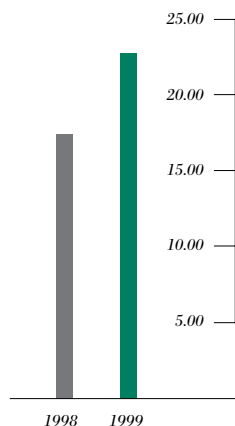
### Highlights

- During 1999, our financial and operating performance improved steadily, with cash flow increasing more than 65 percent in total and by 53 percent per trust unit compared with 1998 levels. This was due primarily to increases in world crude oil prices and North American natural gas prices. At the same time as these global and continental events were occurring, we strengthened our management team and sharpened our focus on the main factors over which we can exert influence.
- Operating netbacks increased by 57 percent in total and by 60 percent on a per BOE basis.
- We reduced operating costs by six percent in aggregate, four percent on a per BOE basis.
- Average daily production remained essentially flat – down by two percent compared with 1998. Notwithstanding, fourth quarter production rates were in line with 1998 average production rates.
- In October 1999, we raised \$19.8 million by issuing 2.75 million trust units at \$7.20 per trust unit. Net proceeds from this issue were used to fund a \$13.5-million gas property acquisition and to pay down debt.
- We completed three major property acquisitions and two swaps for a total net cost of \$24.6 million. We also completed several minor property dispositions for total proceeds of \$5.9 million. As a result of these transactions, a net 1,100 BOE per day of production was added, at a weighted average cost of \$8.00 per BOE.
- PrimeWest added 2.2 million BOE to proven reserves from acquisition and development activity during 1999. After deducting 1999 production of 4.3 million BOE, proved reserves were 38.8 million BOE, down five percent from the prior year. Established reserves declined by eight percent, to 48.5 million BOE, mainly from technical revisions in the probable category. During 1999, development drilling coupled with acquisitions more than replaced produced reserves.
- Using a 10-percent discount rate, our net asset value was \$7.07 per trust unit at December 31, 1999 compared with \$7.72 per trust unit in the prior year, a decline of eight percent. During the year, we paid \$35.7 million in cash distributions to unitholders. Accordingly, the total of net asset value plus cumulative distributions to the end of 1999 rose by four percent, from \$10.32 to \$10.77 per trust unit.

**Production**  
(BOE/d)



**Total Sales Price**  
(Dollars per BOE)



- From December 31, 1998 to December 31, 1999, total unitholder return (trust unit price plus cumulative and reinvested distributions) climbed by 56 percent. Over the same period, our trust unit price rose by 32 percent (\$5.05 to \$6.65 per trust unit) and distributions declared rose by 34 percent (\$0.82 to \$1.10 per trust unit).
- Year-end 1999 debt-to-trailing cash flow ratio was 2:1. The forecast debt-to-trailing cash flow ratio for 2000 is expected to be closer to 1.5:1, based on our current expectations for production and commodity prices.

**Results of operations**

*Production volumes*

Production volumes for 1999 averaged 11,897 BOE per day, down two percent from 1998 levels. Incremental production came from acquisitions and from some areas of our property-enhancement program.

*Production Summary*

	1999	%	1998	%
Oil (barrels per day)	5,958	50	5,868	48
NGLs (barrels per day)	1,293	11	1,226	10
Natural gas (MMcf per day)	46.46	39	50.41	42
<b>Total BOE per day</b>	<b>11,897</b>	<b>100</b>	<b>12,134</b>	<b>100</b>

Acquisition activities replaced 109 percent of 1999 production, and development activities replaced 25 percent.

Together, these acquisition and development additions only partially offset naturally occurring declines in the productive capacity of the existing properties. Unexpected outages and third-party curtailments in the third quarter had a dampening effect on full-year volumes. However, by the fourth quarter, production levels had returned to 12,116 boepd. Mainly though, it was project deferrals and disappointing results from a portion of our development-drilling program – a program that had been successful in 1998 and 1997 – that brought average daily production levels down from expectations.

Going forward, we are shifting to greater project diversification coupled with an increased emphasis on technology and stewardship to optimize results in the future.

PrimeWest’s production mix remained relatively balanced in 1999, with approximately 50 percent being crude oil, 11 percent being natural gas liquids, and 39 percent being natural gas.

*Sales revenues*

Gross sales revenues from crude oil, natural gas, natural gas liquids and sulphur rose by 28 percent for the year ended December 31, 1999, to \$98 million. The increase was due to higher sales prices received by PrimeWest for all commodities, offset by the minor decline in annual production.

*Prices*

Throughout 1999 and into 2000, world oil prices strengthened as OPEC maintained production curtailments. Natural gas prices also rose as North American demand for natural gas continued to grow at rates greater than supply.

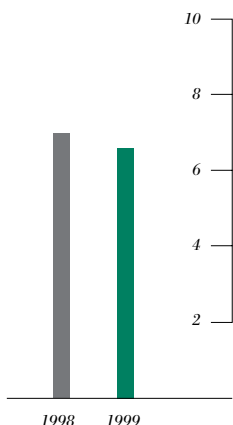
*Sales Prices*

(Canadian dollars)	1999	1998	Change
Crude oil (\$/barrel)	21.69 <sup>(1)</sup>	16.92 <sup>(2)</sup>	28%
Natural gas (\$/Mcf)	2.51	1.83	37%
NGLs (\$/barrel)	19.09	14.55	31%
<b>Total BOE (\$/BOE)</b>	<b>22.72</b>	<b>17.34</b>	<b>31%</b>

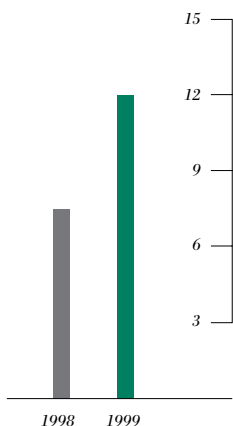
<sup>(1)</sup> Includes \$2.08 per barrel reduction in revenue from financial hedging activities

<sup>(2)</sup> Includes \$0.58 per barrel increase in revenue from financial hedging activities

**Operating Costs**  
(Dollars per BOE)



**Operating Netbacks**  
(Dollars per BOE)



PrimeWest's crude oil is a mix of light and medium gravity, averaging 32 degrees API. Our crude oil is sold to various companies and markets under a number of different contracts at prevailing market prices.

A total of 58 percent of PrimeWest's natural gas is sold to aggregators in Alberta and British Columbia, which offer a mix of prices and access to a number of markets in Canada and the United States. The remaining 42 percent of our natural gas is sold directly into the Alberta short- and long-term markets.

Crude oil revenues rose 30 percent from 1998 levels, to \$47.2 million, due mainly to stronger prices and slightly higher production volumes. Crude oil revenues reflect the effects of a number of financial hedging transactions entered into during 1999 to provide increased stability in cash distributions. These financial hedging transactions resulted in an opportunity cost of \$2.08 per barrel of crude oil. Natural gas revenues increased by 26 percent over 1998, to \$42.5 million, due mainly to higher prices offset by lower sales volumes. Financial hedging activities during 1999 resulted in a reduction of natural gas revenues of \$0.1 million.

During 1999, essentially all of our natural gas liquids were sold at prevailing market prices. Natural gas liquids revenues increased by 38 percent to \$9 million, primarily due to stronger prices. Production volumes were essentially flat. We did not hedge prices on sales of natural gas liquids in 1999.

**Royalties**

Total royalties, net of ARTC, during 1999 were \$17.2 million, an increase of 33 percent from \$12.9 million paid in 1998. As a percentage of gross sales revenues for the year ended December 31, 1999, royalty expense was 17.5 percent, up fractionally from 17 percent in 1998.

Alberta Royalty Tax Credit (ARTC) was \$0.8 million in 1999, compared with \$0.3 million in 1998, due to property acquisitions and drilling completed during the year and prior years and higher royalty expenses.

