



## Premium Distribution™ and Distribution Reinvestment Plan

### FREQUENTLY ASKED QUESTIONS AND ANSWERS

The following series of questions and answers explains some of the key features of the Premium Distribution™ and Distribution Reinvestment Plan (the "**Plan**") of Paramount Energy Trust ("**PET**").

**The answers are, however, of a summary nature only, and are expressly subject to the complete text of the Plan, a copy of which may be obtained from the Plan Agent (as defined below) or PET at any time upon request or from PET's website at [www.paramountenergy.com](http://www.paramountenergy.com). Unitholders of PET should carefully read the complete text of the Plan before making any decisions regarding participation in the Plan.**

#### 1. What does the Plan offer?

If you are an eligible holder ("**Unitholder**") of trust units ("**Units**") of PET as described in the Plan, the Plan provides an opportunity for you to receive, by reinvesting your cash distributions, either:

- (a) additional Units at a discounted subscription price equal to 94% of the Average Market Price (as defined in the Plan), which will be issuable pursuant to the "**Distribution Reinvestment Component**" of the Plan; or
- (b) a premium cash payment (the "**Premium Distribution™**") equal to 102% of the amount of the cash distribution payable in respect of such Units, which will be made pursuant to the "**Premium Distribution™ Component**" of the Plan,

in either case upon and subject to the terms and conditions of the Plan.

*You are not required to participate in the Plan.* If you do not elect to participate, then you will continue to receive your regular, declared cash distributions in the normal manner.

#### 2. How does participating in the Plan result in my receiving the Premium Distribution™ or additional Units?

Participation in either the Premium Distribution™ Component or the Distribution Reinvestment Component involves the reinvestment of your regular cash distributions in new Units purchased on your behalf from PET.

If you are validly enrolled in the Premium Distribution™ Component, either directly or indirectly through the broker, investment dealer, financial institution or other nominee through which you hold your Units ("**your broker**"), new Units acquired through reinvestment of your distributions will be

exchanged with the Plan Broker (currently Canaccord Capital Corporation) for the Premium Distribution™, which will in turn be remitted to you by the Plan Agent (currently Computershare Trust Company of Canada) directly or through your broker, as applicable, in the same manner that regular Distributions are paid on behalf of PET. If you are validly enrolled in the Distribution Reinvestment Component, new Units acquired through reinvestment of your distributions will be credited to your account under the Plan or, if you are enrolled through your broker, with your broker.

The amount of the Premium Distribution™ or the number of additional Units that may be acquired under the Plan is subject to proration in certain events, as more particularly described in the Plan. See also Question #9 below.

### **3. What are the advantages of the Plan?**

The Distribution Reinvestment Component provides a convenient and cost-effective way for you to increase your investment in PET without incurring commissions, service charges or brokerage fees in connection with the purchase of new Units from treasury. The new Units purchased with reinvested cash distributions will be bought at a 6% discount to the Average Market Price, and full investment of reinvested funds is possible since fractions of Units (to four decimal places) can be credited to accounts maintained under the Plan.

The Premium Distribution™ Component provides a means by which you can, in effect, increase your cash receipts by 2% through reinvestment of your regular cash distributions in new Units and the exchange of such new Units for the Premium Distribution™, being a cash amount equal to 102% of the reinvested distribution.

### **4. Is the Plan available to all Unitholders?**

Unitholders who are resident in Canada may participate in either the Distribution Reinvestment Component or the Premium Distribution™ Component. Unless otherwise announced by PET, Unitholders not resident in Canada cannot participate in the Premium Distribution™ Component.

A Unitholder that is a "U.S. person" as that term is defined in Regulation S under the United States Securities Act of 1933, as amended, may participate in the Distribution Reinvestment Component but cannot participate in the Premium Distribution™ Component. For greater certainty, neither The Depository Trust Company (DTC) nor beneficial owners of Units who hold their Units through DTC are eligible to participate in the Premium Distribution™ Component.

Unitholders who are resident in any other jurisdiction outside of Canada may participate in the Distribution Reinvestment Component only if their participation is permitted by the laws of the jurisdiction in which they reside and provided that PET is satisfied, in its sole discretion, that such laws do not subject the Plan or PET to additional legal or regulatory requirements. Any such Unitholder wishing to participate in the Distribution Reinvestment Component should consult legal counsel where they reside to determine their eligibility to participate in either component of the Plan.

The amount of any cash distributions to be reinvested under the Plan, whether under the Distribution Reinvestment Component or the Premium Distribution™ Component, on behalf of Unitholders who are not residents of Canada will be reduced by the amount of any applicable non-resident withholding taxes.

PET and the Plan Agent also reserve the right to deny or cancel participation in the Plan in certain extraordinary circumstances described in the Plan. See "Eligibility Requirements" in the Plan.

**5. How do I elect to enrol in and become a participant in the Plan?**

Only registered Unitholders may directly enroll in the Plan. Beneficial owners of Units may, however, indirectly participate in the Plan through their broker. See "Enrollment" in the Plan.

