

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. These securities have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "**1933 Act**"), or any state securities laws. Accordingly, except as permitted by the Underwriting Agreement (as defined herein) and pursuant to an exemption from the registration requirements of the 1933 Act and applicable state securities laws, these securities may not be offered or sold within the United States. This short form prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of these securities within the United States. See "Plan of Distribution".

Information has been incorporated by reference in this prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the secretary of Paramount Energy Operating Corp., the administrator of Paramount Energy Trust, at 3200, 605 – 5th Avenue S.W., Calgary, Alberta T2P 3H5, Telephone (403) 269-4400, and are also available electronically at www.sedar.com.

New Issue

May 17, 2010

SHORT FORM PROSPECTUS



\$60,000,000

7.00% Convertible Unsecured Junior Subordinated Debentures Due December 31, 2015

Paramount Energy Trust (the "**Trust**", "**PET**", "**us**", "**we**" or "**our**" and, where the context requires, also includes the Trust's subsidiaries) is hereby qualifying for distribution an aggregate of \$60,000,000 principal amount of 7.00% convertible unsecured junior subordinated debentures ("**Debentures**") at a price of \$1,000 per Debenture (the "**Offering**"). See "Plan of Distribution".

The Debentures will bear interest at an annual rate of 7.00% payable in equal instalments semi-annually in arrears on June 30 and December 31 in each year commencing December 31, 2010. The maturity date of the Debentures will be December 31, 2015 (the "**Maturity Date**").

Subordination

The Debentures are general unsecured obligations of PET and are subordinated to PET's 6.25% Convertible Debentures, 6.50% Convertible Debentures and 7.25% Convertible Debentures (each as defined herein and collectively, the "**Other Debentures**"). See "Details of the Offering".

Debenture Conversion Privilege

Each Debenture will be convertible into trust units of the Trust (the "**Units**" or "**Trust Units**") at the option of the holder (a "**Debentureholder**") at any time prior to the close of business on the earlier of: (i) the business day immediately preceding the Maturity Date; or (ii) if called for redemption, on the business day immediately preceding the date specified by the Trust for redemption of the Debentures, at a conversion price of \$7.00 per Trust Unit (the "**Conversion Price**"), being a conversion rate of 142.8571 Trust Units per \$1,000 principal amount of Debentures, subject to adjustment in certain events as described in the Indenture (as defined herein). Amendments have been made to the Tax Act (as defined herein) to facilitate tax deferred conversions to corporations of specified investment flow-through trusts or partnerships ("**SIFTS**") for the purposes of the Tax Act. See "Certain Canadian Federal Income Tax Considerations – SIFT Rules". As previously disclosed by the Trust, the Trust intends to complete a conversion (a "**Corporate Conversion**") to a corporation (a "**Continuing Corporation**"). In the event that the Trust converts to a Continuing Corporation pursuant to a Corporate Conversion, adjustments will be made to the terms of the conversion privilege as described herein. Among other things, these adjustments will be necessary to reflect the fact that, in connection with the Corporate Conversion, Unitholders (as defined herein) will receive securities of the Continuing Corporation in exchange or otherwise as consideration or in substitution for Units. More specifically, as further described herein, following completion of a Corporate Conversion, Debentures will be convertible into the kind and number of securities of the Continuing Corporation which a holder of Debentures would have been entitled to receive had it been a holder of the number of Units into which the Debentures were convertible prior to the effective date of the Corporate

Conversion. **In addition, in connection with a Corporate Conversion, the Debentures will become obligations of the Continuing Corporation having substantially the same terms as the Debentures, without the consent of any holders of Debentures.** See "*Details of the Offering*".

The issued and outstanding Units are listed on the Toronto Stock Exchange (the "TSX") under the trading symbol PMT.UN. On May 3, 2010, the last trading day prior to the public announcement of the Offering, the closing price of the Trust Units on the TSX was \$5.03 and on May 14, 2010, the last trading day prior to the filing of this short form prospectus, the closing price of the Trust Units on the TSX was \$5.09. The TSX has conditionally approved the listing of the Debentures and the Trust Units issuable upon conversion, redemption or maturity of the Debentures. Listing is subject to the Trust fulfilling all of the requirements of the TSX on or before August 6, 2010. The offering price of the Debentures was determined by negotiation between Paramount Energy Operating Corp. (the "**Administrator**" or "**PEOC**") on behalf of the Trust, and BMO Nesbitt Burns Inc., on its own behalf and on behalf of CIBC World Markets Inc., National Bank Financial Inc., Scotia Capital Inc., TD Securities Inc., Canaccord Genuity Corp., Cormark Securities Inc., RBC Dominion Securities Inc., FirstEnergy Capital Corp. and Peters & Co. Limited (collectively, the "**Underwriters**").

Price: \$1,000 per Debenture			
	Price to the Public	Underwriters' Fee⁽¹⁾	Net Proceeds to the Trust⁽²⁾
Per Debenture	\$1,000	\$40	\$960
Total	\$60,000,000	\$2,400,000	\$57,600,000

Notes:

- (1) The Underwriters' fee is payable upon the closing of the Offering.
- (2) Before deducting expenses of the Offering estimated to be \$500,000, which will be paid from the general funds of the Trust.

The Debentures may not be redeemed by the Trust before December 31, 2013. On or after December 31, 2013 and prior to December 31, 2014, the Trust may at its option redeem the Debentures, in whole or in part from time to time, provided that the Current Market Price (as defined herein) is at least 125% of the Conversion Price, at a price equal to the principal amount thereof plus accrued and unpaid interest. On and after December 31, 2014 and prior to the Maturity Date, the Trust may at its option redeem the Debentures, in whole or part, from time to time at a price equal to the principal amount thereof plus accrued and unpaid interest. Notice of redemption must be provided by the Trust not more than 60 days and not less than 30 days prior to the redemption date.

Subject to required regulatory approval and provided that there is not a current Event of Default (as defined herein), the Trust may, at its option, elect to satisfy its obligation to pay the principal amount of the Debentures on redemption or at maturity through, in whole or in part, the issuance of Trust Units upon at least 40 days and not more than 60 days prior notice, by delivering that number of Trust Units obtained by dividing the principal amount of the Debentures by 95% of the Current Market Price. Further particulars concerning the interest, repurchase and maturity provision of the Debentures are set out under "*Details of the Offering*".

The Underwriters, as principals, conditionally offer the Debentures, subject to prior sale, if, as and when issued by the Trust and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement referred to under "*Plan of Distribution*" and subject to approval of certain legal matters relating to the Offering on behalf of the Trust by Burnet, Duckworth & Palmer LLP and on behalf of the Underwriters by Stikeman Elliott LLP.

The head office of the Trust, and the head and registered office of the Administrator are located at 3200, 605 – 5th Avenue S.W., Calgary, Alberta T2P 3H5.

BMO Nesbitt Burns Inc., CIBC World Markets Inc., National Bank Financial Inc., Scotia Capital Inc. and TD Securities Inc., five of the Underwriters, are direct or indirect wholly-owned subsidiaries of Canadian chartered banks which are lenders to the Trust. Consequently, the Trust may be considered to be a connected issuer of these Underwriters within the meaning of applicable Canadian securities legislation. See "*Relationship Among the Trust and Certain Underwriters*".

The return on an investment in Trust Units is not comparable to the return on an investment in a fixed-income security. The recovery of an initial investment in the Trust is at risk, and the anticipated return on such investment is based on many performance assumptions. **Although the Trust intends to make distributions of its available cash to holders of Trust Units ("Unitholders"), these cash distributions are not guaranteed and may be reduced or suspended.** The actual amount distributed will depend on numerous factors including the financial performance of the subsidiaries of the Trust, debt obligations, commodity prices, production levels, working capital requirements, future capital requirements, applicable law and other factors beyond the control of the Trust. In addition, the market value of the Trust Units may decline if the Trust is unable to meet its cash distribution targets in the future and that decline may be significant.

It is important for an investor to consider the particular risk factors that may affect the industry in which it is investing, and therefore the stability of the distributions that it receives. See, for example, the risks described under "Risk Factors" herein and in the AIF (as defined herein). These sections also describe the Trust's assessment of those risk factors, as well as the potential consequences to an investor if a risk should occur. The Trust has not obtained a stability rating from an independent rating agency regarding the relative stability and sustainability of the Trust's cash distribution stream. **Cash distributions by the Trust to Unitholders are not guaranteed.**

The after tax return from an investment in Trust Units to Unitholders subject to Canadian income tax can be made up of both a return on capital and a return of capital. That composition may change over time, thus affecting an investor's after tax return. Recent changes to the *Income Tax Act* (Canada) and regulations promulgated thereunder (collectively, the "**Tax Act**") will affect the taxation of certain publicly traded trusts and partnerships and their unitholders (the "**SIFT Rules**"). Subject to the SIFT Rules, returns on capital are generally taxed as ordinary income in the hands of a Unitholder who is resident in Canada for purposes of the Tax Act. Pursuant to the SIFT Rules, commencing January 1, 2011 (or earlier if the Trust experiences more than "normal growth" or "undue expansion" before then) certain distributions from the Trust which would have otherwise been taxed as ordinary income generally will be characterized as dividends in addition to being subject to tax at corporate rates at the Trust level. Returns of capital generally are (and under the SIFT Rules will continue to be) tax-deferred for Unitholders who are resident in Canada for purposes of the Tax Act (and reduce such Unitholder's adjusted cost base in the Trust Unit for purposes of the Tax Act). Distributions, whether of income or capital to a Unitholder who is not resident in Canada for purposes of the Tax Act, or that is a partnership that is not a "Canadian partnership" for purposes of the Tax Act, generally will be subject to Canadian withholding tax. If the Corporate Conversion is completed prior to January 1, 2011, and the Trust has not exceeded its "normal growth" limits prior to the Corporate Conversion being completed, the SIFT Rules will not apply to the Trust or the Unitholders. After the Corporate Conversion has been completed, distributions by the Continuing Corporation will be in the form of taxable dividends. Prospective purchasers should consult their own tax advisors with respect to the Canadian income tax considerations applicable in their own circumstances. See "*Certain Canadian Federal Income Tax Considerations*".

Subscriptions for Debentures will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that closing will occur on or about May 26, 2010 or such other date not later than June 15, 2010 as the Trust and the Underwriters may agree. Except for certificates representing Debentures purchased pursuant to Rule 144A under the 1933 Act, which will be issued to the purchasers thereof in definitive form, the Debentures will be represented by a global certificate issued in registered form to CDS Clearing and Depository Services Inc. ("**CDS**") or its nominee under the book-based system administered by CDS. No certificates evidencing the Debentures will be issued to subscribers other than Rule 144A subscribers except in certain limited circumstances, and registration will be made in the depository service of CDS. Subscribers for Debentures other than Rule 144A subscribers will receive only a customer confirmation from the Underwriter or other registered dealer who is a CDS participant and from or through whom a beneficial interest in the Debentures is purchased.

Subject to applicable laws, the Underwriters may, in connection with the Offering, effect transactions which stabilize or maintain the market price of the Debentures at levels other than those that might otherwise prevail on the open market. **The Underwriters may offer the Debentures at a price lower than the price noted above.** See "*Plan of Distribution*".

The Debentures and the Units are not "deposits" within the meaning of the *Canada Deposit Insurance Corporation Act* (Canada) and are not insured under the provisions of that Act or any other legislation. Furthermore, the Trust is not a trust company and, accordingly, it is not registered under any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company.

The interest coverage ratio in respect of the Debentures for the twelve month period ended March 31, 2010, is less than 1:1. Interest coverage ratio based on funds flow for this period exceeds 1:1. See "*Earnings Coverage Ratios*".

Unless otherwise indicated, references in this short form prospectus to "\$" or "dollars" are to Canadian dollars. All financial information contained in this short form prospectus has been presented in Canadian dollars in accordance with generally accepted accounting principles in Canada unless otherwise noted. Words importing the singular number only include the plural, and vice versa, and words importing any gender include all genders.

Prospective investors should rely only on the information contained or incorporated by reference in this short form prospectus. The Trust has not authorized anyone to provide different information. If an investor is provided with different or inconsistent information, he or she or it should not rely on it. Prospective investors should assume that the information appearing in this short form prospectus is accurate as of the date of this short form prospectus only, regardless of the time of delivery of this short form prospectus or of any sale of the securities offered hereunder.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this short form prospectus and the documents incorporated by reference herein constitute forward-looking statements. These statements relate to future events or the Trust's future performance as noted in the documents incorporated by reference herein and including, without limitation, the completion and closing of the Offering and the timing thereof, the completion of the Corporate Conversion and the timing thereof, PET's financial flexibility and the use of the proceeds of the Offering. All statements other than statements of historical fact are forward-looking statements. Wherever possible, the use of any of the words "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "could", "believe", "predict", "potential", "should" and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance, achievements or events to differ materially from those anticipated, discussed or implied in such forward-looking statements. The Trust and the Administrator believe the expectations reflected in such forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this short form prospectus and the documents incorporated by reference herein should be considered carefully and investors should not place undue reliance on them as the Trust and the Administrator cannot assure investors that actual results will be consistent with these forward-looking statements. These statements speak only as of the date of this prospectus or the particular document incorporated by reference herein. **The forward looking statements contained in this short form prospectus and the documents incorporated by reference herein are expressly qualified by this cautionary statement. Neither the Trust, the Administrator, Paramount Operating Trust nor any of the Underwriters undertakes any obligation to publicly update or revise any forward-looking statements except as expressly required by applicable securities law.** See "*Special Note Regarding Forward-Looking Information and Statements*" in the AIF (as defined herein).