**Operating expenses**

Operating expenses, net of processing income, were \$28.6 million for 1999. This is a reduction of six percent from 1998, or four percent on a per-BOE basis. Reducing operating costs was a major priority for us during 1999, and continues to be in 2000.

**Operating netbacks**

PrimeWest's operating netback (before G&A, management fees and interest) of \$12.08 per BOE was 60 percent higher than levels obtained in 1998, due to higher average commodity prices and lower operating expenses.

**Operating Netbacks**

(Dollars per BOE)	1999	1998	1997
Revenue	22.63	17.34	22.19
Royalties	(3.96)	(2.90)	(4.28)
Operating expenses	(6.59)	(6.90)	(6.41)
<b>Operating netback</b>	<b>12.08</b>	7.54	11.50

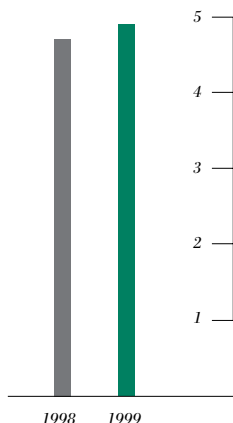
**Other income**

Other income for 1999 of \$2 million includes investment income related to the sale of securities held in connection with an attempted corporate acquisition in early 1999 (see attempted take-over cost discussion).

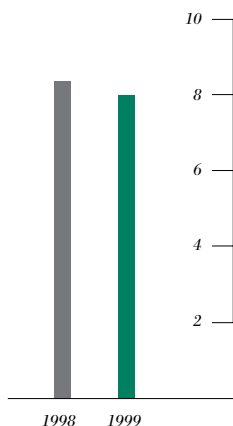
**General and administrative expenses**

Cash general and administrative expenses, net of overhead recoveries, were \$1.23 per BOE in 1999, an increase of \$0.08 per BOE over 1998. This resulted from a four-percent increase in absolute general and administrative expenses and a slight decline in average daily production. Most of the cost increases were one-time organizational restructuring expenditures. We expect general and administrative costs to decline on a per BOE basis in 2000.

**Interest Expense**  
(Millions of dollars)



**D,D&A Expense**  
(Dollars per BOE)



Non-cash general and administrative expenses of \$0.6 million relate to our Long-Term Incentive Program for employees. Employees are able to benefit from this program only if unitholders achieve a threshold annual total return of five percent. The expense relates to the issuance of 15,806 trust units during the course of the year, as well as the 'in the money' Unit Appreciation Rights vested, but not exercised, as at year-end.

**Management fees**

As the Manager of PrimeWest Energy Trust, PrimeWest Management Inc. 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, 1999, management fees were \$1.8 million, compared with \$1.3 million in 1998, reflecting higher cash flow. Of the \$1.8 million, \$1.4 million was paid in cash, and the balance was paid by the issuance of 67,762 trust units from treasury.

These figures do not include acquisition and disposition fees totaling \$0.6 million for 1999 (1998 - \$1.1 million), which are charged to capital assets as part of properties acquired. It also does not include the one-percent retained royalty totaling \$0.4 million for 1999 (1998 - \$0.3 million), which is paid as a dividend by PrimeWest Energy Inc. to PrimeWest Management Inc.

**Interest expense**

Interest expense increased marginally to \$4.9 million in 1999 from \$4.7 million in 1998. This reflects higher average debt year over year, offset by lower average interest rates (5.9 percent in 1999 compared with 6.3 percent in 1998). This also reflects an increase in interest costs of \$0.2 million (1998 - \$0.03 million) as a result of an interest rate swap in place during 1999.

Interest costs are managed through a revolving credit facility and through the issuance of bankers' acceptances.

**Attempted take-over costs**

Attempted take-over costs of \$1.1 million were incurred in early 1999 in addition to costs of \$1.0 million in late 1998. These costs were incurred in connection with offers to acquire all the issued and outstanding trust units of Starcor Energy Royalty Fund and Orion Energy Trust. We invested \$3.2 million in trust units of the two target trusts in late 1998, prior to announcing our offers. Throughout 1999 we collected distribution income, and subsequently sold the trust units resulting in offsetting investment income of \$1.8 million.

**Depletion, depreciation and amortization**

The 1999 and 1998 depletion, depreciation, and amortization rates were \$7.99 and \$8.35 per BOE, respectively. These figures are based on a six-to-one gas-to-oil energy equivalent conversion factor.

**Site reclamation and restoration reserve**

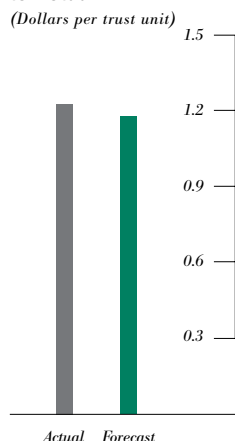
A provision of \$1.8 million was made for site reclamation and abandonment during 1999, compared with \$3.1 million in 1998. This decline in the provision was due to a refinement in the total estimated abandonment costs based on our independent engineering report, as well as the effect of actual costs incurred to date. 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 BOE, or \$0.8 million, to its Site Reclamation Reserve in 1999. A total of \$1.8 million was actually paid out to abandon wells and properties in 1999, compared with \$0.8 million in 1998.

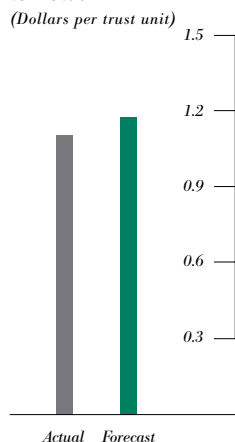
As actual costs are trending higher than in prior years, PrimeWest intends to maintain prudent levels of cash funding to the Site Restoration Reserve. This will enable us to meet our obligations under the Alberta Energy and Utilities Board's Long-term Inactive Well Program. And it will ensure that we 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 \$1.1 million at year-end.

**Forecast Cash Flow to Actual**



**Forecast Distributions to Actual**



**Income taxes**

The Trust is able to claim certain tax deductions, for the benefit of unitholders, that shelter some or all of cash distributions from income tax until the trust units are sold or deemed to have been sold. These tax pools result from acquiring properties that have sufficient tax pools to shelter income in the Trust. Distributions for 1999 and 1998 were fully tax deferred, however, they will reduce the adjusted cost base of trust units held by unitholders.

**Comparison to Financial Forecast**

In January 1999, PrimeWest published a financial forecast for the 1999 fiscal year. The following is a comparison of the actual 1999 results to the published forecast. The forecast indicated cash available for distribution of \$1.18 per trust unit. Had PrimeWest not reserved cash of \$4.3 million to pay down debt in 1999 (\$2.4 million from cash flow and \$1.78 million from investment income), cash available for distribution would have been \$1.23 per trust unit, four percent higher than the forecast.

