PARAMOUNT
ENERGY TRUST

NEWS RELEASE

PARAMOUNT ENERGY TRUST ANNOUNCES $208.3 MILLION ACQUISITION AND FURTHER INCREASES DISTRIBUTIONS

PET secures large natural gas acquisition in NE Alberta increasing production by over 50 per cent

Calgary, AB – July 20, 2004 Paramount Energy Trust ("PET or the "Trust") (TSX – PMT.UN) has entered into an agreement to acquire natural gas producing properties in Northeast Alberta (the "Acquisition") for Cdn$208.3 million. The Acquisition is expected to close prior to August 30, 2004 with an effective date of July 1, 2004.

The 100% natural gas assets being acquired are located in close proximity to the Trust's Northeast Alberta West Side Core Area but well outside the defined boundaries of the Alberta Energy and Utilities Board ("AEUB") gas over bitumen area of concern. The assets are an excellent fit with PET's existing operations and will be managed from the Trust's Athabasca field office. PET intends to fund the acquisition with an equity and convertible debenture financing and expansion of its existing credit facilities. BMO Nesbitt Burns is acting as financial advisor to PET on the Acquisition.

This Acquisition together with the recently closed Cavell Energy Corporation ("Cavell") acquisition, net of the announced disposition of Cavell's Southeast Saskatchewan light oil assets, will increase the Trust's daily production by 75 per cent to 139 MMcf/d, increase PET's proved plus probable reserves by 78 per cent to 280 Bcf and further reinforces the 100 per cent natural gas weighting of the Trust. The combined pro forma effect of the recently completed acquisition of Cavell, the disposition of the Southeast Saskatchewan oil assets and the Acquisition will result in an increase of approximately 50 per cent to PET's cash flow per Unit on a pro forma basis for the remainder of 2004 and approximately 45 per cent for 2005, assuming full subscription of the base equity and convertible debenture offerings. The accretion figures are based on the independent engineering assessment of proved developed producing reserves of the Acquisition at current forward commodity prices net of corporate hedging and PET's base forecast for 2005 including reinvestment of 15% of consolidated cash flow in development activities on pre-Acquisition assets. A favorable financial solution with the Government of Alberta for the recent shut-in of approximately 17 MMcf/d of gas related to the Alberta Energy and Utilities Board gas over bitumen issue would further increase cash flow per Unit.

PET is also pleased to advise that, as a result of the highly accretive nature of the Acquisition, the distribution in respect of income received by PET for the month of August 2004, to be paid on September 15, 2004 for Unitholders of record on August 31, 2004, will be increased from $0.18 per Trust Unit to $0.20 per Trust Unit. The ex-distribution date is August 27, 2004. This will bring cumulative distributions paid in 2004 to $1.38 per Trust Unit and from inception of the Trust to September 15, 2004 to $4.264 per Trust Unit. This newly established distribution is an additional 11 per cent increase to the distribution level of $0.18 per Unit previously announced by the Trust on July 14, 2004 and a 25 per cent increase from the distribution for June 2004 which was paid on July 15, 2004 of $0.16 per Unit.

It is expected that this newly established level of monthly distributions of $0.20 per Unit per month will be sustainable for the remainder of 2004 and the foreseeable future assuming:

1. the current forward market for natural gas prices; and
2. the successful closing of the Acquisition prior to August 30, 2004.

The current level of distributions does not take into account any future financial solution with the Government of Alberta to compensate the Trust for shut-in gas volumes other then the current temporary financial assistance program of $0.60 per Mcf of foregone production which is currently received in the form of a royalty reduction on a monthly basis. However, the Department of Energy has indicated its intention to reach a final financial solution to the gas over bitumen issue in a timely fashion. The Trust intends to include any incremental distributable income from further future royalty reductions as a result of the gas over bitumen issue in its monthly distributions once such arrangements are finalized.

Sue Riddell Rose President and Chief Operating Officer of the Trust commented, “The Trust has emerged from a year of intensive efforts in successfully diminishing the impact of the gas/bitumen issue which was initiated by the AEUB release of General Bulletin 2003-16 in June 2003. Despite the challenges associated with the gas over bitumen issue, PET’s team has continued to execute its strategic plan resulting in growth and value creation through the successful acquisition of Cavell and today’s announcement of this major accretive acquisition.”

