
PARAMOUNT
ENERGY
TRUST

Paramount Energy Trust (PET) is a natural gas focused Canadian energy royalty trust which commenced operations in February 2003 with the acquisition of the vast majority of Paramount Resources Ltd.'s producing shallow natural gas properties in Northeast Alberta. Trust units were listed on the Toronto Stock Exchange on February 7, 2003 under the symbol PMT.UN.

PET operates over 94 percent of its extremely focused asset base which is characterized by long production histories, a predictable production profile, high field netbacks, minimal ongoing capital requirements and strategic infrastructure ownership. PET's operating practices are conservative, targeting stable distributions and premium after-tax returns at an acceptable risk for all stakeholders through attentive management of capital programs, operating costs, debt and natural gas price volatility. PET will grow through prudent investment; optimizing the value of its asset base through low risk exploitation, pursuing value-added corporate and property acquisitions for both maintenance production and growth, and proactively managing its extensive undeveloped land base.

PET features a state of the art trust structure with high management ownership and no external management fees or contracts, thereby directly aligning the management of the Trust with Unitholders and sharing the objective to receive superior returns from our investment.

Paramount Energy Trust is Canada's only 100 percent natural gas royalty trust.

2002 Proforma Financial Highlights [1][2]

($ thousands except per share amounts)	Year Ended December 31 2002	2001	% Change
Financial			
Gross Revenue	**123,739**	228,283	(46%)
Cash Flow [3]			
From operations	**74,191**	149,652	(50%)
Per Trust Unit – basic [4]	**1.87**	3.78	(51%)
– diluted [5]	**1.85**	3.74	(51%)
Earnings [6]			
Net earnings	**n/a**	n/a	–
Per share – basic [4]	**n/a**	n/a	–
– diluted [5]	**n/a**	n/a	–
Capital Expenditures			
Exploration and development	**10,227**	41,863	(76%)
Net capital expenditures	**10,227**	41,863	(76%)
Total Assets [6]	**n/a**	n/a	–
Net Debt [6]	**n/a**	n/a	–
Shareholders' Equity [6]	**n/a**	n/a	–
Weighted Average Trust Units Outstanding (thousands) [4]	**39,639**	39,639	–
Trust Units Outstanding at Year End (thousands) [4]	**39,639**	39,639	–
Diluted Trust Units Outstanding at Year End (thousands) [4]	**40,642**	40,642	–
Operating			
Production			
Natural gas (MMcf/d)	**94.8**	102.7	(8%)
Crude oil and liquids (Bbl/d)	**–**	–	–
Total Production (MMcfeq/d) @ 10:1	**94.8**	102.7	(8%)
Total Production (BOE/d) @ 6:1	**15,807**	17,117	(8%)
Average Prices			
Natural gas (pre-hedge) ($/Mcf)	**3.57**	6.09	(41%)
Natural gas ($/Mcf)	**3.57**	6.09	(41%)
Crude oil and liquids ($/Bbl)	**n/a**	n/a	–
Reserves (proved and probable)			
Natural gas (Bcf)	**203.6**	237.0	(14%)
Crude oil and liquids (MBbl)	**–**	–	–
Estimated present worth value before tax discounted @ 10%			
Proved ($MM)	**313**	325	(4%)
Proved and probable ($MM)	**372**	392	(5%)
Land (thousands of acres)			
Total net land holdings	**1,200**	n/a	–
Net undeveloped land holdings	**341**	n/a	–
Drilling Activity (gross)			
Gas	**18**	38	(53%)
Oil	**–**	–	–
Other	**–**	–	–
D&A	**2**	3	(33%)
Total wells	**20**	41	(51%)
Success rate	**90%**	93%	(3%)

(1) Throughout this report, unless otherwise stated, crude oil and liquids volumes have been converted to natural gas (Mcfeq) on the basis of one barrel of oil equals 10 Mcf of gas.

(2) Throughout this report all figures are pro forma for the assets acquired by Paramount Operating Trust from Paramount Resources Ltd. These figures are inclusive in the results of Paramount Resources Ltd. for the periods shown, as the acquisition by Paramount Operating Trust closed in the first quarter of 2003.