If you are an eligible Unitholder with Units registered in your own name you may directly enroll in either the Distribution Reinvestment Component or the Premium Distribution™ Component by delivering to the Plan Agent a duly completed Enrollment Form. A copy of the Enrollment Form is available from the Plan Agent's website at [www.computershare.com](http://www.computershare.com) or by calling the Plan Agent at 1-800-564-6253, or from PET's website at [www.paramountenergy.com](http://www.paramountenergy.com). An Enrollment Form must be received by 5:00 p.m. (Toronto time) on the third (3rd) business day preceding a distribution record date in order to be effective for that distribution.

If you are an eligible Unitholder but your Units are not registered in your own name, you cannot participate in the Plan directly but may do so indirectly through your broker by providing appropriate enrollment instructions. Your broker may require certain information or documentation from you before it will act upon your enrolment instructions. Please contact your broker to confirm any information or documentation required to give effect to your instructions, and to inquire about applicable deadlines.

**6. At what price will new Units be purchased for my account under the Distribution Reinvestment Component?**

New Units purchased with reinvested distributions under the Distribution Reinvestment Component will be purchased from treasury of PET at a 6% discount to the Average Market Price (as defined in the Plan).

**7. How do I receive the Premium Distribution™?**

If you are an eligible Unitholder and are enrolled in the Premium Distribution™ Component, your cash distributions will, subject to proration as described in the Plan and illustrated under Question #9 below, be reinvested in new Units under the Plan at a 5% discount to the Average Market Price, and such Units will, without further action required from you, be exchanged with the Plan Broker for the Premium Distribution™, being a cash payment equal to 102% of the reinvested amount. The Plan Agent will in turn remit payment of the Premium Distribution™ to participants in the Premium Distribution™ Component in the same manner that regular cash distributions from PET are paid.

**8. How am I able to receive an amount equal to 102% of my cash distribution?**

New Units issued by PET on a distribution payment date pursuant to the Premium Distribution™ Component will be issued at a 5% discount to the Average Market Price. If you are an eligible Unitholder and are enrolled to participate in the Premium Distribution™ Component, then such number of Units as is approximately equal to the number of Units to be purchased on the distribution payment date with your reinvested distributions will be pre-sold through the Plan Broker. Any such pre-sales will be made at prevailing market prices. If the prevailing market prices realized are approximately the same as the Average Market Price, then the difference between the issue price of the Units and the price realized on the pre-sales will be approximately 5%. Of this difference, 2% will be paid to you (the Premium Distribution™ being a cash payment equal to 102% of the regular distribution) and the balance (which may be more or less than 3%), if any, will be retained by the Plan Broker as compensation for its services in connection with the Plan.

The Plan Broker will in any event be obligated to pay the full amount of the Premium Distribution™ (subject to proration as described in the Plan and illustrated under Question #9 below) against delivery of the corresponding number of new Units, and bears the risk of unfavourable changes in market price with respect to the new Units. If the Plan Agent for any reason does not receive sufficient funds from the Plan Broker to pay the Premium Distribution™ on all Units of participants enrolled in the Premium Distribution™ Component, such participants will be entitled to receive from PET the full amount of the regular cash distribution for each such Unit in respect of which the Premium Distribution™ is not paid.

**9. What will I receive under the Premium Distribution™ Component if proration applies?**

The Premium Distribution™ Component is subject to the possibility of proration in certain events as described in the Plan. To the extent that your election to receive the Premium Distribution™ cannot be fulfilled, in whole or in part, as a result of such proration, or if PET determines not to make any new equity available under the Plan on a particular distribution payment date, or if the Plan Broker for any reason defaults on its obligation to deliver to the Plan Agent funds sufficient to satisfy the full amount of the Premium Distribution™, or if for any other reason a distribution cannot be reinvested under the Plan, in whole or in part, then you will be entitled to receive from PET the full amount of the regular cash distribution on each Unit for which the distribution is payable but cannot be reinvested under the Plan.

By way of example, suppose that PET determines that the maximum value of equity available under the Premium Distribution™ Component (after satisfying all elections under the Distribution Reinvestment Component) on the relevant distribution payment date is \$1,000,000, and that PET declares a distribution of \$0.05 per Unit. In these circumstances, the maximum number of Units in respect of which the Premium Distribution™ may be paid is 20,000,000 (being the maximum amount of equity divided by the per Unit distribution). If Unitholders (including you) holding a total of 30,000,000 Units have elected to receive the Premium Distribution™, then two-thirds proration would apply to all participants enrolled in the Premium Distribution™ Component since, in this example, the Premium Distribution™ can only be paid on 20,000,000 Units.

If you own 1,500 Units, are an eligible Unitholder, and are enrolled to participate in the Premium Distribution™ Component, then, in this example, you would receive the Premium Distribution™ equal to 102% of your regular cash distribution in respect of 1,000 of your Units and 100% of your regular cash distribution in respect of your remaining 500 Units. That portion of your cash distribution that is not eligible for reinvestment under the Premium Distribution™ Component and to which you would otherwise be entitled on a distribution payment date will be paid to you in the ordinary manner.