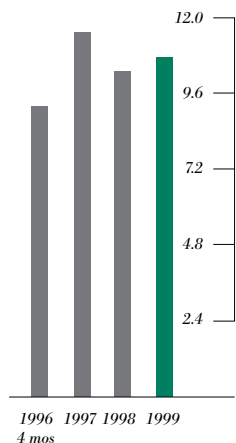
*Comparison to Financial Forecast*

Consolidated Statement of Income and Cash Available for Distribution for the year ended December 31, 1999

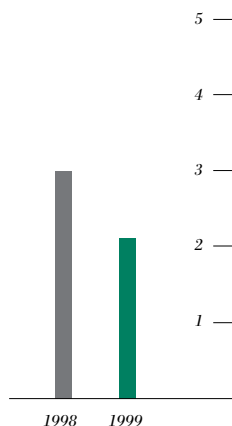
	Actual results 1999	Published forecast 1999
<b>REVENUES</b>		
Sales of crude oil, natural gas and natural gas liquids	\$ 98,246,904	\$ 93,483,251
Crown and other royalties, net of ARTC	(17,182,292)	(15,333,805)
Other income	1,998,099	1,030,995
	<b>\$ 83,062,711</b>	<b>\$ 79,180,441</b>
<b>EXPENSES</b>		
Operating	28,608,863	28,716,215
Cash general and administrative	5,321,415	3,809,584
Non-cash general and administrative	586,292	-
Management fees	1,832,371	1,665,656
Interest	4,885,309	4,940,376
Transaction costs	1,144,595	1,200,000
Depletion, depreciation and amortization	34,699,114	39,883,805
	<b>77,077,959</b>	<b>80,215,636</b>
Net income (loss) for the year	<b>\$ 5,984,752</b>	<b>\$ (1,035,195)</b>
Add back (deduct) amounts to reconcile to cash available for distribution:		
Depletion, depreciation and amortization	34,699,114	39,883,805
Debt repayment from cash flow	(2,484,813)	-
Transaction costs	1,144,595	1,200,000
Income from investments used to reduce debt	(1,779,997)	-
Funding for site restoration	(868,450)	(1,089,910)
Non-cash general and administrative	586,292	-
Non-cash management fees	446,484	348,521
	<b>31,743,225</b>	<b>40,342,416</b>
<b>CASH AVAILABLE FOR DISTRIBUTION</b>	<b>37,727,977</b>	<b>\$ 39,307,221</b>
Cash available to trust unitholders (99 percent)	<b>\$ 37,350,697</b>	<b>\$ 38,914,149</b>
Weighted average number of trust units	<b>33,965,152</b>	33,058,138
Cash available for distribution per trust unit	<b>\$ 1.10</b>	<b>\$ 1.18</b>

**Net Asset Value Plus Cumulative Distributions per Trust Unit**

Dollars per trust unit



**Debt-to-Cash Flow Ratio**



**Net asset value**

Net asset value is one measure of the worth of PrimeWest trust units. It is based on the present value of PrimeWest's underlying assets – crude oil, natural gas and natural gas liquids reserves. These reserves are based on consultant average escalating commodity price forecasts prior to provision for income taxes, interest costs, general and administrative costs and management fees but after providing for estimated royalties, operating costs, other income and abandonment costs. The net asset value includes the value of unproved lands, working capital, funds held for reclamation, and deducts debt outstanding.

Based on an independent evaluation of PrimeWest's established reserves, discounted at 10 percent, the net asset value was \$7.07 per trust unit at the end of 1999, down eight percent from 1998.

This decline reflects an eight-percent decrease in established reserves offset by higher commodity price forecasts. There also was an eight-percent increase during the year in the number of trust units outstanding.

Although our net asset value has declined during the last three years, by \$2.68 per trust unit, cumulative distributions paid during the period were \$3.70 per trust unit.

*Net Asset Value (pre-tax)*

(Millions of dollars, except for per-trust-unit)	1999	1998	1997
Established reserves (discounted at 10 percent)	328.0	313.0	298.0
Unproved lands	10.2	10.6	8.4
Reclamation fund	1.1	1.8	1.7
Working capital	5.8	2.4	1.8
Long-term debt	(92.2)	(73.0)	(66.7)
<b>Net asset value</b>	<b>252.9</b>	<b>254.8</b>	<b>243.2</b>
Trust units outstanding	35.77	33.02	24.95
Net asset value per trust unit	7.07	7.72	9.75
Cumulative distributions declared per trust unit	3.70	2.60	1.78
<b>Net asset value plus cumulative distributions per trust unit</b>	<b>10.77</b>	<b>10.32</b>	<b>10.53</b>

**Liquidity and capital resources**

In October 1999, we completed and financed a \$13.5-million gas property acquisition in south central Alberta, with the issuance of 2.75 million trust units at \$7.20 per trust unit, for total proceeds of \$19.8 million. The remainder was applied to debt. Four other property acquisitions were financed through our existing credit facility.

During the year, PrimeWest received proceeds of \$5.9 million from the disposition of non-core properties. All of this money was used to reduce outstanding debt, rather than for distributions to unitholders.

At year-end 1999, long-term debt was \$92.2 million, or \$2.58 per trust unit, as compared with \$73 million, or \$2.21 per trust unit at the end of 1998. During 2000 we expect that cash flow that is surplus to the regular monthly distribution of \$0.10 per trust unit will be applied to a combination of debt reduction; the creation of a stability reserve for future use when commodity prices cycle down; unit repurchases; and/or supplementary distributions.

*Capital Expenditures*

(Thousands of dollars)	1999	1998	1997
Land and lease	323	535	129
Geological and geophysical	893	1,496	346
Development drilling	10,199	13,110	8,123
Plant and facilities	2,335	1,646	6,641
Property acquisitions	11,084	64,200	35,049
Property dispositions	(5,909)	(16,424)	(1,096)
Share acquisition	13,563	-	-
Corporate	422	629	532
<b>Total capital expenditures</b>	<b>32,910</b>	<b>65,192</b>	<b>49,724</b>

Our year-end net debt-to-unitholder-equity ratio was 43 percent, compared with 33 percent at December 31, 1998. At the end of 1999, PrimeWest's ratio of debt to trailing annual operating cash flow was just over two times, compared with almost three times at the end of 1998. We expect the debt-to-operating-cash-flow ratio to be less than two times for 2000. We will continue to strengthen our balance sheet to provide the financial flexibility to enable us to pursue property-enhancement activities in 2000 and beyond.

At December 31, 1999, PrimeWest had cash of \$5.5 million included in a total working-capital surplus of \$5.8 million.

#### *Debt Analysis*

<i>(Thousands of dollars)</i>	<b>1999</b>	1998	1997
Long-term debt	<b>92,180</b>	73,006	66,723
Working capital	<b>5,850</b>	2,369	1,845
Net debt	<b>86,330</b>	70,637	64,878
Market value of trust units outstanding <sup>(1)</sup>	<b>237,863</b>	166,767	212,075
Total capitalization	<b>324,193</b>	237,404	276,953
Net debt as a percentage of Total capitalization	<b>26.6%</b>	29.8%	23.4%

<sup>(1)</sup> Based on December 31 closing prices

#### **Unitholders' equity**

In November 1999 PrimeWest received consent from The Toronto Stock Exchange to implement a Normal Course Issuer Bid.

To December 31, 1999, we had repurchased and retired 121,200 trust units at an average price of \$6.23 per trust unit, for a total of \$0.7 million. The bid terminates on November 29, 2000.

#### **Business risks**

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

We manage our exposure to these risks by operating within good industry practices, and by utilizing derivative financial instruments, and physical and commodity-hedging contracts.

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

Fluctuations in commodity prices, foreign exchange and interest rates are outside the direct control of PrimeWest and yet can have a significant impact on the level of cash available for distribution to unitholders. In order to mitigate a portion of this risk, we actively manage, monitor and report our hedging activities against criteria established under a commodity risk-assessment and management program, which is regularly reviewed by the Board of Directors.

Prices received for PrimeWest's production are impacted in varying degrees by factors outside the Trust's control. World market forces, such as OPEC actions, political events and supply and demand fundamentals, establish crude oil prices in Canada. Natural gas prices are determined by North American supply and demand dynamics.

To the extent that crude oil prices are referenced to WTI crude oil, which is denominated in U.S. dollars, prices and revenue streams are impacted by changes in value between the Canadian and U.S. dollars.

In 1999 we hedged 50 percent of our crude oil production and 28 percent of our natural gas production, using physical and financial instruments, to enhance the stability of cash distributions.

For 2000, we have layered in several physical hedging structures – swaps, costless collars and three-ways – representing approximately 40 percent of crude oil production, net of royalties. Our approach has been to secure some prices above \$U.S.21.00 per barrel, without capping all of the upside. The combined effect of all transactions provides price protection below \$U.S.22.50 per barrel on hedged crude oil volumes.

Similarly for natural gas, we have layered in several different hedging structures – swaps, floors and costless collars – representing about 30 percent of total natural gas production, net of royalties. All but one transaction are physical hedges. The combined effect provides price protection below \$3.00 Cdn. per Mcf on hedged natural gas volumes.