(3) Amount represents net operating income defined as revenue less royalties and operating costs.

(4) The Trust Units indicated are pro forma. Actual units were issued by Paramount Energy Trust in the first quarter of 2003.

(5) There are 1,003,000 unit incentive rights issued and outstanding.

(6) Not allocated in preparation of proforma financial statements.

Forecast 2003 return on Paramount Energy Trust Rights Offering over

200%

PETER SAUNDERS
MANAGER, MARKETING

KEVIN MARJORAM
VICE PRESIDENT, OPERATIONS

CAM SEBASTIAN
VICE PRESIDENT, FINANCE & CHIEF FINANCIAL OFFICER

CLAY RIDDELL
CHAIRMAN OF THE BOARD & CHIEF EXECUTIVE OFFICER

SUE RIDDELL ROSE
PRESIDENT & CHIEF OPERATING OFFICER

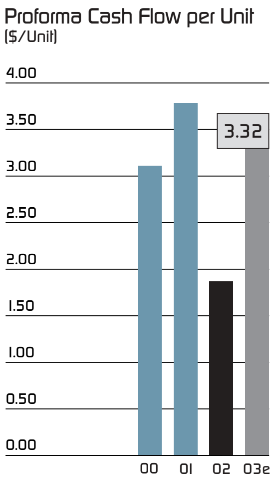
SCOTT BRIDGE
CONTROLLER

SUSAN HARGREAVES
MANAGER, LAND ADMINISTRATION & CONTRACTS

GARY JACKSON
VICE PRESIDENT, LAND, LEGAL & ACQUISITIONS

Letter to Unitholders

RESULTS



On May 12, 2002, Paramount Resources Ltd. (PRL) announced its intention to create a new natural gas focused royalty trust. The mature, net cash generating, producing properties in Northeast Alberta to be transferred to the trust were considered to be suitable for a trust and management believed the transaction would be financially beneficial to shareholders of PRL. The press release anticipating the series of transactions required for the formation of Paramount Energy Trust (PET or the Trust) contained a remarkably close account of the events which eventually transpired to create the Trust, despite extraordinary and unanticipated delays in the regulatory process related to the required F-1 U.S. Registration Statement. Delays in the process were significant, but persistence resulted in completion of the required transactions to launch Paramount Energy Trust into what is proving to be the start of the next North American natural gas low supply, high demand price cycle.

BUSINESS PURPOSE

The primary business purpose for creating the Trust was to divide Paramount Resources' assets, operations and management expertise into two entities that would maximize value for its shareholders:

(1) Paramount Resources continues to concentrate on exploration, development and exploitation of properties with a higher risk/ reward profile; and

(2) Paramount Energy Trust provides a vehicle to eliminate the layer of corporate income tax attributable to the mature production income associated with Paramount's proven low risk northeast Alberta natural gas properties, by flowing out net cash flow in the form of distributions directly to its unitholders. This consideration was particularly important given the substantial amount of taxes PRL would be incurring and which would negatively impact its financial flexibility and growth plans as cash available for capital expenditures would be reduced.

At the same time, the Trust has provided a tax-effective vehicle to become more competitive in the acquisitions market and capitalize on the enhanced access to equity markets and the lower cost of capital currently enjoyed by the oil and gas royalty trust sector.