NON-GAAP MEASURES

In this short form prospectus and the documents incorporated by reference herein, we use certain terms that do not have any standardized meaning prescribed by Canadian generally accepted accounting principles ("**GAAP**") and, therefore, it may not be comparable to the calculation of similar measures for other entities. We use such terms as indicators of financial performance because such terms are often utilized by investors to evaluate royalty trusts and income funds in the oil and gas sector. See "*Non-GAAP Measures*" in the AIF and "*Significant Accounting Policies and Non-GAAP Measures*" in our management's discussion and analysis.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents of the Trust, filed with the various securities commissions or similar authorities in the provinces of Canada, are specifically incorporated by reference into and form an integral part of this short form prospectus:

- (a) the Annual Information Form of the Trust for the year ended December 31, 2009 dated March 9, 2010 (the "AIF");
- (b) the audited comparative consolidated financial statements of the Trust as at and for the years ended December 31, 2009 and 2008, together with the notes thereto and the auditors' report thereon;
- (c) the management's discussion and analysis of the financial condition and results of operations of the Trust as at and for the year ended December 31, 2009;
- (d) the interim unaudited comparative consolidated financial statements of the Trust as at and for the three month periods ended March 31, 2010 and 2009, together with the notes thereto;
- (e) the management's discussion and analysis of the financial condition and results of operations of the Trust as at and for the three month period ended March 31, 2010;
- (f) the Trust's Management Information Circular and Proxy Statement dated May 22, 2009 relating to the annual general and special meeting of Unitholders held on June 18, 2009;
- (g) the Trust's Management Information Circular dated October 15, 2009 relating to a serial meeting of certain series of convertible debentures as supplemented by the Trust's Supplemental Management Information Circular dated November 24, 2009; and
- (h) the Trust's material change report dated and filed on April 5, 2010 in connection with the completion of (i) the approximately \$126 million acquisition of certain petroleum and natural gas properties and related assets in the Edson area of west central Alberta and (ii) approximately \$57.5 million subscription receipt offering.

Any documents of the type described in Section 11.1(1) of Form 44-101F1 - *Short Form Prospectus*, if filed by the Trust with the securities commissions or similar authorities in the provinces of Canada after the date of this short form prospectus and before the termination of this distribution, are deemed to be incorporated by reference in this short form prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purposes of this short form prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is, or is deemed to be, incorporated by reference herein modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this short form prospectus.

SUMMARY DESCRIPTION OF THE BUSINESS

Our business plan is focussed on sustainability of our base shallow gas assets, development of our West Central Alberta core area and growth through new ventures. The Trust provides Unitholders with an investment vehicle which distributes income and adds value through the exploitation of our current producing assets, low exposure exploration of our undeveloped land base, and prudent acquisitions of additional lands and shallow gas assets. The sustainability focus in our business plan is based on four pillars: asset optimization; funds flow maximization; accretive acquisitions; and balance sheet strength – all directed towards maximization of distributions and Unitholder value. See "*Description of the Business*" in the AIF.

CONSOLIDATED CAPITALIZATION

Other than as discussed below, there have been no material changes in the unit capitalization or in the indebtedness of the Trust since March 31, 2010 other than an increase in unit capital of approximately \$60.1 million (13,009,778 Trust Units) and an increase in net bank debt to approximately \$300 million as at May 14, 2010. After giving effect to the Offering and the use of proceeds discussed herein, the Trust anticipates a decrease in net bank debt of approximately \$57 million, leaving a balance of approximately \$243 million until repayment of the 6.25% Convertible Debentures (as defined herein) on June 30, 2010 at which time net bank debt will increase by approximately \$55.3 million. See "*Use of Proceeds*".

USE OF PROCEEDS

The net proceeds to the Trust from the sale of the Debentures hereunder are estimated to be \$57,100,000 after deducting the fees of \$2,400,000 payable to the Underwriters and the estimated expenses of the issue of \$500,000. See "*Plan of Distribution*" and "*Details of the Offering*".

The net proceeds of the Offering will be used by PET to temporarily reduce bank indebtedness under its Credit Facility (as defined herein), which will then be redrawn and applied to fund the re-payment on maturity of the 6.25% Convertible Debentures on June 30, 2010. See "*Relationship Among the Trust and Certain Underwriters*".

PET's current indebtedness under the Credit Facility has been incurred in the normal course of business and operations and in connections with previous capital and other expenditures made by PET.

The use of the net proceeds of the Offering to fund the re-payment of its 6.25% Convertible Debentures on maturity is expected to enhance PET's financial flexibility and is consistent with PET's stated business objectives outlined above under the heading "*Summary Description of the Business*" and, in particular, the four pillars of our objectives: asset optimization, funds flow maximization, accretive acquisitions, and balance sheet strength, all directed towards maximization of distributions and Unitholder value. There is no one particular significant event or milestone that must occur for PET's business objectives to be accomplished. While PET believes that it has the skills and resources necessary to accomplish its stated business objectives, participation in the business in which the Trust operates has a number of inherent risks. See "*Risk Factors*".

While the Trust intends to use the net proceeds as stated above, there may be circumstances that are not known at this time where a reallocation of the net proceeds may be advisable for business reasons that management believes are in the Trust's best interests.

DETAILS OF THE OFFERING

The Offering consists of \$60,000,000 aggregate principal amount of Debentures at a price of \$1,000 per Debenture. The Debentures will be issued under an indenture (the "**Indenture**") to be entered into among PET, PEOC and Computershare Trust Company of Canada (the "**Debenture Trustee**"). The following statements are subject to the detailed provisions of the Indenture and are qualified in their entirety by reference to the Indenture. After execution, the Indenture will also be available for inspection at the offices of the Trust and will be filed on SEDAR.

General

The Debentures are limited to \$60,000,000 aggregate principal amount. The Debentures will be issued in denominations of \$1,000 or in integral multiples thereof. The Debentures will be dated as of the date of closing of the Offering (the "**Closing Date**") and unless previously converted, redeemed or purchased, as described below, the Debentures will mature on December 31, 2015. The principal amount of the Debentures is payable at maturity in cash or, at the Trust's option and subject to satisfaction of certain conditions, by delivery of Trust Units or a combination of cash and Trust Units as further described below under "*Method of Payment*". The Debentures will be payable at the principal corporate trust office of the Debenture Trustee.

The Debentures will bear interest from the date of issue at 7.00% per annum, which will be payable semi-annually in arrears on June 30 and December 31 in each year, commencing on December 31, 2010, to holders of record at the close of business on the preceding June 15 or the preceding December 15, respectively (or the first business day prior to such date if not a business day). The first interest payment will include interest accrued from (and including) the Closing Date to (but excluding) December 31, 2010. It is estimated that the first interest payment, payable on December 31, 2010, will be \$42.00 per \$1,000 principal amount

of Debentures. Each payment of cash interest on the Debentures will include interest accrued for the period commencing on and including the immediately preceding Interest Payment Date (or, if none, the initial issuance date of the Debentures) through the day before the applicable Interest Payment Date (or redemption or purchase date, as the case may be). Any payment required to be made on any day that is not a business day will be made on the next succeeding business day. Interest for all periods shall be computed on the basis of a 365 day year.

The Debentures are general unsecured obligations of PET and are subordinated in right of payment to all existing and future Senior Indebtedness as described under "Subordination" and are convertible into Trust Units as described under "Conversion Privilege". The Debentures will be direct unsecured indebtedness of PET, ranking subordinate to all present and future Senior Indebtedness (as defined herein), including the Other Debentures, and ranking equally and ratably with all other unsecured indebtedness that is not Senior Indebtedness.

Amendments have been made to the Tax Act to facilitate tax deferred conversions to SIFTS for the purposes of the Tax Act. See "*Certain Canadian Federal Income Tax Considerations – SIFT Rules*". As previously disclosed by the Trust, the Trust intends to complete a Corporate Conversion. In the event that the Trust converts to a Continuing Corporation pursuant to a Corporate Conversion, adjustments will be made to the terms of the conversion privilege as described herein. Among other things, these adjustments will be necessary to reflect the fact that, in connection with the Corporate Conversion, Unitholders will receive securities of the Continuing Corporation in exchange or otherwise as consideration or in substitution for Units. More specifically, as further described herein, following completion of a Corporate Conversion, Debentures will be convertible into the kind and number of securities of the Continuing Corporation which a holder of Debentures would have been entitled to receive had it been a holder of the number of Units into which the Debentures were convertible prior to the effective date of the Corporate Conversion. **In addition, in connection with a Corporate Conversion, the Debentures will become obligations of the Continuing Corporation having substantially the same terms as the Debentures, without the consent of any holders of Debentures.**

Rank

The Debentures will be direct, unsecured obligations of the Trust and will rank equally with one another and with all other existing and future unsecured indebtedness of the Trust, other than Senior Indebtedness, and except as prescribed by law as described below under "*Subordination*". Provided that the Trust shall not issue additional convertible debentures ranking higher in priority to the Debentures, the Indenture will not restrict the Trust or its subsidiaries from incurring additional Senior Indebtedness or from mortgaging, pledging or charging its properties to secure any indebtedness or liabilities.

Subordination

The payment of the principal and premium, if any, of, and interest on, the Debentures will be subordinated in right of payment, as set forth in the Indenture, to the prior payment in full of all Senior Indebtedness of the Trust. "**Senior Indebtedness**" of the Trust will be defined in the Indenture but will include all obligations, liabilities and indebtedness of the Trust and its subsidiaries which would, in accordance with GAAP, be classified upon a consolidated balance sheet of the Trust as liabilities of the Trust and its subsidiaries and, whether or not so classified and shall include (without duplication): (a) indebtedness of the Trust and its subsidiaries for borrowed money; (b) obligations of the Trust and its subsidiaries evidenced by bonds, debentures, notes or other similar instruments including the Other Debentures; (c) obligations of the Trust and its subsidiaries arising pursuant or in relation to bankers' acceptances, letters of credit and letters of guarantee (including payment and reimbursement obligations in respect thereof) or indemnities issued in connection therewith; (d) obligations of the Trust and its subsidiaries under any swap, hedging or other similar contracts or arrangements; (e) obligations of the Trust and its subsidiaries under Guarantees (as defined in the Indenture), indemnities, assurances, legally binding comfort letters or other contingent obligations relating to the Senior Indebtedness or other obligations of any other person which would otherwise constitute Senior Indebtedness within the meaning of this definition; (f) all indebtedness of the Trust and its subsidiaries representing the deferred purchase price of any property including, without limitation, purchase money mortgages; (g) accounts payable to trade creditors; (h) all renewals, extensions and refinancing of any of the foregoing; and (i) all costs and expenses incurred by or on behalf of the holder of any Senior Indebtedness in enforcing payment or collection of any such Senior Indebtedness, including enforcing any security interest securing the same. "Senior Indebtedness" shall not include any indebtedness that would otherwise be Senior Indebtedness if it is expressly stated to be subordinate to or rank *pari passu* with the Debentures.

The Indenture will provide that in the event of any insolvency or bankruptcy proceedings, or any receivership, liquidation, reorganization or other similar proceedings relative to the Trust, or to its property or assets, or in the event of any proceedings for

voluntary liquidation, dissolution or other winding-up of the Trust, whether or not involving insolvency or bankruptcy, or any marshalling of the assets and liabilities of the Trust, then holders of Senior Indebtedness will receive payment in full before the holders of Debentures will be entitled to receive any payment or distribution of any kind or character, whether in cash, property or securities, which may be payable or deliverable in any such event in respect of any of the Debentures or any unpaid interest accrued thereon. The Indenture will also provide that the Trust will not make any payment, and the holders of the Debentures will not be entitled to demand, institute proceedings for the collection of, or receive any payment or benefit (including, without any limitation, by set-off, combination of accounts or realization of security or otherwise in any manner whatsoever) on account of indebtedness represented by the Debentures (a) in a manner inconsistent with the terms (as they exist on the date of issue) of the Debentures or (b) at any time when a default or an event of default has occurred under the Senior Indebtedness and is continuing or upon the acceleration of certain Senior Indebtedness and the notice of such default, event of default or acceleration has been given by or on behalf of holders of Senior Indebtedness to the Trust, unless the Senior Indebtedness has been repaid in full as defined in the Indenture.