Our marketing strategy for natural gas is to create a diversified market portfolio. This is accomplished by selling approximately 52 percent of natural gas production to aggregators and 48 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 price diversification to our revenue stream.

In addition to these noted risk-management activities, PrimeWest maintains a relatively balanced, production portfolio (61 percent crude oil and NGLs, and 39 percent natural gas for 1999) which provides some natural mitigation of price risk.

**Operational risk**

PrimeWest is exposed to a number of uncontrollable risks, which may affect our ability to achieve the 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 producing properties at low cost to renew our 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:* Timely well operations, processing and physical delivery of commodities are exposed to unexpected delays and well operating problems.

In order to mitigate these risks, the Manager employs experienced senior-level personnel, who use a direct, hands-on approach to operating PrimeWest’s properties and managing its financial affairs. Capital is spent only after strict economic criteria for production and reserve additions are applied.

**Outlook and sensitivities**

During the first quarter of 2000, we are enjoying the benefits of strong commodity prices for crude oil, natural gas liquids and natural gas.

We expect that there may be some softening in world oil prices during 2000 from the highs experienced in the first quarter. Expectations are that OPEC will increase its production quotas. We anticipate that natural gas prices should remain at healthy levels, given growing demand in the United States and Canada. Given these expectations, our expectations for production volumes, and factoring in hedging that we have already put in place, we expect 2000 cash flow to be very healthy, more than sufficient to maintain our distribution rate of \$0.10 per month.

Cash flow over and above the \$0.10-per-month level will be used to increase the intrinsic value of trust units. We will consider a combination of debt reduction, creation of a stability reserve, supplemental distributions, and, when market valuations warrant, we will continue our unit repurchase program.

*Cash Flow Sensitivities (for 2000) includes hedging currently in place*

Impact on cash available for distribution per trust unit

	Per-unit impact
<b>Price</b>	
Crude oil (\$U.S.1.00 per barrel WTI change)	\$0.07
Natural gas (\$Cdn0.10 per Mcf change)	\$0.04
<b>Financial</b>	
Interest rate (1 percent change)	\$0.01
Exchange rate (\$U.S.0.01 change)	\$0.02

## MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

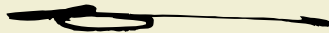
The consolidated financial statements of PrimeWest Energy Trust were prepared by, and are the responsibility of, the management of PrimeWest Management Inc. as outlined in the management agreement between PrimeWest, the manager, and the Trust. These statements have been prepared in accordance with accounting 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 estimates are made.

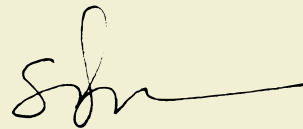
The Board of Directors of PrimeWest is responsible for ensuring that management fulfils its responsibilities for financial reporting, and it has reviewed and approved these financial statements. The Board carries out this responsibility through the audit committee, which consists of the independent directors of the Board.

The manager, acting on behalf of the unitholders, 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.

March 23, 2000



**Kent J. MacIntyre**  
Vice-chairman and Chief Executive Officer



**Susan M. Duncan**  
Vice-president, Finance

## AUDITORS' REPORT

To the unitholders of PrimeWest Energy Trust:

We have audited the consolidated balance sheets of PrimeWest Energy Trust as at December 31, 1999 and 1998, and the consolidated statements of income and cash available for distribution, unitholders' equity, and cash flows 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 Canadian 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, 1999 and 1998, and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

**PricewaterhouseCoopers LLP**

Chartered Accountants

March 9, 2000, except as to Note 14 which is as of March 14, 2000.

Calgary, Alberta

## CONSOLIDATED BALANCE SHEETS

<i>As at December 31,</i>	<b>1999</b>	1998
<b>Assets</b>		
Current assets		
Cash	\$ 5,503,885	\$ 1,199,268
Accounts receivable	21,810,905	19,114,656
Short-term investments (Note 2)	174,284	3,212,000
Capital assets held for sale (Note 3)	-	3,400,000
Prepaid expenses and inventory	2,452,218	1,420,383
	<b>29,941,292</b>	28,346,307
Cash reserved for site restoration and reclamation (Note 6)	1,059,679	1,780,726
Capital assets (Note 3)	289,209,067	286,012,531
	<b>\$ 320,210,038</b>	\$ 316,139,564
<b>Liabilities and Unitholders' Equity</b>		
Current liabilities		
Accounts payable and accrued liabilities	19,150,455	22,666,315
Accrued distributions to unitholders	3,554,729	1,981,385
Due to related company (Note 9)	1,279,988	1,223,160
Current portion of long-term debt (Note 5)	106,437	106,437
	<b>\$ 24,091,609</b>	\$ 25,977,297
Long-term debt (Note 5)	92,179,517	73,006,396
Site restoration and reclamation provision	3,899,296	3,942,554
	<b>\$ 120,170,422</b>	\$ 102,926,247
Unitholders' equity		
Net capital contributions (Note 7)	311,048,889	292,450,645
Accumulated loss	(2,379,130)	(8,363,881)
Accumulated cash distributions	(107,484,698)	(70,134,002)
Accumulated dividends	(1,145,445)	(739,445)
	<b>200,039,616</b>	213,213,317
	<b>\$ 320,210,038</b>	\$ 316,139,564



Harold P. Milavsky  
Chairman



Kent J. MacIntyre  
Vice-chairman and Chief Executive Officer

## CONSOLIDATED STATEMENTS OF INCOME AND CASH AVAILABLE FOR DISTRIBUTION

<i>For the year ended December 31,</i>	<b>1999</b>	1998
<b>Revenues</b>		
Sales of crude oil, natural gas and natural gas liquids	\$ 98,246,904	\$ 76,815,459
Crown and other royalties, net of ARTC	(17,182,292)	(12,868,053)
Other income	1,998,099	2,109,558
	<b>\$ 83,062,711</b>	<b>\$ 66,056,964</b>
<b>Expenses</b>		
Operating	28,608,863	30,549,926
Cash general and administrative	5,321,415	5,108,420
Non-cash general and administrative	586,292	-
Interest	4,885,309	4,710,796
Attempted takeover costs <span style="float: right;"><i>(Note 11)</i></span>	1,144,595	962,266
Cash management fees	1,385,887	882,081
Non-cash management fees	446,484	412,342
Depletion, depreciation and amortization	34,699,114	36,978,605
	<b>77,077,959</b>	<b>79,604,436</b>
<b>Net income (loss) for the year</b>	<b>\$ 5,984,752</b>	<b>\$ (13,547,472)</b>
 Add back (deduct) amounts to reconcile to distribution:		
Depletion, depreciation and amortization	34,699,114	36,978,605
Debt repayment from cash flow and disposition proceeds	(8,393,353)	(14,278,782)
Proceeds on disposition of capital assets	5,908,540	16,424,090
Investment income used to reduce debt	(1,779,997)	(92,378)
Attempted take-over costs funded by debt	1,144,595	1,054,644
Contribution to reclamation fund and interest thereon	(868,450)	(921,398)
Management fees paid in trust units	446,484	412,342
Employee long-term incentive plan	586,292	-
	<b>31,743,225</b>	<b>39,577,123</b>
 Cash available for distribution	<b>\$ 37,727,977</b>	<b>\$ 26,029,651</b>
<b>CASH AVAILABLE TO TRUST UNITHOLDERS</b>		
<b>(99 PERCENT)</b>	<b>\$ 37,350,697</b>	<b>\$ 25,769,356</b>
Cash available for distribution per trust unit	<b>\$ 1.10</b>	<b>\$ 0.82</b>
Net income (loss) per trust unit	<b>\$ 0.18</b>	<b>\$ (0.43)</b>

## CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

<i>For the year ended December 31,</i>	<b>1999</b>	1998
Unitholders' equity, beginning of the year	<b>\$ 213,213,317</b>	\$ 193,363,834
Net income (loss) for the year	<b>5,984,752</b>	(13,547,472)
Net capital contributions, net of costs	<b>18,598,244</b>	59,463,311
Cash distributions	<b>(37,350,697)</b>	(25,769,356)
Dividends	<b>(406,000)</b>	(297,000)
Unitholders' equity, end of the year	<b>\$ 200,039,616</b>	\$ 213,213,317

## CONSOLIDATED STATEMENTS OF CASH FLOW

<i>For the year ended December 31,</i>	<b>1999</b>	1998
<b>Operating Activities</b>		
Net income (loss) for the year	<b>\$ 5,984,752</b>	\$ (13,547,472)
Add (Deduct): Items not involving cash from operations		
Depletion, depreciation and amortization	<b>34,699,114</b>	36,978,605
Attempted take-over costs	<b>1,144,595</b>	1,054,644
Investment income	<b>(1,779,997)</b>	(92,378)
Non cash general and administrative	<b>586, 292</b>	-
Non cash management fees	<b>446,484</b>	412,342
Funds from operations	<b>41,081,240</b>	24,805,741
Change in non-cash working capital	<b>(7,456,903)</b>	4,323,212
	<b>\$ 33,624,337</b>	\$ 29,128,953
<b>Financing Activities</b>		
Proceeds from issue of trust units, net of costs	<b>18,074,266</b>	59,025,700
Cash distributions to unitholders	<b>(37,350,697)</b>	(25,769,356)
Dividends	<b>(406,000)</b>	(297,000)
Increase in long-term debt	<b>19,173,121</b>	6,283,677
Change in non-cash working capital	<b>1,540,138</b>	(7,723,860)
	<b>\$ 1,030,828</b>	\$ 31,519,161
<b>Investing Activities</b>		
Expenditures on capital assets	<b>(14,170,151)</b>	(17,415,828)
Acquisition of capital assets	<b>(11,084,324)</b>	(64,199,929)
Acquisition of shares	<b>(13,563,523)</b>	-
Proceeds on disposition of capital assets	<b>5,908,540</b>	16,424,090
Cash in reserve for future site restoration and reclamation	<b>721,048</b>	(42,692)
Expenditures on site restoration and reclamation	<b>(1,835,258)</b>	(753,479)
Proceeds on disposition (acquisition) of short-term investments and investment income	<b>4,817,715</b>	(3,119,622)
Attempted take-over costs	<b>(1,144,595)</b>	(1,054,644)
	<b>\$ (30,350,548)</b>	\$ (70,162,104)
Increase (decrease) in cash for the year	<b>4,304,617</b>	(9,513,990)
Cash, beginning of the year	<b>1,199,268</b>	10,713,258
Cash, end of the year	<b>\$ 5,503,885</b>	\$ 1,199,268
Cash interest paid	<b>\$ 4,867,353</b>	\$ 4,293,664

Note

1.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**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 as amended from time to time. 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. and its wholly-owned subsidiary PrimeWest Resources Ltd. (collectively 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 management agreements 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 9). The Manager owns the shares of PrimeWest, and a director of PrimeWest controls the Manager.

Note

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, the unitholders of the Trust elect the majority of the Board of Directors of PrimeWest. The accounts of the Manager are not included in these financial statements.

*Capital Assets*

PrimeWest follows the full cost method of accounting. All costs of acquiring oil and 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 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 and the lower of cost and market value of unproved land, 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, 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 6).

*iii) Depletion, depreciation and amortization*

Provision for depletion and depreciation is calculated on the 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. Reserves are estimated by independent petroleum engineers. Reserves are converted to equivalent units on the basis of approximate relative energy content.

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

**Joint venture accounting**

PrimeWest conducts substantially all of its oil and 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 vested Unit Appreciation Rights that are in the money using the trust unit price as at that date. Liabilities are recorded through non-cash general and administrative costs, with an offsetting amount in accrued liabilities. As trust units are issued under the plan, the exercise value is recorded in unitholders' equity.

**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 the unitholders. No accounting for deferred income taxes is provided in these consolidated financial statements, as all taxable income, if any, is allocated to the unitholders.

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

**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, 1999 and 1998.

**Financial instruments**

PrimeWest uses financial instruments to manage its exposure to fluctuations in commodity prices, foreign-currency exchange rates, 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 – at the time of sale of the related hedged production, or when the monthly exchange contract expires.

**Capital assets**

	1999			1998		
	Cost	Accumulated depletion, depreciation and amortization	Net book value	Cost	Accumulated depletion, depreciation and amortization	Net book value
Property acquisition						
Oil and gas rights	\$350,641,363	\$100,160,392	\$250,480,971	\$320,578,868	\$63,722,609	\$256,856,259
Drilling and completion	31,175,388	5,047,405	26,127,983	23,483,013	2,538,782	20,944,231
Production facilities and equipment	14,126,269	2,720,322	11,405,947	8,396,989	1,343,993	7,052,996
Head office furniture and equipment	2,101,723	907,557	1,194,166	1,680,188	521,143	1,159,045
	<b>\$398,044,743</b>	<b>\$108,835,676</b>	<b>\$289,209,067</b>	<b>\$354,139,058</b>	<b>\$68,126,527</b>	<b>\$286,012,531</b>

Unproved land costs of \$10,165,500 (1998 - \$10,500,000) are excluded from costs subject to depletion and depreciation.

**Assets held for sale**

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

Note  
3.

Note

4.

**Acquisition of shares**

On November 3, 1999, PrimeWest Resources Ltd. (“PrimeWest”) completed the acquisition of all of the issued and outstanding shares of Aberdeen Petroleum (Canada) Ltd. (“Aberdeen”) for a cash consideration of \$13,563,523. The purchase was at arm’s-length and represented fair market value of the assets of Aberdeen, as determined by independent appraisal. Subsequent to the purchase, Aberdeen was dissolved, and all of the assets were distributed to PrimeWest. The acquisition was accounted for using the purchase method with the price allocated as follows:

Petroleum and natural gas assets	\$13,357,717
Working capital assumed	205,806
<b>Purchase price</b>	<b>\$13,563,523</b>

Note

5.

**Long-term debt**

	1999	1998
Revolving credit facility	<b>\$92,022,190</b>	\$72,757,378
Capital lease obligation	<b>157,327</b>	249,018
	<b>\$92,179,517</b>	\$73,006,396
Current portion	<b>106,437</b>	106,437
<b>Total</b>	<b>\$92,285,954</b>	\$73,112,833

PrimeWest and the Trust (as co-borrowers) have a combined revolving credit facility in the amount of \$100 million, with a borrowing base at December 31, 1999 of \$100 million. In addition to amounts outstanding under the facility, PrimeWest has outstanding letters of credit in the amount of \$482,000. 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 (BAs) 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 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.

The credit facility will revolve until June 1, 2000, by which time the lender will have conducted its annual borrowing base review. The lender also has the right to redetermine the borrowing base at one other time during the year. During the revolving 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 the amount of \$471,328, to finance the purchase of field equipment. The lease bears interest at five percent and matures in September 2002. PrimeWest has the option, in May 2002, to purchase the asset for ten percent of the lease cost. Payments on the lease, including principal and interest, total \$106,437 per year.

Note

6.

**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 \$816,550 in 1999 (1998 - \$885,814). Actual costs of site restoration and abandonment totalling \$1,835,258 were paid out of this cash reserve for the year ended December 31, 1999 (1998 - \$753,479).

Pursuant to a royalty agreement between the Trust and PrimeWest, PrimeWest may also 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 ninety-nine percent of these funds. As at December 31, 1999 and 1998, there was no balance in this reserve.

**Reserve to hold certain excess revenues**

A reserve will be established if other revenues exceed total revenues by ten percent or more. Since inception, other revenues have not exceeded this threshold and, therefore, no reserve has been established.

Note

7.