TRUST STRUCTURE

PET was built with a state of the art trust structure. The structure required the formation of three new entities; Paramount Energy Trust (PET), Paramount Operating Trust (POT) and its' administrator and trustee, Paramount Energy Operating Corp. (PEOC). PET was established for the purposes of issuing Trust Units and acquiring and holding royalties and other investments including the entire beneficial interest in POT and the POT Royalty. PET effectively finances the operations of POT. PET distributes cash to its Unitholders, which will initially be comprised of royalty and interest income PET receives from POT and from Alberta Royalty Tax Credit, if any, less expenses, capital expenditures and debt repayments. POT's business is acquiring, developing, exploiting, owning and disposing of oil and natural gas properties. Under the terms of the POT Trust Indenture, PEOC is the trustee of POT. Unlike many conventional royalty trusts, PET does not have an external management company. The day-to-day management of our business is carried out by the wholly-owned PEOC, rather than a third party. All of the issued and outstanding shares of PEOC are beneficially held by PET. As trustee of POT, PEOC holds legal title to the assets and properties of POT on behalf of, and for the benefit of, POT and retains employees to administer, manage and operate the oil and gas business of POT. In addition, PEOC carries out the significant management, administrative and governance functions with respect to PET. The Trust and its unitholders will therefore not incur any management fees and expenses like those that would be charged by an external management company.

Letter to Unitholders (continued)

MECHANICS OF TRUST CREATION

The Trust was formed through a series of transactions essentially as described below:

On February 3, 2003:

(1) POT acquired the Legend property from PRL for an $81 million promissory note;
(2) PET issued approximately 9.9 million Trust Units to PRL, and
(3) PRL declared a dividend to be paid to its shareholders on February 12, 2003 of these Trust Units, at 1 Unit per 6.071646 shares, valued at $5.15 per Trust Unit, or approximately $0.85 per Paramount Common Share.

On February 17, 2003:

(4) PET issued 3 Rights per Trust Unit exercisable @ $5.05 per Right.

On March 11, 2003:

(5) With proceeds of the rights offering of approximately $150 million, which was successfully closed with full subscription on March 10, 2003, plus bank debt, POT purchased from PRL the majority of PRL's remaining Northeast Alberta natural gas assets for $220 million. The effective date of the property transactions was July 1, 2002, which, after adjustment for primarily net cash flow and interest, resulted in the Trust assuming $70 million in bank debt.

THE TEAM

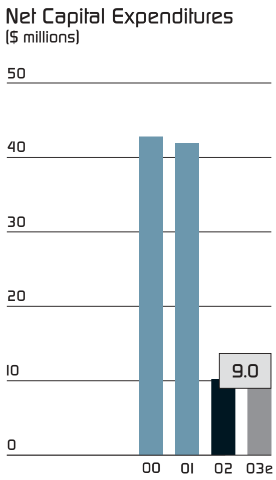
PRL's Summit transaction provided many of the items required to effect the initial public offering of PET which would otherwise have been an incremental cost, including accounting systems, office space and furniture, land records system, and computer systems and software. The team assembled to manage the Trust is a hybrid of Summit and Paramount Resources staff. The technical team, both in the field and office, brings continuation on the operations and marketing side, as this is effectively the same team that has worked the Northeast Alberta assets for the past three to five years, with some expertise stretching as far back as 20 years. The administrative, accounting and land functions have been assumed by ex-Summit staff for the most part, beginning with the migration of data to PEOC's systems in early July, in accordance with the effective date of the asset transactions. Finally, an extremely competent independent Board of Directors has been assembled which will ensure good corporate governance practices, offering both valuable experience in the oil and gas sector as well as extensive royalty trust experience. As has always been the case with PRL, the high management ownership of PET, in the order of 49 percent, dictates that management is extremely well aligned with unitholders.

OPERATIONS

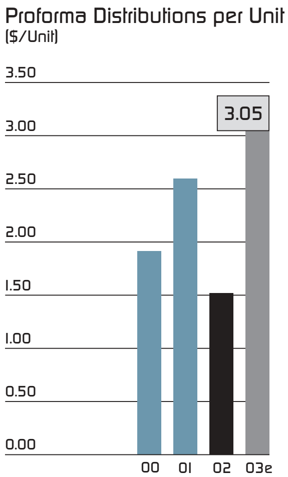
Right off the mark, PET is amongst the top ten energy trusts with respect to production and reserves, and the only trust levered 100% to natural gas. Although our asset base will likely continue to be unique relative to our peers, our operating practices will be conservative, targeting stable distributions for unitholders through conservative and prudent management of capital and operating costs, debt and natural gas price volatility. It is the intention of the Trust to grow through prudent investment; optimizing our current asset base through low risk exploitation, pursuing value-added corporate and property acquisitions for both maintenance production and growth, and actively managing our extensive undeveloped land base. A healthy balance sheet is essential to this business plan, providing the financial flexibility to pursue opportunities as they materialize.

