



## **NEWS RELEASE**

### **PARAMOUNT ENERGY TRUST ANNOUNCES AGREEMENT FOR THE ACQUISITION OF CAVELL ENERGY CORPORATION**

May 26, 2004 - Paramount Energy Trust ("PET" or the "Trust") (TSX – PMT.UN) announced today that it has entered into an agreement to acquire Cavell Energy Corporation ("Cavell") for \$2.40 per share, for total consideration of \$148 million consisting of Trust Units of PET, cash and assumption of debt. It is expected that the transaction will close in July 2004. Cavell is a TSX listed company trading under the symbol KVL. Lock-up agreements in support of the transaction have been entered into with shareholders representing approximately 10% of the outstanding Cavell common shares.

In the context of a competitive asset and corporate transaction market dictated by extremely attractive commodity prices, PET believes Cavell represents an excellent opportunity to acquire a corporation with solid cash flow and significant upside potential matching the Trust's relatively conservative risk profile. The acquisition of Cavell is expected to be accretive to PET's production, cash flow, reserves and net asset value on a per Trust Unit basis and is viewed as a strategic growth opportunity for PET.

"The Cavell acquisition fits PET's business plan perfectly, providing substantial geographic diversification outside the Trust's Northeast Alberta core areas while maintaining its technical focus on shallow natural gas." said Sue Riddell Rose, President and COO. "We are excited about the quality of the upside opportunities that the Cavell team has compiled on their focused asset base."

PET will be hosting a conference call and webcast at 2:00 p.m., Calgary time, Wednesday May 26, 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 - 1 416 406 6419, outside Toronto - 1 888 575 8232. To participate in the live webcast please visit [www.paramountenergy.com](http://www.paramountenergy.com) or [www.companyboardroom.com](http://www.companyboardroom.com). The webcast will also be archived shortly following the presentation.

## **ACQUISITION HIGHLIGHTS**

Cavell is 70% gas weighted by production, with an asset base focused in West Central Saskatchewan, Southwest Saskatchewan (Abbey / Shackleton area), Southeast Saskatchewan and the Mitsue area of North Central Alberta. The acquisition of Cavell has the following attributes:

- Daily production of approximately 3,200 BOE/d (expected average for May 2004), consisting of 13.2 MMcf/d of gas and 1,000 Bbl/d of oil;
- Transaction metrics of \$42,192 per flowing BOE and \$12.82 per proved plus probable BOE, based on a value of \$135 million for the reserves (excluding \$13 million for land and seismic);
- A proved plus probable reserve life index of 9.0 years;
- Proved reserves are 75% of the proved plus probable reserves;
- Average working interest of 88%;
- 81% of production is operated;
- Infrastructure control with 15 MMcf/d of pre-built excess processing capacity;
- Approximately 197,000 net undeveloped acres at an average 87% working interest;
- Additional 38,200 net undeveloped acres under agreement;
- Significant drilling and development potential, with 55 defined locations planned for the remainder of 2004;
- PET will enter into a contractual arrangement with certain members of the Cavell management team giving the Trust the right to participate at 50% in future opportunities they generate within Cavell's existing operating areas.

Additional key first quarter 2004 operating data for Cavell include:

- Operating costs of \$6.17 per BOE;
- Premium netbacks;
- Cavell has no significant hedges in place so PET has maximum flexibility in dealing with this portfolio of new assets.

## **BENEFITS TO PET**

- This transaction is expected to be accretive to PET's cash flow per Unit, reserves per Unit, production per Unit, net asset value per Unit and reserve life index;
- Maintains PET's natural gas focus;
- Technically synergistic with PET's existing shallow gas asset base;
- Provides geographic diversity to PET's operations and allows the Trust new areas of year round access to more evenly spread out its annual capital spending profile;
- Facilities are consistent with existing assets providing for utilization of equipment inventory;
- Increases the Trust's reserve life index from 5.1 to 5.8 years (proved plus probable);
- Cavell has an inventory of over 120 potential drilling prospects which meet the Trust's development criteria including the 55 defined locations planned for the remainder of 2004.

## CAVELL PROPERTIES

Area	Properties	Production/Reserves <sup>(1)(2)</sup>	Characteristics
<b>West Central Sask.</b>	Birling, Lilydale, Manitou Lake, Freemont, Eyehill, Unity, Baldwin, Cut Knife, Sweetgrass, Poundmaker	760 BOE/d (100% Gas) Proved: 1,534 MBOE P+P: 2,169 MBOE	Multi-zone shallow gas potential in Viking, Colony, McLaren and Waseca formations as well as future heavy oil potential. This is one of the most competitive areas in Saskatchewan and provides significant drilling opportunities in multiple zones.
<b>Abbey, Sask.</b>	Abbey, Sanctuary, Bayhurst	620 BOE/d (100% Gas) Proved: 2,350 MBOE P+P: 2,884 MBOE	Long reserve life gas production from the Milk River formation with drilling prospects in the Milk River and the Viking.
<b>Mitsue, Alberta</b>	South Mitsue Gilwood Unit #1, Mannville gas pools	860 BOE/D (95% Gas) Proved: 1,016 MBOE P+P: 1,353 MBOE	Uphole Mannville/McMurray gas and Gilwood oil. Additional upside on volumes through facilities expansion.
<b>Southeast Sask.</b>	Innes, Oakley, Hastings, Hume, Stoughton, S. Midale, Bienfait, W. Hastings, Florence S.	960 BOE/D (100% oil) Proved: 2,982 MBOE P+P: 4,125 MBOE	Light oil production from the Mississippian Midale and Frobisher formations, providing predictable and substantial cashflow at current oil prices.
<b>Total</b>		<b>3,200 BOE/d (70% gas)</b> <b>Proved: 7,882 MBOE</b> <b>P+P: 10,531 MBOE</b>	