**Unitholders' equity****Authorized**

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

**Net capital contributions**

	Number of units	Amount
<b>Balance, December 31, 1997</b>	<b>24,950,037</b>	<b>\$232,987,334</b>
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
<b>Balance, December 31, 1998</b>	<b>33,023,084</b>	<b>\$292,450,645</b>
Issued for cash	2,750,000	19,800,000
Issue expenses	-	(1,220,101)
Retired pursuant to Normal Course Issuer Bid	(121,200)	(754,976)
Issued for payment of management fees	66,384	413,280
Issued pursuant to Distribution Reinvestment Plan	34,727	249,343
Issued pursuant to Trust Unit Incentive Plan	15,806	110,698
<b>Balance, December 31, 1999</b>	<b>35,768,801</b>	<b>\$311,048,889</b>

The weighted average number of trust units outstanding in 1999 was 33,965,152 (1998 - 31,426,041).

**Normal course issuer bid**

On November 29, 1999, the Trust received approval from the Toronto Stock Exchange to make a normal course issuer bid. The bid commenced November 30, 1999 and will terminate on November 29, 2000.

As at December 31, 1999, the Trust had repurchased 121,200 trust units at a weighted averaged cost of \$6.23 per trust unit.

**Units issued for payment of management fees**

On January 15, 2000, the Trust issued 17,956 trust units in respect of management fees earned for the period October 1, 1999 to December 31, 1999 (1998 - 16,578). The value of the trust units was \$119,408 (1998 - \$86,205).

Note

8.

**Trust unit incentive plan**

Under the terms of the Trust Unit Incentive Plan, a maximum of 747,000 trust units are reserved for issuance pursuant to the exercise of Unit Appreciation Rights (UARs) granted to employees of the Manager. 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 five percent per annum be achieved before payouts accrue. UARs have a term of up to six years and vest equally over a three-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.

<i>As at December 31, 1999</i>	UARs issued and outstanding	UARs vested	Current return per UAR
1996 grants	624,750	624,750	(1.37)
1997 grants	803,713	541,599	(1.46)
1998 grants	866,148	307,468	1.52
1999 grants	1,221,801	43,479	0.72
	3,516,412	1,517,296	

As at December 31, 1999, 62,616 UARs have been exercised, resulting in the issuance of 15,806 trust units from treasury (1998 - nil).

Note

9.

**Related-party transactions**

For the year ended December 31, 1999, the Manager received management fees of \$1,832,371 (1998 - \$1,294,423). Of this amount, \$1,385,887 was paid in cash (1998 - \$882,081) and the balance represents the issuance of 67,762 trust units from treasury (1998 - 66,247).

In addition, acquisition and disposition fees in the amount of \$615,406 were paid to the Manager during 1999 (1998 - \$1,116,640). These fees were included in capital assets as part of the cost or net proceeds relating to oil and gas properties acquired or disposed.

The Manager also is entitled to receive a one-percent retained royalty from the net cash flow from the properties and is paid by dividend from PrimeWest. This amounted to \$406,000 for 1999 (1998 - \$297,000).

As at December 31, 1999, the Trust and PrimeWest owed \$1,279,988 (1998 - \$1,223,160) to the Manager for reimbursement of general and administrative and other costs incurred by the Manager on behalf of the Trust and PrimeWest.

Note

10.

**Income taxes**

The Trust, and consequently the unitholders of the Trust, had no taxable income for 1999 and 1998, because 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 1999 and 1998, as tax-pool deductions and the royalty payable were sufficient to reduce taxable income to nil.

Note

11.

**Attempted take-over costs**

In late 1998, PrimeWest made offers to acquire all of the issued and outstanding trust units of Starcor Energy Royalty Fund and Orion Energy Trust. In early 1999, PrimeWest withdrew its offers, and costs incurred up to December 31, 1998, totalling \$1,054,644, were expensed. Costs incurred in 1999, totalling \$1,144,595, were expensed in 1999. Trust units acquired in connection with these offers, which were held as short-term investments, were sold in 1999. Distribution income and gains on sale of these investments totalled \$1,779,997 in 1999 (1998- \$92,378).

Note

12.

**Financial instruments**

*a) Commodity price risk management*

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

With the March 1998 acquisition of the Grand Forks properties, PrimeWest entered into a crude oil price collar agreement with the vendor of the properties. The collar fixed the price on 2,304 barrels per day (1998 - 2,776 barrels per day) at \$Cdn21.14 per barrel (1998 - \$Cdn18.51 per barrel), within a collar of \$3.00 per barrel above or below the fixed price, to a maximum of \$3 million over the term of the agreement. This collar expired on December 31, 1999. In 1999, PrimeWest paid \$212,414 to the vendor in respect of this agreement (1998 - collected \$2,236,679 from vendor).

During 1999, PrimeWest entered into a number of different financial arrangements to hedge the sales price of its crude oil and natural gas production. With respect to crude oil, PrimeWest entered into four separate transactions, generally to protect, within a specified range, the price received. The effect of these transactions was a reduction in revenue of \$3,861,681 in 1999. These hedges expired on December 31, 1999. With respect to natural gas, PrimeWest entered into one natural gas swap arrangement to fix the sales price within a specified range. The effect of this swap was to reduce revenue related to natural gas sales by \$149,455 in 1999. This swap extends into 2000 and the fair market value of this swap at December 31, 1999 was a loss of \$145,520.

*b) Foreign-exchange rate risk management*

PrimeWest is exposed to foreign currency fluctuations on its operations, because crude oil prices received are referenced to U.S.-dollar-denominated prices. Effective January 1, 1998, PrimeWest entered into a foreign exchange swap agreement with a Canadian chartered bank to hedge approximately two-thirds of its budgeted crude oil production. The agreement fixed the exchange rate at \$1.42 (\$Cdn/\$U.S.), based on a notional principal amount of \$U.S.1,000,000 per month. On June 19, 1998, PrimeWest renegotiated a new rate of \$1.4487(\$Cdn/\$U.S.), with a maturity date of December 31, 1999. The effect of this swap agreement was a reduction in sales revenue of \$444,100 in 1999 (1998 - \$589,800). This swap expired on December 31, 1999.

*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 on \$15 million of debt at BA rates of 5.535 percent until June 22, 2001. The effect on this swap was an increase in the interest paid for 1999 of \$228,403 (1998 - \$30,857). The fair value of the interest rate swap at December 31, 1999 was a gain of \$63,420 (1998 - loss of \$420,458).

*d) Fair value of financial instruments*

Financial instruments include cash, short-term investments, accounts receivable, accounts payable and accrued liabilities, accrued distributions to unitholders, long-term debt and financial hedges. As at December 31, 1999 and 1998, 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.

Note

13.

**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. Although the change in date has occurred, it is not possible to conclude that all aspects of the year 2000 issue that may affect PrimeWest, including those related to customers, suppliers or other third parties, have been fully resolved.

Note

14.

**Subsequent event**

On March 14, 2000, PrimeWest announced its intention to acquire all of the issued and outstanding shares of Venator Petroleum Company Ltd. in exchange for 0.657 PrimeWest trust units or exchangeable shares. The transaction has a total enterprise value of approximately \$32 million, consisting of \$30 million in equity and \$2 million in assumed debt. PrimeWest anticipates forwarding a take-over bid circular to Venator shareholders on or before March 31, 2000.