The Trust inherited an extremely focused Northeast Alberta asset base, characterized by long production histories, a predictable production profile, high field netbacks, minimal ongoing capital

RESULTS



RESULTS



RELATED INFORMATION

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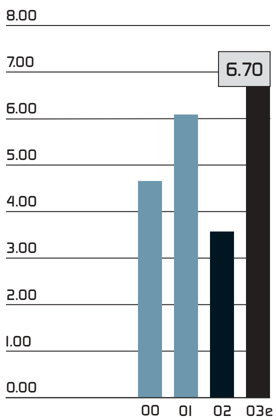
Letter to Unitholders (continued)

RESULTS

Natural Gas Price
($/Mcf)



requirements and strategic infrastructure ownership. At January 1, 2003, the Trust's established reserves were 184 Bcf, with 97 percent of POT's proved reserves classified as proved producing and 81 percent of the proved plus probable reserves classified as proved. The reserve estimates lead to a calculated reserve life index of 6.6 years on a proven plus probable basis, up from 6.1 years as calculated on the basis of the July 1, 2002 reserve report. Over half of the current production comes from five properties including Legend, Corner, Leismer, Kettle River and Cold Lake. The Trust operates over 94 percent of its production and has an average 82 percent working interest in the developed lands.

The marketing portfolio of the Trust is relatively simple. Fifty six percent of POT's production is uncontracted and sold at AECO spot prices, with almost all of the remainder dedicated to aggregators. Assuming successful truncation of the Mirant (Pan Alberta) pool as expected, 76 percent of gas will be uncontracted effective Nov 1, 2003. Based on the current NYMEX one year forward price of $5.67 US/MMBtu, estimated AECO prices will approximate $6.95 Cdn/GJ. PET's suite of contracts blended with the 2003 current forward market results in an average 2003 plant gate forecast of $7.58 Cdn/Mcf. With the current volatility in the natural gas commodity market, these prices will most certainly be out of date by the time this report is distributed, accentuating the necessity for a hedging program to maintain our strategy of providing stable distributions to unitholders. Although we remain very bullish about the fundamentals of the natural gas supply/demand equation, we will seek to add some insurance to distribution levels through a staged hedging program for the remainder of 2003 and forward.

A significant proportion of available cash flow will be distributed to Unitholders this year, as the capital program executed in the first quarter was very small and the vast majority of the assets are winter-access only. In future years, distributions may be more in the order of 80 percent of available cash flow, with the remaining 20 percent reinvested in replacing reserves and production. Distributions are to be paid monthly based upon quarterly estimates of forward cash flow, annual estimates of capital expenditures and maintenance of conservative debt levels. Quarterly top-ups will be provided as additional cash for distribution is available. A Distribution Reinvestment and Optional Unit Purchase Plan (DRIP) will be available to Canadian Unitholders, providing an opportunity to purchase additional units at a discount to market. The Trust's cash distributions are initially expected to be 30 to 40 percent tax deferred.

OUTLOOK

In summary, we are excited to begin this new era of adding value for Paramount shareholders. In 2003, with the winter capital program completed, the Trust is targeting to maximize distributions. With a base production forecast of 88 MMcf/d coupled with estimated natural gas prices averaging $6.70/Mcf, distributions are expected to be at least $3.05/unit for 2003. With a state of the art trust structure, an inventory of development opportunities, an experienced technical team and management dedicated to value added growth, we welcome this opportunity and challenge to establish PET as one of the premier investment opportunities in the Canadian oil patch. Off like a herd of turtles, but slow and steady wins the race.