- (1) Reserve volumes are per Cavell's independent evaluations as at December 31, 2003 adjusted by PET for 2004 production, and capital program additions. "P+P" are proved plus probable reserves. Cavell reserve reports at December 31, 2003 were independently evaluated in accordance with NI 51-101. Proved reserves at December 31, 2003 were 7,700 MBOE and proved plus probable reserves were 10,350 MBOE.
- (2) "BOE" means barrel of oil equivalent, using the conversion factor of 6 Mcf of natural gas being equivalent to one Bbl of oil. BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 Mcf to 1 Bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Southeast Saskatchewan represents just over 25% of the overall Cavell acquisition and provides stable long-life production, significant cash flow at current oil prices and upside drilling opportunities. PET will evaluate its plans for these assets in the coming months. The Trust's business plan remains firmly committed to continue its focus on the acquisition and exploitation of natural gas opportunities.

## TRANSACTION DETAILS

PET has agreed to purchase the issued and outstanding common shares of Cavell for \$2.40 per share (the "Purchase Price") plus the assumption of approximately \$40 million of net debt at closing including transaction costs and costs to terminate Cavell stock options. The Purchase Price represents a premium of 17% to Cavell's closing price on May 25, 2004 and a premium of 23% to the 30 day volume-weighted average trading price for Cavell's common shares. PET proposes to acquire all of the issued and outstanding common shares of Cavell (the "Cavell Shares"), by way of a plan of arrangement (the "Arrangement") involving Cavell, the shareholders of Cavell ("Cavell Shareholders"), PET, Paramount Operating Trust ("POT") and certain affiliated entities. Pursuant to the Arrangement, Cavell Shareholders will receive \$2.40 for each Cavell Share payable, at the election of each shareholder, and subject to adjustment of the respective cash and Unit consideration as set forth below:

- (a) \$2.40 in cash; or
- (b) 0.21145 of a trust unit of PET ("Trust Units") (the "Exchange Ratio").

A minimum of \$30 million and a maximum of \$98 million in cash in the aggregate will be paid to Cavell Shareholders pursuant to the Arrangement. PET may, in its sole discretion, elect at any time up to ten days prior to the date of the meeting of Cavell Shareholders to consider the Arrangement by delivery of notice in writing to Cavell, to fix the aggregate cash consideration between \$30 million and \$98 million. To the extent that Cavell Shareholders elect or are deemed to elect to receive in the aggregate less than or more than the amount of cash fixed by PET, all Cavell Shareholders so electing will receive a reduced pro rata Trust Unit or cash amount.

Cavell's financial advisor has provided an opinion that the consideration offered is fair, from a financial point of view, to Cavell's shareholders. The boards of directors of PET and Cavell have approved the transaction. The transaction will be completed by way of a plan of arrangement and Cavell anticipates mailing an information circular to Cavell shareholders by mid-June. Closing is subject to approval of 66 2/3% of the holders of Cavell Shares voting at the meeting, regulatory approval and other standard conditions. PET expects to complete the transaction in July and accordingly expects that the first distribution to which the Cavell shareholders will be entitled will be the July distribution payable on or about August 16, 2004.

The officers and directors of Cavell, and their associated entities, have agreed to execute lock-up agreements representing approximately 10% of the outstanding shares of Cavell. The board of directors of Cavell has also agreed that it will not solicit or initiate discussions or negotiations with any third party for any business combination involving Cavell. Under certain circumstances, Cavell has agreed to pay PET a non-completion fee of \$5.0 million.

Base proven production from the Cavell properties is expected to decline 15 percent by the end of 2004. The Trust intends to continue Cavell's ongoing capital expenditure program, with \$16 million planned for the remainder of the year. Drilling is currently

underway at Abbey and Lilydale in Southwest and West Central Saskatchewan respectively. Additional drilling and facilities programs are planned for the Southeast Saskatchewan, Mitsue and Unity areas and for the Colony gas play in West Central Saskatchewan. This capital program is expected to add 650 BOE/d of daily average production for the second half of the year. The Cavell properties are forecast to generate \$14 million of cash flow for the remainder of 2004. The acquisition will increase PET's current total daily production by 21% to approximately 110 MMcfe/d, with a 95% weighting to natural gas.

BMO Nesbitt Burns Inc. and CIBC World Markets Inc. have acted as advisors to PET with respect to this transaction.

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".

This news release contains forward-looking information and certain estimates of value which do not represent fair market value. 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 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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The Toronto Stock Exchange has neither approved nor disapproved the information contained herein

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