## SUPPLEMENTARY OPERATING INFORMATION

### Reserves

#### Reserves summary

	Crude oil (Mbbbl)	Natural gas (MMcf)	Natural gas liquids (Mbbbl)	Sulphur (Mlt.)	January 1, 2000 total reserves (MBOE)	January 1, 1999 total reserves (MBOE)
<i>As of January 1, 2000</i>						
Proved producing	14,895	160,300	3,714	611	34,505	34,987
Total proved	16,330	180,885	4,485	622	38,769	40,910
Probable	7,464	87,224	3,349	244	19,493	23,176
Total proved and probable	23,794	268,109	7,834	866	58,262	64,086
Established	20,062	224,497	6,160	744	48,515	52,498
% of total established reserves	41%	46%	13%			

#### Established reserve reconciliation

	1999 Oil equivalent (MMBOE)	1998 Oil equivalent (MMBOE)	1997 Oil equivalent (MMBOE)
Opening reserves	52.5	44.6	36.0
Capital additions	1.1	5.3	4.8
Technical revisions	(3.6)	0.4	1.3
Acquisitions	4.7	9.8	6.0
Dispositions	(1.9)	(2.9)	(0.2)
Production	(4.3)	(4.5)	(3.3)
Ending reserves	48.5	52.5	44.6

Crude oil reserves by major property (Mbbbl)	Established	Proved	Probable
Sundre <sup>1</sup>	3,026	2,126	1,800
Laprise Creek	-	-	-
Southeastern Alberta <sup>2</sup>	6,539	5,268	2,542
Crossfield/Lone Pine Creek	382	322	119
Boundary Lake	4,386	3,972	828
Kaybob	1,810	1,559	501
Others	3,919	3,083	1,674
Total (January 1, 2000)	20,062	16,330	7,464

Natural gas reserves by major property (Bcf)	Established	Proved	Probable
Sundre <sup>1</sup>	64,801	46,973	35,656
Laprise Creek	49,620	44,248	10,744
Southeastern Alberta <sup>2</sup>	32,166	28,496	7,339
Crossfield/Lone Pine Creek	54,278	41,737	25,081
Boundary Lake	455	418	74
Kaybob	1,541	1,340	401
Others	21,636	17,673	7,929
Total (January 1, 2000)	224,497	180,885	87,224

Natural gas liquids reserves by major property (Mbbbl)	Established	Proved	Probable
Sundre <sup>1</sup>	3,400	2,467	1,865
Laprise Creek	1,179	755	847
Southeastern Alberta <sup>2</sup>	40	35	10
Crossfield/Lone Pine Creek	733	526	414
Boundary Lake	40	37	6
Kaybob	140	125	30
Other Areas	628	540	177
Total (January 1, 2000)	6,160	4,485	3,349

<sup>1</sup> includes Garrington, Caroline, Westward Ho & Ricinus

<sup>2</sup> includes Grand Forks, Medicine Hat, Patricia/Dinosaur & Etzikom

**Daily production volumes by major property**

	Crude Oil (bbl/d)	Natural gas (Mcf/d)	Natural gas liquids (bbl/d)	Total (BOE/d)
<b>1999</b>				
Sundre <sup>1</sup>	885	13,512	711	2,949
Laprise Creek	27	9,797	164	1,171
Southeastern Alberta <sup>2</sup>	2,821	4,413	13	3,275
Crossfield/Lone Pine Creek	94	12,775	192	1,563
Boundary Lake	745	118	-	757
Kaybob	775	469	73	895
Other Areas	611	5,374	140	1,287
<b>Total</b>	<b>5,958</b>	<b>46,458</b>	<b>1,293</b>	<b>11,897</b>

<b>1998</b>				
Sundre <sup>1</sup>	1,074	11,252	581	2,779
Laprise Creek	37	11,521	154	1,343
Southeastern Alberta <sup>2</sup>	2,329	3,797	8	2,717
Crossfield/Lone Pine Creek	80	14,416	163	1,685
Boundary Lake	753	240	5	782
Kaybob	898	393	137	1,074
Other Areas	697	8,790	178	1,754
<b>Total</b>	<b>5,868</b>	<b>50,409</b>	<b>1,226</b>	<b>12,134</b>

<b>Present worth of reserves as at January 1, 2000</b> (Thousands of dollars)	Discounted @0%	Discounted @10%	Discounted @12%	Discounted @15%
Proved producing	431,377	252,162	234,068	211,969
Total proved	484,703	277,255	256,164	230,411
Probable	278,694	100,693	86,392	69,962
Total proved and probable	763,397	377,948	342,556	300,373
Established value January 1, 2000	624,050	327,601	299,360	265,392
Established value January 1, 1999	606,073	312,844	284,298	249,876

<b>Crude oil pricing assumptions (January 1, 2000)</b>	WTI (\$U.S./bbl)	Edmonton Par (\$Cdn/bbl)	Exchange Rate (\$U.S./\$C)
2000	20.67	28.72	0.6933
2001	20.10	27.24	0.7100
2002	20.37	27.18	0.7200
2003	20.64	27.39	0.7233
2004	21.04	27.86	0.7267
2005	21.37	28.37	0.7267
Next 10 years	1.5%	1.5%	0.7267
Thereafter	1.0%	1.0%	0.7267

<b>Natural gas pricing assumptions (January 1, 2000)</b>	Henry Hub (\$U.S./MMBtu)	Alberta Government Market (\$Cdn/MMBtu)	BC Direct Wellhead (\$C/MMBtu)
2000	2.47	2.80	2.78
2001	2.50	2.68	2.68
2002	2.53	2.62	2.60
2003	2.57	2.63	2.61
2004	2.61	2.64	2.61
2005	2.65	2.66	2.60
Next 10 years	2.0%	1.0%	1.5%
Thereafter	1.0%	1.0%	1.0%

## SUPPLEMENTARY FINANCIAL INFORMATION

	1999		1998		1997		4 months 1996	
	\$	per trust unit	\$	per trust unit	\$	per trust unit	\$	per trust unit
<i>(thousands of dollars, except trust unit and per-trust-unit)</i>								
Cumulative cash distributions	107,485	3.70	70,134	2.60	44,365	1.78	10,956	0.44
Trust units outstanding at year-end	35,769		33,023		24,950		24,900	
Weighted average trust units outstanding	33,965		31,426		24,931		24,900	
Cash flow from operations	41,081	1.21	24,806	0.79	32,086	1.29	11,608	0.46
Capital expenditures, net of dispositions	32,910		65,192		49,724		242,623	
Working capital	5,850		2,369		1,845		1,308	
Reclamation fund balance	1,060		1,781		1,738		2,223	
Total assets	320,210		316,140		285,765		254,480	
Long-term debt, including current portion	92,286		73,112		66,829		14,228	
Net asset value	252,900		254,800		243,200		218,200	
Net asset value per trust unit	7.07		7.72		9.75		8.76	

**Debt analysis**

Net debt-to-trailing cash flow ratio	2.1	2.9	2.0	1.2
Total debt-to-unitholders' equity ratio	46.1%	34.2%	34.5%	6.4%
Interest-coverage ratio	8.4	5.3	15.0	122.2
Cost of debt	5.9%	6.3%	4.8%	3.8%

**Tax pools (thousands of dollars)**

Canadian oil and gas property expense (COGPE)	255,000	263,400	225,600	221,800
Canadian exploration expense (CEE)	-	1,850	300	-
Canadian development expense (CDE)	-	-	7,200	-
Capital cost allowance (CCA)	24,425	32,330	25,000	13,600
Unit issue expenses	8,300	14,600	11,900	15,100

**Trading performance**

Trust unit trading performance	1999				1998	1997	1996	
	1999	First quarter	Second quarter	Third quarter				Fourth quarter
Trust unit price: High	\$ 7.70	\$ 6.05	\$ 7.05	\$ 7.70	\$ 7.10	\$ 8.75	\$ 11.45	\$ 12.15
Low	\$ 4.75	\$ 4.75	\$ 5.75	\$ 6.65	\$ 6.15	\$ 4.75	\$ 7.50	\$ 11.20
Close	\$ 6.65	\$ 6.00	\$ 6.80	\$ 7.10	\$ 6.65	\$ 5.05	\$ 8.50	\$ 11.30
Average daily volume traded	50,163	59,624	37,630	51,128	52,306	55,318	42,323	273,763

**Market indicators (closing prices)**

WTI (\$U.S. per barrel)	\$ 24.52	\$ 13.16	\$ 16.86	\$ 21.72	\$ 24.52	\$ 14.42	\$ 20.61	\$ 22.00
Exchange rate (\$U.S./\$Cdn)	0.68	0.66	0.68	0.67	0.68	0.67	0.72	0.73
Government of Canada 10-year bond yield	6.26%	5.08%	5.47%	5.72%	6.26%	4.91%	5.62%	6.41%
TSE 300 Index	8413.8	6597.8	7010.1	6957.7	8413.8	6485.9	6699.4	5927.0
TSE Oil and Gas Producers' Index	5861.7	4979.3	5953.1	6254.3	5861.7	4643.2	6670.3	6486.8

**Distribution history**

<i>(Dollars per trust unit)</i>	1999	1998	1997	1996
First quarter	0.18	0.24	0.35	-
Second quarter	0.23	0.22	0.30	-
Third quarter	0.34	0.18	0.30	-
Fourth quarter	0.35	0.18	0.39	0.44 <sup>(1)</sup>
Total	\$1.10	\$0.82	\$1.34	\$0.44
% Tax deferred	100%	100%	100%	100%

<sup>(1)</sup> represents four months.