Susan Riddell Rose

Sue Riddell Rose
President & Chief Operating Officer

RELATED INFORMATION
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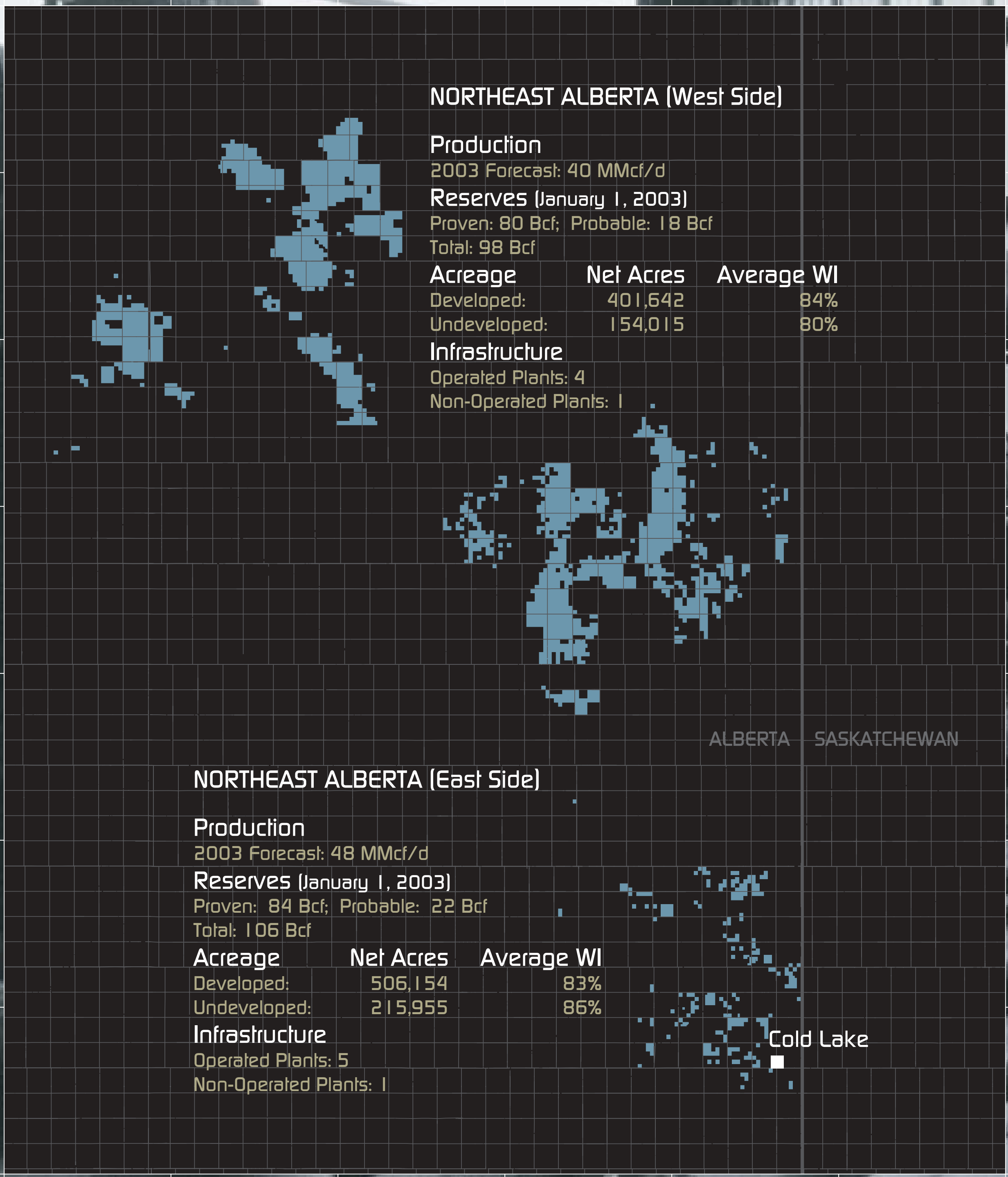


NORTHEAST ALBERTA (West Side)