The Debenture Trustee and the Trust will also be authorized (and obligated upon any request from certain holders of Senior Indebtedness) under the Indenture to enter into subordination agreements on behalf of the holders of Debentures with any holder of Senior Indebtedness.

Optional Redemption

The Debentures are not redeemable by the Trust before December 31, 2013. On and after December 31, 2013 and prior to December 31, 2014, the Debentures may be redeemed at the option of the Trust, in whole or in part, from time to time, on not more than 60 days and not less than 30 days prior notice at a redemption price equal to 100% of their principal amount plus accrued and unpaid interest thereon up to but excluding the date set for redemption, provided that the Current Market Price is at least 125% of the Conversion Price. The "**Current Market Price**" means, generally, the volume weighted average trading price of the Trust Units on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the applicable date. On and after December 31, 2014 and prior to the Maturity Date, the Trust may at its option redeem the Debentures, in whole or in part, from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest thereon up to but excluding the date set for redemption.

In the case of redemption of less than all of the Debentures, the Debentures to be redeemed will be selected by the Debenture Trustee on a *pro rata* basis or in such other manner as the Debenture Trustee deems equitable, subject to regulatory approvals.

In the event that a holder of Debentures exercises their conversion privilege following a notice of redemption being given by the Trust and during the period from the close of business on any regular record date to the opening of business on the next succeeding Interest Payment Date, such holder shall be entitled to receive accrued and unpaid interest in addition to the applicable number of Trust Units, for the period from the last Interest Payment Date to (but excluding) the date of conversion.

Conversion Privilege

Holders may convert their Debentures into Trust Units at any time prior to the close of business on the earlier of: (i) the business day immediately preceding the Maturity Date; or (ii) if called for redemption, on the business day immediately preceding the date specified by the Trust for redemption of the Debentures; based on an initial conversion ratio of 142.8571 Trust Units per \$1,000 principal amount of Debentures (equivalent to an initial conversion price of \$7.00 per Unit). The conversion rate is subject to adjustment in certain circumstances described below.

A Debenture in respect of which a holder has accepted a Change of Control Purchase Offer, as described below, requiring the Trust to purchase the Debenture may be surrendered for conversion only if such Change of Control Purchase Offer is withdrawn in accordance with the Indenture. A holder may convert fewer than all of such holder's Debentures so long as the Debentures converted are an integral multiple of \$1,000 principal amount of Debentures. A holder of a Debenture otherwise entitled to a fractional Unit will receive cash equal to the fraction of the Unit multiplied by the Current Market Price as at the date of conversion.

No adjustment to the Conversion Price for the Debentures will be made for distributions or dividends (except as set forth below) on Trust Units issuable upon conversion or for interest accrued on Debentures surrendered for conversion; however, holders converting their Debentures shall be entitled to receive, in addition to the applicable number of Trust Units, accrued and unpaid

interest (less any taxes required to be deducted) in respect thereof for the period up to, but excluding, the date of conversion from, and including, the most recent Interest Payment Date. For clarity, payment of such interest, whether in cash or by delivery of Trust Units pursuant to the exercise of the Unit Interest Payment Election, may, at the option of the Trust, be paid on the next regularly scheduled Interest Payment Date following the date of conversion. The conversion rate will not be adjusted for accrued interest.

Holders of Debentures surrendered for conversion during the period from the close of business on any regular record date for the payment of interest to the opening of business on the next succeeding Interest Payment Date will receive the semi-annual interest payable on such Debentures on the corresponding Interest Payment Date notwithstanding the conversion. In the event that a holder of Debentures exercises their conversion right following a notice of redemption by the Trust (as further described under "Optional Redemption") and during the period from the close of business on any regular record date for the payment of interest to the opening of business on the next succeeding Interest Payment Date, such holder will be entitled to receive accrued and unpaid interest, in addition to the applicable number of Trust Units to be received on conversion, for the period from the last Interest Payment Date to the date of conversion.

For a discussion of the tax treatment of a holder receiving Trust Units upon converting Debentures see "*Certain Canadian Federal Income Tax Considerations*".

Subject to the provisions thereof, the Indenture will provide for the adjustment of the conversion rate in certain events provided that, and only in the event that, the cumulative effect of such adjustment would change the Conversion Price by at least 1% including:

- the subdivision or consolidation of the outstanding Trust Units;
- the distribution of Trust Units to holders of Trust Units by way of dividend or distribution or otherwise (other than the issue of Trust Units to holders of Trust Units who have elected to receive dividends or distributions in the form of Trust Units in lieu of cash dividends or cash distributions paid in the ordinary course on the Trust Units);
- the issuance of certain options, rights or warrants to holders of Trust Units entitling them to acquire Trust Units or other securities convertible into Trust Units at less than 95% of the then Current Market Price of the Trust Units;
- the distribution to holders of Trust Units of units in the capital of the Trust, other than Trust Units, or evidences of indebtedness or other assets of the Trust, including securities (except to the extent the conversion rate has already been adjusted for the distribution of such securities); and
- the payment to all holders of Trust Units of cash or any other consideration in respect of an issuer bid for Trust Units by the Trust or any of the Trust's subsidiaries to the extent that the cash and fair market value of any other consideration included in the payment per Unit exceeds the Current Market Price of the Trust Units on the date of expiry of such tender offer, take over bid or exchange offer (provided that no adjustment will be made for a normal course issuer bid through the facilities of the Toronto Stock Exchange).

In the event that the Trust pays a dividend or makes a distribution to all holders of Trust Units consisting of capital stock of, or similar equity interests in, a subsidiary or other business unit of the Trust, the conversion rate will be adjusted based on the market value of the securities so distributed relative to the market value of Trust Units, in each case based on the weighted average trading price of those securities for the 20 consecutive trading days commencing on and including the fifth trading day after the date on which "ex-dividend trading" commences for such dividend or distribution on the TSX, or such other national or regional exchange or market on which the securities are then listed or quoted. No conversion rate adjustment will be made to the extent that the Trust makes an equivalent distribution to holders of Debentures.

There will be no adjustment of the Conversion Price in respect of any event described above if the holders of the Debentures are allowed to participate as though they had converted their Debentures prior to the applicable record date or effective date. The Trust will not be required to make adjustments in the Conversion Price unless the cumulative effect of such adjustments would change the Conversion Price by at least 1%. However, the Trust will carry forward any adjustments that are less than 1% of the Conversion Price and take them into account when determining subsequent adjustments.

If there is (i) a reclassification of the Trust Units or capital reorganization of the Trust, (ii) a consolidation, amalgamation, arrangement, merger, binding unit exchange, acquisition of the Trust or other combination pursuant to which the Trust Units are converted into or acquired for cash, securities or other property, or (iii) any sale or conveyance of all or substantially all of the property and assets of the Trust as an entirety or substantially as an entirety to any person (other than a direct or indirect wholly owned subsidiary), at the effective time of the transaction the right to convert a Debenture into Trust Units will be changed into the right to convert it into the kind and amount of cash, securities or other property which the holder would have received if the holder had converted its Debenture immediately prior to the transaction. The Trust will give notice to the holder of Debentures at least 30 days prior to the effective date of such transaction in accordance with the terms of the Indenture of the consideration into which Debentures will be convertible following such transaction.

Change of Control

In the event of a Change of Control, the Trust shall be required to offer to purchase all of the outstanding Debentures (a "**Change of Control Purchase Offer**") on a date (the "**Change of Control Purchase Date**") that is 30 days after the date that such offer is delivered or mailed to holders of the Debentures, at a purchase price equal to 101% of the principal amount of the Debentures ("**Change of Control Purchase Price**"), plus accrued and unpaid interest, if any, to, but not including, the purchase date. If such Change of Control Purchase Date is after a record date but on or prior to an Interest Payment Date, however, then the interest payable on such date will be paid to the holder of record of the Debentures on the relevant record date.

Within 30 days following the occurrence of a Change of Control, the Trust shall be required to give notice to all holders of record of Debentures, as provided in the Indenture, stating among other things, the occurrence of a Change of Control, together with the Change of Control Purchase Offer. The Trust must also deliver a copy of the notice to the Debenture Trustee.

If 90% or more of the aggregate principal amount of the Debentures outstanding on the date of the giving of notice of the Change of Control have been tendered to the Trust pursuant to the Change of Control Purchase Offer, the Trust will have the right to redeem all the remaining Debentures at the Change of Control Purchase Price. Notice of such redemption must be given by the Trust to the Debenture Trustee within 10 days following the expiry of the Change of Control Purchase Offer and by the Debenture Trustee to the holders of the Debentures not tendered pursuant to the Change of Control Purchase Offer.

Under the Indenture, a "**Change of Control**" of the Trust will be deemed to have occurred at such time after the original issuance of the Debentures upon: (i) the acquisition by any person, or group of persons acting jointly or in concert (within the meaning of Multilateral Instrument 62-104 – *Take Over Bids and Issuer Bids* ("**MI 62-104**")), of voting control or direction of an aggregate of more than 50% or more of the outstanding Trust Units; or (ii) the sale of all or substantially all of the assets of the Trust, but shall not include a sale, merger, reorganization, combination or other similar transaction (including a Corporate Conversion) if the previous holders of Trust Units hold at least 50% of the voting control or direction in such merged, reorganized, combined or other continuing entity (and in the case of a sale of all or substantially all of the assets, in the entity which has acquired such assets).

Beneficial ownership will be determined in accordance with the MI 62-104. The term "person" includes any syndicate or group that would be deemed to be a "person" under MI 62-104.

The Trust could, in the future, enter into certain transactions, including certain recapitalizations, that would not constitute a Change of Control for purposes of the Indenture but that could increase the amount of the Trust's or its subsidiaries' outstanding indebtedness.

The Trust's ability to purchase Debentures upon a Change of Control may be limited by the terms of its then outstanding credit agreements. See "*Risk Factors – Credit Facility Risk*".

The Corporate Conversion will not constitute a Change of Control.

Method of Payment

On redemption or at maturity of the Debentures, the Trust will repay the indebtedness represented by the Debentures by paying to the Debenture Trustee in lawful money of Canada the amount required to repay the principal amount of the outstanding Debentures, together with accrued and unpaid interest thereon. Subject to required regulatory approvals, the Trust may, at its

option, elect to satisfy its obligation to pay all or a portion of the principal amount of the Debentures, together with accrued and unpaid interest thereon, on redemption or at maturity through, in whole or in part, by the issuance of Freely Tradeable (as such term is defined in the Indenture) Trust Units. See "*Interest Payment Option*".

The number of Freely Tradeable Trust Units a holder will receive in respect of each Debenture will be determined by dividing the principal amount of the Debentures that are to be redeemed or repaid at maturity, as the case may be, and that are to be paid in Freely Tradeable Trust Units, together with accrued and unpaid interest, by 95% of the Current Market Price of the Freely Tradeable Trust Units. No fractional Freely Tradeable Trust Units will be issued on redemption or repayment at maturity but in lieu thereof, the Trust shall satisfy fractional interests by a cash payment equal to the fraction of the Freely Tradeable Trust Unit multiplied by the Current Market Price of the Freely Tradeable Trust Units.

The Trust may not satisfy its obligation to pay the principal amount of a Debenture, together with accrued and unpaid interest thereon, by delivering Freely Tradeable Trust Units or a combination of cash and Freely Tradeable Trust Units unless the Trust satisfies the requirements of applicable securities laws and certain other conditions, as provided in the Indenture, prior to the maturity date, the redemption date or the purchase date, as applicable, including the following conditions:

- there is not a current Event of Default under the Indenture;
- the Trust Units to be issued upon redemption or repayment at maturity of Debentures shall be Freely Tradeable Trust Units;
- the Trust shall be a reporting issuer in good standing in all provinces in which it is a reporting issuer on the date of the Indenture; and
- the Trust Units to be issued upon redemption or repayment at maturity of Debentures shall be listed on the TSX or a national securities exchange or quoted in an inter-dealer quotation system of any registered national securities association.

If the conditions are not satisfied (or waived) with respect to a holder prior to the close of business on the business day preceding the applicable payment date, the Trust will make the required payment entirely in cash. If the Trust elects to satisfy any amount payable on redemption of the Debentures by issuing Trust Units, the Trust will advise the holders of Debentures of such election in the applicable redemption notice. If the Trust elects to satisfy any amount payable on repayment or maturity of the Debentures by issuing Trust Units, the Trust will provide notice of such election to the holders of Debentures not more than 60 days and not less than 40 days before the payment date.

When the Trust determines the actual number of Trust Units in accordance with the foregoing procedures, it will issue a press release on a national newswire.

As the Current Market Price of the Trust Units will be determined prior to the applicable payment date, holders of the Debentures will bear the market risk with respect to the value of the Trust Units to be received from the date such price is determined to such payment date.