**Operational**

	1999	1998	1997	1996
<b>Production</b>				
<b>Crude oil (barrels per day)</b>				
First quarter	6,154	4,780	3,680	-
Second quarter	5,805	6,206	3,843	-
Third quarter	5,957	6,264	3,646	-
Fourth quarter	5,919	6,201	3,778	-
Total	5,958	5,868	3,737	3,372
<b>Natural gas liquids (barrels per day)</b>				
First quarter	1,342	1,278	1,045	-
Second quarter	1,277	1,254	948	-
Third quarter	1,193	1,185	1,416	-
Fourth quarter	1,360	1,188	1,134	-
Total	1,293	1,226	1,137	993
<b>Natural gas (MMcf per day)</b>				
First quarter	48.91	49.18	40.25	-
Second quarter	47.34	54.00	36.24	-
Third quarter	41.27	49.95	43.31	-
Fourth quarter	48.40	48.51	48.97	-
Total	46.46	50.41	42.22	31.47
<b>Total oil equivalent (BOE per day)</b>				
First quarter	12,387	10,976	8,750	-
Second quarter	11,816	12,860	8,415	-
Third quarter	11,277	12,445	9,393	-
Fourth quarter	12,116	12,240	9,809	-
Total	11,897	12,134	9,096	7,512
Natural gas production as a percentage of total production	39%	42%	46%	42%

**Average selling prices**

	1999	1998	1997	1996
Crude oil (\$/bbl)	\$ 21.69	\$ 16.92	\$ 25.93	\$ 30.93
Natural gas liquids (\$/bbl)	\$ 19.09	\$ 14.55	\$ 22.65	\$ 23.87
Natural gas (\$/Mcf)	\$ 2.51	\$ 1.83	\$ 1.85	\$ 1.59
Combined (\$/BOE)	\$ 22.72	\$ 17.34	\$ 22.19	\$ 23.87

**Operating netbacks (dollars per BOE)**

Revenue	\$ 22.63	\$ 17.34	\$ 22.19	\$ 23.87
Royalties	\$ (3.96)	\$ (2.90)	\$ (4.28)	\$ (4.19)
Operating expenses	\$ (6.59)	\$ (6.90)	\$ (6.41)	\$ (5.69)
Operating netback	\$ 12.08	\$ 7.53	\$ 11.50	\$ 13.99

**Reserve life index (years)**

	10.9	11.1	12.2	11.1
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## DIRECTORS AND SENIOR OFFICERS

**Ronald J. 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 eleven years of his career, he has led the evaluation of properties and completion of transactions worth more than \$2 billion. He joined PrimeWest in 1997.

**Susan M. Duncan, CA**

*Vice-president, Finance*

Ms. Duncan has more than 15 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 E. 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 counseled borrowers and lenders in financings; sellers and purchasers of shares and other assets and independent committees and financial advisors with respect to corporate acquisitions.

**D. Hugh Gillard**

*President and Chief Operating Officer*

Mr. Gillard has more than 28 years of oil and gas industry experience in accounting, business development, marketing, land, property rationalization and senior management. Prior to joining PrimeWest in early 1999, Mr. Gillard was President and Chief Executive Officer of CanWest Gas Supply Inc.

**Timothy S. Granger, P.Eng.**

*Vice-president, Production*

Mr. Granger is a graduate of Carlton University's Engineering program, and has more than 20 years of oil and gas experience in drilling, production operations and property development. Before joining PrimeWest in June 1999, Mr. Granger headed the Canadian operations of a U.S. based oil and gas company.

**Harold N. Kvisle, P. Eng.**

*Independent Director*

Mr. Kvisle is Senior Vice-president of TransCanada Pipelines Limited, and acts as a director of several companies and limited partnerships within the TransCanada group. He is also a director of Fletcher Challenge Canada Limited and ARC Strategic Energy Fund.

**Kent J. MacIntyre**

*Vice-chairman and Chief Executive Officer, Director*

Mr. MacIntyre has more than 20 years of oil and gas industry experience, the last 11 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 BlackRock Ventures Inc. and Citadel Diversified Investment Trust.

**Harold P. 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 serves as a director of Aspen Properties Ltd., BCT.TELUS Corporation Inc., Citadel Diversified Investment Trust, Encal Energy Inc., ENMAX Corporation, Northrock Resources Ltd., Torode Realty Limited and TransCanada Pipelines Limited.

## CORPORATE INFORMATION

**Directors**

Harold P. Milavsky <sup>1</sup>  
*Chairman*  
*Quantico Capital Corp.*

Kent J. MacIntyre <sup>2</sup>  
*Vice-chairman and Chief*  
*Executive Officer*  
*PrimeWest Energy Inc.*

Barry E. Emes <sup>1</sup>  
*Partner*  
*Stikeman Elliott*

D. Hugh Gillard <sup>2</sup>  
*President and Chief*  
*Operating Officer*  
*PrimeWest Energy Inc.*

Harold N. Kvisle <sup>1</sup>  
*Senior Vice-president*  
*TransCanada Pipelines Limited*

<sup>1</sup> Member of the Audit Committee, and  
the Corporate Governance and  
Compensation Committee

<sup>2</sup> Nominee of the manager

**Officers**

Harold P. Milavsky  
*Chairman*

Kent J. MacIntyre  
*Vice-chairman and Chief*  
*Executive Officer*

D. Hugh Gillard  
*President and Chief*  
*Operating Officer*

Ronald J. Ambrozy  
*Vice-president, Business*  
*Development*

James T. Bruvall  
*Secretary*

Susan M. Duncan  
*Vice-president, Finance*

Timothy S. Granger  
*Vice-president, Production*

Ann C.T.M. Laniel  
*Land Manager*

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Calgary

**Engineering consultant**

Gilbert Laustsen Jung  
Associates Ltd.

**Legal counsel**

Stikeman Elliott,  
Calgary

**Distribution Reinvestment  
and Optional Trust Unit  
Purchase Plan**

*The Distribution Reinvestment  
Plan provides for the automatic  
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from cash distributions received  
monthly. The Optional Trust  
Unit Purchase Plan enables a  
participant in the distribution  
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additional investments in  
PrimeWest trust units throughout  
the year.*

*Participants do not pay any costs  
associated with these plans,  
including brokerage commissions.*

*For further information, or to join  
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*Abbreviations and terms used in this report*

barrels	bbl
barrels per day	bbl/d
thousands of barrels	Mbbl
thousands of cubic feet	Mcf
millions of cubic feet	MMcf
millions of cubic feet per day	MMcf/d
billions of cubic feet	Bcf
barrels of oil equivalent	BOE
barrels of oil equivalent per day	BOE/d
millions of barrels of oil equivalent	MMBOE
long tons	lt
10 Mcf of natural gas equals one BOE	BOE conversion
total proved reserves plus one-half of probable reserves	Established reserves

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