Production
2003 Forecast: 40 MMcf/d

Reserves (January 1, 2003)
Proven: 80 Bcf; Probable: 18 Bcf
Total: 98 Bcf

Acreage	Net Acres	Average WI
Developed:	401,642	84%
Undeveloped:	154,015	80%

Infrastructure
Operated Plants: 4
Non-Operated Plants: 1

NORTHEAST ALBERTA (East Side)

Production
2003 Forecast: 48 MMcf/d

Reserves (January 1, 2003)
Proven: 84 Bcf; Probable: 22 Bcf
Total: 106 Bcf

Acreage	Net Acres	Average WI
Developed:	506,154	83%
Undeveloped:	215,955	86%

Infrastructure
Operated Plants: 5
Non-Operated Plants: 1

Review of Operations

PET's operations are extremely focused, concentrated on the production of shallow natural gas in northeast Alberta. These properties feature well established high working interest production with relatively low operating costs and access to stable markets. These factors combine to deliver high field netbacks. Low cost opportunities for value creation exist throughout the asset base, requiring small capital expenditures to partially offset annual production declines.

The asset base can be divided into two core areas. The West Side includes assets west of Alberta Highway 63 which began with production from Devonian carbonate reservoirs. The East Side, including Cold Lake, is comprised of assets east of Alberta Highway 63 and production is mainly from Cretaceous clastic reservoirs.

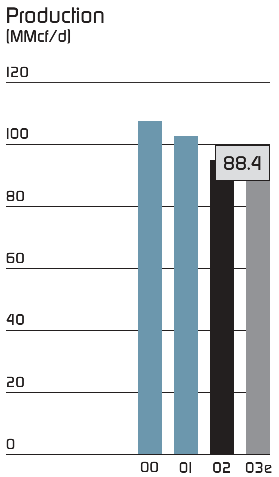
NORTHEAST ALBERTA WEST SIDE

The West Side is characterized by high deliverability shallow gas produced from the Devonian Grosmont, Leduc, Nisku and Wabamun subcrop plays as well as the Cretaceous Wabiskaw and McMurray sands. Vertical wells are typically less than 350 meters and initial reservoir pressures average 200 to 1,700 kPa (30 to 250 psi). Initial well productivity ranges from 200 to 5,000 Mcf/d. Leading-edge horizontal drilling technology has become a major exploitation technique in this region, targeting to increase per well deliverability while minimizing reservoir drawdown and reducing the requirements for expensive gathering systems. POT averaged production of 38.9 MMcf/d from five gas plants, four of which are company-operated, in 2002.

West Side Property	Reserves [1] Proven & Probable (Bcf)	2002 Average Production (MMcf/d)	Average Working Interest [2] (%)	Net Undeveloped Land (acres)
Ells [3]	7.1	0.0	100.0	5,760
Hoole	0.3	0.5	70.0	2,880
Legend	64.1	19.4	82.0	40,422
Legend East	4.3	3.9	91.6	24,960
Liege East	3.9	2.2	89.7	1,686
Liege North	6.6	2.8	94.9	–
Liege South	6.4	4.3	96.8	12,163
Saleski	11.3	4.0	95.1	19,424
Teepee Creek	1.0	1.7	50.0	46,720
Subtotal [3]	105.0	38.9	–	154,015

(1) Gross company reserves as at Jan 1, 2003, March 15, 2003 for Ells property.
(2) Refers to the average working interest in producing gas wells.
(3) Ells property acquired March 19, 2003.

RESULTS



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Review of Operations (continued)

NORTHEAST ALBERTA EAST SIDE

Natural gas in the East Side core area is trapped in multiple Cretaceous clastic reservoirs in the McMurray, Wabiskaw, Clearwater, Grand Rapids and Colony Formations. Drilling depths are typically less than 450 meters and initial reservoir pressures average 600 to 2,200 kPa (85 to 320 psi). Initial well productivity ranges from 200 to 2,000 Mcf/d. Pools are found using detailed mapping and extensive 2D seismic bright spot technology. With the exception of the Cold Lake, Thornbury and Winefred assets, which are produced through third party facilities for a custom processing fee, POT produced the majority of its 54.9 MMcf/d of average natural gas production in 2002 from five company-operated gas plants.