Interest Payment Option

The Trust may elect, from time to time and subject to regulatory approval, provided that there is not a current Event of Default under the Indenture, to satisfy its obligation to pay interest on the Debentures (the "**Interest Obligation**"), on an Interest Payment Date (including following conversion, at the time of redemption, or at the time of maturity) by delivering sufficient Trust Units to the Debenture Trustee to satisfy all or any part of the Interest Obligation in accordance with the Indenture (the "**Unit Interest Payment Election**"). The Indenture will provide that, upon such election, the Debenture Trustee shall: (i) accept delivery of the Trust Units; (ii) accept bids with respect to, and consummate sales of, such Trust Units on behalf of the Trust by registered brokers or dealers, each as the Trust shall direct in its absolute discretion; (iii) invest the proceeds of such sales in short-term Canadian Government Obligations (as defined in the Indenture), which mature prior to the applicable Interest Payment Date; (iv) use the proceeds received from such permitted Canadian Government Obligations, together with any proceeds from the sale of Trust Units not invested as aforesaid, to satisfy the Interest Obligation; and (v) perform any other action necessarily incidental thereto.

The Indenture will set forth the procedures to be followed by the Trust and the Debenture Trustee in order to effect the Unit Interest Payment Election. If a Unit Interest Payment Election is made, the sole right of a holder of Debentures in respect of interest will be to receive cash from the Debenture Trustee out of the proceeds of the sale of Trust Units (plus any amount received by the Debenture Trustee from the Trust attributable to any fractional Trust Units) in an amount equal to the applicable interest payment in full satisfaction of the Interest Obligation, and the holder of such Debentures will have no further recourse to the Trust in respect of the Interest Obligation.

Neither the Trust's making of the Unit Interest Payment Election nor the consummation of sales of Trust Units will: (i) result in the holders of the Debentures not being entitled to receive on the applicable Interest Payment Date cash in an aggregate amount equal to the interest payable on such Interest Payment Date; or (ii) entitle such holders to receive any Trust Units in satisfaction of the Interest Obligation.

Purchase for Cancellation

The Trust may, to the extent permitted by applicable law, at any time purchase the Debentures in the open market or by tender at any price or by private agreement. Any Debenture purchased by the Trust will be surrendered to the Debenture Trustee for cancellation. Any Debentures surrendered to the Debenture Trustee may not be reissued or resold and will be cancelled promptly.

Events of Default

The Indenture will provide that an event of default ("**Event of Default**") in respect of the Debentures will occur if any one or more of the following described events has occurred and is continuing with respect of the Debentures: (a) failure for 30 days to pay interest on the Debentures when due; (b) failure to pay principal or premium (whether by way of payment of cash or delivery of Trust Units), if any, on the Debentures when due, whether at maturity, upon redemption, on a Change of Control, by declaration or otherwise; (c) default in the delivery, when due, of any Trust Units or other consideration, including any make whole premium, payable upon conversion with respect to the Debentures, which default continues for 15 days; (d) default in the observance or performance of any covenant or condition of the Indenture and the failure to cure (or obtain a waiver for) such default for a period of 30 days after notice in writing has been given by the Debenture Trustee or from holders of not less than 25% in aggregate principal amount of the Debentures to the Trust specifying such default and requiring the Trust to rectify or obtain a waiver for same; (e) certain events of bankruptcy, insolvency or reorganization of the Trust under bankruptcy or insolvency laws; or (f) if a resolution is passed for the winding-up or liquidation of the Trust except as permitted under the Indenture. If an Event of Default has occurred and is continuing, the Debenture Trustee may, in its discretion, and shall upon request of holders of not less than 25% of the principal amount of Debentures then outstanding, declare the principal of and interest on all outstanding Debentures to be immediately due and payable. In the case of certain events of bankruptcy or insolvency, the principal amount of the Debentures, together with any accrued and unpaid interest through the occurrence of such event, shall automatically become due and payable. In certain cases, the holders of more than 50% of the principal amount of the Debentures then outstanding may, on behalf of the holders of all Debentures, waive any Event of Default and/or cancel any such declaration upon such terms and conditions as such holders shall prescribe.

Consolidation, Mergers or Sales of Assets

The Indenture will provide that the Trust may not without the consent of the holders of the Debentures enter into any transaction or series of transactions whereby all or substantially all of its undertaking, property or assets would become the direct or indirect property of any other person (the "**Successor**") whether by way of reorganization, consolidation, amalgamation, arrangement, merger, transfer, sale or otherwise, unless:

- prior to or contemporaneously with the consummation of such transaction the Trust and the Successor shall have executed such instruments and done such things as, in the opinion of counsel, are necessary or advisable to establish that upon the consummation of such transaction:
 - the Successor will have assumed all the covenants and obligations of the Trust under this Indenture in respect of the Debentures;
 - the Debentures will be valid and binding obligations of the Successor entitling the holders thereof, as against the Successor, to all the rights of Debentureholders under this Indenture; and

- in the case of an entity organized otherwise than under the laws of the Province of Alberta, the Successor shall attorn to the jurisdiction of the courts of the Province of Alberta;
- such transaction, in the opinion of counsel, shall be on such terms as to substantially preserve and not impair any of the rights and powers of the Debenture Trustee or of the holders of Debentures; and
- no condition or event shall exist as to the Trust (at the time of such transaction) or the Successor (immediately after such transaction) and after giving full effect thereto or immediately after the Successor shall become liable to pay the principal monies, premium, if any, interest and other monies due or which may become due hereunder, which constitutes or would constitute an Event of Default.

Upon the assumption of the Trust's obligations by such Trust in such circumstances, subject to certain exceptions, the Trust shall be discharged from all obligations under the Debentures and the Indenture. An assumption of the Trust's obligations under the Debentures and the Indenture by such Successor might be deemed for Canadian federal income tax purposes to be an exchange of the Debentures for new Debentures by the holders thereof, resulting in recognition of gain or loss for such purposes and possibly other adverse tax consequences to the holders. Holders should consult their own tax advisors regarding the tax consequences of such an assumption.

Modifications of the Indenture

The rights of the holders of the Debentures as well as any other series of debentures that may be issued under the Indenture may be modified in accordance with the terms of the Indenture. For that purpose, among others, the Indenture will contain certain provisions which will make binding on all Debenture holders resolutions passed at meetings of the holders of Debentures by votes cast thereat by holders of not less than 66 2/3% of the principal amount of the Debentures present at the meeting or represented by proxy, or rendered by instruments in writing signed by the holders of not less than 66 2/3% of the principal amount of the Debentures then outstanding. In certain cases, the modification will, instead or in addition, require assent by the holders of the required percentage of Debentures of each particularly affected series.

Offers for Debentures

The Indenture will contain provisions to the effect that if an offer is made for the Debentures which is a take-over bid or issuer bid for Debentures within the meaning of MI 62-104 and within the time provided in the offer or within 120 days after the date the offer is made, not less than 90% of the outstanding principal amount of the Debentures (other than Debentures beneficially owned or controlled at the date of the take-over bid or issuer bid, as applicable, by or on behalf of the offeror or associates, affiliates of the offeror or persons acting jointly or in concert with the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Debentures held by the holders of Debentures who did not accept the offer for the same consideration per Debenture paid under such offer.

Discharge of the Indenture

The Trust may satisfy and discharge the Trust's obligations under the Indenture in certain circumstances, including by delivering to the Debenture Trustee for cancellation all outstanding Debentures or by depositing with the Debenture Trustee, as trust funds or property in trust for the purpose of making payment on such Debentures, an amount in money or Trust Units, if applicable, sufficient to pay, satisfy and discharge the entire amount of principal of, premium, if any, and interest, if any, to maturity, or any repayment date or redemption dates, or any Change of Control Purchase Date, or upon conversion or otherwise as the case may be, of such Debentures. Despite such discharge, the holders of Debentures and the Trust shall continue to have and be subject to their respective rights, duties and obligations under certain provisions of the Indenture including the provisions relating to conversion and redemption.

Calculations in Respect of Debentures

The Trust is responsible for making all calculations called for under the Debentures. These calculations include, but are not limited to, determination of the Current Market Price of Trust Units. The Trust will make all these calculations in good faith and, absent manifest error, the Trust's calculations are final and binding on holders of Debentures and the Debenture Trustee. The

Trust will provide a schedule of the Trust's calculations to the Debenture Trustee, and the Debenture Trustee is entitled to conclusively rely upon the accuracy of the Trust's calculations without independent verification.

No Personal Liability of Directors, Officers, Employees, Subsidiaries, Incorporators and Unitholders

No director, officer, employee, subsidiary, incorporator or unitholder of the Trust, as such, shall have any liability for any of the obligations of the Trust under the Debentures or the Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each holder of Debentures by accepting a Debenture waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Debentures.

Governing Law

The Indenture and the Debentures will be governed by and construed in accordance with the laws of the Province of Alberta. The Trust will submit to the non-exclusive jurisdiction of any court of the Province of Alberta for purposes of all legal actions and proceedings instituted in connection with the Indenture and the Debentures.

Global Debentures

Except in certain limited circumstances, the Debentures will be issued in "book-entry only" form and must be purchased or transferred through a participant in the depository service of CDS (a "**Participant**"). On the closing date of the Offering, the Debenture Trustee will cause the Debentures to be delivered to CDS and registered in the name of its nominee. Except for certificates issued to purchasers of Debentures pursuant to Rule 144A under the 1933 Act, which will be issued in registered, definitive form, the Debentures will be evidenced by a single book-entry only certificate ("**Global Debenture**"). Registration of interests in and transfers of the Global Debenture will be made only through the depository service of CDS.

Except as described below, a purchaser acquiring a beneficial interest in the Global Debenture (a "**Beneficial Owner**") will not be entitled to a certificate or other instrument from the Debenture Trustee or CDS evidencing that purchaser's interest therein, and such purchaser will not be shown on the records maintained by CDS, except through a Participant. Such purchaser will receive a confirmation of purchase from the Underwriter or other registered dealer from whom Debentures are purchased.

Neither the Trust nor the Underwriters will assume any liability for: (a) any aspect of the records relating to the beneficial ownership of the Debentures held by CDS or the payments relating thereto; (b) maintaining, supervising or reviewing any records relating to the Debentures; or (c) any advice or representation made by or with respect to CDS and contained in this short form prospectus and relating to the rules governing CDS or any action to be taken by CDS or at the direction of its Participants. The rules governing CDS provide that it acts as the agent and depository for the Participants. As a result, Participants must look solely to CDS and Beneficial Owners must look solely to Participants for the payment of the principal and interest on the Debentures paid by or on behalf of the Trust to CDS.

As indirect holders of Debentures, investors should be aware that they (subject to the situations described below): (a) may not have Debentures registered in their name; (b) may not have physical certificates representing their interest in the Debentures; (c) may not be able to sell the Debentures to institutions required by law to hold physical certificates for securities they own; and (d) may be unable to pledge Debentures as security.

The Debentures will be issued to Beneficial Owners in fully registered and certificate form (the "**Debenture Certificates**") only if: (a) required to do so by applicable law; (b) the book-entry only system ceases to exist; (c) the Trust or CDS advises the Debenture Trustee that CDS is no longer willing or able to properly discharge its responsibilities as depository with respect to the Debentures and the Trust has not appointed a qualified successor depository; (d) the Trust, at its option, decides to terminate the book-entry only system through CDS; (e) the Beneficial Owner purchased the Debentures pursuant to Rule 144A under the 1933 Act; or (f) after the occurrence of an Event of Default, provided that Participants acting on behalf of Beneficial Owners representing, in the aggregate, more than 25% of the aggregate principal amount of the Debentures then outstanding advise CDS in writing that the continuation of a book-entry only system through CDS is no longer in their best interest, and provided further that the Debenture Trustee has not waived the Event of Default in accordance with the terms of the Indenture.

Upon the occurrence of any of the events described in the immediately preceding paragraph, the Debenture Trustee must notify CDS, for and on behalf of Participants and Beneficial Owners, of the availability through CDS of Debenture Certificates. Upon

surrender by CDS of the single certificate representing the Debentures and receipt of instructions from CDS for the new registrations, the Debenture Trustee will deliver the Debentures in the form of Debenture Certificates and thereafter the Trust will recognize the holders of such Debenture Certificates as debentureholders under the Indenture.

Transfer and Exchange of Debentures

Transfers of beneficial ownership in Debentures represented by Global Debentures will be effected through records maintained by CDS for such Global Debentures or its nominees (with respect to interests of Participants) and on the records of participants (with respect to interests of persons other than Participants). Unless the Trust elects in its sole discretion to prepare and deliver Debenture Certificates, beneficial owners who are not Participants in CDS' book-entry system, but who desire to purchase, sell or otherwise transfer ownership of or other interest in Global Debentures may do so only through Participants in CDS' book-entry system.

The ability of a beneficial owner of an interest in a Debenture represented by a Global Debenture to pledge the Debenture or otherwise take action with respect to such owner's interest in a Debenture represented by a Global Debenture (other than through a Participant) may be limited due to the lack of a physical certificate.