ACQUISITION HIGHLIGHTS

- Current average daily production of approximately 47.5 MMcf/d (7,916 BOE/d; 100 per cent natural gas);
- 84.1 Bcf (14.0 MMBOE) of proved plus probable reserves, as evaluated by independent reserve evaluators McDaniels and Associates Consultants Ltd., in accordance with National Instrument NI 51-101, as at July 1, 2004;
- Approximately 164,888 net acres of undeveloped land at an average 94 per cent working interest;
- A licensed copy of a minimum of 1,265 km of seismic to assist the Trust in the ongoing identification and evaluation of the multi-zone upside potential associated with these assets;

- Favorable transaction metrics of $24,720 per flowing BOE on current production and $13.95 per proved plus probable BOE;
- Proved reserves are 78 per cent of the proved plus probable reserves and proved developed reserves are 100 per cent of proved reserves;
- High working interest of 87 per cent and operatorship in excess of 80 per cent;
- Three gas processing facilities are included in the acquisition handling 20.5 MMcf/d of current gas production in the Panny and Peter Lake areas;
- Average operating costs of $0.80 per Mcf translates into high field netbacks and monthly cash flow from operations of approximately $6 million per month at current natural gas prices.

BENEFITS TO PET UNITHOLDERS

- Significant accretion of approximately 25 per cent to PET's cash flow per Unit on a pro forma fully diluted basis for the remainder of 2004 and approximately 30 per cent for 2005, assuming full subscription of the base equity and convertible debenture offerings. The accretion figures are based on the independent engineering assessment of proved developed producing reserves of the Acquisition at current forward commodity prices net of corporate hedging and PET's base forecast for 2005 including reinvestment of 15% of consolidated cash flow in development activities on pre-Acquisition assets;
- Maintains and reinforces PET's natural gas focus;
- Provides production diversification outside of the AEUB gas over bitumen area of concern;
- Technically synergistic with PET's existing NE Alberta shallow gas asset base;
- The facilities being acquired are consistent with PET's existing shallow gas assets providing for the opportunity to utilize existing equipment inventory;
- Uncontracted gas production brings additional flexibility to PET's natural gas price management program;
- Very little incremental G&A required to manage and optimize the properties;
- A substantial increase in market capitalization which should result in improved liquidity for Unitholders.

NE ALBERTA ASSETS

Area	Properties	Production/Reserves[(1)(2)]	Characteristics
Panny	Panny	6.2 MMcf/d Proved: 8.6 Bcf P+P: 12.4 Bcf	Cretaceous Bluesky formation (Wabiskaw equivalent) production; 77,520 net acres with an average 95% working interest.
Wabasca/ Hoole	Hoole, Goodlow, Desmarais, Pelican, Peerless	23.6 MMcf/d Proved: 35.6 Bcf P+P: 45.0 Bcf	Devonian Wabamun, Cretaceous McMurray, Wabiskaw, Clearwater, Grand Rapids production; 89,760 net acres with an average 97% working interest.
Peter Lake	Peter Lake, Smith, Mitsue, Bouvier, Hondo, Calling Lake	14.3 MMcf/d Proved: 17.7 Bcf P+P: 22.0 Bcf	Cretaceous McMurray, Wabiskaw, Clearwater, Grand Rapids and Viking production; 60,333 net acres

			with an average 94% working interest.
Craigend	Craigend	3.3 MMcf/d Proved: 3.7 Bcf P+P: 4.7 Bcf	Cretaceous McMurray, Grand Rapids and Viking production; 56,320 net acres with an average 75 % working interest.
Total		47.5 MMcf/d Proved: 65.6 Bcf P+P: 84.1 Bcf	119,045 net developed acres and 164,888 net undeveloped acres for total land holdings of of 283,933 net acres.

(1) Reserve volumes are per McDaniel and Associates Consultants Ltd. independent evaluation as at July 1, 2004. "P+P" are proved plus probable reserves.

FINANCING

The acquisition price of $208.3 million, prior to adjustments, will be funded through a combination of bank debt, an issue of trust units and an issue of convertible debentures. In conjunction with the acquisition, PET has entered into an agreement to sell on a bought deal basis, 6,500,000 subscription receipts ("Subscription Receipts") at a price of $12.35 each for gross proceeds of approximately $80 million, and $40 million of 8.0% convertible extendible unsecured subordinated debentures ("Debentures") to a syndicate of underwriters co-led by BMO Nesbitt Burns Inc. and CIBC World Markets Inc. PET has also granted the underwriters an option to purchase up to an additional $24 million of Subscription Receipts and Debentures in aggregate on the same terms as above.