East Side Property	Reserves [1] Proven & Probable (Bcf)	2002 Average Production (MMcf/d)	Average Working Interest [2] (%)	Net Undeveloped Land (acres)
Bohn Lake	5.9	2.6	27.6	533
Chard/Chard SW	3.5	2.3	66.9	11,430
Clyde	2.7	2.8	93.8	14,080
Cold Lake	17.0	6.2	77.9	30,569
Corner	23.5	13.9	99.0	27,200
Kettle River	8.0	4.5	94.7	–
Leismer	12.7	9.5	91.6	90,911
Pony	1.2	0.6	52.6	3,040
Quigley	4.7	3.3	100.0	13,760
Surmont	–	0.1	25.0	1,280
Thornbury	14.9	4.5	73.5	1,152
Winefred	11.4	4.6	88.5	22,000
Subtotal	105.5	54.9	–	215,955

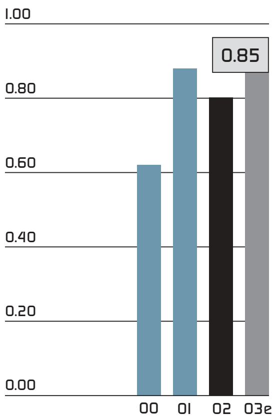
(1) Gross Company Reserves as at Jan 1, 2003.
(2) Refers to the average working interest in producing gas wells.

RESERVES

The following table is a comparison of Paramount Operating Trust's natural gas reserves at January 1, 2003 and July 2, 2002, the effective date of POT's acquisition of its northeast Alberta assets, as evaluated by the independent reserve engineering firm McDaniel & Associates Consultants Ltd., utilizing escalating price assumptions. After production of 17.2 Bcf over the six-month period, additions and upward revisions of 20.2 Bcf (12.5%) on proven reserves and 21.4 Bcf (10.7%) on proven and probable reserves were realized. Most of the reserve increase related to upward revisions as virtually no capital was expended during the period. The largest upward revisions occurred at Legend, Corner, North Liege and Quigley, where better than anticipated production performance resulted from successful field operation optimization programs. The revised reserve estimates lead to an increase in the reserve life index from 6.1 to 6.6 years.

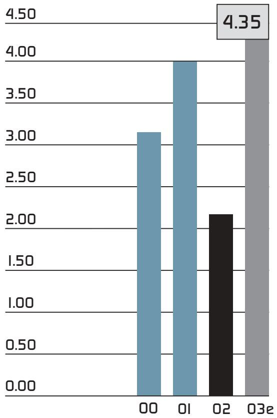
RESULTS

Operating Costs
($/Mcf)



RESULTS

Operating Netback
($/Mcf)



RELATED INFORMATION

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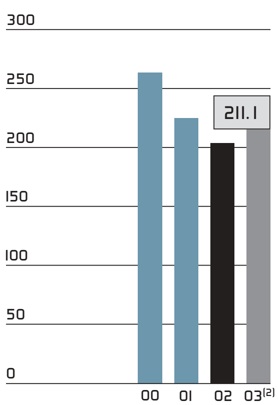
Review of Operations (continued)

RESULTS

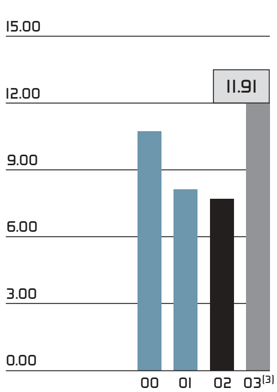
Reserves[1]
(Bcf)



[1] As at December 31.
[2] As at December 31, 2002 plus EIIs.

RESULTS

Proforma Net Asset Value[1][2]
($/Unit)



[1] As at December 31, 2002.
[2] Working capital, bank loans and fair market value of undeveloped land held constant as at January 1, 2003.
[3] April 1, 2003 estimate.