Registered holders of Debenture Certificates, if issued, may transfer such Debentures upon payment of taxes or other charges incidental thereto, if any, by executing and delivering a form of transfer together with the Debenture Certificates to the Debenture Trustee for the Debentures at its principal offices in Calgary and Toronto, or such other city or cities as may from time to time be designated by the Trust whereupon new Debenture Certificates will be issued in authorized denominations in the same aggregate principal amount as the Debenture Certificates so transferred, registered in the names of the transferees. Neither the Trust nor the Trustee nor any registrar shall be required to (a) make transfers or exchanges or convert any Debentures on any Interest Payment Date for such Debentures or during the five preceding business days; (b) make transfers or exchanges of, or convert any Debentures on the day of any selection by the Trustee of Debentures to be redeemed or during the five preceding business days; or (c) make exchanges of any Debentures which will have been selected or called for redemption unless upon due presentation thereof for redemption such Debentures shall not be redeemed.

Payments

Payments of interest and principal on each Global Debenture will be made to CDS or its nominee, as the case may be, as the registered holder of the Global Debenture, so long as the book entry only system is in effect. As long as CDS or its nominee is the registered owner of a Global Debenture, CDS or its nominee, as the case may be, will be considered the sole legal owner of the Global Debenture for the purposes of receiving payments of interest and principal on the Debentures evidenced by the Global Debenture and for all other purposes under the Indenture and the Global Debentures. The record dates for the payment of interest will be June 15 and December 15 in each year (or the first business day prior to such date if not a business day). Interest payments on Global Debentures will be made by electronic funds transfer on the day interest is payable and delivered to CDS or its nominee, as the case may be.

The Trust understands that CDS or its nominee, upon receipt of any payment of interest or principal in respect of a Global Debenture, will credit Participants' accounts, on the date interest or principal is payable, with payments in amounts proportionate to their respective beneficial interest in the principal amount of such Global Debenture as shown on the records of CDS or its nominee. The Trust also understands that payments of interest and principal by Participants to the owners of beneficial interest in such Global Debenture held through such Participants will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name" and will be the responsibility of such Participants. The Trust's responsibility and liability in respect of payments on Debentures represented by the Global Debentures is limited solely and exclusively, while the Debentures are registered in global form, to making payment of any interest and principal due on such Global Debenture to CDS or its nominee.

If Debenture Certificates are issued instead of or in place of a Global Debenture, payments of interest on each Debenture Certificate will be made by the Trust or by the Debenture Trustee as paying agent for the Trust. Payment of principal at maturity will be made at the principal office of the Debenture Trustee in Toronto and Calgary (or in such other city or cities as may from time to time be designated by the Trust) against surrender of the Debenture Certificates, if any or the Global Debenture.

PLAN OF DISTRIBUTION

Pursuant to the agreement dated as of May 4, 2010 among the Trust, POT, the Administrator and the Underwriters in respect of the Offering (the "**Underwriting Agreement**"), the Trust has agreed to issue and sell an aggregate of \$60,000,000 principal amount of Debentures to the Underwriters, and the Underwriters have severally agreed to purchase such Debentures on May 26, 2010, or such other closing date not later than June 15, 2010 as may be agreed among the parties to the Underwriting Agreement. Delivery of the Debentures is conditional upon payment on closing of \$1,000 per Debenture by the Underwriters to PET. The Underwriting Agreement provides that the Trust will pay the Underwriters' fee of \$40 per Debenture for Debentures issued and sold by the Trust, for an aggregate fee payable by the Trust of \$2,400,000, in consideration for their services in connection with the Offering. The Underwriters' fee in respect of the Debentures is payable upon the closing of the Offering.

The Underwriters propose to offer the Debentures initially at the public offering price on the face page of this short form prospectus. The offering price for the Debentures was determined by negotiation by the Administrator, on behalf of the Trust, and BMO Nesbitt Burns Inc., on its own behalf and on behalf of the Underwriters. After the Underwriters have made a reasonable effort to sell all the Debentures offered by this short form prospectus at the price specified herein, the offering price may be decreased, and further changed from time to time to an amount not greater than the offering price specified herein and the compensation realized by the Underwriters will be decreased by the amount that the aggregate price paid by the purchasers for the Debentures is less than the gross proceeds paid by the Underwriters to the Trust.

The obligations of the Underwriters under the Underwriting Agreement are several and not joint, and may be terminated at their discretion upon the occurrence of certain stated events. If an Underwriter fails to purchase the Debentures that it has agreed to purchase, the other Underwriters may, but are not obligated to, purchase such Debentures. The Underwriters are, however, obligated to take up and pay for all Debentures if any are purchased under the Underwriting Agreement. The Underwriting Agreement also provides that the Trust and the Administrator will indemnify the Underwriters and their directors, officers, agents, shareholders and employees against certain liabilities and expenses.

Except in certain limited circumstances and in respect of Debentures purchased pursuant to Rule 144A under the 1933 Act, the Debentures will be issued in "book-entry only" form and must be purchased or transferred through a participant in the depository service of CDS. See "*Details of the Offering*".

The Trust has been advised by the Underwriters that, in connection with the Offering, the Underwriters may effect transactions that stabilize or maintain the market price of the Debentures at levels other than those that might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time.

The Trust has agreed that, subject to certain exceptions, it will not offer or issue, or enter into an agreement to offer or issue, Units or any securities convertible or exchangeable into Units for a period of 90 days subsequent to the closing date of the Offering without the consent of BMO Nesbitt Burns Inc., on behalf of the Underwriters, which consent may not be unreasonably withheld. In addition, the Underwriting Agreement requires Mr. C.H. Riddell to enter into an agreement with the Underwriters whereby Mr. Riddell agrees, among other things, not to sell more than an aggregate of 400,000 Trust Units at any time within 90 days following the closing date of the Offering, without the consent of BMO Nesbitt Burns Inc., on behalf of the Underwriters, which consent may not be unreasonably withheld provided that the foregoing will not restrict Mr. Riddell from disposing of or exchanging Trust Units and other securities pursuant to a Corporate Conversion.

The TSX has conditionally approved the listing of the Debentures and the Units issued upon the conversion, redemption or maturity of the Debentures. Listing is subject to the Trust fulfilling all of the requirements of the TSX on or before August 6, 2010.

Neither the Debentures nor the Trust Units issuable upon conversion, redemption or maturity thereof have been, or will be, registered under the 1933 Act or any state securities laws. Accordingly, the Debentures and such Trust Units may not be offered or sold within the United States (as such term is defined in Regulation S under the 1933 Act) except in transactions exempt from the registration requirements of the 1933 Act and applicable state securities laws. The Underwriting Agreement permits the Underwriters to offer and resell the Debentures that they have acquired pursuant to the Underwriting Agreement to certain "qualified institutional buyers" (as such term is defined in Rule 144A under the 1933 Act) in the United States, provided such offers and sales are made in accordance with Rule 144A under the 1933 Act. Moreover, the Underwriting Agreement provides that the Underwriters will offer and sell the Debentures outside the United States only in accordance with Rule 903 of Regulation S under the 1933 Act.

In addition, until 40 days after the commencement of the Offering, an offer or sale of Debentures or Trust Units issuable upon conversion, redemption or maturity thereof, within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the 1933 Act if such offer or sale is made otherwise than in accordance with an exemption from the registration requirements of the 1933 Act.

EARNINGS COVERAGE RATIOS

The following interest coverages are calculated on a consolidated basis for the twelve month periods ended December 31, 2009 and March 31, 2010 and are derived from audited financial information in the case of December 31, 2009 and unaudited financial information in the case of March 31, 2010. Interest expense and funds flow are on a pro forma basis and includes interest expense on the Debentures, less the interest reduction relating to the repayment of the Trust's 6.25% convertible debentures maturing on June 30, 2010. Funds flow coverage disclosure included herein is provided as supplemental information only.

The interest expense of the Trust for the twelve month periods ended December 31, 2009 and March 31, 2010 was \$30.9 million and \$32.1 million, respectively. The earnings of the Trust before interest and income taxes for the twelve-month periods ended December 31, 2009 and March 31, 2010 was \$44.0 million and \$5.1 million, respectively, for an interest coverage of \$13.1 million (1.4 times) and deficiency of \$27.0 million (0.2 times), respectively. Funds flow for the twelve month periods ended December 31, 2009 and March 31, 2010 was \$230.5 million and \$273.7 million, respectively, resulting in funds flow coverage for such periods of 7.5 times and 8.5 times, respectively.

Under GAAP, the Debentures are and will be classified as a liability with a portion allocated to equity related to the conversion feature and with the related interest expensed as incurred and financing charges amortized over the term of such Debentures. The entire amount of the annual carrying charges for the Debentures is reflected in interest expense and, accordingly, the coverage ratios described above would be unchanged had the entire amount of the Debentures been classified as a liability. The portion of the Debentures classified as equity will be accreted to interest expense over the term of such Debentures to increase the carrying value of the liability to the face value of the Debentures.

DESCRIPTION OF SECURITIES BEING DISTRIBUTED

A description of the Debentures being distributed pursuant to this short form prospectus is contained in this short form prospectus under the heading "*Details of the Offering*" above. A description of the Trust Units issued pursuant to the Debentures is contained in the AIF under the heading "*Description of Capital Structure*".

PRIOR SALES

Prior Sales

The Trust has not sold or issued any Trust Units or securities that are convertible into Trust Units during the 12-month period before the date of this short form prospectus other than the issue during such period of: (i) an aggregate of 12,109,500 Trust Units issued upon exchange of the same number of subscription receipts at a price of \$4.75 (\$4.51 net of issue fees) per Trust Unit on April 1, 2010; (ii) an aggregate of 6,207,550 Trust Units at an average deemed price of \$4.70 per Trust Unit pursuant to the Trust's Premium Distribution and Distribution Reinvestment Plan; (iii) an aggregate of nil Trust Units at an average deemed price of \$nil per Trust Unit pursuant to the conversion of outstanding convertible debentures; (iv) an aggregate of 10,025,990 Trust Units at a deemed price of \$3.21 per Trust Unit pursuant to the acquisition of Profound Energy Inc.; (v) an aggregate of 2,296,350 incentive rights to acquire Trust Units at an average deemed price of \$4.18 per incentive right; and (vi) an aggregate of 188,301 bonus rights to acquire Trust Units at an average deemed price of \$0.01 per bonus right. See Notes 8 and 9 to the Trust's audited comparative consolidated financial statements for the year ended December 31, 2009 and Notes 5 and 6 to the Trust's unaudited interim comparative consolidated financial statements for the three months ended March 31, 2010 for further information with respect to the foregoing.

Trading Price and Volume

The outstanding Trust Units, 6.25% convertible debentures ("**6.25% Convertible Debentures**"), 6.50% convertible debentures ("**6.50% Convertible Debentures**") and 7.25% convertible debentures ("**7.25% Convertible Debentures**") are listed and posted for trading on the TSX under the trading symbol "PMT.UN", "PMT.DB.A", "PMT.DB.C" and "PMT.DB.D", respectively. The

following tables set forth the closing price range and trading volume of each of these securities as reported by the TSX for the periods indicated. See "Market for Securities" in the AIF for the trading history of the Trust Units, 6.25% Convertible Debentures, 6.50% Convertible Debentures and 7.25% Convertible Debentures in 2009 and for the months of January and February of 2010.

Trust Units

	Price Range		Volume
	High (\$)	Low (\$)	
2010			
March	5.10	4.68	11,656,280
April	5.23	4.66	9,997,057
May 1 – 14	5.15	4.75	4,910,266

6.25% Debentures

	Price Range		Volume
	High (\$)	Low (\$)	
2010			
March	101.55	100.01	717,000
April	100.30	100.00	727,000
May 1 – 14	100.60	100.01	572,000

6.50% Debentures

	Price Range		Volume
	High (\$)	Low (\$)	
2010			
March	102.99	100.00	683,000
April	101.50	99.75	7,254,000
May 1 – 14	101.50	99.00	1,084,000

7.25% Debentures

	Price Range		Volume
	High (\$)	Low (\$)	
2010			
March	105.99	101.56	2,827,000
April	104.50	101.75	1,018,000
May 1 – 14	103.00	101.25	634,000

RELATIONSHIP AMONG THE TRUST AND CERTAIN UNDERWRITERS

BMO Nesbitt Burns Inc., CIBC World Markets Inc., National Bank Financial Inc., Scotia Capital Inc. and TD Securities Inc. are direct or indirect wholly-owned subsidiaries of Canadian chartered banks which are lenders to the Trust pursuant to its credit facility (the "**Credit Facility**"). Consequently, the Trust may be considered a connected issuer of these Underwriters within the meaning of applicable Canadian securities legislation.