Each Subscription Receipt represents the right to receive one trust unit on the closing of the Acquisition. The proceeds from the offering of Subscription Receipts will be deposited in escrow pending closing of the Acquisition. If the Acquisition closes on or before September 30th, 2004, the net proceeds will be released to PET and used to pay part of the purchase price of the Acquisition. If the offering closes before the Acquisition closes, holders of Subscription Receipts will be entitled to receive a payment equivalent to the amount of any cash distributions to Unitholders for which record dates occur between the closing of the offering and the closing of the Acquisition. If the Acquisition fails to close by September 30th, 2004, or the Acquisition is terminated at an earlier time, the escrow agent will return the issue proceeds and the pro rata entitlement to interest thereon to holders of the Subscription Receipts.

The Debentures will have a face value of $1,000 per Debenture, a coupon of 8.0%, a final maturity date, if extended, of September 30th, 2009, and will be convertible into the trust units of PET at a price of $14.20 per trust unit. The initial maturity date of the Debentures will be September 30th, 2004, with an automatic extension to September 30th, 2009 upon the closing of the Acquisition. If the Acquisition does not close on or before September 30th, 2004, or if the Acquisition is terminated at an earlier time, the Debentures will mature on the initial maturity date. The Debentures will pay interest semi-annually on March 31st and September 30th, with the initial interest payment on March 31st, 2005.

UPDATED 2004 GUIDANCE

Incorporating the completed acquisition of Cavell, including the pending disposition of Cavell's Southeast Saskatchewan light oil assets, this Acquisition and current natural gas prices, PET herein provides updated estimates of operating and financial performance for the second half of 2004.

		Previous Guidance	**New Guidance** [1]
Natural Gas Production	(MMcf/d)	75	125
Gas Prices			
AECO Monthly Index	($/GJ)	$6.50	$6.85
PET Realized	($/Mcf)	$6.25	$6.65
Cash Flow	($ millions)	$50	$90
Cash Flow per Unit	($/Unit/Month)	$0.16	$0.25
Ending Debt to Cash Flow Ratio [2]	Times	0.4	0.9
(excluding convertible debentures)			
Ending Debt to Cash Flow Ratio [2]	Times	0.4	1.0
(including convertible debentures)			

Notes:
1. The updated 2nd half 2004 guidance reflects the results of the Acquisition from the expected closing date of August 17, 2004. Cash flow from the July 1, 2004 effective date to closing will be recorded as a reduction in the purchase price.
2. Calculated as ending net debt divided by annualized estimated 4th quarter cash.

Based on the Trust's monthly distribution level of $0.20 per Trust Unit these estimates result in a pro forma payout ratio of 75 per cent of monthly cash flow. Further, this guidance does not take into account any future financial solution with the Government of Alberta to compensate the Trust for shut-in gas volumes other then the current temporary financial assistance program of $0.60 per Mcf of foregone production which is currently received in the form of a royalty reduction on a monthly basis.

Conference Call and Webcast

PET will be hosting a conference call and webcast at 3:00 p.m., Calgary time, Tuesday July 20, 2004 to review this transaction. Interested parties are invited to take part in the conference call by dialing one of the following telephone numbers 10 minutes before the start time, Toronto and area - 1 416 405 9328, outside Toronto - 1 800 387 6216. To participate in the live webcast please visit www.paramountenergy.com or www.companyboardroom.com. The webcast will also be archived shortly following the presentation.

About PET

Paramount Energy Trust is a natural gas-focussed Canadian energy trust. PET's Trust Units are listed on the Toronto Stock Exchange under the symbol "PMT.UN". Further information with respect to PET can be found at its website at www.paramountenergy.com.

Forward-looking Information

BOE's may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 Mcf:1bbl is based on an energy equivalency conversion method primarily applicable at the burnertip and does not represent value equivalency at the wellhead. Estimated values referred to in this news release do not represent fair market value.

This news release contains forward-looking information. Implicit in this information, particularly in respect of cash distributions, are assumptions regarding natural gas prices, production, royalties and expenses which, although considered reasonable by PET at the time of preparation, may prove to be incorrect. These forward-looking statements are 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, regulatory and business conditions as well as production, development and operating performance and other risks associated with oil and gas operations. There is no guarantee by PET that actual results achieved will be the same as those forecast herein.

FOR FURTHER INFORMATION, PLEASE CONTACT:

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