Natural Gas Reserves (Bcf)

	Jan 1, 2003 [1]		July 1, 2002		Difference	
Reserve Category	Gross[1][2] Bcf	%	Gross[2] Bcf	%	Gross[2] Bcf	% Change
Proved Developed Producing	158.8	78%	155.5	78%	3.3	2%
Proved Developed Non-Producing	3.2	1%	2.6	1%	0.7	27%
Proved Undeveloped	2.3	2%	3.1	2%	(0.8)	(26%)
Total Proved	164.2	81%	161.3	81%	3.0	2%
Probable Additional – Unrisked	39.4	19%	38.1	19%	1.3	3%
Total Proved & Probable – Unrisked	203.6	100%	199.4	100%	4.2	2%
Probable Additional – Risked [3]	19.7		19.0		0.7	4%
Total Proved & Probable - Risked [3]	184.0		180.3		3.7	2%

(1) Reserves were evaluated by McDaniel and Associates Consultants Ltd. as at Jan 1, 2003.
(2) Gross reserves are defined as the aggregate of the POT working interest and royalty interest reserves before deductions of crown and freehold royalties.
(3) Includes a 50 percent reduction in the probable reserve volumes.

NET ASSET VALUE

Net (Appraised) Asset Value (millions of dollars)	**December 31, 2002**
Present value of reserves, before royalties [1]	**$ 342.1**
Fair market value of undeveloped land	**24.0**
Subtotal	**366.1**
Working capital	**(6.7)**
Total assets	**359.4**
Bank loans	**(60.6)**
Net (appraised) asset value	**$ 298.8**
Net (appraised) asset value per unit [2]	**$ 7.54**

(1) Proved plus half probable reserves @ 10 percent discount.
(2) Outstanding units: 39,638,376.

Notes to Net Asset Value

(i) Reserve values were determined by McDaniel and Associates Consultants Ltd. as at January 1, 2003, using the escalating price assumptions in effect at that date. Escalating prices are in fact de-escalating in the first three years.

(ii) No value has been assigned to tangible assets other than those associated with proved producing reserves.

(iii) No hedging activities have been incorporated by McDaniel and Associates Consulting Ltd.

Trust Information

MANAGEMENT

Clayton H. Riddell
Chairman of the Board and Chief Executive Officer

Susan L. Riddell Rose
President and Chief Operating Officer

Gary C. Jackson
Vice President, Land, Legal and Acquisitions

Kevin J. Marjoram
Vice President, Operations

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

Myra Jones
Corporate Secretary

DIRECTORS

Clayton H. Riddell (3)
Chief Executive Officer and Chairman of the Board
Paramount Energy Operating Corp.

Susan L. Riddell Rose (2)
President and Chief Operating Officer
Paramount Energy Operating Corp.

Karen A. Genoway (3)(4)
Vice President, Land
Onyx Energy Inc.

Donald J. Nelson (1)(2)(3)
Business Executive

John W. Peltier (1)(2)(4)
President
Ipperwash Resources Ltd.

Howard R. Ward (1)(4)
Partner
International Energy Council

(1) Member of Audit Committee
(2) Member of Environmental Committee
(3) Member of Compensation Committee
(4) Member of Corporate Governance Committee

AUDITORS

KPMG LLP

BANKERS

Bank of Montreal
Canadian Imperial Bank of Commerce
Bank of Nova Scotia

RESERVE EVALUATION CONSULTANTS

McDaniel & Associates Consultants Ltd.

TRUSTEE REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada

STOCK EXCHANGE LISTING

Toronto Stock Exchange “PMT.UN”

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ANNUAL MEETING

Shareholders are cordially invited to attend the Annual Meeting to be held June 18, 2003 at 3:00 p.m.
Calgary Petroleum Club
McMurray Room
319 Fifth Avenue S.W.
Calgary, Alberta

This report contains forward-looking information with respect to Paramount Energy Trust (“PET”). This forward-looking information is based on certain assumptions that involve a number of risks and uncertainties and are not guarantees of future performance. Actual results could differ materially as a result of changes in PET’s plans, changes in commodity prices, general economic, market and business conditions as well as production, development and operating performance, regulations and other risks associated with oil and gas operations.

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