As at May 14, 2010, approximately \$300 million was outstanding under the Credit Facility. See Note 6 to the Trust's audited comparative consolidated financial statements for the year ended December 31, 2009 for a description of the Credit Facility and "Consolidated Capitalization" above. The Trust is in compliance with all material terms of the agreement governing the Credit Facility and none of the lenders under the Credit Facility have waived any breach by PET of that agreement since its execution. The Credit Facility is secured by a fixed and floating charge demand debenture, a general security agreement and a subordination agreement from the Trust covering all existing and after acquired property of the Trust as well as unconditional full liability secured guarantees from all subsidiaries in respect of amounts borrowed under the Credit Facility. Neither the financial position

of the Trust nor the value of the security under the Credit Facility has changed substantially since the indebtedness under the Credit Facility was incurred. See "*Use of Proceeds*".

The decision to distribute the Debentures offered hereunder and the determination of the terms of the distribution were made through negotiations primarily between the Administrator, on behalf of the Trust, and BMO Nesbitt Burns Inc. on its own behalf and on behalf of the other Underwriters. The lenders under the Credit Facility did not have any involvement in such decision or determination, but have been advised of the issuance and terms thereof. As a consequence of this issuance, BMO Nesbitt Burns Inc., CIBC World Markets Inc., National Bank Financial Inc., Scotia Capital Inc. and TD Securities Inc. will receive their respective share of the Underwriters' fee.

INTEREST OF EXPERTS

Certain legal matters relating to the Offering will be passed upon by Burnet, Duckworth & Palmer LLP on behalf of the Trust, and by Stikeman Elliott LLP on behalf of the Underwriters. As at the date hereof, the partners and associates of Burnet, Duckworth & Palmer LLP, as a group and Stikeman Elliott LLP, as a group, each own, directly or indirectly, less than 1% of the Trust Units.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Burnet, Duckworth & Palmer LLP, counsel to the Trust, and Stikeman Elliott LLP, counsel to the Underwriters (collectively, "**Counsel**"), the following is, as of the date hereof, a summary of the principal Canadian federal income tax considerations generally applicable under the Tax Act to the acquisition, holding and disposition of Debentures by a holder who acquires Debentures pursuant to this short form prospectus. This summary is applicable to a holder (a "**Holder**") who, for purposes of the Tax Act and at all relevant times, deals at arm's length with the Trust, is not affiliated with the Trust, and holds the Debentures and any Units acquired under the terms of the Debentures (for the purposes of this section, collectively, the "**Securities**") as capital property. Generally, Securities will be considered to be capital property to a Holder provided that the Holder does not hold the Securities in the course of carrying on a business and has not acquired them in one or more transactions considered to be an adventure or concern in the nature of trade. Certain Holders who might not otherwise be considered to hold their Debentures or Units as capital property may, in certain circumstances, be entitled to have them (and every other "Canadian Security" owned by the Holder in that taxation year or any subsequent taxation year) treated as capital property by making the irrevocable election permitted by subsection 39(4) of the Tax Act. Holders considering making such election should consult their own tax advisors regarding their particular circumstances.

This summary is not applicable to (i) a Holder that is a "financial institution" (as defined in the Tax Act for purposes of the mark-to-market rules), (ii) a Holder that is a "specified financial institution" (as defined in the Tax Act), (iii) a Holder an interest in which is a "tax shelter investment" (as defined in the Tax Act) or (iv) a Holder whose functional currency for purposes of the Tax Act is the currency of a country other than Canada. Such Holders should consult their own tax advisors to determine the tax consequences to them of the acquisition, holding and disposition of Debentures acquired pursuant to this short form prospectus or the Units, as the case may be.

This summary is based on certain representations as to factual matters made in a certificate signed by an officer of the Administrator, on behalf of the Trust, and provided to Counsel (the "**Officer's Certificate**"). This summary assumes that the representations made in the Officer's Certificate, including the representations that will ensure that the Trust qualifies and will continue to qualify as a "mutual fund trust", are true and correct, that the Trust has complied and will at all times comply with the Declaration of Trust, and that the Trust does and will continue to qualify as a "mutual fund trust" under the provisions of the Tax Act while the Units remain outstanding.

This summary is of a general nature only and is based upon the facts set out herein and in the Officer's Certificate, the current provisions of the Tax Act (including the regulations (the "**Regulations**") thereunder), all proposals to amend the Tax Act and the Regulations publicly announced by the Minister of Finance (Canada) prior to the date hereof (the "**Tax Proposals**"), and Counsel's understanding of the administrative and assessing policies of the Canada Revenue Agency ("**CRA**") published by the CRA prior to the date hereof. There can be no assurance that the Tax Proposals will be implemented in their current form or at all. Except for the Tax Proposals, this summary does not take into account or anticipate any changes in the law whether by legislative, governmental or judicial action or decision, nor does it take into account any provincial, territorial or foreign tax considerations, which may differ significantly from those discussed in this short form prospectus. There can be no assurances that

the CRA will not change its administrative and assessing practices. Modification or amendment of the Tax Act and Regulations or the Tax Proposals could significantly alter the tax status of the Trust or the tax consequences of investing in the Securities.

This summary is not exhaustive of all possible Canadian federal income tax considerations applicable to an investment in Securities. Moreover, the income and other tax consequences of acquiring, holding or disposing of Securities will vary depending on the Holder's particular circumstances. Accordingly, this summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any prospective purchaser of Securities. Consequently, a prospective Holder should consult the Holder's own tax advisor for advice with respect to the tax consequences of an investment in Securities based on the prospective Holder's particular circumstances.

Status of the Trust

Based on representations from the Trust, the Trust qualifies as a "mutual fund trust", as defined in the Tax Act, and this summary assumes that the Trust will continue to qualify at all relevant times. To qualify as a mutual fund trust the sole undertaking of the Trust must be the investing of its funds in property (other than real property or interests in real property), the Trust must comply on a continuous basis with certain requirements relating to the qualification of the Units for distribution to the public, the number of Unitholders and the dispersal of ownership of Units, and the Trust may not be reasonably considered to have been established or maintained primarily for the benefit of non-residents of Canada. The Trust has advised Counsel that it has certain restrictions on its activities and its powers and certain restrictions in respect of non-resident Unitholders, such that it is reasonable to expect that these requirements will be satisfied. If the Trust were to not qualify as a mutual fund trust at any particular time, the income tax considerations for the Trust and Unitholders would be materially different from those contained herein.

SIFT Rules

On October 31, 2006, the Minister of Finance (Canada) ("**Finance**") announced proposed changes to the taxation of certain publicly-traded trusts and partnerships and their unitholders. Bill C-52, which received Royal Assent on June 22, 2007, contained legislation implementing those proposals. These legislative provisions, as subsequently amended, are herein referred to as the "SIFT Rules".

The SIFT Rules apply to trusts and partnerships that are resident in Canada for purposes of the Tax Act (in the case of partnerships, pursuant to new residency rules for this purpose), that hold one or more "non-portfolio properties", and the units of which are listed or traded on a stock exchange or other public market (a "**specified investment flow-through trust**" or "**SIFT trust**", and a "**specified investment flow-through partnership**" or "**SIFT partnership**"). In the case of a trust or partnership that was a SIFT trust or SIFT partnership on October 31, 2006, the SIFT Rules generally will not take effect until January 1, 2011, provided the trust or partnership experiences only "normal growth" before then. On December 15, 2006, Finance issued guidelines with respect to what would be considered "normal growth" for this purpose (the "**Guidelines**"), and on December 4, 2008, Finance announced changes to the Guidelines. The Guidelines are incorporated by reference into the SIFT Rules.

The Trust would be a "SIFT trust" under the SIFT Rules but for the deferred implementation described above. Pursuant to the SIFT Rules, a SIFT trust will be subject to tax on its income from non-portfolio properties and taxable capital gains from dispositions of non-portfolio properties at a rate comparable to the combined federal and provincial corporate income tax rate and distributions of such income to unitholders will be treated as eligible dividends paid by a taxable Canadian corporation. The properties owned by the Trust would constitute "non-portfolio properties" under the SIFT Rules, with the result that all or substantially all of the Trust's income would be subject to the new tax.

Although the SIFT Rules are not expected to affect the Trust until 2011, the Trust could become subject to the SIFT Rules sooner if it experiences growth other than "normal growth" before then. Under the Guidelines, a SIFT trust will be considered to have experienced only "normal growth" if its issuances of new equity, which includes trust units and debt or other securities that are convertible into trust units, do not exceed certain thresholds measured by reference to the SIFT trust's market capitalization as of the close of trading on October 31, 2006, taking into account only the SIFT trust's publicly-traded units and not any securities, whether or not listed, that are convertible into or exchangeable for trust units. The permitted expansion thresholds are the greater of \$50 million and 40% of a SIFT trust's October 31, 2006 market capitalization for the period from October 31, 2006 to the end of 2007, and the greater of \$50 million and 20% of a SIFT trust's October 31, 2006 market capitalization for each of 2008, 2009 and 2010. On December 4, 2008, the Minister of Finance (Canada) announced changes to the Guidelines to allow a SIFT trust to accelerate the utilization of the SIFT trust's annual safe harbour amount for each of 2009 and 2010 so that the safe harbour amount is available on and after December 4, 2008. This change does not alter the maximum permitted expansion threshold for a

SIFT trust, but it allows a SIFT trust to use its normal growth room remaining as of December 4, 2008 in a single year, rather than staggering a portion of the normal growth room over the 2009 and 2010 years.

It is assumed, for the purposes of this summary, that the Trust will not be subject to the SIFT Rules until January 1, 2011. No assurance can be provided that the SIFT Rules will not apply to the Trust prior to 2011.

If the Corporate Conversion is completed prior to January 1, 2011, and the Trust has not exceeded its "normal growth" limits prior to the Corporate Conversion being completed, the SIFT Rules will not apply to the Trust or the Unitholders.

Taxation of the Trust

Subject to the application of the SIFT Rules, the Trust is subject to taxation in each taxation year on its income for the year, including net realized taxable capital gains, less the portion thereof that is paid or payable in the year to Unitholders and which is deducted by the Trust in computing its income for purposes of the Tax Act. An amount will be considered to be payable to a Unitholder in a taxation year if it is paid in the year by the Trust or the Unitholder is entitled in that year to enforce payment of the amount. Provided that appropriate designations are made by the Trust, all dividends which would otherwise be included in its income will be deemed to have been received by Unitholders and not to have been received by the Trust. The taxation year of the Trust will end on December 31 of each year.

For purposes of the Tax Act, the Trust generally intends to deduct, in computing its income and taxable income, the full amount available for deduction in each year to the extent of its taxable income for the year otherwise determined. Counsel has been advised by the Trust that as a result of such deductions and the terms of the Declaration of Trust, it is expected that the Trust will not be liable for any material amount of tax under the Tax Act; however, Counsel can provide no assurances in this regard.

Subject to the Corporate Conversion, once the Trust becomes subject to the SIFT Rules (which is anticipated to be, subject to the Trust not exceeding "normal growth" before that time, deferred until January 1, 2011), the Trust will no longer be able to deduct amounts payable to Unitholders in respect of: (i) income from businesses carried on in Canada or from non-portfolio properties, other than taxable dividends (exceeding any losses from businesses or non-portfolio properties); and (ii) taxable capital gains from dispositions of non-portfolio properties (exceeding allowable capital losses from the disposition of such properties). "Non-portfolio properties" include: (i) Canadian real and resource properties if the total fair market value of such properties is greater than 50% of the equity value of the SIFT itself; (ii) a property that the SIFT (or a non-arm's length person or partnership) uses in the course of carrying on a business in Canada; and (iii) securities of a "subject entity" (as defined in the Tax Act) if the SIFT holds securities of the subject entity that have a fair market value greater than 10% of the subject entity's equity value or if the SIFT holds securities of the subject entity or its affiliates that have a total fair market value greater than 50% of the SIFT's equity value. A subject entity includes a corporation resident in Canada, a trust resident in Canada, and a Canadian resident partnership. Income which a SIFT is unable to deduct will be taxed in the SIFT at rates of tax comparable to the combined federal and provincial corporate tax rate.

Proposed Corporate Conversion

On March 9, 2010, the Trust announced its plans to reorganize its income trust structure into a dividend-paying corporation. The tax consequences to a Debentureholder or a Unitholder under such reorganization will depend upon the manner in which it is carried out and will generally be described in an information circular that will be provided by the Trust to Unitholders in connection with the proposed Corporate Conversion. Debentureholders should consult their own advisors regarding the tax consequences arising from the proposed Corporate Conversion.

Residents of Canada

This portion of the summary is applicable to a Holder who, for the purposes of the Tax Act and at all relevant times, is resident or deemed to be resident in Canada (a "**Resident Holder**").

