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Paramount units plunge

RICHARD BLACKWELL

Wednesday, July 18, 2007 9:23 PM

Paramount Energy Trust saw its units plummet 10 per cent Wednesday after the company cut its distribution by 29 per cent, only weeks after it raised \$250-million from investors.

The Calgary energy company, which produces natural gas in Alberta and Saskatchewan, blamed “recent precipitous declines in Canadian natural gas prices.”

Prices have dropped as North American inventories of gas have risen, the company said. There has been less demand for energy for cooling this summer, and there has been no “significant tropical storm activity” on the U.S. gulf coast that might have driven up prices.

The recent rise in the Canadian dollar didn't help, the company said.

Consequently, Paramount cut its distribution for July to 10 cents a unit, compared with the 14 cents it paid out in each of the past five months. Based on current natural gas prices, it said it expects to maintain distributions at this level for the “foreseeable future.”

Paramount said its strategy is to hold on to enough cash to maintain its production levels, and then distribute the rest to unitholders. The distribution had to be cut to “preserve sustainability” and strengthen the company's balance sheet in light of the low prices, it said.

Just four weeks ago Paramount raised more than \$250-million by selling subscription receipts priced at \$12.25 each. Each receipt entitled the holder to one unit, plus any distributions that occurred before the receipts were converted to units.

Diane Urquhart, an investor advocate and former research analyst who has been critical of the income trust industry, said Wednesday

that "this is the fastest distribution cut after an offering that I have ever seen."

She noted that Paramount's subscription receipt offering was a bought deal among 14 different investment dealers. "I find it hard to believe that 14 investment banks and the management and the trustees of paramount wouldn't have known 19 business days ago that their distribution was too high," she said. "You shouldn't sell something [when] your balance sheet is so precarious that you're that close to deciding you need to have a cut."

The prospectus for the Paramount offering said in several places that the distributions are "not guaranteed" and may be "reduced or suspended." It also warned that the value of the trust's units could fall if the company can't meet its cash distribution targets.

Paramount made monthly distributions as high as 24 cents in the past three years.

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----- Original Message -----

From: [Urquhart](#)

To: 'Joe Killoran'

Sent: Wednesday, July 18, 2007 2:52 PM

**Subject: Retail Investors in Income Trusts Duped Again
- Paramount Energy Trust Cuts Distribution
Just 19 Days After \$251 Million Public Offering**

Paramount Energy Trust has cut its distribution by -29%, just 19 business days after a \$250 million secondary equity offering when the previous \$0.14 distribution per unit was confirmed. Can reasonable people conclude that the 14 investment banks and Paramount Energy Trust management and trustees did not know 19 days ago that "there was higher-than-average North American natural gas inventories due to a lack of summer cooling demand and no significant tropical storm activity in the U.S. Gulf region," that would cause a material distribution cut shortly. This is the stated reason given by Paramount management for today's 29% distribution cut.

Paramount Energy Trust has declined -11% today and a total of -24% since the June 20, 2007 \$251 million equity bought deal. The investors of this offering have lost \$60 million in 19 business days. I wonder what percentage of the new offering book went to retail investors and mutual funds or closed end funds owned by retail investors?

Reuters Market Wire, "Paramount Energy Units Fall on Distribution Cut," dated July 18, 2007:

"Units of Paramount Energy Trust sank more than 10 percent on Wednesday after the company cut its monthly distribution level. Units were down C\$1.13, or 10.8 percent, at C\$9.37 on the Toronto Stock Exchange.

The trust set its July distribution at 10 Canadian cents a unit, down from 14 Canadian cents a unit in June.

Paramount said higher-than-average North American natural gas inventories due to a lack of summer cooling demand and no significant tropical storm activity in the U.S. Gulf region made the adjustment necessary."

Reuters Market Wire, "Paramount Energy Trust Announces Closing of \$250.5 Million Subscription Receipt and \$75 Million Debenture Bought Deal Financing and Confirms June 2007 Distribution", dated June 20, 2007:

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Paramount Energy Trust (TSX:PMT.UN) ("PET" or the "Trust") announced today the closing of its previously announced "bought deal" financing. At closing 20,450,000 subscription receipts (the "Subscription Receipts") at \$12.25 per Subscription Receipt for gross proceeds of \$250,512,500 and \$75,000,000 aggregate principal amount of 6.50% convertible extendible unsecured subordinated debentures (the "Debentures") were issued (collectively, the "Offering").

"The Offering was underwritten by an underwriting syndicate led by BMO Capital Markets and included Scotia Capital Inc., CIBC World Markets Inc., TD Securities Inc., National Bank Financial Inc., RBC Capital Markets, FirstEnergy Capital Corp., GMP Securities L.P., Raymond James Ltd., Blackmont Capital Inc., Canaccord Capital Corporation, Cormark Securities Inc., Dundee Securities Corporation and Peters & Co. Limited.

PET also confirms its distribution to be paid on July 16, 2007 in respect of income received by PET for the month of June 2007, for Unitholders of record on June 29, 2007, will be \$0.14 per Trust Unit."

There is considerable carnage in the income trust market due to distribution suspensions and cuts, like this Paramount Energy Trust today.

	18-Jul-07	Number	Distribution Suspensions	Distribution Cuts	Combined %	
Energy Trusts	48	0	5	5	10%	
Business Trusts, Excluding Utilities & Energy Service	156	12	32	44	28%	
Utilities Trusts	21	0	3	3	14%	
Energy Services Trusts	19	1	3	4	21%	
Total Business Trusts	196	13	38	51	26%	

The business income trust market has \$8 billion of capital losses in 50 business income trusts that have dropped at least 20% since their latest public offering. The average capital loss in this group is -47%.

July 18, 2007	All	In Capital Loss	In Capital Loss > -20%
# Trusts	174	89	50
# Offerings	289	127	73
Offerings \$ Millions	\$35,749	\$15,033	\$7,956
% of All Offerings	100%	44%	25%
Offerings Gain (Loss) Average %	12%	-29%	-47%

Offerings Gain (Loss) \$ Millions	\$4,116	-\$4,364	-\$3,743
Market Cap Gain (Loss) * \$ Mil	\$4,306	-\$10,165	-\$7,941
Investment Banking Fees \$ Mil	\$1,892	\$808	\$437
Other Offering Expenses \$ Mil	\$622	\$274	\$150
Total Offering Fees \$ Mil	\$2,514	\$1,081	\$586

* Market Cap Gain/Loss

= Estimate based on % gain/loss relative to last offering price in period X current market cap.

Income trusts have been marketed to seniors and other retail investors on the basis of their so-called sustainable cash yields.

Paramount Energy Trust is just another case of deceitful marketing by the financial advisors of investment banks, who put their own and their employer's financial interests ahead of their duty of care to seniors.

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