**10. Will certificates be issued for new Units purchased for me under the Plan?**

Certificates will not be issued for Units purchased under the Plan. If you are validly enrolled in the Distribution Reinvestment Component, new Units acquired for your account will be credited to your account under the Plan or, if you are enrolled indirectly through your broker, with your broker. You may, however, request a certificate for any number of whole Units held under the Plan by the Plan Agent for your account. See "Certificates for Units" in the Plan. If you are validly enrolled in the Premium Distribution™ Component, new Units acquired for your account will be exchanged with the Plan Broker for the Premium Distribution™.

**11. Can I sell Units held for my account under the Plan?**

No. Any Units held under the Plan by the Plan Agent for your account cannot be sold, pledged or otherwise disposed of while so held. If you wish to sell any such Units, you must first withdraw them from under the Plan. See "Certificates for Units" in the Plan.

**12. How can I change my election or terminate my participation under the Plan?**

You may change your election as between the Premium Distribution™ Component and the Distribution Reinvestment Component, or voluntarily terminate your participation, by delivering a new Enrollment Form or the termination portion of the voucher located on the reverse side of the statement of account issued by the Plan Agent, as the case may be, or if you are enrolled in the Plan indirectly through your broker by providing appropriate instructions to your broker. You should consult with your broker to confirm what information or documentation may be required to give effect to your instructions, and to inquire about any applicable deadlines. See "Termination of Participation" and "Change of Election" in the Plan.

A new Enrollment Form or termination request must be received by 5:00 p.m. (Toronto time) on the third (3rd) business day preceding a distribution record date in order to take effect for that distribution. Enrollment Forms or termination requests received after that time will not be effective until the next distribution.

**13. Are there circumstances where I may not be able to acquire additional Units or receive the Premium Distribution™, as the case may be, in accordance with my election?**

Yes. Your ability to acquire additional Units under the Distribution Reinvestment Component or receive the Premium Distribution™ under the Premium Distribution™ Component on any particular distribution payment date depends on the amount of new equity, if any, that PET determines to make available under the Plan for that distribution payment date, and on the elections that other eligible Unitholders have made under the Plan.

If, in respect of any distribution payment date, fulfilling the elections of all Plan participants would result in the issuance of more than the maximum amount of new equity determined to be available under the Plan, then elections for the purchase of new Units on that distribution payment date will be accepted (i) first, from participants electing to reinvest their cash distributions under the Distribution Reinvestment Component, and (ii) second, from participants electing to receive the Premium Distribution™ under the Premium Distribution™ Component.

If PET is not able to accept all elections for a particular component of the Plan, then purchases of Units under that component on the applicable distribution payment date will be prorated among all participants in that component. See Question #9 above.

The Premium Distribution™ Component is subject to the possibility of additional proration in certain events as described in the Plan.

If PET determines not to issue any equity through the Plan on a particular distribution payment date or the availability of new Units is prorated in accordance with the terms of the Plan, participants will be entitled to receive from PET the full amount of the regular cash distribution on each Unit for which the distribution is payable but cannot be reinvested under the Plan in accordance with the applicable election.

**14. How will the Plan Agent purchase new Units for me?**

On each distribution payment date, the Plan Agent will, on your behalf, reinvest the cash distributions payable on your Units that are validly enrolled in the Plan in new Units purchased from PET. Such new Units will, depending on your election, either be credited to your account under the Distribution Reinvestment Component or exchanged on your behalf for the Premium Distribution™ under the Premium Distribution™ Component.

**15. What are the income tax consequences of participating in the Plan?**

Participation in the Plan does not relieve you of any liability for taxes that may be payable in respect of the cash distributions that are reinvested in new Units on your behalf under the Plan. Accordingly, you will be required to include in your income the amount of any income associated with the reinvestment of cash distributions in new Units irrespective of your participation in the Plan. Where you acquire and hold any such new Units as inventory, you will generally be required to include in income the profit or net gain arising from the acquisition and disposition of such Units, such that you will generally be required to include in income the amount by which the Premium Distribution™ exceeds the reinvested distributions. Conversely, where you acquire and hold the new Units acquired under the Plan as capital property, the amount paid by you on the purchase of such Units will become your initial cost of such Units for purposes of determining the adjusted cost base and subsequent capital gain or loss on the disposition of such Units.

The Plan provides a general description of certain Canadian federal income tax considerations relevant to participation in the Plan. The description is, however, a summary only and does not constitute legal or tax advice to any particular Unitholder. **You are urged to consult your own tax advisors concerning the implications of your participation in the Plan having regard to your particular circumstances.**

**16. Where can I get further information?**

If you have any questions regarding the Plan, please direct them to the Plan Agent or to PET, as follows:

Computershare Trust Company of Canada  
Attention: Dividend Reinvestment Department  
100 University Avenue, 9th Floor  
Toronto, Ontario M5J 2Y1

Toll-Free Tel: 1-800-564-6253

Paramount Energy Trust  
c/o Paramount Energy Operating Corp.  
Suite 3200, 605 – 5th Avenue S.W.  
Calgary, Alberta T2P 3H5

Attention: Sue Showers  
Tel: (403) 269-4400  
Fax: (403) 269-4444

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