Debentures

Interest on Debentures

A Resident Holder that is a corporation, partnership, unit trust or any trust of which a corporation or a partnership is a beneficiary will be required to include in computing its income for a taxation year any interest on the Debentures that accrues (or is deemed to accrue) to it to the end of the particular taxation year (or if the Resident Holder disposes of the Debentures in the year, that accrues or is deemed to accrue to it until the time of disposition) or that has become receivable by or is received by the Resident Holder before the end of that taxation year, including on a conversion, redemption or repayment on maturity, except to the extent that such interest was included in computing the Resident Holder's income for a preceding taxation year.

Any other Resident Holder will be required to include in computing income for a taxation year all interest on the Debentures that is received or receivable by such Resident Holder in that taxation year (depending upon the method regularly followed by the Resident Holder in computing income), including on a conversion, redemption or repayment on maturity, except to the extent that the interest was included in the Resident Holder's income for a preceding taxation year. However, such a Resident Holder may be required to include in computing the Resident Holder's income for a taxation year all interest (not otherwise required to be included in income) that accrues or is deemed to accrue on the Resident Holder's Debentures to the end of any "anniversary day" (as defined in the Tax Act) in that year where payments under those Debentures are deferred as described under "*Details of the Offering — Subordination*".

In the event that a premium is paid to a Resident Holder upon repayment of the principal of the Debentures, the fair market value of such premium will generally be deemed to be interest received at that time by such Resident Holder if such premium is paid by the Trust because of the repayment by it to the Resident Holder of Debentures before their maturity and to the extent that such premium can reasonably be considered to relate to, and does not exceed the value at that time of, the interest that would have been paid or payable by the Trust on the Debentures for taxation years of the Trust ending after that time.

A Resident Holder of Debentures that is a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable to pay an additional refundable tax of 6 $\frac{2}{3}$ % on certain investment income for the year including interest.

Exercise of Conversion Privilege

A Resident Holder of Debentures that converts a Debenture into Units pursuant to the conversion privilege will be considered to have disposed of the Debenture for proceeds of disposition equal to the aggregate of the fair market value of the Units so received at the time of the conversion and the amount of any cash received in lieu of fractional Units. The Resident Holder will realize a capital gain or capital loss computed as described below under "Dispositions of Debentures". The cost to the Resident Holder of the Units so received will also be equal to their fair market value at the time of the acquisition, and must be averaged with the adjusted cost base of all other Units held as capital property by the Resident Holder for the purposes of calculating the adjusted cost base of each such Unit.

Redemption or Repayment of Debentures

If the Trust redeems a Debenture prior to maturity or repays a Debenture upon maturity and the Resident Holder does not exercise the conversion privilege prior to such redemption or repayment, the Resident Holder will be considered to have disposed of the Debenture for proceeds of disposition equal to the amount received by the Resident Holder (other than the amount received on account of interest) on such redemption or repayment. If the Resident Holder receives Units on redemption or repayment, the Resident Holder will be considered to have proceeds of disposition equal to the aggregate of the fair market value of the Units so received and the amount of any cash received in lieu of fractional Units. The Resident Holder may realize a capital gain or capital loss computed as described below under "Dispositions of Debentures". The cost to the Resident Holder of the Units so received will also be equal to their fair market value at the time of acquisition, and must be averaged with the adjusted cost base of all other Units held as capital property by the Resident Holder for the purpose of calculating the adjusted cost base of each such Unit.

Dispositions of Debentures

A disposition or deemed disposition by a Resident Holder of Debentures will generally result in the Resident Holder realizing a capital gain (or capital loss) equal to the amount by which the proceeds of disposition (adjusted as described below) are greater

(or less) than the aggregate of the Resident Holder's adjusted cost base thereof and any reasonable costs of disposition. See *"Taxation of Capital Gains and Capital Losses"*.

Upon such a disposition or deemed disposition of a Debenture, interest accrued thereon to the date of disposition and not yet due will be included in computing the Resident Holder's income, except to the extent such amount was otherwise included in the Resident Holder's income, and will be excluded in computing the Resident Holder's proceeds of disposition of the Debenture. A Resident Holder of a Debenture who has over accrued interest income will generally be entitled to a deduction in computing the Resident Holder's income for a taxation year in which a Debenture is disposed of (including on conversion) for an amount equal to such over accrued income.

Units

Subject to the application of the SIFT Rules, income of a Resident Holder of Units (a "**Resident Unitholder**") will be considered to be income from property for the purposes of the Tax Act. Any loss of the Trust for the purposes of the Tax Act cannot be allocated to and treated as a loss of such Resident Unitholder. A Resident Unitholder will generally be required to include in computing income for a particular taxation year the portion of the net income of the Trust for a taxation year, including taxable dividends and net realized taxable capital gains, that is paid or payable to the Resident Unitholder in that particular taxation year, whether such amount is payable in cash or in Units.

Provided that appropriate designations are made by the Trust, such portions of its net taxable capital gains and taxable dividends as are paid or payable to a Resident Unitholder will retain their character as taxable capital gains and taxable dividends, respectively, in the hands of the Resident Unitholder for purposes of the Tax Act. Such dividends will be subject, inter alia, to the gross-up and dividend tax credit provisions in respect of individuals, the refundable tax under Part IV of the Tax Act applicable to "private corporations" and "subject corporations" (as defined under the Tax Act) and the deduction in computing taxable income in respect of dividends received by taxable Canadian corporations. In general, net income of the Trust that is designated as taxable dividends from taxable Canadian corporations or as net realized capital gains may give rise to an individual Resident Unitholder's liability for alternative minimum tax.

The non-taxable portion of net realized capital gains of the Trust (the taxable portion of which is designated by the Trust in respect of the Resident Unitholder) that is paid or payable to a Resident Unitholder in a year will not be included in computing the Resident Unitholder's income for the year. Any other amount in excess of the net income of the Trust that is paid or payable by the Trust to a Resident Unitholder in a year will not generally be included in the Resident Unitholder's income for the year. However, where such an amount becomes payable to a Resident Unitholder, other than as proceeds of disposition of Units or fractions thereof, the adjusted cost base of the Units held by such Resident Unitholder will be reduced by such amount. To the extent that the adjusted cost base of a Resident Unitholder's Unit is less than zero, the negative amount will be deemed to be a capital gain of the Resident Unitholder from the disposition of the Unit in the year in which the negative amount arises.

Upon the disposition or deemed disposition by a Resident Unitholder of a Unit, the Resident Unitholder will generally realize a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition are greater (or less) than the aggregate of the Resident Unitholder's adjusted cost base of the Unit and any reasonable costs incurred by the Resident Unitholder in connection with the disposition. A Resident Unitholder will also realize a capital gain in respect of the amount of any net taxable capital gains designated by the Trust in respect of the Resident Unitholder. The taxation of capital gains or capital losses is described below under *"Taxation of Capital Gains and Capital Losses"*.

A redemption of Units in consideration for cash will be a disposition of such Units for proceeds equal to the amount of such cash, less any portion thereof that is considered to be a distribution out of the income of the Trust. Redeeming Resident Unitholders will consequently realize a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition exceeds (or is less than) the aggregate of the Resident Unitholder's adjusted cost base of the Units and any reasonable costs incurred by the Resident Unitholder in connection with the disposition.

Where a Resident Unitholder that is a corporation or a trust (other than a mutual fund trust) disposes of a Unit, the Resident Unitholder's capital loss from the disposition will generally be reduced by the amount of dividends from taxable Canadian corporations previously designated by the Trust to the Resident Unitholder except to the extent that a loss on a previous disposition of a Unit has been reduced by such dividends. Analogous rules apply where a corporation or trust (other than a mutual fund trust) is a member of a partnership that disposes of Units.

Notwithstanding the foregoing, if the Trust becomes subject to the SIFT Rules, taxable distributions from the Trust received by Resident Unitholders and paid from the Trust's Canadian business income and non portfolio earnings will generally be deemed to be received as taxable dividends from a taxable Canadian corporation. Under the SIFT Rules, the dividends deemed to be paid by the Trust will be deemed to be "eligible dividends" and individual Resident Unitholders will therefore benefit from the enhanced gross-up and dividend tax credit rules of the Tax Act. Such dividends received by corporations resident in Canada will be eligible for full deduction as tax free inter-corporate dividends and potentially subject to a 33 $\frac{1}{3}$ % refundable tax if received by a "private corporation" or a "subject corporation", within the meaning of the Tax Act.

A Resident Unitholder that throughout the relevant taxation year is a "Canadian-controlled private corporation", as defined in the Tax Act, may be liable to pay an additional refundable tax of 6 $\frac{2}{3}$ % on certain investment income, including income that was paid or payable by the Trust in the relevant taxation year and taxable capital gains.

Taxation of Capital Gains and Capital Losses

Generally, one-half of any capital gain realized or deemed to be realized by a Resident Holder in a taxation year will be included in the Resident Holder's income as a taxable capital gain. Subject to certain specific rules in the Tax Act, one-half of any capital loss realized or deemed to be realized by such a Resident Holder generally is deducted from any taxable capital gains realized by the holder in the year of disposition, and any excess may be deducted against taxable capital gains in any of the three preceding taxation years or in any subsequent taxation year, to the extent and under the circumstances allowed under the Tax Act.

A Resident Holder that is, throughout the relevant taxation year, a "Canadian-controlled private corporation" as defined in the Tax Act, may be liable to pay an additional refundable tax of 6 $\frac{2}{3}$ % on certain investment income, including taxable capital gains. Capital gains realized by a Resident Holder who is an individual (including certain trusts) may give rise to a liability for alternative minimum tax under the Tax Act.

Holders of Securities Not Resident in Canada

This portion of the summary applies to a Holder who, for the purposes of the Tax Act and any relevant tax treaty, and at all relevant times, is not resident in Canada and is not deemed to be resident in Canada, does not use or hold, and is not deemed to use or hold, Securities in, or in the course of, carrying on a business in Canada, and is not an insurer who carries on an insurance business or is deemed to carry on an insurance business in Canada and elsewhere (a "**Non-Resident Holder**").

Debentures

Interest paid or credited on a Debenture to a Non-Resident Holder will not be subject to Canadian withholding tax. If a Non-Resident Holder of a Debenture disposes of the Debenture to a person who is resident in Canada for purposes of the Tax Act, including to the Trust on a conversion or otherwise, it is unclear whether the positive difference, if any, between the amount received by the Non-Resident Holder, including, in the case of a conversion, the fair market value of the Trust Units received on the conversion, and the principal amount of the Debentures would be subject to Canadian withholding tax under the Tax Act. See "*Risk Factors – Withholding Tax*". However, if the Non-Resident Holder of the Debenture is a resident of the United States who is entitled to the benefits of the Canada-US Tax Convention, Counsel are of the view that no such withholding tax would apply.

A disposition or deemed disposition of a Debenture, whether on conversion, redemption, or otherwise, generally will not give rise to any capital gains subject to tax under the Tax Act provided that (i) the Non-Resident Holder, persons with whom the Non-Resident Holder does not deal at arm's length (within the meaning of the Tax Act) or the Non-Resident Holder together with such persons did not own 25% or more of the Trust Units at any time during the 60 month period immediately preceding the disposition, and (ii) the Trust is a "mutual fund trust" for the purposes of the Tax Act on the date of disposition.

Units

Unless and until the SIFT Rules apply to the Trust, any distribution of income of the Trust to a Non-Resident Holder will generally be subject to Canadian withholding tax at the rate of 25%, unless such rate is reduced under the provisions of a tax treaty between Canada and the Non-Resident Holder's jurisdiction of residence. A Non-Resident Holder resident in the United States who is entitled to claim the benefit of the Canada-United States Tax Convention, 1980 (the "**Canada-US Tax Convention**") will be entitled to have the rate of withholding reduced to 15% of the amount of any income distributed.

Based on representations from PEOC, Counsel is of the opinion that a Trust Unit is a "Canadian property mutual fund investment" (as defined in the Tax Act), and therefore, the Trust is also obligated to withhold on all the distributions to Non-Resident Holders (that is, distributions in excess of the Non-Resident Holder's share of the income of the Trust), at the rate of 15%. Where a Non-Resident Holder sustains a capital loss on a disposition of Trust Units (or other properties that qualify as a Canadian property mutual fund investment) such loss may be utilized to reduce or recover the Non-Resident Holder's tax liability in respect of such distributions in limited circumstances as provided in the Tax Act.

Under the SIFT Rules amounts in respect of Trust income that are paid or payable to Unitholders that are not deductible to the Trust as a result of the Trust being subject to the SIFT Rules will be treated as a dividends payable to the Unitholders. Such dividends paid to a Non-Resident Holder will be subject to Canadian withholding tax at a rate of 25%, unless such rate is reduced under the provisions of an applicable tax treaty. A Non-Resident Holder resident in the United States who is entitled to claim the benefit of Canada-US Tax Convention generally will be entitled to have the rate of withholding reduced to 15% of the amount of such dividends. Under the SIFT Rules, all other distributions by the Trust to non-resident Unitholders would continue to be subject to the 15% withholding tax described above.

A disposition or deemed disposition of a Trust Unit, whether on redemption or otherwise, will not give rise to any capital gains subject to tax under the Tax Act to a Non-Resident Holder provided that the Trust Units are not "taxable Canadian property" of the Non-Resident Holder for the purposes of the Tax Act. Trust Units generally will not be considered taxable Canadian property to such a Non-Resident Holder unless: (a) at any time during the 60 month period immediately preceding the disposition of the Trust Units, 25% or more of the issued Trust Units were owned by the Non-Resident Holder, persons with whom the Non-Resident Holder did not deal at arm's length, or any combination thereof; or (b) the Trust is not a mutual fund trust for the purposes of the Tax Act on the date of disposition.

RISK FACTORS

An investment in the Securities is subject to certain risks. Investors should carefully consider the risks described under "Risk Factors" in the AIF and the additional risk factors set forth below.

The Debentures are Subordinate to Senior Indebtedness including the Other Debentures

The Debentures are subordinate to the present and future Senior Indebtedness including the Other Debentures. Under the terms of the subordination, the Trust may not make any payment of the principal amount of the Debentures prior to the payment in full of all Senior Indebtedness including the Other Debentures and may not pay interest on the Debentures if an event of default occurs in respect of the Senior Indebtedness. In addition, the Debentures Trustee and the holders of the Debentures do not have the ability under the Indenture to demand repayment of the Debentures in the event that repayment of the Senior Indebtedness is accelerated due to the occurrence of an event of default in respect of such obligations. As of the date of this short form prospectus there is approximately an aggregate of \$230.2 million of principal outstanding under the Other Debentures and indebtedness of approximately \$300 million outstanding under the Credit Facility. Accordingly, there is no assurance the Trust will have sufficient capital to repay the Debentures on the Maturity Date or that it will be able to raise sufficient capital on acceptable terms by the Maturity Date to repay the Debentures.

Market for Debentures

There is currently no market through which the Debentures may be sold and purchasers may not be able to resell the Debentures purchased under this short form prospectus. Although the Trust has applied to list the Debentures distributed under this short form prospectus and the Trust Units issuable on the conversion, redemption or maturity of the Debentures on the TSX, such listing will be subject to the Trust fulfilling all of the listing requirements of the TSX, respectively. No assurance can be given that an active or liquid trading market for the Debentures will develop or be sustained. If an active or liquid market for the Debentures fails to develop or be sustained, the prices at which the Debentures trade may be adversely affected.

The market price of the Debentures will be based on a number of factors, including: (i) the prevailing interest rates being paid by entities similar to the Trust; (ii) the overall condition of the financial and credit markets; (iii) interest rate volatility; (iv) the markets for similar securities; (v) the financial condition, results of operation and prospects of the Trust; (vi) the publication of earnings estimates or other research reports and speculation in the press or investment community; (vii) the market price and

volatility of the Trust Units; (viii) changes in the industry in which the Trust operates and competition affecting the Trust; and (ix) general market and economic conditions.

The condition of the financial and credit markets and prevailing interest rates have fluctuated in the past and are likely to fluctuate in the future. Fluctuations in these factors could have an adverse effect on the market price of the Debentures.

Credit Risk

The likelihood that purchasers of the Debentures will receive payments owing to them under the terms of the Debentures will depend on the financial health of the Trust and its creditworthiness.

Earnings Coverage Ratios

See "*Earnings Coverage Ratios*", which is relevant to an assessment of the risk that the Trust may be unable to pay interest or principal on the Debentures when due.

Ranking of Debentures

The Debentures will be direct, unsecured obligations of the Trust and will rank equally with one another and, except as prescribed by law, will rank equally with all other unsecured indebtedness (other than Senior Indebtedness) of the Trust. The payment of the principal and premium, if any, of, and interest on, the Debentures will be subordinate in right of payment, as set forth in the Indenture, to the prior payment in full of all Senior Indebtedness of the Trust, which includes all indebtedness for borrowed money, the indebtedness comprised by the Other Debentures, all obligations under swap and hedging arrangements, all trade payables, any guarantees of the foregoing, and all other obligations, liabilities and indebtedness which could be classified as liabilities of the Trust in accordance with generally accepted accounting principles. Furthermore, since the Debentures are unsecured obligations of the Trust, they are effectively subordinate to all of the Trust's existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness. Therefore, in the event of the insolvency, bankruptcy, liquidation, reorganization, dissolution or winding up of the Trust, the Trust's assets will be available to pay its obligations with respect to the Debentures only after it has paid all of its secured creditors and all holders of Senior Indebtedness. There may be insufficient assets remaining following such payments to pay amounts due on any or all of the Debentures then outstanding.

Absence of Covenant Protection

Other than as described herein, the Indenture will not limit the Trust's ability to incur additional debt or liabilities (including Senior Indebtedness). The Indenture will not contain any provision specifically intended to protect holders of the Debentures in the event of a future leveraged transaction by the Trust.

Change of Control

The Trust is required to make an offer to holders of the Debentures to purchase all or a portion of their Debentures for cash in the event of certain transactions that would constitute a Change of Control. The Trust cannot assure holders of Debentures that, if required, it would have sufficient cash or other financial resources at that time or would be able to arrange financing to pay the purchase price of the Debentures in cash. The Trust's ability to purchase the Debentures in such an event may be limited by law, by the Indenture governing the Debentures, by the terms of other present or future agreements relating to the Trust's credit facilities and other indebtedness and agreements that the Trust may enter into in the future which may replace, supplement or amend the Trust's future debt. The Trust's credit agreements or other agreements may contain provisions that could prohibit the purchase by the Trust of the Debentures without the consent of the lenders or other parties thereunder. If the Trust's obligation to offer to purchase the Debentures arises at a time when the Trust is prohibited from purchasing or redeeming the Debentures, the Trust could seek the consent of lenders to purchase the Debentures or could attempt to refinance the borrowings that contain this prohibition. If the Trust does not obtain a consent or refinance these borrowings, the Trust could remain prohibited from purchasing the Debentures under its offer. The Trust's failure to purchase the Debentures would constitute an Event of Default under the Indenture, which might constitute a default under the terms of the Trust's other indebtedness at that time.

Change in Tax Laws

The Indenture will not contain a requirement that would require the Trust to increase the amount of interest or other payments to holders of Debentures in the event that the Trust is required to withhold amounts in respect of income or similar taxes on payment of interest or other amounts on the Debentures. At present, no amount is required to be withheld from such payments to holders of Debentures resident in Canada or a non-resident of Canada, but no assurance can be given that, in the future, applicable income tax laws or treaties will not be changed in a manner that may require the Trust to withhold amounts in respect of tax payable on such amounts.

Investment Eligibility

The Trust will endeavour to ensure that the Debentures continue to be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans (except, in the case of Debentures, a deferred profit sharing plan to which the Trust, or an employer that does not deal at arm's length with the Trust, has made a contribution), registered education savings plans, registered disability savings plans and tax free savings accounts. No assurance can be given in this regard. The Tax Act imposes penalties for the acquisition or holding of non-qualified investments.

Withholding Tax

Effective January 1, 2008, the Tax Act was amended to generally eliminate withholding tax on interest paid or credited to non-residents of Canada with whom the payor deals at arm's length. However, Canadian withholding tax continues to apply to payments of "participating debt interest". For purposes of the Tax Act, participating debt interest is generally interest that is paid on an obligation where all or any portion of such interest is contingent or dependent on the use of or production from property in Canada or is computed by reference to revenue, profit, cash flow, commodity price or any similar criterion.

Under the Tax Act, when a debenture or other debt obligation issued by a person resident in Canada is assigned or otherwise transferred by a non-resident person to a person resident in Canada (which would include a conversion of the obligation or payment on maturity), the amount, if any, by which the price for which the obligation was assigned or transferred exceeds the price for which the obligation was issued is deemed to be a payment of interest on that obligation made by the person resident in Canada to the non-resident (an "excess"). The deeming rule does not apply in respect of certain "excluded obligations", although it is not clear whether a particular convertible debenture would qualify as an "excluded obligation". If a convertible debenture is not an "excluded obligation", issues that arise are whether any excess would be considered to exist, whether any such excess which is deemed to be interest is "participating debt interest", and if the excess is participating debt interest, whether that results in all interest on the obligation being considered to be participating debt interest.

The CRA has stated that no excess, and therefore no participating debt interest, would in general arise on the conversion of a "traditional convertible debenture" and therefore, there would be no withholding tax in such circumstances (provided that the payor and payee deal at arm's length for purposes of the Tax Act). The CRA has published guidance on what it believes to be a "traditional convertible debenture" for these purposes. The Debentures should generally meet the criteria set forth in CRA's published guidance; however, the published guidance only contemplates debentures issued by a public corporation which are convertible into common shares.

Counsel is not aware of any reason why such published guidance should not be applied to convertible debentures issued by a publicly-traded trust, such as the Trust. Nevertheless, there is a risk that amounts paid or payable by the Trust to a Holder of Debentures on account of interest or any "excess" amount may be subject to Canadian withholding tax at 25% (subject to any reduction in accordance with a relevant tax treaty).

Exchange of Units Pursuant to Corporate Conversion

On March 9, 2010, the Trust announced its plans to convert to a dividend-paying corporation. Although the Tax Act generally permits a conversion of a trust to a corporation on a tax-deferred basis for holders of trust units, the tax consequences to a holder of Debentures or a Unitholder under such reorganization will depend upon the manner in which it is carried out and will generally be described in an information circular that will be provided by the Trust to Unitholders in connection with the proposed Corporate Conversion. While it is anticipated that the Corporate Conversion will be completed on a tax-free rollover basis for holders of Debentures, there is no assurance that the Corporate Conversion will not result in a taxable disposition to such holders

of their Debentures at the time of the Corporate Conversion. In addition, the Canadian federal income tax consequences of the exchange for and holding securities of the Continuing Corporation may be materially different than the Canadian federal income tax consequences of the exchange for and holding of Units as described under "*Certain Canadian Federal Income Tax Considerations*". Holders of Debentures should consult their own advisors regarding the tax consequences arising from the proposed Conversion Transaction.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of the Trust are KPMG LLP, Chartered Accountants, Suite 1200, 205 – 5th Avenue S.W., Calgary, Alberta T2P 4B9.

The transfer agent and registrar for the Units and the Debentures is Computershare Trust Company of Canada at its principal offices in Calgary, Alberta and Toronto, Ontario.

STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the purchase price or damages if the prospectus and any amendment thereto contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of such purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of such purchaser's province for the particulars of these rights or consult with a legal advisor.

AUDITORS' CONSENT

Consent of KPMG LLP

We have read the short form prospectus of Paramount Energy Trust (the "**Trust**") dated May 17, 2010 relating to the qualification for distribution of \$60,000,000 principal amount of 7% convertible unsecured junior subordinated debentures of the Trust. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference in the above-mentioned short form prospectus of our report to the unitholders of the Trust on the consolidated balance sheets of the Trust as at December 31, 2009 and 2008 and the consolidated statements of earnings and deficit and cash flows for each of the years then ended. Our report is dated March 8, 2010.

(signed) "*KPMG LLP*"

Chartered Accountants

Calgary, Canada
May 17, 2010

CERTIFICATE OF THE TRUST

Dated: May 17, 2010

This short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the Provinces of Canada.

**PARAMOUNT ENERGY TRUST
BY PARAMOUNT ENERGY OPERATING CORP.
(as its agent and attorney in fact)**

By: "Susan L. Riddell-Rose"
Susan Riddell Rose
President and Chief Executive Officer

By: "Cameron R. Sebastian"
Cameron R. Sebastian
Vice President, Finance and
Chief Financial Officer

ON BEHALF OF THE BOARD OF DIRECTORS OF PARAMOUNT ENERGY OPERATING CORP.

By: "Karen A. Genoway"
Karen A. Genoway
Director

By: "Donald J. Nelson"
Donald J. Nelson
Director

CERTIFICATE OF THE UNDERWRITERS

Dated: May 17, 2010

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of each of the Provinces of Canada.

BMO NESBITT BURNS INC.

By: "Shane C. Fildes"
Shane C. Fildes

CIBC WORLD MARKETS INC.

By: "Michael W. de Carle"
Michael W. de Carle

NATIONAL BANK FINANCIAL INC.

By: "Craig Langpap"
Craig Langpap

SCOTIA CAPITAL INC.

By: "Brett Undershute"
Brett Undershute

TD SECURITIES INC.

By: "Alec W.G. Clark"
Alec W.G. Clark

CANACCORD GENUITY CORP.

By: "Ronald A. MacMicken"
Ronald A. MacMicken

CORMARK SECURITIES INC.

By: "Dion Degrand"
Dion Degrand

RBC DOMINION SECURITIES INC.

By: "Kent Ferguson"
Kent Ferguson

FIRSTENERGY CAPITAL CORP.

By: "Jamie N. Ha"
Jamie N. Ha

PETERS & CO. LIMITED

By: "Cameron E. Plewes"
Cameron E. Plewes